Economics

Weekly — July 12, 2024

Weekly Economic & Financial Commentary

United States: **Fed's Challenge: Making Sure Fire Is Out vs. Water Damage**

- We learned this week that CPI declined in June and core prices rose at the slowest clip since early 2021. With the inflation target in sight, Fed policymakers are taking stock of deteriorating labor market dynamics and souring consumer sentiment as they weigh the outlook for rates.
- Next week: Retail sales (Tues.), Housing Starts (Wed.), Industrial Production (Wed.)

International: **Some Encouraging Signs in Japanese Wage Growth and U.K. Economic Recovery**

- This week, some underlying measures of pay growth in Japan bested expectations, potentially reflecting the historically high wage hikes agreed to in this year's spring wage negotiations; we view this as consistent with further Bank of Japan policy normalization this year and into next. In the U.K., monthly GDP figures revealed an ongoing economic recovery.
- Next week: China GDP (Mon.), Canada CPI (Tue.), European Central Bank Policy Rate (Thu.)

Interest Rate Watch: **Balanced Risks Drive the FOMC Closer to a September Rate Cut**

- Since January, the FOMC's post-meeting statement has signaled that neither further hikes were likely nor were rate cuts near. In Congressional testimony this week, however, Chair Powell's comments suggested that the FOMC is getting closer to exiting its holding pattern and preparing to descend.

Credit Market Insights: **Interest Expense Getting to Consumers**

- Consumer credit has downshifted thus far in 2024, as mounting personal interest expenses have increased the cost of carrying these debts. Revolving credit, which is primarily composed of credit cards, has driven much of this deceleration.

Topic of the Week: "**Elevated Inflation Is Not the Only Risk We Face" – Jerome Powell**

- Given the material cooling in the labor market over the past year, further deterioration may look less like a welcome "normalization" and more like unexpected weakening to the Fed. We highlighted several cracks in the labor market earlier this year, and six months later, the widespread signs of negative momentum in these worry spots persist.

Submit a question to our "Ask Our Economists" podcast at askoureconomists@wellsfargo.com.

Wells Fargo U.S. Economic Forecast

	Actual					Forecast			Actual		Forecast	
	2023				2024				2022	2023	2024	2025
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product [1]	2.2	2.1	4.9	3.4	1.4	1.5	1.6	1.5	1.9	2.5	2.3	1.9
Personal Consumption	3.8	0.8	3.1	3.3	1.5	1.6	1.9	1.7	2.5	2.2	2.1	1.9
Consumer Price Index [2]	5.7	4.0	3.6	3.2	3.2	3.2	2.7	2.7	8.0	4.1	3.0	2.4
"Core" Consumer Price Index [2]	5.5	5.2	4.4	4.0	3.8	3.4	3.2	3.1	6.2	4.8	3.4	2.7
Quarter-End Interest Rates [3]												
Federal Funds Target Rate[4]	5.00	5.25	5.50	5.50	5.50	5.50	5.25	5.00	2.02	5.23	5.31	4.38
Conventional Mortgage Rate	6.54	6.71	7.20	6.82	6.82	6.92	6.75	6.50	5.38	6.80	6.75	6.09
10 Year Note	3.48	3.81	4.59	3.88	4.20	4.36	4.15	4.00	2.95	3.96	4.18	3.83

Forecast as of: July 12, 2024
[1] Compound Annual Growth Rate Quarter-over-Quarter
[2] Year-over-Year Percentage Change
[3] Quarterly Data - Period End; Annual Data - Annual Averages
[4] Upper Bound of the Federal Funds Target Range

Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, Federal Reserve Board and Wells Fargo Economics

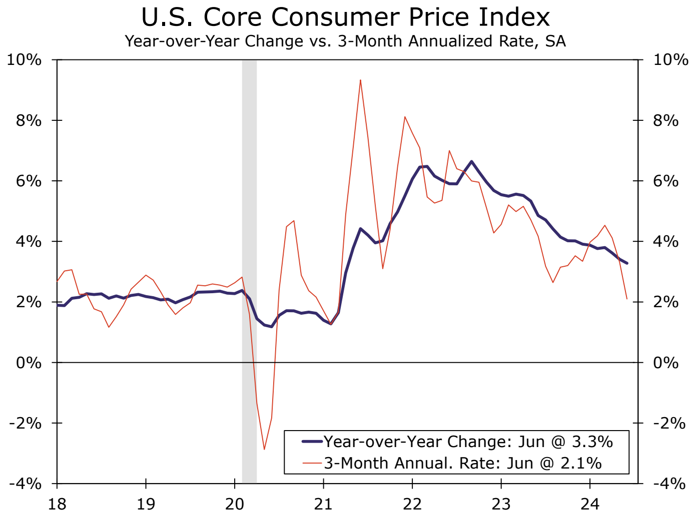
Please see our full U.S. Economic Forecast.

U.S. Review

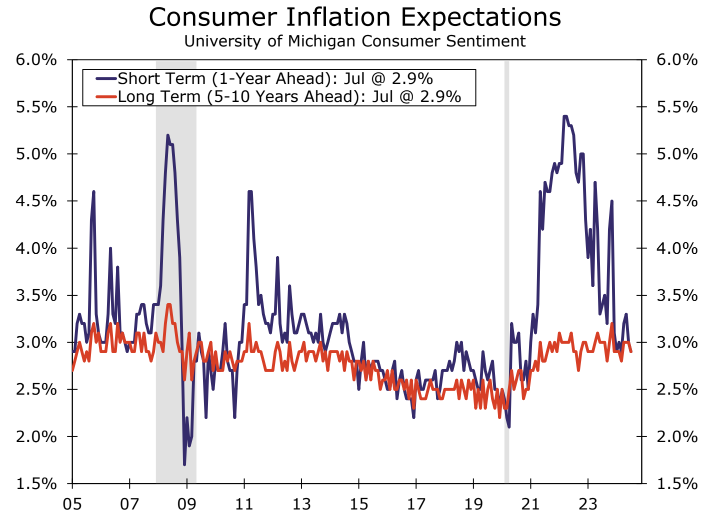
Fed's Challenge: Making Sure Fire Is Out vs. Water Damage

Consumer inflation is easing; the fever is breaking. The latest Consumer Price Index (CPI) showed headline consumer prices *declined* 0.1% in June and when excluding food and energy, the core CPI rose by just 0.1% during the month, or what is the smallest monthly increase in core prices since mid-2021. June brought one of the best inflation reports in a while, which is an encouraging development in the Fed's continued fight against inflation. Consider that over the past three months, the core CPI has increased at a 2.1% annualized pace and the annual rate of inflation hasn't been this low since April 2021 (chart). The slowdown in core inflation was also broad-based as disinflation has broadened beyond core goods with some long-awaited easing in shelter inflation realized and drops in discretionary spending price categories contributing to the softer inflation print in June. These data, in conjunction with the latest Producer Price Index, suggest the core PCE deflator—the Fed's preferred inflation measure due later this month—rose 0.2% in June. While the Fed targets 2.0% inflation at an annual rate, if realized this monthly change would push the three-month annualized rate to 2.0%.

Bets on rate cuts have been very data sensitive, and the market reaction was swift to the favorable price data this week. Yields slid with the two-year Treasury yield down by more than 10 bps on Thursday, falling to the lowest level since March as markets moved to fully price in a 25 bps rate cut in September. We maintain the view that the Fed will kick off its easing cycle in September due to not only the favorable inflation data but softer labor market data as well. See Interest Rate Watch for more on our Fed view and Topic of the Week for a discussion on labor market moderation.



Source: U.S. Department of Labor and Wells Fargo Economics



Source: University of Michigan and Wells Fargo Economics

But is this long-awaited easing in inflation coming too late? Economic growth has decelerated recently, and even as inflation is easing, prices are still elevated compared to before the pandemic. Households feel the pinch of high prices and high rates and are starting to show some signs of spending fatigue amid a lower take-up in revolving credit debt and slower growth in discretionary spending. Consumers' sentiment remains sour. The University of Michigan's Consumer Sentiment report was downbeat in July, with the headline Index falling to an eight-month low and the Current Conditions and Expectations Indices both registering declines as well. Notably, however, households inflation expectations improved. Household expectations for year-ahead and long-term inflation both declined to 2.9%, the lowest since March (chart).

As we detail in our latest monthly U.S. outlook, out this morning, the probability of economic downturn in the foreseeable future is elevated but not our base-case view. Even as some vulnerabilities have surfaced, the financial health of the aggregate household sector is still generally solid, and while the labor market is softening, we don't yet see a degree of moderation consistent with economic contraction. But the balance of risks has shifted for the Fed, and a softening labor market takes on greater importance in the outlook for monetary policy as inflation nears the 2% finish line. (Return to Summary)

U.S. Outlook

Weekly Domestic Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
16-Jul	Retail Sales (MoM)	Jun	-0.2%	-0.5%	0.1%
16-Jul	Retail Sales Less Autos (MoM)	Jun	0.1%	0.1%	-0.1%
16-Jul	Import Price Index (MoM)	Jun	—	-0.3%	-0.4%
16-Jul	Import Price Index (YoY)	Jun	—	1.0%	1.1%
16-Jul	Business Inventories (MoM)	May	0.3%	0.5%	0.3%
17-Jul	Housing Starts (SAAR)	Jun	1300K	1315K	1277K
17-Jul	Industrial Production (MoM)	Jun	0.3%	0.3%	0.9%
17-Jul	Capacity Utilization	Jun	78.5%	78.4%	78.7%
18-Jul	Leading Index (MoM)	Jun	-0.3%	-0.4%	-0.5%

Forecast as of July 12, 2024

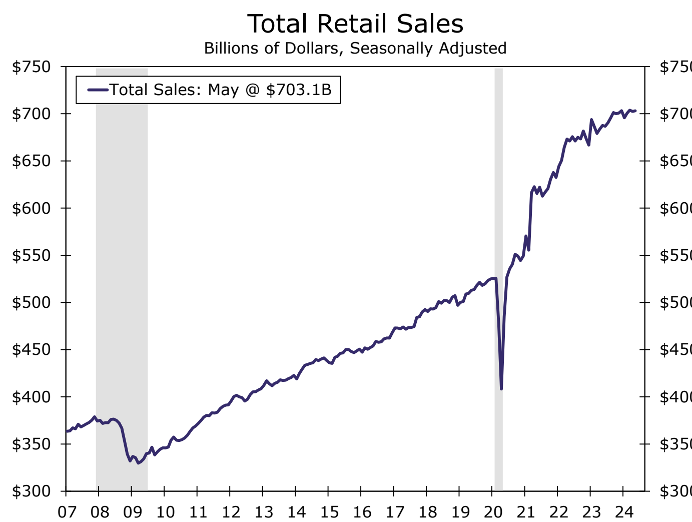
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Retail Sales • Tuesday

Financial markets are waiting for some evidence of moderation in consumer activity, which could signal the demand pressure that has sustained service prices is abating and clearing the path for rate cuts later this year.

Retail sales figures due out on Tuesday of next week may not offer all that much perspective on this issue, simply because the moderation in goods spending has long since revealed itself in retail sales. We expect to see a decline of about half a percentage point in headline retail sales due to slower spending on autos. Ex-autos, we expect spending to notch a scant gain of 0.1%.

Spending at bars and restaurants is a sub-category in retail sales; watch that for a read on services demand. The rest of the report is apt to confirm what we already know: Goods spending has lost momentum, but households are still spending.

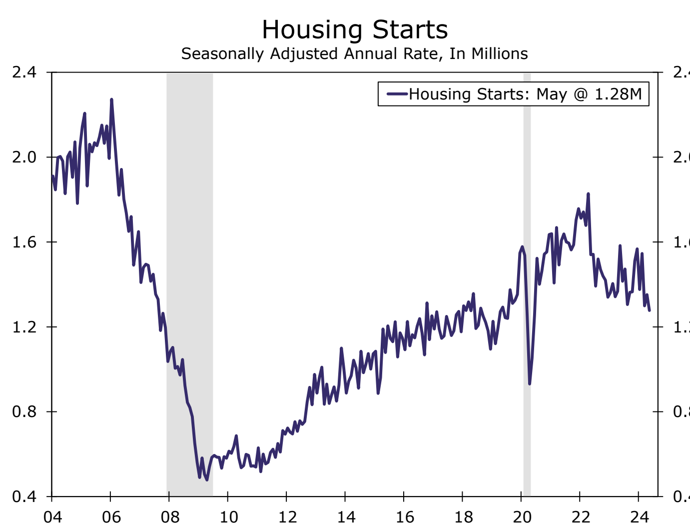


Source: U.S. Department of Commerce and Wells Fargo Economics

Housing Starts • Wednesday

In the United States, home builders get started on about 1.3 million new homes a year. That is the average annualized pace over the past 10 years at least. The bottom briefly fell out during the pandemic, but over the next few years, only soaring lumber prices and difficulty finding tradespeople to do the work stood in the way as the pace of construction soared to north of 1.8 million at its peak in early 2022.

It is no coincidence early 2022 also marks the start of the current Fed tightening cycle and that homebuilding has been in a trend decline since. There have been a few saving graces for builders during this difficult period. One of those is the scant inventory of available homes as would-be sellers of existing homes refuse to budge lest they lose their low-interest mortgage. Another is the fact that some of those homeowners have opted to put on an addition or remodel their existing home. That is not enough work to offset the slower pace of housing starts, but it helps at least at the margin. We look for housing starts to come in at 1,315K in June.



Source: U.S. Department of Commerce and Wells Fargo Economics

Sustained higher mortgage rates, a lack of buildable lots and chronic labor shortages continue to weigh on home builders' view about the outlook as evidenced by the second straight drop in the

NAHB Housing Market Index in June.We get July NAHB numbers on Tuesday.

Industrial Production • Wednesday

Beset by trade wars, skilled labor shortages and a never-ending saga of re-routing supply chains, industrial production has gone mostly sideways for the past decade. From May 2014 to May 2024, industrial production increased only 0.86%, or 0.09% annualized.

In any given month, a fluke of weather may spur a move in utility production and, on occasion, mining activity can move the headline, but manufacturing comprises roughly three-quarters of all output. Over the same 10-year span ended in May 2024, manufacturing production is down 1.3%.

A massive investment in high-tech manufacturing capacity is currently under way and that will eventually result in increased output in that sector. Until then, the recent construction boom of those facilities should also offer support to production ahead. We are looking for a 0.3% increase when June production numbers are released on Wednesday.

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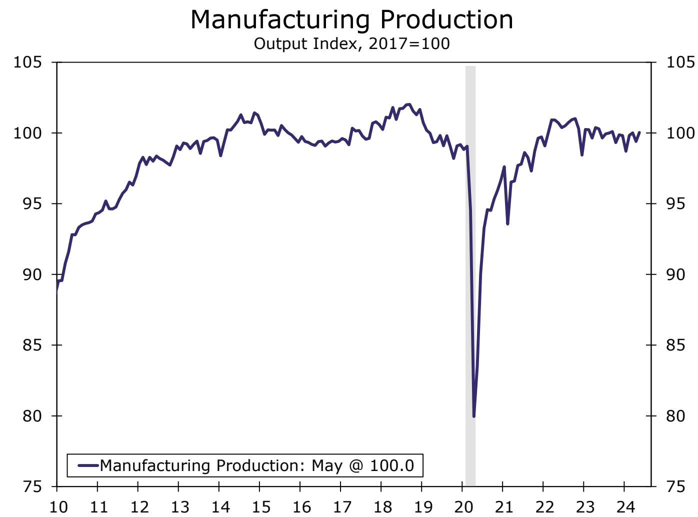


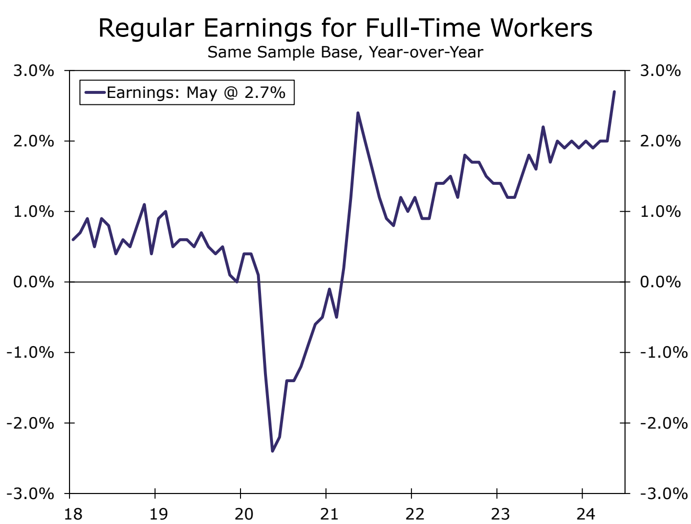
Source: Federal Reserve Board and Wells Fargo Economics

International Review

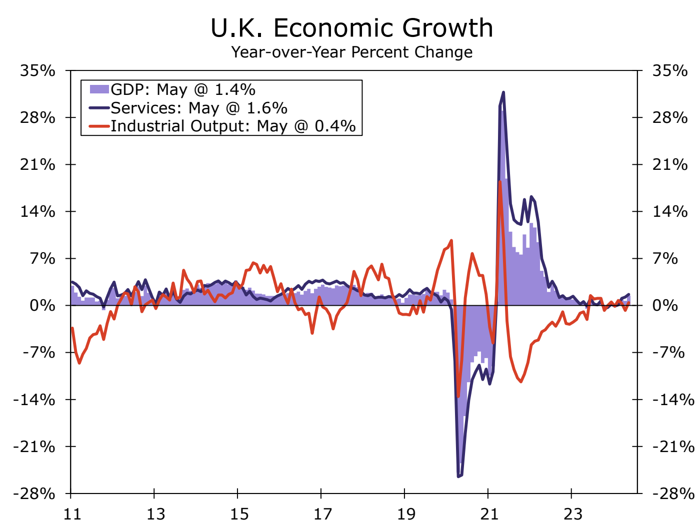
Some Encouraging Signs in Japanese Wage Growth and U.K. Economic Recovery

This week delivered a mix of economic data from both major and emerging economies around the globe. To start, in Japan, some measures of wage growth may have started to reflect the historically high wage hikes agreed to from this year's spring wage negotiations, which we view as consistent with the Bank of Japan (BoJ) further normalizing monetary policy this year and into 2025. Japan's largest labor union federation had previously announced an average wage increase of 5.1% for its members for the current fiscal year, the largest bump seen in over 30 years. Before the May earnings data were released this week, that pay bump had arguably not yet shown up to a significant extent in the monthly earnings figures. In the May data, while the headline earnings figure gained only moderately, another series that we believe BoJ officials closely monitor—regular pay for full-time workers measured on a same-sample basis—popped to 2.7% year-over-year growth, far surpassing the consensus expectation for a 2.2% gain (chart). Firming wage growth, and the potential for a virtuous wage-price cycle to further develop, will likely be key factors behind future BoJ monetary policy normalization. It's worth noting, though, that we believe BoJ officials will want to take a somewhat cautious approach to monetary policy adjustments, in order to ensure that these developments are truly taking hold. As such, we look for the BoJ to wait until its October meeting to raise its policy rate, by 15 bps to 0.15%-0.25%, before delivering further monetary policy normalization in early 2025.

In the U.K., May monthly GDP figures revealed an encouraging picture of what we view as an ongoing economic recovery. After a brief technical recession in the second half of 2023, the economy turned a corner in Q1-2024, and it seems that this economic momentum has continued through Q2 as well. In May, the U.K. economy grew twice as fast as expected at 0.4% month-over-month. We see a similar story when looking at growth momentum over the past several months. GDP growth in the three-month period ended in May compared to the three-month period ended in February accelerated to 0.9% when it was expected to hold steady at a 0.7% pace. In other economic data released alongside the GDP figures, May services activity rose 0.3% month-over-month, while industrial output rose 0.2% over the month. In our view, improving economic growth, when paired with only gradually receding inflation, will likely lead Bank of England (BoE) policymakers to proceed cautiously as they move to a less restrictive monetary policy stance. We believe that, if we are able to see a continued moderation in price and wage growth in the economic data coming out next week, BoE policymakers will deliver an initial 25 bps rate cut at their August meeting, before pausing in September and cutting again in November. For more detail, please see our recently published report on our outlook for the U.K. economy and BoE monetary policy.



Source: Bloomberg Finance L.P. and Wells Fargo Economics



Source: Datastream and Wells Fargo Economics

Down under, the Reserve Bank of New Zealand (RBNZ) held its policy rate steady at 5.50% but communicated a dovish leaning stance, noting that monetary tightening had meaningfully reduced inflation and that policymakers expect inflation to return to target in the second half of 2024, as opposed to the end of 2024 previously. In another important change to the monetary policy announcement, officials added a comment saying that the extent of restrictive monetary policy “will be tempered over time consistent with the expected decline in inflation pressures.” Taken together, we view this dovish-leaning RBNZ shift as consistent with our view for the central bank to pivot to monetary easing by the fourth quarter of this year with a 25 bps rate cut.

On the emerging economy front, Mexico's June inflation figures painted somewhat of a mixed picture, which we believe is consistent with our view for a reasonably cautious approach from Banxico on monetary policy easing. Headline inflation picked up by more than expected, to 4.98% year-over-year in June, with biweekly figures suggesting price momentum accelerated toward the end of the month. On the other hand, core inflation slowed modestly on a year-ago basis. Overall, we believe that Banxico policymakers will want to wait and see a bit more evidence of a slowdown in inflation before they deliver another policy rate cut. Our current forecast is for a 25 bps rate cut to 10.75% in December.

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International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
15-Jul	China GDP (YoY)	Q2	5.1%	–	5.3%
16-Jul	Canada CPI (YoY)	Jun	2.8%	–	2.9%
18-Jul	European Central Bank Deposit Rate	18-Jul	3.75%	3.75%	3.75%

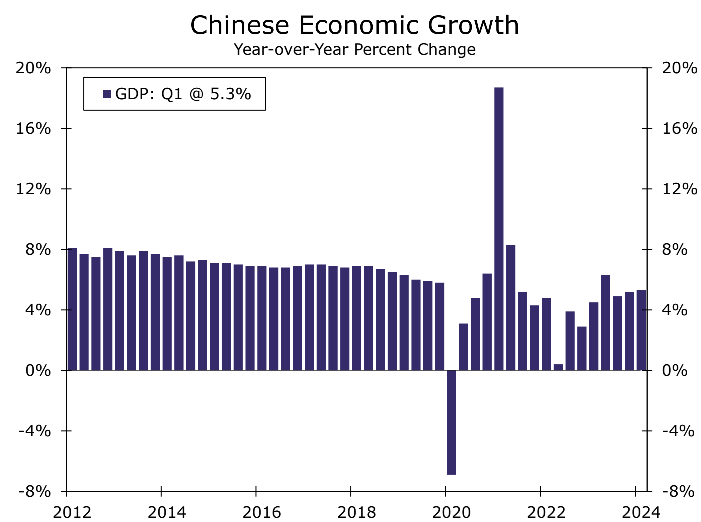
Forecast as of July 12, 2024

Source: Bloomberg Finance L.P. and Wells Fargo Economics

China GDP • Monday

Market participants will be closely watching next week's release of Chinese GDP growth figures for Q2-2024 for further insight into how the economic superpower has fared so far this year. Consensus economists expect the economy lost some momentum in the second quarter, with expectations for a downshift in growth to 0.9% quarter-over-quarter and 5.1% year-over-year. Industrial production and retail sales data for June will also be released next week, providing more color to the evolution of recent Chinese economic activity. Both measures of activity are expected to have eased last month, to 5.0% year-over-year for industrial production and to 3.4% for retail sales.

If these forecasts are realized, this would be consistent with our view for China's economy to slow through the latter part of 2024 and into 2025. The economy faces a variety of structural challenges—such as a struggling housing sector and unfavorable demographic trends—which, in our view, will act as a subduing force on economic activity in the medium term. In light of these challenges, authorities have announced some measures of fiscal and monetary policy support this year, but we do not think these efforts will be sufficient to meaningfully boost China's economic growth. We look for the Chinese economy to grow by 5.1% in 2024 before slowing to 4.3% growth in 2025.

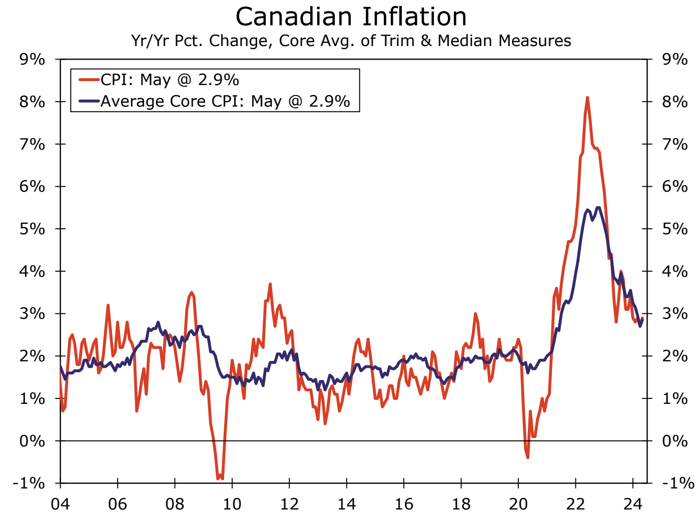


Source: Bloomberg Finance L.P. and Wells Fargo Economics

Canada CPI • Tuesday

All eyes will be on the Canadian CPI release next Tuesday as market participants look for clues into whether the Bank of Canada (BoC) will cut rates again at its July 24 meeting. BoC policymakers initiated monetary easing efforts in June in light of continued disinflationary progress and only-modest economic activity. However, inflation surprised to the upside in May, calling into question whether the BoC would opt for back-to-back rate cuts. There are also lingering inflation concerns around services inflation and wage growth, which have remained elevated at above 4% and 5%, respectively. In terms of consensus expectations for the June inflation figures, economists are looking for headline CPI inflation to tick down slightly to 2.8% year-over-year and for average core CPI inflation to similarly ease very slightly.

In terms of monetary policy implications, if the June inflation figures do show only a slight—or no—slowdown in price pressures, we would lean toward a BoC rate pause in July. If inflation slowed more sharply than expected in June, for example, by two or three tenths of a percentage point for either headline or core inflation, that could increasingly tilt the risks toward a 25 bps rate cut in July.

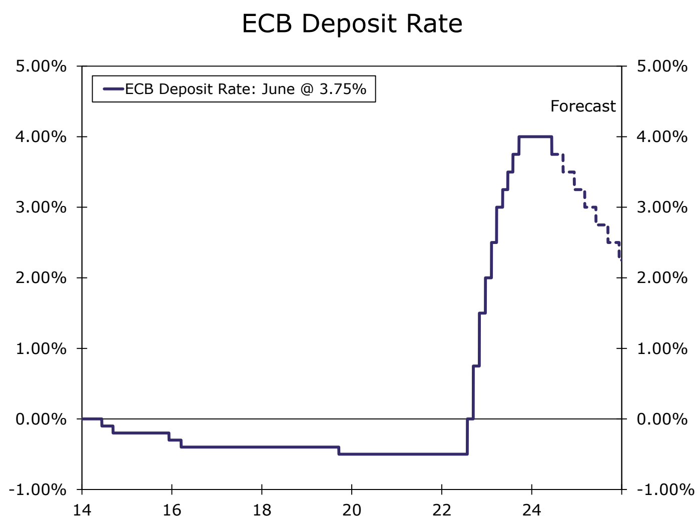


Source: Bloomberg Finance L.P. and Wells Fargo Economics

European Central Bank Policy Rate • Thursday

Next Thursday will mark the first European Central Bank (ECB) meeting since the central bank opted to lower its policy rates by 25 bps at the beginning of June. We expect the ECB to keep the policy rates steady next week and to communicate a cautious stance toward future rate cuts. Beyond July, we see the ECB proceeding at a gradual 25-bps-per-quarter rate cut pace, with the next rate cut likely coming in September.

Disinflation progress for headline and core inflation propelled ECB policymakers to initiate a monetary easing cycle, but we believe that still-elevated services inflation and wage growth will make for a gradual pace of rate cuts ahead. In June, services inflation held steady at 4.1% year-over-year; the trend in services price growth certainly appears to be more sticky than that of headline or core inflation. Wage growth has followed a similar pattern, remaining elevated at around 5% year-over-year in Q1-2024. We believe these areas of concern will keep ECB policymakers on the sidelines in July. By the central bank's September meeting, however, policymakers will have gained access to additional inflation and wage data, which could show some softening in labor cost pressures. If inflation were also to ease over the next couple of months, such developments may prompt ECB officials to deliver a rate cut in September. Overall, while we believe that disinflation progress for core and headline inflation means that more ECB rate cuts are coming, persistence in services and wage inflation likely means that rate cuts will be delivered in a gradual manner.



Source: Datastream and Wells Fargo Economics

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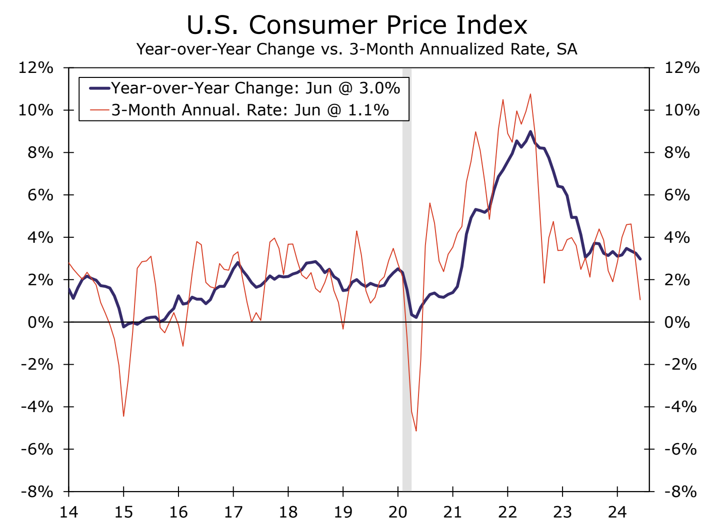
Interest Rate Watch

Balanced Risks Drive the FOMC Closer to a September Rate Cut

The FOMC has been in a holding pattern with both its policy rate and policy guidance this year. The FOMC last adjusted the fed funds rate nearly a year ago, and since January, the Committee's post-meeting statement has signaled that further hikes were not likely and rate cuts were not near. In Congressional testimony this week, however, Chair Powell's comments suggested that the FOMC is getting closer to exiting its holding pattern and preparing to descend.

We see two factors behind this shift. First, while inflation remains a concern, given it has yet to return to the Fed's 2% objective, it has fallen markedly over the past two years (chart). Given the lagging nature of inflation, Powell again stressed this week that inflation does not need to return all the way to 2% before the FOMC reduces the fed funds rate. Rather, the Committee needs to see further "good" news on inflation to gain "greater confidence" that it is heading toward its 2% target on a sustained basis. June's CPI data released on Thursday came in better than good in our view and sets up another friendly print of the Fed's preferred inflation gauge in June. Taken together with data from the Producer Price Index, the core PCE deflator looks to have increased 0.16% in June, which would be consistent with both the one-month and three-month annualized rates of core PCE coming in at 2.0%.

Second, the cumulative softening in the labor market, which we detail in our Topic of the Week, has put concerns over the Fed's inflation and employment mandates on more even footing. Noting the risks to inflation from easing policy too much or too soon, as well as the risks to employment from easing too little or too late, have been boilerplate in Powell's remarks this year. However, in this week's testimony, he elevated concerns about employment by adding to his prepared remarks that "in light of the progress made both in lowering inflation and in cooling the labor market over the past two years, elevated inflation is not the only risk we face" before highlighting the risks of easing too late.



Source: U.S. Department of Labor and Wells Fargo Economics

We continue to expect that the FOMC will begin to reduce the fed funds rate at its September 18 meeting. The weakening in recent data—the Bloomberg Economic Surprise Index is hovering near its lowest level since 2015— alongside Powell's shift in tone give us more confidence in that call. While the most recent FOMC Summary of Economic Projections and meeting minutes pointed to a Committee somewhat split over when dialing back current restraint may be appropriate, there will be two additional months of inflation and employment data for a consensus to build. Market participants have already gravitated to a September rate cut and have now fully priced in a 25 bps rate cut. Yet, while the inflation picture has continued to improve, the deterioration in the jobs market highlights that rate cuts are finally coming closer into view under less-than-ideal circumstances.

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Credit Market Insights

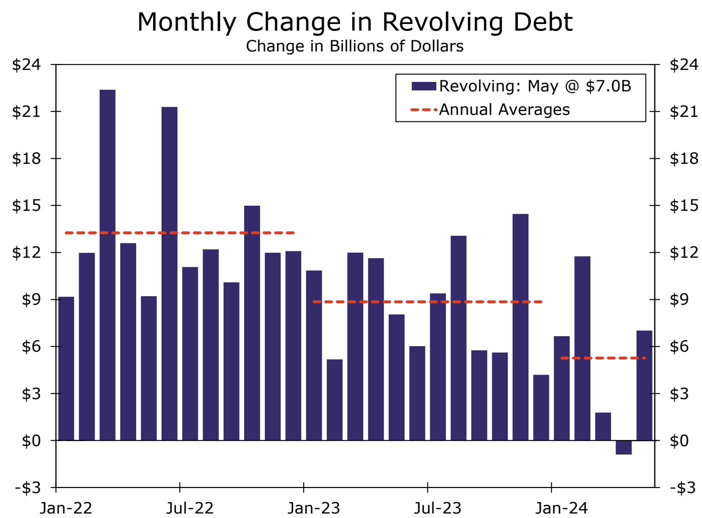
Interest Expense Getting to Consumers

Consumer reliance on credit has started to taper as high rates have increasingly weighed on the household balance sheet. Total outstanding consumer credit increased $11.4 billion in May, as outstanding revolving balances increased by $7.0 billion and nonrevolving balances increased $4.3 billion. Though growing at a decent clip in May, consumer credit has downshifted thus far in 2024. Revolving credit, which is primarily composed of credit cards, has driven much of this deceleration.

Revolving consumer credit balances began increasing in 2021 as household began to contend with inflation that was driving up the cost of everything from food to household essentials to transportation costs. The average monthly increase in revolving balances in 2022 amounted to $13.3 billion, and revolving balances increased $159 billion in total over the year, which is more than two times faster than the annual average that prevailed from 2015–2019 (chart). Consumers began to rely less on credit cards in 2023, with the cost of servicing this debt mounting as interest rates rose rapidly. The average monthly increase in 2023 declined to $8.9 billion, amounting to a nominal annual increase of $106 billion. The downshifting trend has continued through most of the first half of 2024 as the average monthly increase in outstanding revolving credit balances again declined to $5.3 billion.

High interest rates have deterred consumers from relying heavily on credit to sustain their pace of spending in recent months. The average annual interest rate on credit cards reached 21.5% in May, only a touch lower than the record high reached at the end of Q1. The average APR on all credit cards has now been north of 20% since the start of 2023. The cost of financing autos has fared similarly, with the average APR on a 60-month new car loan topping 8% for nearly three consecutive quarters now. Indeed, non-mortgage personal interest expense as a share of disposable personal income was 2.5% in May—through early 2024, this measure has been at its highest since 2008.

Consumer reliance on credit may be decelerating, but the key area to watch for the health of the consumer will be delinquencies. As the cost of servicing outstanding debt has increased and taken more of consumers' paychecks, households have begun to fall behind on payments. Delinquencies have risen across a variety of debt products, including credit cards and auto loans. The good news is that households have not been over levering, with the share of household debt to disposable income remaining below the prepandemic share. The upshot is that higher rates are driving consumers to rely less heavily on consumer credit, and it will be household income that will dictate the outlook for consumer spending in the coming quarters.



Source: Federal Reserve Board and Wells Fargo Economics

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Topic of the Week

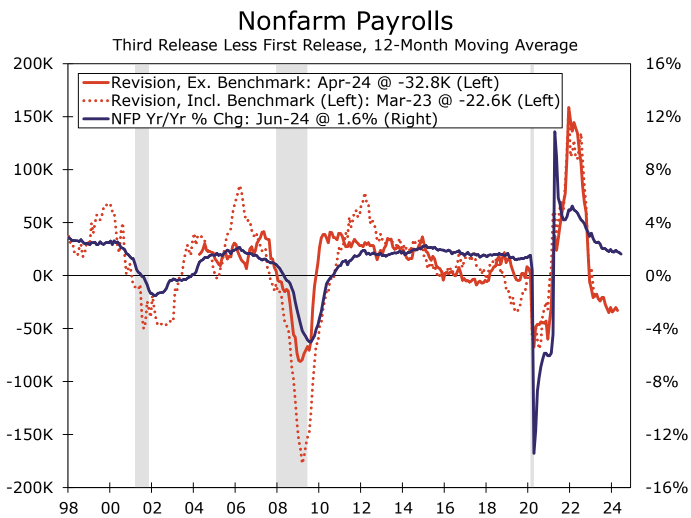
"Elevated Inflation Is Not the Only Risk We Face" – Jerome Powell

As Powell remarked in his Congressional testimony, normalization in the jobs market has concluded, and "a broad set of indicators suggests that [labor market] conditions have returned to about where they stood on the eve of the pandemic." Given the material cooling evident over the past year, further deterioration may look less like a welcome "normalization" and more like unexpected weakening to the Fed. We highlighted several cracks in the labor market earlier this year, and six months later, the widespread signs of negative momentum in these worry spots persist.

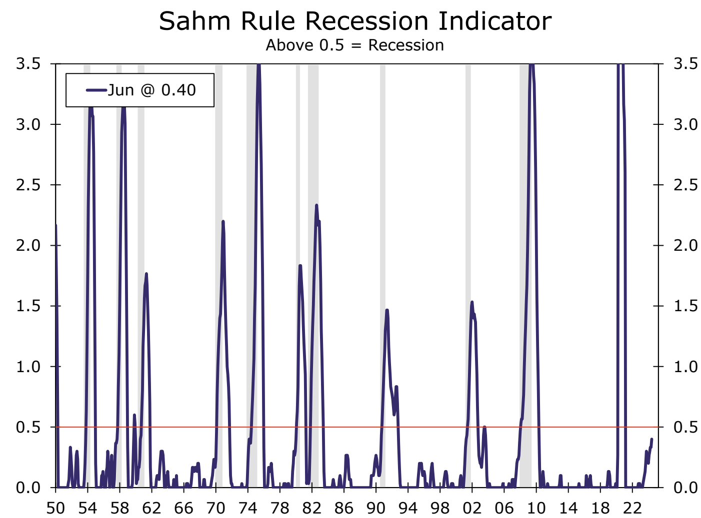
Payroll gains have narrowed. Nearly three-quarters of the 206K jobs added in June were within just two (largely acyclical) sectors: government and healthcare & social assistance. A positive net share of industries is still adding jobs, but over the past six months the diffusion index, which shows the breadth of job gains, has drifted to the bottom end of its non-recessionary range. As we discussed in a recent report, the concentrated degree of hiring masks a more fragile foundation for overall job growth ahead.

Revisions to payrolls are trending lower. Arguably the biggest news in last Friday's employment report was the 111K downward net revision to May and April job growth. Over the past year, between the first release and third release, payroll gains were reduced by over 30K on average (chart). The last annual benchmark to March 2023 also had a negative effect, and the most recent Quarterly Census of Employment and Wages points to payrolls likely being revised down again in the next annual benchmark. A negative trend in revisions has often proceeded significant slowdowns in hiring (2001 and 2007), although not always (mid-2019).

Demand for new workers is subsiding. Both the recent JOLTS and NFIB reports show firm hiring intentions that are closer to the lukewarm jobs market of the mid-2010s than to the bustling pre-pandemic mood. Temporary help employment has continued to plummet, falling a precipitous 49K in June and down 515K from its peak in March 2022.



Source: U.S. Department of Labor, Bloomberg Finance L.P. and Wells Fargo Economics



Source: U.S. Department of Labor and Wells Fargo Economics

Employers are using existing workers less intensely. The share of workers working part-time for economic reasons has climbed to match its 2019 average (2.7% of total employment). Separately, the average workweek has fallen 0.7 hours after peaking at 34.4 in the summer of 2021. To be fair, this still leaves average hours a tick above the 2019 average, and the material drop is relative to a high realized during the throes of the post-pandemic scramble for workers. That said, since hours data became available beginning in the mid-1960s, the typical workweek length has fallen shortly ahead of each recession.

Unemployment is moving higher. At 4.1%, the unemployment rate remains historically low, but the recent upturn is notable since the unemployment rate tends to vacillate little when the economy is in an expansion. The increase has not at this point triggered the widely watched Sahm rule (chart), which finds that the economy is in a recession if the three-month average of the unemployment rate is 0.5 points above its low of the past the 12 months. Yet, in the relatively recent downturns of 2001 and 2007-09, the threshold was not reached until after the economy was already in a recession for a few months, making the current upward creep in the unemployment rate concerning.

In all fairness, that a number of measures have not only returned to their pre-pandemic states, but also are weaker relative to 2019, takes for granted that 2019 was a historically tight labor market in its own right. That said, momentum in the labor market is difficult to shift, and once conditions begin to sour, they usually continue to worsen. While a soft-landing remains our base case forecast, these cracks highlight that recession probability is still elevated (30% in the June Bloomberg Survey of Economists) relative to its historical average. Furthermore, with the continued improvement in inflation and risks to its mandate more balanced, as we discussed in Interest Rate Watch, we expect the Fed to begin to cut rates in September. (Return to Summary)

Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 7/12/2024	1 Week Ago	1 Year Ago
SOFR	5.34	5.33	5.06
Effective Fed Funds Rate	5.33	5.33	5.08
3-Month T-Bill	5.34	5.37	5.38
1-Year Treasury	4.78	4.99	5.23
2-Year Treasury	4.47	4.60	4.75
5-Year Treasury	4.12	4.23	4.07
10-Year Treasury	4.19	4.28	3.86
30-Year Treasury	4.41	4.48	3.95
Bond Buyer Index	3.94	3.96	3.66

Foreign Exchange Rates

	Friday 7/12/2024	1 Week Ago	1 Year Ago
Euro ($/€)	1.090	1.084	1.113
British Pound ($/₤)	1.299	1.282	1.299
British Pound (₤/€)	0.840	0.846	0.857
Japanese Yen (¥/$)	157.960	160.750	138.500
Canadian Dollar (C$/$)	1.362	1.364	1.319
Swiss Franc (CHF/$)	0.895	0.896	0.867
Australian Dollar (US$/A$)	0.679	0.675	0.679
Mexican Peso (MXN/$)	17.633	18.106	16.901
Chinese Yuan (CNY/$)	7.250	7.268	7.166
Indian Rupee (INR/$)	83.535	83.494	82.249
Brazilian Real (BRL/$)	5.449	5.460	4.821
U.S. Dollar Index	104.133	104.875	100.521

Source: Bloomberg Finance L.P. and Wells Fargo Economics

Foreign Interest Rates

	Friday 7/12/2024	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.34	3.36	3.51
3-Month U.K. Govt Bill Yield	5.20	5.19	3.89
3-Month Canadian Govt Bill Yield	4.60	4.61	4.98
3-Month Japanese Govt Bill Yield	0.02	0.02	-0.11
2-Year German Note Yield	2.82	2.89	3.23
2-Year U.K. Note Yield	4.09	4.13	5.23
2-Year Canadian Note Yield	3.82	3.94	4.67
2-Year Japanese Note Yield	0.34	0.35	-0.04
10-Year German Bond Yield	2.50	2.56	2.58
10-Year U.K. Bond Yield	4.11	4.13	4.51
10-Year Canadian Bond Yield	3.41	3.50	3.42
10-Year Japanese Bond Yield	1.07	1.08	0.47

Commodity Prices

	Friday 7/12/2024	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	82.65	83.16	75.75
Brent Crude ($/Barrel)	85.36	86.54	80.11
Gold ($/Ounce)	2415.09	2392.16	1957.35
Hot-Rolled Steel ($/S.Ton)	665.00	675.00	896.00
Copper (¢/Pound)	459.45	465.85	384.20
Soybeans ($/Bushel)	11.67	12.16	14.87
Natural Gas ($/MMBTU)	2.32	2.32	2.63
Nickel ($/Metric Ton)	16,533	16,965	20,501
CRB Spot Inds.	558.27	557.52	553.57

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