

Weekly — May 24, 2024

Weekly Economic & Financial Commentary

United States: **High Mortgage Rates Burden Homebuyers**

- Homebuying retreated in April following a leg up in mortgage rates. Meanwhile, durable goods orders surprised to the upside, suggesting the manufacturing industry is on better footing.
- Next week: Consumer Confidence (Tue.), Personal Income & Spending (Fri.)

International: **Foreign Economies Show Mixed Inflation Trends amid Ongoing Economic Expansion**

- In this week's price news, Canada's underlying inflation slowed more than forecast, which we think keeps the Bank of Canada on course for June easing. U.K. inflation slowed less than expected, which should see the Bank of England lean toward August or later for an initial rate cut. Separately, May composite PMI figures for the Eurozone and United Kingdom remained comfortably in expansion territory, suggesting gradually strengthening recoveries as the year progresses.
- Next week: China PMIs (Fri.), Eurozone CPI (Fri.), Canada GDP (Fri.)

Interest Rate Watch: **Higher for Longer Mantra on Repeat in Week Replete with Fed Speak**

- The latest FOMC meeting minutes and a flock of Fed officials on the speaking circuit this week provided additional evidence that rate cuts this summer are not likely. On balance, the Fed communication channel conveyed a sense that monetary policy was transmitting through the economy at a slower pace than previous cycles and a desire for more patience in order to gain certainty that inflation is on its way to 2%.

Credit Market Insights: **Credit Card Delinquencies Continue to Rise in Q1**

- All eyes have been on households' balance sheets as the consumer has continued to spend at an unexpected pace in the face of elevated interest rates. Recent data have suggested that cracks in households' financial situations are beginning to emerge, especially for lower income households.

Topic of the Week: **Drivers... Start Your Engines**

- Monday is a federal holiday in the United States. In addition to being a time of remembrance, Memorial Day also marks the un-official start to summer. In our Topic of the Week, we describe what a trip to the lake or the beach has in common with the big races in Indianapolis and Charlotte this weekend and what it all has to do with earnings.

Submit a question to our ["Ask Our Economists"](https://www.wellsfargo.com/askoureconomists) podcast at askoureconomists@wellsfargo.com.

| Wells Fargo U.S. Economic Forecast | | | | | | | | | | | | | | | | |
|--|----------------|------|------|------|------------------|------|------|------|----------------|------|------------------|------|------------------|--|------------------|--|
| | Actual 2023 | | | | Forecast 2024 | | | | Actual 2022 | | Forecast 2023 | | Forecast 2024 | | Forecast 2025 | |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | | | | | |
| Real Gross Domestic Product ¹ | 2.2 | 2.1 | 4.9 | 3.4 | 1.2* | 2.7 | 1.9 | 1.5 | 1.9 | 2.5 | 2.6 | 2.0 | | | | |
| Personal Consumption | 3.8 | 0.8 | 3.1 | 3.3 | 2.2* | 3.0 | 1.6 | 1.7 | 2.5 | 2.2 | 2.6 | 1.9 | | | | |
| Consumer Price Index ² | 5.7 | 4.0 | 3.6 | 3.2 | 3.2 | 3.5 | 3.3 | 3.2 | 8.0 | 4.1 | 3.3 | 2.5 | | | | |
| "Core" Consumer Price Index ² | 5.5 | 5.2 | 4.4 | 4.0 | 3.8 | 3.6 | 3.6 | 3.5 | 6.2 | 4.8 | 3.6 | 2.9 | | | | |
| 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 | 7.05 | 6.80 | 6.50 | 5.38 | 6.80 | 6.79 | 6.09 | | | | |
| 10 Year Note | 3.48 | 3.81 | 4.59 | 3.88 | 4.20 | 4.40 | 4.20 | 4.00 | 2.95 | 3.96 | 4.20 | 3.83 | | | | |

¹ Forecast as of May 24, 2024

² Compound Annual Growth Rate Quarter-over-Quarter

³ Year-over-Year Percentage Change

⁴ Quarterly Data - Period End; Annual Data - Annual Averages

⁵ 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](#).

All estimates/forecasts are as of 5/24/2024 unless otherwise stated. 5/24/2024 14:17:32 EDT. This report is available on Bloomberg WFRE

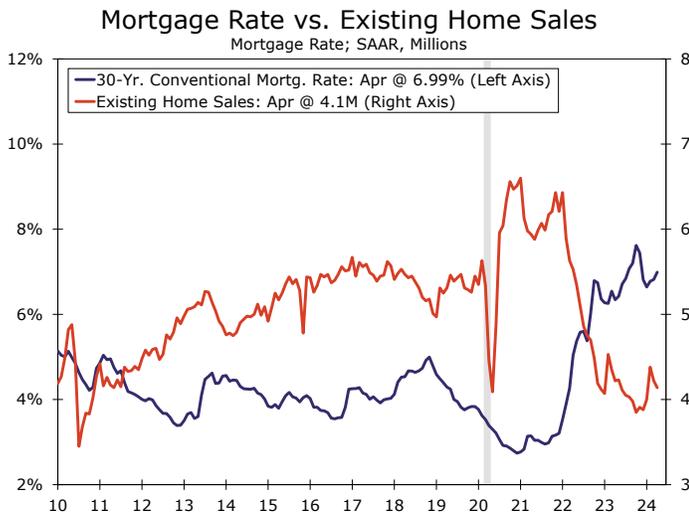
U.S. Review

High Mortgage Rates Burden Homebuyers

This week's economic data underscore how high interest rates are suppressing demand in the housing sector. Mortgage rates jettied higher in recent months as sticky inflation in the first quarter prompted a rise in rate expectations. According to Freddie Mac, the 30-year fixed rate steadily climbed from 6.6% in early February to over 7.0% in mid-April. Homebuying broadly retreated in response, giving way to declines in both new and existing home sales.

A slump in single-family demand prompted existing home sales to dip 1.9% in April. Although resales have still improved on balance this year, April capped off a two-month streak of declines that brought the sales pace 5.5% below the most recent peak in February. On the upside, resale supply has grown alongside the slower sales pace. Existing home inventories could sustain 3.4 months' supply in April, up from 3.0 months in February. Supply remains tight overall, however, keeping price pressures firm. The median single-family resale price rose 5.6% year-over-year in April, the highest annual gain this year.

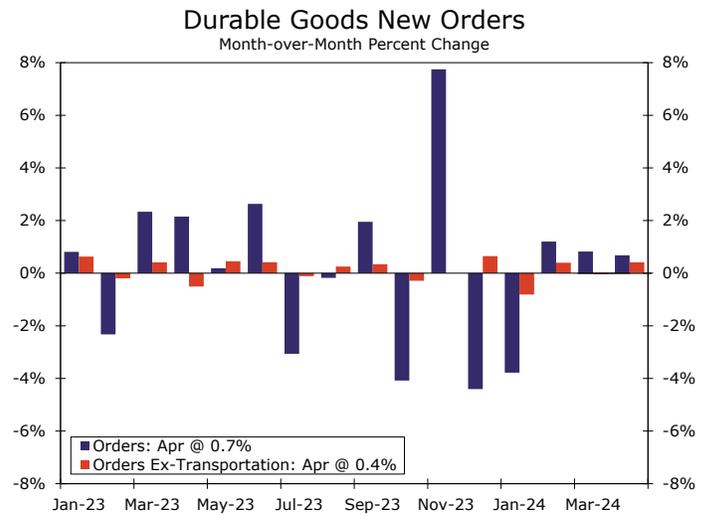
Meanwhile, new home sales notched a sharper-than-anticipated 4.7% drop over the month. Although builders have been fairly successful using sales incentives to stabilize demand, April's downturn suggests that some builders may be struggling to offset the recent leg up in financing costs. Rising resale inventories may be another hurdle weighing on new home demand. That said, plentiful supply continues to be a tailwind for builders. New home inventories in April rose to their highest level since 2008, able to sustain 9.1 months of sales. Furthermore, builders surveyed by the NAHB stepped up their use of price cuts and mortgage rate buy-downs in May, which may help to bring buyers back from the sidelines.



Source: NAR, Freddie Mac and Wells Fargo Economics

Durable goods orders added a ray of sunshine to an otherwise gloomy data week. Headline orders rose 0.7% in April, defying expectations for a decline. The now three-month streak of gains suggests that the manufacturing industry is on firmer footing today than it was late last year. High-tech manufacturing appears to be receiving a boost from the AI and automation craze, as the computers and electronics category is second only to motor vehicles and parts in terms of annual orders growth. Motor vehicle orders also appear to be back on track amid normalizing supply chains and inventory levels. Although not adjusted for inflation, autos and parts orders in April hovered 12.7% above their pre-pandemic peak.

We expect these interest-rate sensitive sectors will gradually improve as the Fed pivots to easing policy later this year. As discussed in [Interest Rate Watch](#), Federal Reserve members stuck to their higher-for-longer messaging this week, emphasizing that they will not begin cutting rates until they are confident that inflation is on a path back toward target. Per the May meeting minutes, it is taking "longer than previously anticipated" for FOMC members to gain this confidence as the economy continues to exhibit momentum and inflation progress stalls. April's softer payroll print was a step in the right direction, but activity data out this week did little to allay concerns. First read of the May S&P



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

global PMIs suggest that the economy is on track to expand at the fastest pace in 25 months. Not only did activity pick up across the manufacturing and services sectors, but manufacturers reported the steepest rise in input costs in one and a half years. We continue to expect the labor market will soften and inflation will grind lower as the year progresses, prompting the first rate cut in September. However, we acknowledge that risks are skewed toward greater economic resilience and a more drawn-out descent in price pressures.

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U.S. Outlook

| Weekly Domestic Indicator Forecasts | | | | | |
|-------------------------------------|----------------------------|--------|-----------|-------------|-------|
| Date | Indicator | Period | Consensus | Wells Fargo | Prior |
| 28-May | Consumer Confidence | May | 96.0 | 96.0 | 97.0 |
| 30-May | GDP Annualized (QoQ) | Q1 S | 1.3% | 1.2% | 1.6% |
| 30-May | Personal Consumption (QoQ) | Q1 S | 2.1% | 2.2% | 2.5% |
| 31-May | Personal Income (MoM) | Apr | 0.3% | 0.3% | 0.5% |
| 31-May | Personal Spending (MoM) | Apr | 0.3% | 0.3% | 0.8% |
| 31-May | PCE Deflator (MoM) | Apr | 0.3% | 0.3% | 0.3% |
| 31-May | PCE Deflator (YoY) | Apr | 2.7% | 2.7% | 2.7% |
| 31-May | Core PCE Deflator (MoM) | Apr | 0.3% | 0.2% | 0.3% |
| 31-May | Core PCE Deflator (YoY) | Apr | 2.8% | 2.8% | 2.8% |

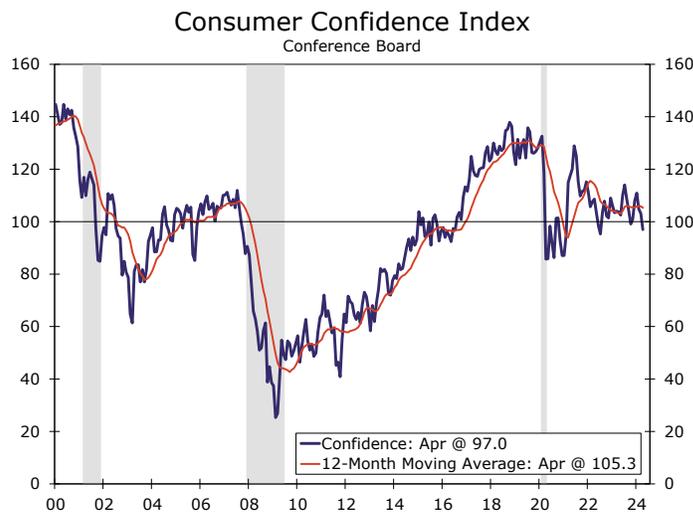
Forecast as of May 24, 2024

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

Consumer Confidence • Tuesday

The disconnect between consumer spending and confidence has been a widely followed development over the past year. Household confidence, as measured by the Conference Board, has fallen for three straight months and was at its lowest in April since the summer of 2022. Meantime, real consumer spending expanded at a 2.5% annualized rate in the first three months of the year and closed the quarter 2.4% higher than it was the prior year. Why is confidence low when spending is solid?

Stubborn price growth explains at least some of the gap. Inflation has eased from its breakneck pace in 2022, but prices continue to rise and the sticker shock of the past few years has compounded to a lackluster outlook on the economy. In April, gas prices were up, retail sales stalled, stock prices ebbed and the unemployment rate moved up a tenth. While equity prices have turned higher recently, we suspect that won't go a long way in boosting household sentiment. We look for the Consumer Confidence Index to slip one point to 96.0 in May.



Source: The Conference Board and Wells Fargo Economics

Personal Income & Spending • Friday

Despite faltering confidence, the household sector continues to demonstrate resilience. Consumer spending came in stronger than expected in March among moderating growth in real disposable income. To make ends meet, the personal saving rate has fallen since the beginning of the year and is sitting at a historically low 3.2%. Elevated borrowing costs have slowed the pace of expansion in consumer credit, but the steady rise in credit card debt and low saving rate suggest consumers are pulling out all the stops to keep spending.

After rising 0.8% in February and March, we look for personal spending to post a more modest 0.3% gain in April. Retail sales were flat over the month as Easter was earlier than usual and pulled some spending into March at the expense of April. On the income side of the ledger, we forecast personal income to increase 0.3%. Wages were strong in the first quarter, but recent data point to a loosening in the labor market and softening wage growth. Given our expectation for the PCE deflator to rise 0.3%, we suspect real income growth will come in flat. Abating inflation-adjusted income growth is poised to slow consumer spending in the second half of this year, which would help to keep demand's upward pressure on inflation in check. We expect the core PCE deflator to hold steady at 2.8% year-over-year in April and settle around that rate at the end of this year.

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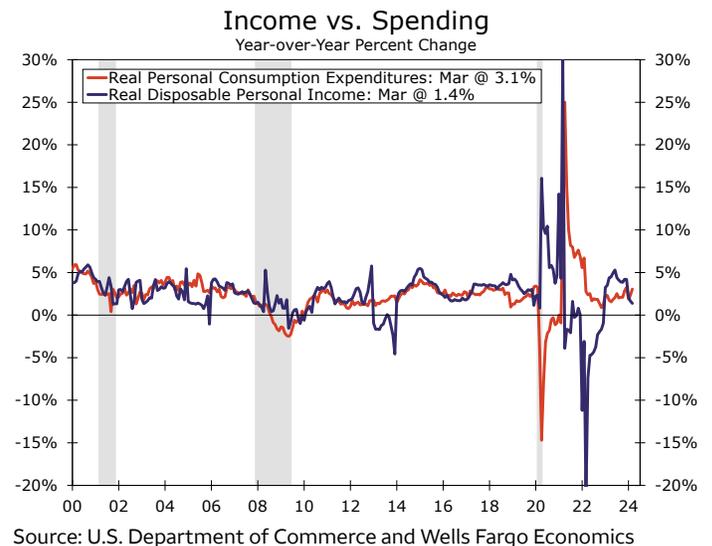
International Review

Foreign Economies Show Mixed Inflation Trends amid Ongoing Economic Expansion

This week saw the release of key wage and inflation data from G10 economies that offered market participants some insight into the potential path of monetary policy in the months ahead. To start, Canada's inflation data for April showed a further easing in price pressures, which should be welcome news for Bank of Canada (BoC) policymakers, who we believe will be ready to deliver an initial 25 bps rate cut at their June 5 meeting. Headline CPI inflation slowed as anticipated to 2.7% year-over-year, while the average of core inflation measures slowed by more than expected, to 2.75%. In their latest monetary policy announcement, BoC officials remarked that they would be looking for evidence that downward momentum in inflation is sustained. It seems that this desire may be coming to fruition. In terms of monetary policy implications, when we consider an environment of easing inflation alongside moderating economic growth, we remain comfortable with our outlook for BoC policymakers to begin their easing cycle this June.

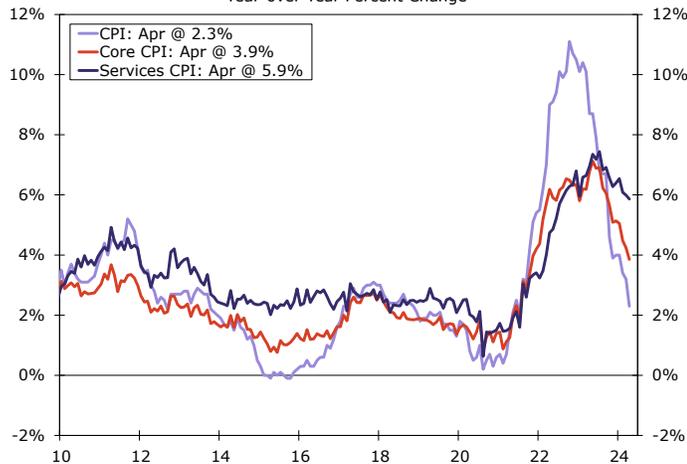
Next up, in the U.K., price pressures slowed less than expected in April, a development we believe supports our outlook for an initial 25 bps August rate cut as opposed to an earlier June move. Headline CPI inflation eased to 2.3% year-over-year against expectations for a further slowing to 2.1%, while core inflation also had a more modest slowing to 3.9%. Services inflation—a key area of concern for central bank policymakers—also followed this theme, slowing by only a hair to 5.9%. These upside inflation surprises dashed hopes for a June rate cut, with markets now pricing in less than a 10% chance of a cut next month, as opposed to closer to a 50% chance before the inflation data were released. As far as our assessment, we believe that while these data will not thrill Bank of England (BoE) policymakers, they do not take summer rate cuts off the table, as BoE officials have recently nodded toward the prospect of approaching rate cuts. For the time being, we remain comfortable with our outlook for an initial 25 bps BoE rate cut in August.

Turning to the Eurozone, wage growth appears to have persisted into early 2024, though our outlook for a June European Central Bank (ECB) rate cut remains. This week saw the release of both labor cost figures and negotiated wages for the first quarter. The former showed an acceleration in the pace of Q1 labor costs to 4.9% year-over-year. With that being said, it seems that this somewhat volatile series is slowly coming down from its late-2022 peak. And while the measure of negotiated wages firmed to 4.69% year-over-year for the first quarter of 2024, the ECB published accompanying commentary



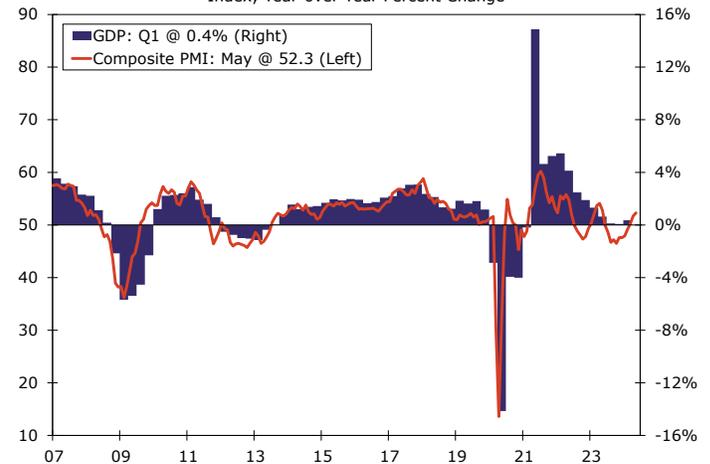
noting that the figure was influenced by one-off payments and that while negotiated wage growth is expected to stay somewhat elevated this year, “wage pressures look set to decelerate in 2024.” We do not think this week’s wage data will sway ECB policymakers from delivering an initial 25 bps June rate cut, though it reaffirms our base case for officials to take an initially gradual approach to easing, pausing rate cuts in July before resuming in September.

U.K. Consumer Prices
Year-over-Year Percent Change



Source: Datastream and Wells Fargo Economics

Eurozone Composite PMI vs. GDP Growth
Index; Year-over-Year Percent Change



Source: Datastream and Wells Fargo Economics

The Reserve Bank of New Zealand (RBNZ) held its policy rate steady at 5.50%, but its accompanying comments and economic forecast were hawkish in tone. The RBNZ revised its peak for the policy rate path higher to 5.65%, suggesting there remains some risk of a further hike. The RBNZ now does not anticipate monetary easing until Q3-2025. While we ultimately do not expect further tightening, the RBNZ also said persistent domestic inflation remains a significant upside risk, suggesting RBNZ easing may be delayed until later than we currently expect. Hungary’s central bank lowered its policy rate 50 bps to 7.25% and indicated there was only limited room for further easing. Chile’s central bank cut its policy rate 50 bps to 6.00%, and signaled further monetary easing in the months ahead.

In terms of the international economic outlook, May PMI surveys for the Eurozone and United Kingdom pointed to a continuing recovery for those key European economies. For the Eurozone, the manufacturing PMI rose to 47.4, indicating a slower rate of contraction for the industrial sector, while the services PMI was unchanged at 53.3, indicating an ongoing and steady expansion in service sector activity. With the services PMI, the incoming new business component rose to 53.6, an encouraging sign for activity in the months ahead. For the major countries, the manufacturing PMI rose in both Germany and France, while for the services PMI the details were a bit more mixed as Germany’s services PMI improved while France’s services PMI fell. That said, the Eurozone composite (or economy-wide) PMI rose further to 52.3 in May from 51.7 in April, in our view suggesting a further strengthening in the Eurozone economic recovery is likely as the year progresses. Finally, with respect to prices, the Eurozone PMI surveys showed some easing in the input cost and output price component, although the price components are still elevated above pre-pandemic levels.

For the United Kingdom, the May PMI surveys were mixed. The manufacturing PMI rose more than forecast to 51.3, the highest level since July 2022, while the new orders component also rose to 51.8. In contrast, the services PMI fell noticeably more than expected to 52.9, with the new business component also falling to 51.8. That said, the services PMI remained in expansion territory for the seventh month in a row. In other details, and covering both the manufacturing and services sectors, the input cost and output price components both showed some cooling in May relative to April. Overall, we see the U.K. May PMIs as consistent with a moderate and ongoing recovery for the economy. Elsewhere, Japan’s composite PMI ticked up to 52.4 in May as the services PMI fell and the manufacturing PMI rose, while in Australia the May composite PMI fell to 52.6 as the services PMI declined while the manufacturing PMI held steady.

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International Outlook

Weekly International Indicator Forecasts

| Date | Indicator | Period | Consensus | Wells Fargo | Prior |
|--------|------------------------------|--------|-----------|-------------|-------|
| 31-May | China Manufacturing PMI | May | 50.4 | — | 50.4 |
| 31-May | China Non-manufacturing PMI | May | 51.5 | — | 51.2 |
| 31-May | Eurozone CPI (YoY) | May | 2.5% | — | 2.4% |
| 31-May | Eurozone Core CPI (YoY) | May | 2.7% | — | 2.7% |
| 31-May | Canada GDP (QoQ, Annualized) | Q1 | 1.8% | 1.8% | 1.0% |

Forecast as of May 24, 2024

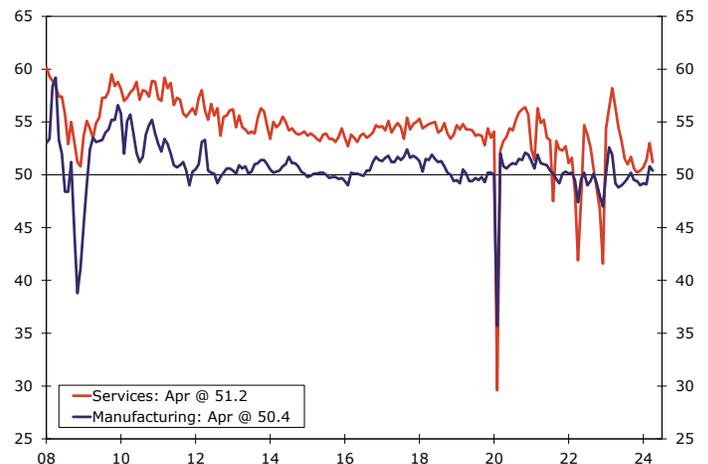
Source: Bloomberg Finance L.P. and Wells Fargo Economics

China PMIs • Friday

Official PMI figures for May will provide market participants with timely insight into the state of the Chinese economy. Recently, Chinese economic activity data have been mixed. GDP growth for the first quarter was solid at 5.3% year-over-year, and the March PMIs were encouraging. However, the PMI figures fell in April, while retail sales growth has disappointed for the past two months. This mixed picture has led to some uncertainty around China’s growth prospects going forward: is general economic strength being overshadowed by a couple of poorly performing sectors, or are we starting to see signs of a less pleasant growth outlook?

In terms of next week’s data, consensus economists expect the manufacturing PMI to hold steady at 50.4 and the non-manufacturing PMI to rise modestly to 51.5. If realized, we would view these mixed figures as consistent with our outlook for the economy to slow down in the medium-to-longer term. We believe structural challenges and geopolitical tensions will limit the extent to which the Chinese economy can expand in the coming years. After likely achieving this year’s official GDP growth target of around 5%, we see the economy slowing to a 4.3% growth pace in 2025.

Chinese PMI Surveys



Source: Datastream and Wells Fargo Economics

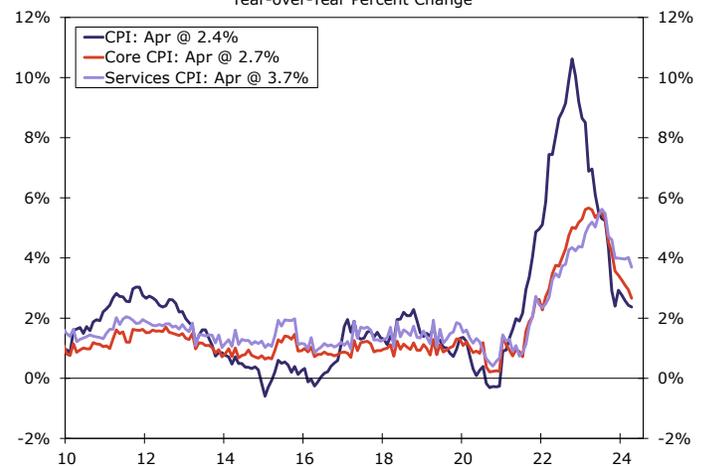
Eurozone CPI • Friday

Next week, market participants will scrutinize May Eurozone CPI inflation figures for insight into how the European Central Bank’s (ECB) monetary easing cycle could unfold over the course of this year. Given meaningful disinflation progress, somewhat modest economic growth and clear signals from policymakers, we are confident that officials will deliver an initial 25 bps rate cut at their upcoming June meeting.

While we do not expect next week’s inflation figures to sway our June rate cut forecast, they may prove useful in assessing our current outlook for ECB policymakers to pause rate cuts in July before continuing in September. Economists expect headline CPI inflation ticked up in May to 2.5% year-over-year and that core CPI inflation held steady at 2.7%. Services inflation will also be of interest, as the measure has been somewhat sticky in recent months, though it did slow in April. Overall, we believe that ECB policymakers will feel comfortable delivering an initial rate cut next month but may want to wait and see how some lingering inflation pressures—especially for services inflation—play out before delivering another rate cut in September. If the May inflation figures prove to be a meaningful downside surprise, this could increase the chance that officials opt to lower interest rates in both

Eurozone Inflation

Year-over-Year Percent Change



Source: Datastream and Wells Fargo Economics

June and July, though we view back-to-back easing as a risk scenario rather than our base case.

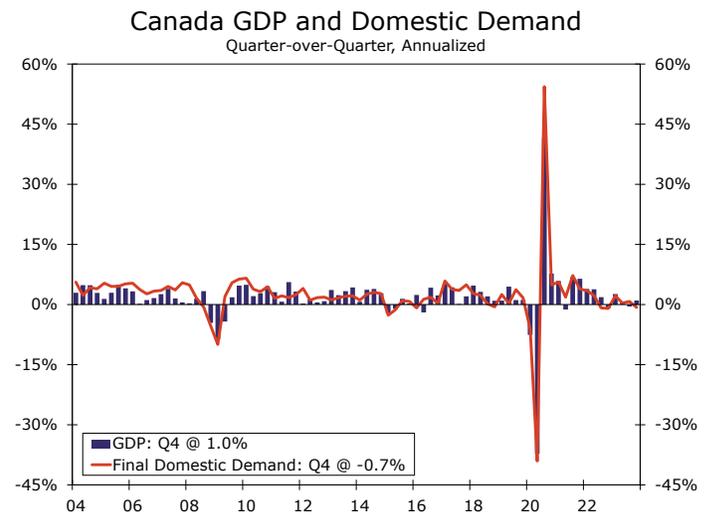
Canada GDP • Friday

Next week sees the release of Canada's Q1 GDP report which, while not as consequential as this week's inflation data, could still have some influence on the Bank of Canada's decision at its June 5 monetary policy meeting.

The Canadian economy showed some resilience in early 2024, as reflected in both monthly GDP figures and monthly employment readings. Against that backdrop, the consensus forecast is that Q1 GDP growth firmed to 2.0% quarter-over-quarter annualized, which would be up from a 1.0% growth pace in Q4. Even with solid-enough growth for the first quarter overall, the consensus is for some slowing in momentum as the quarter progressed, with March GDP expected to be flat month-over-month.

In addition to the headline GDP outcome, several other details of the report will be scrutinized for clues into the growth outlook for the coming quarters. Final domestic demand actually declined in Q4, and another soft reading would be noteworthy. We will also be monitoring growth in household disposable income and the household saving rate, given that strength (or weakness) in both would similarly translate into strength (or weakness) in consumer spending ahead. Overall, a downside GDP surprise or subdued details within the report would, at the margin, further support the case for a Bank of Canada rate cut in June.

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Source: Datastream and Wells Fargo Economics

Interest Rate Watch

Higher for Longer Mantra on Repeat in Week Replete with Fed Speak

There was no shortage of communication from Federal Reserve officials this week. On Wednesday, the minutes of the April 30-May 1 FOMC meeting were published. Since the meeting occurred before April's cooler CPI print, some commentary likely has become a bit stale. That noted, there were plenty of takeaways. For example, although policy broadly was seen as being restrictive, "many" officials questioned the degree of restraint on the economy and "various" officials expressed a willingness to raise rates if necessary. Officials generally agreed that it "would take longer than previously anticipated for them to gain greater confidence" that inflation was back on the path to their 2% goal.

Most of the Fed officials on the speaking circuit over the past few days repeated the higher for longer mantra. Notably, multiple members of the FOMC Board of Governors provided updates on their current views. Michael Barr, the Vice Chair for Supervision, expressed the desire to "sit tight" since the uptick in price pressures did not provide the comfort he was hoping for to see. Specifically, Barr stated "we need to see more evidence of continued progress on inflation for us to be in a position where we can think about adjusting the policy rate." Similarly, Vice Chair Philip Jefferson said on Monday that "it is too early to tell whether the recent slowdown in the disinflationary process will be long-lasting." Although striking a similarly hawkish tone, Fed governor Christopher Waller did not take rate cuts completely off the table in 2024. In an interview on CNBC on Tuesday, Waller asserted "if the data were to continue softening throughout the next three to five months, you can even think about doing it at the end of this year."

Several regional Federal Reserve presidents also opined throughout the week. Loretta Mester, president of the Cleveland Fed and current FOMC voting member, stated that she would like to see "a few more months" of improving inflation data, also adding that her previous forecast for three rate cuts this year no longer seems appropriate. Atlanta Federal Reserve President Raphael Bostic, who is also a current FOMC voting member, voiced concerns that monetary policy was transmitting through the economy at a slower pace than previous cycles and said "we have to be a little more patient and be more certain that inflation is on its way to 2% before moving." Boston Fed president Susan Collins expressed similar sentiments.

All told, the Fed speak this week did little to alter our view that a rate-cutting cycle will begin this year. The recent bump in inflation does not appear to be the start of another rapid run-up in prices, and softer inflation readings seem likely over the next few months. As such, our stance that 25 bps rate cuts will arrive in both September and December, and that 2025 will bring an additional 100 bps of cuts has not changed.

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Credit Market Insights

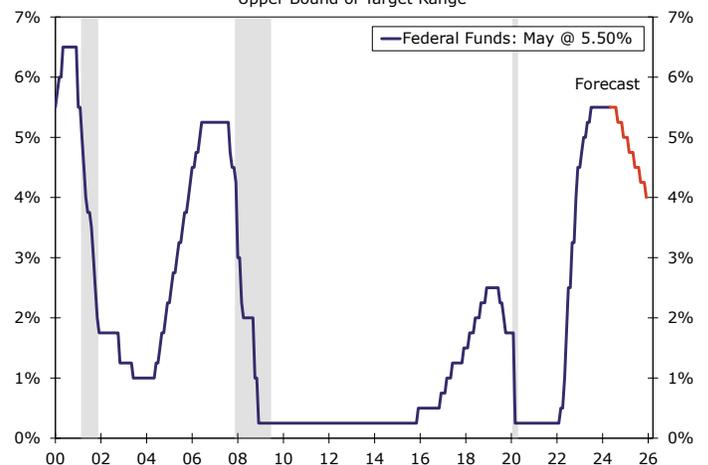
Credit Card Delinquencies Continue to Rise in Q1

All eyes have been on households' balance sheets as the consumer has continued to spend at an unexpected pace in the face of elevated interest rates. The Federal Reserve Bank of New York's Quarterly Report on Household Debt and Credit showed that average household debt balances increased by \$184B over the quarter, led primarily by a \$190B increase in mortgage balances, a \$16B gain in home equity lines of credit and a \$9B increase in auto loan balances. Though credit card balances decreased by \$14B over the quarter, they remain 13.1% above their level a year ago. As we discussed in a [special report](#) on consumer credit, debt balances have increased alongside nominal disposable income, signaling that the household sector's ability to service its debt has not meaningfully deteriorated. However, as seen in recent data, cracks in households' financial situations are beginning to emerge, especially for lower income households.

For all debt outside of student loans, delinquency rates have been steadily rising after reaching historic lows in 2021. This trend continued over the first quarter of 2024, with transition rates into delinquency rising for all products. Credit card loans in particular have seen higher rates of delinquency.

Federal Funds Target Rate

Upper Bound of Target Range

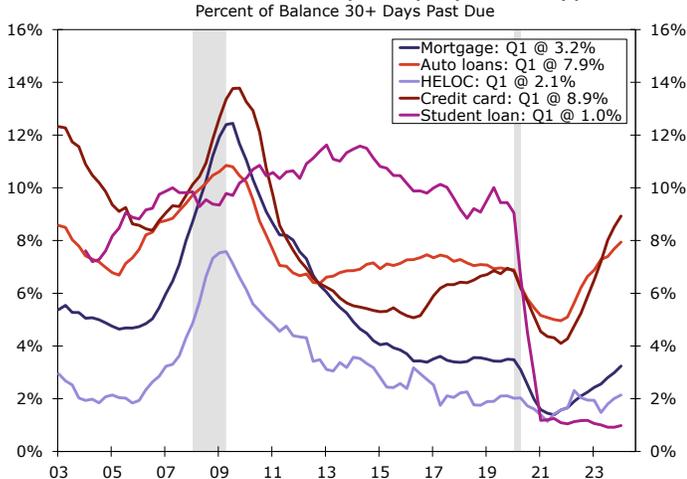


Source: Federal Reserve Board and Wells Fargo Economics

The annualized transition rate into delinquency for credit card balances surpassed its 2010-2019 average in March of last year and has been rising ever since: 8.9% of credit card balances were in early delinquency as of Q1 ([chart](#)).

Data from the New York Federal Reserve reveal that low income households in particular are struggling to pay off their credit card loans. About a third of balances transitioning into delinquency over the past year were from “maxed out borrowers,” or borrowers that used 90% or more of their credit limit. Credit utilization is often an indicator of credit quality and income, as borrowers with lower income or poorer credit scores tend to have lower limits and thus higher utilization rates. Indeed, the NY Fed found that borrowers in the lowest income quartile had a median credit limit of \$11,300, and 12.3% of borrowers were maxed-out. In comparison, 5.5% of borrowers in the highest income quartile were maxed-out, and borrowers had a median credit limit of \$25,800.

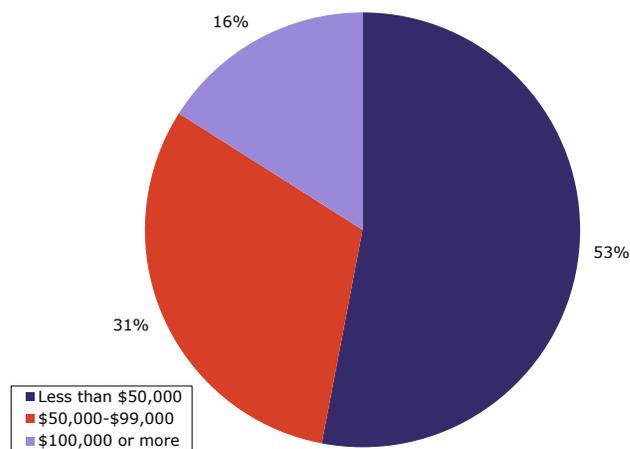
Transition into Delinquency by Loan Type



Source: New York Fed Consumer Credit Panel, Equifax and Wells Fargo Economics

Share of Difficulty Accessing Credit by Income

Credit Denied or Approved for Less than Requested; 2023



Source: Federal Reserve Board and Wells Fargo Economics

Similar findings were reported in the Federal Reserve Board's annual Survey of Household Economics and Decisionmaking. In 2023, low and middle-income households (annual income of \$0-\$99,000) who used credit cards were more likely to carry over balances from month to month than high-income households (annual income greater than \$100,000). These households were also more likely to be denied credit or approved for less than was requested. Fifty-three percent of credit applicants who experienced such actions had an annual income below \$50,000, while 16% of credit applicants had an annual income above \$100,000 ([chart](#)).

Credit reliance has been a key factor in helping consumers maintain their pace of spending. However, rising delinquencies, especially among low-income households, suggest that consumers are struggling more and more to pay their monthly balances. With interest rates at a 30-year high and the Fed likely on hold until at least September, it is likely that consumers will face tougher spending decisions in the coming months.

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Topic of the Week

Gas Prices Are About Average, Consumers Do Not Want to Hear It

This coming Monday is a federal holiday in the United States. The idea of setting aside a day to honor and mourn those who gave their lives in the service of their country dates back to the 1860s. In addition to being a time of remembrance, it is also marks the un-official start to summer. For many Americans that means driving to the nearest beach, lake or river, firing up the grill and maybe keeping a radio or TV tuned to the big auto-races at Indianapolis or at Charlotte Motor Speedway. What do all these Memorial Day Weekend activities have in common? They generally require gasoline... a rising share of drivers now power their vehicle with electricity, but that's a topic for another week.

Most consumers will tell you that gas prices are still too high, but at last check, the retail spot price for all grades of gasoline was \$3.71 according to the U.S. Department of Energy. That is up less than a nickel from the \$3.68 price for the same weekend last year and down about 22 cents from where it was on Labor Day Weekend 2023.

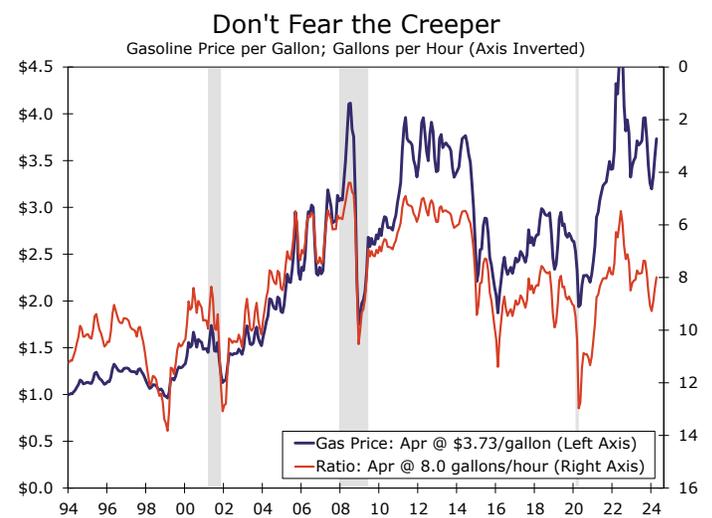
Don't Fear the Creeper

Most people are happy when you offer them a pay-raise, but try telling consumers that their paycheck has grown faster than gasoline prices, and they get grumpy. Just look at today's survey of consumer sentiment from the University of Michigan. Setting aside the height of recessions, consumer sentiment in May at 69.1 is at the low end of the range for the past 40 years. Worse: expected inflation over the next year rose to 3.3% versus 3.2% in April.

The nearby [chart](#) uses full-month data, and to keep all the numbers consistent, it is only through April (when gasoline prices were actually a few cents higher than the latest May readings). The point of the chart is to show that gasoline prices (blue line) are indeed high. People do not often need much convincing around that point. The more nuanced concept is that adjusted for the increase in average hourly earnings over the past several years, gasoline prices are not actually that high. The concept illustrated by the red line in the chart is how many gallons of gasoline you could buy with an hour's worth of work getting paid average hourly earnings. In the decade from 2004 to 2014, one hour's worth of work seldom put more than six gallons in the tank. At today's average earnings, that same hour of work buys eight gallons. That is smack dab in the middle of the range for the past 20 years or so.

Factor in a trend improvement in fuel economy over the past few decades and the upshot is that on average, a lot less of our paycheck is being spent on gas. Speaking of fuel economy, be grateful you are not buying the gas for the races in Charlotte or Indianapolis. NASCAR Cup Series cars get anywhere from 2 to 5 miles per gallon (mpg) at race speed and estimates suggest 1.3 gallons of fuel are used every lap of an Indycar race; that is less than 2 miles per gallon.

[\(Return to Summary\)](#)



Market Data • Mid-Day Friday

U.S. Interest Rates

| | Friday 5/24/2024 | 1 Week Ago | 1 Year Ago |
|--------------------------|---------------------|---------------|---------------|
| SOFR | 5.31 | 5.31 | 5.05 |
| Effective Fed Funds Rate | 5.33 | 5.33 | 5.08 |
| 3-Month T-Bill | 5.40 | 5.39 | 5.33 |
| 1-Year Treasury | 5.10 | 5.12 | 4.76 |
| 2-Year Treasury | 4.94 | 4.82 | 4.38 |
| 5-Year Treasury | 4.52 | 4.45 | 3.82 |
| 10-Year Treasury | 4.47 | 4.42 | 3.74 |
| 30-Year Treasury | 4.57 | 4.56 | 3.99 |
| Bond Buyer Index | 4.00 | 3.93 | 3.74 |

Foreign Exchange Rates

| | Friday 5/24/2024 | 1 Week Ago | 1 Year Ago |
|-------------------------------|---------------------|---------------|---------------|
| Euro (\$/€) | 1.085 | 1.087 | 1.075 |
| British Pound (\$/£) | 1.275 | 1.270 | 1.237 |
| British Pound (£/€) | 0.852 | 0.856 | 0.869 |
| Japanese Yen (¥/\$) | 156.850 | 155.650 | 139.470 |
| Canadian Dollar (C\$/\\$) | 1.366 | 1.361 | 1.360 |
| Swiss Franc (CHF/\\$) | 0.914 | 0.909 | 0.905 |
| Australian Dollar (US\$/A\\$) | 0.663 | 0.669 | 0.654 |
| Mexican Peso (MXN/\\$) | 16.686 | 16.611 | 17.802 |
| Chinese Yuan (CNY/\\$) | 7.243 | 7.224 | 7.061 |
| Indian Rupee (INR/\\$) | 83.096 | 83.333 | 82.670 |
| Brazilian Real (BRL/\\$) | 5.150 | 5.105 | 4.960 |
| U.S. Dollar Index | 104.679 | 104.445 | 103.887 |

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

Foreign Interest Rates

| | Friday 5/24/2024 | 1 Week Ago | 1 Year Ago |
|----------------------------------|---------------------|---------------|---------------|
| 3-Month German Govt Bill Yield | 3.57 | 3.61 | 2.91 |
| 3-Month U.K. Govt Bill Yield | 5.24 | 5.19 | 3.89 |
| 3-Month Canadian Govt Bill Yield | 4.83 | 4.87 | 4.57 |
| 3-Month Japanese Govt Bill Yield | 0.09 | 0.03 | -0.17 |
| 2-Year German Note Yield | 3.09 | 2.99 | 2.85 |
| 2-Year U.K. Note Yield | 4.50 | 4.31 | 4.37 |
| 2-Year Canadian Note Yield | 4.24 | 4.23 | 4.18 |
| 2-Year Japanese Note Yield | 0.34 | 0.34 | -0.06 |
| 10-Year German Bond Yield | 2.58 | 2.52 | 2.47 |
| 10-Year U.K. Bond Yield | 4.26 | 4.13 | 4.21 |
| 10-Year Canadian Bond Yield | 3.62 | 3.63 | 3.27 |
| 10-Year Japanese Bond Yield | 1.01 | 0.95 | 0.41 |

Commodity Prices

| | Friday 5/24/2024 | 1 Week Ago | 1 Year Ago |
|------------------------------|---------------------|---------------|---------------|
| WTI Crude (\\$/Barrel) | 77.65 | 80.06 | 74.34 |
| Brent Crude (\\$/Barrel) | 82.06 | 83.98 | 78.36 |
| Gold (\\$/Ounce) | 2336.81 | 2229.87 | 1957.16 |
| Hot-Rolled Steel (\\$/S.Ton) | 789.00 | 786.00 | 1090.00 |
| Copper (¢/Pound) | 478.10 | 505.70 | 355.35 |
| Soybeans (\\$/Bushel) | 12.42 | 12.31 | 13.45 |
| Natural Gas (\\$/MMBTU) | 2.57 | 2.63 | 2.40 |
| Nickel (\\$/Metric Ton) | 19,850 | 19,576 | 20,838 |
| CRB Spot Inds. | 562.81 | 559.03 | 547.18 |

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