Economics

Weekly — February 7, 2025

Weekly Economic & Financial Commentary

United States: **It Felt Like Much Longer than a Week**

- It was a week of contradiction, where just when things looked like they were going badly, some mitigating factor offset a prior concern. By Friday, it felt more like survival than victory. The takeaways include an improving backdrop for manufacturing and construction, a little less heat in the service sector and a jobs market that refuses to fit into a tidy label.
- Next week: CPI (Wed.), Retail Sales (Fri.), Industrial Production (Fri.)

International: **Foreign Central Banks Lower Rates**

- This week saw rate reductions from central banks across emerging and advanced economies. In Mexico, Banxico lowered its policy rate by 50 bps to 9.50% and issued commentary that we view as consistent with another same-sized move in March. Elsewhere, the Reserve Bank of India delivered its first rate cut since 2020, lowering its policy rate by 25 bps, and the Bank of England also cut its policy rate by 25 bps.
- Next week: Norway CPI (Mon.), Brazil Inflation (Tue.), U.K. GDP (Thu.)

Credit Market Insights: **The Wave of Credit Tightening Is Quickly Receding**

- Banks appear to be changing their risk calculus. The Q4 Senior Loan Officer Opinion Survey revealed that banks are still tightening lending standards on net, but the prevalence of restriction is quickly fading.

Topic of the Week: **The Tariff Man Cometh**

- The week started off with a bang when the Trump administration announced plans on Saturday to place tariffs of 25% on goods imports from Canada and Mexico and a tariff of 10% on goods imports from China, effective Feb. 4. Though the Canada and Mexico tariffs were postponed for 30 days, the domestic upshot of the policies, if they are eventually realized, is higher inflation in the near term and slower growth in the outlook.

Wells Fargo U.S. Economic Forecast

	Actual 2024				Forecast 2025				Actual		Forecast	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2023	2024	2025	2026
Real Gross Domestic Product [1]	1.6	3.0	3.1	2.3	0.8	1.5	0.7	1.3	2.9	2.8	1.6	2.2
Personal Consumption	1.9	2.8	3.7	4.2	2.1	2.1	1.8	1.5	2.5	2.8	2.5	2.3
Consumer Price Index [2]	3.2	3.2	2.6	2.7	2.7	2.7	3.1	2.9	4.1	3.0	2.8	2.7
"Core" Consumer Price Index [2]	3.8	3.4	3.2	3.3	3.0	3.0	3.2	3.1	4.8	3.4	3.0	2.9
Quarter-End Interest Rates [3]												
Federal Funds Target Rate[4]	5.50	5.50	5.00	4.50	4.50	4.50	4.25	4.00	5.23	5.27	4.31	4.00
Conventional Mortgage Rate	6.82	6.92	6.18	6.72	7.10	6.90	6.65	6.50	6.80	6.72	6.79	6.50
10 Year Note	4.20	4.36	3.81	4.58	4.70	4.55	4.35	4.25	3.96	4.21	4.46	4.36

Forecast as of: January 16, 2025
[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

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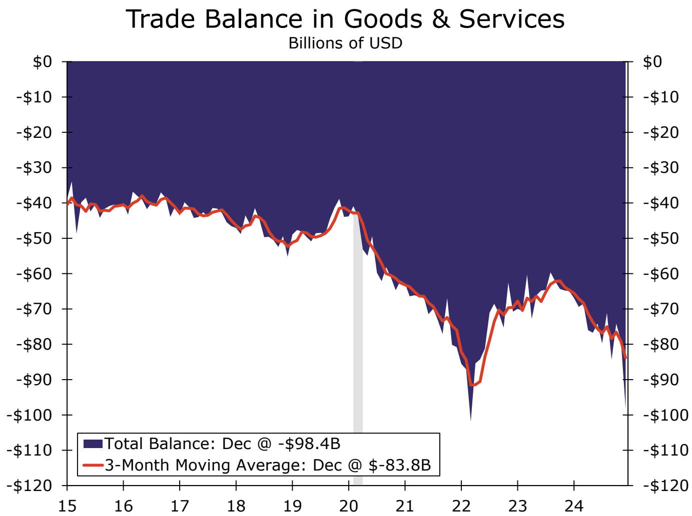
U.S. Review

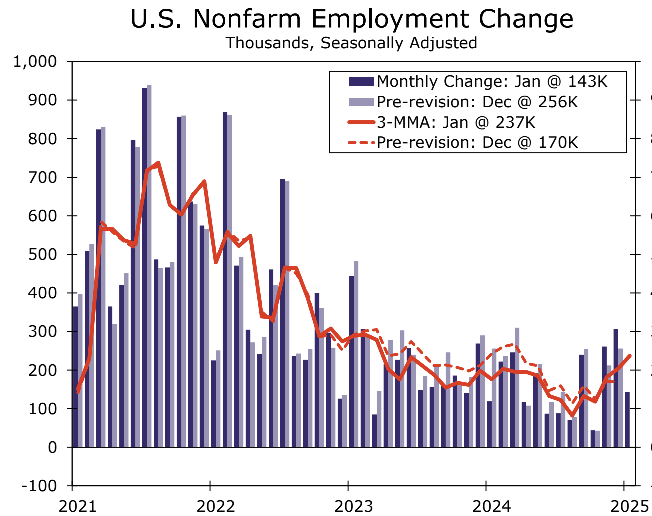
Even the Prospect of Trade Policy Can Dictate Behavior

The week started with financial markets selling off amid concern about the impending implementation of new tariffs, but by the end of Monday, concessions from Mexico and Canada regarding border protection put tariffs on those countries on hold for 30 days. The economic news throughout the week left room for interpretation, but financial markets settled on a favorable narrative. Our equity strategy team couched the nearly 2.0% swoon on the week's first day of trading as "just another manic Monday," while noting that for the week as a whole, at least as of this writing, broad equity measures were up.

Prospects for a trade war are transitioning from a looming threat to looming policy. While most of the latest proposal is now on ice, our model simulations demonstrate how the latest round of proposed tariffs could introduce a modest stagflationary shock by negatively affeacting growth and temporarily boosting inflation. In terms of actual data, we learned this week that the U.S. trade deficit widened by a record amount in December, leaving the deficit 17% larger in 2024 than in 2023. While the sharp widening is likely temporary, tariff policy remains in focus and is set to disrupt trade flows over the course of the year. It's not just actual policy but the prospect of such policies that can also dictate economic behavior.



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



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

The Week Ends, the Week Begins

While a near miss regarding a trade war started the week, the headline economic indicator came at the end of the week with Friday's jobs report. When the headline number hit the wire, it felt like a miss with the total nonfarm payroll number coming in at just 143K, well short of the consensus expectation of 175K. But get past the headline whiff and underlying details were generally more positive. Last month's job growth of 256K got bumped up in the revision to a gain of 307K net new jobs. That makes December the biggest increase in payrolls in nearly two years. The jobless rate also fell to 4.0%. To the extent that there was a genuinely disappointing development, that came not in the routine revisions to recent data, but rather in the annual revisions to the establishment survey's employment figures, which revised down the level of payroll employment in March 2024 by 589K, or -0.4%. The annual revisions also sullied the narrative that the job market was resilient last summer. The three-month moving average of payroll growth was just 82K in the June-August period, sharply lower than the 237K average registered over the most recent three months.

In addition to the mixed developments with respect to the labor market, the rest of the week's indicators also offered at times conflicting takes on the health of various facets of the economy. Take the ISM surveys, for example. Buoyed by gains across various sub-components, the ISM Manufacturing Index broke above 50 for the first time since 2022. Prices, production, employment and new orders all rose in a long-awaited rebound for a sector that has felt the pain of higher interest rates more acutely than others. The gloomy backdrop that now appears to be brightening has stood in contrast to the counterpart survey for the services sector. In what feels like some odd sort of give and take, the services ISM fell at the start of the year. While the index is still consistent with a broad expansion in activity that remains supportive of hiring, a pullback in new orders and only a modest drop in prices paid show some lost momentum potentially stemming from apprehension around tariffs.

If you are looking for another industry that has struggled in recent years, construction comes to mind. Construction spending ended 2024 on a better-than-expected note with a 0.5% gain in December. As has been the case in recent months, private single-family construction and home improvement outlays propelled the overall increase. Private nonresidential spending also eked out a slight gain; however, traditional office, warehouse and retail spending remain subdued in the high-interest rate environment. That said, the build-out of data centers is a notable green shoot. We expect construction spending to stay under pressure this year as interest rates remain elevated and trade and immigration policy changes increase construction costs.

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U.S. Outlook

Weekly Indicator Forecasts

Domestic

Date	Indicator	Period	Consensus	Wells Fargo	Prior
12-Feb	CPI (MoM)	Jan	0.3%	0.3%	0.4%
12-Feb	CPI (YoY)	Jan	2.9%	2.9%	2.9%
12-Feb	Core CPI (MoM)	Jan	0.3%	0.3%	0.2%
12-Feb	Core CPI (YoY)	Jan	3.2%	3.2%	3.2%
12-Feb	CPI Index NSA	Jan	317.424	317.458	315.605
13-Feb	PPI Final Demand (MoM)	Jan	0.2%	0.3%	0.2%
13-Feb	PPI Final Demand (YoY)	Jan	3.2%	3.2%	3.3%
13-Feb	Core PPI (MoM)	Jan	0.3%	0.3%	0.0%
13-Feb	Core PPI (YoY)	Jan	3.3%	3.3%	3.5%
14-Feb	Retail Sales (MoM)	Jan	0.0%	0.0%	0.4%
14-Feb	Retail Sales Ex Auto (MoM)	Jan	0.3%	0.2%	0.4%
14-Feb	Import Price Index (MoM)	Jan	0.4%	0.4%	0.1%
14-Feb	Import Price Index (YoY)	Jan	—	1.9%	2.2%
14-Feb	Industrial Production (Mom)	Jan	0.3%	0.3%	0.9%
14-Feb	Capacity Utilization	Jan	77.7%	77.7%	77.6%
14-Feb	Business Inventories (MoM)	Dec	0.1%	0.0%	0.1%

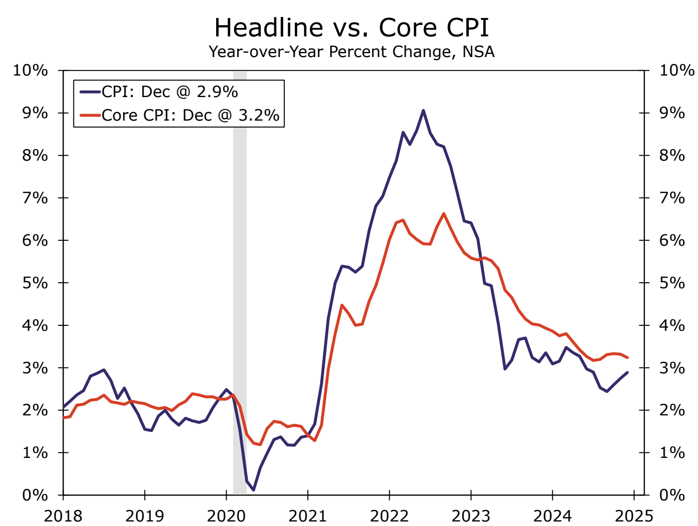
Forecast as of February 07, 2025

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

CPI • Wednesday

A hot streak of CPI prints in early 2024 ended the notion that normalizing supply conditions would be enough to return inflation to the Fed's 2% target. The first major inflation reading for 2025 is likely to show that inflation remains stubbornly strong. We estimate the headline index rose a "high" 0.3%, which would leave the year-over-year rate unchanged at 2.9%. The core index also looks set for a 0.3% advance that we expect to be driven by the ongoing rebound in goods prices and a pickup in non-housing services.

Seasonal adjustment factors will be updated with the upcoming release to reflect the most recent year's price movements. The incorporation of 2024 figures should lead the seasonal factors to "expect" more strength in January and February. If realized, more moderate price increases at the start of this year would unlock favorable base effects and lead to a slowing in the year-over-year rate of inflation in Q1. Yet, we expect the 12-month rate of inflation to move sideways through the remainder of the year, as further services disinflation is offset by higher goods inflation now that additional tariffs are in the works. For more information ahead of Wednesday's release, see our CPI Preview report.

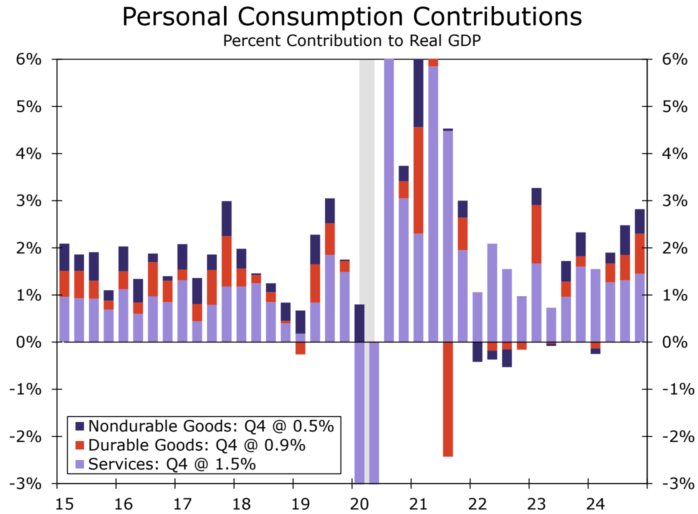


Source: U.S. Department of Labor and Wells Fargo Economics

Retail Sales • Friday

Retail sales ended 2024 on a solid note, rising 0.4% in December alongside upward revisions to November's print. Sales growth was fairly broad based last month, with large gains at miscellaneous retailers (office supply, gift & novelty, used merchandise, florists and pet stores), sporting & hobby stores and furniture stores. Restaurants reported a drop in sales in December following a weak gain in November. This was the first monthly decrease for restaurants in nine months, potentially signaling some pullback on discretionary services. Indeed, separately released data show real spending on durables led the charge on the robust pace of consumer spending in Q4 (chart).

As long as households remain employed and are earning income, they likely will continue to spend. That said, consumer confidence remains on shaky ground. January's Consumer Confidence report revealed consumers are less optimistic about the outlook for business conditions, the labor market and income prospects. In addition, their inflation expectations have increased amid stickier inflation. All told, we expect retail sales to remain flat in January. However, less-optimistic expectations and the potential for new tariffs may present a risk to consumer spending.

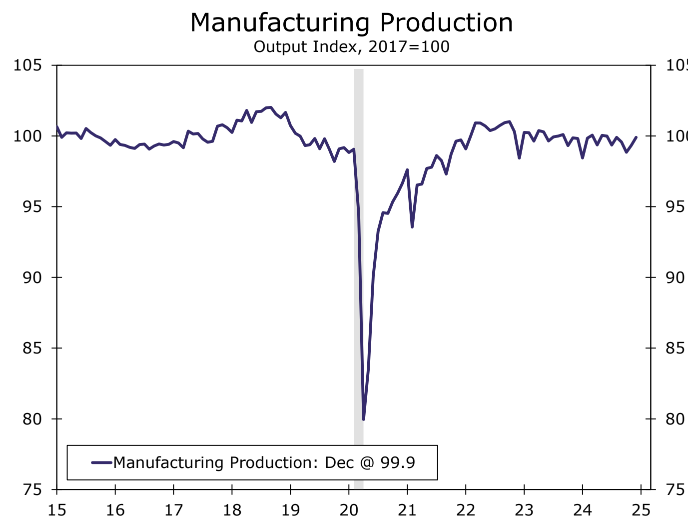


Source: U.S. Department of Commerce and Wells Fargo Economics

Industrial Production • Friday

Industrial production in December popped to end what was a fairly lackluster year for the sector. Overall production jumped 0.9%, marking the largest monthly gain since February. However, the index was up just half a percent in comparison to its level one year ago. High-tech industries like computer & electronic productions and electrical equipment & appliances are pockets of strength. However, most industries experienced flat-to-negative growth in 2024, with capex demand sapped by less liquidity, high interest rates and continued uncertainty.

We look for industrial production to increase by 0.3% in January. The ISM Manufacturing Index broke above 50 for the first time since 2022, as prices, production, employment and new orders all rose over the month. This will likely contribute to the small gain we look for this month, but headwinds remain. The outlook on tariffs remains uncertain, but any implementation could drive prices higher and disrupt the supply of key inputs for manufacturers, leading to a downshift in industrial production this year.



Source: Federal Reserve Board and Wells Fargo Economics

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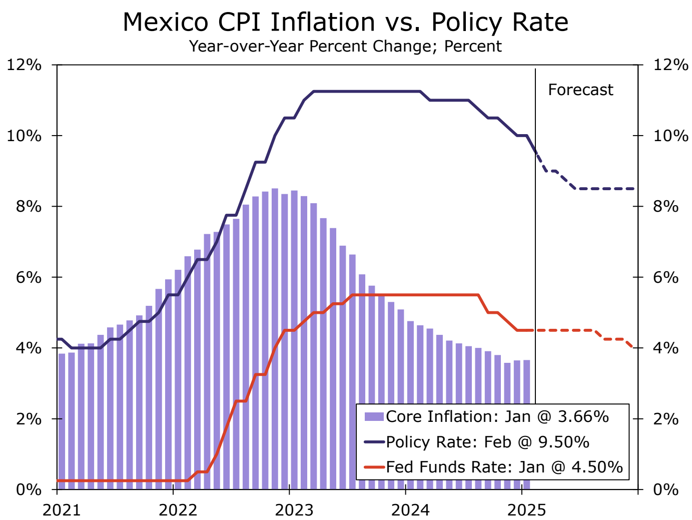
International Review

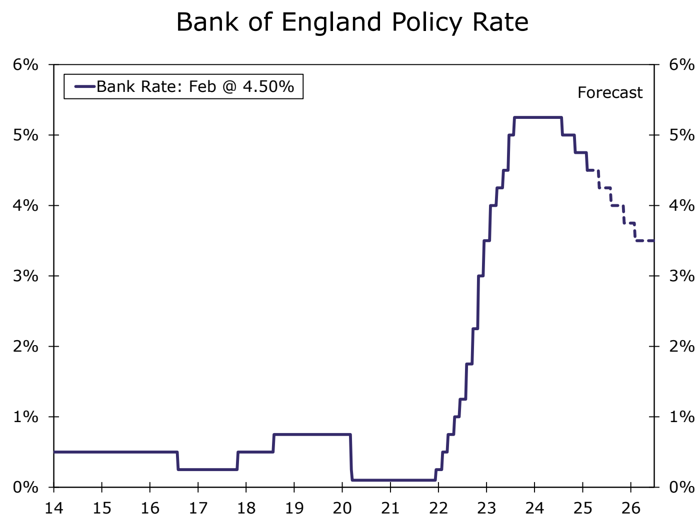
Foreign Central Banks Lower Rates

This week saw rate reductions from central banks across emerging and advanced economies. In Mexico, Banxico officials reduced the policy rate by 50 bps to 9.50%. The accompanying statement highlighted weakness in the Mexican economy in the fourth quarter of last year, a slowing in employment growth and stated that the balance of risks for economic growth are to the downside. In terms of prices, officials noted that headline inflation decreased in the first half of January to a pace not seen since 2021. After the statement came out, January inflation data were released. Headline inflation eased by more than expected to 3.59% year-over-year, while core inflation ticked up by less than expected, to 3.66%. The Governing Board noted that risks to the inflation outlook remain biased to the upside, but that there has been significant progress in slowing inflation following some of the major global shocks of the past couple of years. In the bank's updated economic projections, the forecasts for headline and core CPI inflation were largely unchanged, with both still expected to reach the 3% target around mid-2026. In terms of forward guidance, the central bank signaled that in regard to the policy rate, officials would "consider adjusting it in similar magnitudes" looking forward. Our own forecast sees Banxico delivering another 50 bps rate cut in March to 9.00%.

In other emerging market central bank news, policymakers from the Reserve Bank of India (RBI) unanimously voted to deliver their first rate cut since 2020. Officials lowered the policy rate by 25 bps, bringing the repo rate to 6.25%. In the accompanying press release, officials pointed to disinflation progress and softer economic growth as the rationale behind the rate reduction. Looking ahead, policymakers noted that the current global environment of "excessive volatility," uncertainties around trade policy and also adverse weather events pose risks to the inflation and growth outlook. In light of these risks, RBI policymakers voted to maintain a neutral stance toward monetary policy and expressed that they will be watchful as these developments unfold. We view this commentary as broadly consistent with our current outlook for the RBI, which sees only 50 bps more of cumulative easing this year.



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



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

Turning to the advanced economies, the Bank of England (BoE) cut its policy rate by 25 bps to 4.50%. Seven policymakers voted for the move and two voted for a larger 50 bps reduction, though Governor Andrew Bailey later cautioned market participants from reading too much into the dovish-seeming vote split. In the accompanying statement, officials noted substantial progress on disinflation over the past two years. That said, they suggested there might be some interruption to this encouraging trend in the coming quarters, with headline inflation expected to move higher through Q3-2025 before resuming a slowing trend thereafter. Officials touched on weaker-than-expected GDP growth since their last meeting as well as softer business and consumer confidence readings. This meeting also included updated economic forecasts that notably were compiled before recent tariff announcements from the United States. The central bank lifted its forecasts for CPI inflation for 2025, 2026 and 2027 to 3.5%, 2.5% and 2%, respectively (from 2.75%, 2.25% and 1.75% previously), while it halved its GDP growth forecast for 2025 to 0.75% and bumped up slightly its 2026 and 2027 forecasts to 1.50%, both from 1.25% previously. Overall, in terms of our own monetary policy views, we see the somewhat-balanced elements from the decision statement and Bailey's remarks as consistent with our forecast for further, though gradual, BoE easing. We look for the central bank to lower its policy rate by 25 bps once per quarter through Q1-2026 to reach a policy rate of 3.50% by year-end.

Elsewhere in Europe this week, there was the release of the Eurozone January CPI data and the European Central Bank's (ECB) wage tracker. On the inflation front, price pressures edged up slightly last month against expectations for steady or slowing inflation. Headline CPI inflation ticked up to 2.5% year-over-year from 2.4% previously, and core CPI inflation held steady at 2.7% against expectations for a modest easing. Services inflation—which has long been of particular interest to ECB policymakers—showed some disinflation progress, coming in a touch lower than the previous month at 3.9%. The measure has shown some stickiness in recent months, but looking at measures of the momentum of services inflation—such as the three-month or six-month annualized rates—tell of more disinflation progress in this sector. We also got data from the ECB's wage tracker this week. This forward-looking indicator of wage pressures is expected to see growth slow throughout this year to eventually reach around 1.5% year-over-year in the fourth quarter. This would mark a material easing from the end of 2024, which saw this measure above 5%, and would be consistent with a significant slowing in wage growth. Taking together this inflation and wage growth data, we feel comfortable with our outlook for further ECB rate cuts amid generally slowing inflation and wage pressures, as well as lingering growth concerns. We look for the ECB to cut its policy rates by 25 bps four more times this year, at its March, April, June and September meetings, to reach a policy rate of 1.75%.

In Japan, December wage growth largely came in faster than expected. Headline labor cash earnings growth blew past expectations, coming in with the fastest pace in over 10 years at 4.8% year-over-year. Looking into the details, it appears the gain was driven by part-time worker pay expanding at the fastest pace on record going back to 2013. Full-time worker pay growth also accelerated. The headline and real wage growth figures from November were also revised upward, which saw real wage growth remaining positive for the second straight month. Looking at measures of wage growth that focus on the same sample base—which is of special interest to Bank of Japan (BoJ) policymakers—we see a broadly similar story. Wage growth for all workers from this same sample base measure popped to 5.2% year-over-year, the highest reading in data going back to 2016. Overall, we view this overall stronger-than-expected wage growth data as supportive of our view for the BoJ to deliver two more 25 bps rate hikes this year, in April and July, to reach a policy rate of 1.00%.

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International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
10-Feb	Norway CPI (YoY)	Jan	2.2%	—	2.2%
11-Feb	Brazil IPCA Inflation (YoY)	Jan	4.58%	—	4.83%
13-Feb	U.K. GDP (MoM)	Dec	0.1%	—	0.1%
13-Feb	U.K. GDP (QoQ)	Q4	-0.1%	—	0.9%

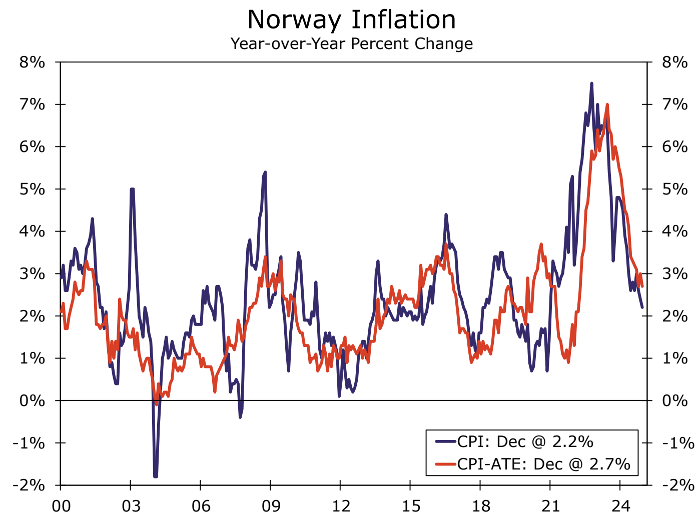
Forecast as of February 07, 2025

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

Norway CPI • Monday

Norway's January CPI inflation report comes out next week. The median estimate among economists is for headline inflation to tick up mildly to 2.2% year-over-year and underlying inflation to ease slightly to 2.6%.

After some bumps in the journey back to Norges Bank's 2% inflation target, progress on disinflation has resumed, prompting Norges Bank to signal an initial rate cut at its March meeting. It also noted that higher business costs could lead to additional inflationary pressures, which, in our view, suggests that while they appear ready to cut rates, policymakers will likely maintain a cautious approach. In other comments from their recent January statement, policymakers noted that the policy rate—which has been kept on hold at 4.50% since December 2023—has contributed to some cooling in the country's economy. Officials also gave a nod to tariffs, noting that the effects of possible policies remained uncertain. As long as the inflation data continues to show a generally well-behaved trend, we remain comfortable with our view for a 25 bps rate cut at the March meeting. Beyond that, we see the Norges Bank taking a somewhat cautious 25-bps-per-quarter pace of rate cuts as it continues to assess global policy developments and the inflationary environment back home.

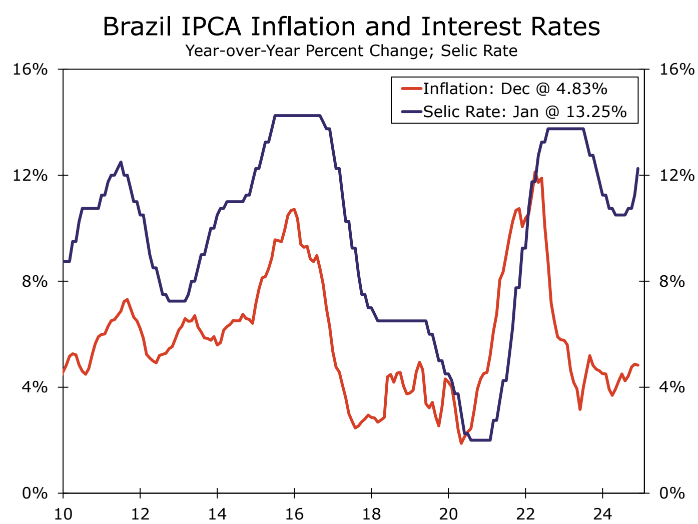


Source: Bloomberg Finance L.P. and Wells Fargo Economics

Brazil CPI • Tuesday

Next week will see the release of January inflation data for Brazil, a key input into Brazilian Central Bank (BCB) policymaker rate decisions. Consensus economists expect inflation eased to 4.58% year-over-year—still noticeably above the central bank's 3% target—and 0.16% month-over-month.

Stubborn and accelerating inflation in Brazil in the past several months prompted BCB policymakers to restart a tightening cycle last fall. The BCB delivered a whopping 100 bps rate hike at its most recent in January. The minutes from that meeting, released this week, revealed a slightly more hawkish tone than economists generally expected. Officials noted that the factors driving their concern around inflation were solid economic growth, higher current inflation, a weaker local currency and de-anchored inflation expectations. The committee also highlighted concerns around ebbing fiscal discipline, and the impact this could have on the inflationary environment. To that point, the new Congress took their seats this week, and while there have been headlines about President Lula meeting with members to discuss fiscal responsibility, it remains to be seen whether that meaningfully takes shape. For now, we maintain our view for the BCB to hike rates by 100 bps at its upcoming March meeting to 14.25% before downshifting to a 50 bps rate hike pace in May. With that being said, given the hawkish-leaning commentary and the risk of inflation and FX developments becoming adverse, the overall risks to our forecast tilt toward another 100 bps rate hike in May.



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

U.K. GDP • Thursday

Next week will see the release of GDP growth data for the United Kingdom from the fourth quarter and December. Consensus economists suspect the U.K. economy grew a mild 0.1% month-over-month in December. As for the fourth quarter figures, the consensus view is that the U.K. economy contracted by 0.1% on a quarter-over-quarter basis and grew 1.1% on a year-over-year basis.

After what we view as a generally balanced Bank of England (BoE) decision that contained some dovish elements this week (for more detail, see International Review), the question of interest for market participants is whether the central bank opts to lower rates back-to-back with a reduction at its March meeting. Inflation slowed by more than expected in December, but still remains elevated and policymakers suspect it will be toward the end of the year before price growth is back around the 2% target. On the output growth front, if next week's GDP data were to surprise to the downside, and if risks stemming from potential new U.S. tariff policies were to meaningfully materialize, the risks of our forecast would tilt toward a faster pace of BoE rate cuts than currently expected. For now, we maintain our outlook for the central bank to cut its policy rate by 25 bps once per quarter through Q1-2026.

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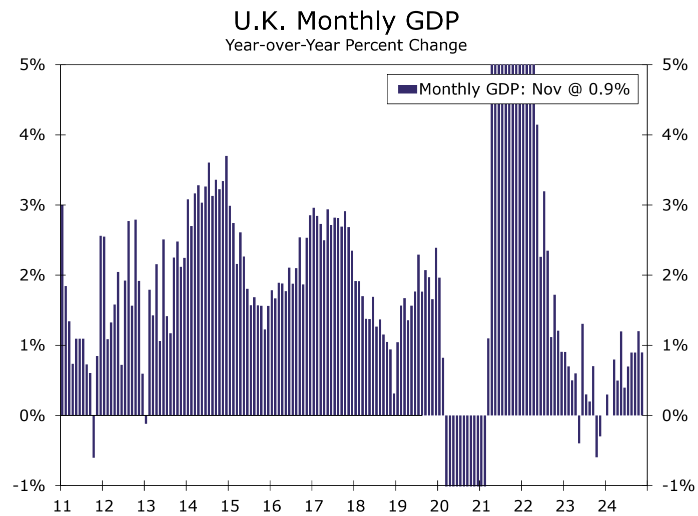


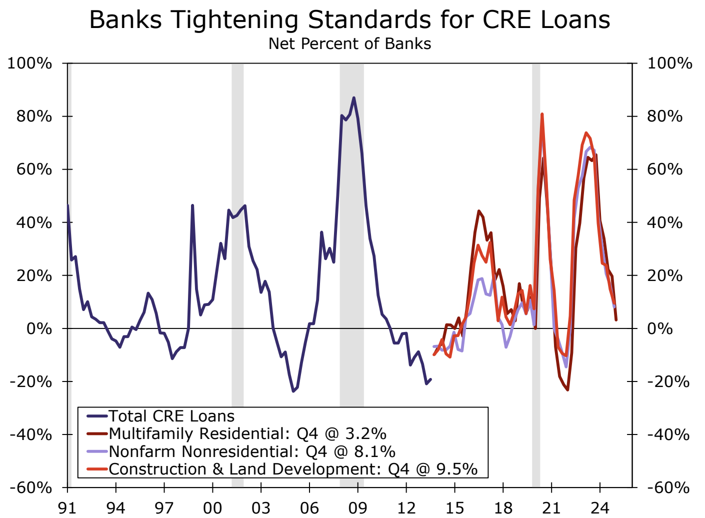
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Credit Market Insights

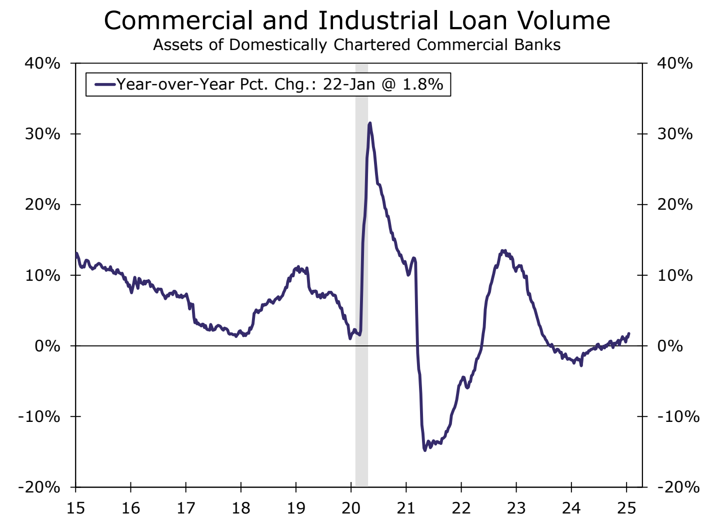
The Wave of Credit Tightening Is Quickly Receding

Once per quarter, the Federal Reserve System administers the Senior Loan Officer Opinion Survey (SLOOS) to gauge developments in bank lending practices and loan demand. Results from the Q4 2024 survey reveal that banks appear to be changing their risk calculus. Banks are still tightening standards on net, but the prevalence of restriction is quickly fading.

This softening was most evident in commercial real estate (CRE) lending. Less than 10% of banks tightened standards on net for nonfarm nonresidential and construction & land development loans in Q4, down from 40% 12 months prior. The net portion tamping down on multifamily lending was even smaller, approaching parity (3.2%). Digging a bit deeper, a small but positive number of banks reported easing CRE lending standards in Q4. These developments coincide with a gradual improvement in CRE market fundamentals. Although transaction volumes remain muted, an apparent stabilization in CRE vacancy rates and rent growth appears to be drawing greater capital flows. The Mortgage Bankers Association reports that CRE loan originations rose 44% during Q3 2024, bringing lending activity 59% above its level one year ago.



Source: Federal Reserve Board and Wells Fargo Economics



Source: Federal Reserve Board and Wells Fargo Economics

Senior loan officers also reported favorable developments for business and consumer loan terms. The net share of banks tightening standards for large and medium-sized firms perked up slightly to 6.2% in Q4, but remained far below the net 50% peak reached in Q3 2023. Indeed, the value of commercial and industrial loans on banks' balance sheets has been trending higher since mid-2024. Meanwhile, banks' willingness to make consumer installment loans rose to its highest reading in two years. Although banks still tightened credit card terms on net, the net share calmed to 9.4%, on par with the proportion in 2019. Despite this improvement, consumers appear less keen to take up credit card debt. Solid wage growth is the primary factor supporting spending today amid prohibitive financing costs and elevated delinquency rates.

The most recent SLOOS included a special set of questions gauging how bank representatives expect loan demand and performance to change in 2025. Respondents on net expected greater loan demand across the board, citing the outlook for lower interest rates this year. They also anticipated fewer charge-offs for most loan types with the exception of residential and consumer loans. These responses should be read in light of the survey's timing. The Q4 SLOOS took place after the Federal Reserve cut its policy rate by 50 bps in September and coincided with two additional 25 bps cuts in November and December. The Fed then paused in January, citing reduced progress on inflation and strong economic performance. We do not believe that the Fed will be motivated to lower rates again without seeing a material slowdown in price growth, labor market deterioration or a broader hit to the economy. As a result, high interest rates will likely keep bank lending under pressure this year.

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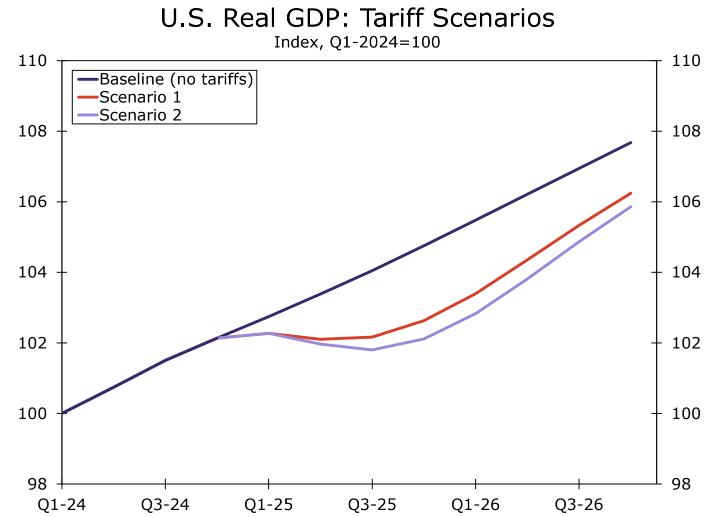
Topic of the Week

The Tariff Man Cometh

The week started off with a bang when the Trump administration announced plans on Saturday to place tariffs of 25% on goods imports from Canada and Mexico and a tariff of 10% on goods imports from China, effective Feb. 4. In the ensuing period before the tariffs kicked in, political agreements between the U.S., Canada and Mexico led to a postponement of 30 days on the tariffs for those countries. The 10% tariff on Chinese goods, however, was not postponed, and it went into effect as scheduled on Tuesday. China responded by announcing it will put tariffs of 15% on coal and liquefied natural gas in addition to 10% tariffs on crude oil and some motor vehicles, set to take effect next Monday.

The domestic upshot of these tariffs, if they are eventually realized, is higher inflation in the near term and slower growth in the outlook. As was the case with China, it is a likely assumption when the U.S. imposes tariffs on a country that they will respond in kind with retaliatory tariffs on American goods. This makes American goods exports comparatively more expensive and has the potential to weigh on growth. For this reason, we include retaliatory tariffs in our model simulations. In a scenario in which only the targeted tariffs on goods from Canada, Mexico and China are enacted, we estimate that the U.S. economy would be about 1% smaller at the end of our forecast horizon in 2026 than it would have been in the absence of these policies. Furthermore, we estimate that the level of consumer prices would be about 0.3% higher. If these tariff proposals were to expand to include something such as a 10% universal tariff, we would expect the implications for economic growth and prices to be even more pronounced.



Source: Oxford Economics and Wells Fargo Economics

The U.S. imported about $440 billion worth of goods from China in 2024. This is significantly less than even a few years ago, when in 2018 the U.S. imported nearly $540 billion of goods from China. This weakening in the trade relationship between the two countries highlights how the playbook of negotiating from a position of power with China could be more fraught than it was during the first Trump administration. Even so, China opted for a more strategic and targeted response to the U.S., with its retaliatory tariffs set to begin on Monday estimated to hit less than $20 billion of U.S. goods. This demonstrates China's own precarious economic situation and remains well short of entering a full-blown trade war.

Looking ahead, the European Union has been highlighted by the Trump administration as a likely target for tariffs. We expect similar "escalate to negotiate" tactics as the preferred course of action for the administration, though it remains to be seen what the severity of the tariffs might be. With the E.U. serving as the U.S.'s largest source of goods imports, any broad tariffs on the E.U. would put heavier pressure on U.S. goods prices.

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Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 2/7/2025	1 Week Ago	1 Year Ago
SOFR	4.36	4.36	5.31
Effective Fed Funds Rate	4.33	4.33	5.33
3-Month T-Bill	4.33	4.28	5.38
1-Year Treasury	4.20	4.19	4.74
2-Year Treasury	4.28	4.20	4.43
5-Year Treasury	4.35	4.33	4.07
10-Year Treasury	4.50	4.54	4.12
30-Year Treasury	4.70	4.79	4.32
Bond Buyer Index	4.06	4.13	3.49

Foreign Exchange Rates

	Friday 2/7/2025	1 Week Ago	1 Year Ago
Euro ($/€)	1.033	1.036	1.077
British Pound ($/£)	1.240	1.240	1.263
British Pound (£/€)	0.833	0.836	0.853
Japanese Yen (¥/$)	151.480	155.190	148.180
Canadian Dollar (C$/$)	1.433	1.454	1.346
Swiss Franc (CHF/$)	0.910	0.911	0.874
Australian Dollar (US$/A$)	0.626	0.622	0.652
Mexican Peso (MXN/$)	20.570	20.678	17.051
Chinese Yuan (CNY/$)	7.293	7.245	7.195
Indian Rupee (INR/$)	87.428	86.616	82.969
Brazilian Real (BRL/$)	5.770	5.844	4.972
U.S. Dollar Index	107.967	108.370	104.057

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

Foreign Interest Rates

	Friday 2/7/2025	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	2.38	2.48	3.75
3-Month U.K. Govt Bill Yield	4.50	4.53	5.22
3-Month Canadian Govt Bill Yield	2.86	2.85	4.99
3-Month Japanese Govt Bill Yield	0.32	0.32	-0.14
2-Year German Note Yield	2.06	2.12	2.63
2-Year U.K. Note Yield	4.18	4.22	4.48
2-Year Canadian Note Yield	2.68	2.65	4.13
2-Year Japanese Note Yield	0.80	0.73	0.11
10-Year German Bond Yield	2.38	2.46	2.32
10-Year U.K. Bond Yield	4.48	4.54	3.99
10-Year Canadian Bond Yield	3.06	3.07	3.48
10-Year Japanese Bond Yield	1.30	1.25	0.72

Commodity Prices

	Friday 2/7/2025	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	70.84	72.53	73.86
Brent Crude ($/Barrel)	74.51	76.76	79.21
Gold ($/Ounce)	2872.86	2798.41	2035.36
Hot-Rolled Steel ($/S.Ton)	755.00	740.00	953.00
Copper (¢/Pound)	459.25	427.90	373.55
Soybeans ($/Bushel)	10.51	10.32	12.07
Natural Gas ($/MMBTU)	3.36	3.04	1.97
Nickel ($/Metric Ton)	15,594	15,180	15,660
CRB Spot Inds.	553.63	548.64	540.17

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