Economics

Weekly — October 5, 2024

Weekly Economic & Financial Commentary

United States: **Jobs Up, Rate Cut Expectations Down**

- Nonfarm payrolls blew past expectations in September, rising 254K. Upward revisions to the prior two months' data sweetened the headline gain and bucked the trend decline in hiring, while the unemployment rate unexpectedly ticked down a tenth to 4.1%. The solid jobs report tamped down expectations for another 50 bps rate cut at the FOMC's next meeting in November.
- Next week: NFIB Small Business Optimism Index (Tue.), CPI (Thu.), Consumer Sentiment (Fri.)

International: **Faster Rate Cuts from the ECB Likely**

- In the Eurozone, the September CPI report showed further progress on disinflation for the region's economy. The combination of slower inflation and more downside risks to GDP growth has compelled us to update our forecast to include a faster pace of ECB rate cuts through early 2025.
- Next week: Japan Labor Cash Earnings (Tue.), Mexico CPI (Wed.), U.K. Monthly GDP (Fri.)

Interest Rate Watch: **The Outlook for Longer-Term Interest Rates**

- The FOMC cut the federal funds rate by 50 bps on Sept. 18, and other short-term interest rates promptly moved lower. However, longer-term yields generally have risen modestly since the FOMC reduced the federal funds rate a couple of weeks ago. For instance, the 10-year Treasury yield has climbed from 3.65% on September 17 to 3.95% today.

Credit Market Insights: **On the Road Again: Student Loan On-Ramp Comes to an End**

- As of the start of October, student loan borrowers who are late or miss payments can face credit reporting penalties, as the Biden administration's year-long student loan "on-ramp" ended this month. For a portion of the over 40 million federal student loan borrowers, the end of the grace period means an additional financial hurdle for those who have missed payments.

Topic of the Week: **Middle East Escalations Capture Attention**

- A further escalation of miliary conflict in the Middle East captured headlines for most of this week. As the conflict intensified, market participants were reminded that the ongoing conflict in the region does not yet have an end in sight one year on from the start of the war.

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

Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual	Forecast		
	2024				2025				2023	2024	2025	2026
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product [1]	1.6	3.0	2.6	1.0	1.2	1.9	2.8	2.9	2.9	2.6	1.9	2.6
Personal Consumption	1.9	2.8	3.5	1.2	1.3	1.8	2.4	2.5	2.5	2.6	1.9	2.3
Consumer Price Index [2]	3.2	3.2	2.6	2.4	2.2	2.1	2.4	2.5	4.1	2.9	2.3	2.4
"Core" Consumer Price Index [2]	3.8	3.4	3.2	3.1	2.6	2.5	2.6	2.5	4.8	3.4	2.6	2.4
Quarter-End Interest Rates [3]												
Federal Funds Target Rate[4]	5.50	5.50	5.00	4.50	4.00	3.50	3.25	3.25	5.23	5.13	3.50	3.25
Conventional Mortgage Rate	6.82	6.92	6.18	6.15	5.95	5.80	5.65	5.55	6.80	6.52	5.74	5.58
10 Year Note	4.20	4.36	3.81	3.60	3.50	3.45	3.40	3.40	3.96	3.99	3.44	3.48

Forecast as of: September 19, 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

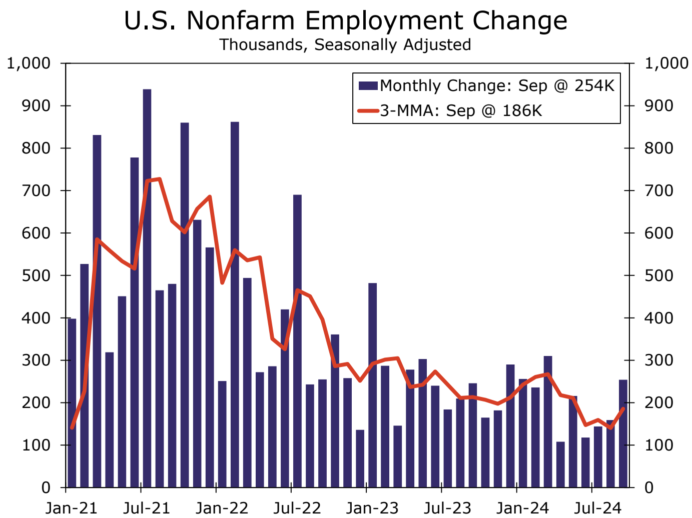
Please see our full U.S. Economic Forecast.

U.S. Review

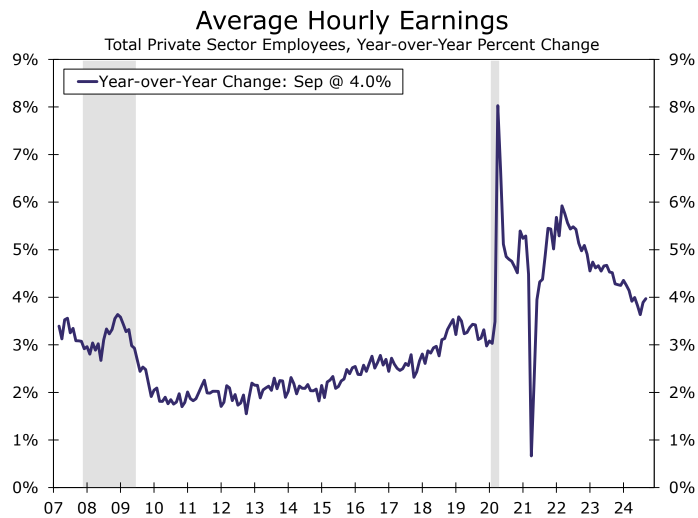
Jobs Up, Rate Cut Expectations Down

The third quarter ended with a bang. Nonfarm payrolls blew past expectations in September, rising 254K over the month. Upward revisions to the prior two months' data (+72K) sweetened the monthly gain and bucked the trend decline in hiring. Incorporating revisions, overall job growth averaged 186K during the third quarter (chart), a noticeable step down from the first quarter's 267K average growth, but a step up from the second quarter's 147K average. The separate survey of households shows employment rising 430K and unemployment falling 281K in September, leading the unemployment rate to unexpectedly tick down a tenth to 4.1%.

Somewhat tempering the headline beat is the concentration of payroll growth. The sectors that have led the charge in recent months—leisure & hospitality, healthcare and government—again posted strong gains in September and accounted for 71% of the month's job growth despite only accounting for roughly 40% of total employment. The diffusion index, a measurement of hiring's breadth across industries, ticked up to 52.9 on a three-month moving average basis in September but remains below its pre-pandemic average of 58.8 during 2019.



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



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

Still, the rebound in job growth supports the view that demand for new workers has decelerated rather than deteriorated. At the same time, employers remain reluctant to let go of their existing workers. The layoff and discharge rate ticked down to 1.0% in August, running below its pre-pandemic norm of 1.2%. Initial claims for unemployment insurance have also ebbed lower since the summer and were sitting at a historically low 225K in the week ended Sept. 28. Overall, this week's jobs data signal that the labor market remains solid despite the second quarter's moderation.

In remarks on Monday, Chair Powell maintained that the FOMC does not believe that it needs "to see further cooling in labor market conditions to achieve 2% inflation." The comment suggests that cooling wage growth and firming labor productivity growth have helped to quell the labor market's inflationary impulse, which adds credence to the Committee's decision to opt for a larger-than-expected 50 bps rate cut in September to support overall job growth. That said, Powell underscored that monetary policy is "not on any preset course" and emphasized the median forecast in the latest Summary of Economic Projections, which implies a 25 bps cut at each of the two remaining meetings this year (Nov. 7 and Dec. 18). This week's data favor a 25 bps cut in November.

Financial markets interpreted Chair Powell's speech as hawkish, evident in the roughly 7 bps pullback in fed funds rate futures for December between last week's close and Monday evening. September's jobs report only added fuel to the correction; average hourly earnings growth came in stronger than expected, rising 0.1 percentage points to 4.0% year-over-year (chart). The outturn marks the second straight month that annual wage growth has strengthened and likely raises some concern about the current downward trend in inflation. As of this writing, market pricing implies 57 bps of rate cuts by the end of 2024, nearly 20 bps lower than last Friday.

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U.S. Outlook

Weekly Indicator Forecasts

Domestic

Date	Indicator	Period	Consensus	Wells Fargo	Prior
8-Oct	Trade Balance	Aug	-$71.3B	-$70.8B	-$78.8B
10-Oct	CPI (MoM)	Sep	0.1%	0.1%	0.2%
10-Oct	CPI (YoY)	Sep	2.3%	2.3%	2.5%
10-Oct	Core CPI (MoM)	Sep	0.2%	0.3%	0.3%
10-Oct	Core CPI (YoY)	Sep	3.2%	3.2%	3.2%
10-Oct	CPI Index NSA	Sep	314.835	314.860	314.796
11-Oct	PPI Final Demand (MoM)	Sep	0.1%	0.1%	0.2%
11-Oct	PPI Final Demand (YoY)	Sep	1.7%	1.7%	1.7%
11-Oct	Core PPI (MoM)	Sep	0.2%	0.2%	0.3%
11-Oct	Core PPI (YoY)	Sep	2.7%	2.7%	2.4%

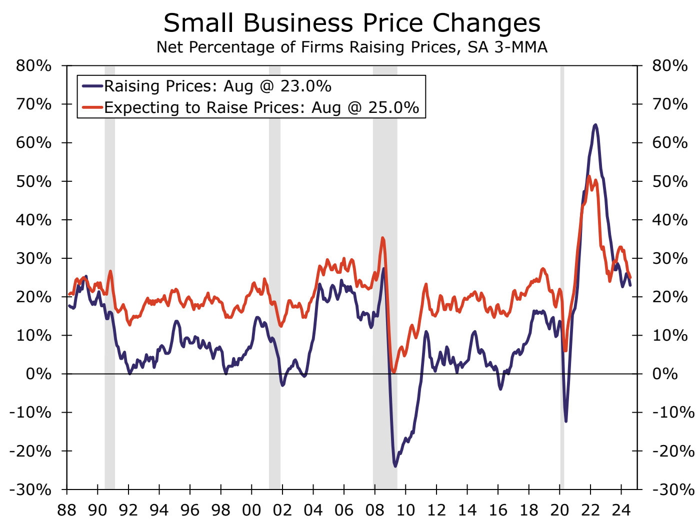
Forecast as of October 04, 2024

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

NFIB Small Business Optimism • Tuesday

Small business owners remain despondent despite strong economic growth in recent quarters. Elevated inflation, high interest rates and general economic uncertainty have kept the NFIB Small Business Optimism Index below its 50-year historical average of 98 for nearly three years. Outlooks seemed to be improving through the summer amid receding inflation and growing sales expectations; however, softening labor market conditions knocked sentiment back in August. On top of weaker labor demand, earnings outlooks were the bleakest since March 2010 as uncertainty loomed large ahead of the presidential election in November.

Evidence of easing price pressures was the main silver lining in an otherwise bleak optimism report. Only 20% of firms on net reported raising selling prices in August, the lowest share since January 2021. Intentions to raise prices in the months ahead ticked up slightly but continued to trend lower through the monthly noise. Although this is good news for the path of inflation, it may also reflect greater price sensitivity among purchasers. We do not forecast the NFIB index, but there is little reason to expect that September brought a meaningful improvement in optimism.



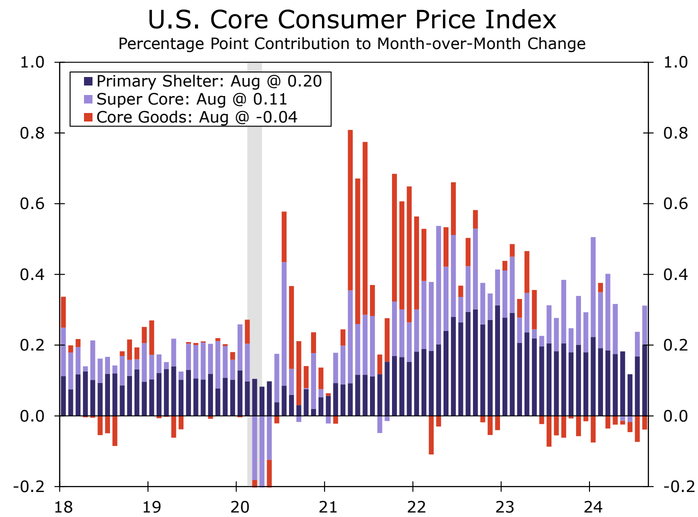
Source: NFIB and Wells Fargo Economics

Consumer Price Index • Thursday

The descent in consumer price inflation has not been particularly smooth. The headline Consumer Price Index (CPI) rose 2.5% year-over-year in August, aided by outright deflation in the goods sector and a general softness in food and energy prices. Yet, firm price pressures in the services sector are keeping a floor under the monthly inflation rate, which in August rose at its fastest pace in four months. Shelter remains the primary culprit behind stubborn services inflation. Despite the marked slowdown in private sector rent measures, shelter inflation accelerated 0.5% over the month of August, the second-highest reading this year. Core CPI picked up in turn, rising at a 0.3% monthly rate (0.28% unrounded).

We maintain the view that shelter inflation should slow more materially in the months ahead. Inflation drivers are poised to swap in September, with a pickup in auto prices primed to lift goods inflation and shelter inflation likely to fall back from the pop in August. All told, we expect core CPI to advance 0.3% in September (0.26% unrounded), which would keep the annual rate unchanged at 3.2%. Lower prices at the pump set the stage for a more substantial downshift in headline CPI, which we estimate rose just 0.1% in September. If realized, the headline inflation rate would ease to 2.3%, equal to the inflation rate immediately before the pandemic in February 2020.

Please see our latest CPI Preview for more detail.

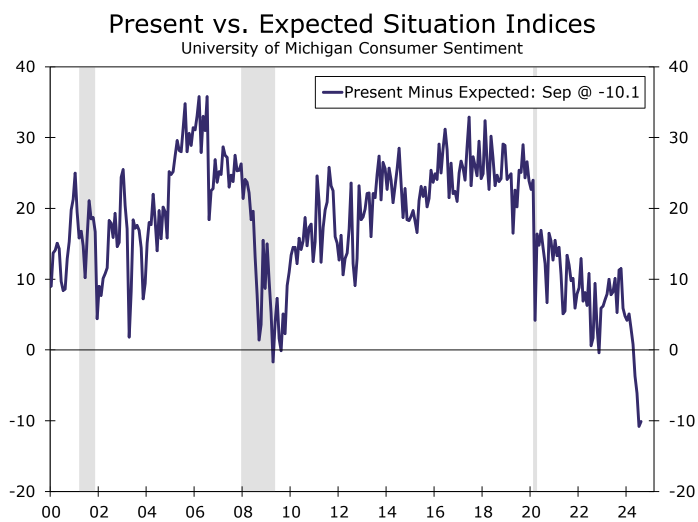


Source: U.S. Department of Labor and Wells Fargo Economics

University of Michigan Consumer Sentiment • Friday

Consumer sentiment perked up a bit in September as expectations mounted for the Federal Reserve to begin cutting interest rates. But even with the prospect of lower financing costs on the horizon, consumers were still fairly downbeat on the economy. With a final reading of 70.1, the Consumer Sentiment Index remains squarely below the relatively tight band of 90 to 100 where it hovered from 2015 to 2019.

It is worth noting that consumers do not appear to be expecting a recession. In fact, expectations for the economy over the next year are currently brighter than perceptions of current economic conditions, a phenomenon that historically only occurs after the U.S. economy exits a recession. But in the current moment, a weakening labor market is weighing heavy on consumers' minds, leading them to express caution about rising unemployment and their prospects for income growth. The looming election also appears to be playing a role. Sentiment among Democrats has improved since Harris became the party's nominee, while outlooks among Republicans and Independents have barely budged. This dynamic may persist until after the election; however, economists surveyed by Bloomberg expect the Consumer Sentiment Index to remain essentially unchanged in October.



Source: University of Michigan and Wells Fargo Economics

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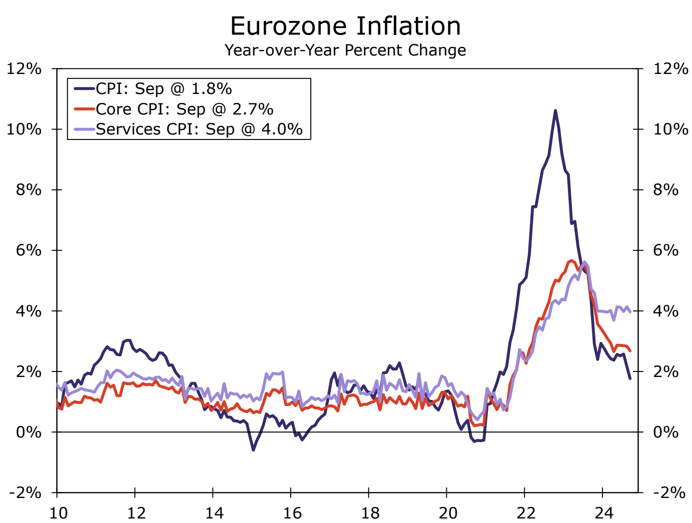
International Review

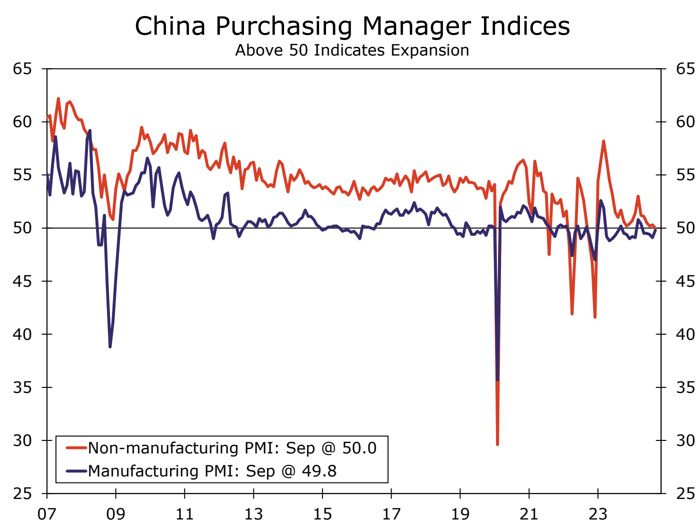
Faster Rate Cuts from the ECB Likely

In the Eurozone, the September CPI report showed further progress on disinflation for the region's economy. Headline CPI inflation slowed to 1.8% year-over-year as expected, marking the first time the measure has dipped below 2% since the summer of 2021. Core inflation also eased in line with consensus expectations, to 2.7%. Services inflation, which has been a particular area of focus for European Central Bank (ECB) policymakers, also slowed a notch to 4.0% from 4.1% year-over-year previously. In our view, the combination of some further progress on disinflation, a downturn in sentiment—exemplified by last week's downside surprises in the Eurozone Manufacturing, Services and Composite PMIs—and seemingly dovish-leaning commentary from ECB President Lagarde and other ECB policymakers this week means we now anticipate the ECB will pick up the pace of its monetary easing efforts going forward. As we wrote in a forecast update earlier this week, we now expect the central bank to lower its policy rates by 25 bps at each of its monetary policy meetings through March 2025, and then shift to a 25 bps-per-quarter frequency until it reaches a low in the Deposit Rate of 2.00% by late next year.

In other monetary policy related news this week, Colombia's central bank (BanRep) opted to lower its policy rate by 50 bps to 10.25% in a split 4-3 decision with the three dissenting policymakers in favor of a larger 75 bps reduction. In its press release, the central bank highlighted lower-than-expected headline inflation in August as well as slower core inflation, while also noting that recent GDP growth data signal a continuing economic recovery for Colombia's economy. In perhaps a nod to the decision to go with a 50 bps rather than a 75 bps cut, policymakers pointed to persistent risks to the inflation outlook. Going forward, we expect BanRep to continue cutting the policy rate at regular intervals due to continuing progress on inflation and, in the near term, stick with cuts of 50 bps magnitude rather than 75 due to some lingering inflation risks. Next year, we expect policymakers to cut rates more slowly and ultimately conclude the easing cycle around mid-2025 in light of inflation that will likely have stabilized in the target range, improved economic growth conditions and given that the Fed will likely be finishing its easing cycle around this time as well.



Source: Datastream and Wells Fargo Economics



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

Mixed Sentiment Data from Asian Economies

This week also saw the release of economic sentiment data from some key Asian economies. In Japan, the Bank of Japan's (BoJ) Q3 Tankan survey—a closely watched measure of business confidence—showed signs that Japan's economy will likely continue its recovery this year. The Large Manufacturing Index held steady at +13, better than consensus economists' expectations for a slight decline, and the Large Non-Manufacturing Index increased to +34, against expectations for a small drop. Positive index values indicate that favorable sentiment regarding that sector outweighs unfavorable sentiment.

Other closely followed aspects of the quarterly survey are firms' capital investment plans for the current fiscal year (which began at the start of April 2024 and extend through the end of March 2025), as well as firms' medium to longer-term inflation expectations. Firms reported an expectation to increase capital spending by 10.6% this year, a reasonably solid pace of growth by historical standards. In terms of the inflation outlook, businesses reported an expectation that annual inflation would remain slightly above the BoJ's 2% inflation target over the next five years. This measure of medium to longer-term inflation expectations is consistent, in our view, with eventual further rate hikes from the Bank of Japan. We see the central bank taking a cautious approach through the end of this year as policymakers continue to monitor market and local economic conditions, but look for two further 25 bps rate hikes in the early part of 2025 in light of likely calmer market conditions, solid wage growth, somewhat elevated inflation and further progress on the country's economic recovery.

In other sentiment data from Asian economies, earlier this week we got China's official and Caixin PMIs for September, which provided market participants with further insight into the state of the country's economy. The official manufacturing and non-manufacturing PMIs largely held steady, with the manufacturing index inching up to 49.8—though still marking its fifth consecutive month below the 50 "breakeven" level—and the non-manufacturing index inching down to be right on the cusp of that level, at 50.0. The non-manufacturing index covers both the services and construction sectors, and the decline in the headline measure looks to be driven by a decline in service sector sentiment. Within the details for the official manufacturing index, new orders and output improved on the month, while business activity expectations held steady. Looking under the hood for the non-manufacturing index, new orders and business activity expectations declined. The Caixin PMIs revealed a more discouraging story. Both the Caixin Manufacturing and Services PMIs surprised notably to the downside, with the manufacturing reading falling below 50 and its services counterpart falling to 50.3 from 51.6 previously.

Overall, we remain somewhat pessimistic on the outlook for China's economy, and we believe these PMI readings are consistent with that view. Although Chinese authorities have rolled out a variety of stimulus measures recently—including monetary easing as well as measures to support the property and equity markets—we are not of the view that these efforts will materially change the economic growth picture for China. While they provided some boost to sentiment among market participants, we believe that, absent larger-scale fiscal stimulus, China's economy will not see a significant impact. We look for annual GDP growth in China of 4.6% for 2024, before growth slows to 4.3% in 2025 and 4.2% in 2026.

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International Outlook

Weekly International Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
8-Oct	Labor Cash Earnings (YoY)	Aug	3.0%	–	3.4%
9-Oct	Mexico CPI (YoY)	Sep	4.60%	–	4.99%
11-Oct	U.K. Monthly GDP (MoM)	Aug	0.2%	–	0.0%

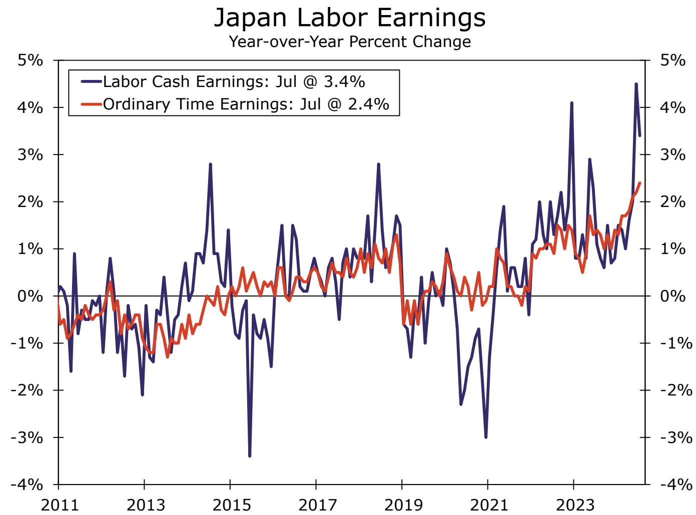
Forecast as of October 04, 2024

Source: Bloomberg Finance L.P and Wells Fargo Economics

Japan Labor Cash Earnings • Tuesday

Next week will see the release of Japanese wage data for August. These figures have taken on an increased importance this year due to the emphasis that Bank of Japan (BoJ) officials have placed on them in the context of their monetary policy normalization process. Stronger wage growth following this year's spring wage negotiations helped boost policymaker confidence that inflation could remain sustainably around the 2% target in the medium term, and the central bank has lifted its policy rate twice this year accordingly. In terms of next week's data, consensus economists expect that headline labor cash earnings growth will slow slightly to 3.0% year-over-year, though this is still a historically elevated pace. Economists expect another measure of wage growth—that covers regular pay for the same sample base of workers—held steady at 3.0% over the year.

While solid wage growth figures reinforce the likelihood of a "virtuous" cycle between wages and prices, and thus the economic justification for further rate hikes, we maintain our view that the BoJ will still wait a little longer to deliver those hikes. In our view, policymakers will want to ensure that market conditions will be conducive for further such moves. Recent BoJ policymaker commentary has also suggested the central bank may take a more cautious approach. Our forecast looks for the BoJ to keep its policy rate on hold at 0.25% through the end of 2024 before lifting it by 25 bps at each of the January 2025 and April 2025 meetings.

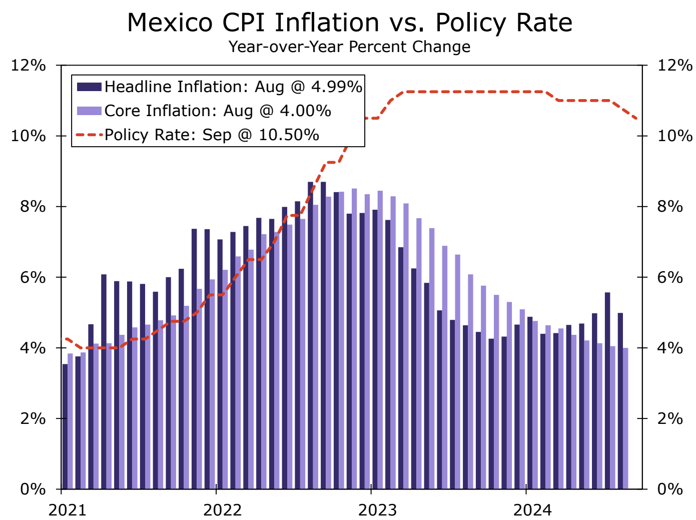


Source: Bloomberg Finance L.P. and Wells Fargo Economics

Mexico CPI • Wednesday

Mexico's inflation figures for September are due for release next week. Headline year-over-year inflation has trended somewhat sideways in recent months, and consensus economists expect the measure slowed to 4.60% last month. Core inflation, on the other hand, has clearly slowed as of late, and consensus economists expect the measure slowed further in September, to 3.94%.

The inflationary environment, especially the trajectory of core inflation, were cited as key reasons behind the central bank of Mexico's (Banxico) decision to lower its policy rate by 25 bps at its latest meeting in September and signal that it sees scope to deliver further policy rates. Although Mexico has seen some headline-making developments as of late—pertaining to the passage of judicial reforms—and quite a bit of weakening in the peso, we believe that developments in price pressures will ultimately prove to be the most important factor behind Banxico's monetary policy decisions in the coming quarters. We look for the central bank to cut its policy rate by 25 bps at each meeting through the end of 2025 to reach a policy rate of 8.00%.



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

U.K. Monthly GDP • Friday

U.K. GDP growth figures for August, set for release next week, will provide market participants with further insight into the state of the economy. While economic growth was at a standstill in June and July, consensus economists look for a slight improvement in August of 0.2% month-over-month growth. Overall, growth has been respectable this year, with quarterly growth of 0.7% in Q1 and 0.5% in Q2. We maintain our view that the U.K. economy can continue to steadily recover in the coming quarters.

In other economic news from the United Kingdom, Bank of England (BoE) governor Andrew Bailey delivered some attention-catching comments about the future of BoE monetary policy in an interview. He hinted at the possibility of more aggressive easing if there is good news on the inflation front. These comments led financial markets to increase their expectations for BoE rate cuts and sent the pound about 1% lower against the dollar. In our view, while a downside surprise in GDP next week could at the margin sway BoE policymakers to ease policy more quickly, as Gov. Bailey highlighted, inflation data will be the deciding factor. More specifically, it will likely be developments in wages and services inflation, which have been of particular concern to BoE officials.

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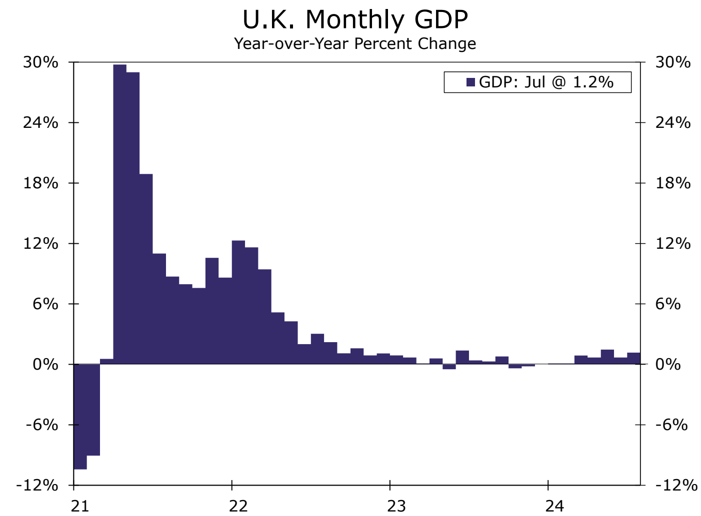

Source: Datastream and Wells Fargo Economics

Interest Rate Watch

The Outlook for Longer-Term Interest Rates

The FOMC cut the federal funds rate by 50 bps on Sept. 18, and other short-term interest rates promptly moved lower. The Secured Overnight Financing Rate (SOFR) dropped roughly 50 bps in the aftermath of the rate cut, and yields on shorter-dated instruments such the four-week T-bill also fell materially. However, longer-term yields generally have *risen* modestly since the FOMC reduced the federal funds rate a couple of weeks ago. For instance, the 10-year Treasury yield has climbed from 3.65% on Sept. 17 to 3.95% today.

This move was not especially surprising in our view. We expect the FOMC to reduce the federal funds rate by an additional 175 bps over the next nine months or so, but we do not expect nearly as large of a decline in longer-term interest rates such as the 10-year Treasury yield or the 30-year fixed rate mortgage. One reason for this is that financial markets are already priced for a material amount of policy easing from the Federal Reserve. Fed funds futures imply 137 bps of rate cuts between now and the July 2025 FOMC meeting, not much different from our own forecast.

Of course, the realization that easing might still impact long-term yields, and other factors beyond just the outlook for the federal funds rate impact on long-term interest rates. The fiscal policy outlook could change on the other side of the upcoming U.S. election, or the economy could slow down more than we are currently anticipating. But in the absence of shifts like these or more Fed easing than we currently have forecast, we would expect the decline in longer-term interest rates in the coming months to be modest rather than sizable. We look for the 10-year Treasury yield to be in the mid-3s over the next few quarters, with 30-year mortgage rates 200 bps-250 bps higher than the 10-year yield. In other words, a return to the 2019 world of ~2% 10-year Treasury yields and ~4% mortgage rates is probably not in the cards anytime soon.

For further reading on the longer-term interest rate outlook, see our recent series on r-star.

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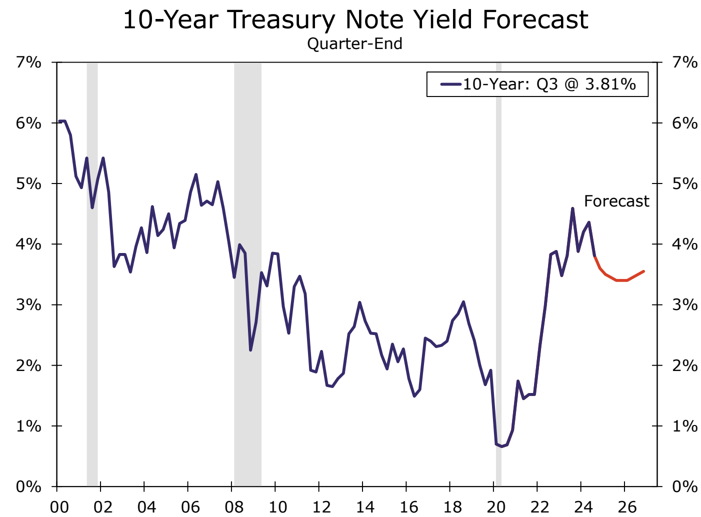


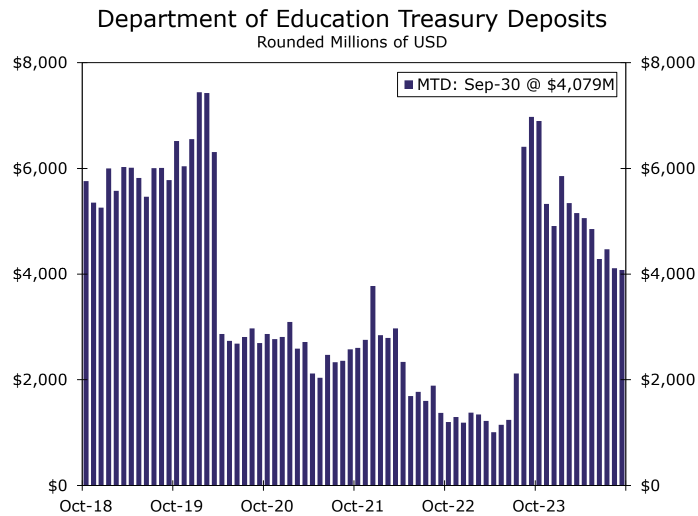
Source: U.S. Department of the Treasury and Wells Fargo Economics

Credit Market Insights

On the Road Again: Student Loan On-Ramp Comes to an End

As of the start of October, student loan borrowers who are late or miss payments can face credit reporting penalties, as the Biden administration's year-long student loan "on-ramp" has now ended. The "on-ramp" provided a 12-month grace period since the ending of the student loan moratorium last October for borrowers where interest again began accruing on loans but those who missed payments weren't penalized and moved into delinquency status. Delinquent payments will now be reported to credit agencies after 90 days of nonpayment. For the over 40 million federal student loan borrowers, the end of the grace period means an additional financial hurdle for those who have missed payments.

The trend in payments following the end of the payment moratorium was promising, as demonstrated by Department of Education deposits to the U.S. Treasury (chart). Data demonstrate that deposits initially jumped back to where they were before the onset of the pandemic, and the increase is consistent with borrowers resuming payments. Even so, there is evidence to suggest that those who hold student loans are struggling. A total of 25% of borrowers were in deferment, forbearance or default as of the end of the third quarter of 2024. This number includes borrowers who have not made payments during the "on-ramp," as these loans were placed in forbearance after three missed payments according to the Department of Education. This compares to 33% of loan borrowers who were in deferment, forbearance or default just before the moratorium went into effect in Q2-2020. While the end of the grace period presents a financial hurdle for some households, the repayment since the end of the moratorium last year suggests it's only a minor headwind to Q4 spending.



Source: U.S. Department of the Treasury and Wells Fargo Economics

Prior to the pandemic, transition into early- and serious-delinquency as a share of the total outstanding balance was highest for the category of student loans. This changed during the pandemic, and in the time since, delinquencies on all other categories of debt, including credit cards, auto loans, mortgages and HELOCs, are all now close to or above where they were pre-pandemic. While the reporting of student-loan delinquencies has been delayed due to the grace period, any initial tick up in student-loan delinquencies could materialize in the Q4 New York Fed Household Debt and Credit report that will be released in February 2025. Thus, signs of stress on the consumer stemming directly from student loans will not be reported in hard data for about four months.

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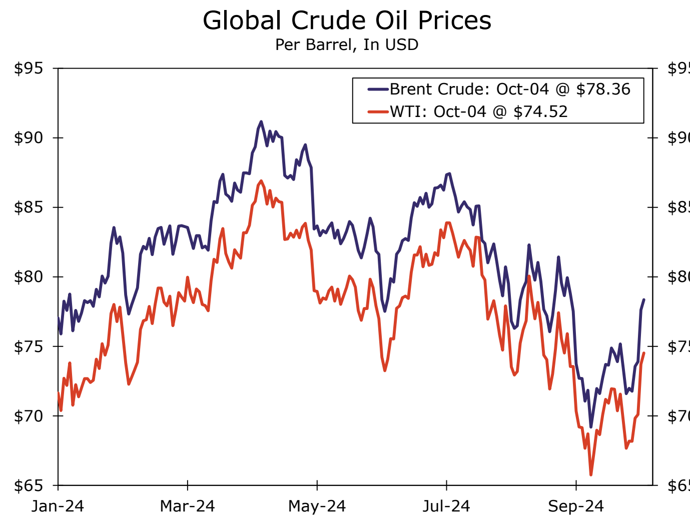
Topic of the Week

Middle East Escalations Capture Attention

A further escalation of miliary conflict in the Middle East captured headlines for most of this week. As the conflict intensified, market participants were reminded that the ongoing conflict in the region does not yet have an end in sight one year on from the start of the war. Most of the fighting in the Middle East has now stretched toward the Israel-Lebanon border and away from Gaza. Conflict remains ongoing in Gaza against Hamas; however, the Israeli Defense Forces (IDF) have now targeted Hezbollah in Southern Lebanon and the capital city of Beirut. Similar to Hamas, Hezbollah is another Iranian military proxy, and reports suggest Hezbollah is larger, more powerful as well as a more important component of Iran's military reach. The past few weeks saw the Israeli military conduct air operations against Hezbollah and its top command, with those strikes ultimately taking out a large swath of Hezbollah leadership. This week, the IDF launched a small-scale ground invasion into the southern part of Lebanon to further combat Hezbollah, but the combination of the ground incursion as well as targeting Hezbollah leadership in air attacks prompted a direct military response from Iran, the second direct strike on Israel since April.

Iran's military actions in April were telegraphed well in advance and largely viewed as symbolic in an attempt to not escalate tensions even further. This week, Iran's notice period was shorter and actions appeared to be more aggressive in nature. While most of Iran's ~200 missiles were intercepted and damage relatively light, Israel has stated it will retaliate directly against Iran, possibly targeting energy and oil infrastructure. News of the escalation as well as the threat of Israel targeting Iranian oil infrastructure caused a spike in oil prices, with Brent Crude and WTI both +10% over the course of this week on potential disruptions to supply. Going forward, the short-term direction for oil prices will likely be heavily influenced by the direction of the conflict in the Middle East. Israel's response to Iran will likely be the catalyst for a move in either direction, and we will be paying particular attention to any IDF actions in the near term.

As far as the global economic impact of the war in the Middle East, to date, there has been little spillover. Over the course of the past 12 months, despite multiple escalations, our 2024 global GDP forecast has remained broadly steady. Any adjustments we have made have been irrespective of the conflict. With that said, an oil price shock would have a more material impact on our global economic forecasts. Major contributors to global growth—such as China and India—are oil importers and a price shock could weigh on growth in these countries. Similar dynamics could unfold related to inflation as well. A further rise in oil prices could boost headline inflation and potentially delay central banks around the world pivoting to more accommodative monetary policy. As long as geopolitical headlines remain tense, geopolitics will remain top of mind for the time being.



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

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Market Data • Mid-Day Friday

U.S. Interest Rates	Friday 10/4/2024	1 Week Ago	1 Year Ago
SOFR	4.85	4.83	5.33
Effective Fed Funds Rate	4.83	4.83	5.33
3-Month T-Bill	4.62	4.60	5.50
1-Year Treasury	4.00	3.92	5.38
2-Year Treasury	3.89	3.56	5.05
5-Year Treasury	3.78	3.51	4.72
10-Year Treasury	3.95	3.75	4.73
30-Year Treasury	4.24	4.10	4.86
Bond Buyer Index	3.74	3.81	4.12

Foreign Exchange Rates	Friday 10/4/2024	1 Week Ago	1 Year Ago
Euro ($/€)	1.096	1.116	1.050
British Pound ($/£)	1.310	1.337	1.214
British Pound (£/€)	0.837	0.835	0.866
Japanese Yen (¥/$)	148.560	142.210	149.120
Canadian Dollar (C$/$)	1.358	1.352	1.375
Swiss Franc (CHF/$)	0.859	0.841	0.917
Australian Dollar (US$/A$)	0.679	0.690	0.633
Mexican Peso (MXN/$)	19.182	19.693	17.956
Chinese Yuan (CNY/$)	7.019	7.052	7.298
Indian Rupee (INR/$)	83.975	83.700	83.239
Brazilian Real (BRL/$)	5.468	5.434	5.158
U.S. Dollar Index	102.572	100.381	106.799

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

Foreign Interest Rates	Friday 10/4/2024	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.03	2.94	3.65
3-Month U.K. Govt Bill Yield	4.88	4.92	5.32
3-Month Canadian Govt Bill Yield	3.99	3.99	5.12
3-Month Japanese Govt Bill Yield	0.04	0.06	-0.24
2-Year German Note Yield	2.20	2.08	3.18
2-Year U.K. Note Yield	4.14	3.94	4.93
2-Year Canadian Note Yield	3.19	2.91	4.90
2-Year Japanese Note Yield	0.37	0.37	0.07
10-Year German Bond Yield	2.21	2.13	2.92
10-Year U.K. Bond Yield	4.13	3.98	4.58
10-Year Canadian Bond Yield	3.18	2.96	4.15
10-Year Japanese Bond Yield	0.89	0.85	0.81

Commodity Prices	Friday 10/4/2024	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	74.54	68.18	84.22
Brent Crude ($/Barrel)	78.40	71.98	85.81
Gold ($/Ounce)	2655.79	2658.24	1821.36
Hot-Rolled Steel ($/S.Ton)	722.00	734.00	691.00
Copper (¢/Pound)	455.50	459.95	358.90
Soybeans ($/Bushel)	10.34	10.48	12.48
Natural Gas ($/MMBTU)	2.86	2.90	2.96
Nickel ($/Metric Ton)	17,340	16,498	18,451
CRB Spot Inds.	559.36	555.58	552.42

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