

Weekly — June 7, 2024

Weekly Economic & Financial Commentary

United States: **July Cut Bites the Dust; September Hanging on Edge of Its Seat**

- The strong job gain and rebound in average hourly earnings in May reaffirm our expectation that a rate cut remains some time away and is increasingly dependent on a few slower inflation reports. Next week's CPI report and the FOMC's Summary of Economic Projections are now in focus.
- Next week: NFIB (Tue.), Consumer Price Index (Wed.), Producer Price Index (Fri.)

International: **G7 Central Banks Ease into Summer with Rate Cuts**

- This week, the Bank of Canada lowered its policy rate by 25 bps and offered comments that leaned dovish in tone; we forecast another 25 bps cut in July. The European Central Bank (ECB) also delivered a 25 bps rate cut, a communicated and somewhat cautious stance for monetary policy going forward. We look for an ECB rate pause in July.
- Next week: U.K. Monthly GDP (Wed.), Australia Employment (Thu.), Bank of Japan (Fri.)

Interest Rate Watch: **Dots Headed Higher**

- The FOMC will release an updated Summary of Economic Projections (SEP) coinciding with its policy meeting next week. Price pressures have held relatively firm in the months following the last SEP, leading us to anticipate an upshift in the median dot. We also expect longer-term interest rate expectations to edge higher, reflecting the possibility of greater underlying economic potential.

Credit Market Insights: **Personal Interest Expenses Are Stacking Up**

- Households have been under ever-increasing pressure from high interest rates, leaving those that carry a balance on their credit cards or those paying off an auto loan saddled with more personal interest expenses. As the Fed has raised rates at the fastest pace in four decades, the interest expenses consumers have incurred on consumer loans have soared.

Topic of the Week: **Fire and Ice: The Economics of the 2024 Stanley Cup Finals**

- As the heat of June arrives, with it comes the end of the NHL season and a battle for the most coveted prize in ice hockey, the Stanley Cup. This year's finals feature the Florida Panthers out of Sunrise, Florida, and the Edmonton Oilers out of Alberta, Canada. In just about every sense, these two cup cities could not be more different.

Submit a question to our [“Ask Our Economists”](#) podcast at askoureconomists@wellsfargo.com.

Wells Fargo U.S. Economic Forecast												
	Actual				Forecast				Actual		Forecast	
	2023				2024				2022	2023	2024	2025
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product ¹	2.2	2.1	4.9	3.4	1.3	2.7	1.9	1.5	1.9	2.5	2.6	2.0
Personal Consumption	3.8	0.8	3.1	3.3	2.0	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

Forecast as of: May 08, 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. Depart. 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 6/7/2024 unless otherwise stated. 6/7/2024 13:01:11 EDT. This report is available on Bloomberg WFRE

U.S. Review

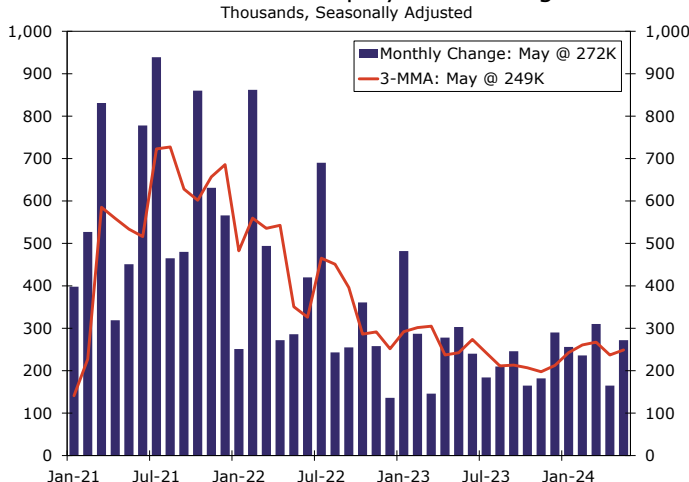
July Cut Bites the Dust; September Hanging on Edge of Its Seat

The U.S. labor market continues to defy expectations. Employers added 272K net new jobs in May, which was stronger than even the most bullish forecaster among 77 submissions to the Bloomberg survey. Yet, when you get past that upside surprise in hiring, the data appear less strong.

Job growth continues to be relatively concentrated. Hiring in the healthcare & social assistance (+83.5K), leisure & hospitality (+42.0K) and government (+43.0K) industries accounted for over 60% of job growth last month and hiring has been concentrated in these less-cyclically-sensitive industries over the past year. Temporary help employment, which has historically led overall hiring, has continued to see outright layoffs. The unemployment rate rose for the second-straight month to 4.0% as the household survey of employment reveals a strikingly weaker picture—jobs *fell* by 408K, according to this measure. Labor force participation also softened and the average work week held steady.

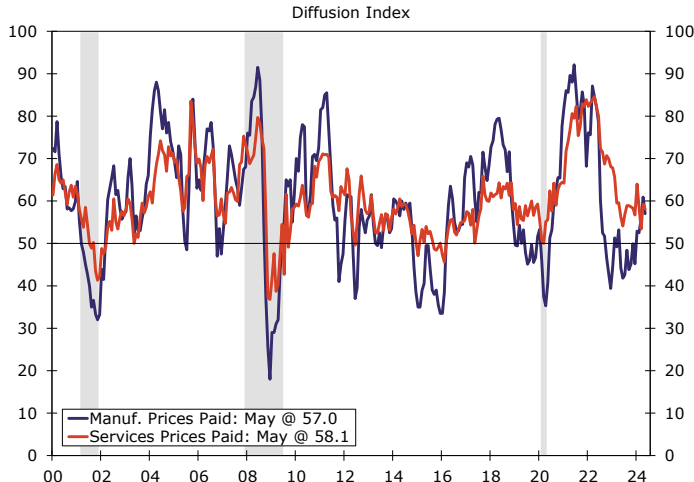
Elsewhere, we learned labor demand continues to soften. Total job openings in the economy slipped to the lowest level since February 2021 in April, and there are now just 1.2 job openings per unemployed worker, which is in line with the pre-pandemic ratio. The headline gain in payrolls cannot be ignored. It's fairly consistent with the recent monthly run rate ([chart](#)), but we do believe it should be taken in the broader context of a labor market that is showing clear signs of moderation.

U.S. Nonfarm Employment Change



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

ISM Manuf. and Services Prices Paid



Source: Institute for Supply Management and Wells Fargo Economics

The market reaction to the jobs report was swift, with market pricing now implying just one rate cut by year-end. Beyond the strong job gain, average hourly earnings rebounded 0.4% in May, pushing the annual rate back up to 4.1%. While this isn't exactly a favorable development in the fight against inflation, earnings can be noisy on a monthly basis. Policymakers will need to see a few slower inflation reports in order to start cutting rates by the fall; next week's CPI report is in focus.

We learned this week that purchasing managers are seeing less robust price growth. The prices paid measure of both the ISM manufacturing and services indices eased in May, but they still remain consistent with an expansion in prices. More simply, most industries are still seeing higher prices, though the pace of growth is slowing. The more recent drift higher for manufacturing prices ([chart](#)) also suggests we won't see as much relief from goods inflation this year, ultimately keeping the onus on the service sector in terms of making further progress toward the Fed's 2% inflation goal.

The purchasing manager data more broadly continued to show varied outcomes for the manufacturing and services sectors. The ISM manufacturing index slid for the second-straight month and remains consistent with contraction in the sector. A sharp drop in new orders was responsible for most of the pullback, indicating weaker demand conditions. In terms of services, the ISM leaped by the most in 16 months in May, but that gain largely reverses an unusually weak print for April, and suggests overall services sector activity remains steady. The economy continues to chug along. ([Return to Summary](#))

U.S. Outlook

Weekly Domestic Indicator Forecasts					
Date	Indicator	Period	Consensus	Wells Fargo	Prior
12-Jun	CPI (MoM)	May	0.1%	0.1%	0.3%
12-Jun	CPI (YoY)	May	3.4%	3.3%	3.4%
12-Jun	Core CPI (MoM)	May	0.3%	0.3%	0.3%
12-Jun	Core CPI (YoY)	May	3.5%	3.5%	3.6%
12-Jun	CPI Index NSA	May	314.346	314.301	313.548
12-Jun	FOMC Rate Decision (Upper Bound)	Jun 12	5.50%	5.50%	5.50%
13-Jun	PPI Final Demand (MoM)	May	0.1%	0.1%	0.5%
13-Jun	PPI Final Demand (YoY)	May	—	2.5%	2.2%
13-Jun	Core PPI (MoM)	May	0.3%	0.3%	0.5%
13-Jun	Core PPI (YoY)	May	—	2.5%	2.4%
14-Jun	Import Price Index (MoM)	May	0.1%	0.1%	0.9%
14-Jun	Import Price Index (YoY)	May	—	1.6%	1.1%

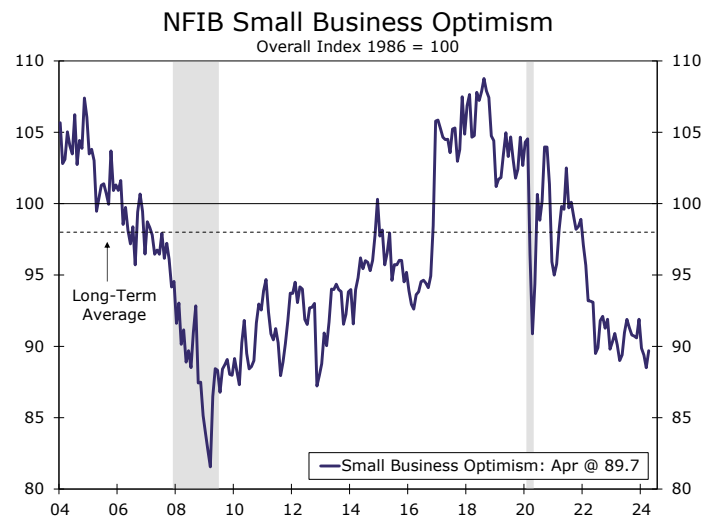
Forecast as of June 07, 2024

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

NFIB Small Business Optimism • Tuesday

Given the heightened interest in inflation that is sure to set in next week, market participants may tune in for the release of May's NFIB Small Business Optimism Index on Tuesday. Several of the underlying details presented in the index, such as the share of small firms expecting to raise prices, have proven to be useful signals for where underlying inflation pressures may be headed.

From a small business perspective, inflation remains as a significant headwind. Despite the headline NFIB edging higher in April, continued low readings on the underlying components of the index suggest that small business confidence remains depressed by higher input pricing, ongoing shortages of skilled labor, tighter monetary policy and uncertain demand prospects. We do not forecast NFIB small business optimism, but the Bloomberg consensus looks for the index to remain essentially unchanged at a reading of 89.5 for May.



Source: NFIB and Wells Fargo Economics

Consumer Price Index (CPI) • Wednesday

Inflation will be back in the spotlight next week with the release of May's CPI report on Wednesday. We anticipate the report to provide additional evidence that inflation is returning to a cooling trend after flaring up in Q1. Although food prices likely picked up slightly, lower oil prices should translate to a decline in energy prices during the month, helping yield a soft reading on the headline. Goods prices likely fell again, driven by declines in vehicle, apparel, recreation and household goods prices. Meanwhile, services prices look to have increased for a second straight month amid the slow moderation in shelter costs and other services inflation.

All together, we estimate that the headline CPI increased 0.1% during May, which would amount to a 3.3% year-over-year rise. In terms of core CPI, we look for a 0.3% monthly gain and 3.5% year-over-year increase. As of this writing, our forecasts for both headline and core CPI are generally consistent with the Bloomberg consensus. As we write in the [Interest Rate Watch](#), the results of May's CPI release are not likely to have a meaningful impact on the outcome of the FOMC meeting next week, although Fed officials will no doubt be paying close attention.

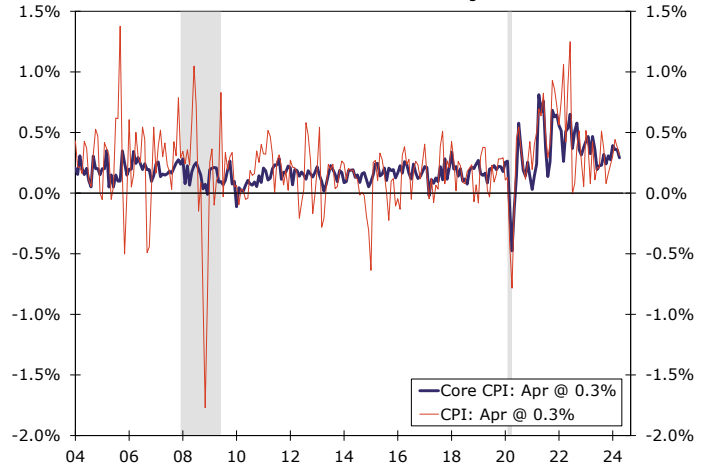
Producer Price Index (PPI) • Thursday

Another set of inflation data will be delivered on Friday with the publication of May's PPI. Market participants tend to put more focus on the CPI and PCE deflator in order to gauge the underlying trend of inflation since the PPI has a relatively narrow coverage area and tends to be volatile on a monthly basis. Still, there should be plenty of valuable information contained in the report. Several PPI sub-indexes are useful in forecasting the PCE deflator and May's outcome could help set the tone on expectations for the future direction of inflation.

Similar to other inflation measures, we expect the PPI cooled down a bit in May. We anticipate the PPI final demand index rose 0.1% on a monthly basis and 2.5% on a yearly basis. Our estimates for the monthly and annual change in the core PPI stand at 0.3% and 2.5%, respectively.

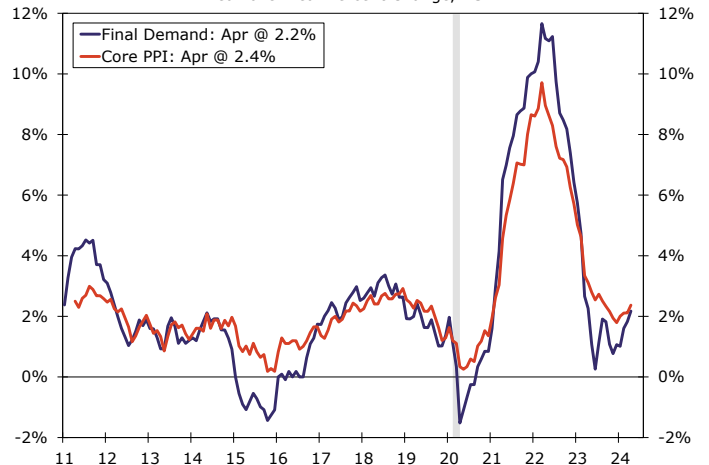
[\(Return to Summary\)](#)

Headline vs. Core CPI
Month-over-Month Percent Change



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

PPI and Core PPI Final Demand
Year-over-Year Percent Change, NSA



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

International Review

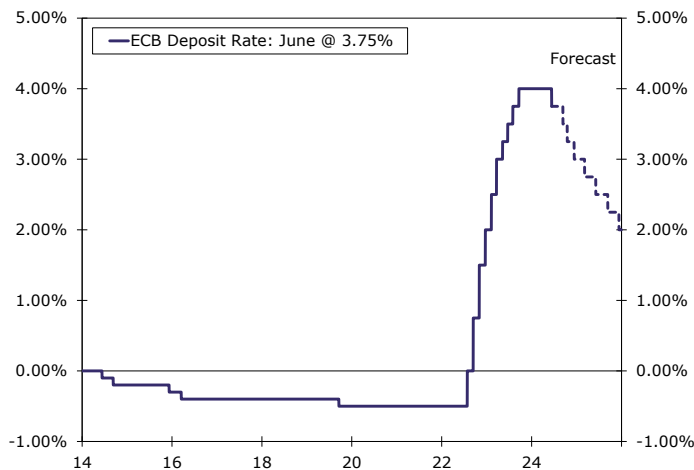
G7 Central Banks Ease into Summer with Rate Cuts

This week saw some key G7 central banks initiate monetary easing cycles. First up, on Wednesday, the Bank of Canada (BoC) lowered its policy rate by 25 bps to 4.75% and offered some commentary that leaned dovish in tone, broadly supportive of the view for another 25 bps rate cut in July. The monetary policy announcement highlighted "continued evidence that underlying inflation is easing," stating that "recent data has increased our confidence that inflation will continue to move towards the 2% target." In April, headline CPI inflation slowed to 2.7% year-over-year while the average of core measures of inflation slowed more than expected, to 2.8%. Looking ahead, Governor Macklem stated that "if inflation continues to ease, and our confidence that inflation is headed sustainably to the 2% target continues to increase, it is reasonable to expect further cuts to our policy interest rate." In the post-meeting press conference, Macklem and Senior Deputy Governor Rogers highlighted the progress on Canadian inflation seen so far, as well as the data-dependent meeting-by-meeting approach the central bank will take in determining the future path of monetary policy. Market participants interpreted the decision and commentary as dovish leaning, with the Canadian dollar weakening and bond yields falling in the immediate aftermath of the announcement. In terms of our own outlook, we remain comfortable with our forecast for another 75 bps of cuts from the BoC through year-end 2024. Our current expectation is for 25 bps rate cuts in July, September and October, as long as inflation data behave in the near term. However, if inflation data released before the upcoming July meeting were to surprise to the upside, this could tilt the risks toward a BoC rate pause in July, followed by cuts in September, October and December.

On Thursday, the European Central Bank (ECB) joined the club and lowered its policy rates by 25 bps, to a Deposit Rate of 3.75%. In providing justification for the decision, the monetary policy announcement highlighted the continued disinflation process for both headline and underlying measures, a decline in inflation expectations and the strength with which restrictive monetary policy has transmitted through the economy so far. The more dovish elements of the statement were balanced with other parts that leaned in a more cautious or hawkish direction. For example, the ECB noted that "domestic price pressures remain strong as wage growth is elevated, and inflation is likely to stay above target well into next year." The central bank also upwardly revised its inflation outlook. Core inflation is now expected to run at a year-over-year pace of 2.8% in 2024 and 2.2% in 2025. The ECB also raised its 2024 GDP growth forecast to 0.9% from 0.6% previously.

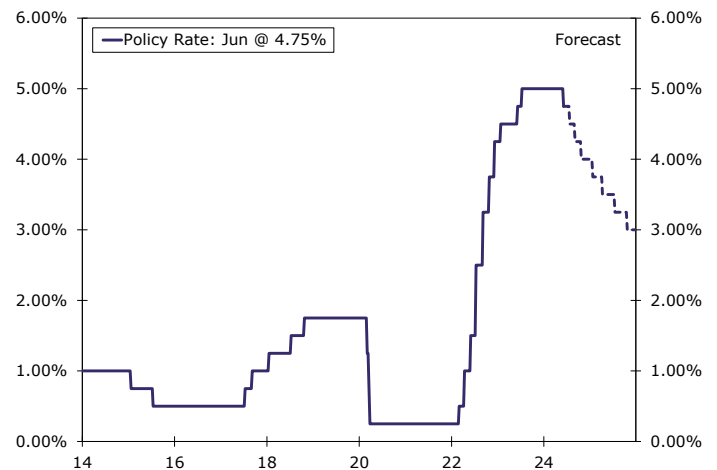
Looking ahead, we view the ECB's statement as consistent with rate cuts continuing at a measured pace and expect the central bank to pause in July before delivering 25 bps rate cuts in September, October and December. The ECB emphasized that it will be taking a "data dependent and meeting-by-meeting approach" to their monetary policy stance in the meetings ahead. We believe the continued disinflation process will make policymakers feel comfortable with another 25 bps rate reduction in September, and by Q4, we believe Eurozone wage growth and underlying inflation may have slowed sufficiently for the ECB to deliver rate cuts at both fourth quarter meetings, in October and December. If realized, this would see the Deposit Rate lowered to 3.00% by year-end 2024. We view the risks to this outlook as tilted toward a lesser 75 bps of easing in 2024, as policymakers main remain wary of elevated wage growth and the path of underlying inflation.

ECB Deposit Rate



Source: Datastream and Wells Fargo Economics

Bank of Canada Policy Rate



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

This week also saw the release of key economic data from both advanced and emerging economies. On Wednesday, Japanese wage data for April gave market participants insight into how pay growth has evolved as of late. While the headline labor cash earnings figure surprised to the upside, the underlying details were more middle-of-the-road, which we believe affirms our view that the Bank of Japan (BoJ) will want to wait a bit longer before hiking its policy rate again. Headline labor cash earnings growth bested expectations at 2.1% year-over-year, but after adjusting for inflation, real earnings actually shrank by 0.7%. Moving on from the headline figures, we can turn to a series we believe is closely watched by Bank of Japan (BoJ) policymakers: base pay for full-time workers measured on a same-sample basis. This measure matched consensus expectations and the previous month's pace at 2.1% growth over the year. While this pace is considered elevated by historical standards, it has generally held steady over the past couple of months, suggesting that the pay raises agreed upon in the recent spring wage negotiations have not yet clearly transmitted into the monthly wage data. Given that wage growth has not yet meaningfully picked up—a development that could be seen as contributing to the sustainable achievement of the 2% inflation target—we do not see BoJ policymakers opting to deliver another policy rate hike just yet. We believe they will want to wait a bit longer to get a better sense of ongoing developments in wages and prices. For more detail on our outlook for next week's BoJ meeting, please see [International Outlook](#).

In other economic data, the first quarter pace of GDP growth for the Australian economy slowed relative to the Q4 pace, and by more than expected by consensus economists. The economy expanded 0.1% quarter-over-quarter, or 1.1% year-over-year, in Q1-2024. Despite the downside surprise, we believe the Reserve Bank of Australia (RBA) will remain primarily focused on still-elevated inflation, and thus, we do not expect the RBA to lower its policy rate until Q4 of this year with risks tilted toward easing being delayed until 2025. Turning to emerging economies, Mexico's May headline and core CPI inflation figures surprised to the downside. Headline CPI inflation sped up by less than expected, to 4.69% year-over-year, and core CPI inflation eased by more than expected, to 4.21%. While these inflation readings are favorable, we see Banxico opting for a continued rate pause, rather than a rate cut, at their June meeting amid political uncertainties around the recent national elections and a weakening Mexican peso.

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

International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
11-Jun	U.K. Avg. Weekly Earnings (3M/YoY)	Apr	5.7%	-	5.7%
12-Jun	U.K. Monthly GDP (MoM)	Apr	0.0%	-	0.4%
13-Jun	Australia Employment Change	May	30.0K	-	38.5K
14-Jun	Bank of Japan Policy Rate	14-Jun	0.10%	0.10%	0.10%

Forecast as of June 07, 2024

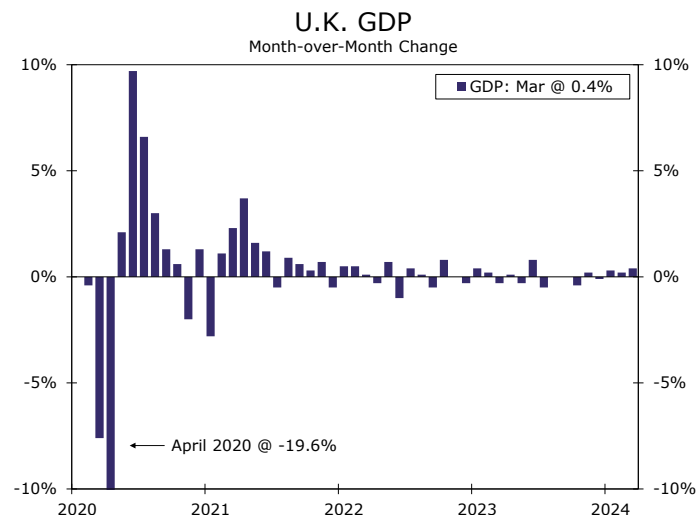
Source: Bloomberg Finance L.P. and Wells Fargo Economics

U.K. Monthly GDP & Wage Growth • Wednesday

Next week will see the release of U.K. monthly GDP and average hourly earnings figures from April, data which we generally expect to keep the Bank of England (BoE) on track for a 25 bps cut in August. After contracting in the second half of last year, the U.K. economy has turned a corner and recovery is now under way with growth of 0.6% quarter-over-quarter in Q1-2024. Consensus economists expect the economy stalled in April, with GDP forecast to be flat month-over-month. Within the details, services activity and industrial production are expected to fall slightly, while construction output is expected to rise. Overall, we maintain our view for a continuing economic recovery this year and into next. We look for the U.K. economy to expand by 0.8% in 2024 and 1.5% in 2025.

Market participants will also gain insight into wage developments in the U.K. next week with the release of average weekly earnings data. BoE officials have been especially focused on wage growth as it relates to inflationary pressures. Consensus economists expect average weekly earnings growth of 5.7% in the three months to April as compared to the same period a year ago, which would represent a steady pace of growth from the prior reading. We also believe BoE officials will be interested in regular—that is, excluding bonuses—pay growth for private-sector workers, which has gradually slowed in recent months, though remains elevated.

In terms of monetary policy implications, for the time being we maintain our view for the BoE to deliver an initial 25 bps rate cut in August. Our expectation for a summer move is based on a combination of slowing inflation, still-gradual economic growth and dovish-leaning commentary from BoE officials in recent weeks. When looking at next week's data, upside surprises to either economic growth or wage growth data could tilt the risks toward BoE policymakers waiting a bit longer to lower the policy rate.



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

Australia Employment • Thursday

Next week, market participants will gain further insight into how the Australian labor market has fared after a reasonably solid start to the year. In their recent May statement, Reserve Bank of Australia (RBA) policymakers noted that labor market conditions remain tighter than what would be consistent with on-target inflation. Looking ahead, the minutes for that May monetary policy meeting mentioned that policymakers expect the labor market to continue easing, albeit at a gradual pace. Consensus economists' expectations for the employment change figure are generally in line with this outlook, with a forecast for a slightly more modest 30K jobs added.

While conditions in the labor market could show some signs of moderation, we do not believe such a development would materially sway the RBA's future path of policy rate cuts. In our view, policymakers will remain primarily concerned with still-elevated inflation. As such, we are expecting it to be some time yet before RBA officials feel comfortable delivering an initial 25 bps rate cut. Our current forecast is for the RBA to wait until Q4 of this year to lower its policy rate, and in our view, the risks are tilted toward easing being pushed back into next year.

Bank of Japan • Friday

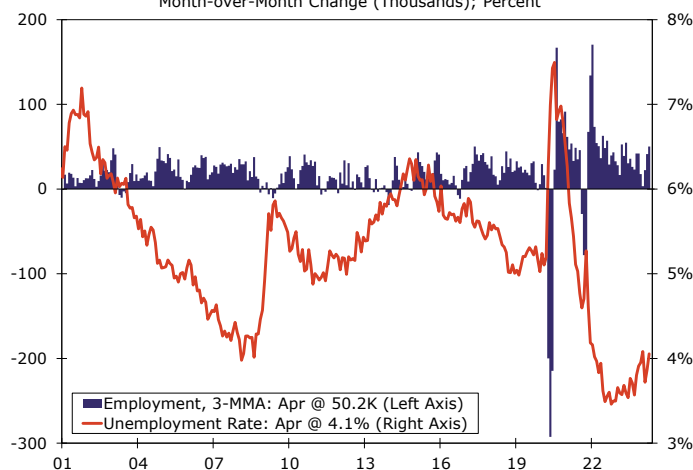
When the Bank of Japan (BoJ) meets next week, we do not expect officials to deliver a policy rate hike, though we do suspect they will announce a reduction in the monthly pace of bond buying.

We do not believe that recent economic data around prices and growth will encourage BoJ officials to further lift the policy rate at this time. In recent months, inflation has taken a somewhat bumpy but generally slowing path, while economic growth has been weak. In the first quarter, the Japanese economy contracted at a 2.0% quarter-over-quarter annualized rate, with consumer spending and business investment shrinking. We believe the BoJ will want to see more data on price and wage developments—especially concerning the wage hike agreements from the spring wage negotiations—and economic growth before feeling comfortable with another rate hike; in our view, next week is too early for such a move.

With that being said, we expect the BoJ could make another type of adjustment to its policy stance at next week's meeting—namely by reducing its pace of bond purchases—if officials are still generally hoping to continue to move in the direction of monetary policy normalization. The BoJ's current pace of bond buying sits at roughly 6 trillion yen per month. Discussion around a possible reduction in this pace has been prominent in recent weeks, with increasing traction among market participants around the idea. We see the BoJ announcing a reduction in bond purchases to perhaps around 5 trillion yen per month next week.

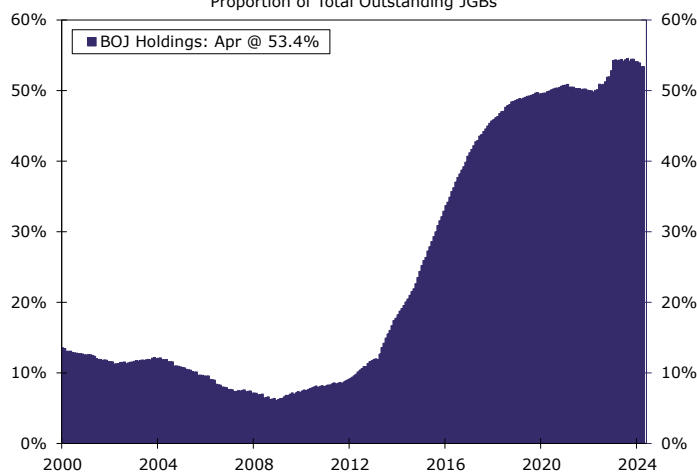
[\(Return to Summary\)](#)

Australian Labor Market
Month-over-Month Change (Thousands); Percent



Source: DataStream and Wells Fargo Economics

BOJ Holdings of JGBs
Proportion of Total Outstanding JGBs



Source: Datastream and Wells Fargo Economics

Interest Rate Watch

Dots Headed Higher

FOMC members will hold their next meeting on June 11-12. The committee is widely expected to keep the federal funds rate bound between 5.25% and 5.50%, a level at which it's been held for nearly one year. Our focus therefore will be on the June Summary of Economic Projections (SEP).

The SEP is a quarterly release that pulls back the curtain on FOMC member's views on economic growth, inflation and the path of interest rates. The committee released its previous SEP in March, revealing a near-universal expectation that inflation would soften enough to warrant monetary easing this year. Most members expected 50 bps of cuts or less; however, a dovish outlier pushed the median expectation up to 75 bps. Meanwhile, longer-run interest rate estimates inched higher, surpassing 2.5% for the first time since March 2019.

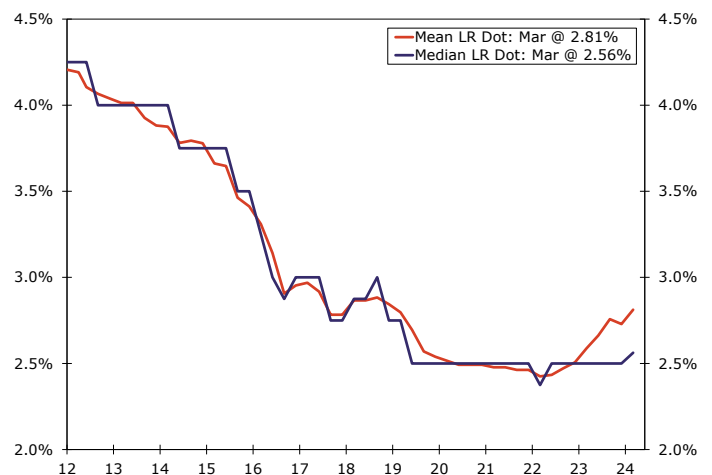
What will change in the June SEP? Data released over the past few months suggest that price pressures are not going away without a fight. Core PCE inflation strengthened to a 4.4% annualized clip in Q1, more than double the pace registered in the second half of 2023. Both core and supercore PCE inflation in April fell back from Q1's acceleration, possibly providing some encouragement to an FOMC on high guard against inflation. However, one data point does not make a trend. While we still look for inflation to grind lower this year, higher-than-expected prints from Q1 increase the likelihood that participants raise their own inflation forecasts and price in fewer cuts this go-round.

Our call is for the median 2024 dot to lift to 4.875%, reflecting expectations for two 25 bps cuts this year instead of three. That said, we would not be surprised if the median projection calls for just one rate cut. This morning's employment release was chock-full of mixed messages that are unlikely to sway the committee one way or another. The May CPI is set for release the morning of June 12, but FOMC members will probably not have enough time to incorporate it into their forecasts. Nevertheless, any new inflation data will be instructive on the trend direction of price pressures. We look for an incremental improvement in core CPI consistent with a return to gradual descent, but doubt it will convince the committee that inflation is sustainably headed back toward 2%. Our base case remains for the first rate cut to occur in September.

It is also likely that FOMC participants will raise their long-term rate outlooks. The longer-run federal funds rate, known as the neutral policy rate, is a theoretical rate that would bear no influence on economic activity in an environment of maximum employment and price stability, which are the Fed's two primary objectives. Put another way, it reflects the underlying growth potential of an economy. Although incredibly difficult to estimate, there is a growing consensus that this "mythical" rate has inched higher over the past few years, evidenced by an economy that has exhibited ongoing momentum through fastest rate hiking cycle since the 1980s. We expect the median longer-run dot to edge modestly higher, landing between 2.625% and 2.75%.

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

FOMC Longer-Run Fed Funds Rate Projections



Source: Federal Reserve Board, Bloomberg Finance L.P. and Wells Fargo Economics

Credit Market Insights

Personal Interest Expenses Are Stacking Up

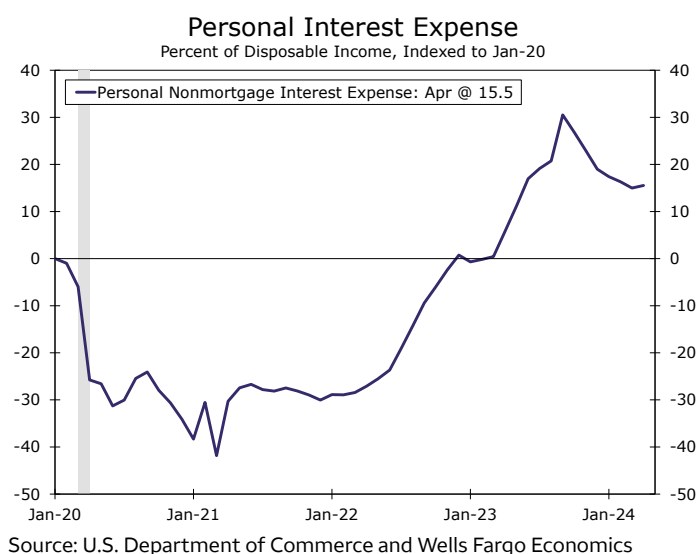
Households have been under ever-increasing pressure from high interest rates, leaving those that carry a balance on their credit cards or those paying off an auto loan saddled with more personal interest expenses. As the Fed has raised rates at the fastest pace in four decades over the past two years, the interest rates consumers pay on consumer loans have soared. The average APR on credit cards reached 21.6% in the first quarter, the highest in data going back to 1995. Auto loans have followed suit, with the APR on a 48-month new car loan rising to 8.4% in the first quarter, reaching the highest rate since 2001.

The cost of financing everything from a college education to autos to everyday purchases has now been taking up a larger chunk of consumers' paychecks. When indexed to its pre-pandemic share, households' personal interest expense as a share of their disposable income has now fully recovered from pandemic lows as of April 2023 and come to surpass its pre-pandemic share over 15% ([chart](#)).

Personal interest expense, which measures all nonmortgage interest payments as a share of disposable income, was at 2.44% in April or 0.33 percentage points above its share of 2.11% in January 2020. Though this is higher than what prevailed pre-pandemic, it is still below the share of income that households' personal interest expense took up in the early 2000s. Even so, the growth in the interest expense that households are incurring on nonmortgage debt is outpacing the growth in the cost of servicing mortgage debt. Debt service payment for mortgages (MDSP) as a share of disposable personal income were 4.02% through the fourth quarter of 2023, the latest data available. This has yet to surpass its pre-pandemic Q1-2020 share of 4.11%.

Though not a perfect comparison due to MDSP's inclusion of principal in the payment, it is notable that personal nonmortgage interest expense growth has outrun mortgage payment growth thus far. This is particularly stark given the rise in median housing prices and the rise in mortgage rates seen over the past few years, factors which both would increase the debt service payments on a mortgage, all else equal. It is perhaps this disparity in returning to pre-pandemic norms for nonmortgage versus mortgage debt payments that has enabled households to keep up with payments so far. Nonetheless, with a rise in transitions to delinquency for both mortgage and consumer loans continuing through the first quarter, continued growth in personal nonmortgage interest expenses or acceleration in growth for MDSPs may leave households in a more vulnerable position. We will look for further clues on the health of the household sector this afternoon in the Q1-2024 update of the Fed's Z.1 Financial Accounts of the United States release.

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



Topic of the Week

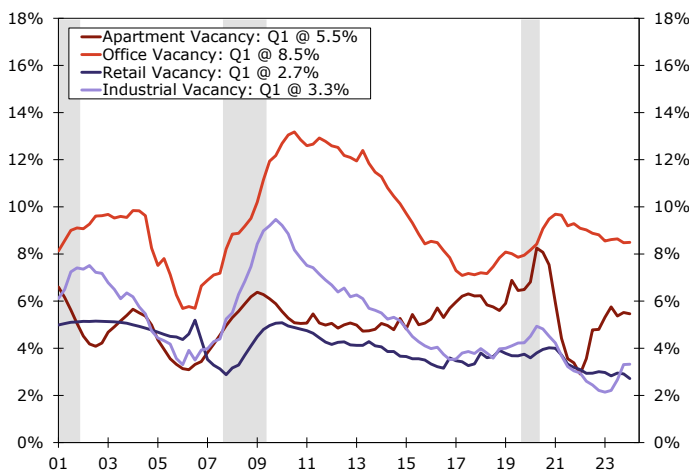
Fire and Ice: The Economics of the 2024 Stanley Cup Finals

As the heat of June arrives, with it comes the end of the NHL season and a battle for the most coveted prize in ice hockey, the Stanley Cup. This year's finals feature the Florida Panthers out of the East and the Edmonton Oilers from the West. The teams hit the ice in game one Saturday at Amerant Bank Arena in Sunrise, Florida, before shifting to Rogers Place in Edmonton, Alberta. The two cities are over 2,500 miles away from one another, the longest distance ever traveled between cup finalists. In just about every sense, these two cup cities could not be more different.

The Florida Panthers return to the finals after falling to the Vegas Golden Knights in 2023. The Panthers were surprise underdogs then, earning the moniker the “Comeback Cats” for their impressive upset of the top-seeded Boston Bruins in a 3-1 series comeback. This season's squad returns as seasoned favorites, looking to make good on last year's promising finals run. Florida employs an oppressive play style supported by an aggressive forecheck, stout defense and a penchant for puck-control. Star goalie Sergei Bobrovsky has continued his transcendent play from last year, averaging a 91% save percentage in the playoffs. Playing in front is a physical offense led by forward Matthew Tkachuk and team captain Aleksander Barkov.

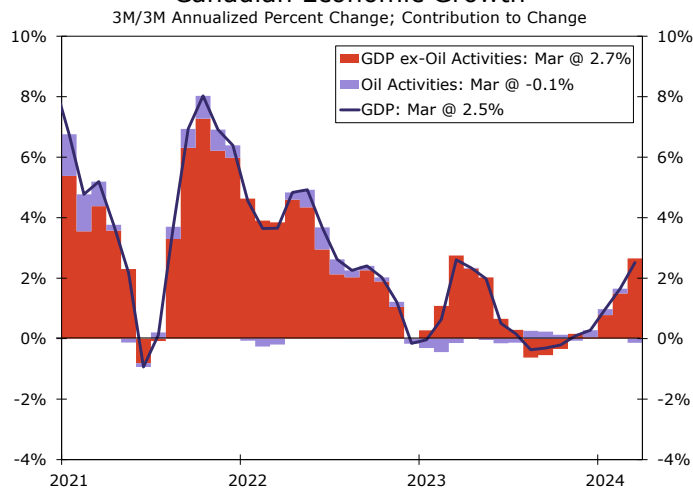
The Panthers will look to bring home their first ever Stanley Cup to the city of Sunrise, their home since 1998. Sunrise lies west of Fort Lauderdale and is a part of the greater Miami metropolitan area. The city is a major retail and office market, anchored by Sawgrass Mills mall and the nearby Sawgrass International Corporate Park, the largest corporate park in Florida. In our 2024 Florida economic outlook [report](#), we noted that the Miami metro area has withstood real estate headwinds reasonably well. Much of that can be attributed to the region's strong job growth—particularly for white-collar office jobs—which is a product of the parade of corporations flocking to Florida's lower cost environment. Strong migration to Miami has fueled diversification of the local economy, particularly in financial services and logistics and trade.

Miami CRE Vacancy Rates



Source: CoStar Inc. and Wells Fargo Economics

Canadian Economic Growth



Source: Datastream and Wells Fargo Economics

Far from sunny South Beach lies the Canadian provincial capital of Edmonton, known as the “Gateway to the North.” Unlike the tourism and services-focused economy of Miami, Edmonton is a hub for Canada's mining operations and oil and gas industry in northern Alberta. Edmonton's central location in Alberta also makes it a key distribution node in the province. Alberta is the leading oil and gas producer in Canada, an industry which has historically accounted for between 25%-30% of Alberta's total GDP. Activity in the region has ebbed and flowed alongside fluctuations in global oil prices, making the region's economy particularly sensitive to shifts in energy prices. Canada as a whole possesses the fourth-largest proven oil reserves in the world, according to the U.S. Energy Information Administration, and over 95% of these reserves are located in oil sands deposits in Alberta.

Edmonton's oil and gas industry isn't just a key component of its economy, it is also the namesake of their storied local hockey club. The Edmonton Oilers return to the Stanley Cup for the first time since

their defeat at the hands of the Carolina Hurricanes in 2006. This time around, the Oilers are carrying more than just the hopes of Edmontonians on their shoulders. A Canadian-based team has not won the Stanley Cup since 1993 when the Montreal Canadiens defeated the Los Angeles Kings. In the 30 years since, five teams from Canada have advanced to the finals with all failing to capture the cup. The Oilers themselves last won the cup in 1990, capping off a seven-year dynasty in which they won five Stanley Cups. Leading those 80s squads was the “Great One,” Wayne Gretzky, near unanimously regarded as the greatest player in NHL history.

This year’s squad has its own generational talent in Connor McDavid, who, alongside fellow superstar Leon Draisatl will finally get his shot at hockey immortality. The Oilers are a high-powered offense centered around their major stars and will heavily rely on their efficient power play which is converting at a league-high 37.3%. The Oilers defensive play can be rocky at times, but the presence of Evan Bouchard, one of the league’s elite defensive scorers, provides an end-to-end threat that Florida will be need to be wary of. As the 2024 NHL playoffs draw to a close, will Lord Stanley's Cup make its first-ever trip to South Beach, or will it make its long-awaited return to the Great White North?

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

Market Data • Mid-Day Friday

U.S. Interest Rates			
	Friday 6/7/2024	1 Week Ago	1 Year Ago
SOFR	5.33	5.33	5.05
Effective Fed Funds Rate	5.33	5.33	5.08
3-Month T-Bill	5.39	5.40	5.27
1-Year Treasury	5.00	5.09	4.91
2-Year Treasury	4.86	4.87	4.56
5-Year Treasury	4.44	4.51	3.94
10-Year Treasury	4.41	4.50	3.80
30-Year Treasury	4.53	4.65	3.95
Bond Buyer Index	3.97	4.13	3.67

Foreign Exchange Rates			
	Friday 6/7/2024	1 Week Ago	1 Year Ago
Euro (\$/€)	1.081	1.085	1.070
British Pound (\$/£)	1.273	1.274	1.244
British Pound (£/€)	0.849	0.851	0.860
Japanese Yen (¥/\$)	156.560	157.310	140.130
Canadian Dollar (C\$/\\$)	1.375	1.363	1.337
Swiss Franc (CHF/\\$)	0.896	0.902	0.910
Australian Dollar (US\$/A\\$)	0.659	0.665	0.665
Mexican Peso (MXN/\\$)	18.275	17.012	17.365
Chinese Yuan (CNY/\\$)	7.247	7.242	7.135
Indian Rupee (INR/\\$)	83.380	83.465	82.548
Brazilian Real (BRL/\\$)	5.274	5.246	4.926
U.S. Dollar Index	104.864	104.671	104.099

Foreign Interest Rates			
	Friday 6/7/2024	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.53	3.55	3.03
3-Month U.K. Govt Bill Yield	5.24	5.26	3.89
3-Month Canadian Govt Bill Yield	4.64	4.79	4.85
3-Month Japanese Govt Bill Yield	0.05	0.08	-0.19
2-Year German Note Yield	3.08	3.10	2.94
2-Year U.K. Note Yield	4.40	4.41	4.57
2-Year Canadian Note Yield	3.98	4.18	4.58
2-Year Japanese Note Yield	0.35	0.41	-0.06
10-Year German Bond Yield	2.62	2.66	2.46
10-Year U.K. Bond Yield	4.26	4.32	4.25
10-Year Canadian Bond Yield	3.46	3.63	3.44
10-Year Japanese Bond Yield	0.98	1.07	0.43

Commodity Prices			
	Friday 6/7/2024	1 Week Ago	1 Year Ago
WTI Crude (\\$/Barrel)	75.60	76.99	72.53
Brent Crude (\\$/Barrel)	79.75	81.62	76.95
Gold (\\$/Ounce)	2305.20	2229.87	1940.02
Hot-Rolled Steel (\\$/S.Ton)	728.00	761.00	930.00
Copper (¢/Pound)	448.20	460.20	375.60
Soybeans (\\$/Bushel)	12.08	12.08	13.53
Natural Gas (\\$/MMBTU)	2.90	2.59	2.33
Nickel (\\$/Metric Ton)	18,302	19,808	20,846
CRB Spot Inds.	554.77	559.22	549.55

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

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey George	Economic Analyst	704-410-2911	Aubrey.B.George@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. (“WFBNA”). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company. © 2024 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited (“WFSIL”). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority (“FCA”). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the “Act”), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU (“MiFID2”). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. (“WFSE”). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE