Weekly — December 6, 2024

Weekly Economic & Financial Commentary

United States: **The Song Remains the Same**

- Incoming economic data continue to illuminate pockets of stress in the U.S. economy. The unwinding of strikes and hurricane effects lifted nonfarm payrolls by 227K in November; however, job gains remain highly concentrated by industry. Openings also continue to trend lower through the month volatility. Meanwhile, tariff-related stress is beginning to form in both the manufacturing and services sectors.
- Next week: NFIB Small Business Optimism Index (Tue.), CPI (Wed.), Federal Budget Balance (Wed.)

International: **Potpourri of Global Economic Events and Data**

- Even though Thanksgiving has passed, market participants had their plates full this week with international political developments, economic events and data releases. Political uncertainty took hold amid headline-making developments in South Korea and France, while we also gained further insight into economic conditions in a variety of advanced and emerging economies.
- Next week: Bank of Canada (Wed.), Brazilian Central Bank (Wed.), European Central Bank (Thu.)

Interest Rate Watch: **Hawk or Dove, Data-Dependency Name of the Game**

- The Fed's blackout period—or two-week stretch ahead of its meeting where Fed officials do not make public policy comments—begins this Saturday. Recent comments suggest members believe the path for policy has grown more uncertain, though there remains broad support for a gradual data-dependent reduction in rates.

Topic of the Week: **Bad Day for Barnier**

- On Wednesday, the French government collapsed after its National Assembly voted to oust Prime Minister Michel Barnier. President Macron now faces the difficult decision of appointing another prime minister to navigate the fragmented Assembly and pass a budget bill for 2025.

Wells Fargo U.S. Economic Forecast

	Actual 2024			Forecast					Actual	Forecast		
					2025							
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2023	2024	2025	2026
Real Gross Domestic Product [1]	1.6	3.0	2.8	2.1	2.4	1.5	0.7	1.3	2.9	2.7	2.0	2.3
Personal Consumption	1.9	2.8	3.7	2.6	2.1	2.1	1.8	1.5	2.5	2.7	2.3	2.3
Consumer Price Index [2]	3.2	3.2	2.6	2.7	2.5	2.5	2.8	2.8	4.1	2.9	2.6	2.6
"Core" Consumer Price Index [2]	3.8	3.4	3.2	3.2	2.9	2.8	3.0	3.0	4.8	3.4	2.9	2.9
Quarter-End Interest Rates [3]												
Federal Funds Target Rate[4]	5.50	5.50	5.00	4.50	4.25	4.00	3.75	3.75	5.23	5.13	3.94	3.75
Conventional Mortgage Rate	6.82	6.92	6.18	6.80	6.65	6.45	6.25	6.30	6.80	6.68	6.41	6.34
10 Year Note	4.20	4.36	3.81	4.30	4.20	4.05	3.90	4.00	3.96	4.17	4.04	4.13

Forecast as of: November 21, 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

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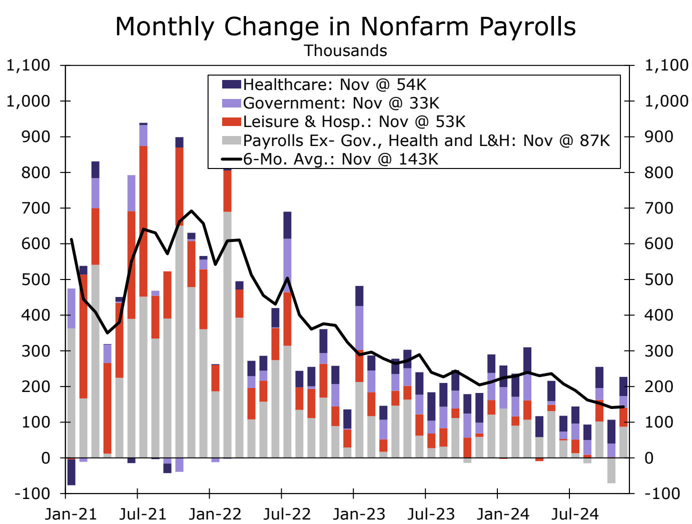
U.S. Review

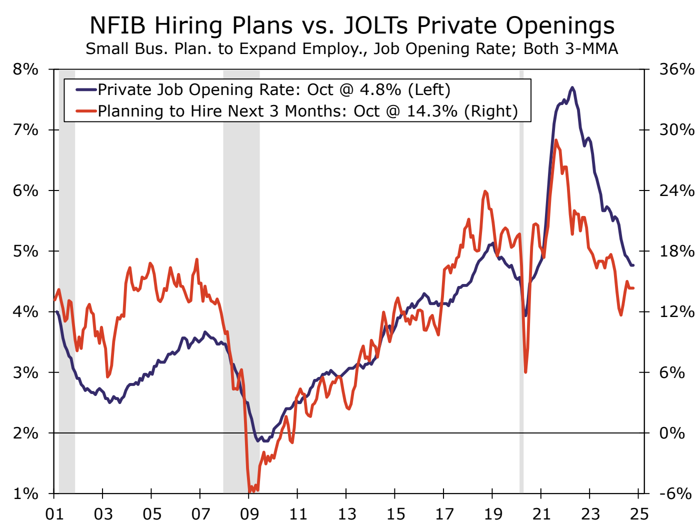
The Song Remains the Same

Incoming economic data continue to illuminate pockets of stress in the U.S. economy. At first read, November's employment report seems indicative of a solid labor market. The U.S. economy added 227K jobs on net. This acceleration was mostly driven by the unwinding of hurricane-induced job loss in the Southeast and the conclusion of Boeing strikes, each of which depressed job gains in October. October's print was also revised higher, although only modestly, to 36K. That's not to say there hasn't been any improvement; job growth has averaged 173K over the past three months, better than the six-month average of 143K. Yet, ignoring red flags does not make them disappear. Monthly job gains remain highly concentrated in healthcare & social assistance, government and leisure & hospitality, which together are responsible for nearly three-quarters of overall payroll growth over the past year. Meanwhile, retail employment declined for the second straight month smack in the middle of the holiday season, casting some uncertainty over the outlook for consumers. The unemployment rate ticked up to 4.2%, accompanied by a decline in the labor force participation rate, meaning that the jobless rate rose for "bad reasons."

Data from the Job Openings and Labor Turnover Survey (JOLTS) also remain consistent with a gradual cooling in the labor market. Job openings in October rose both in level terms and as a percentage of existing and available employment, climbing to a 4.6% opening rate. This bump was likely more noise than signal. Job openings continue to trudge lower through the monthly noise, a clear trend echoed by Indeed job postings and the NFIB survey of small businesses. The quit rate made a somewhat unexpected jump to 2.1%, suggesting that workers may feel greater confidence switching jobs. Here, too, there is good reason for skepticism. Volatility in the quit rate is not historically uncommon, and consumer perceptions of labor availability remain near their lowest point since 2017 outside of the pandemic era. At 1.1 job openings per unemployed worker, the labor market today remains much softer than in recent years. All in all, while the jobs market continues to hold up, the wind is no longer at its back.



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



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

Although manufacturer sentiment remains fairly glum, conditions appeared to perk up in November. The headline ISM Manufacturing Index rose nearly two points to 48.4, still indicative of declining activity but the highest reading in five months. This improvement was mainly owed to a surge in new orders, which entered expansion for the first time since March. It is unclear what exactly drove this recovery. If demand is rising in response to lower financing costs, we might expect to see ongoing improvements in the manufacturing sector as the Fed continues to cut rates. If, however, firms are front-loading orders to get ahead of expected new tariffs from the Trump administration, this demand improvement will likely be short-lived. Anecdotal responses revealed some tariff-related stress forming. As customers expressed the desire to reshore manufacturing operations, manufacturers reported concern over the cost of U.S. production and lack of low-cost international alternatives to

China. On the upside, only 12% of manufacturers reported paying higher input prices in November, the lowest share in over a year.

Prices remain much firmer in the services sector. The ISM Services Index fell to 52.1 in November, its second-largest monthly decline since 2022. Firms indicated a broad-based softening in business conditions combined with a small uptick in price pressures. It is worth noting that softening conditions do not mean that the service sector is contracting, but rather expanding a slower rate. This downshift is consistent with our forecast for holiday sales to rise 3.3% over 2023, which would mark the weakest annual gain of the past five years. As with manufacturers, concern over potential new tariffs was evident in survey responses, heightening caution in industries like construction and information that rely on imported inputs.

Meanwhile, higher interest rates and reduced credit access continue to weigh on select segments of construction. Nonresidential construction spending dipped 0.4% in October driven by pullbacks in both public and private sector outlays. Weakness was evident in commercial real estate projects, which have seen a sharp dropoff in new starts. Warehouse, hotel, traditional office and shopping mall construction all waned over the month. Public infrastructure spending also slipped, which may have been influenced by Hurricanes Helene and Milton making landfall in the Southeast. Elsewhere, a pickup in home improvement outlays lifted residential construction spending 1.5% over the month. Single-family and multifamily spending also improved. That said, plunging multifamily permits and the recent bounce back in mortgage rates seem apt to keep a lid on residential construction in the near term.

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U.S. Outlook

Weekly Indicator Forecasts

Domestic

Date	Indicator	Period	Consensus	Wells Fargo	Prior
10-Dec	Nonfarm Productivity	Q3	2.2%	2.2%	2.2%
10-Dec	Unit Labor Costs	Q3	1.4%	1.2%	1.9%
11-Dec	CPI (MoM)	Nov	0.3%	0.3%	0.2%
11-Dec	CPI (YoY)	Nov	2.7%	2.7%	2.6%
11-Dec	Core CPI (MoM)	Nov	0.3%	0.3%	0.3%
11-Dec	Core CPI (YoY)	Nov	3.3%	3.2%	3.3%
11-Dec	CPI Index NSA	Nov	315.341	315.342	315.664
12-Dec	PPI Final Demand (MoM)	Nov	0.3%	0.3%	0.2%
12-Dec	PPI Final Demand (YoY)	Nov	—	2.7%	2.4%
12-Dec	Core PPI (MoM)	Nov	0.2%	0.2%	0.3%
12-Dec	Core PPI (YoY)	Nov	—	3.2%	3.1%
13-Dec	Import Price Index (MoM)	Nov	-0.3%	-0.3%	0.3%
13-Dec	Import Price Index (YoY)	Nov	—	1.0%	0.8%

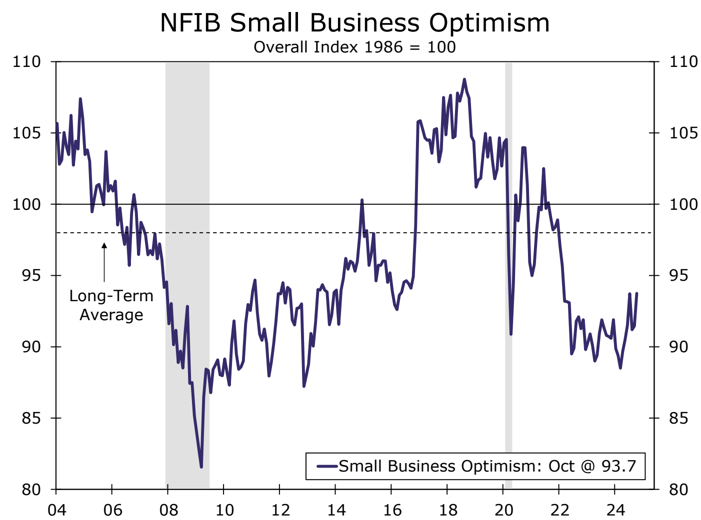
Forecast as of December 06, 2024

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

NFIB Small Business Optimism Index • Tuesday

The NFIB Small Business Optimism Index rose 2.2 points to 93.7 in October—tied with July for the biggest over-the-month jump this year. The move was broad-based across the components, but the most substantial driver was a seven-point surge in expectations for better business conditions. Expectations tied to November's election likely bolstered optimism; however, the election also helped to push uncertainty among small business owners to a record high (in data going back to 1986). November's survey should give a clearer picture of small business expectations now that the highly anticipated 2024 U.S. elections have come and gone.

If history is any marker, we would not be surprised to see optimism leap among small business owners in the November survey. The last time Trump won an election, small business owners became more optimistic. Between October and December 2016, confidence shot up 10.9 points, the biggest two-month jump since Ronald Reagan's election year of 1980. Even so, we are of the mind that small business owners may appear more optimistic—at least regarding future demand—than current conditions seem to warrant. In October, the net percent of firms expecting higher real sales jumped five points to -4%, accompanied by a similar, albeit smaller bump in earnings expectations. Yet, reports of actual sales deteriorated to its weakest reading since July 2020 (-20%).



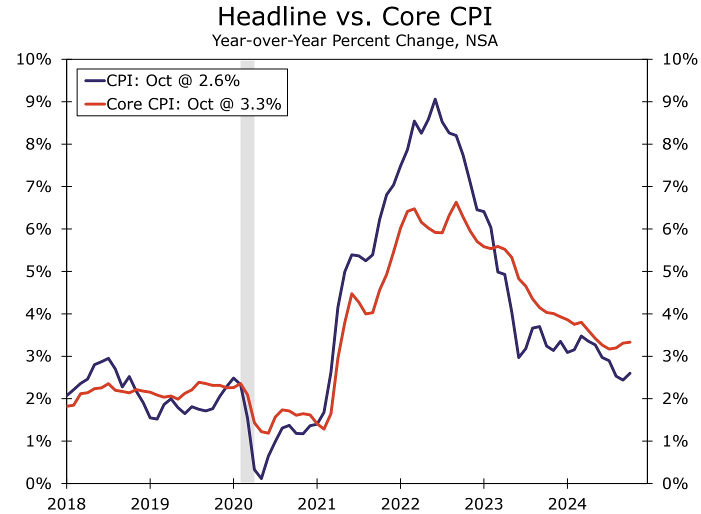
Source: NFIB and Wells Fargo Economics

CPI • Wednesday

Progress on the inflation fight has started to stall. Consumer prices rose 0.2% over October, pushing the year-over-year change up to 2.6%. Excluding food and energy, the core CPI rose 0.3% for a third straight month, with the three-month annualized rate of 3.6% running faster than the 12-month rate of 3.3%. True, inflation has gotten to a better place over the past year, and some key sources of inflationary pressure, such as an overheated labor market, continue to dissipate. However, the disinflationary momentum is fading, and new headwinds (e.g., the potential for tariffs and tax cuts) have emerged that make the final leg of inflation's journey back to the Fed's 2% target look increasingly difficult.

The stubborn picture of inflation that has surfaced over the past few months is unlikely to be altered by the November CPI report. We expect headline CPI to advance roughly 0.25% over the month and 2.7% over the past year. Gas prices moved up in November after having provided a deflationary tailwind in five of the past six months, and food inflation similarly looks to have firmed up. Excluding these more volatile components, we forecast the core index also rose around 0.25%, which would keep the 12-month change stuck in the narrow range of 3.2%-3.3% for a sixth straight month. While core services inflation should ease modestly relative to its recent trend, the two-month streak of price increases for core goods is likely to extend to three in another sign that goods deflation is subsiding.

See our November CPI Preview report for further reading.

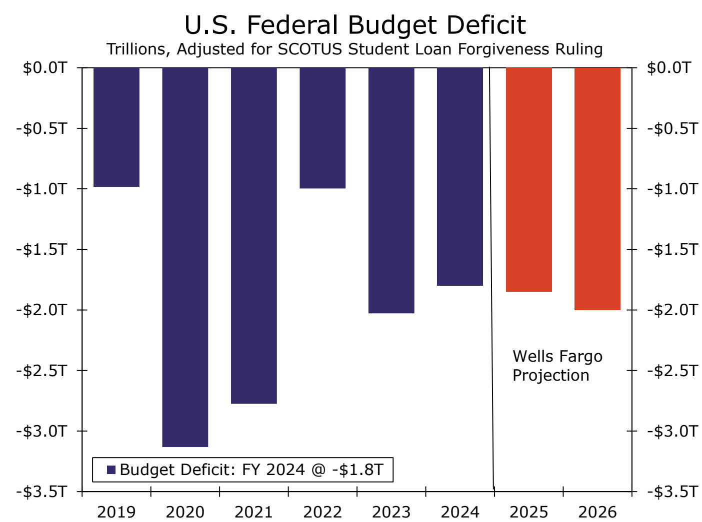


Source: U.S. Department of Labor and Wells Fargo Economics

Federal Budget Balance • Wednesday

The U.S. federal government incurred a budget deficit of roughly $1.8 trillion in fiscal year (FY) 2024, and we look for the deficit to remain roughly unchanged at $1.85 trillion in FY 2025. To some extent, the federal revenue and spending outlook is largely locked in place through the end of fiscal year 2025, which ends on Sept. 30 of next year. By the time Donald Trump takes office on Jan. 20, the current fiscal year will be nearly one-third complete.

Further out, the outlook for the federal budget deficit is clouded by uncertainty. A sharp increase in tariffs on the $3 trillion of imported goods into the United States would increase federal revenues materially and shrink the budget deficit, all else equal. Of course, not all else is equal, and we expect this revenue to be offset by tax cuts and higher spending in certain areas, such as border security and national defense. We forecast a federal budget deficit of $2.0 trillion in FY 2026, which if realized, would herald a return to the $2 trillion deficits that marked the pandemic era. For further reading on the post-election policy outlook and the implications for the federal budget deficit and the national debt, see our 2025 Annual Economic Outlook.



Source: Congressional Budget Office and Wells Fargo Economics

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International Review

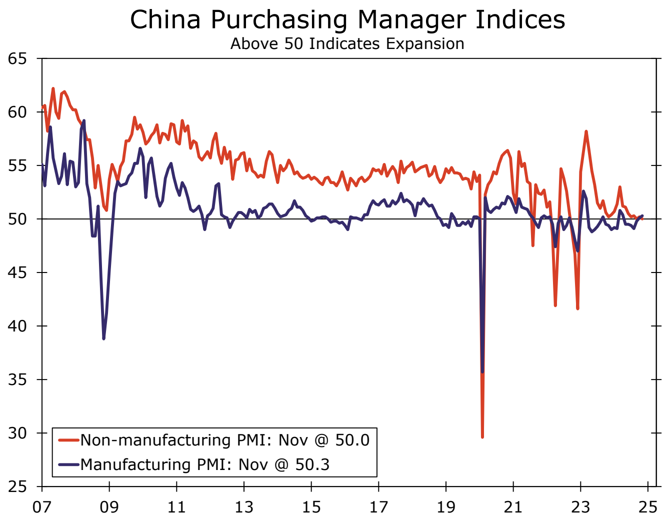
Potpourri of Global Economic Events and Data

Even though Thanksgiving has passed, market participants had their plates full this week with international political developments, economic events and data releases. In the emerging markets, South Korean President Yoon Suk Yeol's decision to declare martial law—an action not seen in the country in over 40 years—captivated the attention of market participants around the world. The National Assembly quickly and decisively voted to block the martial law order, and the president is now facing growing calls for his resignation as well as the possibility of impeachment. The Korean won weakened sharply in the midst of the action, though at the time of this writing much of the losses have been substantially reversed and the currency has resumed a trend of only gradual softening against the U.S. dollar. We expect this trend to continue over the medium term.

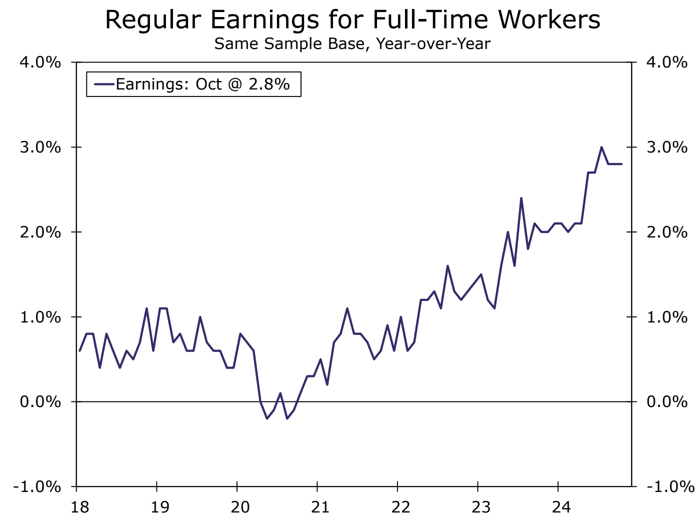
In China, official PMI figures for November offered a mixed but overall unimpressive picture of the manufacturing and non-manufacturing sectors. The manufacturing PMI did post a mild upside surprise at 50.3, though this reading is still subdued by historical standards. In the details, production, new orders and business activities expectations all increased. The non-manufacturing PMI—which covers services and construction—came in lower than expected at 50.0. This headline decline was driven by a softening in construction, as the services component of the index held steady. Within the details of the headline non-manufacturing PMI, new orders and employment contracted, while expectation of business activities increased. All told, we view these figures as consistent with sluggish growth for the Chinese economy. We see recent stimulus efforts by policymakers as insufficient to materially change the course of the country's economic performance.

At the Reserve Bank of India (RBI) meeting this week, policymakers opted to keep the repurchase rate—the main policy rate that influences borrowing costs throughout the Indian economy—unchanged at 6.50%, but lowered the cash reserve ratio by 50 bps to 4.00%. The cash reserve ratio corresponds to the portion of bank deposits that must be kept as cash reserves with the RBI, so a decrease in this ratio represents increased liquidity in the banking system, which could be interpreted as a growth-supportive measure. In its post-meeting press release, RBI officials highlighted recent elevated inflation and lower-than-expected third quarter GDP growth and emphasized their aim to return inflation to the target of 4% while supporting economic growth. We forecast the RBI to hold its repurchase rate steady at 6.50% until Q1-2025 as policymakers wait to see more progress on disinflation before delivering an initial 25 bps rate cut.

Brazil's third quarter GDP figures came in stronger than expected, reinforcing our view that the Brazilian Central Bank (BCB) can continue, and even accelerate, its tightening cycle. The economy expanded 0.9% on a quarter-over-quarter basis and 4.0% year-over-year. Solid GDP growth and stubborn inflation, paired with concerns around the fiscal outlook, should, in our view, motivate BCB policymakers to pick up the pace of tightening with a 100 bps rate hike at its December meeting, followed by another same-sized move in January before officials revert to a more gradual pace into mid-2025.



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



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

Developments in the advanced economies also made headlines this week, as a French budget impasse led to a no-confidence motion that saw the collapse of Prime Minister Michel Barnier's government. Uncertainty lingers around the French economy and political sphere in the wake of this week's events; for more detailed information on how we got here and the path we see going forward, please see Topic of the Week.

In Japan, steady wage growth figures from October reinforce, in our view, the case for Bank of Japan (BoJ) policymakers to resume monetary policy normalization in the new year. Headline labor cash earnings ticked up slightly to 2.6% year-over-year, though this measure has slowed down from its peak earlier this summer. Wage growth measures that follow the same sample base—which we believe BoJ officials also follow closely—are also elevated, though displaying a steady or slightly slower pace of growth from previous months. Regular earnings for full-time workers grew at 2.8% in October, matching September's pace. Overall, given that wage growth remains solid but is not meaningfully accelerating, we view these figures as a contributing factor for the BoJ to resume rate hikes, though we think more likely in January rather than later this month. We look for 25 bps rate increases in January and April 2025, to reach a policy rate of 0.75%.

Sweden's CPIF inflation figures for November came in right on consensus, with headline CPIF inflation speeding up slightly to 1.9% year-over-year and CPIF ex-energy inflation picking up to 2.4%. While CPIF inflation has ticked up slightly over the past two months, the Nordic economy has still seen significant disinflation progress toward the Riksbank's 2% inflation target. Considering this alongside only modest economic growth, we forecast the Riksbank to continue cutting its policy rate but at a more gradual 25 bps cadence, instead of delivering further 50 bps reductions. We look for 25 bps policy rate cuts at each meeting through the end of Q1-2025 and an additional 25 bps cut in Q2-2025 to mark the conclusion of the central bank's easing cycle. In Australia, third quarter GDP growth figures surprised to the downside—at 0.3% quarter-over-quarter and 0.8% year-over-year—though we view these readings as more reflective of a modest and slowing expansion rather than meaningful growth challenges for the Australian economy. Consumer spending registered a notably subdued reading and was flat on the quarter, although the GDP report noted this reflected energy bill rebates, which shifted some spending from households to the government. The Reserve Bank of Australia (RBA) highlighted tightness in the labor market and its view that the economy is still operating in excess demand in its latest monetary policy announcement. Given this growth assessment and stickiness in underlying inflation, we see the RBA waiting to initiate an easing cycle until May 2025.

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International Outlook

Weekly International Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
11-Dec	Bank of Canada Rate Decision	11-Dec	3.25%	3.50%	3.75%
11-Dec	Brazilian Central Bank Rate Decision	11-Dec	12.00%	12.25%	11.25%
12-Dec	European Central Bank Deposit Rate	12-Dec	3.00%	3.00%	3.25%

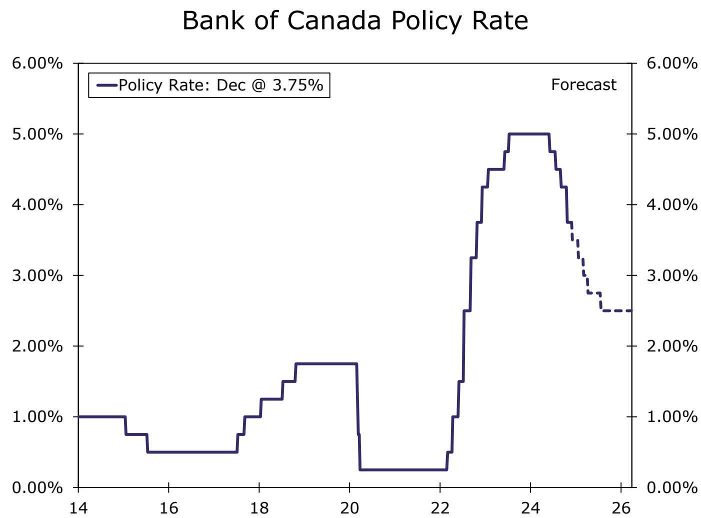
Forecast as of December 06, 2024

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

Bank of Canada Policy Rate • Wednesday

The Bank of Canada (BoC) announces its latest monetary policy decision next week. While the central bank is widely expected to lower interest rates, economists are closely split on whether the BoC will deliver a 25 bps or 50 bps reduction, with a small majority favoring a 50 bps cut. Our own view, however, is that the BoC will opt for a more conservative 25 bps rate cut, to 3.50%.

We see overall trends in the Canadian economy as supporting the case for further monetary easing. Q3 GDP growth slowed to just 1.0% quarter-over-quarter annualized pace, well below the early 2024 growth rate and also below the BoC's forecast. Business sentiment and business investment remain subdued, and downside risks to Canada's economy also stem from the likelihood of U.S. tariffs. At the same time, there were pockets of strength in the Q3 GDP report, most notably a sturdy increase in consumer spending. Canada's November labor market report was mixed, with employment strong even as the jobless rate rose and wage growth slowed. Meanwhile, even though CPI inflation is contained overall, both headline and core inflation ticked higher in October, surprising to the upside relative to the consensus forecast. Given this combination of activity and inflation trends, we believe the BoC will lower interest rates next week, but will favor a smaller 25 bps reduction to its policy rate.

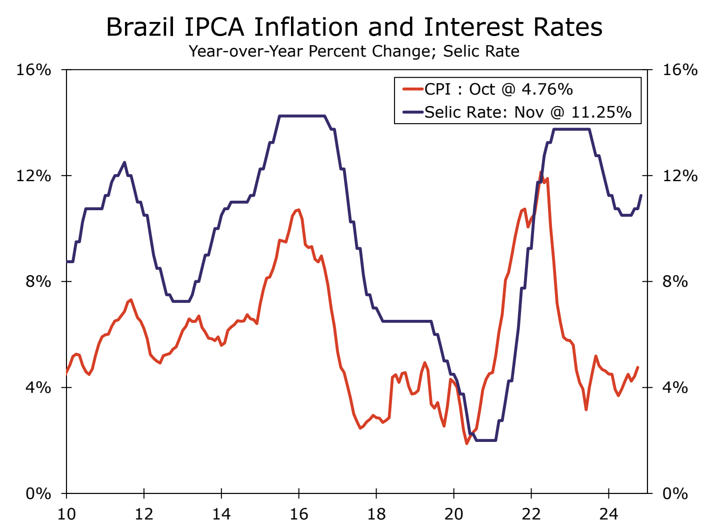


Source: Bloomberg Finance L.P. and Wells Fargo Economics

Brazilian Central Bank Policy Rate • Wednesday

When the Brazilian Central Bank (BCB) delivers its latest monetary policy decision next week, we expect policymakers to lift the Selic Rate by 100 bps, to 12.25%. A variety of factors play into this forecast. For one, economic trends are consistent with a hawkish central bank stance, in our view. Brazil's economy has continued to expand at a solid pace this year—with 4.0% year-over-year growth in Q3—and inflation has proven stubborn. Headline inflation has ticked up in recent months, coming in at 4.76% year-over-year in October, markedly above the BCB's 3% target. Inflation expectations have also risen.

Concerns around easier fiscal policy also play into our outlook for Brazil's monetary policy. President Lula has made underwhelming efforts to consolidate Brazil's fiscal budget and a loose fiscal policy stance is likely to remain in place for an extended period of time. Thus, we now see BCB policymakers raising the Selic Rate by 100 bps at both the December and January meetings before reverting to a slower pace of tightening into mid-2025. Under our new forecasts, we now believe the BCB terminal Selic Rate can reach 14.50% by the middle of next year.



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

European Central Bank Policy Rate • Thursday

The European Central Bank (ECB) announces its final monetary policy decision of the year next week, at which it is widely expected to lower its Deposit Rate by 25 bps to 3.00%. A dimming economic outlook for the region supports the case for further easing. The Eurozone manufacturing and services PMIs both weakened in November to 45.2 and 49.5, respectively, levels that are historically consistent with a contracting economy. There are also downside risks to the outlook, including political uncertainties in France and Germany, and higher tariffs from the United States. At the same time, while inflation is on a gradually decelerating trends, wage growth remains somewhat elevated for now. Policymaker comments—including from ECB President Lagarde and Bundesbank President Nagel—are also more consistent with a more gradual pace of easing. Accordingly, we expect a 25 bps rate cut next week.

Our base case is also for 25 bps rate reductions at the next several meetings. That said, we will be particularly interested in the ECB's guidance and updated economic forecasts for insights into the potential path of policy going forward. Should the ECB remove or adjust its language of keeping "policy rates sufficiently restrictive for as long as necessary," or lower its medium-term forecasts for core inflation perceptibly below its 2.0% target, we think that would increase the possibility of a larger 50 bps rate cut sometime during the early part of 2025.

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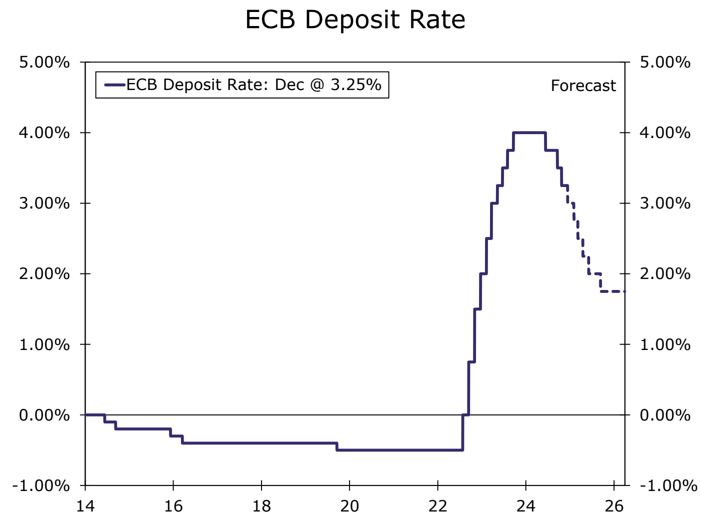


Source: Datastream and Wells Fargo Economics

Interest Rate Watch

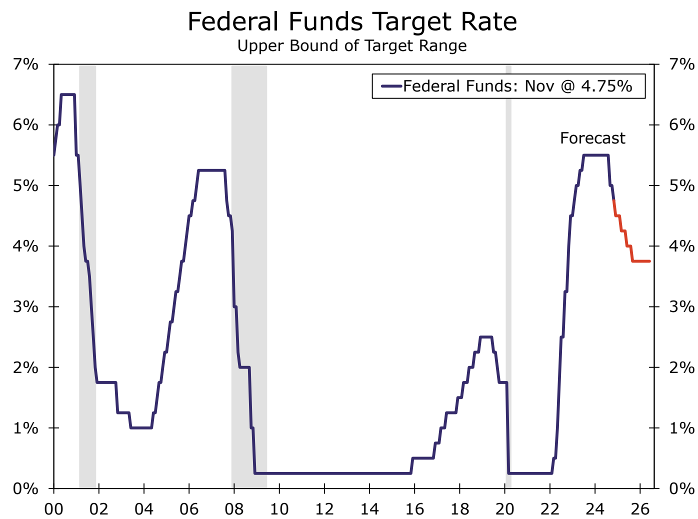
Hawk or Dove, Data-Dependency Name of the Game

We're nearing in on the last Federal Open Market Committee (FOMC) meeting of the year, set for Dec. 17-18. The blackout period—or two-week stretch ahead of the meeting where Fed officials do not make public policy comments—begins this Saturday, and recent Fed comments suggest members believe the path for policy has grown more uncertain since the Committee last met.

Inflation has shown some signs of stickiness and growth has remained solid, demonstrated by the rebound in hiring after weather- and strike-related effects hampered the October gain, raising questions around the degree and timing of further easing. Throw on top of that potential fiscal policy initiatives next year, and it's hard to say how much lower rates will be in a year's time with much certainty.

Just ahead of the Thanksgiving holiday, the FOMC released the minutes from its Nov. 6-7 meeting. The general read of the room was that most officials saw balanced risks to its employment and inflation mandates and that the downside risk to the jobs market has eased somewhat. There was also broad support for a gradual data-dependent reduction in rates, which has been echoed in Committee members' public comments since.

Most recently, Chair Fed **Powell** made mention that the Fed can be "a little more cautious" with further rate cuts due to a still-strong economy. Vice Chair **Williams** favors additional rate reductions dependent on incoming data, while Federal Reserve Governor **Kugler** was a bit more hesitant to reveal expectations and simply emphasized that policy is not on a pre-set course. Perhaps most noteworthy was that earlier this week Governor **Waller**, who is considered a hawkish voting member of the FOMC, said he leans in support of another rate cut in December, while echoing data dependency come 2025.



Source: Federal Reserve Board and Wells Fargo Economics

While the regional Federal Reserve president voters are set to rotate at the start of the year, current-voter Atlanta President **Bostic** described his view as "keeping policy options open" ahead of December, a continuation of his more neutral stance, while San Francisco President **Daly** reinforced her view that "we have to keep policy moving down to accommodate the economy."

Incoming voters have emphasized a bias to lower rates further, though the extent and timing remains unclear. Chicago President **Goolsbee** said recently that he sees rates coming down a 'fair amount' next year, but at the same time St. Louis President **Musalem** echoed Bostic with keeping the policy options open.

We ultimately still expect an additional 25 bps cut to the federal funds rate at the December meeting, but expect a more gradual pace of easing happening ahead. Our present forecast has the FOMC lowering the federal funds rate to a range of 3.50%-3.75% by the end of next year (chart), though how the data evolve will determine the degree of further easing.

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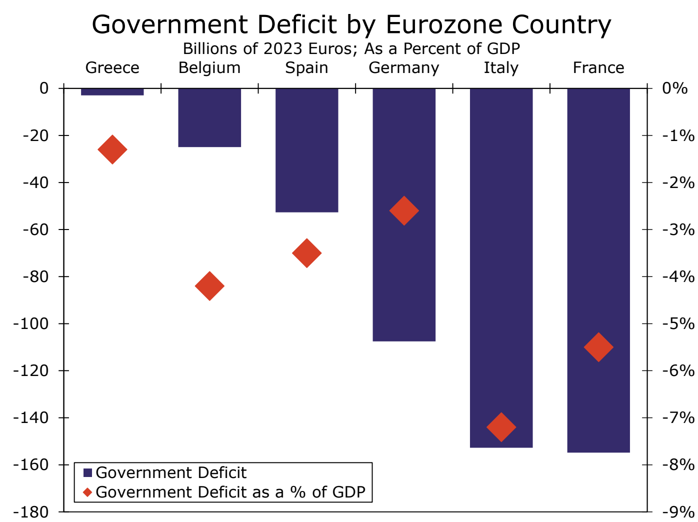
Topic of the Week

Bad Day for Barnier

On Wednesday, the French government collapsed after its National Assembly voted to oust Prime Minister Michel Barnier. Barnier was appointed by President Macron just three months ago following the surprise snap legislative elections that resulted in a splintered National Assembly. Barnier—a member of the center-right Republican party—was appointed in the hopes of building a consensus among the three major blocs of the National Assembly to pass next year's budget. Barnier's initial budget bill proposed 60B euros ($63B) of tax increases and spending cuts to help reign in France's growing deficit, a plan that proved unpopular among the polarized Assembly. With a lack of supporting votes to pass the budget through, Barnier utilized Article 49.3 from the French Constitution to adopt the bill without a vote from parliament, which in turn opened up the government to a no-confidence vote that resulted in his resignation, leaving France in political deadlock. Macron now faces the difficult decision of appointing another prime minister to navigate the fragmented Assembly and pass a budget bill for 2025.

The budget is the most imminent hurdle for the new prime minister, especially as France's debt and deficit have increased over the past few years. While France's deficit had already begun to widen when Macron first took office in 2017, it ballooned during the pandemic as the government deployed hundreds of billions in spending to help support the economy. Russia's invasion of Ukraine in 2022 compounded debt levels even more as additional government spending was authorized to shield households and businesses from soaring energy prices. In 2023, the public deficit reached 5.5% of GDP, and the E.U. Commission expects it to increase further to 6.2% of GDP by the end of this year (chart). The country's debt has exceeded 3 trillion euros, or about 110% of its GDP, and is expected to reach almost 113% by year-end. This puts the Eurozone's second-largest economy in direct violation of E.U. legislation that requires member countries to keep debt levels below 60% of GDP or budget deficit levels below 3% of GDP.



Source: Eurostat and Wells Fargo Economics

While the government has attempted to reign in the deficit—it announced 10 billion euros in state spending cuts in February followed by a second savings plan in August—the passing of the 2025 budget bill remains a key part in the process of mending France's finances. However, as evident by Barnier's ousting, passing such a bill through the bitterly divided parliament will prove to be a challenge. Macron has declared he will appoint a new prime minister in the coming days; yet, the odds of the new government building consensus for a new budget before year-end are slim. Emergency legislation will likely be enacted to keep the state running in the interim.

While France has been in political limbo since the summer's snap elections, the ousting of Michel Barnier as prime minister creates even more uncertainty for the state. Economic growth for the nation has slowed in the past few years, and the E.U. Commission looks for it to slow ever further in the near future, with an expected year-over-year growth rate of 0.8% in 2025. We expect the European Central Bank to help ease financial stress by cutting their key policy rate by 150 bps from its current rate of 3.25% by year-end 2025. However, as Macron cannot call for parliamentary elections until the summer of 2025, France's political gridlock will likely have serious political and financial implications in the near term. Stay tuned.

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Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 12/6/2024	1 Week Ago	1 Year Ago
SOFR	4.59	4.57	5.33
Effective Fed Funds Rate	4.58	4.58	5.33
3-Month T-Bill	4.41	4.49	5.39
1-Year Treasury	4.32	4.41	4.78
2-Year Treasury	4.10	4.15	4.59
5-Year Treasury	4.04	4.05	4.10
10-Year Treasury	4.16	4.17	4.10
30-Year Treasury	4.34	4.36	4.21
Bond Buyer Index	3.98	4.03	3.41

Foreign Exchange Rates

	Friday 12/6/2024	1 Week Ago	1 Year Ago
Euro ($/€)	1.057	1.058	1.076
British Pound ($/£)	1.274	1.274	1.256
British Pound (£/€)	0.829	0.831	0.857
Japanese Yen (¥/$)	149.920	149.770	147.310
Canadian Dollar (C$/$)	1.414	1.401	1.359
Swiss Franc (CHF/$)	0.877	0.881	0.875
Australian Dollar (US$/A$)	0.639	0.651	0.655
Mexican Peso (MXN/$)	20.225	20.376	17.278
Chinese Yuan (CNY/$)	7.272	7.247	7.161
Indian Rupee (INR/$)	84.698	84.493	83.326
Brazilian Real (BRL/$)	6.061	5.971	4.903
U.S. Dollar Index	105.983	105.737	104.153

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

Foreign Interest Rates

	Friday 12/6/2024	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	2.58	2.56	3.64
3-Month U.K. Govt Bill Yield	4.73	4.71	5.29
3-Month Canadian Govt Bill Yield	3.22	3.40	5.02
3-Month Japanese Govt Bill Yield	0.15	0.13	-0.13
2-Year German Note Yield	2.01	1.95	2.62
2-Year U.K. Note Yield	4.28	4.23	4.49
2-Year Canadian Note Yield	2.91	3.04	4.06
2-Year Japanese Note Yield	0.60	0.59	0.04
10-Year German Bond Yield	2.12	2.09	2.20
10-Year U.K. Bond Yield	4.29	4.24	3.94
10-Year Canadian Bond Yield	3.00	3.09	3.28
10-Year Japanese Bond Yield	1.06	1.05	0.64

Commodity Prices

	Friday 12/6/2024	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	67.33	68.00	69.38
Brent Crude ($/Barrel)	71.18	72.94	74.30
Gold ($/Ounce)	2639.55	2643.15	2025.55
Hot-Rolled Steel ($/S.Ton)	689.00	702.00	1028.00
Copper (¢/Pound)	414.55	408.05	371.65
Soybeans ($/Bushel)	9.99	9.90	12.91
Natural Gas ($/MMBTU)	3.09	3.36	2.57
Nickel ($/Metric Ton)	15,755	15,838	15,940
CRB Spot Inds.	545.83	544.34	536.25

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