

Weekly — July 15, 2022

## Weekly Economic & Financial Commentary

### United States: This Party Is Breaking Up Fast

- Signals of a slowdown are starting to flash across sectors. Business and consumer sentiment have faltered, real consumer spending has weakened, housing activity has stalled and business investment is downshifting in response. On the other hand, robust employment growth and solid gross domestic income suggest we are not in the hole just yet.
- Next week: Housing Starts (Tue), Existing Home Sales (Wed), Initial Jobless Claims (Thu)

### International: U.K. Growth Surprises to the Upside, Bank of Canada Delivers a Super-Sized Hike

- U.K. GDP registered a gain in May, but some cracks in the economy may be starting to show, specifically with regard to the consumer sector. Elsewhere in the G10, the Bank of Canada delivered a super-sized 100 bps hike at its July monetary policy meeting, bringing the policy rate to 2.50% and signaling more rate hikes to come.
- Next week: U.K. CPI (Wed), Canada CPI (Wed), ECB Rate Decision (Thu)

### Interest Rate Watch: Asset Inflation Is Already Being Curbed

- The Federal Reserve is continuing to reduce its balance sheet holdings of Treasuries and mortgage-backed securities (MBS), increasing the pace of the drawdown in September. However, the reduction of the MBS portfolio may prove to be difficult in the face of rising interest rates that have curtailed mortgage refinancing. We will also be on the lookout for liquidity challenges in the fall as the Fed's balance sheet is reduced.

### Credit Market Insights: Record High for Monthly Auto Loan Payments

- The average monthly auto loan payment reached a record high of \$712 in June with 12.7% of new car buyers paying at least \$1,000 per month for their cars, according to Cox Automotive Inc. Ultimately, with peak inflation not yet behind us and a potential economic slowdown looming, household balance sheets may be further stressed by these large monthly payments.

### Topic of the Week: Beige Book Heralds Slowing Growth, Inflation Fears, Recession Risk

- This week, the Federal Reserve released the Beige Book for its July meeting. Regional banks are describing situations seen across the country with some of the following language: slowing growth, inflation fears and even some risks of recession.

#### Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast	
	2021				2022				2020	2021	2022	2023
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product <sup>1</sup>	6.3	6.7	2.3	6.9	-1.6	0.2	1.6	0.7	-3.4	5.7	1.8	-0.3
Personal Consumption	11.4	12.0	2.0	2.5	1.8	1.0	2.1	-0.5	-3.8	7.9	2.3	-0.2
Consumer Price Index <sup>2</sup>	1.9	4.8	5.3	6.7	8.0	8.6	8.8	7.8	1.2	4.7	8.3	3.2
"Core" Consumer Price Index <sup>2</sup>	1.4	3.7	4.1	5.0	6.3	6.0	6.4	6.3	1.7	3.6	6.3	4.0
Quarter-End Interest Rates <sup>3</sup>												
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.50	1.75	3.50	4.25	0.50	0.25	2.50	3.88
Conventional Mortgage Rate	3.17	3.02	2.88	3.11	4.42	5.81	5.35	5.40	3.12	2.95	5.25	4.96
10 Year Note	1.74	1.45	1.52	1.52	2.32	2.98	3.15	3.25	0.89	1.45	2.93	2.95

Forecast as of: July 14, 2022

<sup>1</sup> Compound Annual Growth Rate Quarter-over-Quarter<sup>2</sup> Year-over-Year Percentage Change<sup>3</sup> Annual Numbers Represent Average

Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, Federal Reserve Board and Wells Fargo Economics

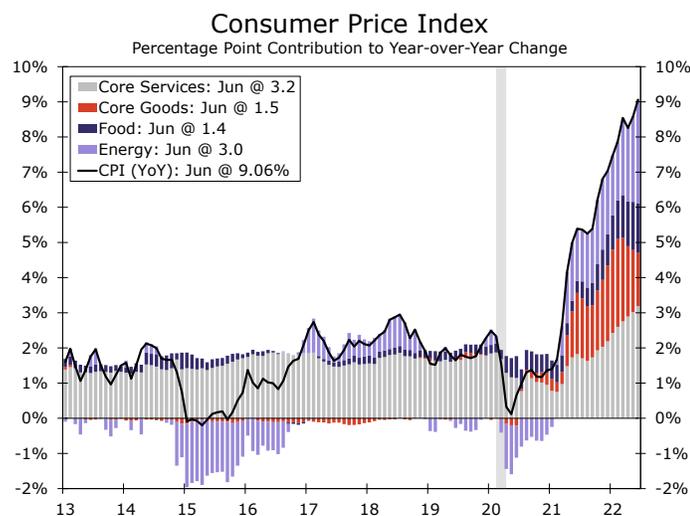
Please see our full [U.S. Economic Forecast](#) and our updated [Consumer Dashboard](#) and [Pressure Gauge](#).

## U.S. Review

### This Party Is Breaking Up Fast

In our recently published [U.S. Economic Outlook](#), we outlined our expectations for the U.S. economy to enter a recession early next year. Signals of a slowdown are starting to flash across sectors. Business and consumer sentiment has faltered, real consumer spending has weakened, housing activity has stalled and business investment is downshifting in response. That said, robust employment growth and solid gross domestic income suggest we are not in the hole just yet. We anticipate output will modestly grow throughout this year before contracting for three consecutive quarters next year starting in Q1-2023.

Data released this week continued to point to rougher waters ahead. The Consumer Price Index came in stronger-than-expected in June, rising 1.3% over the month. Prices are up a scorching 9.1% year-over-year, marking another new cycle high. The drivers of the headline surprise added to the sting, with the CPI's core components advancing faster than expected and in a broad-based manner. Excluding food and energy, which tend to be more volatile on a month-to-month basis, consumer prices rose 0.7%. Core goods inflation ticked up 0.8% on the wings of robust rises in vehicle and apparel prices. Core services rose 0.7% led by transportation services, shelter and medical care.

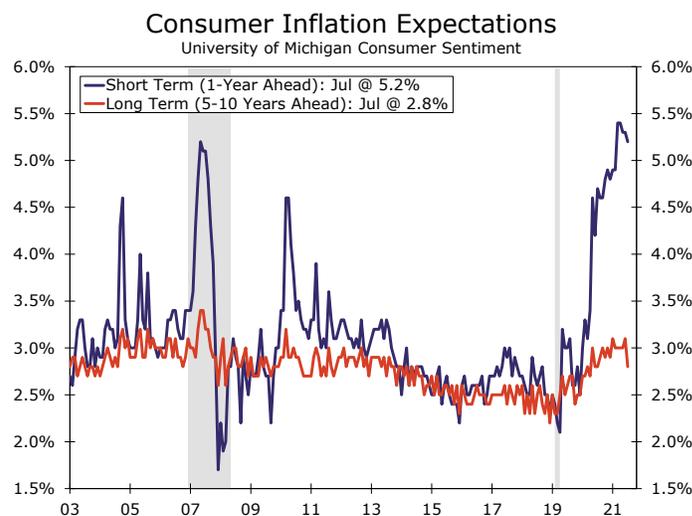


Source: U.S. Department of Labor and Wells Fargo Economics

Beyond the core components of CPI, energy rose a blistering 7.5% over the month, supported by an 11.2% pop in gasoline. Since mid-June, however, gasoline prices have retreated and domestic natural gas prices have tumbled. Taken together, we expect the energy CPI to decline as soon as July on a monthly basis. In the separately released Producer Price Index for Final Demand, prices for transportation and warehousing services rose 0.8% in June, a big step down from its 3.4% average over the prior three months. The slowdown in energy and transportation costs is poised to feed through to agriculture and provide some relief to food price growth over the second half of the year.

Small businesses have acutely felt the impact of inflation. The share of small business owners citing rising costs as their single most important problem in June reached its highest level since late 1980. While it was easier to pass higher costs onto consumers when the economy was humming last year, many businesses are having a harder time passing on costs today. The increasing reluctance from consumers to stomach higher prices has pressured profit margins, causing confidence among business owners to plummet. The NFIB Small Business Optimism Index slid 3.6 points to 89.5 in June—below the low reached in April 2020.

This week's retail sales report offered further evidence of fading consumer purchasing power. Sales increased 1.0% in June. However, after applying our inflation adjustment, we estimate real retail sales actually *fell* 1.0% over the month. Essentially, consumers are spending more and getting less across the board. Manufacturers are also feeling the pressure of higher costs. Industrial production unexpectedly declined 0.2% in June. Manufacturing activity declined for the second consecutive month and downward revisions to past data suggest a slower pace of production. Moderation in the factory



Source: University of Michigan and Wells Fargo Economics

sector is traditionally consistent with a broader moderation in demand, and June's weaker-than-expected outcome likely signals to the Fed that tighter policy is having the intended effect on activity. Fresh data on long-term inflation expectations, which slid to the lowest reading in a year, also take some heat off the Fed to hike rates a full 100 bps at its next policy meeting on July 27. The Fed may again opt instead for a still-large 75 bps hike. ([Return to Summary](#))

## U.S. Outlook

### Weekly Domestic Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
19-Jul	Housing Starts (SAAR)	Jun	1595K	1600K	1549K
20-Jul	Existing Home Sales (SAAR)	Jun	5.40M	5.42M	5.41M
21-Jul	Leading Index (MoM)	Jun	-0.5%	-0.8%	-0.4%

Forecast as of July 15, 2022

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

### Housing Starts • Tuesday

Total housing starts plunged in May, falling 14.4% to a 1.549 million-unit annualized pace. Importantly, the decline comes from an elevated starting point. Housing starts averaged just below a 1.3 million unit pace in 2019 before the pandemic. Single-family starts fell 9.2%, the third consecutive monthly drop, while multifamily starts fell 23.7%, erasing most of April's 24.4% rise.

We look for housing starts to bounce back modestly in June from their precipitous decline in May, but it will be hard for housing starts to regain their pandemic highs. The residential sector has been hit hard by a sharp increase in mortgage rates over the past few months. Higher borrowing costs as home prices continue to rise at a fast pace have put a major dent in new home sales, which appear to be causing home builders to scale back production.

The National Association of Home Builders Market Index for June will be released on Monday and offers an additional read on the outlook for residential construction. Home builder sentiment has slid in recent months but so far it has remained consistent with an environment where more builders view conditions as good than poor.

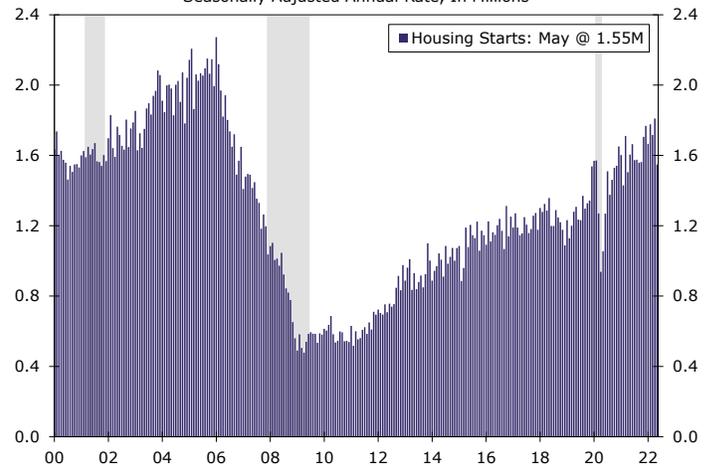
### Existing Home Sales • Wednesday

Like housing starts, existing home sales also fell in May to a 5.41 million-unit annual rate. May marked the fourth consecutive month and the fifth time in six months that existing home sales declined. After the recent slide, existing home sales have returned to their pre-pandemic pace. Despite the slowing pace of sales, thus far home price gains have showed few signs of slowing amid still-low inventory. The median price of all existing homes, condos and co-ops has risen 14.8% over the past year to \$407,600, marking the first time the median home price has surpassed \$400,000.

We expect this pace of price gains to slow in the months ahead. The number of homes available for sale is increasing, and we are beginning to see more discounting. There were 1,160,000 homes available for sale at the end of May, which was up 12.6% from the prior month but still 4.1% below its year-ago level. At the current sales pace, this inventory equates to a 2.6-month supply of homes. With inventories increasing, price cuts are becoming more common, particularly in formerly white-hot markets like Phoenix, Las Vegas and Austin.

### Housing Starts

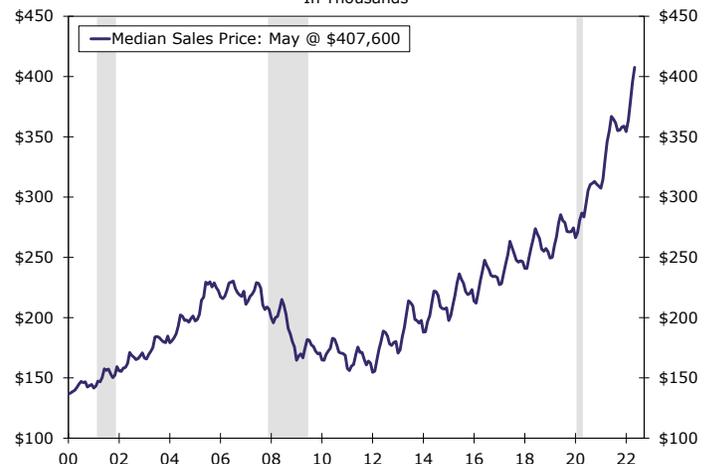
Seasonally Adjusted Annual Rate, In Millions



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

### Median Existing Home Price

In Thousands

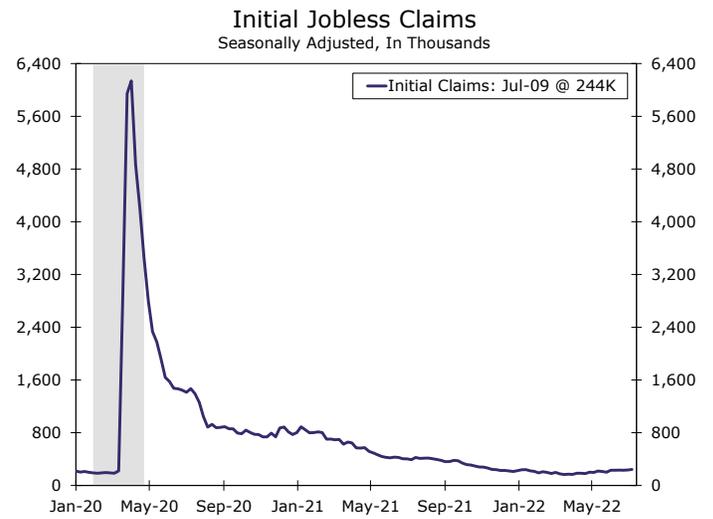


Source: National Association of Realtors and Wells Fargo Economics

### Initial Jobless Claims • Thursday

Earlier in the pandemic, initial and continuing jobless claims were a high-profile economic indicator as analysts attempted to tease out the state of the labor market. But, after the vaccine rollout and enormous fiscal & monetary policy stimulus led to robust and sustained employment growth, the weekly jobless claim data began to decline in relevance. Initial jobless claims returned to their pre-pandemic levels around November 2021 and have more or less remained there since.

However, over the past few months initial jobless claims have crept modestly higher after reaching a more than 50-year low in March. In absolute terms, jobless claims are still more or less in line with pre-pandemic levels. But, as concerns about an economic slowdown and possible recession continue to increase, we expect initial jobless claims to once again become a more closely watched indicator. If initial jobless claims grind higher over the second half of the year, it would be an initial sign that the white-hot labor market is beginning to cool. ([Return to Summary](#))



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

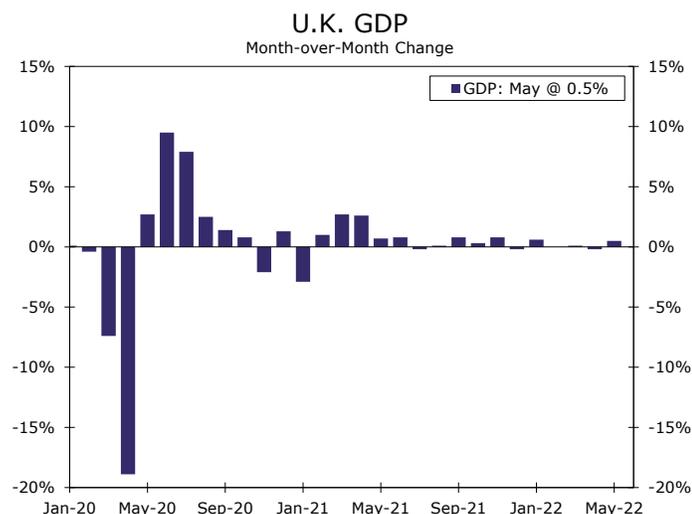
## International Review

### U.K. Growth Surprises to the Upside

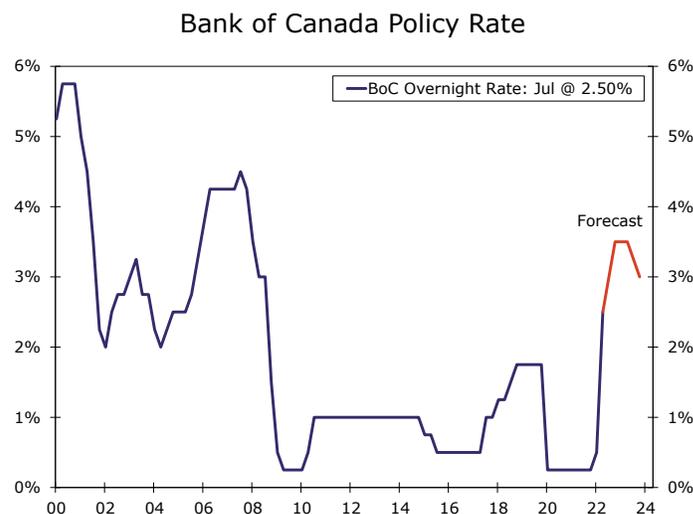
U.K. economic growth surprised to the upside in May, with GDP advancing 0.5% month-over-month after a 0.2% decline in April. Taking a closer look, there were positive gains in construction, industrial production and manufacturing. The main driver of growth was the services sector, in particular human health and social work. However, it seems cracks in the economy may be starting to show, specifically with regard to the consumer sector. Output in consumer-facing services fell for another month and now sits 4.7% below pre-pandemic levels, despite all other services categories at 3.6% above. Retail trade was also a drag on consumer-facing services, but this was partially offset by some gains in travel-related activities. Overall, there are hints that inflation at a 40-year high is squeezing household incomes. While the U.K. economy showed some resilience at the beginning of this year, we are seeing signs that a more meaningful slowdown is approaching. We expect high inflation to continue weighing on real incomes, consumer spending, and overall growth. As a result, we forecast that the U.K. economy to fall into recession by early next year, pushed over the edge by a U.S. recession at the start of 2023. Even with a somewhat pessimistic outlook on growth, we still expect the Bank of England to continue hiking rates to tame inflation. Specifically, we expect a steady series of 25 bps policy rate increases at upcoming meetings in August, September and November, which would lift the policy rate to 2.00% by the end of 2022. In 2023, we expect the Bank of England to eventually begin lowering its policy rate as inflation recedes and economic growth stalls.

### Bank of Canada Delivers Super-Sized Hike

The Bank of Canada (BoC) delivered a super-sized 100 bps hike at its July monetary policy meeting, bringing the policy rate to 2.50% and signaling more rate hikes to come. This was certainly a hawkish surprise, as consensus estimates expected “only” a 75 bps rate hike, following consecutive 50 bps hikes in April and June. The accompanying statement highlighted that the economy is “clearly in excess demand”, with high inflation broadening across many sectors and likely to persist for longer than previously expected. All of this underlines the BoC’s decision to front load its rate hikes, as policymakers believe this will mitigate longer term consequences for economic growth. Against this backdrop, the BoC raised its inflation forecasts and lowered its growth forecasts. The central bank now expects CPI to reach 8% in the coming months before falling to 7.5% by the end of 2022, notably not returning to 2% until the end of 2024. As for growth, it now expects GDP to advance 3.5% in 2022 and 1.8% in 2023, compared to 4.2% and 3.2% previously. The statement also noted the increased risk of a wage-price spiral and thus a recession, the likelihood of which increases the longer inflation remains above target. Our forecast is for the BoC to deliver a 50 bps hike in September and end its monetary tightening cycle by the end of 2022 with two 25 bps rate hikes in Q4, bringing the policy rate to 3.50% by the end of 2023. Given a sharp slowdown in growth, we also expect the Bank of Canada to begin cutting interest rates in the second half of 2023.



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



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

### Reserve Bank of New Zealand Stays on Track

The Reserve Bank of New Zealand (RBNZ) also delivered a rate hike at its July monetary policy meeting, lifting the Official Cash Rate (OCR) 50 bps to 2.50%. After its third consecutive half percentage point hike, the RBNZ signaled that it is not done yet—more monetary tightening is still to come.

In the accompanying materials, the central bank outlined strength in domestic spending, supported by resilient labor trends and solid household balance sheets, but also noted imbalances between spending and investment demand versus supply capacity, which is causing broad-based and persistent inflation. Indeed, inflation in New Zealand is elevated at 6.9% year-over-year, the fastest pace in 32 years. The Committee highlighted that there are both near-term upside risks to inflation as well as medium-term downside risks to economic activity, along with uncertainty in how households will respond to tighter monetary policy. Ultimately, the RBNZ asserted the best way forward is to continue "briskly lifting the OCR until it is confident that monetary conditions are sufficient to constrain inflation expectations and bring consumer price inflation to within the target range." Notably, the RBNZ said it is also prepared to have the OCR return to a lower, more neutral level once supply-demand dynamics come back into balance, in line with its forecast for gradual rate cuts in 2024.

We expect the RBNZ to deliver another 50 bps rate hike in August, bringing the OCR to 3.00%. We then forecast the central bank to wrap up its monetary tightening cycle with two 25 bps rate hikes in both October and November, bringing the OCR to 3.50% by the end of 2022. ([Return to Summary](#))

### International Outlook

#### Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
20-Jul	UK CPI (MoM)	Jun	0.7%	0.5%	0.7%
20-Jul	UK CPI (YoY)	Jun	9.3%	9.2%	9.1%
20-Jul	Canada CPI NSA (MoM)	Jun	0.9%	0.4%	1.4%
20-Jul	Canada CPI NSA (YoY)	Jun	8.0%	7.9%	7.7%
21-Jul	ECB Rate Decision	21-Jul	-0.25%	-0.25%	-0.50%

Forecast as of July 15, 2022

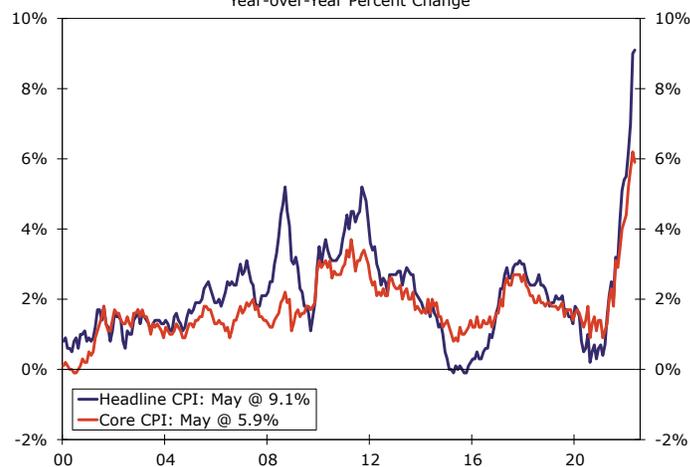
Source: Bloomberg Finance L.P. and Wells Fargo Economics

### U.K. CPI • Wednesday

The U.K. has been experiencing some of the highest inflation among developed economies. We expect the CPI release on Wednesday to show that price pressures remained elevated in June. Overall, consensus forecasts estimate that headline inflation will quicken to 9.2%, while the core measure is expected to tick down slightly to 5.8%.

Against a backdrop of record increases in global gas prices over the past 6 months, the U.K. government's energy price cap—the maximum price that electricity providers can charge customers—was increased by 54% in April. These surging prices for local electricity and natural gas drove headline U.K. CPI up to a 9.1% year-over-year rate in May, and we expect that higher inflation will continue to place pressure on real household incomes, consumer purchasing power, and overall GDP growth going forward. This is especially prevalent for the remainder of this year and early next year, as another sizable increase in electricity prices is slated for October. The Bank of England estimates that the October energy price cap increase could lift headline CPI inflation up to or above 11% year-over-year.

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



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

### Canada CPI • Wednesday

The Canadian economy is also feeling the sting of high inflation. We expect Canada's CPI release on Wednesday to show persistently high inflation yet again.

In May, headline CPI surprised to the upside, quickening to 7.7% year-over-year. Much of this was driven by higher food and energy prices, which can be volatile, but even the average of the core inflation measures ticked up to 4.7%, indicating that underlying inflation pressures are still heating up.

The Bank of Canada (BoC) is actively tightening monetary policy to quell inflation. At its July meeting it delivered a sizable 100 bps rate hike, bringing its policy rate to 2.50%. The accompanying policy statement noted that while the war in Ukraine and supply chain issues have generally been the biggest contributors to higher inflation, the BoC is now seeing domestic price pressures from excess demand becoming more prominent, with over half of the components in CPI rising by more than 5%. With these risks in mind, the BoC expects inflation to remain around 8% for the next few months.

We expect Canada's headline CPI to quicken to 7.9% year-over-year and forecast inflation to average 6.6% in 2022.

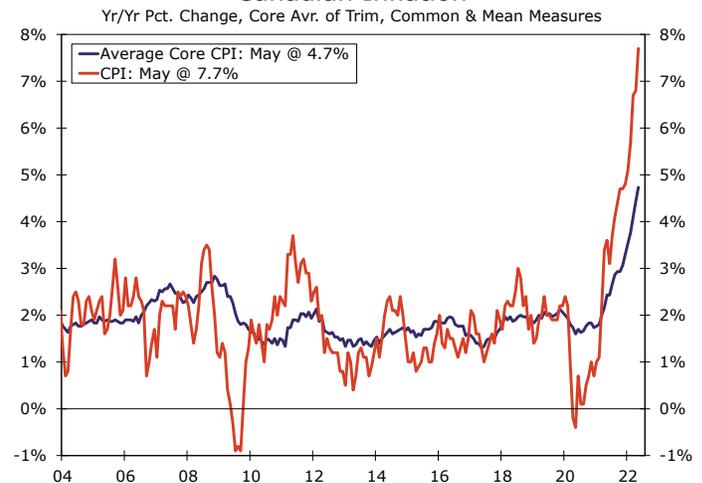
### ECB Rate Decision • Thursday

We expect the European Central Bank (ECB) to kick off its rate hike cycle at its July monetary policy meeting next week with a 25 bps hike to -0.25%.

Eurozone inflation recently reached a new high of 8.1% year-over-year in May, exacerbated by the Russia-Ukraine war and supply-demand imbalances, as many Eurozone economies are heavily dependent on Russian energy. We expect inflation to trend even higher in the coming months and possibly peak later this year, and also expect that economic growth will be sturdy enough to take on larger rate hikes.

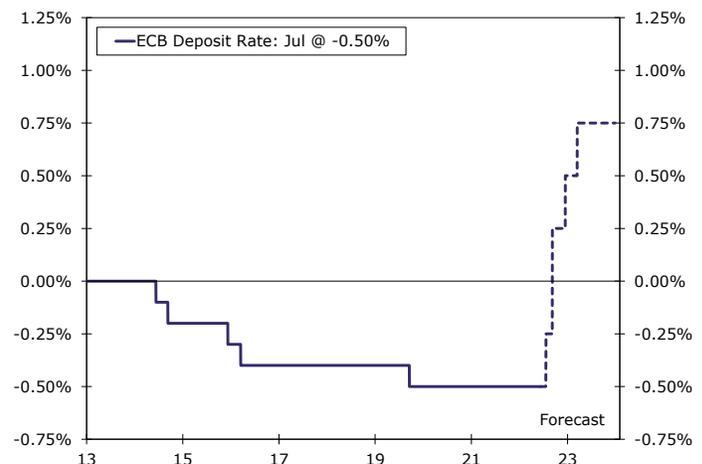
The ECB's forward guidance from its June meeting indicated that it intends to raise policy rates in July and again in September, but potentially by a larger increment at the latter meeting. We view the possibility of a 50 bps rate increase in September as more likely than not; however, we think it is unlikely the ECB will deliver multiple 50 bps rate hikes. As such, we forecast a 25 bps hike in July, a 50 bps hike in September, and a 25 bps hike in December, bringing the policy rate to +0.50% by the end of 2022. We then expect the ECB to deliver its last rate hike of the cycle by Q1 next year, finishing with a Deposit Rate of +0.75%. ([Return to Summary](#))

### Canadian Inflation



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

### ECB Deposit Rate



Source: Datastream and Wells Fargo Economics

## Interest Rate Watch

### Interesting Times

“May you live in interesting times” is often cited as an ancient Chinese curse. While there is little to no evidence tracing this expression back to China, the phrase has often proven to be an apt way to describe economic and financial conditions. This past year's resurgence in inflation and the renewed determination of the Federal Reserve to squash it have led to heightened uncertainty. We are now calling for the Fed to raise the federal funds rate by a full percentage point (100 bps) at its July 27 FOMC meeting and to follow that up with a 75 bps hike in September, 50 bps at the November meeting (which comes one week before the mid-term elections) and 25 bps at the December meeting. These moves would bring the federal funds rate up to 4.25%.

Will 4.25% be enough to slow the economy enough to bring inflation back down? That depends. The yield curve has inverted more convincingly this past week, which suggests that financial markets fear the Fed will push the economy into recession. Our forecast has the economy slowing to a crawl this year, with real GDP growing at less than a 1% annual rate in the second, third and fourth quarter. That soft landing is followed by declines in real GDP during the first three quarters of 2023, which pushes the unemployment rate up to 5.0% by Q4-2023. Inflation tends to decline during recessions and during the early stages of the subsequent recovery. The recent magnitude of the spike in inflation, however, raises some doubts as to whether a modest-to-average recession will be enough to bring inflation back down to the levels enjoyed prior to the pandemic.

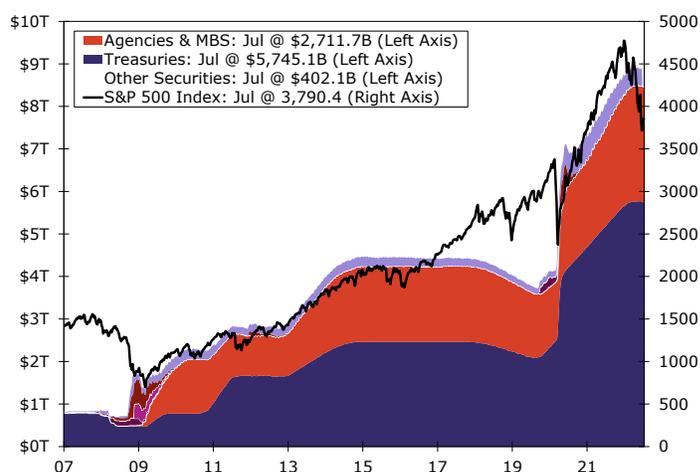
### Asset Inflation Is Already Being Curbed

The Federal Reserve will also be reducing its balance sheet, or at least attempting to over the next couple of years. The process has already begun, with the Fed slated to reduce its holdings of Treasuries by \$30 billion per month and holdings of mortgage-backed securities (MBS) by \$17.5 billion per month. The Fed is slated to increase the pace of its balance sheet drawdown to \$60 billion of Treasuries and \$35 billion of MBS in September of this year.

The Fed has been transparent about its intentions and the stock market has priced in the Fed's next moves on the balance sheet. What is less certain is how easily it will be for the Fed to meet its goals, particularly as it relates to MBS. Rising interest rates have severely curtailed mortgage refinancing and also slowed home sales, which has reduced prepayments. This is making it difficult for the Fed to meet its goals at reducing its MBS portfolio. There is also the question as to whether reducing the Fed's securities portfolio will trigger liquidity challenges this fall, when financial market volatility tends to spike.

So the later summer and early fall should be interesting. With real GDP expected to be close to zero through the remainder of the year and financial market volatility likely to increase this fall, the Fed's resolve on hiking interest rates and reducing its balance sheet will be tested. ([Return to Summary](#))

Federal Reserve Balance Sheet vs. S&P 500 Index



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

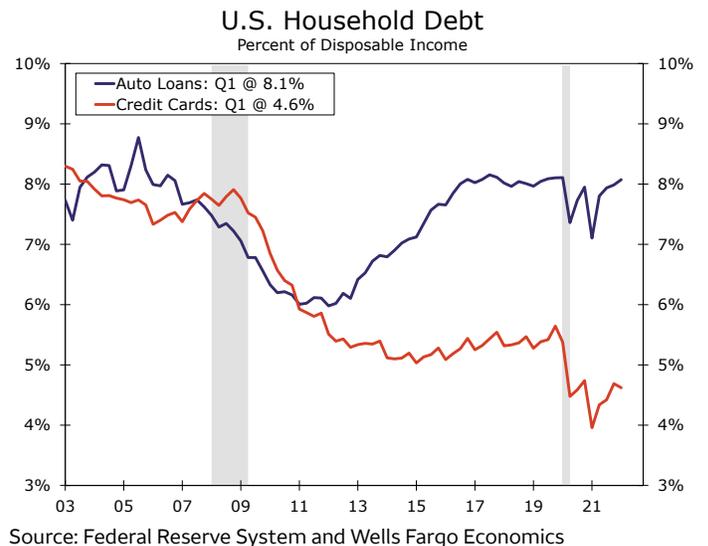
## Credit Market Insights

### Record High for Monthly Auto Loan Payments

The average monthly auto loan payment reached a record high of \$686 in June with 12.7% of new car buyers paying at least \$1,000 per month for their cars, according to Cox Automotive Inc. On average, new vehicles sold for \$48,043 last month, also a record high. New vehicle buyers paid approximately \$1,000 above the manufacturer's suggested retail price (MSRP), flying past the average purchase of \$158 above the MSRP in June 2021. Data released by Edmunds show that used car buyers have also faced the same steep prices, paying an average of \$554 per month on their loans.

These record-high prices reflect the ongoing story in the auto industry: since the pandemic, the imbalance between strong consumer demand and inadequate supply has allowed cars to command supremely high prices. This, alongside growing interest payments resulting from the Fed's recent rate hikes, has made auto loans increasingly expensive. Unfortunately, these prices show no sign of slowing, with June's CPI report detailing an increase of used and new car prices by 1.6% and 0.7% monthly, respectively.

So, what does this mean for consumers? For now, households have maintained an ability to keep up with payments for big-ticket expenses, such as car loans. However, missed payments among consumers with low credit scores are beginning to grow, and more people will have little choice but to sign up for more expensive plans as inflation continues to run rampant. This could lead to an increased number of defaults and repossessions. We are already seeing an uptick in defaults on loans, seen in the number of repossessed cars with loans originating in 2020 and 2021. Many consumers who signed loans at this time experienced temporary increases in income during the pandemic, in part due to stimulus checks and expanded unemployment insurance bolstering households. Presently, incomes are falling noticeably in the face of inflation and stimulus money drying up, leading to a growing number of defaults on auto loans and repossessions of cars. Additionally, some consumers are taking out loans with up to seven-year terms in order to lower their monthly payments. While this does help short term, buyers end up paying more in interest and run a greater risk of paying more than what the car is worth. Ultimately, with peak inflation not yet behind us, and a potential economic slowdown looming, household balance sheets may be further stressed by these large monthly payments. ([Return to Summary](#))



## Topic of the Week

### Beige Book Heralds Slowing Growth, Inflation Fears, Recession Risk

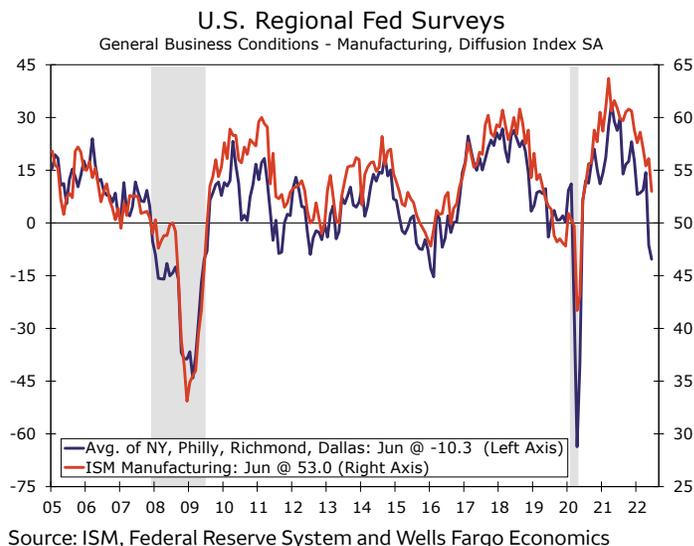
This week, the Federal Reserve released the Beige Book for its July meeting. Regional banks are describing situations seen across the country with some of the following language: slowing growth, inflation fears and even some risks of recession. The Beige Book is a national compilation of regional Fed bank information, and is published two weeks before each FOMC meeting. This week's report had a survey period from the end of May through June, and takes the pulse of diverse markets across the country, providing valuable context before the Fed's next monetary policy decision. There are situations across the country worth highlighting in the context of this report's importance prior to the end-of-month FOMC meeting.

"Modest" is the word of the week, as nine out of the twelve districts used modest or modestly to describe slowing, but still positive economic activity. Generally speaking, this growth is paired with still-high labor demand, moderate wage growth and high inflation. The Cleveland Fed's contribution is notable for an outright decline, however slight, in business activity.

Many districts noted the weakness in the housing market. With mortgage rates approaching near pre-Great Recession rates, and homes at record prices, inventories are starting to see a boost as home affordability continues to erode. Construction and commercial real estate are also feeling the pressure from rising interest rates and dimmer future expectations from businesses. San Francisco, Boston and Richmond respondents noted that supply chain shortages are continuing to delay construction projects and add price pressures to projects, even if they are able to source materials and labor.

Several districts noted that capital expenditures, despite the gloomier economic outlook and higher prices, are continuing to grow at a modest pace. Chicago noted that contracts were reporting growth in expenditures on new equipment and technology for hybrid working, though rising rates are making businesses more selective on their expenditure plans.

Finally, five out of the twelve Federal Reserve districts had respondents note recession risks, up from three in the June Beige Book. In total, eight of the twelve districts reported diminishing expectations of future growth. The outlook looks cloudier throughout the country, and recession fears are not only growing, but being pulled forward, with an increasing number of respondents citing increasing odds of a recession before the end of 2022. This deterioration in sentiment will likely weigh on spending and investment and be on the minds of FOMC officials as they meet at the end of July. ([Return to Summary](#))



## Market Data • Mid-Day Friday

U.S. Interest Rates			
	Friday 7/15/2022	1 Week Ago	1 Year Ago
SOFR	1.53	1.54	0.05
3-Month LIBOR	2.74	2.43	0.13
3-Month T-Bill	2.28	1.88	0.04
1-Year Treasury	2.73	2.61	0.03
2-Year Treasury	3.11	3.10	0.22
5-Year Treasury	3.03	3.12	0.78
10-Year Treasury	2.91	3.08	1.30
30-Year Treasury	3.08	3.24	1.92
Bond Buyer Index	3.34	3.37	2.04

Foreign Exchange Rates			
	Friday 7/15/2022	1 Week Ago	1 Year Ago
Euro (\$/€)	1.009	1.019	1.181
British Pound (\$/£)	1.187	1.203	1.383
British Pound (£/€)	0.851	0.846	0.854
Japanese Yen (¥/\$)	138.530	136.100	109.830
Canadian Dollar (C\$/\\$)	1.304	1.295	1.260
Swiss Franc (CHF/\\$)	0.977	0.977	0.918
Australian Dollar (US\$/A\\$)	0.679	0.686	0.742
Mexican Peso (MXN/\\$)	20.581	20.452	19.945
Chinese Yuan (CNY/\\$)	6.757	6.695	6.461
Indian Rupee (INR/\\$)	79.880	79.253	74.546
Brazilian Real (BRL/\\$)	5.386	5.256	5.112
U.S. Dollar Index	107.940	107.007	92.624

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

Foreign Interest Rates			
	Friday 7/15/2022	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	-0.58	-0.59	-0.57
3-Month Sterling LIBOR	1.90	1.74	0.08
3-Month Canada Banker's Acceptance	3.32	2.94	0.44
3-Month Yen LIBOR	-0.02	-0.02	-0.08
2-Year German	0.47	0.53	-0.68
2-Year U.K.	1.92	1.93	0.15
2-Year Canadian	3.21	3.27	0.45
2-Year Japanese	-0.06	-0.07	-0.12
10-Year German	1.13	1.35	-0.33
10-Year U.K.	2.09	2.23	0.66
10-Year Canadian	3.08	3.30	1.26
10-Year Japanese	0.24	0.24	0.01

Commodity Prices			
	Friday 7/15/2022	1 Week Ago	1 Year Ago
WTI Crude (\\$/Barrel)	98.06	104.79	71.65
Brent Crude (\\$/Barrel)	101.49	107.02	73.47
Gold (\\$/Ounce)	1705.05	1742.48	1829.47
Hot-Rolled Steel (\\$/S.Ton)	915.00	917.00	1780.00
Copper (\\$/Pound)	325.40	353.20	433.30
Soybeans (\\$/Bushel)	15.88	16.29	14.71
Natural Gas (\\$/MMBTU)	6.75	6.03	3.61
Nickel (\\$/Metric Ton)	19,347	21,468	18,575
CRB Spot Inds.	590.21	607.25	612.84

**Subscription Information**

To subscribe please visit: [www.wellsfargo.com/economicsemail](http://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
Mark Vitner	Senior Economist	704-410-3277	Mark.Vitner@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	Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Shannon Seery	Economist	332-204-0693	Shannon.Seery@wellsfargo.com
Nicole Cervi	Economic Analyst	704-410-3059	Nicole.Cervi@wellsfargo.com
Jessica Guo	Economic Analyst	704-410-4405	Jessica.Guo@wellsfargo.com
Karl Vesely	Economic Analyst	704-410-2911	Karl.Vesely@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@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., Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. 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. The views and opinions expressed in this report 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. © 2022 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 Financial Services and Markets Act 2000 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 the Directive 2014/65/EU ("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