WELLS FARGO

Monthly — April 11, 2024

# U.S. Economic Outlook: April 2024

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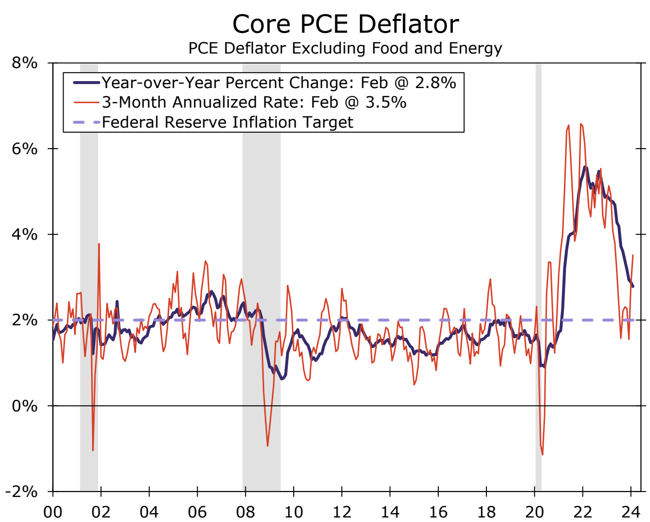
## Waiting on the World to Change

- Another month of strong economic data in the United States has kept the FOMC in a holding pattern. Nonfarm payrolls increased by 303K in March, capping a strong first quarter in which monthly job growth averaged 276K per month. The unemployment rate remains low at 3.8%, and real GDP growth is tracking to be a respectable 2.0%-2.5% in Q1.
- The inflation data also have come in stronger in recent months. The core CPI increased at a 4.5% annualized rate in the three months ending in March, the fastest pace since May 2023. Data for the Fed's preferred measure of inflation, the PCE deflator, are only available through February but also point to some stalling out in the descent back to 2% inflation.
- Fed officials have taken note, and their communication with the public increasingly stresses that there is no sense of urgency when it comes to cutting rates. This sentiment can perhaps be best summarized by Governor Waller's recent speech titled "There's Still No Rush," a reference to the increasingly common view that rate cuts will start later and proceed more slowly relative to expectations a few months ago.
- In light of the recent data and Fed speak, we have pushed out the timing of the first rate cut in the anticipated easing cycle. In our view, the FOMC will keep rates steady through the summer as it awaits confirmation that inflation is on a durable path back to 2%.
- **We now expect the FOMC to cut the fed funds rate by 25 bps at its September 18 meeting, followed by 25 bps rate cuts at every other FOMC meeting through the end of next year. If realized, this would put the target range for the fed funds rate at 3.75%-4.00% at year-end 2025.**
- Our expectation for rate cuts starting in September and continuing through 2025 is predicated on the belief that inflation will continue to slow, albeit gradually. Despite recent bumps in the road, the core PCE deflator has risen "just" 2.8% over the past year, the smallest 12-month change since March 2021. Private sector measures of rent growth signal that there is more shelter disinflation to come in the months ahead. Supply and demand in the labor market has come into better balance as evidenced by labor costs that are inching closer to a growth rate that is consistent with the Fed's 2% inflation target.
- In a recent speech, Chair Powell nodded to the recent run of hot data but expressed the belief that the data do not "materially change the overall picture, which continues to be one of solid growth, a strong but rebalancing labor market, and inflation moving down toward 2 percent on a sometimes bumpy path." We broadly concur with this view, but the "sometimes bumpy path" likely means it will be several more months before the much-anticipated easing cycle can begin. Until then, the FOMC will keep on waiting on the world to change.

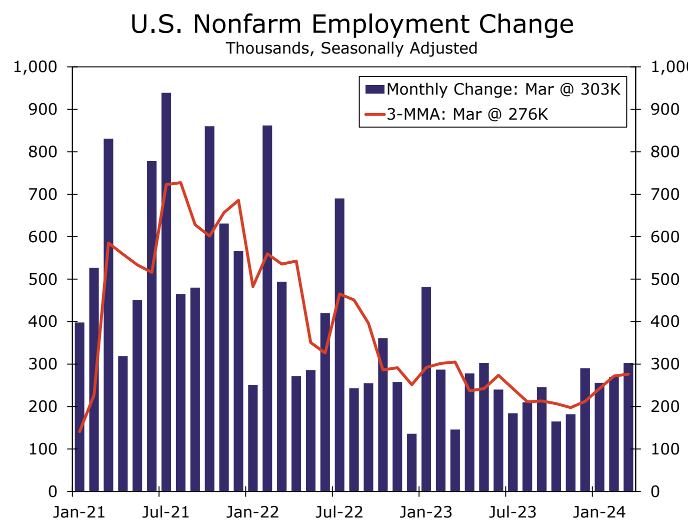
## Waiting on the World to Change

With more than one quarter of 2024 complete, U.S. monetary policy remains in a holding pattern. The recent economic data continue to suggest that the FOMC faces few immediate pressures to start cutting the federal funds rate. Incremental progress has continued on the inflation front. The core PCE deflator is up 2.8% over the past year, the smallest 12-month change since March 2021. That said, the progress has been modest and underwhelming relative to expectations at the start of the year. Over the three months ending in February, core PCE inflation has risen at a 3.5% annualized pace, suggesting some recent acceleration in prices relative to the second half of 2023 (chart). March data for the PCE deflator are not yet available, but the March CPI data released on April 10 generally showed price growth remained elevated last month.

Similarly, the gradual cooling in employment growth experienced over the past couple of years also has shown signs of stabilizing in recent months. Nonfarm payrolls grew by a robust 303K in March and averaged 276K per month in Q1, up from the 212K monthly pace registered in Q4-2023 (chart). The unemployment rate remains low at 3.8%, and real GDP growth is tracking to be a respectable 2.0%-2.5% in Q1. Even the beleaguered manufacturing sector has shown some recent signs of life, with the ISM manufacturing index crossing back into expansionary territory in March for the first time since September 2022. On balance, the U.S. economy remains resilient in the face of the highest fed funds rate in nearly 25 years and the $1.5 trillion (and counting) decline in the size of the Fed's balance sheet.




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




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

Against this backdrop, various FOMC officials have cautioned that they support holding the fed funds rate steady until inflation recedes a bit further. Governor Christopher Waller stressed in a recent speech that he felt "no rush" in taking the step of beginning to ease monetary policy. On April 2, San Francisco Fed President and current FOMC voter Mary Daly asserted that there was "no urgency" to adjust the fed funds rate at present. Atlanta Fed President Raphael Bostic, another voter on this year's FOMC, also offered hawkish remarks in a recent interview. Bostic signaled that he did not expect it would be appropriate to start cutting rates until closer to the end of the year.

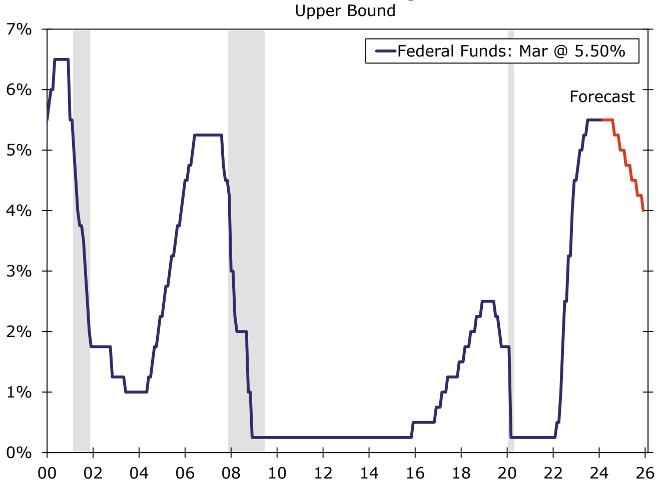
In light of the recent data and Fed speak, we have pushed out the timing of the first rate cut in the easing cycle. In our view, the FOMC will keep rates steady through the summer as it awaits confirmation that inflation is on a durable path back to 2%. We now expect the FOMC to cut the fed funds rate by 25 bps at its September 18 meeting, followed by 25 bps cuts at every other FOMC meeting through the end of next year. If realized, this would put the target range for the fed funds rate at 3.75%-4.00% at year-end 2025 (chart). We also expect the FOMC to announce that it is slowing the pace of quantitative tightening (QT) at its meeting on May 1, although we would not be shocked if this decision slipped to the following meeting on June 12.

Although policy easing may arrive a bit later than previously expected, we still believe the FOMC will start cutting rates before the year is out. We expect inflation to trend lower throughout the year, but progress will likely be gradual. Private sector measures of rent growth have been a good leading indicator of shelter inflation in this cycle, and these measures point to a further deceleration in the CPI and PCE deflator in the months ahead (chart). Employment growth continues to be strong, but the downward trend in job openings, labor market turnover and small business hiring plans points toward some slowing in job growth in the months ahead.

In addition, robust labor supply growth has helped bring supply and demand in the labor market into better balance. Average hourly earnings were up 4.1% year-over-year in March, the smallest increase in nearly three years. The Q1 reading of the Fed's preferred measure of labor cost growth, the Employment Cost Index, will be released on April 30. We expect this indicator to be around 4% year-over-year, which if realized would mark the slowest print since Q4-2021. The gradual cooling in nominal wage growth eventually should be associated with a further slowdown in inflation, particularly services inflation.

Federal Funds Target Rate

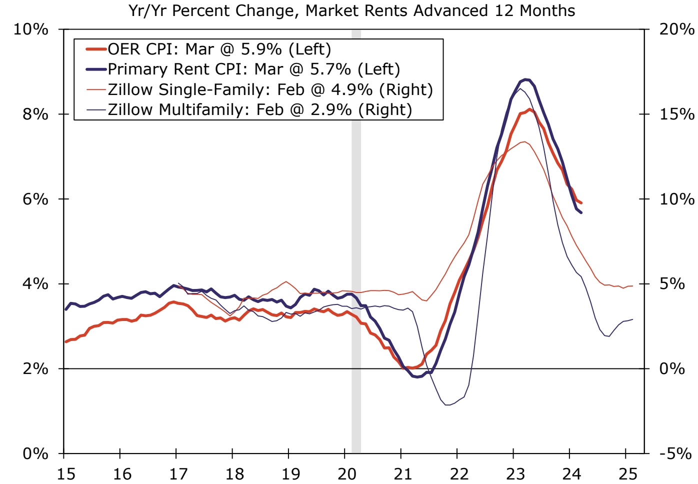
Upper Bound




Source: Federal Reserve Board and Wells Fargo Economics

Market Rents vs. CPI Rents

Yr/Yr Percent Change, Market Rents Advanced 12 Months




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

In a recent speech, Chair Powell nodded to the recent run of hot data but expressed the belief that the data do not "materially change the overall picture, which continues to be one of solid growth, a strong but rebalancing labor market, and inflation moving down toward 2 percent on a sometimes bumpy path." We broadly concur with this view, but the "sometimes bumpy path" likely means it will be several more months before the much-anticipated easing cycle can begin. Until then, the FOMC will keep on waiting on the world to change.

# U.S. Forecast Table

## Wells Fargo U.S. Economic Forecast

| | Actual | | | | | | | | Forecast | | | | | | | | Actual | | Forecast | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | | | | 2023 | | | | 2024 | | | | 2025 | | | | 2022 | 2023 | 2024 | 2025 |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Real Gross Domestic Product (a) | -2.0 | -0.6 | 2.7 | 2.6 | 2.2 | 2.1 | 4.9 | 3.4 | 2.2 | 1.9 | 1.6 | 1.5 | 1.9 | 2.2 | 2.5 | 2.5 | 1.9 | 2.5 | 2.6 | 2.0 |
| Personal Consumption | 0.0 | 2.0 | 1.6 | 1.2 | 3.8 | 0.8 | 3.1 | 3.3 | 2.3 | 2.1 | 1.6 | 1.7 | 1.7 | 1.9 | 2.2 | 2.3 | 2.5 | 2.2 | 2.3 | 1.8 |
| Business Fixed Investment | 10.7 | 5.3 | 4.7 | 1.7 | 5.7 | 7.4 | 1.4 | 3.7 | 2.8 | 0.0 | 0.5 | 1.1 | 3.4 | 5.0 | 6.9 | 6.3 | 5.2 | 4.5 | 2.1 | 3.3 |
| Equipment | 16.8 | 4.9 | 5.6 | -5.0 | -4.1 | 7.7 | -4.4 | -1.1 | 2.0 | 0.5 | 2.0 | 2.7 | 5.5 | 5.7 | 8.9 | 5.7 | 5.2 | -0.3 | 0.7 | 4.7 |
| Intellectual Property Products | 11.4 | 8.7 | 7.1 | 6.1 | 3.8 | 2.7 | 1.8 | 4.3 | 4.0 | 1.0 | 1.2 | 1.3 | 3.8 | 5.6 | 6.9 | 7.6 | 9.1 | 4.5 | 2.6 | 3.8 |
| Structures | -1.2 | -0.5 | -1.3 | 6.5 | 30.3 | 16.1 | 11.2 | 10.9 | 1.5 | -3.2 | -3.7 | -2.6 | -1.6 | 2.4 | 3.2 | 4.5 | -2.1 | 13.2 | 3.3 | -0.5 |
| Residential Investment | -1.8 | -14.1 | -26.4 | -24.9 | -5.3 | -2.2 | 6.7 | 2.8 | 9.5 | 3.4 | 2.2 | 2.0 | 3.1 | 4.3 | 4.8 | 5.4 | -9.0 | -10.6 | 4.6 | 3.4 |
| Government Purchases | -2.9 | -1.9 | 2.9 | 5.3 | 4.8 | 3.3 | 5.8 | 4.6 | 2.4 | 2.0 | 1.5 | 1.2 | 1.2 | 1.0 | 1.0 | 0.8 | -0.9 | 4.1 | 3.0 | 1.2 |
| Net Exports | -1141.1 | -1116.2 | -981.2 | -965.6 | -935.1 | -928.2 | -930.7 | -918.5 | -952.9 | -956.4 | -946.4 | -941.9 | -951.1 | -966.7 | -988.2 | -1009.7 | -1051.0 | -928.1 | -949.4 | -978.9 |
| Pct. Point Contribution to GDP | -2.6 | 0.6 | 2.6 | 0.3 | 0.6 | 0.0 | 0.0 | 0.3 | -0.6 | -0.1 | 0.2 | 0.1 | -0.2 | -0.3 | -0.4 | -0.4 | -0.5 | 0.6 | -0.1 | -0.1 |
| Inventory Change | 197.0 | 92.7 | 70.7 | 151.9 | 27.2 | 14.9 | 77.8 | 54.9 | 64.1 | 64.1 | 61.2 | 54.3 | 57.2 | 61.2 | 66.1 | 71.0 | 128.1 | 43.7 | 60.9 | 63.9 |
| Pct. Point Contribution to GDP | -0.1 | -2.1 | -0.7 | 1.6 | -2.2 | 0.0 | 1.3 | -0.5 | 0.2 | 0.0 | -0.1 | -0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.5 | -0.4 | 0.1 | 0.0 |
| Nominal GDP (a) | 6.2 | 8.5 | 7.2 | 6.5 | 6.3 | 3.8 | 8.3 | 5.1 | 5.5 | 4.9 | 3.6 | 3.6 | 4.2 | 4.2 | 4.5 | 4.6 | 9.1 | 6.3 | 5.2 | 4.1 |
| Real Final Sales | -1.9 | 1.5 | 3.4 | 0.9 | 4.6 | 2.1 | 3.6 | 3.9 | 2.1 | 1.9 | 1.6 | 1.7 | 1.8 | 2.1 | 2.4 | 2.4 | 1.3 | 2.9 | 2.7 | 1.9 |
| Retail Sales (b) | 13.0 | 9.4 | 9.8 | 6.9 | 5.2 | 1.6 | 3.2 | 3.6 | 1.4 | 1.6 | 0.1 | -0.1 | 0.9 | 1.4 | 1.7 | 1.9 | 9.7 | 3.4 | 0.7 | 1.5 |
| Inflation Indicators (b) | | | | | | | | | | | | | | | | | | | | |
| PCE Deflator | 6.6 | 6.8 | 6.6 | 5.9 | 5.0 | 3.9 | 3.3 | 2.8 | 2.5 | 2.6 | 2.5 | 2.5 | 2.3 | 2.1 | 2.1 | 2.1 | 6.5 | 3.7 | 2.5 | 2.1 |
| "Core" PCE Deflator | 5.5 | 5.2 | 5.2 | 5.1 | 4.8 | 4.6 | 3.8 | 3.2 | 2.8 | 2.6 | 2.6 | 2.7 | 2.4 | 2.3 | 2.3 | 2.3 | 5.2 | 4.1 | 2.7 | 2.3 |
| Consumer Price Index | 8.0 | 8.6 | 8.3 | 7.1 | 5.7 | 4.0 | 3.6 | 3.2 | 3.2 | 3.5 | 3.2 | 3.2 | 2.8 | 2.4 | 2.3 | 2.3 | 8.0 | 4.1 | 3.3 | 2.4 |
| "Core" Consumer Price Index | 6.3 | 6.0 | 6.3 | 6.0 | 5.5 | 5.2 | 4.4 | 4.0 | 3.8 | 3.6 | 3.6 | 3.4 | 3.0 | 2.7 | 2.6 | 2.6 | 6.2 | 4.8 | 3.6 | 2.8 |
| Producer Price Index (Final Demand) | 10.8 | 11.0 | 8.9 | 7.3 | 4.4 | 1.3 | 1.6 | 1.0 | 1.6 | 2.6 | 2.1 | 2.7 | 2.4 | 2.2 | 2.2 | 2.1 | 9.5 | 2.0 | 2.2 | 2.2 |
| Employment Cost Index | 4.5 | 5.1 | 5.0 | 5.1 | 4.8 | 4.5 | 4.3 | 4.2 | 4.0 | 3.8 | 3.6 | 3.6 | 3.5 | 3.5 | 3.4 | 3.4 | 4.9 | 4.5 | 3.8 | 3.4 |
| Real Disposable Income (a) | -9.8 | -1.4 | 3.6 | 2.2 | 10.8 | 3.3 | 0.5 | 2.0 | 1.0 | 0.9 | 1.7 | 2.6 | 2.9 | 2.3 | 2.3 | 2.4 | -6.0 | 4.2 | 1.4 | 2.3 |
| Nominal Personal Income (a) | 2.4 | 4.7 | 6.8 | 4.7 | 6.8 | 4.0 | 3.9 | 4.0 | 6.8 | 3.9 | 3.7 | 4.6 | 5.2 | 4.4 | 4.3 | 4.5 | 2.0 | 5.2 | 4.7 | 4.5 |
| Industrial Production (a) | 3.7 | 4.1 | 2.1 | -2.5 | -0.3 | 0.8 | 1.6 | -1.8 | -1.5 | 0.4 | 1.6 | 2.7 | 3.1 | 2.2 | 2.8 | 4.2 | 3.4 | 0.2 | 0.0 | 2.5 |
| Capacity Utilization | 80.0 | 80.6 | 80.8 | 79.9 | 79.6 | 79.4 | 79.4 | 78.8 | 78.3 | 78.4 | 78.7 | 79.2 | 79.6 | 79.8 | 80.1 | 80.7 | 80.3 | 79.3 | 78.6 | 80.1 |
| Corporate Profits Before Taxes (b) | 10.0 | 9.1 | 11.5 | 8.6 | 4.6 | -2.7 | -0.6 | 5.1 | 4.0 | 2.0 | 0.2 | -2.0 | 2.0 | 4.0 | 4.0 | 2.5 | 9.8 | 1.5 | 1.0 | 3.1 |
| Corporate Profits After Taxes | 4.0 | 4.5 | 7.9 | 7.1 | 3.6 | -4.1 | -2.1 | 3.8 | 4.3 | 2.1 | 0.1 | -2.0 | 2.1 | 4.0 | 4.0 | 2.5 | 5.9 | 0.2 | 1.0 | 3.1 |
| Federal Budget Balance (c) | -291 | 153 | -860 | -421 | -680 | -292 | -302 | -510 | -625 | -121 | -294 | -498 | -702 | -214 | -385 | -524 | -1375 | -1695 | -1550 | -1800 |
| Trade Weighted Dollar Index (d) | 109.6 | 114.7 | 121.4 | 116.5 | 116.2 | 114.7 | 117.0 | 114.6 | 115.8 | 117.5 | 118.5 | 117.3 | 116.3 | 115.3 | 114.5 | 114.0 | 115.1 | 115.4 | 117.3 | 115.0 |
| Nonfarm Payroll Change (e) | 536 | 326 | 396 | 252 | 305 | 274 | 213 | 212 | 276 | 197 | 153 | 115 | 112 | 127 | 133 | 143 | 377 | 251 | 185 | 129 |
| Unemployment Rate | 3.8 | 3.6 | 3.5 | 3.6 | 3.5 | 3.6 | 3.7 | 3.7 | 3.8 | 3.8 | 3.9 | 4.0 | 3.9 | 3.9 | 3.8 | 3.8 | 3.6 | 3.6 | 3.9 | 3.9 |
| Housing Starts (f) | 1.72 | 1.64 | 1.45 | 1.41 | 1.39 | 1.45 | 1.37 | 1.48 | 1.45 | 1.40 | 1.47 | 1.49 | 1.49 | 1.49 | 1.50 | 1.51 | 1.55 | 1.42 | 1.45 | 1.50 |
| Light Vehicle Sales (g) | 13.9 | 13.4 | 13.6 | 14.2 | 15.0 | 15.8 | 15.7 | 15.7 | 15.4 | 15.4 | 15.3 | 15.4 | 15.9 | 16.4 | 16.7 | 17.2 | 13.8 | 15.5 | 15.4 | 16.6 |
| Crude Oil - Brent - Front Contract (h) | 95.7 | 109.8 | 95.5 | 87.9 | 81.9 | 77.6 | 85.3 | 82.3 | 81.2 | 88.7 | 87.3 | 83.7 | 82.3 | 81.3 | 80.3 | 79.0 | 97.2 | 81.8 | 85.2 | 80.8 |
| Quarter-End Interest Rates (i) | | | | | | | | | | | | | | | | | | | | |
| Federal Funds Target Rate (j) | 0.50 | 1.75 | 3.25 | 4.50 | 5.00 | 5.25 | 5.50 | 5.50 | 5.50 | 5.50 | 5.25 | 5.00 | 4.75 | 4.50 | 4.25 | 4.00 | 2.02 | 5.23 | 5.31 | 4.38 |
| Secured Overnight Financing Rate | 0.29 | 1.50 | 2.98 | 4.30 | 4.87 | 5.09 | 5.31 | 5.38 | 5.34 | 5.35 | 5.15 | 4.90 | 4.65 | 4.40 | 4.15 | 3.90 | 1.64 | 5.01 | 5.19 | 4.28 |
| Prime Rate | 3.50 | 4.75 | 6.25 | 7.50 | 8.00 | 8.25 | 8.50 | 8.50 | 8.50 | 8.50 | 8.25 | 8.00 | 7.75 | 7.50 | 7.25 | 7.00 | 5.02 | 8.23 | 8.31 | 7.38 |
| Conventional Mortgage Rate | 4.27 | 5.58 | 6.01 | 6.36 | 6.54 | 6.71 | 7.20 | 6.82 | 6.82 | 7.05 | 6.80 | 6.50 | 6.30 | 6.15 | 6.00 | 5.90 | 5.38 | 6.80 | 6.79 | 6.09 |
| 3 Month Bill | 0.52 | 1.72 | 3.33 | 4.42 | 4.85 | 5.43 | 5.55 | 5.40 | 5.46 | 5.35 | 5.10 | 4.85 | 4.60 | 4.35 | 4.10 | 3.85 | 2.09 | 5.28 | 5.19 | 4.23 |
| 6 Month Bill | 1.06 | 2.51 | 3.92 | 4.76 | 4.94 | 5.47 | 5.53 | 5.26 | 5.38 | 5.25 | 4.95 | 4.70 | 4.45 | 4.20 | 3.95 | 3.70 | 2.51 | 5.28 | 5.07 | 4.08 |
| 1 Year Bill | 1.63 | 2.80 | 4.05 | 4.73 | 4.64 | 5.40 | 5.46 | 4.79 | 5.03 | 5.05 | 4.70 | 4.45 | 4.20 | 3.95 | 3.70 | 3.50 | 2.80 | 5.08 | 4.81 | 3.84 |
| 2 Year Note | 2.28 | 2.92 | 4.22 | 4.41 | 4.06 | 4.87 | 5.03 | 4.23 | 4.59 | 4.80 | 4.40 | 4.05 | 3.85 | 3.70 | 3.55 | 3.45 | 2.99 | 4.58 | 4.46 | 3.64 |
| 5 Year Note | 2.42 | 3.01 | 4.06 | 3.99 | 3.60 | 4.13 | 4.60 | 3.84 | 4.21 | 4.45 | 4.15 | 3.90 | 3.80 | 3.70 | 3.65 | 3.60 | 3.00 | 4.06 | 4.18 | 3.69 |
| 10 Year Note | 2.32 | 2.98 | 3.83 | 3.88 | 3.48 | 3.81 | 4.59 | 3.88 | 4.20 | 4.40 | 4.20 | 4.00 | 3.90 | 3.85 | 3.80 | 3.75 | 2.95 | 3.96 | 4.20 | 3.83 |
| 30 Year Bond | 2.44 | 3.14 | 3.79 | 3.97 | 3.67 | 3.85 | 4.73 | 4.03 | 4.34 | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.05 | 4.00 | 3.11 | 4.09 | 4.39 | 4.09 |

Forecast as of: April 11, 2024

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter
(b) Year-over-Year Percentage Change
(c) Quarterly Sum - Billions USD; Annual Data Represents Fiscal Year
(d) Federal Reserve Advanced Foreign Economies Index, 2006=100 - Quarter End
(e) Average Monthly Change
(f) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Houses Started
(g) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Vehicles Sold
(h) Quarterly Average of Daily Close
(i) Quarterly Data - Period End; Annual Data - Annual Averages
(j) Upper Bound of the Federal Funds Target Range

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

# Forecast Delta Table

**Changes to the Wells Fargo U.S. Economic Forecast**

| | Actual | | | | | | | | Forecast | | | | | | | | Actual | | Forecast | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | | | | 2023 | | | | 2024 | | | | 2025 | | | | 2022 | 2023 | 2024 | 2025 |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Real Gross Domestic Product (a) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.19 | -0.15 | 0.56 | 0.29 | 0.19 | 0.07 | -0.03 | -0.02 | -0.03 | 0.00 | 0.01 | 0.15 | 0.11 |
| Personal Consumption | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.31 | -0.14 | 0.63 | 0.42 | 0.28 | 0.09 | 0.00 | 0.00 | 0.00 | 0.00 | 0.02 | 0.21 | 0.17 |
| Business Fixed Investment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1.38 | 0.14 | -0.08 | -0.14 | -0.02 | -0.05 | -0.10 | -0.13 | -0.05 | 0.00 | 0.09 | 0.26 | -0.08 |
| Equipment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.63 | 1.41 | 0.00 | 0.00 | 0.00 | 0.01 | -0.01 | -0.01 | 0.00 | 0.00 | 0.04 | 0.47 | 0.00 |
| Intellectual Property Products | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1.03 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.07 | 0.19 | 0.00 |
| Structures | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3.35 | -2.00 | -0.40 | -0.70 | -0.10 | -0.30 | -0.50 | -0.70 | -0.30 | 0.00 | 0.23 | -0.10 | -0.41 |
| Residential Investment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.09 | 5.20 | 0.50 | -0.20 | -0.10 | -0.40 | -0.60 | -0.70 | -0.50 | 0.00 | 0.00 | 1.31 | -0.34 |
| Government Purchases | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.39 | -0.31 | 0.00 | 0.15 | 0.00 | 0.15 | 0.00 | 0.15 | 0.00 | 0.00 | 0.02 | 0.01 | 0.08 |
| Net Exports | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -3.6 | -18.6 | -18.7 | -18.7 | -18.7 | -18.8 | -19.1 | -19.3 | -19.6 | 0.0 | -0.9 | -18.7 | -19.2 |
| Pct. Point Contribution to GDP | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.07 | -0.26 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.08 | 0.00 |
| Inventory Change | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -11.4 | -7.0 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | 0.0 | -2.9 | -1.8 | -0.1 |
| Pct. Point Contribution to GDP | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.20 | 0.08 | 0.12 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.01 | 0.00 | 0.01 |
| Nominal GDP | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.19 | 0.02 | 1.14 | 0.44 | 0.29 | 0.14 | -0.16 | -0.18 | -0.12 | 0.00 | 0.01 | 0.33 | 0.15 |
| Real Final Sales | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.39 | -0.23 | 0.44 | 0.29 | 0.18 | 0.07 | -0.03 | -0.02 | -0.02 | 0.00 | 0.02 | 0.15 | 0.11 |
| Retail Sales (b) | 0.00 | 0.00 | 0.00 | 0.00 | 0.16 | 0.00 | 0.00 | -0.10 | -0.82 | -0.75 | -0.67 | -0.34 | 0.23 | 0.30 | 0.24 | 0.10 | 0.00 | 0.01 | -0.64 | 0.22 |
| Inflation Indicators (b) | | | | | | | | | | | | | | | | | | | | |
| PCE Deflator | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.01 | 0.03 | 0.17 | 0.21 | 0.24 | 0.22 | 0.05 | -0.03 | -0.08 | 0.00 | 0.00 | 0.16 | 0.04 |
| "Core" PCE Deflator | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.01 | 0.03 | 0.08 | 0.11 | 0.14 | 0.13 | 0.09 | 0.06 | 0.03 | 0.00 | 0.00 | 0.09 | 0.08 |
| Consumer Price Index | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.03 | 0.22 | 0.25 | 0.28 | 0.26 | 0.01 | -0.08 | -0.12 | 0.00 | 0.00 | 0.20 | 0.02 |
| "Core" Consumer Price Index | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.02 | 0.09 | 0.13 | 0.15 | 0.15 | 0.09 | 0.07 | 0.05 | 0.00 | 0.00 | 0.10 | 0.09 |
| Producer Price Index (Final Demand) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.06 | 0.39 | 0.68 | 0.72 | 0.67 | 0.34 | 0.05 | 0.00 | 0.00 | 0.00 | 0.01 | 0.61 | 0.10 |
| Employment Cost Index | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.07 | 0.10 | 0.13 | 0.16 | 0.13 | 0.13 | 0.12 | 0.11 | 0.00 | 0.00 | 0.11 | 0.12 |
| Real Disposable Income (a) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.21 | -0.12 | -0.42 | 0.25 | 0.39 | 0.24 | 0.45 | 0.14 | 0.30 | 0.00 | -0.01 | -0.09 | 0.26 |
| Nominal Personal Income (a) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.19 | -0.12 | 0.17 | 0.38 | 0.48 | 0.30 | 0.33 | -0.02 | 0.20 | 0.00 | 0.01 | 0.12 | 0.30 |
| Industrial Production (a) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.12 | 0.55 | -1.75 | 0.54 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.05 | -0.22 | 0.03 |
| Capacity Utilization | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.02 | 0.13 | -0.27 | -0.20 | -0.20 | -0.20 | -0.20 | -0.20 | -0.20 | -0.20 | 0.00 | 0.04 | -0.22 | -0.20 |
| Corporate Profits Before Taxes (b) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 6.61 | 4.50 | 2.00 | 1.20 | -5.00 | -3.00 | -2.00 | 0.00 | -2.50 | 0.00 | 1.67 | 0.62 | -1.88 |
| Corporate Profits After Taxes | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 6.18 | 4.30 | 1.74 | 1.36 | -4.94 | -3.07 | -2.03 | 0.03 | -2.49 | 0.00 | 1.56 | 0.55 | -1.89 |
| Federal Budget Balance (c) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -6.33 | 45.48 | 110.85 | 35.37 | -8.51 | -23.83 | 46.97 | 37.48 | 0.00 | 0.00 | 150.00 | 50.00 |
| Trade Weighted Dollar Index (d) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -1.22 | 0.00 | 2.00 | 1.75 | 1.75 | 1.50 | 1.25 | 0.75 | 0.00 | 0.00 | 0.63 | 1.31 |
| Nonfarm Payroll Change (e) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 45.00 | 36.67 | 23.33 | 15.00 | 1.67 | 5.00 | 8.33 | 15.00 | 0.00 | 0.00 | 30.00 | 7.50 |
| Unemployment Rate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.01 | -0.05 | -0.04 | 0.02 | 0.03 | 0.05 | 0.06 | 0.06 | 0.00 | 0.00 | -0.02 | 0.05 |
| Housing Starts (f) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.05 | 0.02 | 0.02 | 0.03 | 0.04 | 0.04 | 0.02 | 0.02 | 0.00 | 0.00 | 0.03 | 0.03 |
| Light Vehicle Sales (g) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.08 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.02 | 0.00 |
| Crude Oil - Brent - Front Contract (h) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.76 | 4.33 | 4.33 | 4.33 | 3.33 | 0.00 | 0.00 | 1.00 | 0.00 | 0.00 | 3.44 | 1.08 |
| Quarter-End Interest Rates (i) | | | | | | | | | | | | | | | | | | | | |
| Federal Funds Target Rate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.00 | 0.00 | 0.31 | 0.50 |
| Secured Overnight Financing Rate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.01 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.00 | 0.00 | 0.31 | 0.50 |
| Prime Rate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.00 | 0.00 | 0.31 | 0.50 |
| Conventional Mortgage Rate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.03 | 0.40 | 0.35 | 0.35 | 0.30 | 0.30 | 0.20 | 0.15 | 0.00 | 0.00 | 0.27 | 0.24 |
| 3 Month Bill | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.11 | 0.45 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.00 | 0.00 | 0.39 | 0.50 |
| 6 Month Bill | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.18 | 0.50 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.40 | 0.00 | 0.00 | 0.40 | 0.44 |
| 1 Year Bill | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.18 | 0.55 | 0.50 | 0.50 | 0.50 | 0.50 | 0.35 | 0.25 | 0.00 | 0.00 | 0.43 | 0.40 |
| 2 Year Note | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.14 | 0.70 | 0.55 | 0.35 | 0.30 | 0.25 | 0.20 | 0.15 | 0.00 | 0.00 | 0.44 | 0.23 |
| 5 Year Note | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.16 | 0.55 | 0.40 | 0.25 | 0.25 | 0.20 | 0.20 | 0.15 | 0.00 | 0.00 | 0.34 | 0.20 |
| 10 Year Note | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.15 | 0.50 | 0.40 | 0.30 | 0.25 | 0.25 | 0.20 | 0.15 | 0.00 | 0.00 | 0.34 | 0.21 |
| 30 Year Bond | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.14 | 0.40 | 0.35 | 0.30 | 0.25 | 0.20 | 0.15 | 0.10 | 0.00 | 0.00 | 0.30 | 0.18 |

Forecast as of: April 11, 2024

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter
(b) Year-over-Year Percentage Change
(c) Quarterly Sum - Billions USD; Annual Data Represents Fiscal Year
(d) Federal Reserve Advanced Foreign Economies Index, 2006=100 - Quarter End
(e) Average Monthly Change
(f) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Houses Started
(g) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Vehicles Sold
(h) Quarterly Average of Daily Close
(i) Quarterly Data - Period End; Annual Data - Annual Averages
(j) Upper Bound of the Federal Funds Target Range

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

## Personal Consumption Expenditures

- We forecast real personal consumption expenditures (RPCE) will advance at a 2.3% annualized rate in the first quarter, down a tenth from our March update due to base effects from a stronger end to last year.
- We've lifted our spending forecast for the remainder of the year due to our expectation for a stronger jobs market generally and a consumer psyche that shows little sign of letting up in terms of consumption.

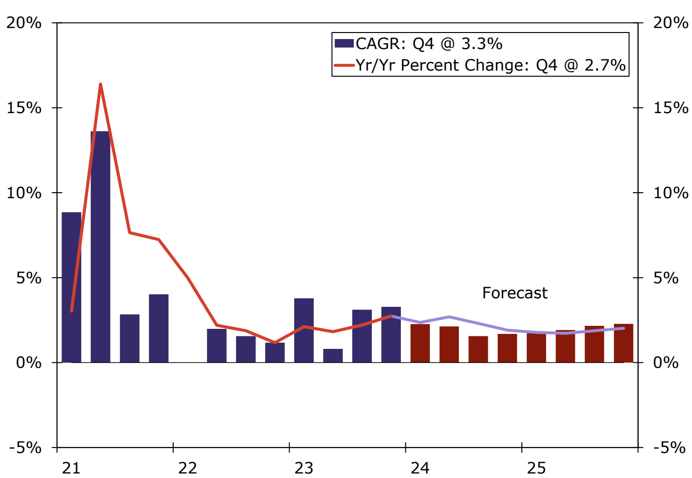
The economic data continue to tell us not to underestimate the U.S. consumer. After a weak start to the year, real personal spending rose 0.4% amid the strongest monthly gain in services spending (+0.6%) since the summer of 2021. Despite the robust spending report in February, upward revisions to spending at the end of last year suggest RPCE are tracking to grow at a pace a touch weaker than we previously anticipated. We've lifted our spending forecast further out, and for the year as a whole, we now forecast RPCE to rise 2.3%, compared to 2.1% previously. The upward revision stems from the continued strength emanating from the sturdy labor market, which should add further support to income growth this year, and a consumer mindset that shows little sign of letting up. Households saved at the lowest rate in 14 months in February, and revised data suggest household liquidity is a bit more evenly distributed across the wealth spectrum than we thought previously. We still believe income growth is the key determinant in the pace of spending this year, but in the absence of a pronounced labor market slowdown, it is challenging to rationalize a change in consumer behavior that would lead to a pronounced slowdown in spending.

## Investment: Equipment, Intellectual Property Products and Inventories

- We've lifted our Q1 equipment spending forecast and expect equipment to advance at around a 2% annualized rate in Q1. The remainder of our forecast horizon remains more or less the same.

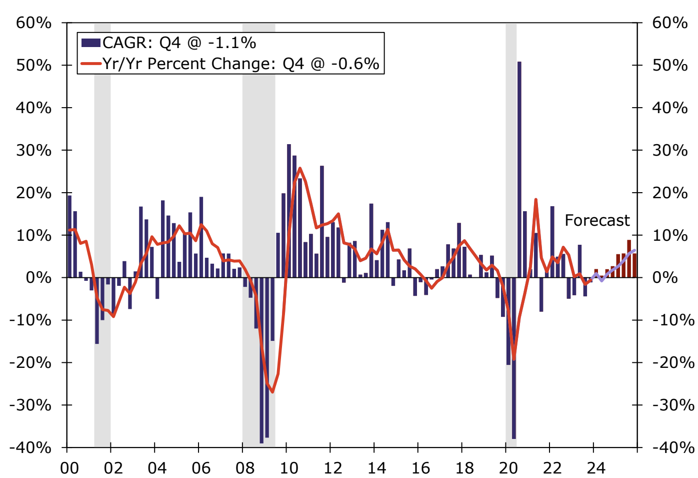
Our Q1 equipment spending forecast is modestly higher in this forecast. The February durable goods data reversed nearly all the weakness experienced at the start of the year, which was due almost entirely to the volatile aircraft component. Through February, core capital goods shipments, excluding aircraft, are tracking to rise north of a 2% annualized rate in Q1. The ISM manufacturing index also showed some sign of life. The headline PMI reading came in above 50 for the first time in 16 months in March amid a pickup in current activity and new orders. Despite now expecting a slower pace of Fed easing this year, we have not materially changed our overall forecast for investment. We still expect it will ultimately take easing from the Fed before we see a sustained capital expenditure recovery, but we've held the view that the uncertainty over the timing of easing and economic conditions generally was going to limit the pace of recovery this year. We have not made any material changes to intellectual property products investment and lowered our Q1 inventory investment marginally as business inventories came in weaker than anticipated at the start of the year.

Real Personal Consumption Expenditures




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

Real Equipment Investment




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

## Investment: Residential

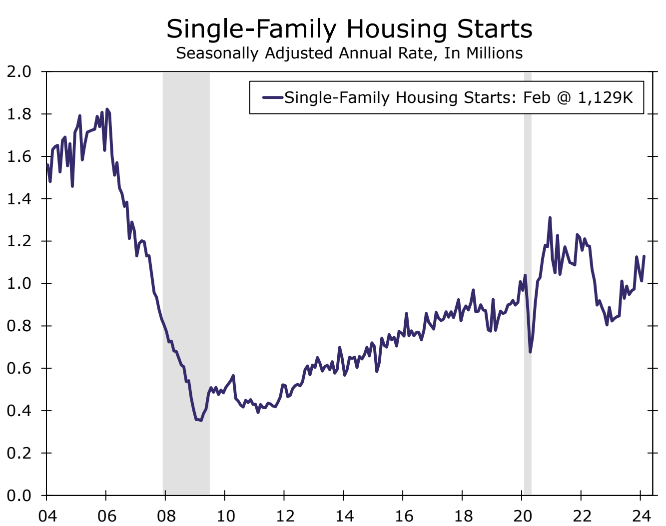
- We have boosted our outlook for residential investment based on stronger-than-anticipated pace of single-family construction. Although higher interest rates will continue to weigh on demand, structural supply shortages should remain as a tailwind for overall spending.

Residential investment looks to be gaining momentum. Although still sluggish, the pace of home buying and selling is gradually improving alongside slightly improved affordability conditions from lower mortgage rates. Strengthening single-family construction is another factor driving the upturn in residential investment. Although rates are still elevated, home builders continue to leverage rate buy-downs, price cuts and other incentives in order to support sales. Tight resale supply has been another boon for the new construction market. By contrast, multifamily development continues to turn down alongside deteriorating apartment market conditions and more restrictive access to credit. Home improvement spending has also weakened recently, yet increased homeowner equity from rising home prices and low resale supply should support spending in the years ahead, with the prospect of lower interest rates another potential tailwind.

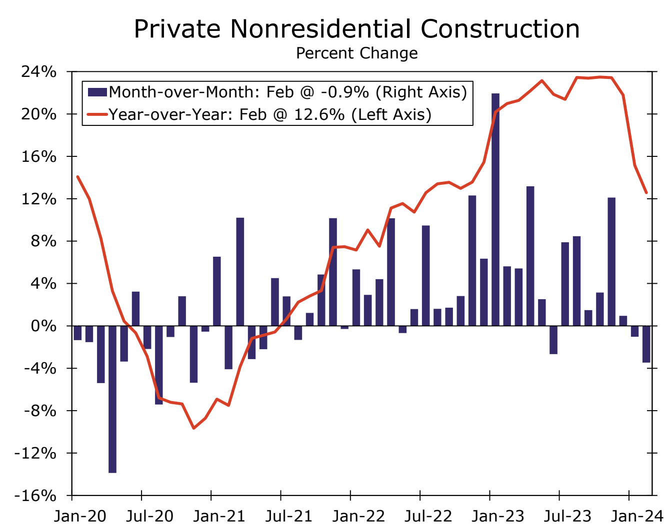
## Investment: Nonresidential Structures

- We have lowered our near-term structures investment forecast. Private nonresidential construction spending has weakened a bit more than expected in recent months and energy-related construction remains sluggish. Fewer rate cuts compared to our previous forecast means a slower pace of construction is likely over the forecast horizon.

Nonresidential construction activity appears to be pulling back. Private nonresidential construction spending has declined in each month so far in 2024, with drops evident across most major segments. Manufacturing project spending looks to be moderating a bit, while commercial construction has downshifted sharply in the wake of higher interest rates, a tighter lending environment and uncertain demand prospects. The recent downtrend in overall nonresidential outlays as well as sluggish new drilling activity suggests a weakening trend in structures investment is beginning to set in following a robust pace of growth over the past several quarters. We note that the risks to the near-term structures forecast are skewed to the upside, given the recent string of substantial upward revisions to prior months of construction data.




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




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

## Labor Market

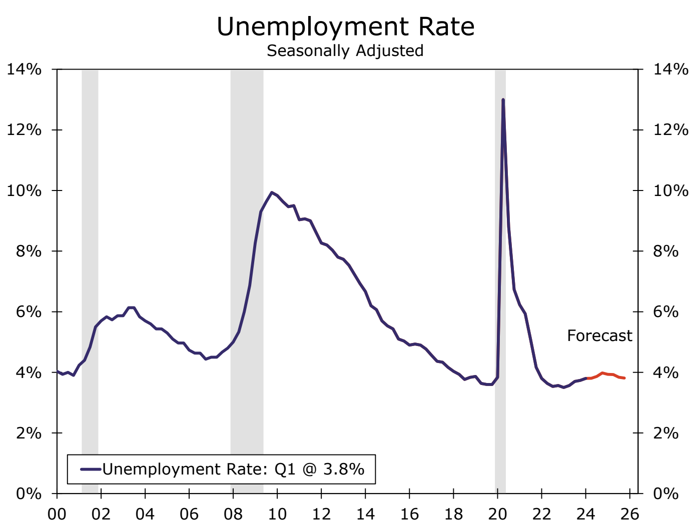
- The gradual, rather than marked, downshift in labor demand along with solid growth in the supply of labor has kept hiring strong in recent months. While the pace of job growth is still likely to moderate ahead, we expect payrolls to expand an average of 155K per month through the remainder of the year compared to 130K in our prior forecast.
- We continue to look for the unemployment rate to move only a couple ticks higher over the course of the year, reaching 4.0% in Q4.

Job growth continues to plow full steam ahead. The addition of 303K new jobs in March further demonstrated that the recent trend in hiring has picked up since late last year. We continue to look for a moderation in the pace of hiring in the coming months as demand for workers continues to gradually cool. However, robust labor supply growth, particularly among foreign-born workers, and resilient economic activity suggest that hiring is unlikely to downshift as much as previously thought. We expect the unemployment rate to move only modestly higher as the year proceeds, reaching 4.0% in Q4. With the jobs market unlikely to loosen significantly more from here, a further slowdown in labor cost growth is likely to be more incremental.

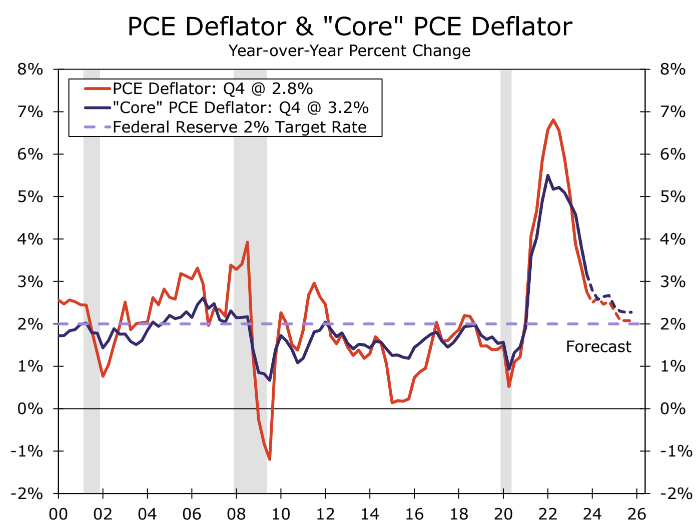
## Inflation

- Following another firm increase in consumer prices in March, we have lifted our estimates for inflation through the remainder of this year by a tenth or so since our previous forecast. We now look for the core PCE deflator to grow 2.7% year-over-year in Q4 compared to a 2.5% increase previously.
- While the Fed's preferred inflation gauge is likely to get stuck over the remainder of 2024 when measured on a year-ago basis, we expect monthly readings to show some additional progress in chipping away inflation.

Firmer inflation at the start of the year has extended the journey back to the Fed's 2% target. We expect inflation to resume its downward trend in the months ahead, although progress will be more of a grind compared to last year. Rising prices of food and energy-related commodities look to limit additional improvement in headline inflation in the near term. Meantime, core goods deflation is likely to fade as the year progresses now that supply chain kinks have largely unwound. Services inflation should continue to cool, however, as labor cost growth has moderated, goods disinflation has reduced cost pressure for related services, and private measures of rent point to shelter inflation subsiding further. All told, core PCE inflation is likely to look sticky when measured on a year-ago basis through 2024, but we expect to see renewed progress toward the Fed's 2% target in monthly readings to come.




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




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

## Fiscal Policy

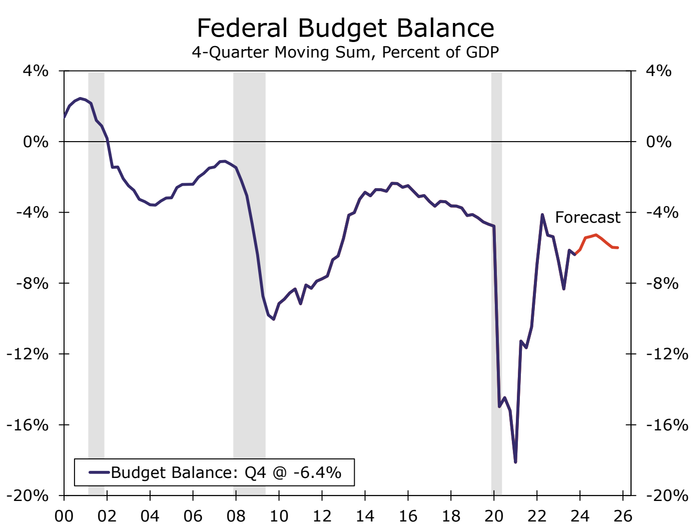
- We have trimmed our forecasts for the FY 2024 and FY 2025 federal budget deficits from $1.70 trillion and $1.85 trillion, respectively, to $1.55 trillion and $1.80 trillion, respectively.
- The near-term deficit outlook will be dictated by the annual inflows the government receives in mid-April as Americans file their taxes. Over the medium term, the 2024 election looms large for the nation's fiscal outlook.

The next few weeks will be critical to the near-term fiscal outlook as the April 15 tax filing deadline drives a seasonal surge in tax receipts. The government receives about one-sixth of its annual tax revenue in the month of April, typically leading to a monthly surplus. We will further refine our deficit forecast once we have the April tax data in hand, but based on what we know now, we think the FY 2024 budget deficit will be roughly $1.55 trillion (~5.5% of GDP). For context, this is about one percentage point of GDP bigger than the deficit that prevailed in FY 2019. Over the medium term, the path forward for the budget deficit will be dictated by what policymakers choose to do on the other side of the 2024 presidential election. Most notably, large parts of the 2017 Tax Cuts and Jobs Act are slated to expire at year-end 2025. For further reading on the 2024 election and fiscal outlook, see our recent special report.

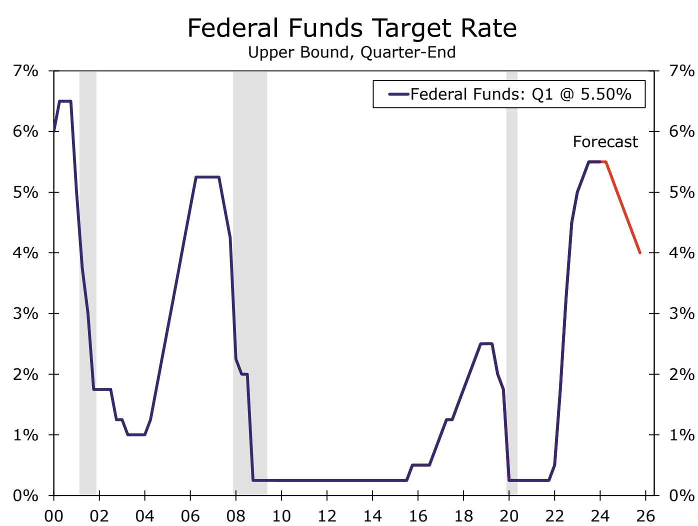
## Monetary Policy & Interest Rates

- We have pushed back our expectations for the FOMC to begin reducing the fed funds rate this year. We now look for a total of 50 bps of easing this year (previously 100 bps), with the first cut likely to come in September (previously June).
- An announcement to slow the pace of QT is likely to come in May, with a slower pace of runoff beginning in June—one month earlier than our forecast in the March monthly update.
- We now forecast the 10-year Treasury yield to end 2024 at 4.00% (3.70% previously).

Ongoing strength in activity and slow progress on inflation points to the FOMC easing less than previously expected this year. We now look for the FOMC to reduce the fed funds target range by a total of 50 bps this calendar year versus 100 bps in our prior forecast, with 25 bps cuts likely occurring at both the September and December meetings (when the FOMC releases updated economic projections). We continue to look for the Fed to ease by 25 bps per quarter next year, bringing the fed funds target range to 3.75%-4.00% by Q4-2025. An announcement to slow the pace of QT is expected to come at the conclusion of the FOMC's May 1 meeting, with the slower pace of balance sheet runoff beginning in June and continuing through year-end. Amid a later start and more modest path of fed easing this year, we have upwardly revised our estimates for Treasury yields at year-end. We now look for the yield on the 2-year and 10-year to end 2024 at 4.05% and 4.00%, respectively.




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




Source: Federal Reserve Board and Wells Fargo Economics

## Net Exports

- We now expect net exports to slice 0.6 percentage points off of real GDP growth in Q1, which is a larger drag than previously forecast.

After a quiet year in 2023, U.S. trade flows are showing some signs of life. Exports (+$5.8B) and imports (+$7.1B) ripped higher in February at rates not seen in more than a year. Modest revisions to January's data led to a wider trade deficit at the beginning of year than previously reported, which, taken together with strong import flows in February, suggests net exports are shaping up to be a sizable drag on headline growth in the first quarter. We forecast net exports to subtract 0.6 percentage points from real GDP growth in Q1, which is a larger drag than previously anticipated. Further out on the forecast horizon, we suspect net exports will modestly weigh on GDP growth as durable goods demand stabilizes and industrial production finds firmer footing.

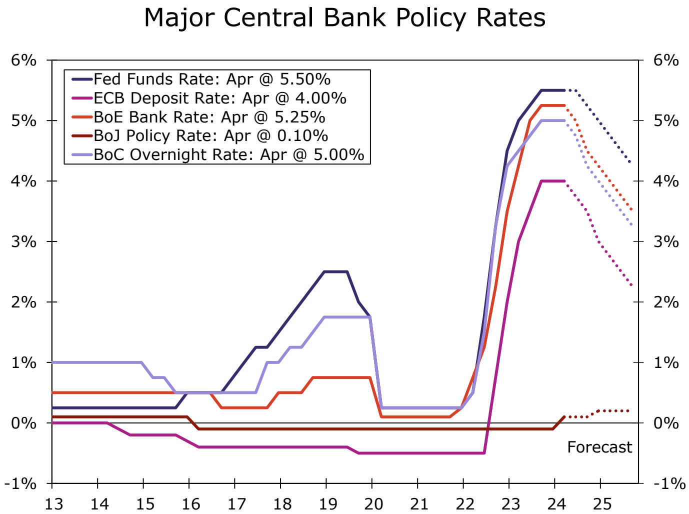
## International Developments & the U.S. Dollar

- We have revised our outlook for 2024 global GDP growth modestly higher this month, to 2.9%. That would represent only a slight slowdown from estimated global growth of 3.0% in 2023.
- Given a resilient growth outlook and gradually slowing inflation, we now forecast a more moderate pace of rate cuts from some key international central banks, including the European Central Bank (ECB) and Bank of England (BoE). We also forecast a slower pace of rate cuts from central banks in Brazil and Chile than previously.
- We expect a stronger U.S dollar to persist into late 2024. Resilient U.S. activity and Fed policy interest rates that are expected to remain higher for longer should support the greenback over the next several months. We forecast a trend of modest dollar depreciation to emerge from late this year as U.S. economic trends soften.
- For further reading on the global economy, please see our most recent International Economic Outlook.

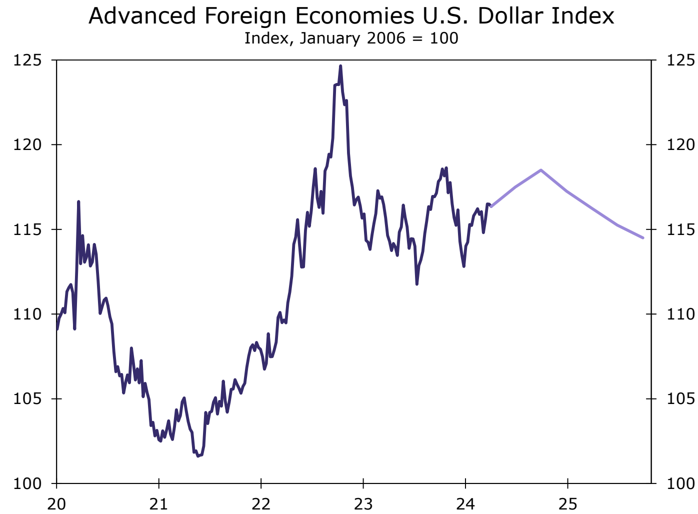
Our outlook remains for a relatively resilient global economy in 2024. We have revised our global GDP growth forecast for 2024 modestly higher this month to 2.9% (compared to a forecast of 2.8% previously). That represents only a slight slowdown from an estimated 3.0% global GDP growth in 2023. In addition to resilient U.S. economic activity so far this year, we have also revised our growth forecasts for China and Japan higher for 2024. For China, that reflects some improvement in sentiment surveys and a temporary boost to activity from the stimulus measures from authorities. For Japan, this year's more constructive growth outlook reflects firmer wage growth that should support real incomes and activity, along with upward revisions to previously reported GDP figures. Meanwhile, although our forecasts for Eurozone and United Kingdom economic growth are unchanged, improving sentiment surveys still point to strengthening activity as 2024 progresses.

Given a resilient growth outlook and gradually slowing inflation, we now see a more gradual pace of monetary easing from some key international central banks than previously. For the ECB, we still anticipate an initial 25 bps policy rate cut in June, reflecting progress on inflation to date and a soft economy around the turn of this year. However, we forecast a measured pace of ECB rate cuts during the second half of 2024, with the central bank forgoing July easing and instead delivering rate cuts in September, October and December, for a cumulative 100 bps of easing this year. The stickiness of Eurozone services inflation in particular, and core inflation to a lesser extent, along with firming Eurozone growth later this year, underpins this more gradualist approach to ECB monetary easing. For the BoE, we maintain our view for an initial rate cut in June. However, still-elevated U.K. inflation and firming U.K. economic growth mean we forecast a cumulative 100 bps of BoE rate cuts this year, which is less than previously. We also see some possibility of an initial Bank of England rate cut being delayed until the August monetary policy meeting. Finally, given some concern about elevated inflation and, in Chile's case, a weak currency, we also forecast a more gradual pace of rate cuts from central banks in Brazil and Chile compared to a month ago.

With our outlook for later Fed easing, and given resilient U.S. activity in early 2024, we believe a period of U.S. dollar strength can persist through Q3 of this year, and perhaps longer. While acknowledging a theme of gradual monetary easing is a global phenomenon, we still see that theme as more pronounced in the United States compared to some other key central banks. The initial September rate cut we forecast from the Fed is, for example, later than the initial June rate cuts we forecast from the European Central Bank, Bank of England and Bank of Canada. In addition, for the time being the relative U.S. growth outperformance compared to other major advanced economies should be supportive of U.S. dollar strength. We still forecast a trend of gradual U.S. dollar deprecation over the longer term, beginning in Q4 of this year and continuing through 2025. We expect U.S. growth outperformance to wane over time as U.S. growth slows, while other major economies gradually recover. And as the Federal Reserve also joins the trend of global monetary easing later this year, we believe that will contribute to moderate U.S. dollar depreciation over the medium term.




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




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

## Wells Fargo International Economic Forecast

| | GDP | | | | CPI | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | 2023 | 2024 | 2025 | 2022 | 2023 | 2024 | 2025 |
| Global (PPP Weights) | 3.5% | 3.0% | 2.9% | 2.7% | 8.7% | 4.5% | 3.7% | 3.4% |
| Advanced Economies[1] | 2.6% | 1.8% | 1.8% | 2.0% | 7.3% | 4.9% | 2.9% | 2.4% |
| United States | 1.9% | 2.5% | 2.6% | 2.0% | 8.0% | 4.1% | 3.3% | 2.4% |
| Eurozone | 3.4% | 0.5% | 0.6% | 1.6% | 8.4% | 5.4% | 2.2% | 2.1% |
| United Kingdom | 4.3% | 0.1% | 0.3% | 1.6% | 9.1% | 7.3% | 2.7% | 2.2% |
| Japan | 1.0% | 1.9% | 0.8% | 1.2% | 2.5% | 3.3% | 2.2% | 1.7% |
| Canada | 3.8% | 1.1% | 1.2% | 1.8% | 6.8% | 3.9% | 2.0% | 2.0% |
| Switzerland | 2.7% | 0.8% | 1.3% | 1.6% | 2.8% | 2.2% | 1.4% | 1.2% |
| Australia | 3.8% | 2.1% | 1.4% | 2.1% | 6.6% | 5.6% | 3.4% | 2.7% |
| New Zealand | 2.7% | 0.6% | 0.8% | 2.3% | 7.2% | 5.8% | 3.3% | 2.2% |
| Sweden | 2.8% | 0.0% | 0.4% | 1.7% | 8.1% | 8.6% | 2.9% | 1.9% |
| Norway | 3.3% | 1.1% | 0.8% | 1.5% | 5.8% | 5.5% | 3.4% | 2.5% |
| Developing Economies[1] | 4.1% | 3.9% | 3.7% | 3.2% | 9.8% | 4.1% | 4.2% | 4.2% |
| China | 3.0% | 5.2% | 4.8% | 4.2% | 2.0% | 0.2% | 1.0% | 1.6% |
| India | 6.5% | 7.7% | 7.2% | 6.6% | 6.7% | 5.7% | 5.0% | 4.5% |
| Mexico | 3.9% | 3.2% | 2.3% | 2.0% | 7.9% | 5.5% | 4.2% | 3.9% |
| Brazil | 3.0% | 2.9% | 1.5% | 2.0% | 9.3% | 4.8% | 4.0% | 3.6% |

Forecast as of: April 11, 2024

[1]Aggregated Using PPP Weights

Source: International Monetary Fund and Wells Fargo Economics

## Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

| Central Bank Key Policy Rate | 2024 | | | | 2025 | | |
|---|---|---|---|---|---|---|---|
| | Current | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| United States | 5.50% | 5.50% | 5.25% | 5.00% | 4.75% | 4.50% | 4.25% |
| Eurozone[1] | 4.00% | 3.75% | 3.50% | 3.00% | 2.75% | 2.50% | 2.25% |
| United Kingdom | 5.25% | 5.00% | 4.50% | 4.25% | 4.00% | 3.75% | 3.50% |
| Japan | 0.10% | 0.10% | 0.10% | 0.20% | 0.20% | 0.20% | 0.20% |
| Canada | 5.00% | 4.75% | 4.25% | 4.00% | 3.75% | 3.50% | 3.25% |
| Switzerland | 1.50% | 1.25% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| Australia | 4.35% | 4.35% | 4.10% | 3.85% | 3.60% | 3.35% | 3.10% |
| New Zealand | 5.50% | 5.50% | 5.25% | 4.75% | 4.50% | 4.00% | 3.75% |
| Sweden | 4.00% | 3.75% | 3.50% | 3.25% | 3.00% | 2.75% | 2.50% |
| Norway | 4.50% | 4.50% | 4.00% | 3.75% | 3.50% | 3.25% | 3.25% |
| China[3] | 10.00% | 10.00% | 9.50% | 9.50% | 9.00% | 9.00% | 8.50% |
| India | 6.50% | 6.50% | 6.25% | 5.75% | 5.50% | 5.50% | 5.50% |
| Mexico | 11.00% | 10.50% | 10.00% | 9.50% | 9.00% | 8.50% | 8.25% |
| Brazil | 10.75% | 10.00% | 9.50% | 9.00% | 8.50% | 8.50% | 8.50% |
| Chile | 6.50% | 5.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% |
| Colombia | 12.25% | 11.25% | 9.75% | 8.25% | 7.25% | 6.75% | 6.25% |

| 2-Year Note | 2024 | | | | 2025 | | |
|---|---|---|---|---|---|---|---|
| | Current | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| United States | 4.96% | 4.80% | 4.40% | 4.05% | 3.85% | 3.70% | 3.55% |
| Eurozone[2] | 2.97% | 2.90% | 2.80% | 2.55% | 2.45% | 2.35% | 2.25% |
| United Kingdom | 4.35% | 4.20% | 3.95% | 3.80% | 3.65% | 3.55% | 3.45% |
| Japan | 0.23% | 0.20% | 0.25% | 0.25% | 0.25% | 0.30% | 0.30% |
| Canada | 4.36% | 4.20% | 3.90% | 3.70% | 3.55% | 3.45% | 3.35% |

| 10-Year Note | 2024 | | | | 2025 | | |
|---|---|---|---|---|---|---|---|
| | Current | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| United States | 4.55% | 4.40% | 4.20% | 4.00% | 3.90% | 3.85% | 3.80% |
| Eurozone[2] | 2.44% | 2.40% | 2.35% | 2.25% | 2.25% | 2.20% | 2.20% |
| United Kingdom | 4.15% | 4.05% | 3.90% | 3.80% | 3.70% | 3.60% | 3.55% |
| Japan | 0.81% | 0.80% | 0.85% | 0.90% | 0.90% | 0.85% | 0.85% |
| Canada | 3.71% | 3.60% | 3.50% | 3.45% | 3.40% | 3.35% | 3.35% |

Forecast as of: April 11, 2024

[1] ECB Deposit Rate [2] German Government Bond Yield [3] Reserve Requirement Ratio Major Banks

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

## This Month's Economic Calendar

| Monday | Tuesday | Wednesday | Thursday | Friday |
|---|---|---|---|---|
| **April 8** | **9** | **10** | **11** | **12** |
| | **NFIB Small Business Optimism**<br>Mar 88.5<br>**Mexico CPI (YoY)**<br>Mar 4.42%<br>**Reserve Bank of New Zealand Rate Decision**<br>Prior 5.50% | **CPI (YoY)**<br>Mar 3.5%<br>**Bank of Canada Rate Decision**<br>Prior 5.00%<br>**Brazil Inflation IPCA (YoY)**<br>Mar 3.93%<br>***FOMC Minutes*** | **PPI Final Demand (MoM)**<br>Feb 0.6%<br>**European Central Bank Deposit Rate**<br>Prior 4.00% | **U. of Michigan Sentiment**<br>Mar 79.4<br>**Import Price Index (MoM)**<br>Feb 0.3% |
| ***Goolsbee and Kashkari speak*** | | ***Bowman*, Goolsbee and Barkin* speak*** | ***Williams*, Barkin*, Collins, and Bostic* speak*** | ***Schmid, Bostic*, and Daly* speak*** |
| **15** | **16** | **17** | **18** | **19** |
| **Retail Sales (MoM)**<br>Feb 0.6%<br>**China GDP (QoQ, Annualized)**<br>Q4 1.0% | **Housing Starts (SAAR)**<br>Feb 1,521K<br>**Industrial Production (MoM)**<br>Feb 0.1% | **U.K. CPI (YoY)**<br>Feb 3.4% | **Leading Economic Index (MoM)**<br>Feb 0.1%<br>**Japan Natl CPI (YoY)**<br>Feb 2.8% | **Existing Home Sales (SAAR)**<br>Feb 4.38M |
| ***Logan and Daly* speak*** | ***Jefferson* speaks*** | ***Beige Book; Mester* and Bowman* speak*** | ***Bowman*, Williams*, and Bostic* speak*** | ***Goolsbee speaks*** |
| **22** | **23** | **24** | **25** | **26** |
| | **New Home Sales (SAAR)**<br>Feb 662K | **Durable Goods (MoM)**<br>Feb 1.3% | **GDP (QoQ, Annualized)**<br>Q4 3.4%<br>**Japan Rate Decision (Upper Bound)**<br>Prior 0.10% | **Personal Income & Spending (MoM)**<br>Feb 0.3%; 0.8% |
| **29** | **30** | **May 1** | **2** | **3** |
| | **Employment Cost Index (QoQ)**<br>Q1 0.9%<br>**Consumer Confidence**<br>Mar 104.7<br>**Eurozone GDP (QoQ, Annualized)**<br>Q4 0.0%<br>**Eurozone CPI (YoY)**<br>Mar 2.4% | **JOLTS Job Openings**<br>Feb 8,756K<br>**ISM Manufacturing**<br>Mar 50.3<br>**FOMC Rate Decision (Upper Bound)**<br>Prior 5.50% | **Trade Balance**<br>Feb -$68.9B<br>**Nonfarm Productivity (QoQ, Annualized)**<br>Q4 3.2% | **Nonfarm Payrolls**<br>Mar 303K<br>**ISM Services**<br>Mar 51.4 |

**Note: * = voting FOMC member in 2024, Purple = Market Moving Releases**

Source: Bloomberg Finance L.P., Federal Reserve System, U.S. Department of Labor, U.S. Department of Commerce, Institute for Supply Management, Conference Board and Wells Fargo Economics

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