Monthly — September 12, 2024

# U.S. Economic Outlook: September 2024

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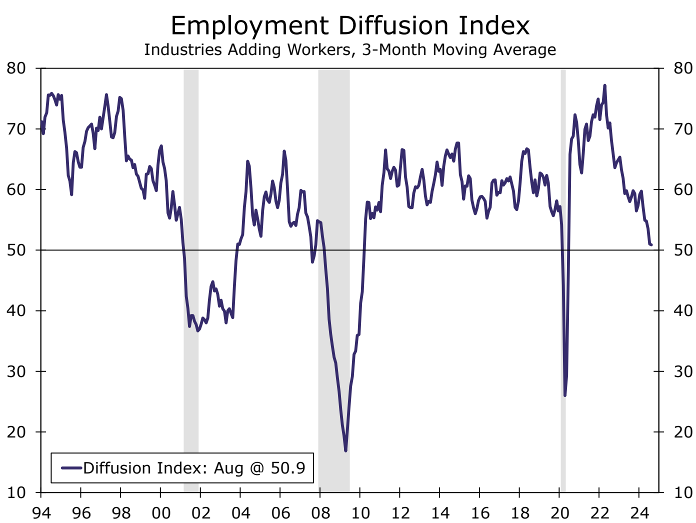
## On a Knife-Edge

- The U.S. employment and inflation data have made it clear the FOMC will reduce the federal funds rate at its meeting on Sept. 17-18, the first reduction in the Federal Reserve's policy rate since March 2020. Nonfarm payrolls have increased by just 116K per month over the past three months, the slowest pace since the onset of the pandemic, and the underlying trends in the unemployment and under-employment rates continue to be upward.
- On the inflation side of the Federal Reserve's dual mandate, the core PCE deflator has risen 2.6% over the past year and at just a 1.7% annualized pace over the past three months. Furthermore, we think price growth will continue to slow gradually in the months ahead.
- The labor market is still expanding, and with it the U.S. economy is too, but the former is hanging on a knife-edge at present. If the labor market deteriorates further, the recent run of solid economic growth would be under threat. FOMC Chair Jerome Powell made clear in a recent speech at Jackson Hole that "we do not seek or welcome further cooling in labor market conditions." In order to achieve that, we think the FOMC will need to move to a less-restrictive stance of monetary policy in a relatively short period of time.
- The big question heading into next week's FOMC meeting is whether the Committee will adopt a standard-sized 25 bps move or a larger 50 bps cut. We expect a 25 bps reduction in the federal funds rate on Sept. 18 based on our sense of the FOMC's reaction function at this point in time. That said, it would not shock us if the Committee opted to move by 50 bps next week, and it is still our expectation that 50 bps cuts are coming at some point.
- Our base case forecast looks for a 25 bps reduction in the federal funds rate at the September FOMC meeting followed by two 50 bps rate cuts at the November and December FOMC meetings. If realized, this would put the target range for the federal funds rate at 4.00%-4.25% at year-end. By most estimates, including ours and the FOMC's, this would still be above the "neutral rate" that separates restrictive from accommodative monetary policy. We believe that the 225 bps of cumulative monetary policy easing that we project over the next nine months or so will be enough to keep this economic expansion intact.

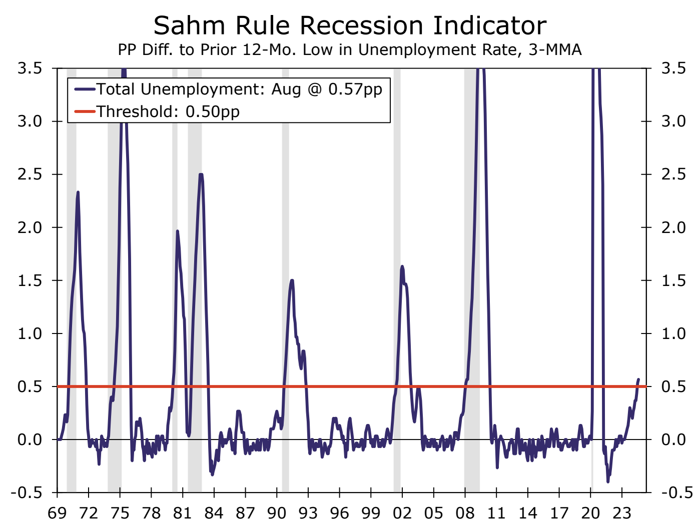
## On a Knife-Edge

U.S. employment and inflation data continue to argue for a front-loaded pace of monetary policy easing, in our view. All evidence points to the labor market having cooled considerably from its hottest point in early 2022. In recent months, that cooling has come perilously close to being too cold. Nonfarm payrolls have increased by an average of only 116K per month over the past three months. This marks the slowest pace of job growth since June 2020, when U.S. employment was still digging out of the deep hole dug by the pandemic. As employment has decelerated, hiring also has narrowed significantly. The employment diffusion index, a measure of the breadth of hiring across industries where higher numbers imply more broad-based hiring, is approaching levels that are more consistent with recession than expansion (chart).

The jobless rate fell by one-tenth of a percentage point in August, as a jump in unemployment in July due to temporary layoffs mostly reversed. However, even with the downtick, the unemployment rate-based Sahm Rule recession indicator is still above the historical threshold associated with recession (chart). Under-employment continues to move up as well, with the broader U-6 unemployment measure—which includes people who are working part-time but would like full-time work—rising to a new cycle high of 7.9%. The softening in the labor market data stretches beyond just the most widely followed employment indicators. There are currently 1.1 job openings per unemployed worker, down from 2.0 at the peak in 2022 and slightly below the average of 1.2 in 2019. Surveys of households signal that workers increasingly view jobs as scarce rather than plentiful, and anecdotal evidence from sources such as the Fed's Beige Book is pointing to less demand and more selectivity among employers.




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



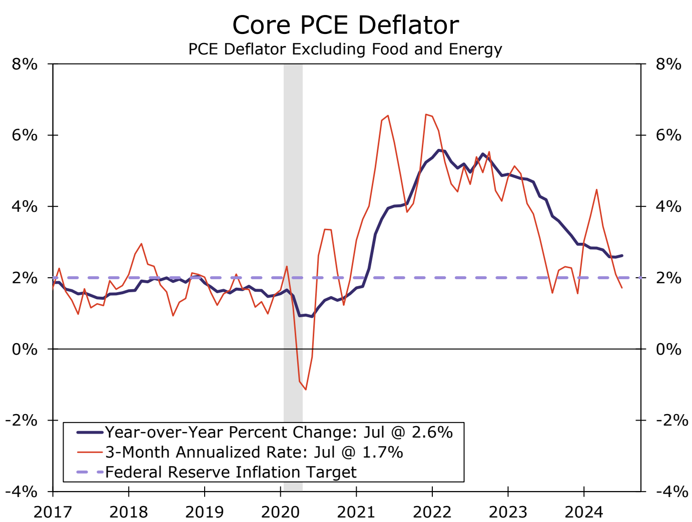

Source: U.S. Department of Labor and Wells Fargo Economics

If the inflation side of the Federal Reserve's mandate were not cooperating, the decision to start cutting interest rates might be more vexing. Fortunately for policymakers on the FOMC, this is not currently the case. Over the past 12 months, the core PCE deflator has increased by 2.6% (chart). This is admittedly still above the central bank's 2% inflation target, but it marks a major decline from the 5%-6% inflation rates that prevailed in 2021 and 2022. The recent data have been even more encouraging. Over the past three months, the core PCE deflator has increased at just a 1.7% annualized rate. Furthermore, we think price growth will continue to slow gradually in the months ahead. At the micro level, there are sectors such as housing and motor vehicle insurance where pandemic-era distortions are still being unwound. And at the macro level, the ongoing cooling in the labor market should be consistent with decelerating wages and a more benign inflation environment relative to the past few years.

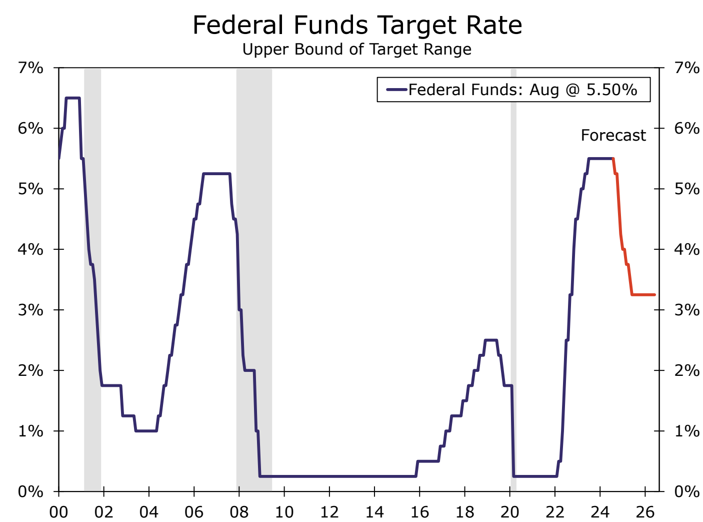
This leaves the FOMC in a position where the consensus among Committee members likely will be in favor of reducing the federal funds rate at next week's meeting. Recent communication from Fed officials has signaled that this will be the case. On Sept. 6, Governor Christopher Waller, a key bellwether member of the FOMC, gave a speech in which he made the case that the time has come to start cutting the federal funds rate. The bigger question is whether the Committee will adopt a standard-sized 25 bps move or a larger 50 bps cut. We expect a 25 bps reduction in the federal funds rate on Sept. 18 based on our sense of the FOMC's reaction function at this point in time.

That said, it would not shock us if the Committee opted to move by 50 bps next week, and it is still our expectation that 50 bps cuts are coming at some point. The labor market is still expanding, and with it the U.S. economy is too, but the former is hanging on a knife-edge at present. Real GDP in the United States grew at a trend-like 2.2% annualized pace in the first half of the year. If the labor market deteriorates further, this recent run of solid economic growth would be under threat. FOMC Chair Jerome Powell made clear in a recent speech at Jackson Hole that "we do not seek or welcome further cooling in labor market conditions." In order to achieve that, we think the FOMC will need to move to a less-restrictive stance of monetary policy in a relatively short period of time.

Accordingly, our base case forecast looks for a 25 bps reduction in the federal funds rate at the September FOMC meeting followed by two 50 bps rate cuts at the November and December FOMC meetings. If realized, this would put the target range for the federal funds rate at 4.00%-4.25% at year-end (chart). By most estimates, including ours and the FOMC's, this would still be above the "neutral rate" that separates restrictive from accommodative monetary policy. We believe that the 225 bps of cumulative monetary policy easing that we project over the next nine months or so will help the U.S. economy through a soft patch and stimulate real GDP growth somewhat in the second half of next year and into 2026.




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




Source: Federal Reserve Board and Wells Fargo Economics

# U.S. Forecast Table

| Wells Fargo U.S. Economic Forecast | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actual | | | | | | | | Forecast | | | | | | | | Actual | Forecast | | |
| | 2023 | | | | 2024 | | | | 2025 | | | | 2026 | | | | 2023 | 2024 | 2025 | 2026 |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Real Gross Domestic Product (a) | 2.2 | 2.1 | 4.9 | 3.4 | 1.4 | 3.0 | 2.6 | 1.0 | 1.1 | 1.9 | 2.8 | 2.9 | 2.6 | 2.7 | 2.6 | 2.5 | 2.5 | 2.7 | 1.9 | 2.6 |
| Personal Consumption | 3.8 | 0.8 | 3.1 | 3.3 | 1.5 | 2.9 | 3.5 | 1.2 | 1.3 | 1.8 | 2.4 | 2.5 | 2.2 | 2.3 | 2.2 | 2.4 | 2.2 | 2.5 | 1.9 | 2.3 |
| Business Fixed Investment | 5.7 | 7.4 | 1.4 | 3.7 | 4.4 | 4.6 | 4.2 | 0.4 | 2.4 | 4.2 | 7.1 | 7.0 | 6.3 | 6.3 | 6.3 | 6.2 | 4.5 | 3.9 | 3.6 | 6.4 |
| Equipment | -4.1 | 7.7 | -4.4 | -1.1 | 1.6 | 10.8 | 8.8 | 0.4 | 3.5 | 5.9 | 9.3 | 7.3 | 6.2 | 6.6 | 6.7 | 7.0 | -0.3 | 3.2 | 5.4 | 6.9 |
| Intellectual Property Products | 3.8 | 2.7 | 1.8 | 4.3 | 7.7 | 2.6 | 4.0 | 2.5 | 4.0 | 5.6 | 7.4 | 8.6 | 7.5 | 7.4 | 7.4 | 7.5 | 4.5 | 4.2 | 4.6 | 7.5 |
| Structures | 30.3 | 16.1 | 11.2 | 10.9 | 3.4 | -1.6 | -3.8 | -4.1 | -3.5 | -2.3 | 1.8 | 2.7 | 3.8 | 3.1 | 2.9 | 1.5 | 13.2 | 4.0 | -2.3 | 2.6 |
| Residential Investment | -5.3 | -2.2 | 6.7 | 2.8 | 16.0 | -2.0 | -6.4 | -2.1 | 2.8 | 3.9 | 4.6 | 5.2 | 3.9 | 3.4 | 3.1 | 2.8 | -10.6 | 3.6 | 0.9 | 4.0 |
| Government Purchases | 4.8 | 3.3 | 5.8 | 4.6 | 1.8 | 2.7 | 2.0 | 1.7 | 1.5 | 1.2 | 1.2 | 1.0 | 1.1 | 0.9 | 0.8 | 0.8 | 4.1 | 3.1 | 1.5 | 1.0 |
| Net Exports | -935.1 | -928.2 | -930.7 | -918.5 | -960.3 | -1010.2 | -1043.7 | -1045.5 | -1055.6 | -1081.5 | -1099.5 | -1114.6 | -1129.8 | -1140.9 | -1150.9 | -1167.4 | -928.1 | -1014.9 | -1087.8 | -1147.3 |
| Pct. Point Contribution to GDP | 0.6 | 0.0 | 0.0 | 0.3 | -0.7 | -0.8 | -0.6 | 0.0 | -0.2 | -0.4 | -0.3 | -0.3 | -0.3 | -0.2 | -0.2 | -0.3 | 0.6 | -0.4 | -0.3 | -0.3 |
| Inventory Change | 27.2 | 14.9 | 77.8 | 54.9 | 28.6 | 69.0 | 71.2 | 66.2 | 51.4 | 59.3 | 61.3 | 63.3 | 65.3 | 68.2 | 70.0 | 68.0 | 43.7 | 58.8 | 58.8 | 67.9 |
| Pct. Point Contribution to GDP | -2.2 | 0.0 | 1.3 | -0.5 | -0.4 | 0.8 | 0.0 | -0.1 | -0.3 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.4 | 0.1 | 0.0 | 0.0 |
| Nominal GDP (a) | 6.3 | 3.8 | 8.3 | 5.1 | 4.5 | 5.5 | 4.0 | 2.7 | 3.6 | 4.2 | 4.9 | 5.0 | 4.7 | 4.7 | 4.6 | 4.5 | 6.3 | 5.1 | 4.0 | 4.7 |
| Real Final Sales | 4.6 | 2.1 | 3.6 | 3.9 | 1.8 | 2.2 | 2.6 | 1.1 | 1.4 | 1.7 | 2.7 | 2.8 | 2.5 | 2.6 | 2.6 | 2.6 | 2.9 | 2.7 | 2.0 | 2.6 |
| Retail Sales (b) | 5.1 | 1.9 | 3.4 | 4.0 | 2.0 | 2.5 | 2.0 | 1.3 | 1.8 | 2.0 | 1.7 | 2.5 | 3.1 | 3.3 | 3.5 | 3.5 | 3.6 | 1.9 | 2.0 | 3.4 |
| Inflation Indicators (b) | | | | | | | | | | | | | | | | | | | | |
| PCE Deflator | 5.0 | 3.9 | 3.3 | 2.8 | 2.6 | 2.6 | 2.3 | 2.2 | 2.0 | 2.0 | 2.2 | 2.2 | 2.1 | 2.0 | 2.0 | 2.0 | 3.7 | 2.4 | 2.1 | 2.0 |
| "Core" PCE Deflator | 4.8 | 4.6 | 3.8 | 3.2 | 2.9 | 2.6 | 2.6 | 2.7 | 2.3 | 2.2 | 2.3 | 2.3 | 2.2 | 2.1 | 2.0 | 2.0 | 4.1 | 2.7 | 2.3 | 2.1 |
| Consumer Price Index | 5.7 | 4.0 | 3.6 | 3.2 | 3.2 | 3.2 | 2.6 | 2.5 | 2.2 | 2.1 | 2.4 | 2.5 | 2.4 | 2.3 | 2.3 | 2.3 | 4.1 | 2.9 | 2.3 | 2.3 |
| "Core" Consumer Price Index | 5.5 | 5.2 | 4.4 | 4.0 | 3.8 | 3.4 | 3.2 | 3.1 | 2.6 | 2.5 | 2.6 | 2.5 | 2.5 | 2.5 | 2.4 | 2.4 | 4.8 | 3.4 | 2.6 | 2.4 |
| Producer Price Index (Final Demand) | 4.4 | 1.3 | 1.6 | 1.0 | 1.5 | 2.5 | 1.9 | 2.3 | 2.1 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.1 | 2.0 | 2.0 |
| Employment Cost Index | 4.8 | 4.5 | 4.3 | 4.2 | 4.2 | 4.1 | 4.0 | 3.9 | 3.7 | 3.6 | 3.6 | 3.5 | 3.4 | 3.5 | 3.5 | 3.5 | 4.5 | 4.0 | 3.6 | 3.5 |
| Real Disposable Income (a) | 10.8 | 3.3 | 0.5 | 0.9 | 1.3 | 1.0 | 1.6 | 1.9 | 2.5 | 2.1 | 2.3 | 2.7 | 3.1 | 2.5 | 2.6 | 2.6 | 4.1 | 1.3 | 2.1 | 2.7 |
| Nominal Personal Income (a) | 6.8 | 4.0 | 3.9 | 2.8 | 7.0 | 4.0 | 3.3 | 3.7 | 5.0 | 4.4 | 4.5 | 4.9 | 5.3 | 4.5 | 4.6 | 4.6 | 5.1 | 4.4 | 4.3 | 4.8 |
| Industrial Production (a) | 0.0 | 0.3 | 1.2 | -1.8 | -1.8 | 3.4 | -0.4 | 0.7 | 0.3 | 1.2 | 3.6 | 5.1 | 3.7 | 2.5 | 2.2 | 1.8 | 0.2 | 0.0 | 1.3 | 3.3 |
| Capacity Utilization | 79.6 | 79.1 | 78.9 | 78.3 | 77.7 | 78.2 | 77.9 | 78.1 | 77.9 | 77.9 | 78.4 | 79.1 | 79.6 | 79.8 | 80.0 | 80.1 | 79.0 | 78.0 | 78.3 | 79.9 |
| Corporate Profits Before Taxes (b) | 4.6 | -2.7 | -0.6 | 5.1 | 6.4 | 8.0 | 4.3 | 3.0 | 3.0 | 3.5 | 4.0 | 3.0 | 5.0 | 4.7 | 4.5 | 4.2 | 1.5 | 5.4 | 3.4 | 4.6 |
| Corporate Profits After Taxes | 3.6 | -4.1 | -2.1 | 3.8 | 5.3 | 6.6 | 3.5 | 2.1 | 3.3 | 3.9 | 3.8 | 2.9 | 5.1 | 4.7 | 4.5 | 4.2 | 0.2 | 4.3 | 3.5 | 4.6 |
| Federal Budget Balance (c) | -680 | -292 | -303 | -510 | -555 | -204 | -582 | -534 | -740 | -255 | -421 | -572 | -788 | -286 | -454 | -598 | -1696 | -1850 | -1950 | -2100 |
| Trade Weighted Dollar Index (d) | 116.2 | 114.7 | 117.0 | 114.6 | 115.8 | 117.3 | 116.3 | 116.0 | 114.3 | 113.3 | 114.0 | 115.5 | 117.0 | 118.5 | 119.5 | 120.5 | 115.4 | 116.3 | 114.3 | 118.9 |
| Nonfarm Payroll Change (e) | 305 | 274 | 213 | 212 | 267 | 147 | 114 | 105 | 112 | 125 | 133 | 142 | 145 | 145 | 140 | 140 | 251 | 158 | 128 | 143 |
| Unemployment Rate | 3.5 | 3.6 | 3.7 | 3.7 | 3.8 | 4.0 | 4.3 | 4.5 | 4.4 | 4.3 | 4.3 | 4.2 | 4.1 | 4.1 | 4.0 | 4.0 | 3.6 | 4.1 | 4.3 | 4.0 |
| Housing Starts (f) | 1.37 | 1.46 | 1.38 | 1.48 | 1.41 | 1.34 | 1.34 | 1.40 | 1.42 | 1.42 | 1.43 | 1.44 | 1.46 | 1.48 | 1.50 | 1.51 | 1.42 | 1.37 | 1.43 | 1.49 |
| Light Vehicle Sales (g) | 15.0 | 15.8 | 15.7 | 15.7 | 15.3 | 15.7 | 15.6 | 15.6 | 15.9 | 16.3 | 16.7 | 16.9 | 17.0 | 17.1 | 17.2 | 17.4 | 15.5 | 15.5 | 16.5 | 17.1 |
| Crude Oil - Brent - Front Contract (h) | 81.9 | 77.6 | 85.3 | 82.3 | 81.2 | 84.4 | 80.8 | 72.7 | 74.7 | 78.7 | 80.0 | 78.3 | 78.0 | 79.7 | 79.7 | 78.0 | 81.8 | 79.7 | 77.9 | 78.8 |
| Quarter-End Interest Rates (i) | | | | | | | | | | | | | | | | | | | | |
| Federal Funds Target Rate (j) | 5.00 | 5.25 | 5.50 | 5.50 | 5.50 | 5.50 | 5.25 | 4.25 | 3.75 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 5.23 | 5.13 | 3.38 | 3.25 |
| Secured Overnight Financing Rate | 4.87 | 5.09 | 5.31 | 5.38 | 5.34 | 5.33 | 5.10 | 4.15 | 3.65 | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 | 5.01 | 4.98 | 3.28 | 3.15 |
| Prime Rate | 8.00 | 8.25 | 8.50 | 8.50 | 8.50 | 8.50 | 8.25 | 7.25 | 6.75 | 6.25 | 6.25 | 6.25 | 6.25 | 6.25 | 6.25 | 6.25 | 8.23 | 8.13 | 6.38 | 6.25 |
| Conventional Mortgage Rate | 6.54 | 6.71 | 7.20 | 6.82 | 6.82 | 6.92 | 6.30 | 6.15 | 5.95 | 5.80 | 5.65 | 5.55 | 5.50 | 5.55 | 5.60 | 5.65 | 6.80 | 6.55 | 5.74 | 5.58 |
| 3 Month Bill | 4.85 | 5.43 | 5.55 | 5.40 | 5.46 | 5.48 | 4.85 | 3.95 | 3.40 | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 | 5.28 | 4.94 | 3.21 | 3.15 |
| 6 Month Bill | 4.94 | 5.47 | 5.53 | 5.26 | 5.38 | 5.33 | 4.50 | 3.70 | 3.30 | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 | 3.20 | 5.28 | 4.73 | 3.19 | 3.16 |
| 1 Year Bill | 4.64 | 5.40 | 5.46 | 4.79 | 5.03 | 5.09 | 3.95 | 3.50 | 3.25 | 3.15 | 3.15 | 3.15 | 3.15 | 3.15 | 3.20 | 3.25 | 5.08 | 4.39 | 3.18 | 3.19 |
| 2 Year Note | 4.06 | 4.87 | 5.03 | 4.23 | 4.59 | 4.71 | 3.60 | 3.40 | 3.25 | 3.20 | 3.20 | 3.20 | 3.20 | 3.20 | 3.25 | 3.30 | 4.58 | 4.08 | 3.21 | 3.24 |
| 5 Year Note | 3.60 | 4.13 | 4.60 | 3.84 | 4.21 | 4.33 | 3.55 | 3.45 | 3.35 | 3.30 | 3.25 | 3.25 | 3.25 | 3.30 | 3.35 | 3.40 | 4.06 | 3.89 | 3.29 | 3.33 |
| 10 Year Note | 3.48 | 3.81 | 4.59 | 3.88 | 4.20 | 4.36 | 3.70 | 3.60 | 3.50 | 3.45 | 3.40 | 3.40 | 3.40 | 3.45 | 3.50 | 3.55 | 3.96 | 3.97 | 3.44 | 3.48 |
| 30 Year Bond | 3.67 | 3.85 | 4.73 | 4.03 | 4.34 | 4.51 | 4.00 | 3.90 | 3.85 | 3.80 | 3.75 | 3.75 | 3.75 | 3.80 | 3.85 | 3.90 | 4.09 | 4.19 | 3.79 | 3.83 |

Forecast as of: September 12, 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 | | |
| | 2023 | | | | 2024 | | | | 2025 | | | | 2026 | | | | 2023 | 2024 | 2025 | 2026 |
| | 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 | 0.11 | 0.48 | -0.29 | -0.03 | -0.22 | -0.04 | -0.10 | | | | | 0.00 | 0.06 | -0.05 | |
| Personal Consumption | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.58 | 1.20 | 0.17 | 0.04 | 0.00 | 0.00 | -0.08 | | | | | 0.00 | 0.27 | 0.22 | |
| Business Fixed Investment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.61 | 2.52 | -0.30 | -0.47 | -11.93 | 12.12 | -0.43 | | | | | 0.00 | 0.19 | -0.86 | |
| Equipment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.72 | 6.84 | 0.00 | 0.00 | -0.02 | -0.01 | 0.02 | | | | | 0.00 | 0.72 | 0.79 | |
| Intellectual Property Products | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -1.92 | -0.01 | -0.01 | 0.00 | 0.00 | 0.00 | -0.01 | | | | | 0.00 | -0.37 | -0.12 | |
| Structures | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1.78 | 0.00 | -1.50 | -2.40 | -5.40 | -2.10 | -2.40 | | | | | 0.00 | 0.26 | -2.18 | |
| Residential Investment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.68 | -5.50 | -4.70 | -0.50 | -0.20 | 0.10 | 0.10 | | | | | 0.00 | -1.18 | -1.81 | |
| Government Purchases | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.41 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | | | 0.00 | -0.08 | -0.02 | |
| Net Exports | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -3.2 | -44.9 | -46.8 | -45.3 | -49.2 | -48.8 | -46.3 | | | | | 0.00 | -23.71 | -47.39 | |
| Pct. Point Contribution to GDP | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.05 | -0.73 | -0.03 | 0.03 | -0.07 | 0.01 | 0.04 | | | | | 0.00 | -0.11 | -0.10 | |
| Inventory Change | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -2.4 | 10.0 | 0.1 | 0.1 | 0.1 | 0.1 | -1.9 | | | | | 0.00 | 1.93 | -0.42 | |
| Pct. Point Contribution to GDP | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.04 | 0.21 | -0.17 | 0.00 | 0.00 | 0.00 | -0.03 | | | | | 0.00 | 0.01 | -0.01 | |
| Nominal GDP | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.34 | 0.35 | -0.44 | 0.02 | -0.21 | -0.07 | -0.14 | | | | | 0.00 | 0.08 | -0.07 | |
| Real Final Sales | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.15 | 0.26 | -0.12 | -0.03 | -0.22 | -0.04 | -0.07 | | | | | 0.00 | 0.05 | -0.04 | |
| Retail Sales (b) | 0.00 | 0.01 | 0.04 | 0.00 | 0.00 | -0.09 | 0.63 | 0.76 | 0.80 | 1.05 | 0.41 | 0.31 | | | | | 0.01 | 0.33 | 0.64 | |
| Inflation Indicators (b) | | | | | | | | | | | | | | | | | | | | |
| PCE Deflator | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.03 | -0.06 | -0.09 | -0.08 | -0.05 | -0.03 | 0.00 | | | | | 0.00 | -0.04 | -0.04 | |
| "Core" PCE Deflator | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.03 | -0.01 | 0.01 | 0.01 | 0.03 | 0.00 | -0.04 | | | | | 0.00 | -0.01 | 0.00 | |
| Consumer Price Index | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.04 | -0.06 | -0.04 | -0.03 | 0.01 | 0.03 | | | | | 0.00 | -0.03 | -0.01 | |
| "Core" Consumer Price Index | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.05 | 0.13 | 0.13 | 0.12 | 0.06 | -0.04 | | | | | 0.00 | 0.05 | 0.07 | |
| Producer Price Index (Final Demand) | 0.00 | 0.00 | 0.00 | 0.00 | 0.03 | 0.11 | 0.00 | -0.03 | -0.11 | -0.22 | -0.11 | -0.08 | | | | | 0.00 | 0.02 | -0.13 | |
| Employment Cost Index | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.02 | | | | | 0.00 | 0.00 | -0.01 | |
| Real Disposable Income (a) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.04 | 0.01 | 0.20 | 0.22 | 0.02 | 0.08 | 0.04 | | | | | 0.00 | 0.02 | 0.11 | |
| Nominal Personal Income (a) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.07 | 0.17 | 0.06 | 0.28 | 0.04 | 0.05 | 0.00 | | | | | 0.00 | 0.01 | 0.11 | |
| Industrial Production (a) | 0.00 | 0.00 | 0.00 | 0.00 | 0.28 | -0.88 | -3.76 | 0.00 | 0.00 | 0.00 | 0.00 | -0.35 | | | | | 0.00 | -0.56 | -0.54 | |
| Capacity Utilization | 0.00 | 0.00 | 0.00 | 0.00 | 0.05 | -0.11 | -0.91 | -0.91 | -0.91 | -0.91 | -0.92 | -0.99 | | | | | 0.00 | -0.47 | -0.93 | |
| Corporate Profits Before Taxes (b) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3.67 | 1.80 | 3.00 | 1.00 | -1.00 | 0.00 | 0.00 | | | | | 0.00 | 2.13 | 0.01 | |
| Corporate Profits After Taxes | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2.50 | 1.45 | 2.56 | 0.72 | -0.48 | -0.14 | -0.09 | | | | | 0.00 | 1.64 | 0.00 | |
| Federal Budget Balance (c) | 0.00 | 0.00 | -0.27 | 0.00 | 0.00 | 0.00 | 0.00 | -0.03 | -0.15 | 0.23 | -0.05 | -12.08 | | | | | -0.27 | 0.00 | 0.00 | |
| Trade Weighted Dollar Index (d) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -1.25 | -0.50 | -1.25 | -1.50 | -0.25 | 1.75 | | | | | 0.00 | -0.44 | -0.31 | |
| Nonfarm Payroll Change (e) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -20.33 | -4.33 | 0.00 | 0.00 | 0.00 | 1.67 | 1.67 | | | | | 0.00 | -6.17 | 0.83 | |
| Unemployment Rate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 | -0.02 | | | | | 0.00 | -0.01 | -0.01 | |
| Housing Starts (f) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.01 | -0.12 | -0.07 | -0.06 | -0.06 | -0.06 | -0.06 | | | | | 0.00 | -0.05 | -0.07 | |
| Light Vehicle Sales (g) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.01 | 0.03 | 0.00 | 0.13 | 0.03 | -0.08 | | | | | 0.00 | 0.00 | 0.02 | |
| Crude Oil - Brent - Front Contract (h) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.88 | -0.50 | -0.50 | -0.50 | -0.50 | -0.17 | | | | | 0.00 | 0.10 | -0.42 | |
| Quarter-End Interest Rates (i) | | | | | | | | | | | | | | | | | | | | |
| Federal Funds Target Rate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.25 | 0.00 | 0.00 | -0.25 | -0.25 | -0.25 | | | | | 0.00 | 0.06 | -0.19 | |
| Secured Overnight Financing Rate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.25 | 0.05 | 0.05 | -0.20 | -0.20 | -0.20 | | | | | 0.00 | 0.08 | -0.14 | |
| Prime Rate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.25 | 0.00 | 0.00 | -0.25 | -0.25 | -0.25 | | | | | 0.00 | 0.06 | -0.19 | |
| Conventional Mortgage Rate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.10 | -0.10 | -0.15 | -0.15 | -0.20 | -0.25 | | | | | 0.00 | -0.05 | -0.19 | |
| 3 Month Bill | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.30 | 0.00 | -0.20 | -0.20 | -0.20 | -0.20 | | | | | 0.00 | 0.08 | -0.20 | |
| 6 Month Bill | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.25 | -0.05 | -0.20 | -0.20 | -0.20 | -0.20 | | | | | 0.00 | 0.05 | -0.20 | |
| 1 Year Bill | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.15 | -0.20 | -0.20 | -0.20 | -0.20 | | | | | 0.00 | -0.04 | -0.20 | |
| 2 Year Note | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.20 | -0.20 | -0.25 | -0.20 | -0.20 | -0.20 | | | | | 0.00 | -0.10 | -0.21 | |
| 5 Year Note | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.10 | -0.10 | -0.15 | -0.15 | -0.20 | -0.25 | | | | | 0.00 | -0.05 | -0.19 | |
| 10 Year Note | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.10 | -0.10 | -0.15 | -0.15 | -0.20 | -0.25 | | | | | 0.00 | -0.05 | -0.19 | |
| 30 Year Bond | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.05 | -0.10 | -0.10 | -0.10 | -0.15 | -0.20 | | | | | 0.00 | -0.04 | -0.14 | |

Forecast as of: September 12, 2024

Notes: (a) Compound Annual Growth Rate Quart (e) Average Monthly Change
(b) Year-over-Year Percentage Chanc (f) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Houses Started
(c) Quarterly Sum - Billions USD; Anr (g) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Vehicles Sold
(d) Federal Reserve Advanced Foreig (h) Quarterly Average of Daily Close

(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

- A strong July has led us to lift our estimate of Q3 real personal consumption expenditure growth to a 3.5% annualized rate, up from 2.3% previously.

Consumers keep spending. Real personal consumption expenditures (PCE) rose 0.4% in July, and while auto purchases were responsible for around 40% of the overall gain, services spending remained solid. This gain also positions real spending to be much stronger in the third quarter than we had penciled in previously. Consider that if growth was flat in the remaining two months of the quarter, real PCE would rise at a 3.0% annualized pace. Assuming some modest growth, we now look for real PCE to rise 3.5%, up from our previous estimate of 2.3%.

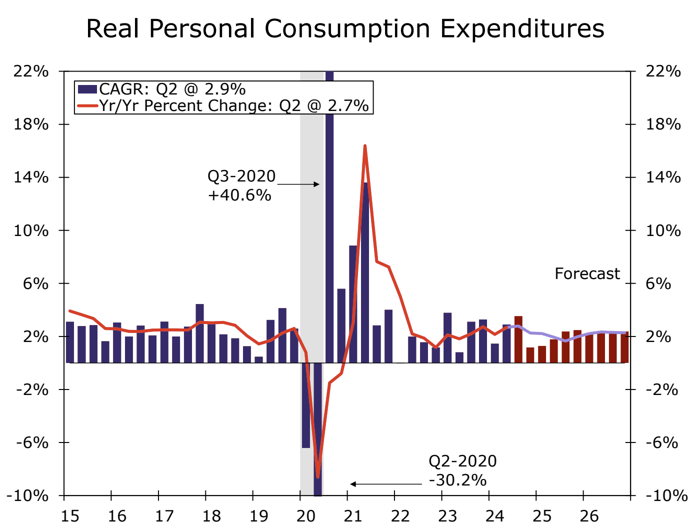
Beyond the near-term adjustments, in rolling our forecast out to 2026, we have real spending rising at an annual average of 2.3%, which is a touch below the prior cycle (2010-19) pre-pandemic average. This pace of spending is slightly below our trajectory for income growth, which suggests a modest uptick in the personal saving rate over our forecast horizon. But make no mistake, we are not assuming households materially change their behavior. The saving rate remains well-below pre-pandemic levels. Absent a negative growth shock, consumers are unlikely to reassess spending and start saving significantly more.

## Investment: Equipment, Intellectual Property Products and Inventories

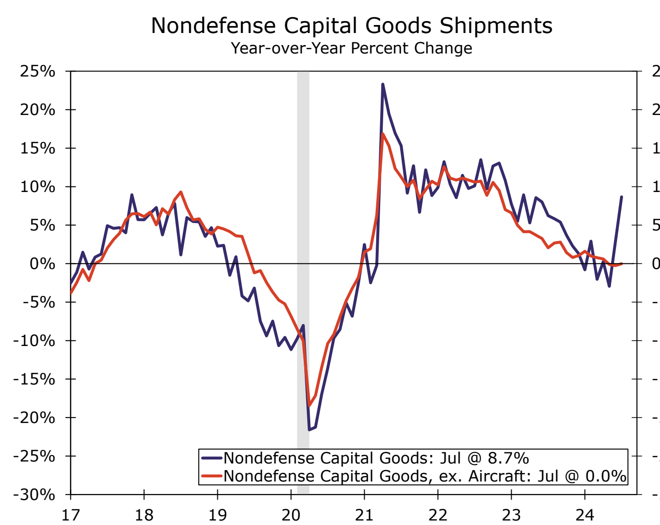
- We have lifted our equipment investment forecast on strong shipments data for July. We have made no changes to our real intellectual property products forecast.

Business investment spending is shaping up for a solid third quarter of growth. We have revised our real equipment forecast up and now look for spending to advance at an 8.8% annualized clip in Q3 (2.0% previously). Strength stems from aircraft shipments specifically, which have been more volatile than usual. Nondefense capital goods shipments rose nearly 5% in July, and when excluding aircraft, shipments were down modestly (-0.3%). Even baking in some payback in August, real equipment is tracking for a decent quarter, though it will still likely be some time before we see a sustained capex recovery. We have left our expectations for intellectual property products unchanged. Uncertainty around both the degree of Fed easing and the outcome of the 2024 U.S. presidential election are the biggest factors holding back capex today. Fed easing should provide some support to capex spending generally, although with a lag.

Further out, we see capex spending rising at a decent clip. For 2026, we have real equipment running in line with pre-pandemic growth rates, though the quarterly figures are likely to evolve in a more volatile pattern than we have drafted. We look for intellectual property products spending to remain more robust than previously estimated amid sustained support from a transition to automation and technological advancements, which is evident in the faster 2026 growth rates.




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




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

## Investment: Residential

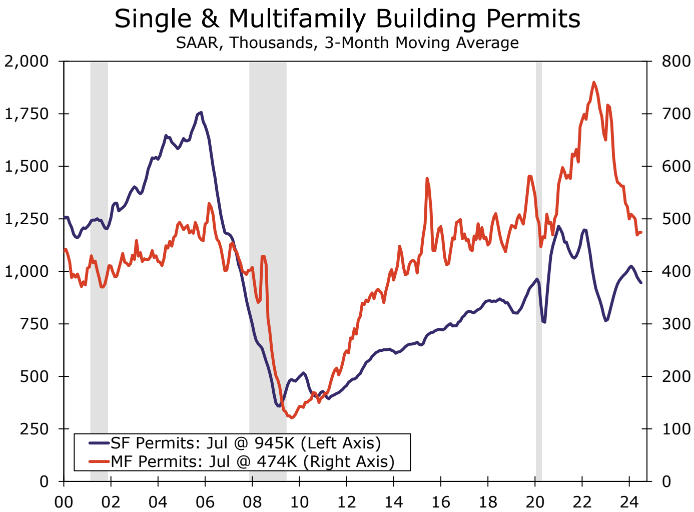
- We have lowered our near-term outlook for fixed residential investment as high financing costs continue to challenge multifamily development and single-family building remains on a downtrend. With Fed easing and a subsequent relief in financing costs on the horizon, the outlook for residential investment should improve next year.

Residential investment appears poised for a turnaround next year as Fed easing gives way to lower mortgage rates. Lower rate expectations have brought the 30-year fixed mortgage rate to around 6.3%, according to Freddie Mac. However, rates are likely to remain elevated above pre-pandemic levels, and a slowing labor market restricts the potential for a complete housing market recovery, in our view. New home sales have improved recently, but elevated levels of new home inventory are discouraging new construction. Single-family permits registered their sharpest decline this year in July, dropping nearly 14%. Although the drop in permits was much more modest, multifamily permits have also downshifted for six straight months. Multifamily demand has recently come roaring back; however, building permits are still declining on trend. Eventually, less restrictive monetary policy should also brighten the outlook for multifamily construction as decreased financing costs and better credit access reduce barriers to building.

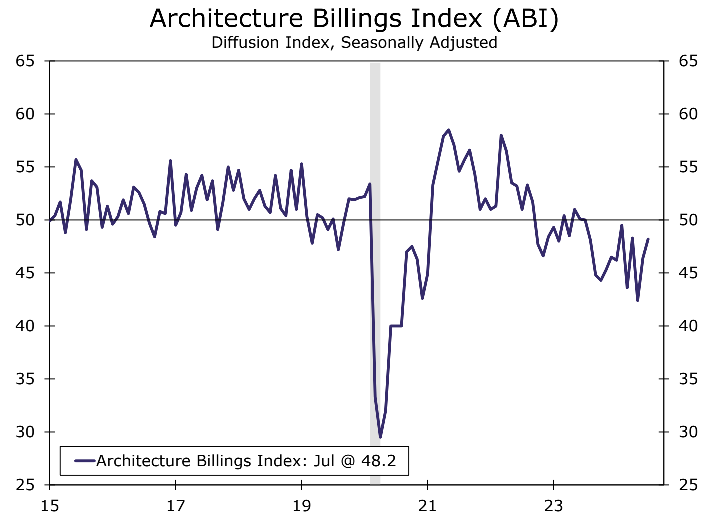
## Investment: Nonresidential Structures

- We brought down our structures forecast following broad weakness in nonresidential construction outlays and the ongoing slide in oil and gas drilling activity. Although the Fed is getting ready to ease, the pullback in architectural billings and commercial real estate project starts suggests a tepid near-term outlook for nonresidential construction.

Structures investment looks set to decline as tight monetary policy continues to weigh on activity. Private nonresidential construction spending has been revised higher over the past few months; however, the 0.4% drop in July marked the largest monthly decline in three years. Most major categories weakened over the month. Most notably, commercial construction is down nearly 12% year-to-date as warehouse and retail project spending declines on trend. A downshift in commercial real estate starts and the ongoing slide in architectural billings point to more pronounced weakness in construction outlays in the coming quarters. Spending on oil and gas drilling, another component included in nonresidential structures, is also softening. The number of rotary rigs in operation has been on a downtrend since early 2023 and has slipped 6.5% since March 2024. Although these factors foretell a slower pace of structures investment, the rapid pace of monetary easing that we currently expect should help reduce barriers to development and reinvigorate CRE demand, putting nonresidential development back on a sturdy growth path.




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




Source: American Institute of Architects and Wells Fargo Economics

## Labor Market

- We have not made any changes to our labor market forecast this month. We continue to look for hiring to slow ahead, with payrolls rising an average of 108K per month over the next six months compared to 164K over the prior six months, as demand for new workers continues to decline. Further loosening in the labor market is likely to lead the unemployment rate up to 4.5% in the fourth quarter.

Data over the past month indicated that, while the labor market is not unraveling, it continues to weaken. Job growth in August again came in below expectations, with downward revisions leaving the three-month average pace of hiring at 116K compared to a 207K monthly pace in the first half of the year. The narrow base of industries adding jobs, weak PMI readings on employment and a drop in job openings and small business hiring plans lead us to expect job gains to slow further in coming months.

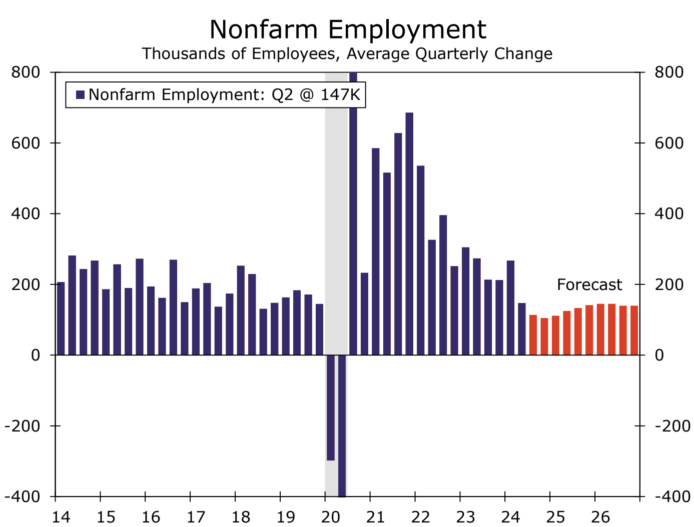
Most measures of layoffs edged back down over the past month, which, along with the unemployment rate dipping back to 4.2%, indicates that labor market conditions are not deteriorating in a non-linear way. However, the upward trend in unemployment, evident in the Sahm Rule indicator rising further above its historic recession threshold in August, highlights softening remains ongoing. With nearly all labor market indicators having returned to their pre-pandemic state, further weakening in the jobs market risks becoming outright deterioration.

## Inflation

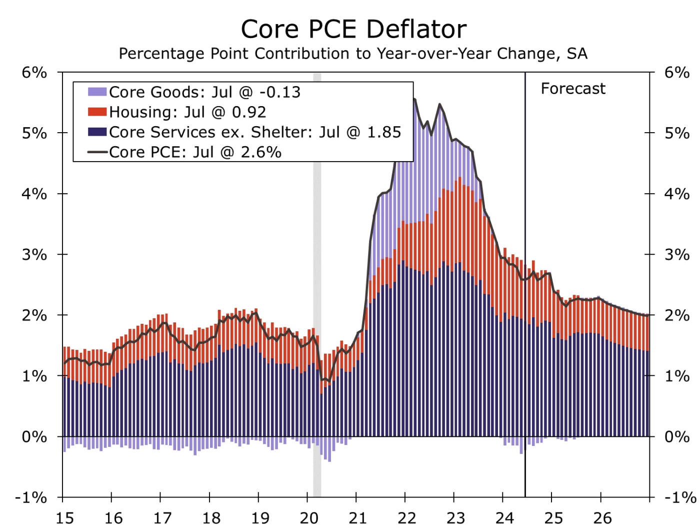
- Inflation continues to slow on trend, helped by cooler growth in labor costs, tame commodity prices and more difficulty passing on higher prices to consumer. Yet, the journey all the way back to the Fed's target is likely to remain drawn out. We expect the year-over-year pace of core PCE deflation to remain slightly above 2% until the second half of 2026.

Progress on inflation's journey's back to the Fed's target continued over the past month. Consumer prices advanced 2.5% in the 12 months through August, the smallest increase since February 2021. Meantime, core readings have indicated that price growth continues to slow on trend. The core PCE deflator, slipped back below 2% in July when measured on a three-month annualized basis. Disinflation has started to broaden beyond goods prices to services, with the 12-month change in the PCE deflator for core services moderating to a three-year low of 3.7% in July.

With upward pressure on prices continuing to gradually dissipate, we expect inflation to slow further ahead. Lower food and energy-related commodity prices are supportive of keeping headline inflation in check in the near term. At the same time, the lagged effect from the cooler housing market, more price-conscious consumers, and slower growth in unit labor costs—spurred by moderating nominal wage gains and stronger productivity—should keep core inflation edging down. We look for core PCE inflation to ease to 2.2% by the middle of next year before subsiding all the way back to the Fed's target toward late 2026.




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




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

## Fiscal Policy

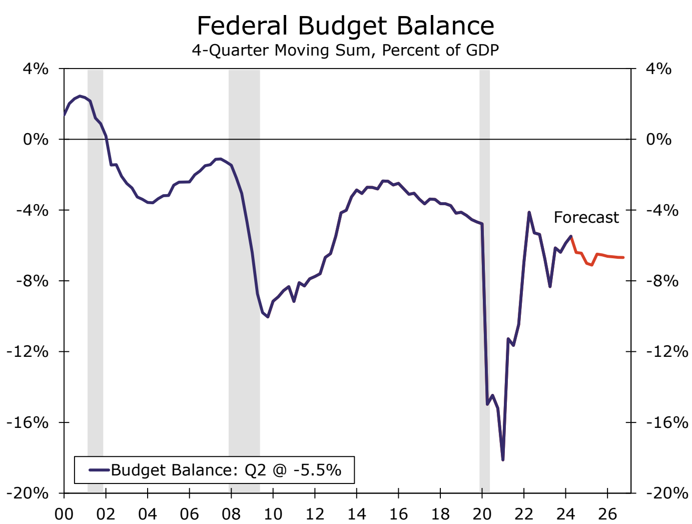
- We have made no change in our forecasts for the FY 2024 and FY 2025 budget deficits of $1.85 trillion and $1.95 trillion, respectively. Our newly-introduced forecast for the FY 2026 budget deficit is $2.1 trillion.
- We project Q4/Q4 growth in government output of 2.0% in 2024, 1.2% in 2025 and 0.9% in 2026.

Congress has returned from its August recess, and it has just a few weeks to act on the FY 2025 budget to avert a government shutdown starting on Oct. 1. Fiscal year 2024 ends on Sept. 30, and as of this writing, none of the 12 annual appropriations bills have been signed into law for FY 2025. The primary disagreement between the two parties is over the top-line spending levels for defense and nondefense discretionary spending, which together account for about one-quarter of federal outlays. Our sense is that it is in neither party's interest to initiate a shutdown less than two months before an election, and as a result, we believe Congress will pass a continuing resolution that extends current government spending authorization through at least December, and possibly as late as March. The latter option would let the next Congress and president determine the path forward for discretionary spending as well as other hot button budget issues, such as the debt ceiling.

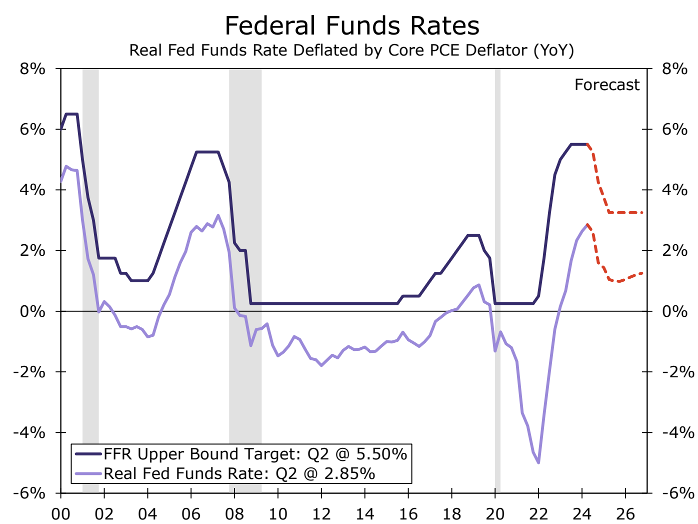
## Monetary Policy & Interest Rates

- We continue to expect 125 bps of monetary policy easing by year-end, although we have shifted our expectations for the magnitude of cuts across meetings. We look for a 25 bps reduction in the fed funds rate at the Sept. 18 meeting, followed by 50 bps cuts at both the November and December FOMC meetings.
- In 2025, we now look for the FOMC to cut rates by 25 bps at each of the first four meetings of the year and then leave the fed funds rate on hold at a roughly neutral setting of 3.00%-3.25%.
- Our 2024 and 2025 year-end forecasts for the 10-year Treasury yield are 3.60% and 3.40%, respectively.

We look for the FOMC to cut the federal funds rate significantly in the coming months. The stance of monetary policy is quite restrictive at present, and with further softening in the labor market and more docile inflation ahead, we expect the Federal Reserve to expeditiously get back to a neutral policy stance by mid-2025. Accordingly, we look for the Committee to reduce the fed funds rate to 3.00%-3.25% by July of next year, which is in the vicinity of what many observers, including us and numerous members of the FOMC, consider to be neutral. Given that financial markets are also priced for a material amount of easing over the next year, we do not expect longer-term yields to fall much further than they already have. We look for a 10-year Treasury yield of 3.40% in about one year's time.




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




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

## Net Exports

- A surge in real imports in July will be a headwind for headline growth in the third quarter.

Imports have been robust this year, supported by solid domestic demand for foreign capital goods and industrial supplies. Exports have fallen behind in comparison, leading net exports to deduct more than half of a percentage point off of real GDP growth in the first and second quarters of 2024. The momentum in domestic demand has shown few signs of easing thus far in the third quarter; real merchandise imports rose nearly 2% in July while real goods exports declined 1%. The outturn suggests net exports will continue to weigh on headline growth—we now look for a 0.6 percentage point drag on real GDP growth in Q3 (down from the 0.1 percentage point *boost* we had forecast last month).

Beyond 2024, we suspect import growth will cool and move closer in line with total domestic demand growth. We expect export growth to strengthen modestly from its current run-rate, as global GDP growth gains firmer footing in 2026. The normalization in trade flows should translate to a smaller drag from net exports on real GDP growth in the back half of our forecast horizon.

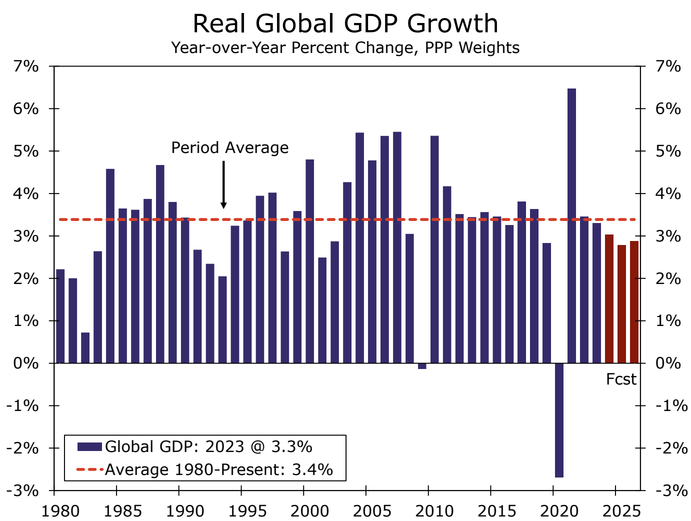
## International Developments & The U.S. Dollar

- We have made modest upward revisions to our global GDP growth outlook compared to a month ago. We now forecast global GDP growth of 3.0% in 2024 (previously 2.9%) and 2.8% in 2025 (previously 2.7%). Stronger growth for Japan, Canada and Brazil contribute to this improved outlook.
- We also expect to see easier global monetary policy compared to a month ago, with a couple of notable exceptions. Soft growth and dovish central banks point to faster easing in New Zealand and Chile. We also forecast somewhat faster easing in Mexico, Colombia, Canada and Sweden, and somewhat slower monetary tightening from Japan. For India, we expect rate cuts to start later than previously forecasted, while we now expect Brazil's central bank to hike rates during the second half of this year.
- We have made limited changes to our outlook for the U.S. dollar over the past month. We expect moderate U.S. dollar softness through mid-2025 as U.S. growth slows and the Federal Reserve actively eases monetary policy. However, once Fed easing comes to an end and as U.S. growth begins to recover, we expect trend appreciation in the U.S. dollar through the end of our forecast horizon to late 2026.
- For further reading on the global economy, please see our most recent International Economic Outlook.

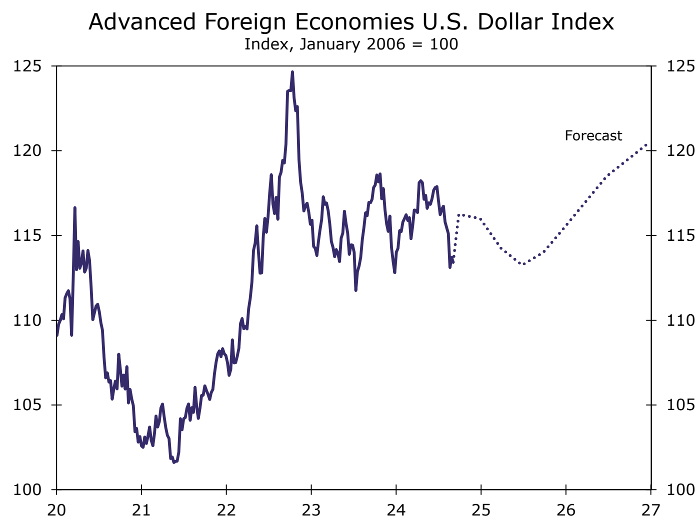
Our view remains that the global economy is still on course for a “soft landing,” an outlook that is reflected in modest upward revisions to our GDP growth forecasts this month. After global GDP growth of 3.3% in 2023, we expect growth to slow to 3.0% this year (previously 2.9%) and to 2.8% next year (previously 2.7%). For 2024, the stronger GDP outlook stems most notably from firmer growth for Canada, where economic activity was reasonably resilient during the first half of this year, as well as Japan and Brazil, which showed solid growth outcomes in Q2. We also see slightly firmer 2024 GDP growth in the United States, Eurozone and United Kingdom. For 2025, the changes in our GDP growth profile are relatively modest, while in 2026, we see some pickup in global GDP growth to 2.9%, primarily reflecting a rebound in U.S. economic activity, even as Chinese economic growth continues to slow.

Occurring alongside, and perhaps contributing to, the soft landing is an overall shift by many central banks toward easier monetary policy. For the United States, we expect the Federal Reserve to lower interest rates by slightly more than we previously forecast over the medium term. Dovish central banks and soft economic growth should contribute to faster rate cuts than we previously forecast in New Zealand and Chile, while we also see somewhat faster easing from Mexico, Colombia, Canada and Sweden than previously anticipated. Meanwhile in Japan, should there continue to be periods of unsettled market conditions, the central bank could delay its next rate increase until as late as early next year. We also see a couple of exceptions that are in contrast to the shift to easier monetary conditions. In Brazil, currency weakness, some slippage in fiscal discipline and a recent uptick of inflation means we now see Selic rate hikes over the second half of this year. In India, continued solid growth and lingering inflation concerns mean we see an initial rate cut in December, later than previously envisaged.

Our outlook for the U.S. dollar is little changed. We expect moderate U.S. dollar softness overall through mid-2025, driven by a relatively active Federal Reserve easing cycle, and as U.S. economic growth slows through late this year and into early 2025. However, by the middle of next year, as Fed easing comes to an end while other major central banks continue to steadily lower interest rates, we expect the trade-weighted dollar to stabilize and gradually begin to strengthen. That trend toward U.S. dollar recovery should be reinforced in 2026 as U.S. economic activity continues to pick up, with growth likely to exceed that of the other G10 economies during that period, in our view. Against this backdrop, our outlook is for trend appreciation in the value of the U.S. dollar over the latter part of our forecast horizon through the end of 2026.




Source: International Monetary Fund and Wells Fargo Economics




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

## Wells Fargo International Economic Forecast

| | GDP 2023 | GDP 2024 | GDP 2025 | GDP 2026 | CPI 2023 | CPI 2024 | CPI 2025 | CPI 2026 |
|---|---|---|---|---|---|---|---|---|
| Global (PPP Weights) | 3.3% | 3.0% | 2.8% | 2.9% | 6.7% | 3.9% | 3.8% | 3.7% |
| Advanced Economies[1] | 1.7% | 1.8% | 1.9% | 2.3% | 4.6% | 2.7% | 2.3% | 2.2% |
| United States | 2.5% | 2.7% | 1.9% | 2.6% | 4.1% | 2.9% | 2.3% | 2.3% |
| Eurozone | 0.5% | 0.9% | 1.6% | 1.6% | 5.4% | 2.4% | 2.2% | 2.0% |
| United Kingdom | 0.1% | 1.1% | 1.5% | 1.6% | 7.3% | 2.6% | 2.4% | 2.1% |
| Japan | 1.9% | -0.2% | 1.3% | 1.2% | 3.3% | 2.4% | 1.9% | 1.9% |
| Canada | 1.2% | 1.1% | 1.9% | 2.4% | 3.9% | 2.6% | 2.2% | 2.2% |
| Switzerland | 0.8% | 1.6% | 1.6% | 1.6% | 2.1% | 1.4% | 1.2% | 1.1% |
| Australia | 2.0% | 1.1% | 2.1% | 2.4% | 5.6% | 3.5% | 2.9% | 2.7% |
| New Zealand | 0.6% | 0.7% | 2.3% | 2.5% | 5.7% | 3.0% | 2.1% | 2.0% |
| Sweden | -0.2% | 0.8% | 1.7% | 1.8% | 5.9% | 2.1% | 1.9% | 1.9% |
| Norway | 0.5% | 0.6% | 1.5% | 1.9% | 5.5% | 3.4% | 2.6% | 2.4% |
| Developing Economies[1] | 4.4% | 3.9% | 3.4% | 3.3% | 8.3% | 4.7% | 4.9% | 4.8% |
| China | 5.2% | 4.8% | 4.5% | 4.2% | 0.2% | 0.6% | 1.6% | 1.6% |
| India | 8.2% | 6.9% | 6.0% | 6.1% | 5.4% | 4.8% | 4.5% | 4.5% |
| Mexico | 3.2% | 1.2% | 1.9% | 2.0% | 5.5% | 5.0% | 4.5% | 3.9% |
| Brazil | 2.9% | 2.9% | 2.3% | 2.1% | 4.6% | 4.2% | 3.7% | 3.6% |

Forecast as of: September 12, 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 Current | 2024 Q3 | 2024 Q4 | 2025 Q1 | 2025 Q2 | 2025 Q3 | 2025 Q4 |
|---|---|---|---|---|---|---|---|
| United States | 5.50% | 5.25% | 4.25% | 3.75% | 3.25% | 3.25% | 3.25% |
| Eurozone[1] | 3.75% | 3.50% | 3.25% | 3.00% | 2.75% | 2.50% | 2.25% |
| United Kingdom | 5.00% | 5.00% | 4.75% | 4.25% | 4.00% | 3.75% | 3.50% |
| Japan | 0.25% | 0.25% | 0.25% | 0.50% | 0.75% | 0.75% | 0.75% |
| Canada | 4.25% | 4.25% | 3.75% | 3.50% | 3.25% | 3.00% | 2.75% |
| Switzerland | 1.25% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| Australia | 4.35% | 4.35% | 4.35% | 4.10% | 3.85% | 3.60% | 3.35% |
| New Zealand | 5.25% | 5.25% | 4.75% | 4.50% | 4.00% | 3.75% | 3.50% |
| Sweden | 3.50% | 3.25% | 2.75% | 2.50% | 2.25% | 2.00% | 2.00% |
| Norway | 4.50% | 4.50% | 4.25% | 4.00% | 3.75% | 3.50% | 3.25% |
| China[3] | 10.00% | 9.50% | 9.50% | 9.00% | 9.00% | 8.50% | 8.50% |
| India | 6.50% | 6.50% | 6.25% | 6.00% | 5.75% | 5.75% | 5.75% |
| Mexico | 10.75% | 10.50% | 10.00% | 9.50% | 9.00% | 8.50% | 8.00% |
| Brazil | 10.50% | 10.75% | 11.00% | 11.00% | 11.00% | 10.50% | 10.00% |
| Chile | 5.50% | 5.50% | 5.00% | 4.75% | 4.50% | 4.50% | 4.50% |
| Colombia | 10.75% | 10.25% | 9.25% | 8.50% | 8.00% | 8.00% | 8.00% |

**2-Year Note**

| | 2024 Current | 2024 Q3 | 2024 Q4 | 2025 Q1 | 2025 Q2 | 2025 Q3 | 2025 Q4 |
|---|---|---|---|---|---|---|---|
| United States | 3.59% | 3.60% | 3.40% | 3.25% | 3.20% | 3.20% | 3.20% |
| Eurozone[2] | 2.14% | 2.20% | 2.20% | 2.15% | 2.10% | 2.05% | 2.00% |
| United Kingdom | 3.78% | 3.85% | 3.80% | 3.65% | 3.60% | 3.55% | 3.50% |
| Japan | 0.39% | 0.40% | 0.45% | 0.55% | 0.65% | 0.70% | 0.70% |
| Canada | 3.00% | 3.00% | 2.95% | 2.90% | 2.85% | 2.80% | 2.80% |

**10-Year Note**

| | 2024 Current | 2024 Q3 | 2024 Q4 | 2025 Q1 | 2025 Q2 | 2025 Q3 | 2025 Q4 |
|---|---|---|---|---|---|---|---|
| United States | 3.62% | 3.70% | 3.60% | 3.50% | 3.45% | 3.40% | 3.40% |
| Eurozone[2] | 2.09% | 2.15% | 2.15% | 2.10% | 2.10% | 2.15% | 2.15% |
| United Kingdom | 3.75% | 3.80% | 3.75% | 3.70% | 3.65% | 3.70% | 3.70% |
| Japan | 0.86% | 0.90% | 0.95% | 1.05% | 1.10% | 1.15% | 1.15% |
| Canada | 2.88% | 2.95% | 2.90% | 2.90% | 2.85% | 2.85% | 2.90% |

Forecast as of: September 12, 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 |
|---|---|---|---|---|
| **September 9** | **10** | **11** | **12** | **13** |
| | **NFIB**<br>August 91.2 | **CPI (MoM)**<br>August 0.2% | **PPI Final Demand (MoM)**<br>July 0.1%<br>**European Central Bank Deposit Rate Decision**<br>Prior 3.75% | **Import Price Index (MoM)**<br>July 0.1% |
| **16** | **17** | **18** | **19** | **20** |
| | **Retail Sales (MoM)**<br>July 0.2%<br>**Industrial Production (MoM)**<br>July -0.6%<br>**Canada CPI (YoY)**<br>July 2.5% | **Housing Starts (SAAR)**<br>July 1,310K<br>**FOMC Rate Decision (Upper Bound)**<br>Prior 5.50%<br>**United Kingdom CPI (MoM)**<br>July -0.2%<br>**Central Bank of Brazil Rate Decision**<br>Prior 10.50% | **Existing Home Sales (SAAR)**<br>July 3.95M<br>**Bank of England Rate Decision**<br>Prior 5.00%<br>**Bank of England Rate Decision**<br>Prior 5.00% | **Bank of Japan Rate Decision**<br>Prior 0.25%<br>**Japan CPI (YoY)**<br>July 2.8% |
| **23** | **24** | **25** | **26** | **27** |
| ***Bostic*, Goolsbee and Kashkari speak*** | **Consumer Confidence**<br>August 103.3<br>**Reserve Bank of Australia Rate Decision**<br>Prior 4.35% | **New Home Sales (SAAR)**<br>July 739K | **Durable Goods (MoM)**<br>July 9.8%<br>**Bank of Mexico Rate Decision**<br>Prior 10.75%<br>***Powell*, Williams*, Barr* and Kashkari speak*** | **Personal Income & Spending (MoM)**<br>July 0.3%; 0.5% |
| **30** | **October 1** | **2** | **3** | **4** |
| ***Powell* speaks*** | **ISM Manufacturing**<br>August 47.2<br>**JOLTS Job Openings**<br>July 7,673K<br>**Eurozone CPI (MoM)**<br>August 0.2%<br>***Bostic*, Barkin* and Collins speak*** | | **ISM Services**<br>August 51.5<br>***Kashkari speaks*** | **Employment**<br>August 142K |

**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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# Required Disclosures