WELLS FARGO

Weekly — May 27, 2022

Weekly Economic & Financial Commentary

United States: **Signs of a Slowdown Begin to Emerge**

- April brought a steep 16.6% decline in new home sales and a 3.9% drop in pending home sales, the latest signs the housing market is cooling down amid sharply higher mortgage rates. Personal income rose 0.4% during April, while personal spending increased 0.9%. Inflation continues to run hot. The headline PCE deflator was up 6.3% year-to-year, while the core measure rose 4.9%.
- Next week: Consumer Confidence (Tue), ISM Manu. & Services (Wed/Fri), Nonfarm Payrolls (Fri)

International: **Mixed Fortunes for Europe's Economies**

- This week's May PMI surveys offered the latest insight into how some of Europe's key economies are faring, and indicated varying fortunes across the region. The Eurozone PMIs reported a mild decline, suggesting a modest loss of momentum, though to levels that remain well within growth territory. For the United Kingdom however, the PMI surveys suggested the economy could suffer a sharper slowdown.
- Next week: China PMIs (Tue), Eurozone CPI (Tue), Canada GDP (Tue)

Interest Rate Watch: **FOMC Minutes Show Another 50 bps Rate Hike Is Probable**

- The minutes from the May FOMC meeting were released this week and offered additional evidence that a second consecutive 50 bps rate hike is imminent.

Credit Market Insights: **Household Well-Being Strengthens in 2021**

- This week, the Federal Reserve Board issued its *Economic Well-Being of U.S. Households in 2021*, a report which surveys the financial health and sentiment of U.S. adults and their families. Financial well-being among respondents reached its highest level since 2013 when the survey first began.

Topic of the Week: **Biden Announces an Asia-Specific Strategy**

- We unpack a few recent developments in terms of U.S. foreign relations this week, like the newly introduced *Indo-Pacific Economic Framework*, where things stand with trade policy more broadly and how there's a review under way of U.S. tariffs on China that likely won't lead to large changes to preexisting policy.

Wells Fargo U.S. Economic Forecast

	Actual 2021				Forecast 2022				Actual		Forecast	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2020	2021	2022	2023
Real Gross Domestic Product [1]	6.3	6.7	2.3	6.9	-1.5	2.3	2.0	2.1	-3.4	5.7	2.4	2.0
Personal Consumption	11.4	12.0	2.0	2.5	3.1	1.5	1.6	1.8	-3.8	7.9	2.7	1.7
Consumer Price Index [2]	1.9	4.8	5.3	6.7	8.0	8.1	7.8	6.8	1.2	4.7	7.6	2.9
"Core" Consumer Price Index [2]	1.4	3.7	4.1	5.0	6.3	5.8	5.9	5.4	1.7	3.6	5.8	3.3
Quarter-End Interest Rates [3]												
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.50	1.50	2.50	3.00	0.50	0.25	1.88	3.63
Conventional Mortgage Rate	3.17	3.02	2.88	3.11	4.42	5.40	5.50	5.50	3.12	2.95	5.21	5.18
10 Year Note	1.74	1.45	1.52	1.52	2.32	3.20	3.30	3.35	0.89	1.45	3.04	3.15

Forecast as of: May 12, 2022
[1] Compound Annual Growth Rate Quarter-over-Quarter [2] Year-over-Year Percentage Change [3] Annual Numbers Represent Average

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

Please see our full U.S. Economic Forecast and our updated Consumer Dashboard and Pressure Gauge.

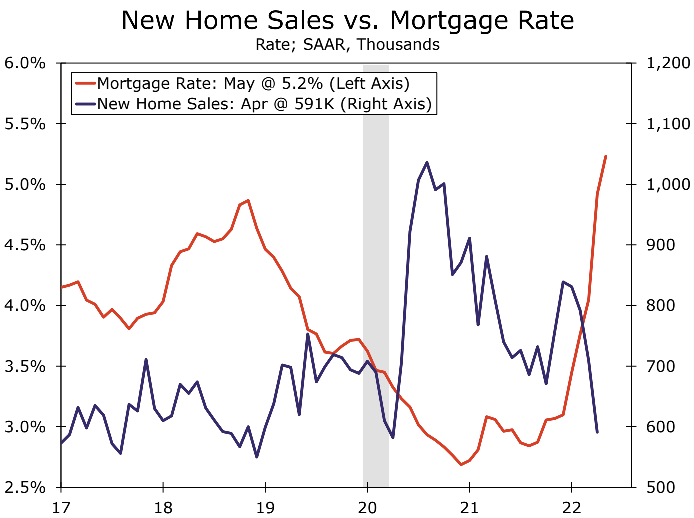
U.S. Review

Signs of a Slowdown Begin to Emerge

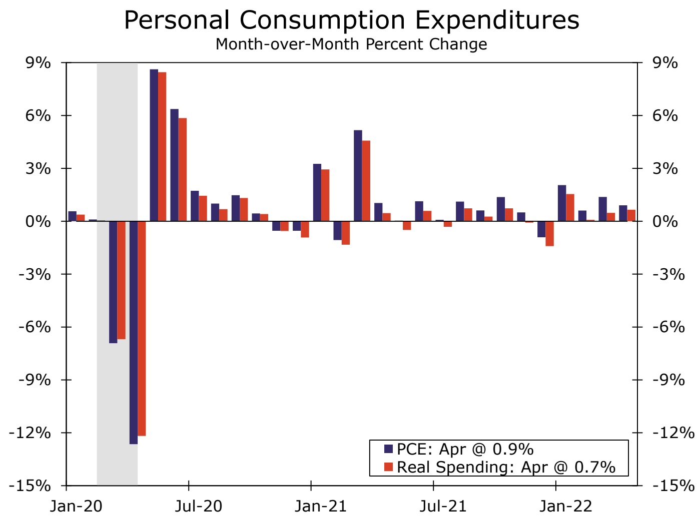
Since the start of the year, mortgage rates have spiked, with the average 30-year commitment rate for a fixed-rate mortgage rising from an average 3.45% in January to almost 5.0% in April. Perhaps not surprising, home sales appear to be buckling under the weight of higher interest rates. This week, the Census Bureau reported that new home sales plunged 16.6% during April. While new home sales can be volatile on a month-over-month basis, this was the fourth straight monthly decline and the second consecutive double-digit drop. April's decline is the sharpest monthly contraction since July 2013, a fall that coincided with a spike in mortgage rates following the Fed's comments on forthcoming monetary policy tightening and resulting "taper tantrum." The 591,000-unit annual pace of home sales was the slowest pace since April 2020 when sales came to a grinding halt at the onset of the pandemic.

While it may be tempting to blame the sales slowdown on the ongoing supply constraints limiting new home production and delaying project completions, there has been a clear pullback in buyer demand over the past few months. Higher financing costs are occurring as home prices continue to rise at a rapid pace, which is leading many traditional buyers, already discouraged by the shallow pool of available homes for sale, back to the sidelines. In the resale market, total existing sales also declined in April, the third straight monthly drop and the fourth decline in the past five months. Home buying looks set to moderate even further. Mortgage applications for purchase edged up during the week ended May 20, but that follows a steep 11.9% decline the week before. All told, purchase applications are currently running 16.4% below prior-year levels. What's more, the pending home sales index declined 3.9% in April, the sixth consecutive drop. Pending home sales measure signed contracts and lead existing sales by one or two months, so some further slowing in home sales appear in the offing.

With the rate-induced cool down in the housing market under way, it looks increasingly likely that the residential sector will act as a drag on real GDP growth in Q2-2022. The second estimate of Q1-2021 GDP was released this week. On balance, the revised data showed that U.S. real GDP contracted at an annualized rate of 1.5%, which represents a slight downward revision to the "advance" estimate of -1.4% reported last month. The revised data continue to show that two volatile spending components, namely inventories and net exports, were largely responsible for the contraction in real GDP that occurred in the first quarter. However, revisions show that real personal consumption expenditures grew at a slightly stronger pace in the first three months of the year, which reflects the resilient pace of spending in the "core" parts of the economy.



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



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

The second estimate of GDP also revealed a slightly slower pace of business fixed investment thanks in large part to a downward adjustment to growth in equipment spending. Despite growing at a slightly more modest pace in the first quarter, equipment spending still expanded at a robust 13.2% annualized pace. This strong pace indicates that businesses are still stepping up their pursuit of labor-saving technologies amid challenges finding qualified labor and rising labor costs, a trend that we expect to continue for the foreseeable future. Durable goods orders and shipments advanced solidly during April, which suggests the recent strength in equipment spending should carry over to the second quarter. Shipments inched up by just 0.1% in April, but non-defense capital goods shipments lept 0.6%. An unexpected pullback in the Richmond Fed Manufacturing Index during May is a timely reminder that the factory sector is still dealing with a long list of difficulties ranging from material scarcity to renewed uncertainty with regard to COVID lockdowns in China. However, manufacturers have a record backlog unfilled orders, which should keep production running at a strong pace.

One new piece of information included with the second estimate of GDP was corporate profits. Corporate profits dropped 2.3% (not annualized) in the first quarter. The profits that are reported in the national income and products accounts are roughly equivalent to operating earnings. But the first quarter's decline in profits is consistent with the weakness in profits that many publicly traded companies have reported recently. A stronger-than-anticipated improvement in personal spending during April provides further evidence that rising costs as opposed to thinning revenue streams are the major culprit of compressing profit margins. Personal spending rose 0.9% during the month, slightly beating market consensus estimates. What's more, upward revisions to March's data show spending rose a hefty 1.4% during March. On the other hand, personal income rose 0.4%, which was a bit slower than expected. The divergence between growth in spending and income means the consumers are likely relying on credit or tapping into savings to make purchases. The saving rate fell to 4.4% in April, the lowest level in 14 years.

Still, the sturdy pace of spending recently is a sign that reaching a 40-year high in inflation is not enough to knock consumers completely off stride. Adjusting for higher prices, real spending rose 0.7% in April and March's originally reported gain was revised up to 0.5%. That noted, consumer spending is set to slow as inflation continues to chip away at the stockpile of household savings. The headline PCE deflator was up 6.3% year-to-year, while the core measure rose 4.9%. The core PCE deflator, which is still significantly above the Fed's target, lends credence to our view that the Fed will continue to tighten monetary policy aggressively to bring down inflation. The minutes for May's FOMC meeting that resulted in the first 50 bps hike in 22 years were released this week. As we write in Interest Rate Watch, the major takeaway from the minutes is that another 50 bps hike in June looks increasingly likely. (Return to Summary)

U.S. Outlook

Weekly Domestic Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
31-May	Consumer Confidence	May	103.7	102.2	107.3
1-Jun	ISM Manufacturing Index	May	54.9	55.2	55.4
1-Jun	Construction Spending (MoM)	Apr	0.7%	0.8%	0.1%
3-Jun	Nonfarm Payrolls	May	325K	325K	428K
3-Jun	Unemployment Rate	May	3.5%	3.5%	3.6%
3-Jun	Average Hourly Earnings (MoM)	May	0.4%	0.4%	0.3%
3-Jun	ISM Services Index	May	56.6	56.8	57.1

Forecast as of May 27, 2022

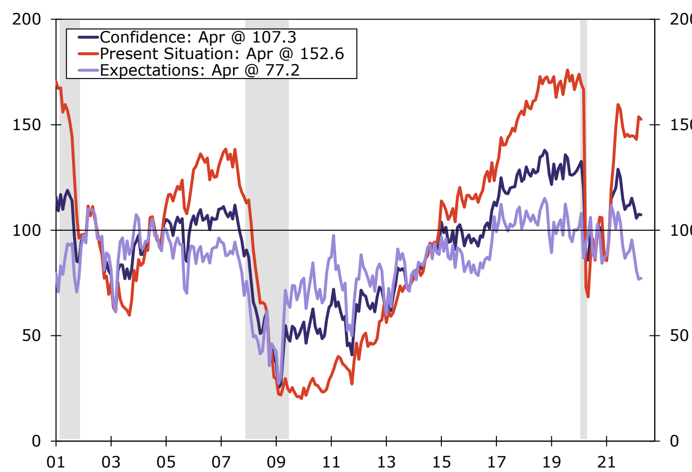
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Consumer Confidence • Tuesday

The Conference Board's measurement of consumer confidence was essentially flat in April. The present situation index declined 1.2 points to 152.6, while the expectations component rose 0.5 points to 77.2. Although inflation and rising interest rates have certainly posed challenges to consumers in recent months, the strong labor market has helped to keep confidence afloat.

Looking ahead, consumer confidence is expected to slip to 102.2 in May, down from 107.3 in April. As we detailed in a special report last year, the confidence survey is heavily influenced by the path of the labor market. In that regard, the share of consumers reporting jobs were "plentiful" ticked down 1.5 percentage points to 55.2% in April, albeit still near the series' record high. Job openings were at an all-time high in March, but labor demand has lost steam recently. In combination with tighter monetary policy and persistent price pressures, we expect the pace of employment growth to moderate in the coming months (more on that below), which is set to weigh on headline consumer confidence.

Conference Board Consumer Confidence



Source: The Conference Board and Wells Fargo Economics

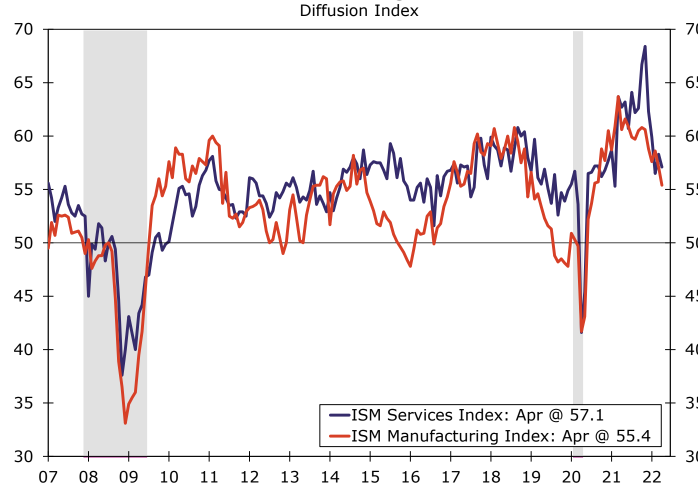
ISM Manufacturing & Services • Wednesday & Friday

Supply constraints continue to be a drag on activity, but hints of weakening demand are creeping in. In the manufacturing survey, the headline index dipped 1.7 points to 55.4 in April, marking the slowest pace of expansion since late 2020. Every comment mentioned supply issues in some fashion, and we expect to see continued pressure on that front amid COVID-related lockdowns in China. April's survey also foreshadowed a slowdown in demand with the new orders component declining 0.3 points to 53.5. We expect to see similar themes in next week's report and look for the ISM manufacturing index to modestly decline to 55.2 in May.

In the services sector, the headline index fell 1.2 points to 57.1. A marked decline in the new orders component (-5.5 points), raises concern that services demand is faltering, all while the heat on prices remains turned up. Taken together with higher labor costs, the hiring picture also weakened. The employment component slid 4.5 points to 49.5, slipping into contraction territory. For May, we suspect these dynamics continued and forecast the headline services index to slip to 56.8.

ISM Manufacturing & Services

Diffusion Index

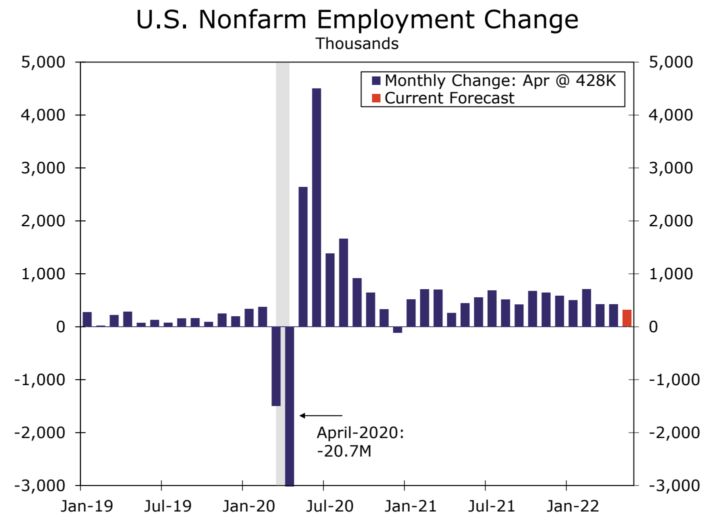


Source: Institute for Supply Management and Wells Fargo Economics

Nonfarm Payrolls • Friday

Employment growth continued to barrel ahead in April, rising 428K over the month. Job gains were broad-based across industries. The labor force participation rate fell back 0.2 percentage points, but that came on the heels of a strong upward trend. We suspect that labor supply will continue to improve in the coming months as deteriorating household finances in the face of elevated inflation pulls workers back into the jobs market. There are plenty of job opportunities available, and we will get a first look at April's job openings and turnover data with Wednesday's JOLTS report.

With labor supply gaining firmer footing and openings still ample, employment growth is set to remain solid in the coming months. We forecast nonfarm payrolls to rise 325K in May and look for the unemployment rate to decline to 3.5%. A 325K increase, should it occur, would mark a moderation from the job gains seen over the past couple of months. Regional Fed employment indices improved in May, but at a cooling pace. The job openings rate has also appeared to top out and small business hiring plans have softened. With job openings more smoothly translating into new hires, stiff competition for workers will presumably improve and help quell wage pressures. We forecast average hourly earnings to rise 0.4% month-over-month in May. (Return to Summary)



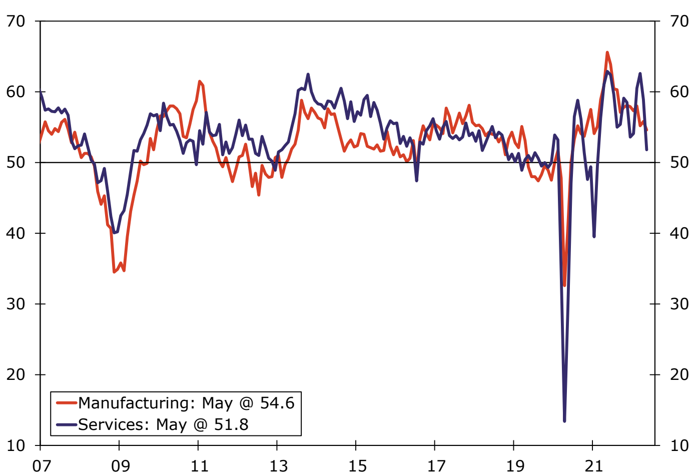
Source: U.S. Department of Labor and Wells Fargo Economics

International Review

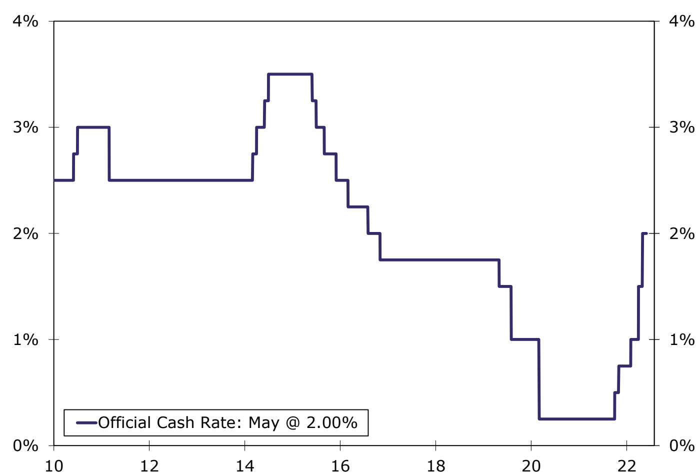
Mixed Fortunes for Europe's Economies

This week's May PMI surveys offered the latest insight into how some of Europe's key economies are faring and indicated varying fortunes across the region. The Eurozone PMIs reported a mild decline, suggesting a modest loss of momentum, though to levels that remain well within growth territory. The Eurozone May services PMI fell more than expected to a still respectable reading of 56.3, while with respect to some of the region's larger economies, Germany's services PMI also fell to 56.3 and France's services PMI eased moderately to 58.3. For the manufacturing sector, the Eurozone PMI fell to 54.4, with a decline in France's manufacturing PMI but with Germany's manufacturing PMI holding broadly steady. The PMI surveys also indicated that input and output price pressures remain persistent. Given reasonable trends in activity and persistent prices pressures, we see the European Central Bank on track to deliver an initial Deposit Rate hike at its July monetary policy meeting.

For the United Kingdom however, the PMI surveys suggested the economy could suffer a sharper slowdown. Most notably, the May services PMI slumped to 51.8 from 58.9 in April, while the May manufacturing PMI also declined to 54.6. The surveys revealed a slowing in new orders and a drag on export orders, while price components of the surveys remained at elevated levels, suggesting ongoing inflation pressures. Given U.K. inflation is currently running at 9% year-over-year and is likely to quicken further, we see the Bank of England continuing to raise its policy rate by 25 bps per meeting through until at least August. However, if the slowdown in services activity in particular persists, we also expect the Bank of England to shift to a more gradual pace of rate hikes later this year.



Source: Datastream and Wells Fargo Economics



Source: Datastream and Wells Fargo Economics

Hawkish Reserve Bank of New Zealand Continues Rate Hikes

Following its 50 bps rate hike in April, the Reserve Bank of New Zealand (RBNZ) raised rates by another 50 bps to 2.00% at its May monetary policy meeting. Policymakers emphasized their commitment to bring inflation back to the 1%-3% range, and indicated further tightening is needed to support price stability and employment. In our view, the hawkish language of the statement paves the way for additional 50 bps rate hikes in the future.

Updated forecasts from the RBNZ show an accelerated rate hike schedule, as well as higher and more persistent inflation. The central bank now sees the Official Cash Rate reaching 3.4% at the end of this year compared to 2.2% previously, and now sees CPI inflation peaking at 7.0% in Q2-2022 compared to its previous peak of 6.6% in Q1-2022. Given the updated projections and hawkish comments, we now expect two more 50 bps rate hikes in July and August, followed by 25 bps rate hikes in October and November, which would bring the policy rate to 3.50% at the end of 2022, although we would not rule out further monetary tightening if economic growth is resilient and inflation remains persistently high. At this time, we do not forecast any rate cuts over our forecast horizon. (Return to Summary)

International Outlook

Date	Indicator	Period	Consensus	Wells Fargo	Prior
Weekly International Indicator Forecasts					
31-May	China Manufacturing PMI	May	49.0	--	47.4
31-May	China Services PMI	May	45.0	--	41.9
31-May	Eurozone CPI (YoY)	May	7.7%	--	7.4%
31-May	Eurozone Core CPI (YoY)	May	3.5%	--	3.5%
31-May	Canada GDP (QoQ SAAR)	Q1	5.5%	5.6%	6.7%

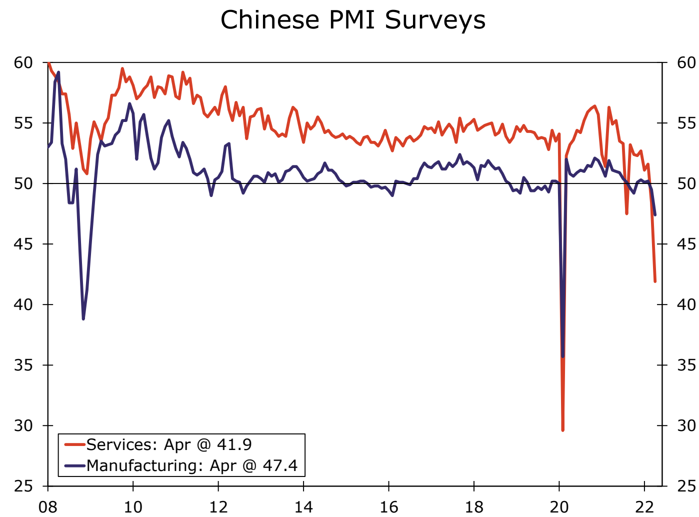
Forecast as of May 27, 2022

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

China PMIs • Tuesday

China's economy continues to face many challenges as 2022 progress, and the May PMI surveys that are due for release next week will offer the most up-to-date insight on how those challenges are being navigated. China's manufacturing and especially the services PMI both fell noticeably in April as the impact of COVID lockdowns in Shanghai and other areas of the country became fully apparent. Since then, there has been some mild easing of restrictions by authorities, although many still remain in place. Thus, looking toward the PMI surveys for May, the consensus forecast is for some improvement, although the indices are expected to remain below the breakeven 50 level, signaling contraction. Specifically, the May services PMI is expected to rise to 45.0 from 41.9 in April, while the manufacturing PMI is expected to rise to 49.0 from 47.4 in April.

With China's economy still facing headwinds, the outlook for GDP growth remains underwhelming. For Q2, we forecast zero GDP growth on a sequential basis, while we have further lowered our full-year 2022 GDP growth forecast to 4.2% this year.

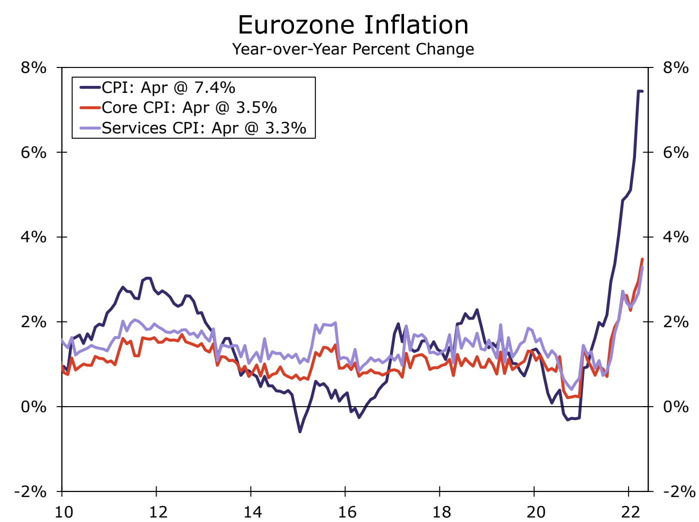


Source: Datastream and Wells Fargo Economics

Eurozone CPI • Tuesday

Eurozone inflation pressures have intensified during the course of this year, a trend that seen expectations for European Central Bank monetary tightening increase as 2022 has progressed. To be sure, much of the acceleration in headline inflation, which rose 7.4% year-over-year in April, has been energy driven. However, more widespread price pressures have also begun to emerge, with the core CPI firming to 3.5% in April.

For May, headline inflation is expected to quicken further to a new record high of 7.7% year-over-year. Meanwhile, core CPI inflation is expected to remain steady at 3.5% year-over-year. We believe these inflation trends will leave the European Central Bank on course to begin raising interest rates at the July announcement, and we anticipate a 25 bps increase in the Deposit Rate to -0.25% at that meeting.

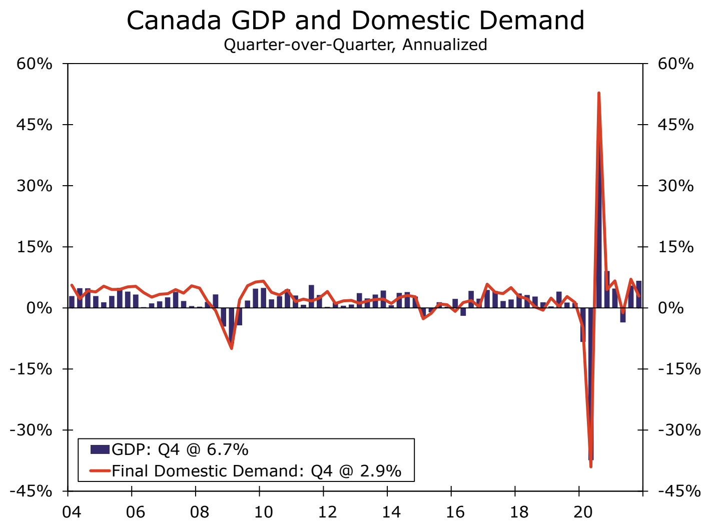


Source: Datastream and Wells Fargo Economics

Canada GDP • Tuesday

Canada's Q1 GDP scheduled for release on Tuesday is expected to confirm a solid start for the economy in 2022. Employment trends have been firm overall in early 2022, while recent activity data include a 2.5% gain in March manufacturing sales and a flat reading for March retail sales. In addition, Statistics Canada reported monthly gains in GDP in both January and February, and is expecting another gain in GDP for March.

Against this backdrop, the consensus forecast is for a solid gain in Canadian GDP for the first quarter. The consensus anticipates Q1 growth of 5.5% quarter-over-quarter annualized, which would be only a modest slowing from the 6.7% pace of growth in Q4, and also stronger than the 3% pace of growth forecast by the Bank of Canada in its latest economic projections. Given sturdy activity trends, and with inflation also moving higher, the Q1 GDP report will almost certainly leave the Bank of Canada on course to raise its policy rate another 50 bps to 1.50% its monetary policy announcement next week. (Return to Summary)



Source: Datastream and Wells Fargo Economics

Interest Rate Watch

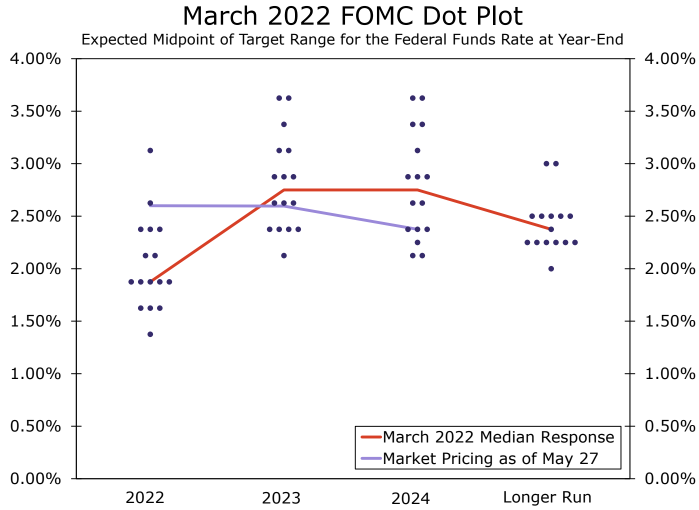
FOMC Minutes Show Another 50 bps Rate Hike Is Probable

At its previous meeting, the FOMC increased the target range for the federal funds rate by 50 bps, the first 50 bps rate hike in 22 years. In the weeks since, several Federal Reserve officials have made public comments that suggest a second 50 bps rate hike is likely at the upcoming FOMC meeting on June 14-15. The minutes from the May meeting were released this week and offered additional evidence that a second consecutive 50 bps rate hike is imminent.

FOMC participants largely agreed that the risks to inflation were skewed to the upside. Perhaps even more worrisome for monetary policymakers was the long, varied list of sources of upside inflation pressure, such as ongoing supply bottlenecks, rising commodity prices and elevated nominal wage growth. "Many participants" indicated that they expected the labor market to remain tight and wage pressures to stay elevated "for some time." Against this backdrop, the May minutes revealed that participants "agreed that the Committee should expeditiously move the stance of monetary policy toward a neutral posture." In the near term, most participants judged that 50 bps rate hikes would likely be appropriate at the "next couple of meetings."

Our forecast agrees with the assessment, and we look for the FOMC to increase the federal funds rate by 50 bps at both its June and July meetings. We also look for a 50 bps rate hike in September before the pace of hikes slows to just 25 bps per meeting. As of this writing, markets are fully priced for 50 bps rate hikes in June and July, while market pricing for the September meeting is more of a toss-up between 25 and 50 bps.

There is a reasonable degree of clarity surrounding the near-term outlook for monetary policy. The FOMC has made it clear that the consensus view among participants is to move the federal funds rate "expeditiously" toward the neutral rate, which is generally perceived to be between 2% and 2.5%. However, past that there is considerably more uncertainty. The May minutes were less forceful about tightening policy past neutral, saying that a restrictive stance of policy "may well become appropriate depending on the evolving economic outlook and the risks to the outlook." We believe the FOMC will ultimately take the federal funds rate up to 3.50%-3.75% by mid-2023, but we agree that there is a significant amount of uncertainty regarding just how much policy tightening it will take to return inflation to the FOMC's 2% target. (Return to Summary)



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

Credit Market Insights

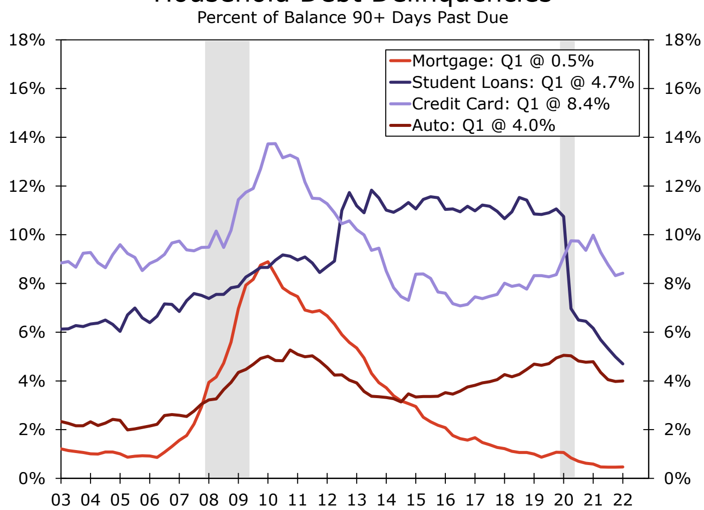
Household Well-Being Strengthens in 2021

This week, the Federal Reserve Board issued its *Economic Well-Being of U.S. Households in 2021*, a report that surveys the financial health and sentiment of U.S. adults and their families. Financial well-being among respondents reached its highest level since 2013 when the survey first began. In 2021, 78% of households reported doing okay or living comfortably financially, up from 75% in 2020. Parents saw a notable jump in sentiment with 75% of parents reporting their finances were at least okay, up 8 percentage points from 2020. This large swing can be attributed in part to reduced childcare cost burdens as children return to in-person school as well as transfer payments from the enhanced child tax credit, which expired at the end of 2021.

Overall credit sentiment and credit utilization also rose in 2021. The proportion of adults who applied for credit in 2021 rose one percentage point to 38%, up from 37% in 2020 but below the 41% level seen in 2019. Of those who did apply for credit, respondents were overall more confident of credit approval and were less often denied or approved for less credit than requested compared to 2020. It is important to note the wide gulf in credit outcomes based on income and demographics. Just under half of credit applicants with incomes below $50,000 were denied or given less credit than requested compared to 11% for applicants with incomes above $100,000. Black and Hispanic borrowers across all income brackets were also more likely to be denied or approved for less credit. Although, the gap in race/ethnicity outcomes has shrunk since 2020, particularly for Hispanic adults with lower to middle incomes and Black adults with higher incomes.

Earlier this month, data from the Federal Reserve's consumer credit report for March were released. The $52.4 billion increase in consumer credit blew the doors off the consensus forecast and marked the second straight month consumer credit growth more than doubled forecasts. Most of the climb was attributed to a $31.4 billion increase in revolving credit, largely composed of credit card spending. Revolving debt growth has accelerated to start the year, nearly reaching pre-pandemic levels. The rapid growth in credit card debt may be a cause for concern as consumers begin to feel the heat from higher cost of living, but credit card delinquencies in Q1-2022 are comparable to pre-pandemic levels (chart). Household debt delinquency as a whole has declined during the pandemic, and the Fed's Well-Being survey found respondents felt more financially secure in 2021.

Household Debt Delinquencies



Source: Federal Reserve Bank of New York and Wells Fargo Economics

Credit card usage in 2021 stayed relatively the same, with a roughly even split between respondents who carried a balance at least once over the year and those who paid off their balance every month. Respondents across all income levels were less likely to carry a balance in 2021 compared to 2020. This trend also held true across racial/ethnic demographics. The 2021 survey also introduced questions that better captured newer credit services such as Buy Now, Pay Later (BNPL). These services allow consumers to make monthly payments on smaller purchases, often without interest charges. For higher income respondents, convenience was the most common reason for using BNPL services, while respondents earning less than $50,000 most commonly cited affordability as reason for using the service. Only 10% of respondents reported using BNPL services in 2021, but as use becomes more widespread, it will become an increasingly important component of credit usage in U.S. households. (Return to Summary)

Topic of the Week

Biden Announces an Asia-Specific Strategy

On Monday, President Biden unveiled the *Indo-Pacific Economic Framework* (IPEF), an agreement among a dozen countries representing about 40% of global GDP with the goal of cooperation on issues such as supply chains, clean energy, digital rules and tax reform.

Concrete details of the agreement remain undetermined, making the economic impact difficult to gauge at this point. But the agreement marks some of the first Asia-specific strategy introduced by the Biden administration. What has been communicated is that member countries will decide which areas to participate in with "high-standard commitments" requested in at least one of the previously mentioned four areas set forth by the agreement. Notably, China was not invited to the initial agreement by design, as the hope is for the IPEF to help counter China's influence in the region. It was indicated, however, that there are aspirations for a path to be set for other countries to join the agreement in the future. Finally, unlike the *Trans-Pacific Partnership* agreement, that was negotiated under the Obama administration and withdrew from under the Trump administration, the IPEF does not include any tariff reductions, which are typically a staple of such agreements. It also does not outline any market access and is thus not considered a free-trade agreement.

Update on U.S. Trade Policy

As a quick recap of where trade policy stands, most of the tariffs put in place under the previous administration remain today. Earlier this year, however, the Biden administration rolled back tariffs on steel imports from the EU, Japan and the UK up to a particular amount in line with prior import volumes (2015-17 for the EU and 2018-19 for Japan and the UK). In addition, in response to Russia's invasion of Ukraine, the U.S. Bureau of Industry and Security has implemented a number of export controls on Russia and temporarily suspended the 232 tariffs on Ukrainian steel.

In regard to China specifically, the Biden administration renewed tariff waivers on particular imports from China that expired at the end of 2020 in March of this year. The waivers now cover 352 products from China, or a little over 60% of the goods previously exempt from tariffs. More broadly, the U.S. is currently reviewing tariffs on the roughly $300 billion worth of imports from China. This process is known as a “review of necessity” and is required by law, otherwise the Section 301 tariffs expire on the four-year anniversary of when they were put in place, which for some tariffs is this July. The U.S. Trade Representative's (USTR) office is soliciting requests from industry leaders for tariff continuation by July 6. If a request is received, the tariff will remain in place as the USTR reviews it, which will then include an opportunity for all interested parties to comment on the tariff's effects. This review may come under particular scrutiny today as tariffs add costs amid sky-high consumer prices.

A top trade official said the review of necessity will likely take months, but that it should not get in the way of hammering out the new IPEF agreement. While there is little detail to yet fully assess the IPEF, it does mark some of the first new foreign policy initiatives introduced under President Biden. It ultimately remains to be seen how trade policy will evolve from here, but U.S. Trade Representative Katherine Tai has called for tough action on China. With China largely having fallen short of the Phase One trade deal purchase targets, we do not see a large rollback of tariffs or a softer stance on U.S.-China relations anytime soon. (Return to Summary)

Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 5/27/2022	1 Week Ago	1 Year Ago
SOFR	0.78	0.79	0.01
3-Month LIBOR	1.57	1.50	0.14
3-Month T-Bill	1.05	1.01	0.00
1-Year Treasury	1.78	1.97	0.02
2-Year Treasury	2.48	2.58	0.14
5-Year Treasury	2.71	2.80	0.82
10-Year Treasury	2.73	2.78	1.61
30-Year Treasury	2.95	2.99	2.28
Bond Buyer Index	3.16	3.47	2.20

Foreign Exchange Rates

	Friday 5/27/2022	1 Week Ago	1 Year Ago
Euro ($/€)	1.070	1.056	1.220
British Pound ($/£)	1.261	1.248	1.421
British Pound (£/€)	0.849	0.846	0.858
Japanese Yen (¥/$)	127.120	127.880	109.810
Canadian Dollar (C$/$)	1.275	1.284	1.207
Swiss Franc (CHF/$)	0.956	0.975	0.897
Australian Dollar (US$/A$)	0.715	0.704	0.775
Mexican Peso (MXN/$)	19.583	19.863	19.968
Chinese Yuan (CNY/$)	6.699	6.693	6.383
Indian Rupee (INR/$)	77.571	77.546	72.585
Brazilian Real (BRL/$)	4.721	4.880	5.239
U.S. Dollar Index	101.806	103.150	89.971

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

Foreign Interest Rates

	Friday 5/27/2022	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	-0.58	-0.59	-0.57
3-Month Sterling LIBOR	1.35	1.33	0.08
3-Month Canada Banker's Acceptance	2.09	2.03	0.44
3-Month Yen LIBOR	-0.02	-0.02	-0.09
2-Year German	0.35	0.34	-0.66
2-Year U.K.	1.42	1.51	0.05
2-Year Canadian	2.54	2.65	0.32
2-Year Japanese	-0.07	-0.06	-0.12
10-Year German	0.96	0.94	-0.17
10-Year U.K.	1.91	1.89	0.81
10-Year Canadian	2.78	2.84	1.49
10-Year Japanese	0.23	0.24	0.08

Commodity Prices

	Friday 5/27/2022	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	114.17	113.23	66.85
Brent Crude ($/Barrel)	117.91	112.55	69.46
Gold ($/Ounce)	1854.22	1846.50	1896.54
Hot-Rolled Steel ($/S.Ton)	1200.00	1180.00	1665.00
Copper (¢/Pound)	430.80	427.40	466.65
Soybeans ($/Bushel)	17.64	17.38	15.31
Natural Gas ($/MMBTU)	8.67	8.08	2.96
Nickel ($/Metric Ton)	27,155	28,203	17,256
CRB Spot Inds.	654.59	658.82	583.08

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