WELLS FARGO

Weekly — January 28, 2022

Weekly Economic & Financial Commentary

United States: Moderating Growth and a More Aggressive Fed

- The economy had the wind at its back in 2021 with generous fiscal policy and an accommodative Fed. Inflation and supply chains were the key obstacles. In light of a more hawkish stance at this week's FOMC meeting, we now expect the Fed to hike rates 125 bps this year and that a balance sheet reduction will be announced at the July 27 FOMC meeting.
- That said, our updated forecast is more about base effects from the Q4 GDP report rather than a major change in our outlook due to a more aggressive Fed. We'll provide a more full-fledged forecast update in our U.S. Monthly after we get January's nonfarm payroll release.
- Next week: Construction Spending (Tues), ISM Manuf. & Services (Tues/Thurs), Employment (Fri)

International: European Economic Growth Sputters Around the Turn of the Year

- This week's news from Europe offered further confirmation of an economic soft patch. The Eurozone January services PMI fell more than expected, while Germany saw GDP contract in Q4. In the U.K., the manufacturing and services PMIs fell further in January. Elsewhere, the Bank of Canada held its policy rate steady this week, but signaled that rate hikes would be coming soon.
- Next week: Eurozone CPI (Wed), Brazil Selic Rate (Wed), BoE Policy Announcement (Thu)

Interest Rate Watch: The Hawks in Full Control at the Fed

- We forecast that the FOMC will raise its target range for FFR 125 bps between March and the end of the year. We continue to expect the Committee to raise rates 75 bps more over the course of 2023 with 25 bp rate hikes in the first, second and third quarters of the year.

Credit Market Insights: Consumers Are on a Spending Spree, Can It Last?

- Major players in the credit card business reported attractive Q4-21 earnings this week. But the revival in credit card spending conflicts with a time when consumers wallets are feeling a little lighter, as inflation and dwindling stimulus encroach on real income. Is such growth sustainable, or are consumers biting off more than they can chew when it comes to taking on credit card debt?

Topic of the Week: Build Back Better Still Stuck in Neutral

- A little over a month ago, we published a report that made the case that Democrats' efforts to pass their Build Back Better plan largely had stalled. One month into 2022 and not much has changed.

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	1.1	2.9	3.5	3.6	-3.4	5.7	3.4	3.0
Personal Consumption	11.4	12.0	2.0	3.3	2.0	2.5	2.6	2.7	-3.8	7.9	3.0	2.6
Consumer Price Index [2]	1.9	4.8	5.3	6.7	7.0	5.9	5.0	3.6	1.2	4.7	5.4	2.4
"Core" Consumer Price Index [2]	1.4	3.7	4.1	5.0	6.1	5.3	5.0	4.4	1.7	3.6	5.2	2.8
Quarter-End Interest Rates [3]												
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.50	1.00	1.25	1.50	0.50	0.25	1.06	2.06
Conventional Mortgage Rate	3.08	2.98	2.87	3.10	3.50	3.60	3.70	3.75	3.12	2.95	3.64	3.89
10 Year Note	1.74	1.45	1.52	1.52	1.95	2.05	2.15	2.20	0.89	1.45	2.09	2.34

Forecast as of: January 28, 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

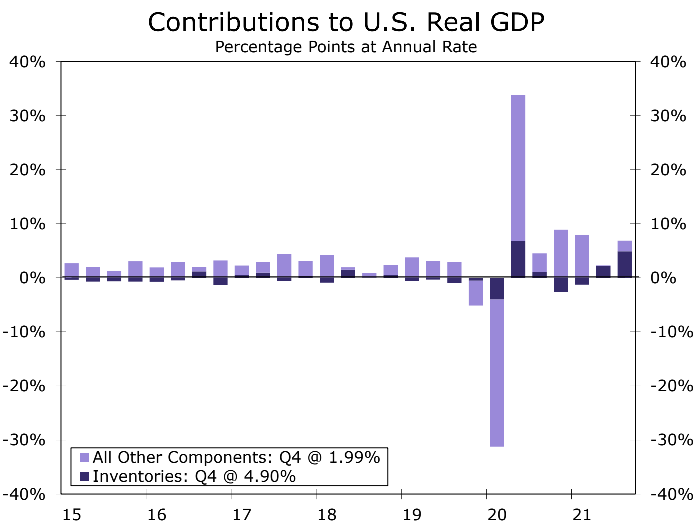
Inventories Reversal and a Widening Trade Deficit Stand in the Way of Q1 Growth

This week's GDP report showed the U.S. economy grew at a 6.9% annualized rate in Q4 to finish the year with the strongest full-year GDP growth since 1984. While the outturn was better than expected, the details were not. The Omicron surge in COVID cases in December had a chilling effect on retail sales that month and contributed to widespread absenteeism in workplaces as well as inventories started stacking up. This stockpiling was the biggest explanatory factor in Q4 GDP as inventories added 4.9 percentage points to the headline growth rate (see chart).

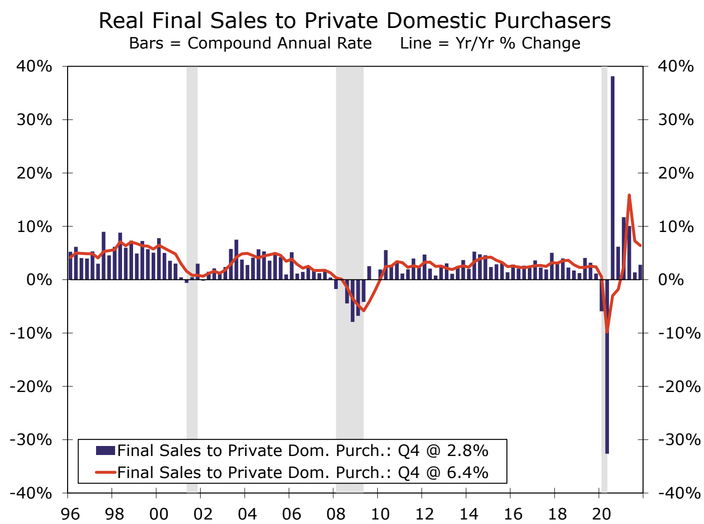
To get a better sense of how underlying domestic demand is holding up without distortions from government spending, trade or inventory swings, we turn to real final sales to private domestic purchasers (see chart). This measure shows an annualized growth rate of 2.8% in the fourth quarter and a trend decline throughout the course of the year.

In light of the inventory surge in the fourth quarter, there will likely be a payback at the start of the year. The $173B increase in inventories last quarter was the second-largest build in the 21st century. Anything short of that in the second quarter would result in a drag on headline growth.

Inventories are not the only source of weakness for Q1. Earlier this week, the advance trade figures for December were made available and showed a significant widening in the country's trade deficit. On that basis, we were bracing for a drag from net exports, but in the actual event, net exports were a neutral factor for GDP growth. With imports still outpacing exports, that too should be a drag on headline growth. In fact, taken together we have trade and inventories lopping off 2.1 percentage points from headline growth in Q1.



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



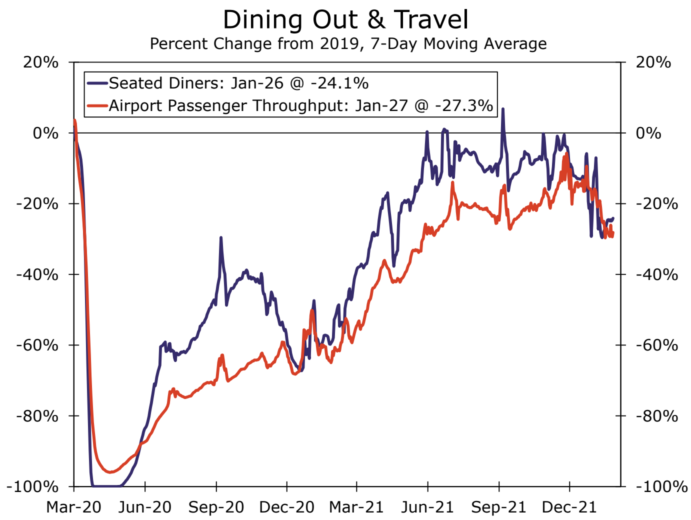
Source: U.S. Department of Commerce and Wells Fargo Economics

Real personal consumption expenditures rose at a 3.3% annualized pace in the fourth quarter. But beneath that headline were some pretty weak figures for real spending amid higher prices (real spending declined 0.2% and 1.0% in November and December, respectively). Spending was led lower in December by a 3.1% decline in real goods purchases, while real services notched a modest 0.1% gain. The 0.5% gain in consumer prices in December were partly behind the weak spending estimates, as consumers continue to grapple with higher inflation.

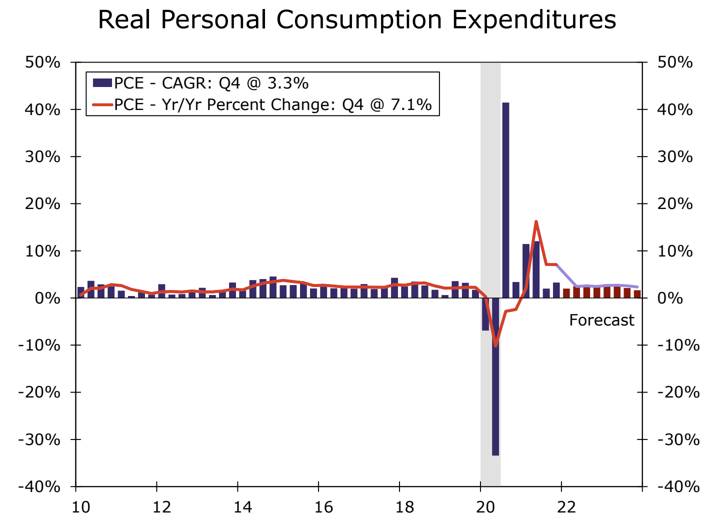
Personal income rose 0.3% in December amid a surge in wages & salaries. To date, wages & salaries have risen 10.7% ahead of their pre-pandemic level, and we expect continued growth in this component this year amid a tightening in the labor market. Yet here again, a policy shift is in place; the dwindling of fiscal support weighed on income growth and will worsen in January (we expect income growth to become negative) amid the discontinuation of the Child Tax Credit.

In addition to weak income growth acting as a headwind in January, the weakness in spending at the end of the year sets the first quarter up for some fairly challenging base comparisons. At the same time, high-frequency data don't paint a pretty picture. COVID cases have accelerated and data on seated diners and travel suggest a pullback in many in-person activities (see chart). While we suspect this was in part due to renewed concern amid the Omicron variant, it is also likely a refection of another hit to an already constrained supply of workers. Staffing shortages are to blame for airlines cutting flights, restaurants reducing capacity and stores scaling back hours in January. We've baked some of this weakness into the 2.0% annualized growth rate we now forecast for Q1 PCE growth, but admittedly, this figure may come in even lower depending on how spending comes in for January.

To the extent that there is good news in all this, after the dislocations in the first quarter, we expect headline growth to rebound in the subsequent quarters of the year and full-year growth to still come in above trend (see chart). The inventory surge in Q1 may have been unintended, but we still expect a yearlong restocking effort, in the wake of the supply chain crisis, to result in a trend rise in inventories over the longer haul.



Source: OpenTable, TSA, Bloomberg Finance L.P. and Wells Fargo Economics



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

Housing activity remained solid to end the year with single-family home sales rising 11.9%—the fastest pace since March 2021. For the year as a whole, preliminary data show the median price of a new home was $392,900, while the average price of a new home was $457,300. Both were up more that 15% over the past year, and the gap between the two reflects strength in home sales at the high end of the market. Sales of homes priced over $500,000 accounted for 28% of new home sales in 2021, up from 18% the prior year.

Another area where we see at least modest strength throughout the forecast is business spending, and fresh data were also encouraging on that front. Nondefense shipments finished the year on a strong note, rising 1.1% in December. Overall orders declined 0.9%, but that weakness was tied to a 14.4% decline in aircraft orders in December. Excluding transportation, orders rose 0.4% and point to resilient demand for equipment. The strength in core shipments and orders imply solid equipment spending in the first quarter, a welcome offset given the challenges discussed previously. As supply issues continue to gradually thaw, shipments should gain pace and equipment spending should accelerate this year. (Return to Summary)

U.S. Outlook

Weekly Domestic Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
1-Feb	Construction Spending (Mom)	Dec	0.6%	0.7%	0.4%
1-Feb	ISM Manufacturing Index	Jan	57.6	57.6	58.8
3-Feb	ISM Services Index	Jan	59.5	60.0	62.3
4-Feb	Nonfarm Payrolls	Jan	175K	-100K	199K
4-Feb	Unemployment Rate	Jan	3.9%	3.9%	3.9%
4-Feb	Average Hourly Earnings (MoM)	Jan	0.5%	0.6%	0.6%

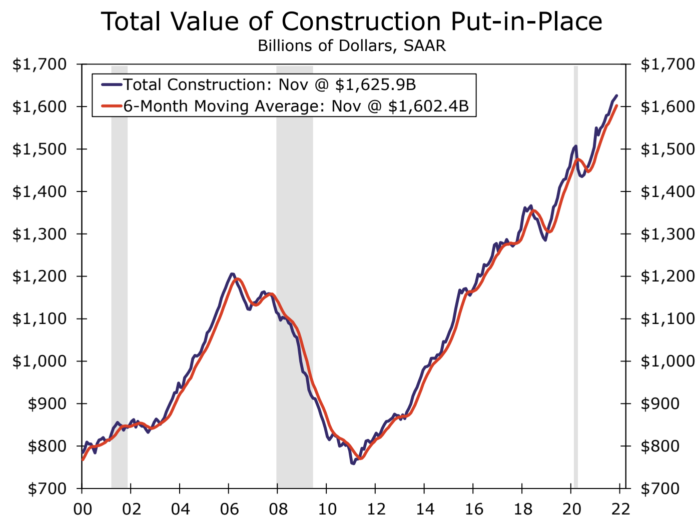
Forecast as of January 28, 2022

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

Construction Spending • Tuesday

Construction activity continues to improve, despite shortages of building materials and labor. Overall construction spending rose 0.4% during November. Total spending is now up 9.3% on a year-over-year basis. Residential spending increased 0.9% during the month. Home building appears to be strengthening against a backdrop of strong buyer demand and a shortfall of existing homes for sale. Total nonresidential spending was flat (0.0%) in November. Private nonresidential spending edged up 0.1%, while public nonresidential expenditures fell 0.1%.

Supply constraints continue to wreak havoc on project timelines and are adding to a rising cost environment. That noted, spending on construction projects appears set to strengthen in 2022. The forward-looking Architecture Billings Index (ABI) increased to 52 in December and has now been in expansion territory for 11 consecutive months, suggesting construction spending is poised for a solid pace of expansion in the months ahead. With this in mind, we suspect total construction spending rose 0.7% in December.

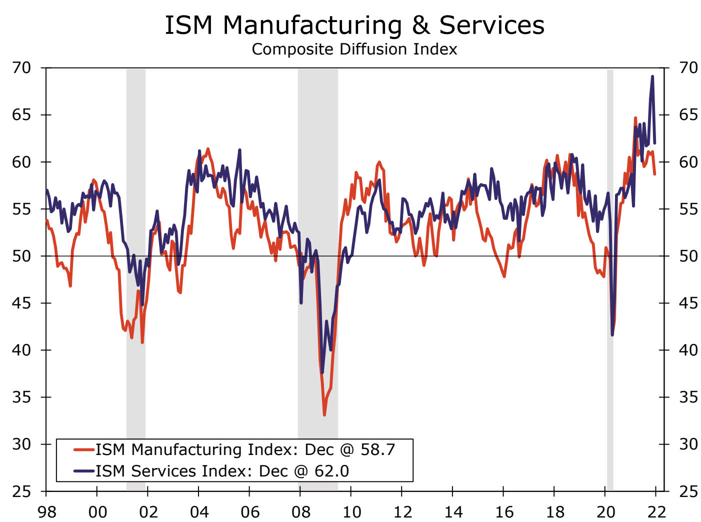


Source: U.S. Department of Commerce and Wells Fargo Economics

ISM Manufacturing & Services Indexes • Tues. & Thurs.

Signs that nation's supply chain woes were starting to resolve were apparent in December's readings of the manufacturing and services ISM indexes. The ISM Manufacturing index fell to 58.7 during the month. Sharp declines in delivery times and prices paid brought the monthly reading of manufacturing activity lower. Similarly, the overall ISM services index fell 7.1 points to 62.0 in December (see chart). The largest overall decline in the services index occurred in supplier deliveries, which fell 11.8 points. Meanwhile, declines in prices paid and delivery times were the primary drivers of the drop in the ISM manufacturing index. Overall, the declines in both the manufacturing and services indexes are encouraging signs that firms are having a slightly better time procuring inputs.

The Omicron wave was just getting under way in December, however. The employment component of the top-line services index slipped to 54.9 in December from 56.5, a reminder that in addition to supply chain snags and higher input costs, firms are still contending with rampant labor shortages. An unexpected drop in the Empire State manufacturing index is evidence that both the factory and service sectors may feel the impacts of Omicron more acutely in January, when many parts of the country experienced the worst of the surge in new infections. We look for the ISM manufacturing index to decline to 57.6 in January. Similarly, we expect the ISM services index to fall to 60 during the month.



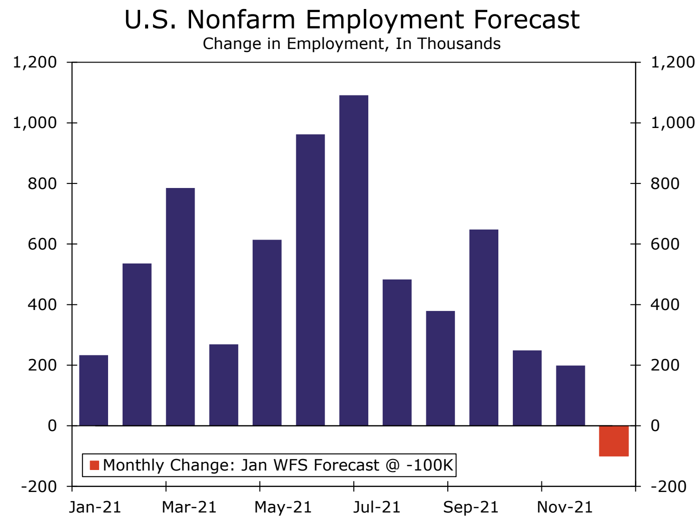
Source: Institute for Supply Management and Wells Fargo Economics

Employment • Friday

Employers added just 199,000 net new jobs during December, well below consensus estimates. Despite the miss in industry payrolls, there were ample signs that overall labor market conditions remain incredibly tight. Household employment jumped by 651,000, which helped push the unemployment rate down to 3.9%. Meanwhile, average hourly earnings increased more than expected, rising 0.6% during the month. December's report highlighted that ongoing labor shortages are still holding back employment growth. Furthermore, the surprisingly soft payroll addition serves as a reminder that a speedy bounce back in reduced labor force participation owed to financial cushions, health concerns and childcare issues is unlikely.

In recent months, there have been substantial revisions to the payroll data each month, and January will bring annual benchmark revisions to the payroll survey, shedding additional light on the underlying trend in hiring. Looking ahead, the Omicron wave looks to have slowed hiring markedly in the first month of 2022. Aside from causing a surge in worker absenteeism due to illness, the hiring process was likely significantly derailed by the wave of new infections, which reached a peak during the survey week. On the other hand, employers' reluctance to part ways with seasonal workers amid increasingly dire shortages of labor might help offset the drag from the sharp acceleration in case counts.

All together, we stand apart from the consensus view of a modest gain and expect payrolls to decline by 100,000 in January (see chart). We look for the unemployment rate to hold steady at 3.9%, although we note that new population controls for the household survey will be released with January's report, which could add extra noise to the household numbers. Furthermore, we anticipate average hourly earnings to rise by 0.6% during the month, which is slightly faster than consensus expectations as of this writing. (Return to Summary)



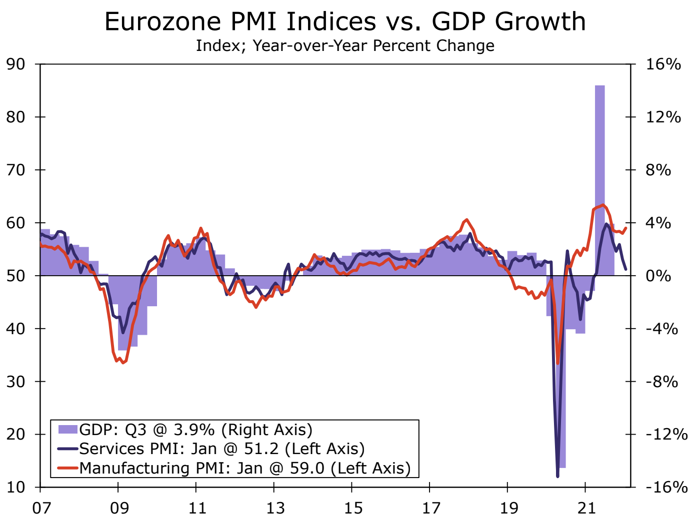
Source: U.S. Department of Labor and Wells Fargo Economics

International Review

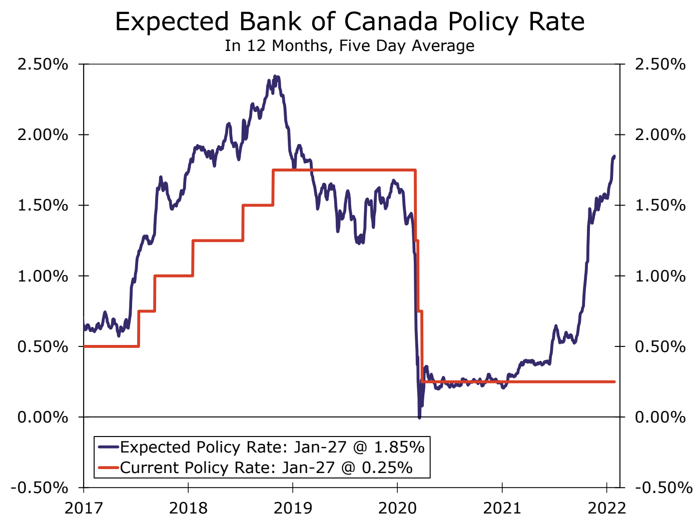
European Economic Growth Sputters Around the Turn of the Year

This week's news from Europe offered further confirmation of a soft patch for the region's economies. For the Eurozone, a slew of confidence surveys pointed to broadly slower growth in early 2022. To be sure, the Eurozone January manufacturing did improve to 59.0. However, the Eurozone PMI for the services sector—which makes up a much larger part of the overall economy—fell more than expected to 51.2 (see chart). France's services PMI fell to 53.1, while Germany's services PMI improved to 52.2.

Eurozone economic confidence for January offered the same message, falling to 112.7 from 113.8 in December. Industrial confidence fell to 13.9, while services confidence fell to 9.1. Finally, some of the Eurozone's larger economies reported Q4 GDP figures this week. Germany's Q4 GDP shrank 0.7% quarter-over-quarter, while France's Q4 GDP rose 0.7% and Spain's Q4 GDP rose 2.0%. Across the English Channel, the U.K. January PMI survey also pointed to soft growth at the start of 2022. The manufacturing PMI fell more than expected to 56.9, while the services PMI unexpectedly declined to 53.3.



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



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

Bank of Canada Holds Steady, but Signals Rate Hikes Are Coming Soon

The Bank of Canada (BoC) held its policy interest rate at 0.25% (see chart) at this week's monetary policy meeting, but the accompanying statement made it clear that rate increases should soon be forthcoming. In its statement, the central bank said the impact from the Omicron variant on the economy should be temporary, and that economic slack has been absorbed. As a result, the BoC decided to "end its extraordinary commitment to hold its policy rate at the effective lower bound," while also saying it would consider reducing the size of ts balance sheet after it has begun to raise interest rates. Finally, the BoC raised its CPI inflation forecast, and now sees average inflation of 4.2% in 2022.

At the following press conference, BoC Governor Macklem said "everybody should expect interest rates to be on a rising path," while also characterizing the announcement as a major policy change. Given the BoC's signals, we expect an initial 25 bps rate hike by the time of the central bank's April meeting, but would not rule out that initial increase coming earlier, at the central bank's March meeting.

Finally, this week's data also showed inflation from down under heading higher. In Australia, Q4 CPI inflation quickened to 3.5% year-over-year, with trimmed mean inflation firming to 2.6% and weighted median inflation firming to 2.7%. The New Zealand Q4 CPI also surprised to the upside, as inflation increased to 5.9% year-over-year. (Return to Summary)

International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
2-Feb	Eurozone CPI	Jan	4.3%	--	5.0%
2-Feb	Eurozone Core CPI	Jan	1.9%	--	2.6%
2-Feb	Brazil Selic Rate	2-Feb	10.75%	10.75%	9.25%
3-Feb	Bank of England Rate Decision	3-Feb	0.50%	0.25%	0.25%

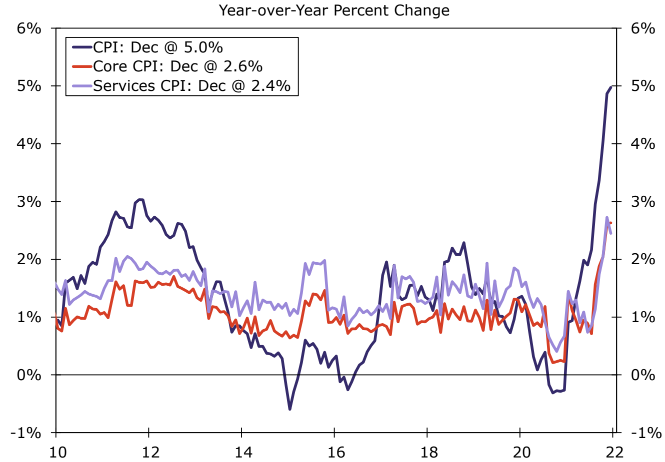
Forecast as of January 28, 2022

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

Eurozone CPI • Wednesday

Next week's release of the Eurozone January CPI should offer some insight into whether inflation is to peaking and how quickly inflation might recede as 2022 progresses. The December CPI rose 5.0% year-over-year, driven mainly by sharply rising energy prices, while the core CPI was up a lesser 2.6% (see chart). For January, the consensus forecast is for CPI inflation to slow to 4.3%, perhaps hinting that a peak may already have been reached, whereas the core CPI is seen slowing to 1.9%.

The fact that underlying inflation measures have risen much less than overall prices suggests inflation should recede further through the year, supporting the European Central Bank's (ECB) gradual shift to less accommodative monetary policy. Indeed, at next week's ECB announcement we expect no change in policy interest rates, nor do we expect any change in plans for the central bank to taper its bond purchases only gradually. Finally, next week also sees the release of Eurozone Q4 GDP, with the consensus looking for growth to slow to 0.4% quarter-over-quarter.

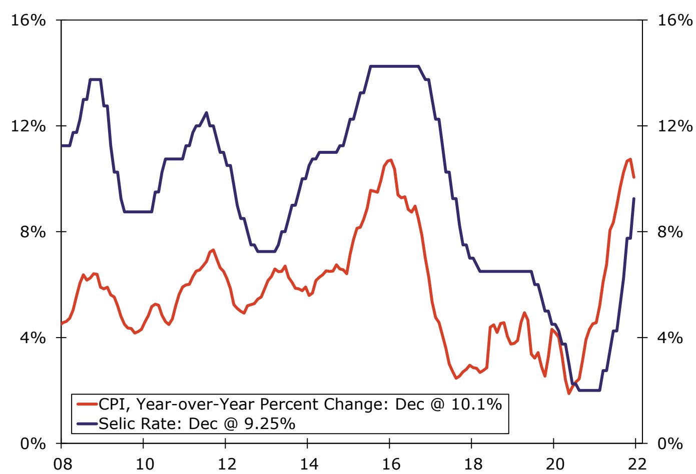


Source: Datastream and Wells Fargo Economics

Brazil Selic Rate • Wednesday

Brazil's central bank makes its first monetary policy announcement of 2022 next week, and after raising its Selic Rate a cumulative 725 bps in 2021, is widely expected to raise interest rates again at its February meeting. Indeed, Brazil's Central Bank (BCB) last raised its Selic Rate 150 bps in December and signaled that a similar-sized move in February was likely. As a result, we and the consensus anticipate a 150 bps hike at next week's meeting, which would take the Selic Rate to 10.75%.

Following the February increase, however, we expect a slower pace of monetary tightening as 2022 progresses. Brazilian economic growth was particularly soft during the second half of last year, with sequential declines in both Q2 and Q3 GDP, and November's economic activity indicator rose just 0.7% year-over-year. December CPI inflation also slowed, even if not as fast as expected, to 10.1% year-over-year (see chart). Given soft growth and slowing inflation, we would look for a slower pace of rate hikes as the year progresses.

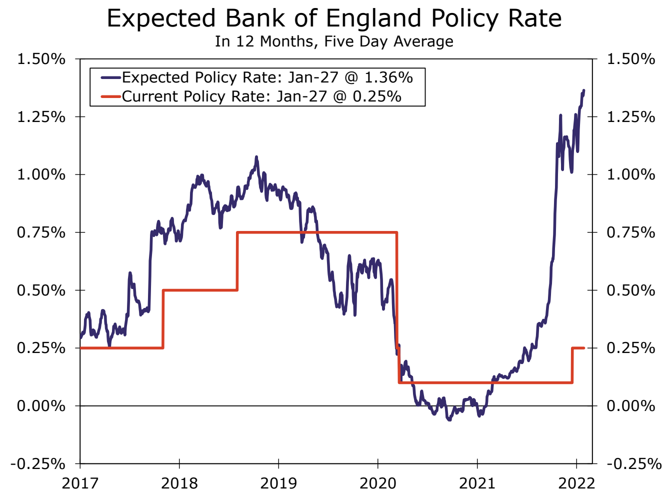


Source: Bloomberg Finance L.P. and Wells Fargo Economics

Bank of England Policy Announcement • Thursday

The Bank of England (BoE) announces its monetary policy decision next week. Recent data show increasingly divergent trends for the U.K. economy, with CPI inflation quickening to 5.4% year-over-year in December, but confidence surveys and retail sales figures pointing to softer growth around the turn of the year.

Given elevated inflation, the consensus forecast is for the BoE to hike its policy rate 25 bps to 0.50% at its February meeting. However, given that we anticipate uneven and relatively moderate U.K. economic growth, we expect a more gradual pace of tightening from the BoE during 2022. Specifically, we expect the BoE to hold its policy rate steady at 0.25% at next week's meeting. More broadly, we forecast a cumulative 50 bps of Bank of England rate hikes over the next year, which is well below that currently expected by market participants. (Return to Summary)



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

Interest Rate Watch

The Hawks in Full Control at the Fed

Going into this week's FOMC meeting, our forecast for U.S. monetary policy already included a significant amount of Fed tightening over the next two years. We looked for four 25 bps rate hikes from the FOMC this year, balance sheet reductions initiated in the fall and another three 25 bps rate hikes in 2023. Yet, even this forecast may have understated how aggressively the Federal Reserve will act in its effort to reign in white-hot inflation.

We wrote in a report on Wednesday that "unless the economy comes completely off the rails between now and the next FOMC meeting on March 16, we think the Committee will announce a 25 bp hike in its target range for the fed fund rate at that meeting." We continue to stand by that statement.

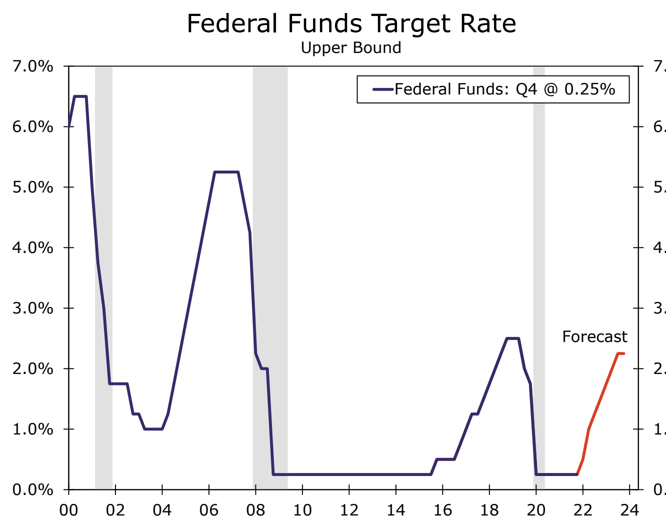
But what really struck us was a number of comments that Chair Powell made in his post-meeting press conference. Powell not only left open the possibility of sequential rate hikes at back-to-back meetings but made a pointed effort to emphasize how different the economy is today compared to the past cycle when the FOMC raised rates no more than 25 bps per quarter. In addition, Powell made clear that he would have raised his inflation forecast a bit if this were a meeting where the Committee updated its projections (the FOMC publishes its Summary of Economic Projections only in March, June, September and December).

In light of this hawkish rhetoric, we have made some adjustments to our monetary policy outlook. Specifically, we now believe it is likely that the FOMC will hike rates by 25 bps at the March 16, May 4 and June 15 policy meetings. Previously, we thought the Committee would stand pat in May.

We think the Committee will take a breather on raising the fed funds rate at the July 27 meeting, but we think it will use this meeting to announce the start of shrinking its balance sheet, which is another form of monetary policy tightening. We look for another 25 bp rate hike at the September 21 meeting before the Committee pauses again at the November 2 meeting ahead of the midterm elections. We then look for one more 25 bp increase in 2022 on December 14. We expect the more gradual pace of rate hikes in the second half of the year to be warranted by deceleration in spending and in some slowing in the rate of inflation, as well as by balance sheet runoff getting up to full speed.

In sum, we forecast the FOMC will raise its target range for the federal funds rate by 125 bps between March and the end of the year. We continue to expect the Committee to raise rates by 75 bps more over the course of 2023 with 25 bp rate hikes in the first, second and third quarters of the year. If realized, this would put the effective fed funds rate a bit above 2% at year-end 2023 (see chart).

For further reading on our Federal Reserve outlook, see our recent special report. (Return to Summary)



Source: Federal Reserve Board and Wells Fargo Economics

Credit Market Insights

Consumers Are on a Spending Spree, Can It Last?

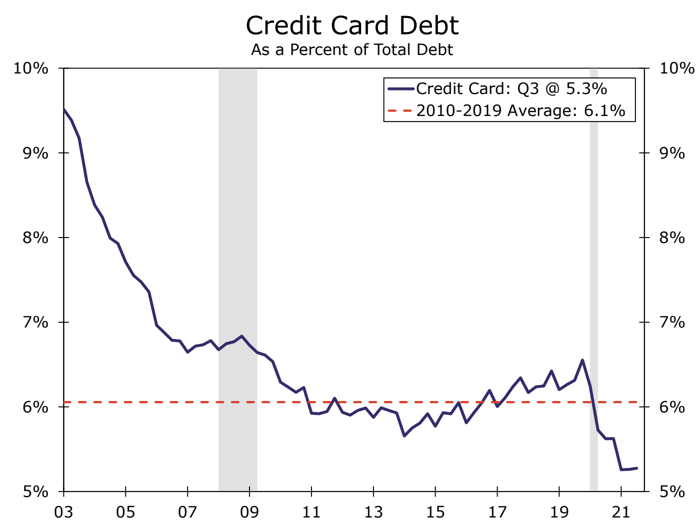
Major players in the credit card business reported attractive fourth quarter earnings this week as 2021 came to a close. The better-than-expected results came as companies noted renewed spending on travel and entertainment, which added fuel to fire after what had already been a record year for goods spending. This interest in services spending occurred even as the final quarter of 2021 was sandwiched between the emergence of the Delta and Omicron variants. Another highlight common among reports was the strong uptake in credit by younger consumers.

However, the upbeat year for credit card issuers had much to celebrate ahead of the final lap. Before even reaching the fourth quarter, holiday sales had squashed previous year-over-year records. In the wake of the good news, some reporting firms raised their forecast, citing improved optimism around consumer spending in 2022. While this is perhaps great news for issuers of credit cards, it begs the question of whether such growth is sustainable, especially while inflation is charging full-speed ahead. In other words, are consumers biting off more than they can chew when it comes to taking on credit card debt?

Data from the New York Fed's household debt and credit survey echoes the sentiment of the recent earnings reports. Consumers are taking up credit card debt…and fast. Although the data is only through Q3-21, credit card balances have increased by $17B in each of the past two quarters. While credit card debt levels are still significantly lower (-$123B) than 2019's high-water marks, the New York Fed claims they are "resuming their pre-pandemic trends, although from lower levels."

This reversal is to be expected considering spending options were limited for so long, but the revival in credit card spending conflicts with a time when consumers' wallets are feeling a little lighter. Although consumers are receiving an income bump from increases in wages and salaries, we expect that inflation will outpace these gains in the first half of the year. This comes as consumers are faced with the highest inflation in 40 years, as well as the discontinuation of fiscal stimulus. As long as the labor market remains strong, real disposable income should recover by year-end, but our forecast does imply that consumers may have to be more conscientious over the next few months.

Consumers may have to be smart about not overusing that credit in the near term, but overall credit card balances only constitute 5.3% of total household debt, which falls well below the 6.1% averaged in the past cycle (see chart). As noted by the New York Fed, base levels are much lower. So despite the recent growth, there is still a long time to go before we see balances approaching last cycle's peaks. Plus, we have not seen inability among consumers to keep adding to their savings. The current savings rate is comparable to where it was pre-COVID, which means consumers seem to have enough money on hand to keep preparing for a rainy day for now. That said, we have repeatedly expressed how inflation is threat that cannot be ignored going into this year, so we will continue to monitor household balance sheet dynamics.



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

For more on our consumer spending outlook for 2022 please see our recent special reports, New Year, Same Problems and A Record Gain in Holiday Sales that Most Retailers Would Like to Forget.
(Return to Summary)

Topic of the Week

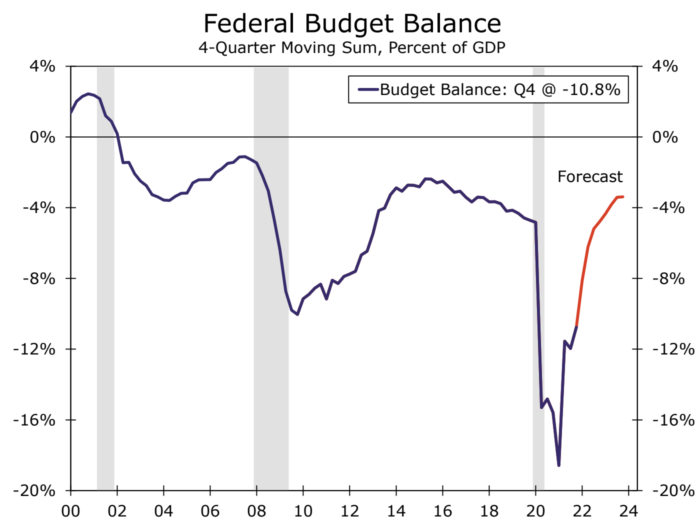
Build Back Better Still Stuck in Neutral

A little over one month ago, we published a report that made the case that Democrats' efforts to pass their Build Back Better (BBB) plan largely had stalled. One month into 2022 and not much has changed. The Biden administration and various Democratic leaders in Congress continue to tout the benefits of BBB, but Democrats' razor-thin majorities in the House and Senate continue to make a deal elusive. There appears to be widespread recognition that BBB must be scaled back to win the support of moderate members of the Senate, but choosing which policies stay and which ones are abandoned is no easy feat even with sizable majorities in both chambers.

The next month or two promises to be an active one in D.C. The government is currently operating under a continuing resolution (CR) that only authorizes government funding through February 18. Congress has passed a series of stopgap CRs since the fiscal year began on October 1, but our sense is this time around there has finally been some progress on finding a compromise between the two parties on discretionary spending levels. It remains to be seen whether the two parties can hammer out their differences and complete the 12 annual appropriation bills by February 18. If they cannot, Congress will need to pass another CR by February 18 to avert a government shutdown.

In addition to the government funding deadline, numerous key Biden administration nominees could receive a vote in February. President Biden has put forth three names for the Federal Reserve Board, including one (Sarah Bloom Raskin) for the Vice Chair for Supervision. Congress may also hold hearings and a vote on whomever President Biden nominates to replace retiring Supreme Court Justice Stephen Breyer.

In our report one month ago, we said that "there is no hard procedural deadline for BBB on the horizon, but the first quarter of the year will probably determine whether it becomes law or not. Much later than that and it is hard for us to imagine major legislation passing in the second half of the year when midterm election season will be in full swing." Our thinking on this has not changed. BBB could still come together, but for it to become law, we believe it will need a lot more momentum over the next month than it has had over the past month.



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

In the meantime, the federal budget deficit continues to normalize. Federal spending has sharply decelerated as COVID relief outlays have largely run their course, while 10% nominal GDP growth has helped narrow the deficit as a share of GDP from its pandemic high watermark. If Congress does not pass any major new fiscal policy initiatives such as BBB over the next year or two, it is a real possibility that the federal budget deficit as a share of the economy may be smaller in 2023 than it was in 2019 before the pandemic (see chart). (Return to Summary)

Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 1/28/2022	1 Week Ago	1 Year Ago
SOFR	0.04	0.04	0.03
3-Month LIBOR	0.28	0.26	0.22
3-Month T-Bill	0.19	0.16	0.05
1-Year Treasury	0.54	0.46	0.05
2-Year Treasury	1.18	1.00	0.12
5-Year Treasury	1.65	1.56	0.43
10-Year Treasury	1.82	1.76	1.04
30-Year Treasury	2.12	2.07	1.80
Bond Buyer Index	2.33	2.25	2.14

Foreign Exchange Rates

	Friday 1/28/2022	1 Week Ago	1 Year Ago
Euro ($/€)	1.115	1.134	1.212
British Pound ($/£)	1.341	1.355	1.372
British Pound (£/€)	0.831	0.837	0.883
Japanese Yen (¥/$)	115.340	113.680	104.240
Canadian Dollar (C$/$)	1.276	1.258	1.283
Swiss Franc (CHF/$)	0.931	0.912	0.889
Australian Dollar (US$/A$)	0.699	0.719	0.768
Mexican Peso (MXN/$)	20.766	20.473	20.250
Chinese Yuan (CNY/$)	6.360	6.339	6.450
Indian Rupee (INR/$)	75.040	74.428	73.041
Brazilian Real (BRL/$)	5.386	5.452	5.441
U.S. Dollar Index	97.164	95.642	90.455

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

Foreign Interest Rates

	Friday 1/28/2022	1 Week Ago	1 Year Ago
3-Month Euro LIBOR	-0.58	-0.59	-0.57
3-Month Sterling LIBOR	0.59	0.56	0.04
3-Month Canada Banker's Acceptance	0.72	0.75	0.44
3-Month Yen LIBOR	-0.02	-0.02	-0.08
2-Year German	-0.61	-0.62	-0.75
2-Year U.K.	0.99	0.88	-0.11
2-Year Canadian	1.27	1.25	0.16
2-Year Japanese	-0.05	-0.07	-0.12
10-Year German	-0.03	-0.07	-0.54
10-Year U.K.	1.26	1.17	0.29
10-Year Canadian	1.79	1.79	0.82
10-Year Japanese	0.17	0.14	0.04

Commodity Prices

	Friday 1/28/2022	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	88.13	85.14	52.34
Brent Crude ($/Barrel)	90.87	87.89	55.53
Gold ($/Ounce)	1786.11	1835.38	1843.17
Hot-Rolled Steel ($/S.Ton)	1162.00	1218.00	1138.00
Copper (¢/Pound)	435.75	451.80	358.30
Soybeans ($/Bushel)	14.38	14.04	13.77
Natural Gas ($/MMBTU)	4.55	4.00	2.66
Nickel ($/Metric Ton)	22,793	24,076	17,867
CRB Spot Inds.	642.15	646.66	532.61

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