WELLS FARGO

Weekly — November 1, 2024

Weekly Economic & Financial Commentary

United States: **It's Halloween. Everyone's Entitled to One Good Scare.**

- Nonfarm payrolls rose a much weaker-than-expected 12K in October. Worker strikes and hurricanes played a major role in the headline miss. The unemployment rate, which is derived from the household survey and counts those not working due to a strike or severe weather as employed, held steady at 4.1%. A 25 bps rate cut at next week's FOMC meeting remains highly likely.
- Next week: ISM Services (Tue.), Nonfarm Productivity (Thu.), Consumer Sentiment (Fri.)

International: **Bank of Japan Holds Policy Steady Amid Political Uncertainty**

- It was a remarkable week in Japanese politics as the Liberal Democratic Party (LDP) suffered its first major loss in the country's lower house in more than a decade. As a result, we see political uncertainty persisting in the coming weeks. It is against this backdrop that the Bank of Japan held monetary policy steady this week. Looking ahead, we remain comfortable with our forecast for the next 25 bps rate hikes to come at the January 2025 and April 2025 meetings.
- Next week: Brazil Selic Rate (Wed.), Riksbank Policy Rate (Thu.), Bank of England Policy Rate (Thu.)

Interest Rate Watch: **What Goes Up, Must Come Down**

- We expect the FOMC to elect to reduce the federal funds rate 25 bps at next week's monetary policy meeting. Economic growth has generally remained solid since the Committee last met in September, but the restrictive stance of policy today supports a further reduction.

Credit Market Insights: **Refinancing Activity Slows Down Amid Pickup in Mortgage Rates**

- Mortgage rates have risen sharply over the past weeks despite expectations the start of the Fed's rate cutting cycle would help ease pressure on financing costs for home buyers. As a result, refinancing activity that had once picked up has since tumbled back down to this summer's lows.

Topic of the Week: **The Election Is Near; Is Consumer Confidence Poised for a Rebound?**

- The U.S. presidential election, a major source of uncertainty for consumers, is less than one week away. It is instructive to explore how consumer confidence levels have rebounded following November elections in previous cycles and how this cycle compares.

Submit a question to our "Ask Our Economists" podcast at askoureconomists@wellsfargo.com.

Register for our 2025 Annual Economic Outlook Webcast on November 21.

Wells Fargo U.S. Economic Forecast

	Actual			Forecast					Actual	Forecast		
	2024				2025				2023	2024	2025	2026
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product [1]	1.6	3.0	2.8	2.0	1.5	2.2	2.5	2.4	2.9	2.7	2.2	2.5
Personal Consumption	1.9	2.8	3.7	2.0	2.0	2.3	2.3	1.9	2.5	2.6	2.3	2.2
Consumer Price Index [2]	3.2	3.2	2.6	2.6	2.4	2.3	2.6	2.6	4.1	2.9	2.5	2.4
"Core" Consumer Price Index [2]	3.8	3.4	3.2	3.2	2.8	2.6	2.7	2.6	4.8	3.4	2.7	2.5
Quarter-End Interest Rates [3]												
Federal Funds Target Rate [4]	5.50	5.50	5.00	4.50	4.00	3.75	3.50	3.25	5.23	5.13	3.63	3.25
Conventional Mortgage Rate	6.82	6.92	6.18	6.30	6.05	5.90	5.80	5.70	6.80	6.55	5.86	5.65
10 Year Note	4.20	4.36	3.81	3.80	3.65	3.60	3.55	3.50	3.96	4.04	3.58	3.54

Forecast as of: October 11, 2024 [1] Compound Annual Growth Rate Quarter-over-Quarter [2] Year-over-Year Percentage Change
[3] Quarterly Data - Period End; Annual Data - Annual Averages [4] Upper Bound of the Federal Funds Target Range

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

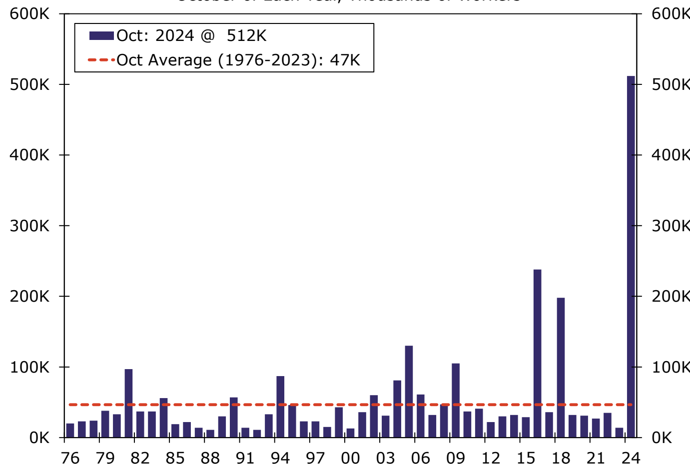
U.S. Review

It's Halloween. Everyone's Entitled to One Good Scare.

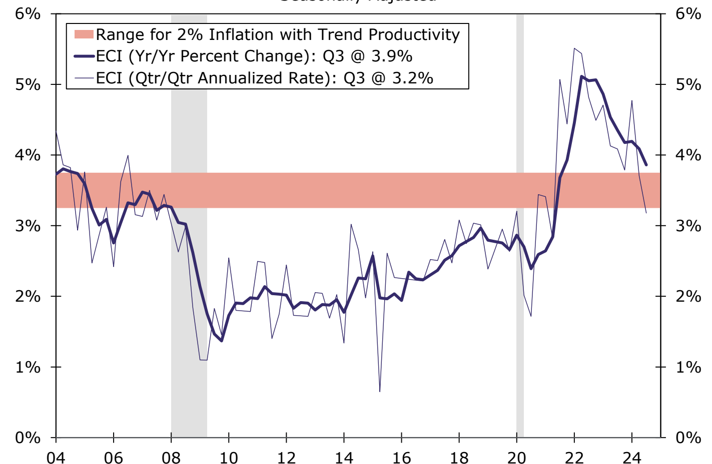
We got a bit of a scare from the jobs report. Nonfarm payrolls rose a much weaker-than-expected 12K in October. Worker strikes, most notably at Boeing, reduced the headline gain by about 40K. The precise impact from Hurricanes Helene and Milton is much harder to discern, but the separate survey of households showed there were 512K workers who were not on the jobsite due to weather in October, suggesting that work disruptions played a major role in the payroll miss. The unemployment rate, which is derived from the household survey and counts those not working due to a strike or severe weather as employed, held steady at 4.1%.

Looking past October's noisy payroll print, downward revisions to the past few months of data point to a moderation in job growth. Employment gains were revised down 81K in August and 31K in September. Before the revisions, payroll growth averaged 186K in the third quarter. Incorporating the revisions, growth averaged 148K, which is roughly in line with the second quarter and down from the first quarter's 267K average.

Although the employment report feels like a mouthful of candy corn, full-size chocolate bars were still up for grabs this week. Real GDP expanded at a 2.8% annualized rate in the third quarter. Consumer spending accounted for a majority of the gain, increasing at a 3.7% annualized rate and rose with broad-based strength across goods and services. Households continue to face their fair share of challenges with still-high prices and uncertainty around the election outcome, but that has not deterred spending. Business fixed investment (+3.3%) and government spending (+5.0%) each expanded at solid rates, while residential investment contracted 5.1%. Overall, the outturn demonstrates the ongoing resilience of the U.S. economy. Output was up 2.7% on a year-ago basis, stronger than the past business cycle's 2.4% average growth.



Source: U.S Department of Labor, Bloomberg Finance L.P. and Wells Fargo Economics



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

The strength in underlying demand has counterbalanced the weakening in labor demand. Job openings fell more than 400K in September to 7.44 million, or the lowest since January 2021. The decline in hiring demand has kept a lid on voluntary separations, as workers feel less confident about their job-switching prospects than they did a few years ago. The quits rate slipped to 1.9% in September, down from its recent peak of 3.0% in late 2021 and early 2022. At the same time, involuntary separations are contained with the layoff rate sitting at 1.2%, below its pre-pandemic trend. Taken together, these data suggest that employers are in a holding pattern. Firms are not hiring new workers robustly, likely due to persistent input cost growth and elevated uncertainty, but they are also not interested in laying off their existing workers, because demand for their goods and services continues to expand.

The cooling in labor market churn has eased the pressure on employers to hike wages and salaries. The Employment Cost Index, which is the Federal Reserve's preferred measure of compensation costs, increased 0.8% in the third quarter, bringing the year-over-year rate to 3.9%. That pace of growth

is still much stronger than what prevailed in the business cycle before the pandemic, but it is down from its 5.1% peak in 2022. Layering in solid labor productivity, which we expect to pick up in the third quarter, and the inflationary impulse from labor costs has meaningfully ebbed.

In view of the moderation in employment and labor cost growth, we suspect the Federal Reserve will continue easing monetary policy in the coming months. As discussed in Interest Rate Watch, we look for the FOMC to lower its target range by 25 bps to 4.50%-4.75% at its meeting next week. We suspect the more gradual pace of reduction—the FOMC kicked off the easing cycle with a 50 bps cut in September—will appease members of the Committee who remain concerned about the upside risks to inflation.

(Return to Summary)

U.S. Outlook

Weekly Domestic Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
4-Nov	Factory Orders (MoM)	Sep	-0.4%	-0.5%	-0.2%
5-Nov	Trade Balance	Sep	-$74.5B	-$84.4B	-$70.4B
5-Nov	ISM Services Index	Oct	53.5	53.5	54.9
7-Nov	Nonfarm Productivity (SAAR, QoQ)	Q3	2.3%	2.8%	2.5%
7-Nov	Unit Labor Costs (SAAR, QoQ)	Q3	0.8%	0.9%	0.4%
7-Nov	FOMC Rate Decision (Upper Bound)	18-Sep	4.75%	4.75%	5.00%

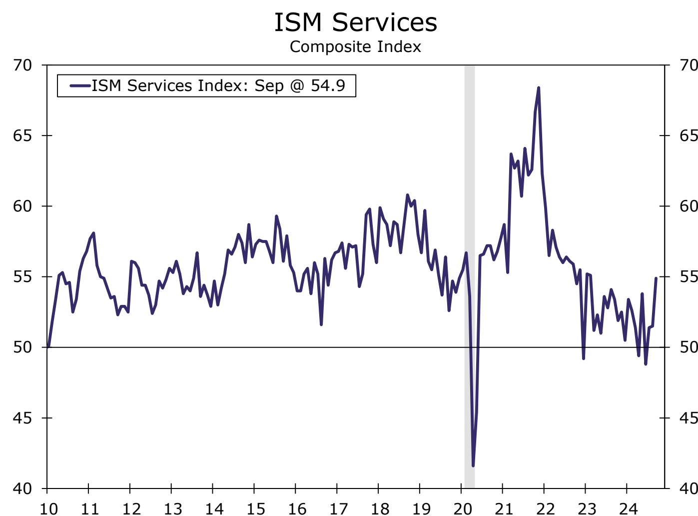
Forecast as of November 01, 2024

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

ISM Services Index • Tuesday

Unshakable consumer momentum is helping to sustain the services industry. Adjusted for inflation, consumer spending rose at a robust 3.7% annualized rate in Q3. This upturn contributed 2.5 percentage points to the 2.8 percent top-line growth figure, accounting for 88% of real GDP growth over the quarter. Zooming in, real consumer outlays rose 0.4% in September, the bulk of which was spent on services. The September ISM Services Index echoed this strength. The headline index rose to 54.9, the highest reading since February of last year, propelled by solid gains in business activity and new orders. Although service providers noted their concerns about economic and policy uncertainty following the election, they also voiced optimism about lower interest rates spurring demand in sectors like finance and housing.

The ISM Services Index appears poised for some giveback in October, which we forecast dipped slightly to 53.5. This result, if realized, would reflect a services industry continuing to expand but at a slightly slower pace. We will be especially attuned to the prices paid subindex. Prices paid by service providers rose in September to its highest reading in four months as 12 industries reported price hikes for inputs. This acceleration coincided with a pickup in the Fed's preferred inflation gauge, which increased a stiff 0.3% in September. Although the year-over-year rate was unchanged at 2.7%, we maintain the view that inflation will continue to grind lower in the months ahead.

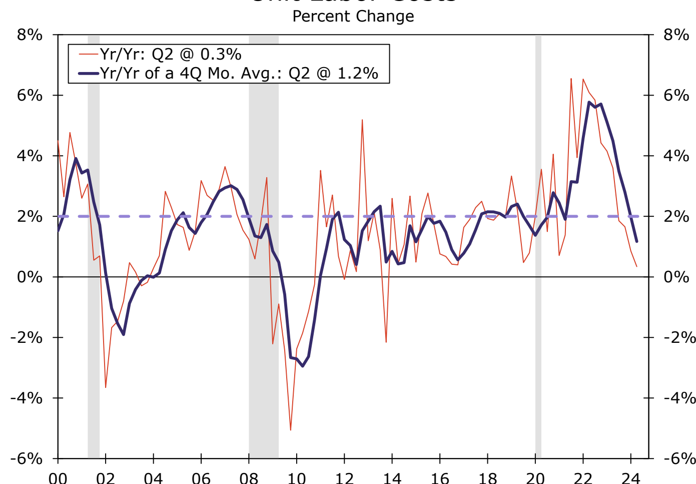


Source: Institute for Supply Management and Wells Fargo Economics

Nonfarm Productivity & Costs • Thursday

Lackluster productivity growth characterized much of the economic expansion before the pandemic struck. However, robust prints in recent quarters suggest that fundamentals are improving. Output per hour, a measure of nonfarm labor productivity, rose at a 2.5% annualized rate in the second quarter, up from the preliminary estimate of 2.3%. Specifically, nonfarm output increased 3.5%, while hours worked rose just 1.0%. We suspect that the widespread adoption of remote work and increasing use of artificial intelligence will support sturdy labor productivity over the next few years. Looking to Q3, an above-trend outturn for real GDP growth (+2.8%) alongside no change in hours worked for production and nonsupervisory employees suggests another solid quarter for productivity growth. We suspect that nonfarm output per hour rose at a 2.8% annualized rate, which would be an acceleration over Q2.

Higher productivity has helped to tamp down on unit labor costs (ULCs), which essentially is the productivity-adjusted cost of labor. As compensation pressures have cooled alongside a loosening labor market, labor compensation now appears to be rising at a pace consistent with the Fed's inflation target. Accounting for revisions, growth in ULCs dipped to a 0.4% quarterly annualized rate in Q2. This was down from the 3.8% pop in Q1, but ULCs are volatile. We look for growth in ULCs to post another tame print of 0.9% in Q3, below the current run rate of 1.2% on a year-over-year four-quarter average basis.

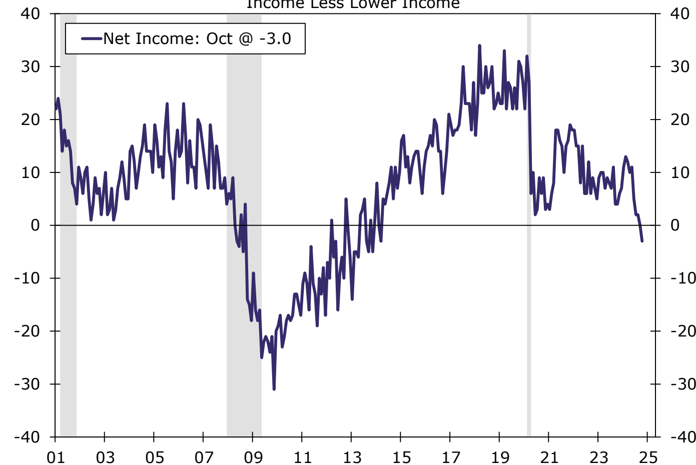


Source: U.S. Department of Labor and Wells Fargo Economics

University of Michigan Consumer Sentiment • Friday

The final read of October's Consumer Sentiment Index came in at 70.5, a slight improvement over September (70.1) and better than the preliminary reading of 68.9. The revised print is more in line with a jump in the Conference Board's Consumer Confidence measure in October, which was triggered by lower gas prices and a brighter view of the jobs market. In the case of Consumer Sentiment, respondents noted better buying conditions for durables, in part due to lower interest rates. There was also a clear delineation among party lines. As former President Trump gained in the polls, sentiment among Republicans rose 8%, while sentiment among Democrats fell by 1%.

The good news is that inflation expectations remain relatively well-anchored, with 5-10-year ahead expectations dipping back down to 3.0% in October. The bad news is that consumer attitudes remain historically poor. October's final reading was roughly 25 points lower than the average in 2019. Downbeat perceptions of household finances are adding fuel to the fire. The "income differential," which measures the percent of respondents reporting higher household income than a year ago minus the percent reporting weaker household income, fell to its lowest level in a decade. Wells Fargo Economics does not forecast consumer sentiment, however consumer attitudes are likely to exhibit more volatility the closer we get to the election.



Source: University of Michigan and Wells Fargo Economics

(Return to Summary)

International Review

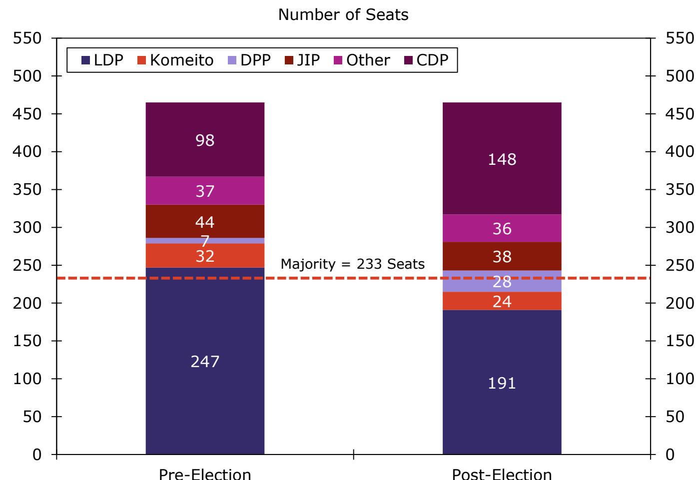
Bank of Japan Holds Policy Steady Amid Political Uncertainty

It was a remarkable week in Japanese politics as the Liberal Democratic Party (LDP), which has ruled the country almost continuously over the past 70 years, lost its majority in Japan's 465-seat lower house—the more influential chamber of the bicameral national legislature—for the first time since 2012. This also marks the first time the LDP's coalition has lost a lower house majority election since 2009. The LDP garnered only 191 seats, which when combined with its smaller coalition partner Komeito party's 24 seats, totaled only 215 seats. This means the ruling coalition failed to secure the 233 seats needed for an absolute majority. The largest opposition party, the Constitutional Democratic Party, saw a large gain in seats but will likely find it challenging to form a new government.

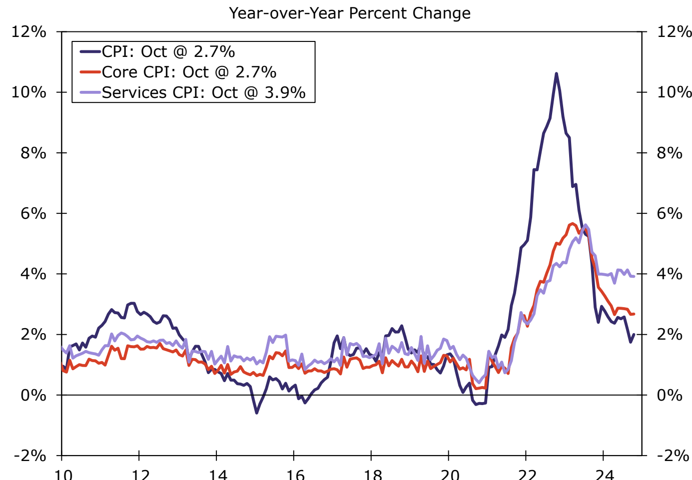
Indeed, at the current juncture there remains significant uncertainty on the exact makeup of the new government going forward. More specifically, questions persist as to whether the LDP will attempt to rule in a minority coalition with Komeito, or whether the coalition will reach out to other parties in an aim to achieve an absolute legislative majority. The Democratic Party for the People (DPP), which won 28 seats, appears to be potentially open to some form of cooperation. Still, the DPP solidly favors easier fiscal and monetary policy, meaning it's possible that the parties may not see completely eye-to-eye. Also adding to the environment of political uncertainty is that a vote on the premiership is expected to take place on Nov. 11, a vote which might still determine whether Prime Minister Ishiba is able to maintain power.

It is against this backdrop that the Bank of Japan (BoJ) opted to hold policy steady this week, reiterating that it would encourage the uncollateralized overnight call rate to remain at around 0.25%. The BoJ's GDP growth forecasts were largely unchanged at 0.6%, 1.1% and 1.0% year-over-year for fiscal years 2024, 2025 and 2026, respectively. The same is broadly true of the CPI ex fresh-food projections, save for a slight decline in the fiscal year 2025 forecast that the BoJ attributed to declines in crude oil prices. The central bank sees this underlying inflation measure coming in at 2.5% in FY-2024, 1.9% in FY-2025 and 1.9% in FY-2026, all in the neighborhood of the 2% inflation target. Policymakers signaled the likelihood of further tightening if the outlook for the economy and prices comes to fruition. We remain comfortable with our outlook for further BoJ tightening and still see the next 25 bps policy rate hikes occurring at the January 2025 and April 2025 meetings.

Another significant policy event this week was the U.K. Government Autumn Budget, the first delivered by Chancellor Rachel Reeves. The government announced a £41 billion increase in taxes by 2030, including raising the national insurance payroll tax, while raising some capital gains, windfall tax profits on oil and tax firms and excise and levies. On the flip side, the government will raise spending by £74 billion by 2030, delivering a net giveaway of £33 billion and translating to higher borrowing. Among the big spending increases are £22.6 billion for day-to-day spending for the National Health Service and a £3.1 billion increase in the capital budget. Other area of capital investment include new green hydrogen projects, railways, housing, schools and the automotive sector, among others. On net, the budget appears to be somewhat fiscally expansive over time, as reflected in higher borrowing needs, though the government still plans to meet the “stability rule” of day-to-day spending being paid out of taxes two years early—by 2027-2028—and will also meet its goal of having public sector net financial liabilities falling as a share of GDP. Overall, we see the budget as broadly consistent with our outlook for relatively steady U.K. GDP growth through 2024 and 2025, as well as a relatively gradual pace of Bank of England monetary easing.



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



Source: Datastream and Wells Fargo Economics

In this week's economic data, Eurozone GDP was noticeably stronger than expected. Q3 GDP rose 0.4% quarter-over-quarter (versus expectation for a 0.2% gain) and by 0.9% year-over-year. Most of the region's larger economies performed better than expected, as Germany's GDP unexpectedly rose 0.2% quarter-over-quarter, while French GDP rose 0.4% and Spanish GDP rose 0.8%. While softer sentiment surveys suggest some deceleration in growth is likely in the current quarter, the steady Q3 GDP outcome perhaps lessens concerns about the risk of economic contraction. In this week's other key Eurozone data, the October CPI saw headline inflation quicken more than expected to 2.0% year-over-year, as well as some lingering persistence in underlying inflation measures. Core inflation held steady at 2.7%, while services inflation also held steady at 3.9%. In our view, the combination of steady GDP growth and some signs of underlying inflation persistence strongly favor a 25 bps rate cut from the European Central Bank at its December announcement, as opposed to a larger 50 bps reduction.

Elsewhere, China's October PMI surveys pointed to a modest improvement in China's economy early in the fourth quarter, but a still relatively sluggish performance overall. The manufacturing PMI rose a bit more than expected to 50.1, the first reading above the breakeven 50 level since April. Within the details, the output component rose to 52.0, but the new orders component barely edged higher to 50.0. The business activity expectations index also improved to 54.0. Meanwhile, the non-manufacturing PMI rose a bit less than forecast to 50.2, with the details showing a rise in new orders to 47.2 and business activity expectations rising to 56.1. Overall, our sense is that China's economic performance remains moderate for now, though with the forward-looking components of the PMI survey offering some hope for a temporary firming in activity during the latter part of this year.

(Return to Summary)

International Outlook

Weekly International Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
6-Nov	Brazil Selic Rate	6-Nov	11.25%	11.25%	10.75%
7-Nov	Riksbank Policy Rate	7-Nov	2.75%	2.75%	3.25%
7-Nov	Bank of England Policy Rate	7-Nov	4.75%	4.75%	5.00%

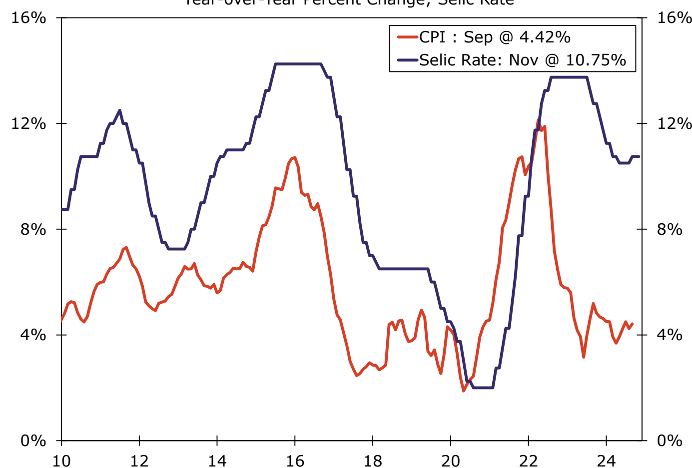
Forecast as of November 01, 2024

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

Brazil Selic Rate • Wednesday

The Brazilian Central Bank (BCB) announces its latest policy decision next week, at which our forecast (and the consensus forecast) is for the central bank to increase its Selic rate by 50 bps to 11.25%. The BCB reached the end of its monetary easing cycle in May this year before reverting to a 25 bps rate hike in September as inflation ticked higher and as the Brazilian real has weakened since the middle of this year.

The tone of the September announcement was relatively hawkish, with the central bank raising its inflation forecast and indicating upside risk to its outlook. With Brazilian economic activity reasonably solid in recent months, the real softening further and concerns regarding the prospects for more expansionary fiscal policy growing, we expect the Brazilian Central Bank to step up the pace of monetary tightening at its November announcement and look for policymakers to deliver a 50 bps Selic rate hike to 11.25%. We would also expect the central bank to signal a bias for further rate hikes. Indeed, we see Brazil's monetary tightening cycle continuing into early 2025, with the Selic rate peaking at 12.25%.

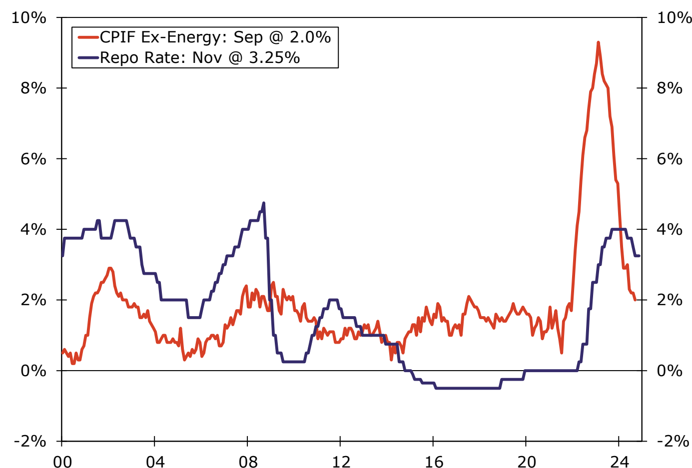


Source: Bloomberg Finance L.P. and Wells Fargo Economics

Riksbank Policy Rate • Thursday

The Riksbank, Sweden's central bank, announces its latest monetary policy decision next week, and it is expected to deliver further monetary easing. The focus of market participants is on the likely size of the Riksbank rate cut. While the central bank has lowered its policy rate in 25 bps increments so far, we lean toward the Riksbank delivering a larger 50 bps policy rate reduction next week.

At its September meeting, the Riksbank lowered interest rates and delivered dovish policy guidance. The central bank cited slow economic recovery, declining price pressures which were now viewed as consistent with the inflation target and indicated that a faster pace of monetary easing was possible. Since then, inflation has slowed further, with CPIF ex-energy inflation at 2.0% year-over-year in September. On balance, sentiment data have remained subdued and activity data soft. In particular, the GDP indicator recently surprised to the downside, falling 0.1% quarter-over-quarter in Q3 and 0.4% month-over-month in September. With the European Central Bank having also shifted to more regular rate cuts, and given the Riksbank's dovish bias, we expect the central bank to lower its policy rate by 50 bps to 2.75% at next week's announcement.



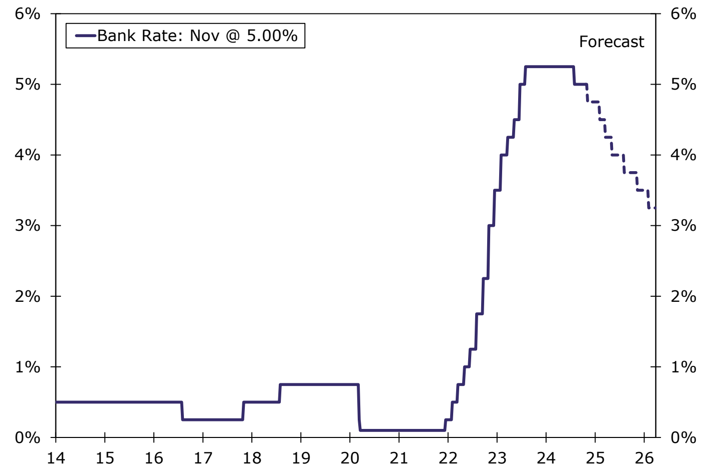
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Bank of England Policy Rate • Thursday

The Bank of England (BoE) announces its latest monetary policy decision next week, a meeting at which the central bank is widely expected to lower its policy rate by 25 bps to 4.75%. The BoE made a tentative initial step along its monetary easing path in August, when it delivered its first 25 bps rate reduction. Since then, there has been some deceleration in wage and price growth, and BoE Governor Bailey has also suggested that disinflation is happening faster than expected and the central bank could become a bit more aggressive in cutting interest rates. Other BoE policymakers have been a bit more cautious regarding the pace of monetary easing, as services inflation is still quite elevated at 4.9% year-over-year, and with activity data and sentiment surveys pointing to a relatively steady pace of economic growth.

Against this backdrop, we expect the BoE to lower it policy rate by 25 bps, with market participants likely to be more focused on the central bank's updated economic projections and future policy guidance. For now, we expect the BoE to continue with a gradual pace of rate cuts and anticipate another pause at the December announcement.

(Return to Summary)



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

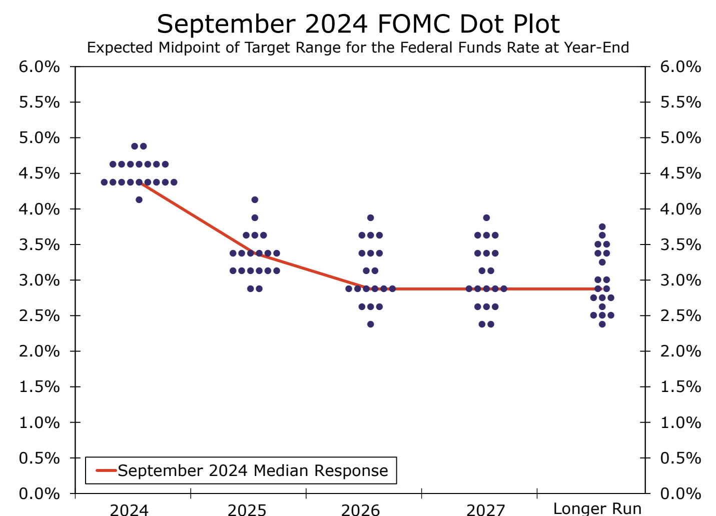
Interest Rate Watch

What Goes Up, Must Come Down

The Federal Open Market Committee (FOMC) kicked off easing with a bang, delivering a 50 bps rate cut in September. When the Committee meets next week, we expect it to elect to reduce rates again, but by 25 bps. We're not expecting any changes to the pace of QT to be announced at next week's meeting, though recent stress in funding markets means it will likely be a topic of discussion.

We wouldn't be surprised to see some disagreement at next week's meeting, and if there is any risk to our call, it is that the Fed decides to hold rates steady rather than deliver a larger 50 bps cut. In September, the dot plot implied only a narrow majority favoring 50 bps or more of further rate reductions by year-end with 10 members forecasting such. That means the nine other Committee members called for 25 bps or less of easing by year-end. Since the Committee last met in September, economic data have also generally remained solid, somewhat reducing the urgency that accompanied the 50 bps reduction.

Real GDP accelerated in Q3 and expanded at a 2.8% annualized rate, driven by still-solid consumer spending. Labor market data have also broadly shown that while hiring is slowing, it's not collapsing. The economy continues to clip along, and inflation is still above target. The core PCE deflator rose at the fastest pace in five months in September, keeping the year-ago rate flat at 2.7%. But the Employment Cost Index continued to slow in Q3, indicating the labor market is no longer a threat to returning inflation to 2%.



Source: Federal Reserve Board and Wells Fargo Economics

In considering the target range of the federal funds rate is at 4.75%-5.00%, we believe the stance of monetary policy is still restrictive, and while growth has held up, both sides of the Fed's mandate—maximum employment and stable prices—continue to come into better balance. Therefore, even though we see little signs of significant economic stress today, we believe the FOMC needs to reduce the amount of restriction it's imparting on the economy to prevent further slowing.

While some members may not be on board with a further rate reduction in light of the recent strength in activity, we believe the bulk of the Committee will want to ease policy further and deliver a 25 bps reduction, driving the target range on the federal funds rate to 4.50%-4.75%. Note, at a 2.7% inflation rate, this implies the real federal funds rate (~1.80%-2.05%) would still be far above any level reached during the prior 2010–2019 economic expansion. We thus look for the FOMC to continue to *gradually* reduce rates over the course of the next year to return the stance of monetary policy to a more neutral setting.

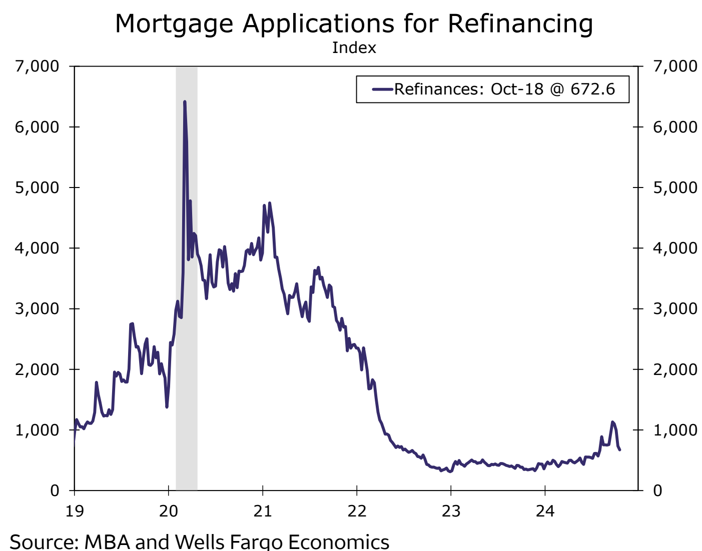
(Return to Summary)

Credit Market Insights

Refinancing Activity Slows Down Amid Pickup in Mortgage Rates

Mortgage rate movements in recent weeks have been somewhat surprising. Mortgage rates have risen sharply over the past several weeks despite expectations that the start of the Fed's rate cutting cycle in September would help ease pressure on financing costs for home buyers. Indeed, the start of the Fed's tightening cycle in March 2022 caused rates to climb, peaking at nearly 8% in October 2023 and fluctuating until hitting another high of over 7% in the spring of this year. Naturally, during this time, refinancing activity plummeted, and by December 2022, mortgage applications for refinancing had hit a more than 20-year low.

As the Fed indicated a potential rate reduction following the July FOMC meeting, which coincided with a slowdown in the July and August payroll reports, markets began anticipating a steep easing cycle. Consequently, mortgage rates briefly dipped to nearly 6%. While still relatively high, this led to a substantial increase in refinancing activity. The Mortgage Bankers Association reported that refinancing applications surged nearly 50% in late September from the week before the Fed's dovish 50 bps cut in the Federal Funds Rate. This represented an approximate 260% leap over the lows earlier in 2022, when mortgage rates averaged 6.42%. However, with uncertainty surrounding the presidential election, a stronger-than-expected labor market and expectations for a more gradual pace of easing over the next year, mortgage rates have begun to rise again. The latest Freddie Mac 30-year fixed rate averaged 6.72% the week of Oct. 31. As a result, refinancing activity as of this week has fallen back to levels seen earlier this summer, dipping over 40% from the September high.



Source: MBA and Wells Fargo Economics

While the share of outstanding mortgages with rates over 6% has nearly doubled, from 8.9% in Q2-2023 to 16.3% in Q2-2024, it is important to highlight that most current mortgages have rates much lower than that. The Federal Housing Finance Agency estimates that nearly 60% of outstanding mortgages are under 4%, with an additional 15% between 4% and 5%. Thus, while refinancing activity has fluctuated in response to changing mortgage rates, a meaningful shift in this distribution is unlikely without a significant drop in rates.

To put this in context, during the last major refinancing boom in March 2020, activity surged by 366% compared to late 2019. The uncertainty surrounding the pandemic and the Fed's emergency rate cuts caused mortgage rates to plummet. From Q4-2019 to Q3-2020, the share of mortgages with rates below 4% rose by over 14 percentage points. By Q2-2022, right at the start of the tightening cycle, the percentage of outstanding mortgages under 3% increased from 3.7% to 31.9%, while the share over 4% decreased from 58.3% to 26.1%. Since recent changes in mortgage rates have been relatively small, and it's unlikely rates fall back to the low levels experienced right after the pandemic, significant changes in the distribution of mortgage rates are only likely to occur gradually.

(Return to Summary)

Topic of the Week

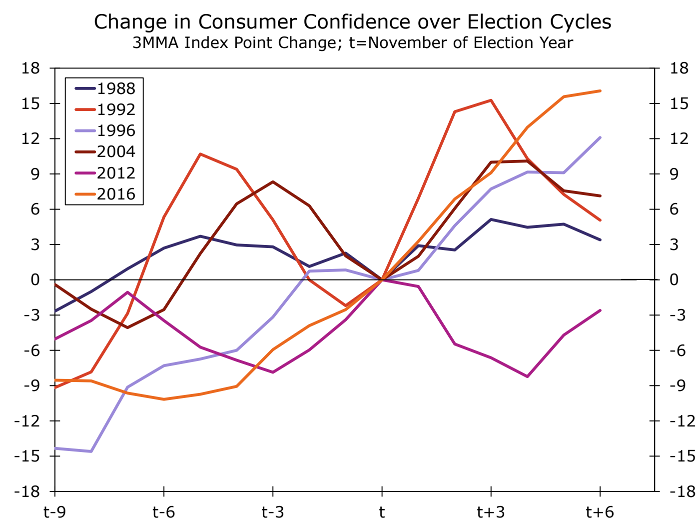
The Election Is Near; Is Consumer Confidence Poised for a Rebound?

There has been no shortage of concerns weighing on the consumer psyche so far in 2024, including elevated price levels, a moderating labor market and high interest rates. The U.S. presidential election, another major source of uncertainty for consumers, is less than one week away. With the election soon approaching, it is instructive to ask how consumers have responded to the uncertainty that surrounds it in previous election cycles and how this cycle compares. The Conference Board's Consumer Confidence Index has tended to note the uncertainty consumers feel around these pivotal events every four years. On average, the index has tended to come in soft with little significant movement in the months prior to the November of election years. However, it has then typically received a post-election positive bump in the period following the election.

In a previous special report, we deemed this phenomenon "the benefit of the doubt." The election, and the uncertainty around it, keeps consumer confidence bounded in the time before November of election years, but knowing the result of that election allows consumer confidence to rebound. The data show that this trend has played out in many of the previous election cycles, excluding those that coincided with a recession (2000, 2008 and 2020). In fact, the only expansionary period in which this trend was not present was 2012. The boost in optimism following the end of an election affects other subindices of the release as well, notably showing more optimistic perceptions in the Present Situation Index and a decrease in the share of consumers reporting jobs as 'hard to get.'

The current election year has seen consumer confidence plod along, now about even with where it started the year. Yet even as confidence has not declined as much in the months prior to an election as it has in some previous cycles, the index still remains largely depressed from its pre-COVID levels. This is not to say that general elections are the primary determinant of confidence measures in election years, but any potential boon to confidence is welcome news, given the noted breakdown between confidence and spending this economic cycle. If past election years are any guide, we can expect consumer confidence to improve in the months ahead. Even so, a recovery to the cheery consumer confidence experienced before the pandemic would likely require an incredible outperformance of the economy over expectations, given how high prices in particular have weighed on the measure.

(Return to Summary)



Source: The Conference Board and Wells Fargo Economics

Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 11/1/2024	1 Week Ago	1 Year Ago
SOFR	4.90	4.83	5.35
Effective Fed Funds Rate	4.83	4.83	5.33
3-Month T-Bill	4.51	4.63	5.45
1-Year Treasury	4.34	4.30	5.23
2-Year Treasury	4.18	4.10	4.94
5-Year Treasury	4.19	4.06	4.65
10-Year Treasury	4.35	4.24	4.73
30-Year Treasury	4.55	4.50	4.93
Bond Buyer Index	4.18	3.92	4.19

Foreign Exchange Rates

	Friday 11/1/2024	1 Week Ago	1 Year Ago
Euro ($/€)	1.085	1.080	1.057
British Pound ($/£)	1.296	1.296	1.215
British Pound (£/€)	0.837	0.833	0.870
Japanese Yen (¥/$)	152.920	152.310	150.950
Canadian Dollar (C$/$)	1.392	1.389	1.386
Swiss Franc (CHF/$)	0.870	0.867	0.908
Australian Dollar (US$/A$)	0.658	0.661	0.639
Mexican Peso (MXN/$)	20.028	19.987	17.767
Chinese Yuan (CNY/$)	7.127	7.122	7.316
Indian Rupee (INR/$)	84.084	84.076	83.255
Brazilian Real (BRL/$)	5.828	5.708	4.956
U.S. Dollar Index	104.144	104.257	106.884

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

Foreign Interest Rates

	Friday 11/1/2024	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	2.75	2.82	3.69
3-Month U.K. Govt Bill Yield	4.77	4.74	5.28
3-Month Canadian Govt Bill Yield	3.54	3.52	5.01
3-Month Japanese Govt Bill Yield	0.03	0.02	-0.15
2-Year German Note Yield	2.25	2.12	2.99
2-Year U.K. Note Yield	4.44	4.17	4.80
2-Year Canadian Note Yield	3.11	3.08	4.53
2-Year Japanese Note Yield	0.47	0.45	0.16
10-Year German Bond Yield	2.40	2.29	2.76
10-Year U.K. Bond Yield	4.45	4.23	4.50
10-Year Canadian Bond Yield	3.29	3.26	3.92
10-Year Japanese Bond Yield	0.95	0.96	0.96

Commodity Prices

	Friday 11/1/2024	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	70.30	71.78	80.44
Brent Crude ($/Barrel)	73.84	76.05	84.63
Gold ($/Ounce)	2744.60	2747.56	1982.53
Hot-Rolled Steel ($/S.Ton)	715.00	704.00	883.00
Copper (¢/Pound)	436.15	437.05	364.90
Soybeans ($/Bushel)	9.80	9.83	12.80
Natural Gas ($/MMBTU)	2.65	2.56	3.49
Nickel ($/Metric Ton)	15,453	16,047	17,903
CRB Spot Inds.	550.17	551.94	539.16

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey Woessner	Economic Analyst	704-410-2911	Aubrey.B.Woessner@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Coren Miller	Administrative Assistant	704-410-6010	Coren.Miller@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. (“WFBNA”). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company. © 2024 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients
For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority (“FCA”). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the “Act”), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU (“MiFID2”). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. (“WFSE”). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE