WELLS FARGO

Weekly — January 31, 2025

Weekly Economic & Financial Commentary

United States: **Economic Momentum Holding, for Now**

- The economy ended 2024 on a solid note with a 2.3% Q4 increase in real GDP. Volatile inventory swings lowered the headline, but real final sales to domestic private purchasers rose by a robust 3.2%. Fervent consumer spending continues to drive economic activity, while inflation is receding at a snail's pace. That said, trends in the Employment Cost Index suggest that the labor market is no longer a meaningful source of price pressures.
- Next week: ISM Manufacturing & Services (Mon. & Wed.), Employment (Fri.)

International: **Foreign Central Bank Bonanza!**

- It was a busy week for foreign central banks, with several institutions offering their first monetary policy assessments of 2025. The European Central Bank lowered its Deposit Rate by 25 bps to 2.75% and delivered commentary that was, in our view, consistent with further easing at upcoming meetings. The Bank of Canada and Sweden's Riksbank also lowered their policy rates by 25 bps, and we have updated our forecast to look for an earlier start to Reserve Bank of Australia policy easing. In the emerging economies, Brazil's central bank delivered a hawkish-leaning 100 bps rate hike, and China's PMI data disappointed.
- Next week: Eurozone CPI (Mon.), Bank of England Policy Rate (Thu.), Banxico Policy Rate (Thu.)

Interest Rate Watch: **In Little Hurry to Cut Further**

- As universally expected, the Federal Open Market Committee (FOMC) left its target range for the federal funds rate unchanged at 4.25%-4.50% on Wednesday. With inflation remaining stubbornly above target and real economic activity holding up reasonably well, we see little reason for the FOMC to cut rates in the near term.

Topic of the Week: **Nobody Puts ASI in the Corner...Except Tariffs**

- The Animal Spirits Index (ASI) finished out 2024 on a soft note, hitting its lowest level since November 2023. The index dropped 0.44 points in December to 0.31—the largest monthly decrease in over a year. Though the ASI remained in positive territory for all of 2024, it has softened considerably from a five-year high of 0.96 in March.

Wells Fargo U.S. Economic Forecast

	Actual 2024				Forecast 2025				Actual		Forecast	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2023	2024	2025	2026
Real Gross Domestic Product [1]	1.6	3.0	3.1	2.3	0.8	1.5	0.7	1.3	2.9	2.8	1.6	2.2
Personal Consumption	1.9	2.8	3.7	4.2	2.1	2.1	1.8	1.5	2.5	2.8	2.5	2.3
Consumer Price Index [2]	3.2	3.2	2.6	2.7	2.7	2.7	3.1	2.9	4.1	3.0	2.8	2.7
"Core" Consumer Price Index [2]	3.8	3.4	3.2	3.3	3.0	3.0	3.2	3.1	4.8	3.4	3.0	2.9
Quarter-End Interest Rates [3]												
Federal Funds Target Rate[4]	5.50	5.50	5.00	4.50	4.50	4.50	4.25	4.00	5.23	5.27	4.31	4.00
Conventional Mortgage Rate	6.82	6.92	6.18	6.72	7.10	6.90	6.65	6.50	6.80	6.72	6.79	6.50
10 Year Note	4.20	4.36	3.81	4.58	4.70	4.55	4.35	4.25	3.96	4.21	4.46	4.36

Forecast as of: January 16, 2025
[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

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

U.S. Review

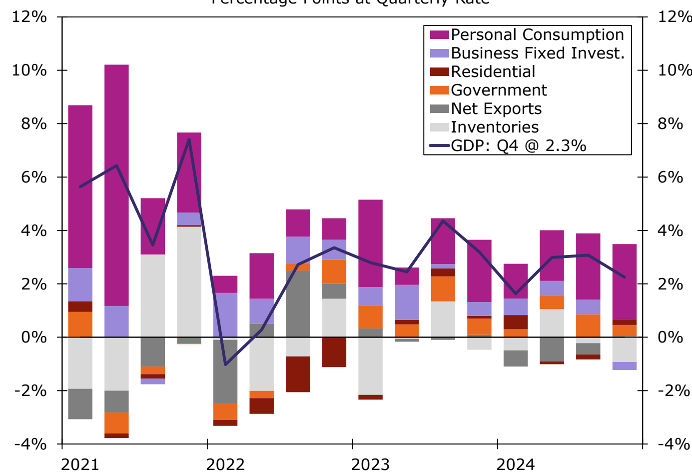
Economic Momentum Holding, for Now

The U.S. economy is growing at a healthy clip. Real GDP expanded by 2.3% in the fourth quarter, bringing the annual growth rate to 2.8% in 2024. For context, the economy grew at an average annual rate of 2.4% during the 2010-2019 economic expansion. Robust consumer spending continues to drive economic activity. Real personal consumption expenditures increased 4.2% in Q4, the largest quarterly upturn since early 2023. Fresh data from December reveal that consumers closed out the year with a greater-than-expected 0.7% increase in spending, supported by a solid 0.4% gain in incomes. November's spending uptick was also revised higher from 0.4% to 0.6%. Fervent spending on durables underpinned outlays in late 2024, notably on motor vehicles and recreational goods.

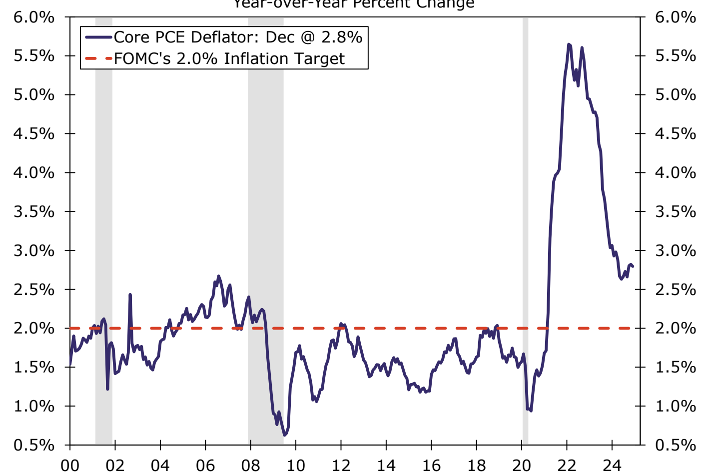
If surveys are to be believed, some tariff front-loading may have played a role in consumers turning out in Q4. Nearly one-third of consumers surveyed by the University of Michigan spontaneously mentioned tariffs in January, up from 24% in December and less than 2% before the election. We expect to see some moderation in spending if and when new tariffs are imposed, which may begin in earnest as soon as this Saturday with 25% levies on Canada and Mexico.

Private investment took a sizable hit in Q4. Business spending waned 5.6%, driven by a sharp drop in inventories. Mechanically speaking, inventories still expanded, but at a slower pace than in Q3. Inventories are subject to volatile swings, so we often look through them when gauging the underlying health of the economy. Real final sales to private domestic purchasers, which strips out government spending, net exports and inventories from GDP, rose 3.2% in Q4, signaling that the U.S. economy ended 2024 on a strong note. Business spending also appears poised for an improvement in the quarters ahead. Core capital goods orders in November and December rose at the fastest two-month pace since early 2023.

Other business investment categories similarly weakened in Q4. Softer outlays on information processing and transportation equipment were notable drags, the latter of which can be partially explained by the now-concluded Boeing strikes. High interest rates also continued to weigh on nonresidential structures spending, particularly commercial real estate construction. Meanwhile, firms continued to pour resources into intellectual property software and R&D. We remain bullish on U.S. software spending, even after the unveiling of DeepSeek called into question how much capital investment is needed to fund the AI transition.



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



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

Residential investment was another bright spot. Private residential outlays rose 5.3% in Q4 following back-to-back contractions in the prior two quarters. This upturn does not reflect the beginnings of a housing market recovery, but rather a pickup in homebuilding brought on by a lull in mortgage rates late last summer. Pending home sales dropped 5.5% in December as a reminder that high mortgage rates remain prohibitive for prospective buyers. That said, new construction has been relatively insulated from broader housing market strains. New home sales rose 3.6% in December and climbed

2.5% higher in 2024 as a whole, despite the fact that mortgage rates hovered near 7.0% for most of that time. This resilience boils down to builders' use of price cuts, mortgage rate buydowns and other incentives to improve new construction affordability. Looking ahead, the housing market is likely to remain under pressure this year as slower disinflation limits the scope for interest rate cuts.

In that regard, price pressures continue to recede, but at a snail's pace. The core PCE deflator rose 0.2% in December (0.16% unrounded), amounting to a 2.8% 12-month rate. The three-month annualized figure of 2.5% paints a slightly better picture, but it has been more or less unchanged since October. Trends in the Employment Cost Index (ECI) suggest that the labor market is no longer a meaningful source of price pressures. The ECI rose 0.9% in Q4, above the average growth rate during the previous cycle but in the realm of consistent with the Fed's 2% inflation target. Yet, progress on disinflation still remains incremental at best. As detailed further in Interest Rate Watch, we do not believe the Federal Reserve will be compelled to reduce interest rates again, while the economy maintains resilience and inflation continues to linger. That said, we view the potential wave of new tariffs as a downside risk to growth, which could cut into economic momentum. (Return to Summary)

U.S. Outlook

Weekly Indicator Forecasts

Domestic

Date	Indicator	Period	Consensus	Wells Fargo	Prior
3-Feb	ISM Manufacturing Index	Jan	49.3	49.5	49.2
3-Feb	Construction Spending (MoM)	Dec	0.2%	0.3%	0.0%
3-Feb	Total Vehicle Sales	Jan	16.2M	16.2M	16.8M
4-Feb	Factory Orders (MoM)	Dec	0.5%	-0.7%	-0.4%
5-Feb	Trade Balance	Dec	-$80.4B	-$98.0B	-$78.2B
5-Feb	ISM Services Index	Jan	54.5	54.2	54
6-Feb	Nonfarm Productivity (QoQ)	Q4	1.9%	2.0%	2.2%
6-Feb	Unit Labor Costs (QoQ)	Q4	3.4%	3.5%	0.8%
7-Feb	Nonfarm Payrolls	Jan	150K	185K	256K
7-Feb	Unemployment Rate	Jan	4.1%	4.1%	4.1%
7-Feb	Average Hourly Earnings (MoM)	Jan	0.3%	0.3%	0.3%

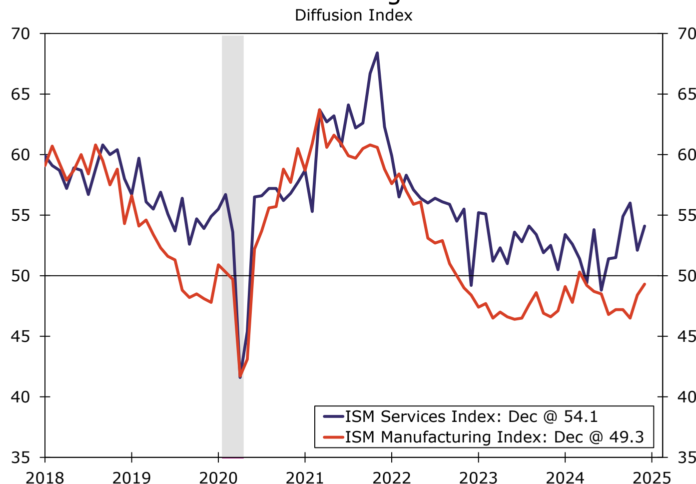
Forecast as of January 31, 2025

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

ISM Manufacturing & Services • Monday & Wednesday

The ISM Manufacturing Index ended the year basically where it started it; at 49.2, the December composite index was just three-tenths above its January reading. Despite the index remaining in contraction to end the year, the details were fairly positive and consistent with some recent improvement in current production and demand. We are expecting the momentum to continue into January, and forecast the ISM Manufacturing Index to increase to 49.5. Whether the recent strengthening in demand is a temporary pull-forward to get ahead of looming tariffs or the beginnings of a nascent recovery—after 100 bps of monetary policy easing since September—can only be known in time.

Meanwhile, the service sector gained momentum in the latter months of 2024. The ISM Services Index ended the year at 54.0, with all four major components signaling expansion and over-the-month gains in business activity, new orders and wait times. While most sub-components rose over the month, none rivaled the 6.2-point jump in the prices paid component, which signaled the broadest increase in service sector costs since February 2023. We expect the ISM Services Index to remain in expansion territory at 54.2 in January and will be especially watching for industry comments around pricing and demand related to tariff expectations. With the FOMC having now officially paused their easing cycle as inflation has proved stickier than anticipated, signs of elevated prices or demand on even just the *expectation* of future tariff policy would merit close attention.



Source: Institute for Supply Management and Wells Fargo Economics

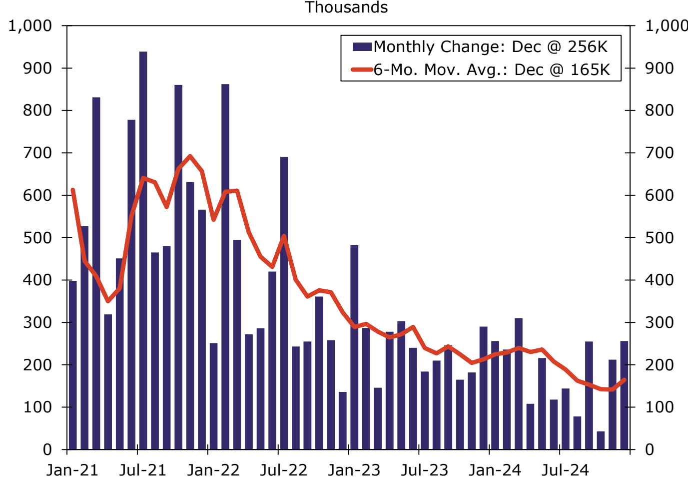
Employment • Friday

This week's post-FOMC meeting statement upgraded the Committee's characterization of the labor market, noting "the unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid." We agree with this portrayal. After a notable summer swoon that saw job growth heavily concentrated in just a few industries and a foreboding march higher in the unemployment rate, monthly nonfarm payroll growth bounced back in Q4 and ended the year with a consensus-shattering gain of 256K in December (chart). The unemployment rate has leveled off and, at 4.1%, is right in the sweet spot of the Fed's projections for a "not too hot" and "not too cold" labor market.

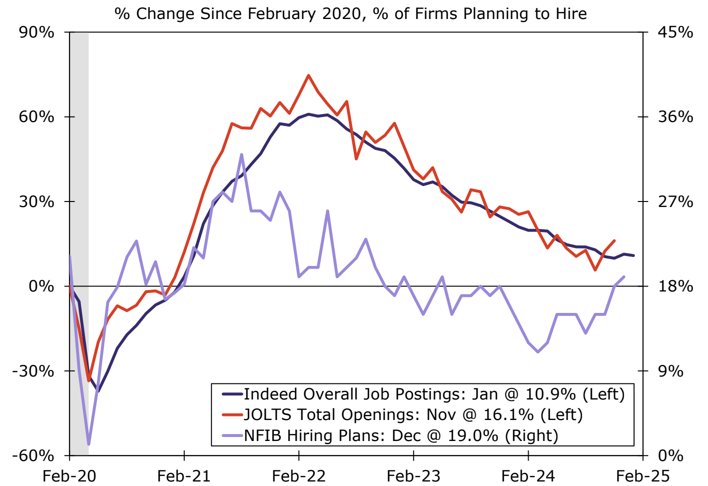
We suspect the January jobs report will continue to indicate the labor market has softened over the past year, but not to an alarming degree. We look for next week's report to show a net 185K jobs were added in January, which would mark a slowdown from November's and December's robust gains but

a faster pace than averaged over the second half of 2024 (chart). Colder-than-usual temperatures throughout much of the country in January likely weighed on hiring in more seasonally sensitive industries, such as construction and leisure & hospitality. Meantime, the jump in jobless claims during the survey week points to the devastating L.A. wildfires also taking a toll on hiring in January.

Still, the background is ripe for another month of decent job growth. The downward slide in labor demand is showing nascent signs of leveling off (chart), and layoffs remain historically low. The low-layoff environment has helped the past years' January prints handily beat expectations, in our view, as seasonal adjustment factors "expect" to see more employees roll off at the start of the year than has been the case. We see the pace of hiring as keeping the unemployment rate steady at 4.1%. Average hourly earnings likely advanced 0.3% in January, underscoring that even as price growth remains stuck above target, the labor market is no longer a threat to the inflation side of the Fed's mandates.



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



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

The January Employment Situation released next Friday will also incorporate a number of routine annual revisions. The most headline grabbing will come with the final "benchmark" revision, but updates to the birth-death model, seasonal adjustment factors in the establishment survey and population controls in the household survey that will better reflect the recent surge in immigration all have potential to alter the narrative of an orderly moderation in the labor market. We detailed the expected changes and their implications in a recent report, but for the reader short on time, the following are our key takeaways: (1) The benchmark revision is a lagged indicator of labor market strength, showing hiring was not quite so impervious to the FOMC's tightening cycle in 2023 and early 2024; (2) imputed job growth from the birth-death factor is likely to be revised lower from March 2024 onward, but not enough to change the picture of solid hiring; (3) updated seasonal adjustment factors could alter hiring's momentum heading into this year, but Q4's 170K pace leaves some room to give before the trend looks worrisome; (4) a large population adjustment to the household survey has scope to close the gap between the establishment and household surveys' measures of employment growth, but it should have little bearing on the unemployment rate and other ratios within the household survey.

(Return to Summary)

International Review

Foreign Central Bank Bonanza!

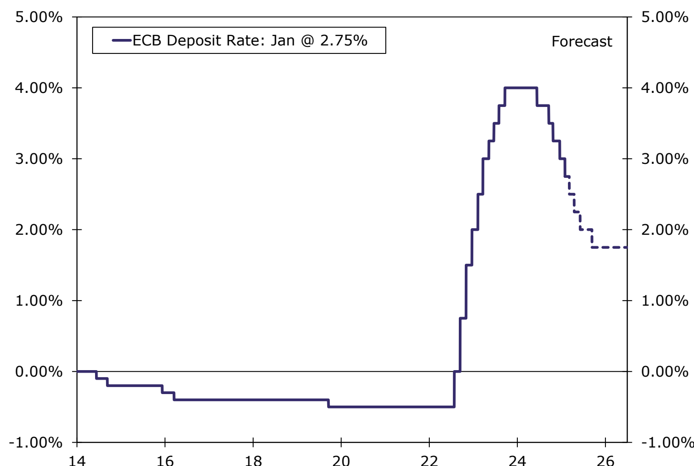
It was a busy week for foreign central banks, with several institutions offering their first monetary policy assessments of 2025. The European Central Bank (ECB) lowered its Deposit Rate by 25 bps to 2.75% and delivered an accompanying statement that, while not overtly dovish, is in our view consistent with further easing at upcoming meetings. Among the key points, the ECB said that most measures of underlying inflation appear to be consistent with sustained inflation around the 2% target, that wage growth is moderating and that monetary policy remains restrictive and the economic recovery is still gaining its footing. With respect to policy guidance, the ECB said it will follow a data-dependent and meeting-by-meeting approach and that it is not pre-committing to a particular rate path. Comments from ECB President Lagarde at the post-meeting press conference did not deviate significantly from the initial announcement. Lagarde said there were both upside and downside risks to inflation, but that risks to the growth outlook were tilted to the downside. Given what we view as a dovish-leaning tone from the announcement and press conference and sluggish Eurozone growth—with the Q4 GDP reading out this week showing a flat quarter-over-quarter outcome—we maintain our view for 25 bps rate cuts at the March, April, June and September meetings to reach a policy rate of 1.75%.

The Bank of Canada (BoC) also cut rates this week, delivering a 25 bps policy rate reduction to 3.00%. BoC policymakers have now lowered the policy rate by a cumulative 200 bps since June 2024. In another policy change from this week's meeting, the central bank ended quantitative tightening and said that it would begin asset purchases in March, such that its balance sheet stabilizes and then grows modestly. Policymakers cited inflation that is around 2% and an economy that is operating in excess supply as the key reasons behind the rate reduction. The BoC's statement also pointed to generally soft labor market conditions, with some moderation in wage growth and weak business investment. The central bank provided updated economic projections as well. Policymakers highlight that, given the “impossible” nature of predicting the scale of a potential trade conflict, the forecasts they provided did not include an assumption of any new tariffs. These updated projections see GDP growth of 1.8% in 2025 and 2026, weaker than prior forecasts from October, but still representing an improvement from 2024. Officials see slightly higher CPI inflation in 2025 and 2026 of 2.3% and 2.1%, respectively, though these figures are still close to the BoC's 2% inflation target. Moreover, the core CPI forecasts of 2.1% for year-end 2025 and year-end 2026 were largely unchanged and also close to the central bank's target. While these forecast figures did not include the impact of tariffs, the BoC did offer a hypothetical scenario in which the U.S. and Canada each impose a 25% tariff on the other and found that, broadly speaking, tariffs could have a relatively rapid and substantial impact on economic growth and a somewhat more gradual impact in boosting inflation. Uncertainty hangs over the outlook still, but ultimately we believe the BoC will continue with its easing cycle. Our view remains for 25 bps rate cuts at the March, April and June meetings, which would bring the policy rate to a low of 2.25%.

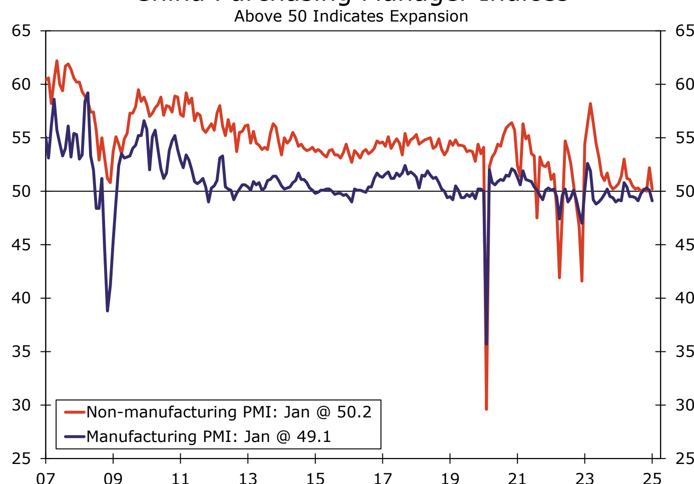
Not wanting to be left out, Sweden's central bank, the Riksbank, also delivered a 25 bps rate cut this week, taking the policy rate to 2.25%. The accompanying monetary policy announcement was mildly dovish in tone, in our view. Policymakers noted that inflation pressures are broadly consistent with the 2% target and that, while an economic recovery is under way, activity remains weak. Officials also stated their outlook for inflation and economic activity remains largely the same, and while they said the forecast for the policy rate made in December—which saw only one rate cut in 2025—”essentially holds,” they noted they are prepared to act if the outlook changes. Given this dovish-leaning tone, we believe additional data that provide evidence of benign inflation trends and lackluster economic growth will see the Riksbank lower rates by 25 bps once more in May, to 2.00%. If economic trends are especially weak, there is a risk that rate cut could come earlier, at the March announcement.

Down under, while the Reserve Bank of Australia (RBA) did not meet this week, Australian inflation data released a couple of days ago have compelled us to tweak our forecast to include an earlier start to RBA monetary policy easing. The fourth quarter and December CPI inflation readings were benign, and indicated, in our view, that inflation is on course to return to the medium-term 2%-3% target range. In terms of the quarterly figures, which are the most closely followed, all headline and underlying inflation figures slowed more than expected. Headline inflation came in at 2.4% year-over-year, with trimmed mean inflation printing at 3.2% and weighted median inflation printing at 3.4%. While these year-over-year figures for the core measures are still somewhat elevated, the quarter-over-quarter figures suggest to us that looking at a more recent timeframe, underlying inflation already may be trending in line with target. The December inflation readings told a similar story. While the headline

reading ticked mildly higher to 2.5% year-over-year, the core reading slowed to 2.7%, within the target range for the first time since late 2021. Given this softening in price pressures, we now expect the RBA to lower its policy rate by 25 bps in February and deliver 25 bps rate cuts in May, August and November, which would see the RBA's policy rate reach a low of 3.35% by the end of this year. For further reading, please see our recent report: G10 Central Banks Start the Year in a Dovish Overall Mood.



Source: Datastream and Wells Fargo Economics



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

Turning to emerging economies, Brazilian Central Bank (BCB) policymakers met this week and maintained a hawkish stance as they delivered another 100 bps rate hike, to 13.25%. The decision was unanimous and officials signaled another 100 bps rate hike in March, in line with our forecast. In explaining their decision, officials pointed to still-elevated inflation, increasing inflation expectations and strong economy activity. The statement also included mention of the vigilance with which BCB policymakers will be watching fiscal policy developments. In terms of forward guidance beyond the March meeting, policymakers communicated a data-dependent approach, though we believe they will maintain a degree of hawkishness given the risks to the fiscal outlook. In particular, concerns remain that higher spending levels could be used as a tool to appease consumers—possibly via subsidies to help with higher food prices—especially ahead of the 2026 elections in Brazil. Overall, our forecast looks for the central bank to deliver another 100 bps rate hike in March and then 50 bps rate hikes at each of its May and June meetings, to reach a peak policy rate of 15.25%.

In some non-central bank-related news, China's January PMIs disappointed across the board, serving as somewhat of a dampener on recent optimism sparked by the better-than-expected growth outcome in the fourth quarter of last year. The manufacturing PMI slid by one point to 49.1 against expectations for the measure to hold steady. The non-manufacturing PMI, which covers the services and construction sectors, dropped two points to 50.2, with the fall driven by weakness in both sectors. The composite PMI fell to 50.1 from 52.2 previously. While it appears that there was some economic growth momentum in the fourth quarter thanks to the export sector, the consumption side of the economy was rather sluggish. In consideration of these PMI readings and what we view as a somewhat vulnerable growth environment for China going forward, we maintain our forecast for economic growth to slow to 4.5% in 2025.

(Return to Summary)

International Outlook

Weekly International Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
3-Feb	Eurozone CPI (YoY)	Jan	2.4%	—	2.4%
3-Feb	Eurozone Core CPI (YoY)	Jan	2.6%	—	2.7%
6-Feb	Bank of England Policy Rate	6-Feb	4.50%	4.50%	4.75%
6-Feb	Banxico Policy Rate	6-Feb	9.50%	9.50%	10.00%

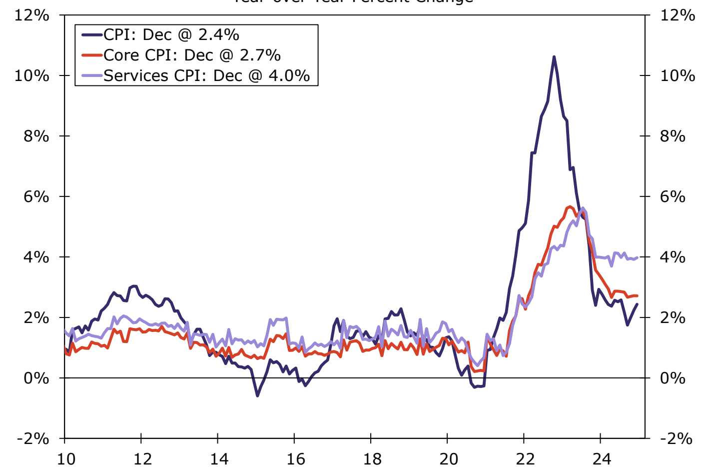
Forecast as of January 31, 2025

Source: Bloomberg Finance L.P and Wells Fargo Economics

Eurozone CPI • Monday

The Eurozone January CPI is released next week, with market participants looking for further signs of disinflation progress that would be supportive of additional rate cuts from the European Central Bank (ECB) at upcoming meetings. For January, the consensus forecast is for a mixed report, with headline inflation expected to hold steady at 2.4% year-over-year but core inflation expected to ease slightly further to 2.6%. We also expect a modest deceleration in services inflation in January, which would be a welcome development.

We think even a modest slowing in core and services inflation should be enough for the ECB to cut rates again at its March monetary policy meeting. At this week's announcement, the ECB said monetary policy is still restrictive and the disinflation process is well on track, while also acknowledging the weak economic growth environment. As long as next week's inflation figures indicate further disinflation in the underlying CPI measures, we expect that would be enough for the ECB to deliver another 25 bps rate cut at its upcoming meeting in March.

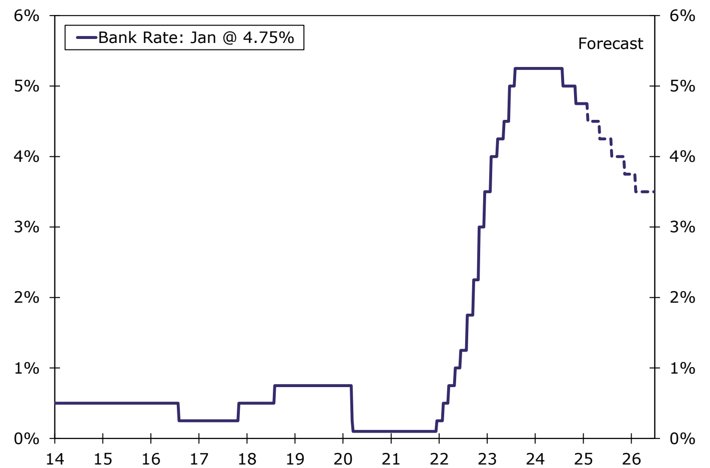


Source: Datastream and Wells Fargo Economics

Bank of England Policy Rate • Thursday

The Bank of England (BoE) announces its latest monetary policy decision next week. We expect it will cut its policy rate by 25 bps to 4.50% and anticipate the accompanying statement will be overall dovish in tone. We view recent activity and price data as strongly supportive of a February rate cut. November GDP edged barely higher, while December retail sales unexpectedly declined. December inflation surprised to the downside, including, most significantly, a slowing in previously stubborn services inflation to 4.4% year-over-year. Still, overall wage growth and domestic inflation remain elevated, hinting at lingering inflation pressures.

Given these developments, we expect the Bank of England to lower interest rates by 25 bps next week and signal further easing ahead, though the BoE will likely reiterate that a "gradual approach to removing monetary policy restraint remains appropriate." We believe that would be consistent with rate cuts continuing at a 25 bps-per-quarter pace. We will also be watching for any downward revision to the BoE's inflation forecasts. Should the central bank lower its medium-term inflation forecasts below the 2% target at a 2-3 year horizon, that could see market participants price in additional monetary easing, closer to the cumulative 100 bps of rate cuts during 2025 that we currently forecast.



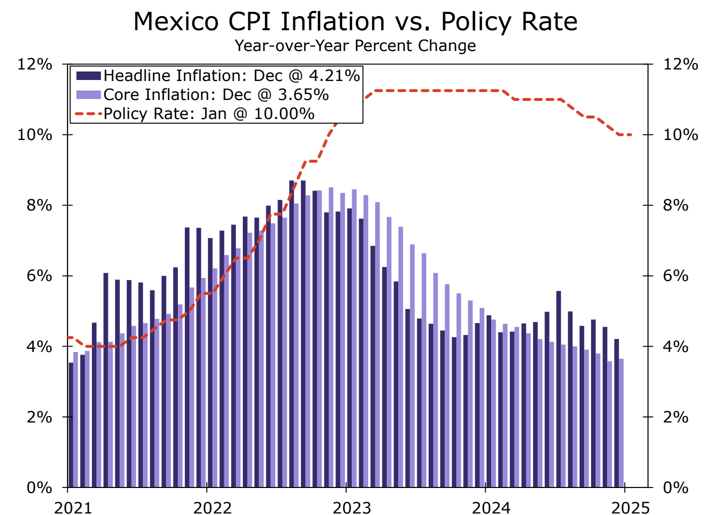
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Banxico Policy Rate • Thursday

Mexico's central bank, Banxico, announces its monetary policy decision next week, at which we expect policymakers to step up the pace of easing by delivering a 50 bps reduction in the Overnight Rate to 9.50%. At its most recent announcement in December, Banxico lowered interest rates and delivered a dovish overall statement, saying that the inflation environment should allow for further easing. The central bank also said that considering progress on disinflation, "larger downward adjustments could be considered at some meetings."

Since that decision, headline inflation has slowed further and core inflation has plateaued to some extent, while Q4 GDP fell 0.6% quarter-over-quarter, partly reversing the sharp jump in Q3. Considering Mexico's growth and inflation environment, central bank policy guidance and downside economic risks stemming from the likelihood of higher U.S. tariffs, we expect a 50 bps rate cut next week and also at Banxico's March announcement. While there could be further modest rate cuts beyond that, to the extent that Banxico's monetary easing leads to outsized peso weakness, the central bank's rate cut cycle could prove to be relatively short-lived.

(Return to Summary)



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

Interest Rate Watch

In Little Hurry to Cut Further

As universally expected, the Federal Open Market Committee (FOMC) left its target range for the federal funds rate unchanged at 4.25%-4.50% on Wednesday. The post-meeting statement continued to note that "economic activity has continued to expand at a solid pace." Indeed, Thursday's GDP report showed the U.S. economy expanded at a 2.8% average annual rate in 2024, just below its 2023 pace and above the average pace that prevailed in the business cycle before the pandemic (2.4%).

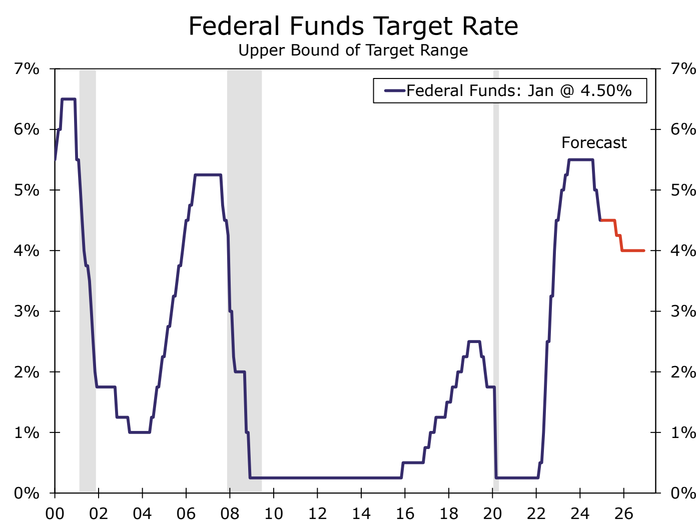
In view of the Committee's dual mandate of maximum employment and price stability, the statement went on to characterize labor market conditions as "solid." The description represents an upgrade from the December statement, which said that "labor market conditions have generally eased." On the price side, the statement simply said that "inflation remains somewhat elevated." The year-over-year change in the core PCE deflator, which Federal Reserve officials believe is the best measure of the underlying rate of consumer price inflation, has trended sideways in a tight range of 2.6%-3.0% throughout 2024—noticeably above the FOMC's 2% target.

In sum, there was little in Wednesday's statement to suggest the FOMC is contemplating another rate cut soon. The latest Summary of Economic Projections, released in December, showed the median Committee member thought an additional 50 bps of rate cuts would be appropriate by the end of 2025. If the FOMC views only 50 bps of rate cuts by December as appropriate, then it clearly does not need to be in a hurry to cut rates.

As highlighted in our latest U.S. Economic Outlook, we look for the FOMC to maintain its current target range for the federal funds rate until the second half of the year. Chair Powell noted in his post-meeting press conference that policy "is significantly less restrictive" today than it was before the FOMC started to cut rates, which "means we do not need to be in a hurry" to ease further.

With inflation remaining stubbornly above target and real economic activity holding up reasonably well, we see little reason for the FOMC to cut rates in the near term. Yet with the level of policy today still somewhat restrictive, albeit not as restrictive as a few months ago, we maintain our view that the FOMC will lower its target range by 50 bps this year (25 bps in September and another 25 bps in December). Thereafter, we look for the FOMC to maintain its target range at 3.75%-4.00% through the end of 2026.

(Return to Summary)



Source: Federal Reserve Board and Wells Fargo Economics

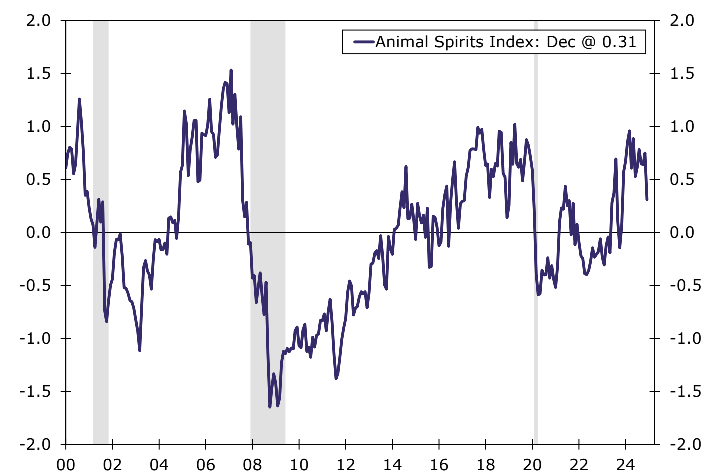
Topic of the Week

Nobody Puts ASI in the Corner...Except Tariffs

The Animal Spirits Index (ASI) finished out 2024 on a soft note, hitting its lowest level since November 2023. The index dropped 0.44 points in December to 0.31—the largest monthly decrease in more than a year. Though the ASI remained in positive territory for all of 2024, it has softened considerably from a five-year high of 0.96 in March. The ASI meaningfully dropped at the beginning of the fourth quarter, and it has subsequently trended lower.

The ASI consists of five indicators: the S&P 500 Index, the Conference Board's Consumer Confidence Index, the yield curve (i.e., the spread between the 10-year and 3-month Treasury yields), the VIX Index and the Economic Policy Uncertainty Index. The policy uncertainty and VIX indices inversely affect the ASI. In other words, a rise in uncertainty or volatility decreases the ASI, while a fall increases the ASI, all else equal. Previous reports detail the index methodology, but on a basic level, an index value above zero indicates optimism and a value below zero suggests pessimism. In December, the S&P 500 Index, Consumer Confidence Index and the VIX Index contributed negatively to the ASI.

Consumer sentiment weighed heavily on the ASI in December, falling 8.1 points to 104.7. The drop in the Consumer Confidence Index was led by a dramatic decrease of 12.6 points in the Expectations Index, with consumers reporting increased pessimism about business conditions, the labor market outlook and income prospects. Mentions of tariffs also increased in consumer responses, with 46% of consumers expecting tariffs to raise the cost of living in the short term. Higher tariffs, if imposed, would impart a modest stagflationary shock to the economy, resulting in higher prices and slower economic growth. Higher prices would impart a negative shock to real income growth, thereby weighing on growth in real consumer spending, which would soften purchasing power and confidence. Tariffs would also likely boost the Economic Policy Uncertainty Index. Trade discussions remain in flux, and until an official policy has been decided, the Economic Policy Uncertainty Index is likely to weigh on the ASI in the near term. In addition, tariffs impart uncertainty onto the outlook for monetary policy. We currently look for the FOMC to cut its target range by 25 bps at its September and December meetings this year, but its policy actions may be affected in part by new economic policy choices should they create a bump in the journey back to the Fed's 2% inflation goal.



Source: Wells Fargo Economics

Though financial markets had a strong year, both the S&P 500 Index and VIX Index contributed negatively to the ASI in December. The S&P 500 Index fell by roughly 151 bps in December, while the VIX Index ended the year at 17.4, roughly three points higher than its level in January 2024. The S&P 500 had a record-breaking year, but uncertainty as measured by the VIX weighs on its future movements, creating scope for both to contribute negatively to the ASI in the coming months. That said, the yield spread should help prop up the ASI in 2025. In December, the spread between the yield on the three-month Treasury bill and the 10-year Treasury note finally returned to the green after over two years of inversion. We look for the yield curve to remain un-inverted and suspect yields at the long end will fall somewhat as the year progresses, but not to a meaningful degree due to an elevated federal funds rate and higher term premiums.

Historically, the ASI has been correlated with broader gauges of economic activity, and the gradual softening of the ASI in the past year largely reflects the cooldown seen in the U.S. economy in 2024 as it has returned to its normalized state. Looking ahead, we see downside risk for the ASI in all of its components. For more detail, please see our 2024 Review of the Animal Spirits.

(Return to Summary)

Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 1/31/2025	1 Week Ago	1 Year Ago
SOFR	4.36	4.35	5.31
Effective Fed Funds Rate	4.33	4.33	5.33
3-Month T-Bill	4.28	4.30	5.36
1-Year Treasury	4.19	4.23	4.66
2-Year Treasury	4.20	4.27	4.21
5-Year Treasury	4.31	4.43	3.84
10-Year Treasury	4.51	4.62	3.91
30-Year Treasury	4.75	4.85	4.17
Bond Buyer Index	4.13	4.19	3.34

Foreign Exchange Rates

	Friday 1/31/2025	1 Week Ago	1 Year Ago
Euro ($/€)	1.040	1.050	1.082
British Pound ($/£)	1.242	1.248	1.269
British Pound (£/€)	0.837	0.841	0.853
Japanese Yen (¥/$)	154.850	156.000	146.920
Canadian Dollar (C$/$)	1.449	1.434	1.344
Swiss Franc (CHF/$)	0.908	0.906	0.861
Australian Dollar (US$/A$)	0.624	0.631	0.657
Mexican Peso (MXN/$)	20.649	20.268	17.213
Chinese Yuan (CNY/$)	7.245	7.273	7.180
Indian Rupee (INR/$)	86.616	86.205	83.041
Brazilian Real (BRL/$)	5.842	5.914	4.955
U.S. Dollar Index	108.248	107.443	103.274

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

Foreign Interest Rates

	Friday 1/31/2025	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	2.48	2.53	3.69
3-Month U.K. Govt Bill Yield	4.54	4.58	5.22
3-Month Canadian Govt Bill Yield	2.85	3.01	5.00
3-Month Japanese Govt Bill Yield	0.32	0.35	-0.17
2-Year German Note Yield	2.12	2.29	2.43
2-Year U.K. Note Yield	4.20	4.33	4.26
2-Year Canadian Note Yield	2.66	2.92	3.97
2-Year Japanese Note Yield	0.73	0.72	0.08
10-Year German Bond Yield	2.45	2.57	2.17
10-Year U.K. Bond Yield	4.52	4.63	3.79
10-Year Canadian Bond Yield	3.06	3.28	3.32
10-Year Japanese Bond Yield	1.25	1.23	0.73

Commodity Prices

	Friday 1/31/2025	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	72.59	74.66	75.85
Brent Crude ($/Barrel)	76.76	78.50	81.71
Gold ($/Ounce)	2808.52	2770.58	2039.52
Hot-Rolled Steel ($/S.Ton)	740.00	688.00	963.00
Copper (¢/Pound)	428.45	432.10	390.60
Soybeans ($/Bushel)	10.38	10.50	12.21
Natural Gas ($/MMBTU)	3.04	4.03	2.10
Nickel ($/Metric Ton)	15,180	15,461	16,248
CRB Spot Inds.	548.64	546.52	543.71

Subscription Information

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

Via The Bloomberg Professional Services at WFRE

Economics Group

Name	Title	Phone	Email
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. 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. All reports published by the Economics Group are disseminated and available to all clients simultaneously through electronic publication to our public website. Clients may also receive our reports via third party vendors. We are not responsible for the redistribution of our reports by third-party aggregators. Any external website links included in this report are not maintained, controlled or operated by WFBNA. WFBNA does not provide the products and services on these websites and the views expressed on these websites do not necessarily represent those of WFBNA.

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.

You are permitted to store, display, analyze, modify, reformat, copy, duplicate and reproduce this report and the information contained within it for your own use and for no other purpose. Without the prior written consent of WFBNA, no part of this report may be copied, duplicated or reproduced in any form by any other means. In addition, this report and its contents may not be redistributed or transmitted to any other party in whole or in part, directly or indirectly, including by means of any AI Technologies (defined below) through which this report or any portion thereof may be accessible by any third-party. “AI Technologies” means any deep learning, machine learning, and other artificial intelligence technologies, including without limitation any and all (a) proprietary algorithms, software, or systems that make use of or employ neural networks, statistical learning algorithms (such as linear and logistic regression, support vector machines, random forests or k-means clustering) or reinforcement learning, or curated data sets accessible by any of the foregoing or (b) proprietary embodied artificial intelligence and related hardware or equipment. In addition, certain text, images, graphics, screenshots and audio or video clips included in this report are protected by copyright law and owned by WFBNA, its affiliates or one or more third parties (collectively, “Protected Content”). Protected Content is made available to clients by Wells Fargo under license or otherwise in accordance with applicable law. Any use or publication of Protected Content included in this report for purposes other than fair use requires permission from WFBNA or, in the case of content attributed to any third party, the third-party copyright owner. You may not alter, obscure, or remove any copyright, trademark or any other notices attached to or contained within this report. All rights not expressly granted herein are reserved by WFBNA or the third-party providers from whom WFBNA has obtained the applicable information. © 2025 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