Weekly — March 29, 2024

Weekly Economic & Financial Commentary

United States: **Steady, As She Goes**

- This week's economic data largely reinforced existing economic growth patterns. Consumer momentum remains largely intact, inflation continues to inch back down, albeit at a slower pace, and rate-sensitive sectors stayed in a holding pattern.
- Next week: ISM Indices (Mon. & Wed.), Trade Balance (Thu.), Employment (Fri.)

International: **Global Central Banks Holding Steady For Now**

- This week saw the announcement of monetary policy decisions from both G10 and emerging market economies. Sweden's Riksbank held its policy rate steady at 4.00% and opened the door for either a May or June rate cut. We maintain our call for an initial June cut for now. The South Africa Reserve Bank held its policy rate steady at 8.25% and offered hawkish-leaning guidance.
- Next week: China PMIs (Sun.), Japan Tankan Survey (Mon.), Eurozone CPI (Wed.)

Interest Rate Watch: **Dancing with the Stars: The First of Many Ticks Higher in the Longer-Run Median Dot**

- Last week, the median "longer-run" dot moved higher in the FOMC's latest Summary of Economic Projections (SEP). The increase in the median dot was small (just 6 bps), but the uptick in the median marks the first time it has been above 2.5% since March 2019. We expect the longer-run dot to continue to cautiously drift higher in coming SEP meetings.

Topic of the Week: **Economic Costs of the Francis Scott Key Bridge Collapse**

- The Francis Scott Key Bridge collapsed early Tuesday morning when a cargo ship leaving the Port of Baltimore collided with one of the bridge's support pillars. How important is the Port of Baltimore to U.S. goods trade?

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

Wells Fargo U.S. Economic Forecast

	Actual 2023				Forecast 2024				Actual		Forecast	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2022	2023	2024	2025
Real Gross Domestic Product [1]	2.2	2.1	4.9	3.4	2.4	1.3	1.3	1.4	1.9	2.5	2.4	1.8
Personal Consumption	3.8	0.8	3.1	3.3	2.4	1.5	1.1	1.4	2.5	2.2	2.1	1.7
Consumer Price Index [2]	5.7	4.0	3.6	3.2	3.2	3.2	3.0	2.9	8.0	4.1	3.1	2.4
"Core" Consumer Price Index [2]	5.5	5.2	4.4	4.0	3.8	3.5	3.5	3.3	6.2	4.8	3.5	2.7
Quarter-End Interest Rates [3]												
Federal Funds Target Rate [4]	5.00	5.25	5.50	5.50	5.50	5.25	4.75	4.50	2.02	5.23	5.00	3.88
Conventional Mortgage Rate	6.54	6.71	7.20	6.82	6.85	6.65	6.45	6.15	5.38	6.80	6.53	5.85
10 Year Note	3.48	3.81	4.59	3.88	4.05	3.90	3.80	3.70	2.95	3.96	3.86	3.61

Forecast as of: March 14, 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.

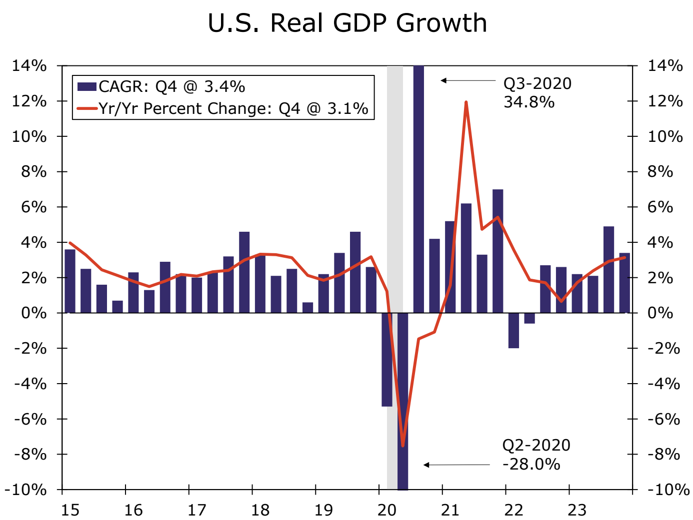
U.S. Review

Steady, As She Goes

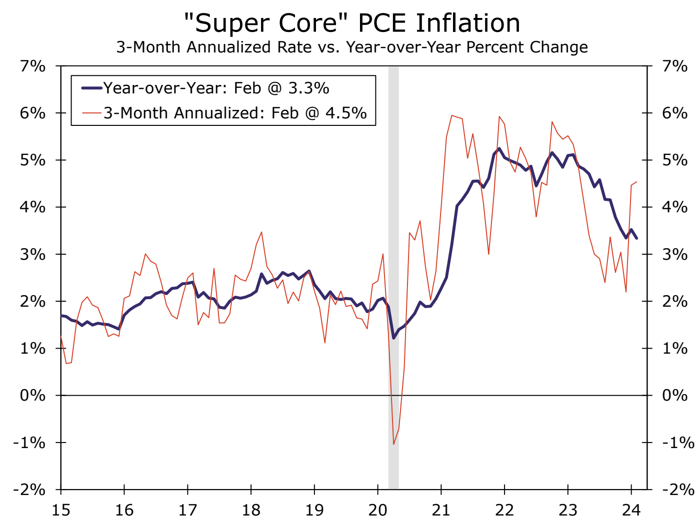
This week's economic data largely reinforced existing economic growth patterns. Consumer momentum remains largely intact, inflation continues to inch back down, albeit at a slower pace, and rate-sensitive sectors stayed in a holding pattern. Perhaps most encouraging were signs that the economy entered 2024 on stronger footing than initially observed. The Commerce Department released the latest revisions to Q4 GDP, bringing up growth to a 3.4% annualized rate from the previous 3.2% estimate (chart). Among the revisions, structures growth jumped to 3.7% from 2.4% on upward revisions to private nonresidential construction spending. Booming manufacturing construction has propelled structures investment, a trend we highlight in a recent special report. Government outlays were also revised higher, but the leg-up in consumer spending, specifically services outlays, was the primary driver of the upward revision to GDP. Although sustained consumer spending in the sector is on its face an encouraging sign for growth, it may be preventing a sustained cooling in services prices.

Illustrative of this point, the February personal income & spending report painted a picture of a defiant consumer that continues to splurge on services. Nominal spending rose 0.8%, the largest monthly gain in a year and a half, and once adjusted for inflation rose a still-sturdy 0.4%. But it was a 0.6% jump in real services outlays that stole the show. This was the largest jump in real services spending since the summer of 2021 when consumers were still flush with pandemic-era savings. The surge in services spending is another headache for policymakers. As long as consumers keep splashing out in the service sector, the businesses that provide these services have no incentive to ease up on pricing. To that end, the inflation rate for services less housing, or "super-core" inflation, came in at 3.3% year-over-year, but the three-month annualized rate of 4.5% points to near-term upward momentum (chart). Although the annual rate of the core PCE deflator, the Fed's preferred measure of inflation, came in at 2.8% year-over-year with a slightly smaller-than-expected monthly rise of 0.3% in February, services prices are no longer cooling as they were a few months ago.

All of that being said, a few potential roadblocks lay in the path of consumers. Income growth has moderated as of late, and household pessimism around future income growth is building, despite an improved view of the current jobs market. Personal income rose 0.3% over the month in February, but once adjusting for inflation and stripping out taxes paid, real disposable income slipped 0.1%. Waning income growth is weighing on consumer confidence, and we ultimately anticipate a slower pace of economic growth this year as households have become increasingly dependent on income to feed their spending habits.



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



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

The refreshed GDP report also shed light on economy-wide corporate profits. Pre-tax profits came in stronger than expected, rising 4.1% over the quarter on a non-annualized basis. In dollar terms, profits jumped by $105 billion, the largest quarterly gain since Q2-2022. Steady profit growth has afforded firms with the means to expand and hire, and while firms have generally reduced their capex demand, the strong end to 2023 suggests businesses entered 2024 on solid financial footing.

The February durable goods report provided some fresh manufacturing data as new orders rose 1.4% over the month. This was only a partial rebound from January's weakness and is consistent with a manufacturing sector flying at stall speed. Core capital goods orders excluding defense and aircraft rose 0.7% following two monthly declines, but the current interest rate environment continues to weigh on capex demand. Although there are early signs of recovery in the production data, we don't expect a sustained manufacturing recovery to take hold until the Fed begins to ease policy in the second half of the year.

High interest rates continue to keep a firm grip on the housing sector. February's new home sales report was a dud as sales inched down 0.3% to a 662K-unit annualized pace. February's slip was likely owed to an uptick in mortgage rates during the month. Additionally, the relative improvement in available existing homes also may have cut into new home sales during the month. That said, the growth trend for new home sales remains in place, with sales up 5.9% on a year-over-year basis. Abundant supply is also helping to dull price growth and attract buyers to the new home market; however, affordability remains a major constraint for homebuyers. Within the resale market, affordability issues have been further compounded by resurgent home price growth. The S&P CoreLogic Case-Shiller National Home Price Index (HPI) rose to 6.0% on a year-over-year basis in January, and the index is now about 1% above its previous peak set in June 2022. Despite the persistent rise in home prices, buyers appear to be re-entering the market amid incrementally improving supply. The NAR Pending Home Sales Index bounced back in February as contract signings rose 1.6% over the month. The move portends further improvement in existing home sales, which are already off to a strong start in 2024.

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U.S. Outlook

Date	Indicator	Period	Consensus	Wells Fargo	Prior
	Weekly Indicator Forecasts				
	Domestic				
1-Apr	ISM Manufacturing Index	Mar	48.4	48.7	47.8
1-Apr	Construction Spending (MoM)	Feb	0.7%	0.7%	-0.2%
2-Apr	Factory Orders (MoM)	Feb	1.0%	1.1%	-3.6%
2-Apr	Total Vehicle Sales	Mar	15.90M	16.00M	15.81M
3-Apr	ISM Services Index	Mar	52.8	52.9	52.6
4-Apr	Trade Balance	Feb	-$66.2B	-$67.5B	-$67.4B
5-Apr	Nonfarm Payrolls	Mar	200K	220K	275K
5-Apr	Unemployment Rate	Mar	3.9%	3.8%	3.9%
5-Apr	Average Hourly Earnings (MoM)	Mar	0.3%	0.3%	0.1%

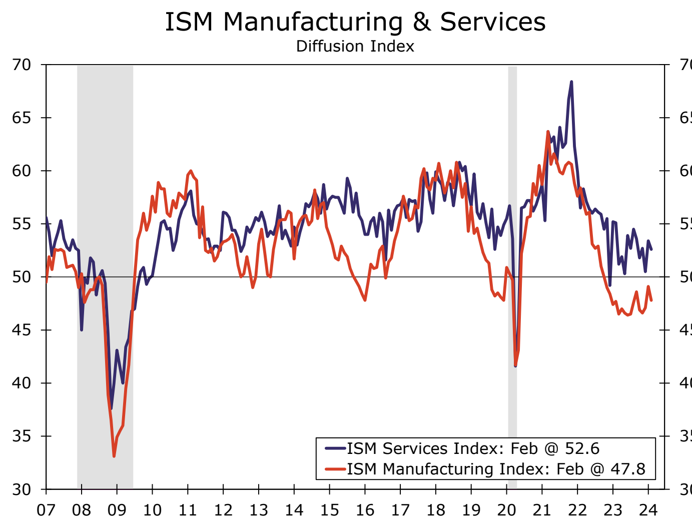
Forecast as of March 29, 2024

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

ISM Indices • Monday & Wednesday

The ISM indices have shown the U.S. manufacturing and services sectors to be on separate paths since late 2022. For instance, the ISM services index has been above the 50 mark that denotes expansion from contraction in the sector for 14 straight months while the ISM manufacturing index has been *below* 50 for 16 consecutive months. More recently, demand in the services sector has been robust with the new orders index notching readings of 55.0 and 56.1 in January and February. With demand showing little sign of abating, the prices paid component is set to remain in expansion for the foreseeable future even after factoring in the sharp 5.4 point drop to 58.6 in February. Much of the divergence in the headline indices can be chalked up to differences in the new orders and prices paid sub-indices.

In terms of the ISM manufacturing index, one of the lone bright spots last year was the prices paid component, which was in contraction for much of the year. While weakness in the headline index has continued thus far in January and February, notably, the prices paid component has expanded in each of the first two months of the year. New orders have trended upward since mid-2023, and the component even cracked into expansion in January before falling back to 49.2 in February. Should this steady upward trend in new orders continue, it should be supportive of a rebound in the employment component, which contracted in 10 out of 12 months in 2023 as companies in the sector used layoffs, attrition and hiring freezes to curb headcounts amid a dearth in new orders. Looking ahead, we expect the ISM manufacturing index to increase to 48.7 in March as new orders begin to pick up in the sector. Further, we expect the ISM services index to come in essentially flat in March at 52.9 as defiant consumer demand supports expansion in the sector.

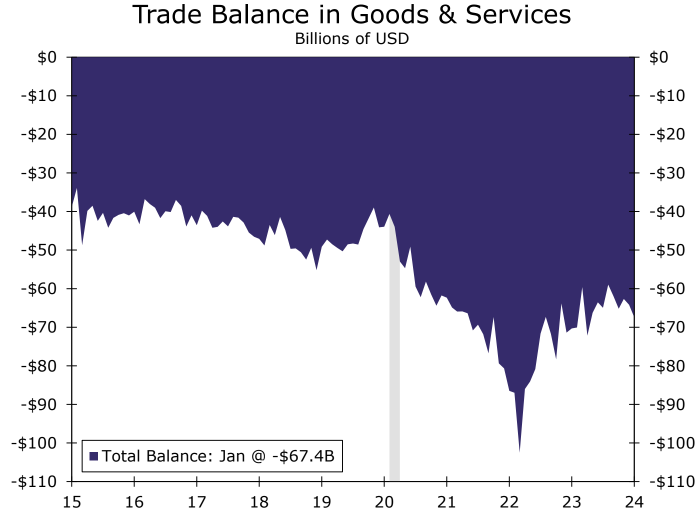


Source: Institute for Supply Management and Wells Fargo Economics

Trade Balance • Thursday

The U.S. international trade balance widened to -$67.4 billion in January, and the steep widening to start the year brought the trade deficit to a new eight-month low. The widening was driven by a 1.1% increase (a jump of $3.6 billion) in imports while exports only increased 0.1% (by $0.3 billion) on the month. Capital goods and autos imports supported import growth, while declines in food and beverage exports contributed to weaker growth in exports. This suggests a mild negative contribution to GDP from net exports in Q1-2024 on the heels of the modest 0.3 percentage point contribution to Q4-2023 GDP detailed in Thursday's GDP revisions release.

Looking ahead, the advance goods trade balance widened to -$91.8 billion in February as exports increased a solid $4.8 billion yet were outpaced by an even more impressive $6.1 billion pop in goods imports. A pickup in the ISM manufacturing index's imports component suggests demand for industrial imports is picking up, where it had previously been sluggish. The imports component came in above 50 in each of the first two months of the year, after it spent all of 2023 in contraction. We expect the international trade balance to come in roughly flat on the month at -$67.5 billion, as a widening in the goods trade balance should partially offset a narrowing in the services deficit.



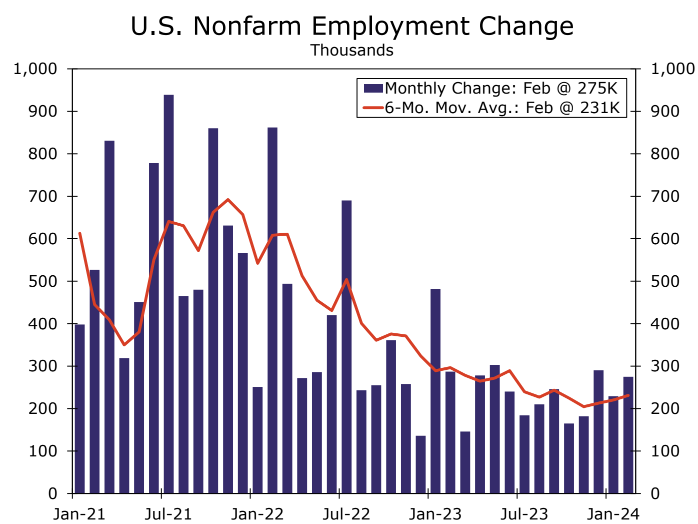
Source: U.S. Department of Commerce and Wells Fargo Economics

Employment • Friday

Another month of solid payroll growth in February demonstrated that the jobs market has yet to buckle under the weight of restrictive monetary policy. Nonfarm payrolls expanded by 275K in February, lifting the three-month average to 265K. Underneath recent payroll strength, however, lie signs of the jobs market softening. Temporary help employment has declined for 23 consecutive months, the ranks of permanent job losers are rising and the share of part-time workers is growing. Declining small business hiring plans and only modestly-expansionary readings of employment in regional Fed purchasing managers' indices further point to demand for workers ebbing.

We estimate payroll growth moderated in March but remained healthy with employers adding 220K jobs. While demand for new workers has eased, the low JOLTS layoff rate and level of initial jobless claims indicate businesses continue to hold onto existing workers, thus supporting net hiring. The household measure of employment has painted a bleaker picture of hiring recently, having declined by an average of 300K over the past three months. Yet the household measure's volatility and tendency to oscillate around the trend in payrolls leads us to anticipate a rebound in March that should push the unemployment rate back down to 3.8%. Average hourly earnings likely expanded 0.3% in March, bringing the 12-month change to nearly a three-year low of 4.1% in another sign the jobs market is gradually cooling.

As we move through the year, we expect to see payroll growth downshift further amid dwindling scope for catch-up hiring and slower growth in the labor supply. However, with payroll growth still flying north of 200K, there is altitude to lose before the Fed is faced with a more menacing trade-off between the employment and price stability sides of its mandate.



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

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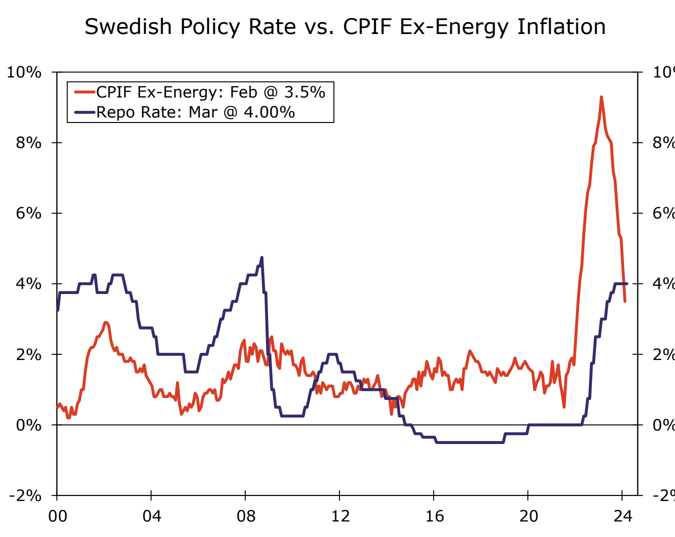
International Review

Global Central Banks Holding Steady For Now

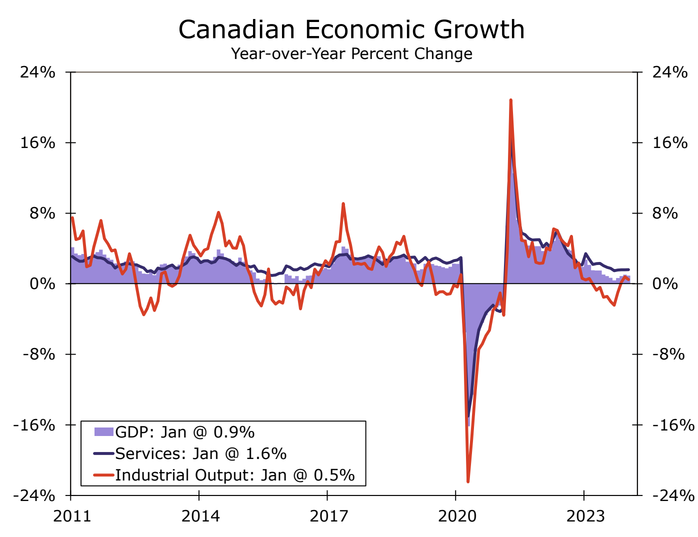
This week saw the announcement of monetary policy decisions from both G10 and emerging market economies. On Wednesday, Sweden's Riksbank held its policy rate steady at 4.00%, in line with consensus expectations. However, the accompanying policy announcement opened the door to a possible May rate cut. While the other elements of the announcement were overall balanced in tone, we maintain our call for an initial June cut for now. The statement acknowledges that there has been progress on inflation toward the 2% target but that price pressures are still somewhat elevated. Riksbank officials emphasized that there are potential risks to the inflation outlook, including geopolitical events or continued weakening in the krona. In light of these risks, policymakers are looking to take a cautious approach going forward, "in the form of gradual cuts in the policy rate."

The Riksbank also provided updated economic forecasts alongside its announcement. The central bank slightly upgraded its headline CPIF inflation forecast for 2025, to 1.9% from 1.7%, though this forecast change still sees headline inflation returning to below the 2% target in the near term and then to 2.0% in 2026. The Riksbank also adjusted its core CPIF forecast for 2024, to 2.7% from 2.9% previously. In terms of economic growth, the central bank upgraded its 2024 GDP forecast from a modest contraction to modest growth; as the Swedish economy was in technical recession for the three quarters ending 2023, this upgrade suggests a modest economic recovery this year. Bank officials also updated the policy rate forecast to include the possibility for three rate cuts to take place over the next year. Overall, given the balanced tone of the announcement, policymaker concern over the potential for upside inflation risks and lack of notably dovish economic forecast changes, we believe the Riksbank is still on track for an initial 25 bps June rate cut, as opposed to an earlier May move.

In other central bank news, the South African Reserve Bank (SARB) opted to hold its policy rate steady at 8.25%, as widely expected. The accompanying policy announcement leaned hawkish in tone and was consistent, in our view, with SARB likely waiting until Q3-2024 or later to begin rate cuts. Officials noted that the most recent inflation figures represented "yet another delay" on inflation's path back to the midpoint of the 3-6% target range. Headline inflation sped up to 5.6% in February, and core quickened to 5.0%, mostly because of accelerated services inflation. Due to these recent inflation developments, bank officials now see headline inflation not reaching the middle of the target range until the end of 2025, which is later than previously forecast. Policymakers also stated that inflation risks are tilted to the upside, noting concerns about still-elevated inflation expectations, food inflation and a weaker-than-expected rand as of late. With these developments in mind, officials unanimously opted to maintain the monetary policy stance that "is considered restrictive." In addition, the central bank's updated economic projections showed the policy rate remaining higher over the next three years than previously forecast. Overall, we believe this week's announcement is consistent with our view for SARB to likely wait until the third quarter of this year to deliver an initial 25 bps rate cut.



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



Source: Datastream and Wells Fargo Economics

This week also saw the release of some notable economic data from G10 economies. In Australia, February headline inflation held steady at 3.4% year-over-year, but in terms of underlying measures of price pressures, annual trimmed mean inflation picked up slightly to 3.9%, from 3.8%. Despite a softer-than-expected headline inflation print, we believe the Reserve Bank of Australia will want to see more progress on inflation before it delivers monetary easing, likely in Q3-2024 or later, in our view. In their March monetary policy announcement, bank officials noted that while there has been recent progress on inflation, it remains high, and that "the Board expects that it will be some time yet before inflation is sustainably in the target range."

In other economic data, Canada's January GDP surprised to the upside with a gain of 0.6% month-over-month—after a modest contraction in December—and 0.9% year-over-year. After contracting in the third quarter of last year, economic activity seemed to turn a corner, and the Canadian economy expanded in the fourth quarter. January's data offer encouraging signs for Canadian growth prospects in early 2024, as does Statistics Canada's advance estimate for February GDP, which is for a further 0.4% gain. Based on the January outcome and expected February outcome, Canada's Q1 GDP growth appears likely to exceed both the current consensus forecast, and the Bank of Canada's forecast. That said, in terms of monetary policy implications, when also considering the recent slowdown in inflation against this growth backdrop, we still think Bank of Canada policymakers will feel comfortable in delivering an initial 25 bps rate cut in June.

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International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
31-Mar	China Manufacturing PMI	Mar	50.1	--	49.1
31-Mar	China Non-manufacturing PMI	Mar	51.5	--	51.4
1-Apr	Japan Tankan Large Mfg Index	Q1	10	--	12
1-Apr	Japan Tankan Large Non-Mfg Index	Q1	32	--	30
3-Apr	Eurozone CPI (YoY)	Mar	2.5%	--	2.6%

Forecast as of March 29, 2024

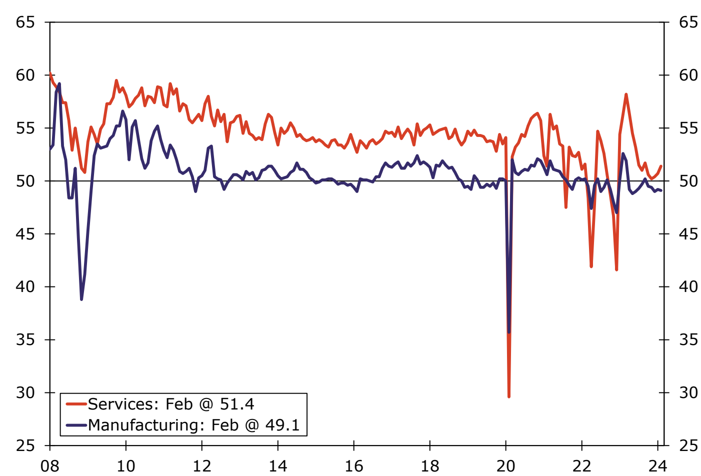
Source: Bloomberg Finance L.P. and Wells Fargo Economics

China PMIs • Sunday

This Sunday, the release of China PMI figures for March will provide timely insight into economic conditions in early 2024. After ending last year with solid economic growth, market participants will be looking for further indications as to whether this momentum was sustained during the early part of 2024. In terms of recent activity data, industrial production and retail sales have shown some encouraging signs.

The March PMI figures are expected to align with this theme of recent encouraging data. The manufacturing PMI is expected to pop above the "breakeven" 50 level for the first time in six months, to 50.1, while the non-manufacturing PMI is expected to tick up to 51.5. The manufacturing sector index has been on a general downtrend in recent months, so next week's reading could be positive news. However, even if we see favorable economic data in the near term, we expect any firming to be short-lived. Growth headwinds from a declining working age population and heavily leveraged property sector persist, and although we see the People's Bank of China continuing monetary easing efforts to support economic growth, our forecast remains for a slowdown in 2024 and 2025. We look for GDP growth of 4.7% in 2024 and 4.3% in 2025.

Chinese PMI Surveys

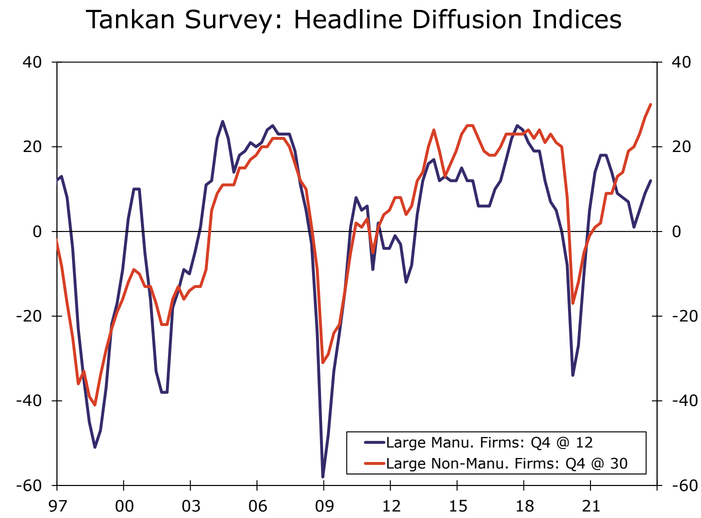


Source: Datastream and Wells Fargo Economics

Japan Tankan Survey • Monday

Next week will see the release of Q1 results for the Tankan survey, a closely watched measure of business sentiment in Japan, offering insight into both the manufacturing and non-manufacturing sectors. Market participants will be interested in how economic conditions held up early in the new year, and where they may be heading. Expectations for the Large Manufacturing and Non-Manufacturing diffusion indices are somewhat mixed, with the manufacturing index expected to ease slightly to +10, but the non-manufacturing counterpart to tick up to +32. That being said, economists expect to see an improvement in the outlook measures for both sectors, pointing to optimism about future economic activity in Japan.

While Japan's economic performance in the second half of 2023 was somewhat unimpressive, we think economic activity is potentially turning the corner as the new year progresses. In our view, this could help set the stage for the Bank of Japan (BoJ) to deliver another 10 bps rate hike in October. So far, the spring wage negotiations have showed promising signs, with the latest tally showing an average wage increase of 5.25%, much higher than last year's 3.58%. Higher pay has the potential to boost consumer spending, which in turn can support stronger economic growth. Continued growth in Japan's GDP could, in our view, contribute to BoJ policymakers feeling comfortable delivering another rate hike come October.

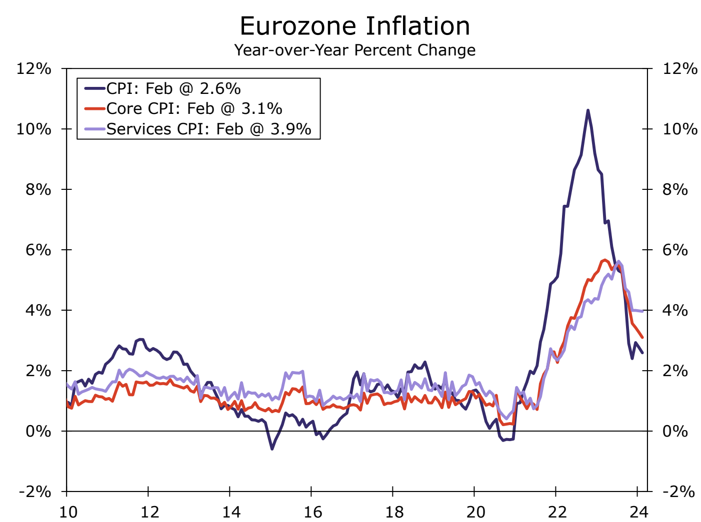


Source: Datastream and Wells Fargo Economics

Eurozone CPI • Wednesday

Next week, the Eurozone CPI for March will be a key data release for the European Central Bank (ECB) as it moves closer to easing its monetary policy stance. Economists expect that headline inflation eased slightly to 2.5% year-over-year, and core inflation is forecast to have eased to 3.0%. Market participants will be keenly watching the CPI report for any insights into the precise timing of an initial ECB rate cut.

While inflation readings have been generally favorable of late and growth has remained stagnant, we do not believe the ECB will opt to lower interest rates until their June meeting. In our view, growth looks poised for a recovery in the coming months; additionally, many ECB policymakers have recently highlighted a desire to see early 2024 wage data before adjusting monetary policy. Earlier this month, ECB President Lagarde indicated that policymakers will know more about the evolution of the Eurozone growth and inflation outlook in June than in April. Moreover, an outcome in line with the consensus forecast would represent a brief pause in the recent progress of inflation toward the ECB's target. In that context, we think next week's inflation data will likely keep the ECB on track for an initial 25 bps rate cut in June, rather than an earlier April move.



Source: Datastream and Wells Fargo Economics

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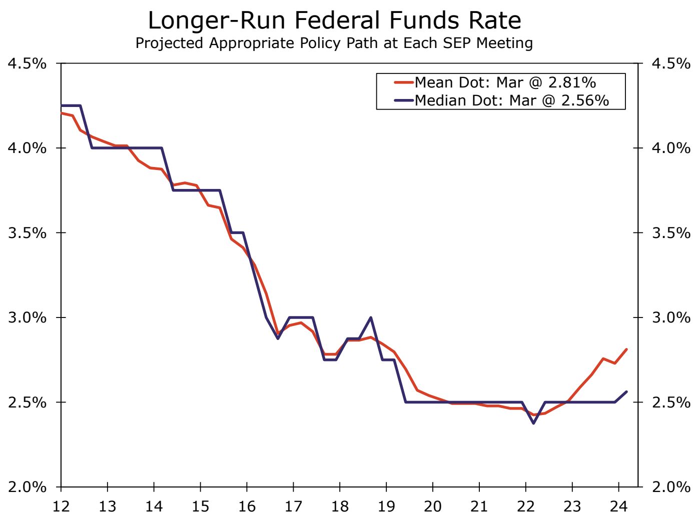
Interest Rate Watch

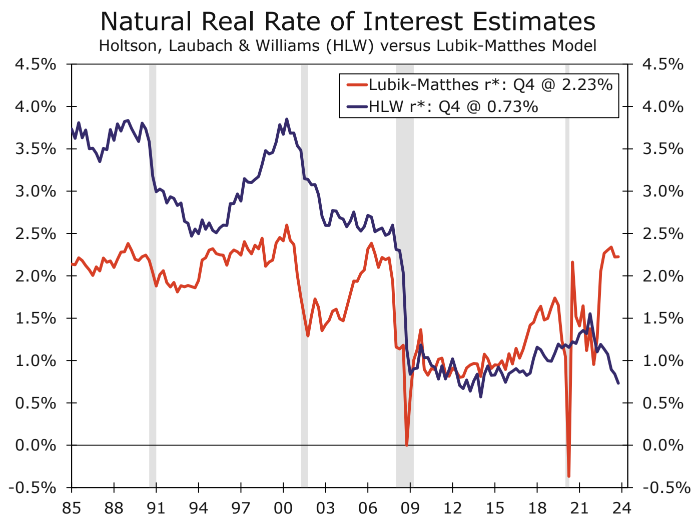
Dancing with the Stars: The First of Many Ticks Higher in the Longer-Run Median Dot

Last week, the median "longer-run" dot moved higher in the FOMC's latest Summary of Economic Projections (SEP). The longer-run dot represents each participant's view of the level of the federal funds rate that would be consistent with achieving the Federal Reserve's dual mandate of maximum employment and price stability over time. Accordingly, it can be thought of as the Committee's 2% inflation target plus participants' view of the natural real rate of interest, r-star or r*.

The increase in the median dot to 2.56% was small (just 6 bps), and the mode expectation of the Committee remained at 2.50% for the eighth straight SEP meeting. Nevertheless, the uptick in the median marks the first time it has been above 2.5% since March 2019. Further, the distribution has become increasingly skewed higher, with the average longer-run dot (2.8%) sitting well above the median (chart). Given the recent notches upward throughout the distribution, we suspect the median dot will continue to drift higher in coming SEP meetings to reflect a neutral rate that may have moved somewhat higher relative to the pre-pandemic period.



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



Source: Federal Reserve System and Wells Fargo Economics

Divergent econometric estimates of r* may be playing a role in the increased dispersion in Committee views on the appropriate longer-run federal funds rate. As a reminder, r* remains a theoretical concept that cannot be observed directly in any data, and therefore r* must be inferred using models. The Lubik-Matthes (LM) estimate from the Federal Reserve Bank of Richmond shows the natural rate has ticked up since the pandemic while the Holston, Laubach and Williams (HLW) model from the New York Fed continues to see secular decline in r*. Due to methodological differences between the two econometric models, not only do the trend paths of r* diverge, but also the estimates for the current natural rate are noticeably different (chart). The LM model sees r* at 2.2%, and HLW estimates just 0.7%. Taking these estimates as hypothetical guideposts and assuming 2% inflation, the longer-run fed funds path dot would be within 2.7% to 4.2%.

Amid the uncertainty of the neutral rate, the Fed will likely proceed cautiously as the longer-run dot drifts upward. Since the FOMC began releasing their SEP in 2012, the longer-run dot has coasted steadily downward. To switch courses requires careful communication from the Committee on the underlying motivation for a higher expected policy rate. Is the longer-run dot higher now because of structurally higher inflation pressures? Are members moving up their expectations for longer-run rates due to expectations of greater Treasury supply amid stubborn fiscal deficits? Or is the upward shift reflective of expectations that stronger productivity growth and robust immigration will lead to stronger potential GDP growth? All of these factors could contribute to why the longer-run dot may be higher today than it was pre-pandemic.

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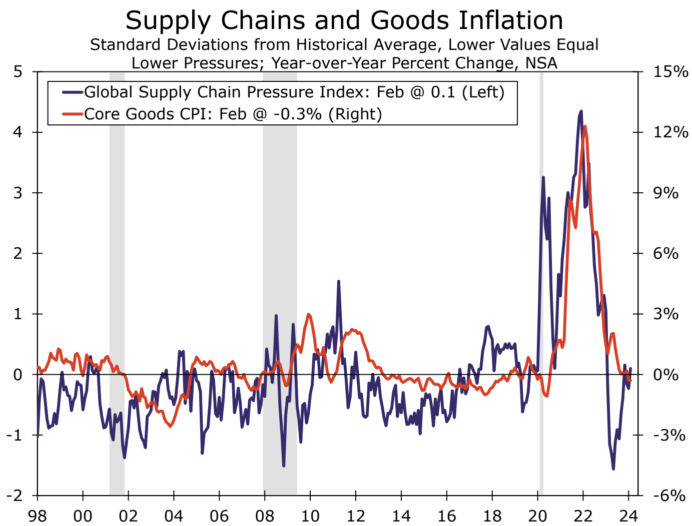
Topic of the Week

Economic Costs of the Francis Scott Key Bridge Collapse

The Francis Scott Key Bridge collapsed early Tuesday morning when a cargo ship leaving the Port of Baltimore collided with one of the bridge's support pillars. Recovery efforts are underway and the ship remains pinned under segments of the bridge. Interstate 695 has been severed as a result, and trucking traffic has been redirected to the busier I-95 and I-895 routes. The accident comes at a time when improvement in supply chains has been a key driver in slowing consumer price inflation. While we suspect the inflationary impact will be contained, the incident has scope to limit the disinflationary impulse from goods prices (chart).

How important is the Port of Baltimore to U.S. goods trade? The port's location in the Mid-Atlantic region positions it well to serve manufacturing hubs in Pennsylvania, furniture and textile producers in North Carolina and consumer markets in Washington, D.C. and Boston. In 2023, 2% of all U.S. port-level imports (on a value basis) came through Baltimore. While a small fraction compared to nearby facilities at New York-New Jersey (12%), the Port of Baltimore punches above its weight in metals, vehicles and lumber. Notably, more than half of the country's tin imports were unloaded in Baltimore last year, as well as 7% of U.S. vehicle and parts imports. On the outbound side, the port processed 1% of U.S. merchandise port-level exports in 2023.



Source: Federal Reserve Bank of New York, U.S. Department of Labor and Wells Fargo Economics

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

The temporary costs with redirecting cargo and trucking flows in the wake of the bridge's collapse will likely have a minimal effect on consumer prices given that the Port of Baltimore's cargo leans toward industrial inputs and capital goods (chart). Manufacturers' and wholesalers' profit margins ended 2023 higher than their averages over the prior business cycle (2010-2019), suggesting firms have some capacity to absorb the additional shipping costs. Against the backdrop of subdued capital expenditure and durable goods demand over the past year, businesses may also be less inclined to raise selling prices to compensate the cost, which would limit the pass-through to consumer goods inflation.

Beyond the inflationary impact, the costs of repairing the bridge will be enormous. The state of Maryland was approved to receive $60 million from the Federal Highway Administration on Thursday to assist with the state's debris removal, demolition and other emergency services. Estimates of the full cost of repairing the Francis Scott Key Bridge vary but could be upwards of $2 billion. An extended or partial port closure due to the bridge's collapse could weigh on the local economy via layoffs; nearly 65,000 people work in Baltimore's transportation and warehousing sector, representing 5% of the metropolitan area's employment base.

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Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 3/29/2024	1 Week Ago	1 Year Ago
SOFR	5.33	5.31	4.81
Effective Fed Funds Rate	5.33	5.33	4.83
3-Month T-Bill	5.36	5.36	4.72
1-Year Treasury	5.11	5.07	4.30
2-Year Treasury	4.62	4.59	4.10
5-Year Treasury	4.21	4.18	3.68
10-Year Treasury	4.20	4.20	3.56
30-Year Treasury	4.34	4.38	3.76
Bond Buyer Index	3.58	3.55	3.50

Foreign Exchange Rates

	Friday 3/29/2024	1 Week Ago	1 Year Ago
Euro ($/€)	1.079	1.081	1.084
British Pound ($/£)	1.264	1.260	1.231
British Pound (£/€)	0.854	0.858	0.881
Japanese Yen (¥/$)	151.240	151.410	132.860
Canadian Dollar (C$/$)	1.354	1.360	1.356
Swiss Franc (CHF/$)	0.902	0.898	0.919
Australian Dollar (US$/A$)	0.653	0.652	0.668
Mexican Peso (MXN/$)	16.564	16.765	18.089
Chinese Yuan (CNY/$)	7.221	7.229	6.890
Indian Rupee (INR/$)	83.404	83.154	82.191
Brazilian Real (BRL/$)	5.014	4.979	5.166
U.S. Dollar Index	104.500	104.430	102.640

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

Foreign Interest Rates

	Friday 3/29/2024	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.66	3.67	2.57
3-Month U.K. Govt Bill Yield	5.23	5.25	3.89
3-Month Canadian Govt Bill Yield	5.20	4.95	4.38
3-Month Japanese Govt Bill Yield	-0.05	-0.01	-0.26
2-Year German Note Yield	2.85	2.88	2.59
2-Year U.K. Note Yield	4.17	4.18	3.36
2-Year Canadian Note Yield	4.18	4.17	3.73
2-Year Japanese Note Yield	0.19	0.20	-0.07
10-Year German Bond Yield	2.30	2.41	2.29
10-Year U.K. Bond Yield	3.93	4.00	3.46
10-Year Canadian Bond Yield	3.47	3.52	2.95
10-Year Japanese Bond Yield	0.73	0.74	0.32

Commodity Prices

	Friday 3/29/2024	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	83.17	81.07	73.20
Brent Crude ($/Barrel)	87.00	85.78	78.65
Gold ($/Ounce)	2229.87	2181.33	1973.54
Hot-Rolled Steel ($/S.Ton)	860.00	794.00	1036.00
Copper (¢/Pound)	400.70	404.65	411.20
Soybeans ($/Bushel)	11.92	11.93	14.80
Natural Gas ($/MMBTU)	1.76	1.68	2.03
Nickel ($/Metric Ton)	16,568	17,337	23,902
CRB Spot Inds.	544.28	545.63	562.96

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