WELLS FARGO

Weekly — April 26, 2024

Weekly Economic & Financial Commentary

United States: **The Long and Winding Road to Easing**

- The case for rate cuts this summer continued to weaken as this week's economic data painted a scene of stubborn inflation against the backdrop of defiant consumer demand. We got our first look at Q1 GDP, which downshifted to a 1.6% annualized pace and was accompanied by a hot core PCE deflator reading. Consumers remain unfazed by high rates and inflation as Q1 personal consumption expenditures and March personal spending both came in strong.
- Next week: ISM Manufacturing (Wed.), FOMC Meeting (Wed.), Employment (Fri.)

International: **Sentiment Data Suggest European Economic Growth Could Turn a New Leaf**

- This week's April PMI data for the Eurozone and United Kingdom reinforced the apparent divergences between sluggish manufacturing and robust service sector activity. However, the data remain generally encouraging and align with our view for modest growth recoveries for both economies this year. The Bank of Japan held monetary policy steady this week, and while a near-term move seems unlikely, some further policy normalization still looks possible by late this year.
- Next week: China PMIs (Tue.), Eurozone GDP & CPI (Tue.)

Interest Rate Watch: **Treasury Refunding Preview: Taking a Breather**

- The U.S. Treasury has been ramping up its debt issuance over the past year, but we suspect the May 1 refunding announcement will signal the torrid pace is set for a breather. Treasury seems well-positioned to meet its financing need for at least the remainder of the year.

Topic of the Week: **Regional Economic Conditions Waving the Beige Flag**

- Last week, the Federal Reserve released the April edition of the Beige Book. The release highlights that, although economic activity and the labor market have been plodding along, price pressures remain persistent and the last mile on inflation is proving to be particularly challenging for the Fed.

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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	1.6	1.9	1.6	1.5	1.9	2.5	2.6	2.0
Personal Consumption	3.8	0.8	3.1	3.3	2.5	2.1	1.6	1.7	2.5	2.2	2.3	1.8
Consumer Price Index [2]	5.7	4.0	3.6	3.2	3.2	3.5	3.2	3.2	8.0	4.1	3.3	2.4
"Core" Consumer Price Index [2]	5.5	5.2	4.4	4.0	3.8	3.6	3.6	3.4	6.2	4.8	3.6	2.8
Quarter-End Interest Rates [3]												
Federal Funds Target Rate[4]	5.00	5.25	5.50	5.50	5.50	5.50	5.25	5.00	2.02	5.23	5.31	4.38
Conventional Mortgage Rate	6.54	6.71	7.20	6.82	6.82	7.05	6.80	6.50	5.38	6.80	6.79	6.09
10 Year Note	3.48	3.81	4.59	3.88	4.20	4.40	4.20	4.00	2.95	3.96	4.20	3.83

Forecast as of: April 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

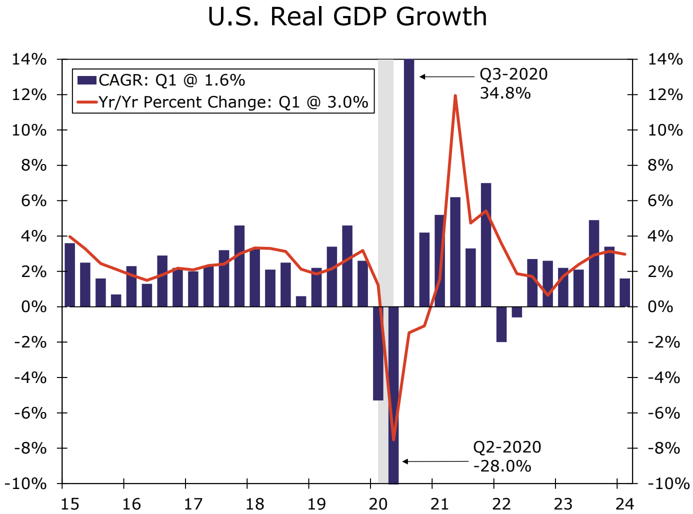
The Long and Winding Road to Easing

The case for rate cuts this summer continued to weaken as this week's economic data painted a scene of stubborn inflation against the backdrop of defiant consumer demand. On Thursday, we got our first look at Q1 GDP, which downshifted to a 1.6% annualized pace. Q1's print was lower than all 69 estimates submitted to Bloomberg, and on first take, it appears that the economy is finally giving way to the inevitable gravity of higher rates. Peeking under the hood, however, the GDP components tell a different story. The overall soft GDP reading can be attributed to a significant drag from trade and slower inventory growth. Net exports subtracted 0.86 percentage points from headline growth and without that drag growth would have printed in line with consensus. Business inventories also weighed on headline growth. Although real private inventories rose in Q1, it was at slower pace compared to the previous quarter, resulting in a 0.35 percentage point drag on the headline. Stripping out net exports, inventories and government investment, real final sales to domestic private purchasers rose at a 3.1% annualized rate, signaling a still healthy economy.

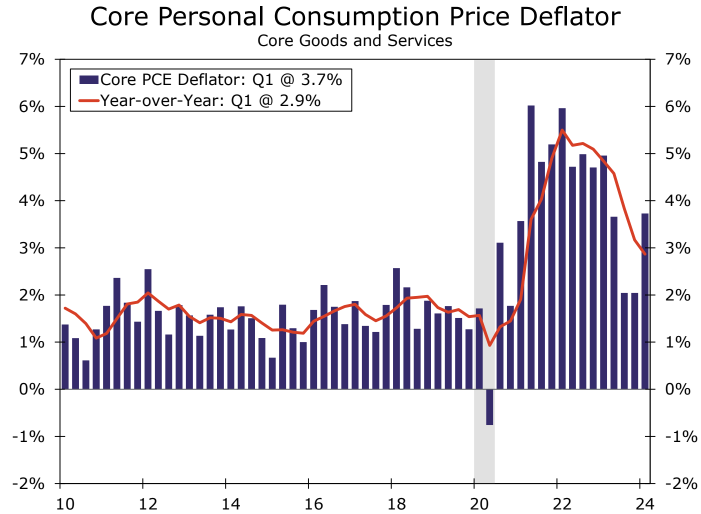
To this point, consumers remain unfazed by high rates and inflation as personal consumption expenditures grew at a solid 2.5% pace. Consumers continued to direct their spending toward services, which came in at a blistering 4% annualized growth rate. Spending was weaker for big-ticket durable goods items, but the splurge on services was more than enough to offset this.

A disconcerting detail within the GDP report was a hot core PCE deflator reading, which accelerated to a 3.7% annualized rate in Q1. That said, the March personal income and spending report released today revealed the surprise jump in core PCE inflation was due to more inflation in January, and not a *significant* pickup late in the quarter. Indeed, price growth was front-loaded in Q1 with a monthly pattern of 0.50%, 0.27% and 0.32% from January to March, respectively. That being said, year-over-year core inflation still came in hot at 2.8%. The hotter-than-expected inflation reading raises further questions on the path of monetary policy. Markets are currently pricing between one and two rate cuts with the risks skewed to the downside. As discussed in our April Fed Flashlight, stubborn inflation and resilient economic activity through the first few months of the year have left the FOMC little reason to ease policy in the near term. In addition, a chorus of Fed officials, which tellingly include a number of "doves," have indicated that there is no hurry to cut rates at this time.

Continued patience from the Fed may be appropriate as consumers have demonstrated in this cycle that they will continue to spend even in the face of higher interest rates and inflation. Nominal personal spending improved by a better-than-expected 0.8% in March. On an inflation-adjusted basis, real spending has risen 0.5% in back-to-back months. Real personal income rose 0.5% over the month, continuing to help firm up consumer spending. Households also remain comfortable dipping into savings to drive spending as the personal saving rate slid to 3.2% in March, the lowest since October 2022. A strong consumer isn't necessarily a bad thing for the Fed, unless spending continues to feed into stronger-than-desired inflation pressures. Price growth was firm in Q1, placing more emphasis on Q2 to determine the eventual start of Fed easing.



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



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

The March durable goods report was in line with consensus as orders rose 2.6% over the month. Taking volatile aircraft orders out of the equation, orders were up a more modest 0.2% over the month. The underlying order details indicate a still-hesitant demand environment. Core capital goods orders rose in March but were down slightly for Q1 as a whole. Nearly all major orders categories saw an uptick in orders in March, but most gains were modest. Ultimately, the capex environment remains hindered by elevated borrowing costs and increased uncertainty around the path of Fed policy and the economy generally.

The housing market seems to be weathering higher interest rates with greater success than the manufacturing sector. Residential investment rose at a 13.9% annualized pace in the Q1 GDP report, fueled by single-family housing construction and an increase in brokers' commissions. A strong showing for new home sales in March provided further encouragement as sales jumped 8.8% to a 693K-unit pace. March's print was a strong rebound from a disappointing February print, which was revised lower. First quarter sales averaged 667K units, which represents a 4.5% improvement from the pace averaged in Q4 2023. The upturn in new home sales despite higher interest rates largely reflects builders' ability to offset eroding housing affordability conditions through price discounts, mortgage rate buy-downs and other incentives. That said, the boost in sales may be a result of homebuyers trying to front-run rising mortgage rates, which breached 7% in April, reaching 7.2% this week, according to Freddie Mac. If rates continue to climb, we may witness more buyers being forced to the sidelines in the coming months.

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U.S. Outlook

Weekly Domestic Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
30-Apr	Employment Cost Index (QoQ)	Q1	1.0%	1.0%	0.9%
30-Apr	Consumer Confidence	Apr	104.1	103	104.7
1-May	ISM Manufacturing Index	Apr	50.1	50.0	50.3
1-May	Construction Spending (MoM)	Mar	0.3%	0.5%	-0.3%
1-May	FOMC Rate Decision (Upper Bound)	1-May	5.50%	5.50%	5.50%
1-May	Total Vehicle Sales (SAAR)	Apr	15.7M	15.7M	15.49M
2-May	Trade Balance	Mar	-$69.0B	-$69.6B	-$68.9B
2-May	Nonfarm Productivity (QoQ)	Q1	1.5%	1.1%	3.2%
2-May	Unit Labor Costs (QoQ)	Q1	2.0%	2.2%	0.4%
2-May	Factory Orders (MoM)	Mar	1.6%	1.6%	1.4%
3-May	Nonfarm Payrolls	Apr	250K	250K	303K
3-May	Unemployment Rate	Apr	3.8%	3.8%	3.8%
3-May	Average Hourly Earnings (MoM)	Apr	0.3%	0.3%	0.3%
3-May	ISM Services Index	Apr	52.0	52.3	51.4

Forecast as of April 26, 2024

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

ISM Manufacturing Index • Wednesday

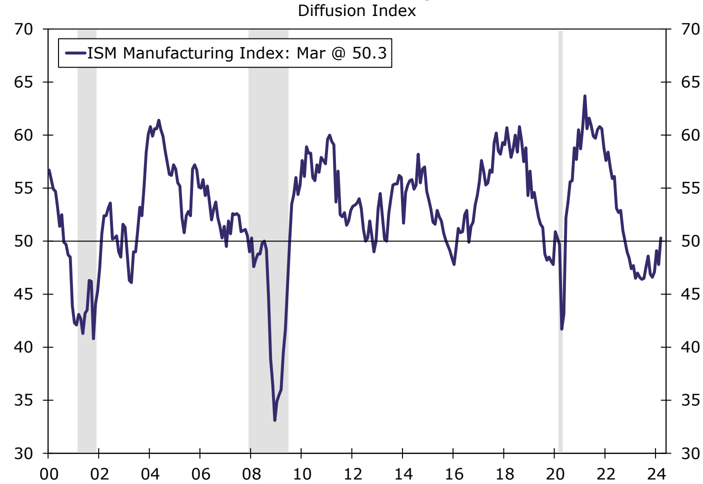
Throughout the past year or so, economic data have largely surprised to the upside, causing many forecasters to continuously upgrade their forecasts. Manufacturing has largely bucked this trend.

For 16 consecutive months, the ISM manufacturing index was below 50, signaling contraction for the sector. The bellwether finally saw daylight in March when it climbed above the breakeven to 50.3. The hard manufacturing data were less dire, but not exactly consistent with the sort of stellar growth evident in the service economy the past year and a half or so. Consider, for example, that in the 18-month stretch from September 2022 through March 2024, industrial production was up nine months and down nine months for a total index level change of -0.8%.

The big news on Wednesday will be the FOMC meeting at 2 p.m. ET, but four hours earlier, the ISM report will offer the latest indication of whether the manufacturing sector is indeed finding its footing after a tough stretch. We forecast the ISM index to slip modestly to 50.0.

ISM Manufacturing Index

Diffusion Index



Source: Institute for Supply Management and Wells Fargo Economics

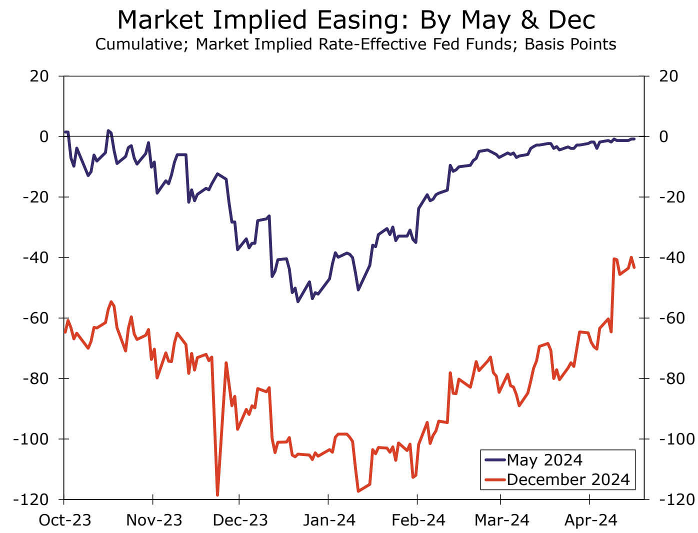
FOMC Meeting • Wednesday

After keeping rates on hold at its March meeting, the FOMC pointed toward the likelihood of rate cuts this year commencing in the months ahead. This dovish bias was also evident in the Summary of Economic Projections (SEP). Both the comments and the forward-looking rate estimates were characterized as "data dependent" and the data have not been particularly supportive of those expectations since March.

What had been a trend decline in inflation has been disrupted over the past several months, most recently with Friday's update that puts the PCE deflator at 2.7% over the past year. Sustained resilience in economic activity, particularly in the service sector, gives policymakers little indication that the time is right to start easing policy.

We are in line with the widely held expectation that the FOMC will keep rates on hold next week. Without a scheduled update to the SEP, the market will parse the accompanying statement and hang on every word of by Fed Chair Powell at the post-meeting press conference for clues to the FOMC's latest thinking. Rate expectations continue to be marked lower and pushed further out.

We also suspect an announcement regarding a slowing in the pace of the Fed's balance sheet run-off of its Treasury holdings from $60 billion per month to $30 billion, though the official announcement may get pushed to the June meeting.



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

Employment • Friday

We suspect that whatever Chair Powell has to say at Wednesday's press conference, he is apt to re-iterate his mantra that future policy decisions will depend on the incoming data. Financial markets will not have to wait long, as we get the jobs report on Friday. The labor market was widely expected to lose momentum this year, but the opposite has happened. The economy created an average of 276K jobs per month in Q1-2024, up from 212K per month in the fourth quarter of last year. The sustained strength in hiring has left few people without work. The unemployment rate has been below 4.0% for 26 consecutive months. That is more than the total number of months below 4% in the previous 50 years combined.

Despite the evident strength in the job market, there are some chinks in the armor. There has been a trend decline in job postings, fewer small businesses looking to hire and news of layoffs keeps popping up. Despite these headwinds, resilient spending and robust economic growth ought to be supportive of further growth in payrolls in our view. We anticipate the economy added another 250K jobs in April and that the jobless rate will stay at 3.8% to remain below 4% for a 27th consecutive month.

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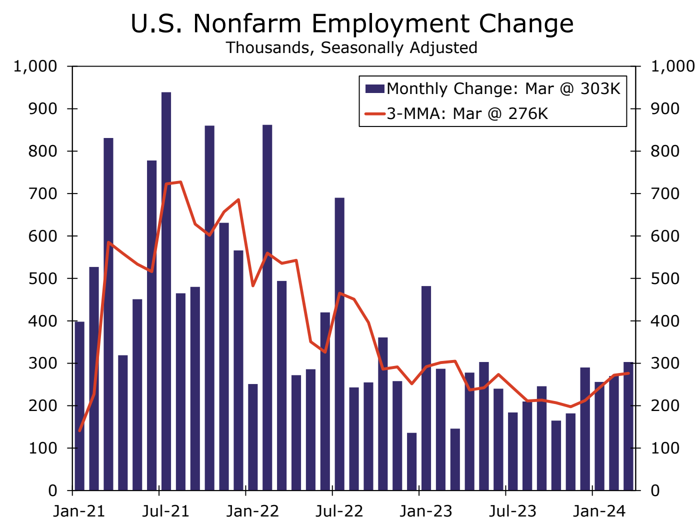


Source: U.S. Department of Labor and Wells Fargo Economics

International Review

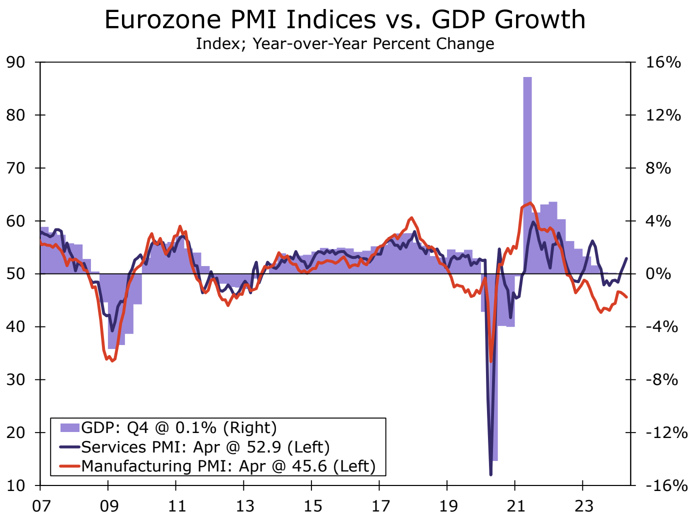
Sentiment Data Suggest European Economic Growth Could Turn a New Leaf

This week kicked off with the release of some key sentiment data from G10 economies. In the Eurozone, April PMI figures were mixed but encouraging overall, aligning with our view of a modest economic recovery for the region in 2024. While the manufacturing PMI fell to 45.6 against expectations for a slight increase, the services PMI flew past expectations by rising to 52.9 from 51.5 last month. The impressive showing in the services sector was enough to boost the composite—or economy-wide—PMI to 51.4, also an upside surprise. The PMIs for the region's two largest economies, France and Germany, also told a similar story of manufacturing stagnation and service sector outperformance. While the manufacturing and services sectors seem to be on somewhat divergent paths, developments in the services sector are more consequential for overall economic conditions, in our view, given that the services sector makes up the bulk of the region's economy. We believe the Eurozone April PMIs are consistent with economic growth improving over the course of this year and look for 2024 growth of 0.6%, up from 0.5% in 2023. In terms of monetary policy implications, market participants have turned their attention to how the European Central Bank's (ECB) rate path could unfurl following their June meeting, which is widely expected to mark the start of their easing cycle. If we continue to see favorable PMI, inflation and economic activity data as 2024 progresses, we believe this could make policymakers feel more comfortable taking a measured pace of easing. In that context, we see the ECB lowering interest rates by 25 bps in June, pausing in July and resuming with a 25 bps rate cut again in September.

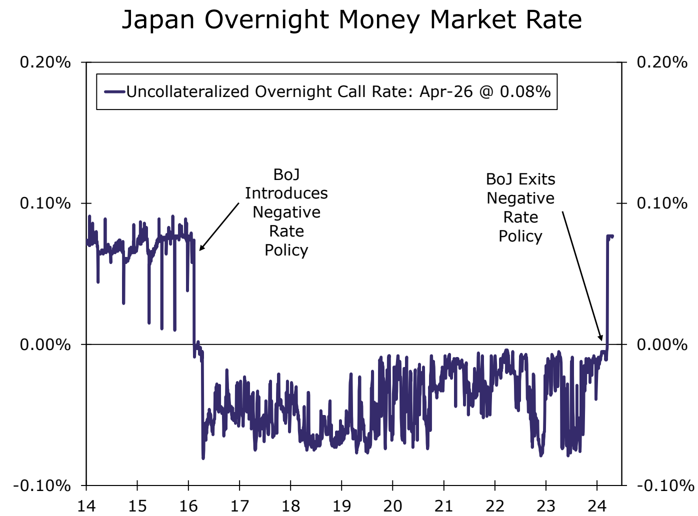
In the U.K., the manufacturing PMI and services PMI took divergent paths in April, though both indices have generally showed improvement over the past several months. The manufacturing index fell to 48.7, back into contractionary territory—below 50—after a brief pop into expansionary territory in March. In addition, the new orders component of the index dropped. The services PMI easily outshined its weaker counterpart; against expectations for the index to more or less hold steady, it climbed further into expansionary territory at 54.9, from 53.1 in March. Thanks to a bustling services sector, the composite—or economy-wide—PMI was also able to exceed expectations, rising to 54.0 from 52.8. The data release also touched on developments in price pressures for April. It noted that while firms' input costs accelerated sharply, their output prices only grew at a moderate pace, indicating that firms may be hesitant to pass on their cost burden to consumers in the form of higher prices. Any suggestion that price pressures may have room to ease is certainly a welcome development in an economy that has struggled with stubborn inflation pressures for several quarters.

In our view, these PMIs are consistent with an overall outlook for a modest improvement in U.K. economic growth this year and an initial 25 bps Bank of England (BoE) rate cut in August. In addition to both the manufacturing and services PMIs following generally improving trends in recent months, monthly GDP growth for January and February has offered further hints that the U.K. economy may be stabilizing and even heading toward an economic recovery. In an environment of mildly improving economic conditions, we believe BoE policymakers will lean toward delivering an initial rate cut in August. Another key reason we look for an August cut rather than an earlier move concerns recent price developments that suggest a more gradual pace of disinflation. In March, headline, core and services inflation all surprised to the upside, as did wage data from February. Taken altogether, given gradually improving growth and gradual disinflation, we believe BoE policymakers will be cautious about lowering policy interest rates prematurely or too quickly.

In other economic news from G10 economies, Australia's first quarter CPI inflation came in hotter than expected, which, in our view, strengthens the case for the Reserve Bank of Australia (RBA) to wait until Q4-2024 to deliver an initial 25 bps rate cut. In the first quarter, headline CPI inflation slowed by less than expected to 3.6% year-over-year from 4.1% in Q4-2023. Key measures of core inflation also surprised to the upside across the board. The March inflation figures accompanied the quarterly data, and revealed that CPI inflation sped up toward the end of the quarter, to 3.5% year-over-year from 3.4% in February. We believe these data are likely to support a cautious approach by policymakers as they consider future monetary easing, and forecast the RBA to wait until Q4 of this year to deliver an initial rate cut.



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



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

The Bank of Japan (BoJ) held monetary policy steady this week and did not offer much new guidance about future moves, which may have been a disappointment for market participants who had been expecting additional guidance from the BoJ. In addition to holding the policy rate in place, the BoJ also noted that it would continue to conduct bond purchases in line with the decision made at the March announcement. In our view, the decision, accompanying announcement and comments from Governor Ueda suggest that a near-term policy move is unlikely, which may have been a factor behind the yen's weakening around the time of the announcement. That being said, we view these developments as still consistent with a policy shift later this year, perhaps at the central bank's October meeting. To that point, the BoJ upgraded its core inflation (CPI all items less fresh food) forecasts for FY 2024 to 2.8% and for FY 2025 to 1.9%, and its medium-term inflation forecasts have remained close to the 2% inflation target. Also, in his post-meeting press conference Governor Ueda noted that while he could not provide specific timing for when a change could occur, the central bank could cut bond buying at some point in the future. In addition, Ueda also suggested that the BoJ could lift the policy rate if underlying inflation rises sustainably toward the 2% target. Overall, we remain comfortable with our view for a 10 bps rate hike at the BoJ's October meeting.

In global central bank news from the emerging economies, Bank Indonesia (BI) delivered a surprise 25 bps rate hike earlier this week, lifting its policy rate to 6.25%. The central bank's mandate includes rupiah stability, and this move is seen as an effort to shore up the currency that has weakened almost 5% against the U.S. dollar so far this year. The press release accompanying the decision also pointed to FX market intervention as a tool to help achieve currency stability. While Indonesian CPI inflation data has generally been favorable in recent months, staying within the BI's 1.5%-3.5% target band, a weak currency could pose risks to the inflation outlook via higher import costs. Looking ahead, we believe BI policymakers may be hesitant to lower their policy rate ahead of the Fed, so as to avoid unfavorable FX moves. In Turkey, the central bank opted to hold the policy rate steady at 50.00%, as widely expected. The accompanying announcement reiterated that members of the Monetary Policy Committee remain highly attentive to inflation risks. In this context, we believe that further monetary policy tightening cannot be ruled out.

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International Outlook

Weekly International Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
30-Apr	China Manufacturing PMI	Apr	50.3	—	50.8
30-Apr	China Non-manufacturing PMI	Apr	52.2	—	53.0
30-Apr	Eurozone CPI (YoY)	Apr	2.4%	—	2.4%
30-Apr	Eurozone Core CPI (YoY)	Apr	2.7%	—	2.9%
30-Apr	Eurozone GDP (QoQ)	Q1	0.1%	—	-0.1%

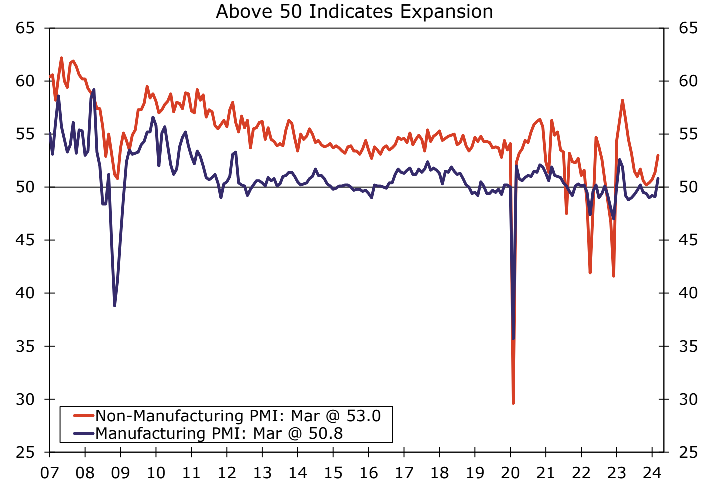
Forecast as of April 26, 2024

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

China PMIs • Tuesday

As market participants continue to evaluate the state of China's economy, next week's release of the April PMIs should add some insight into recent developments. Economic data from China have generally been sturdy in early 2024 but have become a bit mixed recently, contributing to a debate around whether this near-term strength can be sustained over the longer term. To be sure, various fiscal and monetary stimulus measures may be providing a boost to economic activity for now. In terms of recent data, first quarter GDP growth surprised to the upside, and the March PMIs bested economists' expectations. However, March retail sales and industrial production data disappointed.

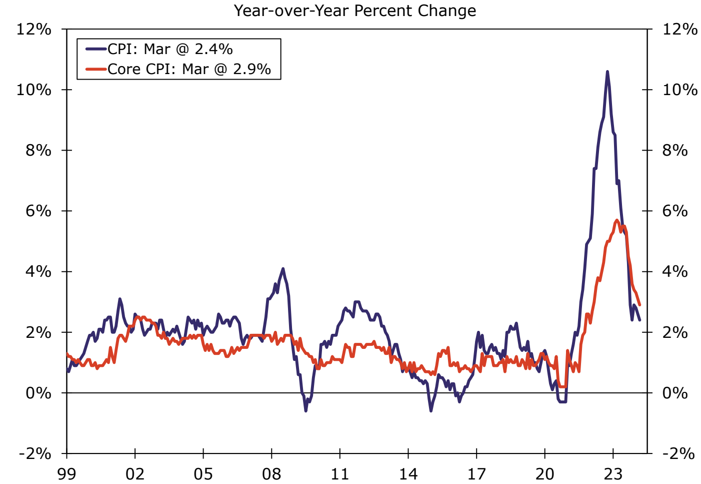
Against this backdrop, the April PMI figures will provide market participants with timely insight into whether the economy appears to be chugging along or if momentum may be starting to slow. The overall outlook is for some softening, as consensus economists expect the manufacturing index to fall to 50.3 and the nonmanufacturing index to also decline to 52.2. Such an outcome would be in line with our view that a variety of structural challenges could weigh on growth in the medium to longer term. We look for China's GDP growth to slow to 4.3% in 2025 from 5.1% in 2024.



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

Eurozone CPI & GDP • Tuesday

Next Tuesday will see the release of inflation and GDP growth data from the Eurozone, both of which we expect to keep the European Central Bank (ECB) on track for an initial 25 bps rate cut in June, followed by a pause in July and another cut in September. Market participants will be watching the release of the Eurozone's April CPI data for signs of further slowing in price pressures, especially in core and services inflation. Headline and core CPI inflation have made notable progress toward the ECB's 2% target, though underlying price pressures are still mildly elevated and services inflation has remained sticky at 4% over the past several months. Consensus economists expect headline inflation to hold steady at 2.4% year-over-year and core inflation to tick down to 2.7%. In terms of monetary policy implications, while we believe the ECB is set for an initial rate cut in June, inflation surprises could influence the pace and timing of any further monetary easing. If both services and core inflation slow more than expected, this could increase the chances of back-to-back rate cuts in June and July. On the other hand, if inflation surprises to the upside, this could bolster the case for a pause in rate cuts after the June meeting, followed by later easing in September and beyond.



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

Next Tuesday will also mark the release of the Eurozone's Q1 GDP figures. Encouraging recent PMI data have suggested the economy may be turning a new leaf after stagnating in the second half of last year. These GDP figures will confirm whether this optimism on Eurozone growth is warranted. Consensus economists expect the economy grew 0.1% quarter over quarter and 0.2% year-over-year.

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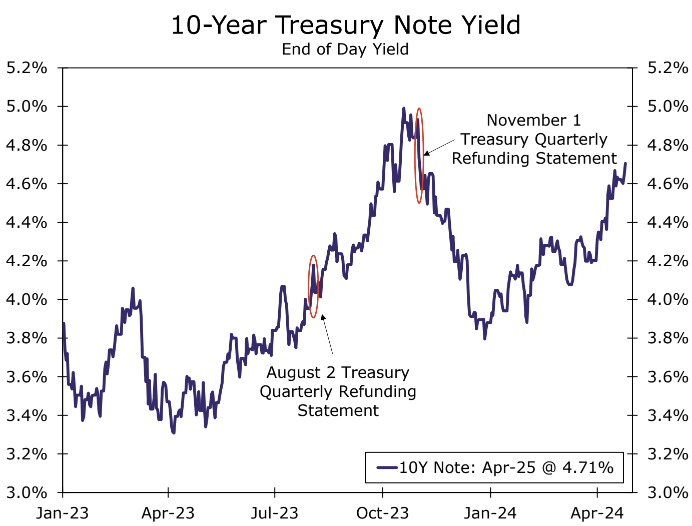
Interest Rate Watch

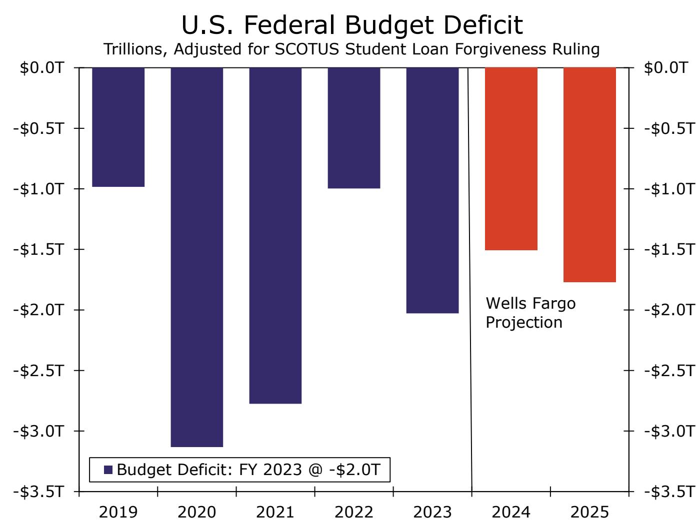
The Past Year's Borrowing Binge Is Set to Slow

On May 1, the U.S. Treasury will complete its regular quarterly refunding process: the standard process through which Treasury communicates any changes in its debt management policy. Larger-than-expected increases in the monthly auction sizes announced at the August 2023 refunding played a role in the selloff in longer-term Treasury securities that occurred last year, while a more moderate round of increases at the November refunding coincided with the peak in longer-term yields (chart). However, the torrid pace at which Treasury has been ramping up its debt issuance looks set for a breather. Given our expectations for the May 1 refunding, we would be surprised if next week's announcement creates fireworks in financial markets similar to what occurred in the second half of last year.

The two biggest factors that drive swings in Treasury's borrowing plans are changes in the federal budget deficit and moves in the Federal Reserve's Treasury security holdings. We project the federal government will run a budget deficit of $1.5 trillion in fiscal year 2024, a narrowing from the roughly $2 trillion deficit incurred in FY 2023 (chart). Strong revenue growth has been the primary contributor to a smaller deficit this year. Robust employment growth has kept taxes withheld from workers' paychecks rising at a solid rate, while non-withheld individual income tax receipts are on pace to best what was collected in 2023. We expect federal spending to be roughly flat this fiscal year at $6.5 trillion as some segments of the federal budget (namely interest costs on the national debt) continue to grow at a robust pace, but spending has lowered in other areas (namely due to the end of some COVID-era policies).



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



Source: Congressional Budget Office and Wells Fargo Economics

The pending slowdown in the Federal Reserve's balance sheet runoff program also eases the financing burden on the U.S. Treasury. As a reminder, balance sheet runoff does not impact the total amount of federal debt outstanding, but it does increase the amount of debt that must be absorbed by private investors. The $60 billion per month of Treasury security runoff that has been ongoing since September 2022 has added $720 billion to the annual total that Treasury needs to raise from investors at auction. A slowdown to $30 billion per month and eventual cessation of runoff mitigates the need for Treasury to increase the size of its auctions for notes and bonds anytime soon.

These factors have combined to create an outlook where gross auction sizes for Treasury security notes and bonds are likely to remain unchanged for the foreseeable future, although *net* issuance of coupon securities will remain sizable due to past auction size increases. Nevertheless, while Treasury is well-positioned to meet its financing needs through FY 2024, the 2024 U.S. presidential election is less than seven months away, and with it may come material changes in U.S. fiscal policy. Sooner or later, Treasury likely will need to ramp up its auction sizes again to meet the deficit needs of the future.

For further reading, see our full Treasury Refunding Preview.

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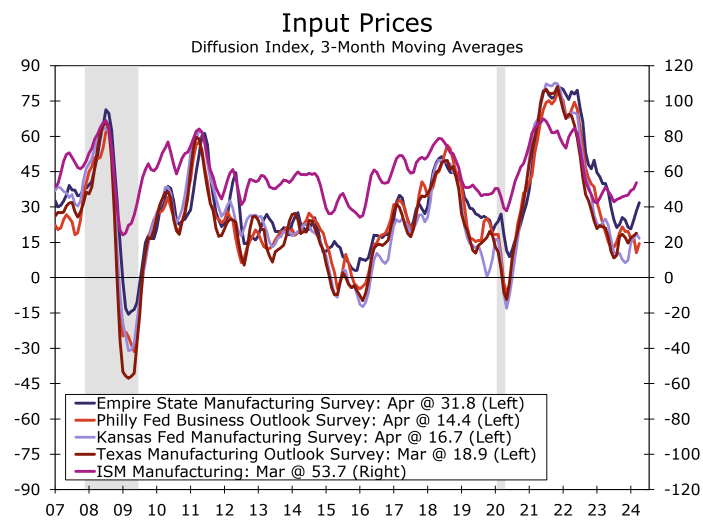
Topic of the Week

Regional Economic Conditions Waving the Beige Flag

Last week, the Federal Reserve released the April edition of the Beige Book. Economic activity across the Federal Reserve Districts expanded slightly over the period since late February. While this is welcome news for policymakers at the Fed, less welcome news is that prices across the districts were running at about the same pace as the previous Beige Book, expanding modestly. The labor market remained broadly resilient, rising modestly, as nine districts reported slow to modest increases in employment and three reported no changes. The release highlights that, although economic activity and the labor market have been plodding along, price pressures remain persistent and the last mile on inflation is proving to be particularly challenging for the Fed.

The April Beige Book specifically remarked on two key headlines from April: the shipping disruptions in the Red Sea and the recent collapse of the Francis Scott Key Bridge in Baltimore. The events have both caused shipping delays but have yet to lead to widespread price increases. In addition, manufacturers across the districts in particular noted that they "perceived upside risks to near-term inflation in both input prices and output prices." This is consistent with regional Fed manufacturing surveys that have shown manufacturers' six-month price expectations have turned up alongside rising input prices. This trend has been most stark for the Empire manufacturing survey, where the prices paid gauge has been rising on trend since mid-2023, though it is still notably lower than it was during the period of high inflation in 2021 through 2023 (chart). Manufacturers in the Second District pointed to price pressures arising from significant price increases for raw materials and volatility in prices for electronic components.



Source: Federal Reserve System, Institute for Supply Management and Wells Fargo Economics

In addition to the manufacturing sector, the Second District was a microcosm of national trends in the latest period. Although economic activity was roughly flat, labor market conditions were solid, with supply and demand coming into better balance amid wage growth that is easing. A slowdown in wage growth may help price pressures abate in the coming periods, however, at present prices remain a salient issue for most districts. This Beige Book release was ultimately a mixed bag: Prices have been sticky as of late, but resilient economic activity and a labor market that is coming into better balance mean that the labor market side of the Fed's dual mandate is not in immediate peril.

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Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 4/26/2024	1 Week Ago	1 Year Ago
SOFR	5.31	5.30	4.80
Effective Fed Funds Rate	5.33	5.33	4.83
3-Month T-Bill	5.40	5.37	5.11
1-Year Treasury	5.27	5.24	4.36
2-Year Treasury	4.98	4.99	3.95
5-Year Treasury	4.68	4.67	3.50
10-Year Treasury	4.67	4.62	3.45
30-Year Treasury	4.78	4.71	3.70
Bond Buyer Index	4.07	3.79	3.53

Foreign Exchange Rates

	Friday 4/26/2024	1 Week Ago	1 Year Ago
Euro ($/€)	1.069	1.066	1.104
British Pound ($/£)	1.248	1.237	1.247
British Pound (£/€)	0.857	0.861	0.885
Japanese Yen (¥/$)	157.660	154.640	133.670
Canadian Dollar (C$/$)	1.367	1.375	1.364
Swiss Franc (CHF/$)	0.914	0.910	0.891
Australian Dollar (US$/A$)	0.653	0.642	0.660
Mexican Peso (MXN/$)	17.143	17.095	18.149
Chinese Yuan (CNY/$)	7.246	7.239	6.928
Indian Rupee (INR/$)	83.350	83.470	81.768
Brazilian Real (BRL/$)	5.113	5.202	5.046
U.S. Dollar Index	106.053	106.154	101.467

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

Foreign Interest Rates

	Friday 4/26/2024	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.61	3.62	2.76
3-Month U.K. Govt Bill Yield	5.24	5.20	3.89
3-Month Canadian Govt Bill Yield	4.93	4.90	4.42
3-Month Japanese Govt Bill Yield	0.04	0.02	-0.18
2-Year German Note Yield	2.99	3.00	2.77
2-Year U.K. Note Yield	4.48	4.38	3.75
2-Year Canadian Note Yield	4.32	4.25	3.62
2-Year Japanese Note Yield	0.29	0.27	-0.04
10-Year German Bond Yield	2.58	2.50	2.40
10-Year U.K. Bond Yield	4.32	4.23	3.73
10-Year Canadian Bond Yield	3.83	3.74	2.86
10-Year Japanese Bond Yield	0.89	0.85	0.47

Commodity Prices

	Friday 4/26/2024	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	84.08	83.14	74.30
Brent Crude ($/Barrel)	89.58	87.29	77.69
Gold ($/Ounce)	2335.22	2229.87	1989.04
Hot-Rolled Steel ($/S.Ton)	822.00	843.00	1073.00
Copper (¢/Pound)	456.05	449.75	385.35
Soybeans ($/Bushel)	11.70	11.58	14.41
Natural Gas ($/MMBTU)	1.58	1.75	2.12
Nickel ($/Metric Ton)	18,994	18,371	23,267
CRB Spot Inds.	557.87	557.75	557.60

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