

Weekly — May 17, 2024

Weekly Economic & Financial Commentary

United States: Let's Wait and See

- There was no shortage of economic data this week, but little did much to change the macro landscape. The April inflation data were a step in the right direction, and if sustained, we see the first rate cut coming in September.
- [Next week](#): Existing Home Sales (Wed.), New Home Sales (Thu.), Durable Goods (Fri.)

International: Mixed Data from Foreign Economies

- In this week's data, U.K. wage growth surprised to the upside, but the underlying details were a bit more encouraging; we maintain our outlook for an initial Bank of England rate cut in August. Japan's GDP contracted more than expected, by 2.0% quarter-over-quarter annualized. Swedish CPI inflation continued its journey back to target, affirming the central bank's decision to ease monetary policy last week. In China, industrial output firmed while retail sales softened, and in India, CPI inflation slowed by less than expected.
- [Next week](#): Canada CPI (Tue.), U.K. CPI and PMIs (Wed. & Thu.), Chilean Central Bank Policy Rate (Thu.)

Interest Rate Watch: Fed Rate Cuts Back on the Table?

- Market participants have significantly dialed back their expectations of the total amount of Fed easing this year, but recent data keep a 25 bps rate cut at the September meeting in play.

Credit Market Insights: Are Businesses Still Managing Their Debt?

- Like the mighty consumer, who has steadfastly supported the U.S. economy over this cycle but appears poised to slow spending as the year progresses, businesses remain on firm footing but show signs of weakness ahead—notably a steep increase in business bankruptcies over the past year.

Topic of the Week: Biden Expands Higher Tariffs on Chinese Imports

- President Biden announced a modification of tariff rates on a selection of U.S. imports from China, including batteries, electric vehicles, semiconductors and solar panels. How much of these goods does the United States import from China?

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	1.6	2.7	1.9	1.5	1.9	2.5	2.6	2.0
Personal Consumption	3.8	0.8	3.1	3.3	2.5	3.0	1.6	1.7	2.5	2.2	2.6	1.9
Consumer Price Index ²	5.7	4.0	3.6	3.2	3.2	3.5	3.3	3.2	8.0	4.1	3.3	2.5
"Core" Consumer Price Index ²	5.5	5.2	4.4	4.0	3.8	3.6	3.6	3.5	6.2	4.8	3.6	2.9
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: May 08, 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](#).

All estimates/forecasts are as of 5/17/2024 unless otherwise stated. 5/17/2024 12:23:56 EDT. This report is available on Bloomberg WFRE

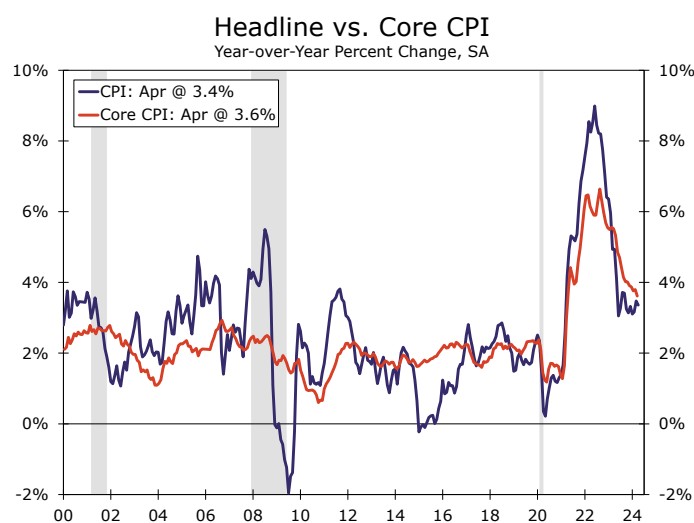
U.S. Review

Let's Wait and See

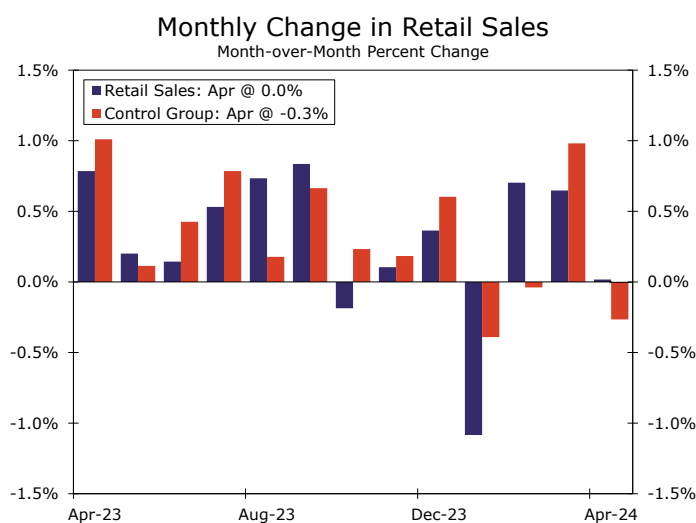
There was no shortage of economic data this week, but little did much to change the macro landscape. We got a fresh report on producer and consumer prices for April, which showed a step in the right direction for inflation after a hot first quarter of price growth. Retail sales came in a touch soft, but we anticipate that was more monthly noise than the start of the end of consumer momentum. And April industrial production and housing starts data both showed sectors constrained by elevated rates. The economic data continue to be broadly consistent with an economy that is growing at a modest clip despite still-elevated price pressures and tighter policy.

The inflation data received increased attention as analysts try and pinpoint *when* and *if* the Fed will begin to ease policy later this year. The Producer Price Index (PPI) was a bit firm in April, rising 0.5% amid higher services prices, though it did come with slight downward revisions to prior month's data. In terms of consumer prices, both the headline and core (excluding food and energy) Consumer Price Index (CPI) rose 0.3% in April, which drove the year-ago rates lower to 3.4% and 3.6%, respectively ([chart](#)). The year-over-year Core CPI now sits at a three-year low. The composition of inflation was also more favorable last month amid an easing in "super core" (services excluding primary shelter) inflation. Even as the slowdown in services inflation remains painfully slow, it resumed in April with core services prices up 0.4%, matching the Q4-2023 pace.

This week's data suggest a more modest reading (~0.25%) from the Fed's preferred consumer inflation metric (the PCE deflator). On balance, we expect the April inflation data should help restore some confidence that price growth is continuing to moderate through the month-to-month noise. But we believe we'll need to see a string of solid inflation reports to help induce the first rate cut.



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



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

Inflation may be softening, but price growth compounds for households and the inflationary environment is one of *many* reasons to be skeptical about the sustainability of consumer spending. Retail sales came in flat in April and the control group measure, which excludes key components and feeds into the BEA's measure of goods spending in the GDP accounting, slid 0.3% ([chart](#)). But this weak outturn came after an unusually-strong spending environment in March, and while retail is our first indication of spending in a given month, it's less comprehensive in that it mostly covers goods spending, while it has rather been services consumption that has accounted for most of the growth lately. We are not reading too much into this weaker retail print.

While the consumer sector continues to hold on, the industrial sector can't find its legs. Industrial production also came in flat in April, but that was due to a weather-related pop in utilities. The three-tenths drop in manufacturing output is more telling of current conditions. Demand remains constrained amid elevated borrowing costs and tighter credit conditions, which we expect to keep manufacturing in its narrow range for some time. There's a similar dynamic happening in the residential housing market. While underlying demand isn't necessarily the problem here, elevated rates are

discouraging builders from new construction and eroding affordability. Housing starts rose 5.7% in April, but that gain was due entirely to a spurt of new multifamily development, which is highly volatile on a month-to-month basis and remains set on a downward trend.

We still look for the first cut from the FOMC to come at its September meeting, though the timing of easing is highly dependent on the incoming data. Any additional bumps on the inflation road would likely push that timing back, absent a marked deterioration in the labor market. But if the Fed begins to gradually lower rates later this year, we expect that to be supportive of manufacturing activity and new home construction. We'll just have to wait and see how the data evolve.

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U.S. Outlook

Weekly Domestic Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
22-May	Existing Home Sales (SAAR)	Apr	4.19M	4.27M	4.19M
23-May	New Home Sales (SAAR)	Apr	675K	682K	693K
24-May	Durable Goods Orders (MoM)	Apr	-0.8%	-0.5%	2.6%
24-May	Durables Ex Transportation (MoM)	Apr	0.1%	0.3%	0.2%

Forecast as of May 17, 2024

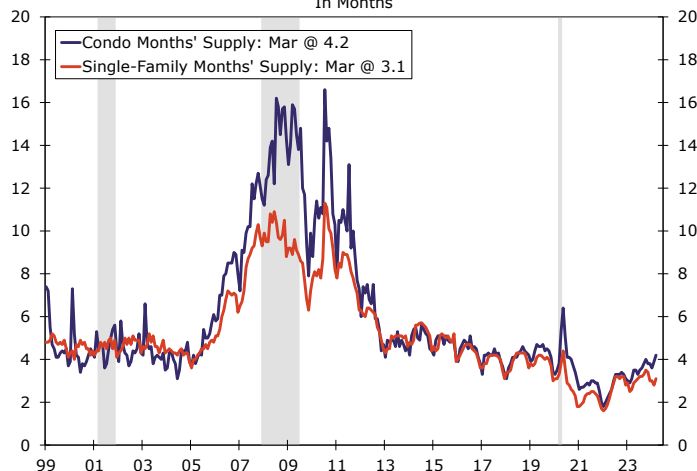
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Existing Home Sales • Wednesday

Conditions are slowly improving in the resale market. Existing home sales slipped 4.3% in March after two solid months of gains, corresponding to a pickup in mortgage rates in the last half of February. But resales have now moved higher in three of the past five months, bringing the sales pace in March 8.8% above last year's low. The supply picture has also brightened a bit. Inventories in March had expanded 14.4% from the year prior. Although the housing market remains far from a full recovery, growing supply and moderating home price appreciation appear to be bringing buyers back from the sidelines.

We expect the pace of resales ticked 1.9% higher to a 4.27 million-unit pace in April. Mortgage purchase applications were up 11% from the last week of February to the last week of March, although they remain meek in historical context. Pending home sales, which lead existing home sales, also registered gains in both February and March. We expect ongoing improvements in the year ahead as monetary policy easing spurs a gradual retreat in mortgage rates.

Existing Home Supply
In Months



Source: NAR and Wells Fargo Economics

New Home Sales • Thursday

New home sales strengthened 8.8% in March to the strongest pace since December 2023. Although February’s sales pace was revised lower, new home sales continue to rise on trend as builders employ mortgage rate buy-downs and price cuts to enliven buyer demand. Ample inventory is also a key advantage for the new home market. Although resale inventory has improved, the 8.3 months’ supply of new homes for sale in March dwarfed the 3.2 months’ supply in the resale market.

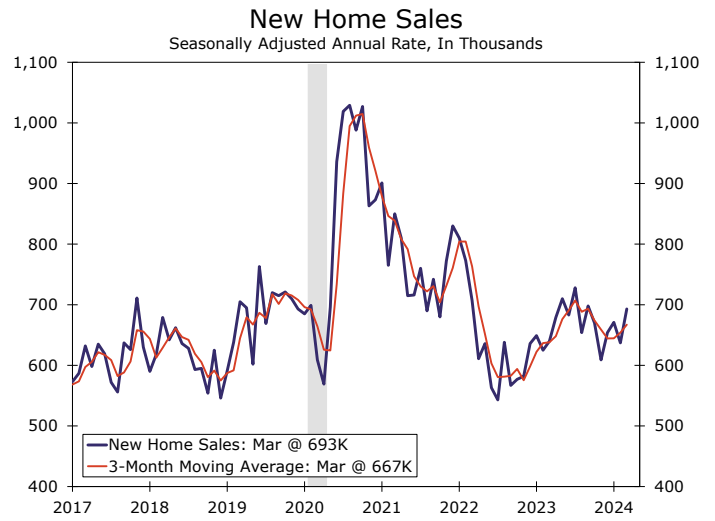
We expect the recent leg up in mortgage rates knocked new home sales back a bit, forecasting a 1.6% dip in April to 682K. The 30-year fixed mortgage per Freddie Mac peaked at 7.2% in April, the first time it surpassed 7.0% this year. The upshift in rates prompted builders to pull back on new construction as they grow less optimistic about buyer demand. As of April, single-family permits have waned for three consecutive months. Looking ahead, we expect new home sales to pick up this year alongside downward trending mortgage rates.

Durable Goods Orders • Friday

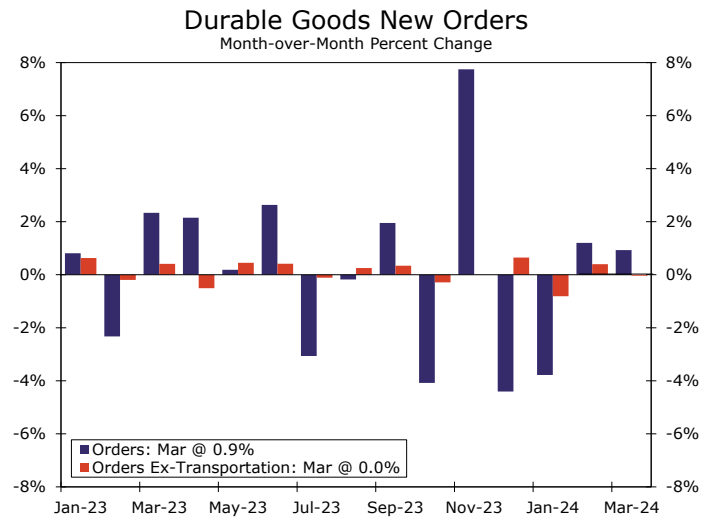
High financing costs and monetary policy uncertainty continue to foster an unfavorable environment for new capital investment. Durable goods orders ticked up 0.9% in March after accounting for the latest benchmark revisions made by the Department of Commerce. As has been the case in recent months, aircraft orders continue to play an outsized role. Durable goods orders excluding transportation were essentially unchanged over the month, making March the latest in a long string of modest prints.

We look for more of the same in April. Aircraft orders are likely to weigh heavy on the headline as the shutdown of Canadian-based Lynx Air drove an onslaught of cancellations for Boeing aircrafts. More broadly speaking, the manufacturing sector remains under pressure. The ISM manufacturing index slipped back into contractionary territory in April as input price pressures reemerged as the sector’s latest challenge. We estimate that overall durable goods orders slipped 0.5% in April. Excluding transportation, we look for a modest 0.3% uptick.

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



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

International Review

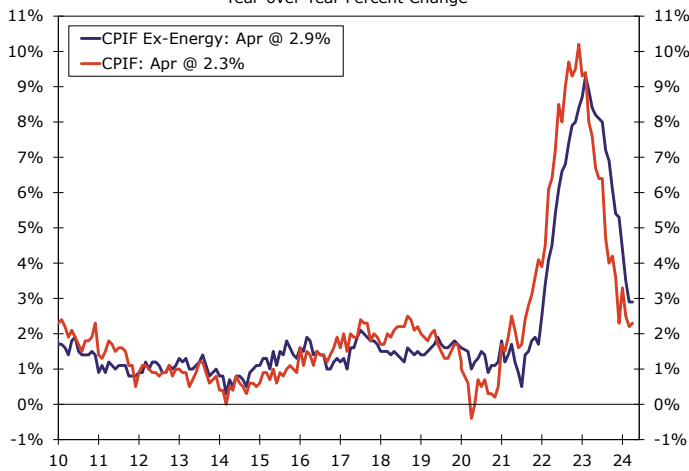
Mixed Data from Foreign Economies

This week saw the release of economic data from several economies across the G10 and emerging markets space. In the U.K., recent labor market data appear to be consistent with the Bank of England (BoE) approaching rate cuts in the coming months. The headline wage growth figures—measuring average pay growth for the three months to March as compared to that same period last year—were mild upside surprises, holding steady at 5.7% for total pay and 6.0% for pay excluding bonuses, also known as “regular” pay. The underlying details were a bit more encouraging, though. We believe that BoE policymakers are primarily interested in the path of regular pay growth for private sector workers, which slowed down in March to 5.9% from 6.0% previously. Thus, it seems that upside surprises in wage growth were driven by changes in public sector pay growth, which may be less consequential for central bankers. The unemployment rate ticked up to an average of 4.3% in the three months to March, from 4.2% previously. We acknowledge that a level of caution may be warranted when examining these labor market figures, amid the Office for National Statistics’ ongoing efforts to address issues with low survey response rates. Overall, as we consider this week’s U.K. labor market data in the context of discussions about when the BoE will begin its monetary easing cycle, we remain comfortable with our forecast for an initial 25 bps rate cut to 5.00% in August. We believe that an August move would provide BoE policymakers with enough time to see clearly favorable wage and price developments. Next month, in our view, may be too early for these developments to fully take hold. With that being said, considering generally slowing inflation and some recent dovish-leaning comments from BoE policymakers, we readily acknowledge that the risks are tilted toward an earlier June move. For further reading on our outlook for BoE monetary policy, please see our [recent report](#).

In other G10 economic news, price data from Sweden appear to support an outlook for the country's inflation to continue to return to the Riksbank's 2% target, which, in our view, further validates the central bank's decision to initiate an easing cycle last week. While headline CPIF inflation sped up mildly to 2.3% year-over-year from 2.2% previously, consensus economists had expected an even faster acceleration. Core CPIF inflation was another downside surprise, holding steady at 2.9% year-over-year against expectations for a mild pickup. These figures should be welcome news for Riksbank policymakers. In their early May monetary policy announcement, officials noted that if inflation continues to return to target, the policy rate could be cut further this year. However, the statement also remarked that given lingering concerns around upside inflation risks—in part stemming from a weaker Swedish krona—policymakers would adopt a gradual pace when cutting rates. In our view, the Riksbank will proceed cautiously in the near term, delivering a single 25 bps cut in Q3, before picking up the pace with two cuts of the same size in Q4. We look for a slightly faster pace of rate cuts toward the end of this year for a couple of reasons: we believe Swedish economic growth will be quite subdued and inflation will have meaningfully slowed further. In addition, we believe the European Central Bank may pick up their pace of rate cuts by then, which could make Riksbank policymakers feel comfortable doing the same. For further reading, please see our [recent report on Scandinavian central banks](#).

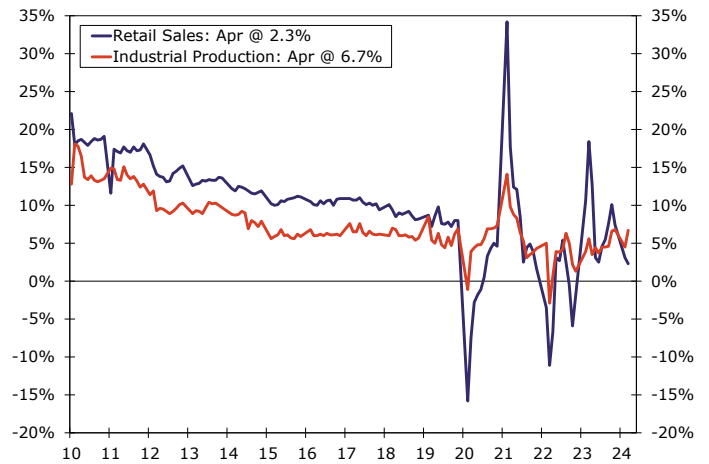
In Japan, first quarter GDP contracted more than expected, by 2.0% on a quarterly annualized basis. With Q4-2023 GDP also revised lower to a flat outcome, we have now seen three consecutive quarters in which Japan's economy has failed to grow. Looking into the Q1 details, it appears the recent contraction was broad-based as opposed to a reflection of one sluggish sector of the economy. To that point, consumer spending shrank 2.7% quarter-over-quarter annualized, while business spending contracted 3.2%. Net exports also acted as a drag on the headline GDP growth rate. While there have been some efforts among market participants to soften the disappointment of the data release by pointing to unusual factors weighing on growth in Q1—such as a January earthquake or a multimonth halt in auto production at a large automaker—we still maintain that overall this is not an encouraging report. Looking ahead, however, the Japanese economy could be able to recover as the year progresses. Workers covered by Japan's largest unions secured an average wage increase of over 5% in this year's spring wage negotiations, the highest pay bump seen in several decades. If higher wages help to encourage stronger consumer spending, we could see a gradual economic recovery take shape in the coming quarters. In terms of the monetary policy implications, the GDP data reaffirm our view that the Bank of Japan (BoJ) will take a cautious approach to any further monetary policy normalization. We do not foresee another BoJ rate hike until the fourth quarter of this year, by which point policymakers will have more insight into the development of Japan's economic activity and the path for Japanese inflation.

Swedish Inflation
Year-over-Year Percent Change



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

China Industrial Production and Retail Sales
Year-over-Year Percent Change



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

Turning to emerging economies, China's activity data for April came in somewhat mixed. Industrial production surprised to the upside, surging 6.7% year-over-year compared to March's 4.5% growth. Retail sales were softer, with growth in April slowing to 2.3% against expectations for an acceleration to 3.7%. These divergent outcomes point to an economy that may be on somewhat of an uneven footing, as concerns around domestic consumption and the country's property sector persist despite reasonably strong growth figures for the first quarter of 2024. In light of this uncertainty, this week, government authorities announced new measures with the aim of further supporting the property sector. In addition, we also look for the People's Bank of China to deliver further monetary easing in the coming quarters. With that being said, we maintain our view for structural challenges to weigh on the Chinese economy in the longer term, and look for GDP growth to slow down from 2024 into 2025.

Also on the emerging market side, India's April CPI inflation slowed less than expected to 4.83% year-over-year. The slight upside surprise was likely due to a modest pickup in the pace of food and beverage inflation, which has bucked the general slowing trend of headline inflation as of late and has seen some acceleration in recent months. Considering still-elevated food inflation and a deceleration in headline inflation that is taking its sweet time, we view this week's price data from India as consistent with the Reserve Bank of India waiting until Q4-2024 to deliver an initial 25 bps rate cut.

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International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
21-May	Canada CPI (YoY)	Apr	2.7%	—	2.9%
22-May	U.K. CPI (YoY)	Apr	2.1%	2.2%	3.2%
22-May	U.K. Core CPI (YoY)	Apr	3.6%	—	4.2%
23-May	U.K. Manufacturing PMI	May	49.5	—	49.1
23-May	U.K. Services PMI	May	54.7	—	55.0
23-May	Chilean Central Bank Policy Rate	23-May	6.00%	5.75%	6.50%

Forecast as of May 17, 2024

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

Canada CPI • Tuesday

Next week will mark the release of Canadian inflation data for April. Market participants will be closely watching the figures for any insight into the timing of Bank of Canada (BoC) rate cuts. In our view, generally easing price pressures should be a contributing factor to BoC policymakers feeling comfortable with an initial 25 bps rate cut in June.

Inflation data have generally shown encouraging slowing progress as of late. While the March headline CPI inflation sped up modestly to 2.9% year-over-year, the average of core measures surprised to the downside, slowing more than expected. Consensus economists expect to see that price pressures broadly eased in April. Headline year-ago inflation is forecast to slow to 2.7%, and average core inflation is expected to ease to 2.8%. If realized, this lessening in price pressures would certainly be welcome news for BoC policymakers. Their April monetary policy announcement noted a desire to see sustained downward momentum in inflation, with a special interest in core inflation. In our view, further evidence of sustained downward momentum in price pressures coupled with steady economic growth data from recent months will likely make policymakers feel comfortable moving in June. We believe market participants will be most sensitive to an upside miss in inflation next week; such a development could strengthen the risk of an initial rate cut being pushed back until after June.

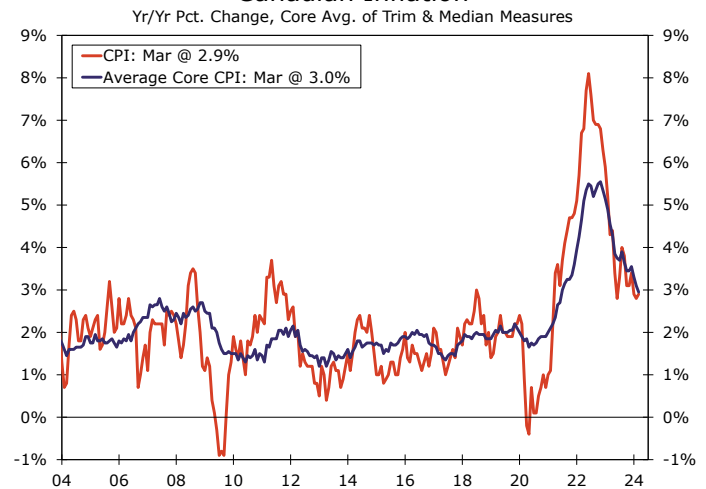
U.K. CPI and PMIs • Wednesday & Thursday

Next week sees the release of some key economic data from the U.K. Market participants will be closely watching inflation and sentiment data as they assess the potential timing for an initial Bank of England (BoE) rate cut. In our view, the recent trends of gradually slowing inflation paired with improving sentiment should make BoE policymakers wait until August to deliver an initial 25 bps rate cut, though we acknowledge the risks are tilted toward an earlier June move.

On the price growth side, consensus economists expect April headline CPI inflation slowed to 2.1% year-over-year, and core inflation eased to 3.6%. Services inflation—an area of concern for BoE policymakers as it has remained elevated as of late—is expected to have ebbed to 5.4%.

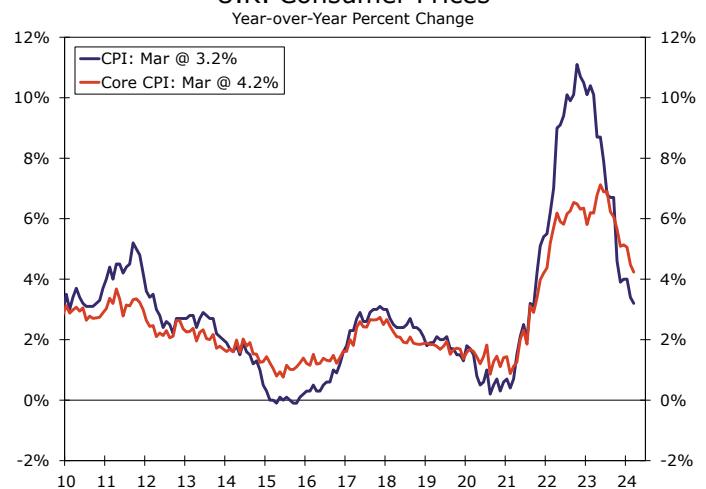
On Thursday, the May manufacturing and services PMIs will provide further insight into how sentiment has evolved this year. Both the manufacturing and services indices have improved over recent months, which, in our view, is consistent with an improving growth outlook for the U.K. economy as well. Consensus economists

Canadian Inflation



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

U.K. Consumer Prices



Source: Datastream and Wells Fargo Economics

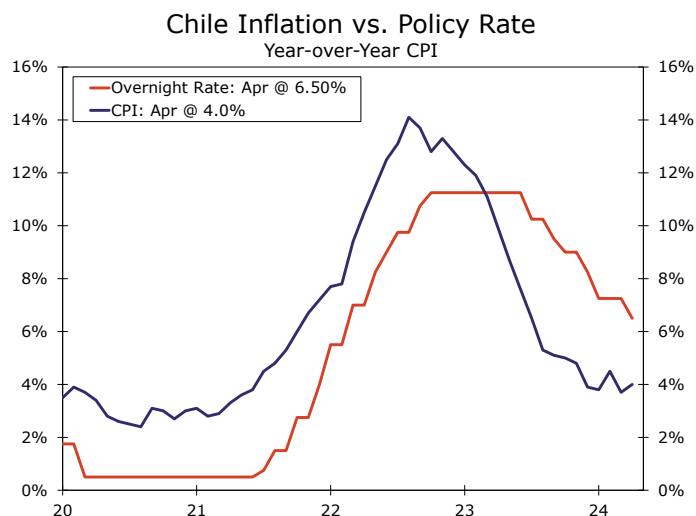
expect the manufacturing PMI to notch closer to the 50 level that separates contraction from expansion, to 49.5, whereas the services PMI is expected to remain in expansionary territory at 54.7.

Bank of Chile Policy Rate • Thursday

The Chilean Central Bank (BCCh) is scheduled to announce its monetary policy decision next week. At their early April announcement, policymakers slowed the pace of monetary easing with a 75 bps rate cut to 6.50% and offered less-dovish leaning commentary. The announcement highlighted early 2024 inflation and economic activity data that were hotter than expected, and risks to the inflation outlook stemming from a weaker Chilean peso. In terms of forward guidance, officials noted that future policy rate cuts would depend on "the evolution of the macroeconomic scenario and its implications for the trajectory of inflation," leaving the door open for a more gradual pace of easing going forward.

Next week, we believe policymakers will deliver another 75 bps rate cut to 5.75% and proceed with a more gradual and cautious pace of monetary easing after that. Recent inflation and activity data have, in our view, been consistent with a continuing yet slower pace of rate cuts. Chilean inflation has not meaningfully eased since the April monetary policy meeting. Coming in at 4.0% year-over-year in April, headline price growth remains elevated above the central bank's 3% target. On the other hand, economic activity data have looked a bit softer. The economic activity index for March surprised to the downside at 0.8% year-over-year. In terms of currency developments, while the Chilean peso has recovered somewhat recently, it still stands about 3% weaker versus the U.S. dollar year-to-date in 2024. Overall, while somewhat subdued economic activity could bolster the case for rate cuts, concerns around sticky inflation and a weak local currency should, in our view, instill a sense of caution in BCCh policymakers going forward. We believe the BCCh will lower the policy rate by 75 bps in May, followed by a smaller 50 bps cut in June and only 75 bps of total easing in Q3.

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

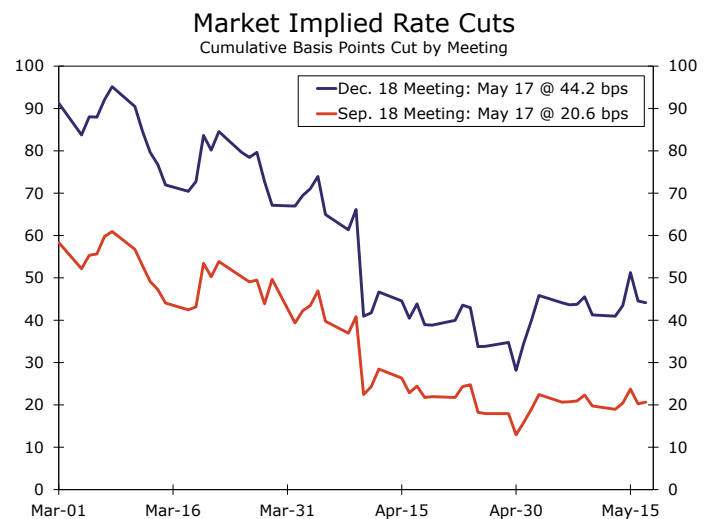
Interest Rate Watch

Fed Rate Cuts Back on the Table?

The steady drum beat of stronger-than-expected economic data, sticky inflation and hawkish commentary by FOMC members led market participants to significantly dial back their expectations of Fed easing earlier this year. At the beginning of the year, financial markets were priced for 150 bps of rate cuts in 2024 and some observers looked for the easing cycle to commence at the March 20 FOMC meeting. Markets were priced for nearly 100 bps of easing as recently as early March ([chart](#)). But the mantra of "higher for longer" by many Fed officials caused investors to dial back expectations of rate cuts even further. In late April, market pricing implied only a 60% chance of a 25 bps rate cut at the Sept. 18 meeting, with less than 40 bps of easing by the end of the year. Some observers mused that the FOMC would be on hold through the end of the year.

However, recent developments have restored some expectations of easing. Data that were released on May 3 showed that nonfarm payrolls rose by 175K in April, a solid outturn but not as strong as most market participants had expected and the smallest increase in payrolls in six months. As discussed in more detail in the [U.S. Review](#) section, the overall consumer price index rose by 0.3% in April, which was less than the consensus forecast. The core CPI was up by a similar amount, which was equal to the consensus expectation, but perhaps not as bad as many market participants had feared.

Fed Chair Powell said in his post-meeting press conference on May 1 that the FOMC judges it will not be "appropriate to reduce the target range for the federal funds rate until we have gained greater confidence that inflation is moving sustainably toward 2 percent. So far this year, the data have not given us that greater confidence." But incoming data since the May 1 FOMC meeting may be the first steps in restoring some confidence. As of this writing, financial markets are more or less priced for a 25 bps rate cut by the Sept. 18 meeting with 50 bps of easing by the end of the year.



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

That said, Fed officials will need to see a string of data that point in the direction of waning inflationary pressures before they feel "confident" enough to begin easing policy. Between now and the September FOMC meeting, there are four more payroll reports and four more CPI reports. If, as we expect, monthly changes in payrolls continue to downshift and monthly changes in the core PCE deflator (the Fed's preferred measure of consumer price inflation) start printing at 0.2%, then we believe the FOMC will feel "confident" enough to cut rates by 25 bps on Sept. 18. That said, we readily acknowledge that the risks to the commencement of easing are skewed to the Nov. 7 or the Dec. 18 meeting rather than the July 31 meeting. Stay tuned.

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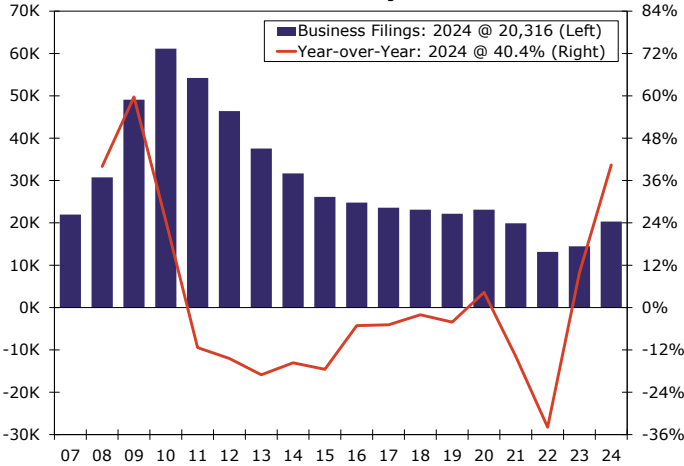
Credit Market Insights

Are Businesses Still Managing Their Debt?

As expectations for Fed easing have been pushed out since the start of the year, can businesses continue to manage their debt in this “higher for longer” environment? Like the mighty consumer, who has steadfastly supported the U.S. economy over this cycle but appears poised to slow spending as the year progresses, businesses remain on firm footing, but show signs of weakness ahead—notably a steep increase in business bankruptcies over the past year.

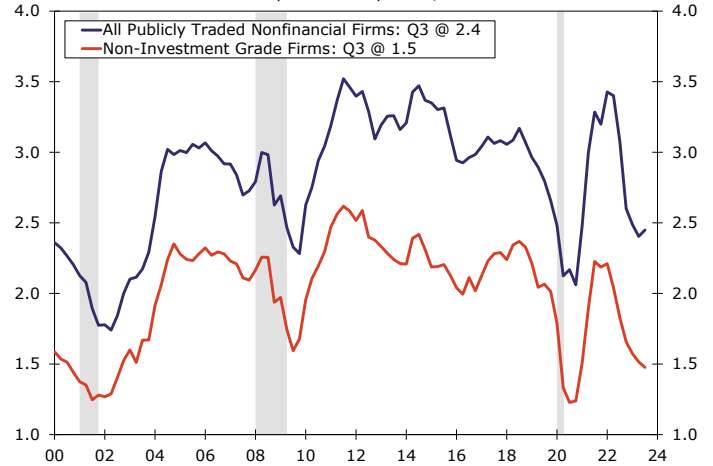
Year-over-year growth in bankruptcy filings related to corporate or partnership debt has skyrocketed to its highest level since 2009 ([chart](#)). Though eye-popping, the growth in business bankruptcy over the 12-month period ending in March 2024 in some ways shows a normalization of bankruptcy claims to pre-pandemic levels, and we do not yet see the bankruptcy data as sounding an alarm. In fact, the 20K filings from the latest data remain below the roughly 23K claims averaged from 2017-2019. Furthermore, current business bankruptcies sit far below the levels experienced in the wake of the financial crisis, and in the past five years (which includes the pandemic recession), business bankruptcy filings have cumulated to just over one-third of the 242K bankruptcies filed from 2008-12. Of course, whether bankruptcies level out at their pre-2020 count or continue to expand at the heightened rate witnessed in Q1 remains to be seen.

Filings for Business Bankruptcies
12-Month Period Ending March 31



Source: Administrative Office of the U.S. Courts and Wells Fargo Economics

Interest Coverage Ratio
EBIT Divided by Interest Payments, Firm Medians



Source: Federal Reserve System and Wells Fargo Economics

Propping up business solvency are resilient earnings, which are supporting the interest coverage ratios of firms (i.e., the ratio of earnings before interest and tax to interest expense) ([chart](#)). Aside from healthy corporate earnings through the first three quarters of 2023, the record fixed-rate debt issuance by firms during the era of low interest rates is limiting the pass-through of current high rates to firms' borrowing costs. Overall, according to the latest [Financial Stability Report](#) published by the Federal Reserve System, “firms remained well-placed to service their debt, despite some emerging signs of weakness among riskier firms.”

For smaller, privately-held businesses that rely more on banks and private credit & equity funds for credit access, higher rates are raising vulnerabilities through reduced earnings and increased costs of debt service. Of these small and middle-market firms, the most recent Financial Stability Report noted, “The [interest cost ratio] for the median firm in this category continued to decline from its peak in 2022, falling notably in the fourth quarter of 2023, but remained above pre-pandemic levels.”

Even as weaknesses emerge for businesses to service their debt, April data released from the [National Federation of Independent Business \(NFIB\) Survey](#) reinforce that, at least for small businesses, access to credit and interest rates remain low on the laundry list of concerns at the present. Of far greater importance to businesses continues to be inflation and labor quality. However, if sales slow without an accompanied softening in inflation that spurs the Fed to ease policy, interest expenses are likely to become more troublesome for businesses in the months ahead. ([Return to Summary](#))

Topic of the Week

Biden Expands Higher Tariffs on Chinese Imports

This week, President Biden [announced](#) a set of new tariff rates on some U.S. imports from China. The announcement came at the conclusion of a four-year review of the Section 301 tariffs, which were put in place by former President Trump in 2018-2019 and target the import of a broad array of capital goods, intermediate inputs and consumer products made in China. This week's announcement keeps those tariffs in place, and it increases the duty on a few Chinese-made goods in "[strategic sectors](#)." Of the 14 levies modified, there are notable hikes on batteries (now subject to a 25% tariff), electric vehicles (100%), semiconductors (50%), steel & aluminum (25%) and solar panels (50%).

How much of these goods does the United States import from China? As shown in the nearby [chart](#), U.S. exposure is generally contained. U.S. imports of steel & aluminum products from China have been less than a 10% share of all steel & aluminum U.S. imports for the past five years. The same is true for solar panels, electric vehicles and semiconductors. However, the U.S. is much more reliant on Chinese batteries: Imports of lithium batteries from China have represented a much larger share of total U.S. battery imports. As of 2023, about 70% of all U.S. imports of lithium batteries have been from China. Thus, these tariffs may be more disruptive.

In total, the new policy affects \$18 billion worth of U.S. imports from China. That adds on to the roughly \$370 billion worth of Chinese imports affected at the initial enactment of the Section 301 tariffs back in 2018-2019.

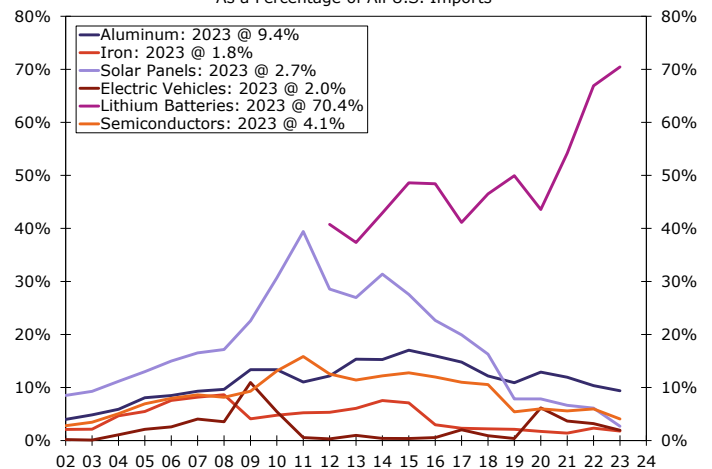
Notably, this policy announcement is the first *major* tariff change since 2019. As we wrote in a recent [special report](#), the Biden administration has essentially stayed the course on trade by maintaining many of the policies put in place during the Trump administration. We suspected that new trade policy was in the cards this year, as the president has near unilateral control over tariffs and can use that authority to advance their administration's agenda without requiring approval from Congress.

Due to these products' low share of total U.S. imports, we anticipate the macroeconomic effect to be muted. That said, tariffs do not come without a cost, and these higher levies are coming at a time when goods disinflation has been a key driver in the overall slowing in consumer price inflation. Albeit unlikely, a resurgence in goods price growth due to these tariffs could complicate inflation's path back to 2% just as the Federal Reserve is searching for more evidence of a sustainable downward trajectory.

[\(Return to Summary\)](#)

U.S. Imports from China

As a Percentage of All U.S. Imports



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

Market Data • Mid-Day Friday

U.S. Interest Rates			
	Friday 5/17/2024	1 Week Ago	1 Year Ago
SOFR	5.31	5.31	5.05
Effective Fed Funds Rate	5.33	5.33	5.08
3-Month T-Bill	5.39	5.40	5.22
1-Year Treasury	5.12	5.18	4.58
2-Year Treasury	4.81	4.87	4.15
5-Year Treasury	4.43	4.51	3.58
10-Year Treasury	4.41	4.50	3.56
30-Year Treasury	4.55	4.64	3.85
Bond Buyer Index	3.93	3.93	3.59

Foreign Exchange Rates			
	Friday 5/17/2024	1 Week Ago	1 Year Ago
Euro (\$/€)	1.087	1.077	1.084
British Pound (\$/£)	1.270	1.253	1.249
British Pound (£/€)	0.856	0.860	0.868
Japanese Yen (¥/\$)	155.500	155.780	137.680
Canadian Dollar (C\$/\\$)	1.361	1.367	1.346
Swiss Franc (CHF/\\$)	0.908	0.907	0.898
Australian Dollar (US\$/A\\$)	0.668	0.660	0.666
Mexican Peso (MXN/\\$)	16.629	16.779	17.596
Chinese Yuan (CNY/\\$)	7.224	7.227	6.997
Indian Rupee (INR/\\$)	83.333	83.499	82.390
Brazilian Real (BRL/\\$)	5.116	5.158	4.937
U.S. Dollar Index	104.466	105.301	102.882

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

Foreign Interest Rates			
	Friday 5/17/2024	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.61	3.64	2.89
3-Month U.K. Govt Bill Yield	5.19	5.21	3.89
3-Month Canadian Govt Bill Yield	4.87	4.89	4.48
3-Month Japanese Govt Bill Yield	0.03	0.05	-0.17
2-Year German Note Yield	2.99	2.97	2.70
2-Year U.K. Note Yield	4.31	4.32	3.87
2-Year Canadian Note Yield	4.22	4.29	4.05
2-Year Japanese Note Yield	0.34	0.32	-0.06
10-Year German Bond Yield	2.51	2.52	2.34
10-Year U.K. Bond Yield	4.13	4.17	3.84
10-Year Canadian Bond Yield	3.61	3.70	3.11
10-Year Japanese Bond Yield	0.95	0.91	0.37

Commodity Prices			
	Friday 5/17/2024	1 Week Ago	1 Year Ago
WTI Crude (\\$/Barrel)	79.56	78.26	72.83
Brent Crude (\\$/Barrel)	83.59	82.79	76.96
Gold (\\$/Ounce)	2406.43	2229.87	1981.84
Hot-Rolled Steel (\\$/S.Ton)	787.00	780.00	1092.00
Copper (\\$/Pound)	503.30	469.35	374.30
Soybeans (\\$/Bushel)	12.13	12.07	14.13
Natural Gas (\\$/MMBTU)	2.59	2.25	2.37
Nickel (\\$/Metric Ton)	19,576	18,861	20,986
CRB Spot Inds.	559.03	556.30	549.30

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