

Weekly — August 29, 2025

Weekly Economic & Financial Commentary

United States: Proceed with Caution

- It was yet another busy week for the U.S. economy, and eyes are on all data prints as the FOMC's September meeting looms closer. An underlying theme in recent prints of economic data has been to proceed with caution. Amid a softening labor market, strengthening inflation, tariff uncertainty and potential changes to the FOMC, it is more difficult than usual to gauge future economic risks.
- Next week:** ISM Manufacturing (Tue.), ISM Services (Thur.), Employment (Fri.)

International: Soft Spots and Strong Prints in Global GDP Data

- This week's Q2 GDP releases highlighted diverging global growth outcomes. Canada's GDP disappointed, while Switzerland's Q2 GDP softened, in line with expectations. On the flip side, Sweden and India posted stronger-than-expected growth, while on the price front, Australian inflation surprised to the upside.
- Next week:** China PMIs (Sun.), Australia GDP (Wed.), Japan Labor Cash Earnings (Fri.)

Interest Rate Watch: Loud Fed Headlines, Quiet Markets

- Markets showed a muted reaction to President Trump's dismissal of Federal Reserve Governor Lisa Cook this week. The effort is not expected to change the near-term course of monetary policy, but risks protracting the FOMC's ongoing battle to return inflation to its 2% target.

Credit Market Insights: Banks Report Further Tightening in Lending

- The recently released Q2 SLOOS report found that U.S. banks continued to tighten lending standards across most business and household loan categories. Demand for loans generally weakened, while lending standards remained on the tighter end of historical ranges.

Topic of the Week: The State of Agriculture

- Farmers and ranchers appear to be on solid financial ground at present, bolstered by firm livestock cash receipts, a modest reduction in expenses and increased government support from the 2025 Farm Bill. Looking ahead, a less restrictive stance of monetary policy should help reduce financing costs for agricultural borrowers.

Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual		Forecast	
	2024				2025				2023	2024	2025	2026
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product ¹	1.6	3.0	3.1	2.4	-0.5	3.3	1.4	0.7	2.9	2.8	1.7	2.0
Personal Consumption	1.9	2.8	3.7	4.0	0.5	1.6	0.7	0.5	2.5	2.8	1.9	1.8
Consumer Price Index ²	3.2	3.2	2.7	2.7	2.7	2.5	2.8	2.8	4.1	3.0	2.7	2.8
"Core" Consumer Price Index ²	3.8	3.4	3.3	3.3	3.1	2.8	3.0	3.0	4.8	3.4	3.0	2.9
Quarter-End Interest Rates ³												
Federal Funds Target Rate ⁴	5.50	5.50	5.00	4.50	4.50	4.50	4.25	3.75	5.23	5.27	4.25	3.75
Conventional Mortgage Rate	6.82	6.92	6.18	6.72	6.65	6.82	6.65	6.55	6.80	6.72	6.67	6.51
10 Year Note	4.20	4.36	3.81	4.58	4.23	4.24	4.30	4.25	3.96	4.21	4.26	4.33

Forecast as of: August 06, 2025

¹ Compound Annual Growth Rate Quarter-over-Quarter² Year-over-Year Percentage Change³ Quarterly Data - Period End; Annual Data - Annual Averages⁴ Upper Bound of the Federal Funds Target Range

Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, Federal Reserve Board and Wells Fargo Economics

Submit a question to our ["Ask Our Economists"](#) podcast at askoureconomists@wellsfargo.com.

U.S. Review

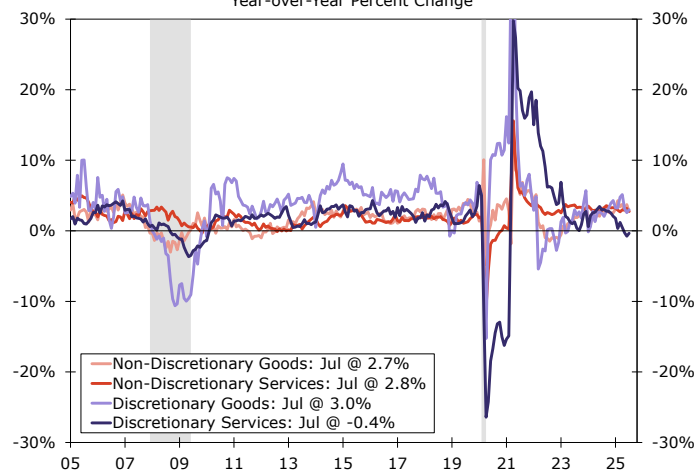
Proceed with Caution

It was yet another busy week for the U.S. economy, and eyes are on all data prints as the FOMC's September meeting looms closer. The second GDP print showed a stronger pace of growth in Q2, with headline GDP upwardly revised from a 3.0% annualized rate to 3.3%. Most of the revisions came from tech-related spending, with growth in intellectual property investment boosted from a 6.4% clip in the first print to 12.8% in the second. Other notable revisions included a boost in equipment investment (from 4.8% to 7.4%) and consumption of nondurable goods (from 1.3% to 2.3%). July's personal income and spending report showed similar trends with nondurable goods spending generally outpacing categories of durables (excluding autos). Nominal durable goods spending has been relatively flat this year, raising concerns about demand amid higher tariffs. We have argued that an early manifestation of the tariff impact on consumer spending is the trend decline in discretionary services categories. With inflation strengthening—headline PCE and core PCE both rose to 2.6% and 2.9% year-over-year, respectively—and the labor market moderating, softness in discretionary purchases point to the sort of budgeting decisions that households make when under pressure ([chart](#)). Wages and salaries increased by 0.6% in July, indicating that income is still outpacing price increases. However, it will take a sturdy labor market to sustain strong income growth, and we have our doubts about that, further emphasized by subdued consumer confidence in August.

The headline Conference Board consumer confidence index fell in August to 97.4 from an upwardly-revised 98.7 in July. Consumers appear to be growing more concerned about the state of the labor market. The share of those finding jobs plentiful edged down slightly, but the share finding jobs hard to get rose to 20.0%—the highest since February 2021. The labor differential, or the spread between these two measures, dropped to its lowest value in about four years, indicating a cooling labor market ([chart](#)). This is the linchpin to the consumer outlook: If the job market continues to cool, consumers may not have the income gains to offset the trend ascent in goods prices. A rising share of consumers expect their income to decrease. If it does, that could force some difficult choices in terms of how households allocate their scarce dollars.

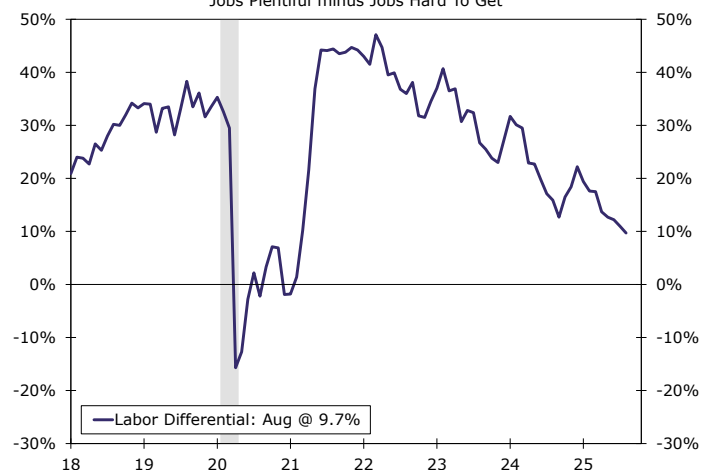
The softening labor market has also underpinned softening transactions in the housing market. New home sales slid 0.6% in July to a 652K annual sales pace, though upward revisions to prior data revealed that transactions earlier in the year were on stronger ground than previously thought. New home sales have generally held up better than resales due in part to builder incentives offered to help offset affordability challenges. That said, transactions have trended lower this year, weighed down by high mortgage rates, economic uncertainty and a softening labor market. Added pressure from elevated inventories is also set to weigh on new home transactions, which is likely to discourage a near-term rebound in single-family construction. Indeed, single-family home builders surveyed by the National Association of Home Builders (NAHB) view current sales conditions as the worst since 2012, with outlooks for future sales and expected buyer traffic also depressed.

Real Consumer Spending
Year-over-Year Percent Change



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

Labor Differential
Jobs Plentiful minus Jobs Hard To Get



Source: The Conference Board and Wells Fargo Economics

There were some signs of stabilization in business investment this week, however. Durable goods orders ex-transportation rose 1.1% in July—the first bright spot for the manufacturing sector in months. After accounting for pullbacks from aircraft orders, the gains in orders were broad-based: Tech spending continued to grow, but was complemented by a boost in bookings for fabricated metals (+0.7%), primary metals (+1.5%) and machinery (+1.8%). That said, while July's print offered the first unambiguously positive signal after months of bad headlines, we suspect there are still some tough days for durable goods industries ahead. ISM numbers remain low, uncertainty around tariffs is prevalent and consumer demand for durable goods may weaken as the labor market continues to soften and price growth weighs on income. In all, it is questionable if July's jump in underlying orders is sustainable.

An underlying theme in recent prints of economic data has been to proceed with caution. Amid a softening labor market, strengthening inflation, tariff uncertainty and potential changes to the FOMC (see [Interest Rate Watch](#) for more details), it is more difficult than usual to gauge future economic risks. The next few weeks hold important data prints that will give us a look at how things fared in August. Stay tuned.

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U.S. Outlook

Weekly Domestic Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
2-Sep	ISM Manufacturing Index	Aug	48.8	48.7	48.0
2-Sep	Construction Spending (MoM)	Jul	0.1%	0.1%	-0.4%
3-Sep	Factory Orders	Jul	-1.4%	-1.6%	-4.8%
3-Sep	Total Vehicle Sales	Aug	16.0M	16.0M	16.4M
4-Sep	Nonfarm Productivity	Q2	-	2.6%	2.4%
4-Sep	Unit Labor Costs	Q2	-	1.4%	1.6%
4-Sep	Trade Balance	Jul	-\$62.6B	-\$78.6B	-\$60.2B
4-Sep	ISM Services Index	Aug	50.5	50.6	50.1
5-Sep	Nonfarm Payrolls	Aug	78K	90K	73K
5-Sep	Unemployment Rate	Aug	4.3%	4.3%	4.2%
5-Sep	Average Hourly Earnings (MoM)	Aug	0.3%	0.3%	0.3%

Forecast as of August 29, 2025

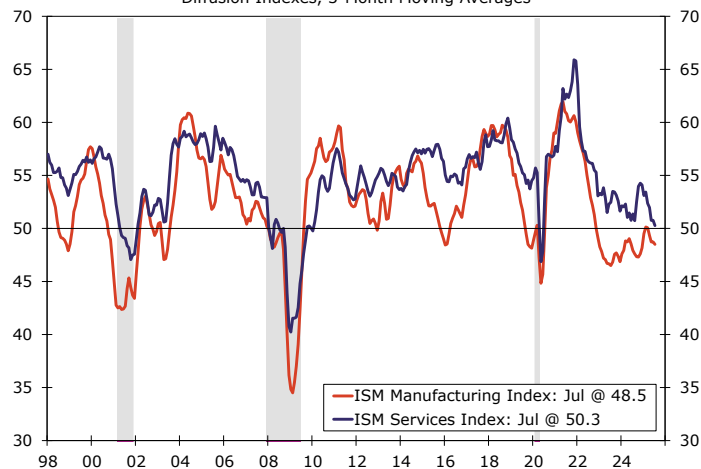
Source: Bloomberg Finance L.P. and Wells Fargo Economics

ISM Manufacturing & Services • Tuesday & Thursday

Economic activity broadly weakened in July, evident in both the ISM manufacturing and services indices sliding over the month. The loss of momentum is indicative of an air-pocket in demand after a dramatic pull-forward ahead of the "Liberation Day" tariff announcement. While we remain cautious on the medium-term outlook, given the labor market's marked moderation, we suspect inventory restocking and moderating policy uncertainty have helped stabilize activity in recent weeks.

Regional Federal Reserve Bank purchasing manager surveys show new orders in the manufacturing sector recovering in August, aligning with the better-than-expected rise in core capital goods orders in July. Thus, we look for the ISM manufacturing index to inch back up to 48.7 in August, coming off July's nine-month low of 48.0. The service sector has also shown signs of improvement with real-time credit card data pointing to a stabilization in consumer spending growth. We forecast the ISM services index to edge up to 50.6 in August, up from 50.1 in July.

ISM Manufacturing & Services
Diffusion Indexes, 3-Month Moving Averages



Source: Institute for Supply Management and Wells Fargo Economics

Employment • Friday

The labor market is in an increasingly delicate position. While the unemployment rate has trended sideways in recent months, a sharp slowing in payroll growth highlights the fragility of the job market's current balance. Significant downward revisions and a softer-than-expected gain in July has left the three-month average pace of job growth at a meager 35K. We look for payroll growth to strengthen in August with a gain of 90K after some easing of policy uncertainty and four full weeks between the survey periods, but we suspect the rebound will prove temporary.

Labor demand has shown tentative signs of stabilization in recent weeks. After dropping to a four-year low in mid-July, job postings on Indeed edged up through August. The share of small businesses planning to hire has also inched up over the past two months, while regional Fed purchasing manager surveys point to stable, albeit weak, hiring conditions in the service sector. That said, job growth has been extraordinarily narrow outside of healthcare and social services in recent months. The ongoing federal hiring freeze, weakening in construction activity and pressure on "white collar" jobs amid emergent technology is likely to keep the overall pace of hiring subdued.

Meanwhile, labor supply growth remains tepid amid stricter immigration enforcement and weakening confidence in job opportunities. The labor differential (i.e., the share of consumers who rate jobs as "plentiful" less "hard to get") fell to a four-year low in August. A further drop in labor force participation would help hold the unemployment rate at 4.2%. But despite weak supply fundamentals, the volatility inherent to the household survey limits the scope for the participation rate to fall in August, and we look for the unemployment rate to round up to 4.3% as a result. If realized, the modest rise would leave the unemployment rate at the top of the range the FOMC considers consistent with its maximum employment goal.

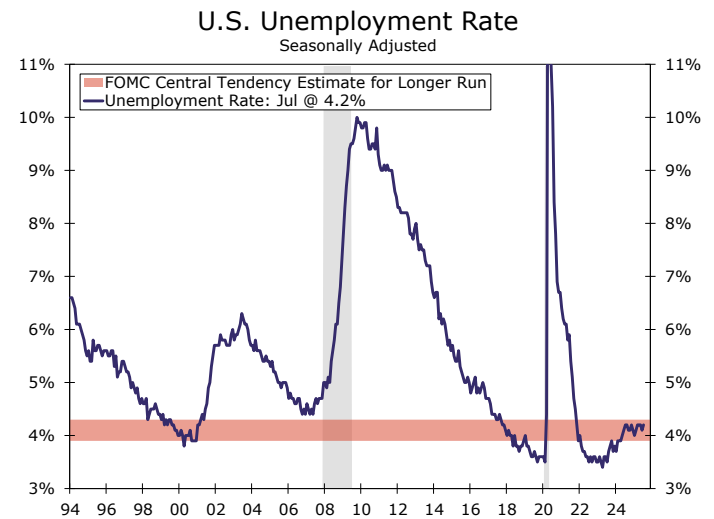
Wage growth is unlikely to break away from its trend amid the countervailing forces of weak labor demand and sluggish growth in the labor supply. We forecast average hourly earnings to rise 0.3% in August, which will take the year-over-year rate down a tenth to 3.8%. The firmness in wage growth will help keep real aggregate income growth supportive of consumption at a time when inflation is strengthening.

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International Review

Soft Spots and Strong Prints in Global GDP Data

Among this week's range of GDP data, Canada's second quarter economic growth was much softer than expected, spurring some discussion on whether the Bank of Canada (BoC) could cut rates as soon as the September meeting. Q2 GDP contracted by 1.6% quarter-over-quarter annualized, notably weaker than the consensus forecast but in line with contraction forecasted by the BoC in its most recent projections. The decline was driven by a slump in exports, more than reversing the gains seen in recent quarters. Domestic activity was somewhat more resilient, with consumer spending growing at a 4.5% rate alongside solid gains in government consumption and investment, while business fixed investment fell to a 2.4% rate. Overall, final domestic demand still registered a very respectable 3.5% gain in Q2. Canadian GDP slipped 0.1% month-over-month in June, though the early estimate is for GDP to rise by 0.1% in July. While there were certainly some concerning aspects to the GDP report, with core inflation still elevated and some stability in domestic demand, we still lean toward the BoC resuming its rate cut cycle at its October meeting. That said, the upcoming employment and CPI



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

reports for August now loom as key releases. Should both reports surprise noticeably to the downside, that could be enough to sway BoC policymakers to a rate cut as soon as September.

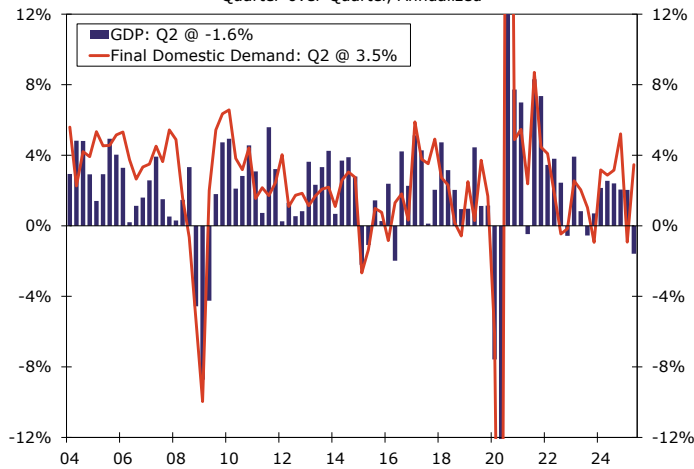
Other GDP releases painted a more mixed picture. India's economy delivered a stronger-than-expected performance in the second quarter of 2025, with GDP rising 7.8% year-over-year, above consensus expectations for a deceleration to 6.7%. The strength in growth was underpinned by robust domestic consumption, which remains a key driver of India's economy (around 60% of GDP). Gross value added (GVA)—a measure of activity that excludes transfer payments—also firmed to 7.6%, up from 6.8% in Q1, reflecting broad-based sturdiness in economic activity. Within the details, consumption growth picked up to 7.0% year-over-year from 6.0% in Q1, while government expenditure rebounded sharply to a 7.4% increase from a 1.8% contraction. Gross fixed capital formation moderated to 7.8% from 9.4% in Q1, but growth remained above 2024 levels, driven by investment in infrastructure and equipment. Net exports were a drag, as imports surged 10.9% following a sharp decline in Q1, while exports rose 6.3%. India's relatively low dependence on exports has helped insulate the economy from global trade headwinds, including the recent imposition of U.S. tariffs, which were increased to 50% on Aug. 27 following additional levies related to Russian oil trade. Sectorwise, growth was led by services (9.3%), manufacturing (7.7%) and construction (7.6%), while mining and quarrying contracted by 3.1% and utilities posted muted growth at 0.5%. In terms of monetary policy, we continue to expect the Reserve Bank of India (RBI) to deliver an additional 25 bps rate cut, though the timing may be influenced by this upside growth surprise. With inflation trending low and 100 bps of easing already delivered since February, the RBI may decide to hold rates steady for longer than currently envisaged.

Sweden's economy expanded in the second quarter of 2025, with GDP rising 0.5% quarter-over-quarter, slightly above consensus expectations of 0.4% and marking a rebound from the 0.2% contraction in Q1. On a workday and seasonally adjusted basis, GDP grew 1.4% year-over-year, in line with expectations and up from a revised 0.6% in Q1 (previously 0.9%). Looking into the details, consumption and government expenditure were relatively steady, rising 0.4% and 0.2%, respectively, on a quarter-over-quarter basis. While consumption ticked up from Q1's 0.2%, it remains sluggish. The main driver of growth was a 1.7% quarter-over-quarter increase in gross fixed capital formation, a sharp turnaround from the 2.8% contraction in Q1, largely due to higher investment in machinery, equipment and weapon systems. Changes in inventories also contributed significantly, adding 1.1 percentage points to GDP growth, primarily from trade inventory accumulation. However, the heavy reliance on inventory investment raises questions about how much of this will translate into sustained ongoing growth. Net exports were a drag, as export growth slowed to 0.7% (down from 2.0% in Q1), while imports surged 3.1% (up from 0.9%). While the Riksbank held its policy rate steady at 2.00% last week, we continue to expect a 25 bps rate cut in Q3 2025, potentially as early as the September meeting. The stronger-than-expected Q2 growth may not necessarily delay easing, especially if upcoming inflation data—due next week—show continued cooling in CPIF excluding energy. However, if signs of a summer inflation surge persist, the Riksbank may opt to wait. For now, we maintain our base case for a Q3 cut as growth remains modest with the timing more dependent on inflation.

Switzerland's economy grew 0.1% quarter-over-quarter in Q2 2025—unadjusted and sport event adjusted—matching consensus expectations. However, this marked a slowdown from Q1, where unadjusted growth was 0.4% and a stronger 0.7% when adjusted for sporting events. On a year-over-year basis, growth slowed to 1.2%, slightly below the 1.3% consensus and revised down from the previous quarter's 1.8% (initially reported as 2.0%). The deceleration follows an above-average Q1 performance, which was largely driven by strong pharmaceutical exports. The Q2 slowdown reflects a normalization in trade activity, particularly in industrial sectors. Looking into the details, industrial value added and exports declined sharply, while the services sector delivered broad-based growth, helping offset the significant overall weakness seen in manufacturing (-2.4% quarter-over-quarter). According to the Swiss State Secretariat for Economic Affairs (SECO), domestic final demand rose 0.1% quarter-over-quarter. The outlook has worsened following the imposition of a 39% U.S. tariff on Swiss imports—the highest among developed economies—which is expected to weigh on trade and growth prospects, particularly into 2026. While we continue to expect the Swiss National Bank (SNB) to maintain its policy rate at 0.00%, the combination of trade headwinds and currency strength could certainly complicate its policy stance. It is not out of the question for the SNB to cut rates by 25 bps into negative territory, possibly as soon as September.

Canada GDP and Domestic Demand

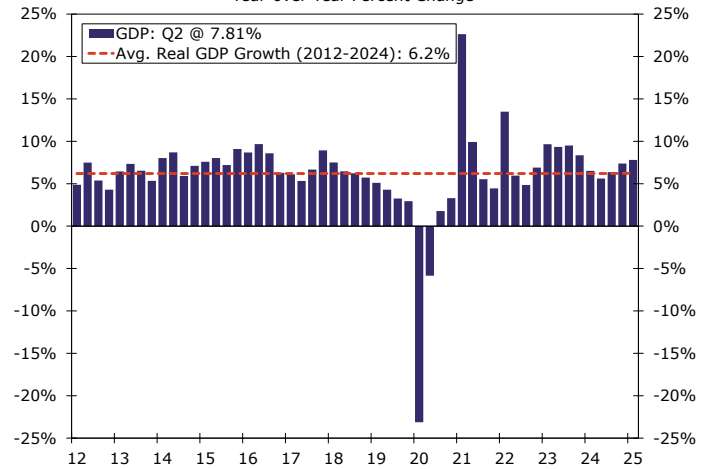
Quarter-over-Quarter, Annualized



Source: Datastream and Wells Fargo Economics

India Real GDP Growth

Year-over-Year Percent Change



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

Down under, Australia's July monthly CPI inflation data surprised to the upside. Headline inflation accelerated to 2.8% year-over-year, well above the 2.3% consensus and up from 1.9% in June, marking the highest annual rate since July 2024 after several months of deceleration. A key driver of the upside surprise was a sharp spike in electricity prices, which surged 13.1% year-over-year from -6.3% previously—levels not seen since October 2023. This was largely due to the timing of extended Energy Bill Relief Fund (EBRF) rebates and annual price reviews across capital cities. Some households in New South Wales and Australian Capital Territory did not receive EBRF payments in July, though they are expected to begin receiving them in August, which will ease some of the upward pressure. Underlying inflation measures also showed signs of acceleration. Trimmed mean inflation rose to 2.7% year-over-year, from 2.1% in June. CPI excluding holiday travel and volatile items climbed to 3.2%, while services inflation accelerated to 3.5% from 2.7%. Goods inflation spiked to 2.3%, and non-tradables CPI surged to 3.9%, the highest since July 2024.

Despite the stronger-than-expected monthly inflation print, we continue to view the Reserve Bank of Australia (RBA) as placing greater emphasis on quarterly inflation figures due to the volatility of monthly readings. In the RBA's latest monetary policy announcement, they signaled expectations for a temporary inflation uptick as government support measures phase out. So, while the inflation print came in higher than expected, the rise was not entirely unexpected. By the Nov. 4 monetary policy meeting, Q3 inflation data will provide further clarity. Our base case remains for 25 bps rate cuts in November and February, bringing the Cash Rate to 3.10% by early 2026, with a continued quarterly cadence of monetary easing.

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International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
31-Aug	China Manufacturing PMI	Aug	49.5	—	49.3
31-Aug	China Nonmanufacturing PMI	Aug	50.3	—	50.1
3-Sep	Australia GDP (QoQ, SA)	Q2	0.5%	—	0.2%
3-Sep	Australia GDP (YoY)	Q2	1.6%	—	1.3%
5-Sep	Japan Labor Cash Earnings (YoY)	Jul	3.0%	—	3.1%

Forecast as of August 29, 2025

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

China PMIs • Sunday

China's official August PMI figures, due next week, will offer timely insight into the state of the economy amid a recent string of weaker data that point to fading momentum in the second half of the year. While GDP growth held up well in the first half of the year, the pace appears to have slowed notably since then. July's activity data were broadly consistent with this deceleration. In response to the weakening data, authorities have rolled out multiple programs to revive consumption and boost demand, including interest-subsidized loans for consumers and businesses as well as relaxed home-buying rules in Beijing and Shanghai. These measures are expected to help offset the impact of expiring goods trade-in programs and support domestic activity.

Recent PMI data have also reflected this loss of momentum. The July manufacturing PMIs came in at 49.3, remaining below the 'breakeven' 50 level for a third straight month. Consensus expectations for August are for a modest uptick to 49.5, which would still be in contraction territory. The non-manufacturing PMIs held just above the breakeven level at 50.1 in July, with consensus expectations for a slight rise to 50.3 in August.

Looking ahead, further monetary policy easing—including potential Reserve Requirement Ratio (RRR) cuts—remains likely as authorities attempt to balance short-term support with longer-term structural goals. However, persistent challenges such as low inflation, a struggling real estate sector and household caution toward spending continue to weigh on domestic demand. We maintain our view for Chinese GDP growth to slow to 4.8% in 2025, followed by a further deceleration to 4.0% in 2026, as structural headwinds and subdued sentiment limit the economy's expansion potential.



Australia GDP • Wednesday

Next week, market participants will be closely watching the release of Australia's Q2 GDP figures for signals on how the economy is evolving and what that might mean for the Reserve Bank of Australia's (RBA) monetary policy path. Australia entered 2025 with subdued momentum, as Q1 GDP growth came in at just 0.2% quarter-over-quarter and 1.3% year-over-year. However, Q2 is expected to show a modest pickup in activity, with consensus expectations for 0.5% quarter-over-quarter and 1.6% year-over-year growth.

A lift in public demand and an acceleration in household consumption are expected to be key drivers of this improvement. Given that household spending accounts for roughly 50% of Australia's GDP, even modest gains can have a meaningful impact. In seasonally adjusted volume terms, household spending rose 0.7% quarter-over-quarter in Q2—up from the first quarter's 0.5% growth. These gains suggest that lower interest rates and monetary easing may be starting to support domestic demand.

That said, other recent data have painted a more mixed picture. While Australia's PMIs remain solid, and wage growth is steady, the unemployment rate has edged higher. Inflation for Q2 was relatively subdued, but the July monthly CPI print surprised to the upside, as mentioned in the above section. In this growth environment, and amid lingering inflation concerns, we expect the RBA to maintain its steady and measured easing bias. Our base case remains for further 25 bps cuts in November and February, bringing the Cash Rate to 3.10% by early 2026. However, if underlying inflation proves sticky and the growth outlook remains resilient, we view the risks as tilted toward a slower pace of easing.

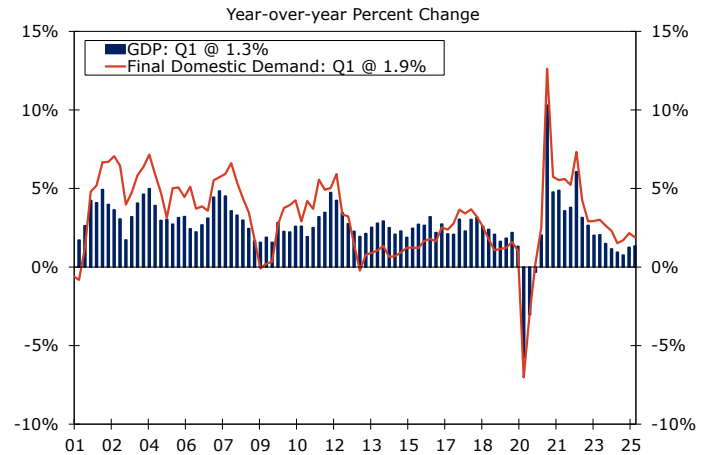
Japan Labor Cash Earnings • Friday

Next week will see the release of Japan's monthly labor earnings data for July. Wage growth has become a central focus for Bank of Japan's (BoJ) policymakers in shaping the BoJ's policy normalization path. Following this year's spring wage negotiations, which delivered the fastest pay increases in 33 years at 5.25%, attention has shifted even further toward how monthly wage figures are evolving in the wake of those agreements.

June's labor cash earnings data surprised to the upside, with headline earnings revised up to 3.1% year-over-year from the initial 2.5% that was already higher than May's 1.4%. The same-sample basis—the BoJ's preferred measure—also showed a steady gain, with base salaries for full-time workers rising 2.3% year-over-year. Consensus expectations for July remain elevated, with headline labor cash earnings expected to come in at 3.0% year-over-year. While slightly below June's revised figure, this would still rank among the strongest monthly readings since the 1990s. The broader labor market remains tight, with the unemployment rate falling to 2.3% in July, its lowest level since December 2019. This supports the view that wage growth is not only holding up, but may be resilient to external headwinds, including U.S. tariffs, even acknowledging some decline in retail sales and industrial production reported for July.

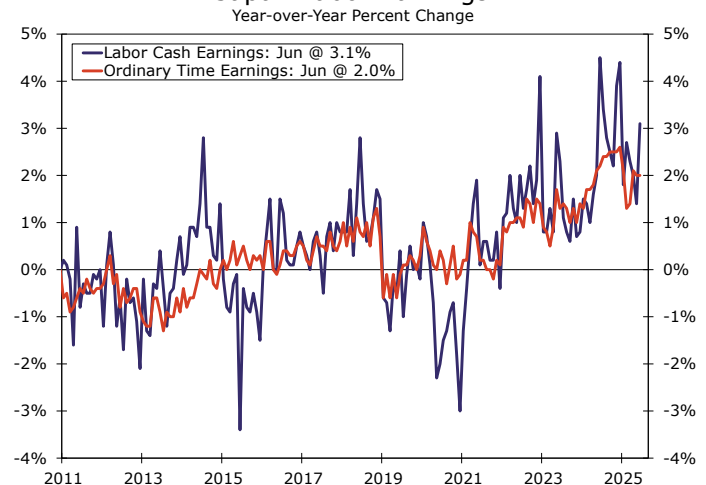
In terms of monetary policy, we continue to expect the BoJ to raise its policy rate by 25 bps to 0.75% at its October meeting, assuming wage and inflation data remain firm. However, if wage growth or CPI trends disappoint, or if the economic impact of U.S. tariffs proves

Australian Economic Growth



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

Japan Labor Earnings



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

more severe than anticipated, the BoJ may opt to delay its next hike until next year. For now, the July earnings data will be a key signal for policymakers as they assess whether the wage-driven inflation cycle remains intact.

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Interest Rate Watch

Loud Fed Headlines, Quiet Markets

On Monday, President Trump announced the dismissal of Board of Governor Lisa Cook over allegations of mortgage fraud. Governor Cook has denied the allegations and is contesting the legal basis for her removal, sending the issue to the courts. As of publication, Governor Cook remains in office. Of the six sitting governors, only two—Governors Waller and Bowman—have been appointed by President Trump.

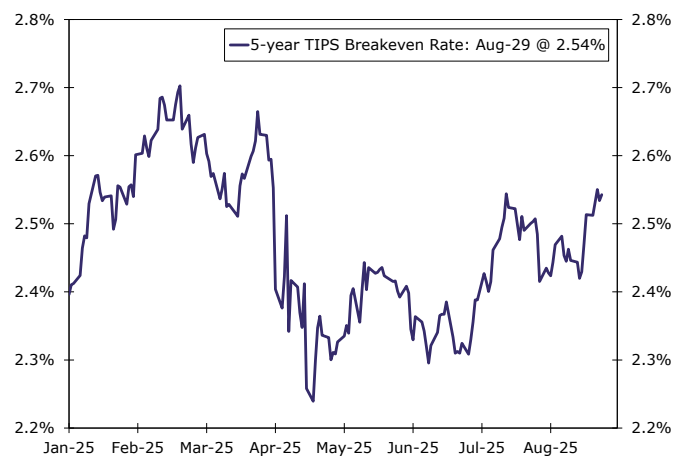
This marks the first attempt to remove a sitting Fed governor, who serves 14-year terms designed to insulate monetary policy from short-term political pressures. The President has been vocal about his desire for lower rates, and this effort could accelerate a more dovish shift in the Committee. Stephan Miron, nominated to fill the seat vacated by Governor Kugler in early August, appears likely to be fast-tracked through Senate confirmation ahead of the FOMC's next meeting on Sept. 17. Should the administration succeed in removing Governor Cook and also fill her seat promptly, four of the seven Board seats would be held by President Trump appointees. This could influence the upcoming reappointment process for regional Federal Reserve Bank presidents, which needs to be completed by March 2026 and has historically been a routine exercise.

Markets showed limited reaction to this week's developments. Compared to a week ago, fed funds futures priced in an additional 2 bps of cuts before year-end and 4 bps more by September 2026. The muted response may reflect several factors. First, uncertainty remains around the pace and outcomes of personnel changes, with Governor Cook continuing to serve while her case proceeds in court. Second, the FOMC has already signaled a bias toward easing over the next year, suggesting the near-term policy direction is unlikely to change.

Third, market participants may view the developments as having limited impact on the Committee's inflation-fighting credibility. The breakeven rate between five-year nominal and inflation-protected securities rose only modestly this week and remains within the recent year's range. Nonetheless, we see risks that ongoing pressure could reduce the Committee's resolve to fully complete the past years' inflation fight. A shift toward more dovish leadership under the next FOMC chair and existing members potentially feeling less secure in their seats could delay inflation's return to target. We continue to expect core PCE inflation to remain above 2% in 2026, with additional risk of it staying above target beyond our current forecast horizon.

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Market-based Inflation Expectations



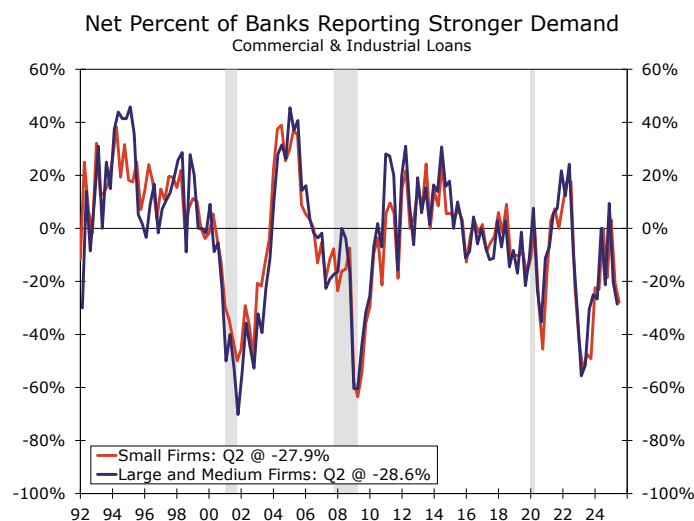
Source: Bloomberg Finance L.P and Wells Fargo Economics

Credit Market Insights

Banks Report Further Tightening in Lending

The latest Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS) had a cautious tone. During Q2-2025, banks generally reported tighter lending standards for commercial and industrial (C&I) loans across all firm sizes. While most terms for loans to large and midsize firms remained unchanged, smaller firms faced tighter loan conditions, including higher premiums for riskier loans, stricter collateralization and smaller credit line limits. Foreign banks also tightened C&I loan standards. The tightening was largely attributed to an uncertain economic outlook, regulatory changes and sector-specific issues.

Demand for C&I loans dropped significantly, as firms reduced investments in capital, acquisitions and inventory during the second quarter. On a net percent basis, loan demand from small firms worsened to -27.9% (i.e., more banks reported weaker demand than those who reported stronger demand), while loan demand from large and medium firms slumped to -28.6% ([chart](#)). The weakening in loan demand is a sharp reversal from the trend improvement seen in the second half of 2024.



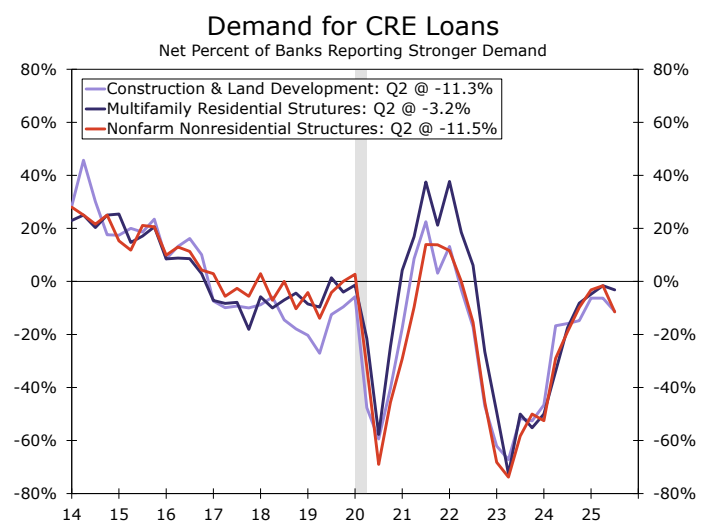
Source: Federal Reserve Board and Wells Fargo Economics

Standards for commercial real estate (CRE) loans also saw a moderate tightening, particularly for nonfarm nonresidential and construction loans. The terms on multifamily property loans remained mostly unchanged. Demand for CRE loans was generally weaker in the second quarter, especially for construction-related financing and nonresidential structures ([chart](#)). Interestingly, large banks reported somewhat stronger demand, contrasting with smaller banks' experiences. The mix suggests CRE transaction activity is beginning to slow again but is not indicative of a marked deterioration.

For consumer lending, banks tightened credit card loan standards, and left auto and other consumer loan standards unchanged. Banks increased minimum credit score requirements and reduced limits on credit cards, reflecting cautious lending behavior. Demand weakened for credit cards and other consumer loans but slightly increased for auto loans.

As part of the SLOOS release, banks were asked special questions on how current standards compare to their historical ranges since 2005. Most banks reported standards were on the tighter side of their historical range for all loan types. C&I loan standards were closer to midpoints for investment-grade loans but tighter for small firms and sub-investment-grade borrowers. CRE and residential real estate loan standards remained tight, though the share of banks reporting high stringency declined compared to 2023 and 2024. Consumer loan standards were also generally tight, particularly for subprime credit cards and auto loans. Overall, banks maintain a cautious stance across most credit categories today, reflecting lingering economic and policy uncertainties.

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Source: Federal Reserve Board and Wells Fargo Economics

Topic of the Week

The State of Agriculture

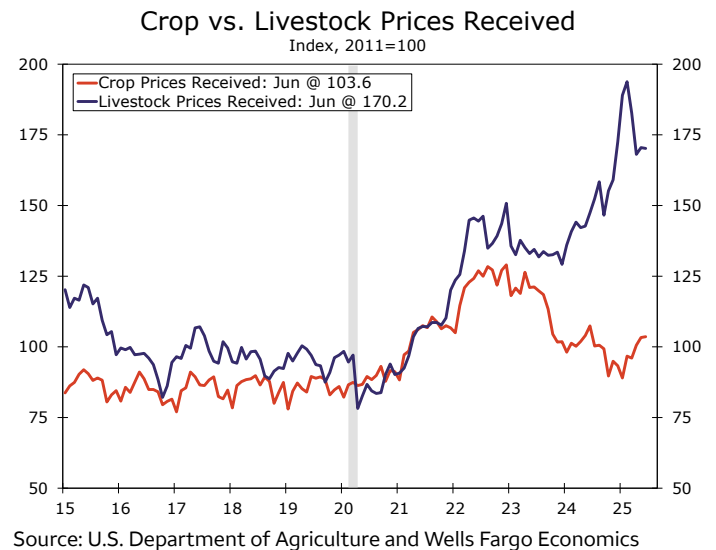
Once per year, we write a [report](#) reviewing the financial stability of the nation's farmers and ranchers. Although agriculture makes up less than 1% of the national economy, certain parts of the country rely heavily on crops and livestock for state income. For example, agriculture makes up a disproportionate share of GDP in Nebraska, Idaho, the Dakotas and Iowa. California is another agricultural powerhouse, responsible for 95% of nationwide avocado production and the entirety of almond, pistachio and walnut production. The value of California's agricultural sector exceeds the entire economy of Vermont in dollar terms.

Farmers and ranchers appear to be on solid ground at present. The U.S. Department of Agriculture (USDA) expects net cash farm income to jump nearly 22% in 2025. Total net farm income, a broader measure accounting for both cash and non-cash earnings, is projected to rise to \$180.1 billion this year, just 1.0% shy of the record-high reached in 2022. Behind this jump is firm livestock cash receipts, a modest reduction in expenses and increased government support from the 2025 Farm Bill. Livestock prices were up 15.5% year-over-year in June, causing livestock to surpass crops as a source of overall U.S. farm cash income. Low inventory is likely to keep upward pressure on livestock prices for the foreseeable future. Cattle inventory hit a fresh record low this year, prompting live cattle futures to surge above \$235 per hundredweight as of this writing.

Crop farmers face opposing economic forces. Supply chain normalization and more favorable growing conditions have reduced global prices for grains and other field crops, notably corn and soybeans. This price cut disproportionately affects Midwest farmers in Illinois, Indiana, Iowa and Minnesota who depend on corn and soybeans for cash income. Similar to livestock, there is little indication that this trend will reverse. The USDA projects that the U.S. corn and soybean crops will each yield a record harvest in 2025, putting downward pressure on prices. That said, federal assistance programs remain a key source of insurance against low crop prices and other macroeconomic headwinds.

Recent surveys reveal that farmers and ranchers are highly optimistic about their earnings prospects. In our view, there are plenty of reasons to retain optimism heading into 2026. Strong growth in selling prices relative to input costs will likely underpin ongoing strength in net farm earnings. Aside from supply chain normalization lowering costs for physical inputs, we also expect the Fed to transition to a less restrictive stance of monetary policy in the months ahead, which would help reduce financing costs for agricultural borrowers.

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Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 8/29/2025	1 Week Ago	1 Year Ago
SOFR	4.34	4.32	5.35
Effective Fed Funds Rate	4.33	4.33	5.33
3-Month T-Bill	4.15	4.18	5.12
1-Year Treasury	3.85	3.85	5.24
2-Year Treasury	3.62	3.70	3.89
5-Year Treasury	3.70	3.76	3.67
10-Year Treasury	4.23	4.25	3.86
30-Year Treasury	4.92	4.88	4.15
Bond Buyer Index	5.23	5.25	3.87

Foreign Exchange Rates

	Friday 8/29/2025	1 Week Ago	1 Year Ago
Euro (\$/€)	1.170	1.172	1.108
British Pound (\$/£)	1.351	1.353	1.317
British Pound (£/€)	0.866	0.867	0.841
Japanese Yen (¥/\$)	146.880	146.940	144.990
Canadian Dollar (C\$/ \$)	1.374	1.383	1.349
Swiss Franc (CHF/\$)	0.800	0.802	0.847
Australian Dollar (US\$/A\$)	0.654	0.649	0.680
Mexican Peso (MXN/\$)	18.643	18.584	19.848
Chinese Yuan (CNY/\$)	7.130	7.168	7.097
Indian Rupee (INR/\$)	88.206	87.528	83.869
Brazilian Real (BRL/\$)	5.428	5.426	5.628
U.S. Dollar Index	97.723	97.716	101.343

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

Foreign Interest Rates

	Friday 8/29/2025	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	1.80	1.61	3.18
3-Month U.K. Govt Bill Yield	4.10	4.06	4.98
3-Month Canadian Govt Bill Yield	2.66	2.65	4.17
3-Month Japanese Govt Bill Yield	0.46	0.44	0.10
2-Year German Note Yield	1.94	1.95	2.36
2-Year U.K. Note Yield	3.94	3.94	4.11
2-Year Canadian Note Yield	2.65	2.69	3.32
2-Year Japanese Note Yield	0.87	0.87	0.37
10-Year German Bond Yield	2.72	2.72	2.27
10-Year U.K. Bond Yield	4.72	4.69	4.02
10-Year Canadian Bond Yield	3.40	3.44	3.13
10-Year Japanese Bond Yield	1.60	1.63	0.90

Commodity Prices

	Friday 8/29/2025	1 Week Ago	1 Year Ago
WTI Crude (\$/Barrel)	64.08	63.66	75.91
Brent Crude (\$/Barrel)	68.14	67.73	79.94
Gold (\$/Ounce)	3440.82	3371.86	2521.40
Hot-Rolled Steel (\$/S.Ton)	798.00	832.00	725.00
Copper (\$/Pound)	450.80	445.90	414.75
Soybeans (\$/Bushel)	10.40	10.51	9.76
Natural Gas (\$/MMBTU)	2.97	2.70	2.14
Nickel (\$/Metric Ton)	15,088	14,813	16,782
CRB Spot Inds.	572.54	570.02	546.98

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