

Weekly — September 29, 2023

## Weekly Economic & Financial Commentary

### United States: "Soft Landing" Narrative Challenged

- Following last week's FOMC meeting, where the emphasis remained on incoming data guiding the Fed's interest rate path going forward—especially in regard to the duration in which rates may remain elevated—the data calendar heated up this week with plenty of indicators providing insight as to whether the Fed's forecast of a "soft landing" is plausible.
- Next week:** Construction Spending (Mon.), ISM Manufacturing & Services (Mon. & Wed.), Employment (Fri.)

### International: Eurozone Inflation Slows, Eurozone Growth Remains Subdued

- Eurozone inflation slowed sharply in September as the headline CPI slowed to 4.3% year-over-year and the core CPI slowed to 4.5% year-over-year. Meanwhile, a drop in Eurozone September economic confidence pointed to still-subdued growth trends. Together, we believe slowing inflation and subdued growth will see the European Central Bank keep its Deposit Rate steady at 4.00% at its next monetary policy announcement in late October.
- Next week:** Japan Tankan Survey (Mon.), Australia Policy Rate (Tue.), New Zealand Policy Rate (Wed.)

### Credit Market Insights: Catching Up, but Not There Yet

- The Federal Reserve released the Distributional Financial Accounts overview last week, providing second-quarter estimates of the distribution of household wealth in the United States by the five percentile groups of wealth, income, age, education and race.

### Topic of the Week: At Stake in the Strikes

- Autoworkers were on strike for the second week amid ongoing negotiations between the UAW and all three major domestic automakers. With the strike relatively contained, the initial hit to production should be relatively mild, though it may make it more difficult to tame inflation amid a pause in vehicle disinflation and an expected jump in labor compensation costs, challenging the timing in which inflation can return to target.

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#### Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual	Forecast		
	2023				2024				2022	2023	2024	2025
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product <sup>1</sup>	2.2	2.1	3.4	0.4	-0.8	-1.1	1.6	2.3	2.1	2.2	0.5	1.9
Personal Consumption	3.8	0.8	3.4	0.8	-0.8	-1.6	0.4	2.0	2.7	2.4	0.3	1.5
Consumer Price Index <sup>2</sup>	5.8	4.1	3.4	3.0	2.6	2.2	1.9	1.9	8.0	4.1	2.2	2.3
"Core" Consumer Price Index <sup>2</sup>	5.6	5.2	4.3	3.7	3.2	2.6	2.5	2.4	6.1	4.7	2.7	2.2
Quarter-End Interest Rates <sup>3</sup>												
Federal Funds Target Rate <sup>4</sup>	5.00	5.25	5.50	5.50	5.25	4.50	3.75	3.25	2.02	5.31	4.19	3.25
Conventional Mortgage Rate	6.54	6.71	7.05	6.75	6.40	6.15	5.95	5.70	5.38	6.76	6.05	5.74
10 Year Note	3.48	3.81	4.10	3.90	3.60	3.40	3.30	3.25	2.95	3.82	3.39	3.40

Forecast as of: September 07, 2023

<sup>1</sup> Compound Annual Growth Rate Quarter-over-Quarter

<sup>2</sup> Year-over-Year Percentage Change

<sup>3</sup> Quarterly Data - Period End; Annual Data - Annual Averages

<sup>4</sup> 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

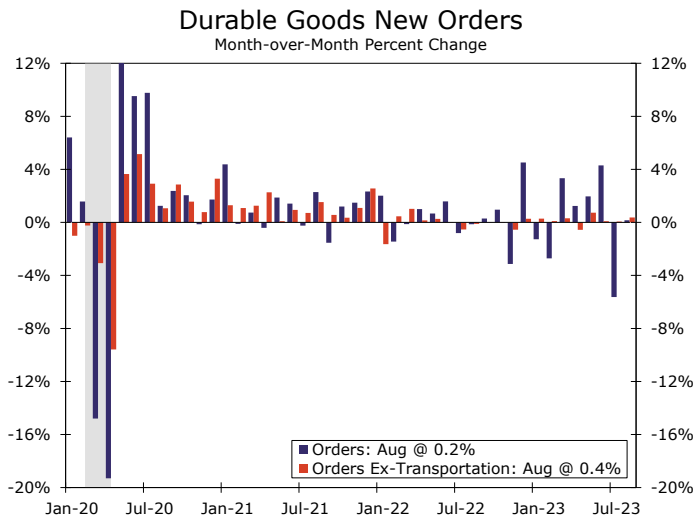
Please see our full [U.S. Economic Forecast](#).

## U.S. Review

### "Soft Landing" Narrative Challenged

Following last week's FOMC meeting, where the emphasis remained on incoming data in guiding the Fed's interest rate path going forward—especially in regard to the duration in which rates may remain elevated—the data calendar heated up this week with plenty of indicators providing insight as to whether the Fed's forecast of a "soft landing" is plausible.

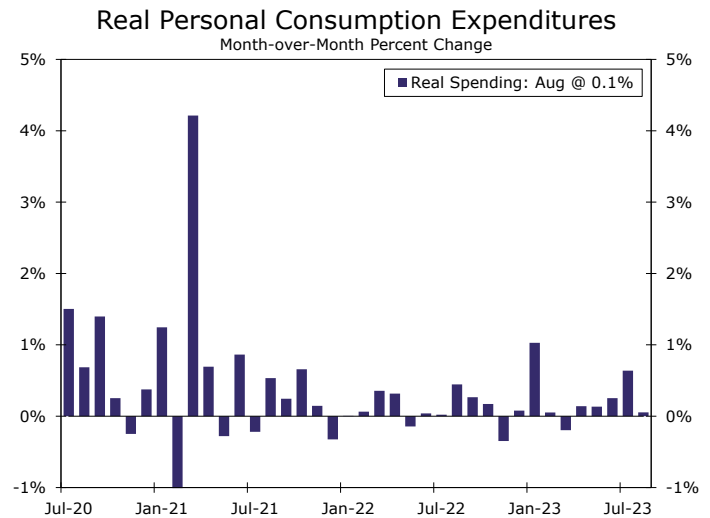
On the housing front, new home sales fell 8.7% in August to a 675,000 annualized unit pace. The drop was larger than expected, though an upward revision to the July data left sales fairly close to consensus expectations. Mirroring the challenges seen in the existing home sales market, new home sales are coming under pressure from higher mortgage rates, which have risen above 7.75% in recent days. For the better part of this year, builders have benefited from the persistent lack of existing home inventory, which has allowed new home sales to rise even as mortgage rates have climbed higher. That said, the NAHB home builder sentiment survey reported that buyer traffic fell to a seven-month low in September as higher mortgage rates continue to push many prospective buyers out of the market. Builders are becoming more cautious, given that higher interest rates, higher home prices and higher construction costs suggest housing affordability is likely to remain problematic for the foreseeable future. As a result, builders are responding through discounting, with 32% of builders reportedly offering discounts, up from 25% in August and the highest share since December 2022. Discounting helps at the margin, though is less effective as mortgage rates climb.



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

On the consumer front, consumer confidence fell 5.7 points in September to 103.0, which was a touch lower than consensus expectations. September's performance was the second straight monthly decline, the lowest overall reading since May and the biggest monthly drop since December 2020. The decline was entirely attributable to the expectations index, down nearly 10 points; the current economic conditions index edged slightly higher, largely due to another strong assessment of current labor market conditions. Deterioration in the expectations index reflects consumers' growing concerns about the consequences of stubborn inflation, rising food and gasoline prices and higher interest rates. While soft consumer confidence readings have not always translated into weaker spending, the most recent spending data do suggest the consumer is pulling back. In August, inflation-adjusted personal spending rose just 0.1%, marking the slowest pace in five months. The 0.6% surge in July suggests that real consumer spending growth is still set to accelerate in Q3 to about a 3% annualized rate, up from a 0.8% pace in Q2. Looking ahead, however, we believe households will become more vulnerable as economic and labor market growth slows, interest rates remain high, excess savings dwindle and student loan payments resume.

On the production front, advance durable goods orders rose 0.2% in August, following July's 5.6% drop. Although volatility in aircraft orders has distorted the monthly performance, underlying demand has remained surprisingly resilient. Excluding transportation, new orders were up 0.4% in August, above the year-to-date monthly average of 0.2%. This performance appears to reflect solid consumer goods



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

demand, with the recent strength of retail sales supporting restocking and fixed investment. Core capital goods orders increased 0.9%, marking the largest monthly gain over the past year. Nondefense capital goods shipments, which feeds into the calculation of equipment spending in GDP, increased 1.2% in August and suggest that real equipment investment is now tracking to rise at about a 1% annualized pace in Q3. That said, the outlook for the factory sector looks challenged with headwinds accumulating for consumer demand.

The comprehensive benchmark revisions to the GDP data did not do much to alter the economic landscape, as real GDP is still 6.1% larger in the second quarter than it was before the pandemic in Q4-2019. The composition of growth in the second quarter of this year, however, was substantially different from the previous estimate, as real personal consumption expenditures were cut to a 0.8% annualized pace from 1.7%, while nonresidential business investment was revised up to a 7.4% annualized pace from the previous estimate of 6.1%—largely due to much stronger structures investment. Further back, the comprehensive revisions showed that real GDP growth between 2017 and 2022 was only 0.1% stronger than previously estimated. The gap between GDP and Gross Domestic Income (GDI) tightened a bit, particularly following the upward revision to GDI in Q1-2023 to +0.5% from the previous estimate of -1.8%. That said, GDI is still only up 0.2% over the past year, nowhere near as strong as the 2.4% year-over-year gain in GDP.

On balance, this week's indicators illustrated that economic growth continues to moderate. Elevated inflation, rising interest rates and concerns about the outlook appear to be having a more marked impact on consumer and business activity than was seen during the first half of the year. While prospects of a "soft landing" have increased in the eyes of several Fed officials, our forecast continues to project a mild downturn in the first half of 2024 as rising real interest rates look to increasingly exert headwinds on the economy.

And finally, while the House of Representatives and the Senate have advanced separate pieces of legislation on government spending for the start of the new fiscal year, prospects for avoiding a government shutdown on Oct. 1 do not look promising. Uncertainty over the situation is elevated, though knowing the length and severity of the potential shutdown would help determine the impact on economic growth. Moreover, a prolonged shutdown could have implications for the Fed, which may have to consider a temporary policy hold to avoid the risk of destabilizing financial markets and consumer confidence in this period of heightened uncertainty. For more insight, please check out our report, [Government Shutdown: Deadline Deja Vu \(Return to Summary\)](#).

## U.S. Outlook

### Weekly Domestic Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
2-Oct	Construction Spending (MoM)	Aug	0.6%	0.6%	0.7%
2-Oct	ISM Manufacturing Index	Sep	47.8	47.4	47.6
4-Oct	ISM Services Index	Sep	53.5	53.7	54.5
6-Oct	Nonfarm Payrolls	Sep	165K	150K	187K
6-Oct	Unemployment Rate	Sep	3.7%	3.7%	3.8%
6-Oct	Average Hourly Earnings (MoM)	Sep	0.3%	0.3%	0.2%

Forecast as of September 29, 2023

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

### Construction Spending • Monday

Construction spending appears to be rising on trend, bolstered most recently by an uptick in residential activity. Builders have been largely successful using mortgage rate buydowns and price discounts to sell homes despite the high interest rate environment, prompting new home sales to rise on balance this year. A corresponding upshift in single-family housing starts has led single-family construction outlays to improve for three straight months. The steady pipeline of apartment construction also continues to sustain robust growth in multifamily outlays as the number of apartment units under construction remains near record highs. As such, we expect construction spending posted another solid increase of 0.6% in August.

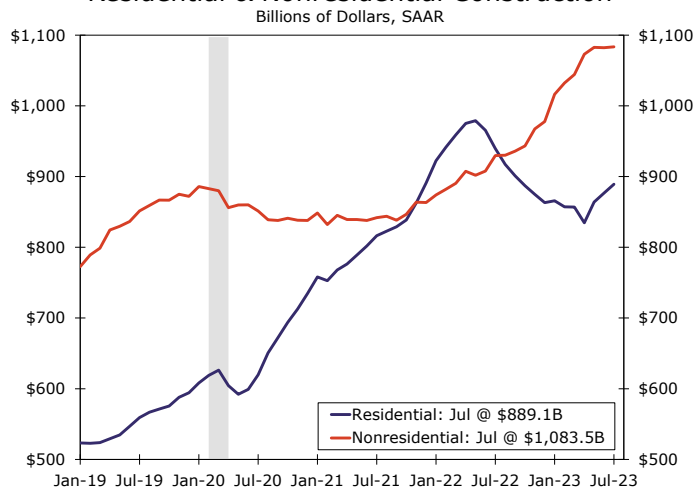
Looking forward, several headwinds are likely to weigh on construction spending in the months ahead. Although residential outlays have picked up, growth in nonresidential spending seems to be cooling. This is especially true for commercial and office construction, each of which have waned as commercial real estate faces mounting pressure. The robust pipeline of apartments under construction has also led builders to reevaluate starting new projects. Multifamily permits have dropped 16% year-to-date as of August, portending a slowdown in multifamily construction.

### ISM Manufacturing & Services • Monday & Wednesday

The most rapid tightening cycle since the early 1980s continues to create notable headwinds for the manufacturing sector. According to the ISM Manufacturing Index, the manufacturing industry has already spent 10 straight months in contraction. This bellwether indicator has never remained in contractionary territory for so long outside of a broader recession. Looking under the hood, waning demand for new orders has dragged on the headline for 12 months straight, a sentiment also reflected in weakening hard data on core capital goods orders. We suspect higher interest rates will keep the manufacturing sector under pressure for some time, especially as inflation recedes on trend and real interest rates climb higher. We estimate that the ISM manufacturing index dipped to 47.4 in September.

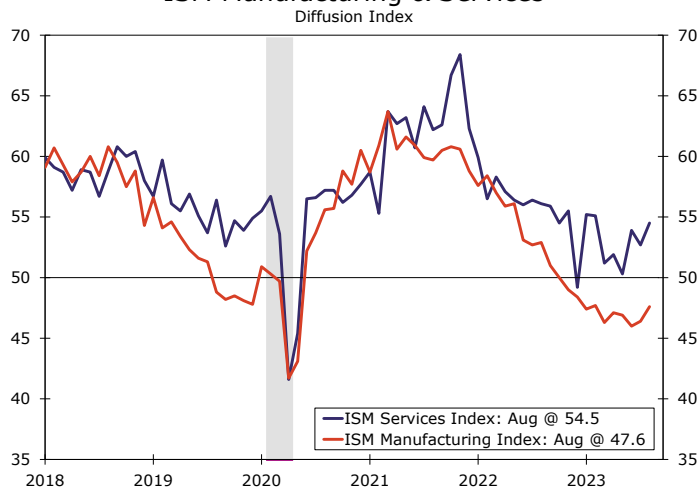
The services sector seems to be more resilient to the run-up in financing costs. The ISM Services Index rose to a six-month high in August, propelled by sturdy employment gains and resilient consumer demand for services. Yet, as credit card delinquencies creep up and excess savings run thin, we believe that the momentum propelling consumers is likely unsustainable. The ISM services survey also suggests some upside risk to inflation. In August, 12 of 18 industries reported a bump in their prices paid, the

### Residential & Nonresidential Construction



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

### ISM Manufacturing & Services



Source: Institute for Supply Management and Wells Fargo Economics

second consecutive monthly increase following more than a year of trend declines. As such, we anticipate the ISM Services Index is in store for some giveback in September and are forecasting an index of 53.7.

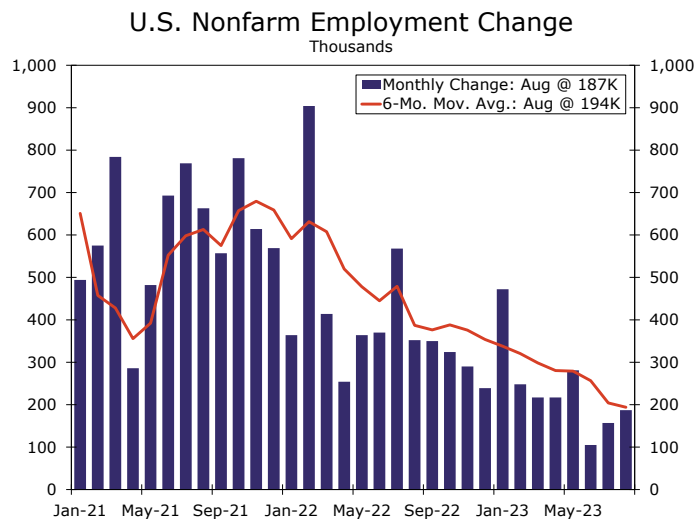
**Employment • Friday**

When the Fed started its hiking cycle 18 months ago, the intent was to spur enough of an economic slowdown to cool inflation without sparking a significant rise in unemployment. So far, it appears that policymakers have made progress toward those ends. The labor market has loosened from its historic strength over the past couple of years, while inflation continues to trend lower. Meanwhile, the unemployment rate to date remains sub-4%. The problem? Current trends suggest that inflation is unlikely to reach the Fed’s 2% target on a sustained basis over the next few quarters, meaning that the Fed will likely keep interest rates elevated for some time. As high interest rates continue to take a bite out of labor demand, we expect additional labor market cooling.

We forecast that the U.S. economy added 150K jobs in September, a step down from 187K in August. While initial jobless claims have remained exceptionally low, demand for new workers has steadily waned with job openings having lurched lower and small business hiring plans hovering near six-year lows. Notably, strike activity should not bear heavily on this month's change in nonfarm payrolls, with the United Auto Workers walk-off and the Hollywood writers' deal both occurring too late in the month.

Looking beyond payrolls, we anticipate that the labor force ebbed a bit in September after last month’s jump. If realized, this would nudge the unemployment rate a tick down to 3.7%. Meanwhile, the trend in average hourly earnings growth continues to gradually ease as turnover settles down and the supply and demand for labor have moved toward a better balance. We estimate that average hourly earnings growth picked up slightly to 0.3% in September, although that would be enough to push down the three-month annualized pace of wage gains below 4%.

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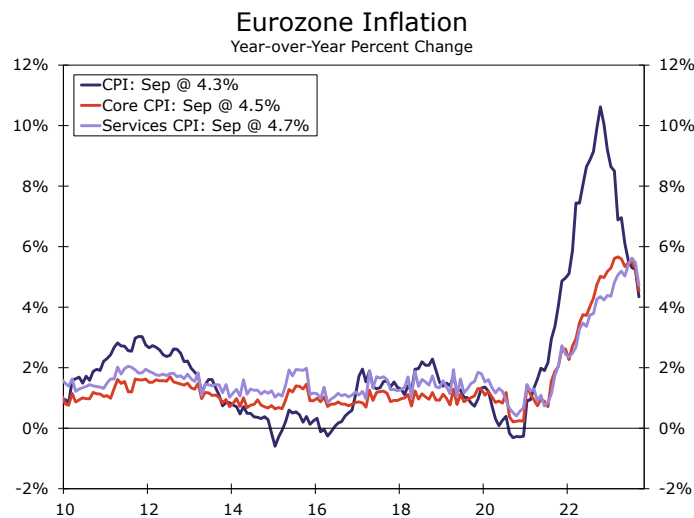
Source: U.S. Department of Labor and Wells Fargo Economics

## International Review

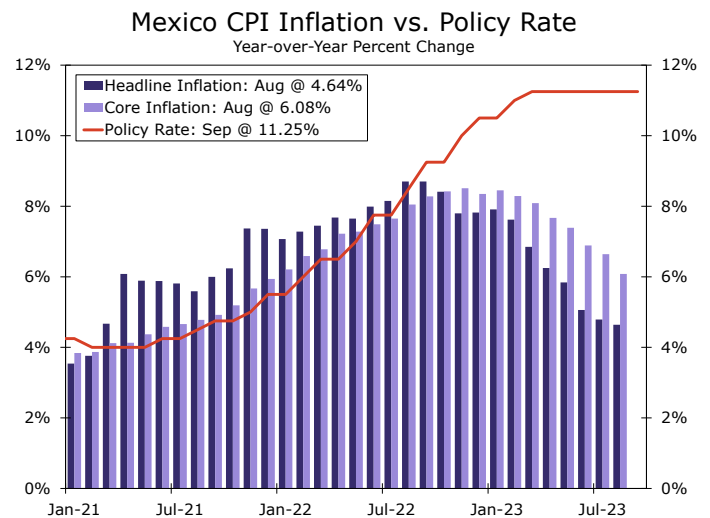
### Eurozone Inflation Slows, Eurozone Growth Remains Subdued

This week, Eurozone CPI for September was a key data release ahead of the European Central Bank's (ECB) next monetary policy announcement in late October and, in our view, supported the case for the ECB holding its policy rate steady at that meeting. Headline inflation slowed sharply in October, to 4.3% year-over-year from 5.2% in August. Underlying measures of inflation also decelerated, as core inflation slowed to 4.5% and services inflation slowed to 4.7%. In terms of other year-over-year price movements, energy prices were down 4.7%, food, alcohol and tobacco prices rose 8.8% and non-energy industrial goods prices rose 4.2%. A more recent assessment of inflation trends also reveals a deceleration in some underlying inflation measures. Looking at seasonally adjusted estimates, for the CPI ex-food and energy, the three-month annualized inflation rate slowed to 2.9%, while for services, the three-month annualized inflation rate slowed to 3.3%.

In addition to slowing inflation, the incoming data remain consistent with subdued Eurozone growth. Economic confidence eased to 93.3 in September from 93.6 in August. Within the details, services confidence fell to 4.0 (from 4.3) and consumer confidence fell to -17.8 (from -16.0), although industrial confidence did improve to -9.0 (from -9.9). Still, overall economic confidence remains at levels historically consistent with zero growth, or even mild contraction. With the economy at a standstill and inflation showing clearer signs of a slowdown, we expect the European Central Bank to hold its Deposit Rate at 4.00% at its next monetary policy announcement in late October.



Source: Datastream and Wells Fargo Economics



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

In what was a much quieter week for central banks, Mexico's central bank kept its policy rate unchanged at 11.25% for a fourth straight meeting, while its accompanying statement was hawkish in tone. The Bank of Mexico described the inflation outlook as uncertain and complicated throughout the entire forecast horizon, with upside risks. The central bank repeated that in order to achieve an orderly and sustained convergence of inflation to target that "it will be necessary to maintain the reference rate at its current level for an extended period." Finally, the Bank of Mexico also revised its inflation forecasts higher throughout its entire forecast horizon, including CPI inflation of 4.4% for Q1-2024 (previously 4.1%), 3.4% for Q4-2024 (previously 3.1%), and with inflation remaining at 3.1% in Q3-2025. We continue to forecast only gradual monetary easing from the Bank of Mexico, with an initial rate cut not expected until the first quarter of next year.

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## International Outlook

### Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
2-Oct	Tankan Large Mfg Index	Q3	+6	--	+5
2-Oct	Tankan Large Non-Mfg Index	Q3	+24	--	+23
3-Oct	RBA Policy Rate Decision	3-Oct	4.10%	4.10%	4.10%
4-Oct	RBNZ Policy Rate Decision	4-Oct	5.50%	5.50%	5.50%

Forecast as of September 29, 2023

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

### Japan Tankan Survey • Monday

Next week's Bank of Japan (BoJ) Tankan survey will offer some insight into Q3 economic activity and likely indicate the economy continued to expand at a steady pace during the quarter. The Tankan survey showed some improvement in the previous quarter (Q2) as the large manufacturers' index rose to +5 and the large non-manufacturers' index rose to +23. That improvement was subsequently confirmed by the Q2 GDP figures, which showed solid growth of 4.8% quarter-over-quarter annualized.

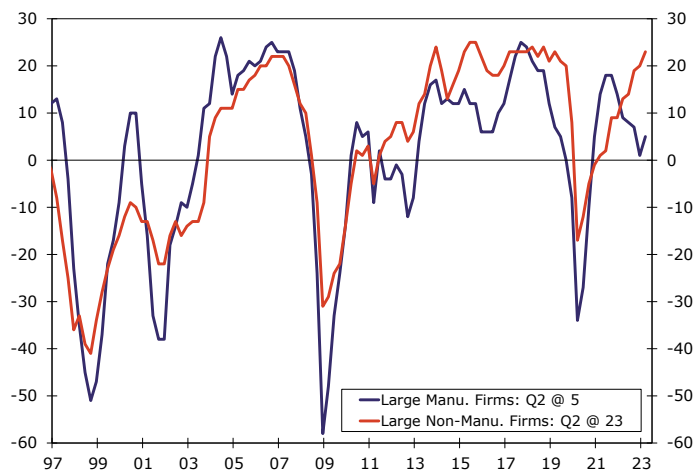
Several indicators point to a steady pace of growth being maintained through Q3. The services PMI in particular has remained comfortably in expansion territory, while retail sales are also growing at a steady clip. Against this backdrop, the consensus forecast is for some further improvement in the Q3 Tankan survey, with the large manufacturers' index expected to rise by one point to +6 and the large non-manufacturers' index expected to rise by one point to +24. Capital spending plans for large firms across all industries are seen rising 13.3%, little changed from the previous survey. As Japanese growth remains steady, inflation has started to decelerate. Thus, while economic expansion could eventually see a further policy adjustment, we do not anticipate a Bank of Japan shift at the immediate policy meetings ahead.

### Australia Policy Rate • Tuesday

The Reserve Bank of Australia (RBA) is scheduled to make its latest monetary policy announcement next week, and we once again expect the central bank to keep interest rates on hold. The RBA has held rates steady in recent months as it assesses the impact of its past interest rate increases. While the central bank sees inflation as too high and likely to remain so for some time, it has also noted below-trend economic growth and an uncertain outlook for the consumer, meaning the central bank sees future monetary policy decisions as data-dependent.

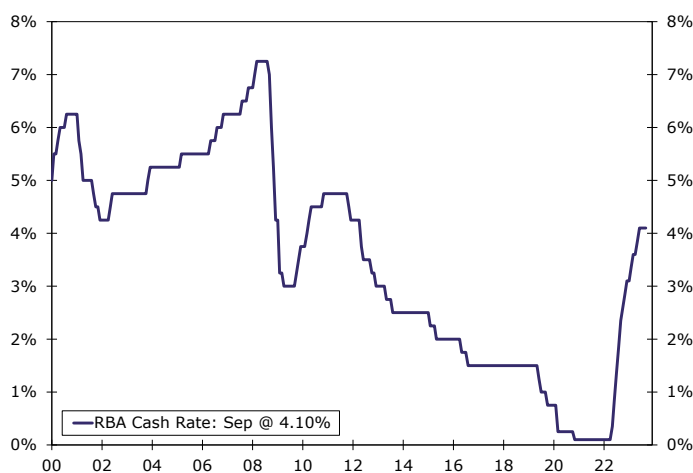
In our view, the data flow over the past month does not suggest a rate increase at next week's meeting. Q2 GDP growth was moderate at 0.4% quarter-over-quarter, although admittedly there has been some firming in activity since as August employment jumped and the September services PMI rose to 50.5. The August CPI quickened slightly to 5.2% year-over-year, but trimmed mean inflation was steady at 5.6%. Thus, while economic data have been somewhat firmer over the past month, we don't believe the data have been firm enough to prompt a policy adjustment as yet, and we expect the RBA to keep its policy rate at 4.10% at its October meeting.

### Tankan Survey: Headline Diffusion Indices



Source: Datastream and Wells Fargo Economics

### Reserve Bank of Australia Policy Rate



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

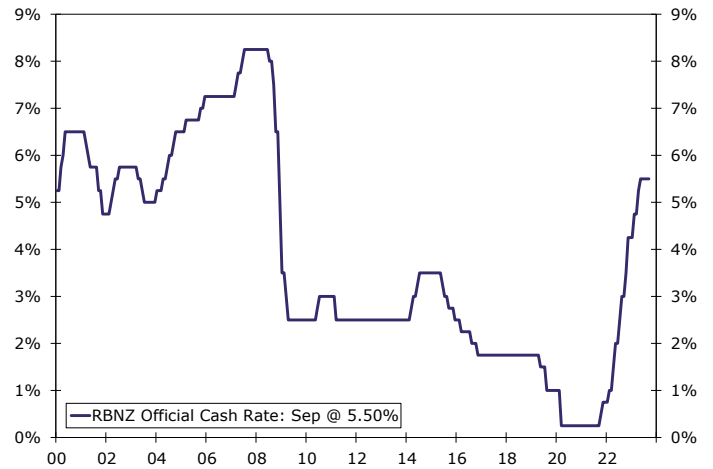
**New Zealand Policy Rate • Wednesday**

The Reserve Bank of New Zealand (RBNZ) announces its monetary policy decision next week, and we expect the central bank to hold its Official Cash Rate at 5.50%. At recent meetings, the RBNZ has signaled an extended pause in interest rates, saying the "current level of interest rates is constraining spending and hence inflation pressure, as anticipated and required." The RBNZ also said its policy interest rate "needs to stay at restrictive levels for the foreseeable future to ensure annual consumer price inflation returns to the 1% to 3% target range."

The central bank has said the imbalance between demand and supply is moderating, although that will likely be a gradual process. For example, and of note since the RBNZ's previous announcement, Q2 GDP grew 0.9% quarter-over-quarter—twice much as expected—while retail card spending has also firmed so far during the third quarter. In contrast, manufacturing and service sector PMIs have softened during Q3, with both currently below the breakeven 50 level. Thus, while a further moderation in growth trends and inflation pressures seems possible over time, it appears far too early yet for the RBNZ to contemplate monetary policy easing. Accordingly, we look for the RBNZ to keep its policy rate steady at 5.50% at next week's announcement.

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Reserve Bank of New Zealand Policy Rate



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



## Credit Market Insights

### Catching Up, but Not There Yet

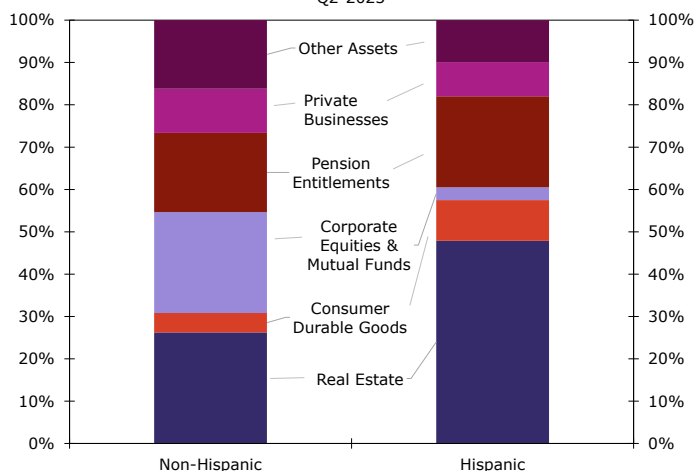
The Federal Reserve released the Distributional Financial Accounts overview last week, providing second-quarter estimates of the distribution of household wealth in the United States by the five percentile groups of wealth, income, age, education and race. Historically, the same groups have held most of the wealth in the United States. The top 10% of wealth holders hold over 60% of the wealth. In addition, people with a college degree or greater have held 50% or more of wealth throughout the history of the report, reaching a record high of 72.6% in the Q2-2023 recording. Wealth by age has fluctuated more with time, but people age 55-69 tend to hold the most wealth, with an average share of about 40% since 1989.

There remain significant gaps in wealth holdings by race. The white population, on average, has held more than 87% of the wealth in the United States, according to Fed data spanning 1989 to present. However, throughout the course of the survey, other groups have gradually accumulated more wealth. Particularly, the Hispanic population has taken strides to close the yawning wealth gap within the past decade. This is evident in not only the data released by the Fed, but also the 2023 [State of Hispanic Wealth Report](#) released Thursday. Please see our recent [report](#) in celebration of Hispanic Heritage Month for more detail on the economic progress of Hispanic Americans.

Back in 1989, Hispanics held very little wealth in comparison to other races. In Q3-1989, the white population held \$18.47T in wealth, almost 43 times that of the Hispanic population, which held \$0.43T. During the past decade alone, the gap has closed considerably. In Q2-2023, the white population held almost \$120T in wealth, "only" 26 times that of the Hispanic population, which held almost \$4.5T.

The Survey of Consumer Finances (SCF) goes into more detail on wealth distribution than the Distributional Financial Accounts. The last SCF, released in 2019, showed that the median net worth among Hispanic families was \$36K, an astounding 263% increase in inflation-adjusted terms from the first SCF released in 1989. In comparison, median real net worth among non-Hispanic households only rose 32% over the same period to \$122K. While growth is stronger, the difference in the level of wealth between Hispanic and non-Hispanic households is still extremely wide and still has ways to go before it is completely closed.

Hispanic and Non-Hispanic Asset Allocation  
Q2-2023



Source: Federal Reserve Board and Wells Fargo Economics

The Fed data also reveal the composition of Hispanic household assets. Real estate is the primary medium. In Q2-2023, almost 48% of Hispanic asset holdings were held in real estate. In comparison, only 27% of assets were held in real estate for non-Hispanic households. Home equity is important for all households in building wealth, but especially for Hispanic households: The most recent Hispanic Wealth Report states that Latinos who own homes have a net worth 27.4 times that of Latino households who rent. Hispanic households also tend to hold a higher percentage of assets in pension entitlements (22%) and consumer durables (10%) relative to non-Hispanic households. In contrast, Hispanic households only hold about 3% in corporate equities, while non-Hispanic households hold about 24% ([chart](#)).

The Hispanic Wealth Report also finds that Latino families are the least likely of any racial or ethnic group to hold financial assets. In 2019, only 25.5% of Latino families owned a retirement account, compared to 50.5% of the general population. In addition, Latinos only hold 24.2% of total wealth in non-cash financial assets, while the general population holds 37% of wealth in non-cash assets. The Hispanic Wealth Report found diversifying investments significantly increased Hispanic household wealth: The median net worth of Latino families who invested was 26.4 times higher than families who did not. As wealth continues to grow for Hispanic households, we look for asset distribution to more closely mirror that of the national distribution.

Overall, the second quarter's distributional wealth data do not show any significant changes in the short term. That said, the data do point to some material wealth building among non-White households, especially in the Hispanic community. ([Return to Summary](#))

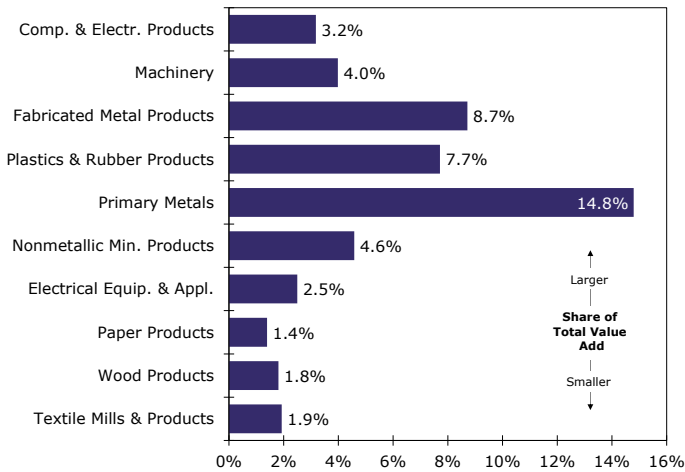
## Topic of the Week

### At Stake in the Strikes

Autoworkers were on strike for the second straight week amid ongoing negotiations between the United Auto Workers Union, or UAW, and all three major domestic automakers. It started with the expiration of the UAW contract on Sept. 14, when nearly 13,000 workers at General Motors (GM), Ford and Stellantis walked out for the first time. Then last Friday, Sept. 22, the strike was extended with 5,600 additional workers walking out of 38 GM and Stellantis parts plants. Despite this being the first strike to hit all three large automakers at the same time, the total number of automakers striking over the first two weeks was fewer than half the number involved in the GM strikes of 2019.

While the strike still remains small in comparison to the 2019 GM strike, there will still be a macro impact, though the extent largely depends on how long it lasts and how far it ultimately stretches. We're likely to see some immediate weakness in vehicle assemblies data, which will weigh on industrial production and durable goods data. Less obvious damage could eventually stem from secondary effects. If autos production slows dramatically from the strike, there will be less demand across the supply chain, resulting in knock-on effects for those that heavily supply to auto manufacturers. The nearby [chart](#) shows the largest manufacturing inputs used in motor vehicle & parts production, and while some industries have large exposure, the output of these top 10 suppliers together account for just about 5% of total value added in the economy, suggesting a relatively contained initial impact on output.

**Top Manufacturing Industries Exposed to MV&P**  
Share of Industries Output Used in Motor Vehicle & Parts Production (MV&P), 2021

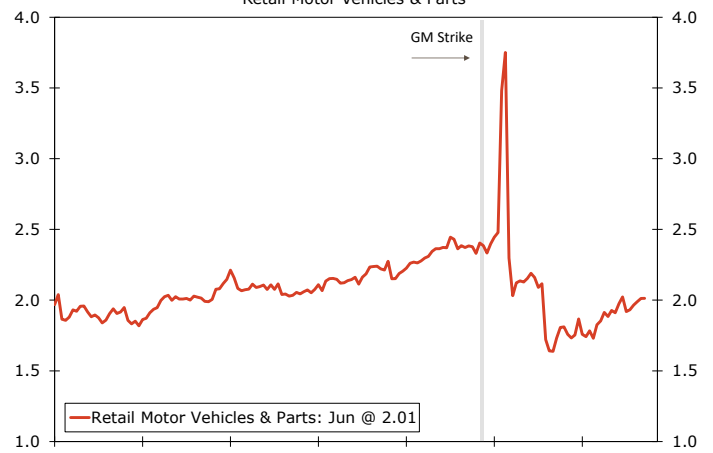


Source: U.S. Department of Commerce and Wells Fargo Economics

The strike is also set to leave an imprint on the labor market, though next week's September jobs report should be clear of any impact as workers were on the payroll for part of the survey week (Sept. 10-16) and will thus be included in the September tally. If the strike stretches through the entirety of the Oct. 8-14 survey week, the impact will be more visible in the October Employment Situation report released early November. That said, the effect on the labor market is likely to be mostly noise, as once the strike concludes, laid off workers will broadly be called back, resulting in a rebound in hiring. The dispute more notably speaks to a still-strong jobs market and higher inflation environment that has emboldened unions to ask for hefty pay and benefit increases.

Ultimately, the strike may make it more difficult to tame inflation, creating a short- and medium-term hurdle to returning inflation to the Fed's 2% target. Auto inventories relative to sales remain well-below pre-pandemic levels, making any reduction in production a headwind to further disinflation over the upcoming months ([chart](#)). We look for the downward trend in vehicles inflation to pause in the near

**Real Inventory-to-Sales Ratios**  
Retail Motor Vehicles & Parts



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

term as a result, while an expected jump in labor compensation costs will further challenge the timing in which inflation can return to target on a sustained basis.

For more detail, please see our full report, [At Stake in the Strikes](#).

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## Market Data • Mid-Day Friday

U.S. Interest Rates			
	Friday 9/29/2023	1 Week Ago	1 Year Ago
SOFR	5.31	5.30	2.98
Effective Fed Funds Rate	5.33	5.33	3.08
3-Month T-Bill	5.45	5.47	3.28
1-Year Treasury	5.34	5.34	4.03
2-Year Treasury	5.04	5.11	4.19
5-Year Treasury	4.60	4.56	4.02
10-Year Treasury	4.56	4.43	3.79
30-Year Treasury	4.69	4.52	3.72
Bond Buyer Index	4.09	3.90	4.02

Foreign Exchange Rates			
	Friday 9/29/2023	1 Week Ago	1 Year Ago
Euro (\$/€)	1.058	1.065	0.982
British Pound (\$/£)	1.221	1.224	1.112
British Pound (£/€)	0.867	0.870	0.883
Japanese Yen (¥/\$)	149.430	148.370	144.460
Canadian Dollar (C\$/\\$)	1.354	1.348	1.368
Swiss Franc (CHF/\\$)	0.914	0.907	0.976
Australian Dollar (US\$/A\\$)	0.645	0.644	0.650
Mexican Peso (MXN/\\$)	17.428	17.201	20.167
Chinese Yuan (CNY/\\$)	7.298	7.306	7.201
Indian Rupee (INR/\\$)	83.040	82.938	81.849
Brazilian Real (BRL/\\$)	5.001	4.937	5.400
U.S. Dollar Index	106.132	105.583	112.254

Foreign Interest Rates			
	Friday 9/29/2023	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.62	3.66	0.76
3-Month U.K. Govt Bill Yield	5.34	5.36	#N/A N/A
3-Month Canadian Govt Bill Yield	5.11	5.11	3.60
3-Month Japanese Govt Bill Yield	-0.17	-0.18	-0.20
2-Year German Note Yield	3.21	3.26	1.80
2-Year U.K. Note Yield	4.91	4.80	4.40
2-Year Canadian Note Yield	4.88	4.91	3.79
2-Year Japanese Note Yield	0.05	0.03	-0.04
10-Year German Bond Yield	2.84	2.74	2.18
10-Year U.K. Bond Yield	4.45	4.25	4.14
10-Year Canadian Bond Yield	4.04	3.91	3.17
10-Year Japanese Bond Yield	0.77	0.75	0.26

Commodity Prices			
	Friday 9/29/2023	1 Week Ago	1 Year Ago
WTI Crude (\\$/Barrel)	91.13	90.03	81.23
Brent Crude (\\$/Barrel)	95.36	93.27	88.49
Gold (\\$/Ounce)	1855.04	1925.23	1660.54
Hot-Rolled Steel (\\$/S.Ton)	704.00	705.00	783.00
Copper (¢/Pound)	373.30	366.55	341.80
Soybeans (\\$/Bushel)	12.93	12.89	14.31
Natural Gas (\\$/MMBTU)	2.95	2.64	6.87
Nickel (\\$/Metric Ton)	18,634	18,869	21,693
CRB Spot Inds.	556.94	555.49	566.92

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

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