

Weekly — October 25, 2024

## Weekly Economic & Financial Commentary

### United States: Move On Up

- The housing sector was in focus this week. During September, existing homes sales remained in a slump and declined to a fresh cycle low, while new home sales bucked the trend and rose solidly. Although the move up in mortgage rates will pose some near-term challenges for housing, growth elsewhere appears sturdy.
- Next week:** GDP (Wed.), Personal Income and Spending (Thu.), Employment (Fri.)

### International: Bank of Canada Quickens Monetary Easing, Eurozone Economy Continues to Struggle

- It was a somewhat lighter week for international economic data and events, save for the Bank of Canada (BoC) rate decision and a mix of sentiment data from global economies. The Bank of Canada lowered its policy rate by 50 bps to 3.75% and offered generally dovish-leaning commentary. In the Eurozone, the October PMIs were somewhat mixed but overall not that encouraging.
- Next week:** Eurozone CPI & GDP (Wed. & Thu.), China PMIs (Thu.), Bank of Japan Policy Rate (Thu.)

### Credit Market Insights: Financial Condition Indices Hit Early 2022 Levels

- Monetary policymakers are keenly interested in quantifying financial conditions, because households and firms respond to changes in them, which in turn translates into changes in real economic activity. Somewhat surprisingly, two financial condition indices from the Federal Reserve currently indicate conditions are about as loose as they were on the eve of the Fed's hiking cycle.

### Topic of the Week: Beige Flags in the Beige Book

- The latest Beige Book—which covers early September through mid-October—revealed a picture of softening economic growth. However, despite the bleak picture, contacts were overall optimistic about the longer-term outlook, though still exercised caution in their hiring and investment decisions.

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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 <sup>1</sup>	1.6	3.0	3.2	1.7	1.5	2.2	2.6	2.4	2.9	2.8	2.2	2.5
Personal Consumption	1.9	2.8	3.2	2.0	2.0	2.3	2.3	1.9	2.5	2.6	2.3	2.2
Consumer Price Index <sup>2</sup>	3.2	3.2	2.6	2.6	2.4	2.3	2.6	2.6	4.1	2.9	2.5	2.4
"Core" Consumer Price Index <sup>2</sup>	3.8	3.4	3.2	3.2	2.8	2.6	2.7	2.6	4.8	3.4	2.7	2.5
Quarter-End Interest Rates <sup>3</sup>												
Federal Funds Target Rate <sup>4</sup>	5.50	5.50	5.00	4.50	4.00	3.75	3.50	3.25	5.23	5.13	3.63	3.25
Conventional Mortgage Rate	6.82	6.92	6.18	6.30	6.05	5.90	5.80	5.70	6.80	6.55	5.86	5.65
10 Year Note	4.20	4.36	3.81	3.80	3.65	3.60	3.55	3.50	3.96	4.04	3.58	3.54

Forecast as of: October 11, 2024

<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

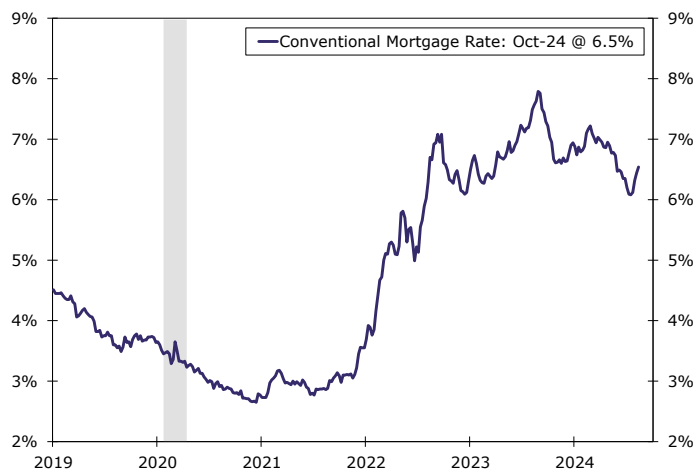
### Move On Up

The housing market was the focus of attention in what was a light week for economic data. For the most part, the residential sector has been in a slump since the Federal Reserve started to tighten monetary policy in 2022. A higher fed funds target rate pushed up mortgage rates sharply, which exerted significant pressure on affordability for buyers already dealing with scarce supply and elevated home prices. As the summer wound to a close, green shoots began to sprout for the housing sector as mortgage rates began to decline in anticipation of less-restrictive monetary policy nearing on the horizon. After rising to almost 7% in early July, the average 30-year mortgage rate dropped to almost 6% in the final week of September, according to Freddie Mac.

The summer slide in mortgage rates does not appear to have had a material effect on home sales. Total existing home sales declined 1.0% during September, falling short of expectations for a modest gain. The 3.84 million-unit pace hit during the month marks the slowest pace since 2010 in the aftermath of the housing bust and Great Recession. Digging deeper into the details sheds light on why decreased financing costs have not yet meaningfully pulled buyers off the sidelines. Existing median home prices rose 3.0% on a year-to-year basis in September, pushing prices up nearly 50% since the same month in 2019. The main driver behind the rapid home price appreciation has been low supply. Resale inventory has been rising modestly over the past year alongside a slower pace of sales. That noted, the "lock-in" effect, where prospective sellers are unwilling to give up their low mortgage rate largely continues to prevail. The count of existing single-family homes for sale at the end of September stood at 1.21 million, nearly 25% below the low levels hit just before the pandemic.

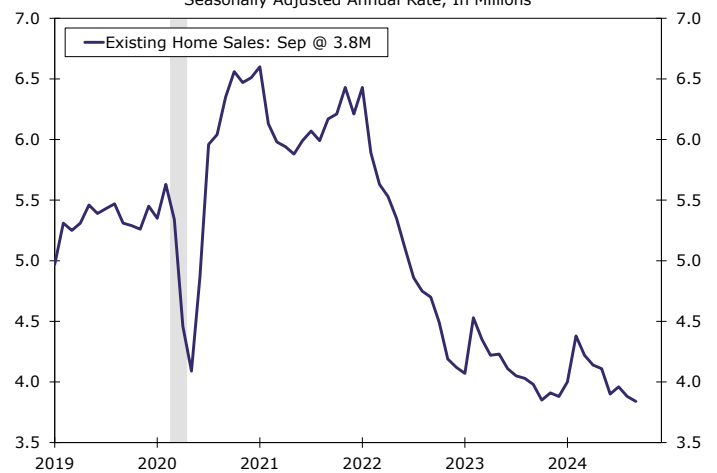
Not every segment of the residential sector has fared as poorly as the existing home market. New home sales jumped 4.1% during September, easily topping consensus expectations. On balance, sales have drifted higher this year, even with the various swings in borrowing costs. The upward trend reflects better affordability conditions in the new home market, which is relatively replete with supply and where builders are able to offer a menu of price incentives for increasingly cost-conscious buyers. Builders' newfound ability to insulate themselves from changes in interest rates has supported sales and also appears to be instilling confidence that market conditions will remain buoyant moving forward. The NAHB Housing Market Index rose for the second consecutive month in October, driven by across-the-board improvements in buyer traffic, current sales and future sales expectations.

Freddie Mac 30-Year Conventional Mortgage Rate



Source: Freddie Mac and Wells Fargo Economics

Existing Home Sales  
Seasonally Adjusted Annual Rate, In Millions



Source: NAR and Wells Fargo Economics

The Federal Reserve ultimately decided to reduce the fed funds target rate by 50 bps at the September meeting. Further cuts appear to be coming, which should help mortgage rates descend and eventually seed a stronger housing market recovery. The road ahead is not without obstacles, however. The recent move up in long-term Treasury yields alongside increased uncertainty regarding future monetary and fiscal policy has spurred a leg higher in mortgage rates. Freddie Mac reported this week that the average 30-year mortgage rate rose to 6.5% in the week ended Oct. 24, the highest since early August. The rise in financing costs already appears to be pouring cold water on the

fledgling recovery in mortgage demand. Mortgage applications, both for purchase and refinancing, have declined in each week so far in October, retrenching after generally tracking higher in August and September.

Additional signs the U.S. economy continues to grow at a sturdy pace may be another factor behind the backup in Treasury yields. A strong labor market has been a major support for economic growth, and evidence continues to mount that conditions are not approaching a cliff. Initial jobless claims fell to 227K in the week ended Oct. 19. Zooming out, the level of initial claims remains low and not indicative of a jobs market deteriorating in a non-linear and worrisome fashion. That noted, continuing claims rose modestly, which suggests the labor market is indeed softening. As we outline in the [U.S. Outlook](#) section, we expect this trend to continue in the near term. Elsewhere, the Leading Economic Index again fell during September. This once-widely followed gauge has "cried wolf" of a nearing recession for the better part of the past two and half years, and we recommend not putting too much weight on the index readings. ([Return to Summary](#))

## U.S. Outlook

Weekly Indicator Forecasts					
Domestic					
Date	Indicator	Period	Consensus	Wells Fargo	Prior
29-Oct	Consumer Confidence	Oct	99.0	99.1	98.7
30-Oct	GDP Annualized (QoQ)	Q3	3.0%	3.2%	3.0%
30-Oct	Personal Consumption (QoQ)	Q3	—	3.6%	2.8%
31-Oct	Employment Cost Index	Q3	0.9%	1.0%	0.9%
31-Oct	Personal Income	Sep	0.4%	0.4%	0.2%
31-Oct	Personal Spending	Sep	0.4%	0.4%	0.2%
31-Oct	PCE Deflator (MoM)	Sep	0.2%	0.2%	0.1%
31-Oct	PCE Deflator (YoY)	Sep	2.1%	2.0%	2.2%
31-Oct	Core PCE Deflator (MoM)	Sep	0.3%	0.2%	0.1%
31-Oct	Core PCE Deflator (YoY)	Sep	2.6%	2.6%	2.7%
1-Nov	Nonfarm Payrolls	Oct	120K	75K	254K
1-Nov	Unemployment Rate	Oct	4.1%	4.1%	4.1%
1-Nov	Average Hourly Earnings (MoM)	Oct	0.3%	0.3%	0.4%
1-Nov	ISM Manufacturing Index	Oct	47.6	47.8	47.2
1-Nov	Construction Spending (MoM)	Sep	0.0%	0.1%	-0.1%
1-Nov	Total Vehicle Sales	Oct	15.75M	15.7M	15.77M

Forecast as of October 25, 2024

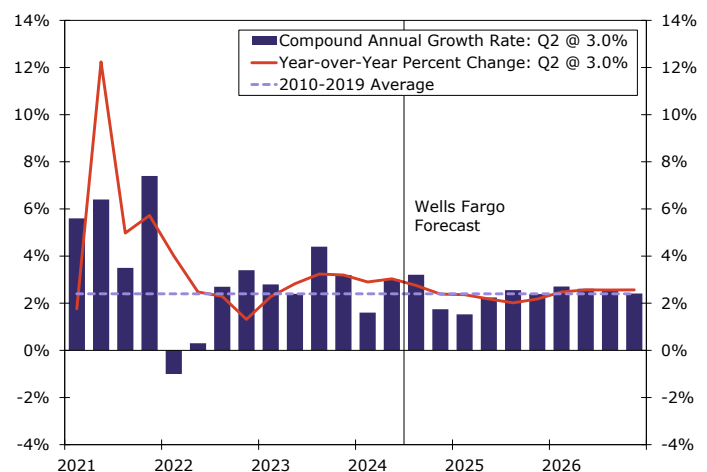
Source: Bloomberg Finance L.P. and Wells Fargo Economics

### GDP • Wednesday

The economy expanded at a solid clip in the second quarter of the year, with real GDP growing at a 3.0% seasonally-adjusted annualized rate (SAAR) after a slower start to the year. Second quarter growth was driven by the consumer, with real personal consumption expenditures contributing 1.9 percentage points to top-line growth on the back of a strong increase in services spending. Investment was another area of strength, with the category of real equipment investment growing at a 9.8% SAAR. The housing market and the volatile net exports component were the largest drags, with residential investment subtracting 0.11 percentage points and net exports slicing 0.90 percentage points from top-line growth.

Looking ahead, we expect real GDP rose at a 3.2% annualized rate in the third quarter. Consumers are poised to drive growth again in the quarter, and we forecast 3.6% annualized growth in PCE. The outlook for GDP is sturdy, as the consumer continues to support the fundamentals of economic growth and lower interest rates unshackle investment. Our forecast calls for a gradual moderation in growth as labor market cooling fosters less-robust income

### U.S. Real GDP Growth



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

growth in the next few quarters, but consumer strength remains an upside risk to growth down the road.

### Personal Income and Spending • Thursday

The strength of the U.S. consumer has underpinned the economy’s apparent soft landing thus far. Data revisions in the August personal income and spending report showed consumers had a new lease on life and were not as strained as previously thought. Real consumer spending had been strong throughout the year, but August's report revised the numbers even higher for each month so far in 2024. The robust pace of spending was sustained by solid income gains, with the revised pace of income growth now outpacing spending. All told, the August revisions brought the personal saving rate up to nearly 5% when it had previously been below 3%. Thus, the consumer is on stronger standing, especially as households have not been spending at the expense of saving to the same degree as the data previously suggested.

Now that we know households have more gas in the tank for sustaining consumption, we suspect the consumer had another strong month in September. We forecast personal income growth of 0.4% and personal spending growth of 0.4% on the month. Furthermore, we look for the PCE deflator, the Federal Reserve’s preferred inflation metric, to rise 0.2% and the core PCE deflator to increase 0.2% in September. Should our forecast come to fruition, the PCE deflator will be 2.0% on a year-over-year basis, right on the Fed's inflation target.

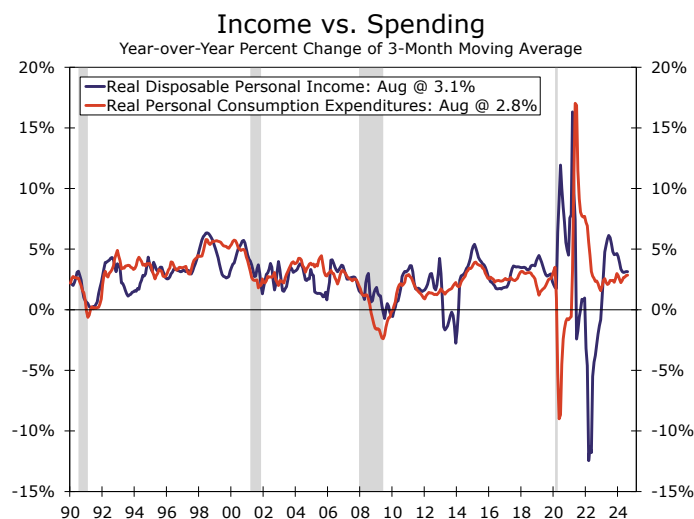
### Employment • Friday

The September jobs report bucked the cooling trend at play in the labor market and allayed concerns that the jobs market was rapidly deteriorating. Employers added the most jobs since March, revisions to the prior two months were positive for a change, and the unemployment rate ticked down to a four-month low of 4.1%.

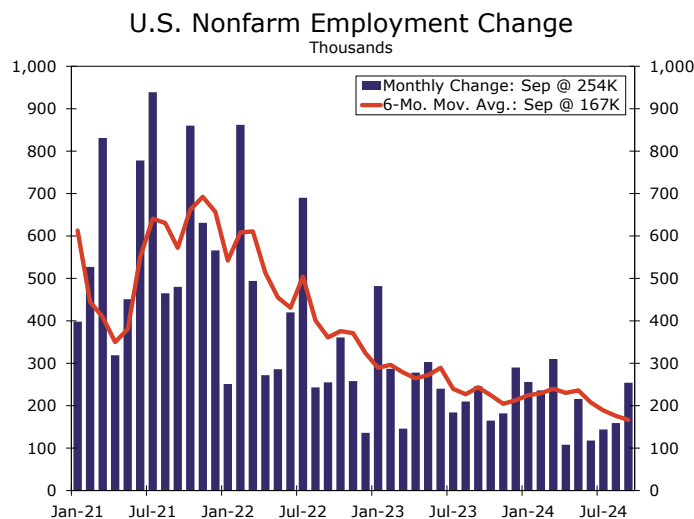
It will be difficult to get a clean read from the October jobs report on whether employment conditions are firming up as much as the September report implied. The ongoing strike at Boeing has sidelined 33K union workers and led to furloughs for some non-union workers. In addition, payrolls are likely to be depressed from the devastation caused by hurricanes Helene and Milton, the latter of which made landfall during the survey week. As a result, we look for nonfarm payrolls to slow sharply in October. The unemployment rate should be more insulated—although not entirely immune—from these events. Striking workers are still considered employed in the household survey, although furloughed workers are not. Similarly, workers absent from work due to weather are still counted as employed, although workers at businesses destroyed would not. We look for the unemployment rate to be unchanged in October at 4.1%.

While the October payroll print will likely understate the current position of the jobs market, we continue to see strains under the surface that point to the jobs market softening further in the near term. Hiring remains narrowly concentrated among industries, average weekly hours point to businesses using existing workers less intensely, and consumers see a dwindling number of job opportunities. The cooler backdrop should keep a lid on average hourly earnings growth, which we expect to rise 0.3% in October.

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



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

## International Review

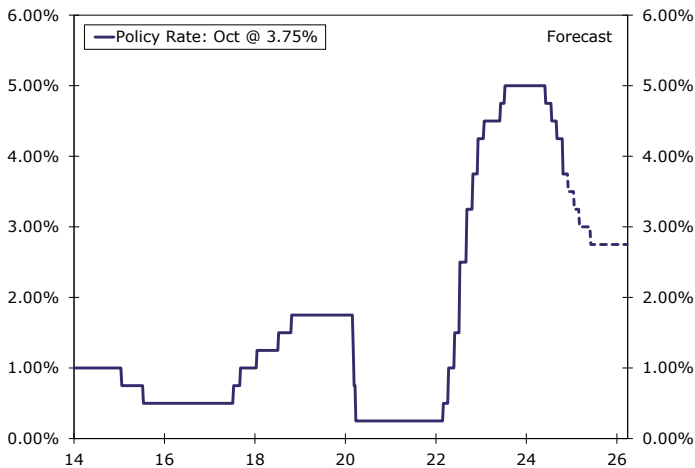
### Bank of Canada Quickens Monetary Easing, Eurozone Economy Continues to Struggle

It was a somewhat lighter week for international economic data and events, save for the Bank of Canada (BoC) rate decision and a mix of sentiment data from global economies. In a widely expected decision, the BoC lowered its policy rate by 50 bps to 3.75% and offered generally dovish-leaning commentary. Among what we view as some of the most important comments from BoC Governor Macklem:

- "We took a bigger step today because inflation is now back to the 2% target, and we want to keep it close to the target....Now our focus is to maintain low, stable inflation. We need to stick the landing."
- "Price pressures are no longer broad-based, and both our measures of core inflation are now under 2.5%...We are back to low inflation."
- With inflation back to target, "we want to see growth strengthen."

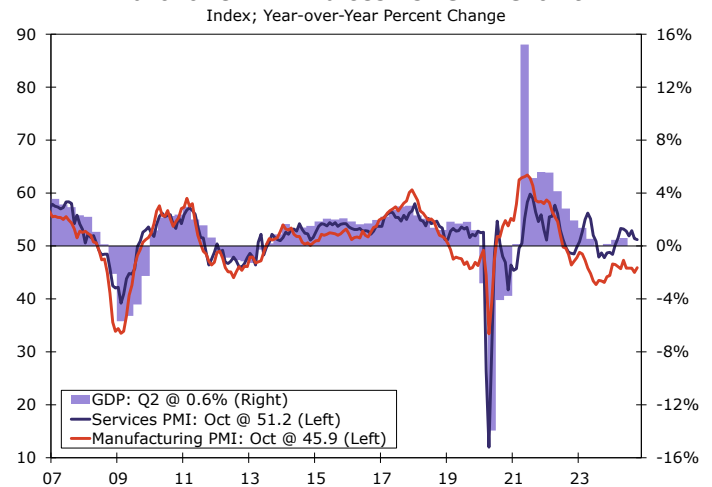
The comments about low and on-target inflation come as no surprise, given that in September headline CPI inflation came in at 1.6% year-over-year, the first time the measure has dipped below 2% in over three years. Underlying inflationary pressures have also eased significantly. In terms of other economic data, policymakers noted that the labor market has been soft and that consumption is declining on a per-person basis. BoC officials expect the Canadian economy to grow at a slightly slower pace in the second half of 2024 as compared to the first. This announcement was also accompanied by updated BoC economic forecasts. The central bank sees lower headline inflation at the end of 2024 than previously and kept its annual GDP growth forecasts for 2024 and 2025 the same at 1.2% and 2.1%, respectively, while it brought the 2026 forecast down slightly to 2.3% from 2.4% previously. Overall, it appears that BoC policymakers are reasonably comfortable in their assessment of inflationary pressures—noting that they expect inflation to remain close to target over their forecast horizon—and are now shifting some more of their focus toward the country's economic growth prospects. They noted that they see GDP growth improving gradually over the coming years, thanks in part to lower interest rates. To us, this suggests that BoC policymakers see policy rate cuts and improving economic growth data hand-in-hand, as opposed to the potential for sturdier economic growth data in the future proving to be an impediment to further rate cuts. We anticipate the BoC will continue to cut its policy rate in order to support demand and price stability, with our forecast for 25 bps rate cuts at the December, January, March and June meetings to reach a terminal policy rate of 2.75% by the middle of next year. If labor market or economic activity were to exhibit excessive weakness, the risks would be tilted toward the BoC moving at a 50 bps rate cut pace again.

Bank of Canada Policy Rate



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

Eurozone PMI Indices vs. GDP Growth



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

In this week's international economic data, the Eurozone October PMIs were somewhat mixed but overall not that encouraging. The manufacturing PMI rose to 45.9 from 45.0 against consensus expectations for a much smaller increase, reaching its highest level in five months but still remaining historically subdued. The services PMI declined slightly to 51.2 against expectations for a mild increase. Overall, the manufacturing sector still appears to be contracting, and while the services sector remains in expansion, in October it expanded at the slowest pace in eight months. The composite, or economy-wide, PMI ticked up slightly to 49.7, though this reading is still below the 50 level that typically denotes expansion from contraction, and is consistent with an economy that has essentially stalled. Within the details of the surveys, new orders were down overall across both sectors, pointing to a softening in demand. The picture for labor market conditions was also somewhat bleak in the release, with the third consecutive monthly overall decrease in employment. Most of that decline came from the manufacturing sector, but services sector employment growth was sluggish as well, coming in almost flat from the previous month. Business confidence was also subdued this month and price pressures reportedly continued to ease. Data from the region's largest economies were also somewhat mixed, with the headline indices for Germany surprising to the upside, while the France PMIs came in weaker than expected. A quick glance at the improvement in Germany's PMIs would not offer a complete story, however, as the country's economy—as well as France's—saw declines in business activity. Germany also saw the most job cuts since the beginning of the COVID-19 pandemic in 2020. Overall, we see these PMI data as reflective of concerns about the performance of the Eurozone economy. As we are increasingly seeing signs that the region may be in store for subdued economic growth, we remain comfortable with our outlook for continued 25 bps rate cuts at every meeting from the European Central Bank through March of next year. Stay tuned for next week's release of Eurozone GDP for the third quarter—see the [International Outlook](#) section below for further detail.

Other international PMI data for October were generally mixed. In Japan, the manufacturing and services PMIs both surprised to the downside, coming in at 49.0 and 49.3, respectively. India's PMI figures were a bit more encouraging. The manufacturing PMI increased to 57.4 and the services PMI increased to 57.9, with the report pointing to solid employment and demand conditions as well as persistent price pressures. In Australia, the manufacturing PMI dropped modestly, while the services PMI ticked up very slightly; the survey pointed to a steady services sector and a subdued manufacturing sector, and a slight easing in cost pressures. Finally, the U.K. PMI surveys were mildly soft in tone, as the manufacturing PMI fell to 50.3 and the services PMI slipped to 51.8.

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## International Outlook

### Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
30-Oct	Eurozone GDP (YoY)	Q3	0.8%	-	0.6%
31-Oct	Eurozone CPI (YoY)	Oct	1.9%	-	1.7%
31-Oct	China Manufacturing PMI	Oct	50.0	-	49.8
31-Oct	China Non-manufacturing PMI	Oct	50.5	-	50.0
31-Oct	Bank of Japan Policy Rate	31-Oct	0.25%	0.25%	0.25%

Forecast as of October 25, 2024

Source: Bloomberg Finance L.P and Wells Fargo Economics

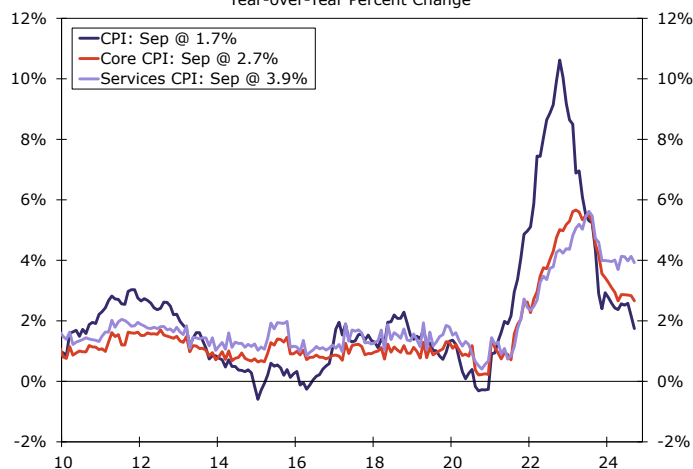
### Eurozone GDP & CPI • Wednesday & Thursday

Next week will see the release of some key economic activity and price data from the Eurozone. Market participants will be closely watching the third quarter GDP growth and October CPI inflation figures for insights into how the ECB's future rate cut path could unfold. Consensus economists expect the region's economy expanded by 0.2% quarter-over-quarter, or 0.8% year-over-year, while price pressures might have displayed mixed trends in October. Headline CPI inflation is expected to tick higher to 1.9% year-over-year, with core expected to slow to 2.6%.

These data will arrive at a time when market participants as well as European Central Bank (ECB) policymakers have, in our view, generally become increasingly concerned with the state of Eurozone economic growth as inflation concerns have become less worrisome. Sentiment in the services and manufacturing sectors fell sharply in September, and generally remained subdued in October, leaving lingering growth concerns. Next week's GDP figures have the potential to serve as confirmation, or not, of the softness seen in the Eurozone PMIs in recent months. In terms of price pressures, headline inflation has slowed markedly and came in below the ECB's 2% target in September. Core inflation has also continued to ease, and last month services inflation came in below 4% for the first time in five months. Overall, we see subdued economic conditions as reasonable justification for policymakers to continue to deliver back-to-back 25 bps rate cuts through March of next year. Our current base case does not include any 50 bps rate cuts. Rather, if growth data in the coming months turn out to be especially weak and inflation data benign, we see some potential in a risk scenario for the ECB to keep delivering 25 bps rate cuts at an "every meeting pace" beyond March 2025.

### Eurozone Inflation

Year-over-Year Percent Change



Source: Datastream and Wells Fargo Economics

### China PMIs • Thursday

China's October PMIs, due for release next week, will provide timely insight into how the country's economy has fared as of late. In our opinion, the PMI figures will likely be consistent with only a modest pace of economic growth, in alignment with recent economic activity data releases from China that were generally unimpressive. Consensus economists expect both the manufacturing and non-manufacturing PMIs to stay broadly steady at 50.0 and 50.5, respectively. Those readings, in our view, would point to a generally subdued Chinese economy that is struggling to gain momentum.

While recent softness in economic data helped propel authorities to roll out a variety of fiscal and monetary policy stimulus measures—which we cover in more detail in a recent [report](#)—we are not convinced these measures will materially change the course of Chinese economic performance in the near term or farther out. Geopolitical tensions, a struggling property sector and subdued consumer demand all remain challenges. To that point, we forecast China's GDP growth to slow to 4.6% this year and further to 4.3% in 2025—and would view modest readings in next week's PMIs as consistent with that underwhelming growth forecast.

### Bank of Japan Policy Rate • Thursday

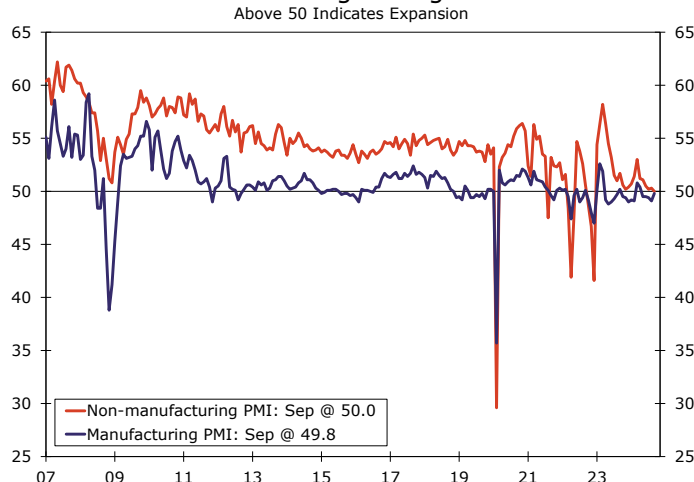
Next week, the Bank of Japan (BoJ) will announce its latest monetary policy decision, which we as well as consensus economists expect to be no change: a policy rate pause at 0.25%.

While we see reasons to believe BoJ will pause its policy normalization efforts for now, we do not think this pause will extend indefinitely, as we forecast the central bank to return to rate hikes in 2025. Looking at the near term, we believe that financial market volatility from the late summer is still of some relevance to policymakers, and that they will want to wait a bit longer to ensure that market conditions have sufficiently calmed. Once market conditions have sufficiently settled down, we believe that the general trends in inflation, wage growth, and GDP growth will support continued policy normalization efforts. Headline and underlying inflation data continue to come in near or above the BoJ's 2% target, wage growth has been reasonably solid in recent months, and economic growth has shown signs of improvement. In our view, the combination of sustained inflation and wage growth as well as improving economic growth should see the central bank lift its policy rate by 25 bps at each of its January and April 2025 meetings, to reach a policy rate of around 0.75%.

Another development to watch from Japan in the coming days will be the results of the Oct. 27 general election. Market participants will be tuned in to the performance of Prime Minister Shigeru Ishiba's Liberal Democratic Party and the party's ruling coalition in the lower house.

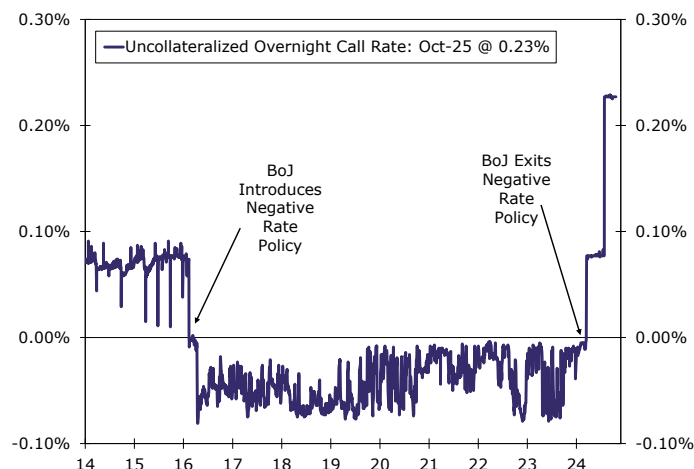
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### China Purchasing Manager Indices



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

### Japan Overnight Money Market Rate



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

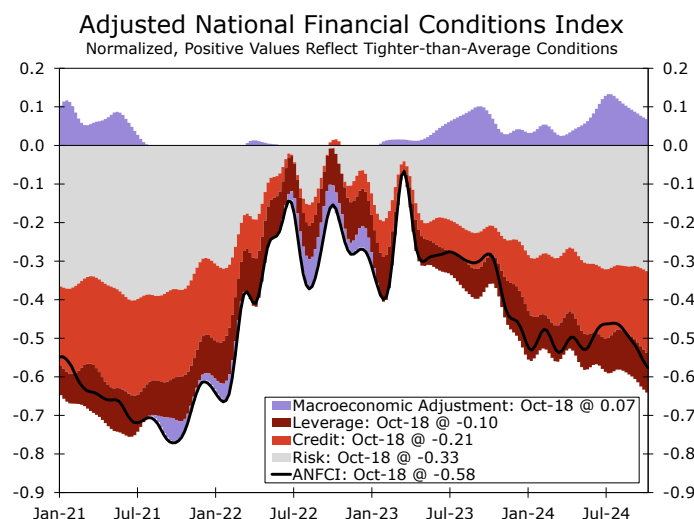


## Credit Market Insights

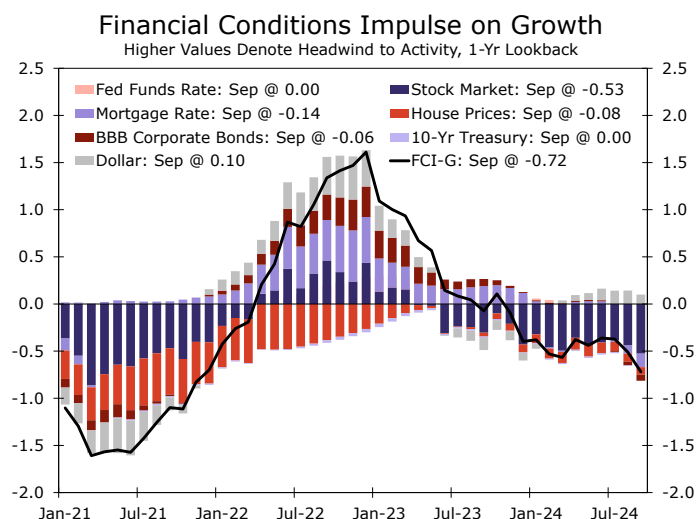
### Financial Condition Indices Hit Early 2022 Levels

Monetary policymakers are keenly interested in quantifying “financial conditions,” because households and firms respond to changes in them, which in turn translates into changes in real economic activity. But “financial conditions” can be a vague and all-encompassing term, usually comprising interest rates and asset prices in money markets, securities markets and banking systems. Financial condition indices that summarize a range of these financial variables into a single measure are one popular metric to determine how accommodative conditions are throughout the financial sector. Somewhat surprisingly, two such indices from the Federal Reserve currently indicate financial conditions are about as loose as they were on the eve of the Fed's hiking cycle.

The Federal Reserve Bank of Chicago provides a weekly update on financial conditions through its Adjusted National Financial Conditions Index (ANFCI). The ANFCI is a weighted average of 105 indicators of financial activity that adjusts for current economic conditions. When interpreting the ANFCI, positive values denote tighter financial conditions, on average, than would be typical of current economic conditions, while negative values reflect accommodative conditions. As of the week of Oct. 18, the ANFCI dipped down to -0.58, the lowest reading since February 2022. Each of the four main categories comprising the index put downward pressure on the ANFCI in recent weeks, but the turn lower stems largely from easier credit for households and non-financial businesses ([chart](#)). Currently, both the credit and risk components are contributing *more* to easier financial conditions now than they were in early 2022 before the Fed began tightening monetary policy.



Source: Federal Reserve Bank of Chicago and Wells Fargo Economics



Source: Federal Reserve Board and Wells Fargo Economics

A slightly different look at financial conditions comes from the Fed Board's [Financial Conditions Impulse on Growth](#) (FCI-G), which "assesses the extent to which financial conditions pose headwinds or tailwinds to economic activity." Despite using a substantially different methodology than the ANFCI, the FCI-G also suggests that financial conditions are about as much of a tailwind to economic activity as in late 2021/early 2022. In fact, financial conditions could pose slightly greater tailwinds today than three years ago. By this measure, stock market outperformance, a turn lower in mortgage rates and steady home price appreciation have all fostered easier financial conditions.

It is surprising to see financial conditions about as loose as they were *before* the Fed raised rates after just one 50 bps cut. The reality is that throughout the hiking cycle and the Fed's 14-month hold at the highest policy rate in two decades (5.25%-5.50%), financial conditions tightened briefly, but quickly recovered. We suspect that contained leverage along with strong economic growth have underpinned loose financial conditions. Given our expectations for material Fed easing over the next year and continued resilience in economic activity, we anticipate financial conditions to only get easier as interest rates across markets fall and credit access improves for households and firms.

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## Topic of the Week

### Beige Flags in the Beige Book

The latest Beige Book—which covers early September through mid-October—revealed a picture of softening economic growth, with nine of the 12 regional banks reporting flat or declining activity over the month. Despite the solid economic data released over the same period, business and not-for-profit contacts highlighted underwhelming activity. Most districts reported declining manufacturing activity, mixed consumer spending data, lack of affordable housing and softening labor demand. They also highlighted elevated uncertainty, with an increased share of businesses and consumers waiting to make big financial decisions until after the presidential election in November. Despite the overall bleak picture, contacts were overall optimistic about the longer-term outlook, though still exercised caution in their hiring and investment decisions.

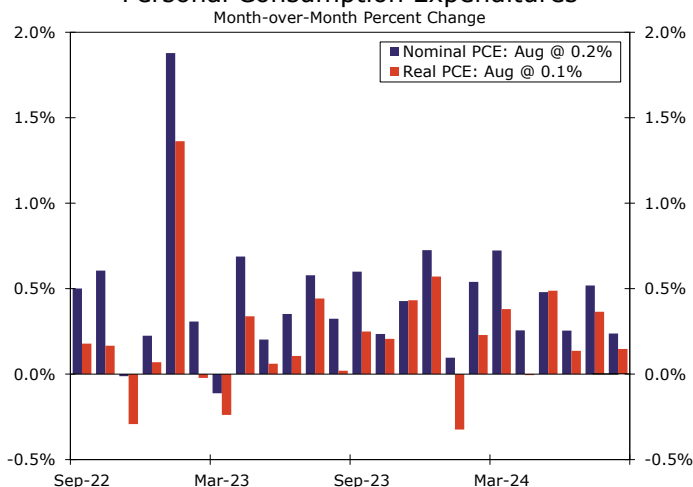
Between the dockworkers' strike, Hurricane Helene and the approaching presidential election, October was a month of turbulent headlines, and the Beige Book reflected the uncertainty felt by consumers and business contacts. Contacts in districts with major port cities—such as New York, Richmond and Atlanta—reported a slight increase in cargo volumes as they accommodated additional traffic ahead of the dockworkers strike, but ultimately, the brevity of the strike caused only minor and temporary disruptions. Hurricane Helene had a more severe impact, with districts in the Southeast reporting damaged crops, pauses in business activity and tourism, and damage to infrastructure listed as the top problems. The Federal Reserve Bank of Richmond noted that the full extent of damages from the hurricane remains unclear, with economic conditions likely to be affected in the months ahead. Election uncertainty was also a common theme in this Beige Book. Contacts reported a "wait and see" mode across the districts, with employers waiting to hire, businesses waiting to invest and consumers waiting to purchase big-ticket items until the election passes.

Apart from the disruptions caused by turbulent headlines, contacts across the districts noted softening economic conditions. Though reports on consumer spending were mixed, comments from business contacts highlight a choosier consumer. The New York Federal Reserve categorized consumers as "more discriminating, trading off less quantity for higher quality," while the regional banks of Cleveland, Atlanta, Chicago, St. Louis, Minneapolis and Kansas City commented on sales growth in lower-cost retailers and restaurants, with customers "trading down," suggesting increasing price sensitivity among consumers. Employment also appears to be coming into better balance, with many districts reporting low worker turnover and hiring focused on replacement over growth. However, many contacts reported difficulty finding workers in some industries, and wages generally continue to rise at a modest pace.

As we discuss in [U.S. Outlook](#), personal income and spending and employment data will be released next week, shedding light on the state of the consumer and the labor market. Though the October employment report will likely be muted due to hurricane disruptions, we expect to see continued growth in consumer spending. Despite elevated uncertainty, contacts expressed a "cautious optimism" about the longer-term outlook, and we tend to agree. We expect the FOMC to deal two more rate cuts this year, and an additional 125 bps of easing next year, which should provide relief to interest-rate-sensitive sectors that have been under pressure. Economic growth continues to be strong, inflation has trended downward and consumers continue to spend. Though there is plenty of downside risk in the near term, we look for better balance moving forward.

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

### Personal Consumption Expenditures



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

## Market Data • Mid-Day Friday

## U.S. Interest Rates

	Friday 10/25/2024	1 Week Ago	1 Year Ago
SOFR	4.83	4.85	5.30
Effective Fed Funds Rate	4.83	4.83	5.33
3-Month T-Bill	4.62	4.63	5.46
1-Year Treasury	4.30	4.27	5.22
2-Year Treasury	4.06	3.95	5.12
5-Year Treasury	4.02	3.88	4.92
10-Year Treasury	4.21	4.08	4.95
30-Year Treasury	4.48	4.39	5.09
Bond Buyer Index	4.18	3.92	4.19

## Foreign Exchange Rates

	Friday 10/25/2024	1 Week Ago	1 Year Ago
Euro (\$/€)	1.082	1.087	1.057
British Pound (\$/£)	1.298	1.305	1.211
British Pound (£/€)	0.833	0.833	0.872
Japanese Yen (¥/\$)	152.050	149.530	150.230
Canadian Dollar (C\$/A\$)	1.388	1.380	1.380
Swiss Franc (CHF/\$)	0.866	0.865	0.897
Australian Dollar (US\$/A\$)	0.663	0.671	0.631
Mexican Peso (MXN/\$)	19.882	19.877	18.328
Chinese Yuan (CNY/\$)	7.121	7.102	7.317
Indian Rupee (INR/\$)	84.081	84.074	83.189
Brazilian Real (BRL/\$)	5.700	5.693	4.996
U.S. Dollar Index	104.086	103.493	106.528

## Foreign Interest Rates

	Friday 10/25/2024	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	2.81	2.87	3.72
3-Month U.K. Govt Bill Yield	4.73	4.75	5.31
3-Month Canadian Govt Bill Yield	3.52	3.67	5.12
3-Month Japanese Govt Bill Yield	0.02	0.02	-0.16
2-Year German Note Yield	2.12	2.11	3.13
2-Year U.K. Note Yield	4.16	4.00	4.84
2-Year Canadian Note Yield	3.06	2.96	4.73
2-Year Japanese Note Yield	0.45	0.44	0.08
10-Year German Bond Yield	2.29	2.18	2.89
10-Year U.K. Bond Yield	4.23	4.06	4.61
10-Year Canadian Bond Yield	3.23	3.13	4.12
10-Year Japanese Bond Yield	0.96	0.98	0.86

## Commodity Prices

	Friday 10/25/2024	1 Week Ago	1 Year Ago
WTI Crude (\$/Barrel)	71.11	69.22	85.39
Brent Crude (\$/Barrel)	75.31	73.06	90.13
Gold (\$/Ounce)	2738.98	2721.46	1979.72
Hot-Rolled Steel (\$/S.Ton)	704.00	705.00	702.00
Copper (¢/Pound)	437.90	438.45	359.10
Soybeans (\$/Bushel)	9.91	9.65	13.00
Natural Gas (\$/MMBTU)	2.50	2.26	3.01
Nickel (\$/Metric Ton)	16,047	16,754	18,042
CRB Spot Inds.	551.94	550.71	544.05

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

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