WELLS FARGO

Weekly — December 12, 2025

Weekly Economic & Financial Commentary

United States: **December Rate Cut, Options Left Open for January**

- The FOMC lowered the fed funds rate 25 bps at its December meeting and left its options open for January as the Committee weighs incoming data with a wide dispersion of views. Data out this week continue to show the labor market losing steam, supporting the case for returning monetary policy to a neutral stance.
- Next week: Employment (Tue.), Retail Sales (Tue.), CPI (Thu.)

International: **Global Central Banks Holding Steady**

- In contrast to the FOMC's rate cut, most global policymakers played it cool in a jam-packed week of central bank decisions, opting to hold steady. The Bank of Canada, Reserve Bank of Australia, Swiss National Bank and Brazilian Central Bank all kept policy rates unchanged. Meanwhile, outside the rate-setting arena, Mexico's inflation surprised to the upside.
- Next week: China Industrial Production and Retail Sales (Mon.), Bank of England Policy Rate (Thu.), European Central Bank (Thu.)

Topic of the Week: **A Cut to Close Out the Year**

- The December FOMC meeting included the latest Summary of Economic Projections. Despite dissents and a hawkish tilt to the dot plot, the Committee maintains an easing bias.

Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual	Forecast		
	2025				2026							
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2024	2025	2026	2027
Real Gross Domestic Product (a)	-0.6	3.8	3.7	-0.1	3.4	2.2	2.5	2.0	2.8	2.0	2.3	2.2
Personal Consumption	0.6	2.5	3.0	1.0	1.8	2.3	2.2	2.2	2.9	2.5	2.0	2.1
Consumer Price Index (b)	2.7	2.5	2.9	2.9	2.6	2.9	2.8	2.7	3.0	2.7	2.7	2.4
"Core" Consumer Price Index	3.1	2.8	3.1	3.0	2.9	3.1	2.9	2.7	3.4	3.0	2.9	2.4
Quarter-End Interest Rates (c)												
Federal Funds Target Rate (d)	4.50	4.50	4.25	3.75	3.50	3.25	3.25	3.25	5.27	4.25	3.31	3.25
Conventional Mortgage Rate	6.65	6.82	6.35	6.25	6.15	6.15	6.20	6.20	6.72	6.52	6.18	6.25
10 Year Note	4.23	4.24	4.16	4.00	3.95	4.00	4.10	4.15	4.21	4.16	4.05	4.20

Forecast as of: November 19, 2025
Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter (b) Year-over-Year Percentage Change
(c) Quarterly Data - Period End; Annual Data - Annual Averages (d) Upper Bound of the Federal Funds Target Range

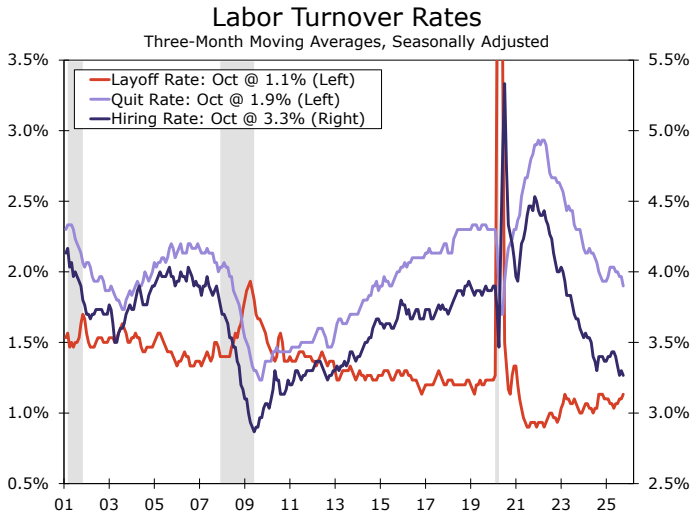
Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, Federal Reserve Board and Wells Fargo Economics

U.S. Review

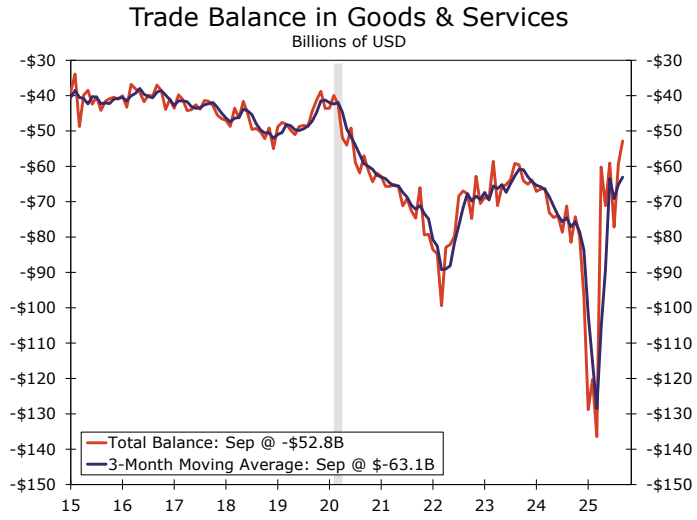
December Rate Cut, Options Left Open for January

The December FOMC meeting was the focal point this week. The Committee delivered a widely anticipated 25 bps rate cut, lowering the target range for the fed funds rate to 3.50%-3.75%. Chair Powell kept the Committee's options open for January by stressing that it has a wide dispersion of views and future policy moves will be guided by incoming data. Despite two hawkish dissents and the dot plot revealing four other regional bank presidents preferred to hold the policy rate steady, the Committee maintains an easing bias; see Topic of the Week for more detail.

The softening labor market spurred rate cuts this year, and data out this week show the moderation remains in train. The Employment Cost Index rose a softer-than-expected 0.8% in Q3 and 3.5% over the past year, its slowest annual pace since mid-2021. The cooling in compensation growth has been underpinned by the low-hiring environment. The October JOLTS report showed the hiring rate fell back to its cycle low of 3.2% despite a jump in job openings. The layoff rate ticked up to 1.2% and the quits rate fell to 1.8%, its lowest since the pandemic, as job switching opportunities are rare. All told, these data suggest the labor market remains in a precarious position.



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



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

Persistent uncertainty, largely driven by dramatic changes in trade policy, has cooled labor demand. Trade flows whipsawed through the first half of 2025 as businesses prioritized stocking up and minimizing costs ahead of tariff hikes. The latest data show the U.S. international trade deficit narrowed to -$53 billion in September, much smaller than its record wide of -$136 billion in March. Yet, the recent narrowing was driven almost entirely by a surge in non-monetary gold exports, which are excluded from GDP calculations and will likely do little to boost overall output growth in Q3.

On balance, this week's data show economic growth was moderating headed into the final stretch of 2025. The open question is whether the slowdown has been driven by a mere deceleration in activity or a deterioration in underlying demand. We will get a fuller picture with the October-November jobs report and the November CPI report next week; see U.S. Outlook for more detail.

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U.S. Outlook

Weekly Domestic Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
16-Dec	Nonfarm Payrolls (Oct)	Oct	-	-60K	119K
16-Dec	Nonfarm Payrolls (Nov)	Nov	50K	45K	119K
16-Dec	AHE (MoM) (Oct)	Oct	-	0.3%	0.2%
16-Dec	AHE (MoM) (Nov)	Nov	0.3%	0.3%	0.2%
16-Dec	Unemployment Rate (Nov)	Nov	4.5%	4.5%	4.4%
16-Dec	Retail Sales (MoM)	Oct	0.2%	0.1%	0.2%
16-Dec	Retail Sales ex Auto (MoM)	Oct	0.2%	0.2%	0.3%
16-Dec	Business Inventories (MoM)	Sep	0.1%	-0.1%	0.0%
18-Dec	CPI (2-Month % Change)	Nov	-	0.45%	0.69%
18-Dec	CPI (YoY)	Nov	3.1%	3.0%	3.0%
18-Dec	Core CPI (2-Month % Change)	Nov	-	0.48%	0.57%
18-Dec	Core CPI (YoY)	Nov	3.0%	2.9%	3.0%
18-Dec	CPI Index NSA	Nov	325.233	324.831	324.800
19-Dec	Existing Home Sales (SAAR)	Nov	4.15M	4.16M	4.10M

Forecast as of December 12, 2025

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

Employment • Tuesday

The upcoming U.S. employment report will be unusual, covering employment for both October and November. October's data will be partially complete, as BLS will only release indicators produced from the establishment survey due to collection issues from the prolonged government shutdown. We expect nonfarm payrolls declined by 60K in October, largely reflecting a one-time drop in federal employment due to deferred resignations. Excluding federal payrolls, we expect employment rose by 65K in October.

November's report will provide the full set of indicators, though technical distortions remain possible after the record 43-day shutdown. We forecast payrolls rose 45K over the month, with the unemployment rate edging up to 4.5%, above estimates for full employment and the Fed's long-run projection. Recent data tell us employers remain reluctant to expand headcount but are hesitant to let go of existing staff in droves, leaving job growth slow and wage gains modest. On balance, our expectation is that the coming data deluge will continue existing trends.

Employment Situation on Dec 16

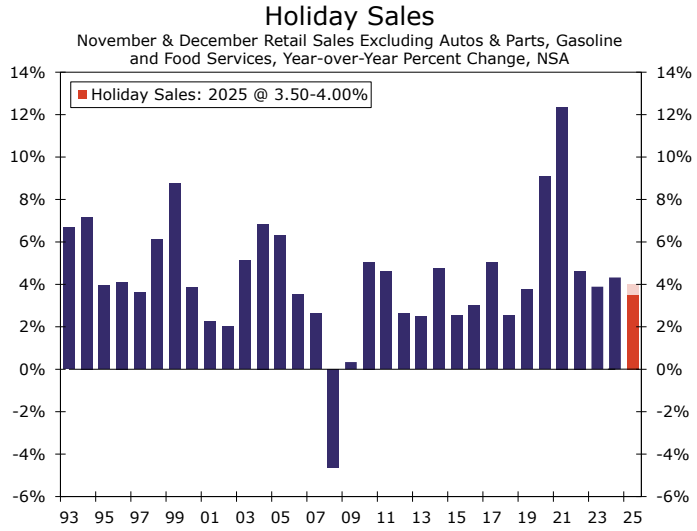
		Oct	Nov
Current Employment Statistics (**CES**)	Nonfarm Payrolls	✓	✓
	Industry Details	✓	✓
	Avg Hourly Earnings	✓	✓
	Avg Weekly Hours	✓	✓
Current Population Survey (**CPS**)	Unemployment Rate	-	✓
	Participation Rate	-	✓
	Emp-to-Pop Ratio	-	✓
	Demographic Details	-	✓

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

Retail Sales • Tuesday

We will get the October print of retail sales next week, which was previously scheduled to be released in mid-November but was delayed by the government shutdown. Though October's data are not accounted for in our holiday sales outlook, they will provide a clearer read on the consumer as they head into the holiday season. September's print was softer than expected, with overall retail sales increasing just 0.2% on top of downward revisions to August's sales. Key holiday-shopping categories—such as sporting goods, clothing and department stores—were down over the month.

We look for overall retail sales to rise 0.1% in October. Auto sales declined the most in five months in October, which will likely lead to a slowdown in overall retail sales. Ex-autos, we look for retail sales to increase 0.2%. Holiday spending will likely provide a boost to retail sales as we near the end of the year, and we currently look for an annual gain of 3.5%-4% in holiday sales. However, the continued moderation in the jobs market and compounding prices gains are weighing on households' ability to spend, so we wouldn't be surprised if the lower end of the range is looking more likely at the moment.

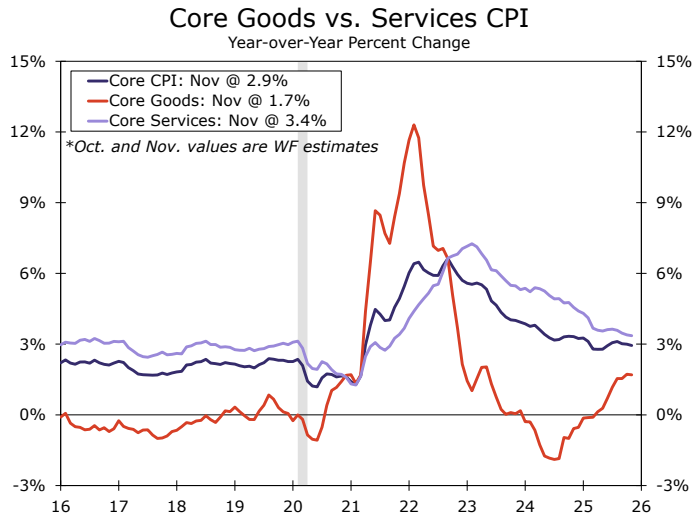


Source: U.S. Department of Commerce and Wells Fargo Economics

CPI • Thursday

The government shutdown disrupted data collection for the October CPI, so BLS will not be publishing headline or core inflation figures for the month. November indices should be published as usual, albeit with the prospect of slightly lower collection rates. With aggregate indices unavailable for October, the short-term take on inflation will be viewed as the two-month percentage change. We estimate headline CPI rose 0.45% between September and November, leaving the year-over-year pace at 3.0%. Core inflation likely softened to 2.9% over the year, with goods inflation easing with weaker vehicle prices and services inflation continuing to moderate, particularly in shelter and travel-related categories. Overall, we expect core CPI rose 0.48% between September and November.

As regular collection processes resume, we look for underlying inflation trends to remain stable. The lingering effects of tariffs are likely to cause a further uptick in goods inflation as firms revisit pricing early next year, but we expect overall inflation to hold near 3.0% through the first half of 2026. As the year progresses, we anticipate easing tariff pressures, a soft labor market and solid productivity gains will spur a gradual descent toward 2%.



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

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International Review

Global Central Banks Holding Steady

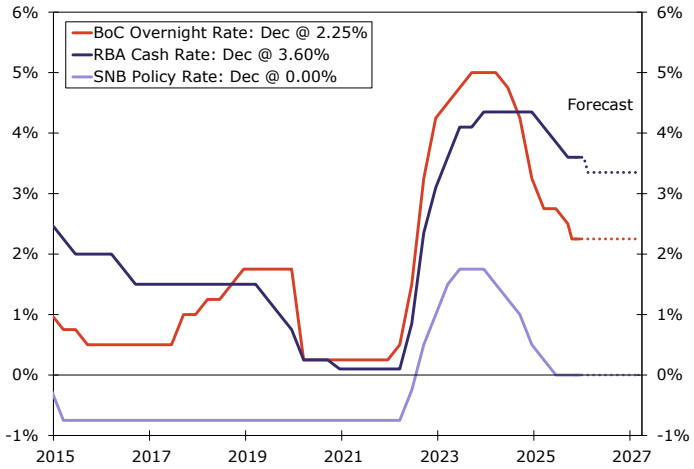
In a jam-packed week of monetary policy announcements as global central banks convened for their final meetings of the year, most opted to hold steady. To start, in a widely expected move, the Bank of Canada (BoC) kept the Overnight Rate unchanged at 2.25%, maintaining the policy rate at the lower bound of the neutral range. The overall tone was less hawkish than anticipated, with Governor Tiff Macklem noting in the post-meeting press conference that despite recent data showing resilience, data had not changed the BoC's view that the growth momentum is still sluggish. He added that expectations remain for only modest growth ahead, and when asked about the strong Q3 GDP print and low unemployment rates, Macklem reiterated that monetary policy settings felt appropriate given current conditions. This decision also came after the BoC had time to assess the recently announced expansionary budget, which the central bank does not expect to add significant inflationary pressures, as it anticipates the budget will boost both demand and supply. We expect the BoC's easing cycle is

over and do not foresee any cuts in 2026, with risks skewed toward a potential hike later in the year instead.

The Swiss National Bank (SNB) also held its policy rate at 0.00%, not only avoiding a move into negative territory but signaling a hawkish stance through its forward guidance. While inflation remains low by historical standards—headline inflation was flat at 0.0% year-over-year in the latest print, and core inflation continued its descent to 0.4%, levels not seen since 2021—the SNB commentary appeared to downplay these figures, placing little weight on the low inflation reading and only slightly revising its CPI forecasts. Perhaps the improved geopolitical backdrop, including reduced U.S. tariffs to 15% from 39%, is providing some reassurance on the overall outlook. All in, this surprisingly hawkish SNB announcement reinforces our base case for the SNB to keep rates unchanged at 0.00% throughout 2026.

Down under, the Reserve Bank of Australia (RBA) held its cash rate steady at 3.60% in this week's monetary policy announcement in a unanimous decision. While the accompanying statement was balanced, the press conference that followed struck a more hawkish tone. Governor Michele Bullock remarked that based on current economic conditions, "I don't think there are interest rate cuts on the horizon for the foreseeable future," adding that the real question is whether policy remains on an extended 'hold' or even shifts toward a hike. The RBA acknowledged that recent elevated inflation prints were partly due to temporary factors but still expressed concern about the broader trend, noting that "risks to inflation have tilted to the upside." It also highlighted strength in growth, particularly in private demand supported by both consumption and investment. Ultimately, the board maintained its cautious, data-dependent stance, emphasizing that it will "update its view of the outlook as the data evolve." Since the announcement, labor market data have disappointed, showing employment fell by 21.3K—driven primarily by full-time job losses of 56.5K, which offset gains in part-time jobs (+35.2K). While markets are pricing in hikes as early as February 2026, the weak labor print supports our base case, as we continue to see room for an additional 25 bps rate cut by Q2-2026. Risks to our view remain skewed toward a longer holding period if growth continues to strengthen and inflation stays elevated.

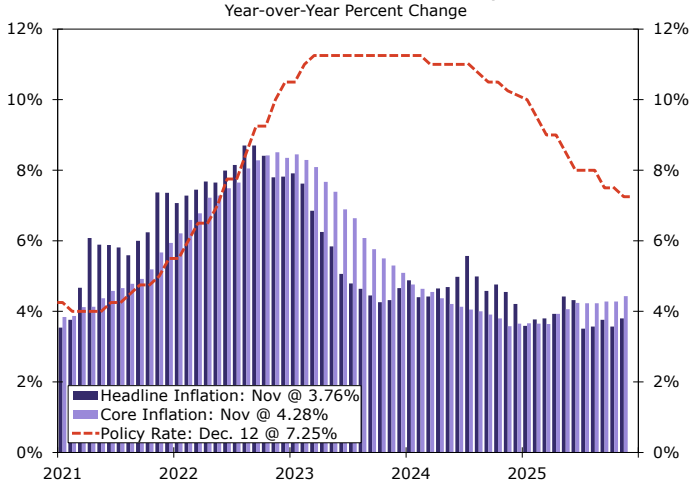
Canada, Australia & Swiss Central Bank Policy Rates



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

Mexico CPI Inflation vs. Policy Rate

Year-over-Year Percent Change



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

In emerging market central bank announcements that echoed the "hold steady" theme, the Brazilian Central Bank (BCB) met this week and kept the Selic Rate unchanged at 15.00%, without providing clear signals on whether a cut could be delivered in January. The overall COPOM statement leaned slightly hawkish, particularly in the context of recent economic and geopolitical developments. While U.S.-Brazil trade tensions have eased somewhat since the previous meeting in November, Brazil's economy has shown a noticeable slowdown in activity and further disinflation, bringing inflation within the BCB's target range. The November CPI print came in at 4.46% year-over-year—its lowest level since January. Communicating a similar stance despite softer growth, easing inflation and reduced geopolitical tensions appears hawkish and does not suggest an imminent cut at the next meeting.

Given this backdrop, we now expect BCB policymakers to begin their easing cycle in March—rather than January, which was our initial estimate—with a 25 bps cut.

In other economic news outside of central bank announcements, Mexico's November inflation print surprised to the upside across the board—rising from October's levels and exceeding consensus expectations. Headline inflation came in at 3.8% year-over-year, up from 3.57%, while core inflation rose to 4.43% from 4.28% the previous month. These data come at a critical juncture, just a week before Banxico's final monetary policy meeting of the year. The hotter-than-expected inflation print underscores the persistence of underlying price pressures, moving further away from Banxico's 3% inflation target. It reinforces our view that the end of the easing cycle may be approaching. However, given the continued slowdown in domestic economic activity, we still expect a rate cut at next week's meeting and do not believe this inflation surprise will derail that move. We anticipate the cut will be a "hawkish" one, bringing the Overnight Rate down to 7.00%. Furthermore, we maintain our view that this will be Banxico's terminal rate, with policy remaining on hold throughout 2026.

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International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
15-Dec	China Industrial Production (YoY)	Nov	5.0%	—	4.9%
15-Dec	China Retail Sales (YoY)	Nov	2.9%	—	2.9%
18-Dec	Bank of England Policy Rate	18-Dec	3.75%	3.75%	4.00%
18-Dec	European Central Bank Deposit Rate	18-Dec	2.00%	2.00%	2.00%

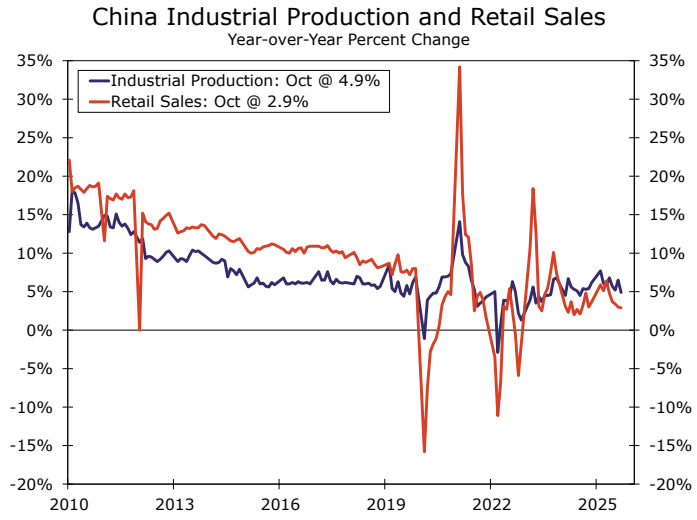
Forecast as of December 12, 2025

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

China Industrial Production and Retail Sales • Monday

Next week's November activity data will provide further insight into the current state of China's economy as the year draws to a close. Recent data from China have been somewhat subdued, which may temper expectations for the upcoming figures and the broader growth outlook. For example, the official November manufacturing PMIs showed modest improvement, ticking up to 49.2 but remaining below the 50 breakeven level for the eighth consecutive month. Meanwhile, the official non-manufacturing PMI dropped below 50 to 49.5 for the first time this year—and more significantly, for the first time since the economy reopened after the pandemic—potentially signaling weakness ahead in November retail sales.

In October, industrial production slowed to 4.9% year-over-year, falling short of consensus expectations, while retail sales eased slightly to 2.9%, though still marginally above consensus. For November, consensus expectations point to a slight uptick in industrial production to 5.0% and no change in retail sales. Overall, we expect November's activity data to remain consistent with our forecast for Chinese GDP growth of 4.9% in 2025, followed by a slowdown to 4.3% in 2026.

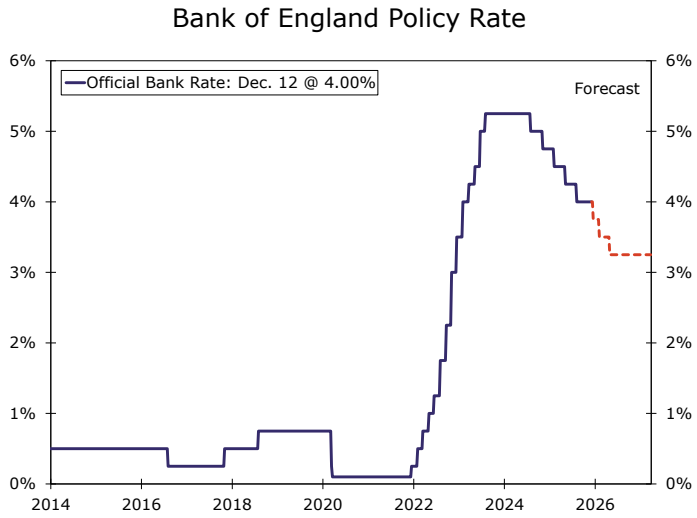


Source: Bloomberg Finance L.P. and Wells Fargo Economics

Bank of England Policy Rate • Thursday

Next week, when Bank of England (BoE) policymakers meet, we expect them to cut the Bank Rate by 25 bps to 3.75%. The BoE's most recent monetary policy statement struck a more dovish tone, reiterating its expectation of "a gradual downward path" for the Bank Rate and acknowledging both the weakness in economic activity and progress toward disinflation. Since then, incoming UK data have supported the case for policymakers to resume their gradual monetary easing approach. Disinflation progress has been notable across headline and core CPI measures. The latest October print showed broad-based declines: Headline inflation fell to 3.6% year-over-year, core inflation slowed to 3.4%—marking its third consecutive monthly decline—and services inflation, which tends to be sticky and is closely monitored by the BoE, dropped to its lowest level for this year at 4.5%. Wage growth tells a similar story, with the latest reading slowing to 4.8% year-over-year after a brief uptick in August, while wages excluding bonuses have been steadily cooling since the start of the year. Economic growth data have also been soft. October's monthly GDP print contracted for the second consecutive month by 0.1% month-over-month, missing expectations for an upside surprise. In addition, the last BoE meeting preceded the release of the Autumn Budget, which has since provided greater clarity on the fiscal outlook.

Taking these factors into account, we maintain our view for continued rate cuts into the new year, following a gradual quarterly



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

pace. We forecast the BoE to cut rates next week and continue reducing the policy rate by 25 bps per quarter through Q2-2026, reaching a terminal rate of 3.25%.

European Central Bank Deposit Rate • Thursday

Next week's active central bank calendar will also include the European Central Bank's (ECB) latest monetary policy announcement, where we expect the Deposit Rate to remain on hold at 2.00%. Supporting the case for a steady rate are the recent data from the Eurozone. Overall, economic growth has held up moderately well despite ongoing global uncertainty. Q3 GDP grew 0.3% quarter-over-quarter and 1.4% year-over-year, while PMI surveys have remained firm, rising steadily since May, with November's composite PMI at 52.8. Inflation dynamics also reinforce the ECB's cautious stance. Headline CPI rose to 2.2% year-over-year in November, and services inflation climbed for the fourth consecutive month to 3.5%—its highest level since April—highlighting persistent price pressures.

Given this backdrop, combined with the ECB's repeated assertion that policy is in a "good place," we expect the Deposit Rate to remain unchanged not only at next week's meeting but also throughout 2026. This meeting will also include updated macroeconomic projections, which we will monitor closely for signals on the growth and inflation outlook.

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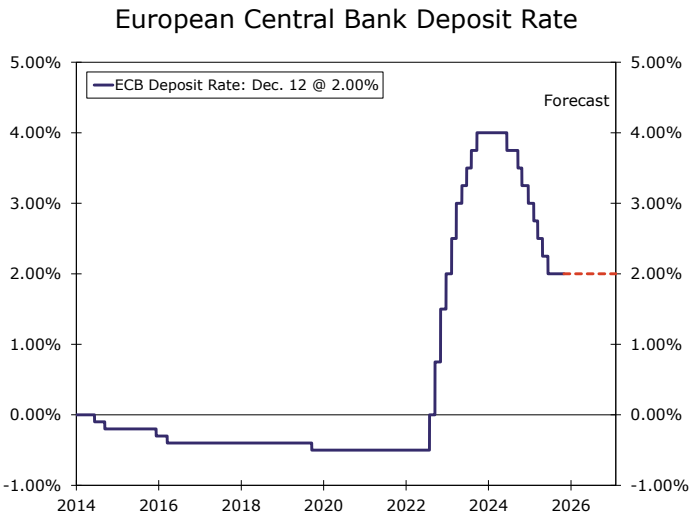


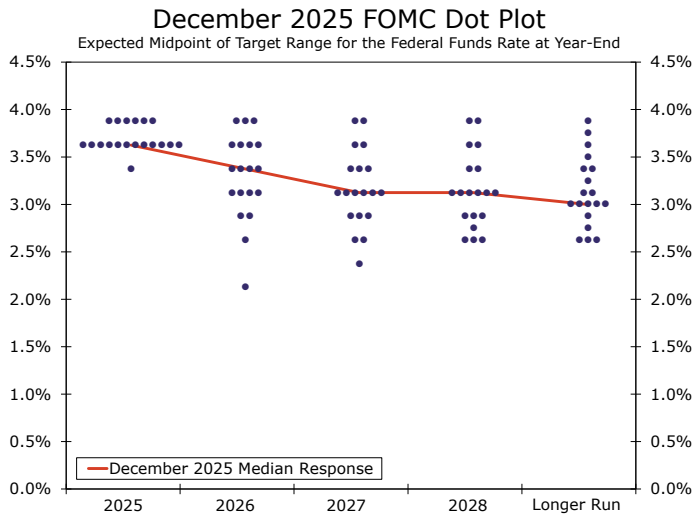
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Topic of the Week

A Cut to Close Out the Year

The FOMC delivered a widely anticipated cut to the fed funds rate at its Dec. 10 meeting, lowering the target range to 3.50%-3.75%. However, the lack of unanimity highlighted a broadening degree of internal division. For the second consecutive meeting, there were dissents from either end of the policy spectrum, underscoring the risks to both sides of the dual mandate. Chicago Fed President Austan Goolsbee and Kansas City Fed President Jeffrey Schmid dissented in favor of keeping rates unchanged, while Governor Stephan Miran continued to call for a more aggressive 50 bps cut.

Despite the dissents and a hawkish tilt to the dot plot, the Committee maintains an easing bias. The December Summary of Economic Projections (SEP) showed the median participant expects the midpoint of the target range for the fed funds rate to be 3.375% and 3.125% at the end of 2026 and 2027, respectively, unchanged from September. The longer-run median was unchanged at 3.00%, with the dot plot illustrating that all but two participants see the current policy rate as at least somewhat restrictive (chart). The most notable change to the SEP was the upward revision to the 2026 growth outlook, with the median projection rising from 1.8% to 2.3%, partially due to the government shutdown weighing on the Q4-2025 base of that projection.



Source: Federal Reserve Board and Wells Fargo Economics

In addition, the Federal Reserve also announced it will resume growing its balance sheet through Treasury bill purchases to maintain short-term interest rate control. Beginning on Dec. 12, the central bank announced that it will begin at a pace of $40 billion for the month. We expect a moderation in pace to $25 billion per month in the spring, and if realized, the Fed balance sheet is expected to grow by roughly $370 billion in 2026.

Overall, available labor market data indicate a notable softening, increasing the downside risks to the "maximum employment" mandate and reinforcing a case for a neutral policy stance. While the latest available data show a tension between the employment and inflation mandate, price growth is expected to ease in the coming year as tariff-related price pressures start to recede.

Moreover, the upcoming data deluge suggest that policymakers have optionality over the rate path moving forward. The Committee signaled flexibility on future rate cuts by emphasizing, "In considering *the extent and timing of* additional adjustments to the target range..." in its post-meeting statement, suggesting a higher bar for further cuts and likely appeasing the hawks. However, we do not think this easing cycle has ended; instead, we expect to see a moderation in the pace of rate cuts in the upcoming year. We expect the FOMC to hold rates steady at the January meeting, followed by a 25 bps cut at the March and June meetings respectively, bringing the terminal fed funds rate to 3.00%-3.25%.

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Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 12/12/2025	1 Week Ago	1 Year Ago
SOFR	3.66	3.92	4.62
Effective Fed Funds Rate	3.64	3.89	4.58
3-Month T-Bill	3.62	3.69	4.33
1-Year Treasury	3.85	3.85	5.24
2-Year Treasury	3.54	3.56	4.19
5-Year Treasury	3.75	3.71	4.18
10-Year Treasury	4.19	4.14	4.33
30-Year Treasury	4.86	4.79	4.54
Bond Buyer Index	4.81	4.81	4.01

Foreign Exchange Rates

	Friday 12/12/2025	1 Week Ago	1 Year Ago
Euro ($/€)	1.173	1.164	1.047
British Pound ($/£)	1.335	1.333	1.267
British Pound (£/€)	0.879	0.873	0.826
Japanese Yen (¥/$)	155.760	155.330	152.630
Canadian Dollar (C$/$)	1.379	1.382	1.422
Swiss Franc (CHF/$)	0.796	0.805	0.892
Australian Dollar (US$/A$)	0.664	0.664	0.637
Mexican Peso (MXN/$)	18.057	18.171	20.218
Chinese Yuan (CNY/$)	7.056	7.071	7.269
Indian Rupee (INR/$)	90.420	89.994	84.868
Brazilian Real (BRL/$)	5.417	5.451	5.998
U.S. Dollar Index	98.425	98.992	106.956

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

Foreign Interest Rates

	Friday 12/12/2025	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	1.93	1.95	2.33
3-Month U.K. Govt Bill Yield	3.87	3.87	4.71
3-Month Canadian Govt Bill Yield	2.19	2.18	3.14
3-Month Japanese Govt Bill Yield	0.63	0.62	0.14
2-Year German Note Yield	2.16	2.10	2.02
2-Year U.K. Note Yield	3.75	3.78	4.27
2-Year Canadian Note Yield	2.61	2.64	2.98
2-Year Japanese Note Yield	1.07	1.05	0.58
10-Year German Bond Yield	2.86	2.80	2.21
10-Year U.K. Bond Yield	4.52	4.48	4.36
10-Year Canadian Bond Yield	3.45	3.42	3.14
10-Year Japanese Bond Yield	1.95	1.95	1.05

Commodity Prices

	Friday 12/12/2025	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	57.35	60.08	70.02
Brent Crude ($/Barrel)	61.00	63.75	73.41
Gold ($/Ounce)	4278.71	4197.78	2680.73
Hot-Rolled Steel ($/S.Ton)	907.00	906.00	677.00
Copper (¢/Pound)	525.90	538.20	419.50
Soybeans ($/Bushel)	10.94	10.95	10.06
Natural Gas ($/MMBTU)	4.10	5.29	3.46
Nickel ($/Metric Ton)	14,439	14,706	15,623
CRB Spot Inds.	593.09	585.85	547.03

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