

Weekly — December 16, 2022

## Weekly Economic & Financial Commentary

### United States: **Slowing Price Growth a Welcome Reprieve, FOMC Signals More Work Ahead**

- Headline and core CPI surprised to the downside in November, rising 0.1% and 0.2%, respectively. The FOMC slowed its pace of monetary policy tightening, raising the fed funds rate 50 bps to a range of 4.25%-4.50%. Retail sales flopped and industrial production slipped. All signs point to a bumpy road ahead.
- Next week: Housing Starts, Existing & New Home Sales (Tue/Wed/Fri), Leading Economic Index (Wed), Personal Income & Spending (Fri)

### International: **Here a Hike, There a Hike, Everywhere a Rate Hike**

- The European Central Bank (ECB) raised its policy rate 50 bps to 2.00% and announced plans to begin quantitative tightening in March. Its accompanying commentary was hawkish in tone, and we now expect the ECB to raise its policy rate to 3.25% through the first half of 2023. The Bank of England raised its policy rate 50 bps to 3.50% and struck a more balanced tone, while the Swiss National Bank hiked rates 50 bps and Norway's central bank hiked rates 25 bps.
- Next week: Bank of Japan & Japan CPI (Tue/Thu), Canada GDP & CPI (Wed/Fri)

### Interest Rate Watch: **Markets Scoff at More Hawkish FOMC Rate Projections**

- The FOMC may have [slowed its pace of tightening](#), but the committee delivered a hawkish message about how high the fed funds rate may ultimately need to rise and how long it may need to stay elevated. However, markets appear skeptical that the FOMC will deliver, likely due to differing views on inflation.

### Topic of the Week: **The Trophy (and a GDP Boost) Are on the Line in the 2022 World Cup Final**

- After 62 matches, the road ends here for the 2022 World Cup. Argentina and France will duel in Doha this Sunday in an enticing final matchup to decide which nation will be crowned world champions for the next four years. A World Cup win would be a welcome distraction, and potential economic benefit, to either country as both Argentina's and France's economies are looking far less golden than their football squads.

Wells Fargo U.S. Economic Forecast

|                                          | Actual |      |      |      | Forecast |      |      |      | Actual | Forecast |      |      |  |
|------------------------------------------|--------|------|------|------|----------|------|------|------|--------|----------|------|------|--|
|                                          | 2022   |      |      |      | 2023     |      |      |      | 2021   | 2022     | 2023 | 2024 |  |
|                                          | 1Q     | 2Q   | 3Q   | 4Q   | 1Q       | 2Q   | 3Q   | 4Q   |        |          |      |      |  |
| Real Gross Domestic Product <sup>1</sup> | -1.6   | -0.6 | 2.9  | 1.5  | 0.6      | 0.0  | -3.1 | -2.9 | 5.9    | 2.0      | 0.2  | 0.0  |  |
| Personal Consumption                     | 1.3    | 2.0  | 1.7  | 3.5  | 1.1      | 0.5  | -1.6 | -2.4 | 8.3    | 2.8      | 1.0  | -0.3 |  |
| Consumer Price Index <sup>2</sup>        | 8.0    | 8.6  | 8.3  | 7.3  | 5.7      | 3.8  | 3.0  | 2.7  | 4.7    | 8.0      | 3.8  | 2.5  |  |
| "Core" Consumer Price Index <sup>2</sup> | 6.3    | 6.0  | 6.3  | 6.1  | 5.5      | 4.6  | 3.8  | 3.3  | 3.6    | 6.2      | 4.3  | 2.8  |  |
| Quarter-End Interest Rates <sup>3</sup>  |        |      |      |      |          |      |      |      |        |          |      |      |  |
| Federal Funds Target Rate                | 0.50   | 1.75 | 3.25 | 4.50 | 5.25     | 5.25 | 5.25 | 5.25 | 0.25   | 2.50     | 5.25 | 3.25 |  |
| Conventional Mortgage Rate               | 4.27   | 5.58 | 6.01 | 6.60 | 6.75     | 6.50 | 6.05 | 5.65 | 2.95   | 5.61     | 6.24 | 5.09 |  |
| 10 Year Note                             | 2.32   | 2.98 | 3.83 | 3.80 | 4.00     | 3.90 | 3.55 | 3.25 | 1.45   | 3.23     | 3.68 | 2.94 |  |

Forecast as of: December 08, 2022

<sup>1</sup> Compound Annual Growth Rate Quarter-over-Quarter<sup>2</sup> Year-over-Year Percentage Change<sup>3</sup> Annual Numbers Represent Average

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](#) and our updated [Pressure Gauge](#).

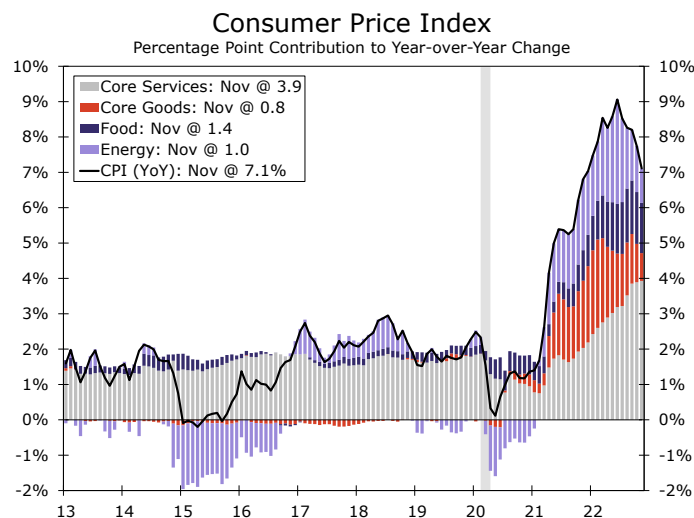
## U.S. Review

### Slowing Price Growth a Welcome Reprieve, FOMC Signals More Work Ahead

In a busy week for economic data, the Consumer Price Index and Federal Open Market Committee meeting took center stage. Headline CPI surprised to the downside, rising just 0.1% in November. On a year-ago basis, consumer price growth softened to 7.1%, down from 7.7% in October. Energy weighed on the overall index as gasoline prices slid 2.0% and energy services dipped 1.1%. Food, another major strain on households this year, is showing signs of easing—November's 0.5% gain was the slowest in 12 months. We expect the decline in gasoline prices to pressure transportation costs lower, providing scope for food prices to roll over in the coming months.

The core CPI, which excludes energy and food, also came in lower than expected and increased 0.2% in November. Core goods prices fell 0.5%, its second straight monthly decline, with notable decreases in used vehicles (-2.9%), education & communication products (-1.6%) and recreation goods (-0.4%). Meanwhile, core services advanced 0.4%. Owners equivalent rent picked up over the month, as did recreation and personal care services. Strong wage growth, often the largest input cost for service providers, is likely to keep the heat turned up on services inflation for some time.

So what does this mean for the Federal Reserve? As discussed in [Interest Rate Watch](#), inflation is heading in the direction the FOMC would like to see, but not to the point where the committee would feel comfortable ending policy tightening completely. To that end, the FOMC raised the fed funds rate by 50 bps this week, a step down from the 75 bps increases seen at the previous four meetings.



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

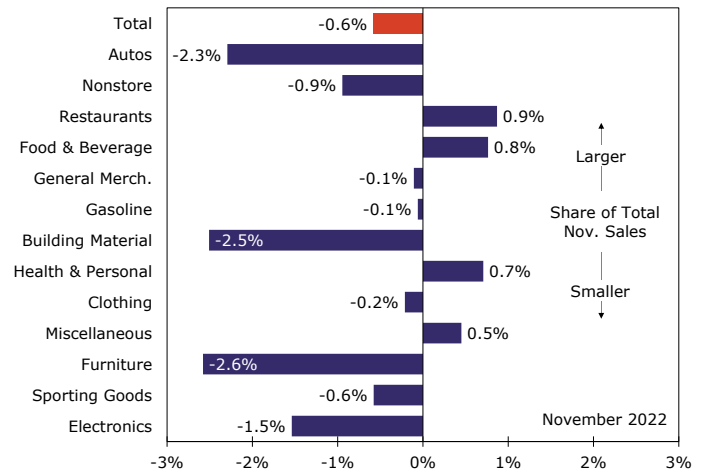
The moderation in core goods prices reflects continued easing in supply chains and softening in consumer demand. Retail sales slipped 0.6% in November, which is the largest drop of the year. Eight of the 12 major industry components fell, with building material stores (-2.5%), motor vehicle & parts dealers (-2.3%) and furniture stores (-2.2%) seeing notable declines. Most of these categories offer products that are purchased with financing. Still-elevated goods prices combined with climbing interest rates make financing an unattractive option for many, which is likely driving the softening in demand for big-ticket items. While the overall sales report was a flop, it may be a reflection of consumer spending shifting toward services categories that are not captured in the retail sales survey.

The slowdown in goods demand does not bode well for manufacturers. Industrial production fell 0.2% in November. Production has struggled to gain footing this year amid still gummed-up supply chains and tight labor supply. November's reading was the largest decline of the year and marked the fifth negative print out of the past seven months. Manufacturing output (-0.6%) was the real source of weakness last month and suggests that firms are starting to pull back on production. Purchasing manager surveys support the notion, with the New York Fed's and Philadelphia Fed's indices falling further into negative territory in December.

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### Monthly Change in Retail Sales by Retailer

Month-over-Month Percent Change



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

## U.S. Outlook

### Weekly Domestic Indicator Forecasts

| Date   | Indicator                  | Period | Consensus | Wells Fargo | Prior |
|--------|----------------------------|--------|-----------|-------------|-------|
| 20-Dec | Housing Starts (SAAR)      | Nov    | 1400K     | 1408K       | 1425K |
| 21-Dec | Existing Home Sales (SAAR) | Nov    | 4.20M     | 4.23M       | 4.43M |
| 21-Dec | Consumer Confidence        | Dec    | 101.0     | 100.3       | 100.2 |
| 22-Dec | Leading Index (MoM)        | Nov    | -0.4%     | -0.6%       | -0.8% |
| 23-Dec | Personal Income (MoM)      | Nov    | 0.3%      | 0.2%        | 0.7%  |
| 23-Dec | Personal Spending (MoM)    | Nov    | 0.2%      | 0.2%        | 0.8%  |
| 23-Dec | New Home Sales (SAAR)      | Nov    | 600K      | 611K        | 632K  |

Forecast as of December 16, 2022

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

### Housing Starts/Existing & New Home Sales • Tuesday/Wednesday/Friday

This year's rapid run-up in mortgage rates has sent a chill through the housing market. The deterioration in affordability has sent potential buyers to the sidelines, and as a result, home builders have scaled back single-family home construction. Housing starts fell 4.2% to a 1.425 million-unit pace in October, with a sharp drop in single-family starts dragging down total starts. Building permits dropped during the month, with single-family permits retreating for the eighth straight month. Multifamily permits have been more resilient, but the recent weakness in single-family permits suggest further declines in overall starts are in the offing.

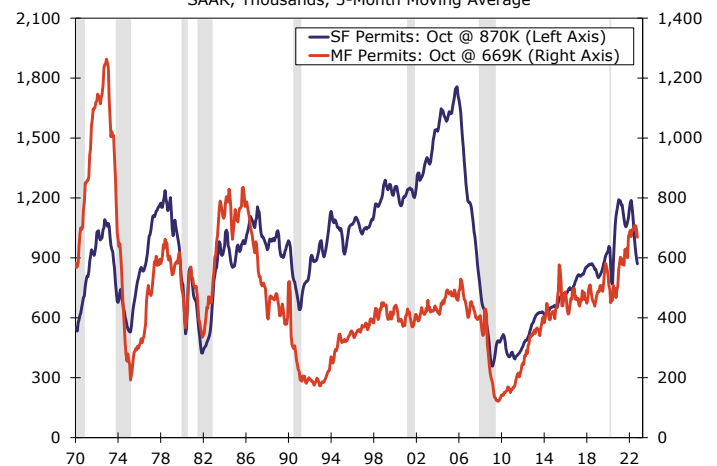
One of the reasons home builders are pulling back is that new home sales have plummeted this year. New home sales shot up 7.5% to a 632K pace during October, although remain down over 14% year-to-date. Builders have seen success by offering incentives, such as rate-buy downs, to bleed down rising inventory levels. That said, incentives can only go so far, and mortgage rates rose to over 7% in late October. With that in mind, we anticipate new home sales resumed a downward trend in November. October's elevated financing costs also likely weighed heavily on existing home sales, which we estimate fell to a 4.23 million-unit pace in November.

### Leading Economic Index • Wednesday

The recent downtrend in building permits is one reason why we expect that the Leading Economic Index (LEI) declined again in November. The LEI has declined in eight of the past 10 months and fell 0.8% in October. The monthly drop was led by lower consumer expectations and unemployment insurance claims. The data that are used as an input to the LEI suggest that the index likely slipped again in November. Stock prices generally improved on balance during the month, and consumer sentiment improved slightly in November. That said, jobless claims trended slightly higher in November and ISM services new orders fell back slightly during the month. As mentioned previously, building permits will likely continue to be a drag on the headline index moving forward. At -0.7%, the six-month average of the LEI remains below the -0.4% threshold we have found is consistent with a coming recession. The drop in the forward-looking index is a reminder that turbulence is ahead for the U.S. economy in 2023.

### Single & Multifamily Building Permits

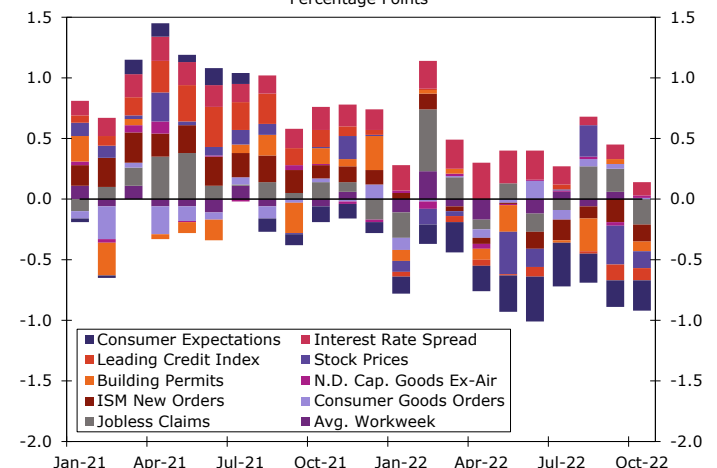
SAAR, Thousands, 3-Month Moving Average



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

### Contributions to Leading Economic Index

Percentage Points



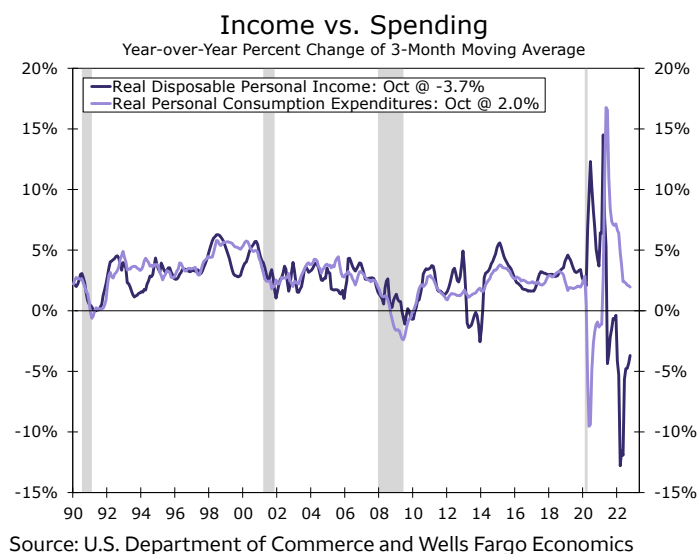
Source: The Conference Board and Wells Fargo Economics

### Personal Income & Spending • Friday

The consumer has brushed off rising inflation and maintained a solid pace of spending for much of the past year. Personal spending easily beat expectations and rose 0.8% in October. Even after accounting for inflation, real personal spending increased at a robust 0.5% rate. That said, there are signs the reduced purchasing power is starting to catch up. Retail sales dropped more than expected in November, a decline that reflects consumers shifting to services. But, the retreat is also a reminder that overall spending is likely to slow as inflation eats away at the savings consumers have been using to fuel spending. We look for a more modest 0.2% gain in personal spending in November.

Personal income jumped 0.7% in October. Since the strong increase was likely owed to one-off factors, we anticipate a softer 0.2% rise during November. Estimates of the PCE deflator, the Fed's preferred inflation measure, will also be provided in the personal income and spending report. As of this writing, our estimates for the monthly gain in both the headline and core indexes are above the Bloomberg consensus. We expect a 0.2% monthly rise in the headline index and a 0.3% increase in the core index.

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## International Review

### Here a Hike, There a Hike, Everywhere a Rate Hike

In what was a particularly busy week for central banks, the most significant announcement came from the European Central Bank (ECB). The ECB announced policy shifts on the following two fronts:

- Policymakers raised key policy interest rates by 50 bps, including a hike in the Deposit Rate from 1.50% to 2.00%. The increase in interest rates was in line with the consensus forecast.
- It also announced plans to begin quantitative tightening, starting in March. The ECB's holdings under its Asset Purchase Program (APP) will be allowed to decline at a measured and predictable pace, as the ECB will not fully reinvest principal payments from maturing securities. The decline in holdings will average €15B per month until the end of Q2-2023, with the subsequent pace to be determined over time. The pace of decline in the ECB's balance sheet was at the more conservative end of market expectations.

The ECB's accompanying comments were generally hawkish in tone, and ECB President Lagarde said we should expect the ECB to raise rates at a 50 bps pace for a period of time, and that the ECB needs to do more on interest rates than what is currently implied by market pricing (note that prior to the announcement, interest rate futures suggested a peak ECB Deposit Rate of just over 2.75%). The ECB's updated economic projections also saw headline and core inflation remaining above 2% through 2025.

Overall, the tone of the ECB's announcement along with the above-target inflation projections suggest the European Central Bank should raise interest rates further than we had previously expected. We still anticipate a 50 bps policy rate increase in February, but now also expect a 50 bps rate increase in March and a final 25 bps increase in May, which would see the ECB's Deposit Rate peak at 3.25%.

Another central bank announcement that attracted plenty of attention was that of the Bank of England (BoE). The BoE raised its Bank Rate by 50 bps to 3.50%. However, there was a mildly dovish tilt around that rate increase action. While six policymakers voted to raise interest rates by 50 bps, two policymakers voted for no change, and only one policymaker voted for a larger 75 bps rate hike.

To be fair, some of the BoE's other comments were supportive of further monetary tightening. The central bank said:

- The labor market remains tight, and domestic wage and price pressures are elevated. Wage growth has been around 0.5 percentage points stronger than projected as recently as November.
- It now forecasts a smaller 0.1% quarter-over-quarter decline in Q4 GDP.
- The fiscal consolidation announced by the government in the Autumn Statement will have little effect on U.K. GDP in the near term, and instead a more restraining effect on U.K. GDP over the medium term.

Overall, the BoE's Monetary Policy Committee said

"Should the economy evolve broadly in line with the November Monetary Policy Report projections, further increases in Bank Rate may be required for a sustainable return of inflation to target. There are considerable uncertainties around the outlook. The Committee continues to judge that, if the outlook suggests more persistent inflationary pressures, it will respond forcefully, as necessary."

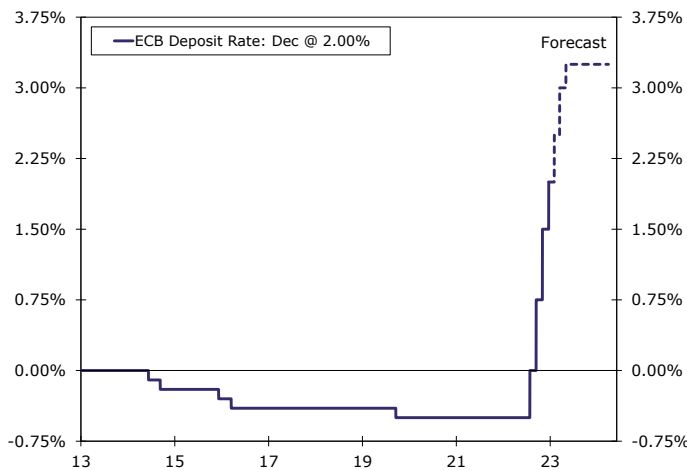
To us, that does not sound like a central bank that believes an end to monetary tightening is imminent. As a result, we now see a slightly higher peak in Bank of England interest rates than previously. We expect that BoE to raise its policy interest rate by 25 bps at both its February and March meetings next year, which would see the BoE's policy rate peak at 4.00% by March next year, before the BoE embarks on rate cuts by the end of 2023.

Elsewhere, the Swiss National Bank (SNB) raised its policy interest rate by 50 bps to 1.00%, while its accompanying comments leaned hawkish. SNB President Jordan said, "It was pretty clear that 50 bps is the right decision, if you look at our inflation forecasts over the medium term, inflation is still slightly above our 2% threshold." He added that there "is a danger that inflation could remain elevated in Switzerland in the medium term owing to second-round effects" and "the renewed tightening of our

monetary policy is therefore necessary.” Against this backdrop, we forecast a final 50 bps rate hike for the SNB policy rate, which would see a peak at 1.50% in Q1-2023.

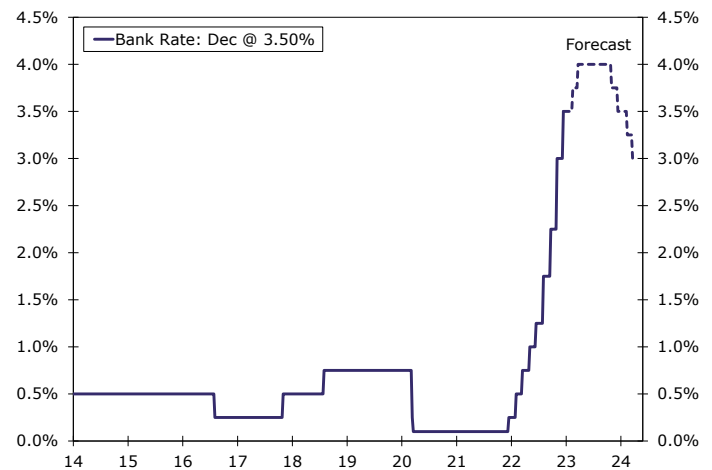
Finally, Norway's central bank (the Norges Bank), in what was a unanimous decision, raised its policy rate 25 bps to 2.75% and signaled that rates will most likely be raised further in Q1-2023. The Norges Bank said that since its last Monetary Policy Report, inflation has been higher than it had forecast and is now expected to remain higher for longer. The central bank also observed that labor market trends have been sturdier than expected. Given only modest (and mildly hawkish) changes in comments from the central bank in this week's announcement, we remain comfortable with our call for two more 25 bps hikes from the Norges Bank in January and March, which would see Norway's policy rate peak at 3.25%.

ECB Deposit Rate



Source: Datastream and Wells Fargo Economics

Bank of England Policy Rate



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

### Mixed Signals from Key Asian Economies

This week also saw some important data from two key Asian economies. In China, November activity data confirmed another stumble for the economy as some COVID restrictions remain in place, given a rebound in COVID cases in recent weeks. Services activity in particular was soft in November as retail sales fell 5.9% year-over-year, a larger than expected decline, while services production also fell 1.9%. The manufacturing sector was also affected, albeit less noticeably, as growth in industrial output slowed to 2.2% in November from 5.0% in October. While 2022 has been a particularly challenging year for China's economy, and we expect GDP growth of only 3.0% for the calendar year, the outlook for 2023 is modestly more encouraging. Authorities have begun to gradually ease COVID-related restrictions, a trend that—if it continues—should allow for an improvement in service sector growth as next year progresses. Given these developments, we forecast moderately stronger growth for China next year, and forecast China's GDP to rise by 4.9% in 2023.

In Japan, the Bank of Japan's Tankan survey offered some early insight into the state of the economy during Q4. While 2022 has been a back-and-forth year for Japan's economy, including the small decline seen in GDP during the third quarter, activity now appears to be firming as restrictions are progressively eased, boosting services and tourism activity. That improvement is reflected in the large non-manufacturers' diffusion index, which rose to +19 in Q4 from +14 in Q3. In contrast, the large manufacturers' diffusion index registered a small decline, to +7 in Q4 from +8 in Q3. The survey also saw a very mild softening in capital spending plans for the current fiscal year. Nonetheless, those plans remain robust overall, with a projected increase of 19.2%. Altogether, we view the Tankan survey as consistent with steady growth for Japan's economy, but not yet so strong as to prompt the Bank of Japan to move away from its accommodative monetary policy stance.

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## International Outlook

### Weekly International Indicator Forecasts

| Date   | Indicator                          | Period | Consensus | Wells Fargo | Prior  |
|--------|------------------------------------|--------|-----------|-------------|--------|
| 20-Dec | Bank of Japan Policy Rate Decision | 20-Dec | -0.10%    | -0.10%      | -0.10% |
| 22-Dec | Japan Natl CPI YoY                 | Nov    | 3.9%      | 3.9%        | 3.7%   |
| 21-Dec | Canada CPI YoY                     | Nov    | 6.5%      | 6.4%        | 6.9%   |
| 23-Dec | Canada GDP MoM                     | Oct    | 0.1%      | --          | 0.1%   |

Forecast as of December 16, 2022

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

### Bank of Japan Decision & CPI • Tuesday/Thursday

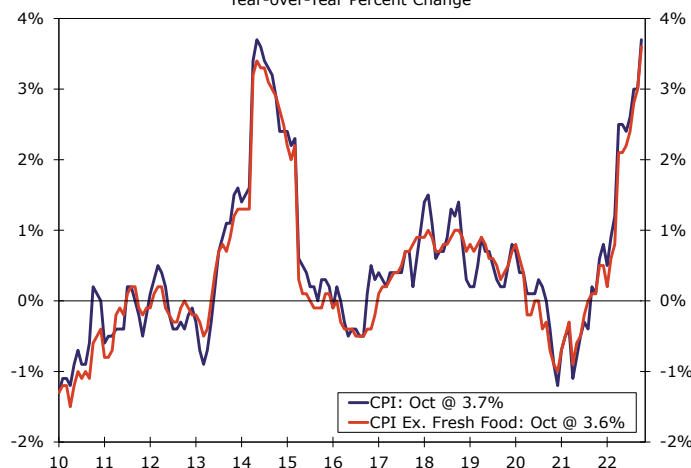
The Bank of Japan will hold its last monetary policy meeting of the year next week. We expect the central bank to keep monetary policy unchanged, as growth trends remain rather subdued and the central bank remains unconvinced the recent jump in inflation will be sustained. Japan's November CPI data will be released on Thursday, and should show that while prices continue to be elevated, inflation dynamics remain somewhat contained. Recall that at the beginning of 2022, CPI inflation in Japan was only 0.5% year-over-year. However, as the year has progressed, Japan has not been completely shielded from global inflation pressures. Recently, energy, fuel, utilities and food have been the main drivers of inflation, and consensus expectations anticipate that price pressures further intensified in November. Headline national CPI inflation is expected to increase to 3.9% year-over-year, while CPI excluding fresh food is anticipated to tick higher to 3.7%. Although inflation is elevated relative to recent historical standards, the BoJ seems to remain comfortable with its easy monetary policy, which includes keeping its policy balance rate at -0.10% and its target for the 10-year Japanese government bond (JGB) yield at 0.00%. In stark contrast to economies around the world which have seen monetary conditions tighten drastically, we think the BoJ's accommodative monetary policy should prevent a recession.

### Canada CPI & GDP • Wednesday/Friday

Next week, two important pieces of data will be released for Canada: October GDP and the November CPI. The growth outlook looks dim. In Q3, quarterly annualized GDP grew 2.9%, and while growth trends have been sturdy this year, domestic demand has slowed since early 2022, indicating that an economic slowdown may be approaching. Among the factors weighing on the outlook are declining real household incomes and saving rates, lower commodity prices, as well as more mixed labor market trends recently. In November, the economy gained a mere 10,100 jobs. While 50,700 full-time jobs were added, a large drop in part-time employment (-40,600) offset most of that gain. Taking into account these growth trends, the preliminary estimate from Statistics Canada anticipates that real GDP was flat in October. Turning to price dynamics, we anticipate that the worst of inflation may already be over. The CPI rose at 6.9% year-over-year in October, and taking a closer look at the details, price gains for gasoline and mortgage interest costs were offset by softer food inflation. As mentioned above, commodity prices have come down from their peak, which may provide some relief on the headline inflation front. In November, we expect CPI inflation trended lower to 6.4% year-over-year. ([Return to Summary](#))

### Japan CPI Inflation

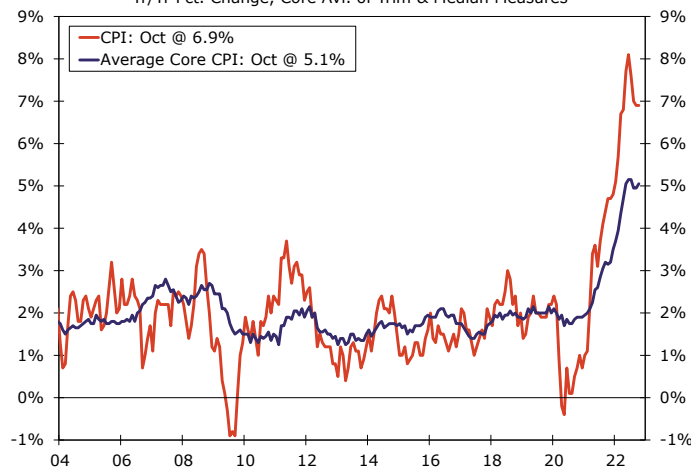
Year-over-Year Percent Change



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

### Canadian Inflation

Yr/Yr Pct. Change, Core Avr. of Trim & Median Measures



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

## Interest Rate Watch

### Markets Scoff at More Hawkish FOMC Rate Projections

The FOMC raised the fed funds target range 50 bps to a range of 4.25%-4.50% at the conclusion of its meeting this week. Given the widely expected step-down from the string of 75 bps hikes that began in June, the greater focus of the meeting was what the FOMC believes lies ahead in 2023.

To that end, the FOMC signaled that is not done hiking yet. The statement maintained that "ongoing increases in the target range will be appropriate." More details on just how much further Fed officials expected the fed funds rate to rise were delivered in the quarterly Summary of Economic Projections (SEP). The median estimate at the end of 2023 was lifted 50 bps to 5.13%, matching our own projection.

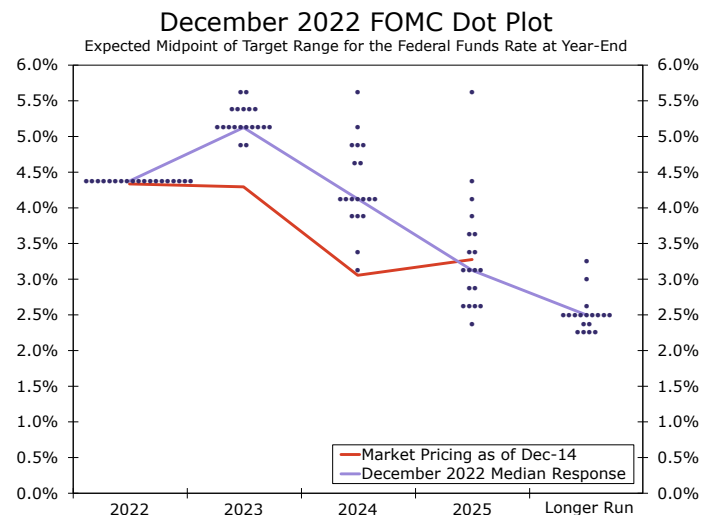
Yet market participants appear skeptical the FOMC will ultimately take the rate that high, let alone hold it at that level through the end of next year. As of Friday morning, markets were pricing a peak rate of 4.88%, only a few basis points more than when the meeting kicked off on Tuesday. Furthermore, markets still anticipate almost 50 bps of cuts over the second half of the year. With markets essentially standing pat on their view of policy next year, it was not surprising to see the yield on the two-year Treasury little changed in the wake of the meeting.

What accounts for the market ignoring the more hawkish rate guidance from the FOMC? The answer likely lies in inflation. Tuesday's softer-than-expected CPI report boosted confidence that inflation is firmly on a downward path. However, Fed officials seem to believe that inflation has become more entrenched since the previous SEP was published in September. Despite materially marking down GDP estimates and bumping up expectations for unemployment next year, participants also raised inflation estimates to a surprising degree, in our view. The median estimate for core PCE in the fourth quarter of 2023 rose to 3.5% from 3.1%, above our own estimate of 3.1% and the Bloomberg consensus estimate of 3.0%.

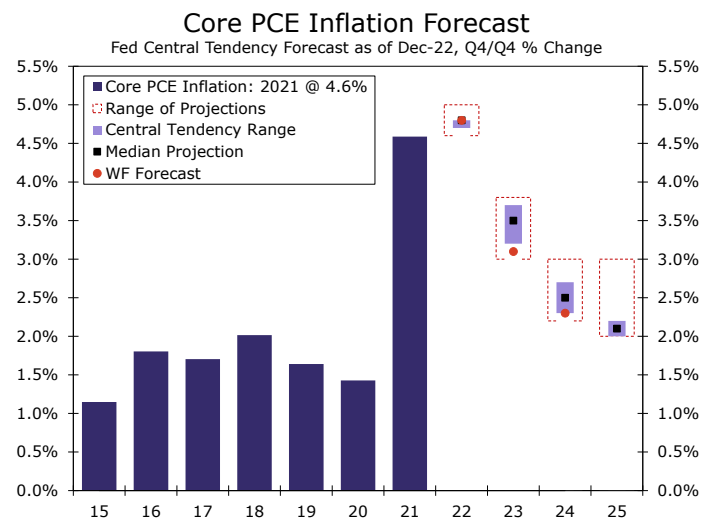
Participants had the opportunity to adjust projections after the CPI printed Tuesday morning, and Chair Powell in the press conference indicated that the SEP reflected that important data point. Therefore, the upward revisions to inflation estimates in the SEP may stem from the Fed's increasing focus on labor costs as a medium-term driver of stubbornly high inflation—a dynamic Chair Powell discussed at length in a [speech on Nov. 30](#). On a related note, it may also reflect the Fed expecting the economy to generally hold up and side-step a contraction in GDP, limiting the downdraft to inflation.

As demonstrated in 2022, however, predicting the fed funds rate (and inflation) a year ahead is no easy task. In the December 2021 SEP, the median estimate for the fed funds rate at the end of this year pegged the target range at 0.75%-1.00%, 350 bps lower than where it is today. It is therefore understandable that markets may not take the FOMC's projections as gospel in what remains a rapidly changing environment.

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Source: Federal Reserve Board and Wells Fargo Economics



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

## Topic of the Week

### The Trophy (and a GDP Boost) Are on the Line in the 2022 World Cup Final

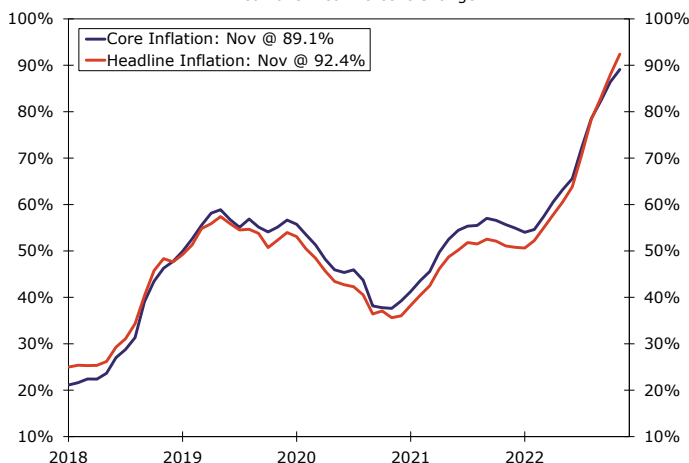
After 62 matches, the road ends here for the 2022 World Cup. Argentina and France will duel in Doha this Sunday in an enticing final matchup to decide which nation will be crowned world champions for the next four years. Last month, we [previewed](#) the tournament and predicted Brazil would defeat Germany to capture its sixth World Cup title. Although this did not quite come to pass as Germany crashed out in the group stage and Brazil exited stage left, we are happy to report we correctly picked Argentina and France as the other two semifinalists, not bad for a World Cup chock-full of unforgettable upsets and a legendary semifinal run from Morocco.

Two-time champion Argentina returns to the final for the first time since 2014 after dominating Croatia 3-0 in the semifinal round. Team captain Lionel Messi seeks to cap off his historic career by bringing Argentina its third World Cup win and first since Diego Maradona led “La Albiceleste” to glory in 1986. On the other side are the reigning world champions France, who are looking to be the first side to retain the World Cup since Brazil did so 60 years ago. France earned its spot in the final with a 2-0 win over a tenacious Morocco squad that had already upset Belgium, Spain and Portugal. “Les Bleus” are led by superstar Kylian Mbappé, who was instrumental to France’s successful 2018 campaign and is, incidentally, Messi’s squad mate at French club Paris Saint-Germain.

A World Cup win would be a welcome distraction, and potential economic benefit, to either country as both Argentina and France’s economies are looking far less golden than their football squads. A 2022 [paper](#) from the University of Surrey found that “winning the World Cup increases GDP growth by at least 0.25 percentage points in the two subsequent quarters,” primarily from exports growth. Of the two, Argentina stands to benefit the most from the greater international visibility and prestige a World Cup win would bring. As far back as the most recent World Cup in 2018, Argentina has been in the throes of an economic crisis. The country has been plagued by an environment of capital controls, annual inflation approaching 100% and a government that is on the brink of another sovereign default in the next 12 months. While an IMF program has been secured and progress on targets is being made, Argentina’s economy is far from stable as we detailed in a [pair of reports](#) on the situation earlier this year. General elections will take place in October 2023, and while placing Argentina back on a prosperous path will be a challenge, next year’s election could mark a new inflection point for Argentina. A return to pro-business policies could result in capital controls being lifted, a liberalization of Argentina’s exchange rate, a more competitive business landscape and possibly a path to lower inflation over the longer term. And a World Cup victory certainly would not hurt.

#### Argentina Headline and Core Inflation

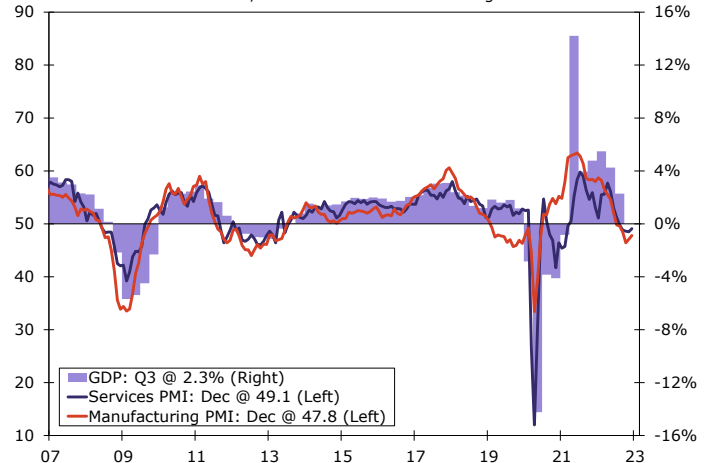
Year-over-Year Percent Change



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

#### Eurozone PMI Indices vs. GDP Growth

Index; Year-over-Year Percent Change



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

As the current holder of the World Cup, any economic benefit from a win would likely be less pronounced for France. The French and Eurozone economies were disrupted by an acute energy crisis stemming from the Russian invasion of Ukraine earlier this year. Rising energy prices has helped drive inflation uncomfortably high, and policymakers have aggressively tightened policy to combat further inflation. We believe that current inflationary pressures and rate hikes from the ECB have already

pushed the Eurozone into a recession. Leading indicators from the Eurozone are currently flashing for a recession. Manufacturing and services sentiment in the Eurozone have fallen into contraction territory, and with Russia seemingly unwilling to resume natural gas flows to the Eurozone at this time, we doubt sentiment will improve to the point that the Eurozone can escape recession in 2023. As a result, we forecast the Eurozone economy to contract 0.7% in 2023. Back-to-back World Cup victories would not stop a recession in France, but celebrations are certain to be jubilant even during hard times.

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

## Market Data • Mid-Day Friday

## U.S. Interest Rates

|                  | Friday<br>12/16/2022 | 1 Week<br>Ago | 1 Year<br>Ago |
|------------------|----------------------|---------------|---------------|
| SOFR             | 4.32                 | 3.80          | 0.05          |
| 3-Month LIBOR    | 4.74                 | 4.74          | 0.22          |
| 3-Month T-Bill   | 4.29                 | 4.26          | 0.03          |
| 1-Year Treasury  | 4.60                 | 4.64          | 0.24          |
| 2-Year Treasury  | 4.22                 | 4.34          | 0.61          |
| 5-Year Treasury  | 3.64                 | 3.77          | 1.16          |
| 10-Year Treasury | 3.49                 | 3.58          | 1.41          |
| 30-Year Treasury | 3.53                 | 3.56          | 1.85          |
| Bond Buyer Index | 3.59                 | 3.63          | 2.05          |

## Foreign Exchange Rates

|                              | Friday<br>12/16/2022 | 1 Week<br>Ago | 1 Year<br>Ago |
|------------------------------|----------------------|---------------|---------------|
| Euro (\$/€)                  | 1.061                | 1.054         | 1.133         |
| British Pound (\$/£)         | 1.216                | 1.226         | 1.332         |
| British Pound (£/€)          | 0.872                | 0.859         | 0.850         |
| Japanese Yen (¥/\$)          | 136.610              | 136.560       | 113.670       |
| Canadian Dollar (C\$/ \$)    | 1.369                | 1.365         | 1.278         |
| Swiss Franc (CHF/\$)         | 0.933                | 0.934         | 0.919         |
| Australian Dollar (US\$/A\$) | 0.669                | 0.680         | 0.718         |
| Mexican Peso (MXN/\$)        | 19.794               | 19.765        | 20.823        |
| Chinese Yuan (CNY/\$)        | 6.974                | 6.958         | 6.368         |
| Indian Rupee (INR/\$)        | 82.871               | 82.278        | 76.094        |
| Brazilian Real (BRL/\$)      | 5.273                | 5.247         | 5.687         |
| U.S. Dollar Index            | 104.709              | 104.810       | 96.042        |

## Foreign Interest Rates

|                                    | Friday<br>12/16/2022 | 1 Week<br>Ago | 1 Year<br>Ago |
|------------------------------------|----------------------|---------------|---------------|
| 3-Month Euro LIBOR                 | -0.58                | -0.59         | -0.57         |
| 3-Month Sterling LIBOR             | 3.80                 | 3.73          | 0.10          |
| 3-Month Canada Banker's Acceptance | 4.83                 | 4.85          | 0.50          |
| 3-Month Yen LIBOR                  | -0.05                | -0.05         | -0.08         |
| 2-Year German                      | 2.42                 | 2.16          | -0.69         |
| 2-Year U.K.                        | 3.49                 | 3.43          | 0.51          |
| 2-Year Canadian                    | 3.67                 | 3.85          | 0.89          |
| 2-Year Japanese                    | -0.02                | -0.01         | -0.11         |
| 10-Year German                     | 2.15                 | 1.93          | -0.35         |
| 10-Year U.K.                       | 3.34                 | 3.18          | 0.76          |
| 10-Year Canadian                   | 2.81                 | 2.88          | 1.34          |
| 10-Year Japanese                   | 0.25                 | 0.26          | 0.05          |

## Commodity Prices

|                             | Friday<br>12/16/2022 | 1 Week<br>Ago | 1 Year<br>Ago |
|-----------------------------|----------------------|---------------|---------------|
| WTI Crude (\$/Barrel)       | 74.04                | 71.02         | 72.38         |
| Brent Crude (\$/Barrel)     | 78.74                | 76.10         | 75.02         |
| Gold (\$/Ounce)             | 1789.09              | 1797.32       | 1799.35       |
| Hot-Rolled Steel (\$/S.Ton) | 677.00               | 667.00        | 1640.00       |
| Copper (¢/Pound)            | 375.30               | 387.60        | 430.05        |
| Soybeans (\$/Bushel)        | 14.51                | 14.61         | 12.55         |
| Natural Gas (\$/MMBTU)      | 6.54                 | 6.25          | 3.77          |
| Nickel (\$/Metric Ton)      | 28,103               | 29,538        | 19,163        |
| CRB Spot Inds.              | 569.27               | 573.25        | 634.05        |

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

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