

Weekly — September 13, 2024

Weekly Economic & Financial Commentary

United States: **Firmer Inflation Tilts the Scales Toward 25**

- The core Consumer Price Index rose 0.3% in August, the fastest increase in four months. Soft measures like NFIB price plans continue to signal a downward trend in inflation; however, recent price resiliency may prompt FOMC members to exercise a bit more caution in September.
- Next week: Retail Sales (Tue.), Industrial Production (Tue.), Existing Home Sales (Thu.)

International: **European Central Bank Continues Carefully Along Its Rate Cut Path**

- The European Central Bank (ECB) cut its Deposit Rate by 25 bps this week to 3.50%, as widely expected. Considering somewhat balanced commentary on economic developments in the policy statement, upwardly revised core inflation forecasts for this year and next, and some hawkish-leaning comments from ECB President Christine Lagarde in the post-meeting press conference, we remain comfortable with our view for the ECB to take a cautious approach to rate cuts.
- Next week: China Retail Sales, Industrial Production (Sat.), Bank of England (Thu.), Bank of Japan (Fri.)

Interest Rate Watch: **Let the Easing Begin**

- The FOMC is widely expected to kick off the long-awaited easing cycle at its meeting next week. Looking ahead to the September 17-18 meeting, we see three key developments.

Credit Market Insights: **Uptick in Consumer Borrowing in July**

- Total consumer credit increased \$25.45B in July, the most since November 2022. The increase in consumer borrowing over the month shows that the consumer continues to rely on credit to maintain their levels of spending. That said, the trend in borrowing has continued to downshift this year, suggesting that consumers may be feeling the pinch of higher rates.

Topic of the Week: **A (Labor) Force to Be Reckoned With**

- In celebration of Hispanic Heritage Month, which kicks off this Sunday, we dive into the significant contributions that the Hispanic and Latino community has made to U.S. labor force growth over the past decade.

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

Wells Fargo U.S. Economic Forecast

	Actual				Forecast				Actual 2023	Forecast		
	2024				2025					2024	2025	2026
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product ¹	1.4	3.0	2.6	1.0	1.1	1.9	2.8	2.9	2.5	2.7	1.9	2.6
Personal Consumption	1.5	2.9	3.5	1.2	1.3	1.8	2.4	2.5	2.2	2.5	1.9	2.3
Consumer Price Index ²	3.2	3.2	2.6	2.5	2.2	2.1	2.4	2.5	4.1	2.9	2.3	2.3
"Core" Consumer Price Index ²	3.8	3.4	3.2	3.1	2.6	2.5	2.6	2.5	4.8	3.4	2.6	2.4
Quarter-End Interest Rates ³												
Federal Funds Target Rate ⁴	5.50	5.50	5.25	4.25	3.75	3.25	3.25	3.25	5.23	5.13	3.38	3.25
Conventional Mortgage Rate	6.82	6.92	6.30	6.15	5.95	5.80	5.65	5.55	6.80	6.55	5.74	5.58
10 Year Note	4.20	4.36	3.70	3.60	3.50	3.45	3.40	3.40	3.96	3.97	3.44	3.48

Forecast as of: September 12, 2024

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

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

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

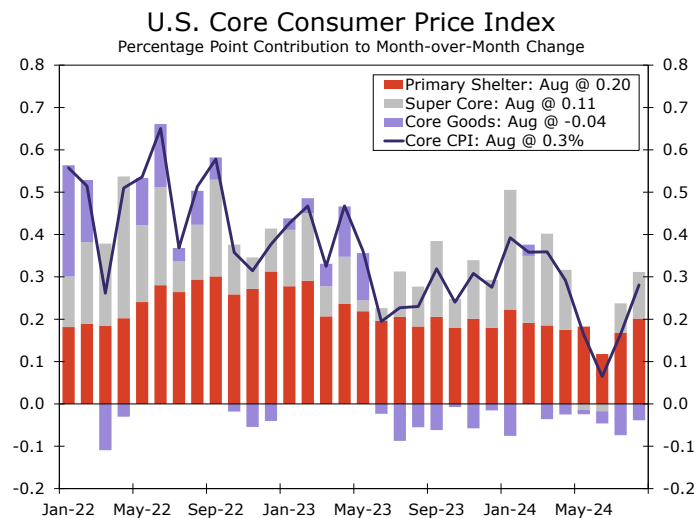
U.S. Review

Firmer Inflation Tilts the Scales Toward 25

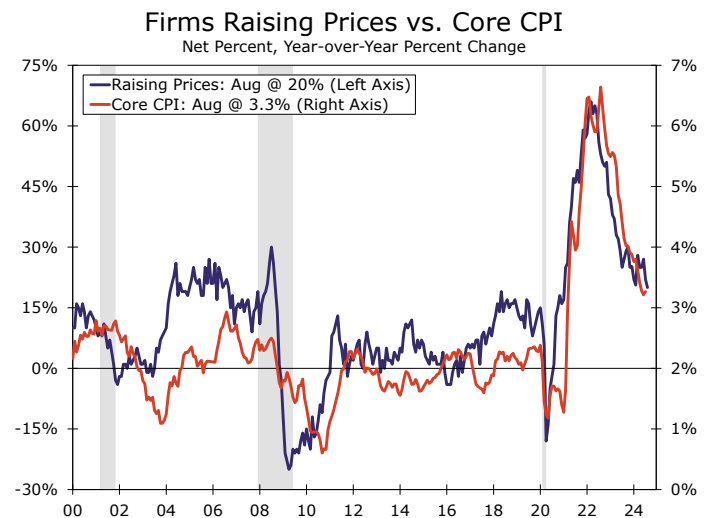
Last week's employment report offered a little bit of something for both doves and hawks speculating on the outcome of next week's Fed meeting. An acceleration in hiring in August coupled with downward revisions to prior data left the door open to either a 25 bps or 50 bps cut in September. Inflation data out this week lent a bit more clarity.

The core Consumer Price Index (CPI) printed at 0.3% month-over-month in August. This was slightly higher than consensus forecasts and marked the fastest price increase in four months. Stubborn services prices were the culprit. Core services inflation notched its largest jump since April, advancing 0.4% over the month. Price pressures were widespread between non-housing and housing services, with the former boosted by a pickup in travel-related costs and the latter still lagging the slowdown in private sector rents. Although August's inflationary burst was more likely a volatile pop than a trend shift, the sticky nature of price growth may prompt FOMC members to exercise a bit more caution on the way down. Our thoughts on next week's Fed meeting are explained more fully in [Interest Rate Watch](#). In sum, we acknowledge that a 50 bps cut is still a possibility for September; however, we now expect the committee to launch this easing cycle with a tamer 25 bps cut.

Despite August's flare-up, there are plenty of reasons to believe that inflation remains on a downward path and that the Fed will be confident to continue easing past September. Deflation in the goods sector continues to temper overall price growth, with core goods prices outright declining on a monthly basis in 14 of the past 15 months. Food and energy inflation also remain benign, helping to bring headline CPI down to 2.5% year-over-year in August. Although not quite back to target, this print is more or less in line with price growth on the eve of the pandemic (2.3% in February 2020). Even core services prices appear set for a disinflationary run. Airfare and hotel prices tend to be some of the more volatile components of core services, and we maintain the view that shelter inflation should slow more materially in the months ahead.



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



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

A group of other indicators released this week foretell more inflation relief on the horizon. The producer price index, although a touch above expectations at 0.2% in August, continued to signal a moderation in price pressures. Furthermore, only a net 20% of small business owners surveyed by the National Federation of Independent Businesses (NFIB) reported raising their selling prices in August, the lowest share since January 2021. A larger share planned on raising prices over the next few months; however, this figure has dropped five points over the past year. Meanwhile, consumers are not anticipating a sharp rebound in price growth. Inflation expectations remain well-anchored, according to New York Fed and University of Michigan Surveys, which peg five-year-ahead inflation expectations at 2.8% and 3.1%, respectively.

As mentioned at the start of this note, the 142K payroll print in August showed that the labor market is decelerating rather than rapidly deteriorating. Initial jobless claims this week remained relatively

contained at 230K, suggesting that mass layoffs are not in the cards. But signs of softening can be easily found elsewhere. NFIB hiring plans continued to trend lower in August as the net percent of small businesses actually adding headcounts reached its lowest share in two years. Weakness in soft measures like NFIB alongside general shakiness in the payroll and unemployment data lead us to suspect that 50 bps cuts are coming at some point this year.

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U.S. Outlook

Weekly Domestic Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
17-Sep	Retail Sales (MoM)	Aug	-0.2%	-0.1%	1.0%
17-Sep	Retail Sales Ex Auto (MoM)	Aug	0.2%	0.2%	0.4%
17-Sep	Industrial Production (MoM)	Aug	0.1%	0.1%	-0.6%
17-Sep	Capacity Utilization	Aug	77.9%	77.9%	77.8%
17-Sep	Business Inventories (MoM)	Jul	0.4%	0.4%	0.3%
18-Sep	Housing Starts (SAAR)	Aug	1311K	1322K	1238K
18-Sep	FOMC Rate Decision (Upper Bound)	18-Sep	5.25%	5.25%	5.50%
19-Sep	Leading Index (MoM)	Aug	-0.3%	-0.4%	-0.6%
19-Sep	Existing Home Sales (SAAR)	Aug	3.90M	3.92M	3.95M

Forecast as of September 13, 2024

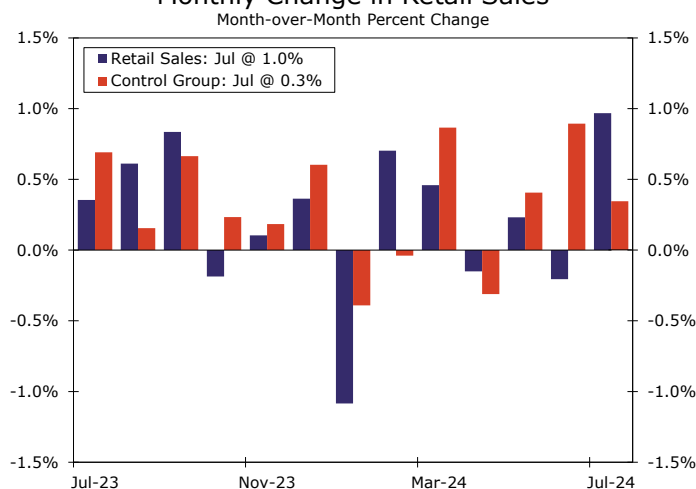
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Retail Sales • Tuesday

Retail sales surprised to the upside in July, coming in twice as fast as consensus expectations. Headline retail sales rose an impressive 1.0% on the month, while control group retail sales notched a 0.4% gain. This amounted to a nominal gain of \$6.8 billion, or 25% of the total gain from the prior two years in a single month. Auto sales, the largest component of retail sales, were the main driver of the increase, as sales of motor vehicles and parts rose 3.6% on the month. Grocery and building materials stores each contributed to the gain solidly, with an increase of 0.9% each. Only three of 13 retail categories reported sales declines on the month, and these slower sales were concentrated in some of the smallest categories (clothing, miscellaneous and sporting goods).

The retail sales report in July served as counterprogramming to the July employment report. Though the employment report that month came in weak, the retail sales report demonstrated that consumers in the economy were still broadly resilient. Our forecast calls for a continuation of this resiliency in August, with some give back in auto sales. Previously released auto sales data showed almost a complete reversal of the July sales gain in August, which will weigh on headline retail. We look for headline retail sales to decline 0.1%, but when excluding autos, we expect sales to rise 0.2%.

Monthly Change in Retail Sales



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

Industrial Production • Tuesday

Industrial production left much to be desired in the July report. Manufacturing production fell 0.3%, and mining output was flat in a month when Hurricane Beryl temporarily curtailed some refinery activity in the Gulf. Motor vehicle and parts production weighed heavily on manufacturing production, as it fell 7.8% in July, the largest such decline this year. Elsewhere, manufacturing production was not all sour as machinery output (1.4%) and computers & electronics (1.5%) both rose at a solid clip. The largest decline in the report came from utility output, which declined a stark 3.7% on the month. Utility production had been poised for some giveback following a string of particularly strong monthly jumps between April to June (3.6%, 2.2% and 2.6%, respectively). That it came in a month with a weak showing for manufacturing and mining made the giveback sting a bit more.

We forecast some bounce back in the August report, with industrial production set to rise a modest 0.1%. We look for capacity utilization to similarly rise a touch to 77.9%. Looking further out on the forecast horizon, the prospect of the start of the FOMC easing cycle should gradually provide support for an industrial sector that has sputtered for close to three years now.

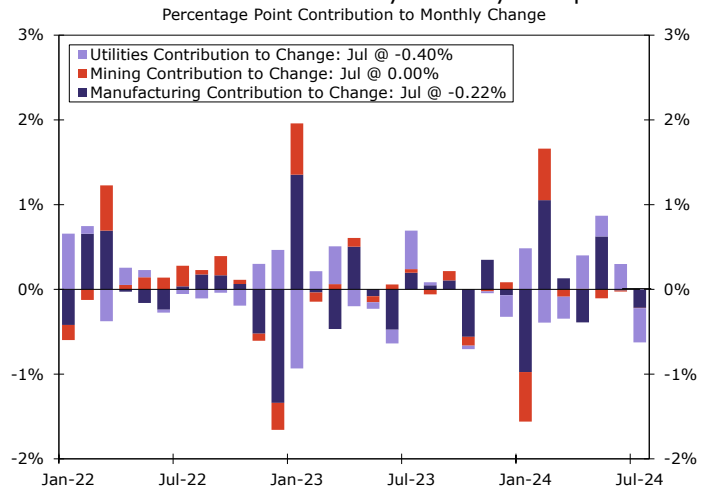
Existing Home Sales • Thursday

Existing home sales rose 1.3% in July to a 3.95M unit pace. This was the first increase in five months and was driven by a 1.4% increase in single-family unit resales. A downtick in mortgage rates supported existing home sales, though they are still down 2.5% on a year-ago basis. Even with a bit more breathing room from mortgage rates, prospective homebuyers are still facing an affordability crunch. The median single-family home price was \$428,500 in July, up 4.2% over the past year. Slower sales have had the byproduct of improving inventories, as the number of single-family homes on the market is up nearly 22% over the past year.

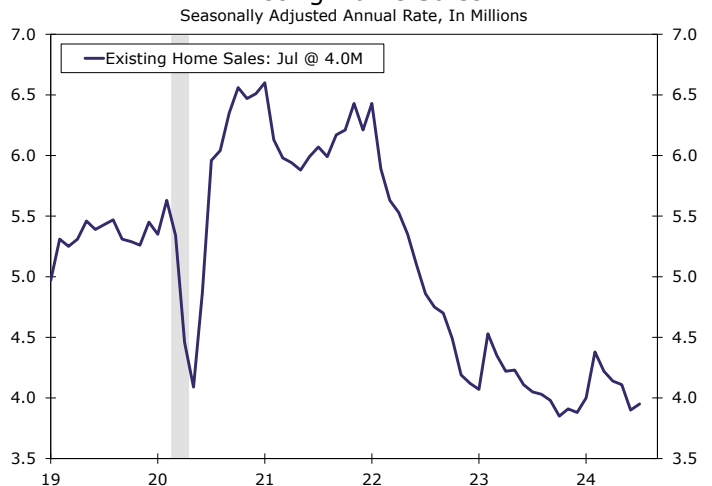
Even with a lower rate environment seemingly on the horizon, affordability conditions are unlikely to drastically improve, as slowing employment gains and income growth are likely to weigh on potential homebuyers. We look for existing home sales to retreat about 0.8% to a 3.92M unit pace in August. Sturdy price appreciation looks to continue to outweigh any incremental improvements from moderating financing costs, leaving the potential for a full-fledged housing market recovery low.

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Industrial Production by Industry Group



Existing Home Sales



International Review

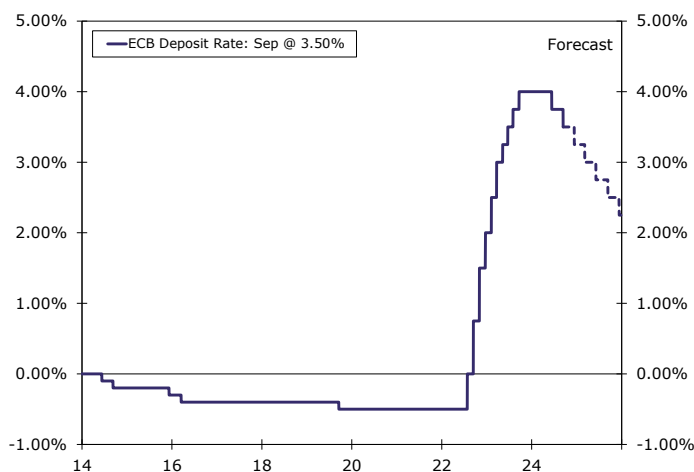
European Central Bank Continues Carefully Along Its Rate Cut Path

This week, the European Central Bank (ECB) cut its Deposit Rate by 25 bps to 3.50% as widely expected. In lowering interest rates, the ECB described inflationary pressures as still elevated but moderating. The announcement included a mix of both hawkish and dovish comments. The ECB said that elevated wage growth is keeping domestic inflation high, but that labor cost pressures are moderating. The central bank also noted that the outlook for core inflation has been revised slightly higher, due to lingering services inflation, though meanwhile, economic activity is still subdued. In terms of the outlook for future rate decisions, the ECB was noncommittal, reiterating its plans to remain data-dependent and stating that it is "not pre-committing to a particular rate path."

In terms of the ECB's updated economic projections, the central bank lowered its GDP growth forecast for each year through its forecast horizon, and now sees Eurozone growth of 0.8% in 2024, 1.3% in 2025 and 1.5% in 2026. These are moderately softer than our own growth forecasts over the same period. Importantly, however, the ECB's forecasts indicated a slower ebbing in underlying inflation pressures than previously. The ECB projects core CPI inflation—CPI ex food and energy—of 2.9% for 2024 and 2.3% for 2025, a touch higher than in the June projections. The core CPI forecast for 2026 of 2.0% is unchanged, and in line with the ECB's inflation target. We also note some "hawkish leaning" comments from ECB President Lagarde in the post-meeting press conference. Lagarde said domestic inflation is not satisfactory and the ECB must be resilient in its approach. She also said there was a relatively short period of time until the ECB's October monetary policy meeting. Considering these comments, and the upward revision to the ECB's core inflation projections, we remain comfortable with our view for a rate pause in October, to be followed by a 25 bps Deposit Rate cut in December, which would finish 2024 at 3.25%.

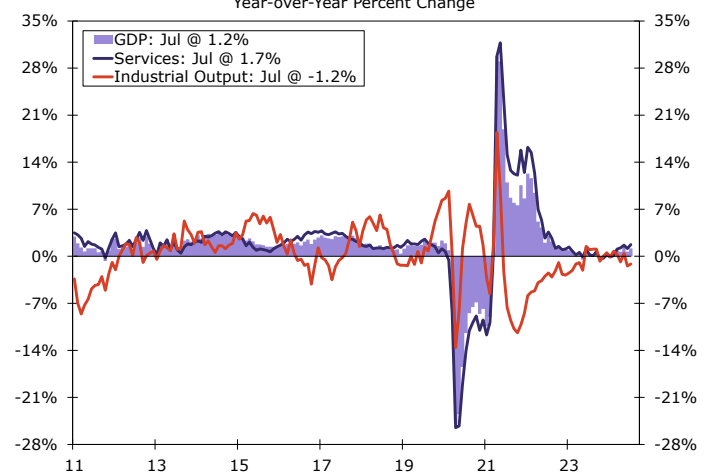
In other European economic news this week, we got U.K. monthly GDP figures for July. The U.K. economy remained at a standstill during the month, with its second consecutive 0.0% month-over-month reading. Released alongside the headline figures were data on industrial production, manufacturing production and services. In July, industrial production surprised to the downside, falling 0.8% over the month, and manufacturing production took a similar course, almost entirely reversing June's growth with a 1.0% drop. The index of services expanded by slightly less than expected. While these figures were overall not that impressive, we believe they represent more of a bump in the road for the ongoing U.K. economic recovery as opposed to a threat to continued expansion. This week also saw the release of the latest round of wage data. Average weekly earnings growth—measured for the three months to July as compared to the same period a year ago—slowed down by more than expected, to 4.0% from 4.6% previously. Another measure that excludes bonuses came in as expected at 5.1% growth, a slowdown from the previous reading of 5.4%. While a slowdown in wage growth could help the case for further Bank of England rate cuts, pay growth is still elevated by historical levels, which we see as consistent for our forecast for somewhat gradual BoE monetary policy easing.

ECB Deposit Rate



Source: Datastream and Wells Fargo Economics

U.K. Economic Growth
Year-over-Year Percent Change



Source: Datastream and Wells Fargo Economics

Mix of Inflation Data from Advanced and Emerging Economies

This week also saw the release of some key price data for both emerging and advanced economies. In Brazil, inflation in August slowed to 4.24% year-over-year, largely in line with the consensus expectation. Prices fell by 0.02% over the month, not far from the consensus expectation for a 0.01% gain. Inflation in Brazil is still elevated above target and has been for some time now. Zooming out a bit, when we take this inflation data in combination with solid recent economic activity data—Q2 GDP data released last week showed an upside surprise, at a 3.3% year-over-year growth rate—we see reasons, in our view, for Brazilian Central Bank (BCB) policymakers' next monetary policy decision to be a rate hike. Some slippage in fiscal discipline as well as Brazilian currency weakness could also feed into the rate decision. We see the BCB lifting its Selic rate by 25 bps to 10.75% at its meeting next week.

In terms of other price data from Latin America this week, we also got Mexico's CPI inflation data for August. Headline CPI inflation surprised to the downside at 0.01% month-over-month and 4.99% year-over-year. Underlying price pressures also slowed, broadly as expected by consensus economists, with the core CPI coming in at 0.22% month-over-month and 4.00% over the year. When looking at the bi-weekly CPI figures, it seems that headline price pressures eased throughout August, whereas underlying price pressures appeared to be more steady over the month. In other news from Mexico this week, the country passed a constitutional reform that requires federal judges, including Supreme Court justices, to be elected via popular vote. Despite some concerns from market participants around the judicial overhaul, the Mexican peso has traded in a relatively orderly fashion since the reforms passed. In terms of monetary policy implications, at this time, we remain comfortable with our outlook for a steady pace of Banxico rate cuts through next year. We look for the Mexican central bank to lower its policy rate by 25 bps at its September, November and December meetings, to reach an end-2024 policy rate of 10.00%, and to continue with further rate cuts in 2025.

Turning to the G10, Sweden's August inflation data should provide another piece of justification for the country's central bank, the Riksbank, to maintain a dovish monetary policy stance going forward. Headline CPIF inflation slowed by more than expected to 1.2% year-over-year. In terms of underlying price pressures, the CPIF excluding energy held steady at 2.2% year-over-year, as expected, and posted a 0.3% contraction over the month. We see the Riksbank continuing to ease monetary policy this year, with our outlook for 25 bps rate cuts at the central bank's September, November and December meetings this year for a year-end policy rate of 2.75%.

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International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
14-Sep	China Industrial Production (YoY)	Aug	4.7%	–	5.1%
14-Sep	China Retail Sales (YoY)	Aug	2.5%	–	2.7%
18-Sep	U.K. CPI (YoY)	Aug	2.2%	2.2%	2.2%
19-Sep	Bank of England Policy Rate Decision	19-Sep	5.00%	5.00%	5.25%
20-Sep	Japan National CPI (YoY)	Aug	3.0%	2.9%	2.8%
20-Sep	Bank of Japan Policy Rate Decision	20-Sep	0.25%	0.25%	0.25%

Forecast as of September 13, 2024

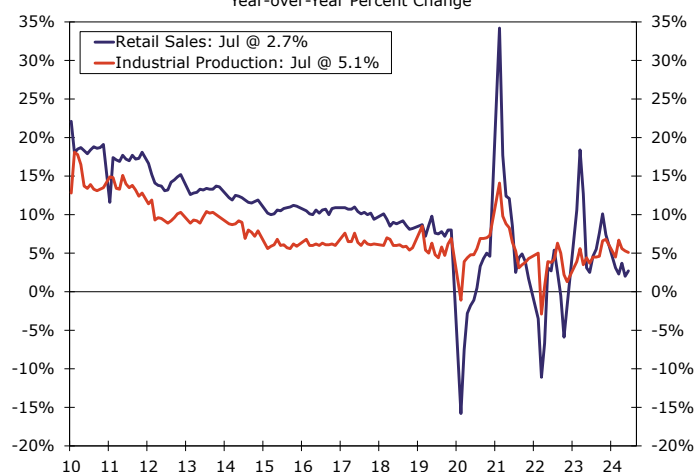
Source: Bloomberg Finance L.P. and Wells Fargo Economics

China Retail Sales & Industrial Production • Saturday

Next week, China's industrial production and retail sales data for August will provide market participants with insight into how the economy has performed so far during Q3. Consensus economists expect to see some softness in the figures, with forecasts for industrial production activity growth to slow down to 4.7% year-over-year from 5.1% previously, and for retail sales growth to slow to 2.5% from 2.7% previously. Retail sales activity growth has generally been moving at a historically unimpressive rate in recent months, and industrial production is also clearly subdued compared to longer-term historical trends. If these forecasts are realized, that would reaffirm the underwhelming performance of China's economy.

Looking at the bigger picture, Chinese economic data have been generally underwhelming for several months now. Second quarter GDP growth missed the official growth target of “around 5%” with a 4.7% year-over-year reading. Since the start of this year, the Manufacturing PMI has been below the 50 “breakeven” level for all but the two months that it slightly broke above that level, and the non-manufacturing PMI—which corresponds to services and construction activity—has continued to slide downward recently. Concern for the economic wellbeing of the country's economy has certainly grown. In our own forecasts, we expect to see annual Chinese GDP growth of 4.8% in 2024, and for growth to slow to 4.5% and 4.2% in 2025 and 2026, respectively.

China Industrial Production and Retail Sales
Year-over-Year Percent Change



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

Bank of England Rate Decision • Thursday

The Bank of England (BoE) will announce its latest monetary policy decision next week. While the central bank opted to deliver an initial 25 bps policy rate cut at its August meeting, policymakers also signaled a desire to take a cautious approach toward following through with future rate cuts. We, as well as consensus economists, expect to see this somewhat cautious approach reflected in next week's decision, with an expected BoE rate pause at 5.00%.

We view economic data released since the BoE's August 1 meeting as generally consistent with the central bank keeping the policy rate on hold in September before delivering another 25 bps rate cut in November. The July CPI inflation figures did surprise to the downside, but services inflation remains elevated above 5% year-over-year. We will get updated CPI inflation figures for August next week. In terms of economic growth, second quarter GDP figures came in generally as expected and appeared to be consistent with our view of an ongoing U.K. economic recovery. While the monthly GDP figures for July were a slight disappointment, as we wrote [above](#), more encouraging signs from other economic indicators—such as the continued upswing in the manufacturing and services PMIs—lead us to maintain our view that the U.K.'s economic recovery can remain intact. In summary, it is our view that BoE policymakers will take a measured approach to monetary easing through year-end 2024, delivering just one more 25 bps rate cut to a policy rate of 4.75%. With that being said, if we were to see a further and continued slowing in price pressures, and/or other indications that the U.K. economic recovery may be stalling more meaningfully, that could tilt the risks toward a slightly faster pace of policy easing toward the end of this year, perhaps via back-to-back 25 bps rate cuts at the BoE's November and December meetings.

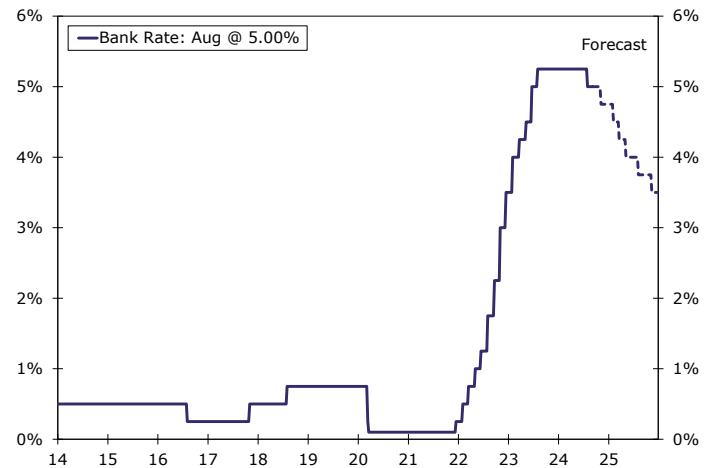
Bank of Japan Rate Decision • Friday

Next week, the Bank of Japan (BoJ) will deliver its latest monetary policy decision. We, as well as consensus economists, expect the central bank to keep its policy rate on hold at around 0.25%.

Although we believe the economic case for further BoJ rate hikes is still intact, we believe policymakers may stay on the sidelines for a little while longer, given the recent memory of the market turmoil seen in early August. In terms of the economic reasons for a rate hike, headline and underlying price pressures remain elevated in Japan, with the core CPI (ex. fresh food) accelerating slightly in July. Next week, we will get updated inflation figures for August. Wage growth has also been sturdy. Headline labor cash earnings grew 3.6% year-over-year in July, an elevated pace by historical standards. In addition, economic growth data released since the BoJ last met were also encouraging. The combination of these factors leads us to believe that the BoJ will be hiking its policy rate further, but the potential for some lingering wariness due to the early-August market turbulence means we see the BoJ waiting a bit longer to deliver those hikes. To that point, we forecast that the central bank will lift its policy rate by 25 bps at its January and April 2025 meetings, to reach a policy rate of around 0.75% by the middle of next year.

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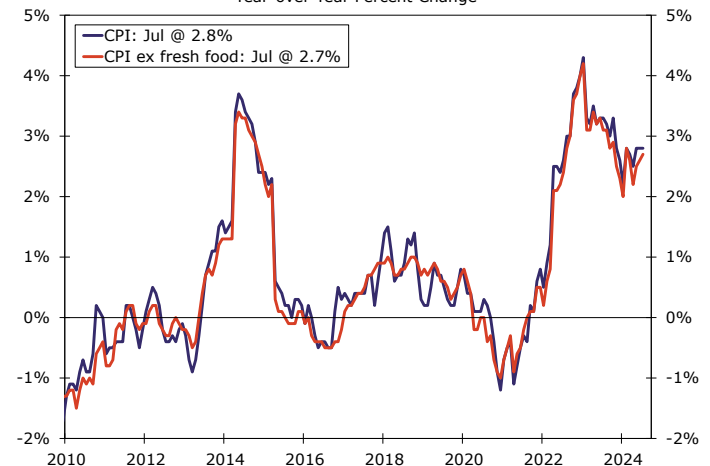
Bank of England Policy Rate



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

Japan's CPI Inflation

Year-over-Year Percent Change



Source: Datastream and Wells Fargo Economics

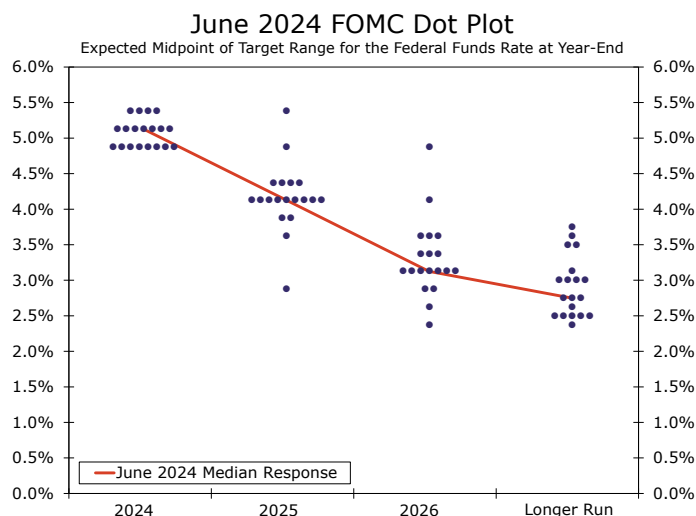
Interest Rate Watch

Let the Easing Begin

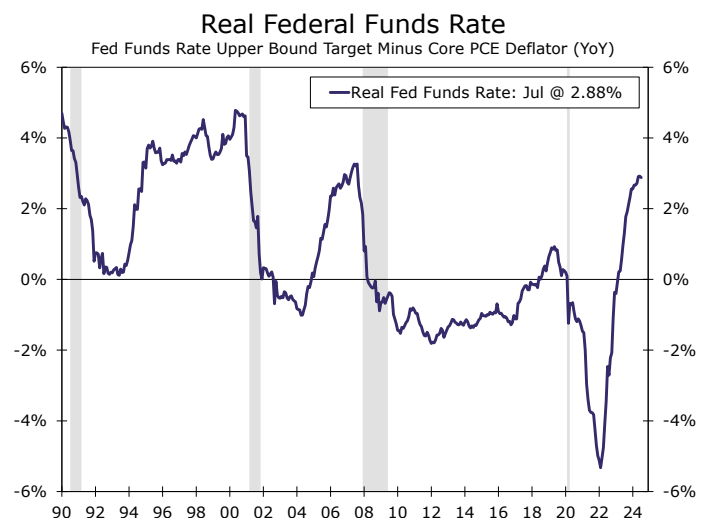
The FOMC is widely expected to kick off the long-awaited easing cycle at its meeting next week. Looking ahead to the September 17-18 meeting, we see three key developments:

“The time has come for policy to adjust. The direction of travel is clear.” Through month-to-month volatility, inflation remains on a decidedly downward trend. Meantime, the ongoing cooling in the labor market has come perilously close to being too cold, and we now see the risks to the Fed's dual mandate as skewed toward the jobs market. The consensus among Committee members doubtlessly will be in favor of starting the easing process, though there is debate over the magnitude of the initial cut. Next week, our team is anticipating a 25 bps reduction in the federal funds rate to 5.00%-5.25%. Even so, given the marked softening in the labor market since the Committee last met at the end of July, the door to a larger 50 bps cut has been kept open, and we would not be totally surprised if the FOMC opted for the bigger move.

Unusually wide dispersion in the dots. The previous Summary of Economic Projections (SEP)—published in June—showed the median FOMC member thought only one 25 bps rate cut would be appropriate by the end of this year ([chart](#)). In the September SEP, we expect the 2024 median dot to fall to 4.625%, implying two additional 25 bps cuts this year (after an expected 25 bps cut at next week's meeting). The dispersion of dots is likely to be wide; we would not be surprised to see at least one dot as low as 4.125% and an upper end of the distribution at 5.125%. For year-end 2025, we expect the median dot to fall to 3.375% (from 4.125% in June), implying 125 bps of easing next year.



Source: Federal Reserve Board and Wells Fargo Economics



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

Potential for dissents. The absence of dissents in the 17 meetings since June 2022 demonstrates that the Committee has been more or less unified in its views regarding the appropriate stance of policy of late. We would not be shocked to see this streak end in September at such a policy turning point. If, as we expect, the FOMC cuts rates by 25 bps, we can envision more dovish voting members (e.g., San Francisco Fed President Daly) dissenting in favor of a larger reduction. If the FOMC does opt for a larger 50 bps cut, a hawkish voting member or two of the Committee (e.g., Governor Bowman or Richmond Fed President Barkin) could very well dissent, preferring a 25 bps rate reduction instead.

Beyond next week's meeting, material monetary policy easing is en route. With the real rate approaching 3% ([chart](#)), the FOMC needs to cut the nominal fed funds rate considerably in coming months to get back to neutral. Otherwise, policymakers risk driving the economy into recession with an overly tight stance of monetary policy. Accordingly, we look for the Committee to reduce the fed funds rate to 3.00%-3.25% by July of next year, which is in the vicinity of what many observers, including us and numerous members of the FOMC, consider to be neutral. For more insights, please see our full [September Fed Flashlight](#) report. ([Return to Summary](#))

Credit Market Insights

Uptick in Consumer Borrowing in July

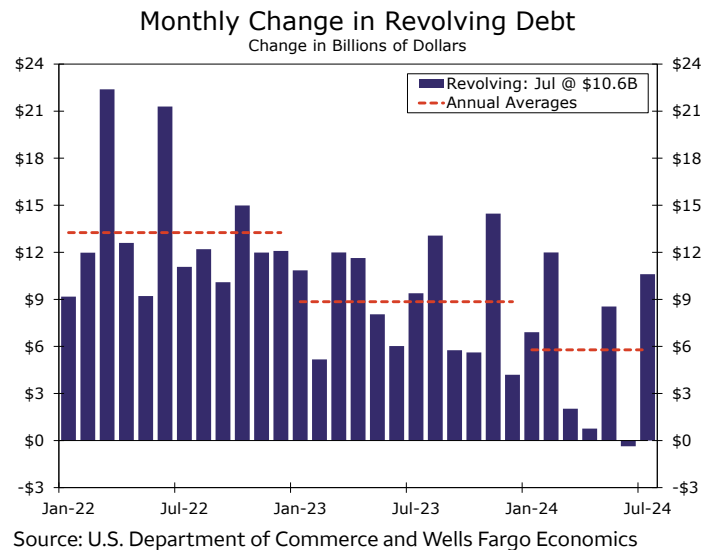
Total consumer credit increased \$25.45B in July, the most since November 2022. The increase was driven by both revolving and non-revolving balances, which rose \$10.6B and \$14.8B, respectively. The jump in revolving debt, which is primarily composed of credit cards, was particularly impressive, rising by the most since February of this year. July's consumer credit report comes off the heels of a strong retail sales print—retailers saw a sales increase of \$6.8B in July, or 25% of the total gain from the prior two years in a single month. July's personal income and spending report confirmed that consumers continued to spend more than expected. The increase in consumer borrowing over the month shows that the consumer continues to rely on credit to maintain their levels of spending. That said, the trend in borrowing has continued to downshift this year, suggesting that consumers may be feeling the pinch of higher rates.

Revolving consumer credit has grown at a rapid pace in this business cycle, but the rate of borrowing has slowed sharply this year. Year-to-date, the average monthly increase in revolving debt is \$5.8B; during the same period in 2023, the average monthly increase was \$9.0B ([chart](#)). High interest rates are likely the reason behind the downshift in consumer borrowing this year. In Q2, the average annual interest rate on credit cards reached 21.5%, only slightly lower than the record high reached at the end of Q1. In addition, the rate on a 60-month new car loan remains north of 8%, where it has sat since Q3 of last year. Indeed, non-mortgage personal interest expense as a percent of disposable income rose to 2.6% in July. This measure peaked at 2.8% in September of last year, and while it has downshifted, it remains at levels not seen since 2008.

As the cost of servicing debt has increased and taken up more of consumers' paychecks, the rate of consumers becoming delinquent on their loans has risen, particularly for credit cards and auto loans. Over the past year, over 9% of borrowers were 30 days past due on credit card payments, while 8% were 30 days past due on auto loans. While the ratio of household debt to disposable income remains below the pre-pandemic share, the uptick in delinquencies points to a struggling consumer.

If July's data reveal anything, it is that consumers keep spending and are relying on credit to do so. As discussed in our September [U.S. Economic Outlook](#) published this week, we expect real spending to be much stronger in the third quarter than we had penciled in previously—we now look for real PCE to rise 3.5%, up from our previous estimate of 2.3%. With the savings rate well below pre-pandemic levels and the pace of spending slightly above the trajectory for income growth, it is likely that consumers will continue to rely on forms of borrowing to maintain their strong spending levels. We expect some relief on the horizon for households, as we now look for the Fed to begin easing policy in September with a 25 bps cut, followed by a 50 bps cut in both November and December. Further rate cuts through mid-2025 place our forecasted upper bound of the fed funds rate at 3.25% by this time next year. That said, while the start of the easing cycle should provide relief, it will likely take some time for more accommodative credit conditions to reach households.

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Topic of the Week

A (Labor) Force to Be Reckoned With

The labor force is a major determinant of an economy's potential output. As workforce growth strengthens, it becomes easier for businesses to find workers to grow and expand. Yet as U.S. population growth has slowed in recent decades and is projected to downshift further, one group stands out for its outsized contribution: the Hispanic and Latino community. In celebration of Hispanic Heritage Month, which kicks off this Sunday, we dive into the significant contributions that the Hispanic and Latino community has made to U.S. labor force growth over the past decade. For the full report, please see [A \(Labor\) Force to be Reckoned With: Celebrating Hispanic Heritage Month](#).

In the economic expansion that preceded the pandemic, labor force growth was anemic amid declining fertility rates and rising retirements among baby boomers. The slowdown would have been even more pronounced were it not for Hispanic and Latino workers. Between 2013 and 2023, the Hispanic labor force expanded 28%, or by seven million individuals, accounting for nearly two-thirds of the rise in the national labor force. There are now over 32 million individuals of Hispanic or Latino heritage working or actively looking for work in the United States today, with the group comprising 19% of the labor force compared to 16% ten years ago.

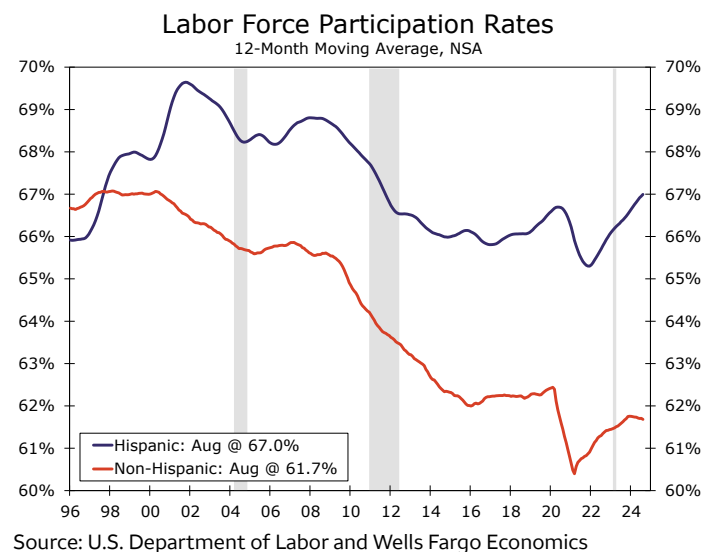
The Hispanic community's substantial contributions to U.S. labor force growth has been propelled by favorable demographics. In the decade through 2023, the Hispanic population grew 20% compared to 3% among non-Hispanics. The strong pace of Hispanic population growth has been supported by the group's younger age profile relative to the total U.S. population. In 2023, the median age among Hispanics was 31 years old, which is a full ten years younger than the non-Hispanic population. The younger skew of the Hispanic population has contributed to a high birth rate and a low mortality rate.

While strong population growth has supported labor force gains, population trends are only part of the story. The rate at which Hispanics participate in the labor market is materially higher than that of non-Hispanics, and, unlike the broader population, participation among Hispanics has moved up over the past decade ([chart](#)). The loftier participation rate is once again linked to the younger age profile of the community. In 2023, 56% of the adult Hispanic population was 25-54 years old compared to 46% of the remainder of the population.

Although to a lesser extent than the non-Hispanic population, population aging has weighed on the Hispanic labor force participation rate over the past decade. The share of Hispanic individuals in their "prime" working years has fallen three percentage points over the past decade, and the share that is nearing or is in their traditional retirement years (age 55+) has risen five percentage points. That said, aging does not fully explain the divergent trends between Hispanics and non-Hispanics. Women, in particular, have been a key driver of the recent rise in Hispanic participation. Over the past decade, Hispanic women's labor force participation rate increased three-percentage-points, whereas Hispanic men's participation *fell* 0.4 points. The robust rise in Hispanic women's participation is underpinned by a sharp drop in fertility rates, Latinas taking on more financial responsibility in their households and rising educational attainment.

Overall, Hispanics have become an increasingly important source of U.S. economic growth, and the tailwind is likely to continue. The U.S. Census Bureau projects that from 2025 to 2035, the Hispanic population will increase 15% relative to just a 1% increase in the non-Hispanic population. Furthermore, the Bureau of Labor Statistics projects that the labor force participation rate among the Hispanic population will fall less than that of non-Hispanics from 2023 to 2033 (-0.5 point versus -1.8 percentage points, respectively), with Hispanic women seeing their participation rate *increase* 1.1 points over that period. The community's lift to the pace of labor force growth means that the U.S. economy will be able to expand at a faster pace for a given rate of inflation, other conditions being equal, and make it easier for business to find the workers they need to expand in the coming years.

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Market Data • Mid-Day Friday

U.S. Interest Rates			
	Friday 9/13/2024	1 Week Ago	1 Year Ago
SOFR	5.33	5.35	5.30
Effective Fed Funds Rate	5.33	5.33	5.33
3-Month T-Bill	4.92	5.05	5.45
1-Year Treasury	3.95	4.07	5.30
2-Year Treasury	3.60	3.65	4.97
5-Year Treasury	3.44	3.49	4.38
10-Year Treasury	3.67	3.71	4.25
30-Year Treasury	4.00	4.02	4.34
Bond Buyer Index	3.83	3.86	3.87

Foreign Exchange Rates			
	Friday 9/13/2024	1 Week Ago	1 Year Ago
Euro (\$/€)	1.109	1.108	1.073
British Pound (\$/£)	1.315	1.313	1.249
British Pound (£/€)	0.843	0.844	0.859
Japanese Yen (¥/\$)	140.670	142.300	147.460
Canadian Dollar (C\$/A\$)	1.358	1.357	1.355
Swiss Franc (CHF/\$)	0.848	0.843	0.894
Australian Dollar (US\$/A\$)	0.672	0.667	0.642
Mexican Peso (MXN/\$)	19.307	19.980	17.153
Chinese Yuan (CNY/\$)	7.096	7.098	7.272
Indian Rupee (INR/\$)	83.898	83.949	82.985
Brazilian Real (BRL/\$)	5.553	5.599	4.916
U.S. Dollar Index	100.981	101.177	104.766

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

Foreign Interest Rates			
	Friday 9/13/2024	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.23	3.16	3.67
3-Month U.K. Govt Bill Yield	4.91	4.94	5.45
3-Month Canadian Govt Bill Yield	4.04	4.08	5.10
3-Month Japanese Govt Bill Yield	0.10	0.11	-0.12
2-Year German Note Yield	2.22	2.23	3.17
2-Year U.K. Note Yield	3.81	3.95	4.99
2-Year Canadian Note Yield	2.96	3.05	4.69
2-Year Japanese Note Yield	0.39	0.38	0.03
10-Year German Bond Yield	2.15	2.17	2.65
10-Year U.K. Bond Yield	3.77	3.89	4.35
10-Year Canadian Bond Yield	2.91	2.96	3.69
10-Year Japanese Bond Yield	0.85	0.85	0.71

Commodity Prices			
	Friday 9/13/2024	1 Week Ago	1 Year Ago
WTI Crude (\$/Barrel)	70.05	67.67	88.52
Brent Crude (\$/Barrel)	73.04	71.06	91.88
Gold (\$/Ounce)	2577.30	2497.41	1908.12
Hot-Rolled Steel (\$/S.Ton)	698.00	699.00	719.00
Copper (¢/Pound)	417.95	401.45	375.60
Soybeans (\$/Bushel)	10.01	9.95	13.34
Natural Gas (\$/MMBTU)	2.34	2.28	2.68
Nickel (\$/Metric Ton)	15,899	15,821	19,684
CRB Spot Inds.	547.08	542.54	556.38

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