

Annual Economic Outlook — November 21, 2024

## 2025 Annual Outlook

### A New Horizon: The Economic Outlook in a New Leadership and Policy Era

#### Summary

- The economic aftershocks of the COVID pandemic, which have dominated the economic landscape over the past few years, are steadily dissipating. These pandemic-induced economic effects are set to be largely supplanted by economic policy changes that are on the horizon in the United States.
- The American president can act largely unilaterally when it comes to changes in trade policy. During his campaign for the presidency, Donald Trump promised to impose a 10% across-the-board tariff on U.S. trading partners with 60% levied on China. Although the magnitude and timing of any actual tariff hikes are uncertain, we expect the Trump administration will indeed impose some levies on American trading partners. By raising consumer prices, tariffs impart a modest stagflationary shock to an economy.
- We have bumped up our forecast of inflation for next year, while shaving down our real GDP growth forecast. We still expect the Federal Reserve to ease monetary policy further, but we believe the target range for the federal funds rate will be 50 bps higher at the end of 2025 than we did previously.
- Republicans will control both chambers of Congress beginning in the new year. We expect Congress to fully extend the tax cuts that were legislated in the 2017 Tax Cuts and Jobs Act, which are set to expire at the end of 2025. But extension of the tax cuts does not impart fiscal stimulus to the economy, because extension would simply prevent tax rates from reverting to their higher pre-2017 levels. That noted, we expect Congress to legislate some additional tax relief next year, which should help to boost real GDP growth in 2026.
- Not only will tariffs weigh on U.S. real GDP growth next year, but economies with significant export exposure to the United States likely will be negatively affected as well. Under our tariff assumptions, we forecast the global economy will grow only 2.5% in 2025, down from 3% in 2024.
- We look for a significant amount of monetary easing next year by many major foreign central banks, including the European Central Bank, the Bank of England and the Bank of Canada. As interest rate differentials move in favor of the greenback, we look for the trade-weighted value of the U.S. dollar to rise to its highest level in more than 20 years in the coming quarters.

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## Introduction & Summary

2025 will mark five years since the COVID-19 pandemic upended the global economy. From the initial plunge in economic activity to the subsequent sharp rebound and roller coaster ride of inflation, the pandemic and its aftershocks have dominated economic developments over the past five years. The echo of the pandemic is still evident today, but its reverberations have steadily faded over time. As we look ahead to next year, there are several new and important developments on the horizon, but perhaps none will be more critical to the outlook for the U.S. and the global economy than the changes in the American economic policy framework, which will be implemented in the wake of the recent elections in the United States.

Trade policy represents one of the most important potential changes starting next year. Unlike fiscal policy, which requires approval from Congress, and monetary policy, which is the purview of the independent Federal Reserve, the American president has wide latitude to make trade policy changes unilaterally. President-elect Trump campaigned on a promise to enact a 10% across-the-board tariff on America's trade partners with 60% levied on Chinese goods. As we discussed in a [report](#) we published in July, tariff increases of those magnitudes, in conjunction with likely retaliation by trading partners, would raise the core CPI inflation rate in 2025 by more than one percentage point relative to baseline, while shaving about two percentage points off baseline real GDP growth, everything else equal. Tariff increases are largely paid for by consumers via higher prices, which erodes growth in real income thereby weighing on growth in real consumer spending.

Of course, Donald Trump may not fully enact these proposed tariff increases once he becomes president next year. That said, we believe some tariff increases are likely, although their magnitude and timing are uncertain. Accordingly, we have pushed up our inflation forecast and reduced our real GDP growth projection in 2025, albeit not by the full amounts that are implied by our model-based estimates. Specifically, we project that U.S. real GDP will grow only 1.5% between the fourth quarter of this year and Q4-2025. Previously, we had looked for growth of 2.2% over that period. We have also lifted our forecast for core CPI inflation by 0.4 percentage points at the year of next year, and now see the core rate of inflation heading back up to 3.0% in Q4-2025.

Republican control of both chambers of Congress likely will lead to fiscal policy changes in 2025. Republicans seem intent on extending most of the expiring parts of the 2017 Tax Cuts and Jobs Act (TCJA), which are scheduled to lapse at the end of next year. That said, a simple extension of those tax cuts will not impart fiscal stimulus to the economy, because individual tax rates would not be reduced from their current levels. Rather, extension would simply keep tax rates from rising back to their pre-2017 levels.

That noted, some Republicans seem keen to offer additional tax relief to households via other means (e.g., a larger Child Tax Credit, larger standard deduction, etc.). Our forecast looks for new tax cuts of roughly \$1 trillion over 10 years, beginning in 2026. Although revenues raised by tariff increases and some spending cuts may help to offset some of the budgetary cost of the TCJA extension and additional tax cuts, the federal government likely will continue to incur gaping budget deficits for as far as the eye can see. This tax relief, the effects of a lighter regulatory touch, and the fading effects of the

*We believe some tariff increases are likely next year. Accordingly, we have pushed up our inflation forecast and reduced our real GDP growth projection.*

initial tariff increases should lead to stronger economic growth in 2026. We look for real GDP in the United States to grow 2.9% between the fourth quarter of 2025 and Q4-2026.

The policy changes that we outline above likely will have implications for the Federal Reserve. If, as we forecast, tariff increases bump up inflation next year, then the FOMC probably will not ease monetary policy by as much as we had previously anticipated. Because tariff increases will weigh on economic growth, the employment side of the Fed's mandate may be challenged. Therefore, we believe the Committee will be tempted to look through the tariff-induced shock to inflation, at least in part. We forecast the FOMC will cut its target range for the federal funds rate by 100 bps from its current level of 4.50%-4.75%, which is 50 bps less than we previously had anticipated.

These American policy changes likely will have ramifications for the rest of the world. Economies with significant export exposure to the United States (e.g., Mexico) or countries in the crosshair of tariff hikes (i.e., China) could be considerably affected by changes to U.S. trade policy. While China has some policy levers to offset some of the economic hit from weaker exports to the United States, Mexico may be more constrained in its ability to respond with stimulative economic policies. Although the macro-economies of some foreign countries may be relatively insulated from the effects of higher American levies (e.g., Brazil, India), we view tariff hikes as a net negative for the global economy. Accordingly, we have lowered our forecast for global GDP growth in 2025 to 2.5% from 3.0% in 2024.

As the effects of higher U.S. tariffs set in, foreign central banks are likely to adjust monetary policy at different speeds and, in select cases, different directions. We now look for the European Central Bank to accelerate its pace of policy easing in 2025, and we also forecast that central banks in Canada and the United Kingdom will ease more quickly than the Federal Reserve. We already were bullish on the prospects for the U.S. dollar in 2025, but rate differentials moving more in favor of the greenback next year could boost the trade-weighted value of the dollar to its highest level in more than 20 years in the coming quarters.

In sum, it appears that the economic aftershocks of the COVID pandemic, which are steadily dissipating, will be largely supplanted by economic policy changes that are on the horizon in the United States. Specifically, American trade policy likely will change in a more restrictive direction. During his campaign for president, Donald Trump repeatedly promised to impose a 10% across-the-board tariff with a 60% levy applied to China. The cost of tariffs, which are a tax on imported goods, are generally borne by consumers. Tariff increases of Trump's threatened magnitude would lead to a marked increase in inflation next year, while significantly reducing the rate of economic growth, not only in the United States but in many foreign economies as well. We have bumped up our U.S. inflation forecast for next year, while shaving down our U.S. real GDP growth outlook. But we have not fully incorporated the model-based estimates of full tariff implementation, because the magnitude and timing of any such tariff increases are highly uncertain at this time. We look full acceleration in economic activity in 2026 due in part to some additional tax relief the U.S. Congress is likely to legislate next year.

***The FOMC probably will not ease monetary policy by as much as we had previously anticipated.***

## Policy Assumptions in Light of the U.S. Elections

The highly anticipated 2024 U.S. elections have come and gone. Donald Trump was elected the 47th president of the United States, becoming just the second person to be elected president for non-consecutive terms. Republicans maintained their small majority in the House of Representatives and gained a 53-47 majority in the Senate, giving them unified party control of Congress and the White House for the first time since 2017–2018. This new political reality opens the door to changes to U.S. economic policy, which likely will have major implications for the U.S. economy, as well as many foreign economies, in 2025 and beyond.

But what will these policy changes be? There is tremendous uncertainty around the economic policy outlook post-election. Before we dive into our expectations for the U.S. and major foreign economies next year, we think it would be wise to first cover what our U.S. economic policy assumptions are in light of the recent elections.

### Will the Trump Administration Increase Tariffs Significantly?

Perhaps no policy topic has garnered more attention than President-elect Trump's support for higher tariffs. During his campaign, Trump proposed a 10% tariff on all goods imported into the United States, with a 60% levy on imported goods from China. At times, he suggested tariff rates even higher than these. A 10% tariff on the \$3 trillion of goods imported annually into the United States, when paired with a 60% tariff on the \$400 billion or so of Chinese imported goods, would represent one of the biggest changes in U.S. trade policy in decades.

Tariffs are a policy area where the president has a significant amount of unilateral control. The president has the power to make sweeping changes to tariffs without Congressional approval, unlike many other policy areas, such as changes to income tax rates. *Our economic forecast assumes that roughly half of the 10%/60% proposal goes into effect sometime around the third quarter of next year.* Of course, it goes without saying that this assumption could be too aggressive or too benign. Perhaps President Trump will adopt much lower tariffs in a more targeted manner on specific goods, while exempting some of America's trading partners. Alternatively, perhaps President Trump will make good on his campaign promise and adopt a plan that consists of *at least* a 10% universal tariff and a 60% tariff on China. For now, we think our assumption strikes a balanced middle ground among all the potential tariff-related outcomes.

**Trump has proposed a 10% tariff on all goods imported into the United States, with a 60% levy on imported goods from China.**

Figure 1

Fiscal Cost of President Trump's Campaign Plans			
Estimated Impact on Deficit, Billions, 2026–2035 (Costs/Savings)			
Policy Proposal	Low	Central	High
Extend and modify the Tax Cuts & Jobs Act (TCJA)	-\$4,600	-\$5,350	-\$5,950
Exempt overtime income from taxes	-\$500	-\$2,000	-\$3,000
End taxation of Social Security benefits	-\$1,200	-\$1,300	-\$1,450
Exempt tip income from taxes	-\$100	-\$300	-\$550
Lower the corporate tax rate to 15% for domestic manufacturers	-\$150	-\$200	-\$600
Enact or expand other individual and small business tax breaks	-\$150	-\$200	-\$350
Strengthen and modernize the military	-\$100	-\$400	-\$2,450
Secure the border and deport unauthorized immigrants	\$0	-\$350	-\$1,000
Enact housing reforms, including credits for first-time homebuyers	-\$100	-\$150	-\$350
Boost support for health care, long-term care and caregiving	-\$50	-\$150	-\$300
<b>Subtotal, tax cuts and spending increases</b>	<b>-\$6,950</b>	<b>-\$10,400</b>	<b>-\$16,000</b>
Establish a universal baseline tariff and additional tariffs	+\$4,300	+\$2,700	+\$2,000
Reverse current energy/environment policies and expand production	+\$750	+\$700	+\$550
Reduce waste, fraud and abuse	+\$250	+\$100	\$0
End the department of education and support school choice	+\$200	+\$200	\$0
<b>Subtotal, revenue increases and spending reductions</b>	<b>+\$5,500</b>	<b>+\$3,700</b>	<b>+\$2,550</b>
<b>Net interest</b>	<b>-\$200</b>	<b>-\$1,050</b>	<b>-\$2,100</b>
<b>Total, net deficit impact</b>	<b>-\$1,650</b>	<b>-\$7,750</b>	<b>-\$15,550</b>

Source: Committee for a Responsible Federal Budget and Wells Fargo Economics

Note: Figures rounded to the nearest \$50 billion

## Tax Cuts May Be Coming, but Probably Not Until 2026

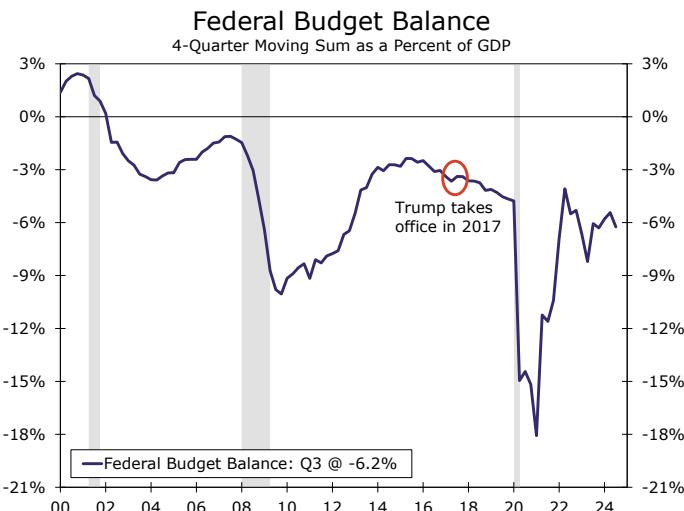
The outlook for U.S. tax policy is in some ways more certain. Republicans seem intent on extending the expiring parts of the 2017 Tax Cuts and Jobs Act (TCJA), which are scheduled to lapse at the end of 2025. *We feel reasonably confident Republicans will extend most or all of the TCJA, and an extension was already baked into our pre-election economic forecast.* Note that a simple extension of the TCJA would not impart a fiscal impulse to the economy. Individual income taxes would not be cut from their current levels. Rather, TCJA extension would simply prevent tax rates from rising back to their pre-2017 levels.

What about other, new tax cuts? We are more uncertain about the outlook for tax policy beyond the TCJA extension. Some additional tax cuts seem probable in our view, although how large they are and what specific taxes are cut is difficult to say. *Our forecast assumes that the legislation that extends the TCJA will also include \$100 billion/annually of net new tax cuts (or \$1 trillion over 10 years, the conventional window when estimating budget proposals), effective January 1, 2026.* We believe these tax cuts will be targeted primarily at households, perhaps through a larger Child Tax Credit, larger standard deduction or other policies that would reduce taxes on households. Our forecast does not include any change to the 21% corporate income tax rate.

Just like the outlook for tariffs, we think there are risks to both sides of this assumption. Trump's campaign proposals for tax cuts amounted to several multiples of \$100B per year, on the order of \$800 billion-\$900 billion annually or nearly \$9 trillion over the next decade (Figure 1). Given these other proposals, we do not think it is hard to envision a scenario where \$100B per year of new tax cuts for households is an underestimate.

That said, there are some reasons to think that it will be difficult to cut taxes by a significant amount. The fiscal realities at present are more challenging compared to when Donald Trump took office the first time. The FY 2016 budget deficit was about 3% of GDP when Trump first came into office (Figure 2), and the yield on the 10-year Treasury security was about 2.5%. Today, the federal budget deficit is a little more than 6% of GDP, and the 10-year yield is closing in on 4.45%. Compared to its advanced economy peers at present, the United States is running the largest general government structural budget deficit (Figure 3). Furthermore, although the Republican Senate majority in the next Congress will be similar to what it was in the 2017–2018, their majority in the House of Representatives will be smaller. Republicans appear to be headed for a majority somewhere between five and nine seats in the lower house of Congress next year compared to the 47-seat majority they had when Donald Trump first took office in 2017. These factors may make it more difficult to unlock fiscal stimulus via new tax cuts.

Figure 2



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

**Congress likely will extend the TCJA, and it may cut some taxes.**

Figure 3

	General Government Structural Budget Balance	
	2016	2024
Canada	0.05	-0.95
France	-2.03	-5.54
Germany	1.22	-1.40
Italy	-0.61	-4.42
Japan	-4.45	-6.16
United Kingdom	-2.33	-3.00
United States	-4.11	-7.70

Note: 2024 values represent IMF projections

Source: International Monetary Fund and Wells Fargo Economics

## Deregulation Upside, but Labor Force Downside

A more lenient regulatory policy environment may take hold under the Trump administration, which might provide some modest upside risk to our economic growth forecast next year. That said, regulatory changes generally take an extended period of time to implement, and their impact on economic growth is probably more of a 2026 story at the earliest, in our view.

On the other hand, more restrictive immigration policy could act as a countervailing force on economic growth. The American labor force grew at an annual average rate of 1.6% in 2022–2023, the strongest growth rate in more than 20 years. More than half of this supercharged growth rate was due to "foreign born" workers, many of whom likely are undocumented. Tighter immigration restrictions, or the mere threat of them, could lead to much slower labor force growth over the next few years.

Unauthorized immigration is difficult to measure, but recent data from the Department of Homeland Security show that encounters at the U.S. border, a proxy for undocumented immigration, increased significantly between 2021 and 2023. However, monthly data show that encounters at the border have fallen sharply in recent months. In September, encounters were down 58% from one year ago. Our forecast assumes labor force growth of 0.5%–1.0% in 2025 and 2026, much slower than the 1.6% pace that prevailed in 2022 and 2023. This forecast assumes that the number of new immigrants into the United States continues to decline relative to its surge over the past few years.

**Immigration policy could weigh on labor force growth.**

## U.S. Economic Outlook

### The Inflation-Boosting Effects of Tariffs

The major policy changes on the horizon that we discussed above stand to bump the economy off what looked to be a gentle glide-path back to its long-run, or "normalized," state. After ratcheting up the fed funds rate to a 22-year high to combat inflation, the Federal Reserve is in the midst of a cutting cycle. Unlike most prior periods of monetary easing, rate cuts are not in response to widespread economic weakness. Rather, the catalysts for policy easing have been the significant progress the Fed has made in returning inflation back toward its target of 2% and the balance that has returned to the labor market. Real GDP growth has remained solid over the past year, running above what most economists estimate to be its underlying potential pace. While the current stance of monetary policy continues to exert a dampening effect on economic conditions, the removal of some policy restraint has been supportive of activity cooling modestly rather than markedly.

Tariffs stand to throw some sand in the gears of economic growth next year and stymie inflation's return to the Federal Reserve's target of 2%. Economic research shows that most of the cost of tariffs—which are a tax on imports—are borne by U.S. businesses and consumers. Higher import duties cut into company profits, lessening their ability to hire and invest, or if passed on via higher selling prices, cut into consumers' ability to purchase other goods and services.

Price growth has cooled significantly from its peak in 2022, with the core PCE deflator, the FOMC's preferred gauge of the trend in inflation, having receded from its highwater mark of 5.6% to 2.7% on a year-ago basis. Some key sources of inflationary pressure, such as an overheated labor market, continue to dissipate. Employment costs have increased 3.9% over the past year, which looks consistent with the Fed's 2% inflation goal when considering productivity growth has strengthened to an average annualized rate of 1.8% this cycle (up from 1.5% in the 2007–2019 cycle). A further slowdown in shelter inflation also remains in store based on the softening in current market conditions and the long lag in which they are reflected in official measures of housing inflation.

That said, even absent higher tariffs, additional progress in lowering inflation was already looking to be more incremental ahead, and price growth was unlikely to fully return to the Fed's target next year. Overall inflation is no longer being dragged down by the unwinding of the food and energy commodity price spikes that followed Russia's invasion of Ukraine. Supply chain pressures are neither worsening nor improving, leading to a slower pace of core goods deflation ([Figure 4](#)). Now, the prospect of higher tariffs makes inflation's return to the Fed's 2% target even more unlikely over the next year. We anticipate tariffs will boost the Q4/Q4 rate of core PCE inflation in 2025 by 0.25–0.40 percentage points relative to our pre-tariff baseline. While the year-over-year rate of core PCE inflation should slow from 2.8% in the fourth quarter of this year to about 2.5% in the spring, we look for it to edge back up to 2.6% in the fourth quarter of 2025 on the back of higher goods prices ([Figure 5](#)).

**The prospect of tariff hikes makes inflation's return to the Fed's 2% target even more unlikely over the next year.**

Figure 4

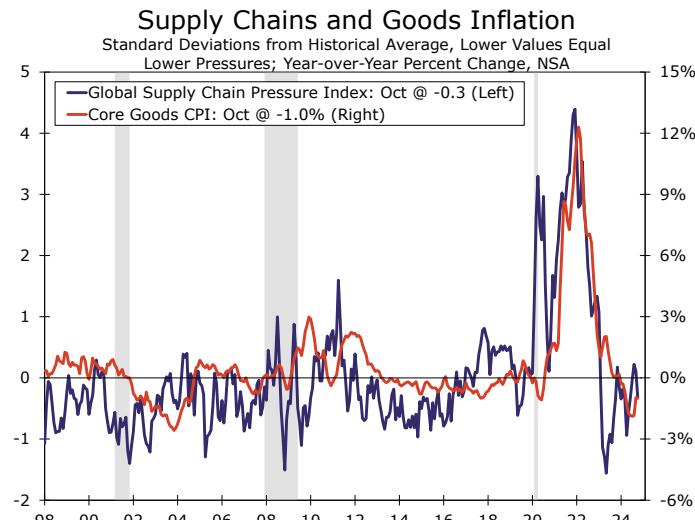
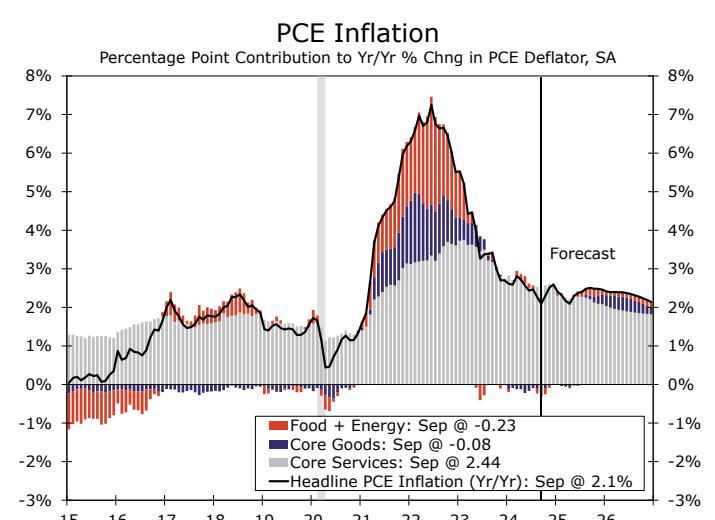


Figure 5



### Economic Growth to Be Under Pressure from Still-High Rates and Budding Trade War

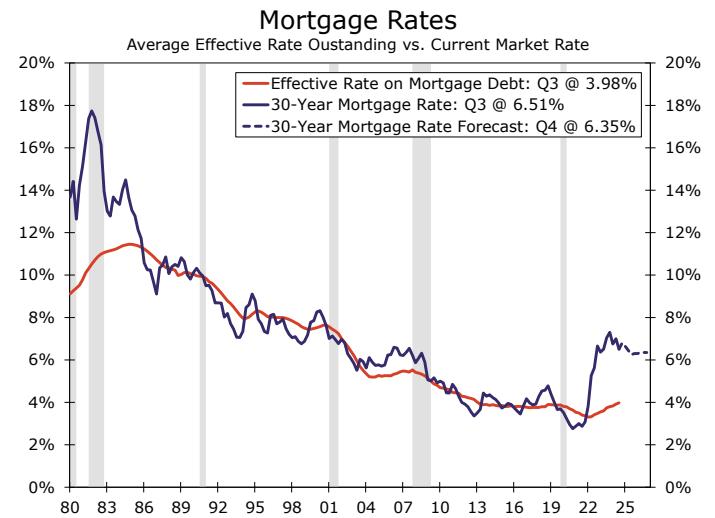
After increasing nearly 3% in inflation-adjusted terms in 2024, we anticipate the U.S. economy will expand only about 2% in 2025. Some of this moderation can be attributed to the lingering restraint of monetary policy. While the FOMC has reduced the fed funds rate by 75 bps from its peak, it remains above our estimate of the neutral rate (i.e., the real rate of interest that neither restricts nor stimulates economic activity) as well as every FOMC members' estimate of neutral. Furthermore, monetary policy famously works with a lag. The elevated rate environment of the past couple of years has led to a thinner pipeline for capital spending projects, which is set to reduce nonresidential outlays in the year ahead, for example.

Higher U.S. tariffs and the likelihood of retaliation by trading partners are also likely to depress real GDP growth next year. A rush to import goods ahead of higher import duties should lead to a widening in the trade deficit and faster inventory accumulation early in the year. Subsequently, we expect real GDP growth to weaken in the second half of 2025 as export activity and growth in consumer spending softens, resulting in real GDP growth of only 1.3% on a Q4/Q4 basis (Figure 6).

Figure 6



Figure 7

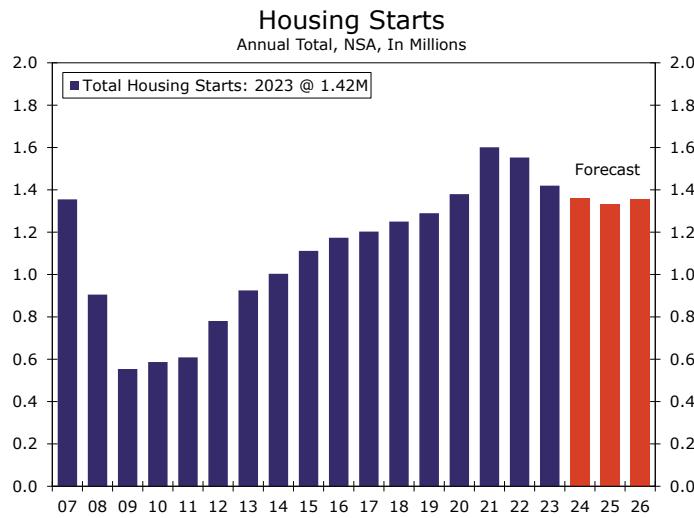


### Housing Challenges to Linger

Although it has seemed difficult at times to see the impact of decades-high interest rates on the U.S. economy as a whole, the tight stance of monetary policy has been on display in the housing market. We expect the residential sector to continue to struggle under the weight of elevated borrowing rates next year. The 30-year fixed mortgage rate is likely to fall to only around 6.30% by the end of the year, which would keep it well-above the current average effective rate on mortgage debt outstanding (Figure 7). Not only is the lingering gap between the current mortgage rate and average outstanding rate likely to mute refinancing activity and limit the boost to consumer spending power from further Fed easing, it is also likely to limit the supply of existing homes for sale, as many homeowners will be hesitant to give up their current mortgage rate. Still-elevated mortgage rates along with slower real income growth next year look set to keep housing affordability near its worst levels in decades. The difficult affordability environment is likely to continue to weigh on new home construction. We expect housing starts to slip another 2%-3% next year (Figure 8), as builders also confront higher material costs due to tariffs and greater constraints on labor due to efforts to curb immigration. (Foreign-born workers are more than twice as likely as native-born workers to be employed in construction occupations.)

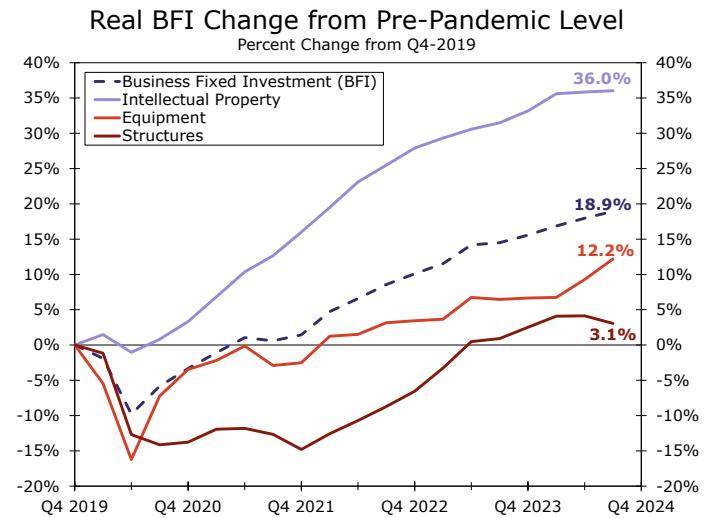
*The environment for housing affordability likely will remain difficult.*

Figure 8



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

Figure 9



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

### Long and Variable Lags on the Way Down Too, Particularly for Capital Costs

Outlays on non-residential construction also look poised to dip next year (-3.1% versus 2024). While both private and public structures investments continue to benefit from spend-out related to the CHIPS and Science Act and the Bipartisan Infrastructure Law, the pipeline of new private construction projects has thinned following the tighter and more expensive credit environment of the past few years. Similar to home-builders, non-residential construction companies are likely to face some firming in material and labor costs in light of looming changes to trade and immigration policy.

We look for modest growth in other areas of business fixed investment spending next year. An increasingly tech-oriented economy has been supportive of solid investment in intellectual property products, largely software and research & development (Figure 9). In fact, spending on intellectual property products has displaced equipment as the largest share of business investment. While equipment spending has been underwhelming so far in this cycle, the modest reduction in borrowing rates and fewer banks tightening credit standards should lend some support to equipment outlays, which rely on financing more than intellectual property products.

Despite the obvious momentum behind business spending on intellectual property products and some pent-up demand for equipment outlays, our modest outlook for capital spending reflects some headwinds. Corporate profits look set to decelerate next year amid weaker consumer spending growth and higher import costs due to tariffs. Exporters likely will experience softer shipments to foreign economies due to retaliatory tariffs, dollar appreciation and slower foreign economic growth. Even though monetary easing is under way, interest expense among businesses may be slow to fall, because much of the debt coming to maturity in 2025 was financed at lower rates before the start of the current tightening cycle. As a result, we look for total business fixed investment spending to grow only 3% or so next year.

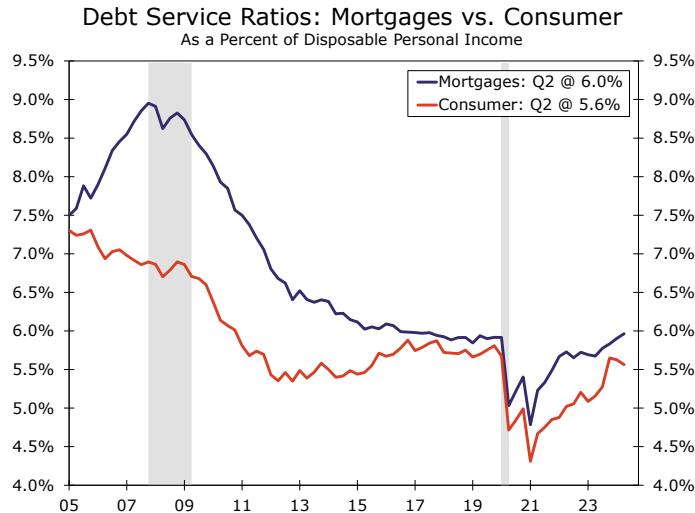
### Tariffs to Strain Consumer Spending Before Any Tax Relief in 2026

A tariff-driven pickup in inflation late next year will add a headwind on growth in real consumer spending, as income gains do not stretch as far. The American consumer has been a stalwart of growth this cycle. Spending has been propelled by the resilience of the labor market, which has continued to add jobs and see wages & salaries outpace inflation. At the same time, the overall financial position of U.S. households remains in reasonably good shape. A slowing in credit growth has helped to keep debt service—a good gauge of household's ability to handle current debt—in check despite interest rates having risen to multidecade highs this cycle (Figure 10). Fed easing should help to keep a lid on further increases in debt expense.

As a result, we do not expect to see a major retrenchment in real consumer spending next year, but a more moderate pace of growth seems likely. Higher inflation caused by tariff hikes will erode real income growth, thereby weighing on growth in spending, particularly for lower- and middle-income

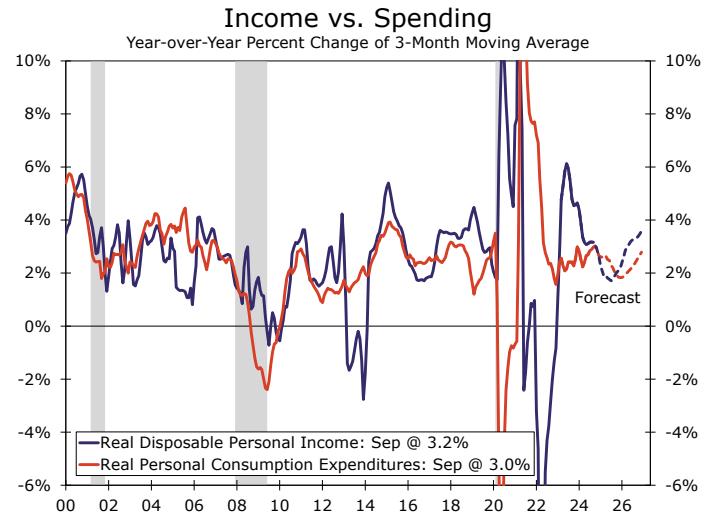
households who have a higher propensity to spend. While some tax relief that we expect Congress to legislate next year could offset the hit to real income from higher tariffs, relief will probably lag the initial negative from tariffs, with changes to the tax code unlikely to go into effect before 2026. Thus, we expect to see growth rates in both real income and real spending slow in 2025 (Figure 11), with ongoing growth increasingly dependent on the jobs market holding up. Growth in real income should strengthen in 2026 due to the aforementioned tax relief we expect.

Figure 10



Source: Federal Reserve Board and Wells Fargo Economics

Figure 11



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

### Labor Market to Remain in Balance Despite Weaker Job Growth

The labor market has cooled significantly since the onset of the Fed's most recent hiking cycle, but in an orderly way. The unemployment rate has drifted up and is currently within the range that Fed officials would expect to prevail in an environment of maximum employment and 2% inflation (Figure 12). Part of the increase in the unemployment rate since its cycle low in early 2023 can be attributed to the strong rebound in labor supply following the pandemic. However, the pace of labor force growth has halved over the past year and looks set to moderate further in 2025 due to slower growth in the working-age population and a leveling off in the labor force participation rate. Lower immigration in particular is set to weigh on growth in the labor supply going forward. While the degree of deportations discussed on the campaign trail by President-elect Trump pose logistical, budgetary and legal challenges, immigration inflows have already fallen sharply over the past year and could slow further if migrants face tougher entry conditions under the new administration.

Weaker growth in the labor supply should help to keep the unemployment rate from rising in a meaningful way in the upcoming year despite demand for new workers having continued to edge lower in recent months. We look for the unemployment rate to hover around 4.1%-4.2% next year, similar to its current level. Yet, payroll growth should downshift further in 2025, averaging about 120K per month over the course of the year compared to an average of 170K in the first 10 months of 2024 (Figure 13). The completion of "catch-up" hiring in industries that have disproportionately driven payroll growth over the past year (e.g., healthcare, government, and leisure & hospitality), a generally more muted economic growth backdrop due to tariffs, still-restrictive monetary policy and a slower-growing pool of workers are all likely to contribute to the more modest pace of job gains.

**Higher inflation caused by tariff hikes will erode real income growth.**

Figure 12

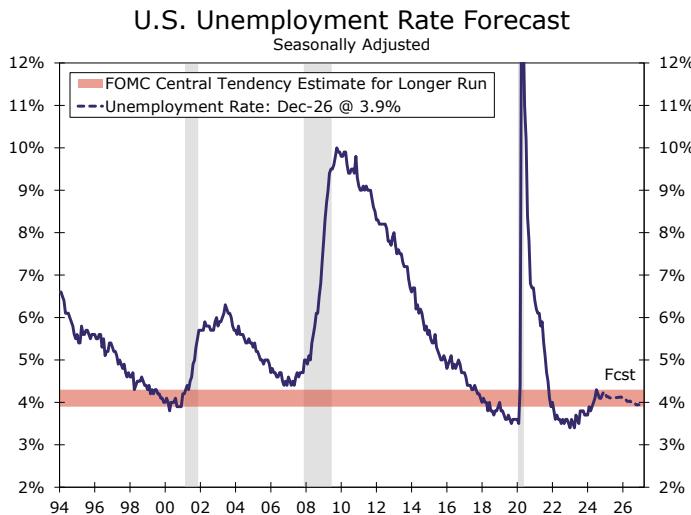
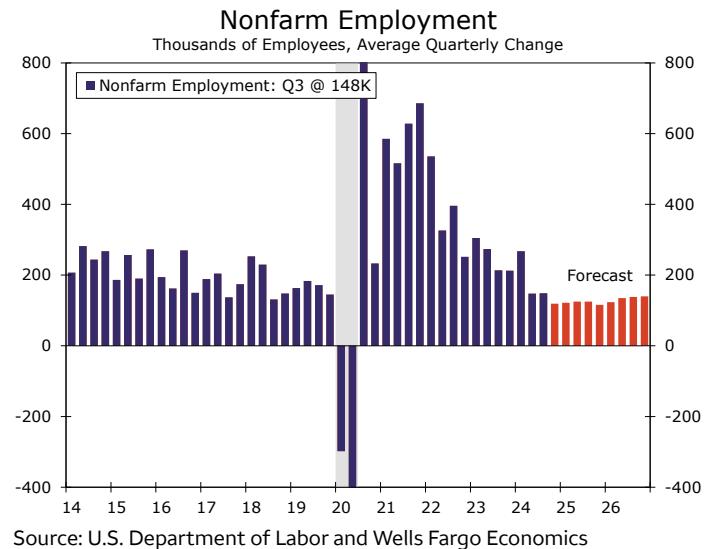


Figure 13



### Further Rate Cuts in Store, but Monetary Policy to Remain Slightly Restrictive

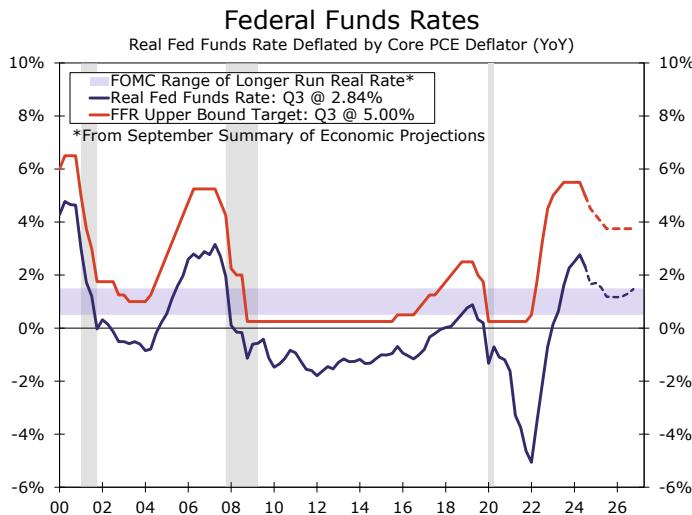
With the jobs market having come back into balance and significant progress made in reducing inflation, further cuts to the fed funds rate seem warranted. The decline in inflation over the past year has kept the real fed funds rate elevated relative to both the past cycle and all officials' estimates of neutral (Figure 14).

The stall-out of inflation around 2.5% that we expect next year would, in isolation, point to less, or even no, monetary policy easing than previously assumed. But given that we also expect tariffs to weigh on economic growth, thus challenging the employment side of the Fed's mandate, we believe the Committee will be tempted to look through the tariff-induced shock to inflation. This admittedly will likely be harder than the last time widespread tariff hikes were implemented. In 2019, the Fed was contending with an environment where inflation had been undesirably low. Now, with the FOMC approaching four years of above-target inflation, it may be more difficult to look through such a "one-off" increase in prices. Furthermore, we suspect that the dampening growth effects from higher tariffs will be partially offset by the expansion of tax cuts in 2026—a demand-driven boost to inflation that monetary policy can more effectively remedy.

Prior to the potential for major trade and fiscal policy changes, additional monetary policy easing already appeared set to proceed at a slower pace. The economy's ability to weather the higher rate environment thus far has raised the question of whether the neutral interest rate, or  $r^*$ , may have risen [this cycle](#). Yet with the neutral rate not directly observable, a go-slow approach reduces the chance of policymakers inadvertently stoking inflation. We look for the FOMC to cut the fed funds target range, currently at 4.50%-4.75%, by 100 bps through the third quarter of next year and then hold it at 3.50%-3.75% through the end of 2026. Not only would this mark a shallower path of rate cuts relative to prior easing cycles (Figure 15), but it would keep the policy rate slightly above our current estimate of the long-term nominal fed funds rate (3.00%-3.50%). In other words, policy likely will remain slightly restrictive over the next two years in order to help finish the fight in returning inflation to 2.0%.

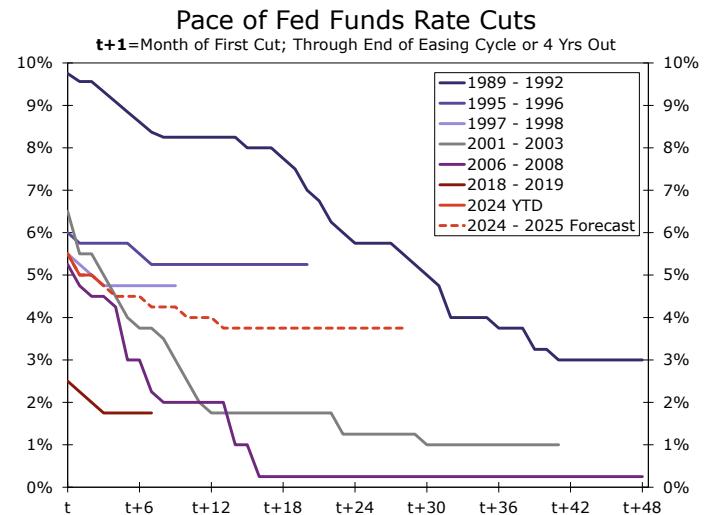
**We look for the FOMC to cut rates by 100 bps by Q3-2025.**

Figure 14



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

Figure 15



Source: Federal Reserve Board and Wells Fargo Economics

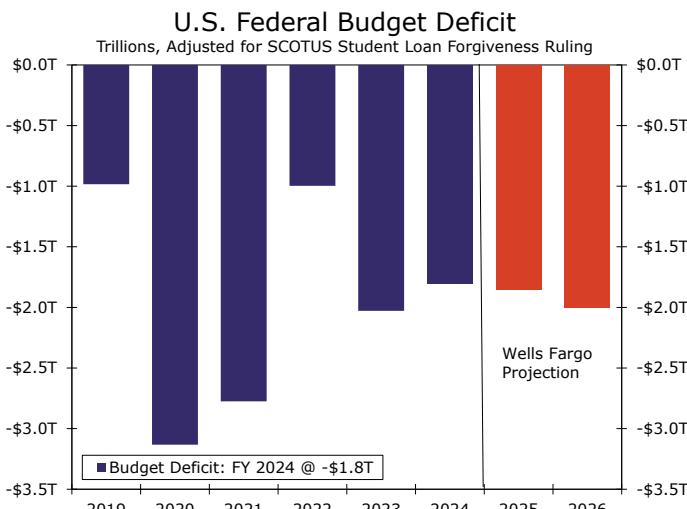
### Expect Status Quo on Budget Deficits, Treasury Yields

The outlook for the federal budget deficit is clouded by the uncertainty in the economic policy outlook. Conditional on the assumptions we laid out at the beginning of this report, we look for the federal budget deficit to remain roughly unchanged as a share of GDP over the next couple of years (Figure 16). We forecast a federal budget deficit of \$1.85 trillion in FY 2025 (6.1% of GDP) and \$2.00 trillion in FY 2026 (6.3% of GDP). The revenues collected from higher tariffs offer a reason for optimism when it comes to smaller budget deficits. Even just half of President-elect Trump's proposed 10%/60% tariffs would increase federal revenues by roughly \$140 billion per year, all else equal. That said, it strikes us as likely that some or even all of this revenue will be re-directed to other policy areas (e.g., expanding the 2017 tax cuts or increasing spending on national defense).

What about spending cuts? Spending reductions are of course a distinct possibility, and some cuts around the margin are potentially likely. But we are skeptical that major spending cuts are coming next year. Looking back to President Trump's first term, federal outlays as a share of GDP rose from 20.7% in FY 2016 to 20.9% in FY 2019. (Spending was a much higher 30.8% in FY 2020, President Trump's last year in office, but this was largely due to the pandemic.) Many of the government's largest spending categories are ones that Trump has promised not to cut (i.e., Social Security and Medicare), proposed to increase (e.g., defense, border security) or cannot control (e.g., interest costs). These carveouts leave only a small percentage on federal spending that could potentially be reduced (Figure 17). Our base-case forecast for the next couple of years is for a continuation of the status quo of federal budget deficits that amount to 6%-7% of GDP.

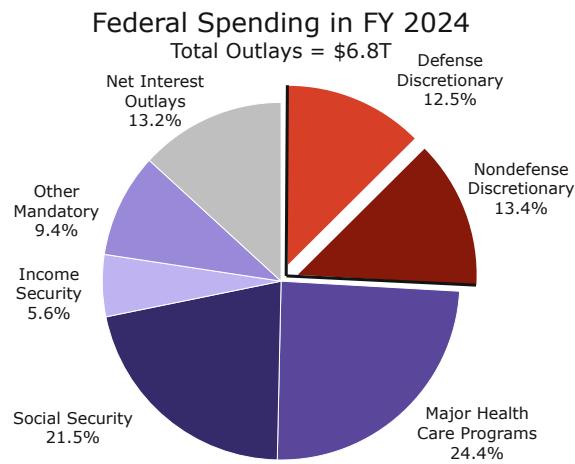
**Budget deficits likely will remain elevated.**

Figure 16



Source: Congressional Budget Office and Wells Fargo Economics

Figure 17



Source: Congressional Budget Office and Wells Fargo Economics

Based on CBO projections as of June 2024

Against this economic, monetary and fiscal backdrop, we expect Treasury yields to recede over the course of next year, but we think any decline will be modest. We forecast the 10-year Treasury yield will end 2025 at 4.00%, which is down a bit from its current spot rate of 4.45%. As we went to print, markets were priced for roughly 75 bps of additional rate cuts from the FOMC over the next year, about 25 bps less than our forecast. Thus, even though we expect the FOMC to keep cutting rates, much of this easing is already reflected in Treasury yield pricing. The deceleration in real GDP we expect to see in 2025 argues for lower yields next year. However, our projection that the decline in inflation will stall out and our expectation that tax cuts are coming in 2026 should limit the decline in intermediate and longer-term yields. Similarly, since we do not expect a major increase or decrease in the federal budget deficit over the next year or two, we believe this also argues for longer-term Treasury yields remaining near where they are today. Of course, given the significant uncertainty in the outlook, there likely will be considerable volatility over the next year, even if yields are not too materially different in one year's time.

## Global Economic Outlook & FX Forecast

The global economy demonstrated impressive resilience in 2024; however, in a new era for leadership and policy, particularly in the United States, that resilience is likely to be tested in 2025. Thematically, President-elect Trump's proposed tariff policies represent another example of nations erecting barriers to global trade. Over the past several years, and more so post-COVID, similar protectionist-style policies have gathered momentum around the world. Although the global economy has been able to largely shrug off rising protectionism, Trump's tariff proposals are a stark escalation of inward-looking trade policy. As a result, global growth is likely to prove less resilient in 2025 than in 2024 amid not only an environment of rising tariffs, but also broader economic policy uncertainty.

As discussed earlier, President-elect Trump's proposed tariff policies can inflict new downward pressures on the U.S. economy. While the impact to the U.S. economy could be material, disruptions to economic activity will also be felt acutely internationally. Overall, we believe the effects of U.S. tariffs and more contentious industrial policy can contribute to a slowdown in global growth over the course of 2025. Under our tariff assumptions, we forecast the global economy will grow only 2.5% in 2025, down from 3% in 2024 (Figure 18). Should our forecast come to fruition, the global economy would slow to a pace well below the long-run average global growth rate. For now, we believe the risks to our global GDP forecast are balanced. But should President-elect Trump impose the full 10% global tariff and 60% tariff on China on which he campaigned, the global growth slowdown could be more severe.

### Tariffs Net Negative for Global Economy, but Effects Vary by Country

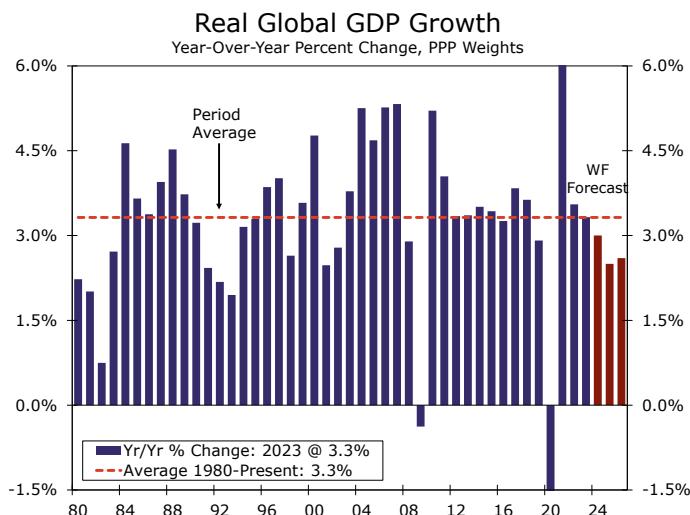
While rising tariffs can have negative implications for the global economy as a whole, tariff exposure—combined with potential for retaliatory tariffs—will play a role in determining which economies will be most affected by changes in U.S. trade policy. Countries reliant on U.S. consumer demand and the

*The fallout of U.S. tariff policy will vary by country.*

United States as an export destination likely will experience the most intense economic disruptions ([Figure 19](#)). Should these economies come under significant pressure or a balance-of-payments crisis ensue, financial market sentiment could worsen to the point where the economic impact of tariffs becomes amplified.

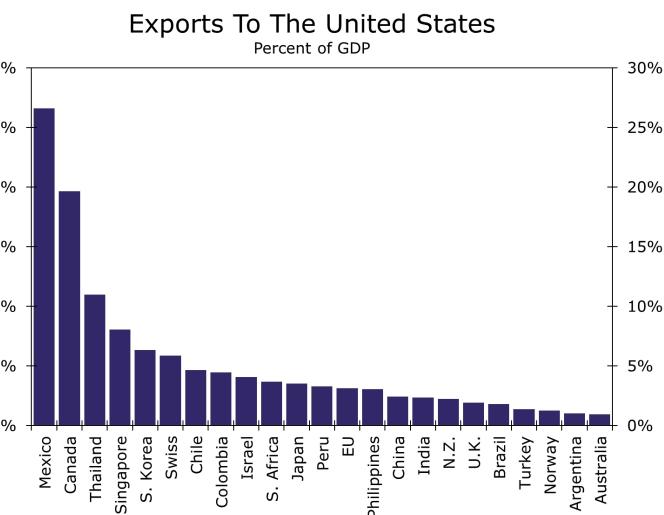
On the other hand, nations with relatively closed economies that are not dependent on U.S. trade may be more insulated. In fact, countries with limited exposure could potentially benefit from tariffs by becoming more integrated into the global supply chain. As tariffs raise the cost of doing business in China, importers may step up efforts to find alternative manufacturing hubs. New investment into low-cost production centers and improved export capacity could boost growth and overall economic prospects in certain countries. On balance, new tariffs should be a net negative for the global economy, but variations in exposure to U.S. trade policy could also lead to diverging economic prospects for economies around the world. Divergent growth prospects for the world's economies based on tariff exposure will be an interesting dynamic to watch unfold in 2025.

Figure 18



Source: International Monetary Fund and Wells Fargo Economics

Figure 19



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

### China and Mexico Likely Have Most to Lose

As far as countries that could be negatively affected by adjustments to U.S. trade policy, China and Mexico are two economies with heightened vulnerability. During his first administration, President Trump placed particular focus on rebalancing and renegotiating trade relations with both nations. Campaign rhetoric suggests President-elect Trump's attention has not shifted much from this original agenda. In the case of China, a 60% tariff on all exports to the U.S. should be more impactful on China's economy relative to tariffs imposed during President Trump's first term.

With that said, we do not believe new tariffs will upend, or excessively disrupt, China's economy. Chinese authorities have multiple policy response options that can mitigate the impact of new tariffs, such as tools deployed during the original U.S.-China trade war and actions we would expect to be repeated. These policy reactions include the People's Bank of China (PBoC) accommodating renminbi depreciation to maintain trade competitiveness and manufacturers re-routing exports through proxy nations to circumvent tariffs. China's ability to circumvent tariffs could be interrupted to some extent due to a global tariff; however, circumvention could just as easily be pursued more vigorously under more forceful U.S. tariff imposition.

These policy responses can support Chinese activity in a new tariff environment, but not completely offset the impact. To that point, we revised our China GDP forecast modestly lower to reflect an escalation in U.S.-China trade tensions and now forecast China's economy to grow just 4% in 2025. Our outlook for China's GDP growth next year is weaker than the consensus forecast. Tariffs contribute to that view; however, a deteriorating real estate sector, subdued domestic consumption and our belief that recent policy support will be ineffective in changing China's growth trajectory underpin our more pessimistic outlook for the Chinese economy.

**China has multiple policy response options that can mitigate the impact of new tariffs.**

Tariffs can be more consequential for Mexico, as Mexico's economy is heavily reliant on U.S. demand. With close to 80% of exports going to the United States and those exports accounting for ~30% of Mexico's total economic output, policies that disrupt trade can wreak havoc on Mexico's economy. In addition, Mexico's own transition to a new leadership and policy era has come with speed bumps. Constitutional amendments have led to a perceived erosion of Mexico's governance framework and have complicated Mexico's status as a near-shoring location. Rising political risk and democratic uncertainties likely will result in reduced foreign direct investment into Mexico. Complicating Mexico's position even further is a lack of policy space to support activity. While Banxico can ease monetary policy aggressively, sharply lower interest rates risk further peso depreciation and renewed inflationary pressures. Mexico is also running a historically wide fiscal deficit and elevated debt burden. Authorities could deploy fiscal stimulus but would risk losing the country's investment grade credit rating.

In our view, the combination of tariffs, softer U.S. growth and reduced capital inflows should tip Mexico's economy into recession in 2025. Risks are also heavily tilted to the downside, and the recession we forecast could be more severe if President Trump revisits the terms of the USMCA trade agreement. While campaigning, Trump consistently noted his preference for Mexico to make a more concerted effort to stem the flow of undocumented migrants into the United States. Should the new administration use border control as means to renegotiate the USMCA in a less favorable manner, another trade disruption would weigh more considerably on Mexico's economy than we currently anticipate.

### Other Countries May Be More Insulated from U.S. Tariffs

Similar dynamics may not necessarily materialize in other economies that contribute meaningfully to global growth. Most of the world's advanced economies are either diversified enough to weather the impact of tariffs or do not have overly strong trade linkages to the United States. Economies such as the Eurozone and Japan may soften next year, but tariffs are unlikely be the primary driver of those decelerations. With the Eurozone running a large trade surplus with the United States, some European businesses could worry that they may be the target of American tariff and trade policy. Weak business sentiment could reinforce already-softening local economic conditions.

Given extensive trade ties with the United States, Canada's economy is more sensitive to tariffs and should see some slowing in economic growth. That said, we note that over the past couple of decades, Canada's economy has seen some shift away from manufacturing activity and toward services activity. In that context, we believe the Canadian economy is sufficiently diversified to maintain a respectable pace of growth in 2025. In the United Kingdom, moderate trade connections to the United States and expansionary fiscal policy should keep the U.K. growth recovery narrative intact. Economies such as Australia and New Zealand may experience more rapid slowdowns via linkages to China, but spillover effects to the rest of the world from slower growth in both nations are likely to be minor.

As much as emerging market countries are exposed to tariffs, select economies in the developing world are more insulated. Economies such as Brazil and India are relatively closed to trade as exports to the United States represent an insignificant portion of Brazil's economy and a minuscule fraction of India's output. Rather, they are powered by domestic demand and investment, leaving both economies relatively sheltered from rising protectionist sentiments emanating from the new U.S. administration. Indeed, India could be one of the economies that benefits from tariffs. A global effort to reallocate supply chains away from China has been under way post-COVID, and evidence suggests India has been an early beneficiary. India's manufacturing capabilities have been enhanced recently, and while a larger push toward production could leave India vulnerable to more protective industrial policy longer term, risks to growth are not immediate.

### Monetary Policy Divergence in Some Major Foreign Economies

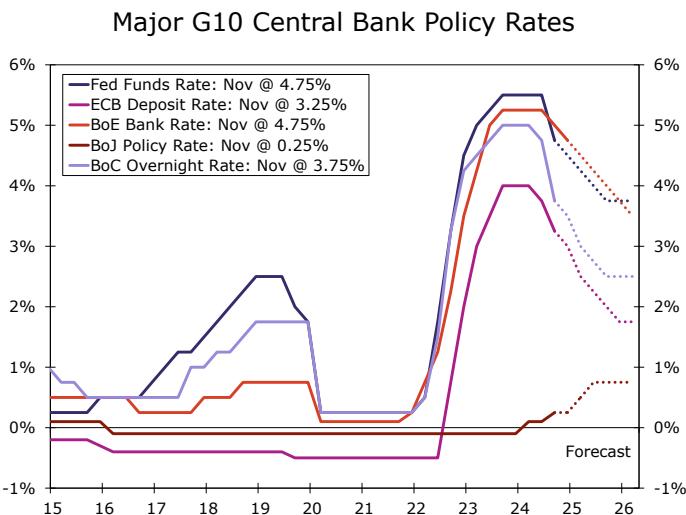
Growth prospects may not be the only divergence dynamic to unfold in 2025. As the effects of more contentious trade policy set in, central banks around the world are likely to adjust monetary policy at different speeds and, in select cases, different directions. The same way tariff exposure can influence growth, sensitivity to U.S. trade policy can play a role in central bank monetary policy decisions. As discussed earlier, the Federal Reserve is likely to continue easing monetary policy, albeit at a more cautious pace due to the inflationary effects of tariffs. While the Fed is likely to slow the pace of rate cuts, major foreign central banks, at least among G10 countries, may accelerate easing ([Figure 20](#)). With tariffs likely to have some potential impact on the Eurozone economy, this additional layer of economic uncertainty combined with idiosyncratic factors likely means ECB policymakers are now

***Policies that disrupt trade can wreak havoc on Mexico's economy.***

set to lower interest rates at every meeting through early 2025, and eventually reduce the policy rate below 2.00% by the end of our forecast horizon.

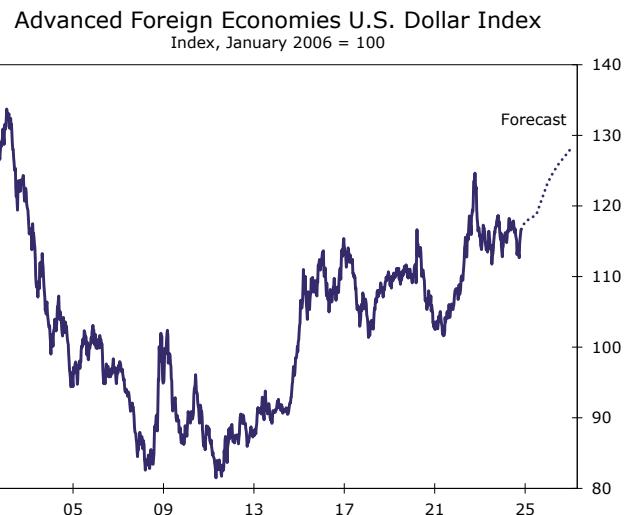
Bank of England policymakers are likely to take a cautious approach to easing, but nevertheless, they are on track to cut interest rates more aggressively than the Fed over the course of its easing cycle. The Bank of Canada has already stepped up the pace of easing and likely will continue to cut rates more quickly than the Fed, as Canadian economic growth slows due to softer exports to the United States and inflation in Canada softens. In the case of institutions moving monetary policy further into accommodation, any direct or indirect impact of tariff escalations could be negated by lower policy rates. One outlier to the easing trend exists as the Bank of Japan remains on track for a further tightening of monetary policy. Tighter monetary policy combined with slower global growth should be the main factors behind underwhelming Japanese economic growth in 2025.

Figure 20



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

Figure 21



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

Monetary policy divergences could be more visible in the emerging markets. On balance, most institutions in the emerging markets are likely to ease monetary policy in 2025. Exceptions exist, but for the most part, the move to accommodation should be present across the developing world as inflation softens and growth prospects dim. In that sense, policymakers across most of Latin America, Asia and EMEA are likely to reduce interest rates, also with caution; however, risks are skewed toward developing market institutions ending easing cycles earlier than we expect.

The depth and longevity of easing cycles will largely depend on how inflation—as well as global financial markets—reacts to tariffs. Should tariffs flow to consumers and inflation rates rise above central bank target levels, institutions may be quick to end easing cycles. Should global financial markets turn volatile and local currencies come under sharp pressure, central banks may turn less dovish in order to maintain the value of their respective currencies, prevent imported inflation and ensure financial stability. Central banks on track to ease monetary policy over the course of 2025 could eventually consider an extended pause on policy rates or look to restart tightening cycles. For now, our tariff and broader economic assumptions are consistent with emerging market institutions easing monetary policy cautiously, although conditions could evolve rapidly and a scenario where emerging market central banks tighten while the Fed eases is not difficult to envision.

### U.S. Dollar Should Strengthen Further

Implications of new leadership and policy extends all the way to financial markets. Prior to the American election, we were constructive on the U.S. dollar, forecasting greenback strength against most foreign currencies for the entirety of 2025. Now that Donald Trump has regained the White House, considering his stances on trade and fiscal policy, we have become more positive on the prospects for the U.S. dollar. With the Federal Reserve now likely to ease monetary policy at a more gradual pace, we view the contrast between slower easing from the Fed and faster easing from G10 central banks as the driving force of our outlook for U.S. dollar strength. As these monetary policy

***Policy rate views drive our outlook for a stronger dollar.***

dynamics unfold, interest rate differentials should move in favor of the greenback and provide a pillar of strength for the currency.

Tariffs could also result in some improvement in the U.S. external balance. Fewer U.S. imports due to rising tariff costs should result in a narrower trade balance. A fundamental improvement in the U.S. current account and balance of payments position should act as a source of greenback strength going forward. Taking these factors together, the Advanced Foreign Economies Dollar Index (AFE), which measures the value of the U.S. dollar vis-a-vis a trade-weighted basket of major foreign currencies, could rise to reach levels last seen in 2002 ([Figure 21](#)).

While we do not expect tariffs to have a significant impact on China's economy, we do, however, believe its performance will continue to underwhelm. To date, Chinese authorities' efforts to provide stimulus to the economy have lacked substance, leading us to believe financial market sentiment toward China is likely to fade. As China sentiment worsens, the U.S. dollar could get a tailwind from market participants seeking safe-haven currencies. The global economic and policy landscape is also evolving in a way that could be conducive to sharp bouts of volatility for emerging market currencies. A less-dovish Fed and worsening challenges in China typically result in emerging market currency depreciation and underperformance.

Finally, we would be remiss not to mention the American president's ability (or lack thereof) to manufacture dollar weakness. While President-elect Trump has floated the idea of "depreciating the dollar," operational challenges to orchestrating dollar weakness unilaterally are likely to present themselves at each attempt. President Trump would likely need the Federal Reserve to cut interest rates aggressively and expand its balance sheet sharply for rapid dollar depreciation to occur. Federal Reserve coordination and participation in an effort to devalue the dollar is unlikely—regardless of any attempts by the president to intervene in monetary policy.

President Trump will ultimately be able to choose the next chair of the Federal Reserve who, theoretically, could be more accommodating to the president's dollar preference. However, any Fed chair selection will need to be confirmed by the U.S. Senate. If history is any indicator, the Senate is not likely to approve a Fed chair that may be influenced and may not pursue monetary policy with the primary objectives of maintaining price stability and full employment. That is, the Fed is a monetary authority that is unlikely to pursue a weaker dollar at the direction of the president nor have its independence questioned by global financial markets.

## U.S. Forecast Table

	Wells Fargo U.S. Economic Forecast																Actual 2023	Actual 2024	Forecast 2025	Forecast 2026		
	Actual				Forecast				Actual				Forecast									
	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026						
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q						
Real Gross Domestic Product (a)	2.8	2.5	4.4	3.2	1.6	3.0	2.8	2.1	2.4	1.5	0.7	1.3	2.8	3.0	3.1	2.5	2.9	2.7	2.0	2.3		
Personal Consumption	5.0	1.0	2.5	3.5	1.9	2.8	3.7	2.6	2.1	2.1	1.8	1.5	2.4	2.9	3.0	2.9	2.5	2.7	2.3	2.3		
Business Fixed Investment	5.3	9.9	1.1	3.8	4.5	3.9	3.3	1.9	2.5	3.9	4.7	4.8	6.0	6.2	6.4	6.7	6.0	3.8	3.3	5.6		
Equipment	0.9	12.5	-1.1	0.7	0.3	9.8	11.1	3.8	3.5	6.0	6.9	5.3	6.2	6.6	6.7	7.0	3.5	4.2	5.9	6.3		
Intellectual Property Products	4.5	3.9	2.8	5.2	7.5	0.7	0.6	2.4	4.0	5.6	6.3	7.5	7.5	7.4	7.5	5.8	3.8	3.9	7.2			
Structures	14.9	16.4	1.7	6.5	6.3	0.2	-4.0	-3.2	-2.9	-3.8	-3.3	-2.7	1.9	2.3	3.4	3.9	10.8	3.2	-3.1	0.4		
Residential Investment	-4.3	4.5	7.7	2.5	13.7	-2.8	-5.1	-1.5	-0.5	-2.3	-2.7	-3.3	-1.9	2.4	3.7	4.1	-8.3	3.7	-2.2	-0.4		
Government Purchases	5.1	2.9	5.7	3.6	1.8	3.1	5.0	2.5	1.2	1.7	1.7	1.4	1.4	1.2	1.0	1.0	3.9	3.4	2.2	1.3		
Net Exports	-926.0	-929.6	-938.9	-936.7	-977.0	-1035.7	-1077.1	-1097.0	-1118.2	-1151.3	-1162.4	-1155.7	-1157.5	-1183.9	-1227.7	-1277.6	-932.8	-1046.7	-1146.9	-1211.7		
Pct. Point Contribution to GDP	0.3	-0.1	-0.1	0.1	-0.6	-0.9	-0.6	-0.3	-0.4	-0.6	-0.2	0.1	0.0	-0.4	-0.7	-0.8	0.5	-0.5	-0.4	-0.3		
Inventory Change	20.6	-0.2	67.2	44.6	17.7	71.7	60.2	60.3	107.5	100.4	30.1	-10.0	-5.0	10.0	40.2	40.2	33.1	52.5	57.0	21.3		
Pct. Point Contribution to GDP	-2.2	-0.1	1.3	-0.5	-0.5	1.1	-0.2	0.0	0.8	-0.1	-1.2	-0.7	0.1	0.3	0.5	0.0	-0.4	0.1	0.0	-0.2		
Nominal GDP (a)	6.6	4.3	7.7	4.8	4.7	5.6	4.7	4.5	5.3	3.9	3.1	3.8	5.3	5.4	5.3	4.5	6.6	5.2	4.5	4.6		
Real Final Sales	5.1	2.6	3.0	3.7	2.1	1.9	3.0	2.1	1.6	1.6	1.9	2.0	2.7	2.8	2.6	2.5	3.3	2.7	2.1	2.4		
Retail Sales (b)	5.1	1.9	3.4	4.0	2.0	2.4	2.3	2.6	3.1	3.2	2.5	2.2	2.8	3.3	3.8	4.1	3.6	2.3	2.8	3.5		
Inflation Indicators (b)																						
PCE Deflator	5.0	3.9	3.4	2.8	2.7	2.6	2.3	2.5	2.3	2.2	2.5	2.5	2.4	2.4	2.3	2.2	3.8	2.5	2.4	2.3		
"Core" PCE Deflator	4.9	4.6	3.9	3.2	3.0	2.7	2.7	2.8	2.5	2.5	2.6	2.6	2.6	2.5	2.4	2.3	4.1	2.8	2.5	2.5		
Consumer Price Index	5.7	4.0	3.6	3.2	3.2	3.2	2.6	2.7	2.5	2.5	2.8	2.8	2.7	2.7	2.6	2.5	4.1	2.9	2.6	2.6		
"Core" Consumer Price Index	5.5	5.2	4.4	4.0	3.8	3.4	3.2	3.2	2.9	2.8	3.0	3.0	3.0	3.0	2.9	2.7	4.8	3.4	2.9	2.9		
Producer Price Index (Final Demand)	4.4	1.3	1.6	1.0	1.5	2.6	2.1	2.5	2.4	2.0	2.1	2.3	2.4	2.4	2.3	2.2	2.0	2.2	2.2	2.3		
Employment Cost Index	4.8	4.5	4.3	4.2	4.2	4.1	3.9	3.8	3.6	3.5	3.6	3.5	3.5	3.5	3.6	3.6	4.5	4.0	3.5	3.5		
Real Disposable Income (a)	10.9	3.4	1.4	3.2	5.6	2.4	1.6	0.9	2.3	2.0	2.2	2.3	5.2	3.2	2.6	3.4	5.1	3.1	1.9	3.3		
Nominal Personal Income (a)	6.1	5.5	4.2	4.8	9.3	5.3	3.6	3.5	5.1	4.4	4.6	4.8	5.3	4.5	4.7	4.6	5.9	5.7	4.4	4.8		
Industrial Production (a)	0.0	0.3	1.2	-1.8	-1.8	2.5	-0.6	-1.3	1.5	1.9	3.0	3.4	3.3	2.5	2.2	1.8	0.2	-0.3	1.1	2.8		
Capacity Utilization	79.6	79.1	78.9	78.3	77.7	78.0	77.6	77.6	77.9	78.0	78.4	78.8	79.2	79.4	79.6	79.7	79.0	77.7	78.3	79.5		
Corporate Profits Before Taxes (b)	8.7	3.8	4.8	10.5	8.2	10.8	6.5	3.5	3.0	2.2	3.2	3.0	6.5	7.2	6.8	7.0	6.9	7.2	2.8	6.9		
Corporate Profits After Taxes	9.0	3.9	3.8	10.4	8.6	10.8	4.9	2.1	4.3	3.5	4.5	4.3	7.2	7.9	7.5	7.7	6.7	6.5	4.1	7.5		
Federal Budget Balance (c)	-680	-292	-302	-510	-555	-209	-559	-608	-687	-191	-364	-550	-768	-252	-430	-588	-1695	-1832	-1850	-2000		
Trade Weighted Dollar Index (d)	104.4	102.9	116.2	113.7	114.9	116.4	112.4	117.8	118.3	118.8	121.0	123.3	124.8	126.0	127.0	128.0	115.4	115.4	120.3	126.4		
Nonfarm Payroll Change (e)	305	274	213	212	267	147	148	119	122	125	125	116	123	135	138	140	251	171	122	134		
Unemployment Rate	3.5	3.6	3.7	3.7	3.8	4.0	4.2	4.2	4.2	4.1	4.1	4.1	4.1	4.0	4.0	3.9	3.6	4.0	4.1	4.0		
Housing Starts (f)	1.37	1.46	1.38	1.48	1.41	1.34	1.33	1.37	1.32	1.32	1.33	1.34	1.33	1.35	1.37	1.38	1.42	1.36	1.33	1.36		
Light Vehicle Sales (g)	15.1	15.7	15.6	15.6	15.5	15.7	15.6	15.9	15.5	14.9	14.7	15.0	15.1	15.3	15.4	15.7	15.5	15.7	15.0	15.4		
Crude Oil - Brent - Front Contract (h)	81.9	77.6	85.3	82.3	81.2	84.4	78.0	74.2	72.3	75.0	75.0	72.3	73.0	74.7	74.7	74.0	81.8	79.4	73.7	74.1		
Quarter-End Interest Rates (i)																						
Federal Funds Target Rate (j)	5.00	5.25	5.50	5.50	5.50	5.50	5.00	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	5.23	5.13	3.94	3.75		
Secured Overnight Financing Rate	4.87	5.09	5.31	5.38	5.34	5.33	4.96	4.40	4.15	3.90	3.65	3.65	3.65	3.65	3.65	3.65	5.01	5.01	3.84	3.65		
Prime Rate	8.00	8.25	8.50	8.50	8.50	8.50	8.00	7.50	7.25	7.00	6.75	6.75	6.75	6.75	6.75	6.75	8.23	8.13	6.94	6.75		
Conventional Mortgage Rate	6.54	6.71	7.20	6.82	6.82	6.92	6.18	6.80	6.65	6.45	6.25	6.30	6.30	6.35	6.35	6.35	6.80	6.68	6.41	6.34		
3 Month Bill	4.85	5.43	5.55	5.40	5.46	5.48	4.73	4.35	4.10	3.90	3.65	3.65	3.65	3.65	3.65	3.65	5.28	5.01	3.83	3.65		
6 Month Bill	4.94	5.47	5.53	5.26	5.38	5.33	4.38	4.20	3.95	3.75	3.65	3.65	3.65	3.65	3.65	3.65	5.28	4.82	3.75	3.65		
1 Year Bill	4.64	5.40	5.46	4.79	5.03	5.09	3.98	4.05	3.85	3.70	3.65	3.65	3.70	3.70	3.70	3.70	5.08	4.54	3.71	3.70		
2 Year Note	4.06	4.87	5.03	4.23	4.59	4.71	3.66	4.20	4.00	3.85	3.75	3.75	3.80	3.85	3.90	3.90	4.58	4.29	3.84	3.86		
5 Year Note	3.60	4.13	4.60	3.84	4.21	4.33	3.58	4.15	4.05	3.90	3.80	3.85	3.90	3.95	4.00	4.05	4.06	4.07	3.90	3.98		
10 Year Note	3.48	3.81	4.59	3.88	4.20	4.36	3.81	4.30	4.20	4.05	3.90	4.00	4.05	4.10	4.15	4.20	3.96	4.17	4.04	4.13		
30 Year Bond	3.67	3.85	4.73	4.03	4.34	4.51	4.14	4.50	4.40	4.30	4.20	4.35	4.40	4.40	4.45	4.50	4.09	4.37	4.31	4.44		

Forecast as of: November 21, 2024

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter

(b) Year-over-Year Percentage Change

(c) Quarterly Sum - Billions USD; Annual Data Represents Fiscal Year

(d) Federal Reserve Advanced Foreign Economics Index, 2006=100 - Quarter End

(e) Average Monthly Change

(f) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Houses Started

(g) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Vehicles Sold

(h) Quarterly Average of Daily Close

(i) Quarterly Data - Period End; Annual Data - Annual Averages

(j) Upper Bound of the Federal Funds Target Range

## International Forecast Table

## Wells Fargo International Economic Forecast

	GDP				CPI			
	2023	2024	2025	2026	2023	2024	2025	2026
Global (PPP Weights)	3.3%	3.0%	2.5%	2.6%	6.7%	3.9%	3.8%	3.8%
Advanced Economies <sup>1</sup>	1.7%	1.8%	1.8%	1.9%	4.6%	2.7%	2.4%	2.4%
United States	2.9%	2.7%	2.0%	2.3%	4.1%	2.9%	2.6%	2.6%
Eurozone	0.4%	0.7%	1.0%	1.2%	5.4%	2.3%	2.2%	2.0%
United Kingdom	0.3%	0.9%	1.6%	1.7%	7.3%	2.5%	2.4%	2.1%
Japan	1.7%	-0.3%	1.1%	0.9%	3.3%	2.5%	1.9%	1.7%
Canada	1.2%	1.1%	1.7%	1.7%	3.9%	2.3%	2.0%	2.0%
Switzerland	0.7%	1.6%	1.4%	1.2%	2.1%	1.2%	1.2%	1.1%
Australia	2.0%	1.2%	2.0%	2.1%	5.6%	3.5%	2.9%	2.7%
New Zealand	0.6%	0.2%	1.9%	2.1%	5.7%	3.0%	2.1%	2.0%
Sweden	-0.2%	0.7%	1.6%	1.7%	5.9%	1.9%	1.9%	2.0%
Norway	0.5%	0.6%	1.4%	1.6%	5.5%	3.4%	2.6%	2.4%
Developing Economies <sup>1</sup>	4.4%	3.8%	3.1%	3.0%	8.1%	4.7%	4.8%	4.7%
China	5.3%	4.6%	4.0%	4.0%	0.2%	0.5%	1.2%	1.4%
India	8.2%	6.8%	5.9%	5.9%	5.4%	4.8%	4.5%	4.5%
Mexico	3.2%	1.4%	1.2%	0.8%	5.5%	4.8%	4.1%	3.9%
Brazil	2.9%	2.9%	2.1%	2.0%	4.6%	4.4%	3.9%	3.6%

Forecast as of: November 21, 2024

<sup>1</sup>Aggregated Using PPP Weights

Source: International Monetary Fund and Wells Fargo Economics

## Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)	Central Bank Key Policy Rate						
	2024		2025			2026	
	Current	Q4	Q1	Q2	Q3	Q4	Q1
United States	4.75%	4.50%	4.25%	4.00%	3.75%	3.75%	3.75%
Eurozone <sup>1</sup>	3.25%	3.00%	2.50%	2.25%	2.00%	1.75%	1.75%
United Kingdom	4.75%	4.75%	4.50%	4.25%	4.00%	3.75%	3.50%
Japan	0.25%	0.25%	0.50%	0.75%	0.75%	0.75%	0.75%
Canada	3.75%	3.50%	3.00%	2.75%	2.50%	2.50%	2.50%
Switzerland	1.00%	0.75%	0.50%	0.50%	0.50%	0.50%	0.50%
Australia	4.35%	4.35%	4.10%	3.85%	3.60%	3.35%	3.35%
New Zealand	4.75%	4.25%	4.00%	3.50%	3.25%	3.00%	3.00%
Sweden	2.75%	2.50%	2.00%	1.75%	1.75%	1.75%	1.75%
Norway	4.50%	4.25%	4.00%	3.75%	3.50%	3.00%	3.00%
China <sup>3</sup>	9.50%	9.00%	9.00%	8.50%	8.00%	7.50%	7.50%
India	6.50%	6.50%	6.25%	5.75%	5.50%	5.50%	5.50%
Mexico	10.25%	10.00%	9.50%	9.00%	8.50%	8.50%	8.50%
Brazil	11.25%	11.75%	12.50%	12.75%	12.75%	12.25%	11.75%
Chile	5.25%	5.00%	4.75%	4.50%	4.50%	4.50%	4.50%
Colombia	9.75%	9.25%	8.50%	8.00%	8.00%	8.00%	8.00%
2-Year Note							
	2024		2025			2026	
	Current	Q4	Q1	Q2	Q3	Q4	Q1
United States	4.32%	4.20%	4.00%	3.85%	3.75%	3.75%	3.80%
Eurozone <sup>2</sup>	2.19%	2.05%	1.95%	1.90%	1.85%	1.80%	1.75%
United Kingdom	4.45%	4.30%	4.20%	4.10%	4.00%	3.90%	3.80%
Japan	0.56%	0.55%	0.65%	0.75%	0.80%	0.80%	0.85%
Canada	3.17%	3.05%	2.85%	2.75%	2.65%	2.65%	2.70%
10-Year Note							
	2024		2025			2026	
	Current	Q4	Q1	Q2	Q3	Q4	Q1
United States	4.48%	4.30%	4.20%	4.05%	3.90%	4.00%	4.05%
Eurozone <sup>2</sup>	2.40%	2.30%	2.20%	2.10%	2.05%	2.05%	2.00%
United Kingdom	4.50%	4.35%	4.25%	4.15%	4.10%	4.05%	4.00%
Japan	1.08%	1.10%	1.20%	1.30%	1.25%	1.20%	1.20%
Canada	3.30%	3.20%	3.05%	2.95%	2.90%	2.90%	3.00%

Forecast as of: November 21, 2024

<sup>1</sup> ECB Deposit Rate <sup>2</sup> German Government Bond Yield <sup>3</sup> Reserve Requirement Ratio Major Banks

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

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