August 06, 2019

# *Economics Group*

## MONTHLY OUTLOOK

### U.S. Overview

**First Rate Cut Since 2008 & a New Front in Trade War**

August 2019 marks the 122nd month of uninterrupted economic expansion. Although that breaks the previous record, a number of warning lights highlight the vulnerabilities confronting the economy today.

Two developments since our July monthly outlook have had a pronounced impact on financial markets: The Fed cut rates for the first time in over a decade and the trade war has expanded to include 10% tariffs on an additional $300 billion of goods coming in from China effective September 1.

Despite the hand-wringing these events have caused in financial markets, we make the case here that the direct effects on economic growth are not terribly consequential. That said, turmoil in financial markets, should it continue, could sap consumer and business confidence. These "second order" effects on the economy could cause us to be less sanguine.

Regular readers will note the sharp downward revision for full year growth for 2019 to 2.3% from 2.6% previously. This is largely a function of the annual revisions to the GDP numbers; the trend growth and underlying details of our forecast for the rest of this year and 2020 are more incremental than the full-year growth estimates would otherwise suggest.

We suspect the Fed has at least one more rate cut in store and have pulled forward the timing of that cut to September. The new front in the trade war and market volatility suggest that if there is risk to our call it would be even greater Fed easing.

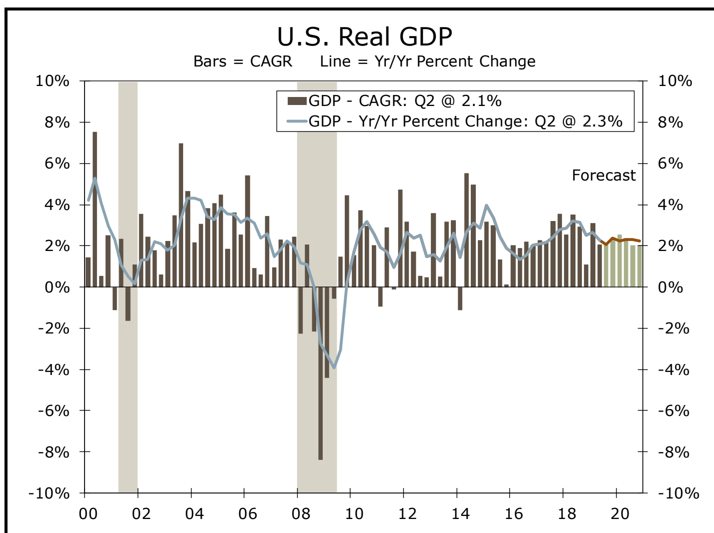
### International Overview

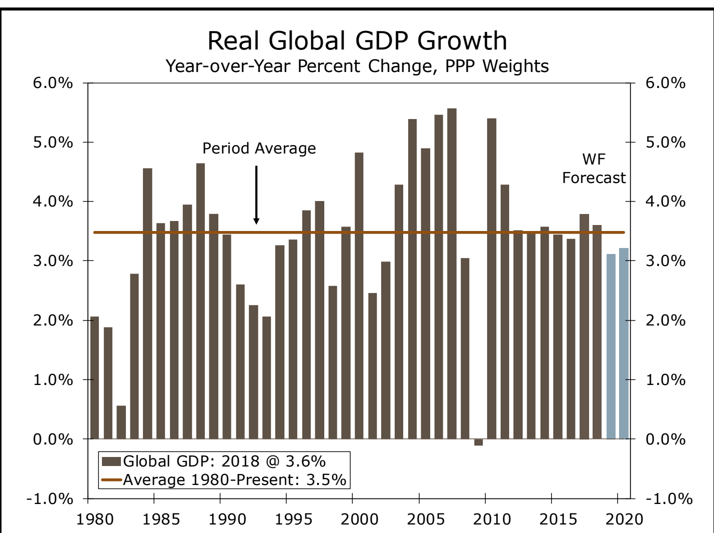
**Trade Tensions, Hard Brexit Fears Grow Worse**

The past few weeks have been a tumultuous ride for the global economy, as the U.S.-China trade war unexpectedly escalated when President Donald Trump announced another round of tariffs, this time a 10% tariff on $300 billion of Chinese imports that had thus far largely avoided becoming tangled up in the trade dispute. Assuming these tariffs go into effect as announced on September 1, nearly all U.S. imports from China would face a tariff of some sort. Meanwhile, new U.K. Prime Minister Boris Johnson's hardline approach to leaving the European Union has boosted fears that a no-deal Brexit may very well occur on October 31.

We have spent this year highlighting that there were two divergent paths for the global economy. In one scenario, the policy uncertainties related to trade and Brexit would dissipate, allowing the global economy to get one firm foot on the ground. In the second, geopolitical tensions continue escalating, making it even harder for the deceleration in global GDP to reverse.

In light of these recent developments, we expect weaker real GDP growth in China in 2020, and we no longer expect the Bank of England to hike rates next year. We already expected the European Central Bank (ECB) to cut interest rates 10bps at its September meeting, but we now also expect the ECB to restart its quantitative easing program. And although we continue to expect the Bank of Japan (BoJ) and the Bank of Canada (BoC) to keep policy on hold for the foreseeable future, it seems unlikely either will be tightening policy anytime soon.




Source: U.S. Department of Commerce, IHS Markit and Wells Fargo Securities

### What Do Rate Cuts Mean for the Economy?

At its July 30 & 31 meeting, the Federal Reserve did something it had not done since 2008: it cut rates. Not only that, but policy makers at the Fed delivered some additional market-friendly news: they ended the reduction of its balance sheet in August, two months earlier than the previously announced October deadline.

Despite this accommodative maneuver, financial markets went into risk-off mode largely because some of the language in the official statement was less dovish, noting the strong labor market and robust consumer spending in the second quarter. There were also a couple of dissents among the voting members, and the post-meeting press conference struck a decidedly less accommodative chord.

Lower rates can boost the economy by reducing the cost of capital for businesses and freeing up cash flow for households. Yet, we did not suddenly boost our call for capital expenditures by businesses or for consumer spending.

For businesses, the larger factor this year has been slower profit growth—now that the benefits of tax cuts have faded—and uncertainty with trade policy.

For consumers, growth in household debt in this cycle has been entirely a function of increased borrowing in two categories: student loans and auto financing. Although one could refinance these types of loans, they do not typically have an automatically adjusted rate like credit cards or home equity lines of credit might have.

### Consumers Now in the Line of Tariff Fire

It bears noting here that after a soft start to the year, consumer spending really ramped up in the second quarter, coming in at an annualized pace of growth of 4.3%, so it is not clear that "easy money" is the medicine consumers need most at present. But what about the trade war?

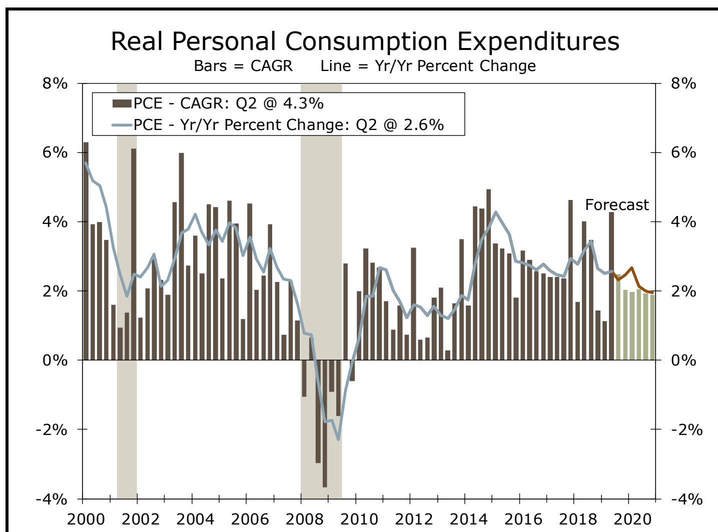
Up until recently most of the tariffs have been (by design) aimed further up the production pipeline, like the earlier tariffs on steel and aluminum. The first $250 billion of goods subject to tariffs were mostly input goods from China. This new round impacts finished goods like toys, clothing and consumer electronics.

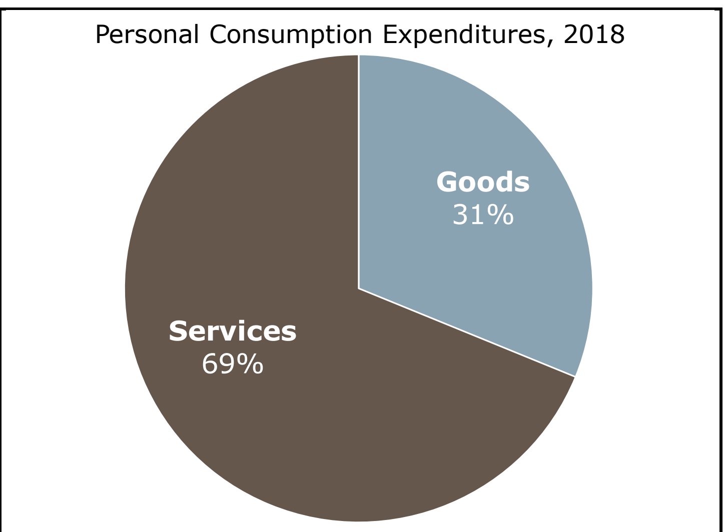
We estimate the latest round will add a little over 0.1 percentage point to the year-over-year rate of CPI inflation. That may seem small, but it is worth noting that goods make up only a fraction of the components that comprise the inflation basket. Specifically, about 75% of the core CPI is comprised of services, which are by and large insulated from tariffs.

In normal (non-trade war) periods, we use the price of gasoline as a major input for our forecast model for confidence. We have found that even though it's just 2% of spending, high gas prices weigh on confidence. Along the same line of thinking, higher prices for consumer goods could sap confidence, just like pain at the pump, and weigh on consumer spending.

At first, we expect consumers will simply allocate more for goods purchases and will either need to cut back spending for services or reduce their saving rate. Eventually, though, the hit to confidence from higher prices for goods or sustained market turmoil could eventually weigh on confidence and ultimately spending as well.

The Fed has clearly been worried about global headwinds to the outlook, particularly as it relates to trade policy. The latest escalation in the trade war gives more reason for the FOMC to be concerned about downside risks to the outlook. The indirect effects on business and consumer confidence, corporate profits and investment are more reasons to be concerned. With no end in sight to trade tensions, we suspect the FOMC is not finished with its "mid-cycle adjustment" quite yet. If there is a risk to our call it would be even greater Fed easing.




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

## Wells Fargo U.S. Economic Forecast

| | Actual | | | | | | | | | | Forecast | | | | | | Actual | | Forecast | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | | 2018 | | | | 2019 | | | | 2020 | | | | 2017 | 2018 | 2019 | 2020 |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Real Gross Domestic Product (a) | 2.3 | 2.2 | 3.2 | 3.5 | 2.6 | 3.5 | 2.9 | 1.1 | 3.1 | 2.1 | 2.1 | 2.3 | 2.5 | 2.4 | 2.0 | 2.0 | 2.4 | 2.9 | 2.3 | 2.3 |
| Personal Consumption | 2.4 | 2.4 | 2.4 | 4.6 | 1.7 | 4.0 | 3.5 | 1.4 | 1.1 | 4.3 | 2.5 | 2.0 | 2.0 | 2.0 | 1.9 | 1.9 | 2.6 | 3.0 | 2.5 | 2.2 |
| Business Fixed Investment | 6.6 | 4.4 | 2.4 | 8.4 | 8.8 | 7.9 | 2.1 | 4.8 | 4.4 | -0.6 | 3.3 | 3.2 | 4.1 | 3.6 | 2.9 | 2.8 | 4.4 | 6.4 | 3.2 | 3.2 |
| Equipment | 6.3 | 8.9 | 6.2 | 12.9 | 6.6 | 3.4 | 2.9 | 7.4 | -0.1 | 0.7 | 1.1 | 2.0 | 3.6 | 2.6 | 2.1 | 2.0 | 4.7 | 6.8 | 2.3 | 2.3 |
| Intellectual Property Products | 6.3 | 0.3 | 4.9 | 4.7 | 9.7 | 11.9 | 4.1 | 11.7 | 10.8 | 4.7 | 7.0 | 4.6 | 4.7 | 4.6 | 3.7 | 3.5 | 3.7 | 7.4 | 8.1 | 4.7 |
| Structures | 7.3 | 2.0 | -7.7 | 5.2 | 12.1 | 11.0 | -2.1 | -9.0 | 4.0 | -10.6 | -2.0 | 3.5 | 4.5 | 4.0 | 3.5 | 3.5 | 4.7 | 4.1 | -2.5 | 2.2 |
| Residential Construction | 11.9 | -2.2 | -2.0 | 9.9 | -5.3 | -3.7 | -4.0 | -4.7 | -1.0 | -1.5 | 2.5 | 2.0 | 2.0 | 1.5 | 1.5 | 1.5 | 3.5 | -1.5 | -1.8 | 1.7 |
| Government Purchases | -0.3 | 1.4 | -0.1 | 2.4 | 1.9 | 2.6 | 2.1 | -0.4 | 2.9 | 5.0 | 0.9 | 1.2 | 1.1 | 1.0 | 0.9 | 0.8 | 0.7 | 1.7 | 2.2 | 1.3 |
| Net Exports | -831.5 | -850.0 | -833.7 | -883.8 | -884.2 | -850.5 | -962.4 | -983.0 | -944.0 | -978.7 | -976.2 | -977.4 | -954.8 | -956.0 | -959.4 | -959.1 | -849.7 | -920.0 | -969.1 | -957.3 |
| Pct. Point Contribution to GDP | 0.1 | -0.3 | 0.4 | -0.8 | 0.0 | 0.7 | -2.1 | -0.4 | 0.7 | -0.7 | 0.1 | 0.0 | 0.5 | 0.0 | -0.1 | 0.0 | -0.4 | -0.4 | -0.3 | 0.1 |
| Inventory Change | 8.7 | 16.6 | 70.2 | 31.1 | 40.5 | -28.0 | 87.2 | 93.0 | 116.0 | 71.7 | 60.0 | 68.0 | 60.0 | 70.0 | 75.0 | 80.0 | 31.7 | 48.1 | 78.9 | 71.3 |
| Pct. Point Contribution to GDP | -0.7 | 0.1 | 1.0 | -0.6 | 0.1 | -1.2 | 2.1 | 0.1 | 0.5 | -0.9 | -0.2 | 0.2 | -0.2 | 0.2 | 0.1 | 0.1 | 0.0 | 0.1 | 0.2 | 0.0 |
| Nominal GDP (a) | 4.2 | 3.5 | 5.4 | 6.4 | 5.0 | 7.1 | 4.8 | 2.9 | 3.9 | 4.6 | 3.8 | 4.5 | 4.7 | 4.4 | 3.8 | 3.8 | 4.3 | 5.4 | 4.2 | 4.3 |
| Real Final Sales | 3.0 | 2.0 | 2.2 | 4.2 | 2.4 | 4.8 | 0.8 | 1.0 | 2.6 | 3.0 | 2.7 | 2.1 | 2.7 | 2.2 | 1.9 | 1.9 | 2.3 | 2.8 | 2.3 | 2.4 |
| Retail Sales (b) | 4.9 | 4.0 | 4.1 | 5.5 | 4.7 | 5.7 | 5.6 | 3.4 | 2.8 | 3.4 | 3.5 | 4.5 | 5.1 | 4.4 | 4.4 | 3.8 | 4.6 | 4.8 | 3.5 | 4.4 |
| Inflation Indicators (b) | | | | | | | | | | | | | | | | | | | | |
| PCE Deflator | 2.0 | 1.6 | 1.6 | 1.8 | 1.9 | 2.3 | 2.2 | 1.9 | 1.4 | 1.4 | 1.4 | 1.6 | 2.1 | 2.0 | 2.0 | 1.9 | 1.8 | 2.1 | 1.5 | 2.0 |
| "Core" PCE Deflator | 1.8 | 1.6 | 1.5 | 1.7 | 1.8 | 2.0 | 2.0 | 1.9 | 1.6 | 1.5 | 1.7 | 1.7 | 2.0 | 2.1 | 2.0 | 1.9 | 1.6 | 2.0 | 1.6 | 2.0 |
| Consumer Price Index | 2.5 | 1.9 | 2.0 | 2.1 | 2.2 | 2.7 | 2.6 | 2.2 | 1.6 | 1.8 | 1.8 | 2.0 | 2.4 | 2.3 | 2.3 | 2.3 | 2.1 | 2.4 | 1.8 | 2.3 |
| "Core" Consumer Price Index | 2.1 | 1.8 | 1.7 | 1.8 | 1.9 | 2.2 | 2.2 | 2.2 | 2.1 | 2.1 | 2.1 | 2.1 | 2.2 | 2.3 | 2.3 | 2.3 | 1.8 | 2.1 | 2.1 | 2.3 |
| Producer Price Index (Final Demand) | 2.0 | 2.2 | 2.4 | 2.7 | 2.8 | 3.0 | 3.1 | 2.8 | 2.0 | 1.9 | 1.8 | 1.7 | 2.3 | 2.3 | 2.4 | 2.4 | 2.3 | 2.9 | 1.8 | 2.4 |
| Employment Cost Index | 2.4 | 2.4 | 2.5 | 2.6 | 2.7 | 2.8 | 2.8 | 2.9 | 2.8 | 2.7 | 2.7 | 2.8 | 2.8 | 3.0 | 3.0 | 3.1 | 2.5 | 2.8 | 2.8 | 3.0 |
| Real Disposable Income (a) | 4.9 | 2.7 | 2.3 | 3.7 | 6.9 | 2.7 | 3.3 | 2.8 | 4.4 | 2.5 | 3.4 | 2.7 | 2.2 | 3.1 | 1.7 | 1.3 | 2.9 | 4.0 | 3.3 | 2.5 |
| Nominal Personal Income (b) | 4.2 | 4.5 | 4.7 | 5.4 | 5.6 | 5.8 | 5.9 | 4.9 | 4.6 | 4.9 | 4.9 | 5.1 | 4.6 | 4.4 | 4.0 | 3.7 | 4.7 | 5.6 | 4.9 | 4.2 |
| Industrial Production (a) | 2.4 | 5.6 | -0.8 | 7.5 | 2.3 | 4.6 | 5.2 | 3.9 | -1.9 | -1.2 | 1.2 | 1.7 | 0.5 | 1.1 | 1.8 | 0.8 | 2.3 | 3.9 | 1.2 | 1.0 |
| Capacity Utilization | 75.5 | 76.5 | 76.3 | 77.6 | 77.9 | 78.5 | 79.1 | 79.4 | 78.6 | 78.0 | 78.9 | 79.1 | 79.0 | 79.1 | 79.0 | 78.9 | 76.5 | 78.7 | 78.6 | 79.0 |
| Corporate Profits Before Taxes (b) | -1.3 | 0.5 | 0.3 | -0.6 | 2.9 | 2.4 | 4.2 | 4.2 | -2.2 | -1.2 | 3.9 | 4.0 | 4.5 | 2.8 | -1.9 | -1.5 | -0.3 | 3.4 | 1.2 | 0.9 |
| Corporate Profits After Taxes | 1.4 | 4.3 | 3.9 | 3.3 | 10.3 | 8.3 | 11.3 | 10.1 | -2.9 | -1.0 | 4.2 | 3.9 | 4.4 | 2.7 | -2.2 | -1.8 | 3.2 | 10.0 | 1.1 | 0.7 |
| Federal Budget Balance (c) | -317 | 4 | -143 | -225 | -375 | -7 | -172 | -319 | -372 | -56 | -203 | -300 | -447 | -69 | -234 | -326 | -666 | -779 | -950 | -1050 |
| Trade Weighted Dollar Index (d) | 112.9 | 109.7 | 104.1 | 106.1 | 103.1 | 107.3 | 107.6 | 110.1 | 109.8 | 109.7 | 111.3 | 110.8 | 110.0 | 108.3 | 107.0 | 105.8 | 108.9 | 106.4 | 110.4 | 107.8 |
| Nonfarm Payroll Change (e) | 173 | 190 | 136 | 218 | 228 | 243 | 189 | 233 | 174 | 157 | 158 | 150 | 190 | 420 | -100 | 15 | 179 | 223 | 160 | 131 |
| Unemployment Rate | 4.6 | 4.4 | 4.3 | 4.1 | 4.1 | 3.9 | 3.8 | 3.8 | 3.9 | 3.6 | 3.6 | 3.6 | 3.5 | 3.4 | 3.6 | 3.6 | 4.4 | 3.9 | 3.7 | 3.5 |
| Housing Starts (f) | 1.23 | 1.17 | 1.18 | 1.26 | 1.32 | 1.26 | 1.23 | 1.19 | 1.21 | 1.26 | 1.31 | 1.30 | 1.28 | 1.29 | 1.30 | 1.30 | 1.20 | 1.25 | 1.27 | 1.29 |
| Light Vehicle Sales (g) | 17.1 | 16.8 | 17.1 | 17.5 | 17.1 | 17.3 | 17.0 | 17.4 | 16.8 | 17.0 | 16.7 | 16.6 | 16.6 | 16.6 | 16.6 | 16.6 | 17.1 | 17.2 | 16.8 | 16.6 |
| Crude Oil - Brent - Front Contract (h) | 54.6 | 50.8 | 52.2 | 61.4 | 66.9 | 74.6 | 75.8 | 68.6 | 63.8 | 67.6 | 65.0 | 60.0 | 60.0 | 60.0 | 62.0 | 65.0 | 54.7 | 71.5 | 64.1 | 61.8 |
| Quarter-End Interest Rates (i) | | | | | | | | | | | | | | | | | | | | |
| Federal Funds Target Rate | 1.00 | 1.25 | 1.25 | 1.50 | 1.75 | 2.00 | 2.25 | 2.50 | 2.50 | 2.50 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 1.13 | 1.96 | 2.25 | 2.00 |
| 3 Month LIBOR | 1.15 | 1.30 | 1.33 | 1.69 | 2.31 | 2.34 | 2.40 | 2.81 | 2.60 | 2.32 | 2.20 | 2.20 | 2.20 | 2.15 | 2.15 | 2.15 | 1.26 | 2.31 | 2.33 | 2.16 |
| Prime Rate | 4.00 | 4.25 | 4.25 | 4.50 | 4.75 | 5.00 | 5.25 | 5.50 | 5.50 | 5.50 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 4.13 | 4.96 | 5.25 | 5.00 |
| Conventional Mortgage Rate | 4.20 | 3.90 | 3.81 | 3.94 | 4.44 | 4.57 | 4.63 | 4.64 | 4.28 | 3.80 | 3.55 | 3.70 | 3.80 | 3.85 | 3.95 | 4.05 | 3.99 | 4.54 | 3.83 | 3.91 |
| 3 Month Bill | 0.76 | 1.03 | 1.06 | 1.39 | 1.73 | 1.93 | 2.19 | 2.45 | 2.40 | 2.12 | 1.90 | 1.90 | 1.90 | 1.85 | 1.85 | 1.85 | 0.95 | 1.97 | 2.08 | 1.86 |
| 6 Month Bill | 0.91 | 1.14 | 1.20 | 1.53 | 1.93 | 2.11 | 2.36 | 2.56 | 2.44 | 2.09 | 1.95 | 1.95 | 1.95 | 1.90 | 1.90 | 1.90 | 1.07 | 2.14 | 2.11 | 1.91 |
| 1 Year Bill | 1.03 | 1.24 | 1.31 | 1.76 | 2.09 | 2.33 | 2.59 | 2.63 | 2.40 | 1.92 | 1.85 | 1.90 | 1.95 | 1.95 | 1.95 | 2.00 | 1.20 | 2.33 | 2.02 | 1.96 |
| 2 Year Note | 1.27 | 1.38 | 1.47 | 1.89 | 2.27 | 2.52 | 2.81 | 2.48 | 2.27 | 1.75 | 1.70 | 1.80 | 1.85 | 1.90 | 2.00 | 2.05 | 1.40 | 2.53 | 1.88 | 1.95 |
| 5 Year Note | 1.93 | 1.89 | 1.92 | 2.20 | 2.56 | 2.73 | 2.94 | 2.51 | 2.23 | 1.76 | 1.65 | 1.80 | 1.85 | 1.95 | 2.05 | 2.15 | 1.91 | 2.75 | 1.86 | 2.00 |
| 10 Year Note | 2.40 | 2.31 | 2.33 | 2.40 | 2.74 | 2.85 | 3.05 | 2.69 | 2.41 | 2.00 | 1.90 | 2.05 | 2.15 | 2.20 | 2.30 | 2.40 | 2.33 | 2.91 | 2.09 | 2.26 |
| 30 Year Bond | 3.02 | 2.84 | 2.86 | 2.74 | 2.97 | 2.98 | 3.19 | 3.02 | 2.81 | 2.52 | 2.45 | 2.60 | 2.70 | 2.75 | 2.85 | 2.95 | 2.89 | 3.11 | 2.60 | 2.81 |

Forecast as of: August 6, 2019

Notes: (a) Compound Annual Growth Rate Quarter-over-Quarter
(b) Year-over-Year Percentage Change
(c) Quarterly Sum - Billions USD; Annual Data Represents Fiscal Yr.
(d) Federal Reserve Advanced Foreign Economies Index, 2006=100 - Quarter End
(e) Average Monthly Change
(f) Millions of Units - Annual Data - Not Seasonally Adjusted
(g) Quarterly Data - Average Monthly SAAR; Annual Data - Actual Total Vehicles Sold
(h) Quarterly Average of Daily Close
(i) Annual Numbers Represent Averages

Source: Federal Reserve Board, IHS Markit, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities

### Trade Tensions, Hard Brexit Fears Grow Worse

On August 1, President Trump announced on Twitter his intention to implement another round of tariffs, this one a 10% rate on $300 billion of Chinese imports that had thus far largely avoided becoming tangled up in the trade dispute. Shortly thereafter, Chinese policymakers responded with their own countermeasures, reportedly ordering state-owned firms to stop purchasing U.S. agricultural products and allowing their currency to depreciate past the key psychological level of seven yuan-per-dollar.

Thus far, the slowdown in the Chinese economy has been relatively orderly. Real GDP growth in China in Q2-2019 was 6.2% year-over-year, down half a percentage point from the reading in Q2-2018 (bottom left chart). The most recent monthly data showed the economy may have actually firmed late in the second quarter, as both industrial production and retail sales accelerated year-over-year in June. Policymakers in China are doing their best via both fiscal and monetary measures to prevent the economy from slowing too sharply. We continue to expect that to be the case, but their powers are not limitless.

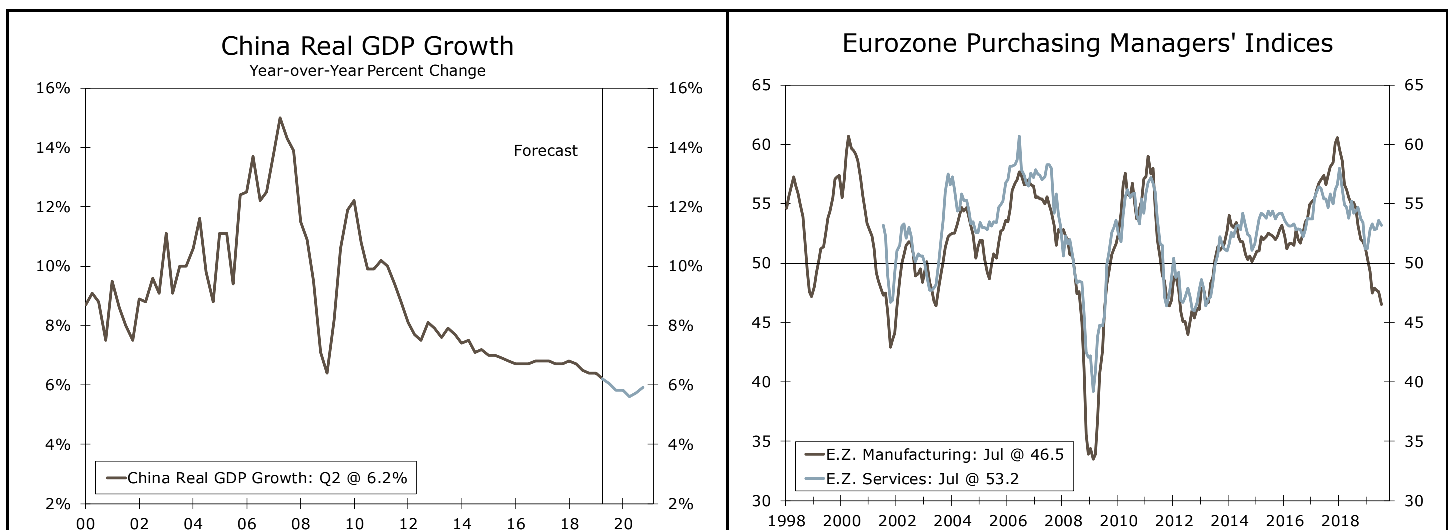
Our forecast assumes the 10% tariffs go into effect on September 1, but that they do not go higher than that. Consequently, we have revised down our growth forecast in China. We now expect real GDP growth to be 6.1% in 2019 (unchanged from our last forecast) and 5.8% in 2020 (down from 6.0%).

Weaker economic growth in China does not bode well for the economic backdrop in Europe. In the Eurozone, real GDP growth in the second quarter was once again soft, registering just 1.1% on a year-over-year basis, the slowest pace since Q4-2013. The factory sector data out of Europe this year have been dreadful, but the service sector has managed to keep the economy afloat (bottom right chart).

As economic growth continues to hover dangerously close to stall speed, policymakers have become increasingly concerned that the ailing manufacturing sector and poor global growth more broadly could pull the Eurozone into a recession. Our previous forecast called for the ECB to cut rates 10bps in September. We now also expect that the ECB will buy €45B of sovereign bonds per month for 12 months starting in October. That will almost certainly require the ECB to raise its issuer limits for sovereigns to 50% from 33%. We are not expecting the ECB to buy corporate bonds or equities at this time.

Meanwhile, the naming of Boris Johnson as the Prime Minister of the United Kingdom has inflamed fears that the U.K. will crash out of the European Union on October 31 without a transition deal in place. Although PM Johnson has made clear that his government would prefer to exit with a deal, thus far he has maintained the position that the U.K. will leave the European Union on October 31 with or without a deal. The pound has slid just shy of 5% over the past month against the U.S. dollar, reaching lows not seen since early 2017. Given the ongoing uncertainty in the United Kingdom, as well as the more dovish turn by other major central banks, we no longer expect the Bank of England to start hiking rates in 2020.

The economy has looked a bit better in Canada, and as a result we do not believe any easing there is likely for the foreseeable future. That said, even with some recent economic momentum, we think it is unlikely the Bank of Canada would go against the grain and resume hiking against such a weak global backdrop and the extremely dovish turn by other major central banks. A potential looming fight in the U.S. Congress over passage of the United States-Mexico-Canada (USMCA) trade agreement is another consideration for the BoC. More stimulus from the BoJ strikes us as plausible, but neither the economy nor inflation have weakened enough to warrant a deeper venture into the extraordinary policy realm, in our view. A hike in the consumption tax in Japan is set to take effect on October 1. If the economic fallout proves worse than expected, the BoJ may feel compelled to take some additional policy action.




Source: Bloomberg LP, IHS Markit and Wells Fargo Securities

## Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

| | GDP | | | CPI | | |
|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2018 | 2019 | 2020 |
| Global (PPP Weights) | 3.6% | 3.1% | 3.2% | 3.6% | 3.3% | 3.5% |
| Advanced Economies[1] | 2.2% | 1.9% | 1.9% | 2.0% | 1.7% | 2.0% |
| United States | 2.9% | 2.3% | 2.3% | 2.4% | 1.8% | 2.3% |
| Eurozone | 1.9% | 1.2% | 1.4% | 1.8% | 1.4% | 1.5% |
| United Kingdom | 1.4% | 1.3% | 1.4% | 2.5% | 2.0% | 2.0% |
| Japan | 0.8% | 0.7% | 0.4% | 1.0% | 0.6% | 1.1% |
| Canada | 1.9% | 1.3% | 1.8% | 2.3% | 1.8% | 1.9% |
| Developing Economies[1] | 4.5% | 4.0% | 4.1% | 4.8% | 4.5% | 4.6% |
| China | 6.6% | 6.1% | 5.8% | 2.1% | 2.5% | 2.4% |
| India | 7.4% | 6.2% | 6.8% | 3.9% | 3.2% | 4.4% |
| Mexico | 2.0% | 0.9% | 1.7% | 4.9% | 3.9% | 3.8% |

Forecast as of: August 06, 2019

[1]Aggregated Using PPP Weights

## Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

| | Central Bank Key Policy Rate | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2020 | | | |
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| United States | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Eurozone[1] | -0.50% | -0.50% | -0.50% | -0.50% | -0.50% | -0.50% |
| United Kingdom | 0.75% | 0.75% | 0.75% | 0.75% | 0.75% | 0.75% |
| Japan | -0.10% | -0.10% | -0.10% | -0.10% | -0.10% | -0.10% |
| Canada | 1.75% | 1.75% | 1.75% | 1.75% | 1.75% | 1.75% |

| | 2-Year Note | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2020 | | | |
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| United States | 1.70% | 1.80% | 1.85% | 1.90% | 2.00% | 2.05% |
| Eurozone[2] | -0.80% | -0.75% | -0.65% | -0.50% | -0.35% | -0.20% |
| United Kingdom | 0.50% | 0.60% | 0.65% | 0.75% | 0.80% | 0.85% |
| Japan | -0.10% | -0.10% | -0.05% | 0.00% | 0.00% | 0.00% |
| Canada | 1.50% | 1.60% | 1.65% | 1.70% | 1.75% | 1.80% |

| | 10-Year Note | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2020 | | | |
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| United States | 1.90% | 2.05% | 2.15% | 2.20% | 2.30% | 2.40% |
| Eurozone[2] | -0.40% | -0.35% | -0.30% | -0.15% | 0.00% | 0.15% |
| United Kingdom | 0.60% | 0.85% | 0.95% | 1.05% | 1.15% | 1.20% |
| Japan | -0.10% | -0.05% | 0.00% | 0.05% | 0.05% | 0.10% |
| Canada | 1.50% | 1.65% | 1.75% | 1.80% | 1.85% | 1.90% |

Forecast as of: August 06, 2019

[1] ECB Deposit Rate [2]German Government Bond Yield

Source: International Monetary Fund and Wells Fargo Securities

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