



The Global Economic Outlook

February 12, 2025

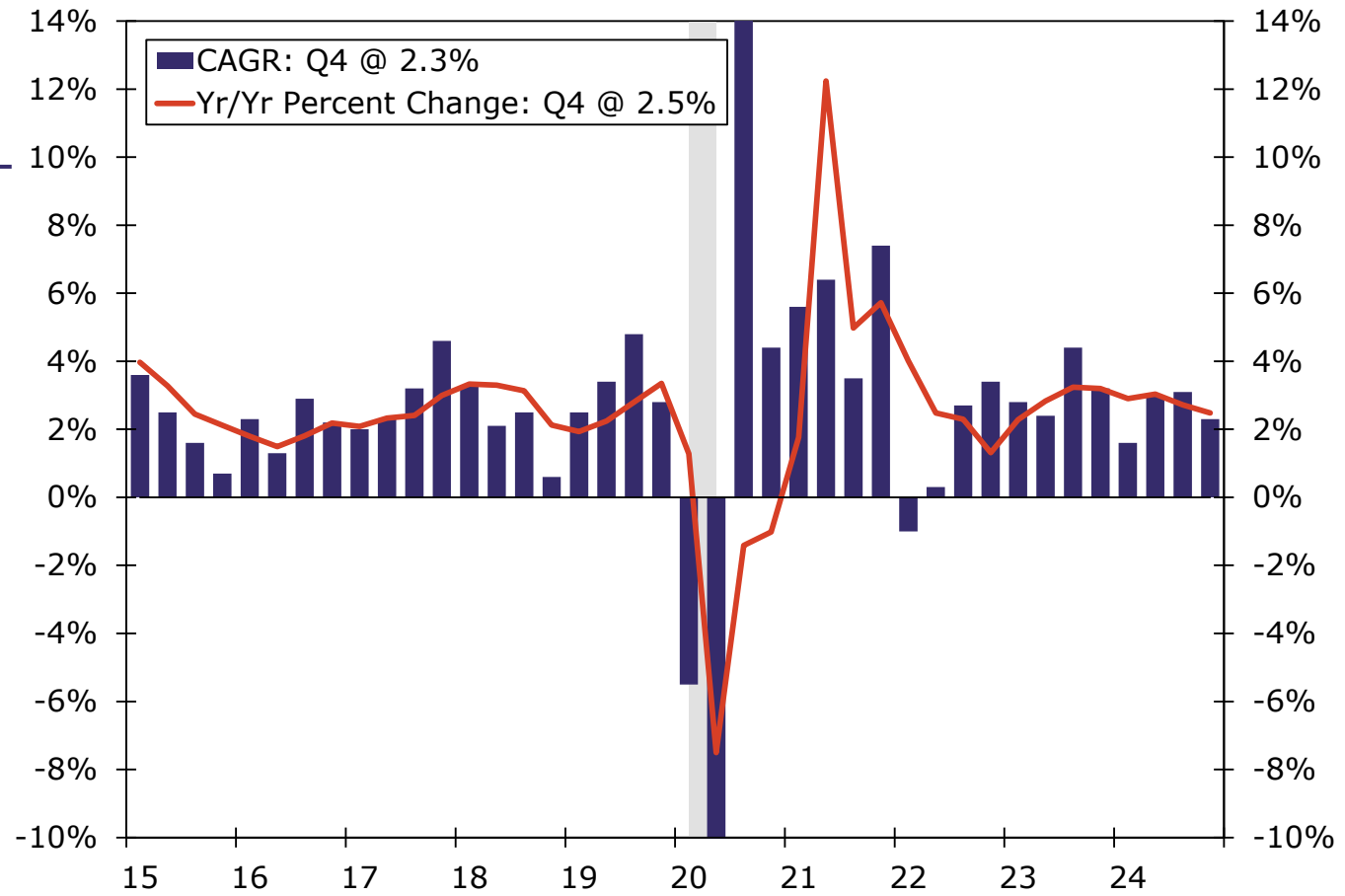
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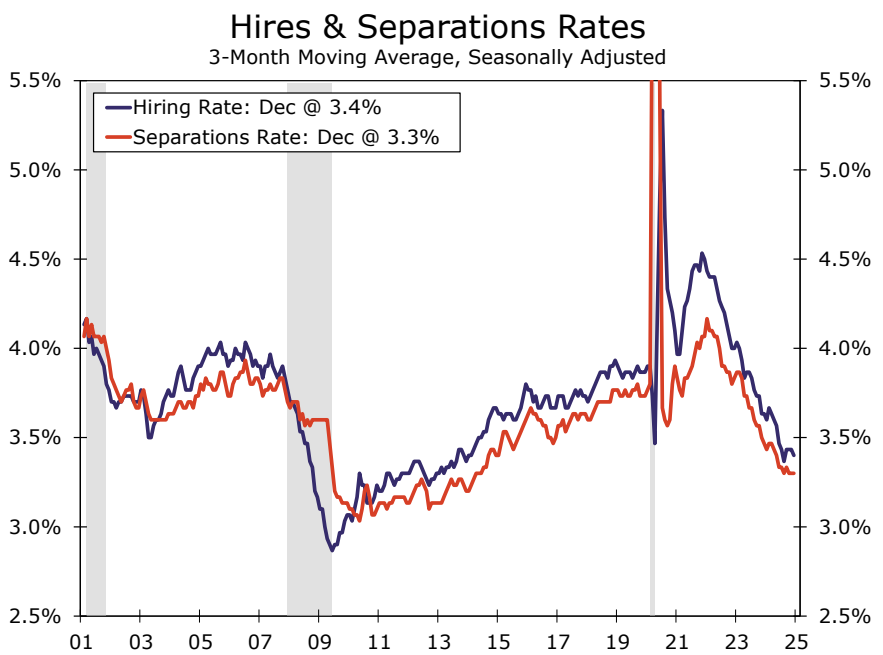
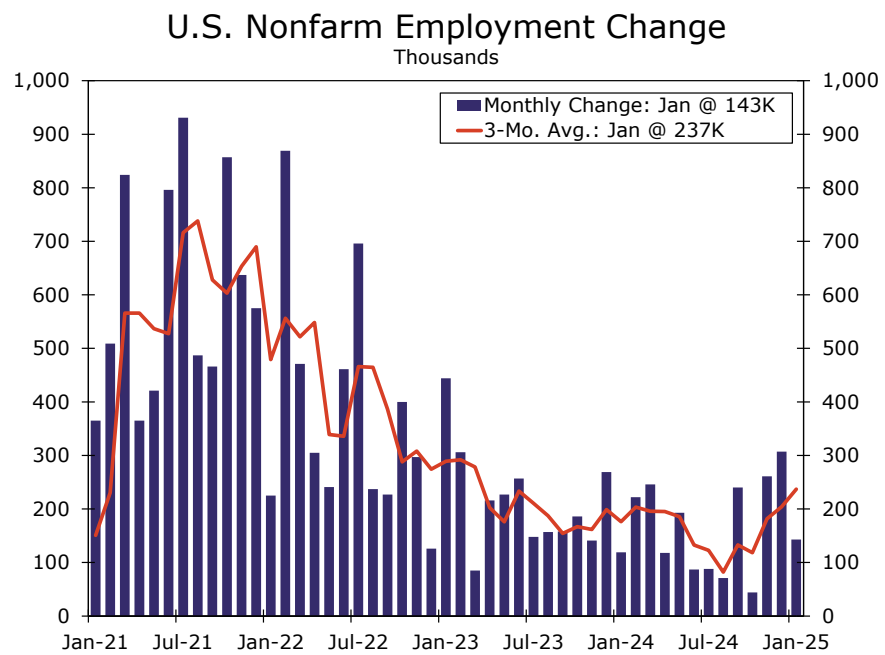
Real GDP growth has generally been solid in recent quarters

U.S. Real GDP Growth



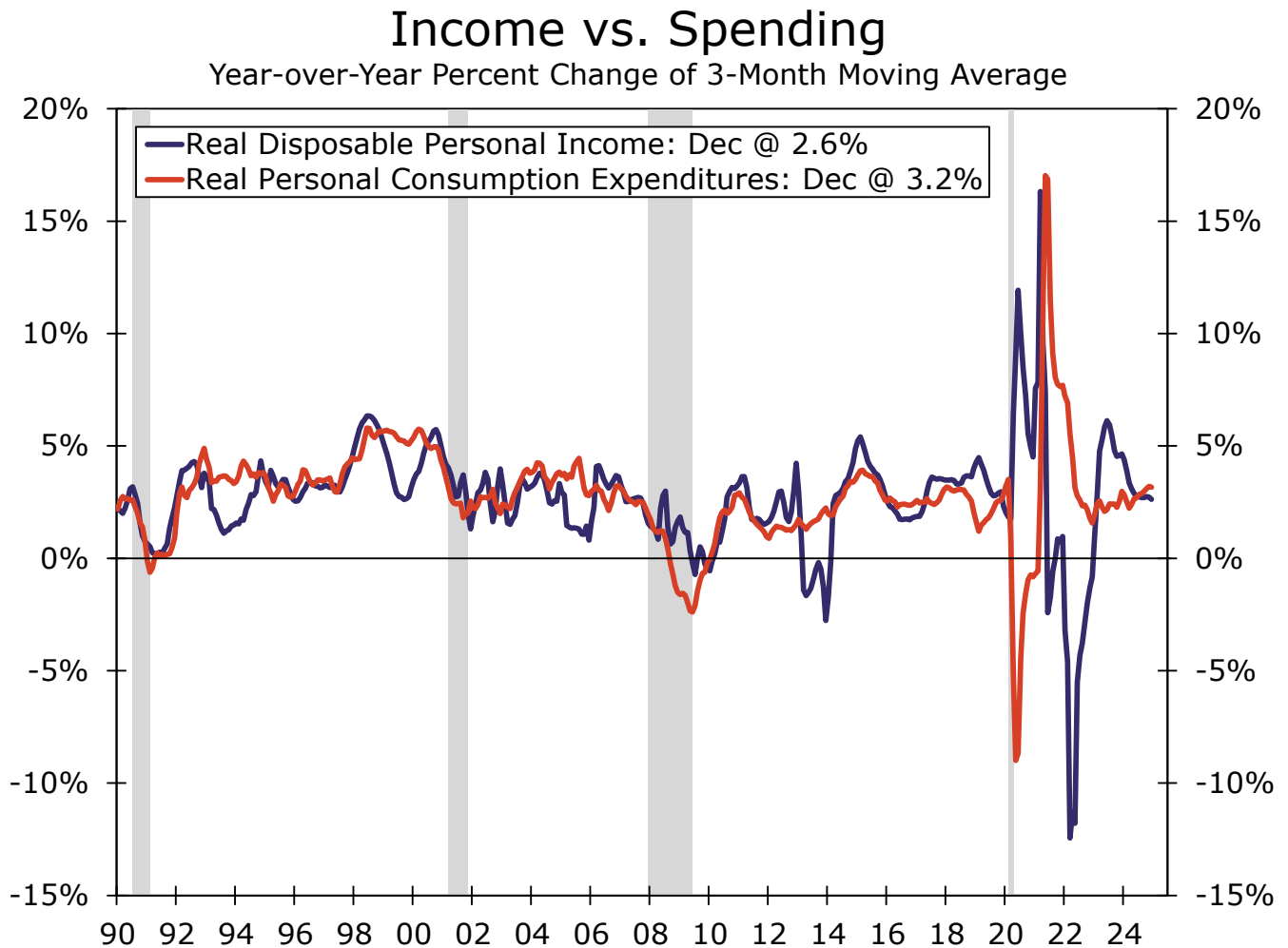
Source: U.S. Department of Commerce and Wells Fargo Economics

Growth in nonfarm payrolls generally remains strong



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

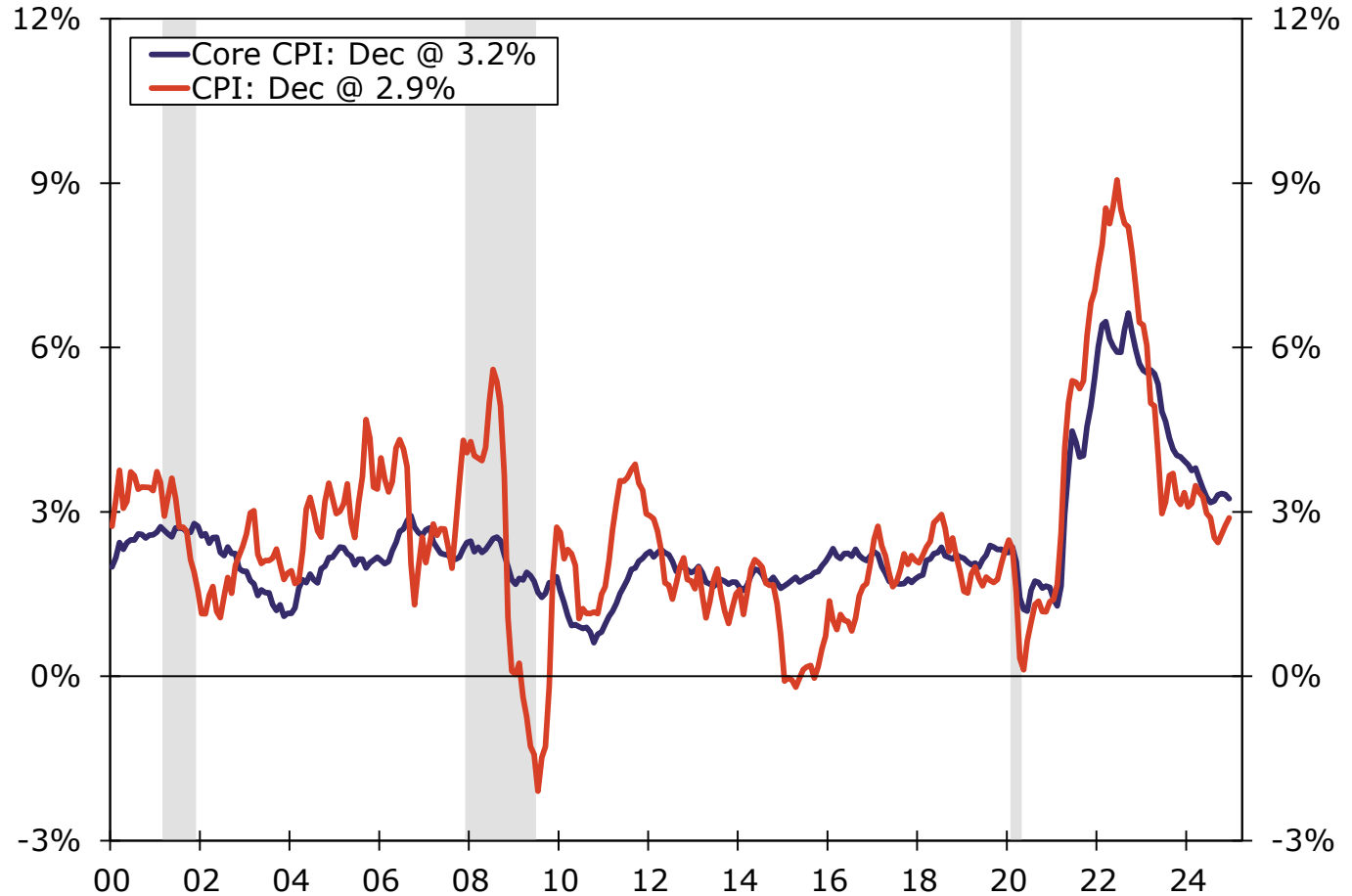
Strong growth in real income is supporting strong growth in real consumer spending



Rates of consumer price inflation have receded, although the pace of disinflation has slowed

Headline CPI vs. "Core" CPI

Year-over-Year Percent Change

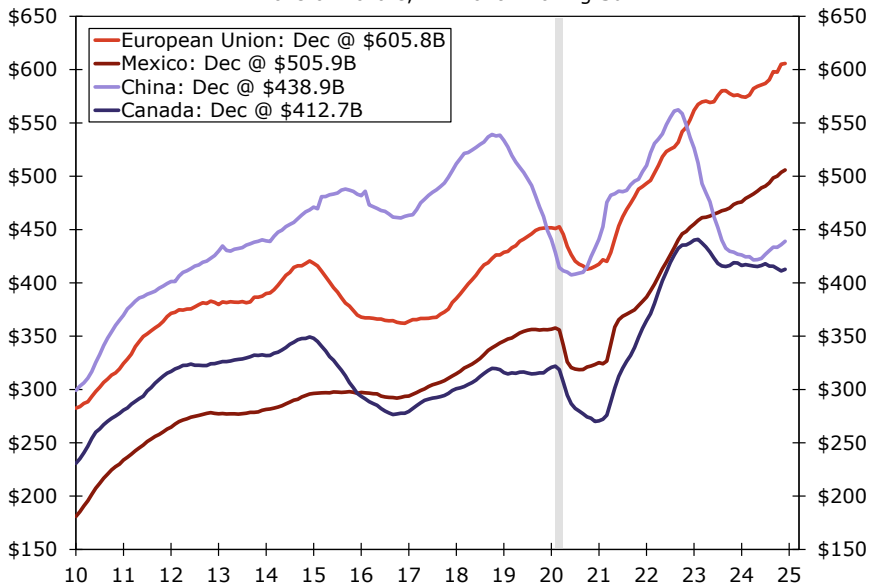


U.S. Trade Balance

The United States has more trade with Canada, Mexico and the European Union than it does with China

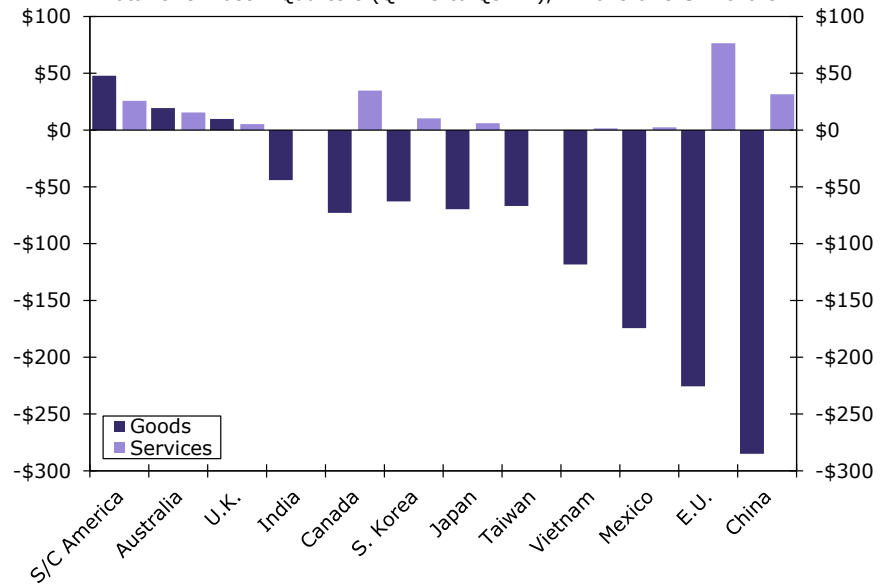
U.S. Goods Imports by Trading Partner

Billions of Dollars, 12-Month Moving Sum



U.S. Balances by Trade & Partner

Total Over Past 4 Quarters (Q4-23 to Q3-24), Billions of U.S. Dollars

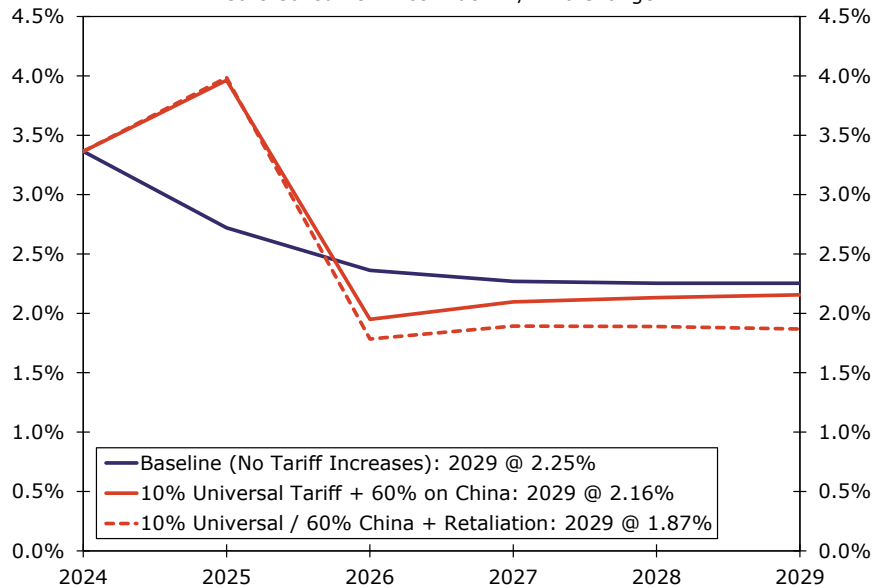


Tariff Scenarios

A 10% across-the-board tariff with 60% levied on China would impart a stagflationary shock to the economy

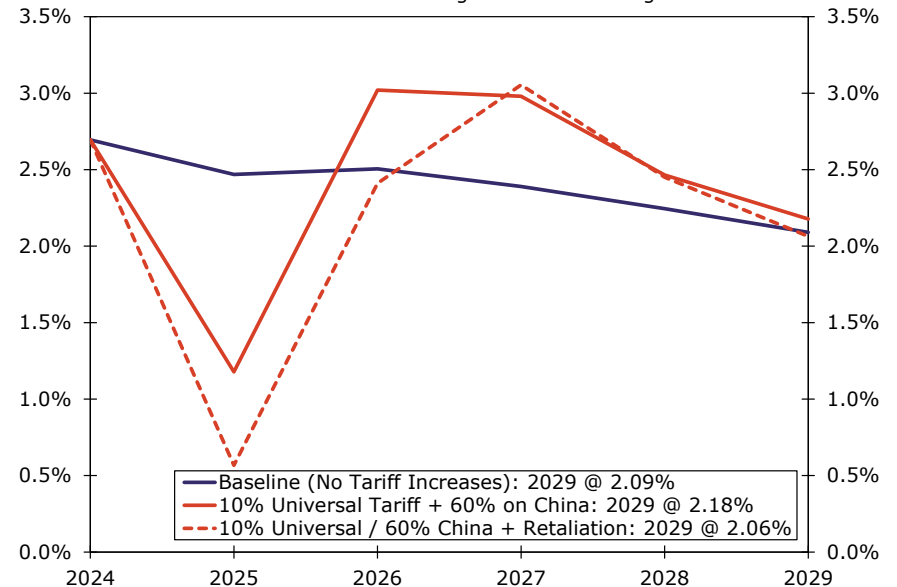
U.S. Inflation Under Tariff Scenarios

Core Consumer Price Index Yr/Yr % Change



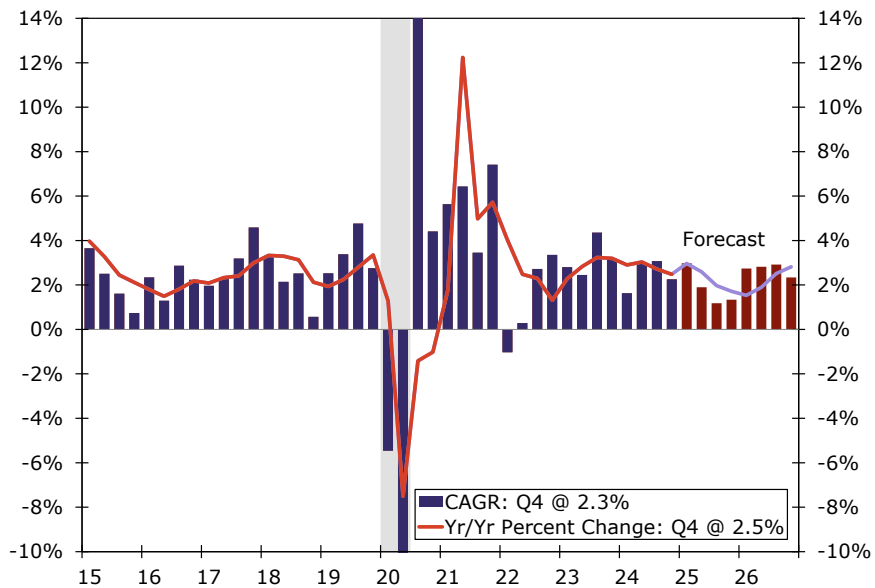
Real GDP Growth Under Tariff Scenarios

Year-over-Year % Change of Annual Average



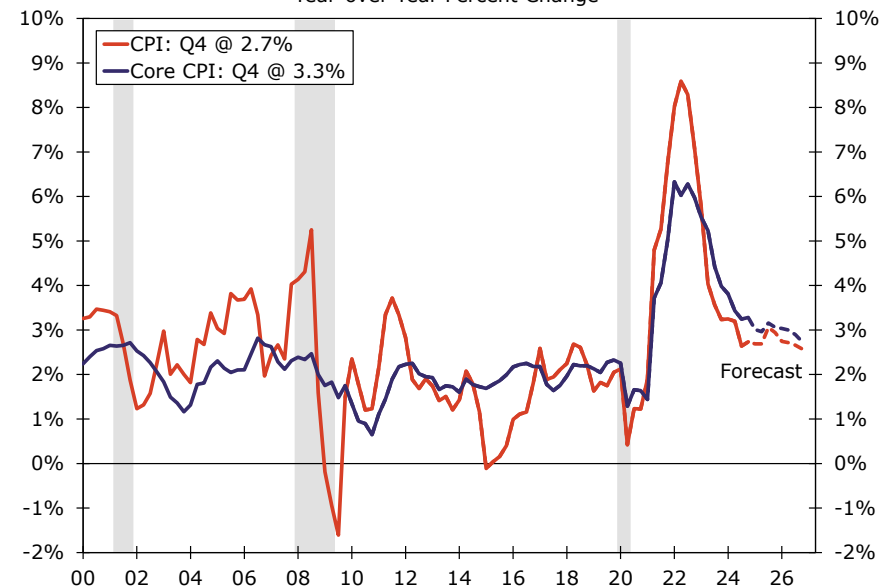
We forecast that tariffs will lead to slower real GDP growth and a stalling in disinflation later this year

U.S. Real GDP Growth



Consumer Price Index

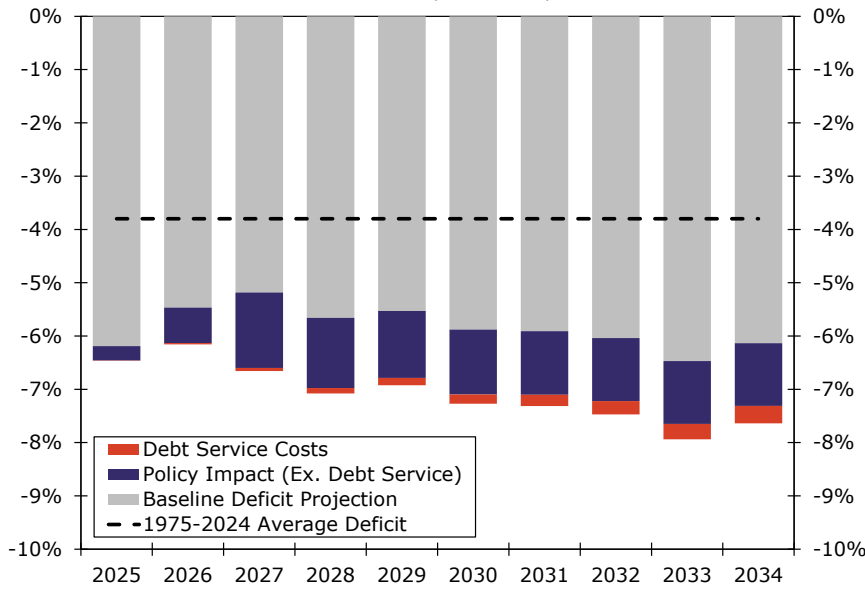
Year-over-Year Percent Change



The federal government likely will incur red ink as far as the eye can see

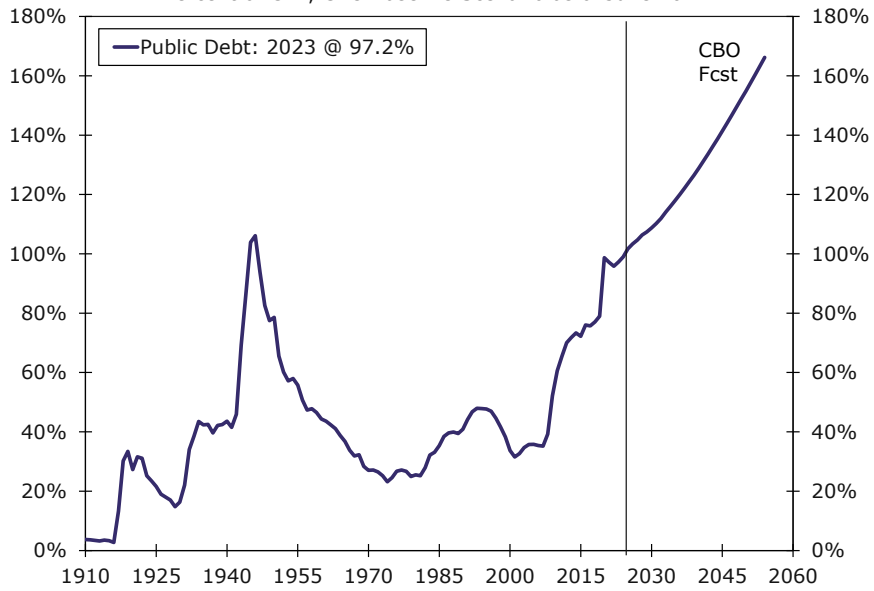
The Fiscal Cost of Extending the TCJA

Deficit under Full Extension; % of GDP; CBO Estimates



Federal Debt

Percent of GDP, CBO Baseline Scenario as of June 2024



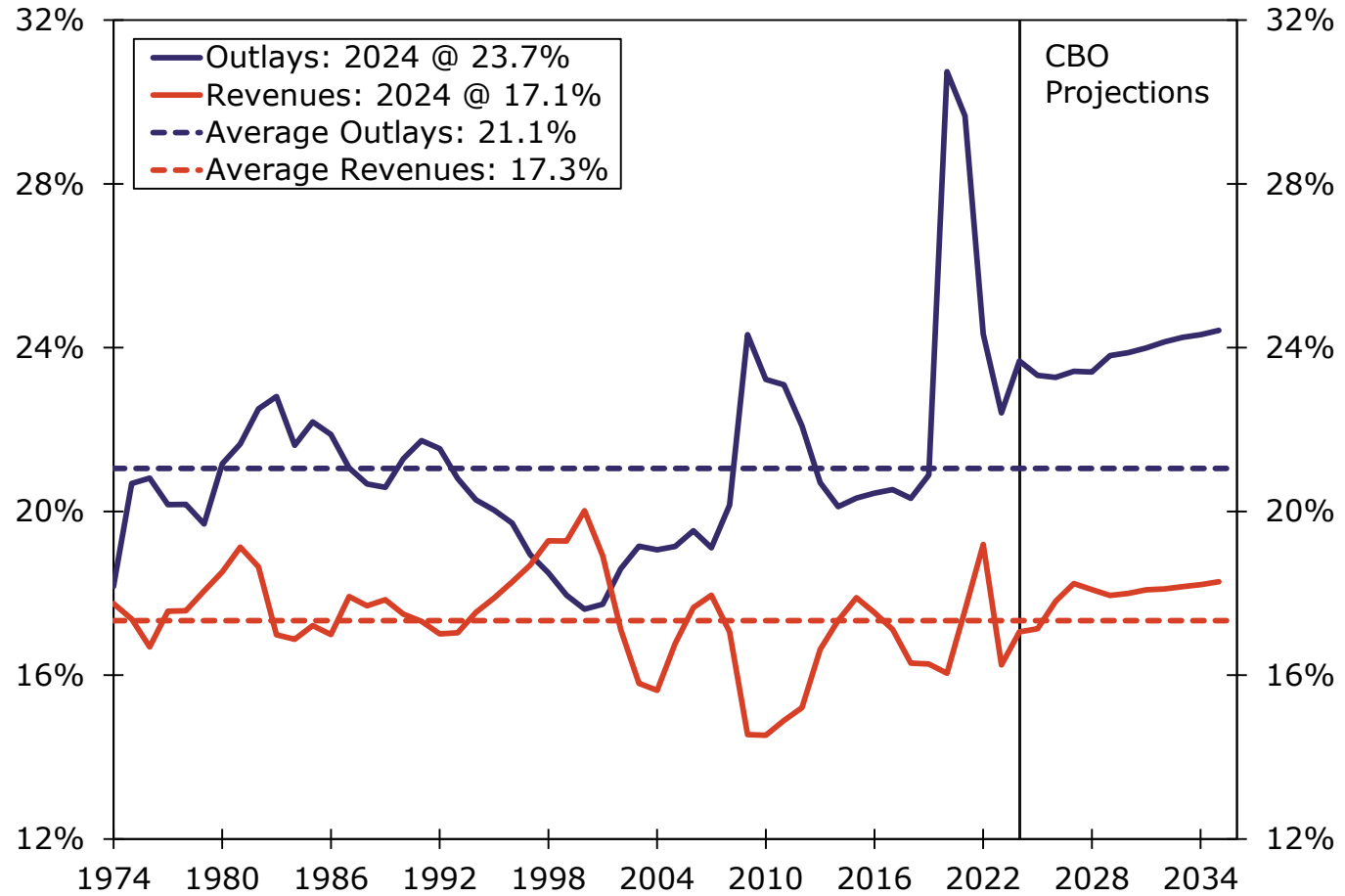
Source: Congressional Budget Office and Wells Fargo Economics

Federal Outlays and Revenue

Measured as a percent of GDP, revenues are at their historical average. Spending is significantly above its historical average

Total Federal Outlays and Revenues

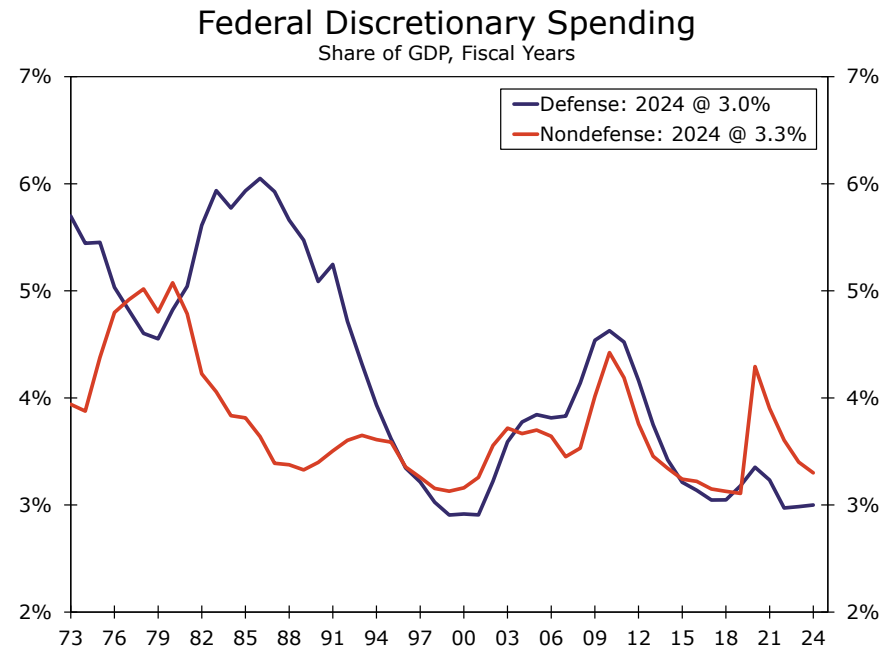
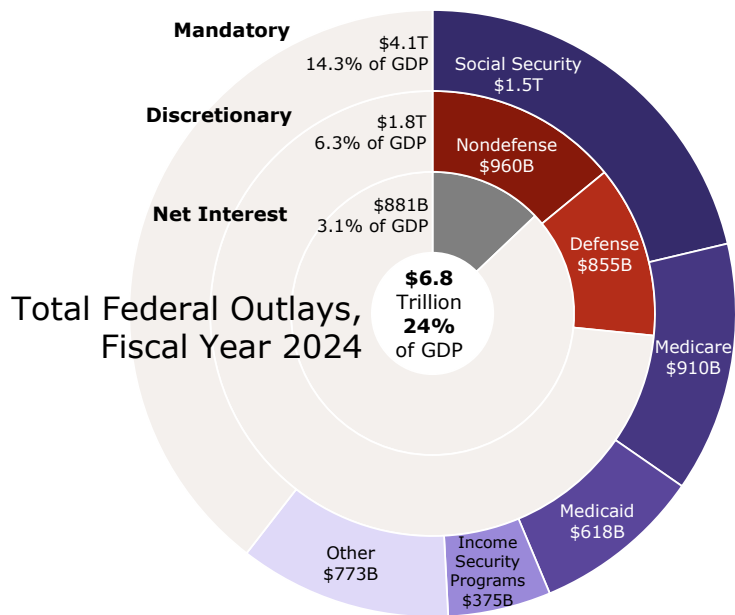
Share of GDP



Source: Congressional Budget Office and Wells Fargo Economics

Federal Government Spending

“Mandatory” programs, defense spending, and interest payments together account for 85% of total federal spending

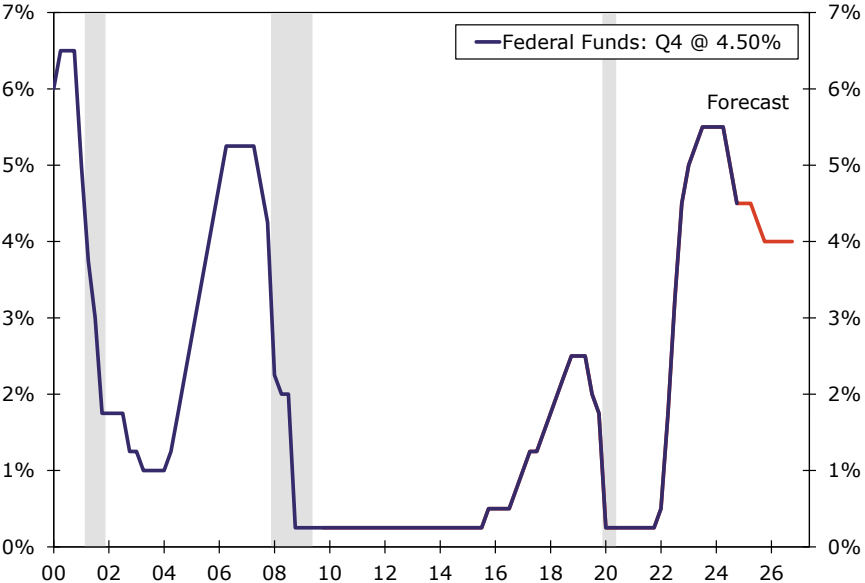


Rates Forecast

Interest rates likely will remain elevated relative to the levels of the past decade

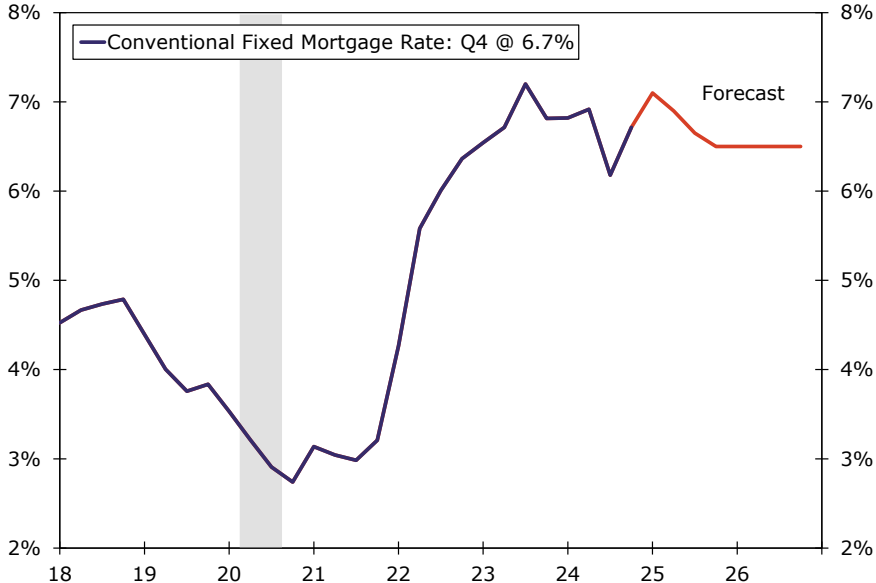
Federal Funds Target Rate

Upper Bound, Quarter-End



Mortgage Rate Forecast

30-Year Fixed Rate Average, Quarter-End

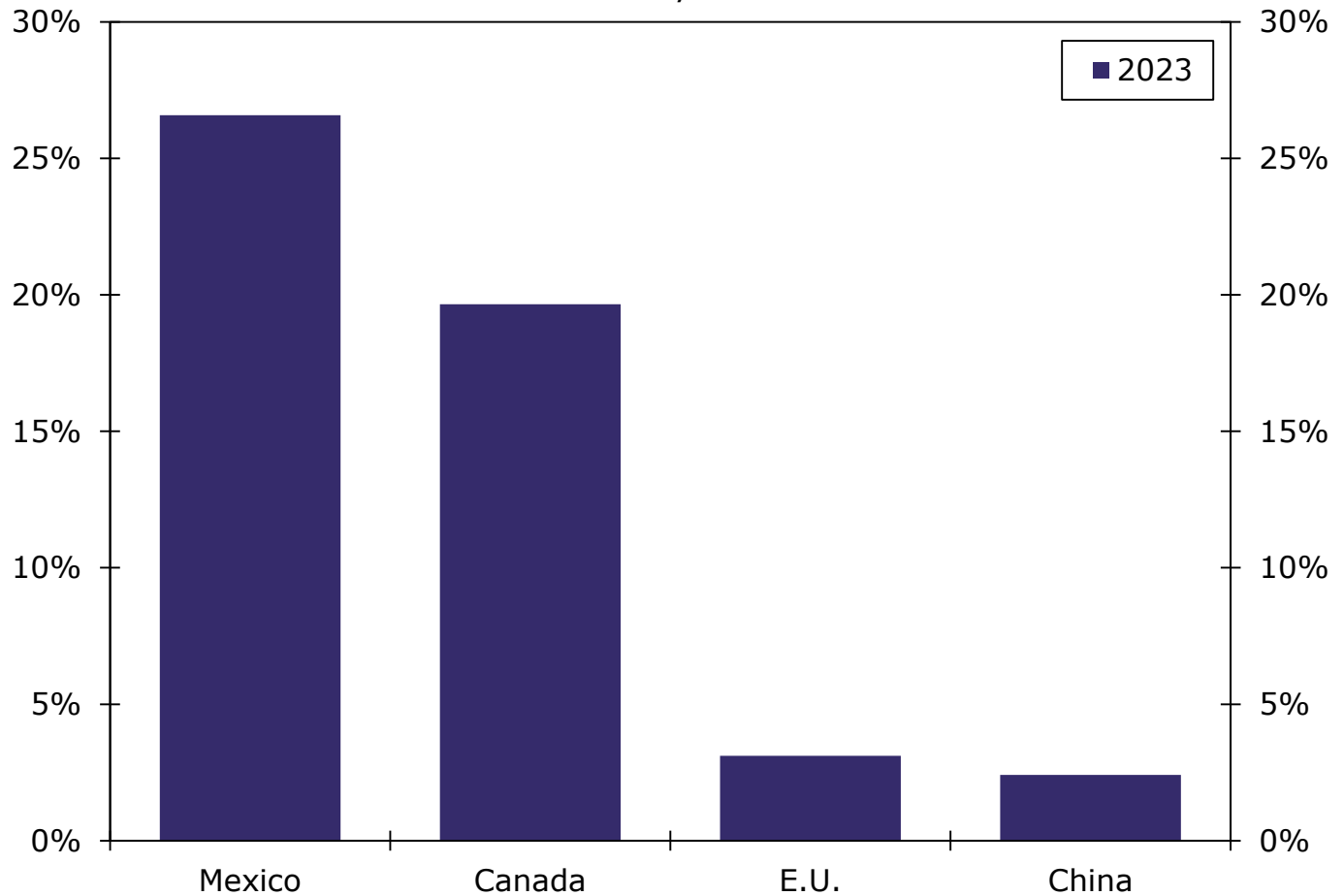


Source: Federal Reserve Board, Freddie Mac and Wells Fargo Economics

The Canadian and Mexican economies are significantly exposed to trade with the United States

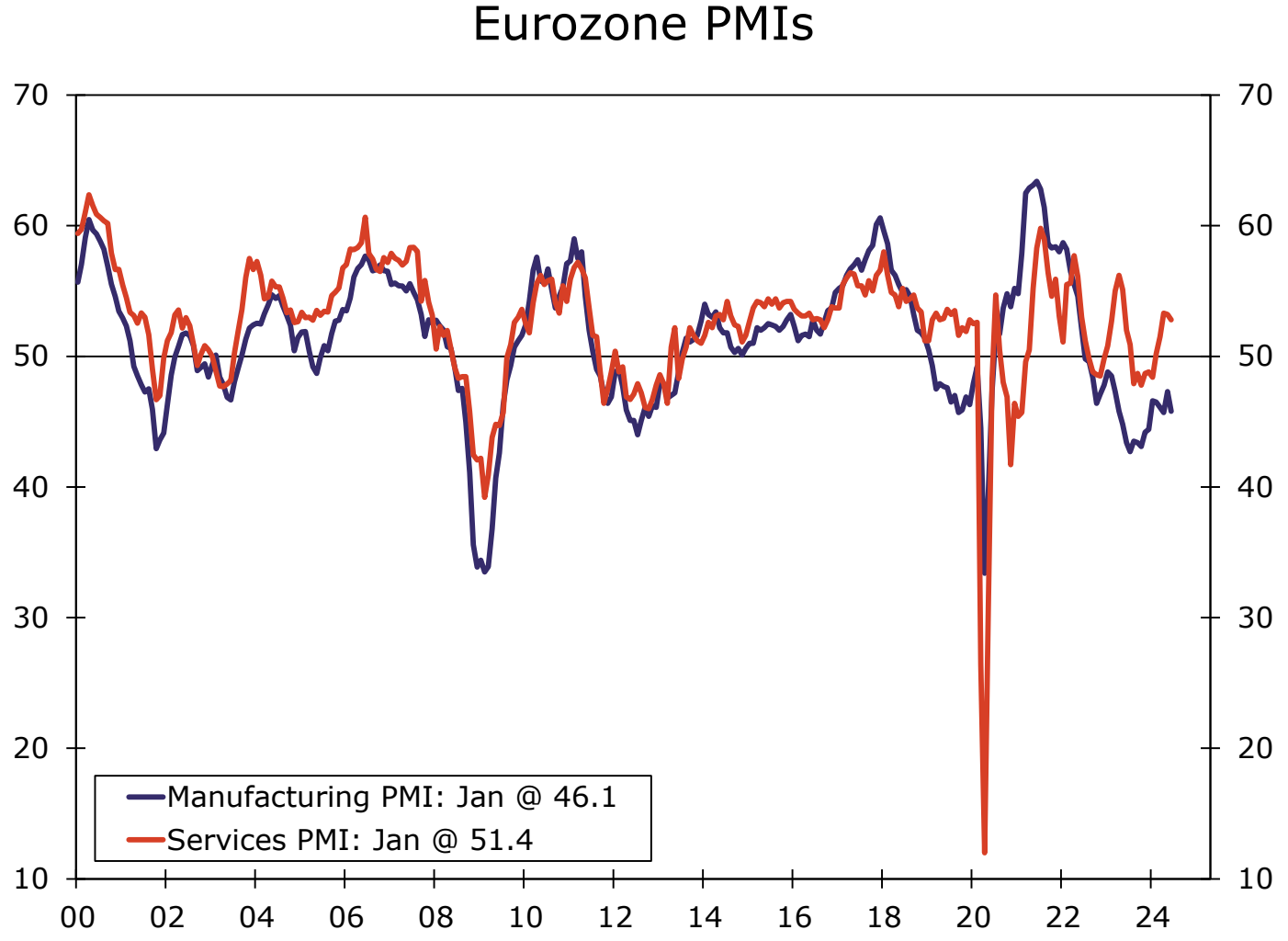
Exports to the United States

Percent of Country's Nominal GDP



Eurozone Purchasing Managers' Indices

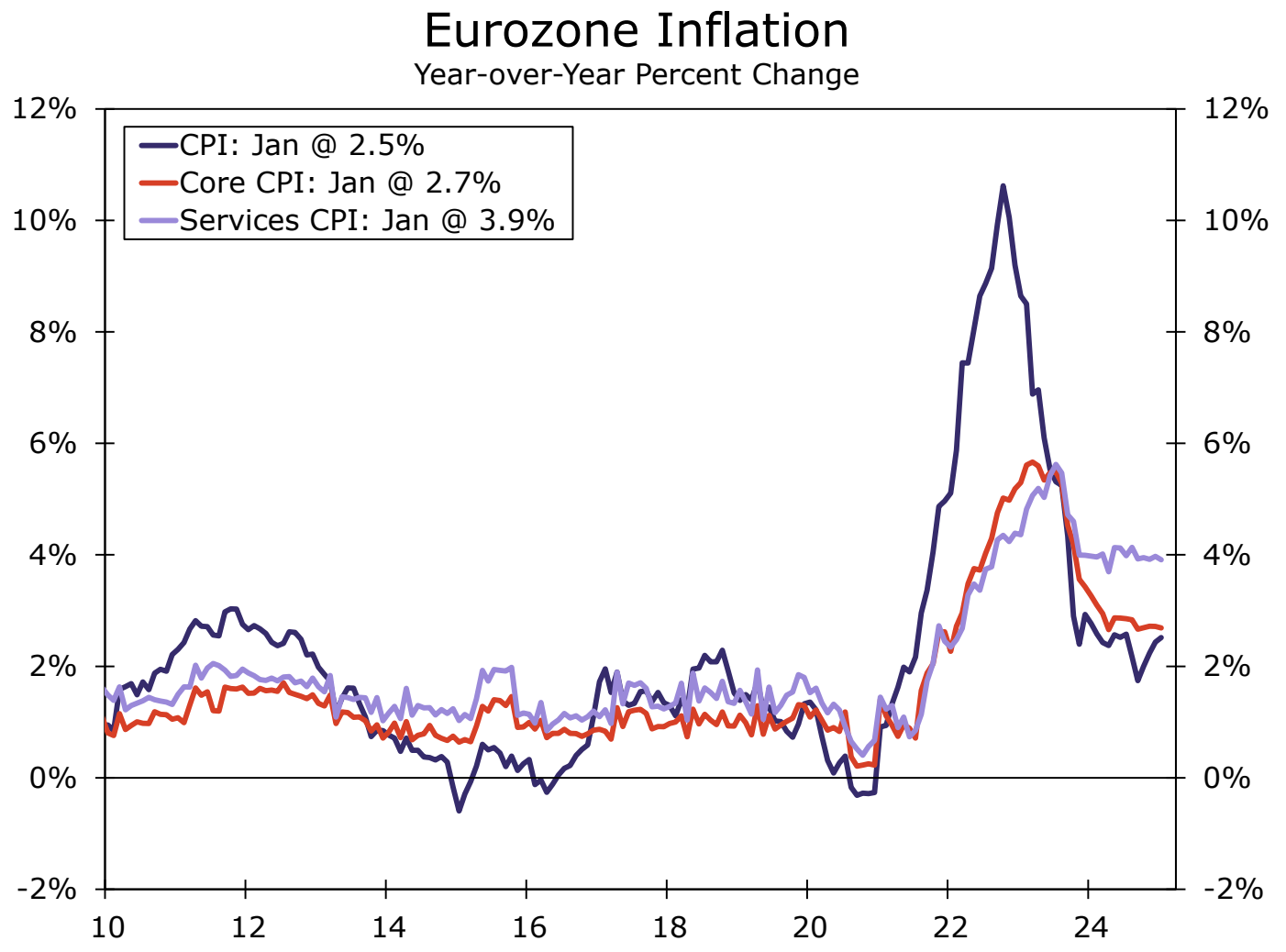
The PMIs in the Eurozone suggest that economic activity is not very strong at present



Source: Datastream and Wells Fargo Economics

Eurozone Consumer Price Inflation

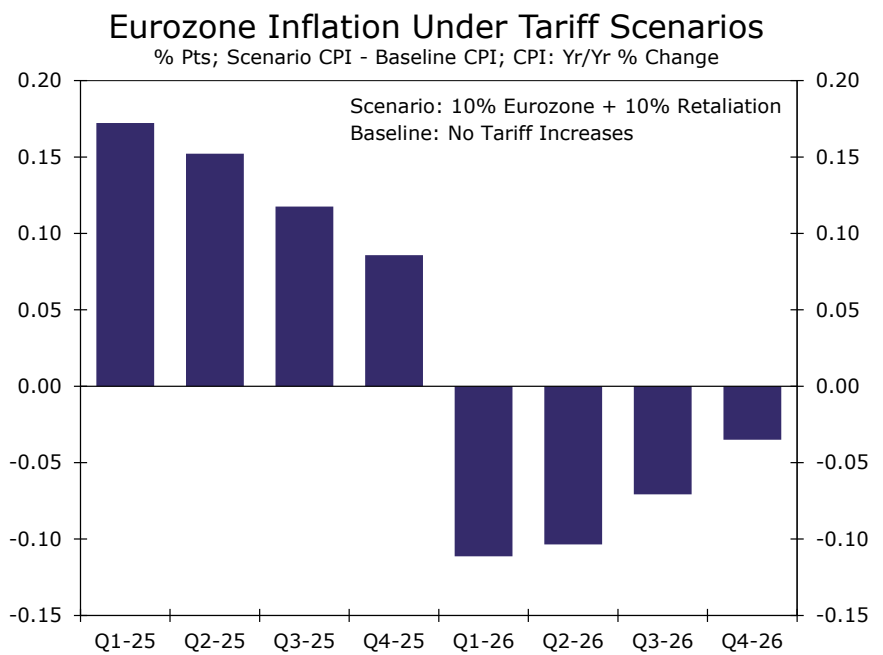
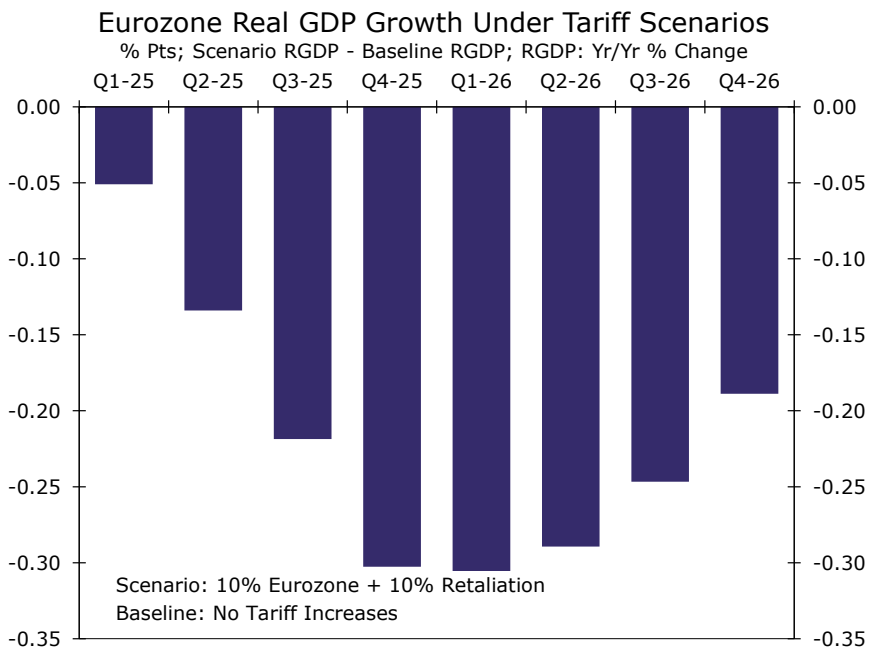
Inflation in the Eurozone has receded, although it remains a bit above the ECB's target of 2%



Source: Datastream and Wells Fargo Economics

Eurozone Tariff Scenarios

A 10% tariff on EU goods, coupled with retaliation, impart headwinds to GDP growth in the Eurozone while lifting inflation modestly

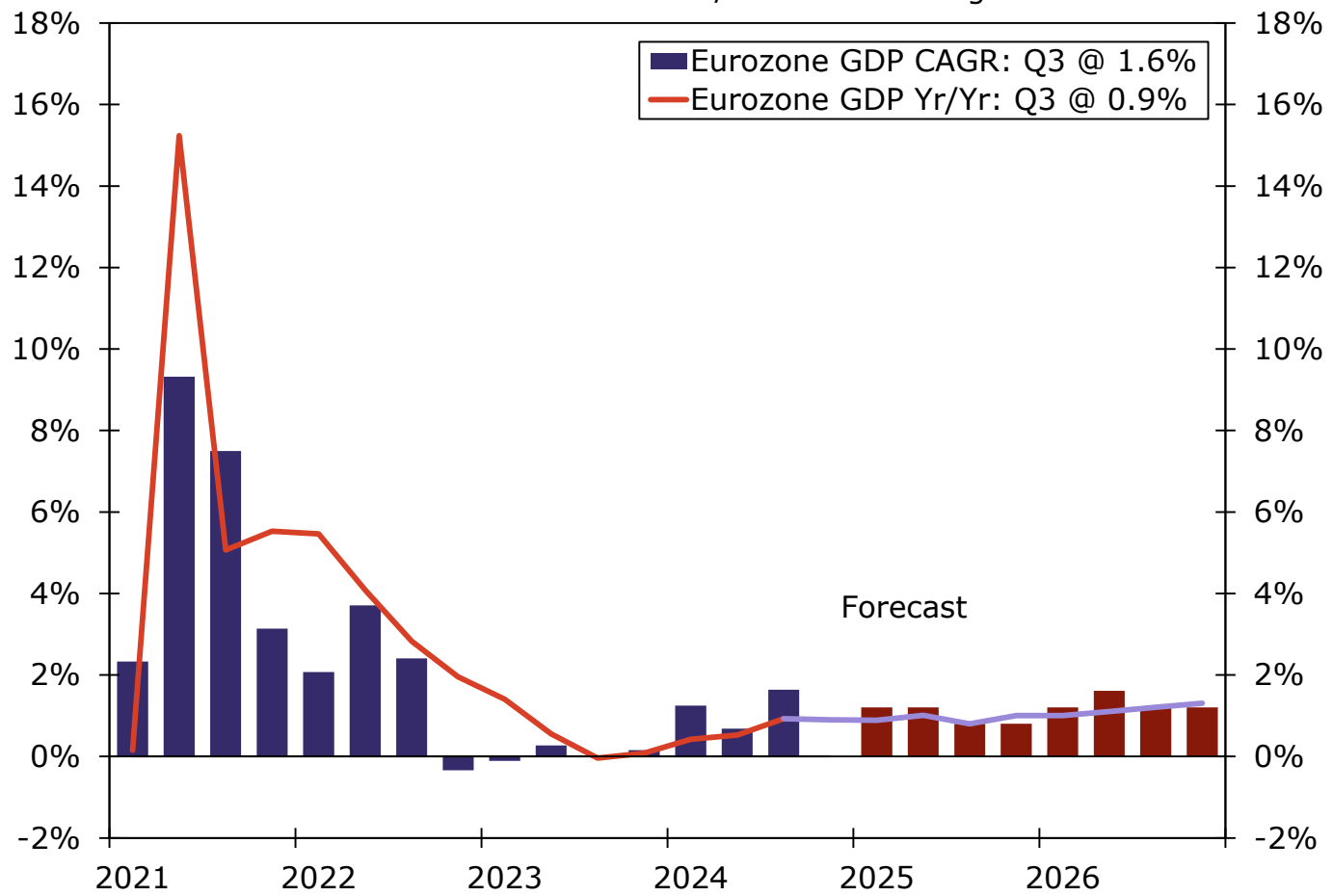


Source: Oxford Economics and Wells Fargo Economics

We look for real GDP growth in the Eurozone to remain sluggish

Eurozone GDP Growth

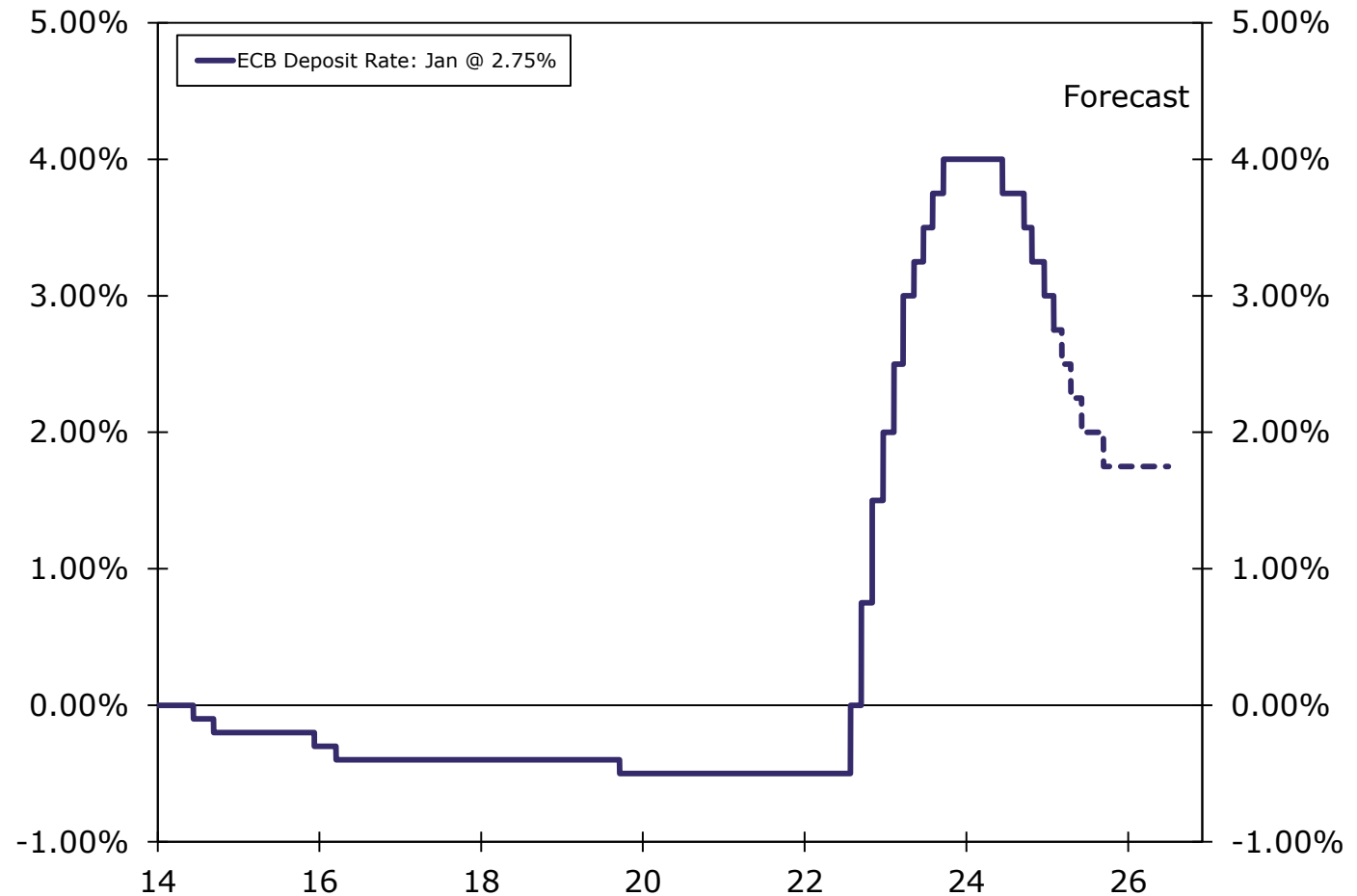
Bars = CAGR Lines = Yr/Yr Percent Change



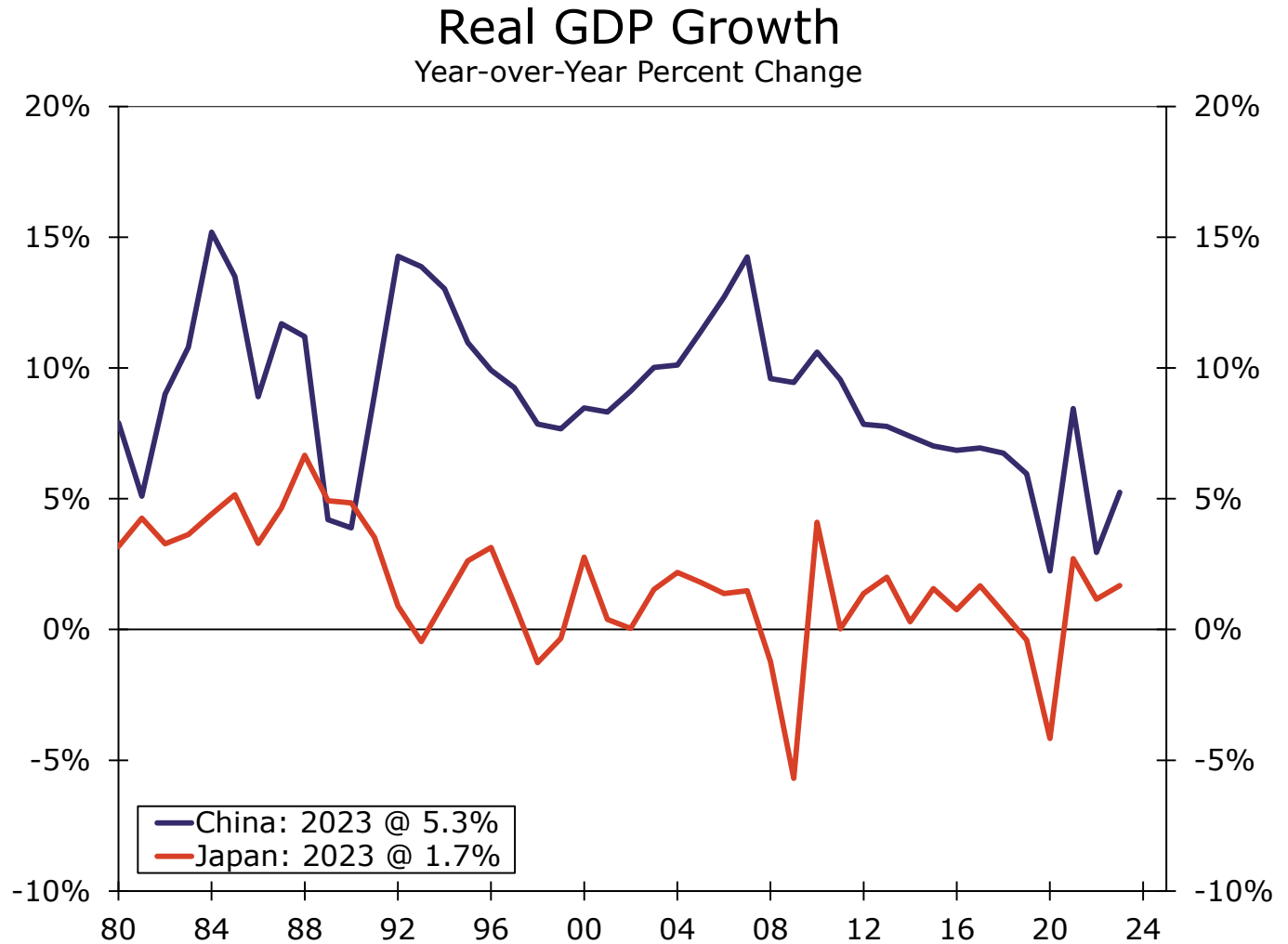
Source: Bloomberg Finance L.P. and Wells Fargo Economics

We look for the ECB to continue its easing cycle in coming months

ECB Deposit Rate



Is China turning into another Japan?

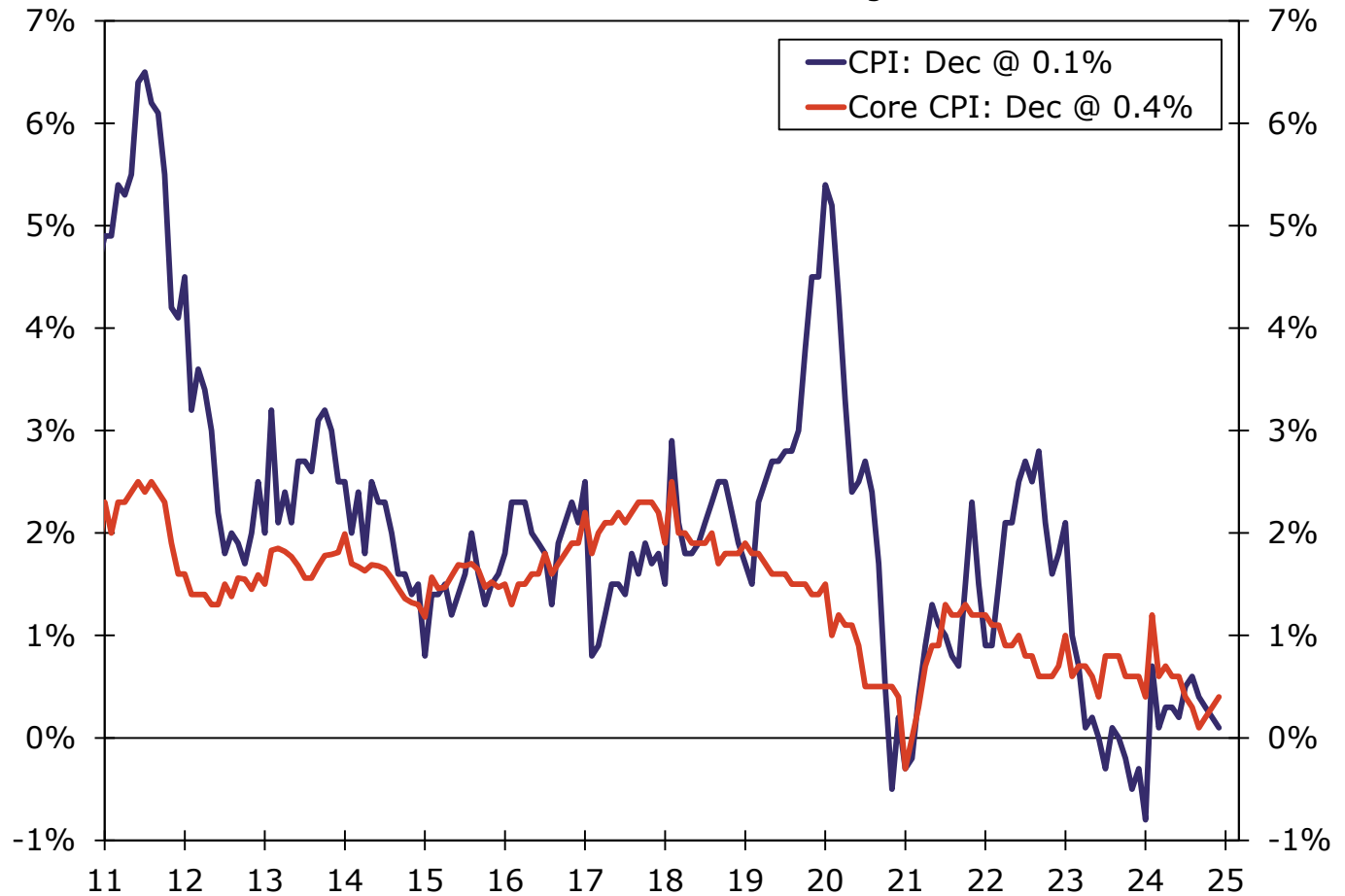


China Consumer Price Inflation

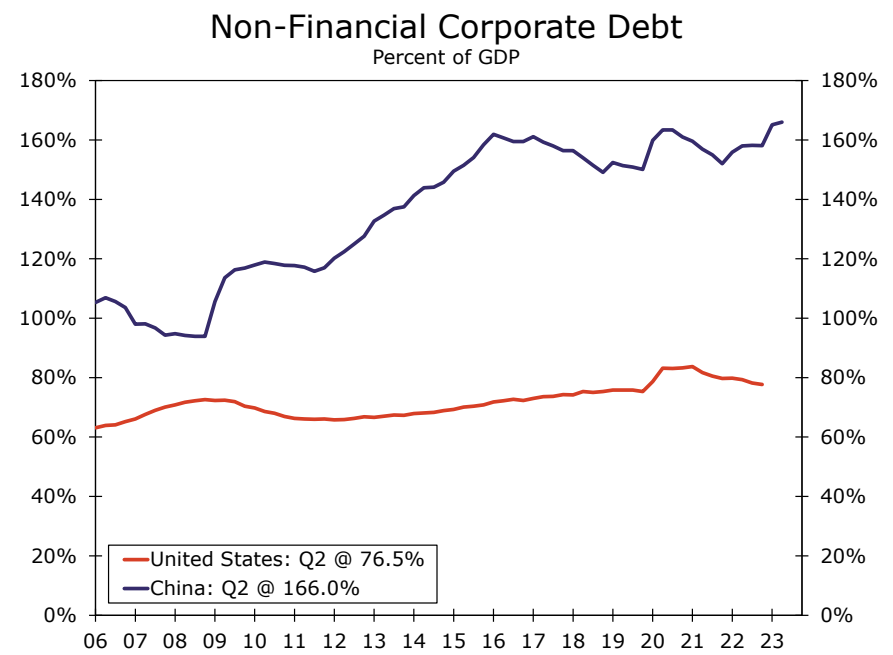
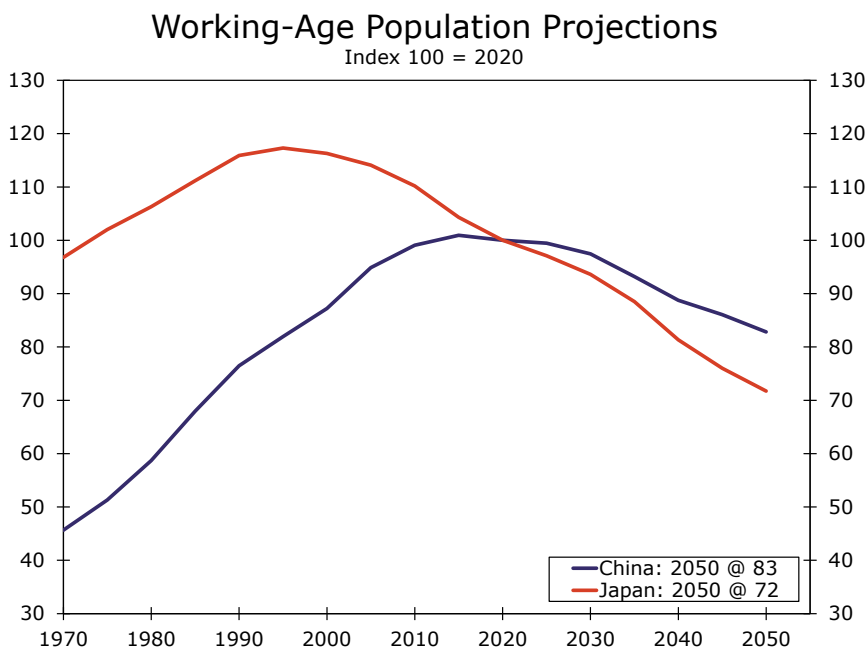
There is very little inflation in China at present

China Consumer Price Indices

Year-over-Year Percent Change



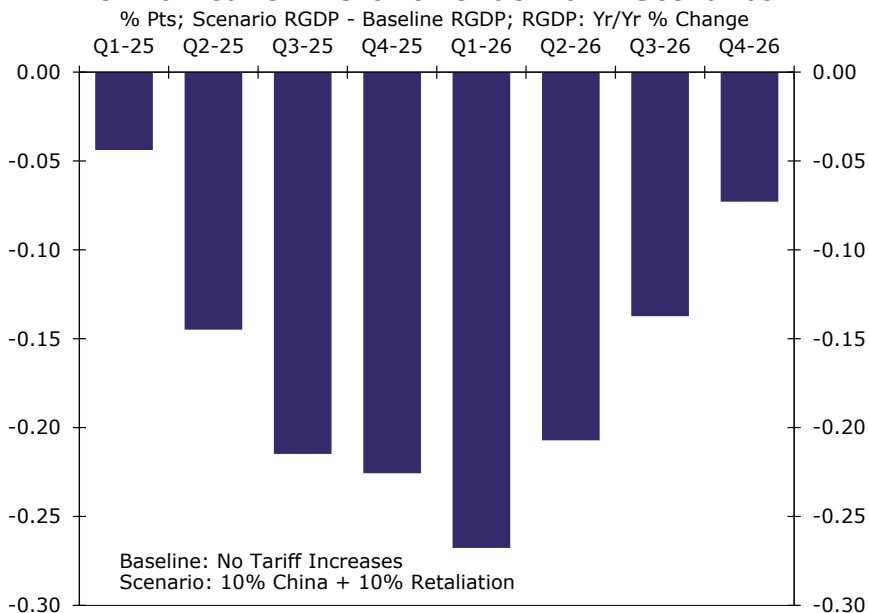
The demographic outlook in China is bleak, and the business sector is very levered



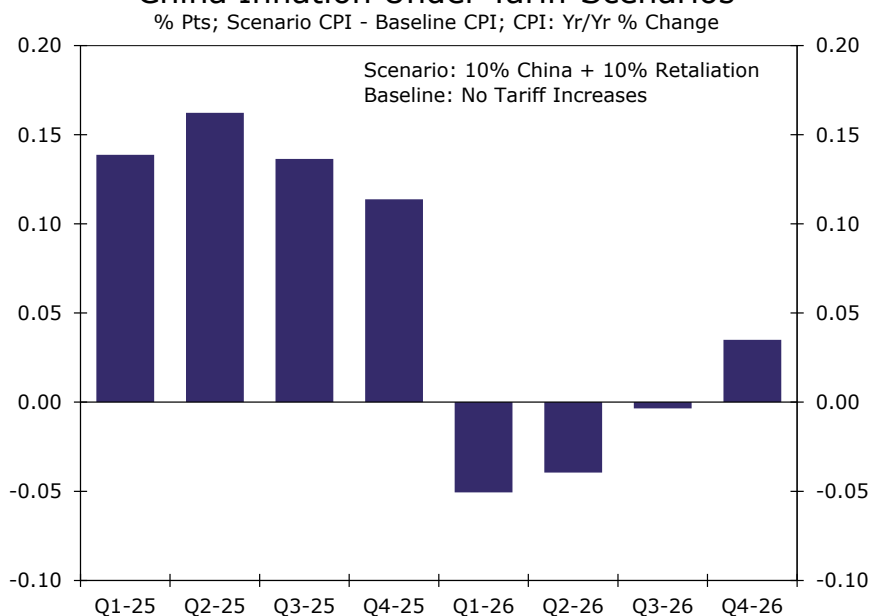
China Tariff Scenarios

A trade war with the United States would lead to slower Chinese GDP growth and a modest near-term bump in inflation

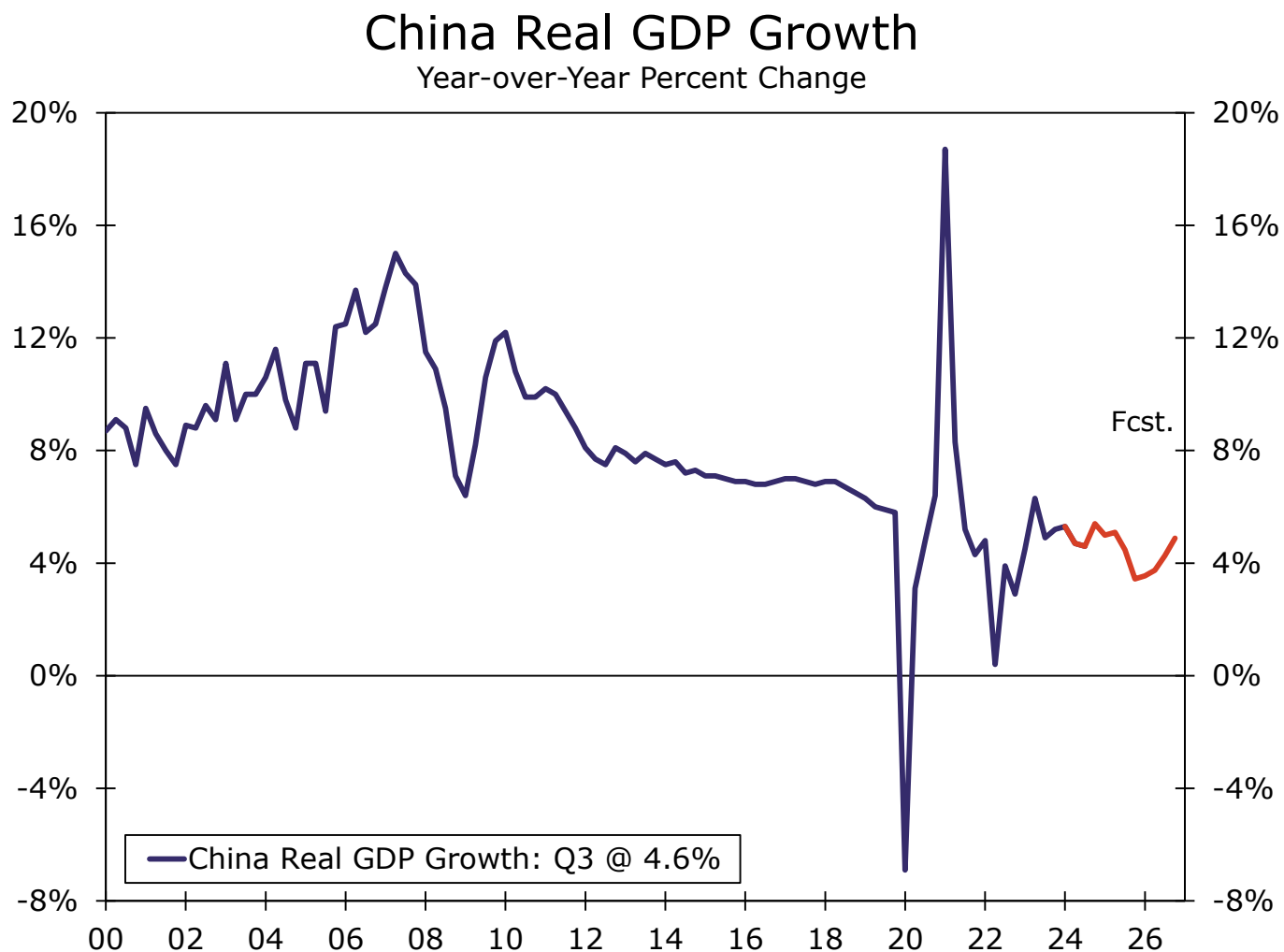
China Real GDP Growth Under Tariff Scenarios



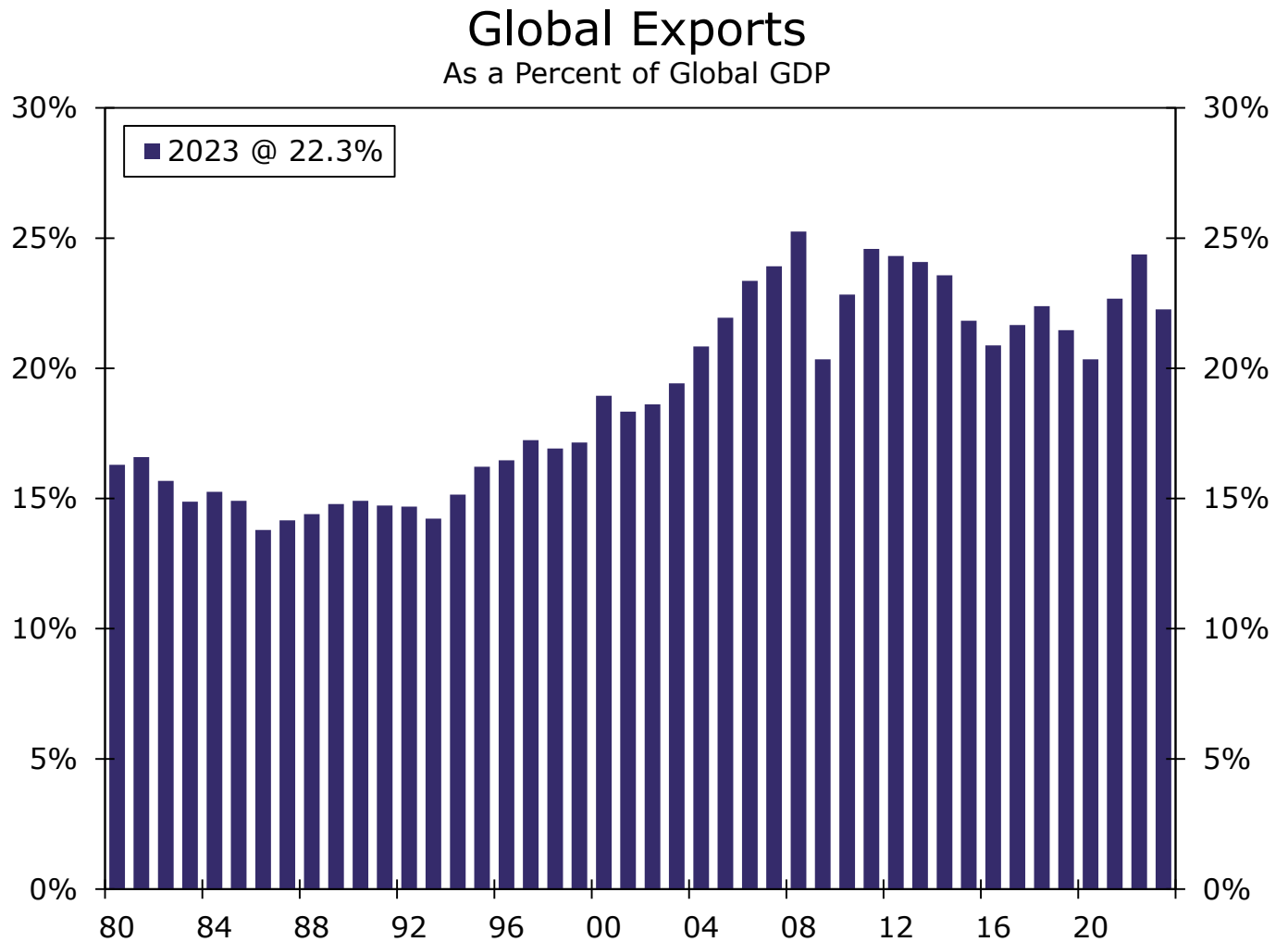
China Inflation Under Tariff Scenarios



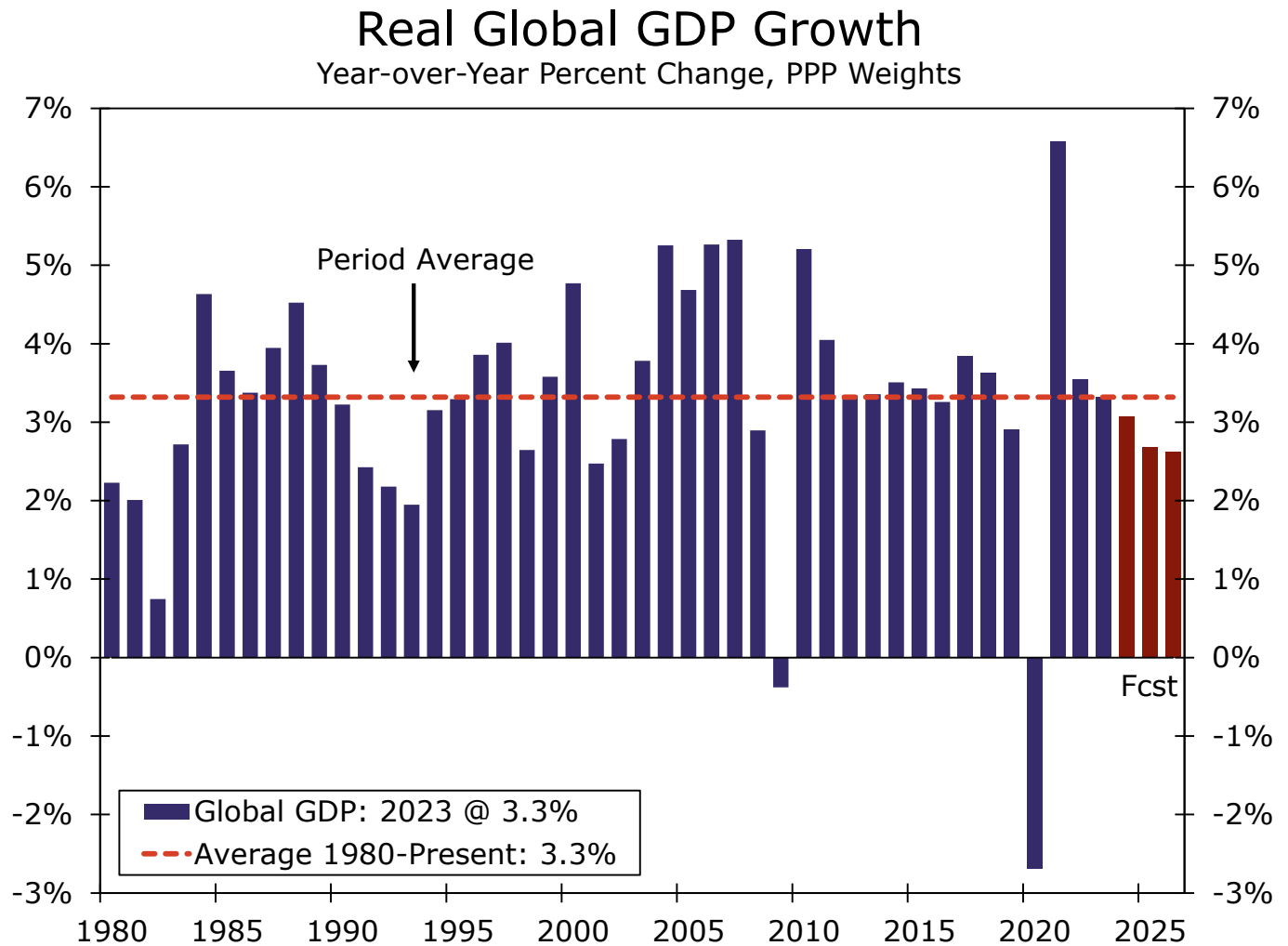
The Chinese economy likely will decelerate further



The intensity of global trade has topped out



We look for sub-trend rates of global GDP growth over the next two years



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