STATE STREET GLOBAL ADVISORS

February 14, 2025
Commentary

Weekly Economic Perspectives

Contents

Contact

Simona Mocuta
Senior Economist
simona_mocuta@ssga.com
+1-617-664-1133

Amy Le
Macro-Investment Strategist
amy_le@ssga.com
+44-203-395-6590

Krishna Bhimavarapu
Economist
VenkataVamseaKrishna_Bhimavarapu@ssga.com
+91-806-741-5000

Weekly Highlights

Sharp daily gyrations in data, sentiment, and markets, persist.

US Headline CPI (January, y/y)

3.0%

Highest since June.

US Core CPI (January, y/y)

3.3%

Nearly unchanged since June.

US Retail Sales (January, m/m)

-0.9%

Wildfires, cold weather, hit.

CA Manufacturing Sales (January, m/m)

0.3%

Lower than expected.

UK Q4 Real GDP (q/q, prelim)

0.1%

Details were not great.

UK Industrial Production (December, m/m)

0.5%

Above expectations.

AU Consumer Sentiment (February)

92.2

Remains subdued.

JP Corporate Goods Prices (Jan, y/y)

4.2%

Above expectations.

AU NAB Business Confidence (Jan)

4.0

Picking up, rate cut is in the air.

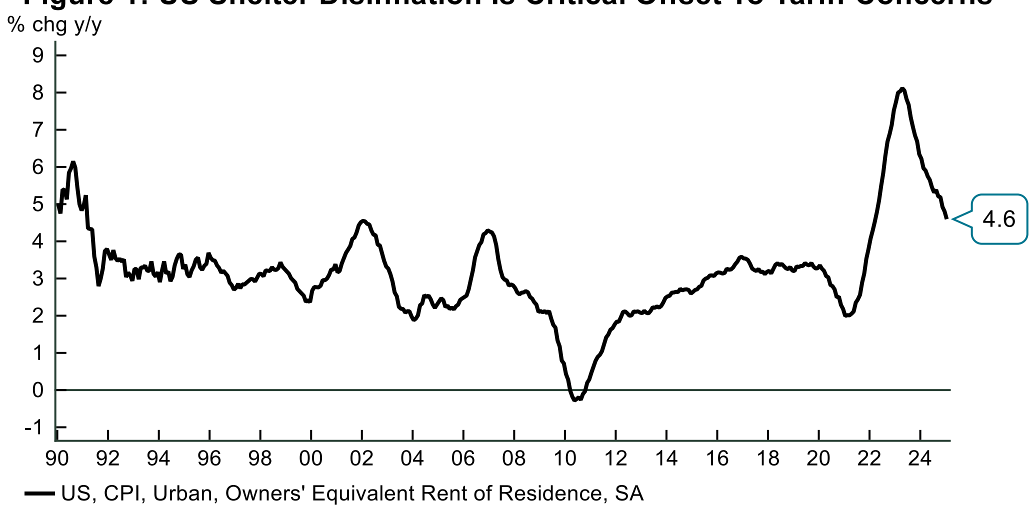
US: Inflation Ebb and Flow

The **CPI inflation** report for January came in much hotter than expected, but there were enough oddities in the details to argue for a more balanced interpretation. First, the bad news: overall prices rose 0.5% m/m, with core prices (excluding food and energy) up 0.4% m/m. This lifted the two respective inflation rates by a tenth each to 3.0% y/y and 3.3% y/y. The market's response was sharp and swift, with 10-year yields up nearly 15 basis points immediately following the release.

But the details told a more nuanced story. Food prices rose 0.4% m/m, with food at home up 0.5%. There were no obvious outliers aside from the surge in egg prices amid avian flu-related shortages. Energy, however, surprised meaningfully to the upside with a 1.1% monthly gain; cold weather, natural disasters, and seemingly lingering seasonal effects all played a role. New car prices were flat but used car prices jumped 2.2%. On a y/y basis, used car prices have now essentially caught up with changes in the Manheim auction price series, so unless the latter steps up from here, monthly increases of this magnitude in used car CPI are unlikely. Motor vehicle insurance also reaccelerated following a couple of tamer reads: insurance costs jumped 2.0% m/m, the most since March 2024. Notably, parking fees surged 6.4% m/m, suggesting a start of year price hike that may or may not have been exacerbated by seasonal effects. Given the y/y gain is just 4.8%, the January increase appears disproportionate and indicative of seasonal effect distortions; but stricter return to office mandates are also creating more demand so the effects could be more lasting. In recreation services, seasonal effects likely made the data look worse than it was: the outsized increases across several categories were hard to explain. Medical services offered a favorable counterpoint. The shelter component was OK. Overall shelter costs increased 0.4% m/m, but rent of primary residence matched December's 0.3% rise. Lodging away from home posted a big 1.4% m/m gain, but that seems bound to ease.

The slow but steady moderation in rent of shelter inflation (from 6.1% y/y in January 2024 to 4.4% in January 2025) is an important reminder that there is a lot more to US inflation than just goods and tariffs. The producer price inflation data reinforced that point. Despite an upside surprise on the headline, PPI components used in the calculation of PCE (personal consumption expenditure) inflation were on the soft side. We've been making the point for a while now that, even with an elevated January gain, the y/y increase in core PCE inflation is bound to moderate by two tenths to 2.6% y/y. That remains our forecast, but the PPI release opens the door to a three tenth decline to 2.5% y/y. Any retreat would be good news insofar as it would mark the first y/y improvement in this inflation metric (the Fed's preferred measure) since June. If not for tariffs, this could have kept March as a live meeting for a cut.

Figure 1: US Shelter Disinflation Is Critical Offset To Tariff Concerns



Sources: Macrobond, SSGA Economics, BLS
Updated as of 2/15/2025

The notable miss in **retail sales** was another reminder that the FOMC needs to weigh both inflation and growth risks. Nominal sales dropped 0.9% m/m, although a little of this sting was offset by an upward revision. However, control sales (excluding food, gas, building materials, and dollar stores) dropped 0.8%, practically unwinding December's gain. Wildfires and cold weather weighed on these results, but it remains to be seen how durable the rebound will be given likely hit to consumer confidence from tariffs and return to office requirements for federal employees.

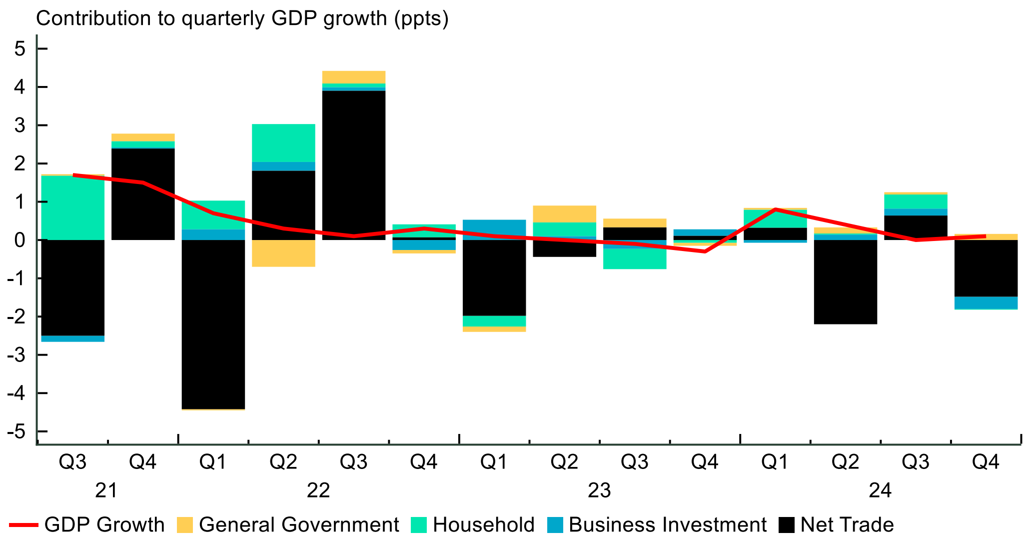
UK: Muted Growth

Q4 real GDP growth was better than expected but the details weren't great. After stagnating in Q3, the UK economy grew 0.1% in Q4 thanks to a surge in inventories and government consumption. But household expenditures, net trade, and business investments—the components most relevant to the underlying health of the economy—were either flat or contracted.

After gaining some traction earlier last year, household consumption was flat in Q4. The household savings rate stood at an elevated level 9.7% in Q3 despite strong recovery in household disposable income. On one hand, real wage growth is likely to remain positive given the boost from government spending, which will modestly support consumption. On the other hand, higher interest rates and weaker labor market will likely continue to weigh on household consumption this year.

At the same time, higher taxes from the October Budget have affected business sentiment and investments. Business investment fell 3.2% q/q, after a decent growth in Q2 and Q3. Residential investment was also down by 0.8% q/q. Leading indicators such as the PMIs also pointed to softer private sector activity.

Figure 2: UK Government Consumption Supported Q4 Growth



Sources: SSGA Economics, ONS
Updated as of 14/02/2025

Overall, the economic activity for the first half of 2025 is likely to be more muted than we expected. Last week, the BoE decided to lower policy rate by 25 bps to 4.50% and showed further signs that rate cuts might be deeper than market expected. The bank also halved its 2025 GDP growth forecast from 1.5% to 0.75%. While the bank still tied to gradual approach due to its concern on weak supply-side, we continue to see that the bank rate will reach 3.5% by end of this year.

Australia: Subdued Sentiment

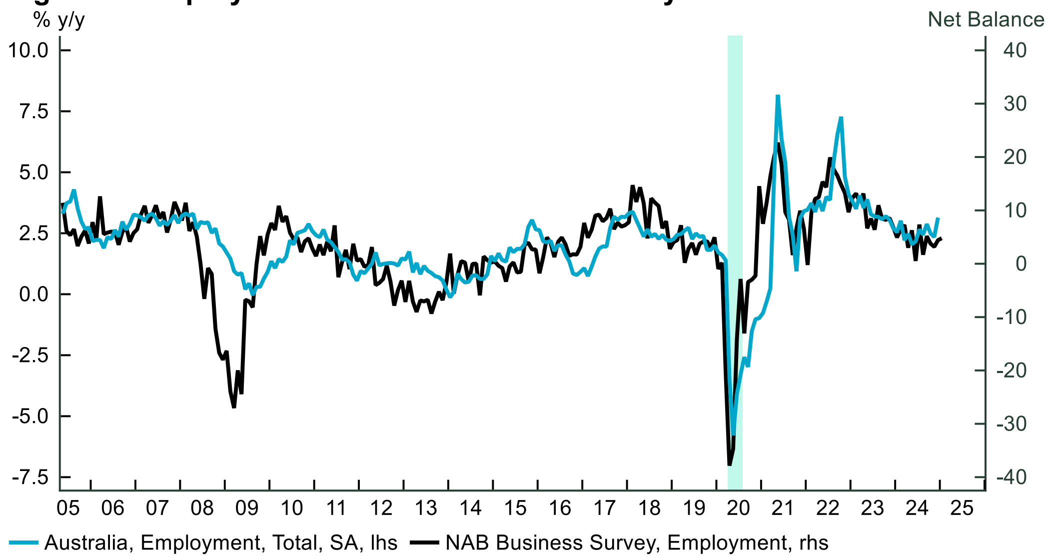
What to expect beyond the next week's rate cut: Can Australia Survive A Trade War?

Consumer sentiment was subdued in February, as small gains across a few sub-components were offset by worsening perceptions of current family finances. Sentiment rose a touch to 92.2, with Westpac noting a stalled recovery in the last three months. The weaker assessments of current conditions may be indicative that household consumption may have gained only modestly from the energy subsidies. However, considering that a rate cut is on the horizon, sentiment may pick up strongly over the next month.

January's NAB Business Survey data moved little in the context of recent trends. The conditions index eased three points to 3, close to the weakest reading in three years. Furthermore, sub-indices measuring trading conditions and profitability are near their lowest levels in five years. At the same time, modest improvements were registered in employment and retail prices (although purchase costs eased). These data are consistent with the view that the economic activity remains subdued, with consumption likely having picked up only modestly in Q4.

However, this comes against the backdrop of inflation easing into the target, and will help the Reserve Bank of Australia (RBA) deliver their first rate cut next week.

Figure 3: Employment Growth To Move Sideways In Australia



Sources: SSGA Economics, ABS, NAB, Macrobond
Updated as of 2/14/2025

Incoming data will be vital for further cuts. The labor market remains strong, with month to month employment growth becoming very difficult to predict of late. January is the most seasonal month of a calendar year, and we note that the unadjusted employment growth had declined in every January in the last two decades. We expect the seasonally adjusted employment to have risen modestly by 10k last month, led by a reversal in the full-time category. The unemployment rate may have edged up a touch to 4.2%, near the same level where it was in January 2024.

Week in Review A summary of the key global data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Feb 10					
AU	Westpac Consumer Conf Index (Feb)	n/a	92.2	92.1	Weak details.
Tuesday, Feb 11					
US	NFIB Small Business Optimism (Jan)	104.7	102.8	105.1	Mixed details.
CA	Building Permits (Dec, m/m)	1.4%	11.0%	-5.6%	Volatile.
FR	ILO Unemployment Rate (Q4)	7.5%	7.3%	7.4%	
AU	NAB Business Confidence (Jan)	n/a	4	-2	Weak details.
Wednesday, Feb 12					
US	CPI (Jan, y/y)	2.9%	3.0%	2.9%	Surprisingly strong, odd seasonal effects.
IT	Industrial Production (Dec, m/m)	-0.2%	-3.1%	0.3%	
Thursday, Feb 13					
US	PPI Final Demand (Jan, y/y)	3.3%	3.5%	3.5%	Core measure more reassuring.
US	Initial Jobless Claims (Feb 8, thous)	216	213	220	Low.
US	Continuing Claims (Feb 1, thous)	1,882	1,850	1,886	Still low,
UK	Industrial Production (Dec, m/m)	0.2%	0.5%	-0.5%	Better than expected.
UK	GDP (Q4, q/q, prelim)	-0.1%	0.1%	0.0%	Led by inventories and government consumption
GE	CPI (Jan, final, y/y)	2.3%	2.3%	2.6%	
Friday, Feb 14					
US	Retail Sales Advance (Jan, m/m)	-0.2%	-0.9%	0.7% (↑)	Depressed by wildfires, cold weather.
US	Industrial Production (Jan, m/m)	0.3%	0.5%	1.0% (↑)	Driven by utilities amid cold weather.
CA	Manufacturing Sales (Dec, m/m)	0.7%	0.3%	0.7% (↓)	Downside surprise.

Source: for data, Bloomberg®; for commentary, SSGA Economics.

About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions, and financial advisors. With a rigorous, risk-aware approach built on research, analysis, and market-tested experience, we build from a breadth of index and active strategies to create cost-effective solutions. As pioneers in index and ETF investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US $4.42 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2023.

† This figure is presented as of June 30, 2024 and includes ETF AUM of $1,393.92 billion USD of which approximately $69.35 billion USD is in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

ssga.com

Marketing Communication

Important Risk Discussion

Investing involves risk including the risk of loss of principal.

All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability, or completeness of, nor liability for, decisions based on such information, and it should not be relied on as such.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

The whole or any part of this work may not be reproduced, copied, or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

The views expressed in this material are the views of SSGA Economics Team through the period ended February 14, 2025 and are subject to change based on market and other conditions. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation. This means that this marketing communication.

(a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This communication is directed at professional clients (this includes eligible counterparties as defined by the "appropriate EU regulator" who are deemed both knowledgeable and experienced in matters relating to investments. The products and services to which this communication relates are only available to such persons and persons of any other description (including retail clients) should not rely on this communication.

Intellectual Property Information

BLOOMBERG®, a trademark and service mark of Bloomberg Finance L.P. Standard & Poor's S&P 500 Index® is a registered trademark of Standard & Poor's Financial Services LLC. FTSE 100® is a trademark jointly owned by the London Stock Exchange Plc and The Financial Times Limited, and is used by FTSE International Limited under license. "All-World", "All-Share" and "All-Small" are trademarks of FTSE International Limited.

Australia: State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services License (AFSL Number 238276). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia. T: +612 9240-7600. F: +612 9240-7611.

Belgium: State Street Global Advisors Belgium, Chaussée de La Hulpe 185, 1170 Brussels, Belgium. T: +32 2 663 2036. State Street Global Advisors Belgium is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2

Canada: State Street Global Advisors, Ltd., 1981 McGill College Avenue, Suite 500, Montreal, Qc, H3A 3A8, T: +514 282 2400 and 30 Adelaide Street East Suite 1100, Toronto, Ontario M5C 3G6. T: +647 775 5900.

Dubai: State Street Global Advisors Limited, DIFC branch is regulated by the Dubai Financial Services Authority (DFSA) as a category 4 regulated firm and is only active in arranging deals in investments and advising on financial products. This document is intended for Professional Clients or Market Counterparties only as defined by the DFSA and no other person should act upon it.

State Street Global Advisors Limited, DIFC Branch, OT 01-39, 1st Floor, Central Park Towers, DIFC, P.O Box 507448, Dubai, United Arab Emirates. Regulated by the DFSA under reference number: F009297. Telephone: +971 4 871 9100

France: State Street Global Advisors Europe Limited, France Branch ("State Street Global Advisors France") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors France is registered in France with company number RCS Nanterre 899 183 289, and its office is located at Coeur Défense — Tour A — La Défense 4, 33e étage, 100, Esplanade du Général de Gaulle, 92 931 Paris La Défense Cedex, France. T: +33 1 44 45 40 00. F: +33 1 44 45 41 92.

Germany: State Street Global Advisors Europe Limited, Branch in Germany, Brienner Strasse 59, D-80333 Munich, Germany with a representation office at 'Brüsseler Strasse' 1-3, D-60327 Frankfurt am Main Germany ("State Street Global Advisors Germany"). Munich T +49 (0)89 55878 400. Frankfurt T +49 (0)69 667745 000. State Street Global Advisors Germany is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2.

Hong Kong: State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. T: +852 2103-0288. F: +852 2103-0200.

Ireland: State Street Global Advisors Europe Limited is regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered Number: 49934. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300.

Italy: State Street Global Advisors Europe Limited, Italy Branch ("State Street Global Advisors Italy") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors Italy is registered in Italy with company number 11871450968 — REA: 2628603 and VAT number 11871450968, and its office is located at Via Ferrante Aporti, 10 - 20125 Milan, Italy. T: +39 02 32066 100. F: +39 02 32066 155.

Japan: State Street Global Advisors (Japan) Co., Ltd., Toranomon Hills Mori Tower 25F 1-23-1 Toranomon, Minato-ku, Tokyo 105-6325 Japan. T: +81-3-4530-7380. Financial Instruments Business Operator, Kanto Local Financial Bureau (Kinsho #345), Membership: Japan Investment Advisers Association, The Investment Trust Association, Japan, Japan Securities Dealers' Association.

Netherlands: State Street Global Advisors Netherlands, Apollo Building 7th floor, Herikerbergweg 29, 1101 CN Amsterdam, Netherlands. T: +31 20 7181 000. State Street Global Advisors Netherlands is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2.

Singapore: State Street Global Advisors Singapore Limited, 168, Robinson Road, #33-01 Capital Tower, Singapore 068912 (Company Reg. No: 200002719D, regulated by the Monetary Authority of Singapore). T: +65 6826-7555. F: +65 6826-7501.

South Africa: State Street Global Advisors Limited is regulated by the Financial Sector Conduct Authority in South Africa under license number 42670.

Switzerland: State Street Global Advisors AG, Kalanderplatz 5, 8045 Zürich. Registered with the Register of Commerce Zurich CHE-105.078.458. T: +41 (0)44 245 70 00. F: +41 (0)44 245 70 16.

United Kingdom: State Street Global Advisors Limited. Authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 2509928. VAT No. 5776591 81. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. T: 020 3395 6000. F: 020 3395 6350.

United States: State Street Global Advisors, 1 Iron Street, Boston, MA 02210-1641.

2537623.274.1.GBL.RTL
Exp. Date: 2/28/2026