February 28, 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

String of weak US data primarily normalization after the exceedingly robust Q4.

US Consumer Confidence (February)
98.3
Sharp relapse.

US Consumer Spending (January, m/m)
-0.2%
Normalizing after torrid run.

US Core PCE Deflator (January, y/y)
2.6%
Three-tenth retreat.

CA: Real GDP Growth (Q4, q/q saar)
2.6%
Better than expected.

CA: Household Consumption (Q4, q/q saar)
5.6%
Strongest since Q2 2022.

CA: Business Gross Fixed Capital Formation (Q4, q/q saar)
10.7%
Rebound after weak Q3.

JP Industrial Production (Jan, m/m)
-1.1%
Third decline in a row.

AU Capital Expenditure (Q4, q/q)
-0.2%
Downside risk to growth.

AU Weighted CPI (Jan, y/y)
2.5%
Disinflation is intact.

US: Neither Invincible, Nor Broken

We have spent much of the last two months (including in a recent piece here) defending our increasingly out-of-consensus call for three Fed rate cuts in 2025. A series of recent data disappointments have brought market pricing much closer to that view. This, of course, does not prove the point, but underscores what had been the core message all along: there are two-sided risks to our US soft landing forecast.

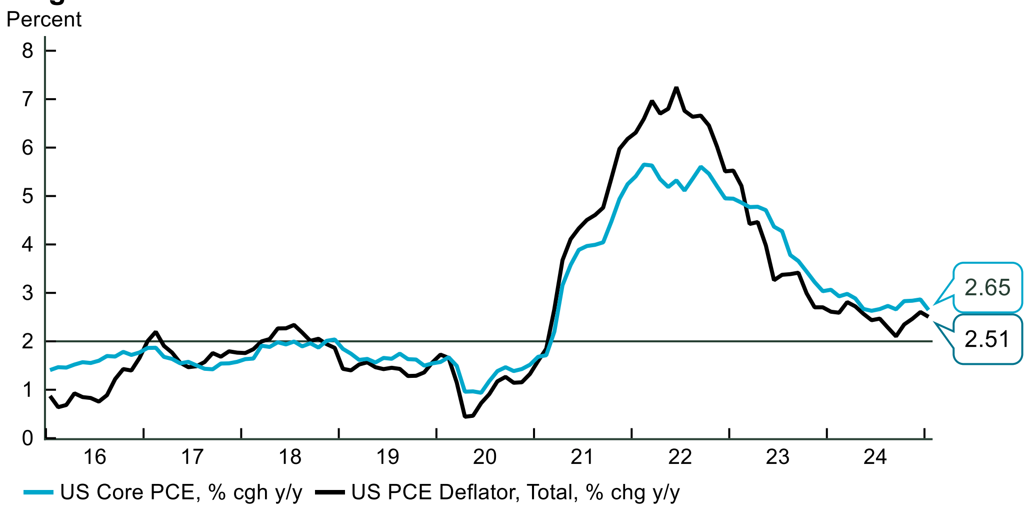
There had already been some worrying signs the week before: another drop in consumer sentiment and rise in inflation expectations in the University of Michigan survey, plus the first sub-50 reading in over two years for the S&P Global services PMI. This week, the theme of disappointments continued with a sharp retreat in the February Conference Board consumer confidence index and culminated with the outright decline in January consumer spending.

Within days, we seem to have swung from proclamations of apparent invincibility to worried questioning of whether the economy is somehow broken. Neither is true. We can’t help but be reminded of a similar situation in 2024, when the release of a softerthan-anticipated first-quarter GDP report also shifted macro assessments from "boom" to "stagflation" seemingly overnight.

It would be unwise to panic, just as it was unwise to look at the exceedingly strong growth in fourth-quarter consumer spending and assume it could be sustained. As we wrote at the time, the economy exhibited "a lot of peculiar dynamics that look likely to reverse in the coming quarter". We are now in the midst of one of those reversals. For instance, we noted then in regard to motor-vehicle sales, that "having approached 17.0 million (annualized) in December, the scope for further material gains here seems limited". Indeed, January brought a sharp pullback (15.6 million saar), which was one of the big drivers behind the 0.2% m/m decline in nominal **consumer spending**. Real personal spending plunged 0.5% m/m, which was the first monthly decline since January 2024. However, despite the sequential retreat, real personal consumption was 3.0% higher y/y, a solid print.

The **January PCE (personal consumption expenditure) deflator data** was largely as expected and provided what under normal circumstances (i.e., no impending tariffs) would likely be deemed by the FOMC as evidence that progress on the inflation front is resuming. The headline PCE deflator increased 0.2% m/m and the core PCE deflator rose 0.3%, lowering the two respective inflation measures by one and three tenths, respectively, to 2.5% y/y and 2.6% y/y.

Figure 1: Retreat In US Core PCE Inflation Is Good News



Sources: Macrobond, SSGA Economics, BEA
Updated as of 3/3/2025

This was the first improvement in the y/y core PCE inflation rate since June. There should be a little further progress near-term and then a plateau around 2.5% y/y for much of the second half. Still, this plus likely signs of labor market erosion support a June Fed cut. The federal employees who have accepted the DOGE buyout offer (roughly 75,000) will likely not show up in the data until November (i.e., the October payrolls) but enough is happening outside of that already between outright terminations and hiring delays at state level or even in the private sector amid uncertainty over funding and procurement. Hence, the labor market should loosen.

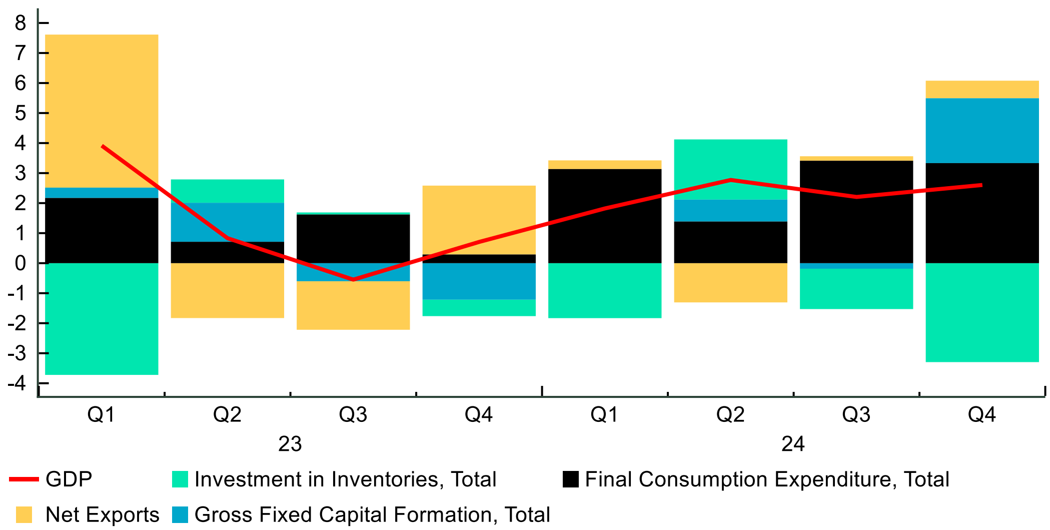
Canada: Stronger Data

Easing monetary policy and temporary fiscal stimulus have supported the Canadian economy recently. Still, new US tariffs, rising political uncertainty, and a declining population growth will likely weigh on economic activity by summer.

GDP rose 2.6% q/q saar in Q4, well above the 1.7% consensus, supported by strong domestic demand. Household consumption rose 5.6%, the strongest increase since Q2 2022. Business investment also rose solidly by 10.7%, with residential investment up 16.7%. Exports jumped 7.4% following two quarters of contraction. Meanwhile, widespread withdrawals from non-farm inventories and higher imports weighed on GDP growth. Q3 GDP was also revised substantially higher, from 1.0% to 2.2%, resulting in real GDP up by 1.5% y/y in 2024.

Figure 2: Canadian Domestic Demand Supported Q4 GDP Growth

Percentage Points



Sources: Macrobond, SSGA Economics, StatCan
Updated as of 3/3/2025

The Bank of Canada (BoC) has cut the overnight interest rate by 200bps since June 2024. Lower interest rates and changes in mortgage rules which allow for longer 30-year amortizations should continue to offer a small uplift to housing activity and consumer spending this year. The GST holiday and the Ontario Taxpayer Rebate will also give a temporary boost to spending in the first quarter. However, there are signs that trade policy uncertainty has already weighed on business investment and housing demand. In addition, the new curbs on immigration and temporary residents will drag on aggregate demand and supply. As the current stronger domestic demand likely reflects the effect of lower rates and some temporary factors, we think it will be short-lived. As such, while we continue to expect solid growth in Q1, we think that Q2 activity will be more muted, particularly as some activity could be front-loaded ahead of the potential tariff hit.

Overall, while stronger data has lowered the chance of a rate cut at the March meeting if tariffs are avoided, it is very likely that activity will weaken by mid-year. We continue to see the bank rate reach 2.25% this year.

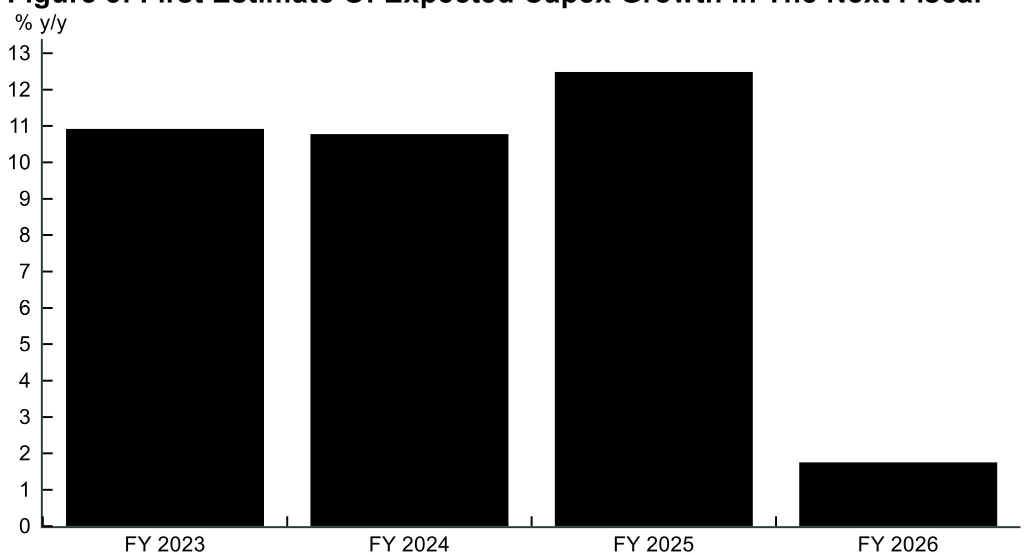
Australia: Downside Risks To Q4 Growth

The monthly CPI indicator posted a 2.5% y/y rise in January, a tenth below consensus but in line with our pick. The core (trimmed mean) metric was a tenth higher at 2.8% y/y, the first print within the Reserve Bank of Australia's (RBA) target band in four years and implying downside risks to the Bank's Q1 forecast. Food prices rose strongly by 3.3% m/m, the fastest pace in a year, while holiday travel eased 6.0%, largely consistent with seasonal trends. The drop in the utilization of energy subsidies in Queensland as well as a soft print in household goods add the risk of a slightly larger subsequent prints, but overall, we think Q1 CPI will come within in the RBA's target comfortably.

Separately, construction work done—an important input in GDP calculations—rose 0.5% q/q, but this was half the consensus expectation and driven by public work. Non-residential construction was especially weak at -5.4% q/q. In annual growth terms, private construction contracted for the first time since mid-2022 (-0.2% y/y).

Private capex declined -0.2% q/q against expectations of a modest rise (+0.5%), driven by a -0.8% fall in equipment and machinery. Worryingly, the first estimate of spending in FY 2026 (a forward looking measure) declined dramatically to 1.8% y/y, the lowest since 2016 outside Covid. At face value, this dims the outlook for capital expenditures, an important component of our optimistic growth projection this year.

Figure 3: First Estimate Of Expected Capex Growth In The Next Fiscal



Sources: Macrobond, SSGA Economics, ABS
Updated as of 3/3/2025

In light of these developments, we lower our Q4 GDP estimate (data to be out on Wednesday) by a tenth to 0.4% q/q (1.2% y/y). However, we think inventories may pose an upside rise. Nonetheless, we see a risk to the RBA being behind the curve, and resultingly a dovish risk to our forecast of two more rate cuts this year. We continue expecting the next rate cut in May.

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 24					
US	Dallas Fed Manf. Activity (Feb)	6.4	-8.3	14.1	Big reversal.
GE	IFO Business Climate (Feb)	85.8	85.2	85.2	Steady.
Tuesday, Feb 25					
US	FHFA House Price Index (Dec, m/m)	0.3%	0.4%	0.4% (↑)	Moderate gain, up 4.7% y/y.
US	Conf. Board Consumer Confidence (Feb)	102.5	98.3	105.3 (↑)	Big reversal.
GE	GDP WDA (Q4, y/y, final)	-0.2%	-0.2%	-0.3%	Contracted 0.1% in 2023 and 0.2% in 2024.
Wednesday, Feb 26					
US	Building Permits (Jan, final, thous)	n/a	1,473	1,483	Down 2.3% y/y.
US	New Home Sales (Jan, thous)	680	657	734 (↑)	Down 1.1% y/y.
GE	GfK Consumer Confidence (Mar)	-21.6	-24.7	-22.6 (↓)	Renewed retreat?
JN	Leading Index CI (Dec, final)	n/a	108.3	108.9	Bad.
AU	CPI (Jan, y/y)	2.6%	2.5%	2.5%	Inflation at the mid point in the RBA's target band.
Thursday, Feb 27					
US	GDP (Q4, annualized q/q)	2.3%	2.3%	2.3%	No notable changes.
US	Personal Consumption (Q4)	4.1%	4.2%	4.2%	Unsustainably high.
US	Durable Goods Orders (Jan, prelim)	2.0%	3.1%	-1.8% (↑)	Rebound follows soft patch.
US	Initial Jobless Claims (Feb 22, thous)	221	242	220	Still low, but warrant close watching.
US	Continuing Claims (Feb 15, thous)	1,871	1,862	1,867	Still low, but warrant close watching.
US	Pending Home Sales (Jan, m/m)	-0.9%	-4.6%	-5.5%	Big decline in the South region.
JN	Industrial Production (Jan, m/m, prelim)	-1.1%	-1.1%	-0.2%	Bad, this is the 3rd consecutive decline.
JN	Retail Sales (m/m)	0.6%	0.5%	-0.7%	Consumption likely remained strong
Friday, Feb 28					
US	Personal Income	0.4%	0.9%	0.4%	Saving rate jumped.
US	Personal Spending	0.2%	-0.2%	0.8% (↑)	Real spending dropped 0.5% m/m.
US	PCE Price Index (Jan, y/y)	2.5%	2.5%	2.6%	Minimal improvement.
US	Core PCE Price Index (Jan, y/y)	2.6%	2.6%	2.9% (↑)	First improvement since June.
CA	GDP (Q4, q/q saar)	1.7%	2.6%	2.2%	Good, but likely short-lived.
GE	CPI (Feb, y/y, prelim)	2.3%	2.3%-	2.3%	Steady.
GE	Unemployment Claims Rate (Feb, sa)	6.2%	6.2%	6.2%	Moderately elevated.
FR	CPI (Feb, y/y, prelim)	1.0%	0.8%	1.7%	Sizable drop!
FR	GDP (Q4, q/q, final)	-0.1%	-0.1%	0.4%	Weak.
IT	CPI NIC incl. tobacco (Feb, m/m, prelim)	0.2%	0.2%	0.6%	Modest.

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 28, 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.

© 2025 State Street Corporation.
All Rights Reserved.
2537623.276.1.GBL.RTL
Exp. Date: 03/31/2026