STATE STREET GLOBAL ADVISORS

March 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

US consumers prove highly sensitized to tariffs, and so does the stock market.

US Overall CPI Inflation (Feb, y/y)	US Core CPI Inflation (Feb, y/y)	US PPI Final Demand Inflation (Feb, y/y)
2.8%	3.1%	3.2%
OK report.	Lowest since April 2021.	Soft details.

U of Michigan Consumer Confidence (Mar, prelim)	U of Michigan 1-year Inflation Expectations	U of Michigan 5- to 10-yr Inflation Expectations
57.9	4.9%	3.9%
Collapsing.	Highest since July 2022.	Record high!

BoC Interest Rate Decision	JP Rengo's Avg. Wage Hike Demand (2025)	AU NAB Business Conditions (Jan, 2025)
2.75% ↓	6.09%	4.0
As widely expected.	Welcome to a whole new Japan.	Little (no) improvement.

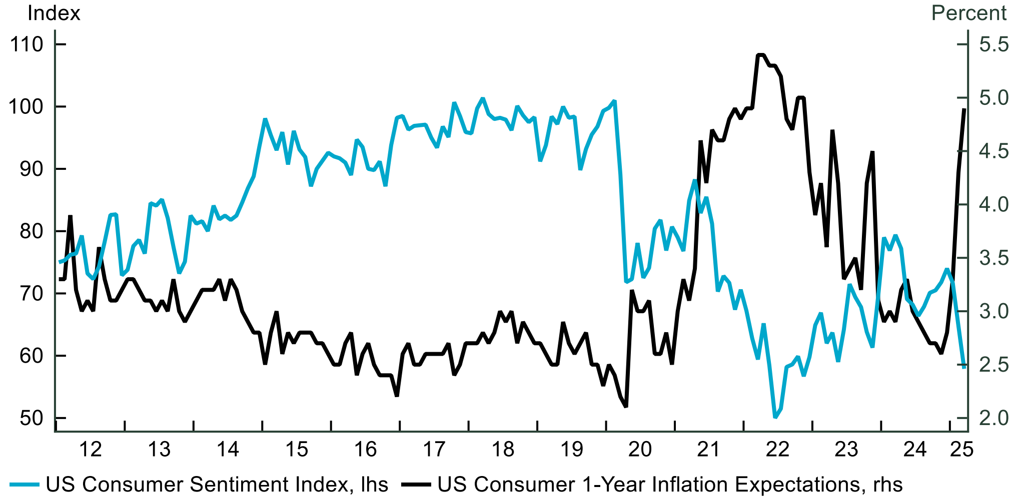
US: Current Data Less Relevant Amid Changes

The **February inflation** data was, on the margin, better than expected, and so was the January JOLTS report. However, both data points have diminished relevance amid the onslaught of policy changes—tariffs and government layoffs—that have the potential to shift the tenor considerably in coming months. Forward looking indicators like the Michigan consumer sentiment index highlight the risks: consumer confidence continues to plummet, and inflation expectations are surging.

Be that as it may, we'll still happily take a lower than expected inflation print over the opposite. Overall and core (excluding food and energy) prices rose 0.2% m/m, allowing the corresponding measures of inflation to cool by two tenths each, to 2.8% and 3.1%, respectively. The good news is that for core inflation this was the lowest print since April 2021. The bad news is that there will be little (if any) further progress in the next few months.

Food and energy prices were well behaved, up 0.2% m/m each. Services rose 0.3% m/m, easing back from January's hot 0.5% monthly gain. This allowed services inflation to ease one tenth to 4.1% y/y, the lowest level since December 2021. Not every category within services moved lower, but rent of shelter (down a tenth to 4.3% y/y) and transportation services (down 2.2 percentage points to 6.1%) helped offset slight acceleration in medical care services and other services (each category accelerated 0.3 ppt to 3.0% y/y and 2.8% y/y, respectively). A sizable 4.0% m/m drop in airfares explained the retreat in transportation services inflation. While airlines have recently commented on soft demand conditions, it seems unlikely that such soft readings persist.

Figure 1: Tariffs Kill US Consumer Confidence, Fuel Inflation Fears



Sources: Macrobond, SSGA Economics, University of Michigan, TCB, BLS, DOL
Updated as of 3/14/2025

New vehicle prices eased 0.1% m/m while used car vehicle prices rose 0.9% m/m. This marked the sixth consecutive month of rising used vehicle prices, following a string of six consecutive declines prior. At this point, used vehicle price inflation in the CPI sits marginally above the y/y increase in the Manheim auction price index, so the “catch-up” period should be over.

There is simply too much chaos around tariff policy now to be able to confidently assess ultimate impact on US inflation. We are working on an assumption of 40-50 bp ultimate impact on core PCE inflation, which still seems reasonable despite the aggressive opening gambit by the US administration on the trade front. We still believe there is room for the Fed to cut three times this year, a view we had maintained since Q4 last year and that had since been in and out of favor in the marketplace. We look for the next cut in June, which would mark a 6-month pause since the last reduction in December. Next week’s FOMC Summary of Economic Projections (SEP) will likely maintain the 2-cut median, but we expect increased dispersion within the “dot plot”.

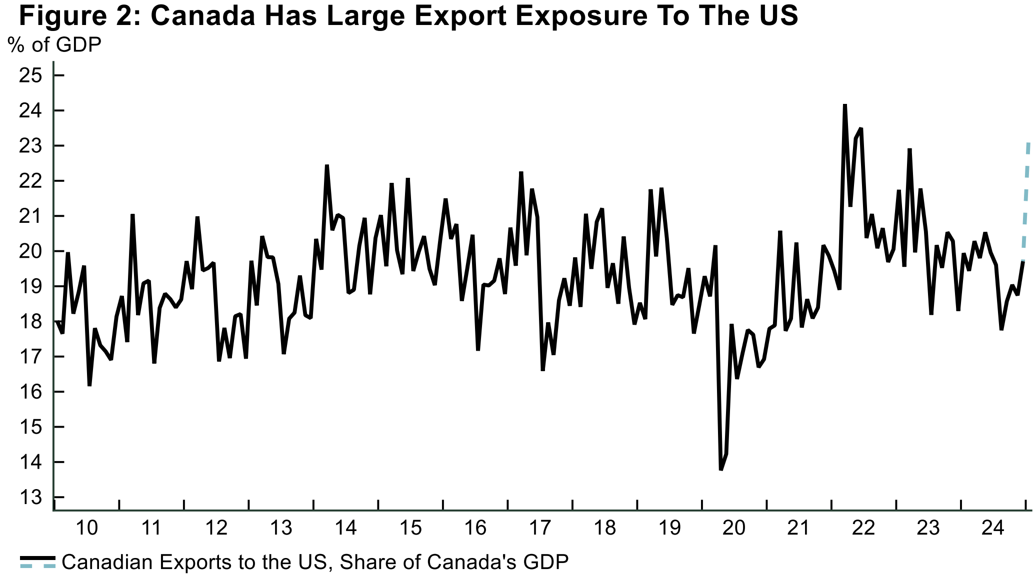
Job openings ticked higher in January (to 7.74 million from 7.51 million in December), but we take little reassurance from that since the reference period was before all the drastic government-sector personnel changes instigated by DOGE. Whether or not some of the announced layoffs are walked back (at least temporarily) following court orders, the idea that the federal government is on a de-facto hiring freeze remains. Even if some of the federal funding cuts are also reinstated (at least temporarily) also due to court orders, the fact remains that funding flows will diminish on a go-forward basis and uncertainty around them has sustainably increased. Hence, there will likely be a fairly quick response from the private sector with hiring freezes of their own, especially in areas like education and life sciences. Meanwhile, tariff uncertainty could also put hiring plans on hold among small businesses, which is where job openings are still robust.

For a hint on the bumpy road ahead, look no further than the collapse in the **University of Michigan consumer sentiment** survey. Having risen to an eight-month high in December, sentiment has since collapsed, with outsized declines in both February and the preliminary March reading as tariff threats (and DOGE disruptions) intensified. The index lost 6.8 points in March and a cumulative 16.1 since December. At 57.9, it is now at the lowest level since November 2022 (Figure 1, page 3). At the same time, **inflation expectations** continue to surge, with 1-year inflation expectations up another 0.6 percentage points (ppts) to 4.9% and 5-10 year inflation expectation up 0.4 ppts to a record 3.9%. What is astonishing is the speed with which consumers are responding to tariff concerns this time around. Short term inflation expectations have nearly doubled since November: from 2.6% to 4.9%. There is only one word to describe this: extraordinary! This is certainly one of the factors that could sway the Fed against cutting interest rates, but the one counterpart so far is that business inflation expectations have been much more stable, suggesting that despite tariff threats, pass-through may be much more limited than consumers fear.. Still, this is a critical indicator to watch.

BoC: Further Rate Cuts Are On The Way

The Bank of Canada (BoC) delivered another 25 bp cut, bringing the policy rate to 2.75% as widely expected. Just a few weeks ago, the odds of a March rate cut were quite low. If not for the trade war with US (which officially kicked off last week), the BoC would have probably paused at this meeting given the better-than-expected Q4 GDP print and the fact that the policy rate has already been lowered by 200 bps since June.

Figure 2: Canada Has Large Export Exposure To The US



Sources: Macrobond, SSGA Economics, ISED
Updated as of 12/03/2025

Employment and inflation data were solid recently, reflecting the impact of monetary easing. But concerns about recessions have risen sharply since the Trump administration imposed steep tariffs on imports from Canada on 4th March. In his press conference, Governor Macklem stated that "the economic impact could be severe. The uncertainty alone is already causing harm." After all, over 75% of Canadian exports go to the US, which is equivalent to 20% of Canadian GDP.

As in January, the bank also noted two-sided risks to inflation, with "downward pressures on inflation from a weaker economy and the upward pressures on inflation from higher costs". The statement sounds more hawkish when it mentioned "Monetary policy cannot offset the impacts of a trade war. What it can and must do is ensure that higher prices do not lead to ongoing inflation". However, the elevated uncertainty around trade policy when unemployment rate is 6.6% and inflation is at target will likely trigger a more dovish response from the BoC in coming months.

Overall, we expect that the uncertainty around trade policy will remain elevated through this year and beyond. We remain our view that the policy rate will reach 2.25%, its low end of neutral rate range, by June.

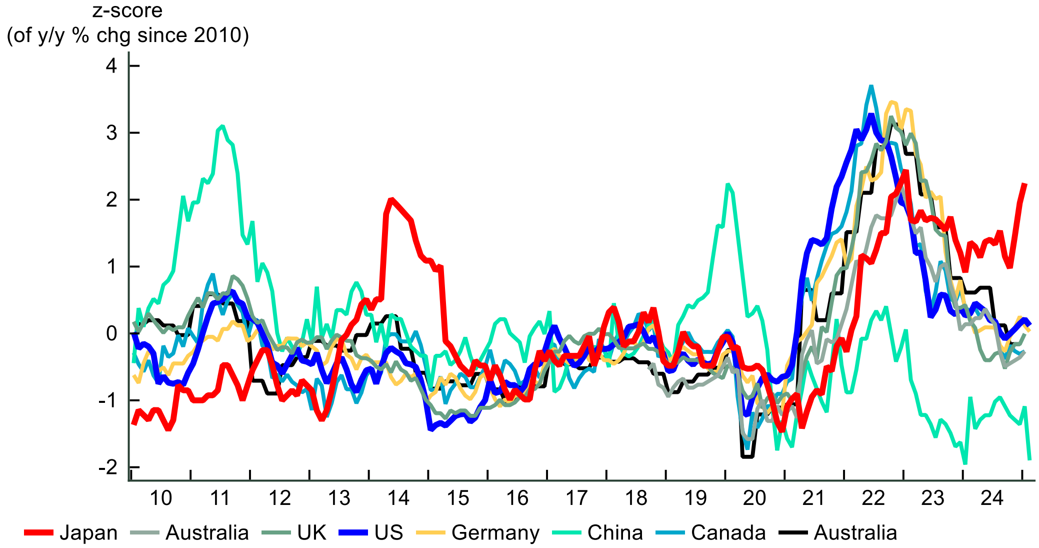
Japan: Wage Momentum Remains Intact

Members of Japan's largest labor union demanded an average raise of 6.09% for the next fiscal and received 5.46% in the first round negotiation. The outcome is a 3-decade high and could be revised a few notches lower in subsequent rounds. Although a handful of firms fully met the demands of their labor unions this year, (for example, electronics major Hitachi fully met the demand of 6.2%), a majority of them agreed to a slightly smaller hike than demanded.

We expect this year's raise to eventually come strikingly close to last year's average of 5.1%, with a good chance of besting it. This would help Japan transition into a phase where inflation will be led by wages and growth by domestic demand. Wage dynamics are shifting to better reflect labor shortages, but are driven by inflation, a critical issue in Japan today.

The divergence in CPI inflation relative to its pre-pandemic mean is striking in Japan compared with other nations (Figure 3, page 6). Although the Bank of Japan (BoJ) dialed up their hawkishness, they are still not in a clear "inflation fighting" mode, as 'underlying inflation' has not hit their 2% target yet. The consequence could be elevated high headline inflation for longer. Next week, CPI data for February would be in focus and we expect the BoJ-core metric (excluding fresh food and energy) to rise 2.5% y/y. Rice prices will be in focus after they rose 95% due to acute shortages.

Figure 3: Japan's Inflation In Focus



Sources: Macrobond, SSGA Economics, ABS, StatCan, NBS, BUBA, BLS, ONS, SBJ
Updated as of 3/14/2025

Q4 GDP growth rate was revised down marginally to 2.2% q/q saar (from 2.8%), predominantly due to a large downside revision to inventories, but consumption was also revised lower to 0.1% from the preliminary 0.5% gain. Nonetheless, this marked the third strong quarterly growth rate and is an important reason behind our key forecast of domestic demand led growth in 2025, a positive economic transition.

Still, the BoJ is unlikely to hike next week, or even move into a rapidly hiking mode given its nimble approach to policymaking. This is a fair approach given the heightened uncertainty gripping the global economy currently. We also think it is a good idea for the Bank to hold until clarity emerges on President Trump's reciprocal tariffs, perhaps in early April.

The fine print and Governor Ueda's press-conference will be in focus, and we think the BoJ could turn more hawkish and begin setting the stage for a subsequent hike. We see two more hikes this year, with the next hike likely coming in June. Either way, we prefer the BoJ raising rates sooner rather than later.

Week in Review

Our summary of the key global data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, March 10					
GE	Industrial Production (Jan, m/m sa)	1.5%	2.0%	-1.5% (↑)	Volatile but weak.
AU	Westpac Consumer Conf (Mar, m/m sa)	n/a	4.0%	0.1%	Modest improvement.
JN	GDP (Q4, q/q sa, final)	0.3%	0.6%	0.7%	Downward revision, but not a bad outcome.
Tuesday, March 11					
JN	PPI (Feb, y/y)	4.0%	4.0%	4.2%	Inflation is Japan's biggest problem.
Wednesday, March 12					
US	CPI (Feb, y/y)	2.9%	2.8%	3.0%	Core inflation eased two tenths to 3.1%.
CA	Bank of Canada Rate Decision	2.75%	2.75%	3.00%	Further rate cuts seem very likely.
Thursday, March 13					
US	PPI Final Demand (Feb, y/y)	3.3%	3.2%	3.7% (↑)	OK report.
US	Initial Jobless Claims (Mar 8, thous)	225	220	222 (↑)	Low.
US	Continuing Jobless Claims (Mar 1, thous)	1,888	1,870	1,897	Stil modest.
Friday, March 14					
US	U. of Mich. Sentiment (Mar, prelim)	63.1	57.9	64.7	Sentiment plunges, inflation expectations surge!
UK	Industrial Production (Jan, m/m)	-0.1%	-0.9%	0.5%	Weak.
GE	CPI (Feb, y/y, final)	2.3%	2.3%	2.3%	As expected.
FR	CPI (Feb, y/y, final)	0.8%	0.8%	0.8%	As expected.
IT	Industrial Production (Jan, m/m)	1.4%	3.2%	-2.7% (↑)	Volatile but weak.

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 March 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 AG, Kalanderplatz 5, 8045 Zürich. Registered with the Register of Commerce Zurich CHE-105.078.458. Tel: + 41 44 245 7000.

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. Tel: + 41 44 245 7000.

United Kingdom: In the UK, this document has been issued by State Street Global Advisors Limited ("SSGAL"). Authorized and regulated by the Financial Conduct Authority, Registered No.2509928. VAT No. 5776591 81. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. Telephone: 020 3395 6000. Facsimile: 020 3395 6350

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

2537623.278.1.GBL.RTL
Exp. Date: 03/31/2026