April 4, 2025
Commentary

Weekly Economic Perspectives

Contents

01 **US: Our No Recession Call Is Hanging On By A Thread**
As announced, the new US tariffs are not sustainable. We expect them to be scaled back, but whether that is done in time to prevent the economy from sliding into recession remains an open question. The strong starting point provides a buffer, but it won't be for long.

04 **Eurozone: Leveraging Negotiations**
As a block, the EU it is the single largest source of US imports. While China has already announced broad retaliatory actions, the European Union has so far not done so. But it is coming.

05 **Australia: No Guidance, But Brace For Dovish Pivot**
The RBA offered no guidance this week when they met, but we suspect a dovish turn is around the corner to safeguard growth from rising prospect of a tariff war.

08 **Week in Review**

Spotlight on Next Week
US inflation to pull back once more before tariffs hit. News on tariff negotiations and retaliations is the thing to watch.

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

A week to forget as tariffs wreak havoc with markets and macro forecasts.

New Average US Tariff Rate	US Payrolls (Mar, m/m)	US Unemployment Rate (Mar)
18.8%	228k	4.2%
Highest in a century.	Beat expectations.	Has barely rounded up to this.

New US Tariff Rate On EU	New US Tariff Rate On UK	EU's Share in US Imports
20.0%	10.0%	18.7%
Complex negotiations ahead.	Lowest common denominator.	As a block, largest source.

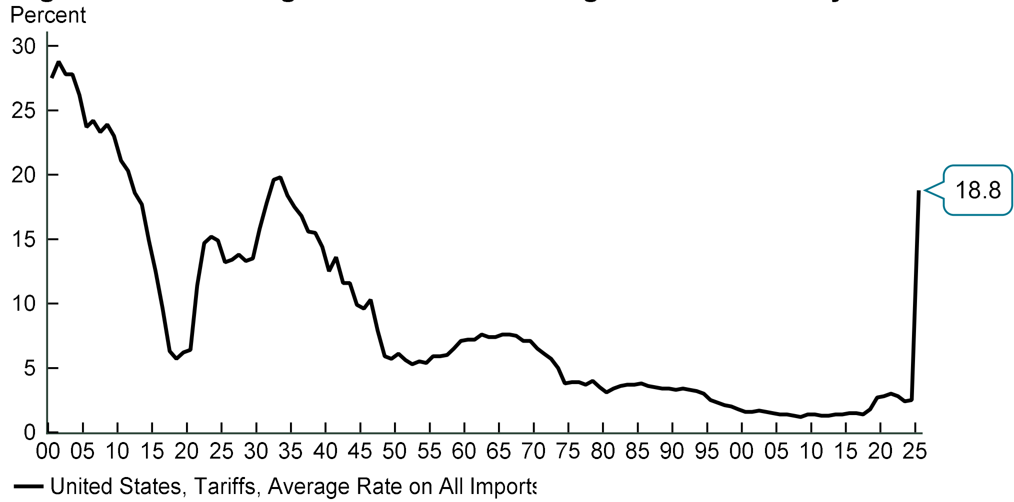
Reciprocal Tariff Rate On Japan	Reciprocal Tariff Rate On Australia	RBA Cash Rate (Apr, 2025)
24.0%	10.0%	4.10%
Growth at risk. BoJ unlikely to hike till more clarity emerges; likely done hiking if tariffs stay.	On the lower side compared to the world. RBA set for dovish pivot, finally.	On hold as expected, we see the cash rate gradually lower to 3.10% by December.

Tariffs Are An Active Threat To Both Sides Of Dual Mandate

New tariffs announced on April 2 leave the average US tariff rate at the highest level in a century (18.8% based on Tax Foundation estimates). The market reaction has been powerful but orderly so far, with risk assets globally sharply lower and bond yield falling. An extended period of negotiations lies ahead, with the trade war likely intensifying short-term through retaliation before agreements are eventually reached. But a 10% US universal tariff may have become the best case final outcome, save for Canada and Mexico, where closer integration is still our ultimate expectation.

The market response suggests this is, on net, viewed as a negative demand shock. Risk assets sold off sharply in the aftermath of the initial announcement and subsequent retaliatory action by China. US stocks experienced the worst two-day plunge since 2020, WTI oil prices dropped nearly $10 a barrel, and the yield on 10-year US Treasuries slipped to 4.0%, the lowest since mid-October. More Fed rate are being priced in, with a June cut fully priced, more that two cuts priced by July and four by year end.

Figure 1: US Average Tariff Rate Now Highest In A Century



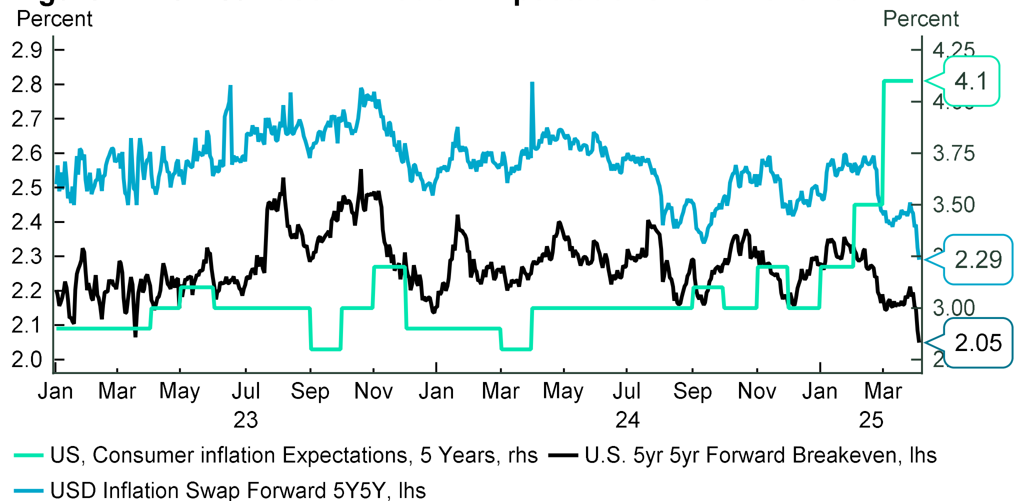
Sources: Macrobond, SSGA Economics, TF
Updated as of 4/4/2025

In contrast to a recent surge in consumers inflation expectations, market-based medium-term inflation expectations have been well behaved. Notably, they actually declined following the tariff announcement, suggesting investors see the inflationary impact of tariffs as short lived. This seems reasonable for two reasons:

a) Given that consumer wallets do not expand, higher tariffs cause a negative demand shock that eventually neutralizes the initial inflation effect.

b) On a longer term basis, the US policy of reshoring/friendshoring (which tariffs mean to accelerate) leads to additional productive capacity globally, without a commensurate increase in demand. Longer-tern, this is disinflationary.

Figure 2: Market-Based Inflation Expectations Well Behaved



Sources: Macrobond, SSGA Economics, University of Michigan
Updated as of 4/4/2025

No Recession Call Is Hanging By A Thread

Since the start of the year, we have repeatedly argued that risks to both sides of the Fed's dual mandate had increased. In our March forecasts (Little To See, Much To Worry About) we maintained a baseline macro call of slowdown but no recession, with real GDP growth moderating from 2.8% last year to 2.0% in 2025, driven primarily by softer consumer spending (2.8% to 2.2%, respectively).

The April 2 tariffs raise those risks to an "active threat" level. Relative to the March baseline forecast (which already incorporated tariff assumptions amounting to a roughly 0.4-0.5 hit to core PCE in H2 2025), we make further adjustments to those forecasts as follows: we raise end-2025 core-PCE inflation forecast by a further 0.3 ppt to 2.9% y/y, we lower Q4 2025 real GDP forecast by 0.2 ppt to 1.5% y/y, and we raise the end-2025 unemployment rate forecast by two tenths to 4.7%. We maintain the call for three rate cuts this year, although the rationale behind them has turned more ominous: no longer primarily a story of "cut because you can" but rather "cut because you have to". While we do not have an outright recession in the forecast, we put the odds thereof at about 40%. We retain the June-September-December timing despite risks of a later start. **Importantly, these forecast changes do not assume that these tariffs are permanent in their current form.**

What Next?

Despite the detailed April 2 announcement, there is plenty we do not know. There will be retaliation (China has already made its move) but how intense? Most importantly, how long will US tariffs stay in place and what will their ultimate level be? It is impossible to know. But what we do know is that as they stand, these tariffs are too onerous to be sustainable without tipping the economy in recession. If in three month's time these tariffs are still in place in their current form, the economy will be entering a recession. If they are scaled back (our baseline expectation), the no recession call might just survive by the barest of margins thanks partly to a decent starting point.

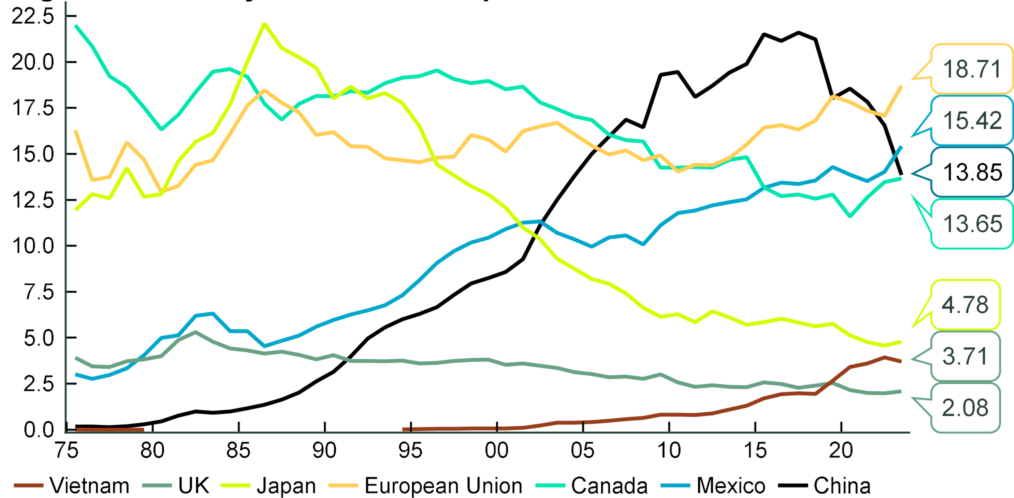
In that vein, the better than expected **March employment report** offered some reassurance, but not much since it reflects the past, rather than what is coming down the line. The economy added 228k jobs in March, much better than expected, although this was offset but a 48k downward revision to the prior two months. Gains were fairly well represented across sectors, although federal government employment and temporary help continued to shrink. The unemployment rate nudged up to 4.2% but this was primarily a rounding move and occurred alongside a one-tenth rise in the participation rate, so the dynamic was healthier than it appears at first glance. Hours worked were steady overall (up marginally in manufacturing) and wages well behaved. Average hourly earnings (AHE) inflation slowed to an eight-month low of 3.8% y/y while growth in average weekly earnings slowed to 3.2%. The latter is very important in constraining the extent of tariff passthrough. Given the consumer wallets are not expanding and job security is deteriorating, businesses may have difficulty passing through higher costs onto consumers, capping the ultimate inflation effect.

Eurozone: Negotiation First, Then Retaliation

While China has already announced broad retaliatory actions, the European Union has so far not done so. While vowing to protect their business interests, European leaders have signaled a willingness to give negotiations a chance. EU Commission President Ursula Von der Leyen ventured on Friday that "It is not too late to address concerns through negotiations." Doing so would be beneficial for all involved. The negative market reaction to the rollout may incentivize the US to engage.

The US tariff announcement did not appear to differentiate much between friend and foe, although Mexico, Canda, and the UK have all come through with minimal damage relatively speaking. The European Union was more aggressively targeted with 20% tariffs. As a block, it is the single largest source of US imports (Figure 3). That trade relationship runs deep in an of itself, but the historical relationship runs deeper still. In myriad ways, the US and Europe are natural allies. We hope that as (undoubtedly tense) discussions unfold, that reality is not forgotten.

Figure 3: Country Share In US Imports



Sources: Macrobond, SSGA Economics, IMF
Updated as of 4/4/2025

For more on potential EU retaliation see our recent blog: More Storms Brewing: Are Tariffs on Europe Next?

Australia: No Guidance, But Brace For Dovish Pivot

The Reserve Bank of Australia (RBA) met this week and left the cash rate unchanged at 4.10% as widely expected. The statement acknowledged that the progress made on inflation was 'welcome', and featured minor changes. During the press-conference, Governor Michele Bullock did not take the bait on whether a soft Q1 CPI print would result in a rate cut in May. The statement recognized higher global uncertainty but noted that monetary policy is "well placed to respond".

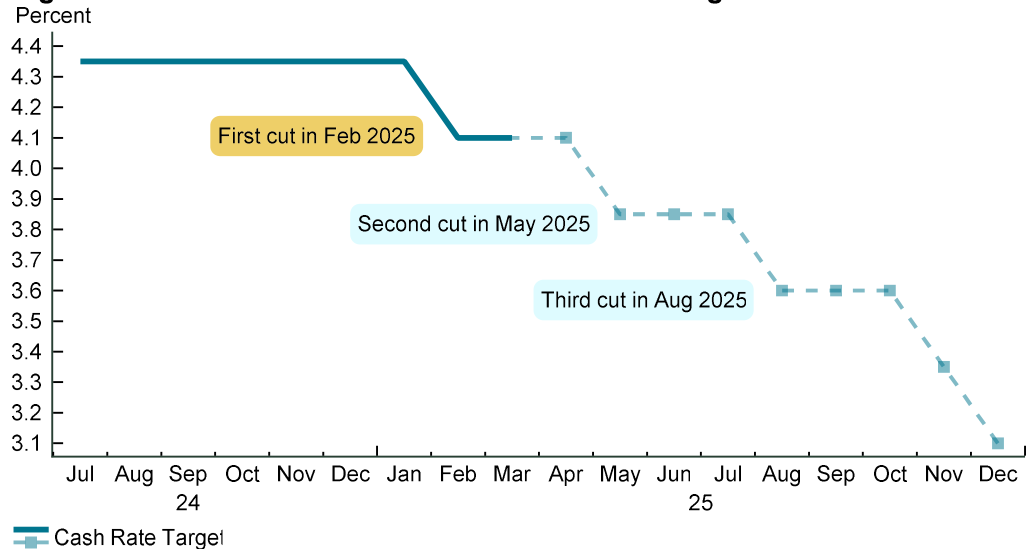
The showstopper of the week, however, was the imposition of reciprocal tariffs by US President Trump. Australian exports to the US will now face a 10% tariff, a huge reprieve compared with other countries, which are subject to much higher rates. Hefty tariffs are imposed on other Asian countries, which account for 80% Australia's

exports. This is especially true in the case of Australia's largest trading partner, China. Australia will be impacted indirectly through two channels:

1. Lower aggregate demand globally and
2. Sharply slowing demand from China

The tariffs pose modest direct downside risks to growth, assuming a minor fall in export volumes to the US. What is unclear is how this might affect export volumes elsewhere, especially to China. As such China announced a matching 34% retaliatory tariffs on Friday, which took the AUD sharply down 2.2%, an immediate market safeguard for Australian exports. Still, the escalating trade war poses further downside risks and can nip the nascent recovery in the bud unless some exceptions are made in the following weeks. As such, the reciprocal tariffs may have taken effect by the time you are reading this report.

This makes a dovish pivot and material easing from the RBA a more plausible option to safeguard Australia's economy. Although revising forecasts between our quarterly cadence is not our preference, the rapidly evolving macro landscape led us to revisit our Australia forecasts. We still expect a rate cut in May, and see a 10% chance for a 50 bps cut, should US growth disappoint materially in Q1 (data out on April 30). Furthermore, we think the RBA may eventually cut rates to take the cash rate to 3.10% by December, as opposed to 3.60% previously.



In the prior week the Federal Budget delivered a surprise tax cut reduction to Australians earning A$18k-A$45k (from 16% to 14% over the next two years). This measure lowers receipts by A$17 billion and lets the overall fiscal deficit in FY 2026 rise to A$42.1 billion. The government now expects the net debt to rise a few tenths more than the MYEFO projected and will peak at 23.1% of GDP in FY 2029. As such, the deficit rose nearly A$35 billion over the next four years since the MYEFO projections in December, most of which is due to the tax cuts, whose impact will be

felt from FY 2027. Otherwise, the budget aimed to address a wide ranging issues and allocated more to capex programs (A$ 15 billion over 10 years), Medicare (around A$8 billion over four years) and an expected extension of electricity subsidies (A$2 billion).

All these spending plans mean that the government's contribution to growth will remain substantial in the next few years, another positive factor for growth in the wake of tariffs. All this may lower growth by a couple tenths this year and next but, we are inclined to leave the forecasts to factor more information in the weeks ahead.

However, an important aspect is that these bold spending plans are announced only weeks before the Federal elections, slated to take place on May 03 as called by Prime Minister Anthony Albanese. The campaign is heating up between the ruling Australian Labor Party and the opposing coalition led by the Liberal/National Coalition Party.

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 31					
GE	Retail Sales (Feb, m/m)	0.0%	0.8%	0.7%	Still weak but should improve.
JP	Unemployment Rate (Feb)	2.5%	2.4%	2.5%	Low.
JP	Tankan Large Manuf Survey (Q1)	12	12	14	Little changed.
Tuesday, April 01					
US	ISM Manufacturing (Mar)	49.5	49.0	50.3	Relapse.
US	Job Openings (Feb, million)	7,658	7,568	7,762	Downshift to intensify amid tariffs.
US	Wards Vehicle Sales (Mar, saar, mil)	16.2	17.8	16.0	Looks like tariff front running.
AU	RBA Cash Rate Target	4.10%	4.10%	4.10%	Prepare for a dovish pivot.
Wednesday, April 02					
US	Factory Orders	0.5%	0.6%	1.8%	Likely to relapse amid tariffs.
Thursday, April 03					
US	ISM Non-Manufacturing (Mar)	52.9	50.8	53.5	Employment component sharply lower.
EZ	Services PMI (Mar)	50.4	51.0	50.4	Should sustain despite tariffs.
Friday, April 04					
US	Nonfarm Payrolls (Mar, thous, m/m)	140	228	117	Good but likely old news.
US	Unemployment Rate (Mar)	4.1%	4.2%	4.1%	Rounded higher by a tiny margin.
CA	Unemployment Rate (Mar)	6.7%	6.7%	6.6%	As anticipated.

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 April 04, 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, Beethovenstr. 19, CH-8027 Zurich. 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 ("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.

© 2025 State Street Corporation.
All Rights Reserved.
2537623.280.2.GBL.RTL
Exp. Date: 04/30/2026