STATE STREET GLOBAL ADVISORS

April 11, 2025
Commentary

Weekly Economic Perspectives

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Weekly Highlights

It is still all about tariffs…and our “no recession” is still under threat.

US CPI Inflation (Mar, y/y)	US Core CPI Inflation (Mar, Y/Y)	US Consumer Inflation Expectations (1-yr, y/y)
2.4%	2.8%	6.7%
Lowest since September.	Lowest since March 2021.	Highest since 1981!

UK Monthly GDP (Feb, m/m)	UK Industrial Production (Feb, m/m)	UK Manufacturing Output (Feb, m/m)
0.5%	1.5%	2.2%
Better than expected.	Strong rebound.	Widespread increases.

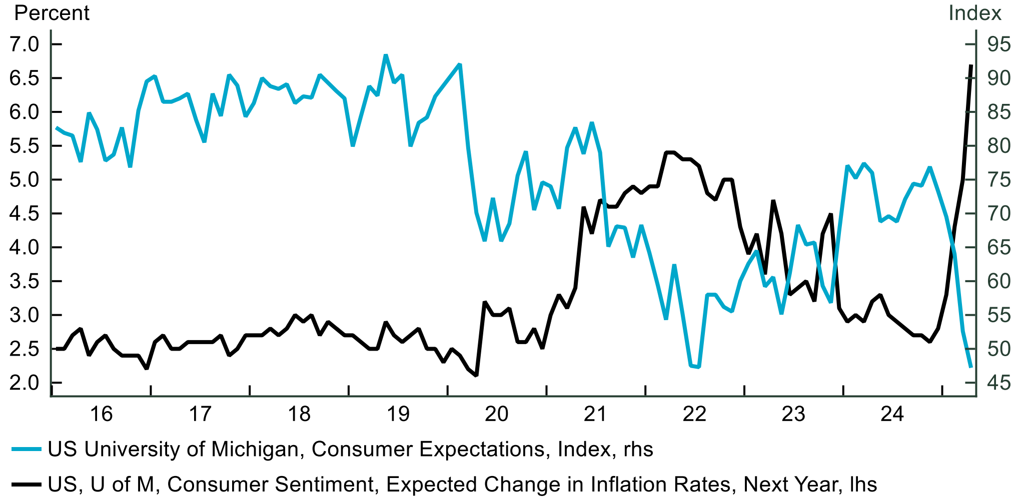
JP: Goods PPI (Mar, y/y)	AU: Consumer Sentiment (Apr)	AU: NAB Business Confidence (Mar)
4.2%	90.1 ↓	-3.0
Price pressures are strong in the pipeline.	Down 6%. Worse (86.6) after the week of tariff announcements.	Well below the long-run average.

US: Tariff Détente Does Not Go Far Enough

Last week, we said that our “no recession” call was hanging by a thread amid the tariff onslaught. This week, a new lifeline has appeared in the form of a 90 day delay in reciprocal tariffs on countries other than China. We welcome it. But it is not enough. The further increase in US tariffs on China (to 145%) and retaliatory Chinese tariffs on the US (125%) is no “joke”; it is very serious business, but not good business. We argued that the April 2 tariffs were unsustainable, and we argue the same here. There are many valid grievances that the US has vis-à-vis China’s trade practices. However, imposing tariffs of this magnitude goes far beyond making the point; it actually diminishes it. And so, we look forward to a near-term de-escalation so that meaningful negotiations can unfold. At the end of the day, the world needs the US, the US needs the world, and we all need trade.

The trade disputes are souring consumers’ mood and killed the joy that the good March inflation report would have otherwise brought. The preliminary **University of Michigan consumer sentiment index** hit its lowest level since June 2022, with declines described as “pervasive and unanimous across age, income, education, geographic region, and political affiliation”. We’ve said it before, and it warrants saying it again: consumers don’t like tariffs. The expectations component has now plunged about 30 points since November and is back to mid-2022 levels. By contrast, **inflation expectations** have skyrocketed to multi-decade highs. Short-term (1-year) inflation expectations surged another 1.7 percentage points (ppt) to 6.7% and are up 4.1 ppt since November. Last time they were this high was 1981! Long term (5-10) year inflation expectations rose 0.3 ppt to 4.4% and are up 1.2 ppt since November.

Figure 1: US Consumers Are Fearful Of Tariffs



Sources: Macrobond, SSGA Economics, University of Michigan
Updated as of 4/12/2025

These readings are troublesome but must also be put in perspective. The tariff schedule as initially announced (and even as it stands currently vis-à-vis China) represents a price shock of historical proportions. It is quite likely that manufactured goods prices would increase notably. However, consumers may we overweighting goods in their overall assessment of inflationary pressures and may discount disinflationary pressures developing elsewhere (e.g., energy, discretionary services). Still, the Fed will not like this. Comments from Fed officials make it clear the FOMC is on high alert both for softer growth and for higher inflation. Investors, which at the height of the tariff drama had priced it more than four Fed cuts this year, have scaled back those bets to just three. This remains our call and we still look for the next cut in June. Despite the tariff threat (which could also be much diminished by then if negotiations prove productive), the Fed should the benefit of two-three months of relatively benign inflation data that could coalesce support for lowering rates further, especially if evidence also builds of softening labor demand.

Normally, an **inflation report** as good at the March one would bring lots of cheer to investors. This week, it seems they barely spared it a glance. Overall consumer prices eased incrementally, and core consumer prices rose just 0.1% such that headline CPI inflation moderated four tenths to 2.4% and core inflation eased three tenths to 2.8%. These were the best readings since September 2024 and March 2021, respectively. Despite higher food prices, energy brought considerable relief (more to come in April) and discretionary services were tame. We expect to see softer demand for discretionary purchases as consumers seek to offset higher tariff-induced prices. Importantly, some of this could manifest even in non-discretionary areas like housing. It was good to see rent of shelter inflation ease three tenths to 4.0% y/y, the lowest since November 2021. We expect to see further moderation to the low 3.2-3.3% range by year end.

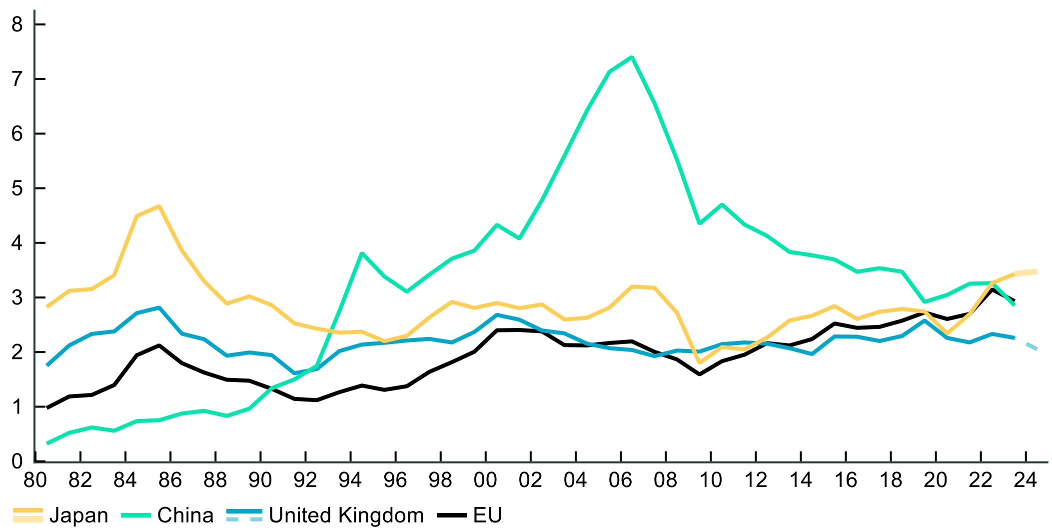
UK: Noise or Signal?

Despite tariff gloom, economic growth in February was substantially higher than expected. Following a flat reading in January, real GDP rose 0.5% m/m during the month, well above the 0.1% consensus. Still, the details seem to suggest noise rather than signal. Indeed, so far, the pattern of monthly GDP data this year is pretty much like 2024 where just two months accounted for most of the yearly growth. And while the strength was led by a solid increase in services output (0.3% m/m), manufacturing (2.2% m/m) also grew strongly, which is not aligned with signals from leading indicators such as the PMIs. Nevertheless, given the data and the large increase in government spending, we expect growth of around 0.5% in Q1.

Tariffs and the increase in business taxes in April are clear headwinds for growth. But with US goods exports accounting for just 2.2% of the country's GDP, the UK is less exposed to the trade war that other economies The overall hit from tariffs to the UK's GDP growth is expected to be modest and mainly due to weaker growth in the US and EU. At the same time, the rise in employer national insurance contributions (NICs) kicked in few days ago has not triggered any concerning increase in redundancy levels although some surveys showed lower hiring intentions. And although we think it's unlikely, we will continue to watch out for any signs of deterioration in next week's labor market data releases.

Figure 2: Exports to US

% of GDP



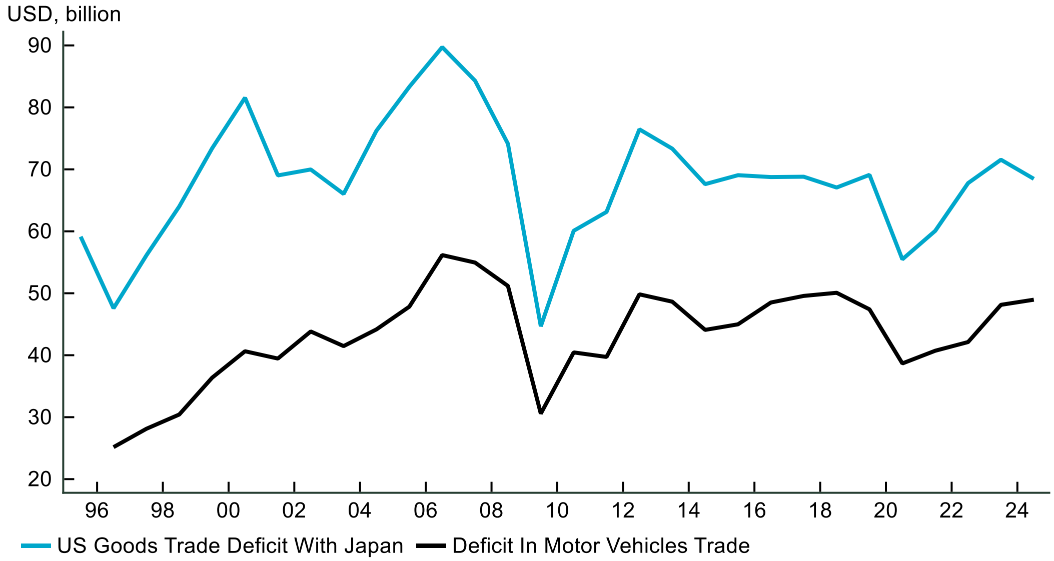
Sources: Macrobond, SSGA Economics, IMF
Updated as of 11/04/2025

Japan: All Unclear for the BoJ

Japanese markets and Bank of Japan (BoJ) watchers breathed a sigh of relief after President Trump issued a 90-day suspension of reciprocal tariffs announced on April 2. Imports from Japan will still be subject to a 10% base tariff rate. Nevertheless, Japan's tariff rate is still higher than a couple months ago, considering the 25% rate on steel and aluminum and auto exports. We think the impact on this year's growth at this point could be in the lower end of our expected 0.2-0.5 pp range of impact.

Auto tariffs remain the most critical risk, given that road vehicles made up nearly $50 bn of Japan's $70 bn goods trade surplus with the US in 2024. While this is unlikely to disturb the positive momentum in this year's *shunto* negotiations, lower corporate profits and their margin compression might affect the next year's negotiations.

Figure 3: Automotive Tariffs Are The Biggest Risk For Japan



Sources: Macrobond, SSGA Economics, USCB
Updated as of 4/11/2025

A communication channel was opened after the announcement of higher tariffs by PM Ishiba, and were positively considered by President Trump. Resultingly, Japan's Economic Minister Akazawa said that if the US flags non-tariff barrier or the issue of a weaker yen, Japan would respond. He is due to meet Treasury Secretary Scott Bessent and US Trade Representative Jamieson Greer on April 17 to discuss tariffs.

This adds to the confidence that Japan may aim to reduce barriers to trade in accordance with what the US may want and that eventually the Japanese economy's recovery momentum from the lost decades would be conserved. We especially think importing more rice from the US will be a good idea, given its very shortages and high contribution to inflation of late. The US as such exports 40-45% of its rice production according to the USDA, despite high imports.

It is almost universal expectation now that the Bank of Japan (BoJ) will not lift rates in May, as uncertainty remains high and the impact on Japan is unclear. We pushed back our timing for the next hike from May/June to July/September. We will keenly read the Outlook report; if the 2025 GDP forecast would be revised not lower than 0.8% (from 1.1% in January), we could affirm that the BoJ is still confident on policy normalization. At the same time, if the April 17 meeting would go better than general expectations there is a good chance that the GDP forecast may not be revised as much at all.

At the same time, Prime Minister Ishiba was reportedly preparing to direct his cabinet to compile a supplementary budget to minimize the impact on the economy. Media chatter about lowering sales tax have also picked up since last week, but we think it is less likely currently.

Next week, we expect the March national CPI to have remained at or above 3.0%.

Week in Review

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

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, April 07					
US	Consumer Credit (Feb, $bn)	15.0	-0.8	8.9 (↓)	Consumer taking a pause.
GE	Industrial Production (Feb, m/m, sa)	-1.0%	-1.3%	2.0%	Weak.
JN	Leading Index CI (Feb, prelim)	107.8	107.9	108.3	Auto tariffs are the biggest risk to the outlook.
AU	Westpac Consumer Conf Index (Apr)	n/a	90.1	95.9	Tariff impact.
AU	NAB Business Confidence (Mar)	n/a	-3	-2 (↓)	Tariff impact.
Tuesday, April 08					
US	NFIB Small Business Optimism (Mar)	99.0	97.4	100.7	Five-month low.
Wednesday, April 09					
JN	Consumer Confidence Index (Mar)	34.8	34.1	34.8 (↓)	Needs to improve.
JN	PPI (Mar, y/y)	3.9%	4.2%	4.1% (↑)	There is momentum in prices.
Thursday, April 10					
US	CPI (Mar, y/y)	2.5%	2.4%	2.8%	Good print, overshadowed by tariffs.
US	Initial Jobless Claims (05 Apr, thous)	223	223	219	Still low.
US	Continuing Claims (29 Mar, thous)	1,886	1,850	1,893 (↓)	Still low.
CA	Building Permits (Feb, m/m)	-0.5%	2.9%	-4.3% (↓)	Modest.
IT	Industrial Production (Feb, m/m)	-1.0%	-0.9%	2.5% (↓)	Weak.
Friday, April 11					
US	PPI Final Demand (Mar, y/y)	3.3%	2.7%	3.2%	Helped by energy.
US	U. of Mich. Sentiment (Apr, prelim)	53.5	50.8	57	Inflation expectations surged (again).
UK	Industrial Production (Feb, m/m)	0.1%	1.5%	-0.9%	Good news.
GE	CPI (Mar, y/y, final)	2.2% (p)	2.2%	2.3%	As expected.

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

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

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