STATE STREET GLOBAL ADVISORS

April 18, 2025
Commentary

Weekly Economic Perspectives

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Weekly Highlights

More tariff exemptions are granted, but conditions remain highly unsettled.

ECB Deposit Facility Rate

2.25%

Unanimous vote for 25 bp cut.

Eurozone CPI Inflation (Mar, y/y)

2.2%

Modestly above target.

German ZEW Survey Expectations (Apr)

-14.0

Utter collapse!

BoC Policy Rate

2.75%

Further rate cuts are coming.

Canada Headline CPI (March, y/y)

2.3%

Lower than expected.

UK Headline CPI (March, y/y)

2.6%

Lower than expected.

JP: CPI (Mar, y/y)

3.6%

You read it right. CPI above 2% for the 36th consecutive month.

AU: Employment (Mar, m/m)

32.2k

RBA should not wait for a weaker labor market to cut rates.

JP: Machinery Orders (Feb, m/m)

4.3%

Above expectations, positive for Q1 growth.

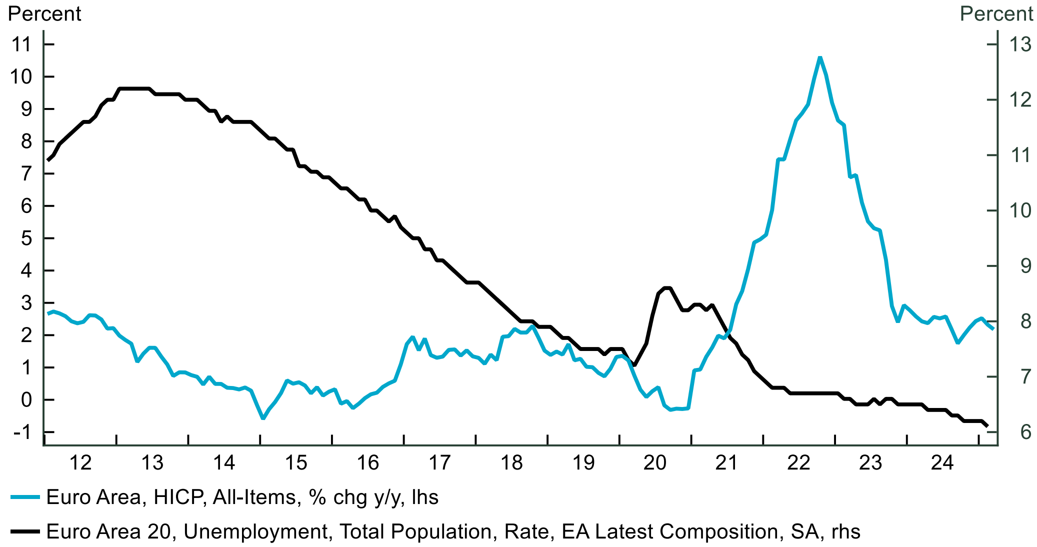
ECB: Less Constrained, More Responsive

The ECB Governing Council voted to lower all three policy rates by 25 basis points each, bringing the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility to 2.25%, 2.40% and 2.65% respectively. Much of the prior language around the broad parameters of economic performance were maintained, and it was once again reiterated that “the disinflation process is well on track”. There was a two-tenth downward revision to 2025 growth projection (now 0.9%) and a two-tenth upward revision to 2025 CPI inflation (now 2.3%), but these are not big changes and the projections are not that different from our own March forecasts (1.1% growth, 2.2% inflation).

What is new is the assessment of risk, which has clearly worsened: “the outlook for growth has deteriorated owing to rising trade tensions. Increased uncertainty is likely to reduce confidence among households and firms, and the adverse and volatile market response to the trade tensions is likely to have a tightening impact on financing conditions.” On inflation, despite the upgrade to the forecast, there is considerable discussion about potential disinflationary forces developing as a result of countries with overcapacity rerouting products to Europe. Hence, the bias is clearly towards more easing. However, we do not see the need for aggressive further cuts and expect just one more this year, in June or July. The reason is three-fold. First, we anticipate material progress in bilateral trade negotiations over the summer.

We believe both sides are incentivized to reach agreement: the US needs Europe on its side to push back against China; Europe needs the US on defense and as Ukraine negotiations progress. At the end of the day, these are the two core pillars of the Western alliance and, despite heated rhetoric, both sides know it. Secondly, as mentioned by Madame Lagarde during the press conference, there is a considerable fiscal impulse building through the European economy that should at least to some degree offset the hit from tariffs. And finally, the very low unemployment rate and the elevated household savings rate put a floor under household consumption. We remain a little more upbeat on European growth than the ECB (especially in 2026) and—unless we are wrong about our trade negotiations expectations—do not see the need for the policy rate to move into accommodative territory.

Figure 1: Much Better Dynamics In The Eurozone Economy



Sources: Macrobond, SSGA Economics, Eurostat
Updated as of 4/18/2025

Canada: BoC Paused but Further Cuts Are on Track

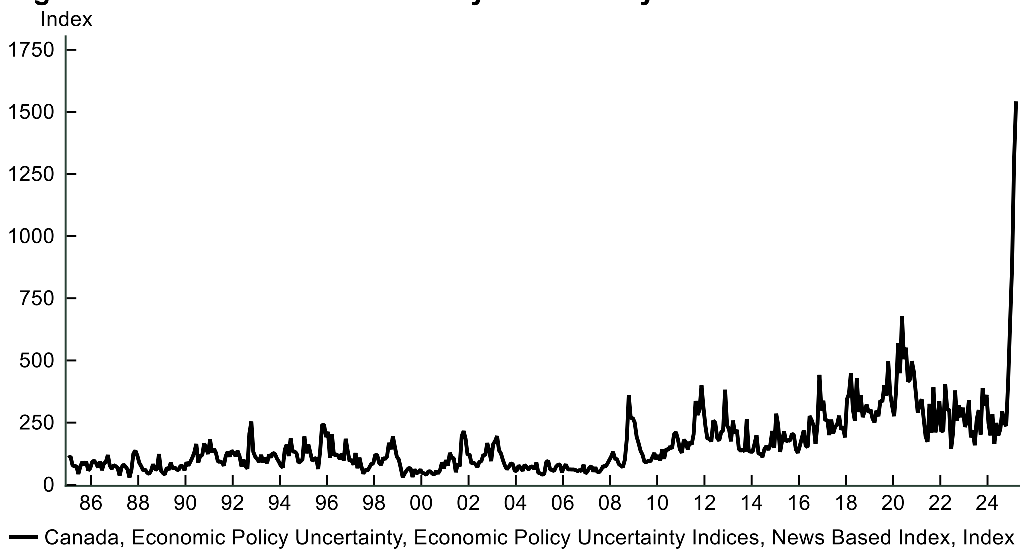
The Bank of Canada (BoC)s decided to keep rates on hold at 2.75% in their latest monetary policy meeting. This is contrary to our expectation of another 25 bp cut but we think the pause will not last long and further damage from US tariffs will likely result in two more rate cuts by July.

Before the meeting, there was a close call between 25 bp cut and “no-change”. On one hand, there were further signs of economic weakness with softer data on the housing market, retail sales, as well as a large drop in employment. Headline inflation also came in below expectations at 2.3%, down from 2.6% previously. On the other hand, the USMCA exemptions eased some of the tariffs’ negative impact. The fact that other US’ major trading partners are now facing higher effective tariff rates also give Canada some competitive advantage and support the country’s exports. Moreover, it seems to us that the BoC is waiting and watching given the general election is in less than two weeks’ time.

In light of elevated trade uncertainty, the bank gave little guidance on the future path of policy rates, but the bias remains dovish. In the press conference, Governor Macklem highlighted "considerable slowing in business investment and household spending". The bank also presented two scenarios for the economy depending on how the trade war evolves. In both scenarios, growth is expected to weaken substantially this year. In the first scenario, "most new tariffs get negotiated away" and inflation falls below 2% in 2025 and 2026 due to the removal of consumer carbon tax and subdued economic activity. In the second scenario, inflation temporarily increases above 3% in mid-2026 before falling back to the 2% target.

In our view, the current tariff backdrop will last for another three to six months. Weaker data suggests that further rate cuts are coming by summer, especially when the end of carbon tax and softer US and global demand will offset some impact on inflation from tariffs. For now, we still to look for 25 bp cuts in June and July.

Figure 2: Canada Economic Policy Uncertainty Index



Sources: Macrobond, SSGA Economics, Economic Policy Uncertainty
Updated as of 17/04/2025

Japan: CPI Above 2% For 36 Months

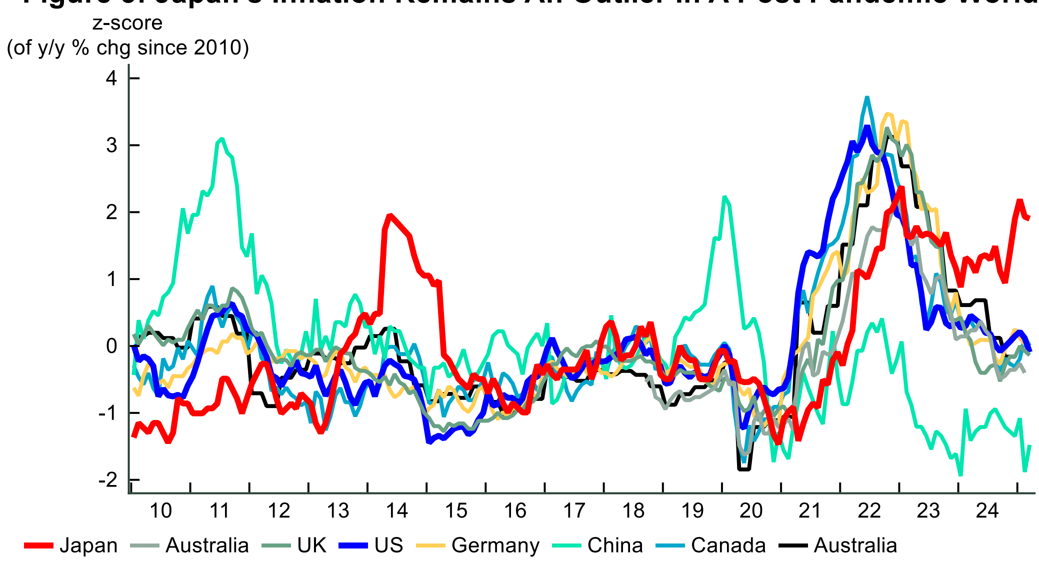
This week Japan became the first major nation to begin negotiating a deal with the US on lowering the imposed tariffs (which were effectively lowered to 10%, with auto-tariffs remaining in place at the time of writing). President Trump joined the negotiations and touted 'big progress' after the discussions. Economic and fiscal minister Ryosei Akazawa spent over two hours discussing with key US officials. The two sides agreed to meet again this month to continue dialogue.

Japan would want to be exempted from the 24% reciprocal tariff rate and the 25% tariff on foreign autos. However, the US administration signaled that the auto tariffs may be "Section 232" based on national security and may be nonnegotiable.

The US would want Japan to commit higher imports, higher defense spending, continued investments (an LNG project in Alaska is already in the works) and likely a commitment to buy more American cars. President Trump had also said that the Nippon-US Steel deal may be a part of the negotiations as well. However, the most important contention could be the US wanting a stronger yen. There has been no indication that exchange rates were discussed, but it is likely in our opinion. If true, and if Japan agrees to let the yen strengthen, it could be an important tailwind for the Bank of Japan's (BoJ) policy normalization. Interestingly, Governor Ueda spoke multiple times this week, with the most important statement in our opinion being that "*keeping low rates even when underlying inflation is accelerating could result in a situation where we would be forced to hike rapidly.*"

Indeed, headline CPI rose 3.6% y/y in March, while the core index (excluding food) rose 3.2%. Furthermore, the BoJ core (excluding fresh food and energy) rose 2.9%, three-tenths higher than in February. Higher food prices are gradually spilling into related categories such as dining out. This was the 36th month when CPI inflation exceeded the 2% target, which could be enough for the BoJ to consider a May hike; however, low visibility due to tariff escalations and potential global slowdown are key constraints. This is why we pushed our timing out to July/September, with the Bank potentially holding off hiking until more certainty returns.

Figure 3: Japan's Inflation Remains An Outlier In A Post Pandemic World



Sources: , SSGA Economics, Macrobond, ABS, StatCan, NBS, BUBA, BLS, ONS, SBJ
Updated as of 4/18/2025

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 14					
JN	Industrial Production (Feb, m/m, final)	n/a	2.3%	-1.1%	Frontloaded exports to the US may have driven the data.
Tuesday, April 15					
US	Empire Manufacturing (Apr)	-13.5	-8.1	-20	Soft.
CA	Housing Starts (Mar, thous)	238.8	214.2	221.4 (↓)	Softening.
CA	Manufacturing Sales (Feb, m/m)	-0.2%	0.2%	1.6% (↓)	Stronger than expected.
CA	CPI (Mar, y/y)	2.7%	2.3%	2.6%	Below expectations.
CA	Existing Home Sales (Mar, m/m)	n/a	-4.8%	-9.8%	Weakening continues.
UK	Average Weekly Earnings (Feb, 3m y/y)	5.7%	5.6%	5.6%	Ok.
EC	Industrial Production (Feb, m/m sa)	0.3%	1.1%	0.6% (↓)	Still weak.
GE	ZEW Survey Expectations (Apr)	10.0	-14.0	51.6	Big plunge.
FR	CPI (Mar, y/y, final)	0.8%	0.8%	0.8%	
JN	Core Machine Orders (Feb, m/m)	1.2%	4.3%	-3.5%	Frontloaded exports to the US may have driven the data.
Wednesday, April 16					
US	Business Inventories (Feb)	0.2%	0.2%	0.3%	OK.
US	NAHB Housing Market Index (Apr)	38	40	39	Modest improvement.
US	Retail Sales Advance (Mar, m/m)	1.4%	1.4%	0.2%	Some front-running of tariffs?
US	Industrial Production (Mar, m/m)	-0.2%	-0.3%	0.8% (↑)	Tepid.
CA	Bank of Canada Rate Decision	2.75%	2.75%	2.75%	Further cuts are coming.
UK	CPI (Mar, y/y)	2.7%	2.6%	2.8%	OK.
EC	CPI (Mar, y/y, final)	2.2%	2.2%	2.3%	Fine.
IT	CPI NIC incl. tobacco (Mar, y/y, final)	2.0%	1.9%	1.6%	Fine.
AU	Unemployment Rate (Mar)	4.2%	4.1%	4.0% (↓)	Australia's blessing in disguise.
Thursday, April 17					
US	Housing Starts (Mar, thous)	1,420	1,324	1,494	Sharp pullback amid uncertainty.
US	Building Permits (Mar, thous, prelim)	1,450	1,482	1,459	More stable on longer-term outlook.
US	Philadelphia Fed Business Outlook (Apr)	2.2	-26.4	12.5	New orders plunged.
US	Initial Jobless Claims (12 Apr, thous)	225	215	224	Still low.
US	Continuing Claims (05 Apr, thous)	1,870	1,885	1,844	Still low but inching higher.
EC	ECB Main Refinancing Rate	2.40%	2.40%	2.65%	Less constrained, more responsive.
Friday, April 18					
JN	Headline CPI (Mar, y/y)	3.6%	3.6%	3.7%	Will keep the BoJ alert.

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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