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**May 30, 2025**

Commentary

## Weekly Economic Perspectives

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**Contents**

- 
- 02 **US: Mixed Data While Policy Uncertainty Persists**  
The latest batch of data sends mixed signals, the overall takeaway appears to be an ongoing slight erosion in the labor market and consumer spending. A major legal challenge to US tariffs adds another twist to policy uncertainty.
- 
- 03 **Canada: GDP Overshot With Signs of Weakening Domestic Demand**  
Exports and inventories were the main contributors to Q1 GDP. A June rate cut is unlikely, but we still expect two more rate cuts this year from the BoC.
- 
- 04 **Japan: Firmer Inflation**  
Tokyo CPI data reiterates our key message: inflation is getting firmer, while growth remains weak. The BoJ is caught between a rock and a hard place.
- 
- 05 **Australia: No Tailwinds for Q1 GDP So Far**  
We expect growth to come in at 0.3% q/q, nearly half the rate we penciled in our forecasting round in March.
- 
- 06 **Week in Review**
- 
- Spotlight on Next Week**  
US job openings seen declining further. Bank of Canada seen holding, the ECB seen cutting. Australia's Q1 GDP could rise 0.3% q/q.
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Weekly Highlights

Mixed data persists and tariff uncertainty continues amid new legal challenges.

US Conf Board Cons.  
Confidence (May)

98.0

Big jump on tariff relief.

US Personal Spending  
(Apr, m/m)

0.2%

Moderation after strong March.

US PCE Price Index  
(Apr, y/y)

2.1%

Likely marks low for the year.

CA: GDP (Q1, q/q, saar)

2.2%

Stronger than expected.

CA: Final Domestic  
Demand (Q1, q/q, saar)

-0.1%

First decline since Q4 2023

CA: Business Investment  
(Q1, q/q, saar)

-3.1%

Drop in residential investment.

JP: Tokyo core-CPI  
(May, y/y)

3.6%

Very elevated.

AU: CPI ex. volatile  
items & travel (Apr, y/y)

2.8%

Within RBA's target band.

AU: Construction Work  
Done (Q1, q/q)

0.0%

Downside risks for Q1 GDP.

US: Mixed Signals In  
Latest Data

Unsurprisingly, US macro data continues to send mixed messages. Consumer sentiment improved following tariff relief, but personal spending cooled as consumers took a break following a torrid spending month in March. The labor market appears to be fraying further at the edges as continuing claims touched a new post-Covid recovery high. Housing demand remains challenged by unaffordability and uncertainty; the bright side is that house price inflation is cooling, and this may eventually offer a disinflationary impetus. First quarter-GDP growth was revised marginally better, but the economy still contracted 0.2% saar (seasonally adjusted annualized). Consumer spending, especially on services, was revised y lower.

On the other hand, advanced trade data for April showed an incredible reversal in performance, with the trade deficit essentially halving to \$87.6 billion. The gyrations in the trade data are quite extraordinary but the latest information suggests that trade will contribute positively to growth in Q2, having been a major detractor in Q1. For what it's worth, the Atlanta Fed GDPNow tracker rose to 3.8% saar on May 30<sup>th</sup>, following the release of the trade data.

**Figure 1: US Goods Trade Deficit Shrinks Drastically After Record**


Sources: Bloomberg, US Census  
Updated as of 6/1/2025

There was good news on inflation but, sadly, nobody is celebrating much given the likelihood that tariffs (some tariffs will undoubtedly survive the latest legal challenges) suggest the April inflation prints may be the lows for the year. Headline PCE (personal consumption expenditures) inflation and core PCE each moderated two tenths to 2.1% y/y and 2.5% y/y, respectively. These were the corresponding lowest readings since February and March 2021.

### Canada: GDP Overshot With Signs Of Weakening Domestic Demand

On the surface, the economy is expanding strongly, with a better-than-expected Q1 GDP print. But the details suggests otherwise.

GDP grew by 2.2% q/q saar (seasonally adjusted at annual rates) in Q1, well above market expectations of 1.7% q/q. Q4 growth was revised lower to 2.1% q/q from 2.6 q/q. Despite higher unemployment, trade policy uncertainty, and weaker global growth outlook, the flash estimate for April from Statistics Canada showed a 0.1% monthly increase. Given the GDP overshoot and a modest 0.1% estimate for GDP growth in April, a June rate cut now seems unlikely.

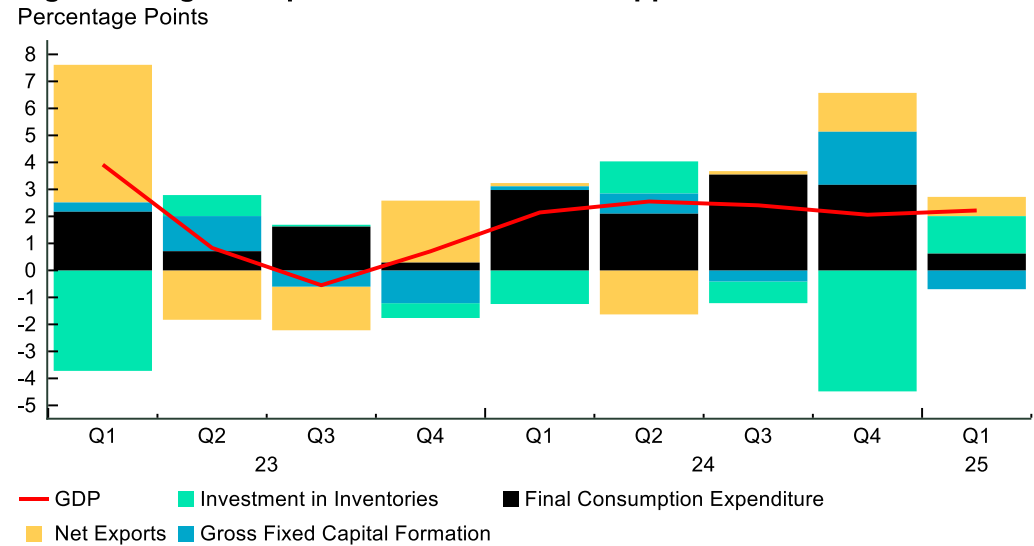
Unpicking the details raises questions. Much of the growth came from business inventories as well as net exports which contributed around 1.4ppts and 0.7 ppts respectively, in saar terms, reflecting front-loading ahead of tariffs. We expect that this growth will fade in coming months. Meanwhile, household consumption expenditure softened to 1.2% q/q, from 4.9% q/q previous quarter, driven by weaknesses in both goods and services. Household spending will likely further weaken into Q2 as high uncertainty, rising unemployment and slowing population growth will continue to weigh on aggregate demand.

Business investment also dropped by 3.1% q/q, following a strong gain of 9.4% in previous quarter. The decline was mainly driven by sharp contraction in residential (-10.9%, from 16.8% in Q4), which we would expect to continue in coming months.

Exports gained 6.7% q/q, driven by high demand for cars and industrial machinery, equipment and parts. Imports rose 4.4% q/q, with higher imports of industrial machinery equipment, parts and autos partially offset lower travel imports.

On balance, the headline GDP seems to flatter the economy’s performance. Given rising unemployment, weaker domestic demand and slower global growth, we expect the BoC will deliver two more rate cuts this year to lift the economy in the second half of this year.

Figure 2: Higher Exports And Inventories Support Q1 GDP Growth



Sources: Macrobond, SSGA Economics, StatCan  
Updated as of 30/05/2025

Japan: Firmer Inflation

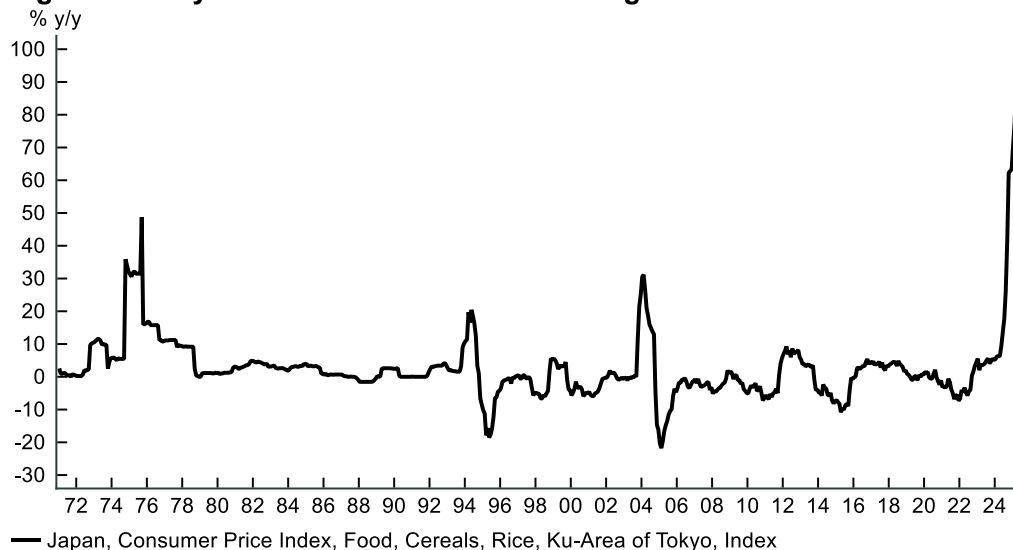
Macro risks are rising in Japan. Although sentiment on a trade deal improved after President Trump finally greenlit the US Steel-Nippon Steel tie-up, fresh inflation data from Tokyo sent another warning. The core-CPI (excluding fresh-food) and the BoJ core (excluding fresh-food and energy) both rose two tenths to 3.6% y/y (0.5% m/m) and 3.3% (0.4%) respectively, in May. Both were above consensus estimates.

Food prices were once again the key driver, with rice prices up another 3.1% m/m (93.6% y/y). With food driving about half of inflation, its outlook has become critical to overall inflation performance. The government recently announced measures aiming to bring rice prices down; it will release another 210,000 tons from stockpiles on top of the 310,000 tons in April. This new rice will be available to consumers from June, but there is also some confusion as it whether this version of rice will be measured in the CPI data. Either way, these measures could help slow the rise in rice prices.

At the same time, inflation may also be broadening; in April, the three segments where inflation was below the 2% mark were housing (1.0%), education (-5.6%, due to recent subsidies) and the miscellaneous component (1.3%). Housing—a segment considered to be resistant to price pressures—is also experiencing a fresh bout of

inflation. Given Japan's labor shortages, supply constraints and the potential pass on effects from food/rice prices, inflation is likely to remain stronger for longer.

**Figure 3: Tokyo CPI: Is Rice Inflation Peaking?**



Sources: Macrobond, SSGA Economics, SBJ  
Updated as of 5/30/2025

This puts the Bank of Japan (BoJ) in a tough spot; they cannot hike at the moment given trade uncertainties and more importantly, turbulence at the long end of Japan's yield curve. At the same time, they risk runaway inflation by standing pat for longer. Pragmatically speaking, the yields on the superlong JGBs have been dealt well by the Ministry of Finance (MoF) by readjusting the issuance across the curve. These measures, coupled with the possibility of the economy rebounding in Q2, make it possible for the turbulence to settle down. The Bank is likely to stand pat till that time, so we retain our forecast of one more hike this year, albeit with a lesser conviction.

Industrial production fell 0.9% m/m in April, a bit better than the consensus of -1.4%. This came on the back of potentially frontloaded orders in semiconductors, which were exempt from tariffs by the US. Resultingly, manufacturers' projections over the next two months shot up, with the possibility of a 9% rise in output in the next. This will be an important tailwind for growth in Q2.

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### **Australia: No Tailwinds For Q1 GDP So Far**

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Partial national accounts data released so far were markedly below the consensus. Construction activity was flat against expectations of a 0.5% q/q rise. At the same time, private capex eased 0.1% q/q against expectations of another 0.5% rise. The details were soft with the more important plan and equipment spending metric fell 1.3%. However, firms intended to spend 10% more on the capex for FY 2026 in the second estimate.

We also highlight that Q1 retail trade data released earlier in May had stalled against expectations of a 0.3% q/q rise. Regular readers would recall that we have felt consumption was lagging in Australia and that it could culminate in a broader economic weakness. We worry if that could eventuate next week as GDP data would be released. Our pick for Q1 GDP is now at 0.3% q/q, more than halved from what we penciled in March.

There is still a considerable upside risk to our forecast, as there are still three partials to be released on June 03: business inventories, gross company profits and contribution from net exports. The GDP data will be out the next day.

Separately, April CPI data rebounded 0.8% m/m, but the annual rate was stable at 2.4% y/y. The trimmed-mean metric was up a tenth to 2.8% but still in the Reserve Bank of Australia's (RBA) target band for a fifth month. The jump was primarily driven by holiday travel prices (+6.0% m/m) and medical services (3.2%) as insurance premiums rose.

**Week in Review**

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

Country	Release (Date, format)	Consensus	Actual	Last	Comments
<b>Monday, May 26</b>					
JN	Leading Index CI (Mar, final)	n/a	108.1	107.7	Q2 growth could very well rebound.
<b>Tuesday, May 27</b>					
US	Durable Goods Orders (Apr, prelim)	-7.8%	-6.3%	7.6% (↓)	Aircraft-related volatility. Overall, up 2.7% y/y.
US	FHFA House Price Index (Mar, m/m)	0.1%	-0.1%	0.0% (↓)	We welcome the moderation.
US	Conf. Board Consumer Confidence (May)	87.1	98.0	85.7 (↓)	Tariff relief.
GE	GfK Consumer Confidence (Jun)	-20.0	-19.9	-20.8 (↓)	Little change.
FR	CPI (May, y/y, prelim)	0.9%	0.7%	0.8%	Not much to see here.
<b>Wednesday, May 28</b>					
GE	Unemployment Claims Rate (May, sa)	6.3%	6.3%	6.3%	Steady near highs.
FR	GDP (Q1, q/q, final)	0.1%	0.1%	-0.1%	Modest, but at least positive.
AU	CPI (Apr, y/y)	2.3%	2.4%	2.4%	Good data.
<b>Thursday, May 29</b>					
US	GDP (Q1, annualized q/q)	-0.3%	-0.2%	-0.3%	Modest revision; slower consumption.
US	Initial Jobless Claims (May 24, thous)	230	240	226	An uptick.
US	Continuing Claims (May 17, thous)	1,893	1,919	1,893	Inching higher.
US	Pending Home Sales (Apr, m/m)	-1.0%	-6.3%	5.5% (↓)	Weak, unsurprisingly...
<b>Friday, May 30</b>					
US	Personal Income (Apr)	0.3%	0.8%	0.7% (↑)	Boosted by change to social security payments.
US	Personal Spending (Apr)	0.2%	0.2%	0.7%	Modest.
US	PCE Price Index (Apr, y/y)	2.2%	2.1%	2.3%	Lowest since February 2021, but set to rise.
US	Core PCE Price Index (Apr, y/y)	2.5%	2.5%	2.6%	Lowest since March 2021, but set to rise.
US	U. of Mich. Sentiment (May, final)	51.0	52.2	52.2	Tariff relief.
CA	GDP (Q1, q/q, annualised)	1.7%	2.2%	2.6%	Strong with mixed details.
GE	CPI (May, y/y)	2.1%	2.1%	2.1%	As expected.
IT	GDP (Q1, wda, q/q, final)	0.3%	0.3%	0.1%	As expected.
JN	Jobless Rate (Apr)	2.5%	2.5%	2.5%	Good.
JN	Industrial Production (Apr, m/m, prelim)	-1.4%	-0.9%	0.2%	Forward metrics are strong.
JN	Retail Sales (Apr, m/m)	0.5%	0.5%	-1.2%	Very good jump.
AU	Building Approvals (Apr, m/m)	3.0%	-5.7%	-7.1% (↑)	Bad.
AU	Retail Sales (Apr, m/m)	0.3%	-0.1%	0.3%	Another disappointing data.

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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