
July 4, 2025
Commentary

Weekly Economic Perspectives

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Spotlight on Next Week

Tough week for Japan, as it may be disappointed on a trade deal and with elections on the radar. The RBA to cut the cash rate 25 bps.

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

The Fed and the BoE risk slipping behind the curve with rate cut delays.

US Payrolls Gain, Total
(June)

147k

Better than expected.

US Payrolls Gain,
Government (June)

73k

Surprisingly strong.

US Unemployment Rate
(June)

4.1%

Participation rate declined again.

UK GDP (Q1, q/q, final)

0.7%

Unchanged with prelim.

UK Mortgage Approvals
(May, thous)

63.0

Higher than expected.

UK Manufacturing PMI
(Jun, final)

47.7

Weak.

JP: Household Spending
(May, m/m)

4.6%

Way above consensus.

JP: Capex Estimate For
The Full Year, Big
Companies (Q2)

11.5%

Also above consensus.

AU: Trade Balance
(May, A\$ bn)

2.2

Nearly half the consensus.

**US: July Rate Cut
Unlikely But Still
Needed**

It is turning into a bit of a pattern: a payroll report that bests expectations on headline, but with weak details. This was certainly the case in May, when solid employment gains during that month were accompanied by a massive downward revision to the prior two months. And it was also the case in June, when the 147k payroll gain bested consensus expectations but was heavily driven by the government sector. For its part, private sector employment rose less than expected and there were modest downward revisions to the prior months as well. The unemployment rate dipped a tenth to 4.1% amid another tenth decline in the labor force participation rate.

What to make of all this? Perhaps the only clear conclusion to be drawn—and the market has indeed drawn it—is that the Fed is now highly unlikely to cut rates in July. Fine. But the bigger question is whether a cut in July would make sense given economic conditions. We believe so, and have laid out a detailed argument [here](#). Given the long lags with which policy operates and given the criticality of maintaining full employment, we would argue against too upbeat an interpretation of the latest jobs data. In short, this report should not, by any means, be seen as putting to rest growing concerns about the health of the labor market. The buoyancy in government employment (largely state level education) does not seem to correlate with broader policy signals. It seems, therefore, more of a seasonality abnormality than a true sign of strength. And given what is to come once federal employees currently receiving

ongoing severance fall out of the employed ranks (likely in October), we should anticipate a big hit to employment in the fall. Why wait until it happens?

Evidently, the arguments for a July cut are not crystal clear, or else the FOMC would likely deliver it. However, there is danger in waiting until there is no ounce of doubt left—recall the delay in the hiking cycle in 2022? Yes, there are worries about the inflationary impact of tariffs, but with the deadline for a potential lift in tariff rates now August 1 (for countries who do not have a trade deal in place by then), it seems unlikely that we'll see much evidence of tariffs in the inflation data either by July 30 or September 17 meetings. Does the Fed wait until October? How easy would the choice be if you get both a bad payrolls print and a bad inflation print that month?

Better to acknowledge that the inflation threat is not as acute as initially feared, acknowledge that interest rate levels are restrictive, and acknowledge that there are vulnerabilities we do not wish to exacerbate. And resume the easing cycle now.

**UK: Tax Hikes Are
Expected In Autumn
Budget**

The past week has been notable for UK gilts, with 30-year bond yields increasing by nearly 20 basis points on Wednesday, reflecting uncertainty surrounding Chancellor Rachel Reeves's future and market expectations on looser fiscal policy. This development occurred amid criticism from government MPs regarding the current economic strategy, which prioritizes spending reductions over tax increases to bolster public finances.

In March, the government introduced welfare reforms meant to achieve £5bn savings. However, following resistance from within its own party, these proposals were withdrawn on Tuesday. Consequently, the government must now identify alternative measures to secure the savings of £5bn a year, in addition to covering a further £1.2bn shortfall from the reversal of previous changes to winter fuel payments.

Mounting spending pressures have coincided with the release of the OBR's forecast evaluation report, which highlighted a consistent tendency towards optimism in medium-term growth projections since 2010. This pattern indicates that a downward revision of the trend growth rate is highly probable in the forthcoming Autumn budget. We have maintained for a long time that downward revisions to economic growth and net migration will remove any fiscal headroom.

Along with recent adverse movements in markets, it is likely that the government will be required to implement policy tightening measures amounting to at least £20bn in the upcoming Budget to comply with fiscal rules, only maintaining minimal headroom. This calculation does not account for increases in defense spending announced at last week's NATO summit.

Market reactions suggest that additional government borrowing to address the large funding gap is unlikely. Consequently, government's deviation from the 2024 manifesto commitments on tax rates may become necessary. Extending the freeze on personal tax allowances and thresholds beyond 2027/28 now appears to be the most feasible option. Minor tax adjustments, such as increasing duties on gambling and alcohol or revisiting the 3% bank profit surcharge, may also be considered; however, these measures would generate only limited additional revenue.

BoE Governor Bailey, speaking at the Sintra conference, highlighted a weakening labor market but noted more evidence was needed to show its effect on nominal variables. He also indicated support for a gradual easing but mentioned the possibility of reconsidering if wage and price data weaken further. Wage growth is currently below the Bank of England's projections, while core services inflation continued to decline in May. A rate cut is likely in August, and the probability of another cut in September is increasing.

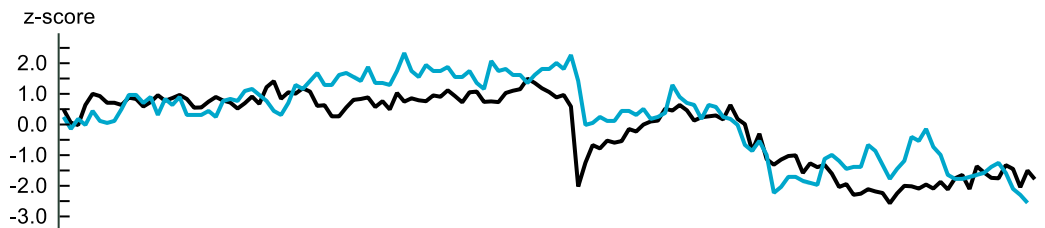
Australia: Consensus Agrees With Us

The market and consensus now fully expect a July rate cut, our forecast since May. Just last week we downgraded our Australia outlook, as we fear these measured rate cuts by the Reserve Bank of Australia (RBA) may not foster faster growth.

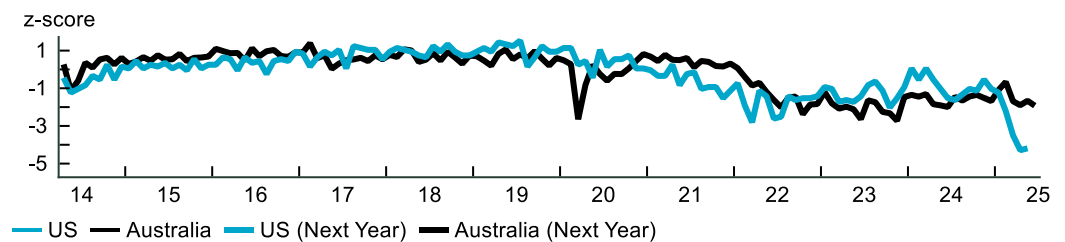
Aussie consumers, however, show optimism, as their own finances sentiment has remained largely stable, both compared with last year and also the next year, and notably stronger than views expressed by US consumers.

Figure 1: Aussie Consumers Offering Optimism

Consumer Finances Compared To A Year Ago



Consumer Finances In The Next Year



Sources: State Street Investment Management, ANZ-Roy Morgan, University of Michigan, Macrobond
Updated as of 7/6/2025

We expect this sentiment to improve further in the coming months, given mounting expectations on rate cuts. However, one cannot be confident with central banking forecasts. The economy might have a spring in its step as the easing cycle begins; we are already observing improving housing market conditions, as price, sentiment and asking rent prices have been trending up.

This is the primary reason why we still expect the terminal cash rate to be 3.10% this year, as the measured easing could be sufficient for the economy to find its rhythm.

Week in Review

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

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Jun 30					
UK	GDP (Q1, q/q, final)	0.7%	0.7%	0.7%	Ok.
UK	Mortgage Approvals (May, thous)	60.8	63	60.7 (↑)	Rebounded.
GE	CPI (Jun, y/y, prelim)	2.2%	2.0%	2.1%	OK.
JN	IP (May, m/m, prelim)	3.5%	0.5%	-1.1%	Trade uncertainty heavily weighing on data
Tuesday, July 01					
US	ISM Manufacturing (Jun)	48.8	49.0	48.5	Not great by any means.
UK	Manufacturing PMI (Jun, final)	47.7	47.7	46.4	Soft.
UK	Nationwide House PX (Jun, m/m)	0.1%	-0.8%	0.4% (↓)	Volatile.
GE	Manufacturing PMI (Jun, final)	49.0	49.0	48.3	Not great by any means.
FR	Manufacturing PMI (Jun, final)	47.8	48.1	49.8	Soft.
IT	Manufacturing PMI (Jun)	49.5	48.4	49.2	Soft.
Wednesday, July 02					
AU	Building Approvals (May, m/m)	4.0%	3.2%	-4.1% (↑)	Trending up on rate cut hopes
AU	Retail Sales (May, m/m)	0.5%	0.2%	0.0% (↑)	Trending up on rate cut hopes
Thursday, July 03					
US	Trade Balance (May, US\$ billions)	-\$71.0	-71.5	-\$60.3 (↓)	
US	Change in Nonfarm Payrolls (Jun, thous)	110	147	144	Almost sure to kill the odds of a July cut.
US	Unemployment Rate (Jun)	4.3%	4.1%	4.2%	Participation rate dipped again.
US	Initial Jobless Claims (Jun 28, thous)	240	233	237	Still fairly low.
US	Continuing Claims (Jun 21, thous)	1,962	1,964	1,964 (↓)	Continuing to creep higher.
US	Factory Orders (May)	8.2%	8.2%	-3.9%(↓)	Driven by aircraft.
UK	Services PMI (Jun, final)	51.3	52.8	50.9	Upside surprise.
FR	Services PMI (Jun, final)	48.7	49.6	48.9	Still not good.
Friday, July 04					
GE	Factory Orders (May, m/m)	-0.2%	-1.4%	1.6% (↑)	Mixed.
FR	Industrial Production (May, m/m)	0.3%	-0.5%	-1.4%	Soft.

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

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* 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.

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