July 11, 2025
Commentary

Weekly Economic Perspectives

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Weekly Highlights

The US gets clarity on tax policy even as trade uncertainties persist.

US NFIB Sentiment Index (June)

98.6

Soft but steady.

US Continuing Claims (June 28, mil)

1.965

Creeping higher.

US Federal Budget (June)

27 bn

Participation rate declined again.

Canada Unemployment Rate (Jun)

6.9%

Better than expected.

Canada Employment Change (Jun, thous)

83.0

Highest gain since December.

UK Industrial Production (May, m/m)

-0.9%

Weak.

JP: Goods PPI Inflation (June, y/y)

2.9%

Down from 3.3%, welcome.

AU: RBA Cash Rate (July)

3.85%

Surprise of the year (no cut).

AU: NAB Business Conditions (June)

9.0

Welcome. Can it sustain?

US: OBBB Bring Clarity to One Key Policy Area

The signing into law of the One Big Beautiful Bill (OBBB) marks the second most important economic policy development since the April 2 tariff announcements. Given persistent uncertainty around trade, immigration, and even monetary policy, perhaps OBBB's most important immediate contributions are clarity on the path ahead and the avoidance of yet another episode of debt-ceiling drama.

As with much else in life, how one interprets the bill and its likely impact depends very much on the perspective taken. Specifically in regards to budgetary impact, whether one chooses to compare OBBB with a "current law" versus "current policy" baseline makes a big difference, with the former showing a $3+ trillion increase in the deficit over the 10-year window and the latter shows none. In our view, neither comparison is truly realistic. A pure "current law" trajectory would have implied significant tax hike in 2026 and would have pretty much guaranteed a recession. We believe this is something that policymakers would have tried very hard to avoid irrespective of the November elections outcome. By the same token, a "current policy" comparison disregards newly introduced tax cuts and likely flatters the cost estimates. Additionally, so many other hard to quantify forces impact long-term budget estimates (tariffs, immigration, AI, interest rates) that we are weary of any false sense of precision in these long-term estimates.

We would highlight the following:

1. when combined with other policy actions (such as tariffs) the OBBB likely does not worsen the deficit materially, but neither does it improve it at a time when it really should be improved. Mere lack of progress is a negative here.

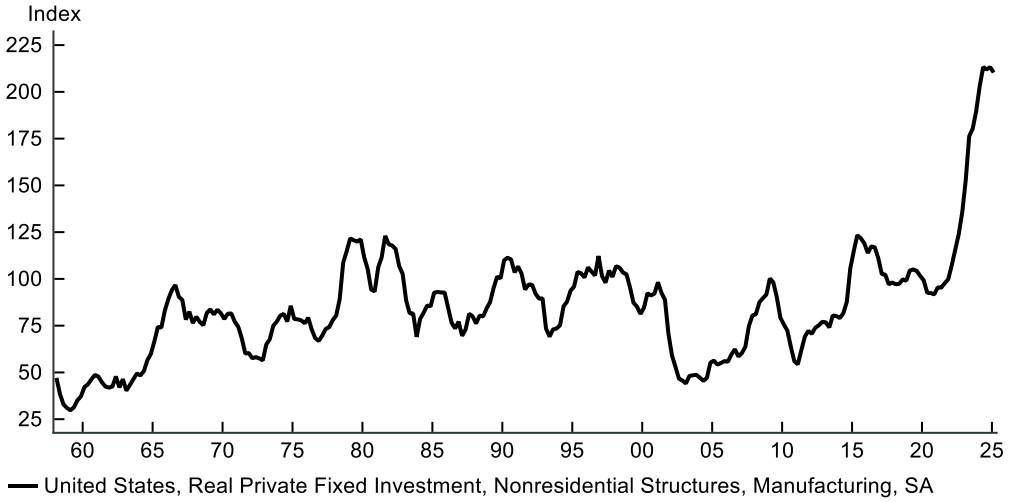
2. the tax cut benefits are almost entirely on the individual side and largely in the form of avoiding potential increases. Nonetheless, there is a slight positive impact on household finances, especially in 2026.

3. on the corporate/investment side, the immediate positive may be the full expensing of manufacturing structures. Think of this as the carrot accompanying the tariff medicine, with the combo meant to incentivize manufacturing reshoring.

4. there are considerable changes in incentive distribution at the sector level (i.e., energy, defense, education) but we see these as less impactful on a macro level and more about incentive redistribution.

At the end of the day, it is too soon to set out high-confidence estimates of the bill's long-term impact, since this will be materially shaped by factors not yet settled. In this, we agree with Treasury Secretary Bessent that the OBBB cannot be assessed in isolation. Tariffs and immigration remain in flux, but even so, businesses have a lot more clarity now on the tax structure going forward. We suspect the next couple of months will bring considerable clarity on the trade policy front as well, allowing companies to plan capital expenditures more confidently. This expectation underlines our more constructive views on 2026 growth (2.3% real GDP growth) relative to consensus. For more on our forecasts, see here.

Figure 1: OBBB May Give Manufacturing Construction Another Boost

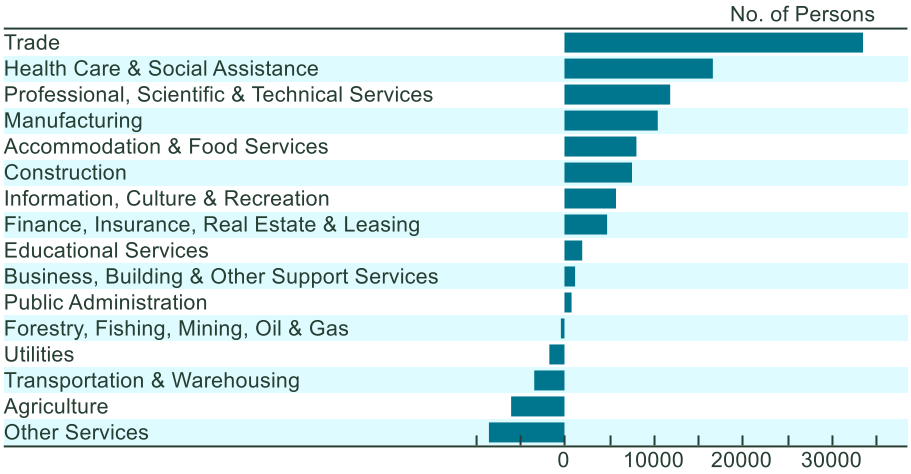


Sources: Macrobond, State Street Investment Management, BEA
Updated as of 7/11/2025

Canada: Better Job Data

Canada's labor market demonstrated notable improvement in June, with the addition of 83,000 jobs—the largest increase since December. The unemployment rate decreased slightly to 6.9% from 7.0%, contrary to market forecasts of a rise to 7.1%. This progress was accompanied by an increased participation rate of 65.4%. Layoffs also remained low with recent unemployment increases largely due to longer job searches. Across sectors, manufacturing added 11k jobs after months of declines, though trade-sensitive sectors still lagged. Services sector employment grew by 73k, with 34k increase in retail and wholesale jobs.

Figure 2: Canadian Employment Lags In Trade-Sensitive Sectors



Sources: Macrobond, State Street Investment Management, StatCan
Updated as of 11/07/2025

Meanwhile, ongoing risks persist, especially with respect to global tariffs and the possibility of President Trump implementing a 35% tariff on Canadian exports to the US. Still, the probability of the most adverse global trade outcomes appears lower than several months before. Importantly, USCMA exemptions are expected to remain intact. Recent trade data indicate that Canada remains well positioned among U.S. trading partners, with many Canadian exports enjoying duty-free access in May due to exemptions.

Overall, this week's jobs data lowers the likelihood of a July rate cut. However, the upcoming inflation figures, especially after recent higher-than-expected numbers, may still have a greater influence on the central bank's decision.

Japan: Incoming Volatility

Japan's Upper House elections will take place on the 20th of July, and we see the possibility of higher volatility as a result. Prime Minister Shigeru Ishiba led a minority government since November 2024 and recent geopolitical and macroeconomic developments point to the possibility of him losing majority in the Upper House too. If

the opposing parties unite, Ishiba's Liberal Democratic Party (LDP) could see another major defeat since he became the Prime Minister.

The Ishiba administration's hardball tactics in trade negotiations with the US did not bear fruit as Japan faces a renewed 25% tariff rate, as announced by President Trump. Importantly, Japan did not secure any reprieve on the 25% auto tariff rate as well. This is now identified to be affecting business outlook and decision making by the Bank of Japan (BoJ) as well in their July Branch Managers' report. Managers noted delays or re-assessment of some capex plans. Some downside risks to overseas orders were also noted.

Finally, there is a fair amount of public debate on the need to reduce the consumption tax as households' grapple with high cost of living. The LDP-Komeito coalition is advocating a one-time cash handout while the opposition parties call for cuts in consumption tax. With no public election scheduled for the next three years, this is another very important contention that will shape up fiscal policy.

Importing rice from the US could have reduced inflation without the need for the government subsidies while also resulting in lower tariffs rate. However, that was not the case as the government has made little progress on negotiations.

All this mean that considerable volatility could hit markets, if the government loses its majority in the Upper House as well. Either way, Japan's fiscal arithmetic will remain complicated. The ruling coalition has to win 50 of the 125 seats to retain a majority.

Australia: Perplexing Hold

The Reserve Bank of Australia (RBA) did not lower their policy rate despite a near full market pricing and consensus. Regular readers know that we have been one of the first to see a July cut. The decision was made with six voters in favor and three against; this unattributed tally was published for the first ever.

The outcome was perplexing as the expectations were almost universal and were based on inflation comfortably in the Bank's 2-3% target range, an economy driving in the slow lane and most of all, an Aussie consumer sensitive to higher rates (see Three Reasons Why The RBA Should Frontload Cuts for more).

The Statement of the Monetary Policy Board judged that they *"**could wait for a little more information** to confirm that inflation remains on track to reach 2.5 per cent on a sustainable basis."*

However, inflation is already the range; the headline CPI was down to 2.1% y/y and featured a downside surprise in May, while the trimmed-mean CPI was the lowest since November 2021 at 2.4%. Governor Bullock expressed reluctance in using the monthly data during the press-conference as it is "*not a full CPI*" and because the trimmed-mean monthly is not calculated in the same way as the quarterly.

Even then, headline CPI was at 2.4% y/y in Q1, while the trimmed-mean quarterly CPI was at 2.9% y/y. The May Statement of Monetary Policy (SoMP) forecasts the underlying inflation "*to be around midpoint of the 2-3 percent range throughout much of the forecast period.*"

Moreover, the May SoMP's #2 and #3 key judgements were slowing domestic spending weighed due to elevated uncertainty and net disinflationary outcomes in Australia. Against these facts, this week's hold is quite perplexing.

Finally, the 6-3 unattributed votes put the spotlight on the RBA's board composition. Six of the nine members of the board are external members, and gave way to suspicion if the RBA outsiders controlled the policy outcome. Also worth highlighting is the fact that only 2/9 members are professional economists. These facts make an attribution of voters important, as no other central bank has an external majority.

Nonetheless, we maintain our terminal forecast of 3.10% cash rate this year and see a chance for a larger cut in August if incoming data evolves as we expect.

The June labor market data will be released next week; the consensus is for a 20k employment gain and 4.1% unemployment rate. We see a bigger rise in employment given the 2.5k contraction in May. A downside beat will however support the case for frontloading cuts by the RBA. The most important data for the RBA will be the Q2 CPI data to be released at the end of the month.

Week in Review

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

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, July 07					
GE	Industrial Production (May, m/m sa)	-0.2%	1.2%	-1.6% (↓)	Volatile and soft.
Tuesday, July 08					
AU	RBA Cash Rate Target	3.60%	3.85%	3.85%	The surprise of the year.
Wednesday, July 09					
No major data releases					
Thursday, July 10					
US	Initial Jobless Claims (Jul 5, thous)	235	227	232	Largely steady.
US	Continuing Claims (Jun 28, thous)	1,965	1,965	1,955	Creeping higher.
GE	CPI (Jun, y/y, final)	2.0%	2.0%	2.1%	Steady.
IT	Industrial Production (May, m/m)	-0.2%	-0.7%	0.9% (↓)	Modest.
Friday, July 11					
CA	Unemployment Rate (Jun)	7.1%	6.9%	7.0%	Firmer than expected.
UK	Industrial Production (May, m/m)	-0.1%	-0.9%	-0.6%	Weakening continues.
FR	CPI (Jun, y/y, final)	0.9%	1.0%	0.9%	Steady.

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 State Street Investment Management are affiliated. Please note all AUM is unaudited.

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