
October 31, 2025

Commentary

Weekly Economic Perspectives

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Weekly Highlights

Fed and BoC deliver hawkish cuts, ECB reiterates hold, BoJ eyes a hike soon.

US: Fed Funds Rate
(Upper)

4.0%

Hawkish cut.

US: FHFA House Price
(Aug, y/y)

2.3%

Smallest gain since 2012!

US: Conf. Board Cons.
Confidence (Oct)

94.6

Weak.

BoC: Policy Rate

2.25%

As expected.

UK: Mortgage Approvals
(Sep, thous)

65.9%

Above expectations.

UK: Nationwide House
Px (Oct, m/m)

0.3%

Above expectations.

JP: Core Tokyo CPI
(Oct, y/y)

2.8%

Higher than the consensus.

JP: Industrial Production
(Sep, m/m)

2.2%

Big beat, driven by AI demand.

AU: CPI (Q3, y/y)

3.2%

Impact of subsidies; big blow to rate cut bets.

US: December Cut Not Guaranteed, But Likely

The FOMC delivered another 25 bp rate cut this week, as was widely expected. That came with some hawkish strings attached, however, as Chair Powell made it a point to emphasize during the press conference that another reduction in December is “far from a forgone conclusion”. Governor Miran dissented again in favor of a larger (50 bp) cut, but Kansas Fed President Schmid dissented in favor of a hold. The environment of “strongly differing views” that the Chair described was well reflected in this combination. Market participants trimmed bets on a December cut from almost 100% before the meeting to about 70-75% as of Thursday and then further to about 63% after Lori Logan of the New York Fed said Friday that she also opposed the October cut. She is not a voter, but every opinion counts in what is undoubtedly setting up to be a heated debate in December.

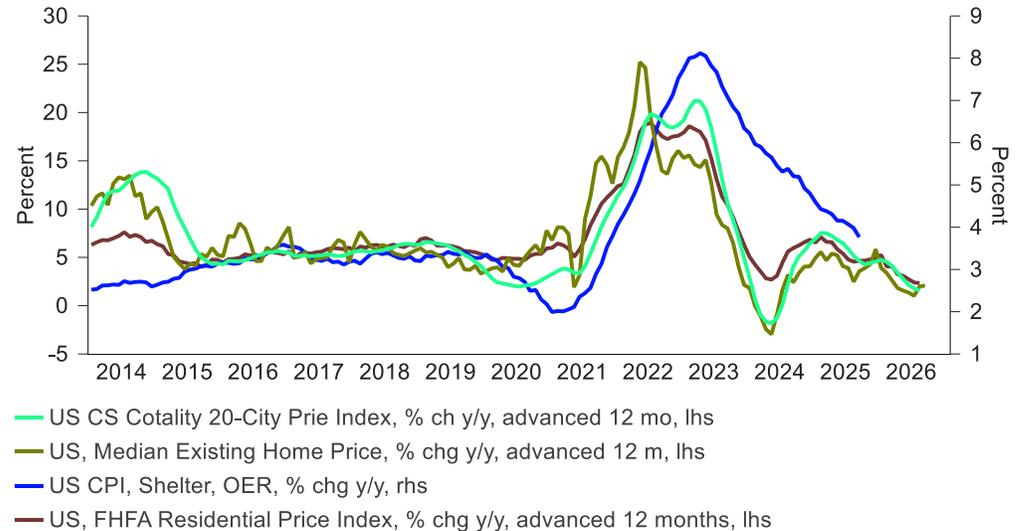
The Fed also announced the end of balance sheet runoff effective December 1 and announced plans to reinvest maturing MBS holdings into Treasury bills. It had been

broadly expected that the Fed would soon move to end QT, so there were no shocks here.

All eyes now turn to the December meeting. We expect a cut at that meeting, but the lack of timely data makes this a trickier call than it should otherwise be. For the time being, the Fed can look to existing statistics on state level unemployment claims, private sector data on job postings, and other complementary sources, but in the absence of the household employment survey, it is difficult to gauge what is occurring on the labor supply side and whether the “low hiring low firing” balancing act is still keeping the unemployment rate steady. We think it would be better for the Fed to take one more dose of insurance against the labor market soft patch before settling into an extended pause during the first few months of 2026. Moreover, the 1-year trade truce with China materially lessens concerns about a delayed inflationary impact of tariffs and should allow the FOMC to better trust existing evidence of modest pass-through. Finally, this approach could also create some buffer around the selection of the new Fed Chair.

Aside from concerns about weakening labor demand, another key element in our argument for further easing is that there is every reason to believe that there is further disinflation in shelter costs. Both market data for rent and house prices suggest we can get further relief from here and that can continue to partly offset tariff impacts (Figure 1).

Figure 1: US House Price Inflation vs OER



Source: Macrobond, State Street Investment Management, Federal Housing Finance Agency (FHFA), U.S. Bureau of Labor Statistics (BLS), National Association of Realtors (NAR), S&P Global

BoC: Policy Rate at Low End Of Neutral Range

The Bank of Canada (BoC) cut its policy rate by 25 basis points, aiming to keep inflation near 2% if projections hold. The bank expects 0.75% growth for the second half of the year and stresses price stability. The bank also expected slower future growth, especially in 2026, limiting further rate cuts without risking higher inflation.

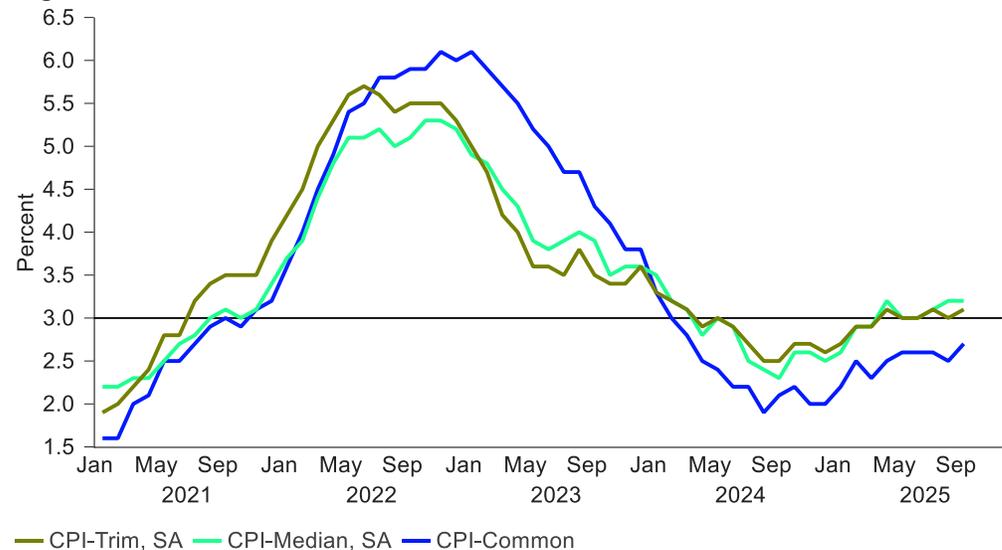
Underlying inflation, which is evaluated based on a set of inflation indicators, sits at around 2.5%, and the Bank warns it may stay above target amid weaker growth and lower trade.

With the policy rate now at the lower end of the neutral range, a pause in further changes is likely. We expect the rate to remain stable at 2.25%, though risks from international trade could lower forecasts, while the upcoming federal budget could present upside risks.

In its latest Monetary Policy Report, the BoC has reverted to issuing a single economic forecast, anticipating subdued GDP growth: 0.75% annualized by late 2025 and 0.5% for the entire year. While the Bank identifies some resilience in household and government spending, it highlights significant risks and continued declines in exports and investment. The projection for potential growth in 2026 has been revised to just 1.0%, underscoring the limited effectiveness of monetary policy in addressing structural challenges. Real GDP growth is expected to incrementally improve, reaching 1.6% by the end of 2026.

The Bank expects that trade tensions will have a mixed impact on inflation, with higher costs from tariffs balanced by lower prices due to weaker domestic and US demand. Inflation is projected to stay near the 2% target. Core inflation is expected to ease from 2.9% in Q4 2025, to 2.3% by end 2026.

Figure 2: Core Inflation Measures Trend Downward



Source: Macrobond, State Street Investment Management, Statistics Canada

BoJ: On Hold as Largely Expected

As widely anticipated, the Bank of Japan (BoJ) maintained its current monetary policy stance this week. While there was a reasonable possibility of a surprise rate hike, the BoJ opted to uphold its dovish approach—despite economic indicators and prior communications suggesting a potential shift. Notably, the Bank introduced additional conditions for future rate hikes, reinforcing a more

cautious posture. This aligns with our [recent commentary](#) on Japan's emerging policy trilemma: the increasing difficulty of simultaneously sustaining an independent monetary policy, a stable government, and a credible fiscal stimulus.

During the post-meeting press conference, Governor Ueda introduced a new prerequisite for policy tightening—confirmation of momentum in next year's *shunto* wage negotiations, echoing patterns observed last year. However, what stood out was the Governor's emphasis on downside risks stemming from a potential U.S. economic slowdown and the impact of U.S. tariffs, despite the conclusion of a trade deal. While trade data does reflect some pressure, positive developments in other regions have helped support Japan's overall economic outlook. Similar takeaways can be noted in the industrial production data released this week, which rose 2.2% m/m in September against 1.5% consensus, which was once again driven by a 4.2% rise in tech output, which is now clearly showing an impact of global AI surge.

Nonetheless, Governor Ueda's remarks suggest that any adverse effects may materialize in Q4, potentially ruling out a rate hike in December.

These dynamics could contribute to further yen depreciation, which may in turn bolster Japanese equity markets. A weaker yen, however, could also fuel inflationary pressures—already evident in October's Tokyo CPI data. The core CPI (excluding fresh food) rose 2.8% y/y, exceeding consensus expectations by two-tenths. Although this was partly driven by the expiration of the summer water utility subsidy, underlying price strength was observed across both goods and services. Especially, a number of categories within services rose strongly – accommodation (8.5% y/y), mobile phone charges (7.2%) and automobile insurance (6.9%). Additionally, the rollout of free childcare in September had a dampening effect on inflation figures; absent this policy, the data might have reflected even stronger price growth.

Looking ahead, we believe the BoJ will proceed with caution, and a consequence could be an upward risk to inflation. Given current conditions, we now see an increased likelihood of a rate hike in January.

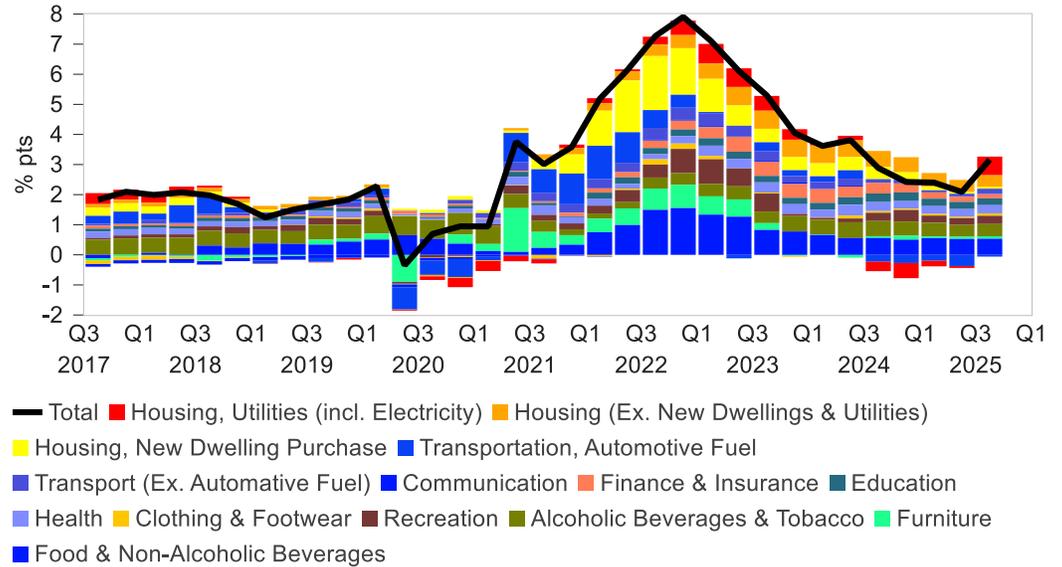
Australia: Cuts Nearly Impossible Now

Australia's Q3 Consumer Price Index (CPI) surprised meaningfully to the upside, rising 3.2% y/y (1.3% m/m)—two-tenths above consensus expectations and four-tenths above ours. While the underlying details suggest a more nuanced picture, the headline beat has led markets and consensus to move away from pricing in further rate cuts.

The most significant annual increases were observed in alcohol and tobacco (5.9%), education (5.3%), housing (4.7%), and health (4.2%). Market focus has largely centered on the sharp sequential rise in housing costs (2.5% m/m), though our analysis indicates this was primarily driven by the expiration of electricity rebates and annual price reviews. These factors alone contributed approximately 0.6 percentage points to the annual increase (see Figure 3, red bar). Electricity prices surged 23.6% y/y as state-level rebates—such as A\$1,000

in Queensland, A\$400 in Western Australia, and A\$250 in Tasmania—were fully utilized by households.

Figure 3: Australia CPI Surprise Driven By The Roll Off Of Subsidies



Source: Macrobond, State Street Investment Management, Australian Bureau of Statistics

Of particular concern is the sharpest rise in property prices since 2014, with a 6.3% increase following the September annual review. However, this was partially offset by continued moderation in rents (3.8%) and new dwelling costs (0.9%), keeping non-utility housing inflation contained.

In our view, the threshold for rate cuts has now risen significantly—not just for the remainder of this year, but well into the next. That said, we believe markets may be underestimating emerging risks in the labor market. The unemployment rate climbed to 4.5% in September, while youth unemployment reached 10.5%, the highest level since November 2021. Although youth unemployment typically trends higher, we suspect there may be underlying signals yet to be fully captured, which could become clearer with upcoming labor market data.

In summary, while the inflation data argues against near-term easing, the labor market warrants close monitoring. Absent further upward pressure on unemployment, we believe the Reserve Bank of Australia is likely done with rate cuts. We expect the Bank to remain on hold at its next meeting and to reinforce its hawkish stance through forward guidance.

Week in Review

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

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Oct 20					
No major data releases.					
Monday, Oct 27					
GE	IFO Business Climate (Oct)	88	88.4	87.7	
Tuesday, Oct 28					
US	Conf. Board Consumer Confidence (Oct)	93.4	94.6	95.6 (↑)	
US	FHFA House Price Index (Aug, m/m)	-0.1%	0.4%	0.0% (↑)	But up just 2.3% y/y, least since 2012!
US	S&P Cotality CS 20-city Index (Aug, m/m)	-0.10%	0.19%	-0.1%	But up just 1.6% y/y, least since July 2023.
IT	Consumer Confidence Index (Oct)	97.0	97.6	96.8	Moving sideways.
Wednesday, Oct 29					
US	FOMC Rate Decision (Upper Bound)	4.0%	4.0%	4.25%	QT will end Dec 1.
CA	Bank of Canada Rate Decision	2.25%	2.25%	2.5%	As we expected.
UK	Mortgage Approvals (Sep, thous)	64.0	65.9	65.0	Upside surprise.
AU	CPI (Q3, y/y)	3.0%	3.2%	2.1%	Big miss but due to electricity rebate expiries.
Thursday, Oct 30					
GE	CPI (Oct, y/y prelim)	2.2%	2.3%	2.4%	Moving sideways.
GE	Unemployment Rate	6.3%	6.3%	6.3%	Has it peaked?
FR	GDP (Q3, q/q, prelim)	0.2%	0.5%	0.3%	Pleasant surprise.
IT	GDP (Q3, q/q, prelim)	0.1%	0.0%	-0.1%	Cooling.
JN	Jobless Rate (Sep)	2.5%	2.6%	2.6%	Lowest rate in the world?
JN	Industrial Production (Sep, m/m, prelim)	1.5%	2.2%	-1.5%	Great data.

JN	BOJ Target Rate	0.50%	0.5%	0.50%	Missed opportunity.
Friday, Oct 31					
UK	Nationwide House Px (Oct, m/m)	0.0%	0.3%	0.5%	Upside surprise.
FR	CPI (Oct, y/y prelim)	1.0%	1.0%	1.2%	Putting in a bottom?

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

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