November 21, 2025
Commentary

Weekly Economic Perspectives

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Weekly Highlights

US macro data releases resume but normalization will take months.

US: Non-Farm Payrolls (Sep)
119k
Better than expected.

US: Unemployment Rate (Sep)
4.4%
Second lowest since 2021.

US: Continuing Claims (Nov 8)
1,974k
In gentle uptrend.

UK: CPI (Oct, y/y)
3.6%
Matched BoE's forecast.

UK: Retail Sales Inc Auto Fuel (Oct, m/m)
-1.1%
November's rebound is likely.

UK: Services PMI (Nov prelim)
50.5%
Lower than expectations.

JP: GDP (Q3, q/q)
-0.4%
Better than feared.

JP: Fiscal Stimulus (2025, trn yen)
21.3
Twice as last year.

AU: Wage Price Index (Q3, q/q)
0.8%
As expected.

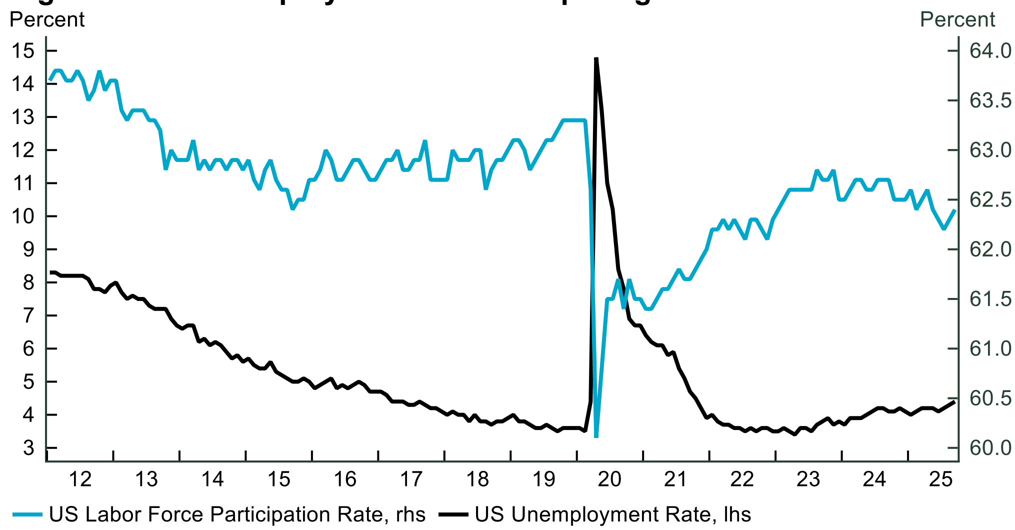
US: Fake Resilience?

Fake resilience is how we would describe the September payrolls report, released more than a month after the originally scheduled date.

The economy added a better-than-expected 119k jobs, though this was accompanied by another downward revision (-33k) to the prior two months. Unfortunately, we have no guarantee whatsoever that the 119k print wouldn't itself have been revised with the Oct update…but we won't know that because the October employment report will not be made available due to the government shutdown. That said, both the ISM surveys had suggested ongoing weakness in employment, for instance. Wages were soft: for production and non-supervisory employees, this was the softest monthly gain since March (and prior to that April 2024). The wage inflation rate for this group eased another tenth to 3.8% y/y, the lowest since March of 2020. Weekly hours were weak overall and were very weak in manufacturing, dipping below 40 for the first time in a year; this follows an even larger decline in August. Aggregate manufacturing hours were the lowest since January 2022. Yet, the payroll report puzzlingly indicated a rise in manufacturing employment...so why are firms hiring, if not to use these workers productively?

Finally, the unemployment rate rose by a tenth (and was just hairbreadth away from rising two tenths) while the participation rate rose. The balance of risks, given all that we know, including the fact that about 75k former federal government employees who took the deferred DOGE deal would come off government payrolls in October, imply a meaningful dip in overall employment in October. The Fed may not have the benefit of the actual data in hand before the December meeting, but that does not alter reality.

Figure 1: US Unemployment Rate Creeps Higher



Sources: SSGA Economics, BLS

We are focused on downside risks in the labor market, and the Fed should, too. Another cut is needed before the Fed pauses subsequently to allow the gradual normalization of data flow to guide the timing of the 2026 cuts. We were glad to hear New York Fed president John Williams making some dovish comments in this direction on Friday, which doubled the market-implied odds of a December cut to above 60% on Friday.

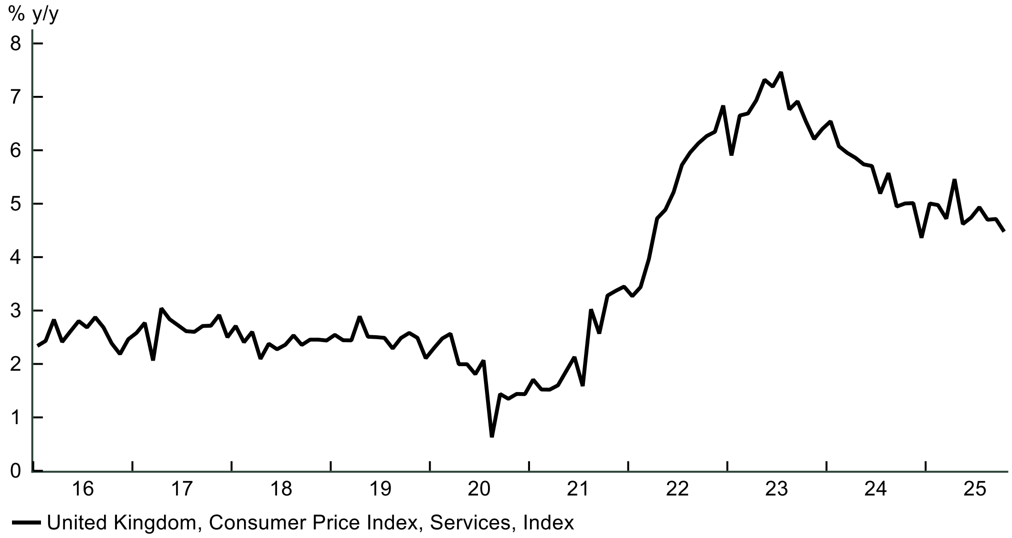
UK: Softer Services Inflation Supports December Rate Cut

This week's inflation data is expected to have little impact on the MPC members' views. Governor Bailey's remarks remain key, and a December rate cut is still possible.

Headline inflation seems to have moved beyond its peak, falling from 3.8% y/y in September to 3.6% y/y in October, just above the market's forecast of 3.5% but in line with the Bank of England's expectations. The main factor behind this drop was an unexpected surge in food prices. October's food inflation reached 4.9%, higher than September's 4.5%. This uptick may leave some MPC members worried about persistent inflation expectations, fearing these could lead to more lasting price pressures. However, supermarket prices across the eurozone seem to have stabilized, suggesting downside risks to the BoE's inflation forecasts.

The services sector remains positive, even as restaurant and café prices rise due to ongoing food cost pressures. Overall services inflation fell from 4.7% to 4.5%, partly driven by lower airfares.

Figure 2: UK Services Inflation Retreats Again



Sources: Macrobond, SSGA Economics, ONS, BoE
Updated as of 11/23/2025

Additionally, private sector wage growth has moderated significantly. It is unlikely that the recent inflation figures will change the views of BoE's policymakers who are already in favor of immediate policy easing to mitigate potential labor market vulnerabilities.

Considering current trends, attention continues to be directed toward Governor Andrew Bailey, whose recent remarks suggest a more dovish stance. Accordingly, we expect his support for a potential rate reduction in December.

We also do not expect the Autumn Budget to make much difference to the outlook. Although gilt yields rose after reports that the government may abandon income tax hikes due to a smaller budget deficit, significant tax increases are still expected in 2026. This scenario adds modest support for continuing monetary policy easing.

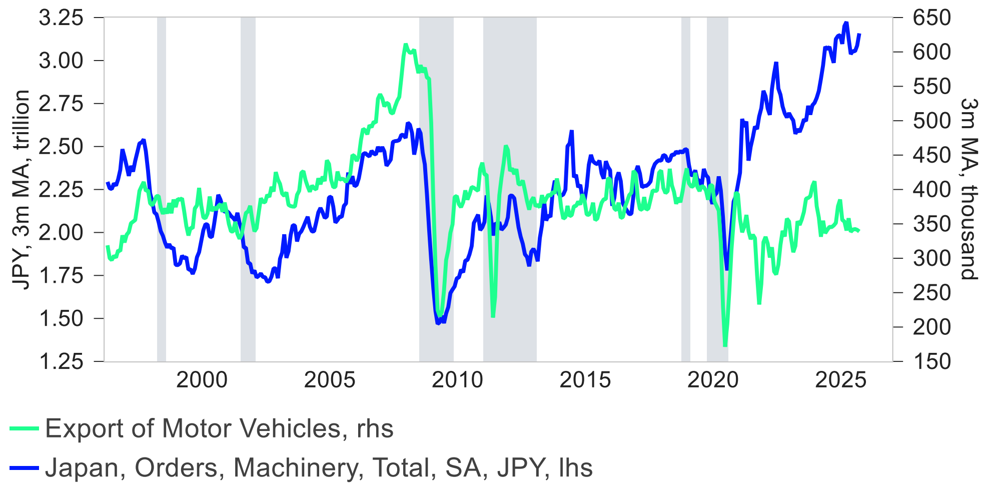
Japan: Q3 Contraction Doesn't Stop The Bull Case

The economy contracted 0.4% q/q in Q3, faring much better than we (0.7%) and consensus (0.6%) expected. There was sharp 9.4% contraction in residential investment as regulatory changes had triggered an earlier surge, followed by mean reversion in Q3. This alone lowered GDP by 0.3 pp. Exports also fell 1.2% q/q as expected and dragged growth by 0.2 pp. Private consumption rose 0.1% as a slight rise in non-durables offset the fall in durables. However, capital expenditures – the most consistent driver of growth rose 1.0%.

Be that as it may, data flow indicates that the tide is turning for the economy. Firstly, machinery orders registered a strong 11.6% y/y growth in September driven by orders in AI related sectors. Manufacturing orders jumped 23.3%, driven by the largest rise in chemical industry in more than two decades. Large jumps were registered in production machinery (29.7% m/m) and IT and electronics (22.7%) too, closely linked with semiconductor production.

Regular readers know that we have long flagged the crocodile jaw between orders and automobile exports from Japan, meaning that Japan's machinery orders are no longer just about auto production (Figure 3). Japan's AI contributions are not as highly appreciated but the value they add to global semiconductor supply-chain is gargantuan. This is one long-term trend that we keep a close tab on.

Figure 3: Japan Is Not Just An Auto Story Anymore



Source: Macrobond, State Street Investment Management, Japanese Cabinet Office (CAO), Japan Automobile Manufacturers Association (JAMA)

Further on, the Cabinet approved a fiscal stimulus package of 21.3 trillion yen ($135.5 billion) to help households with high cost of living, and the general account for the supplementary budget accounts for 17.7 trillion yen, significantly exceeding last year's 13.9 trillion. Prime Minister Takaichi calls this "responsible proactive fiscal policy" as her administration aims to bring market borrowing down as much as possible. This includes a cash handout and immediate relief on energy costs, but the GDP impact is unclear as the full details are not yet known.

With this, Japan now has a credible fiscal stimulus and a stable government for the first time in a long-time. These two factors form a part of the policy trilemma in Japan, which could only mean that the Bank of Japan (BoJ) might remain behind the curve for the foreseeable future. (read more here "Sanaenomics": A Truss or a Meloni moment? | State Street).

Governor Ueda had a flurry of meetings with PM Takaichi and other officials and continued to signal the possibility of a December hike. Whether it comes in December or January, the hike will keep the BoJ quite behind the curve and subsequent hikes might come even gradually. Furthermore, they would depend to a larger extent on the Fed's cutting and the US economic cycles. All these factors indicate extended macro stability in Japan, perhaps with similar market implications.

Week in Review

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

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, November 17					
US	Empire Manufacturing (Nov)	5.8	18.7	10.7	Volatile,
CA	CPI (Oct, y/y)	2.1%	2.2%	2.4%	No rate cut is expected in December.
JN	Industrial Production (Sep, m/m, final)	n/a	2.6%	-1.5%	Rebounding, positive for 2026.
Tuesday, Nov 18					
US	Factory Orders (Aug)	1.4%	1.4%	-1.3%	Better, but volatile.
US	Durable Goods Orders (Aug, final)	2.9%	2.9%	-2.8%	Better, but volatile.
JN	Core Machine Orders (Sep, m/m)	2.0%	4.2%	-0.9%	Excellent data.
Wednesday, Nov 19					
UK	CPI (Oct, y/y)	3.5%	3.6%	3.8%	Supporting December rate cut.
Thursday, Nov 20					
US	Initial Jobless Claims (Nov 15, thous)	227	220	228	Pretty steady.
US	Continuing Jobless Claims (Nov 8, thous)	1,950	1,974	1,946	In gentle uptrend.
US	Change in Nonfarm Payrolls (Sep, thous)	53	119	-4	Softer details.
US	Unemployment Rate (Sep)	4.3%	4.4%	4.3%	It nearly rounded to 4.5%.
US	Existing Home Sales (Oct, millions)	4.08	4.10	4.05	Weak.
JN	Natl CPI (Oct, y/y)	3.0%	3.0%	2.9%	Sufficient inflation for BoJ to act.
Friday, Nov 21					
US	U. of Mich. Sentiment (Nov, final)	50.6	51.0	50.3	Soft.
UK	Retail Sales Inc Auto Fuel (Oct, m/m)	-0.2%	-1.1%	0.7%	November's rebound is expected.
UK	Services PMI (Nov, prelim)	52	50.5	52.3	Growth slowing down.
UK	Manufacturing PMI (Nov, prelim)	49.2	50.2	49.7	Unexpected improvement.
GE	Manufacturing PMI (Nov, prelim)	49.8	48.4	49.6	Soft.
FR	Manufacturing PMI (Nov, prelim)	49	47.8	48.8	Soft.
JN	Manufacturing PMI (Nov, prelim)	n/a	48.8	48.2	Barely treading water.

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

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