February 6, 2026
Commentary

Weekly Economic Perspectives

Contents

Contact

Simona Mocuta
Chief Economist
simona_mocuta@statestreet.com

Amy Le
Macro-Investment Strategist
amy_le@statestreet.com

Krishna Bhimavarapu
Economist
VenkataVamseaKrishna_Bhimavarapu@statestreet.com

Weekly Highlights

Election landslide in Japan, the RBA hikes, the ECB and BoE hold steady.

US: Job Openings (Dec, mil.)
6.542
Big decline.

US: ISM Non-Manufacturing (Jan)
53.8
Steady.

EZ: ECB Main Refinancing Rate
2.15%
On hold for now.

UK: BoE Policy Rate
3.75%
Clear easing bias remains.

UK: Manufacturing PMI (Jan, final)
51.6
17-month high.

UK: Nationwide House Price
0.3%
In line with expectations.

JP: Household Spending (Dec, m/m)
-2.9%
Payback from strong November.

AU: RBA Cash Rate (Feb)
3.85%
A hike as we feared.

AU: Building Approvals (Dec, m/m)
-14.9%
Seasonal noise, or a signal?

US: Labor Market Softness Deepens

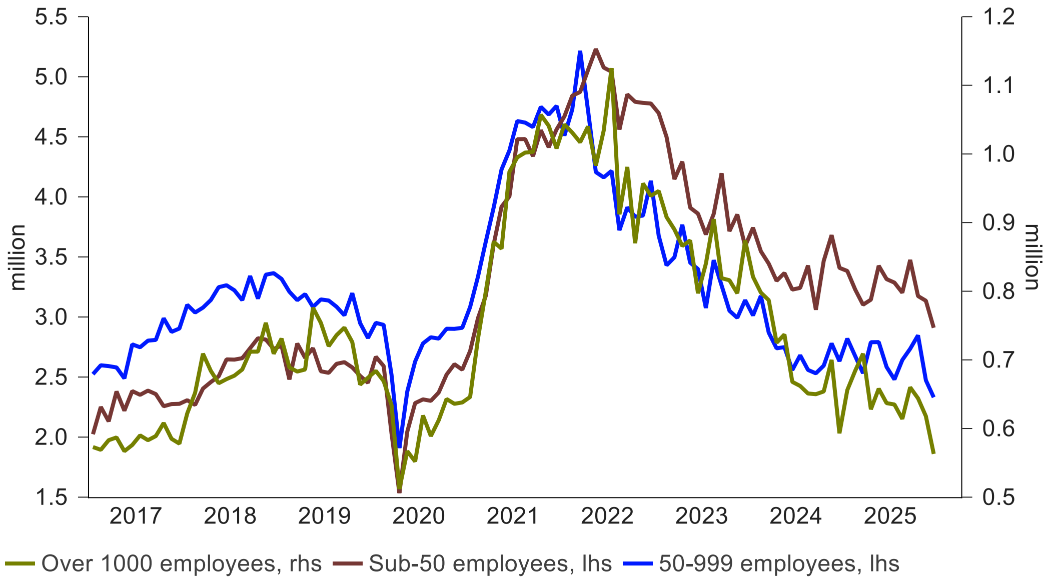
Last week, we noted the sharp language used by Governor Waller to justify his dissent in favor of a rate cut at the January meeting. This week's labor market updates offered the perfect data support for his position, with job openings plunging and layoffs surging.

Job openings dropped by 386k to 6.542 million in December, the third consecutive decline and the lowest level since September 2020. This is below levels that typically prevailed in 2018-19, suggesting a troublesome lack of job creation in the economy. Notably, the pullback was broad-based, encompassing even the previously more resilient small business segment (Figure 1, page 2). As such, it bears close watching, especially in light of the latest layoffs data.

Indeed, layoffs rose notably in January to 108,435, the highest print for any January going back to 2009. Admittedly, layoffs were significantly higher in October and in early 2025 when government sector layoffs surged amid DOGE actions.

Even so, the message is clear: the softening in the labor market is now approaching a more critical juncture, with less cushion remaining before a rise in unemployment occurs. Our call for three Fed cuts this year, starting in April, seem very warranted.

Figure 1: Broad-Based Decline In US Job Openings



Source: Macrobond, State Street Investment Management, U.S. Bureau of Labor Statistics (BLS)

BoE Rate Cuts: A Matter of Timing

The Bank of England has kept its policy rate unchanged at 3.75%, matching what markets expected. The committee's 5-4 split vote in favor of holding rates highlights an ongoing divide between members who support easing (doves) and those who prefer tighter policy (hawks). Ramsden and Breeden joined Dhingra and Taylor among the doves.

While the Bank's statement still signals further rate cuts, it now uses less specific language. The previous wording about rates "continuing on a gradual downward path" was replaced with simply "be reduced further," dropping the word "gradual" and leaving more room for interpretation. This new phrasing allows for potential rate cuts at either a faster or slower pace than before. The Bank also emphasized that future decisions on the size and timing of rate cuts will depend on economic data, especially inflation trends.

The latest statement notes less concerns about stubborn inflation, though risks remain due to weak demand and a softer labor market. The Bank lowered its growth forecast for 2026 from 1.2% to 0.9% and raised its expected unemployment peak for early next year to 5.3%. Inflation is expected to get close to 2% by the second quarter, helped in part by recent fiscal measures.

The Bank of England's messaging this week is clearly dovish. Four members wanted immediate rate cuts, and there is a sign that Catherine Mann could soon join them. The main policy points suggest that inflation concerns are easing, making further rate cuts likely, although these decisions will be guided by incoming data. Governor Bailey noted some changes to the inflation outlook were prompted by government policy but stressed that disinflation is happening sooner than previously anticipated.

We continue to maintain that a rate cut is likely in March. Nevertheless, the final decision will depend largely on forthcoming economic indicators, making both March and April viable possibilities. We project that the CPI will decline significantly to approximately 3%, while the unemployment rate is expected to rise notably in the upcoming reports. Should significant progress be demonstrated in both wages and inflation by April, we expect that an additional rate reduction will occur in June, resulting in a policy rate of 3.25% for the year.

Japan: Landslide

Prime Minister Takaichi's Liberal Democratic Party (LDP) secured a resounding mandate in the Lower House elections held on February 8, winning 316 of the 465 seats. This marks the largest victory in the party's history, surpassing the previous record of 304 seats set in 1986. Together with its coalition partner, the Japan Innovation Party (JIP), which won 36 seats, the ruling bloc now controls 352 seats—a supermajority that allows the government to pass legislation through the Lower House even without Upper House approval.

The scale of the victory makes the implementation of a two-year sales tax cut on food, a key LDP campaign promise, all but certain. More importantly, with the coalition now positioned to govern until February 2030, policymakers have a rare opportunity to shape Japan's medium- to long-term economic and fiscal framework. While there is a risk that the food tax cut becomes permanent, the extended political runway also creates scope for more innovative and proactive fiscal management.

Paradoxically, the supermajority may reduce the urgency for an immediate fiscal push. With less political pressure to spend aggressively, the government may be able to temper market concerns around higher borrowing—despite the continuation of the so-called "Takaichi trade," marked by a sharp equity rally and a steeper JGB yield curve. This restraint could ultimately prove supportive for the Bank of Japan's policy normalization.

Our base case remains one rate hike this year, but the likelihood of front-loading that move would rise materially if the yen were to weaken sharply.

Australia: Hawkish Pivot

The Reserve Bank of Australia (RBA) raised the cash rate by 25 bps last week to 3.85%, becoming the first major central bank—outside Japan—to resume rate hikes following the post-Covid easing cycle, similar to their move in 2009.

Alongside the rate increase, the RBA introduced notable upgrades to its forecasts. Headline CPI is now expected to rise 4.2% in June (trimmed-mean 3.7%), a half a percentage point jump and expected to ease to the mid-point of 2.6% the RBA's target only by June 2028. The unemployment rate is still expected to hold at 4.3% through December 2026 and only peak modestly at 4.5% in December 2027. The Bank has also raised its estimate of the neutral rate to 3.60% (from 3.10% in October 2025 and 2.7% in May 2025) and now expects productivity growth to average 0.6% y/y.

The Governor's press conference carried a distinctly hawkish tone, emphasizing stronger demand, tighter supply side constraints, and easier financial conditions. She noted that the "economy is closer to supply capacity than previously thought" and highlighted "years of weak to no productivity growth." These comments underscore the RBA's heightened sensitivity to the risk of inflation re-accelerating due to capacity limitations.

Taken together, the forecasts and guidance leave open the possibility of another rate hike later this year—potentially in Q2—if inflation remains elevated during that period. That said, we continue to highlight that monthly inflation data may show a decelerating trend, especially in the key market-services and housing components. However, given the hawkish pivot at this meeting, we are uncertain whether the RBA will fully acknowledge these signals. Unless the labor market deteriorates meaningfully, the Bank appears unlikely to shift its stance. We remain cautious, especially as the rapidly changing US labor market—an important leading indicator for Australia—adds further uncertainty.

Week in Review

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Feb 02					
US	ISM Manufacturing (Jan)	48.5	52.6	47.9	Notable bounce.
UK	Manufacturing PMI (Jan, final)	51.6	51.8	50.6	17-month high
UK	Nationwide House Price (Jan, m/m)	0.3%	0.3%	-0.4%	In line with expectations.
GE	Manufacturing PMI (Jan, final)	48.7	49.1	47.0	Inching towards even.
FR	Manufacturing PMI (Jan, final)	51.0	51.2	51.0	Improving.
IT	Manufacturing PMI (Jan)	48.5	48.1	47.9	Soft.
JN	S&P Global Japan PMI Mfg (Jan, final)	n/a	51.5	50.0	Modest expansion.
Tuesday, Feb 03					
AU	Building Approvals (Dec, m/m)	-6.4%	-14.9%	13.1% (↓)	Volatile.
AU	RBA Cash Rate Target	3.85%	3.85%	3.60%	As we feared.
Wednesday, Feb 04					
US	ISM Services Index (Jan)	53.5	53.8	54.4	Mixed details.
UK	Services PMI (Jan, final)	54.3	54.0	51.4	Fastest growth since August 2025.
FR	Services PMI (Jan, final)	47.9	48.4	50.1	Soft.
Thursday, Feb 05					
US	Initial Jobless Claims (Jan 31, thous)	212	231	209	Within recent range.
UK	Bank of England Bank Rate	3.75%	3.75%	3.75%	Dovish sentiment is gaining traction.
GE	Factory Orders (Dec, m/m)	-2.2%	7.8%	5.7% (↑)	Clear upturn; up 12.6% y/y.
Friday, Feb 06					
US	U. of Mich. Sentiment (Feb, prelim)	55.0	57.3	56.4	Inflation expectations retreated.
CA	Unemployment Rate (Jan)	6.8%	6.5%	6.8%	Better than expected.
GE	Industrial Production (Dec, m/m, sa)	-0.3%	-1.9%	0.2%	Down 0.5% y/y.

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

About State Street Investment Management

At State Street Investment Management, we have been helping to deliver better outcomes to institutions, financial intermediaries, and investors for nearly half a century. Starting with our early innovations in indexing and ETFs, our rigorous approach continues to be driven by market-tested expertise and a relentless commitment to those we serve. With over $4 trillion in assets managed*, clients in over 60 countries, and a global network of strategic partners, we use our scale to create a comprehensive and cost-effective suite of investment solutions that help investors get wherever they want to go.

*This figure is presented as of March 31, 2025 and includes ETF AUM of $1,553.58 billion USD of which approximately $106.42 billion USD 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.

ssga.com

Marketing Communication

Important Risk Discussion

State Street Global Advisors (SSGA) is now State Street Investment Management. Please go to statestreet.com/investment-management for more information.

Investing involves risk including the risk of loss of principal.

All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability, or completeness of, nor liability for, decisions based on such information, and it should not be relied on as such.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

The whole or any part of this work may not be reproduced, copied, or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

The views expressed in this material are the views of SSGA Economics Team through the period ended February 6, 2025, and are subject to change based on market and other conditions. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation. This means that this marketing communication.

(a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This communication is directed at professional clients (this includes eligible counterparties as defined by the "appropriate EU regulator" who are deemed both knowledgeable and experienced in matters relating to investments. The products and services to which this communication relates are only available to such persons and persons of any other description (including retail clients) should not rely on this communication.

Intellectual Property Information

BLOOMBERG®, a trademark and service mark of Bloomberg Finance L.P. Standard & Poor's S&P 500 Index® is a registered trademark of Standard & Poor's Financial Services LLC. FTSE 100® is a trademark jointly owned by the London Stock Exchange Plc and The Financial Times Limited, and is used by FTSE International Limited under license. "All-World", "All-Share" and "All-Small" are trademarks of FTSE International Limited.

Australia: State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services License (AFSL Number 238276). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia. T: +612 9240-7600. F: +612 9240-7611.

Belgium: State Street Global Advisors Belgium, Chaussée de La Hulpe 185, 1170 Brussels, Belgium. T: +32 2 663 2036. State Street Global Advisors Belgium is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2

Canada: State Street Global Advisors, Ltd., 1981 McGill College Avenue, Suite 500, Montreal, Qc, H3A 3A8, T: +514 282 2400 and 30 Adelaide Street East Suite 1100, Toronto, Ontario M5C 3G6. T: +647 775 5900.

Dubai: State Street Global Advisors Limited, DIFC branch is regulated by the Dubai Financial Services Authority (DFSA) as a category 4 regulated firm and is only active in arranging deals in investments and advising on financial products. This document is intended for Professional Clients or Market Counterparties only as defined by the DFSA and no other person should act upon it.

State Street Global Advisors Limited, DIFC Branch, OT 01-39, 1st Floor, Central Park Towers, DIFC, P.O Box 507448, Dubai, United Arab Emirates. Regulated by the DFSA under reference number: F009297. Telephone: +971 4 871 9100

France: State Street Global Advisors Europe Limited, France Branch ("State Street Global Advisors France") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors France is registered in France with company number RCS Nanterre 899 183 289, and its office is located at Coeur Défense — Tour A — La Défense 4, 33e étage, 100, Esplanade du Général de Gaulle, 92 931 Paris La Défense Cedex, France. T: +33 1 44 45 40 00. F: +33 1 44 45 41 92.

Germany: State Street Global Advisors AG, Kalanderplatz 5, 8045 Zürich. Registered with the Register of Commerce Zurich CHE-105.078.458. Tel: + 41 44 245 7000.

Hong Kong: State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. T: +852 2103-0288. F: +852 2103-0200.

Ireland: State Street Global Advisors Europe Limited ("SSGAEL"), regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered number 49934. T: +353 (0)1 776 3000. Fax: +353 (0)1 776 3300. Web: www.ssga.com.

Italy: State Street Global Advisors Europe Limited, Italy Branch ("State Street Global Advisors Italy") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors Italy is registered in Italy with company number 11871450968 — REA: 2628603 and VAT number 11871450968, and its office is located at Via Ferrante Aporti, 10 - 20125 Milan, Italy. T: +39 02 32066 100. F: +39 02 32066 155.

Japan: State Street Global Advisors (Japan) Co., Ltd., Toranomon Hills Mori Tower 25F 1-23-1 Toranomon, Minato-ku, Tokyo 105-6325 Japan. T: +81-3-4530-7380. Financial Instruments Business Operator, Kanto Local Financial Bureau (Kinsho #345), Membership: Japan Investment Advisers Association, The Investment Trust Association, Japan, Japan Securities Dealers' Association.

Netherlands: State Street Global Advisors Netherlands, Apollo Building 7th floor, Herikerbergweg 29, 1101 CN Amsterdam, Netherlands. T: +31 20 7181 000. State Street Global Advisors Netherlands is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2.

Singapore: State Street Global Advisors Singapore Limited, 168, Robinson Road, #33-01 Capital Tower, Singapore 068912 (Company Reg. No: 200002719D, regulated by the Monetary Authority of Singapore). T: +65 6826-7555. F: +65 6826-7501.

South Africa: State Street Global Advisors Limited is regulated by the Financial Sector Conduct Authority in South Africa under license number 42670.

Switzerland: State Street Global Advisors AG, Beethovenstr. 19, CH-8027 Zurich. Registered with the Register of Commerce Zurich CHE-105.078.458. T: +41 (0)44 245 70 00. F: +41 (0)44 245 70 16.

United Kingdom: State Street Global Advisors Limited ("SSGAL"). Authorized and regulated by the Financial Conduct Authority, Registered No.2509928. VAT No. 5776591 81. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. Telephone: 020 3395 6000. Facsimile: 020 3395 6350

United States: State Street Investment Management, One Congress Street, Boston, MA 02114.

2537623.319.1.GBL.RTL

Exp. Date: 02/28/2027