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April 3, 2026  
Commentary

## Weekly Economic Perspectives

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**Weekly Highlights**

US labor market data gets increasingly puzzling.

US: Non-farm Payrolls Change (Mar)

**178k**

Oddly strong.

US: Unemployment Rate (Mar)

**4.3%**

Participation rate declined again.

US: ISM Manufacturing (Mar)

**52.7**

Price metrics jumped.

UK: GDP (Q4, q/q, final)

**0.1%**

No major revisions.

UK: Manufacturing PMI (Mar, final)

**51.0**

Private sector disappointed.

UK: Mortgage Approvals (Feb, thous)

**62.6**

Above expectations.

JP: All Firm Sentiment Index (Q1)

**18**

Great underlying resiliency.

JP: Tokyo CPI Inflation (Mar, y/y)

**1.4%**

Favorable base effects.

AU: Building Approvals (Feb, y/y)

**29.7%**

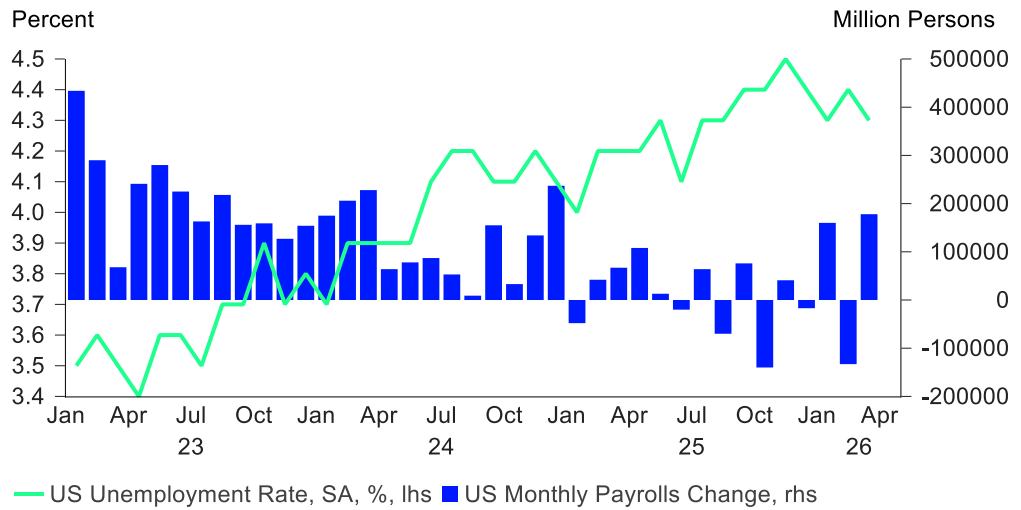
Sharp rebound.

**US: What's Going on With US Labor Data?**

The US labor data appears to us increasingly perplexing. The striking volatility in monthly payrolls data over the last several months is hard to explain even in the context of the government shutdown, methodology adjustments, bad weather, and strike activity (Figure 1). It is highly unlikely, in our view, that the real economy truly exhibits these sizable shifts in employment, especially since other indicators do not suggest similar moves. It is therefore unwise to read too much into any single monthly report, and it is difficult to formulate a high-conviction view of where the trend is really taking us. We still lean towards the view that labor demand is soft yet acknowledge the fact that if positive surprises of the magnitude seen in January and March continue, that view might need revisiting. But we also remind ourselves (and our readers) that over the last fourteen months, we had exactly one positive payrolls revision; all the others have been negative. As such, we are not ready to “throw in the towel” just yet.

Let us acknowledge the surprisingly strong March employment report, however. Non-farm payrolls reportedly rose by 178k, far exceeding expectations and the best print in over a year. The wo-month net revision was a small negative (7k), but the revisions to the individual months themselves were substantial, with January revised up by 34k and February down by 41k.

**Figure 1: Striking Volatility in US Payrolls Data**



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

As reported, job gains were broad across industries, with few exceptions being information, financial services, and government. But other elements of the report were considerably softer. For instance, the average workweek shrank by 18 minutes so, despite more people working, the aggregate hours index (a measure of work effort in the economy) declined 0.2% m/m. Wages were also on the softer side. Wage inflation as measured by average hourly earnings moderated 0.3 percentage points (ppts) to 3.5% for the full worker population and also by 0.3 ppt to 3.4% for production and non-supervisory employees. These marked respective lows for the two series since May 2021.

According to the household survey, employment declined by 64k and unemployment by a sizable 332k, meaning the labor force shrank by almost 400k people. This lowered the labor force participation rate by another tenth to 61.9%, the lowest since November 2021. The unemployment rate declined a tenth to 4.3% and almost rounded down to 4.2%. We are somewhat suspicious of the big, reported drop in unemployment, but it remains to be seen whether future updates will confirm it. For those who are unemployed, it is getting harder to get a job. The average duration of unemployment is 25.3 weeks, just marginally shorter than in February and (outside of Covid) the longest since November 2017. The median duration of 11.5 weeks is the longest since August 2015.

**UK: Small shifts in business inflation expectations**

This week, Bank of England (BoE) Governor Andrew Bailey highlighted in an interview that carefully addressing economic shocks is essential to reducing their adverse effects on both employment and the broader economy. He voiced doubts about market expectations for more interest rate hikes, suggesting that investors may be overly optimistic. We continue to expect that the Bank Rate will stay at 3.75% for a prolonged period.

The BoE's March Decision Maker Panel (DMP) survey indicated marginal changes in business inflation expectations, highlighting firms' currently limited capacity to implement price increases. Business inflation projections saw modest upward revisions: companies' own-price forecasts rose from 3.4% to 3.7%, one-year Consumer Price Index (CPI) estimates increased from 3.0% to 3.5%, and three-year projections edged up from 2.7% to 2.8%. By contrast, household inflation expectations experienced a notable rise, increasing from 3.6% in February to 4.5% in March, the highest level observed in three and a half years.

With a weaker job market and less negotiating leverage for workers, business forecasts have become even more significant. Business employment projections shifted from +0.3% to -0.3%, and wage expectations dipped from 3.5% to 3.4%. Most firms now believe the Bank of England will hold rates steady instead of raising them.

Meanwhile, the latest quarterly national accounts indicate that GDP growth for Q4 2025 remains steady at 0.1%, with only minor revisions to previous data. Adjustments in expenditure have mitigated declines in both business investment and net trade; however, consumer spending continues to be subdued.

Public sector activity has served as the principal contributor to recent GDP growth and is anticipated to sustain near-term momentum. Nevertheless, persistent geopolitical tensions coupled with reduced consumer purchasing power are adversely impacting private sector prospects. We expect UK economic growth in 2026 to remain moderate.

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**Japan: Highest  
Business Sentiment  
Since 1991**

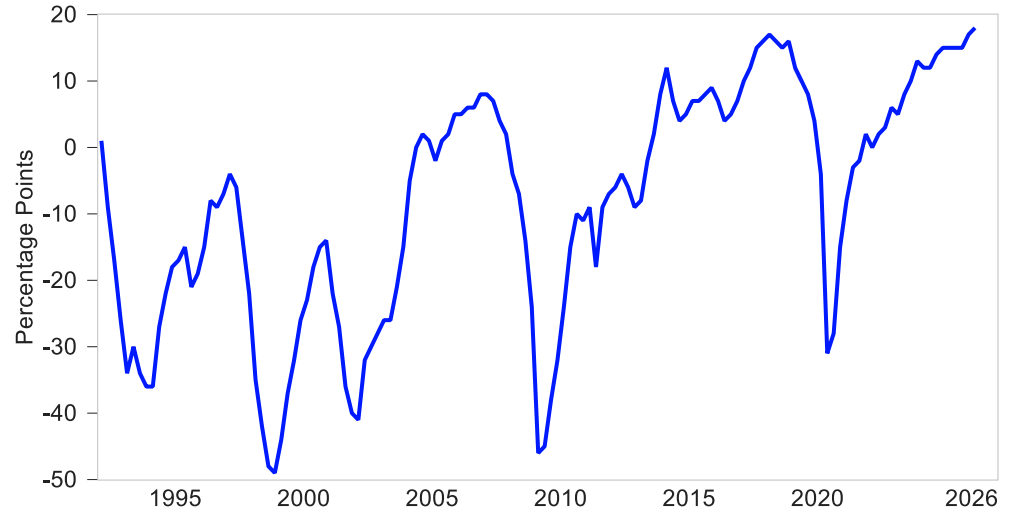
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The Bank of Japan's Tankan survey shows a notable improvement in business sentiment, with the diffusion index across all firms rising to 18 points, the highest level since Q3 1993. The improvement is broad-based and particularly noteworthy given the survey window ran from February 26 to March 31. This timing means respondents were able to at least partly factor the Iran war into their outlooks. While sentiment weakened among firms in the oil and coal sectors, it rose solidly among large manufacturers, especially in equipment and machinery and automobiles.

These results align well with the tone of the Bank of Japan's latest meeting minutes, which leaned hawkish. Several members emphasized that accommodative financial conditions have been maintained despite the rate of hikes delivered so far. While we expect the Bank to pause at the next meeting due to concerns around demand destruction from higher oil prices, the signal coming from the BoJ appears more resolute than that.

On the potential impact of higher oil prices, one member noted that while a temporary rise in inflation may not warrant a policy response, cost-push pressures could intensify due to excessive yen depreciation or more pronounced second-round effects. This is a risk we also see as increasingly relevant. Another member went further, suggesting that the Bank may need to accelerate the pace of hikes and shift toward neutral or even restrictive financial conditions.

**Figure 2: BoJ Tankan All Enterprises Business Sentiment Index**



Source: Macrobond, State Street Investment Management, Bank of Japan (BOJ)

This discussion broadly fits with our BoJ outlook for the year. We continue to think the Bank is likely to hold off on further hikes, given the policy space it has and its willingness to remain behind the curve. As the war drags on, the initial impact is likely to be inflationary, while the secondary effect could be weaker growth. This was a key reason we downgraded our growth forecast to 0.6 percent last week. With three weeks still to go before the next meeting, incoming data will be critical in shaping the Bank's next move.

## Week in Review

A summary of macro data releases from the past week.

| Country                 | Release (Date, format)                   | Consensus | Actual | Last     | Comments  |
|-------------------------|--|-----------|--------|----------|---|
| <b>Monday, Mar 30</b>   |  |           |        |          |   |
| UK                      | Mortgage Approvals (Feb, thous)          | 60.0      | 62.6   | 60.2 (↑) | Above expectations.                               |
| GE                      | CPI (Mar, y/y, prelim)                   | 2.6%      | 2.7%   | 1.9%     | Energy price bump.                                |
| <b>Tuesday, Mar 31</b>  |  |           |        |          |   |
| US                      | Conf. Board Consumer Confidence (Mar)    | 87.9      | 91.8   | 91.0 (↓) | Surprising improvement.                           |
| UK                      | GDP (Q4, q/q, final)                     | 0.1%      | 0.1%   | 0.1%     | Consumer spending remains weak.                   |
| UK                      | Nationwide House PX (Mar, m/m)           | 0.0%      | 0.9%   | 0.3%     | Good.   |
| GE                      | Unemployment Rate (Mar)                  | 6.3%      | 6.3%   | 6.3%     | Employment was unchanged.                         |
| FR                      | CPI (Mar, y/y, prelim)                   | 1.6%      | 1.7%   | 0.9%     | Energy price bump.                                |
| JN                      | Jobless Rate (Feb)                       | 2.7%      | 2.6%   | 2.7%     | Solid.  |
| JN                      | Industrial Production (Feb, m/m, prelim) | -2.0%     | -2.1%  | 4.3%     | Payback.  |
| <b>Wednesday, Apr 1</b> |  |           |        |          |   |
| US                      | Retail Sales Advance (Feb, m/m)          | 0.5%      | 0.6%   | -0.2%    | Control sales up 0.5%.                            |
| US                      | ISM Manufacturing (Mar)                  | 52.3      | 52.7   | 52.4     | Employment still weak, price metrics up.          |
| UK                      | Manufacturing PMI (Mar, final)           | 51.4      | 51.0   | 51.7     | Still expanding but at softer than expected rate. |
| GE                      | Manufacturing PMI (Mar, final)           | 51.7      | 52.2   | 50.9     | Welcome improvement.                              |
| FR                      | Manufacturing PMI (Mar, final)           | 50.2      | 50.0   | 50.1     | Weak.   |
| IT                      | Manufacturing PMI (Mar)                  | 50.9      | 51.3   | 50.6     | Modest.   |
| JN                      | Manufacturing PMI (Mar, final)           | n/a       | 51.6   | 53.0     | Keeping momentum.                                 |
| AU                      | Building Approvals (Feb, m/m)            | 5.5%      | 29.7%  | -7.2%    | Driven by high-density units.                     |
| <b>Thursday, Apr 2</b>  |  |           |        |          |   |
| US                      | Initial Jobless Claims (Mar 28, thous)   | 212       | 202    | 211      | Quite low.  |
| <b>Friday, Apr 3</b>    |  |           |        |          |   |
| US                      | Change in Nonfarm Payrolls (Mar, thous)  | 65        | 178    | -133 (↓) | Oddly strong.                                     |
| US                      | Unemployment Rate (Mar)                  | 4.4%      | 4.3%   | 4.4%     | Participation rate dropped.                       |
| FR                      | Industrial Production (Feb, m/m)         | -0.1%     | -0.7%  | 0.2% (↓) | Weak.   |

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

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