January 16, 2026
Commentary

Weekly Economic Perspectives

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Weekly Highlights

Mixed incoming data supports Fed January pause.

US: CPI Inflation (Dec, y/y) 2.7% OK details.	US: Core CPI Inflation (Dec, y/y) 2.6% It almost rounded up.	US: Retail Sales (Nov, m/m) 0.6% Good result.
CA: Manufacturing Sales (Nov, m/m) -1.2% Weak.	CA: Housing Starts (Dec, thous) 282.4 Weak overall.	UK: Industrial Productio (Nov, m/m) 1.1% Above expectations.
JP: Goods PPI Inflation (Dec, y/y) 2.4% Trending low but remains strong.	AU: Consumer Sentiment (Jan) 92.9 Higher rate expectations.	AU: Household Spending (Nov, m/m) 1.0% Coming in hot.

US: Mixed Data Say Fed Hold

None of the main data releases this week offered big surprises. Inflation came largely in line with expectations as headline CPI printed 2.7% y/y and core printed a high 2.6%. Both are good enough to prevent the resurgence of acute worries over the trajectory of inflation into year-end.

If there was a surprise, it came from the manufacturing sector, as both the Empire and the Philly Fed manufacturing surveys printed much better than expected, with good details on new orders and encouraging details on prices. In conjunction with improving factory orders, this hints at an improvement in the manufacturing sector. But this will been to be sustained for some months to really turn into a visible lift given the prolonged period of sluggishness we have experienced.

The housing data sent mixed signals. On one hand, existing home sales rose just over 5.0% in December to the highest level since early 2023, suggesting that lower interest rates are finally helping to unfreeze this segment of the market. On the other hand, though, homebuilder sentiment unexpectedly declined in January, marking the first retreat since August. The tug of war between pent-up demand and stretched affordability in the housing sector will likely continue throughout 2026.

Figure 1: US Inflation Good Enough (For Now)

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

UK: November's Rebound

The economy grew 0.3% in November, bouncing back from October's slight decline despite ongoing uncertainty around the Autumn Budget. Monthly figures are still volatile. While vehicle production dropped sharply in September due to a cyber-attack, it recovered in November. On the other hand, construction remains weak, having fallen nearly 3% since July.

Although a rapid recovery in the housing market is unlikely, improved results in November point to modest growth for the fourth quarter. With interest rates less restrictive than before, the Monetary Policy Committee (MPC) is putting greater emphasis on economic indicators when making decisions. This suggests rate cuts will probably be slower, but new forecasts in February could give the MPC more reasons to ease policy. We expect the next rate cut to occur in March.

Japan: Political Turbulence (Again)

Prime Minister Sanae Takaichi is reportedly preparing to call a snap election for the Lower House, a move that could introduce short-term turbulence into Japan's political landscape. Japan's first female prime minister is seeking to convert her minority government into a stable majority, buoyed by her strong public standing. According to an NHK poll conducted on January 13, Takaichi currently enjoys a 62% approval rating, a favorable environment to seek a renewed mandate.

However, the timing of the dissolution adds an element of uncertainty. The Constitutional Democratic Party of Japan (CDP) is forming a new political party in partnership with Komeito, which until recently had been the Liberal Democratic Party's (LDP) junior coalition partner for 26 years. Together, the CDP and

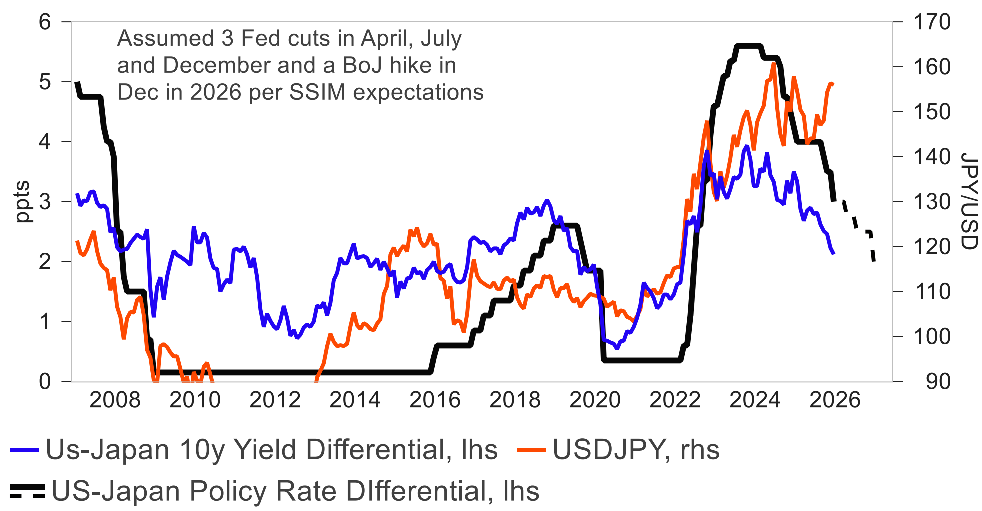
Komeito command 175 seats in the Lower House—significant, yet still short of the 233 seats required to form a government outright.

This poses a new challenge for Takaichi. Historically, the LDP–Komeito alliance coordinated closely in single-member districts, avoiding vote-splitting and delivering mutual electoral gains. With that long-standing arrangement now dissolved, the ruling bloc faces a more competitive electoral map.

Currently, the LDP–Japan Innovation Party (JIP) coalition is projected to be the most likely grouping capable of reaching the 233-seat majority threshold. Yet within that outcome lies another challenge: the LDP itself may struggle to secure a solo majority, even if the broader coalition succeeds. Moreover, any Lower House majority Takaichi wins would still coexist with a minority position in the Upper House, where elections are not scheduled until 2028. This limits the administration's legislative freedom.

These political dynamics are likely to add volatility to Japanese markets in the coming months. This comes on top of existing macroeconomic pressures. Inflation is expected to ease sharply, and the Bank of Japan (BoJ) is widely expected to maintain a firm rate-hike stance at its January meeting. Meanwhile, the yen has weakened considerably, hovering near 158 per US Dollar, despite narrowing interest-rate differentials. Hence, despite easing inflation, the BoJ will also be focused on the weak yen and will also be observing the elections closely.

Figure 2: The Real Question Is: Where Will The Yen Settle?



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

Taken together, persistent political uncertainty—combined with currency weakness and monetary policy shifts—may keep Japanese markets on edge as the snap-election narrative unfolds. However, the goldilocks scenario is for PM Takaichi to gather a majority despite all odds, which would mean better fiscal and stronger defense policies.

Week in Review

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

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Jan 12					
AU	Westpac Consumer Conf Index	n/a	92.9	94.5	Rate hike chatter bites.
Tuesday, Jan 13					
US	NFIB Small Business Optimism	99.2	99.5	99	Modest.
US	CPI (Dec, y/y)	2.7%	2.7%	2.7%	Core CPI at 2.6%.
US	New Home Sales (Oct, thous)	715	737	738	Trying to move higher.
US	Federal Budget Balance (Dec, $bn)	-155.0	-144.7	-86.7	Notable widening
CA	Building Permits (Nov, m/m)	-5.5%	-13.1%	15.7% (↑)	Weaker than expected.
Wednesday, Jan 14					
US	Retail Sales Advance (Nov, m/m)	0.5%	0.6%	-0.1% (↓)	Good result.
US	PPI Final Demand (Nov, y/y)	2.7%	3.0%	2.8%	Goods 3.2%, services 2.9%.
US	Existing Home Sales (Dec, m/m)	2.2%	5.1%	0.7%	Lower rates help.
US	Business Inventories (Oct)	0.1%	0.3%	0.3%	Unremarkable.
JN	PPI (Dec, y/y)	2.4%	2.4%	2.7%	Holding strong but easing inflation overall.
Thursday, Jan 15					
US	Empire Manufacturing (Jan)	0.8	7.7	-3.7	Good.
US	Philadelphia Fed Business Outlook (Jan)	-1.6	12.6	-8.8 (↑)	Welcome!
US	Initial Jobless Claims (10 Jan, thous)	215	198	207	Surprisingly low.
US	Continuing Claims (03 Jan, thous)	1,899	1,884	1,903	Surprisingly low.
CA	Manufacturing Sales (Nov, m/m)	-1.1%	-1.2%	-1.0%	Weak.
UK	Industrial Production (Nov, m/m)	0.2%	1.1%	1.3%	Above expectations.
FR	CPI (Dec, y/y final)	0.8%	0.8%	0.9%	Modest.
IT	Industrial Production (Nov, m/m)	0.5%	1.5%	-1.0%	Volatile.
Friday, Jan 16					
US	Industrial Production (Dec, m/m)	0.1%	0.4%	0.4%	Modest.
US	NAHB Housing Market Index (Jan)	40	37	39	Surprising decline; lower buyer traffic.
CA	Housing Starts (Dec, thous)	260	282.4	254.6	OK.
GE	CPI (Dec, y/y final)	1.8%	1.8%	2.3%%	Big moderation!
IT	CPI NIC incl. tobacco (Dec, y/y, final)	1.2%	1.2%	1.1%	Nothing really surprising.

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

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