January 23, 2026
Commentary

Weekly Economic Perspectives

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Weekly Highlights

This week's macro data surprises came not from US, but Japan and Australia.

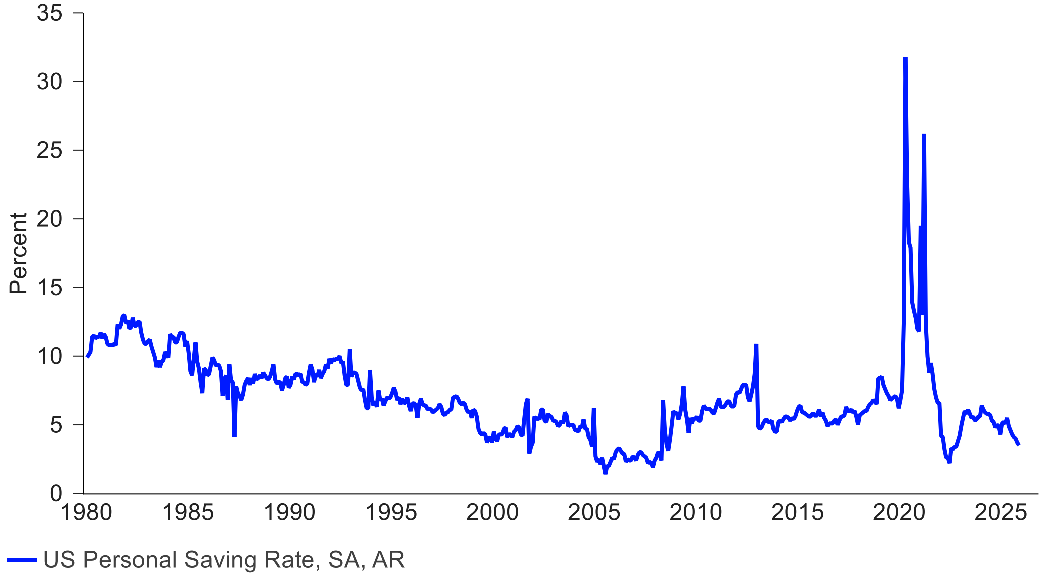
US: Core PCE Inflation (Nov, y/y) **2.8%** Likely biased lower.	US: Personal Saving Rate (Nov) **3.5%** Three-year low.	EZ: CPI Inflation (Dec, y/y) **1.9%** Modest.
CA: CPI Inflation (Dec, y/y) **2.4%** Tax-related base effects.	UK: Average Weekly Earnings (Nov, 3m y/y) **4.7%** Wage growth softening.	UK: CPI Inflation (Dec, y/y) **3.4%** Still below BoE's forecasts.
JP: Manufacturing PMI (Jan) **51.5** Highest since mid-2022.	JP: CPI Inflation (Dec, y/y) **2.1%** Sharply down from 2.9%.	AU: Unemployment Rat (Dec) **4.1%** Raises odds of a Feb hike.

US: The Consumer Buffer Thins

The concept of a K-shaped economy has been percolating in macro commentaries for a while now, and with good reason. While strong wealth accumulation in the top income quartiles imply little downside risks to consumption in that space, the loosening labor market presents a more material threat for low-income consumers whose incomes are primarily labor-derived. New data this week put the household savings rate at just 3.5%, the lowest level since late 2022. It would be unwise to ring the alarm bells too loudly because in recent years such downshifts in the savings rate were subsequently alleviated by upward revisions to income and this may happen yet again. What is different now, however, is that the labor market itself is in a much more precarious point, with job growth having slowed dramatically over the last 9 months.

Nobody can tell how much of this reflects the effects of AI-related labor displacement. However, we can be pretty sure that those effects will intensify, rather than dissipate, over the coming year. As such, a low savings rate highlights a potential consumer vulnerability insofar as a job loss in an environment of reduced savings could require more substantial consumption cutbacks.

Figure 1: Low US Personal Saving Rate Means Less Consumer Buffer



Source: Macrobond, State Street Investment Management, U.S. Bureau of Economic Analysis (BEA)

UK: Inflation Rebound

Inflation climbed to 3.4% y/y in December, but this figure is still below what the Bank of England expected. Food inflation went up slightly, from 4.2% to 4.5%, which is also less than the bank's forecast of 5.3%. This suggests that worries about consistently high food prices might be exaggerated. Air fares, though known for their volatility, only rose a little, so they had minimal effect on overall services inflation.

In addition, core services inflation has remained steady at 4% for the past three months, giving little reason to the Bank of England to change interest rates during its next meeting. The bank will probably hold off until there are clearer signs of improvement, especially since many service prices are updated once a year and big hikes seen last year aren't likely to happen again. Overall, we expect that if weak hiring and moderate wage growth persist, the Bank may lower rates in March and again in June, bringing the Bank Rate to 3.25%.

Japan: Quiet Meeting

The Bank of Japan (BoJ) kept policy settings unchanged, as widely expected, and reverted to its earlier view that inflation is likely to remain around the target range — a stance it held through October last year. The most notable update was an upward revision to the FY2026 real GDP growth forecast, raised by three-tenths to 1.0%. Core CPI projections were also lifted across the forecast horizon: to 3.0% (+0.2ppt) in FY2025, 2.2% (+0.2ppt) in FY2026, and 2.1% (+0.1ppt) in FY2027. These adjustments closely align with our own updated forecasts from December 2025.

Forward guidance was left unchanged, with the BoJ reiterating that it "would continue to raise the policy interest rate" if its economic outlook is realized.

During the press conference, Governor Ueda was pressed on the possibility of accelerating rate hikes. While he didn't rule it out explicitly, he emphasized there was no need to rush and noted the BoJ stands ready to act with the government under "exceptional" circumstances — though he did not define what those would entail. He also stressed that the yen will be monitored closely, given its increasing influence on inflation dynamics. Overall, the first meeting of 2026 was uneventful, but the tone suggests March or April may not be as quiet.

More importantly, headline national CPI fell sharply to 2.1% y/y in December as the Takaichi administration's energy subsidies began feeding through. Core CPI (ex-fresh food) eased by 0.1% m/m to 2.4% y/y — a sizeable drop from 3.0% in November. Food inflation remains elevated at 6.7% y/y, though this is well below July's 8.3% peak. We expect inflation to moderate into February due to favorable base effects, complicating calls for a more aggressive tightening path.

PMI data for January featured positive surprises, with the composite index up 1.7 pts to 52.8 and a 1.5 pts jump in manufacturing PMI to the highest level since mid-2022. New export orders index jumped 4.9 pts to 52.2 – the highest level in nearly five years. This jump is consistent with the signals from projections of manufacturers in last month's industrial production data. The data is also consistent with one of our key forecasts that Japan would benefit materially from AI, as production is shifting into this value segment from traditional industries.

Against this backdrop, we maintain our forecast of just one rate hike this year, likely in the second half. That said, a persistently weak yen — particularly if it breaches and holds above 160 — could pressure the BoJ to move earlier. Markets are increasingly pricing this risk scenario, with expectations for a 25bp hike in July now nearly fully reflected in pricing.

For now, attention shifts to politics, as campaigning for the snap elections — officially called this week — gets underway.

Australia: Surprise Drop in Unemployment

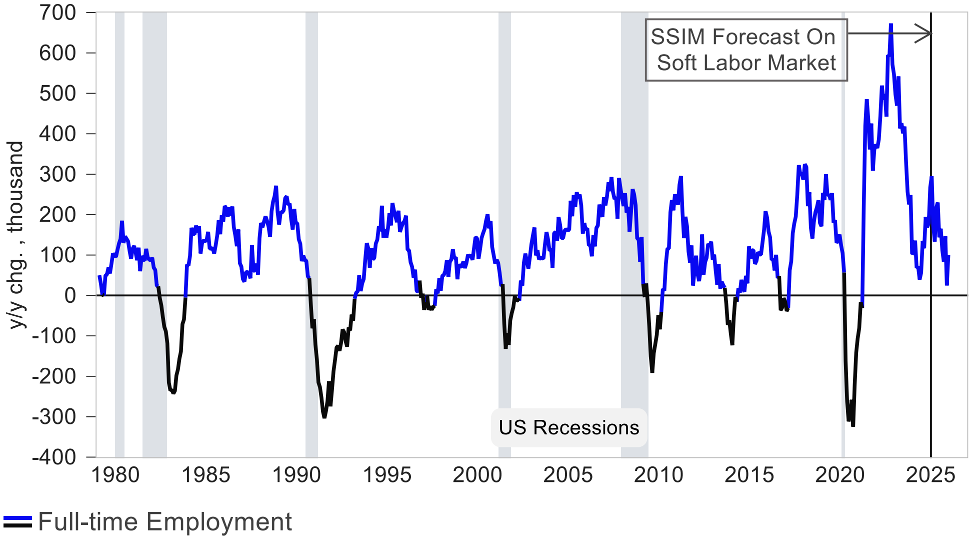
December's labor market report delivered an unexpectedly strong set of numbers, with the economy adding 65.2k jobs — nearly twice the consensus — and the unemployment rate falling by two tenths to 4.1% despite expectations of an increase. The data meaningfully strengthens the case for a February rate hike, though we remain cautious about over-interpreting a single month's print, particularly given the seasonal distortions often seen around the holiday period, similar experience in the last two years.

A key driver of the upside surprise was strong participation at 66.7%, led by a striking 2.2-ppt jump among workers aged 15–24. The ABS highlighted this dynamic in its release, noting that it drove a sharp 0.9 ppts drop in unemployment for the cohort. This matters because, while the 15–24 group represents just 12.6% of the population, it accounts for a disproportionately large share of both employment (21.8%) and the labor force (23.1%), meaning swings in youth participation can materially sway headline figures.

The composition of job gains was also encouraging: full-time employment rose by 54.8k, reversing last month's similarly sized decline. Still, the seasonal pattern in

Q4 should not be dismissed, and it may also help explain why household spending surprised to the upside, rising 1.0% m/m in November, supported by robust retail activity and effective promotional campaigns. Still, the direction of travel of the labor market is materially important and with it near its full capacity, we think further gains are hard to gain (figure 4).

Figure 2: Australia's Full-Time Employment Is Cyclical



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

The focus now shifts to next week's Q4 CPI release. If inflation lands around the RBA's expected 0.7% q/q, there remains a solid case for the Bank to stay on hold in February. However, a stronger-than-expected print would elevate the risk of a hike. We expect trimmed-mean inflation to come in at 3.2% y/y and still believe the RBA would benefit from waiting for clearer data in the first half of the year — giving itself more flexibility to ease in the second half should conditions allow.

Week in Review

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Jan 19					
CA	CPI (Dec, y/y)	2.2%	2.4%	2.2%	Tax-related base effects impact CPI.
Tuesday, Jan 20					
UK	Average Weekly Earnings (Nov, 3m y/y)	4.6%	4.7%	4.8%	Cooling wage growth.
UK	ILO Unemployment Rate (Nov, 3-months)	5.1%	5.1%	5.1%	Remained high.
GE	ZEW Survey Expectations (Jan)	50	59.6	45.8	Quite a comeback:4.5-year high!
Wednesday, Jan 21					
UK	CPI (Dec, y/y)	3.3%	3.4%-	3.2%	Not alarming.
AU	Unemployment Rate (Dec)	4.3%	4.1%	4.3%	Big surprise, but could reverse.
Thursday, Jan 22					
US	GDP (Q3, annualized q/q)	4.3%	4.4%	4.3%	Pretty impressive.
US	Initial Jobless Claims (17 Jan, thous)	210	200	198	Low.
US	Continuing Claims (10 Jan, thous)	1,895	1,849	1,875	Well behaved.
US	Personal Income (Nov)	0.4%	0.3%	0.1%	The saving rate declined again to 3.5%.
US	Personal Spending (Nov)	0.5%	0.5%	0.5%	Real spending rose 0.3%.
JN	Natl CPI (Dec, y/y)	2.2%	2.1%	2.9%	Lower than we expected, but underlying is firm.
JN	S&P Global Japan PMI Mfg (Jan, prelim)	n/a	51.5	50	Highest since mid 2022.
Friday, Jan 23					
US	U. of Mich. Sentiment (Jan, final)	54.0	56.4	54.0	Stabilizing.
CA	Retail Sales (Nov, m/m)	1.2%	1.3%	-0.3%	Welcome rebound.
UK	GfK Consumer Confidence (Jan)	-16	-17	-17	Weak.
UK	Retail Sales Inc Auto Fuel (Dec, m/m)	0.0%	0.4%	-0.1%	Consumer spending will likely remain soft.
GE	Services PMI (Jan, prelim)	52.6	53.3	52.7	Good.
GE	Manufacturing PMI (Jan, prelim)	47.8	48.7	47.0	Still quite bad.
FR	Manufacturing PMI (Jan, prelim)	50.4	51.0	50.7	Modest.

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

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