STATE STREET INVESTMENT MANAGEMENT

February 13, 2026
Commentary

Weekly Economic Perspectives

Contents

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Weekly Highlights

Mixed data signals continue around the globe.

US: Non-Farm Payrolls Change **130k** Strong, but downward revisions.	US: Unemployment Rate (Jan) **4.3%** Welcome, but can it last?	US: CPI Inflation (Jan) **2.4%** Core inflation also eased.
UK: GDP (Q4, q/q, prelim) **0.1%** Weak business investment.	UK: Industrial Production (Dec, m/m) **-0.9%** Much weaker than expected.	UK: Manufacturing Production (Dec, m/m) **-0.5%** Weak.
JP: Cash Earnings (Dec, y/y) **2.4%** Solid (last month revised +1.7%).	AU: Consumer Sentiment (Feb, % m/m) **-2.6%** Impact of RBA hike.	NAB: Capacity Utilizatio (Jan) **82.9%** 0.6 ppts below the peak.

US: Mixed Data Should Not Preclude Rate Cuts

It is rare that the two marquee macro reports for the US economy—the employment and inflation data—are released in the same week. They were this week, and, at least on the surface, offered divergent signals on the state of the economy and the desired monetary policy path.

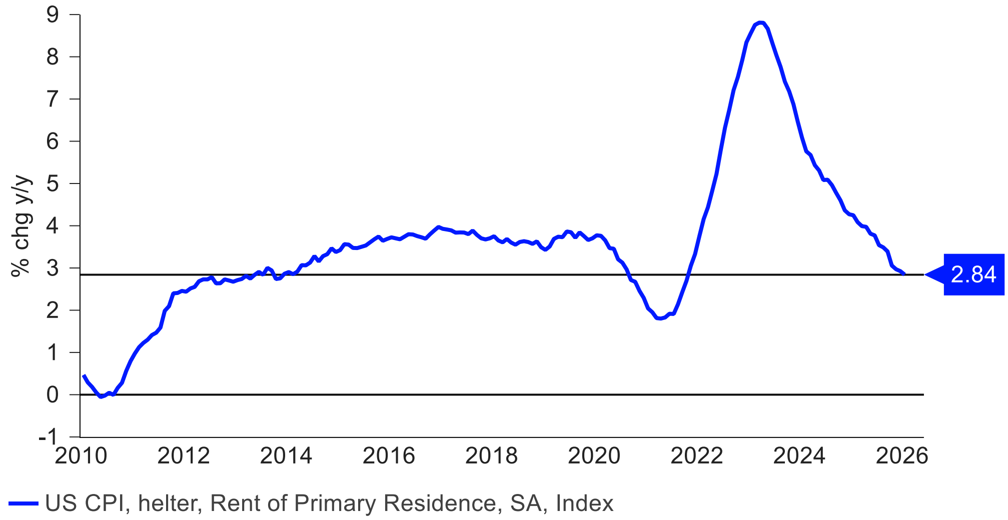
On one hand, the payrolls data was a clear upside surprise, coming in at 130k versus 65k expected. The unemployment rate ticked down a tenth to 4.3%, a five-month low and the underemployment rate dipped sharply to a six-month low of 8.0%. The hours worked and wages rebounded sequentially (month on month basis) after unusually weak December readings.

But these headline positive surprises were accompanied by yet another set of major downward revisions to the employment trajectory over the prior year, with employment at end-2025 roughly one million lower than prior estimates. To us, this is the bigger story, though we do not want to dismiss the stronger January data out of hand. Time will tell whether a genuine rebound in employment growth is possible, but we are a little suspicious of the big jump in healthcare/social assistance.

The market reaction to the employment report was, unsurprisingly, hawkish, with 10-year yields moving higher and odds of a June rate cut retreating. That didn't last long, however. The inflation update on Friday showed fairly tepid prices pressures, especially in the important shelter component, so the week ended on a dovish tone. Headline inflation eased three tenths to 2.4% y/y, a tenth more than anticipated;

core inflation eased one tenth to 2.5% y/y. For the headline, this was the lowest level since May; for core, since March 2021!

Figure 1: US Rent Inflation Now Below Pre-Covid Norms



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

This improvement reflects steady easing in shelter inflation, which more than offsets recent increases in core goods inflation. Given current market indicators of rent inflation, it is reasonable to anticipate further gentle easing in rent inflation over the next few months. Our end-of-year core-PCE forecast sits at 2.3% y/y in Q4, a little below the Fed’s 2.5% projection.

UK: Growth Slows at End 2025

The economy recorded a 0.1% expansion in the fourth quarter, resulting in an annual growth rate of 1.3% last year, in line with our projections.

Notably, business investment and construction declined markedly during the last part of the year. The decrease in business investment was influenced largely by fluctuations in car production, which were linked to a significant cyberattack at the end of the third quarter. These factors compounded broader uncertainties preceding the Budget and subdued business confidence. The decline in construction activity underscores the continuing effects of earlier interest rate hikes by the Bank of England.

Looking ahead, our analysis indicates that economic conditions in 2026 may be somewhat less robust than those anticipated for 2025. Real disposable income growth is expected to remain largely stable. Inflation is forecasted to decrease markedly and sustain this lower level throughout the year. Nevertheless, wage growth is experiencing a notable slowdown.

Business confidence remains low, likely limiting investment, but rising lending growth suggests conditions may improve by mid-year. Government spending will be more restrictive compared with 2025. Recent surveys show the labor market is still fragile. We forecast 0.9% GDP growth in 2026.

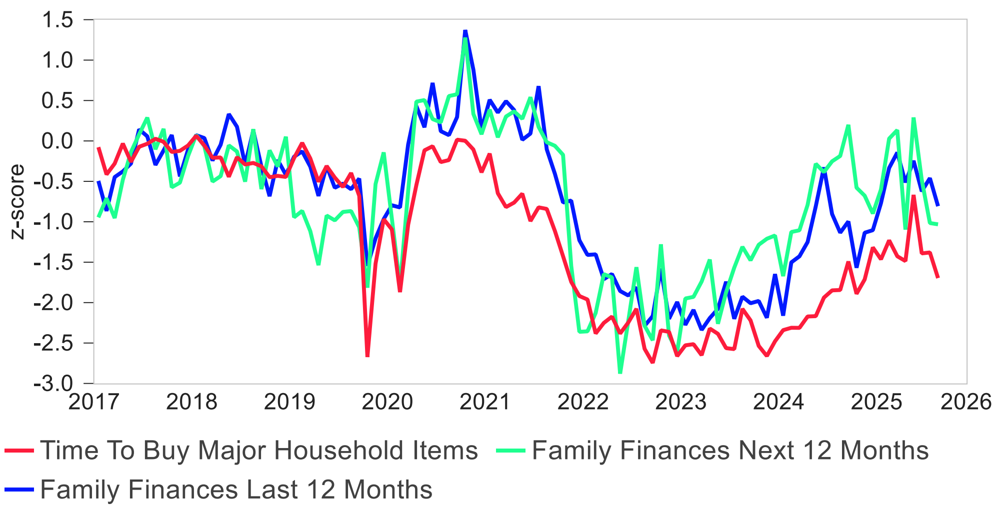
The latest GDP data likely won't impact the Bank of England, which has already noted weak Q4 results. If slow job growth and falling wages persist, we expect that rate cuts will happen in March and June.

Australia: Hike Jitters

The Reserve Bank of Australia's (RBA) hike last week and guidance that another remains possible is weighing on consumer sentiment. **Consumer sentiment** fell for a third consecutive month in February, declining 2.6% m/m to 90.5. While we expected sentiment to weaken, the deterioration was larger than anticipated.

The decline was broad-based. The sharpest falls were in "time to buy a dwelling" (-6.3%) and "time to buy a major household item" (-5.6%), alongside weaker perceptions of family finances (-4.7%) and future economic conditions (-2.5%). Mortgage rate expectations surged 16.1%, with Westpac noting that 80% of consumers now expect mortgage rates to rise over the next year. The survey provider also highlighted that the RBA's rate hike "dented attitudes" toward purchases and "has put renewed pressure on finances." The survey highlights clear downside risks to our 2.5% GDP growth forecast for this year.

Figure 2: Australia's Consumer Sentiment Eases



Source: Macrobond, State Street Investment Management, Melbourne Institute of Applied Economic & Social Research

Household spending data reinforce the mixed outlook. Spending fell 0.4% m/m in December following a stronger increase in November. As a result, Q4 household spending rose 0.9% q/q. This provides some near-term support to GDP growth, but it is also likely to reinforce the RBA's hawkish bias.

In contrast, **business conditions** are showing signs of softening. The NAB Business Survey for January showed conditions easing by 3 points to 7, the lowest level since July 2025. The decline was driven by weaker trading conditions (-6 points), profitability (-3 points), and a modest fall in capacity utilization (-0.2

percentage points). Notably, inflation-related indicators fell to new post-pandemic lows. Labor costs declined 50 basis points to 1.3% q/q, while final product prices fell 30 basis points to 0.5% q/q. Retail prices eased 20 basis points to 0.3% q/q, and purchase costs declined by a similar margin to 1.1% q/q. Finally, forward orders rose 3 points to +2, but stock of inventory fell 12 pts to -1. The average of the difference in the last three months was negative (as was the case in the last two years), indicating that demand expectations ran ahead of realized demand.

Overall, this week's data releases underwhelmed expectations. Consumer sentiment has taken a clear hit from the RBA's rate hike and forward guidance, while business conditions and inflation pressures are easing. Looking ahead to next week, we expect the unemployment rate to rise by 10 basis points to 4.2%.

Week in Review

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Feb 09					
AU	Westpac Consumer Conf (Feb. m/m)	--	-2.6%	-1.7%	Taking a hit from RBA rate hike.
Tuesday, Feb 10					
US	Retail Sales Advance (Dec, m/m)	0.4%	0.0%	0.6%	Modest.
Wednesday, Feb 11					
US	Change in Nonfarm Payrolls (Jan, thous)	65	130	48	Clear upside surprise, but odd details.
US	Unemployment Rate (Jan)	4.4%	4.3%	4.4%	Broad improvement across RU measures.
IT	Industrial Production (Dec, m/m)	-0.5%	-0.4%	1.5%	Modest.
JN	PPI (Jan, y/y)	2.3%	2.3%	2.4%	Moderate.
Thursday, Feb 12					
US	Initial Jobless Claims (Feb 7, thous)	223	227	232	Still low.
US	Continuing Claims (Jan 31, thous)	1,850	1,862	1,844	Still low.
US	Existing Home Sales (Jan, millions)	4.15	3.91	4.27	Weakest since September 2024.
UK	GDP (Q4, q/q, prelim)	0.2%	0.1%	0.1%	Soft.
UK	Industrial Production (Dec, m/m)	0.0%	-0.9%	1.3%	Soft.
UK	Manufacturing Production (Dec, m/m)	-0.1%	-0.5%	1.9%	Soft.
Friday, Feb 13					
US	CPI (Jan, y/y)	2.5%	2.4%	2.7%	Encouraging trends.

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

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