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February 20, 2026

Commentary

# Weekly Economic Perspectives

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**Weekly Highlights**

US economy ends bumpy 2025 on a softer note amid shutdown impact.

US: Real GDP Growth (Q4, saar)

**1.4%**

Shutdown drag.

US: Philly Fed Index (Feb)

**16.3**

Mixed details.

US: Core PCE Deflator (Dec, y/y)

**3.0%**

A bit hotter than expected.

CA: Headline CPI (y/y, Jan)

**2.3%**

Slightly below expectations.

UK: Headline CPI (y/y, Jan)

**3.0%**

In line with our expectations.

UK: Unemployment Rate (3 months, Dec)

**5.2%**

Ongoing weakening.

JP: Machinery Orders (Dec, m/m)

**23.8%**

Highest since 2014.

JP: CPI Inflation (Jan, y/y)

**1.5%**

Takaichi (subsidies) effect.

JP: Composite PMI (Feb)

**53.8**

Very, very strong.

**US: Slowdown into Year-End**

Following torrid growth in the second and third quarters, real GDP growth slowed markedly in the fourth under the combined influence of the government shutdown and a greatly diminished contribution from trade.

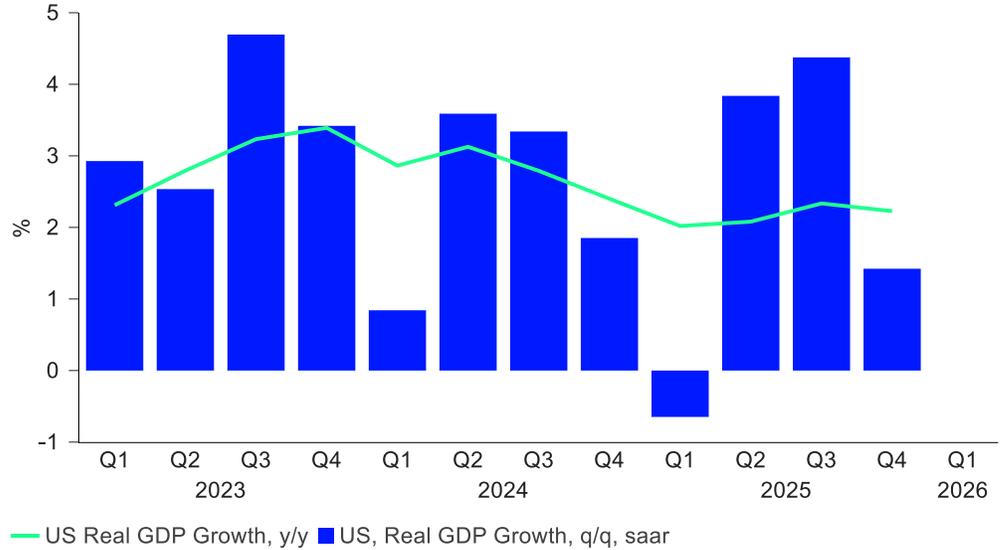
Real GDP grew at a seasonally adjusted, annualized rate of 1.4% in the fourth quarter, down from 4.4% in the third. On the positive side of the ledger, personal consumption contributed about 1.6 percentage points (ppts), fixed investment contributed 0.45 ppts, and inventories added 0.21 ppts. Net exports were almost neutral, having boosted Q3 growth by 1.6 ppts. Government spending detracted 0.9 ppts, having added almost 0.4 in the third quarter. Evidently, with the extensive government shutdown over, there will be some bounce-back here in Q1.

Real GDP grew 2.2% in 2025, moderating from 2.8% in 2024 and 2.9% in 2023. We look for growth of around 2.5% this year. Performance is likely to remain bumpy throughout the year as base effects and policy changes will impact firm behavior.

A case in point is the Supreme Court decision that rendered the IEEPA tariffs imposed on April 2 unconstitutional. We anticipate that the administration will move swiftly to deploy tariffs utilizing alternative avenues—albeit at a lower weighted rate—such that the impact on economic activity and inflation over the course of the year would be somewhat muted. Nevertheless, as policy parameters shift, we are

likely to see firms actively managing import flow in a way that could lead to considerable skews in performance from quarter to quarter.

**Figure 1: Softer Ending To A Bumpy Year For the US Economy**



**UK: Data Favors  
March Rate Cut**

This week’s labor market report reinforces our expectations for a Bank of England rate cut in March.

Ongoing stagnation within the employment sector lifted the unemployment rate by 0.1 percentage points to 5.2%. Consumer industries remain under pressure, mainly because of previous increases in payroll taxes and the National Living Wage. Outside of consumer-focused industries, conditions appear relatively stable. Although private sector employment is gradually declining according to three-month average payroll data, the contraction is modest. There have been no significant increases in redundancies across the broader economy, and vacancy levels have stabilized. Therefore, we expect job losses to happen gradually, not suddenly, although public sector hiring probably won’t make up for the decrease in private-sector jobs this year.

We expect the unemployment rate to rise to approximately 5.4% in the second quarter, with risks tilted to the upside. Wage growth is expected to slow further. Private-sector wage growth currently stands at 3.4%, with our projections indicating a decline to 3.1% in Q2.

At the same time, recent UK inflation figures have limited impact on the likelihood of a rate cut in March. January’s CPI fell markedly to 3.0% y/y, slightly above the Bank of England’s estimate but matching consensus forecasts. Food prices dropped sharply from 4.5% to 3.6%, in line with the BoE’s forecasts, easing some inflation concerns. Meanwhile, core services’ inflation rose from 4.0% to 4.3%, mainly due to higher catering costs.

**Japan: Takaichi Effect**

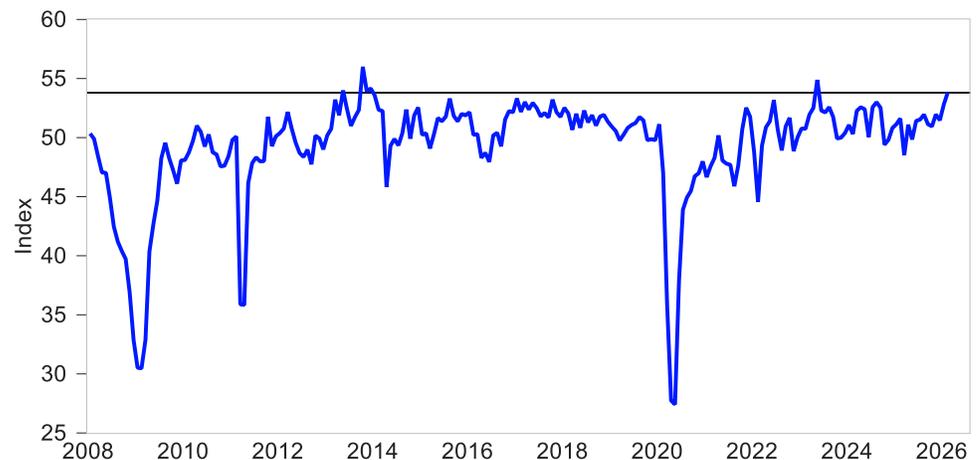
Macroeconomic data is turning very strong in Japan, reinforcing our bullish view on the economy. One of our favorite macro data—machinery sales—jumped 23.8% m/m in December, the largest increase outside Covid since 2014, and the fourth largest ever. Core orders (excluding shipbuilding) from the private sector—a leading indicator for capex—surged 19.1%, more than a payback from November’s fall. Manufacturing orders fell for the first time in three quarters, but non-manufacturing orders rose sharply and drove the solid result. Regular readers would recall our view that machinery orders data is increasingly driven by AI and semiconductor related sectors and less so by transportation.

This data was complemented by flash composite PMI of 53.8 for February, an important level beyond which there were only six prints in history (Figure 2). The rise was driven by a 1.3-point rise in manufacturing. New orders index rose for the fourth month, and the future output index jumped to an 18-month high of 61.4.

All these data complement our already bullish narrative on Japan’s outlook this year and pose upside risks to growth in Q1. Furthermore, it won’t be unfathomable that last week’s weak Q4 GDP data might be revised up.

**Figure 2: Japan's Composite PMI Rises To An Important Level**

*Only 6 Prints Above The Current Level In History*



Source: Macrobond, State Street Investment Management, S&P Global

Finally, headline CPI came in at 1.5% y/y for January, below the Bank of Japan’s (BoJ) 2% target for the first time after 45 months. The core CPI (excluding fresh food) eased to 2.0%, mainly driven by a cut in gasoline prices, subsidies to school tuition fees and restraint on medical price rises, all driven by policy. However, sharp rises in communications (6.7%), insurance premia (3.5%) and recreation (2.1%) indicate that underlying momentum in inflation remains intact. The effect is visible in the BoJ core measure (excluding fresh food and energy), which remained elevated at 2.6% y/y. These dynamics imply that the BoJ could remain confident in the ‘underlying inflation’ and raise policy rate in April. We also see a rising chance of a second hike later this year, if these trends in underlying prices remain intact.

**Week in Review**

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
<b>Monday, Feb 16</b>					
JN	Industrial Production (Dec, m/m, final)	-0.1%	-0.1%	-2.7%	Still modest.
<b>Tuesday, Feb 17</b>					
US	Empire Manufacturing (Feb)	6.2	7.1	7.7	Mixed details.
CA	CPI (Jan, y/y)	2.4%	2.3%	2.4%	Modest.
UK	ILO Unemployment Rate (Dec, 3 mths)	5.1%	5.2%	5.1%	Weakening continues.
GE	CPI (Jan, y/y, final)	2.1%	2.1%	1.8%	As expected.
GE	ZEW Survey Expectations (Feb)	65.2	58.3	59.6	Still in uptrend.
JN	Tertiary Industry Index (Dec, m/m)	-0.2%	-0.5%	-0.4% (↓)	Soft.
<b>Wednesday, Feb 18</b>					
US	Durable Goods Orders (Dec, prelim)	-2.0%	-1.4%	5.3%	But up 12.5\$ y/y!
US	Housing Starts (Dec, thous)	1,304	1,404	1,322	Five-month high.
US	Industrial Production (Jan, m/m)	0.4%	0.7%	0.2%	Still early stages, but visible uptrend.
UK	CPI (Jan, y/y)	3.0%	3.0%	3.4%	Better than expected.
JN	Core Machine Orders (Dec, m/m)	5.0%	19.1%	-11.0%	Volatile.
<b>Thursday, Feb 19</b>					
US	Trade Balance (Dec, \$bn)	-55.5	-70.3	-53.0	Real trade deficit surged.
US	Initial Jobless Claims (Feb 14, thous)	225	206	229	Surprisingly low.
US	Leading Index (Dec)	-0.2%	-0.2%	-0.3%	Very little predictive value.
JN	Natl CPI (Jan, y/y)	1.6%	1.5%	2.1%	Base effects.
AU	Unemployment Rate (Jan)	4.2%	4.1%	4.1%	Hawkish signal.
<b>Friday, Feb 20</b>					
US	Personal Income (Dec)	0.3%	0.3%	0.4%	Saving rate declined a tenth to 3.6%.
US	Personal Spending (Dec)	0.3%	0.4%	0.4%	Real spending rose 0.1% m/m.
US	GDP (Q4, annualized QoQ, advance)	3.0%	1.4%	4.4%	Drags from public sector and trag.
US	New Home Sales (Dec, thous)	730	745	758	Up 3.8% y/y.
US	U. of Mich. Sentiment (Feb, final)	57.2	56.6	57.3	1-yr inflation expectations lowest since Jan 25.
UK	Services PMI (Feb, prelim)	53.5	53.9	54.0	Strong.
UK	Manufacturing PMI (Feb, prelim)	51.5	52.0	51.8	Expansion continues.
UK	Retail Sales Inc Auto Fuel (Jan, m/m)	0.2%	1.8%	0.4%	Firm data.
GE	Manufacturing PMI (Feb, prelim)	49.5	50.7	49.1	Soft.
FR	Manufacturing PMI (Feb, prelim)	50.9	49.9	51.2	Soft.

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

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