
March 6, 2026

Commentary

Weekly Economic Perspectives

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Weekly Highlights

Iran war dominates the headlines, but US payrolls decline is big news as well.

US: Non-Farm Payrolls
(Feb, m/m change)

-92k

Big, unexpected, decline.

US: Unemployment Rate
(Feb, %)

4.4%

Moving in very tight range.

US: ISM Non-Manufacturing (Feb)

56.1

Best in 3.5 years!

UK: Nationwide House
PX (Feb, m/m)

0.3%

Better than expected.

UK: Mortgage Approvals
(Jan, thous)

60.0

Weakening.

UK: Manufacturing PMI
(Feb, final)

51.7

Expansion continues.

JP: Business Capex (Q4,
y/y)

6.5%

Excellent.

JP: Consumer
Confidence (Feb)

40.0

Highest since Apr 2019.

AU: Real GDP
(Q4, q/q)

0.8%

In line with our forecast.

**US: Renewed Labor
Market Jitters**

We had always viewed the seemingly strong January payroll number with a big dose of skepticism. The February update, which showed a surprising 92k decline in employment (versus the 55k gain expected by consensus) suggests this was wise. Although the February print was made worse by strike activity (a cleaner read might have been around -60k), it nonetheless brought to the forefront our underlying concerns around AI-related labor displacement.

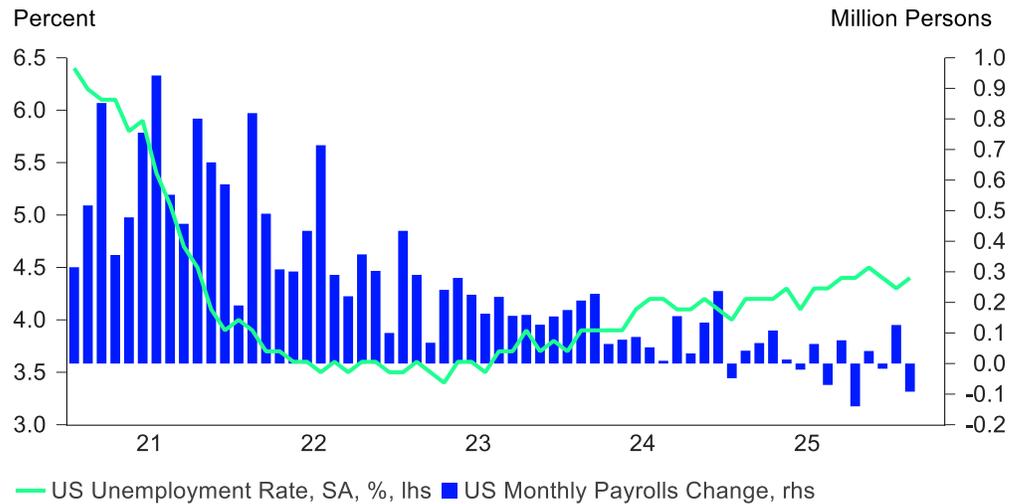
The unemployment rate rose one-tenth to 4.4%, where it has settled in four of the last six months. Given the magnitude of the overall decline, most sectors experienced losses. The two small exceptions were retail trade (+2k) and financial services (+10k); neither seems convincing. Wage inflation was a touch firmer than consensus forecasts but in line with others. Still, wage inflation (average hourly earnings) remains well contained at 3.8% y/y when measured for the entire worker population and at 3.7% y/y for production and non-supervisory employees. The labor market does not appear to be a source of meaningful inflationary pressures at the moment.

The tug of war between seemingly improving cyclical signals of labor demand and the structural pressure on employment stemming from AI adoption will not be resolved any time soon. It is likely that we will continue to see some positive labor market updates interspersed with the weaker data in coming months. In our view, however, the AI displacement narrative is likely to intensify over time and ultimately prevail as the more important force. The result is a modest rise in the

unemployment rate to about 4.7% in the fourth quarter. The rise would be even more pronounced if not for soft labor participation.

It is on the basis of the labor market vulnerability that we continue to forecast three Fed rate cuts this year despite the short-term rise in headline inflation due to higher oil prices. We assume a fairly short military engagement; should that assumption be challenged, we would likely remove one of those cuts from the forecast. At the moment, it appears premature to do so; instead, we shifted the first cut from April to June.

Figure 1: Clear Weakness In US Employment Despite Data Noise



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

BoE: March Pause

Investor confidence in a March rate cut by the Bank of England has waned, and we now expect the next rate reduction to take place in April, unless geopolitical circumstances improve swiftly and labor market weakening continues.

The Bank of England remains highly responsive to supply-driven inflationary pressures, as illustrated by last summer’s developments. On Friday, oil prices surpassed \$90 per barrel for the first time since 2023, with an increase of more than \$20 since the onset of the conflict, marking the most significant weekly rise in market history. Based on our current projections, if gas and oil prices average \$95 per barrel through the second quarter, headline inflation may exceed 3.8% by the end of Q3. Our analysis suggests that a 10% increase in oil and gas prices could contribute approximately 0.23 percentage points to inflation, however, household energy caps are expected to delay the full impact of these changes.

Unlike 2022, the current weaker labor market is curbing wage growth. In addition, firms are also less able to raise prices, especially within consumer services. Therefore, rising energy costs now tend to lead to job losses rather than price increases, which helps moderate inflation in services.

The government can offer assistance to households, such as reducing VAT on energy bills or limiting price cap as in 2022. However, fiscal constraints and rising

demands for spending, especially in defense, will limit the Treasury’s capacity to provide additional support without increasing taxes. Unfunded government interventions could also prompt negative reactions from financial markets.

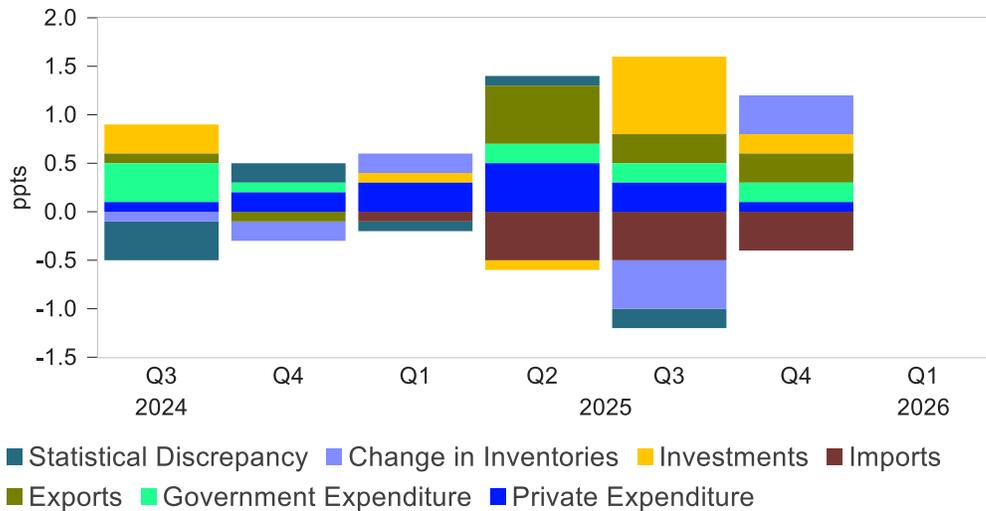
Overall, UK interest rates are likely to fall, though sustained energy price increases could delay cuts past March. With a deeply divided MPC and Governor Bailey's openness to a March cut subject to change, for now, our main forecast is a rate cut in April unless conditions improve rapidly.

Australia: Cold Comfort

Q4 GDP growth printed at 0.79% q/q, very close to our forecast of 0.75%. This outcome is consistent with our December growth outlook and lifts annual growth by 50 bps to 2.6% y/y. Household consumption accelerated by a modest 0.3% q/q; however, on a year-on-year basis, growth of 2.4% remains close to the pre-pandemic (2010–19) average of 2.6%.

The softer sequential consumption print was more than offset by other demand components. Inventory drawdowns contributed 0.4 pp to quarterly growth, while business investment added a further 0.2 pp. Most notably, productivity growth strengthened again, posting a second consecutive 1.0% y/y increase and once more converging toward its pre-pandemic average.

Figure 3: Contributions to Australia's GDP Growth



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

Despite the headline strength, the data offers limited comfort. Beneath the surface, underlying consumption remains firm, which could pose an inflationary risk for the Reserve Bank of Australia (RBA) given existing capacity constraints and still-limited productivity gains.

These inflationary concerns are further amplified by the ongoing conflict in the Middle East. While we do not yet anticipate a broad global inflation resurgence, the RBA is likely to act pre-emptively this cycle, informed by its pre-pandemic

experience. The case for a March rate hike is strong, although May appears more likely if geopolitical risks remain contained. In any scenario, the RBA is set to maintain a hawkish stance for an extended period.

Week in Review

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Mar 02					
US	ISM Manufacturing (Feb)	51.5	52.4	52.6	Industrial sector is improving.
UK	Nationwide House PX (Feb, m/m)	0.2%	0.3%	0.3%	Better than expected.
UK	Mortgage Approvals (Jan, thous)	62.0	60.0	61.0	Weakening.
UK	Manufacturing PMI (Feb, final)	52.0	51.7	51.8	Little changed from previous month.
GE	Manufacturing PMI (Feb, final)	50.7	50.9	49.1	Modest.
FR	Manufacturing PMI (Feb, final)	49.9	50.1	51.2	Soft.
IT	Manufacturing PMI	49.2	50.6	48.1	Soft.
JN	Manufacturing PMI (Feb, final)	52.8	53.0	51.5	Very strong.
JN	Jobless Rate (Jan)	2.6%	2.7%	2.6%	Tight labor market.
Tuesday, Mar 03					
AU	Building Approvals (Jan, m/m)	5.0%	-7.2%	-14.9%	Weak.
Wednesday, Mar 04					
US	ISM Services Index (Feb)	53.5	56.1	53.8	Surprisingly strong, but recently volatile.
IT	GDP (Q4, q/q wda, final)	0.3%	0.3%	0.1%	Weak consumption, weak trade.
AU	GDP (Q4, q/q sa)	0.8%	0.8%	0.5% (↑)	In line with our expectations.
Thursday, Mar 05					
US	Initial Jobless Claims (Feb 28, thous)	215	213	213	Low, but do they capture everything?
FR	Industrial Production (Jan, m/m)	0.4%	0.5%	-0.5% (↑)	Volatile.
Friday, Mar 06					
US	Retail Sales Advance (Jan, m/m)	-0.3%	-0.2%	0.0%	Some loss of momentum.
US	Change in Nonfarm Payrolls (Feb, thous)	55	-92	126	Negative surprise follows January beat.
US	Unemployment Rate (Feb)	4.3%	4.4%	4.3%	Participation rate declined again.

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

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