
March 13, 2026

Commentary

Weekly Economic Perspectives

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Weekly Highlights

Iran conflict sends inflationary signals, overshadows macro data.

US: Real GDP Growth (Q4, q/q, saar)

0.7%

Downward revision.

US: CPI Inflation (Feb, y/y)

2.4%

Core CPI at 2.5% y/y.

US: Small Business Hiring Plans (Feb)

12

Lowest since May 2025.

CA: Unemployment Rate (Feb)

6.7%

Weaker than expected.

Canada: Private Sector Employment Change (Feb)

-73k

Struggling.

UK: Industrial Production (Jan, m/m)

-0.1%

Concerning.

JP: Real GDP Growth (Q4, q/q)

0.3%

Closer to our original forecast.

JP: Household Spending (Jan, m/m)

-2.5%

Slowing

AU: Consumer Sentiment (Mar)

1.2%

Very soft details.

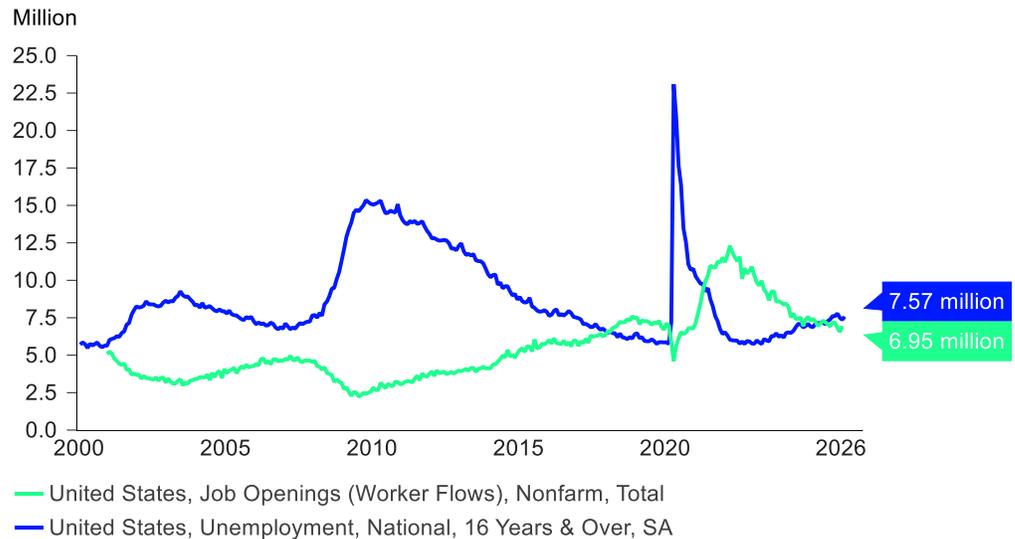
US: Softer Growth, Hotter Inflation Signals

Revisions to fourth-quarter GDP delivered a softer read on consumer spending. This was not particularly surprising; in fact, it had been the previously reported resilience in services spending that seemed odd to us given tepid labor market conditions and modest income growth. Thus, the new update simply puts spending on a path more consistent with income growth. It is not yet fully consistent, given that real spending growth continues to outpace real income growth, but the divergence has narrowed.

This is a reminder that the health of the labor market remains the critical lynchpin to the household balance sheet health, consumer spending sustainability, and overall growth. Despite an upside surprise in job openings in January, the overall trend in the labor market is towards softening (Figure 1, page 2). Moreover, the January job opening update, showing an almost 400k jump in openings, seems a little odd given it was so heavily driven by very large firms, which one would presume might be at the forefront of labor-saving AI deployment. Other forward looking signals of labor

demand were softer: for instance, the “hiring plans” component of the NFIB small business survey slid to four points to 12 in February, its lowest level since May.

Figure 1: The Most Important Relationship In The US Labor Market



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

For the time being, all eyes are on the Iran conflict and the dominant angst in the marketplace is that this is an inflationary shock that may prevent further Fed easing this year. Indeed, having priced about 2.6 rate cuts from the Fed just a few short weeks ago, the latest market pricing is for barely one cut. This seems reasonable for now given the genuine risks of extended conflict and lasting damage to oil infrastructure and supplies. However, it is not the only scenario, nor the only concern; labor market weakness could—and likely will—gain prominence again in coming months. For now, there is no compelling reason for the FOMC to change the core signal from the December dot plot that indicated one rate cut in 2026. While individual dots may change, we expect the median dot to continue to signal the same. For our part, despite uncertainties around the Middle East conflict, we see room for more easing in the latter part of the year. Our call for three Fed rate cuts is under threat but has not been irreversibly damaged just yet.

Canada: Weak Labor Report

The latest labor report fell short of expectations. In February, the economy lost 84k jobs, a drop of 0.4% for the month, contrasting starkly with forecasts of a 10k job gain. Total employment has barely changed since September, effectively wiping out most of last autumn’s progress. The details are equally concerning with full-time positions declining by 108k and private sector employment falling by 73k. Both goods- and services-producing industries saw losses, with retail, wholesale, construction, manufacturing, and other services experiencing the biggest downturns.

Additionally, the workforce itself contracted for the second straight month, with 27k people exiting. This led to a 0.1 percentage point decrease in labor force

participation, now at 64.9%. As a result, unemployment rose to 6.7%, up from January's 6.5%, offsetting much of the previous month's gains.

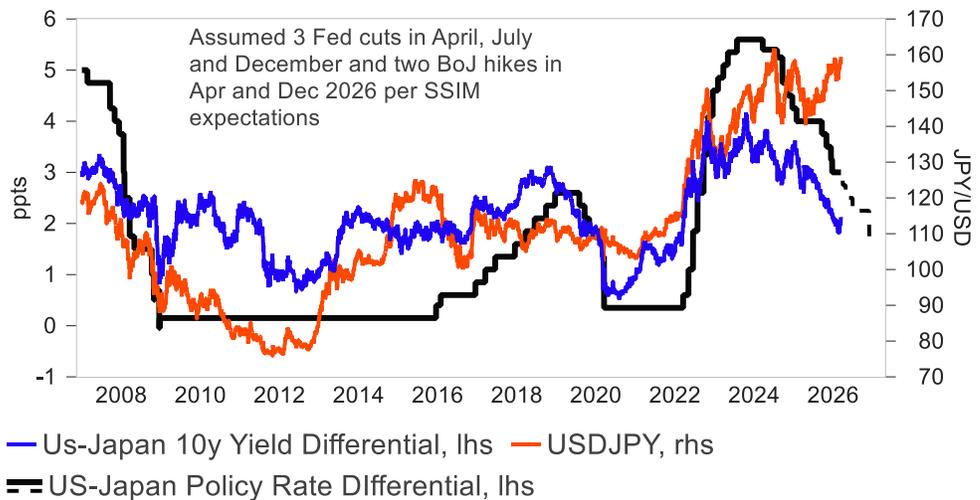
Going forward, the labor market is expected to remain sluggish throughout 2026, hindered by slow population growth and subdued economic activity. At the same time, ongoing Middle East conflict continues to add uncertainty regarding inflation and overall economic outlook.

Japan: Higher Tolerance, But Hawkish

The US–Iran war is beginning to show signs of having a potentially durable impact on Japan. While Japan enters this shock from a position of relative strength, with oil stockpiles well in excess of 200 days, the government has already moved pre-emptively. It released strategic petroleum reserves ahead of an IEA decision, and Prime Minister Takaichi has capped average gasoline prices at around ¥170 per liter using a dedicated stabilization fund. These steps should help cushion the near-term inflationary impact of higher energy prices.

Despite these measures, the yen has continued to weaken, falling past 159 against the US dollar amid the ongoing Middle East conflict. Authorities have stepped up verbal intervention, and Governor Ueda has reiterated vigilance, noting that yen weakness risks lifting inflation expectations through higher import costs. That said, we think policymakers are developing a higher tolerance for currency weakness in the current environment. With global capital seeking safety during geopolitical escalation, the yen's traditional safe-haven appeal has notably diminished. As a result, we do not expect authorities to intervene in the FX market in the same manner as they did during 2022 and 2024.

Figure 2: Is The Yen Really A Safe Haven?



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

On monetary policy, a March hike was never in play for us, though April remained a possibility. The Bank of Japan (BoJ) now finds itself caught between rising inflation risks and the still-tail risk of demand destruction should the conflict

escalate further. In this context, successful policy normalization hinges less on rigid timing and more on staying the course. With the policy rate approaching the psychologically important 1% level, and geopolitical risks skewed to the downside for growth, we think the BoJ is more likely to pause further hikes if tensions intensify.

Australia: On The Front-Foot

We recently flagged the risk of a March hike following stronger-than-consensus Q4 GDP growth and the escalation of the US–Iran war. Since then, both market pricing and consensus expectations have shifted decisively. A hike next week is now widely anticipated, with expectations for an additional move in May also rising, particularly if the conflict drags on. Consistent with this shift, inflation expectations as measured by the Melbourne Institute have jumped to 5.2%, the highest level since July 2023.

At the same time, consumer sentiment has improved modestly. The index rose 1.2% to 91.6, which Westpac rightly describes as an outright pessimistic reading. Importantly, the survey period did not capture views after March 7, and the Bank noted that sentiment in the final three days of the sample was closer to 84 rather than 91.6, pointing to a more pronounced deterioration.

Market repricing was catalyzed by Deputy Governor Andrew Hauser’s last-minute hawkish remarks ahead of the Reserve Bank of Australia’s (RBA) blackout period. In our view, this also reflects Australia’s acute vulnerability to energy shocks. Oil stockpiles cover barely a month of consumption, prompting the government to release 762 million liters of fuel, roughly six days of supply, and to relax fuel standards for 60 days. Even so, national average petrol prices have already reached record highs. This leaves Australia exposed to a meaningful inflationary impulse from supply disruptions, even if the conflict resolves relatively quickly.

Figure 3: Australia's Petrol Prices Jump To Record High



Source: Macrobond, State Street Investment Management, Australian Institute of Petroleum

Against this backdrop, the RBA is likely to remain on the front foot in responding to inflation risks emanating from the Middle East, shaped in part by its experience during the pandemic. That said, we err on the side of caution. A rapid tightening cycle risks inducing financial stress that could quickly spill over into the broader economy and the labor market. For next week, however, we still expect labor market conditions to remain relatively resilient, with the unemployment rate edging up only a tenth 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, Mar 09					
GE	Factory Orders (Jan, m/m)	-4.3%	-11.1%	6.4% (↓)	First decline in a year. Up 4.0% y/y.
GE	Industrial Production (Jan, m/m)	1.0%	-0.5%	-1.0% (↑)	Down 1.1% y/y.
JN	GDP (Q4, q/q, final)	0.3%	0.3%	0.1%	Good.
AU	Westpac Consumer Conf (Mar, m/m)	n/a	1.2%	-2.6%	Impact of the survey period
Tuesday, Mar 10					
US	Existing Home Sales (Feb, mil)	3.88	4.09	4.02	Prices up just 0.3% y/y.
JN	PPI (Feb, y/y)	2.2%	2.0%	2.3%	Pressures in the pipeline
Wednesday, Mar 11					
US	CPI (Feb, y/y)	2.4%	2.4%	2.4%	Core at 2.5% y/y.
Thursday, Mar 12					
US	Trade Balance (Jan, bn)	-\$66.0	-\$54.5	-\$72.9	Welcome.
US	Initial Jobless Claims (Mar 7, thous)	215	213	214	Consistently low.
US	Housing Starts (Jan, thous)	1,341	1,487	1,387	Driven by volatile multi-family segment.
US	Building Permits (Jan, thous)	1,410	1,376	1,455	Down 5.8% y/y.
Friday, Mar 13					
US	Personal Income (Jan)	0.5%	0.4%	0.3%	Wages strong a 0.5%.
US	Personal Spending (Jan_	0.3%	0.4%	0.4%	Bu real spending only rose 0.1%.
US	Durable Goods Orders (Jan, prelim)	1.1%	0.0%	-0.9%(↑)	Doing well; up 9.0% y/y.
US	GDP (Q4, annualized q/q)	1.4%	0.7%	1.4%	Weaker spending.
US	U. of Mich. Sentiment (Mar, prelim)	54.6	55.5	56.6	Lower inflation expectations.
CA	Unemployment Rate (Feb)	6.6%	6.7%	6.5%	Weakening
UK	Industrial Production (Jan, m/m)	0.2%	-0.1%	-0.9%	Lower than expected.
IT	Industrial Production (Jan, m/m)	0.4%	-0.6%	-0.5%(↓)	Soft.

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

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