
April 10, 2026
Commentary

Weekly Economic Perspectives

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Weekly Highlights

Iran war starts showing up in inflation data.

US: Headline CPI Inflation (Mar, y/y)

3.3%

Twin-highest since May 2024.

US: Core CPI Inflation (Mar, y/y)

2.6%

Little changed.

US: UofM Consumer Confidence (Apr, prel)

47.6

Extremely low.

CA: Unemployment Rate (March)

6.7%

Remained unchanged from February.

CA: Average Hourly Wages (March, y/y)

4.7%

The increase was partly due to shift in workforce composition.

UK: Services PMI (March, final)

50.5

Considerable slowdown in the sector.

JP: Goods PPI (Mar, y/y)

2.6%

Big jump, needs watching closely.

JP: Cash Earnings (Feb, y/y)

3.3%

Big jump, but sample effects.

AU: Household Spending (Feb, m/m)

0.3%

Strong before the war.

US: Stagflation Signals

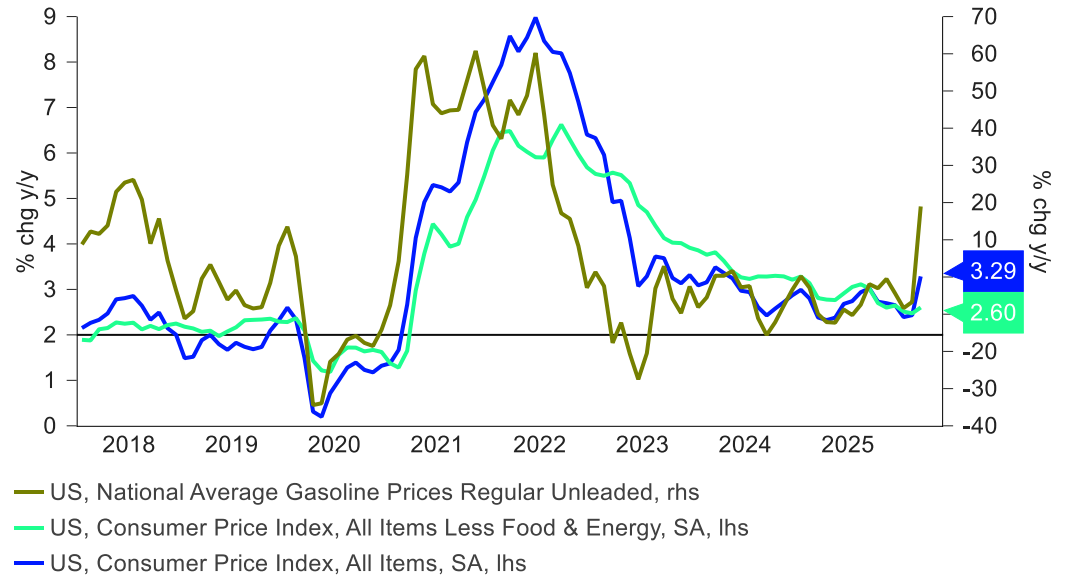
The first inflation report since the start of the Iran war showed the anticipated stark rise in headline inflation alongside contained core inflation.

Overall consumer prices rose 0.9% m/m, lifting the headline inflation rate by 0.9 percentage points (ppt) to 3.3% y/y, the twin-highest since May 2024. Core prices (excluding food and energy) rose 0.2% and the core inflation rate increased just one tenth to 2.6% y/y. Gasoline prices rose 21.2% m/m, food prices were unchanged, airfares increased 2.7% m/m, medical care declined 0.2% m/m and shelter rose 0.3% m/m. Overall, service prices increased 0.2% and goods prices jumped 2.0%. None of this was surprising. What is surprising to us is the ongoing disinflation in used cars and trucks prices; these declined yet again even as auction price data from Manheim suggest a rise in auction prices in recent months. This ongoing divergence poses the risk of a catch-up increase in coming months, possibly worsening the inflation prints in coming months even as the upward impetus from energy fades. Alternatively, it could be that dealer margins in the used car market are being compressed as consumers become more price sensitive and unable to accept higher prices.

To be sure, real disposable income growth slowed quite dramatically to just 1.1% y/y in February. Aside from the big Covid-related gyrations in 2022, this marked the slowest gain since 2014. The implication is that pricing power must weaken in the context of weaker income growth. The inflation squeeze will hit real income

further in March, although tax refunds will offer a cushion. This, in turn, suggests an eventual slowdown in real consumption.

Figure 1: US Inflation Skipes on Higher Gasoline Prices



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

Consumer sentiment is already taking a hit as a result of the energy price spike. The Michigan consumer sentiment index plunged another 5.7 points in March to a multi-decade low while inflation expectations rose. The short-term (1-year) inflation expectations rose one percentage point to an eight-month high of 4.8% while long-term inflation expectations ticked up two tenths to 3.4%.

Canada: Labor Market Remains Sluggish

The latest job report aligns with expectations, underscoring the persistent challenges within labor market. Unemployment remains elevated, hiring activity is subdued, and ongoing economic uncertainty suggests continued modest job growth and stable unemployment rates in the foreseeable future.

The unemployment rate held steady at 6.7% following an increase in February. The labor force expanded by 15k in March, while participation remained constant at 64.9%. Layoff rates are consistent with pre-pandemic norms, suggesting that sluggish hiring, rather than increased layoffs, accounts for elevated unemployment.

Employment gains were primarily seen in the “other services” sector and natural resources. Wage growth accelerated, with average hourly earnings rising 4.7% y/y in March, compared to 3.9% in February. However, adjusting for workforce composition, wage increases stood at 3.6%, in line with figures from January and February 2025.

The economic prospects remain uncertain due to the ongoing energy shock and uncertainty around Iran’s conflict duration. Continued disruptions are expected to

impact inflation; however, subdued demand may mitigate some effects, enabling the Bank of Canada to refrain from immediate intervention.

Figure 2. Canadian Unemployment Rate Remains High



Source: Macrobond, State Street Investment Management, Statistics Canada

Japan: Mixed Signals

The past week's data suggest a marked deterioration in sentiment among consumers and economy watchers. Consumer sentiment fell sharply, with the February index dropping 6.4 points in March to 33.3, the largest decline since April 2020 at the beginning of the first Covid emergency. At the same time, one-year-ahead inflation expectations jumped by a full percentage point to 4.67%. The Economy Watchers' Survey echoed this weakness: the current conditions index fell 6.7 points to 48.9, driven by a 10.1-point plunge in food and beverage-related activity, the lowest reading since early 2022, while the household index declined by 7.1 points.

Inflation concerns appear to be building in the pipeline. Domestic CGPI rose 0.8% m/m in March, a sharp acceleration from the previous month and sufficient to lift the annual rate by 0.5 ppts to 2.6%. Import prices in yen terms also surged, rising 3.3% m/m after just a 0.1% increase in February, underscoring the renewed cost pressures from the weaker currency and higher commodity prices.

Against this backdrop, wage data delivered a more constructive signal. Nominal cash wages grew 3.3% y/y, up from 2.5% in February. While the jump largely reflects the introduction of a new survey sample, it nevertheless supports the argument that wage dynamics are gradually strengthening, an important consideration in the debate over a possible April rate hike by the Bank of Japan.

Regional intelligence from the Bank of Japan (BoJ) broadly reinforces this picture. Branch managers continue to describe regional economies as recovering moderately, with some localized weakness, consistent with the BoJ's March macro assessment. However, the April meeting also surfaced growing

concern about spillovers from Middle East tensions, including lower operating rates due to higher input costs, raw material constraints, and the risk of broader supply chain disruptions. Demand conditions remain mixed, with resilient spending on special occasions and inbound demand offset by ongoing consumer thriftiness, while business investment sentiment remains positive. Wage plans for FY2026 are broadly aligned with FY2025 levels, though firms flagged the risk of a more cautious stance if geopolitical and commodity price pressures intensify.

Most importantly, the BoJ's Consumption Activity Index, which is a close tracker of domestic consumption for national accounts, delivered a downside surprise in February (-0.4%) alongside a huge downside revision for January (-0.7 pp to -0.3%). The data rhymes with the deterioration in sentiment, but we continue to believe that the conflict in the Middle East is weighing heavily on an otherwise resilient domestic consumption story backed by improving wages. If the conflict persists, we believe the economy could shift into a slower lane but still avoid a recession.

Taken together, the data leave markets highly sensitive to geopolitical developments, particularly the outcome of negotiations between Iran and the US over the weekend. In an optimistic scenario of sustained progress, we still think the BoJ could proceed with a rate hike; otherwise, a pause would be the more likely outcome, one that we lean on.

Week in Review

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Apr 6					
US	ISM Services Index (Mar)	54.9	54.0	56.1	New orders were very strong.
Tuesday, Apr 7					
UK	Services PMI (Mar, final)	51.2	50.5	53.9	Considerable slowdown in business activity.
FR	Services PMI (Mar, final)	48.3	48.8	49.6	Soft.
Wednesday, Apr 8					
GE	Factory Orders (Feb, m/m)	3.0%	0.9%	-11.1%	Volatile; up 3.3% y/y.
Thursday, Apr 9					
US	Personal Income (Feb)	0.3%	-0.1%	0.4%	Real disposable income shrank 0.5% m/m.
US	Personal Spending (Feb)	0.6%	0.5%	0.3% (↓)	The savings rate dropped 0.5 ppt to 4.0%.
US	Initial Jobless Claims (Apr 4, thous)	210	219	203	Very low; same is true for continuing claims.
US	GDP (Q4, annualized q/q)	0.7%	0.5%	0.7%	Incrementally weaker across the board.
GE	Industrial Production (Feb, m/m sa)	0.7%	-0.3%	0.0% (↑)	Quite disappointing.
Friday, Apr 10					
US	CPI (Mar, y/y)	3.4%	3.3%	2.4%	Core rose one tenth to 2.6% y/y.
US	Factory Orders (Feb)	-0.2%	0.0%	0.1%	Up 3.7% y/y; strong defense and capital goods.
US	U. of Mich. Sentiment (Apr, prelim)	51.5	47.6	53.3	Multi-decade low; inflation expectations rose.
US	Durable Goods Orders (Feb, final)	-1.4% (p)	-1.3%	-0.4%	Up 7.4% y/y.
CA	Unemployment Rate (Mar)	6.7%	6.7%	6.7%	Remaining high.
IT	Industrial Production (Feb, m/m)	0.5%	0.1%	-0.6%	Disappointing.
JN	PPI (Mar, y/y)	2.3%	2.6%	2.0%	Price pressures building in pipeline.

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

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