
May 1, 2026
Commentary

Weekly Economic Perspectives

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Weekly Highlights

Central banks are on hold for now but inching closer to future hikes.

US: Fed Funds Rate (Upper)

3.75%

On hold.

US: Real GDP (Q1, saar)

2.0%

Strong Investment.

EZ: ECB Deposit Facility Rate

2.00%

On hold...for now.

BoC: Overnight Lending Rate

2.25%

In line with our expectations.

BoE: Policy Rate

3.75%

Active hold.

UK: Mortgage Approvals (Mar, thous)

63.5

Locking in better rates.

JP: Industrial Production (Mar, m/m)

-0.5%

Still strongly up in Q1, the strongest since 2021.

AU: CPI (Q1, y/y)

4.1%

In line with our forecast. We see inflation broadening.

AU: CPI (Mar, y/y)

4.6%

Two-tenths below expectations, but sufficient for RBA to hike.

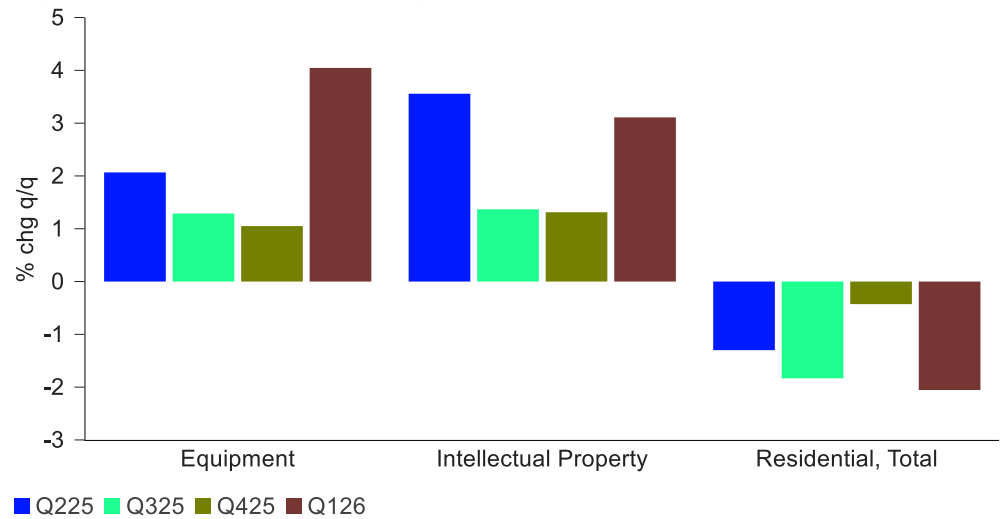
US: Fed on Hold as Outlook Turns More Binary

The April Fed meeting was not about doing but about signaling. The decision on rates was always a given: don't do anything while you await clarity on what you might have to do down the line. So, the Fed Funds rate stays at 3.5-3.75%. There was one dissent (Miran) in favor of a 25 bp cut and three dissents (Hammack, Kashkari, Logan) against statement language implying an easing bias. In other words, while Chair Powell left the door open for future cuts, other committee members are drawing the battle lines around the future debate on rates. The outlook is indeed becoming more binary given Iran-related inflation risks.

The most important reminder from the press conference was that monetary policy is made through the "collective judgment of the committee". The Chair has only one vote, even if one carrying more weight than the others. The nature of the current economic moment essentially guarantees that the policy debate will intensify (publicly) in coming months. Presumed future Chair Warsh's first order of business will be to find the middle ground within the FOMC and that means holding rates steady for a while. That being said, we still hold to our call for 2 cuts this year, in September and December. But it all depends on whether our core assumptions of a material de-escalation in hostilities by the latter part of May, the resumption of oil

traffic, and subsequent pullback in energy prices are validated by future events.

Figure 1: K-Shaped Economy In US Investments Also



Source: Macrobond, State Street Investment Management, U.S. Bureau of Economic Analysis (BEA)

Meanwhile, incoming data highlight an economy that is quite resilient, even if not firing on all cylinders. Advance estimates (which are prone to material revisions) show real GDP grew at a 2.0% seasonally adjusted annualized rate (saar) in the first quarter, exactly in line with the 2025 average. There was some bounce back in government consumption following the shutdown, a very slight slowdown in consumer spending, a jump in private fixed investment, and a widening of the real trade deficit as imports surged a lot more than exports.

There is tremendous divergence within the broad categories, however. Within consumption, real goods consumption was flat, so all the spending growth is happening on the services side. In private fixed investment, the residential segment shrank sharply—in fact, at the fastest rate since end-2022! Non-residential structures also contracted, but equipment and IP investment soared and are up 8.7% and 9.7% y/y, respectively. There is little evidence from company earnings that activity is pulling back here but it would be surprising to see a repeat of this performance given the larger comparison base. On that point, data on construction spending (value put in place) show data center construction overtaking overall office construction for the first time in November 2025 and continuing to do so through January.

BoE: On Hold for Now

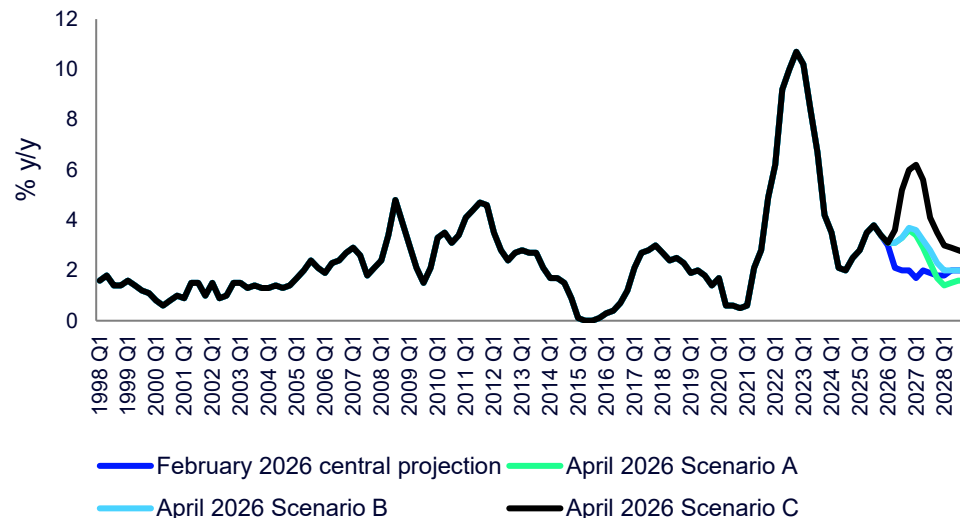
At its April meeting, the BoE opted to keep rates unchanged. However, ongoing instability in the Middle East has heightened the likelihood of policy tightening.

Following the March meeting, Governor Andrew Bailey indicated that markets may have been too quick in pricing in rate hikes, a view reflected in April’s decision to hold rates steady at 3.75%. Nonetheless, indications suggest the Bank is moving closer to considering a hike this year.

According to the BoE's analysis, economic slack helps mitigate the risk of non-linear inflation following an energy shock; however, the bank acknowledges ongoing uncertainty stemming from uneven unemployment distribution among industries and issues related to worker mobility. Consequently, the BoE relies on forward-looking nominal indicators, including expected wage growth, inflation expectations, profit margins, and firms' price forecasts.

The Monetary Policy Report also presents three scenarios. Scenarios A and B project oil prices to reach a peak of \$108 before declining, with Scenario B, the middle scenario, indicating a more gradual decrease. Scenario C forecasts a higher peak at \$130, with prices remaining above \$100 well into next year. Scenario B also assumes that increases in natural gas prices remain limited before gradually tapering later in the year. According to the bank, these factors are expected to exert only a minimal influence on inflation and wage growth. As such, under Scenario B, it seems that most officials will still favor maintaining the current policy rate throughout the year.

Figure 2: UK Headline CPI Inflation Under BoE's Scenarios



Source: BoE, State Street Investment Management.

However, the key concern remains the persistent crisis in the Middle East, which shows little sign of improvement and carries an increased risk of deterioration. At the time of writing, oil prices have surpassed 108 USD/bbl. We expect UK inflation to average about 3.8% in Q3, above the bank's middle scenario, due to our more cautious outlook on energy prices. Therefore, although this is not our base case, we now see a higher probability of rate hikes this year.

BoJ: Hawkish Inclinations

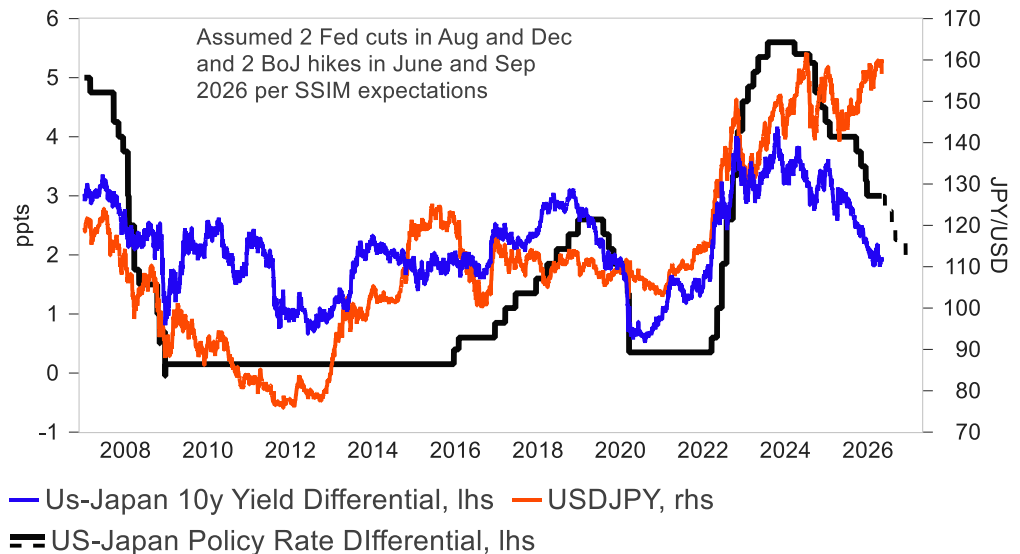
The Bank of Japan (BoJ) delivered a hawkish hold at its April meeting, keeping the policy rate unchanged at 0.75% but we must admit: they were more hawkish than we expected, revealing a clear shift in the internal balance of risks.

Three board members voted for a rate hike, the largest number of dissents since normalization began, underscoring growing discomfort with upside inflation risks. The decision signaled that policy is no longer constrained by conviction around the direction of travel, but by uncertainty around timing. Markets read the split as evidence that the BoJ is closer to the next hike than the headline decision suggests.

The accompanying Outlook Report reinforced that signal by sharply raising inflation forecasts while downgrading growth, both in line with our own forecasts from March. Real GDP is expected to slow to 0.5% in FY 2026, while core CPI (excluding fresh food) could rise 2.8%, nearly a full percentage point up.

The upward revision to core CPI for FY2026 was larger than can be explained by oil alone, pointing to concern around broader price dynamics and pass-through. At the same time, energy-driven downside risks to activity and real incomes are complicating the policy calculus. Governor Ueda acknowledged this tension, framing inflation as largely supply-driven while stressing vigilance against second-round effects, particularly if firms continue to pass on higher costs.

Figure 3: When Will The Yen Settle?



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

Taken together, the message was that policy normalization will continue, but the bar for action is now conditional rather than directional. The dissenting votes suggest the BoJ is increasingly sensitive to the risk of falling behind the curve, even as it waits for clearer evidence that growth can withstand another hike. To repeat again, we see upside risks to both inflation and nominal growth in Japan especially in the short-term, which means there is a good chance for the BoJ to deliver two hikes this year and potentially one in June, after confirmation of strong growth in Q1. However, the second hike requires the BoJ to “set the table” or prep the markets by flagging the possibility. A survey conducted by the Chamber of Commerce and Industry already showed weaker procurement due to higher energy

and input prices. This could translate into losing momentum in Q2, which puts a second hike explicitly at risk.

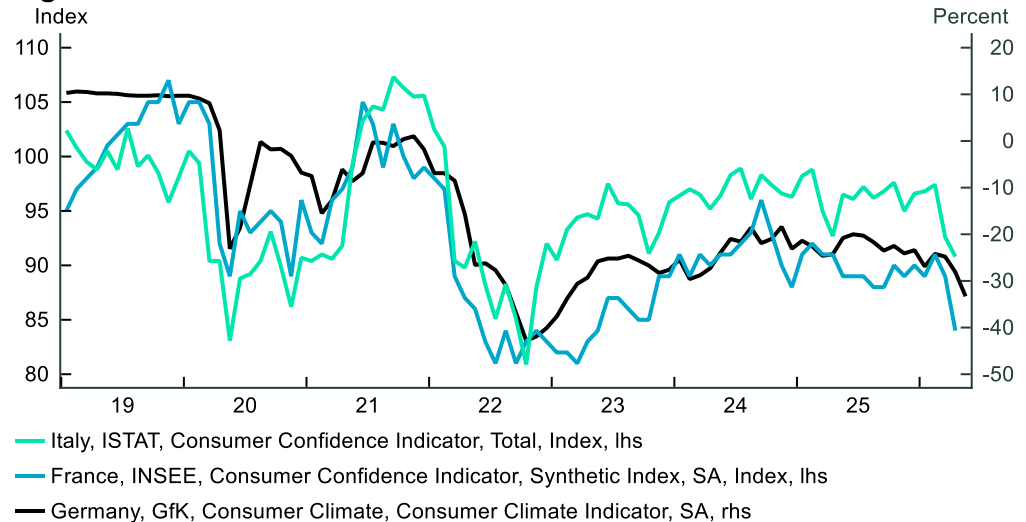
Yen dynamics and energy prices have become key swing factors, with further currency weakness or stickier inflation (as well as a potential rekindling of kinetic action in the Middle East) likely to pull forward tightening expectations. In that sense, the April meeting did not pause the hiking cycle but narrowed the window around when the next move becomes unavoidable.

ECB: Standing Ready

The ECB Governing Council decided unanimously to leave policy rates unchanged at the April 30 meeting, noting upside risks to inflation and downside risks to growth from the Iran war. That was pretty much as expected. But the overall signaling was clearly hawkish, as President Lagarde noted in the monetary policy statement that “we stand ready to adjust all of our instruments within our mandate to ensure that inflation stabilizes sustainably at our medium-term target and to preserve the smooth functioning of monetary policy transmission.”

The general interpretation in the marketplace is that this is pretty much a promise to hike in June: market pricing implies an almost 90% probability of a hike on June 11. We are of the view that the ECB can afford to wait a little longer—namely until the July 23 meeting—and if our assumption that the conflict will materially de-escalate by then proves correct, then a hike may not be necessary at all.

Figure 4: Consumer Confidence Crumbles In The Eurozone



Sources: SSGA Economics, GfK, INSEE, Istat

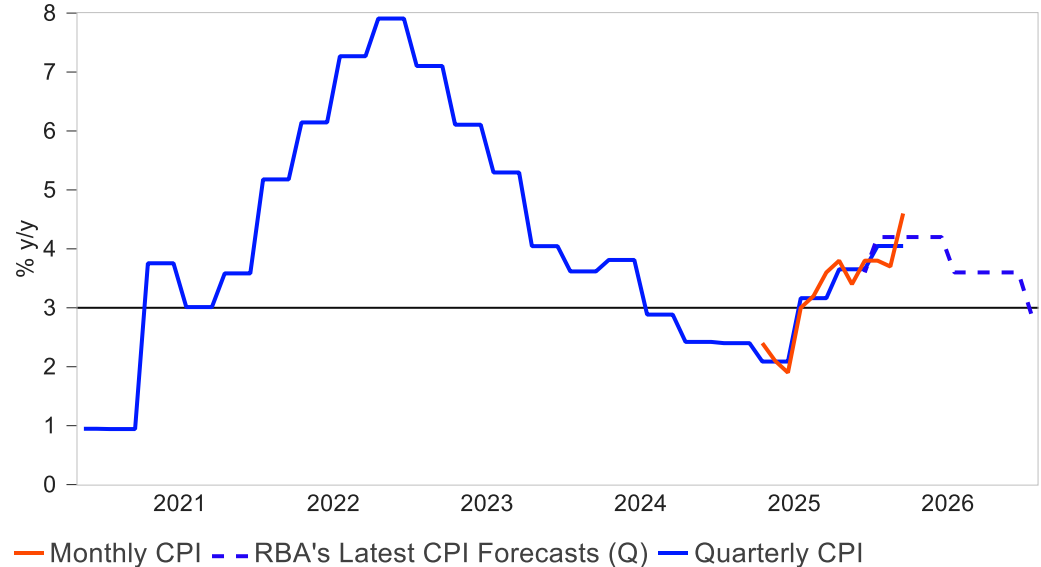
In this, we clearly take a much more dovish stance than the market, where 2.5 hikes are currently priced by year-end. We think the ECB can afford and should look through this price shock given subdued wage inflation, crumbling consumer sentiment, contained second-round inflation effects, anchored medium-term inflation expectations and, ultimately, inability to impact energy supply via monetary

policy. Should these dynamics shift and our core assumption invalidated by future events, the ECB has plenty of room to come back and hike later in the year. For now, it's better to preserve optionality, including the option of doing nothing.

Australia: Hat-Trick in the Cards

Headline CPI rose 1.4% q/q (4.1% y/y) in Q1, broadly in line with expectations. Going forward, we are placing greater weight on the monthly CPI indicator, while continuing to reference the quarterly data for context. March marked a clear inflection point as the Iran conflict broadened, with prices rising 1.1% m/m and annual inflation jumping to 4.6% y/y, nearly a full percentage point higher than February. Automotive fuel prices surged 33% y/y, driving much of the increase, although the annual print remained slightly below the 4.8% consensus.

Figure 5: Clear Singlas From Australia's CPI



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

Price hikes are broadening beyond fuel, strengthening the case that second-round effects could emerge faster than policymakers expect. Companies across freight, logistics, construction, food distribution, and consumer services have announced explicit price increases and fuel surcharges, with limited evidence of margin absorption. Australia Post and private logistics firms have sharply lifted fuel adjustment factors, construction suppliers have flagged 25–35% hikes in key plastic inputs such as PVC and polypropylene, and food wholesalers are passing higher freight and refrigeration costs through to supermarkets, lifting prices selectively across fresh and packaged categories. Ride-hailing and last-mile delivery firms have also raised prices, reinforcing how quickly higher energy costs are cascading into services. With Australia's economy highly transport-intensive, heavily reliant on imported refined fuel, and lightly buffered by fuel taxes or price caps, cost pressures are transmitting more directly to consumers than elsewhere.

That raises the risk that what began as an energy-led spike becomes embedded in underlying inflation, increasing the likelihood that the Reserve Bank of Australia leans against second-round effects sooner rather than later.

These developments suggest limited capacity for firms to absorb higher costs, increasing the risk of rapid second-round effects. Many of the price adjustments are explicit and mechanical rather than margin-buffered, pointing to a low tolerance for cost absorption. Australia's economy is highly transport-intensive and heavily reliant on imported refined fuel, so higher energy costs cascade quickly into freight, construction, food distribution, and services. Low fuel tax buffering and limited use of price caps further amplify the speed and magnitude of passthrough.

Against this backdrop, underlying inflation pressures are likely to build further. While trimmed-mean CPI rose a relatively modest 0.3% m/m (3.3% y/y) in March, the breadth and speed of current cost pressures suggest more is coming. With margins already thin and labor costs still sticky, firms have strong incentives to pass costs on rather than absorb them. As a result, we see a high probability that the Reserve Bank of Australia delivers a 25bp cash rate hike next week to guard against second-round inflation becoming embedded.

Week in Review

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Apr 27					
GE	GfK Consumer Confidence (May)	-30.0	-33.3	-28.1 (↓)	Taking a dive.
JN	Leading Index CI (Feb, final)	n/a	113.3	112.4	Once again, upside risks to nominal growth.
JN	Jobless Rate (Mar)	2.6%	2.7%	2.6%	Tightest labor market in the world.
Tuesday, Apr 28					
US	FHFA House Price Index (Feb, m/m)	0.1%	0.0%	0.2%	Up just 1.7% y/y.
US	Conf. Board Consumer Confidence (Apr)	89.0	92.8	92.2	Labor differential may be bottoming.
JN	Jobless Rate (Mar)	2.6%	2.7%	2.6%	Still very low.
JN	BOJ Target Rate (Apr 28)	0.75%	0.75%	0.75%	On hold for now.
Wednesday, Apr 29					
US	Building Permits (Mar, prelim, thous)	1,390	1,372	1,538	Pullback after very strong March; Iran impact?
US	Housing Starts (Mar, thous)	1,380	1,502	1,356	Broad gains.
US	Durable Goods Orders (Mar, prelim)	0.5%	0.8%	-1.3%	Defense orders up 58% y/y!
US	FOMC Rate Decision (Upper Bound)	3.75%	3.75%	3.75%	Mixed dissents, no
CA	BoC Overnight Lending Rate	2.25%	2.25%	2.25%	In line with our expectations.
Thursday, Apr 30					
US	Personal Income (Mar)	0.3%	0.6%	0.0% (↑)	Real disposable income declined.
US	Personal Spending (Mar)	0.9%	0.9%	0.6% (↑)	Saving rate declined three tenths to 3.6%.
US	Initial Jobless Claims (Apr 25, thous)	213	189	215	Incredibly low.
US	Continuing Claims (Apr 18, thous)	1,815	1,785	1,808	Very low.
US	GDP (Q1, q/q annualised, advance)	2.2%	2.0%	0.5%	OK. Pockets of investment strength.
EU	ECB Deposit Facility Rate	2.00%	2.00%	2.00%	Hawkish hold.
UK	BoE Policy Rate	3.75%	3.75%	3.75%	Active hold.
GE	Unemployment Claims Rate (Apr, sa)	6.3%	6.4%	6.4% (↑)	Highest since 2020.
GE	GDP (Q1, q/q sa, prelim)	0.1%	0.3%	0.2% (↓)	Far from great.
FR	GDP (Q1, q/q, prelim)	0.2%	0.0%	0.2%	Soft.
IT	GDP (Q1, q/q wqa, prelim)	0.1%	0.2%	0.3%	Modest.
IT	Unemployment Rate (Mar)	5.3%	5.2%	5.4% (↑)	Extremely low.
JN	Retail Sales (Mar, m/m)	0.6%	1.3%	-2.0%	Higher fuel prices playing a part.
JN	Industrial Production (Mar, m/m, prelim)	1.1%	-0.5%	-2.0%	Still Q1 is the strongest in four years.
Friday, May 1					
US	ISM Manufacturing (Apr)	53.1	52.7	52.7	Employment down, prices up.
UK	Nationwide House Price (Apr, m/m)	-0.3%	0.4%	0.9%	Better than expected.
UK	Mortgage Approvals (Mar, thous)	60.0	63.5	62.7 (↑)	Borrowers seek to secure low mortgage rates.
UK	Manufacturing PMI (Apr, final)	53.3	53.7	51.0	Near 4-year high.
JN	Manufacturing PMI (Apr, final)	n/a	55.1	51.6	Highest level since Jan 2022.

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

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