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**May 8, 2026**  
Commentary

## Weekly Economic Perspectives

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**Weekly Highlights**

Global data flow remains mixed, with US macro signals stronger overall.

US: Non-farm Payrolls Change (Apr)

**115k**

Well above expectations.

US: Unemployment Rate (Apr)

**4.3%**

Participation rate declined.

EZ: Services PMI (Apr)

**47.6**

Worst since Feb 2021!

CA: Unemployment Rate (April)

**6.9%**

Persistently high.

CA: Average hourly wages (April, y/y)

**4.5%**

Down by 0.2 percentage points.

UK: Services PMI (Apr, final)

**52.7**

Better than expected.

AU: RBA Cash Rate (May)

**4.35%**

An expected hike.

AU: Household Spending (Q1, q/q)

**0.7%**

Strong, lifted by fuel prices.

JP: Tokyo CPI (ex. fresh food& energy, Apr)

**1.5%**

Below consensus

**US: Better Labor Market News**

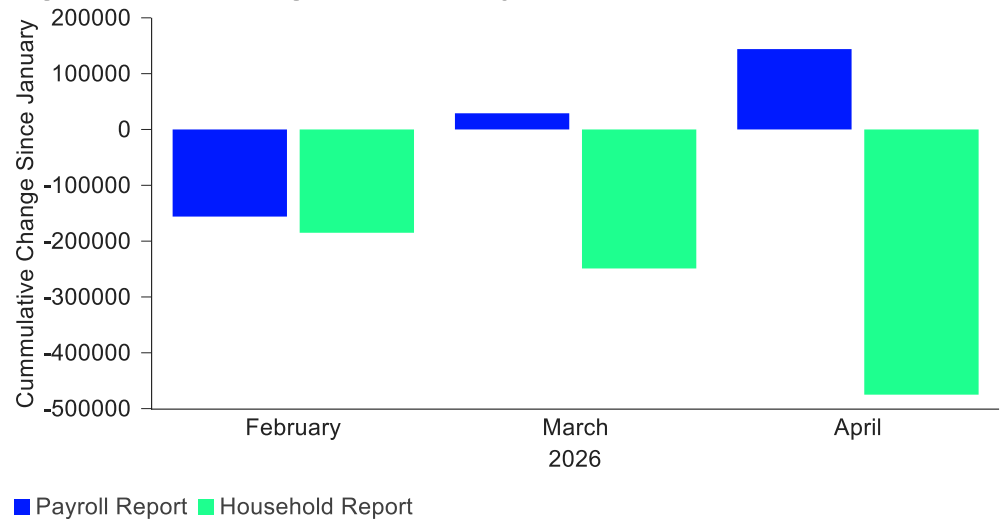
We can easily outline two very different narratives around the US labor market, but it is fair to say that last week's data flow was more supporting of the constructive view. Payrolls rose by a much better than expected 115k in April, and the prior two months' downward revision was minimal. The average workweek lengthened by six minutes and aggregate hours worked (a measure of aggregate labor effort in the economy) increased a decent 0.3%. Wages were in the goldilocks zone: not cool, but not too hot. The unemployment rate was steady at 4.2%. What's not to like?

Well, we did like the report, and what we liked even better is that it appears to be corroborated by modest improvements elsewhere, such as unemployment claims, the JOLTS report, where the hiring rate rebounded sharply. Stabilizing labor market conditions are also mirrored in the Conference Board labor differential (which measures the difference between consumers who feel jobs are "plentiful" and those who feel jobs are "hard to get"). That number bottomed out at 5.7 in February and has since improved to 7.5; this is still a rather abysmal level historically speaking, but there is at least a sense that things are not getting worse. And that's worth something.

Yet it is definitely not worth betting the house just yet on a labor market revival narrative. It is far too soon for that. The truth is, the totality of the data still sends mixed signals. Take, for example, the growing divergence between the payrolls and household reports (Figure 1, page 3). Compared with the January levels, the

payrolls report shows a cumulative employment gain of 144k, whereas the household report shows a cumulative loss of 475k, a sizable discrepancy that widened especially in March and April. While it is not unusual for these two measures of employment to differ, the divergence at the very least cautioning to take the payroll gains with a grain of salt, at least for the time being.

**Figure 1: Two Divergent US Employment Stories**



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

We also struggle to tie the dramatic reduction in the labor force participation rate over the last six months to any specific development. Since the recent peak in September 2025, the labor force participation has dropped 0.7 percentage point; a decline of such magnitude over such a short time frame was only previously experienced during Covid, in 2009, and very briefly, in 2001. The drop in participation is what has helped cap the unemployment rate so far, but should that pick up without a commensurate increase in hiring, we could still see the unemployment rate rise in coming months. We continue to watch this space.

What does this mean for our Fed call of two cuts in September and December? The apparent labor market resilience undermines somewhat a core argument in favor of hikes, but given the timing, we do not yet feel compelled to adjust the call.

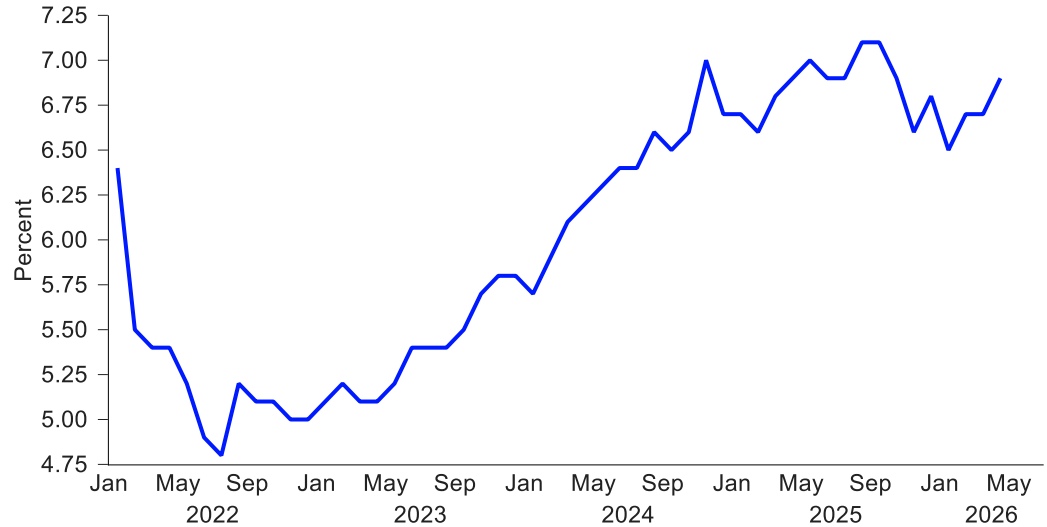
**CA: Unemployment Rate Inched Up**

The job market is still struggling to accommodate the extra workers, as reflected in the persistently high unemployment rate. Nonetheless, we expect the growth of the labor force to slow down over the next few months, which may help limit further increases in unemployment.

In April, Canada's economy shed 18k jobs, falling short of expectations for a 10k-job gain. Employment held relatively steady following February's decline, with full-time positions decreasing by 47k and little change observed within the private sector. The unemployment rate increased to 6.9% from 6.7% the previous month,

as labor force participation rose slightly to 65.0%. Most job losses were concentrated in services sector. Average hourly wages grew by 4.5% year-over-year; however, this was largely attributable to shifts in workforce composition.

**Figure 2: Canadian Unemployment Rate Remains High**



— Canada, Unemployment, Women & Men, 15 Years & Over, Rate, SA

Source: Macrobond, State Street Investment Management, Statistics Canada

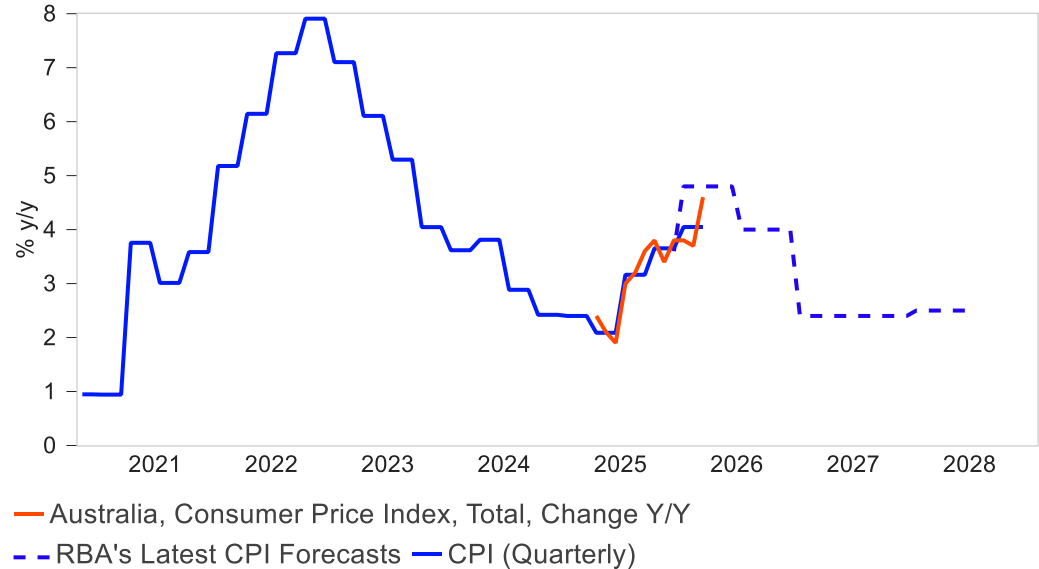
The economic outlook remains weak with a sluggish labor market. Businesses are unable to raise prices because employment conditions are soft. Accordingly, we expect that if oil prices stabilize soon, the BoC is likely to keep its policy rate unchanged for the rest of the year.

**Australia: Pause and Resume Later**

The Reserve Bank of Australia (RBA) lifted the cash rate by 25 bps as widely expected. This was a comfortable 8-1 majority decision after a close call in March (5-4). This reflects the Board’s decisive mode of thinking on ensuring inflation remains contained, as well as the differing opinions on the timing back then.

The accompanying statement was hawkish relative to our expectations via its persistent upside inflation bias, explicit second-round risks, rising inflation expectations, and a forecast path consistent with further tightening. We thought the statement tilted the scale for more hikes through strong commentary on the potential for inflation to broaden. There was strong emphasis that fuel prices could broaden into core inflation as it is “likely to have second-round effects on prices for goods and services more broadly.” Inflation is now expected stay over the target range “for some time”, before returning to midpoint only by mid-2028 now. The statement noted that capacity pressures looked to have increased before the conflict in H2 2025, and that input price pressures had risen notably. The Statement noted that pass-through of higher prices may begin more notably from Q3. Most importantly, the RBA sees financial conditions “not as tight”.

**Figure 3: Clear Signals From The RBA**



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

Governor Michele Bullock balanced it finely with her press conference; critically she said that the three hikes so far give the Board “space to observe” how the war and its macro impact would evolve. This is consistent with our view that the Bank was likely to pause after the May hike. However, the Governor also mentioned “inflation” nearly 20 times in her opening remarks while “growth” was mentioned only twice, which we view as consistent with the seriousness of the Board on bringing it back to the target. She noted the high starting point for inflation even before the war and also said that the latest data confirmed that some of the recent rise was generated more organically by capacity constraints and the tight labor market. She also touched upon price pass-through and second-round effects, which could lead to “even higher and more persistent inflation”, which may require “more tightening in monetary policy”.

Going into the meeting we thought the RBA may hike in May and pause for a while before perhaps delivering one more hike if necessary. However, we are now left with the impression that the Bank may take a pause in June, but if the price effects surprise higher as we think (even if a peace deal would be achieved), there is a good chance for the RBA going for two more hikes overall. For now, we are glad that the RBA is ahead of the curve on inflation and would keenly observe how the Iran war and incoming data evolve.

Next week, we look for both the business and consumer sentiments to deteriorate further but also expect some positive news to come to the fore on the Iran war.

## Week in Review

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
<b>Monday, May 04</b>					
US	Factory Orders (Mar)	0.6%	1.5%	0.3% (↑)	Strong core capital goods orders.
GE	Manufacturing PMI (Apr, final)	51.2	51.4	52.2	Third consecutive month above 50.
FR	Manufacturing PMI (Apr, final)	52.8	52.8	50.0	Fifth consecutive month above 50.
IT	Manufacturing PMI (Apr)	51.8	52.1	51.3	Third consecutive month above 50.
AU	Building Approvals (Mar, m/m)	-10.0%	-10.5%	31.0%	Rising trend, but we see higher rates to drag.
<b>Tuesday, May 05</b>					
US	Trade Balance (Mar)	-\$61.0b	-\$60.3b	-\$57.3b	The real trade deficit widened notably.
US	ISM Services Index (Apr)	53.7	53.6	54.0	Good details on activity, not on employment.
US	New Home Sales (Mar, thous)	652	682	635	Supply still elevated, prices easing.
US	JOLTS Job Openings (Mar, thous)	6,850	6,866	6,922 (↑)	The hiring rate rebounded sharply.
AU	RBA Cash Rate Target	4.35%	4.35%	4.10%	We now expect two more hikes.
<b>Wednesday, May 06</b>					
UK	Services PMI (Apr, final)	52.0	52.7	50.5	Rebound from 11-month low
GE	Services PMI (Apr, final)	46.9	46.9	50.9	Terrible! Worst since November 2022.
FR	Industrial Production (Mar, m/m)	0.5%	1.0%	-0.9%	Tepid.
FR	Services PMI (Apr, final)	46.5	46.5	48.8	Worst since February 2025.
<b>Thursday, May 07</b>					
US	Initial Jobless Claims (May 2, thous)	205	200	190 (↑)	Very low.
US	Continuing Claims (Apr 25, thous)	1,800	1,766	1,776 (↓)	Extremely low.
GE	Factory Orders (Mar, m/m)	1.0%	5.0%	1.4% (↑)	Solid, broad-based gains.
<b>Friday, May 08</b>					
US	Change in Nonfarm Payrolls (Apr, thous)	65	115	185 (↑)	Robust.
US	Unemployment Rate (Apr)	4.3%	4.3%	4.3%	Participation rate declined again.
US	U. of Mich. Sentiment (May, prelim)	49.5	48.2	49.8	From bad to worse...
CA	Unemployment Rate (Apr)	6.7%	6.9%	6.7%	6-month high
GE	Industrial Production (Mar, m/m sa)	0.4%	-0.7%	-0.5% (↓)	Down 3.0% y/y.

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

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