
May 15, 2026

Commentary

Weekly Economic Perspectives

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Weekly Highlights

Hot inflation data and lack of clarity in Iran war duration push bond yields higher.

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

3.8%

Highest since May 2023.

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

2.8%

Six-month high.

US: PPI Final Demand (Apr, y/y)

6.0%

Highest since Dec 2022.

UK: GDP (Q1, q/q, prelim)

0.6%

Outperformed but underlying components are volatile.

UK: Household Consumption (Q1, q/q, prelim)

0.6%

Up from 0.1% in Q4 2025.

UK: Industrial Production (Mar, m/m)

-0.2%

Weak.

JP: CGPI (Apr, m/m)

2.3%

Highest in 12 years.

JP: Household Spending (Mar, m/m)

-2.9%

But GDP to rise on exports.

AU: NAB Business Conditions (Apr)

3.0

Near record lows.

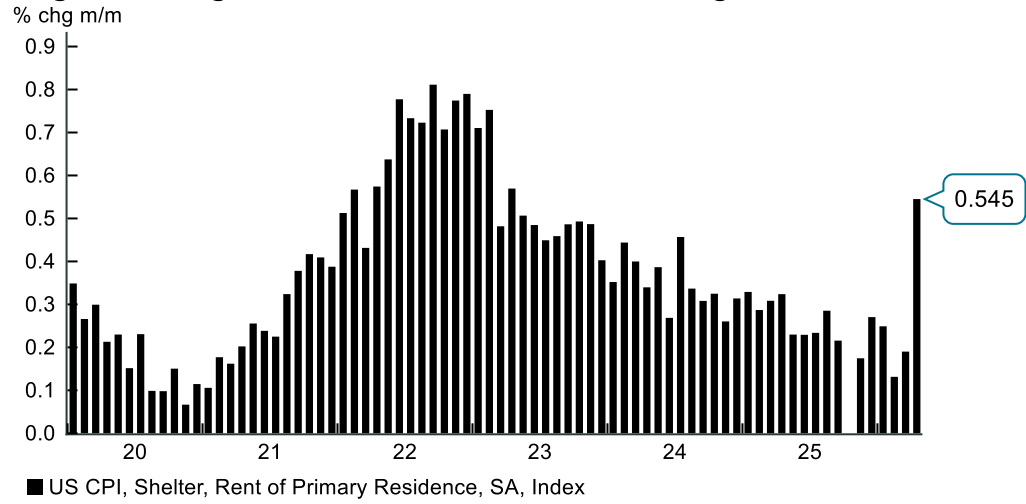
US: Hotter Inflation Prints Reignite Rate Hike Debate

There is no denying that the April inflation data came in pretty hot. Consumer price inflation accelerated another half a percentage point to 3.8% y/y, the highest read since May 2023. Much of this reflected ongoing increases in energy prices, with energy commodities now up 29.2% y/y. For comparison, the same category printed -5.2% y/y as recently as February!

However, the real surprise was the 0.6% m/m increase in services, in turn driven by an outsized 0.6% m/m surge in shelter. This lifted core price 0.4% m/m and lifted core inflation by two tenths to a six-month high of 2.8% y/y. By contrast, the other service categories (even transportation) were well-behaved.

Our more constructive view on inflation incorporates expectations of ongoing shelter disinflation, so the April update was indeed a challenge to that assessment. Nevertheless, we find the data unconvincing because it lacks corroboration in other indicators. As such, we see the hot April print more like an outlier than the start of a new trend. Why do we say this? Firstly, the magnitude of the increase is just so completely out of the recent context; even when taking into account some possible sample-related issues, the gain just seems exceedingly large (Figure 1, page 2).

Figure 1: Surge in US Rent Inflation Looks Strange



Sources: Macrobond, SSGA Economics, BLS
Updated as of 5/17/2026

Meanwhile, market data for rents from sources such as Zillow or Apartment List do not indicate any inflection higher in rents so far. Additionally, the rental vacancy rate continues to climb higher, and this is generally a very good leading indicator of future rent inflation. For instance, the national rental vacancy rate hit 7.3% in the first quarter, the highest since Q3 2017. Given real personal disposable income is barely rising, it seems unlikely that landlords would be able to push through significant rent increases. There is not much to do but wait for more data to gain clarity. Until then, we are tempted to dismiss this as more noise than signal.

That being said, both producer prices and import price data came in hotter than expected, largely (but not entirely) driven by energy prices. In terms of import prices, we are struck by the two large consecutive monthly increases in import prices from China, which stand in stark contrast to the behavior seen a year ago around tariff liberation day. We question how much more upside is here.

The hot inflation wave has once again pushed market expectations in a hawkish direction, with odds of a Fed hike this year now above 50%. We are not surprised to see that happen, but we believe the threshold for a hike is extremely high. There were so many apparent anomalies in this batch of inflation data that we could easily see some reversals soon, in which case market expectations could shift once again. Our confidence in our call for two rate cuts late this year has certainly diminished, but we are holding on to that call until at least the next batch of inflation updates. If the upward momentum persists, a reassessment will be in order.

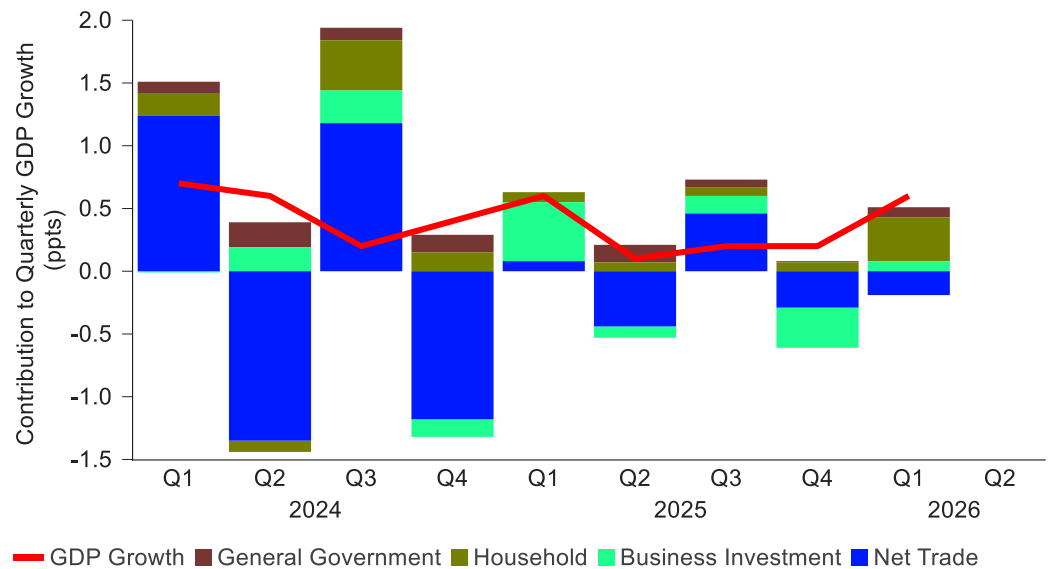
UK: BoE Unmoved by Robust GDP Surge

The latest GDP figures demonstrate exceptional strength, yet we anticipate that their impact on the Bank of England's monetary policy will remain limited. The central bank is steadfastly focused on combating escalating inflation and addressing secondary effects, maintaining its commitment to stability amidst challenging economic conditions.

The UK delivered a robust 0.6% q/q growth in Q1. However, we scrutinize these numbers with prudence. Since 2022, the UK economy has consistently surged in the first half of the year, only to falter in the latter months. This persistent pattern likely stems from the method of seasonal adjustment, compounded by soaring inflation and the timing of annual price hikes.

Despite these challenges, Q1 showcased resilient growth. Retail spending held firm, while the Purchasing Managers' Indices signaled robust expansion. Detailed demand metrics revealed substantial gains in household consumption (up 0.6% q/q), contributing 0.35 percentage points to GDP growth, and business investment (up 0.7%), adding 0.08 percentage points. Nonetheless, these vital demand drivers have experienced pronounced volatility in recent quarters, underscoring the need for cautious optimism.

Figure 2: Headline GDP Overshot But Underlying Trends Are Volatile



Source: Macrobond, State Street Investment Management, U.K. Office for National Statistics (ONS)

Looking ahead, the outlook for Q2 growth is pivotal. March's strong performance sets a solid stage for continued expansion in Q2, ahead of a probable sharp deceleration in Q3. Real disposable income faces downward pressure, and the labor market exhibits signs of weakening. Notably, the savings ratio remains elevated, reflecting heightened precautionary sentiment among households.

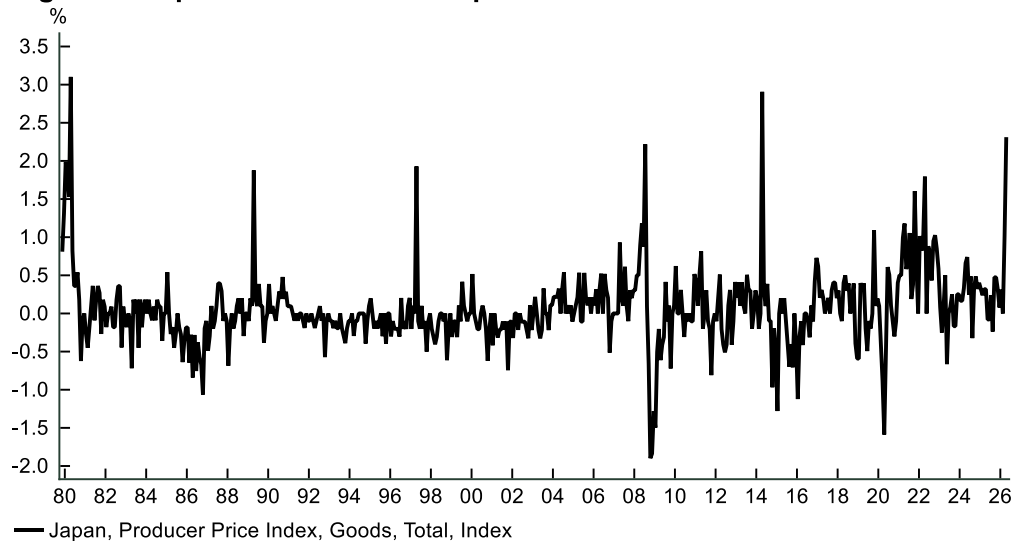
Yet, intensifying conflict in Iran stands as a critical variable, exerting significant upward pressure on oil prices and shaping the broader economic outlook. While a June rate hike is not our base case, its likelihood is steadily increasing. Forthcoming data releases, which include April's CPI and May's flash PMIs, will be decisive. We anticipate a decline in CPI inflation for April, driven by fiscal measures and reduced energy costs. However, if CPI or PMI results surpass expectations, the Bank of England may be compelled to take bold action and raise rates.

Japan: June Hike Is a Done Deal

We now see a near-certain case for a June hike by the Bank of Japan (BoJ). Not only has the Corporate Goods Price Index moved materially higher, but even previously neutral policymakers are turning more hawkish. On the margin, we still expect two hikes this year, though the bigger question is whether Japan’s strong growth momentum can withstand rising inflation.

Japan’s CGPI rose 2.3% m/m in April, the strongest increase since April 1980 excluding the 2014 consumption tax impact, while the annual print rose to 4.9% y/y, the highest since May 2023. This surge is not broad-based. It is overwhelmingly driven by an 83.2% jump in naphtha prices, alongside a sharp rise in jet fuel. Government measures helped soften gasoline prices, but upstream chemical products also moved higher.

Figure 3: Japan's Goods PPI Jumps



Sources: Macrobond, SSGA Economics, BOJ
Updated as of 5/15/2026

Naphtha sits at the core of Japan’s petrochemical model, serving as the primary feedstock for steam crackers that produce olefins such as ethylene and propylene, and aromatics like benzene and xylenes. These are upstream inputs into polymers, synthetic fibers, resins, and a wide range of intermediate goods. This tight feedstock linkage creates a high beta to crude prices, making naphtha a key transmission channel into producer price inflation.

Sustained increases raise cracker input costs and compress spreads unless passed through, while also lifting costs across downstream manufacturing chains in plastics, textiles, autos, and electronics. In Japan, this raises the risk of broader core goods inflation feeding into consumer prices, particularly via packaging, synthetic goods, and household durables. At the same time, higher petrochemical input costs spill over into other Asian supply chains, and eventually into the US and Europe through traded goods, reinforcing global goods inflation even as firms in

high-demand sectors regain pricing power and pass costs through into export prices.

Importantly, only one of the 23 major categories, business-oriented machinery, saw price declines, pointing to broadening upstream pressure. Yen-based import prices rose 5.6% m/m, while export prices increased 4.0%, led by chemicals. This raises the key question of how far and how long elevated oil and naphtha prices will feed through into the broader price basket.

For now, as we approach the midpoint of the year and roughly 80 days since the Iran conflict began, the focus shifts to growth. We expect Q1 GDP, due next week, to print at 0.6% q/q, above the consensus with upside risk. However, we explicitly see exports and capex (not consumption) to do the heavy lifting.

If inflation continues to firm while growth remains resilient, it strengthens the case for a June hike. A second hike later in the year will depend on how well domestic and global demand hold up, where we see a meaningful probability of continued resilience.

Week in Review

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, May 11					
US	Existing Home Sales (Apr, millions)	4.05	4.02	4.01 (↑)	Elevated inventory, prices barely up y/y.
Tuesday, May 12					
US	CPI (Apr, y/y)	3.7%	3.8%	3.3%	Core came in hot also on strangely high rents.
GE	ZEW Survey Expectations (May)	-19.5	-10.2	-17.2	Very weak.
GE	CPI (Apr, y/y, final)	2.9%	2.9%	2.7%	Highest since January 2024.
Wednesday, May 13					
US	PPI Final Demand (Apr, m/m)	0.5%	1.4%	0.7% (↑)	Highest since December 2022.
FR	CPI (Apr, y/y, final)	2.2%	2.2%	1.7%	Highest since July 2024.
Thursday, May 14					
US	Initial Jobless Claims (May 9, thous)	205	211	199	Persistently very low.
US	Continuing Jobless Claims (May 2, thous)	1,790	1,782	1,758	Persistently very low.
US	Retail Sales Advance (Apr, m/m)	0.5%	0.5%	1.6% (↓)	
US	Import Price Index (Apr, y/y)	3.1%	4.2%	2.3% (↑)	
UK	GDP (Q1, q/q, prelim)	0.6%	0.6%	0.2% (↑)	Underlying strengths are volatile.
UK	Industrial Production (Mar, m/m)	-0.2%	-0.2%	0.3% (↓)	Weakening.
Friday, May 15					
US	Empire Manufacturing (May)	7.5	19.6	11.0	Big surge but may prove fleeting.
US	Industrial Production (Apr, m/m)	0.3%	0.7%	-0.3% (↑)	Led by manufacturing and utilities.
JN	PPI (Apr, y/y)	3.0%	4.9%	2.9% (↑)	Outperformed.

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

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