
May 22, 2026
Commentary

Weekly Economic Perspectives

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Weekly Highlights

Evidence of demand destruction amid high energy prices starts to emerge.

US: U of M Consumer Sentiment (May)

44.8

New record low!

EZ: Services PMI Index (May, prelim)

46.4

Lowest since Feb 2021!

EZ: Service PMI Input Price Index (May, p)

67.4

Highest since Mar 2023.

CA: CPI (Apr, y/y)

2.8%

Core inflation was below expectations.

UK: CPI (Apr, y/y)

2.8%

Both services and food inflation were softer than expected.

UK: Unemployment Rate (Mar, 3 months)

5.0%

Increasing.

JP: Real GDP (Q1, y/y)

0.5%

Strong print overall.

JP: CPI (Apr, y/y)

1.4%

Subsidy effect.

AU: Unemployment Rate (Apr)

4.5%

Weak data overall.

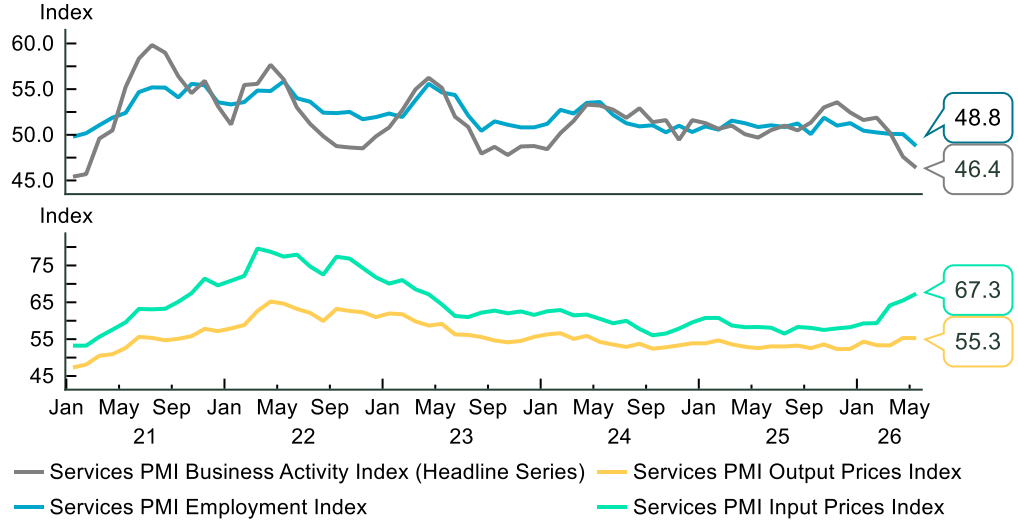
Eurozone: The ECB Should Hold Fire for Now

Markets are currently pricing an almost 90% chance of a 25-basis point ECB rate hike in June. Such a move is indeed possible, but we would strongly advise against it. The latest batch of PMI data (especially in the critical services sector) suggest a degree of demand destruction that implies slow and limited passthrough of higher energy costs. There is enough of a warning signal here that we believe the ECB should stay its hand until at least the July 23rd meeting, at which point we will likely have had some resolution to the Iran conflict and much more clarity on the sustainability of recent oil price increases.

Preliminary May readings put the purchasing managers' index for services at 46.4, down 1.2 points from April and the lowest level since February 2021. The employment subcomponent dropped 1.3 points to 48.8, the first sub-50 reading since January 2021. This is an especially notable move given the contrast with the Ukraine war shock, when the employment metric never went into contraction territory. Unsurprisingly, the price measures moved higher. However, they did so in a highly divergent fashion: while the input price measure surged, the output price metric rose only modestly (Figure 1, page 2). The totality of the data suggest growing demand destruction dynamics that limit firms' ability to pass on higher costs to consumers. It remains to be seen whether this dynamic can be sustained, but for

now, we find sufficient reassurance here to argue that the ECB should stay its hand at the June meeting.

Figure 1: Sharp Slowdown In Eurozone Services Sector

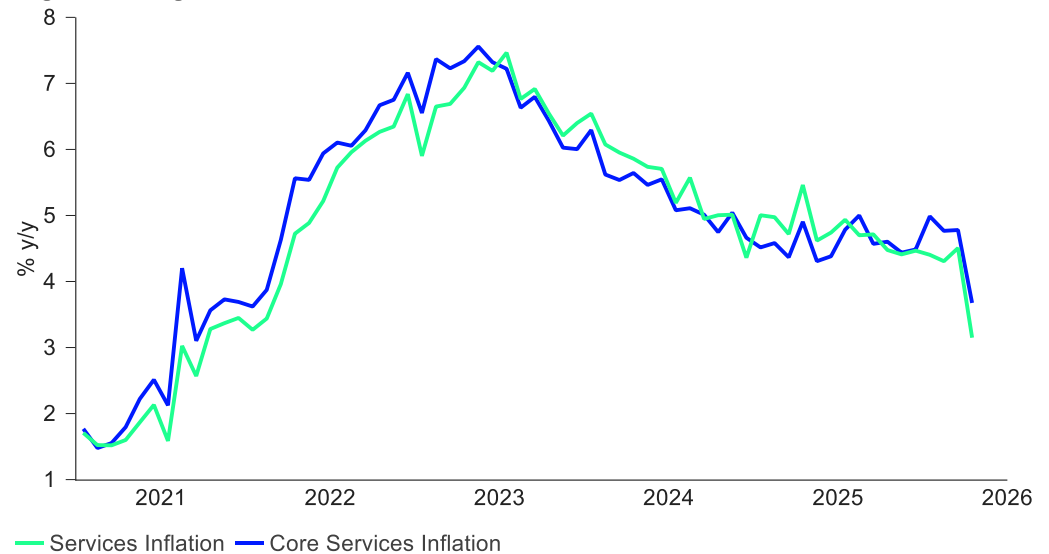


Sources: Macrobond, SSGA Economics, S&P Global

UK: Lower Chance for June Hike

The pronounced decline in both the Purchasing Managers' Index (PMI) and Consumer Price Index (CPI), coupled with persistent and deepening weakness in the labor market, provides compelling evidence for the Bank of England to resolutely uphold its current policy stance until at least July.

Figure 2: Significant Slowdown in UK Services Inflation



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

The CPI data showed a sharper-than-expected drop, with headline inflation falling to 2.8% y/y, below the predicted 3.0%, despite rising oil prices. Core inflation also eased, registering 2.5% versus an anticipated 2.6%. Of particular note, services inflation, which previously showed persistence, decreased significantly to 3.2% from 4.5% the previous month. Core services inflation (excluding rents, education, package holidays, and airfare) similarly moderated, falling to 3.7% from 4.8%.

A closer analysis revealed that food prices exhibited limited movement, with the food CPI easing below 3% for the first time since 2024. Given the historically strong correlation between energy and food prices, any indications of secondary effects would likely surface here first; however, no such trends have emerged to date.

Energy prices displayed divergent patterns: while fuel costs increased, household energy expenses grew more slowly. Household bills fell this month due to last autumn's policy changes that moved some taxes from energy bills to general taxation, temporarily reducing the CPI. Transport service figures decreased because of Easter timing, but this change brings little policy insight since rising fuel prices and expected base effects were already considered.

The deceleration of services inflation, especially within housing services, is also significant. It should be noted that ONS data are not seasonally adjusted; thus, the timing of Easter may have inflated March's figures rather than understated those for April. The miscalculation of last April's Vehicle Excise Duty, which artificially lowered the current CPI reading, is a minor caveat against otherwise weak results.

Private sector business activity declined sharply in May, concluding a sustained period of growth. The **services** sector contracted, with **PMI** dropping to 47.9 from April's 52.7, while manufacturing PMI remained steady at 53.7. Persisting inflationary pressures and ongoing political uncertainty are expected to further impact investment and employment.

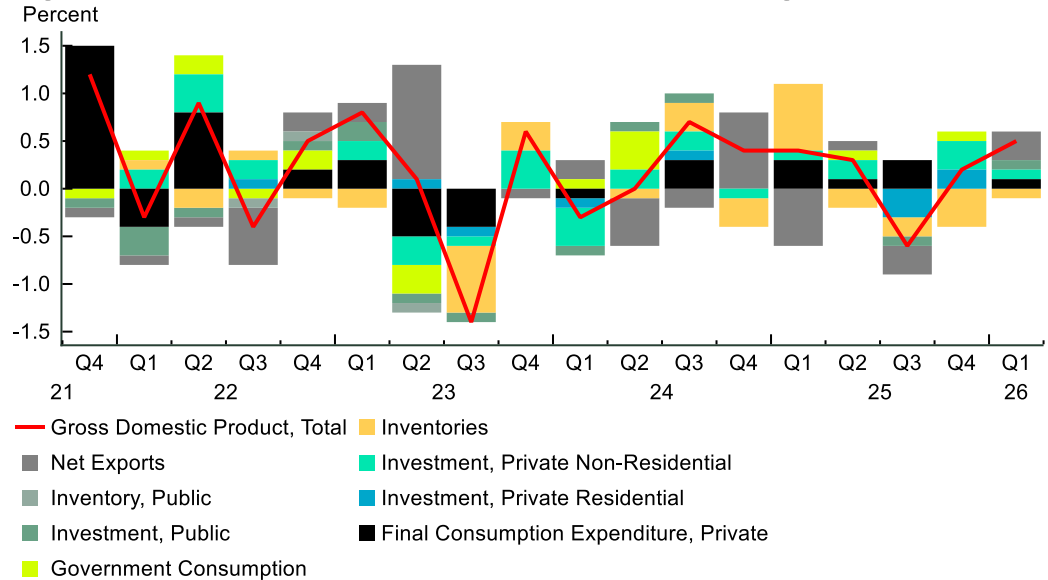
The latest labor market data reveal underlying stresses that threaten to reshape the economic outlook. Despite headline figures broadly meeting expectations, there is clear evidence of mounting strain: **unemployment rate** has edged up from 4.9% to 5.0%, signaling a shift in momentum. The slowdown in wage growth within critical sectors such as construction, combined with a marked surge in youth unemployment, points to deepening vulnerabilities. These trends raise urgent questions for the BoE as it weighs its next policy moves. Most strikingly, job vacancies are collapsing across the board, with the most pronounced declines in sectors exposed to the minimum wage, underscoring persistent weakness in consumer-facing industries and hinting at further challenges ahead.

Taking in aggregate, we think that these developments present a compelling case for the Bank of England to steadfastly maintain its current policy stance until at least July. The accumulation of adverse trends across inflation, business activity, and labor market conditions powerfully reinforces the necessity for caution and underscores the risks of any premature policy shift.

Japan: Clear Path

Q1 GDP growth came in slightly above consensus, though marginally below our expectations. Output expanded by 0.5% q/q, translating to 2.1% q/q saar on an annualized basis. The composition of growth suggests an economy that was firing on all cylinders prior to the onset of the Iran war, broadly consistent with our annual outlook.

Figure 3: Japan's Growth Momentum Remained Strong In Q1



Sources: Macrobond, SSGA Economics, CAO

Consumption remained the standout driver. At 1.0% y/y, it exceeded our expectations and marked the fifth consecutive quarter at or above this pace. Notably, consumption is the only component to have sustained such consistency over this period, underlining the resilience of domestic demand. Private capex, at 1.5%, was in line with our expectations, though it had already shown signs of moderation in Q3 2025. Export growth disappointed modestly, rising just 1.9% this quarter, while public capex surprised to the upside at 1.2%, providing an additional buffer to overall activity.

On the inflation front, April CPI undershot expectations, printing at 1.4% y/y versus 1.7% consensus and 1.8% in our forecast. The downside surprise appears largely policy-driven. The government's abolition of fuel excise taxes and the reintroduction of subsidies from March have weighed on the default core metric (ex fresh food), while the removal of high-school tuition and lunch fees has already dampened the Bank of Japan (BoJ) core measure excluding fresh food and energy. That said, we continue to expect inflation to trend higher in the coming months, supported by fading base effects and, increasingly, the implications of the Iran war.

Indeed, emerging external dynamics are becoming an important macro risk. April trade data show crude oil import prices surged by 57% in yen terms, pointing to a significant terms-of-trade shock. While export volumes rose 3.4% y/y, broadly in line

with the Q1 average of 3.6%, momentum weakened on a sequential basis, with volumes declining by 2.9% m/m.

Taken together, the domestic growth and inflation backdrop still supports a strong case for a June rate hike by the BoJ, potentially independent of how the Iran war evolves. However, the turning global rate cycle introduces an important constraint. With external policy momentum shifting, the scope for a second hike this year appears limited. This remains our base case, contingent on how both domestic and global demand evolve through H2.

Week in Review

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, May 18					
No major data releases					
Tuesday, May 19					
CA	CPI (Apr, y/y)	3.1%	2.8%	2.4%	Increased but not as strongly as expected.
UK	ILO Unemployment Rate (Mar, 3 months)	4.9%	5.0%	4.9%	Weakening.
JP	GDP (Q1, q/q annualized sa, prelim)	1.7%	2.1%	0.8% (↓)	Strong.
JP	Industrial Production (May, m/m, final)	n/a	-0.4%	-0.5%	Payback from strong Jan and Feb.
JP	Tertiary Industry Index (Mar, m/m)	-0.5%	-0.2%	-0.7% (↓)	Payback from strong Jan and Feb.
AU	Westpac Consumer Conf (May, m/m)	n/a	3.5%	-12.5%	Still near all time lows.
Wednesday, May 20					
UK	CPI (Apr, y/y)	3.0%	2.8%	3.3%	Downside surprise.
Thursday, May 21					
US	Initial Jobless Claims (May 16, thous)	210	209	211	Extremely low.
US	Continuing Jobless Claims (May)	1,790	1,782	1,776 (↓)	Extremely low.
US	Housing Starts (Apr, thous)	1,420	1,465	1,507 (↑)	Modest but up 4.6% y/y.
UK	Manufacturing PMI (May, prelim)	53.0	53.7	53.7	Stronger than expected.
UK	Services PMI (May, prelim)	51.7	47.9	52.7	Losing momentum.
GE	Manufacturing PMI (May, prelim)	51.0	49.9	51.4	Disappointing.
GE	Services PMI (May, prelim)	47.1	47.8	46.9	Weak.
FR	Manufacturing PMI (May, prelim)	52.1	48.9	52.8	Disappointing.
FR	Services PMI (May, prelim)	46.7	42.9	46.5	Terrible!
JP	Manufacturing PMI (May, prelim)	n/a	54.5	55.1	Very good resilience.
AU	Unemployment Rate (Apr)	4.3%	4.5%	4.3%	Cracks appearing?
Friday, May 22					
US	U. of Mich. Sentiment (May, final)	48.2	44.8	49.8	New record low.
UK	Retail Sales Inc Auto Fuel (Apr, m/m)	-0.6%	-0.4%	0.7%	Lower demand, partly due to weather.
JP	Natl CPI (Apr, y/y)	1.6%	1.4%	1.5%	Subsidy effect.
GE	IFO Business Climate (May)	84.2	84.9	84.4	Surprisingly resilient.

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

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