
June 5, 2026
Commentary

Weekly Economic Perspectives

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Weekly Highlights

Strong US employment accentuates hawkish bets, unsettling markets.

US: Non-Farm Payrolls (May)

172k

Well above forecasts.

US: Unemployment Rate (May)

4.3%

Steady.

EU: Real GDP Growth (Q1, q/q)

-0.2%

But the ECB will hike.

CA: Unemployment Rate (May)

6.6%

Well below expectations.

UK: Mortgage Approvals (Apr, thous)

65.9

Highest since January 2025.

UK: Nationwide House Price (May, m/m)

-0.6

The first decline this year.

AU: Real GDP (Q1, y/y)

2.5%

Below our expectations.

AU: Net-Trade Contribution (Q1, pp)

-0.8

Big drag.

JP: Overtime Pay (Apr, y/y)

4.2%

Good stat.

US: No Urgency for Fed Cuts Given Latest Labor Market Data

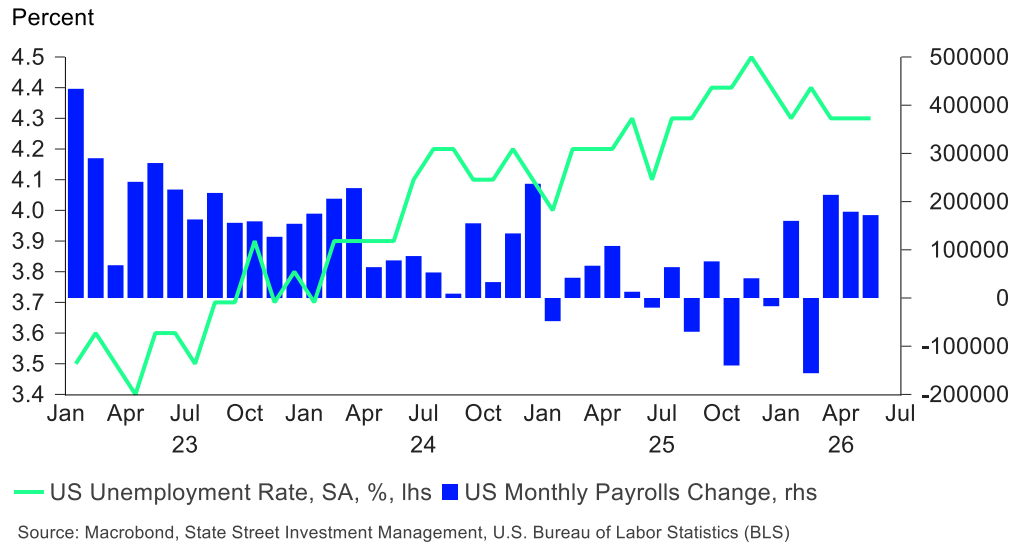
With the May employment report now in hand, the cumulative evidence on the labor market points to an undeniable improvement over the last few months that removes urgency for Fed rate cuts. We remove 2026 Fed rate cuts from the forecast and push them to 2027, penciled in for March and June of next year.

The economy added 172k jobs in May, far above expectations, and on top of that, there was a sizable upward revision to the prior two months. As a result, the 3-month average monthly job gains lifted from a negative 4k as recently as February to a robust 188k. Interestingly, despite the surge in jobs, the unemployment rate was steady at 4.3%, and wage inflation (measured by average hourly earnings) moderated to 3.4% y/y.

Job gains were broad based, though the services industry added only 92k jobs in May versus 163k in April. If there was an oddity in this report, we'd point to the 52k increase in government employment, a number well above recent trends. Within the private sector, job gains in leisure and hospitality accelerated at 70k, but that isn't too surprising given the upcoming World Cup.

In summary, the labor market appears to be on decent footing, requiring no assistance from the Fed, but neither is it a source of inflationary pressures, so the Fed need not actively try to slow things down. A prolonged hold stance makes sense to us.

Figure 1: Three Straight Solid Gains In US Payrolls



CA: A Firm Job Report

Canadian data remain noisy, but the latest jobs report keeps the case for a Q2 rebound intact. At the margin, that should strengthen the Bank of Canada’s bias to stay on hold next week, especially with the economy still operating below capacity and helping to contain the inflationary impulse from higher energy prices.

The labor market looked firmer in May. Employment rose by 88k, driven by private and public sector hiring, while self-employment was little changed. Full-time jobs surged by 154k, reversing the weakness seen over January to April, while part-time employment fell by 66k.

Figure 2: Canadian Unemployment Rate Dropped In May



The improvement was broad-based. Employment rose among both core-aged workers and youth, while unemployment fell across these groups, with the sharpest decline among youth. Sectoral gains were also broad-based, led by construction, recreation, transport and hospitality, though wholesale and retail trade softened.

The unemployment rate fell to 6.6% from 6.9% in April, though it remains above its pre-pandemic average of 6.0%. The layoff rate held at 0.6%, broadly in line with historical norms. line: this report leans against near-term cuts and should keep front-end pricing anchored to a BoC hold.

Eurozone: ECB to Hike into Softness

The third read on first-quarter real GDP growth for the eurozone disappointed with a 0.2% contraction that marked the worst quarterly performance since 2020. Growth slowed markedly to just 0.3% on a year-on-year basis, the slowest since late 2023.

Despite a labor market that is overall healthy (Germany is an exception here), household consumption remains anemic; the 0.2% q/q gain slowed annual growth to a two-year low of 1.0%. Government consumption picked up some of the slack (not the best tradeoff) rising 0.5% q/q and 2.2% from a year earlier. Investment was very disappointing, particularly considering the region's apparent commitment to reinvigorating the domestic defense industry. Fixed investment contracted 0.3% q/q and inventories worsened the picture further. The final hit came from trade, although some temporary distortions likely made the outcome worse than underlying trends. In summary, whatever positive contributions to growth came from consumption, they were more than offset by the detraction from trade and investment.

Given the pickup in inflation in the second quarter, it seems likely that consumer spending will remain tepid. Nevertheless, the ECB is poised to hike at the June 11 meeting, even though the move strikes us as highly ineffectual in fending off inflationary pressures driven by a supply shock. With wage inflation well under control and consumer sentiment and spending depressed, there is limited scope for second round inflation effects. We'd argue for at least a delay in the hiking cycle, but that is a lost argument already...

Australia: Downside Surprise Masks Underlying Strength

Q1 GDP growth printed at 2.42% y/y, falling short of both consensus (2.60%) and our estimate (2.69%). While the miss looks modest on an annual basis, the sequential print was more disappointing at 0.3% q/q versus 0.5% consensus and our 0.56%, indicating weaker underlying momentum.

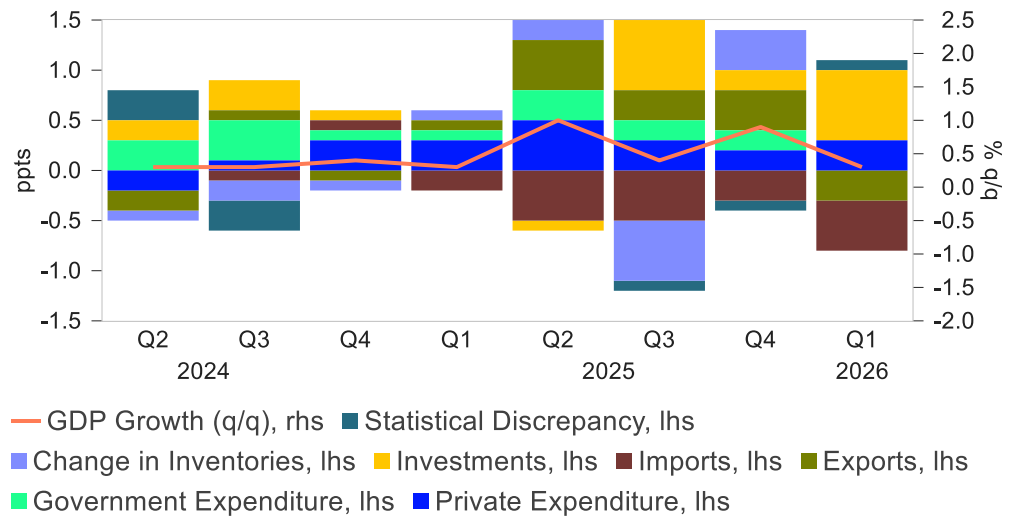
The composition, however, offers a more nuanced picture. Household consumption was stronger than expected, holding steady at 2.5% y/y and outperforming on a sequential basis at 0.5% q/q versus 0.4% prior. The standout was investment, which surged 6.0% q/q, driven by a sharp pickup in data centre spending. The ABS highlighted that machinery and equipment investment recorded its strongest growth in 30 years, consistent with recent evidence of large-scale data centre buildouts in NSW and Victoria. This alone contributed 0.7 pp to quarterly GDP.

That strength in capex, however, came with a trade-off. The heavy reliance on imported equipment led to a significant drag from net exports, subtracting 0.8 pp from quarterly growth. This was exacerbated by weather-related disruptions to exports and a continued rise in services imports, likely supported by the stronger Australian dollar.

Elsewhere, government consumption disappointed and detracted 0.2 pp from growth, though this was largely in line with our expectations. Productivity trends remain a key concern, with GDP per hour falling 0.6% q/q, marking the weakest outcome in 10 quarters.

Taken together, the data aligns with the softer labour market signals seen last week and supports a case for the cash rate to remain at 4.35% in the near term. That said, the resilience in private consumption and the strength in services imports suggest underlying demand remains firm. This keeps the door open for at least one additional rate hike by the RBA later this year.

Figure 3: Contributions to Australia's GDP Growth



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

Week in Review

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Jun 1					
US	ISM Manufacturing (May)	53.3	54.0	52.7	Solid; manufacturing is on the upswing.
UK	Nationwide House Price (May, m/m)	-0.2%	-0.6%	0.4%	The first monthly decline this year.
UK	Manufacturing PMI (May, final)	53.7	53.9	53.7	Solid.
GE	Manufacturing PMI (May, final)	49.9	50.1	49.9	Meager.
FR	Manufacturing PMI (May, final)	48.9	49.7	48.9	Soft.
IT	Manufacturing PMI (May)	52	52.9	52.1	OK.
JN	Manufacturing PMI (May, final)	n/a	54.5	54.5	Holding ground.
Tuesday, Jun 2					
UK	Mortgage Approvals (Apr, thous)	62.0	65.9	64.0 (↑)	In line with recent trends.
AU	Building Approvals (Apr, m/m)	-1.6%	-3.4%	-10.5%	Still not looking great.
Wednesday, Jun 3					
US	Factory Orders (Apr)	4.5%	4.8%	1.8% (↑)	Surging! Up 11.7% y/y.
US	ISM Services Index (May)	53.9	54.5	53.6	Strong overall, but employment contracted.
US	Durable Goods Orders (Apr, final)	7.9%	8.0%	1.3%	Surging! Up 17.3% y/y.
UK	Services PMI (May, final)	47.9	49.3	52.7	Disappointing.
FR	Services PMI (May, final)	42.9	44.3	46.3	Quite terrible.
AU	GDP (Q1, q/q sa)	0.5%	0.3%	0.8%	Nuanced data masks underlying strength.
Thursday, Jun 4					
US	Initial Jobless Claims (May 30, thous)	214	225	215	Low.
US	Continuing Claims (May 23, thous)	1,780	1,777	1,785 (↓)	Very low.
Friday, Jun 5					
US	Change in Nonfarm Payrolls (May, thous)	89	172	179 (↑)	Third consecutive month of strong data.
US	Unemployment Rate (May)	4.3%	4.3%	4.3%	Steady, with steady participation.
CA	Unemployment Rate (May)	6.9%	6.6%	6.9%	Solid report.
EC	GDP (Q1, q/q, third)	0.1%	-0.2%	0.2%	Modest consumption, weak trade.
FR	Industrial Production (Apr, m/m)	-0.2%	0.1%	1.4% (↑)	Weak.

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

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