
June 19, 2026

Commentary

Weekly Economic Perspectives

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Weekly Highlights

Hawkish jolt in markets after Chair Warsh’s first FOMC meeting.

US: FOMC Rate Decision (Upper Bound)

3.75%

As expected.

US: Retail Sales Advance (May, m/m)

0.9%

Solid growth.

EZ: Industrial Production (Apr, m/m)

0.1%

Anemic.

CA: Retail Sales (Apr, m/m)

0.5%

Subdued underlying demand.

UK: BoE Policy Rate

3.75%

On hold.

UK: Headline CPI (May, y/y)

2.8%

Downside surprise.

JP: Policy Rate (Jun)

1.0%

Still behind the curve.

JP: CPI (May, y/y)

1.5%

Iran war impact still marginal.

AU: RBA Cash Rate

4.35%

On hold.

US: Hawkish Jolt

The first FOMC meeting under Chair Warsh’s leadership marked a clear hawkish tilt in messaging, though perhaps not quite as hawkish as markets are pricing.

In line with our expectations, the Fed Funds rate was left unchanged at 3.50-3.75%, and the one rate cut previously embedded in the summary of economic projections was removed. The new “dot plot” was notably more hawkish, with 9 participants expecting at least one hike this year, while 9 others anticipated the policy rate to remain on hold or be lowered. The median dot implies one rate cut in 2027 and one more in 2028. Updated economic forecasts incorporated higher inflation, modestly lower growth, and incrementally lower unemployment rate in 2026.

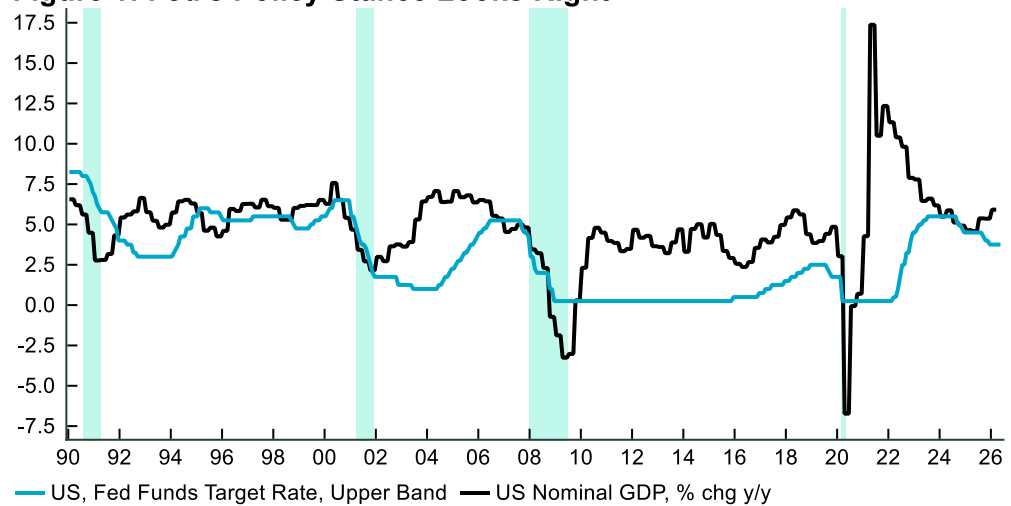
Chair Warsh did not submit a dot. In the perfectly even distribution of the remaining ones, we can’t help but infer a bit of deference to the new chair as his dot—should he have chosen to offer it—would have tipped the scales in one direction or another. As things stand, we are left with anxious anticipation. There is no denying that the dot plot, the forecasts, the (drastically shortened) statement, and the press conference all were hawkish overall. But how hawkish? Hawkish enough to deliver a hike or two this year, as markets are currently anticipating? Maybe...maybe not.

While the focus of almost the entire press conference was on inflation, this should not be surprising. The mere speculation of a potentially compliant Chair who would deliver rate cuts irrespective of economic conditions required Chair Warsh to take a

stand to establish credibility. Secondly, recent data suggest there is not much reason to worry about the labor market. So, we focus and talk about the one area of concern, which is inflation.

Even so, the discussion about inflation was more nuanced in our view than what markets took it. While there was the clear promise that “the committee will deliver price stability”, Chair Warsh also talked about the need to understand what is driving inflation, and to make policy based on forward looking signals. He also noted that the “dots” can become obsolete very quickly at a time of rapid change, as is currently the case with the Iran conflict and oil prices.

Figure 1: Fed's Policy Stance Looks Right



Sources: Macrobond, SSGA Economics, BEA, Fed
Updated as of 6/21/2026

In our opinion, the Fed's current policy stance is about right and could well end up being retained through year-end. Figure 1 above shows that over the last two decades, nominal GDP growth typically exceeded the Fed Funds rate by a sizable margin. When it did not, recession followed. This was one key reason why last year, when that gap had disappeared, we argued in favor of multiple Fed rate cuts even in the face of tariffs. Those cuts have since re-established space. The point is not to rush and close it again...

UK: Policy Risks Came into Focus

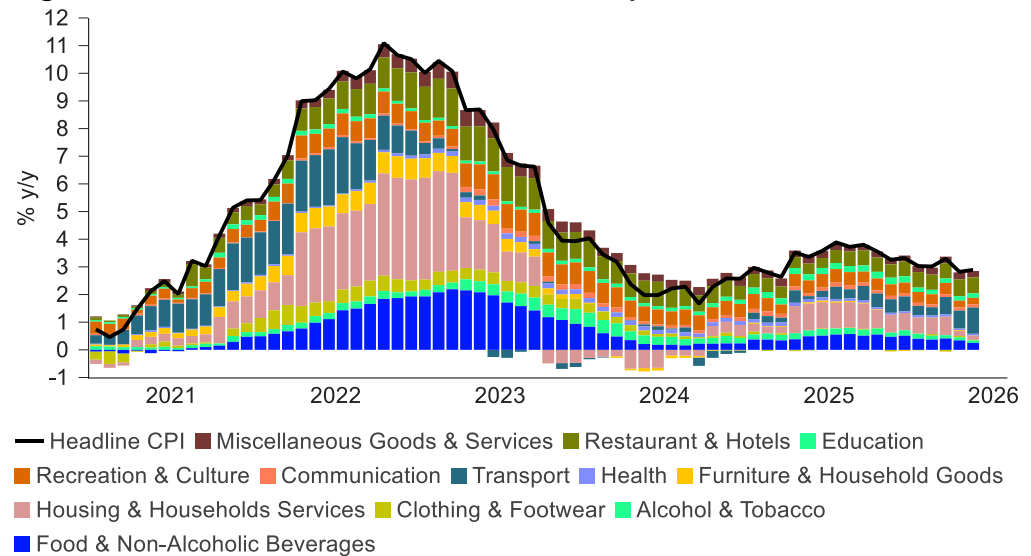
UK policy risks moved to the fore this week, as the MPC's June decision reinforced the case for a prolonged hold while Andy Burnham's Makerfield victory raised the prospect of a material fiscal and political reset.

As expected, the MPC held Bank Rate at 3.75%. The 7-2 vote was not a hawkish signal: although Megan Greene joined Huw Pill in backing a 25bp hike, most members remain in wait-and-see mode until the scale of any indirect and second-round effects from the energy shock becomes clearer.

April's Monetary Policy Report framed the outlook around three energy-price scenarios. This week's US-Iran deal has pushed oil and gas futures below even the BoE's most benign assumption, Scenario A. That eases second-round risks but does not eliminate them: the deal remains fragile, supply damage is uncertain, and logistical constraints could slow the pass-through to end prices.

Recent inflation data reinforce the case for caution. CPI again surprised to the downside, holding at 2.8%, while the rise in services inflation largely reflected air fares and vehicle excise duty rather than broad-based price pressure. Our estimates also suggest core services inflation remains below 4%. Inflation is still likely to rise near term as Ofgem's price cap increases in July, but lower oil and gas prices point to less upward pressure over the next year.

Figure 2: UK Headline Inflation Undershot Expectations



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

The labor market looks firmer on the surface, but the underlying signal is still softening. Pay and employment data were stronger than expected, yet slack is gradually rising. Private-sector pay growth remains much weaker than public-sector pay, and consumer-facing employment continues to decline.

The data flows support the MPC's cautious stance. Downside surprises in inflation and pay suggest disinflation was already entrenched before the conflict, while a cooling labor market and weak demand should limit pay growth and firms' pricing power. Pay settlements and margins will therefore remain key to the MPC's reaction function.

The MPC also acknowledged lower energy futures and clearer signs of pre-conflict disinflation but remained cautious on their policy implications. This likely reflects the MPC's intention to prevent an excessive loosening in financial conditions, with tighter conditions giving the MPC room to preserve policy optionality. With most

members still cautious, we expect Bank Rate to remain restrictive at the current level through year-end.

Fiscal uncertainty is also rising.

Burnham's decisive Makerfield win has put the fiscal outlook firmly back in focus. His stronger political position raises the risk of a shift in policy direction by early autumn. Our base case, however, is that near-term fiscal change remains limited. Even a rapid leadership bid would leave little time to design a sizeable autumn Budget package, especially if the contest is prolonged.

We also see market conditions as a binding constraint. Higher gilt yields and rate expectations should reduce fiscal headroom, while investor caution is likely to limit scope for early changes to the fiscal rules. We therefore see a large, front-loaded fiscal loosening this year as unlikely. Any material shift is more likely after the Budget, once a new fiscal strategy is defined.

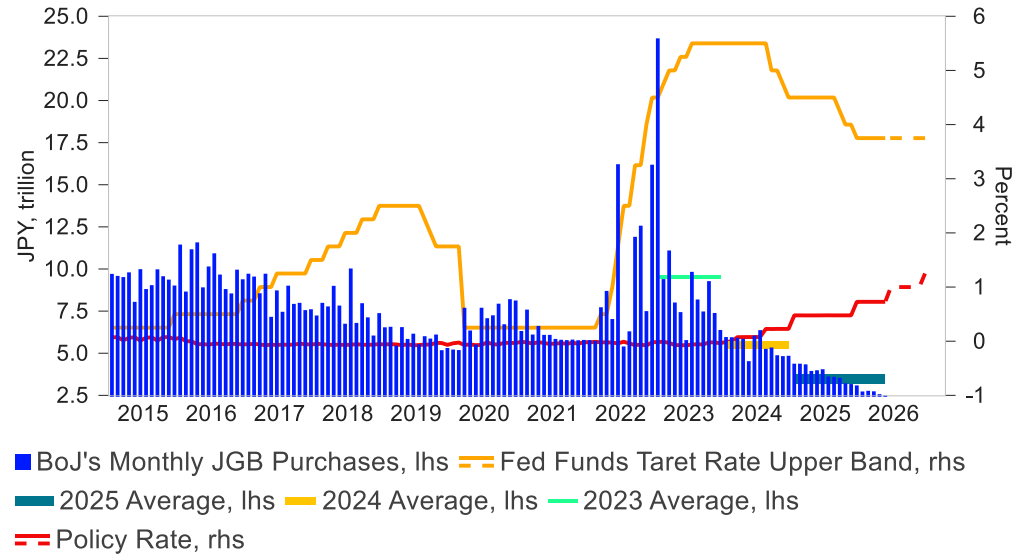
Japan: Significant, But Still Behind the Curve

The Bank of Japan delivered a well-telegraphed rate hike, raising the policy rate from 0.75% to the psychologically important 1.00% as downside risks to growth diminished and upside risks to inflation became more prominent. The statement leaned clearly hawkish, highlighting expectations of faster pass-through of price pressures and acknowledging that inflation risks are now skewed to the upside. While Governor Ueda was absent due to illness, we note reports that he has since been discharged from hospital and wish him a speedy recovery.

The policy statement explicitly noted that downside risks to the economy have "decreased compared with a while ago," while also flagging "a risk of underlying CPI deviating upward" beyond the 2% target. Deputy Governor Uchida reinforced this shift, pointing to the easing of growth risks since the April meeting as a key factor behind the rate hike. Notably, he also emphasized the wide dispersion in estimates of the neutral rate, suggesting such estimates offer limited practical guidance. While Governor Ueda has made similar remarks previously, the Deputy Governor's framing was more direct. We do not interpret this as a signal of faster normalization and continue to expect a gradual hiking cycle, likely at a pace of roughly one hike every six months. Our constructive growth view remains intact, supported by a robust outlook for AI and semiconductor-driven investment (see [here](#) and [here](#)).

On the balance sheet, the BoJ left its quantitative tightening path unchanged. The Bank confirmed it will continue reducing its monthly purchases of long-term JGBs by JPY 200 billion each quarter through March 2027, taking purchases to around JPY 2.1 trillion per month by that point. Beyond April 2027, purchases are expected to stabilize at roughly JPY 2.0 trillion per month. Importantly, as maturing JGBs continue to roll off, passive balance sheet reduction will persist alongside the taper. This remains consistent with our view that even as policy rates rise gradually, the balance sheet is normalizing steadily and as planned.

Figure 3: BoJ's Balance-Sheet Is Normalizing Faster Than Policy Rate



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

Looking ahead, the focus now shifts to the government’s fiscal stance, particularly the release of Prime Minister Takaichi’s Basic Policy on Economic and Fiscal Management and Reform, likely in July. Markets will also watch for potential issuance of “bridge JGBs” outside general expenditures, as well as a decision on the proposed temporary consumption tax cut on food. Both factors could sustain upward pressure on JGB yields and weigh on the yen in the near term.

Week in Review

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Jun 15					
US	Empire Manufacturing (Jun)	13.7	5.7	19.6	Modest growth.
US	Industrial Production (May, m/m)	0.3%	0.1%	0.9% (↑)	Nondurable manufacturing drove the weakness.
CA	Housing Starts (May, thous)	255.1	261.4	278.4 (↓)	Slightly stronger than expected.
CA	Manufacturing Sales (Apr, m/m)	4.5%	4.2%	3.4% (↑)	Driven by petroleum and coal sales.
Tuesday, Jun 16					
US	Housing Starts (May, thous)	1,430	1,177	1,392 (↓)	Driven by a plunge in volatile multifamily starts.
US	Building Permits (May, thous, prelim)	1,420	1,413	1,423	Slight decline.
GE	ZEW Survey Expectations (Jun)	-5.8	10.5	-10.2	Return to positive territory.
JN	BOJ Target Rate	1.00%	1.00%	0.75%	Slow and steady.
AU	RBA Cash Rate Target	4.35%	4.35%	4.35%	Hold on an extended period of time.
Wednesday, Jun 17					
US	Retail Sales Advance (May, m/m)	0.5%	0.9%	0.4% (↓)	Solid gain.
US	Pending Home Sales (May, m/m)	1.0%	3.8%	0.3% (↓)	Exceeded expectations.
US	FOMC Rate Decision (Upper Bound)	3.75%	3.75%	3.75%	In line with our expectations.
UK	Headline CPI (May, y/y)	3.0%	2.8%	2.8%	Downside surprise.
Thursday, Jun 18					
US	Initial Jobless Claims (Jun 13, thous)	225	226	230 (↑)	Low.
US	Continuing Claims (Jun 6)	1,800	1,810	1,786 (↓)	Higher than expected.
UK	Average Weekly Earnings (Apr, 3m y/y)	4.0%	4.4%	4.4% (↑)	Stronger than expected.
UK	ILO Unemployment Rate (Apr, 3mths)	5.0%	4.9%	5.0%	Lower than expectations.
UK	Bank of England Bank Rate	3.75%	3.75%	3.75%	Strengthened the case for extended hold.
Friday, Jun 19					
UK	GfK Consumer Confidence (Jun)	-23	-23	-23	Subdued.
UK	Retail Sales Ex Auto Fuel (May, m/m)	0.4%	1.2%	-0.1%	Strong.
CA	Retail Sales (Apr, m/m)	0.6%	0.5%	0.9%	Not bad.
JN	Natl CPI (May, y/y)	1.5%	1.5%	1.4%	Masked subsidy effects.

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

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