
June 12, 2026

Commentary

Weekly Economic Perspectives

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Weekly Highlights

Policy divergence deepens as ECB hikes, but BoC holds steady.

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

4.2%

Is this the peak?

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

2.9%

Not too bad.

EZ: ECB Deposit Facility Rate

2.25%

Might turn out to be a mistake.

CA: BoC Rate Decision

2.25%

On hold.

CA: Building Permits (Apr, m/m)

-7.6%

Declines in both residential and non-residential sectors.

UK: Industrial Production (Apr, m/m)

0.0%

Weaker than expected.

AU: Business Conditions (May)

+3.0

Very low but improved.

AU: Consumer Sentiment (May, m/m)

-2.9%

20% below historical average.

JP: Real GDP Revised (Q1, q/q saar)

1.8%

Capex down, consumption up.

US: Peak Inflation?

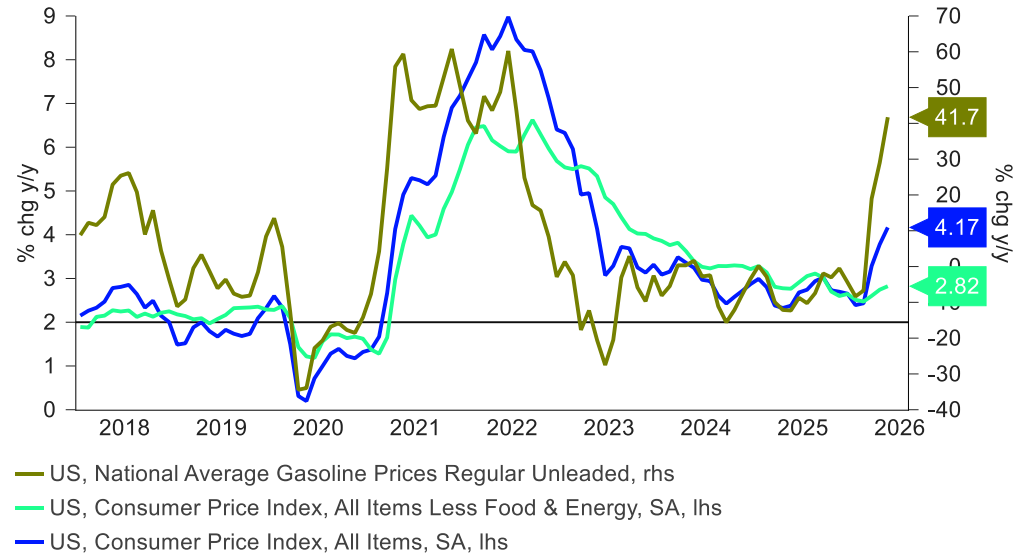
May was another month of hot inflation data but, with a bit of luck, it may mark the peak for the year. Overall consumer prices rose 0.5% m/m, driven by a 3.9% m/m increase in energy prices. Food and beverage prices rose 0.2%, moderating after a high print the month before. Excluding food and energy, prices rose 0.2% m/m. All this left headline inflation at 4.2% y/y (though it almost rounder up to 4.3%) and core inflation at 2.9% y/y.

Importantly, service prices posted a moderate 0.3% m/m increase, half the pace of the prior month. The key here was shelter inflation, where the monthly increase also halved to 0.3% m/m. We see room for further slowdown here. By contrast, following a couple of unusually benign readings, medical care services rose 0.3% m/m. Education and communication services jumped 0.8% m/m, well ahead of recent readings. Airline fares rose again—they are up 26.7% y/y. Used car prices rose 0.1% but new vehicle prices declined 0.3%, perhaps reflecting shifting tariff policies.

With gasoline prices down about 6.7% m/m so far in June, the June CPI print should be much more constructive, such that we might already have already put in the high inflation print for the year. Nevertheless, this is far from good enough for the Federal Open Market Committee (FOMC), which meets on June 17 for the first meeting under the leadership of Chair Warsh. The prior easing bias is likely to be removed from the statement and the one prior 2026 cut is likely to be removed from

the summary of economic projections. On the other hand, we suspect Chair Warsh will use the press conference to push back against market expectations for a hike.

Figure 1: US Inflation Might Be Peaking



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

CA: BoC on Hold

The case for BoC patience remains strong. Persistent excess slack argues against further tightening, while higher energy prices, trade uncertainty, and global risks keep the inflation outlook unsettled. Although activity is expected to rebound in Q2, the economy is still projected to “remain in excess supply,” leaving the Bank inclined to stay on hold.

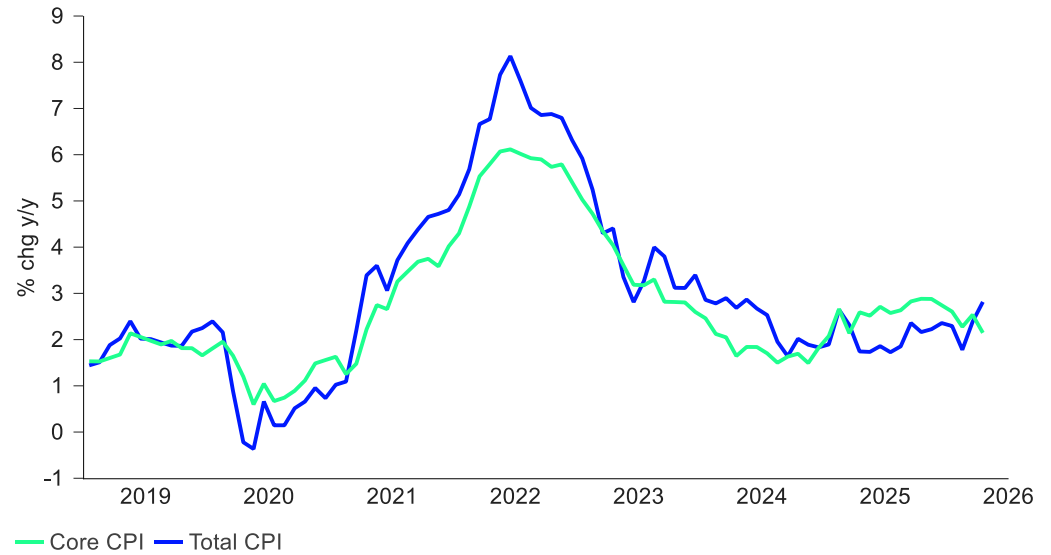
Higher oil prices are also lifting the inflation outlook modestly. With global oil prices about \$10 a barrel above the assumptions in April’s Monetary Policy Report, the Bank expects total inflation to stay near 3% in the near term before gradually returning towards 2%. However, it saw “limited evidence of broad-based pass-through” from energy prices, while core inflation had eased to around 2%.

Against this backdrop, the bank emphasized policy flexibility. With uncertainty “unusually elevated” and risks liable to shift, it could cut rates if US trade restrictions weigh on growth or tighten further if Middle East-related energy shocks generate persistent, broad-based inflation.

The Bank also cautioned that these scenarios are not exhaustive. Structural shifts in trade, AI, and demographics are clouding the outlook, and the BoC will continue to monitor their implications for growth and inflation as conditions evolve.

Overall, that same mix of excess slack, easing core inflation, and unresolved trade uncertainty gives the BoC little reason to shift course, reinforcing our view that rates will remain on hold through year-end.

Figure 2: Canadian Headline CPI Inflation Rose But Core Softened



Source: Macrobond, State Street Investment Management, Statistics Canada

Eurozone: The First Hike Is In, One More to Come

As widely anticipated, the ECB delivered a 25-basis point rate hike this week, bringing the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility to 2.25%, 2.40% and 2.65% respectively. The statement was neutral in tone, noting that futures decisions will be made “meeting by meeting” and that “the Governing Council is not pre-committing to a particular rate path”. Yet, given that the decision to hike was “robust across a range of scenarios mapping out how the shock might evolve and affect the medium-term outlook for the euro area”, it seems reasonable to expect that this won’t be a lone move. We would prefer it to be, since we see rate hikes as ineffective in staving off inflation driven by supply shocks, but we do anticipate one more in September.

There were updated staff economic projections. Three macro scenarios are discussed (milder, adverse, and severe) with the baseline sitting between the milder and the adverse. Relative to the March baseline, there is minimal negative impact on growth in the new baseline and even in the adverse scenario. The main impact is seen in inflation, with 2026 headline CPI inflation up four tenths relative to the March baseline (to 3.0%); the impact lingers into 2027. There are milder but more drawn out increases in core inflation, which is now forecasted to be two tenths higher this year and three tenths higher in 2027 (both 2.5%). This lingering inflation impact also suggests another hike is likely.

Australia: Sentiment Bottoming?

We may be starting to see early signs of bottoming in Australian sentiment, though the key question remains how quickly this translates into a meaningful recovery.

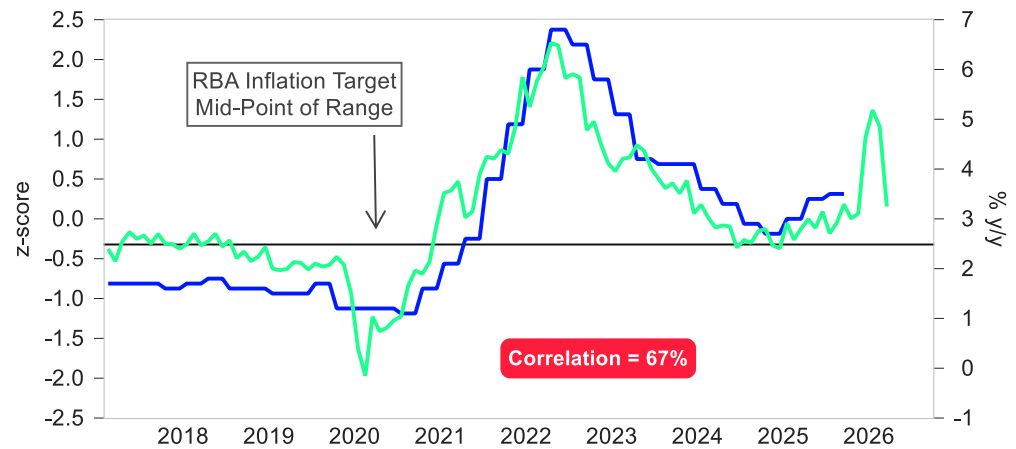
Business conditions held steady at 3.0, slightly below the long-run average. Encouragingly, business confidence improved to -14.0 from -23.0, but it remains deeply pessimistic and nearly 18 points below its historical norm. The underlying

details are mixed: price pressures have eased somewhat but are still elevated, while employment and trading conditions saw modest gains. In contrast, profitability softened, and more concerning, capacity utilization dropped to 81.9%, the lowest level in the past year.

Consumer sentiment tells a similarly cautious story. The headline index declined 2.9% to 80.6 in June, leaving it nearly 20% below its long-run average. Forward-looking indicators are weakening as well, with medium-term economic expectations falling to a three-year low. Household finances deteriorated notably, with expectations for the year ahead down sharply (-8.5% to 85.1) and perceptions of current finances versus a year ago also declining (-7.5% to 67.3).

Overall, sentiment across both businesses and households remains fragile, but the pace of deterioration appears to be slowing. We expect sentiment to find a floor as geopolitical risks around the Iran conflict, begin to ease. At the same time, the Reserve Bank of Australia is widely expected to hold rates steady at next week's meeting, likely maintaining a neutral bias as it preserves policy flexibility amid lingering inflation uncertainty. That said, our leading indicators point to some easing in near-term inflation expectations, which should provide a modest tailwind to sentiment over the coming months.

Figure 3: Are Inflation Risks Easing In Australia?



— SSIM Australia Inflation Tracker* (3m lead), lhs
— Trimmed Mean CPI (quarterly), rhs

Source: Macrobond, State Street Investment Management, Australian Bureau of Statistics
* A standardized aggregate of eight leading indicators of inflation

Week in Review

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Jun 8					
GE	Factory Orders (Apr, m/m)	-2.0%	-3.8%	4.5% (↓)	Volatile.
JN	GDP (Q1, q/q, final)	0.3%	0.5%	0.5%	Better than expected.
Tuesday, Jun 9					
US	NFIB Small Business Optimism (May)	96.0	95.3	95.9	Weaker hiring intentions.
US	Existing Home Sales (May, millions)	4.1	4.2	4.0 (↑)	Mild improvement.
GE	Industrial Production (Apr, m/m sa)	0.4%	0.4%	-0.1% (↑)	Ending four consecutive months of declines
AU	Westpac Consumer Conf (Jun, m/m sa)	n/a	-2.9%	3.5%	Not good.
AU	NAB Business Confidence	n/a	-14	-23 (↑)	Deeply pessimistic.
Wednesday, Jun 10					
US	CPI (May, y/y)	4.2%	4.2%	3.8%	Core accelerated a tenth to 2.9% y/y.
IT	Industrial Production (Apr, m/m)	0.0%	0.5%	0.6% (↓)	Third consecutive monthly expansion.
CA	BoC Rate Decision	2.25%	2.25%	2.25%	In line with our expectations.
Thursday, Jun 11					
US	Initial Jobless Claims (Jun 6, thous)	220	229	225	Modestly higher.
US	Continuing Claims (May 30, thous)	1,785	1,795	1,777	Minimally higher.
US	PPI Final Demand (May, y/y)	6.4%	6.5%	5.7% (↓)	Highest since November 2022.
CA	Building Permits (Apr, m/m)	-3.9%	-7.6%	10.3%	Broad-based declines.
EC	ECB Deposit Facility Rate	2.25%	2.25%	2.00%	As expected, but may turn out to be a mistake.
Friday, Jun 12					
US	U. of Mich. Sentiment (Jun, prelim)	46.0	48.9	44.8	Inflation expectations improved mildly.
UK	Industrial Production (Apr, m/m)	0.1%	0.0%	-0.2%	Worse than expected
GE	CPI (May, y/y, final)	2.6%	2.6%	2.9%	No big surprise.
FR	CPI (May, y/y, final)	2.4%	2.4%	2.2%	No big surprise.
JN	Industrial Production (Apr, m/m, final)	0.8%	0.5%	-0.4%	OK.

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

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