September 11, 2026
Commentary

Weekly Economic Perspectives

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Weekly Highlights

Higher oil prices and hot US inflation point to a September Fed hike.

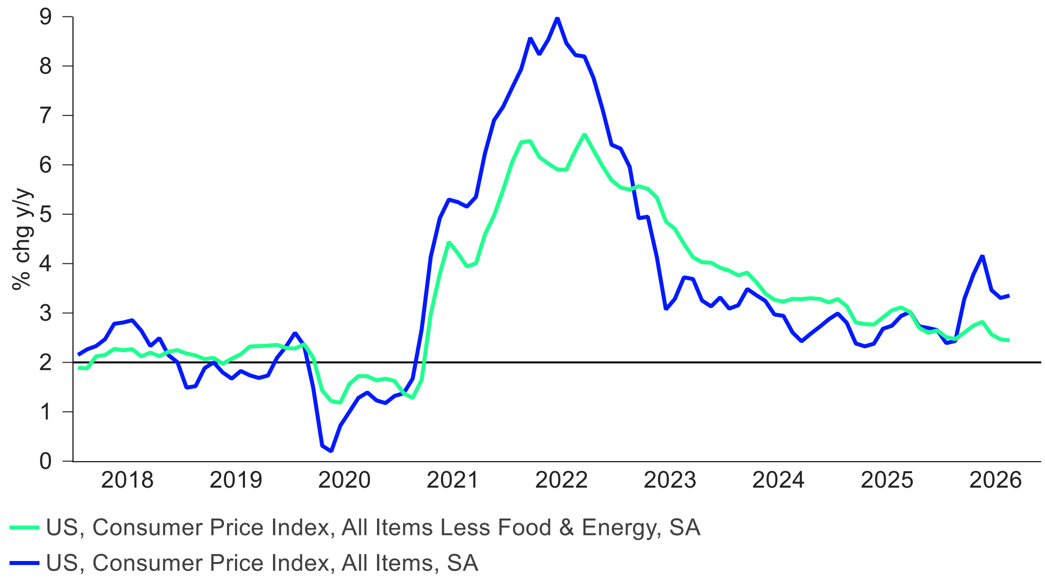
US: Headline CPI Inflation (Aug, y/y)	3.4%	As expected.
US: Core CPI Inflation (Aug, y/y)	2.4%	Not good enough.
EZ: ECB Deposit Facility Rate	2.50%	Anticipated hike.
UK: GDP (July, m/m)	0.4%	But weak underlying drivers
UK: Industrial Production (Jul, m/m)	0.2%	Above expectations.
UK: Manufacturing Production (July, m/m)	0.9%	Above expectations.
JP: CGPI (Aug, m/m)	-0.2%	Peak goods PPI?
JP: GDP (Q2, q/q)	0.4%	Slightly below expectations.
AU: NAB Business Conditions (Aug)	-1	Lowest since 2013.

US: Walking the Walk

Any other month, we would have described the latest US inflation data as “good enough”. But not this month. Fed Chair Warsh had drastically lowered the bar for Fed hikes with his Jackson Hole speech, and FOMC commentary since then had placed disproportionate weight on the August inflation data, such that the smallest upside surprise would cement hike bets. And so it was...

Overall consumer prices rose 0.4% m/m in August, as expected, but core prices increased a larger than expected 0.3% m/m. So, even though the core inflation rate of 2.4% y/y was the lowest since March 2021, it seems almost guaranteed that the Fed will hike rates on September 16th. We find this ironic in a sense, because the CPI components that would normally worry us more as signaling sustained price pressures ahead were actually pretty reassuring. Most importantly, shelter inflation still points in the right direction, with Owner Equivalent Rent (OER) inflation matching the lowest reading post-Covid reading at 3.1% y/y. Core goods inflation sits at 0.7% y/y, down about 80 basis points since a year ago, validating our long-held assertion that tariffs would have only a modest impact on goods inflation. Similarly, we anticipate that, aside from specific categories such as airfares, there would be very modest pass-through of higher energy prices into the broader goods/services inflation. Even in airfares, we believe much of the pass-through has already occurred and further price increases will hit against a more price-conscious consumer.

Figure 1: US Inflation Not Good Enough to Preclude Fed Hiking



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

In short, our view has not changed, but the Fed call has. We still do not believe that the FOMC *should* hike for reasons we've highlighted repeatedly in these pages: inflation pass-through is limited and temporary; rate hikes are ineffective in resolving the oil supply shock; rate hikes are ineffective in slowing the booming AI segment but will further hurt housing; and the labor market is more vulnerable than the unemployment rate suggests.

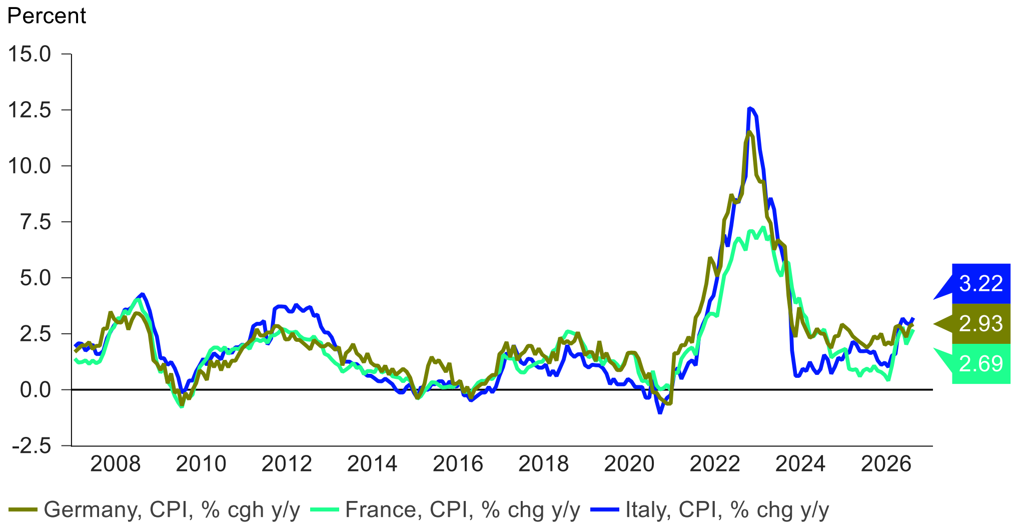
And importantly, a decision should never rest so decisively on a single data point; it's the "illusion of precision" at its worst…But here we are. And so, now that the Chair has talked the hawkish talk, the moment has come for the Fed to walk that walk. We do expect a rate hike at the September meeting and one more in December. Both are then likely to be unwound by the end of 2027.

Eurozone: Round Two of Tightening

Having raised interest rates in June in response to the Iran conflict and associated rise in energy costs, the ECB Governing Council followed up with another 25-basis point rate hike at the September meeting. The rationale was the same: despite little evidence so far of second-round inflation effects, the longer the conflict lasts, the more likely that those effects would make themselves felt. As such, the decision to move in September was unanimous and even described as a "no-brainer" by President Lagarde. But she also went to great lengths to emphasize that the Council remains on a "meeting by meeting" approach as it analyzes "the intensity, the duration and the propagation" of the energy shock. Notably, she acknowledged that there has been little evidence of energy cost pass-through to other areas (such as food inflation) so far: "Indirect effects are contained, and second-round effects, we're not seeing. But if it continues, we will be seeing it." The core challenge for the ECB—and all other central banks and economic agents themselves—is that the risk backdrop can change rapidly and in unpredictable ways since the main drivers are not economic per se but geopolitical (Iran war) or climate related (El Nino).

The ECB's updated projections reinforced this view. Inflation is now expected to remain above the 2% target throughout the forecast horizon, with underlying price pressures showing only a gradual moderation. At the same time, the growth outlook was revised modestly higher, suggesting that the euro area economy has so far absorbed tighter monetary conditions better than expected. This combination of resilient activity and elevated inflation gave policymakers room to tighten policy further. President Lagarde captured the dichotomy well in her press conference: "So you have these two phenomena: More resilience, better adjustment of the economy, lower inflation, but longer lasting. So, we are adjusting our projections on that basis."

Figure 2: ECB Responds To Eurozone Inflation Resurgence



Source: Macrobond, State Street Investment Management, Italian National Institute of Statistics (Istat), French National Institute of Statistics & Economic Studies (INSEE), German Federal Statistical Office (Statistisches Bundesamt)

Absent a convincing and lasting resolution to the Iran war in the intervening period, we now anticipate the ECB to raise interest rates again in December, followed by an extended hold.

UK: Strong Headline, Weak Outlook

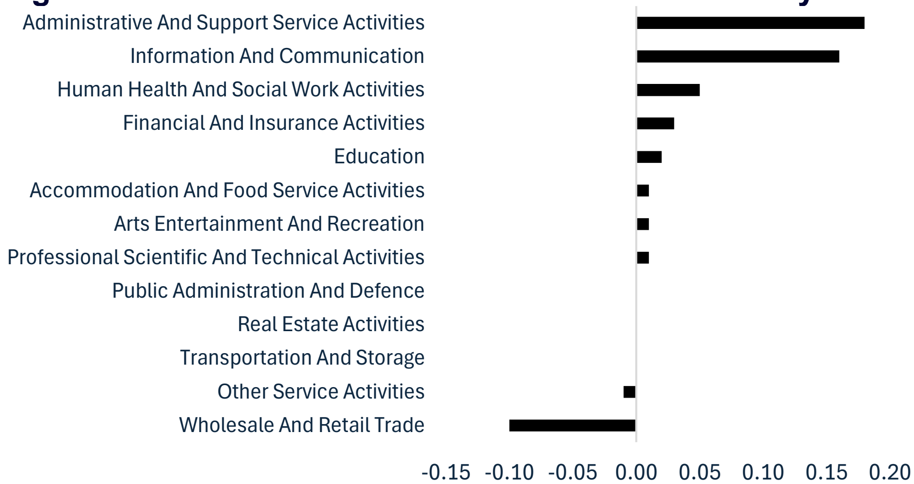
Headline GDP resilience masks a weaker UK growth story. July's upside surprise was narrowly based, while softer household demand and rising borrowing costs point to a tougher outlook.

UK GDP rose by 0.4% in July, led by services. But gains were concentrated in a few business-facing sectors as consumer activity weakened. Higher energy bills, tight financial conditions and fading seasonal support should slow momentum, into late 2026 and early 2027 before recovering later in 2027.

Rising government bond yields are also tightening the fiscal squeeze. The move appears largely global, with markets showing little reaction to Chancellor John Healey's speech or comments from Monetary Policy Committee members. If current pricing feeds into the Office for Budget Responsibility's Budget forecasts, higher debt-servicing costs could materially erode fiscal headroom.

July's strength is reassuring, but not a turning point. Growth is likely to weaken before lower inflation supports recovery, while higher borrowing costs leave the government less room to cushion the slowdown.

Figure 2: Contributors To UK Services Growth In July



Source: ONS, State Street Investment Management

Japan: How Hawkish?

Next week's meeting is shaping up to be another blockbuster event for the Bank of Japan (BoJ), after the one in August 2024.

We expect the BoJ to raise its policy rate by 25bps while retaining a hawkish bias and reaffirming its willingness to hike further when necessary. At the same time, we do not expect the Bank to pre-commit to a specific path for future tightening. Given the uncertainty surrounding the domestic and global outlook, policymakers are likely to preserve maximum flexibility by keeping guidance open-ended.

Two factors will be critical for the outlook. The first is the Federal Reserve, which meets two days before the BoJ. A Fed hike now appears highly likely. If it materializes, it would put pressure on the BoJ to accelerate its own tightening cycle.

The second is the yen's reaction. USDJPY has climbed sharply to around 153 following the joint intervention by the US and Japanese authorities. A stronger yen, combined with an increasingly investable Japanese economy, could trigger a broader unwinding of carry trades, echoing elements of the August 2024 episode when the BoJ hiked as US labor market data surprised on the downside. Further yen appreciation would also create challenges for exporters, many of whom built earnings assumptions around current exchange-rate levels.

Together, these dynamics could produce a complicated and potentially volatile market backdrop. Against that backdrop, the BoJ's challenge will be to deliver a rate hike that is cautious, independent and decisive. The political scrutiny surrounding policy decisions only raises the stakes.

The Bank can take confidence from the economy's resilience. Revised Q2 GDP data released this week showed growth was upgraded by 0.1 pp to 0.4% q/q, reflecting stronger capital expenditure as highlighted in the Ministry of Finance survey. More broadly, nominal GDP growth has averaged 3.9% since 2022, nearly 300bps above the average pace recorded between 1990 and 2019.

Goods producer price data for August painted a more nuanced picture. The domestic corporate goods price index fell 0.2% m/m and slowed slightly to 7.6% y/y from an upwardly revised 7.7% in July. Fuel-related prices softened, while upstream goods such as machinery continued to rise. Combined with signs of slower consumption growth, moderation in goods inflation creates an interesting backdrop for the inflation outlook. Even so, we believe sufficient pipeline price pressures remain in place to push CPI inflation higher over the next six months.

The key question is how the BoJ interprets July's weakness in household consumption, which came in the same month that overall labor cash earnings recorded their fastest growth since 1990. Reconciling softer spending with rapidly rising incomes will be central to the policy debate. What appears far less uncertain is next week's decision itself. We expect the BoJ to raise rates by 25bps to 1.25%.

Beyond that, we continue to see a narrowing but still viable path toward 1.75% by Q2 2027. Our core view is that once rates move beyond 1.50%, the BoJ will have largely exhausted the policy normalization narrative. Further hikes from that point increasingly look like policy tightening rather than normalization, raising the bar for additional moves. The destination remains achievable, but the path is unlikely to be smooth. Periods of volatility in the yen, JGB yields, global rates and carry-trade positioning could easily delay or complicate the trajectory even if the broader normalization story remains intact.

Week in Review

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Sep 07					
GE	Industrial Production (Jul, m/m)	0.2%	-1.1%	0.0% (↓)	Still down 1.6% y/y.
Tuesday, Sep 08					
US	NFIB Small Business Optimism (Aug)	99.3	98.7	99.8	Modest pullback.
JN	Labor Cash Earnings (Jul, y/y)	3.8%	4.7%	3.4%	Hawkish signal for BoJ.
JN	GDP (Q2, q/q, final)	0.4%	0.4%	0.3%	Slightly below expectations.
AU	Westpac Consumer Conf Index (Sep)	n/a	84.4	88.9	At the bottom.
AU	NAB Business Confidence (Aug)	n/a	-8	-7	Weak.
Wednesday, Sep 09					
US	Consumer Credit (Jul, $bn))	11.3	18.0	14.6	Big jump in non-revolving credit.
FR	Industrial Production (Jul, m/m)	0.2%	-0.4%	-0.1% (↓)	Weak.
Thursday, Sep 10					
US	Initial Jobless Claims (5 Sep, thous)	205.0	206.0	207.0	Still very low.
US	Continuing Claims (29 Aug, thous)	1,780	1,774	1,775	Still very low.
US	PPI Final Demand (Aug, y/y)	5.3%	5.4%	4.8% (↑)	But service component was well behaved.
US	Existing Home Sales (Aug, m/m)	-1.6%	-2.0%	-1.7%	Very weak.
EC	ECB Main Refinancing Rate	2.65%	2.65%	2.4%	Widely anticipated hike.
GE	CPI (Aug, y/y, final)	2.9%	2.9%	2.8%	Energy-driven.
IT	Industrial Production (Jul, m/m)	0.3%	0.7%	-1.1% (↓)	Modest,
Friday, Sep 11					
US	CPI (Aug, y/y)	3.4%	3.4%	3.4%	Likely to cement September Fed hike.
US	U. of Mich. Sentiment (Sep, prelim)	51.0	47.8	51.7	Weakest since May.
US	Federal Budget Balance (Aug, $bn)	-221.1	-167.0	-344.0	Troublesome trajectory.
UK	GDP (July, m/m)	0.0%	0.4%	0.3%	Above expectations.
UK	Industrial Production (Jul, m/m)	-0.2%	0.2%	-0.2%	Better than expected.
UK	Manufacturing Production (Jul, m/m)	0.2%	0.9%	-0.5%	Above expectations.

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

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