
October 9, 2026
Commentary

Weekly Economic Perspectives

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Weekly Highlights

Mixed week data-wise and equally so in markets.

US: ISM Non-Manuf
Index (Sep)

54.9

Solid details.

US: U of M Consumer
Sentiment (Oct, prelim)

46.3

Near record low.

US: Trade Balance
(Aug, \$ bil)

-105.6

Surging AI imports.

CA: Unemployment
Rate (Sep)

6.5%

Remain unchanged.

CA: Participation Rate
(Sep)

64.8%

Edged down.

UK: Services PMI (Sep,
final)

52.1

Better than expected.

JP: Household
Spending (Aug, m/m)

0.1%

Continued weakness.

JP: Overall Cash
Earnings (Aug, y/y)

3.8%

Continued strength.

AU: Consumer
Sentiment (Oct)

80.4

Near all-time lows.

US: Conflicting Signals

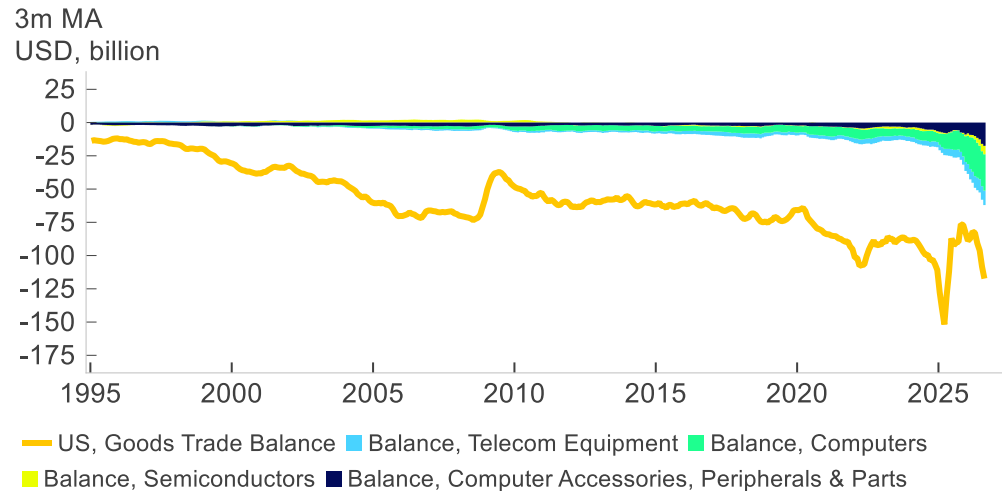
In a rather quiet data week, the three main releases highlighted different aspects of the US economy. Meanwhile, minutes from the Fed September meeting did not indicate urgency for an October follow-up hike. We look for the next move in December. Partly offsetting this were comments from Governor Waller suggesting he expects the Fed to hike twice more.

The non-manufacturing ISM index came in at a robust 54.9 in September, little changed from the month before. After languishing close to the neutral 50 level for about six months in the middle of 2025, the index crossed above 54.0 in February and with one exception (April), it has remained at or above that level ever since. The message is straightforward: the services side of the economy is doing well, which confirms the story of resilient growth despite shocks. The components were solid across the board, although the employment metric (50.1) remains the soft spot in the story, also confirming the story of modest payrolls expansion. Price pressures intensified, with the price metric reaching the highest (74.0) since July 2022.

Meanwhile, the trade deficit widened sharply to \$105.6 billion in August, the largest since March 2025, when firms were dramatically boosting imports to front-run tariffs. Excluding the readings for January-March 2025, the August trade deficit was the highest on record. The AI investment boom has a lot to do with that as just four categories of goods account for about half the entire goods deficit at the moment

(Figure 1). In other words, US AI-related demand is lifting growth overseas via the trade channel.

Figure 1: AI/Tech-Related Items Make Up Half the US Trade Deficit



Sources: Macrobond, State Street Investment Management, BEA, USCB
Updated as of 10/11/2026

In contrast to these indicators of robust demand, consumer sentiment is languishing under the combined weight of elevated inflation and modest wage gains. The preliminary October reading for the University of Michigan consumer sentiment index dipped for the third consecutive month to 46.3, not far from the record low recorded in May. Inflation expectations ticked up by a tenth of a percentage point both at the 1-year horizon (4.7%) and the 5-10 year horizon (3.5%).

CA: Labor Data Push Back on Hikes

Canada's labor market weakened further in September, as employment fell for a second consecutive month and unemployment rate edged higher.

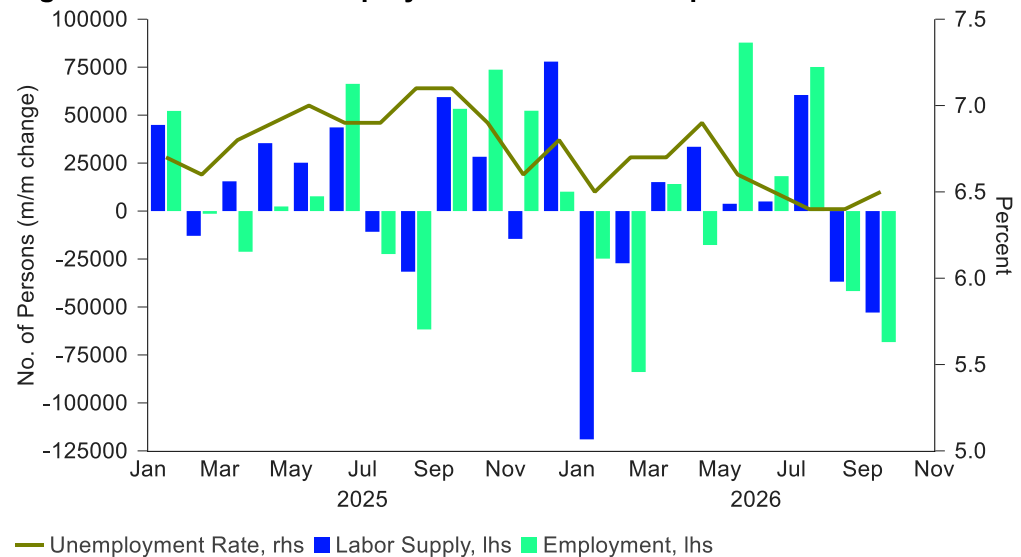
Beyond the disappointing headline loss, the key signal is that unemployment rate has returned to its June level. We expect it to remain near this level in the coming months as trade uncertainty and higher interest rates weigh on activity. However, the report was not entirely weak: private-sector employment remained resilient despite a smaller labor force.

Employment fell by 68k in September, well below consensus expectations for a 10k gain. The decline was broad-based, with full-time and part-time employment down 35k and 33k, respectively. By contrast, private-sector employment rose by 24k, partly offsetting public-sector losses.

The unemployment rate consequently rose to 6.5% from 6.4% in August. Meanwhile, the participation rate fell by 0.2 percentage points to 64.8%, below the 65% consensus forecast. Wage growth strengthened slightly, with average hourly earnings rising by 2.3% y/y in September, up from 2.0% y/y in August.

Overall, the data set a high bar for a near-term Bank of Canada rate hike. Consecutive job losses, rising unemployment rate, contained wage pressures and a weaker Q4 outlook all weigh against further tightening. Markets still appear too hawkish, with labor demand fading and growth slowing, we expect the BoC to hold in October.

Figure 2: Canadian Unemployment Rate Inched Up



Source: Macrobond, State Street Investment Management, Statistics Canada

Japan: Continued Divergence

We highlighted the growing divergence between nominal wages and household consumption in our recently published quarterly outlook. That divergence has persisted and, importantly, the evidence of weaker consumption is now becoming broader and more consistent across indicators.

The Bank of Japan's (BoJ) real travel-balance-adjusted Consumption Activity Index (CAI) fell 0.8% m/m in August, marking a third consecutive decline and taking the three-month annualized contraction to 8.1%. Weakness was broad-based, with durable goods consumption falling 5.2%, non-durables 0.9% and services 0.2%. While the sharp decline in durables may partly reflect payback from earlier strength, simultaneous weakness across all three major categories is harder to dismiss. The BoJ's own consumption measure is therefore pointing to a softer Q3 and reinforcing the need for caution in assuming that higher wages will generate stronger domestic demand.

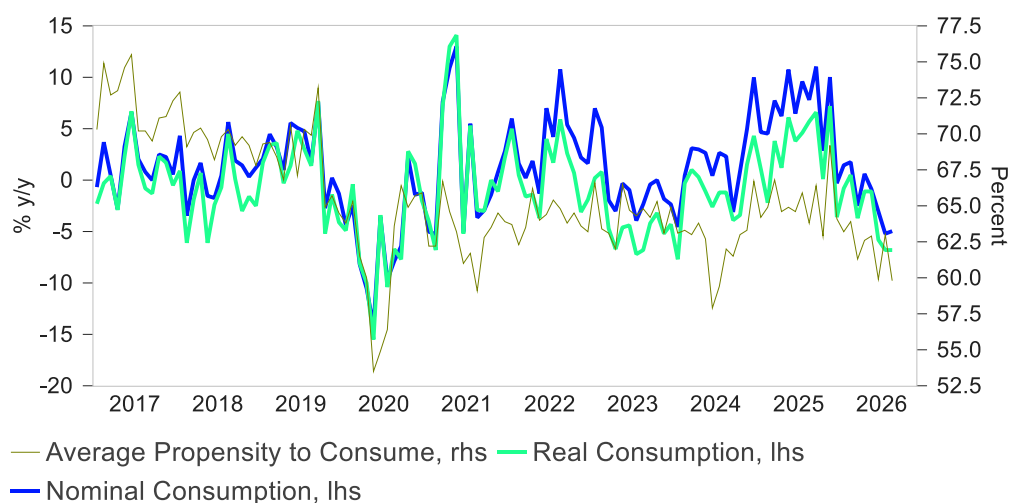
This is an important signal because the weakness is no longer confined to the Family Income and Expenditure Survey (FIES), Japan's long-running monthly survey of household income and spending. FIES covers roughly 9,000 households and provides a direct measure of household spending behavior, although its relatively small sample makes the monthly data inherently volatile. Persistent weakness in FIES could previously be discounted to some extent as survey noise.

That becomes more difficult when the direction of travel is increasingly corroborated by the BoJ's separate consumption indicator.

The latest FIES data reinforces that caution. Real household spending fell 3.1% y/y in August, while spending among workers' households declined 5.0% in nominal terms and 6.8% in real terms. More tellingly, the average propensity to consume eased to 59.8% (figure 3). This suggests that the weakness in spending is not simply a mechanical consequence of inflation eroding purchasing power. Households may also be allocating a smaller share of income to consumption, pointing to incomplete transmission from wage gains into final demand.

Figure 3: Should The BoJ Hike Amid Falling Consumption?

Data For Workers' Households



Source: Macrobond, State Street Investment Management, Japanese Statistics Bureau, Ministry of Internal Affairs & Communications

That caution is understandable given the renewed intensity of price pressures. According to Teikoku Databank, 9,940 food and beverage items saw price increases in Q3, the highest quarterly total since Q2 2023, when the number was only 76 items higher. The pressure intensified around the quarter-end, with more than 8,000 items seeing price increases across September and October combined. These repeated price increases risk keeping households defensive even as their incomes improve.

The contrast with wages is increasingly striking. Nominal cash earnings rose 3.8% y/y in August, slightly above expectations, while real wages increased 1.5%, extending their positive run to eight consecutive months. In other words, the income side of the BoJ's virtuous wage-price cycle is increasingly visible, but the crucial second stage, from higher real incomes to stronger consumption, remains less convincing. The government is responding to this pressure, with Prime Minister Sanae Takaichi estimating that the planned consumption tax cut on food would reduce household burdens by around ¥36,000 per person, potentially providing some relief to consumption once implemented.

We remain hopeful that sustained wage growth will eventually allow consumption to turn the corner. However, the latest data creates an increasingly important policy tension. Repeated price increases are likely encouraging households to restrain spending, which, if sustained, could eventually place a natural ceiling on inflation through weaker demand. At the same time, a slower pace of BoJ normalization risks further yen weakness, keeping imported inflation elevated and continuing to squeeze household purchasing power. The BoJ therefore faces an uncomfortable feedback loop: stronger wages are supporting household incomes, but persistent price pressures and yen weakness are preventing those gains from translating fully into stronger demand.

This makes the Q3 consumption picture particularly important. The case for further normalization is strengthening on wages, but the case for doing it quickly is weakening on consumption. The fall in the BoJ's CAI is particularly significant because it corroborates the weakness already visible in FIES and suggests that the soft patch is not simply a statistical quirk. Tightening into broadening consumption weakness risks suppressing precisely the income-to-spending transmission that the BoJ needs to see strengthen before concluding that the virtuous cycle is becoming self-sustaining.

For now, we continue to see a December or January hike as a meaningful risk, particularly given the strength in wages. However, we favor a March hike, giving the BoJ more time to establish whether consumption and growth have recovered sufficiently from the apparent Q3 soft patch before tightening again. The crucial question is no longer whether wages are rising. They clearly are. It is whether Japanese households are willing and able to spend those wage gains, and the latest consumption data argue for caution in assuming that transition has already taken place.

Week in Review

A summary of key macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Oct 5					
US	ISM Services Index (Sep)	55.0	54.9	55.4	Solid.
UK	Services PMI (Sep, final)	51.7	52.1	52.5	OK.
GE	Services PMI (Sep, final)	52.9	52.9	49.7	Good.
FR	Services PMI (Sep, final)	51.4	51.2	48.0	OK.
IT	Services PMI (Sep)	54.5	51.7	55.2	OK.
JN	Services PMI (Sep, final)	n/a	51.3	52.5	Good expansion.
Tuesday, Oct 6					
US	Trade Balance (Aug, US\$ thous)	-102.1	-105.6	-92.8 (↓)	AI-related imports surging.
GE	Factory Orders (Aug, m/m)	-1.0%	-10.6%	2.5%	Big pullback, but volatile series.
FR	Industrial Production (Aug, m/m)	0.2%	-0.3%	-0.4%	Weak.
AU	Westpac Consumer Conf (Oct, m/m)	n/a	-4.7%	-5.2%	Trending near the lows.
Wednesday, Oct 7					
GE	Industrial Production (Aug, m/m)	0.5%	2.0%	-1.2%	Construction surge.
Thursday, Oct 8					
US	Initial Jobless Claims (Oct 3, thous)	200	197	199 (↑)	Extremely low.
US	Continuing Claims (Sep 26, thous)	1,700	1,716	1,699 (↓)	Extremely low.
Friday, Oct 9					
US	U. of Mich. Sentiment (Oct, prelim)	47.6	46.3	48.1	Near record lows.
CA	Unemployment Rate (Sep)	6.5%	6.5%	6.4%	Weakening.
IT	Industrial Production (Aug, m/m)	0.0%	-1.3%	0.6% (↓)	Flat y/y.

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

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