
October 23, 2026

Commentary

Weekly Economic Perspectives

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Weekly Highlights

A quieter week for macro data as markets sift through AI, France headlines.

 US: NAHB Housing Index (Oct)

29.0

Lowest since June 2012!

 US: Pending Home Sales (Sep, m/m)

-7.3%

Record low!

 GE: Manufacturing PMI (Oct, prelim)

54.2

Strong!

 CA: CPI (Sep,y/y)

3.1%

Downside surprise.

 UK: CPI (Sep,y/y)

3.5%

Increase driven mainly by energy prices.

 UK: Average Weekly Earnings (Aug, 3m y/y)

3.7%

Softened.

 JP: CPI (Sep, y/y)

2.148%

Marginally missing our 2.2% pick.

 JP: Mfg. PMI (Oct)

53.3

Softening orders and output, but still supply constrained.

 JP: Exports (Sep, y/y)

-1.1%

Slowing (including volumes), but AI momentum intact.

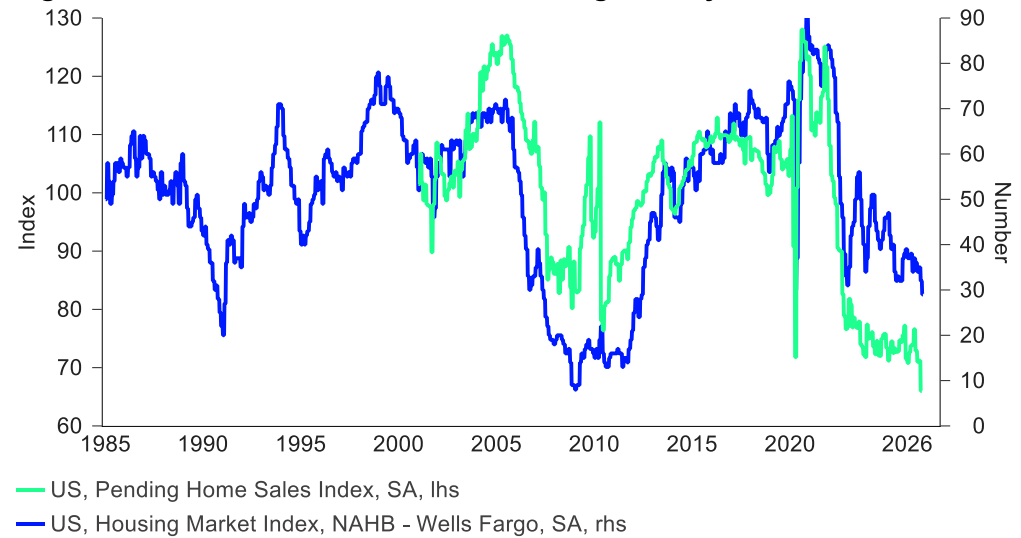
US: Housing Woes

While the overall economy continues to grow thanks to solid consumer spending and the AI-related capex boom, the housing sector is in considerable pain. The situation may well get worse before it gets better given the Fed's mini-tightening cycle and the rise in mortgage rates.

After spending the last couple of years hovering at Covid-era lows, pending home sales hit a new record low in September, with sales down 7.3% m/m. Given the magnitude of the decline, it was no surprise that the pullback was broad-based geographically, but the West and South regions led the declines. Rising mortgage rates are intensifying the affordability problem with little relief in sight. The 30-year conforming mortgage rates has jumped from just about 6.0% in February to 7.4% in mid-October. A slight bid on treasuries recently may arrest that ascent at least temporarily, but it will not provide meaningful relief.

The gloomy situation is reflected in dismal readings for the NAHB-Wells Fargo homebuilder sentiment index. The overall index slipped three points in October to settle at 29, taking out the Covid-era low of 30. Enough said...

Figure 1: Extreme Weakness In US Housing Activity



Source: Macrobond, State Street Investment Management, National Association of Home Builders, National Association of Realtors (NAR)

UK: November Hike

The labor market is showing faint signs of life. Unemployment fell to 4.7% in the three months to August, although the Labor Force Survey remains an unreliable guide. Payrolls rose by 13,000 in September, and August's decline was revised away. Even so, vacancies continue to fall and the market remains soft.

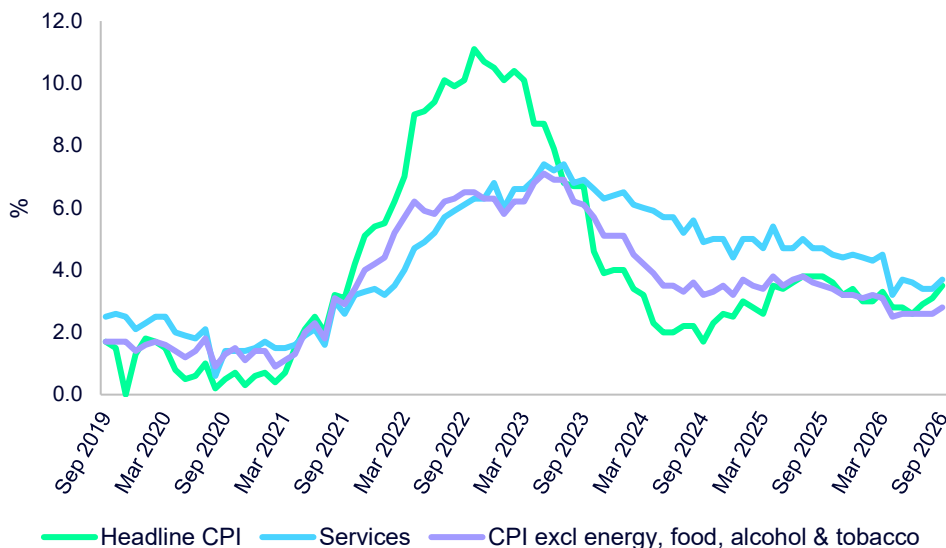
That softness is also evident in wages. Private-sector regular pay growth edged up from 2.9% to 3.0% in the three months to August but remained weak by recent standards and below the pace consistent with 2% inflation.

In principle, such slack should keep the second-round effects of higher energy costs in check. In practice, with energy prices set to remain high, the Bank of England is unlikely to rely on it.

That caution reflects the renewed pressure from energy. CPI inflation jumped by 0.4% to 3.5% in September, driven by costlier petrol and diesel. Food offered the only relief, with inflation steady at a modest 1.6%. However, underlying pressures strengthened. Core inflation rose to 2.8% and services inflation to 3.7%.

More pressure is still in the pipeline. Higher oil and gas prices have yet to pass fully through the economy, so headline inflation probably has further to climb. For now, however, there are few clear signs of second-round effects.

Even so, the BoE is unlikely to stay on hold. In September, policymakers signaled that they would vote to raise rates if energy prices remained high. In our view, that threshold has now been crossed, particularly as the Bank's own research suggests second-round effects become more likely once inflation exceeds 4%. We therefore expect two insurance hikes, in November this year and February 2027, against a wage-price spiral that has yet to begin.

Figure 2: UK's Renewed Inflation Pressure


Source: ONS, State Street Investment Management

Japan: Rice Down, Sushi Up

September's inflation data reaccelerated clearly. The unrounded headline rose 2.148% y/y, only marginally below our model pick of 2.2%. More importantly, around 64% of CPI items increased during the month and the median item rose roughly 0.2% m/m. And the default core (excluding fresh-food) and the BoJ core measures (excluding fresh food and energy), both accelerated 0.5% m/m sa each, that translated into 2.1% y/y and 2.4% respectively.

We had already factored a meaningful reacceleration in inflation into our forecasts, which is why we kept our 2026 average headline CPI forecast around 2% even through the softer prints earlier this year. So the September rebound itself is broadly consistent with our view. What is making us somewhat more concerned now is the breadth beneath the headline. The inflation upswing we expected is arriving, but underlying price pressures and corporate cost pass-through appear somewhat broader and stronger than we had anticipated.

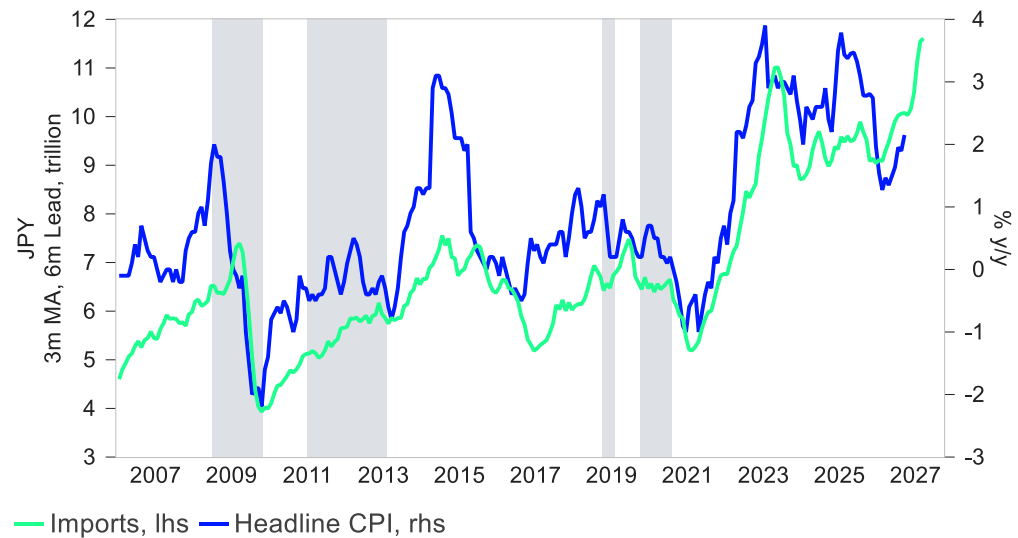
The details reinforce that message. Corporate price-setting appears increasingly responsive to the broader cost stack, rather than simply tracking individual commodity prices. Eating-out sushi is a good example: prices rose 15.5% y/y (1.6% m/m) even as rice prices continued falling at -20.6% (-5.5%), providing an important source of disinflation and helping to temper inflation expectations. The divergence suggests that businesses are continuing to pass through higher costs of other food, labor, logistics and other operating costs even as some input prices ease.

And this does not appear to be an isolated phenomenon. More than 8,000 food and beverage products saw price increases in September and October alone, according to Teikoku Databank, pointing to increasingly broad cost pass-through across Japan's food sector. That is why we continue to view food prices as important not only for the inflation outlook, but also for forward-looking consumption: even if

headline inflation gradually eases, persistent food-price increases can keep household inflation perceptions elevated and consumers cautious.

That pipeline leaves us relatively confident that headline inflation has further to rise through the winter. Our inflation model points to an increasing trend from around 2.5% in October towards a peak of around 3.3% in February. The October forecast is particularly instructive because reaching 2.5% requires almost a 1% m/m rise in the headline index, so the move cannot be explained by base effects alone. Rising import bill is also indicating that domestic inflation could keep picking up.

Figure 3: CPI Could Rise More In The Next 6-months



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

The expiry of summer utility support, food and corporate price resets, elevated energy and logistics costs, and potentially reduced gasoline support all reinforce the near-term inflation impulse. Thereafter, however, we expect a meaningful turn from April as the planned food consumption-tax reduction depresses measured inflation.

The key question is whether stronger pass-through ultimately becomes self-limiting through consumption. Firms are increasingly able to pass higher input and labor costs to consumers, but that leaves households absorbing more of the adjustment through real incomes. We suspect this is already encouraging more cautious spending.

That supports our view that Q3 growth will lose considerable momentum. Trade data point in the same direction: export values rose 3.3% q/q, but volumes fell 0.4%, while import volumes increased 0.8%, suggesting net exports could detract from growth.

This creates an uncomfortable policy mix: inflation could approach 3% or somewhat above over the winter just as consumption and underlying growth weaken. Markets may therefore extrapolate the coming inflation acceleration further than the economy can ultimately sustain.

For next week's BoJ meeting, we expect a **hawkish hold**, with higher CPI forecasts and another hike kept firmly on the table. December remains a genuine hike risk if inflation and market pressures stay elevated, but we are more cautious about extrapolating that into a rapid sequence of hikes. The key signal in the Outlook Report will therefore be not just the inflation upgrade, but the Bank's assessment of growth and consumption. If consumption weakens as we expect and inflation turns lower in the spring, the case for proceeding cautiously after any December move would strengthen considerably.

Week in Review

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

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Oct 19					
CA	CPI (Sep, y/y)	3.2%	3.1%	3.0%	Lower than expected.
Tuesday, Oct 20					
US	Housing Starts (Sep, thous)	1,305	1,221	1,288 (↑)	Dismal!
US	Building Permits (Sep, thous, prelim)	1,385	1,400	1,403	Weak.
US	Pending Home Sales (Sep, m/m)	-0.5%	-7.3%	0.3%	Record low!
UK	Average Weekly Earnings (Aug, 3m y/y)	3.8%	3.7%	3.9%	Softened.
UK	ILO Unemployment Rate (Aug, 3 mths)	4.9%	4.7%	4.9%	Data remains unreliable
GE	ZEW Survey Expectations (Oct)	30.0	28.1	34.7	Rolling over?
Wednesday, Oct 21					
UK	CPI (Sep, y/y)	3.4%	3.5%	3.1%	Above expectations.
Thursday, Oct 22					
US	Initial Jobless Claims (Oct 17, thous)	200	194	199	Low and steady.
US	Continuing Claims (Cot 10, thous)	1,710	1,728	1,710	Low and steady.
Friday, Oct 23					
US	U. of Mich. Sentiment (Oct, final)	46.3	48.0	46.3	Improved expectations component.
CA	Retail Sales (Aug, m/m)	1.3%	1.2%	-0.7%	Led by motor vehicles and parts
UK	GfK Consumer Confidence (Oct)	-14.0	-24.0	-13.0	Bad.
UK	Retail Sales Ex Auto Fuel (Sep, m/m)	-0.1%	-0.4%	0.7% (↑)	Disappointing.
UK	Manufacturing PMI (Oct, prelim)	51.8	52.8	51.9	Above expectations.
UK	Services PMI (Oct, prelim)	51.8	53.1	52.1	Above expectations.
GE	Manufacturing PMI (Oct, prelim)	53.5	54.2	53.9	Solid!
GE	Services PMI (Oct, prelim)	52.5	51.7	52.9	Moderate, but growing.
FR	Manufacturing PMI (Oct, prelim)	50.5	49.3	50.6	Disappointing.
FR	Services PMI (Oct, prelim)	50.7	48.4	51.2	Very disappointing.
JN	Natl CPI (Sep, y/y)	2.1%	2.1%	1.9%	Narrow miss to our 2.2% forecast.
JN	Manufacturing PMI (Oct, prelim)	na	53.3	54.1	Eased a touch but may remain elevated.
JN	Services PMI (Oct, prelim)	na	52.0	51.3	Very good.

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

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