November 6, 2026
Commentary

Weekly Economic Perspectives

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Information Classification: General

Weekly Highlights

US election and AI jitters drive market volatility, but growth remans solid.

US: Non-farm Payrolls (Oct)

165k

Impressive.

US: Unemployment Rate (Oct)

4.1%

Also impressive!

US: ISM Services Index (Oct)

54.5

Solid.

CA: Unemployment Rate (Oct)

6.7%

Second consecutive monthly rise.

BoE: Policy Rate

4.00%

Hawkish move.

UK: Services PMI (Oct, final)

52.8

Picked up.

AU: Cash Rate (Nov)

4.85%

Highest since 2008

AU: Household Spending vol. (Sep, q/q)

0.7%

Highest since 2003.

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

4.6%

Highest since 1997.

US: Resilience Reaffirmed

There were a few oddities and contradictions in the latest employment report, but they do not negate the overall message of resilience. The economy added 165k jobs in October, well ahead of the 59k expected by the Bloomberg consensus, and the unemployment rate eased a tenth to 4.1%. Wage inflation remains modest and more than consistent with a 2.0% inflation target.

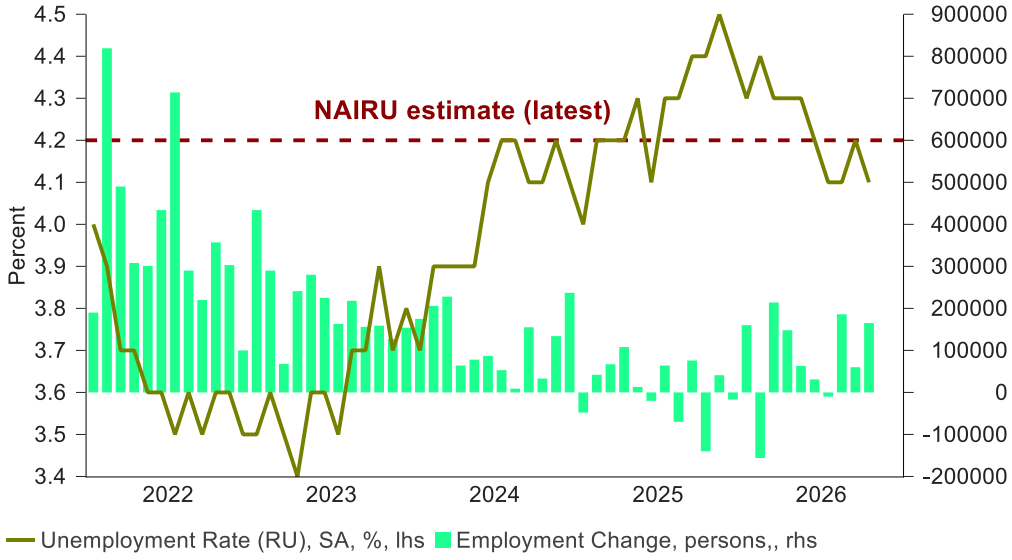
We are, however, skeptical of the reported surge in services employment. Service providing industries added 144k jobs, with half of those arriving in professional and business services. The latter seems unjustifiably strong relative to recent performance; in particular, the 19k lift in temporary help seems bound to reverse next month if the recent pattern persists. The message is one of resilience, but the outright strength implied by this report seems unconvincing.

The average workweek was steady and the index of aggregate hours—which is a measure of overall labor effort in the economy—increased a modest 0.1%. Average hourly earnings increased a solid 0.4% m/m but wage inflation still moderated a tenth to 3.1% y/y.

The household survey showed the participation rate up another tenth to 61.9%, back to the highest level since March. It has not yet fully unwound its prior decline relative to the start of the year, but it is close to doing so. There is no ready and convincing explanation as to why the participation rate should be oscillating so

much in a span of just a few months, so this is a reminder to interpret the data with some caution. Unemployment declined by 41k and the unemployment rate rounded down to 4.1% from 4.2% in September. Even so, the average duration of unemployment surged to 27.1 weeks…another puzzle... Measures of labor underutilization moved a little higher.

Figure 1: US Hiring Rebounds In October



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

Indicators of economic activity remain robust, with the non-manufacturing ISM index little changed at a solid 54.5. The employment component improved to an eight-month high of 51.4, and while the business activity and new orders retreated, they both remain at solid levels.

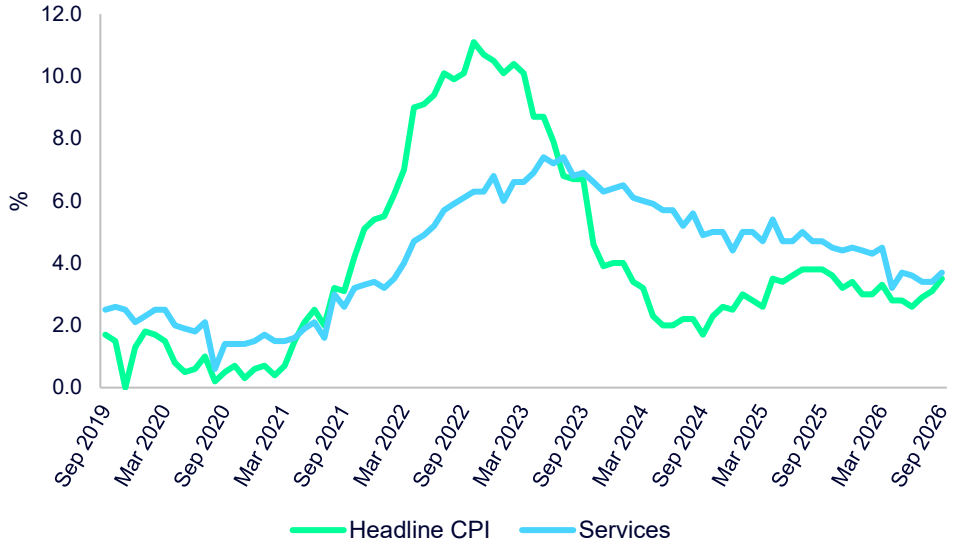
UK: December Hike In Play

The BoE has raised interest rates again. On Thursday its Monetary Policy Committee voted 8-1 to lift rates by 25bps, to 4%. The lone dissenter, Catherine Mann, argued for a bigger move of 50bps.

The vote was only part of the story. The minutes and Monetary Policy Report were more hawkish than we expected, and the reasons are easy to follow. Stronger growth and a steadier jobs market mean the economy is doing less to hold inflation down than members had supposed. A recent surge in oil and gas prices then adds to the worry. Together, these factors lead the Bank to expect inflation to rise to about 5% in the second quarter of 2027, well above the 4% threshold beyond which its own research finds second-round effects more likely.

That raises the question of how far rates must go. We still expect second-round effects to be limited, so we keep our forecast that rates will peak at 4.25% by February, though the risks lean higher.

Figure 2: Rising UK Inflation Pressures



Source: ONS, State Street Investment Management

Australia: Hawks Still Fly

The Reserve Bank of Australia (RBA) delivered its fifth-rate hike of the year, lifting the cash rate by 25 bp to 4.85%, but we think the decision was somewhat more hawkish than the initial market reaction suggested. The Board acknowledged increasingly restrictive financial conditions and voted 6-3 for the hike, while dropping September's explicit reference to potentially "*increasing the cash rate target further*". Markets understandably focused on that deletion as evidence that the cash rate may have reached its cyclical peak. But the broader message was less comfortable.

The RBA materially raised its inflation forecasts, now expects underlying inflation to remain above 3% until late 2027, and continues to judge inflation risks as skewed to the upside.

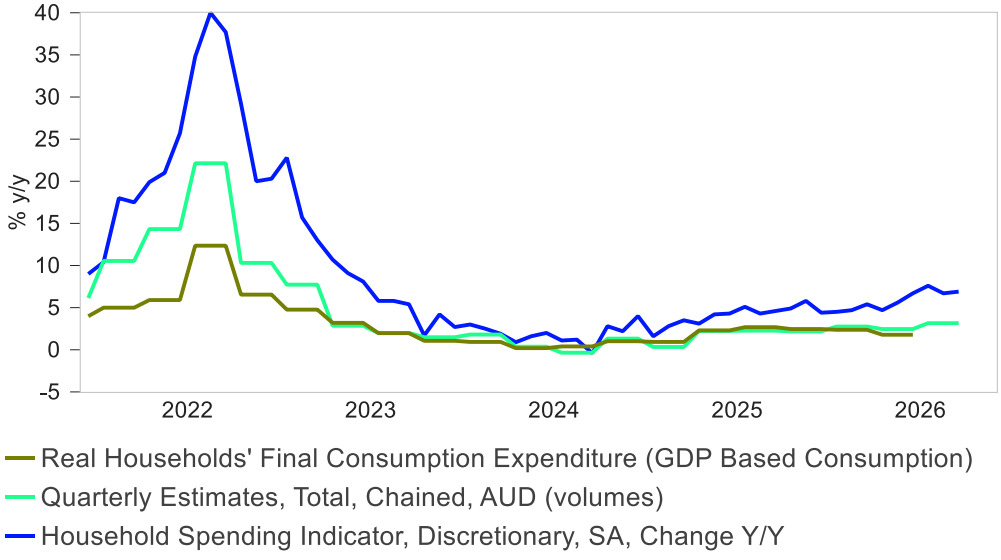
Removing the explicit tightening sentence matters, but it does not amount to closing the door on further hikes when the Bank simultaneously raises its inflation trajectory and becomes more concerned about inflation expectations. The RBA now sees trimmed mean inflation at 3.6% at end-2026 and 2.9% at end-2027, while unemployment is forecast to rise to around 4.9% by end-2027 and 5.1% by end-2028. In other words, the Bank is accepting materially more labor-market weakness and still expects inflation to take a long time to return sustainably to target. That is why we are reluctant to call 4.85% the definitive peak. We still see scope for the cash rate to reach a 5-handle, although we would become increasingly cautious about pushing rates materially beyond that level.

This week's household-spending data reinforces the case for keeping that possibility open. Spending rose 0.6% m/m in September and 6.8% y/y, stronger than expected, while volumes increased 0.7% q/q in Q3 and 3.2% y/y, the strongest annual pace since early 2023, broadly based at the margin but led by transportation

(+1.6% q/q), clothing & footwear (1.2%) and health (1.1%). A notable decline was on hotels and eating out (-0.1%), but few other categories, such as household furnishing (0.1%) were also weak.

Some of September's nominal strength came from higher fuel and health spending, so the headline should not be interpreted as evidence that households are insensitive to higher rates. But discretionary spending was still 6.9% higher than a year earlier. Demand is proving resilient that the RBA cannot yet be confident that restrictive monetary policy is cooling the economy quickly enough to contain underlying inflation pressures.

Figure 3: Australia's Household Spending In Q3 Tracking Strong



Source: Macrobond, State Street Investment Management, Australian Bureau of Statistics

The more important challenge, in our view, lies ahead in the labor market. The RBA has already revised its unemployment forecasts higher, but we think the deterioration could be faster and larger as the impact of higher rates accumulates over time. We expect it to rise towards 5.5% over the next 12 months, materially above the RBA's forecast trajectory. That would make the policy trade-off increasingly uncomfortable. Inflation may remain too high to justify easing even as restrictive rates, weaker housing activity and softer employment begin to weigh more visibly on domestic demand. Our 5.5% unemployment view has been a key part of our interpretation of this tightening cycle and is one reason we would be reluctant to chase rates materially higher from here.

Our base case therefore remains that the RBA is approaching the end of the tightening cycle, but we would not rule out another rate hike over the next 12 months. The hurdle for further tightening is clearly higher after five increases this year, and a weakening labor market should eventually constrain how far the RBA can go. But if household demand remains resilient, inflation proves sticky and the labor market cools more slowly than we expect, the cash rate could still move into a 5-handle. The key question is increasingly not simply whether inflation falls, but whether the economy cools quickly enough to give the RBA confidence that

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inflation will return sustainably to target. The RBA may still have more work to do, but its margin for error is narrowing.

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Week in Review

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

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Nov 02					
US	ISM Manufacturing (Oct)	54.5	55.5	54.5	Excellent.
UK	Manufacturing PMI (Oct, final)	52.8	52.8	51.9	Good.
GE	Retail Sales (Sep, m/m)	0.4%	-2.0%	1.2% (↓)	Volatile.
GE	Manufacturing PMI (Oct, final)	54.2	54.2	53.9	Great.
FR	Manufacturing PMI (Oct, final)	49.3	49.5	50.6	Soft.
IT	Manufacturing PMI (Oct)	49.9	49.4	50.4	Soft.
JN	Manufacturing PMI (Oct, final)	n/a	53.3	54.1	Resilience.
Tuesday, Nov 03					
US	JOLTS Job Openings (Sep, thous)	7,164	7,523	7,190 (↑)	Surprising rebound.
US	Factory Orders (Sep)	1.2%	1.8%	0.3% (↑)	Strong.
US	Durable Goods Orders (Sep, final)	1.8%	1.9%	1.8%	Strong.
AU	RBA Cash Rate Target	4.85%	4.85%	4.60%	Highest cash rate since 2008.
Wednesday, Nov 04					
US	Trade Balance (Sep, $bn)	-107.9	-105.0	-105.7 (↓)	Surging AI-related imports.
US	ISM Services Index (Oct)	54.8	54.5	54.9	Very good.
UK	Services PMI (Oct, final)	53.1	52.8	52.1	Picked up.
GE	Services PMI (Oct, final)	51.7	52.5	52.9	Good.
Thursday, Nov 05					
US	Nonfarm Productivity (Q3, prelim)	2.7%	3.6%	2.1% (↑)	Good.
US	Initial Jobless Claims (31 Oct, thous)	196	189	195 (↑)	Very low.
US	Continuing Claims (24 Oct, thous)	1,710	1,718	1,695 (↓)	Very low.
UK	Bank of England Bank Rate	4.00%	4.00%	3.75%	Hawkish hike.
GE	Factory Orders (Sep, m/m)	4.5%	4.4%	-10.1% (↑)	Volatile but in uptrend.
FR	Industrial Production (Sep, m/m)	0.3%	-0.5%	-0.4 (↓)	Soft.
Friday, Nov 06					
US	Change in Nonfarm Payrolls (Oct, thous)	65.0	165	60 (↑)	Bested all forecasts.
US	Unemployment Rate(Oct)	4.2%	4.1%	4.2%	Rounded down.
US	U. of Mich. Sentiment (Nov, prelim)	48.0	51.0	48.0	Inflation expectations eased a little.
CA	Unemployment Rate (Oct)	6.5%	6.7%	6.5%	Above expectations.
GE	Industrial Production (Sep, m/m)	-0.1%	0.7%	1.0% (↓)	OK.

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

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