August 14, 2026
Commentary

Weekly Economic Perspectives

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Contact

Simona Mocuta
Chief Economist
simona_mocuta@statestreet.com

Amy Le
Macro-Investment Strategist
amy_le@statestreet.com

Krishna Bhimavarapu
Economist
VenkataVamseaKrishna_Bhimavarapu@statestreet.com

Weekly Highlights

Tamer US data lowers odds of Fed hikes despite Iran risks.

US: Headline CPI Inflation (July, y/y)	US: Core CPI Inflation (July, y/y)	US: Retail Sales (Jul, m/m)
3.4%	2.5%	-0.6%
As expected.	Lowest since February.	Control sales down 0.4%.
CA: Manufacturing Sales (Jun, m/m)	UK: Industrial Production (Jun, m/m)	UK: GDP (Q2, q/q, prelim)
0.1%	-0.2%	0.4%
Better than expected.	Weak.	Slowing down.
JP: Goods PPI (Jul, y/y)	AU: Cash Rate (Aug)	AU: New Housing Loan Investors (Q2, q/q)
7.2%	4.35%	-10.2%
Nearing its peak.	No rate cuts in sight.	High, not alarming (yet).

US: More Reassuring Inflation News

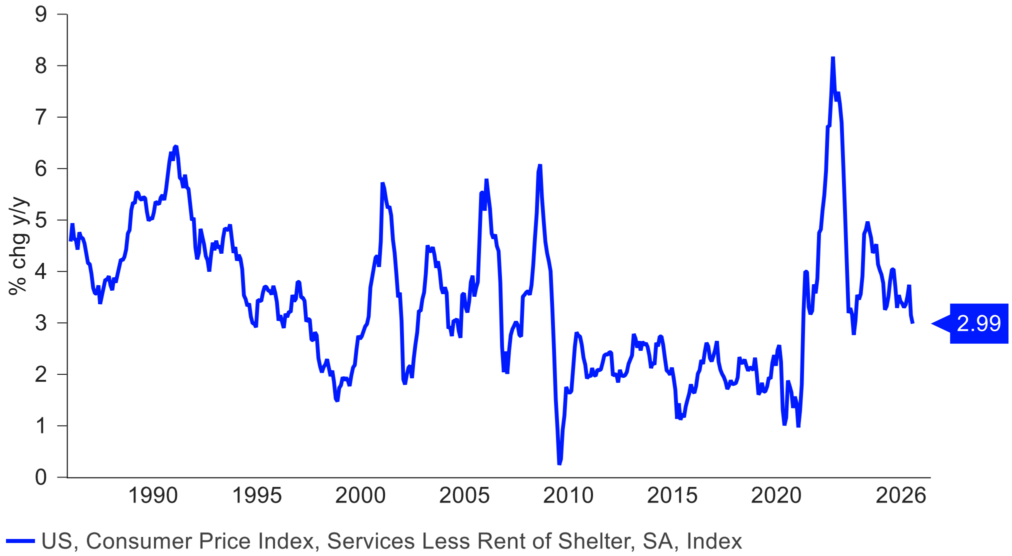
One month never makes a trend, which is why June's excellent inflation report had to be read primarily as relief after a stretch of elevated readings. Two months will not make a trend, either, but they represent a growing body of evidence on which conclusions can be formulated with greater confidence. Indeed, this is the lens through which July's encouraging CPI print should be interpreted. Our conclusion stands: there is already enough here to stay the Fed's hand in September.

Consumer price inflation matched consensus expectations in July, with headline coming in at 3.4% y/y and core at 2.5% y/y. Overall consumer prices advanced 0.1% m/m (rounded up from 0.07%) while prices excluding food and energy increased 0.2% m/m.

The main categories offered few surprises. Energy prices fell 1.5% m/m, food prices edged up 0.1%, services rose 0.2%, and shelter advanced a modest 0.1%. Two areas where some payback had seemed likely—used cars and medical care—delivered just that. Used car prices rose 0.4% m/m, narrowing the persistent gap with auction prices, while medical care also bounced. Airfares increased another 2.2% m/m and are now 25.5% higher than a year earlier. By contrast, motor vehicle insurance moved further into deflation, declining 4.5% y/y.

The shelter component deserves a more nuanced analysis. Overall rent of shelter costs rose a modest 0.1%, helped by another sizable drop in the lodging away from home category (-2.8% m/m). To some extent, the back-to-back declines are a little puzzling in the context of the World Cup, but they may reflect some pricing power deterioration in the broader space as consumers become more price sensitive. This interpretation matches the soft retail sales print for the month (control sales down 0.4% m/m). Ultimately, time will tell. Meanwhile, rent of primary residence rose 0.3% m/m—a touch above where we'd like to see it, but good enough for now.

Figure 1: US Services ex Shelter Inflation Back to Long-Term Average



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

The reassuring note on inflation continued with the producer prices update. PPI-final demand inflation eased seven tenths to 4.7%, further removing the sense of urgency for Fed tightening.

UK: GDP Growth Lost Momentum

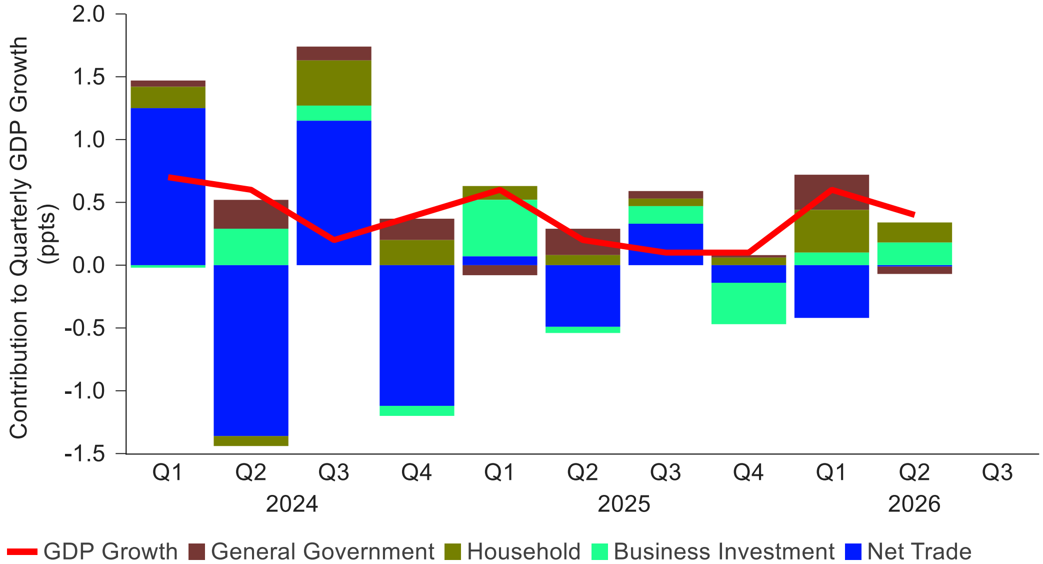
UK GDP growth slowed down in Q2, and the H2 outlook looks weaker as residual seasonality unwinds while higher inflation erodes household spending power.

June GDP surprised to the upside, but downward revisions to earlier months kept Q2 growth at 0.4% q/q, in line with our forecast. The composition was less encouraging: consumer spending weakened after a strong Q1, even as business investment posted another solid quarter.

Overall, the data point to fading underlying momentum rather than a genuine acceleration. The familiar post-pandemic pattern of a strong Q1 followed by softer activity later in the year appears to be repeating.

We therefore expect growth to be very weak in the second half of the year, as seasonal reversal combines with the impact of the Middle East conflict and a deeper real-income squeeze on households.

Figure 2: UK GDP Growth Lost Momentum In Q2



Source: Macrobond, State Street Investment Management, U.K. Office for National Statistics (ONS)

RBA: On Hold

The Reserve Bank of Australia (RBA) held the cash rate at 4.35% and delivered a hawkish message largely in line with our expectations. The Statement on Monetary Policy (SoMP) materially lowered its inflation forecast for 2026, but raised the 2027 profile by a similar magnitude, signaling that the Bank remains firmly focused on returning inflation to target. Growth forecasts were only marginally revised lower over the projection horizon, while Governor Michele Bullock stressed that "growth in aggregate demand needs to remain subdued". Although the closely watched trimmed mean inflation measure is now expected to return to the target band in 2027, the Bank appears unwilling to declare victory over inflation prematurely.

To be sure, the RBA acknowledges that financial conditions are now "somewhat restrictive". The SoMP also noted that weaker-than-expected domestic data and declines in several prices since May have contributed to lower market pricing of the cash rate. Yet, the overall tone remained hawkish. Governor Bullock emphasized that the Bank has already delivered three rate hikes this year and that policymakers "need a bit more evidence" before becoming comfortable that inflation is on a sustained path back to target. Taken together, the Bank appears more inclined to either deliver another hike or hold rates at restrictive levels for an extended period than contemplate rate cuts in the medium term.

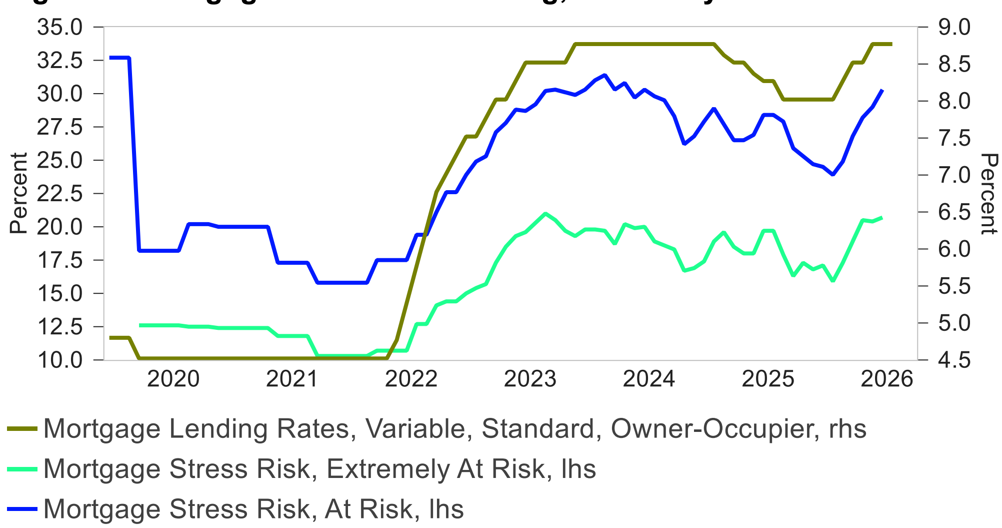
The housing discussion was particularly noteworthy given growing concerns about stress in the sector. New housing loan commitments to investors fell 10.2% q/q in Q2, consistent with tighter financial conditions resulting from higher rates. Overall lending volumes declined 5.4% q/q, but investor volumes fell more sharply by 8.6%, the largest decline since Q3 2022. By comparison, owner-occupier volumes fell

3.3%. These trends suggest that higher borrowing costs are increasingly weighing on housing demand, particularly among investors.

Importantly, the RBA appears to be monitoring housing-related risks closely. The SoMP estimated that scheduled mortgage and consumer credit payments accounted for around 12% of household disposable income in Q2, only marginally below their 2024 peak. The Bank also noted that there is typically a lag of around three months before higher policy rates fully flow through to scheduled mortgage repayments, implying that the impact of the May hike may not yet be fully reflected in household cash flows. Mortgage servicing burdens could therefore rise further in coming quarters.

At the same time, the RBA remains relatively sanguine on financial stability risks. The SoMP highlighted that most borrowers continue to hold sizeable buffers in offset and redraw accounts. According to June data, the median borrower in the lowest income quartile could still cover nearly a full year of scheduled mortgage repayments using these balances, an improvement from pre-pandemic levels despite minimum scheduled repayments having risen roughly 50% over the period. Governor Bullock acknowledged being "a bit surprised on the downside" by recent housing developments, but reiterated that housing is "not the main game" for monetary policy. She also downplayed systemic risks from falling house prices, noting that even a 20% decline in property values would leave only around 5% of households in negative equity.

Figure 3: Mortgages At Risk Are Rising, But Likely Contained



Source: Macrobond, State Street Investment Management, Roy Morgan Research, Reserve Bank of Australia

Overall, the message is that the RBA remains on an extended hold, but one that retains a tightening bias. Policymakers appear willing to tolerate softer housing activity, declining house prices and rising mortgage stress if necessary to ensure inflation returns sustainably to target. While the cycle increasingly appears to be approaching a neutral endpoint, the hurdle for rate cuts remains high, and any upside inflation surprise could still prompt another rate increase. Next week, we see employment likely underwhelming the consensus for 15k rise in July.

Week in Review

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Aug 10					
No major data release.					
Tuesday, Aug 11					
US	NFIB Small Business Optimism (Jul)	97.4	99.8	97.4	Less price pressures, more hiring.
US	Existing Home Sales (Jul, m/m)	-1.0%	-1.7%	-1.4%	Up 0.7% y/y. Median price up 2.0% y/y.
AU	NAB Business Confidence (Jul)	n/a	-6	-6(↓)	Not looking good.
AU	RBA Cash Rate Target	4.35%	4.35%	4.35%	On extended hold.
Wednesday, Aug 12					
US	CPI (Jul, y/y)	3.4%	3.4%	3.5%	Core CPI at 2.5% y/y.
US	Federal Budget Balance (Jul, billions)	-383	-432.0	-291.1	Ouch! Tariff refunds hurt.
CA	Building Permits (Jun, m/m)	0.8%	18.5%	-3.0%(↓)	Strong rebound.
GE	CPI (Jul, y/y, final)	2.8%	2.8%	2.3%	As expected.
Thursday, Aug 13					
US	Initial Jobless Claims (Aug 8, thous)	202	209	200 (↑)	Low and contained.
US	Continuing Claims (Aug 1, thous)	1,795	1,777	1,799 (↓)	Low and contained.
US	PPI Final Demand (Jul, y/y)	4.9%	4.7%	5.5%	OK. Services component up 3.9% y/y.
UK	GDP (Q2, q/q, prelim)	0.4%	0.4%	0.6%	Slowing down.
UK	Industrial Production (Jun, m/m)	0.1%	-0.2	-0.7% (↓)	Weak.
Friday, Aug 14					
US	Retail Sales Advance (Jul, m/m)	0.1%	-0.6%	0.2%	Control sales declined 0.44% m/m.
US	U. of Mich. Sentiment (Aug, prelim)	54.7	51.0	55.2	Weakening.
CA	Manufacturing Sales (Jun, m/m)	-0.1%	0.1%	1.6%(↑)	Upside surprise.
FR	CPI (Jul, y/y, final)	2.1%	2.1%	1.8%	As expected.

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

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