STATE STREET GLOBAL ADVISORS

July 31, 2020
Commentary

Weekly Economic Perspectives

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Spotlight on Next Week
Another increase in US employment seems likely. The BOE likely on hold, but considers doing more. Industrial production continues to recover in France and Germany. The RBA likely on hold as well.

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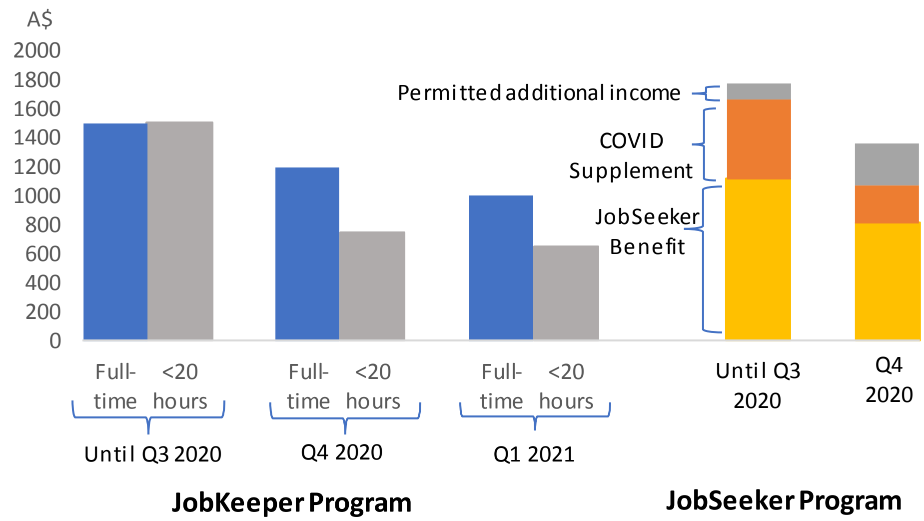
The Economy

Special Commentary: Tweaking Australia's Unemployment Support Programs

The Australian Government recently extended its "JobKeeper" and "JobSeeker" programs that provide relief to the marginally employed, ending fears of a 'fiscal cliff' at the end of September. The additional cost is around A$20 billion or close to 1% of GDP. The JobKeeper program is similar to the Payroll Protection Program (PPP) in the US, in that the government covers some financial obligations of business under stress in exchange for them preserving jobs. The JobSeeker program is the unemployment benefit program, a modification of the pre-existing Newstart program. Being among the first countries to taper fiscal support, Australia's experience can provide a template for others looking to calibrate emergency benefit programs.

Lump sum payments to workers are valuable during times of stress but if they exceed pre-crisis labor incomes, they create disincentives to work. Mapping out the revised payment structure for Australia, it appears that under the amended system, the payout for unemployment claims is higher than under the JobKeeper program. This might incentivize people under the JobKeeper program to flow to the 'Unemployed' portion of the workforce supported by the JobSeeker.

Figure 1. Revised Fiscal Support Program, Australia



We actually see several benefits to this approach—

- Those on JobSeeker will have mutual obligation requirements reintroduced, as under the benefit program earlier. They will need to undertake four job searches a month, and are required to accept a job that has been offered through this process. This provides the incentive to look for work.
- The limit on income from odd jobs for those on JobSeeker has been raised to A$300 a fortnight compared with the present A$106 before their income support is tapered. The taper rate has also been simplified to 60 cents per additional dollar earned. This provides the incentive to keep that job.
- Businesses still struggling to generate revenue will find it difficult to recruit part-time workers by relying on the JobKeeper program, thus forcing them to

go out of business altogether. This might help limit the number of “zombie firms” in the economy kept afloat by the abundance of cheap credit.

These program adjustments will increase incentives to seek employment. The JobKeeper program is currently supporting an estimated 3.5 million workers but that is expected to decline substantially to 1.4 million in the December quarter and to 1 million in the March quarter. The government is also considering bringing planned tax cuts for 2021 and 2022 forward to provide additional relief to the unemployed.

Similar discussions to tweak existing programs will like occur in many other countries in coming months. In the United States, Congress is negotiating changes to supplemental unemployment benefits. These benefits of $600 per week are financed by the federal government (unlike regular unemployment benefits which are financed by individual states) have now expired. As we go to press, negotiations are ongoing regarding their extension (most likely in reduced form).

The next few months will likely witness a global shift towards more targeted fiscal stimulus so as to maximize impact and cap costs. Benefits should become more targeted towards low income households and most severely impacted sectors. Industries like travel and hospitality are facing fundamental business model changes and many employees in those fields will need to be reskilled.

Additional program details:

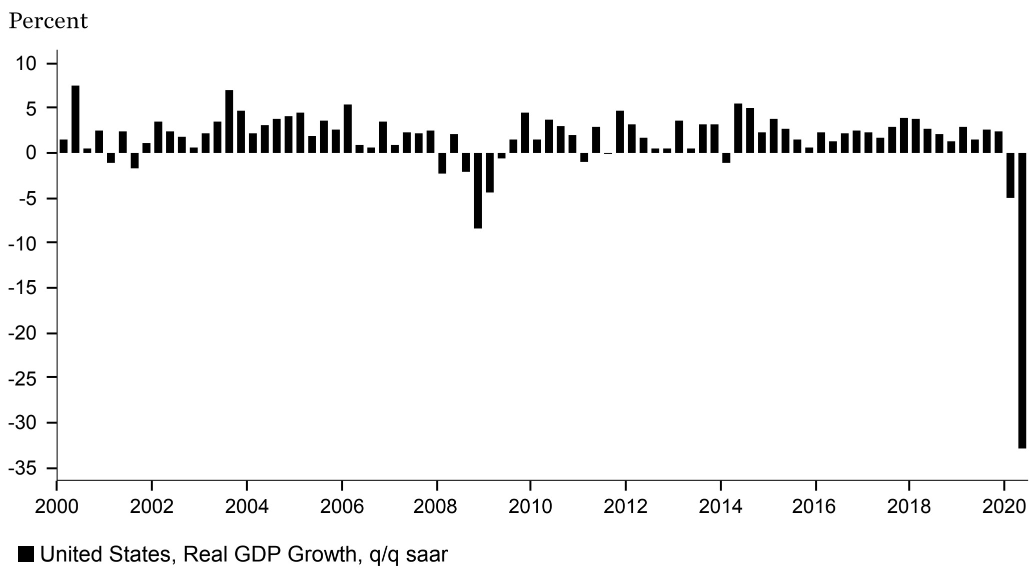
JobKeeper Wage Subsidy: The JobKeeper program, scheduled to end on 25th September, has been extended by six months to March 28, 2021. The payments have now been reduced—while earlier it was a flat A$1500 per employee, a demarcation will be made post September according to the hours worked. An employee working full-time will be paid A$1200 until January 3rd, which will be reduced to A$1000 post January. Similarly, an employee working less than 20 hours a fortnight will be paid A$750 and A$650 before after January. The criteria to avail of the benefits have been made more stringent, corporates and non-profit businesses with annual turnover of less than A$1 billion will be required to show a drop in revenue of at least 30%, over a minimum one-month period, while businesses with turnover over A$1 billion will need to show a 50% fall in income. Moreover, corporates will be required to reassess their eligibility on a quarterly basis starting September.

JobSeeker Unemployment Payment: The unemployment benefit program, revamped from the Newstart program, has only been extended until 31 December 2020. From late September, an unemployed person on the basic payment will go from receiving A$1,115.70 a fortnight to A$815.70. Under the changes, those on JobSeeker will be able to earn up to A$300 a fortnight compared with the present A$106 before their income support is tapered. The taper rate has also been simplified to a 60 cents per additional dollar earned. The 'coronavirus supplement' of A$550 that was due to end in September 2020 has also been extended to December 31st 2020 at a reduced rate of A$250 per fortnight, with no changes to the base payment. Those on JobSeeker will have mutual obligation requirements reintroduced, in keeping with the benefit program earlier. From August 4th people will have to reconnect with employment services and undertake four job searches a month. They will be obliged to accept a job that has been offered through this process.

US

The months-long speculation over how bad the second quarter GDP will be is finally over. Advance estimates put the decline at 32.9 % q/q saar, modestly better than consensus albeit not meaningfully so. Final domestic sales did noticeably better with a 28.2% saar contraction, but this is obviously a relative statement only. In absolute terms, these numbers represent unprecedented peace-time declines. Household consumption collapsed 34.6% (saar) due to a 43.5% saar plunge in services consumption. Goods consumption fared much better at -11.3%. Given that household consumption makes up the lion's share of the economy, this contributed 25 percentage points (ppts) towards the broad GDP decline. Fixed investment detracted 5.4 ppts and inventories detracted 4.0 ppts. The extent of the inventory drag was quite astonishing as inventories declined by the equivalent of 1.8% of GDP. Trade was essentially neutral as both exports and imports experienced massive declines. Real GDP declined 9.5% y/y and has shrunk 4.6% y/y during the first half.

Figure 2: US GDP: Not A Slowdown But A Shutdown!



Sources: U.S. Bureau of Economic Analysis (BEA)

Unlike in June, the market responded positively to Chair Powell's press conference following this week's **Fed meeting**. In reality, not much has changed. The Fed Funds rate was unchanged at 0.00-0.25% (anything else would have been unthinkable!) and the accompanying statement added little in the way of new language beside the obvious remark that "the path of the economy will depend significantly on the course of the virus." Not quite the revelation, if we may say so…The Chair's famous statement that "we are not even thinking about thinking about raising interest rates" added another "thinking" layer, but the message is the same: the Fed won't raise rates for a very, very, long time, until the FOMC is "confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals." There was an extensive discussion of high frequency alternative data pointing to a slowdown in the rate of improvement due to rising Covid cases, but the FOMC is not willing to prejudge how pronounced or long lasting this might be.

To us, the most notable thing in the entire press conference was the extent to which Chair Powell extoled the benefits of fiscal largess during this crisis. Indeed, we had only recently remarked that President Lagarde's open and forceful calls from the ECB pulpit for European fiscal spending were making Chair Powell's previously restrained comments on the topic seem like mere hints and innuendoes. No longer! In this press conference, the Chair has gone much further than ever before in terms of urging for additional fiscal policy support, both short-term to alleviate Covid-related pain, but also longer term to alleviate entrenched ailments such as inequality. The Chair was asked about the decision to extend the currency swap lines with foreign central banks. He explained that while there was nothing currently that had required such an extension, the Fed wanted those lines "to be there as a backstop for markets". Why wouldn't markets like that kind of thinking?

June brought about a more moderate version of the **personal income and spending** dynamics witnessed in May. For instance, having surged in April on the back of fiscal stimulus payments, nominal personal income retreated 4.4% in May and another 1.1% in June. Notably, however, personal income remained 7.4% higher than in June 2019; during the first half of 2020, it has actually risen 6.6% y/y on average. Real disposable income, which is more relevant for future spending, declined 1.8% in June, but it, too, remains 7.4% above year earlier levels and has risen 6.5% y/y during the first half. These headline figures, however, obscure big shifts in the composition of income. While transfer payments surged in April, wage and salary income plunged that month but is now reviving. Indeed, nominal wage and salary income rose 2.6% in May and another 2.2% in June as economic reopening meant people going back to work. It does, however, remain 2.4% lower than in June 2019, highlighting persistent labor market weakness. If anything, we are surprised it's not done worse given the huge number of people on unemployment benefits.

Unsurprisingly given what we already know about June retail sales, personal spending increased 5.6% in nominal terms and 5.2% in real terms, with May data revised incrementally higher. The savings rate declined from 24.2% to 19.0%, still an unfathomably high level that offers some reassurance that, even though spending is unlikely to keep rising, consumers have enough of a near-term financial cushion to prevent a near-term retrenchment. However, expect this savings cushion to whittle down in coming months as supplemental unemployment insurance benefits are reduced.

The resurgence of Covid cases is denting consumer sentiment. Indeed, the **Conference Board consumer confidence index** gave back nearly half of its June gain in July, retreating 5.7 points to 92.6. Admittedly, the details were a little more encouraging as the present situation metric actually improved 7.4 points to the highest level since March. But even this improvement must be put in perspective: at 94. 2 points, the present situation metric is about 45% below where it was four months ago. Meanwhile, the expectations metric lost 14.6 points to stand at the lowest level since March. One surprising development is that confidence deteriorated much more amid heads of household under 35 years of age than for older demographics. Given what we know about the severity of Covid-19 illness among younger people, this seems counterintuitive. But it could very well reflect concerns about the resumption of in person instruction in schools this coming fall. Separately, the closely watched labor differential—which measures the difference between those who think jobs are abundant and those who think jobs are scarce—improved another

4.1 points but has only retraced a little over a third of its recent losses. The final read on the **University of Michigan consumer sentiment index** offered a similar signal. The index retreated even more than initially estimated in July, and has, for all practical purposes, given back its June bounce.

Last week marked the first time since March that initial **unemployment claims** rose (slightly) and given the pullback on reopening efforts in some states, there are growing concerns of a more substantive increase. The good news was that initial claims were little changed in the week ending July 25, rising a by only 12,000. The bad news is that at 1.434 million, they remain distressingly high. The other bad news was that continuing claims rose by 867,000 to 17.1 million, the first increase since May. In the prior two months, continuing claims had been a pretty good leading indicator for non-farm payrolls. Despite the latest increase, they are still down by about 2.0 million since the June payrolls week, so current consensus expectations for a roughly 1.6 million gain in payrolls next week seems reasonable.

Following two massive declines in March and April, **durable goods orders** are now reviving. They increased 15.1% in May and another 7.3% in June, which, however, still left them 10.8% lower than in June 2019. Core orders (non-defense capital goods excluding aircraft) increased 3.3% in June and are only 2.9% lower than a year ago. Core shipments rose 3.4% and overall shipments jumped 14.9%. Motor vehicles were area of strength while non-defense aircraft was a major drag. Inventories rose 0.1%, lowering the inventory to shipments ratio from 2.2 to 1.9 months.

Prior to the Covid-19 outbreak, there was evidence that house price inflation was reaccelerating, but multiple price data streams for May indicate a pause in that trend. Following several large back to back gains, the **Case-Shiller 20-City composite** price index was flat in May—the weakest reading since last August. Prices increased 3.7% y/y, two tenths less than in April.

It could well turn out that this loss of price momentum will prove temporary because, following a brief hiatus, housing demand has rebounded quite strongly. For instance, **pending home sales** soared 44.3% in May and rose another 16.6% in June, leaving them 12.7% higher than in June 2019. As activity in the market revives, it could be the competition among buyers and limited inventories will at the very least put a floor under prices, possibly even igniting them higher.

Canada

Canada's **GDP** recovered in May after two months of unprecedented declines as re-opening ensued. GDP rebounded 4.5%, but nowhere near close to recouping the average 10% fall recorded over the previous two months. Thus, output is still 15% below February level, but we believe it will be breached by the end of the third quarter. Both goods-producing (+8.0%) and services industries (+3.4%) showed improvements, with production in 17 out of 20 industrial sectors increasing. Output across several industrial sectors, including manufacturing (+7.4%), retail (+16.6%) and wholesale (+6.0%) trade, construction (+17.6%), transportation (+2.1%), and accommodation and food services (+24.2%) increased. Statistics Canada's estimates point to a 5% expansion in June, which implies a contraction of 12% in GDP over the second quarter. Our consensus assessment is predicated upon the economy's gradual reopening with a shift from emergency and market stress containment towards more focus on supporting the resumption of growth in output and employment, and seems to be holding up well.

Building permits rose for the second consecutive month, by 6.2% to C$8.1 billion in June, comparable to pre-COVID level. The main contributor was the C$687 million dollar Oakridge Centre mixed use redevelopment project in the city of Vancouver, though seven provinces recorded gains. The value of residential permits rose 7.0% to C$5.3 billion, as permits issued for single family dwellings increased by 6.6% to $2.1 billion; while that for multi-family dwellings registered the fifth sequential rise, by 7.3% to C$3.2 billion. The value of commercial permits was down 9.1% to C$1.3 billion, after a strong gain in May.

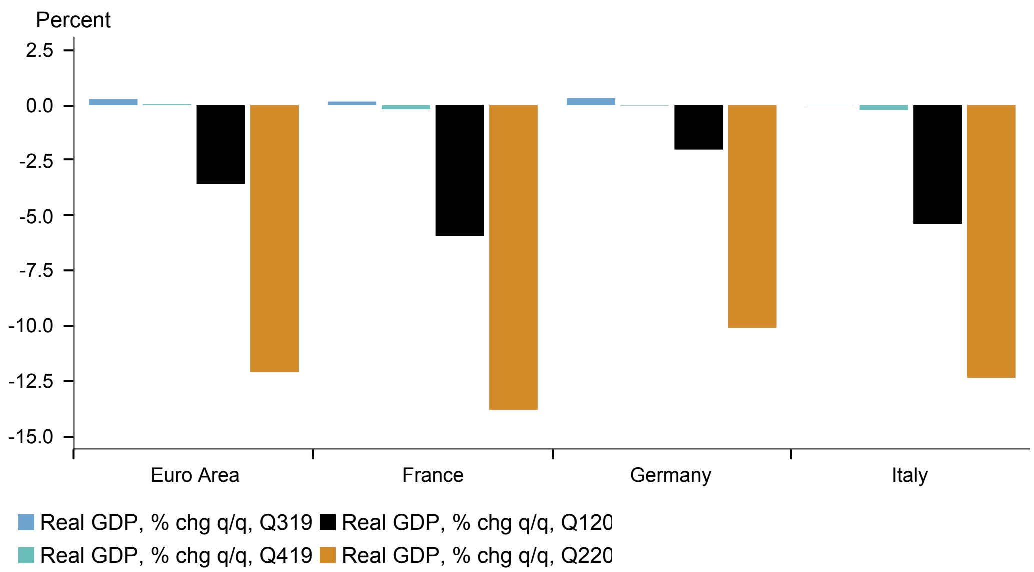
UK

Having been brought to a standstill by the Covid-19 outbreak, mortgage activity is now reviving. Mortgage applications more than tripled in June but they remain 40% below year-earlier levels. As homebuyers reenter the market and activity picks up, house prices are also reviving. After two big declines in May and June, the Nationwide house price index rose 1.7% in July.

Eurozone

Just as everyone had been bracing for a terrible GDP print in the United States, it was no surprise whatsoever to see ***eurozone* GDP** contract sharply during the second quarter. The region's GDP shrank 12.1% q/q, in line with expectations. If there was a surprise, it was that Germany slightly underperformed, while Italy and France outperformed expectations. However, as expected, ***Germany*** outperformed in absolute terms as its GDP shrank 10.1% q/q compared with declines of 12.4% q/q in ***Italy*** and 13.8% q/q in ***France***. No details are yet available with any of the releases.

Figure 3: Unprecedented Collapse In Eurozone GDP



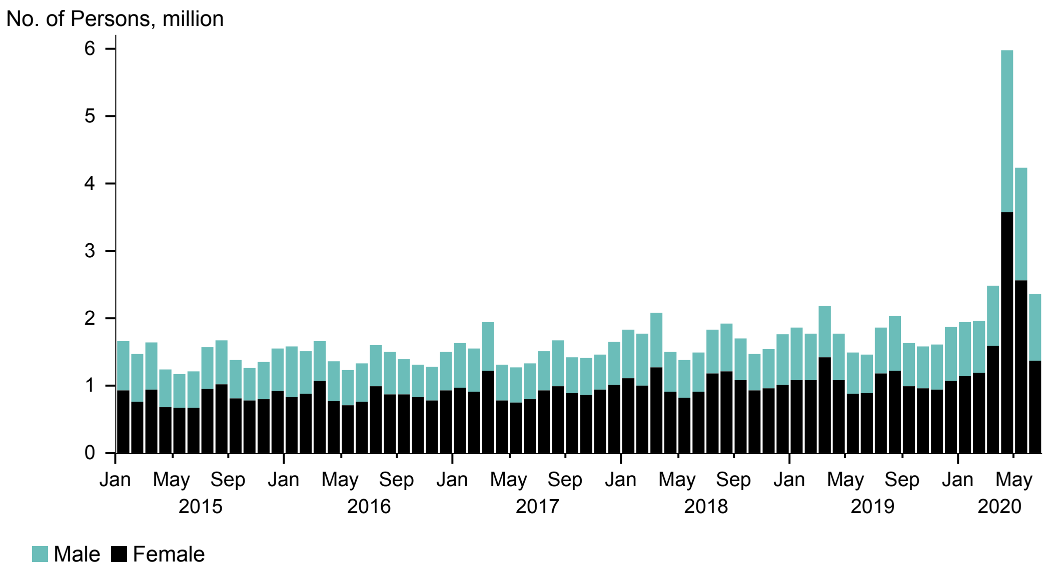
Sources: INSEE, Istat, Eurostat, Statistisches Bundesamt

German business sentiment is on the rebound. The **IFO business climate indicator** improved another 4.2 points to 90.5 in July, marking the third consecutive improvement and the highest level since February. Expectations improved 5.4 points to the highest level since late 2018 and the current situation improved 3.2 points to the best reading since March.

Japan

To an observer looking at unemployment rates across the globe, it may appear that Japan has performed spectacularly through the crisis which the ILO predicts can cost 305 million full-time jobs in the second quarter. Indeed, the **unemployment rate** surprised on the upside in June, declining 0.1 percentage points to 2.8%, contrary to an increase to 3.0% expected. The number of people employed rose by 80,000 to 66.4 million, nearly up to its February level. Meanwhile, unemployment fell by 30,000 to 1.94mn. This depressed the unemployment rate, despite the participation rate edging up marginally to 61.9%. The drop in furloughed workers also accelerated in June, reflecting the re-start of economic activity.

Figure 4: Furloughed Workers On The Decline In Japan



Sources: Japanese Statistics Bureau, Ministry of Internal Affairs & Communications

Sectors hit hard by COVID-19, such as wholesale and retail services (-160,000) and restaurants and accommodations (-90,000) continued to drive the decline in jobs. But job losses also accelerated in construction (-130,000), and transportation services (-110,000), this being a bit of a worry. Manufacturing was a big positive (+160,000). Job gains were the most for the age bracket 15-24 years, where the unemployment rate dropped by 1.1 percentage points to 4.0%, close to where it was at the start of the year. Meanwhile, the active job openings-to-applicants ratio in April declined further to 1.11, down a sharp 0.09 points from April, the lowest level in six years. The number of openings was down 0.5% m/m, but job seekers increased by 5.4% as more people came back into the labor force. We suspect that this imbalance might put upward pressure on the unemployment rate over the coming months.

Industrial production seems to have bottomed out and is showing some improvement. Production rebounded an above consensus 2.7% in June after two consecutive falls, though still well below pre-COVID level. A recovery in motor vehicle production, up 28.9%, led the way following sharp declines in April and May. Reflecting pent-up demand, shipments also rebounded strongly in June, rising 5.2%. This led to a 2.4% drop in inventories, now at levels comparable to January 2018. Resuming of activities and falling inventories mean production will continue to improve. Indeed, the Ministry of Economy, Trade and Industry's (METI) forecast an 11.3% increase in July, followed by another 3.4% pick-up in August. However, the fact remains that while manufacturing PMI has moved to expansion territory in most of its peers, Japan still seems to be lagging, despite the improvement. We believe the fate of manufacturing in the short run depends more on the recovery in global trade than on domestic demand.

Retail sales rose sharply again in June, by 13.1% following a rebound of 2.9% the previous month. With this, sales is now at more than 95% of its pre-COVID level in March. The lifting of the "state of emergency" nationwide by the end of May had a large impact. Gains were observed across all categories—especially apparels (+50.7%), general merchandise (+42.0%), and electric machinery & household equipment (+32.2%), which reflects pent-up demand from consumers staying at home. In addition, auto sales, which had continued to decline through May, recovered in June (+22.1%). On an annual basis, sales increased by 1.2% y/y. Though encouraging, it will be unwise to assume that consumer spending will sustain current levels, with the June report likely a reactive increase from declines in April-May and could be relatively short-lived.

The **all industry activity index**—a reliable cyclical indicator—fell 3.5% in May, at consensus, but less pronounced than the 7.6% contraction in April. Construction activity index fell for the first time since the pandemic, by 2.8%; while manufacturing continued its drastic descent (down 9.0%, close to two digit fall for the second month). Services performed marginally better, down by 2.2% from a 7.7% decline observed in April. Activity was down 16.4% y/y, as all sub components were down significantly.

Australia

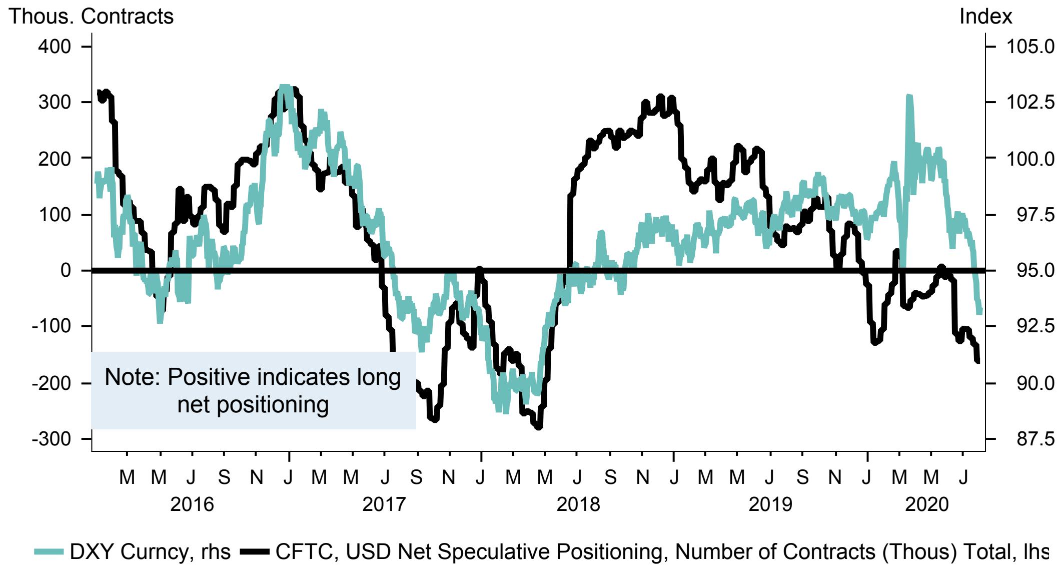
Headline **consumer price inflation** recorded the largest quarterly decline on record, but this was not unexpected. Prices declined 1.9% q/q in Q2. Education costs were down 3.7%, with child care down 95.0%, and preschool and primary education lower by 16.2%—all in response to new government policies. Fuel prices declined 19.3%, pulling transportation costs down 6.8%. Excluding these, price changes were still positive. The most significant price rises were in tobacco (+2.7%), other non-durable household products (+4.5%) and furniture (+3.8%), mostly likely due to prevalence of stay-at-home and work-from-home. The two measures of underlying inflation—the weighted median (+0.1%) and trimmed mean (-0.1%)—were relatively flat for the quarter, but significantly down from last quarter. On an annual basis, headline inflation decelerated by 2.5 percentage points to -0.3% y/y; only the third deflation print in history. Encouragingly, core inflation was still positive in annual terms, with the trimmed mean at 1.2% y/y, and the weighted median at 1.3% y/y. The Q2 inflation report, albeit bleak is a little better than expected, which reinforces our belief that the impact on activity has been slightly lesser than earlier anticipated.

Growth in **private sector credit** slowed further in June by 0.2%, following the 0.1% contraction in May. There was again a sharp tightening in business credit, which fell 0.8%, by the most since June 2011. Housing credit was unchanged from the past two months, rising 0.2%. The divergence between owner-occupier and investor credit closed a little, home owners credit decelerated slightly to 0.3%, while investor demand for credit was flat after three sequential falls "Other personal" credit growth continued to slow, dropping by 0.6% in June.

The Market This Week

With the US having lost its prior yield advantage and the EU fiscal package boosting euro sentiment, investors have become quite bearish on the dollar. Net positioning is now most negative since 2018.

Figure 5: Dollar Positioning Most Bearish Since 2018



Sources: Macrobond, Bloomberg, CFTC

Equities: Most equity markets retreat, although the US ekes out a gain.

Bonds: Bond yields narrow on sobering macro data.

Currencies: The dollar plunges.

Commodities: Oil is little changed, gold jumps.

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Stock Markets					10 Year Bond Yields			Currencies		
Country	Exchange	Last	%Ch Week	%Ch YTD	Last	BP Ch Week	BP Ch YTD	Last	%Ch Week	%Ch YTD
US	S&P 500®	3271.12	1.7%	1.2%	0.53	-6	-139	93.455	-1.0%	-3.0%
Canada	TSE 300	16169.2	1.1%	-5.2%	0.47	-3	-124	1.3412	0.0%	3.2%
UK	FTSE®	5897.76	-3.7%	-21.8%	0.10	-4	-72	1.3085	2.3%	-1.3%
Germany	DAX	12313.36	-4.1%	-7.1%	-0.52	-8	-34			
France	CAC-40	4783.69	-3.5%	-20.0%	-0.19	-5	-31	1.1778	1.0%	5.0%
Italy	FTSE® MIB	19091.93	-4.9%	-18.8%	1.01	2	-40			
Japan	Nikkei 225	21710	-4.6%	-8.2%	0.02	0	3	105.83	-0.3%	-2.6%
Australia	ASX 200	5927.781	-1.6%	-11.3%	0.82	-5	-56	0.7143	0.5%	1.7%

Commodity Markets						
Commodity	Unit	Source	Last Price	%Ch Week	%Ch YTD	%Ch Yr Ago
Oil (Brent)	US $/Barrel	Bloomberg	42.81	-0.3%	-35.5%	-33.2%
Gold	US $/troy oz	Bloomberg	1975.86	3.9%	30.2%	39.8%

Source: Bloomberg®

Week in Review (July 27–July 31)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, July 27					
US	Durable Goods Orders (Jun, prelim, m/m)	6.9%	7.3%	15.1%(↓)	Shipments finally accelerating as well.
GE	IFO Business Climate (Jul)	89.3	90.5	86.3(↑)	Healing.
JN	All Industry Activity Index (May, m/m)	-3.5%	-3.5%	-6.4%	Construction down first time post COVID.
JN	Leading Index (May, final)	79.3(p)	78.4	77.7	Revised downward marginally.
Tuesday, July 28					
US	S&P CoreLogic 20-City Index (May, m/m)	0.3%	0.0%	0.3%	Pause in price uptrend.
US	Consumer Confidence (Jul)	95.0	92.6	98.3(↑)	Deteriorating expectations.
Wednesday, July 29					
US	FOMC Monetary Policy Decision	0.25%	0.25%	0.25%	Dovish tone.
US	Pending Home Sales (Jun, m/m)	15.0%	16.6%	44.3%	Housing market is doing well.
UK	Mortgage Approvals (Jun, thous)	35.0	40.0	9.3	De-icing.
FR	Consumer Confidence (Jul)	99	94	97	Pausing?
AU	CPI (Q2, y/y)	-0.5%	-0.3%	2.2%	Little better than expected.
Thursday, July 30					
US	Initial Jobless claims (Jul 25, thous)	1445	1434	1422(↑)	Still incredibly high.
US	Continuing claims (Jul 18, thous)	16200	17018	16151(↓)	Some pullback on reopening efforts.
US	GDP (Q2, first, q/q saar)	-34.5%	-32.9%	-5.0%	Domestic final sales were -28.9%.
GE	GDP (Q2, prelim, q/q)	-9.0%	-10.1%	-2.0%(↓)	Painful, but Q3 will be much better.
GE	Unemployment Rate (Jul)	6.5%	6.4%	6.4%	Capped by employment support scheme.
IT	Unemployment Rate (Jun, prelim)	8.6%	8.8%	7.8%	
JN	Retail Sales (Jun, m/m)	8.0%	13.1%	1.9%(↓)	Likely a reactive increase from earlier declines.
Friday, July 31					
US	Personal Income (Jun, m/m)	-0.6%	-1.1%	-4.4%(↓)	Savings rate still at 19%.
US	Personal Spending (Jun, m/m)	5.2%	5.6%	8.5%(↑)	It will slow going forward.
US	U of Mich Cons Sentiment (Jul, final)	73.2(p)	72.5	78.1	Covid resurgence hurts sentiment.
CA	GDP (May, m/m)	3.5%	4.5%	-11.6%	Rebound following the re-opening.
CA	Building Permits (Jun, m/m)	na	6.2%	20.2%	Permits now back to pre-COVID level.
UK	Nationwide House PX (Jul, m/m)	-0.2%	1.7%	-1.6%(↓)	Housing activity reviving.
EC	GDP (Q2, prelim, q/q)	-12.1%	-12.4%	-3.6%	Terrible, but we expected it.
GE	Retail Sales (Jun, m/m)	-3.0%	-1.6%	12.7%(↓)	Moderating after massive reboud.
FR	GDP (Q2, prelim, q/q)	-15.2%	-13.8%	-5.9%(↓)	Terrible, but we expected it.
FR	Consumer Spending (Jun, m/m)	6.8%	9.0%	37.4%	Will slow going forward.
IT	GDP (Q2, prelim, q/q)	-15.5%	-12.4%	-5.4%(↓)	Terrible, but we expected it.
IT	Retail Sales (Jun, m/m)	na	12.1%	24.3%	Will slow going forward.
JN	Unemployment Rate (Jun)	3.0%	2.8%	2.9%	An encouraging report!
JN	Industrial Production (Jun, prelim, m/m)	1.0%	2.7%	-8.9%	A rebound at the fifth month.
AU	Private Sector Credit (Jun, m/m)	-0.1%	-0.2%	-0.1%	Business credit saw sharp tightening again.

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

Week Preview (August 3–August 7)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, August 3				
US	ISM Manufacturing (Jul)	53.6	52.6	Manufacturing less at risk from Covid resurgence.
UK	Manufacturing PMI (Jul, final)	53.6(p)	50.1	Reopening.
EC	Manufacturing PMI (Jul, final)	51.1(p)	47.4	
GE	Manufacturing PMI (Jul, final)	50.0(p)	45.2	
FR	Manufacturing PMI (Jul, final)	52.0(p)	52.3	
IT	Manufacturing PMI (Jul)	na	47.5	
JN	Manufacturing PMI (Jul, final)	42.6(p)	40.1	Still lagging peers.
Tuesday, August 4				
US	Total Vehicle Sales (Jul, mil.)	14.0	13.1	We see some downside risk here.
US	Factory Orders (Jun, m/m)	5.0%	8.0%	
US	Durable Goods Orders (Jun, final, m/m)	7.3%(p)	15.1%	
AU	RBA Monetary Policy Decision	0.25%	0.25%	No change in policy settings until end of 2020.
AU	Retail Sales (Jun, m/m)	2.4%	16.9%	Somewhat of a moderation is expected.
Wednesday, August 5				
US	ISM Non-Manufacturing Index (Jul)	55	57.1	Services most at risks from Covid resurgence.
CA	Merchandise Trade (Jun, C$ bil.)	na	-0.7	
UK	Services PMI (Jul, final)	56.6(p)	47.1	
EC	Services PMI (Jul, final)	55.1(p)	48.3	
GE	Services PMI (Jul, final)	56.7(p)	47.3	
JN	Services PMI (Jul, final)	45.2(p)	45.0	Still lagging peers.
Thursday, August 6				
US	Initial Jobless claims (Aug 1, thous)	na	1434	
US	Continuing claims (Jul 25, thous)	na	17018	
UK	BOE Monetary Policy Decision	0.10%	0.10%	On hold for now, but probably looking to do more.
GE	Factory Orders (Jun, m/m)	12.3%	10.4%	Global manufacturing picking up.
IT	Industrial Production (Jun, m/m)	na	42.1%	
Friday, August 7				
US	Change in Nonfarm Payrolls (Jul, thous)	1520	4800	Another gain seems likely, but August may be trickier.
US	Unemployment Rate (Jul)	10.5%	11.1%	
US	Consumer Credit (Jun, $ bil.)	10.0	-18.3	
CA	Unemployment Rate (Jul)	na	12.3%	The recovery is on, UR is going to be sticky though.
CA	Ivey PMI (Jul)	na	58.2	
GE	Industrial Production (Jun, m/m)	8.1%	7.8%	
FR	Industrial Production (Jun, m/m)	8.7%	19.6%	
JN	Labor Cash Earnings (Jun, y/y)	-3.0%	-2.3%(↓)	Will stay low until working hours increase.
JN	Leading Index (Jun, prelim)	84.8	78.4	

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

Economic Indicators

Central Bank Policy Targets

Region	Target	Year/Year %Change in Target				
		Feb	Mar	Apr	May	Jun
US	Target: PCE price index 2.0% y/y	1.8	1.3	0.5	0.5	0.8
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	2.2	0.9	-0.2	-0.4	0.7
UK	Target: CPI 2.0% y/y	1.7	1.5	0.8	0.5	0.6
Eurozone	Target: CPI below but close to 2.0% y/y	1.2	0.7	0.3	0.1	0.3
Japan	Target: CPI 2.0% y/y	0.4	0.4	0.1	0.1	0.1
Australia	Target Range: CPI 2.0%-3.0% y/y	2.2	2.2	-0.3	-0.3	-0.3

Source: Macrobond

Key Interest Rates

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	#####	Jun-20	Jul-20
US (top of target range)	2.00	1.75	1.75	1.75	1.75	1.75	0.25	0.25	0.25	0.25	0.25
Canada (Overnight Rate)	1.75	1.75	1.75	1.75	1.75	1.75	0.25	0.25	0.25	0.25	
UK (Bank Rate)	0.75	0.75	0.75	0.75	0.75	0.75	0.10	0.10	0.10	0.10	0.10
Eurozone (Refi)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Japan (OCR)	-0.06	-0.03	-0.03	-0.07	-0.04	-0.03	-0.07	-0.06	-0.07	-0.07	
Australia (OCR)	1.00	0.76	0.75	0.75	0.75	0.75	0.43	0.25	0.25	0.25	

Source: Macrobond

General Government Structural Balance as a % of Potential GDP

	2012	2013	2014	2015	2016	2017	2018	2019	Forecast 2020	Forecast 2021
US	-6.4	-4.5	-3.8	-3.6	-4.4	-4.8	-6.0	-6.3	-6.3	-6.2
Canada	-2.1	-1.1	0.1	0.8	0.7	0.0	-0.2	-0.5	-0.8	-0.8
UK	-6.0	-4.0	-4.7	-4.1	-2.9	-2.0	-1.5	-1.3	-1.4	-1.5
Eurozone	-2.1	-1.2	-0.9	-0.8	-0.7	-0.7	-0.6	-0.7	-0.9	
Germany	0.0	0.6	1.2	1.2	1.3	1.1	1.4	0.9	1.0	0.7
France	-4.4	-3.4	-3.3	-3.0	-2.8	-2.6	-2.5	-2.4	-2.5	-2.4
Italy	-1.5	-0.6	-1.1	-0.7	-1.4	-1.7	-1.8	-1.5	-2.1	-2.3
Japan	-7.6	-7.5	-5.5	-4.3	-4.1	-3.4	-3.1	-2.9	-2.1	-1.9
Australia	-3.3	-2.6	-2.6	-2.4	-2.2	-1.5	-0.6	-0.4	-0.4	0.0

Source: International Monetary Fund, World Economic Outlook

Headline Consumer and Producer Price Inflation

	CPI Year/Year %Change						PPI Year/Year %Change				
	Mar	Apr	May	Jun	Jul		Feb	Mar	Apr	May	Jun
US	1.5	0.3	0.1	0.6			1.1	0.7	-1.2	-0.8	-0.8
Canada	0.9	-0.2	-0.4	0.7			-0.3	-3.0	-6.0	-4.9	-3.1
UK	1.5	0.8	0.5	0.6			0.5	0.3	-0.7	-1.2	-0.8
Eurozone	0.7	0.3	0.1	0.3			-1.3	-2.8	-4.5	-5.0	
Germany	1.4	0.9	0.6	0.9	-0.1		-0.1	-0.8	-1.9	-2.2	-1.8
France	0.7	0.3	0.4	0.2	0.8		-0.5	-1.9	-3.8	-3.4	-2.3
Italy	0.1	0.0	-0.2	-0.2	-0.3		-2.7	-3.7	-5.1	-5.3	-4.5
Japan	0.4	0.1	0.1	0.1			0.7	-0.5	-2.4	-2.8	-1.6
Australia	2.2	-0.3	-0.3	-0.3							

Source: Macrobond

Real GDP Growth (Q/Q Seasonally Adjusted)

	Quarter/Quarter % Change						Year/Year % Change				
	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20		Q2-19	Q3-19	Q4-19	Q1-20	Q2-20
US	0.4	0.6	0.6	-1.3	-9.5		2.0	2.1	2.3	0.3	-9.5
Canada	0.8	0.3	0.1	-2.1			2.0	1.6	1.5	-0.9	
UK	-0.1	0.5	0.0	-2.2			1.4	1.3	1.1	-1.7	
Eurozone	0.2	0.3	0.0	-3.6	-12.1		1.3	1.4	1.0	-3.1	-15.0
Germany	-0.5	0.3	0.0	-2.0	-10.1		0.1	0.8	0.4	-2.2	-11.7
France	0.2	0.2	-0.2	-5.9	-13.8		1.8	1.6	0.8	-5.7	-19.0
Italy	0.1	0.0	-0.2	-5.4	-12.4		0.4	0.5	0.1	-5.5	-17.3
Japan	0.5	0.0	-1.9	-0.6			0.9	1.8	-0.7	-1.9	
Australia	0.6	0.6	0.5	-0.3			1.6	1.8	2.2	1.4	

Source: Macrobond

Industrial Production Index (M/M Seasonally Adjusted)

	Month/Month % Change						Year/Year % Change				
	Feb	Mar	Apr	May	Jun		Feb	Mar	Apr	May	Jun
US	0.1	-4.4	-12.7	1.4	5.4		-0.2	-4.8	-16.3	-15.4	-10.8
Canada	0.4	-5.2	-13.7	3.1			1.2	-5.4	-20.0	-17.5	
UK	0.3	-4.3	-20.3	6.0			-2.2	-7.4	-23.9	-20.1	
Germany	0.3	-8.9	-17.5	7.8			-1.8	-11.1	-24.9	-19.4	
France	1.0	-17.0	-20.6	19.6			-1.5	-17.8	-35.0	-23.4	
Italy	-1.0	-28.4	-20.5	42.1			-2.3	-29.4	-43.4	-20.3	
Japan	-0.3	-3.7	-9.8	-8.9	2.7		-3.7	-6.8	-15.9	-24.5	-20.4

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	#####	Jun-20	Jul-20
US	3.5	3.6	3.5	3.5	3.6	3.5	4.4	14.7	13.3	11.1	
Canada	5.5	5.6	5.9	5.6	5.5	5.6	7.8	13.0	13.7	12.3	
UK	3.8	3.8	3.8	3.9	4.0	3.9	3.9	3.9			
Eurozone	7.5	7.4	7.4	7.4	7.4	7.2	7.2	7.5	7.7	7.8	
Germany	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.8	6.3	6.4	6.4
France	8.4	8.3	8.2	8.2	7.9	7.6	7.6	8.8	8.2	7.7	
Italy	9.7	9.5	9.5	9.5	9.5	9.2	8.4	6.8	8.3	8.8	
Japan	2.4	2.4	2.2	2.2	2.4	2.4	2.5	2.6	2.9	2.8	
Australia	5.2	5.3	5.1	5.1	5.3	5.1	5.2	6.4	7.1	7.4	

Source: Macrobond

Current Account Balance as a % of GDP (Seasonally Adjusted)

	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18	Q4-18	Q1-19	Q2-19	Q3-19
US	-2.2	-2.5	-2.0	-2.3	-2.3	-2.1	-2.4	-2.8	-2.6	-2.4	
Canada	-2.2	-2.7	-3.4	-3.0	-2.8	-2.6	-1.8	-2.8	-3.0	-1.2	-1.7
UK	-3.2	-4.0	-3.4	-3.3	-3.4	-4.4	-4.3	-5.1	-6.0	-4.6	
Eurozone	3.1	1.9	3.9	3.6	3.5	3.6	2.6	2.8	3.1	2.4	
Germany	8.3	7.0	8.6	8.6	8.5	7.6	6.5	7.4	7.8	7.6	8.1
France	-1.3	-0.7	-0.7	-0.3	-0.3	-1.4	-0.5	-0.5	-0.8	-0.8	-1.0
Japan	4.3	3.7	4.6	4.2	3.6	4.0	3.4	3.1	3.4	3.5	3.5
Australia	-1.5	-2.5	-2.8	-3.5	-2.2	-2.7	-2.2	-1.4	-0.2	1.2	

Source: Macrobond

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Exp. Date: 08/31/2021