
May 28, 2021
Commentary

Weekly Economic Perspectives

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US employment is expected to reaccelerate. Service activity to accelerate in the eurozone. Further GDP gains are expected in Canada and Australia.

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The Economy

A week of mild data disappointments in macro, but everything gets a bid in markets.

US

Unsurprisingly given the post-stimulus reporting period, **personal income** declined 13.1% in April. Government transfers—which nearly doubled in March as the \$1,400 stimulus checks went out—normalized with a 41.5% decline. The good news was that wage and salary income increased 1.0% for the second straight month, even though employment gains moderated in April. Nominal income remains 0.5% higher than a year ago. Real disposable income dropped 15.1% in April and declined 4.4% y/y. Nominal **personal spending** increased 0.5%, in line with expectations, but real spending declined 0.1%, a little worse than expected. However, upward revisions to March data still left performance over the two-month period in a better place than was anticipated prior to data release. The savings rate retreated from 27.7% to 14.9%.

The **PCE (personal consumption expenditures) deflator** data was a little stronger than expected as the core print beat expectations for the second consecutive month. Headline PCE prices rose 0.5% and core PCE prices increased 0.7%, leaving the two measures of inflation at 3.6% and 3.1% y/y, respectively. The latter represents the highest reading since 1992.

New home sales declined much more than expected in April and the March data was revised also sharply lower, suggesting that rapidly rising prices are becoming a constraint on demand. Sales declined 5.9% to 863,000 (annualized), nearly all the way back to February's weather-impacted level. Sales were lower in three of the four regions, with the South accounting for the lion's share of decline; sales rose in the West. The geographical composition may have exacerbated the 11.4% surge in prices during the month, but the upsurge in prices is a much bigger story. Median prices rose 20.1% y/y and the average price as up 20.8% y/y. We may have reached a point where prices are a serious headwind; as affordability deteriorates, some buyers are bound to be priced out of the market and choose to delay purchases.

The 4.4% decline in **pending home sales** in April suggests that the softening pace of housing market activity may have further to run. Performance, however, varied notably across regions, with pending sales plunging 12.9% in the Northeast but rising 3.5% in the Midwest.

All measures of home prices inflation indicate sharp appreciation over the past year. The **Case-Shiller 20-City composite price index** surged 1.6% in March—the most since April 2013—leaving prices 13.3% higher than a year earlier. Gains are really broad-based, with only Chicago experiencing price gains of less than 10%. Phoenix was once again in the lead, with prices up led gains with a 20.0% y/y advance. According to the **FHFA**, existing single family home prices rose 1.4% in March, pushing the annual increase to a yet another record 13.9% y/y.

The messages from the latest **Conference Board consumer confidence** survey were a bit more complex to disentangle than usual. There was a retreat in the headline number, although the larger story here was the significant downgrade to the prior month's value, such that the confidence level in May was only slightly above where it was back in March. The other nuance was that while the current situation improved, expectations deteriorated for the second consecutive month (and by the

most since November). This is somewhat at odds with respondents' views of labor market health—which measures the difference between those who think jobs are abundant and those who think jobs are scarce—surged again to reach the highest level since January 2020. But buying sentiment generally deteriorated, with the share of respondents saying they plan to buy a home over the next six months plunging to the lowest level since February 2013. High prices may be the root cause here. Car buying sentiment also deteriorated, though less dramatically.

Figure 1: US Consumers' Home Buying Appetite Dips Amid High Prices



The second estimate of Q1 **GDP** brought no change in the top line 6.4% saar growth rate but there were some composition changes worth mentioning. Essentially, private consumption and business investment were revised slightly higher and there were offsetting downward revisions on government spending, trade, and inventories. The message is one of even stronger final domestic demand but also one of intensifying price pressures as the GDP deflator was revised up by two tenths to 4.3% y/y.

Durable goods orders posted their first monthly decline in a year during April, but the underlying details were considerably stronger. Overall orders declined 1.3% on a big drop in defense orders. However, core orders (non-defense capital goods excluding aircraft)—a leading indicator for business equipment investment (BEI) in the GDP accounts—jumped 2.3%, the most since August. Shipments increased 0.6%, backlogs rose 0.2%, and the inventory to shipments ratio was unchanged.

UK

No major data releases.

Eurozone

Revisions to the German and French first-quarter GDP growth were disappointing. **German GDP** growth was revised one tenth lower to show a 1.8% q/q decline. About two thirds of that decline was due to domestic demand, with the remainder coming from net trade. The impact of severe lockdowns was unmistakable as private consumption detracted a massive 2.7 percentage points from growth, about half of which was offset by an import-supported inventory rebuilt. First-quarter real GDP was down 3.1% y/y.

The downward revision to French GDP was even more significant, with the economy now estimated to have shrunk 0.1% q/q compared with the 0.4% expansion previously reported. Some of this sting was attenuated by a slight upgrade to 2020 performance. No particular component made big contributions to growth, but net trade was the largest detractor and inventories the largest contributor. Real GDP increased 1.2% y/y.

The good news is that business and consumer sentiment is improving. In conjunction with easing mobility restrictions, this bodes well for second-quarter performance. The **German IFO** business climate indicator improved a larger than expected 2.6 points in May to reach its highest level since May of 2019. And the **German GfK consumer confidence index** rose 1.6 points to its highest level since December.

French business sentiment is rapidly improving as vaccinations are accelerating and reopening broadens. The INSEE business confidence index surged 12 points in May to its highest level since 2018. The improvement aligns well with similarly buoyant readings from purchasing managers surveys. **French consumer confidence** is also improving. In fact, it improved in May to the highest level since March 2020. There were across the board improvements in the current and future financial situation, as well as employment prospects.

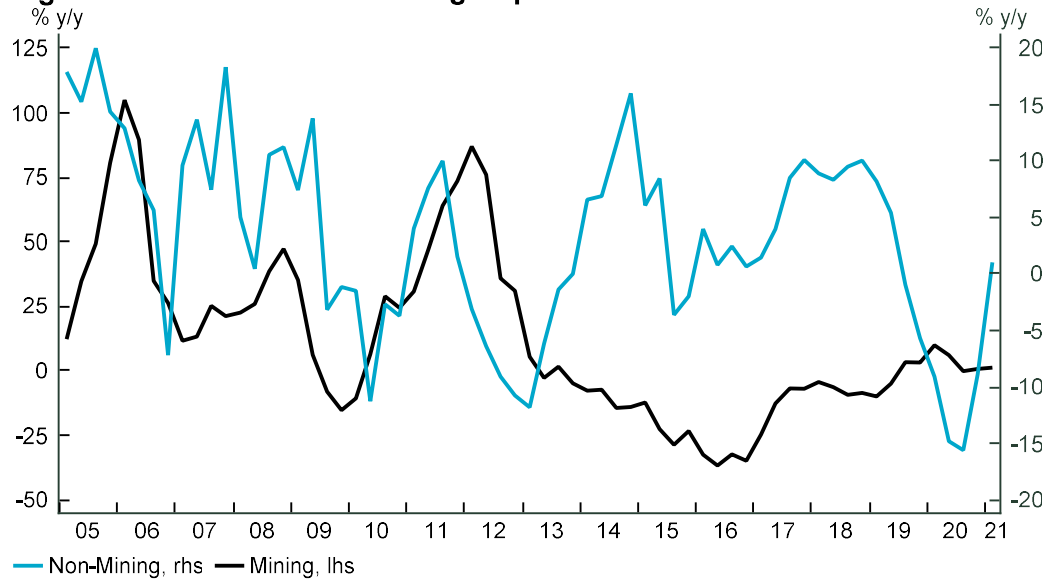
Japan

The **unemployment rate** in Japan edged up 0.2 percentage points (ppts) to 2.8% in April. The number of people employed dropped by 260,000 while unemployment increased 140,000—likely because of the ongoing state of emergency. The challenges posed by the restrictions are evident in the services sector, notably wholesale and retail trade which shed 310,000 jobs. The participation rate increased marginally to 62.2% (+0.3 ppts), due to increased participation from people aged 15-24. The number of employed also included 1.98 million furloughed workers (before seasonal adjustment), an improvement from 2.2 million in March. New job openings-to-applicants ratio declined by 0.17 to 1.82, as did active jobs openings which fell slightly to 1.09. There is unlikely to be improvement in the next couple of months, given that the state of emergency might be extended for the most part of June.

Australia

Private capital expenditure increased 6.3% q/q in Q1, comfortably beating expectations. This follows a 4.2% increase in the previous quarter, which itself was a significant upgrade. The strength was broad based—with manufacturing capex up 15.4%, mining up 4.1%, and other non-mining up 6.1%. Machinery & equipment investment surged 9.1%, while building & structures also increased by 3.8%. The forward-looking capex intentions data also continued to improve, with investment intentions for FY2020-21 upgraded to A\$124.0 billion, suggesting overall capex will fully recover from the initial COVID shock; while that for FY2021-22 rose to A\$114 billion from A\$105 billion. Non-mining firms were very upbeat on their capex intentions, though mining firms were far less optimistic. Overall, the contribution of business investment to Q1 GDP growth is likely to be larger than previously expected.

Figure 2: Australia's Non-Mining Capex Rebounds

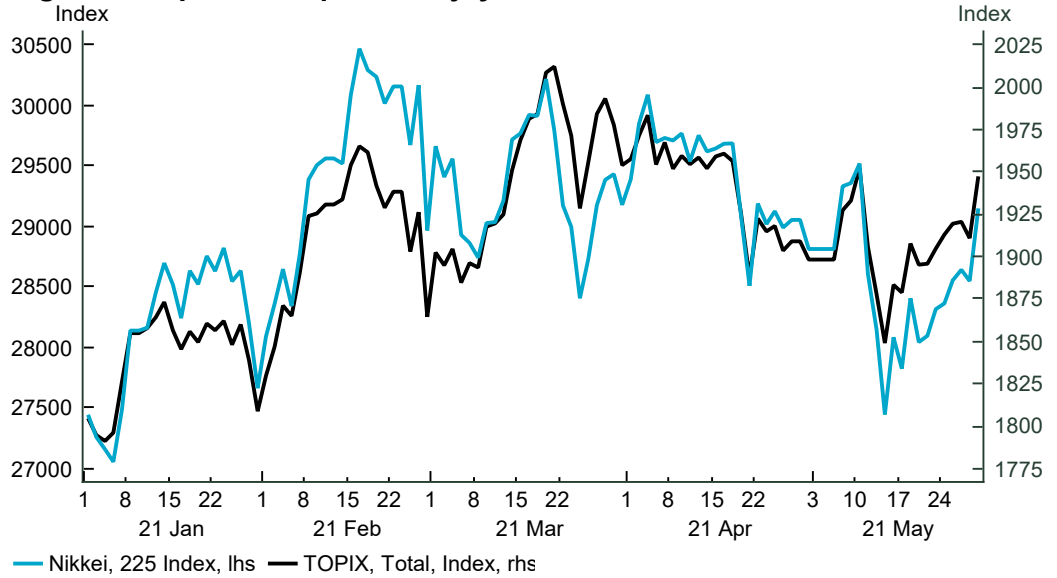


Sources: Macrobond, SSGA Economics, ABS

The Market This Week

Global stock markets were up this week but Japanese equities rode a particularly high wave on progress in the country's vaccination drive.

Figure 3: Japanese Equities Enjoy A Good Week



Sources: Macrobond, SPDJI, Tokyo Stock Exchange, Nikkei Inc.

Equities: Global equities rally led by Australia and Japan.

Bonds: Italy's yield curve flattened as ECB reiterated dovish stance on PEPP.

Currencies: Yen at fresh low this month on reports of extension of emergency.

Commodities: Continued upside in oil on US demand recovery.

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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®	4204.11	1.2%	11.9%	1.59	-3	68	90.056	0.0%	0.1%	
Canada	TSE 300	19852.18	1.7%	13.9%	1.50	-4	82	1.2076	0.1%	-5.1%	
UK	FTSE®	7022.61	0.1%	8.7%	0.80	-3	60	1.4188	0.3%	3.8%	
Germany	DAX	15519.98	0.5%	13.1%	-0.18	-5	39				
France	CAC-40	6484.11	1.5%	16.8%	0.17	-7	51	1.2192	0.1%	-0.2%	
Italy	FTSE® MIB	25169.39	0.8%	13.2%	0.91	-12	37				
Japan	Nikkei 225	29149.41	2.9%	6.2%	0.08	0	6	109.85	0.8%	6.4%	
Australia	ASX 200	7179.508	2.1%	9.0%	1.69	-4	72	0.7712	-0.3%	0.2%	

Commodity Markets							
Commodity	Unit	Source	Last Price	%Ch Week	%Ch YTD	%ChYr Ago	
Oil (Brent)	US \$/Barrel	Bloomberg	68.43		3.1%	33.7%	95.6%
Gold	US \$/troy oz	Bloomberg	1903.77		1.2%	0.3%	10.8%

Source: Bloomberg®

Week in Review (May 24–May 28)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, May 24 – No major data releases					
Tuesday, May 25					
US	FHFA Home Price Index (Mar, m/m)	1.0%	1.4%	1.1%(↑)	Yet another record high.
US	S&P CoreLogic 20-City Index (Mar, m/m)	1.3%	1.6%	1.2%	Highest since December 2013.
US	New Home Sales (Apr, thous)	950	863	917(↓)	High prices are a hurdle now.
US	Conf. Board Consumer Confidence (May)	118.8	117.2	117.5(↓)	Some weariness about outlook.
GE	GDP (Q1, final, q/q)	-1.7%(p)	-1.8%	0.5%	In rear view mirror now.
GE	IFO Business Climate (May)	98.0	99.2	96.6(↓)	Improving.
Wednesday, May 26					
FR	Business Confidence (May)	98	108	96(↑)	Highest since April 2018.
FR	Consumer Confidence (May)	97	97	95(↑)	Healthy.
Thursday, May 27					
US	Initial Jobless claims (May 22, thous)	425	406	444	Slowly receding.
US	Continuing claims (May 15, thous)	3680	3642	3738(↓)	Slowly receding.
US	GDP Annualized (Q1, saar)	6.5%	6.4%	4.3%	Stronger consumption.
US	Durable Goods Orders (Apr, prelim)	0.8%	-1.3%	1.3%(↑)	Core orders posted a solid gain.
US	Pending Home Sales (Apr, m/m)	0.4%	-4.4%	1.7%(↓)	Same story: low inventory, high prices...
US	Kansas City Fed Manuf Index (May)	30	26	31	
GE	GfK Consumer Confidence (Jun)	-5.2	-7	-8.6(↑)	Improving.
IT	Consumer Confidence Index (May)	104.0	110.6	102.3	Impressive!
IT	Manufacturing Confidence (May)	106.0	110.2	106(↑)	Very good.
AU	Private CAPEX (Q1, q/q)	2.0%	6.3%	4.2%(↑)	A full recovery from Covid shock.
Friday, May 28					
US	Personal Income (Apr, m/m)	-14.2%	-13.1%	20.9%(↓)	Big swing in government transfers.
US	Personal Spending (Apr, m/m)	0.5%	0.5%	4.7%(↑)	Up 28.5\$ y/y.
US	U of M Sentiment (May, final)	83.0(p)	82.9	88.3	Only minimal changes from preliminary release.
FR	GDP (Q1, final, q/q)	0.4%(p)	-0.1%	-1.5%	Disappointing downward revision.
FR	CPI (May, prelim, m/m)	1.4%	1.4%	1.2%	Turning higher.
FR	Consumer Spending (Apr, m/m)	-3.8%	-8.3%	-0.3%(↑)	Unpleasant surprise.
JN	Unemployment Rate (Apr)	2.7%	2.8%	2.6%	Renewed pains in the labor market.

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

Week Preview (May 31–June 4)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, May 31				
GE	CPI (May, prelim, y/y)	2.3%	2.0%	
JN	Industrial Production (Apr, prelim, m/m)	4.0%	1.7%	Slight improvement expected.
JN	Retail Sales (Apr, m/m)	-1.0%	1.2%	Scarring from latest wave.
JN	Consumer Confidence (May)	na	34.7	Scarring from latest wave.
AU	Private Sector Credit (Apr, m/m)	0.4%	0.4%	
Tuesday, June 1				
US	ISM Manufacturing (May)	60.9.	60.7	Peaking or more to go?
CA	GDP (Q1, q/q, saar)	6.8%	9.6%	To reflect some pull back from the recent Covid wave.
UK	Manufacturing PMI (May, final)	66.1(p)	60.9	
UK	Nationwide House PX (May, m/m)	1.0%	2.1%	
EC	Manufacturing PMI (May, final)	62.8(p)	62.9	
GE	Manufacturing PMI (May, final)	64.0(p)	66.2	
GE	Unemployment Rate (May)	6.0%	6.0%	
GE	Retail Sales (Apr, m/m)	-2.8%	7.7%	
FR	Manufacturing PMI (May, final)	59.2(p)	58.9	
IT	GDP (Q1, final, q/q)	-0.4%(p)	-1.8%	
IT	Manufacturing PMI (May)	62.2	60.7	
IT	Unemployment Rate (Apr, prelim)	10.0%	10.1%	
JN	Manufacturing PMI (May, final)	52.5(p)	53.6	
AU	RBA Monetary Policy Decision	0.10%	0.10%	Expect to be uneventful, key decisions to follow in July.
Wednesday, June 2				
US	Fed Beige Book Report			
CA	Building Permits (Apr, m/m)	-5.0%	5.7%	
UK	Mortgage Approvals (Apr, thous)	81.0	82.7	
AU	GDP (Q1, q/q)	1.1%	3.1%	Well into recovery.
Thursday, June 3				
US	Initial Jobless claims (May 29, thous)	395	406	
US	Continuing claims (May 22, thous)	3615	3642	
US	Total Vehicle Sales (May, mil.)	17.5	18.5	Pullback from unsustainable levels.
US	ISM Services (May)	63.0	62.7	Peaking or more to go?
US	Nonfarm Productivity (Q1, final, q/q)	5.4%(p)	-3.8%	
UK	Services PMI (May, final)	61.8(p)	61.0	
EC	Services PMI (May, final)	55.1(p)	50.5	
GE	Services PMI (May, final)	52.8(p)	49.9	
JN	Services PMI (May, final)	45.7(p)	49.5	
AU	Retail Sales (Apr, final, m/m)	1.1%(p)	1.3%	
Friday, June 4				
US	Change in Nonfarm Payrolls (May, thous)	663	266	Let's hope the labor market delivers.
US	Unemployment Rate (May)	5.9%	6.1%	
US	Factory Orders (Apr, m/m)	0.5%	1.1%	
CA	Unemployment Rate (May)	8.2%	8.1%	Recovery to progress.
CA	Ivey PMI (May)	na	60.6	
CA	Labor Productivity (Q1, q/q)	na	-2.0%	

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

Economic Indicators

Central Bank Policy Targets

Region	Target	Year/Year % Change in Target				
		Dec	Jan	Feb	Mar	Apr
US	Target: PCE price index 2.0% y/y	1.2	1.4	1.6	2.4	3.6
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	0.7	1.0	1.1	2.2	3.4
UK	Target: CPI 2.0% y/y	0.6	0.7	0.4	0.7	1.5
Eurozone	Target: CPI below but close to 2.0% y/y	-0.3	0.9	0.9	1.3	1.6
Japan	Target: CPI 2.0% y/y	-1.2	-0.6	-0.4	-0.2	-0.4
Australia	Target Range: CPI 2.0%-3.0% y/y	0.9	1.1	1.1	1.1	

Source: Macrobond

Key Interest Rates

	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
US (top of target range)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Canada (Overnight Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
UK (Bank Rate)	0.10	0.10	0.10	0.10	0.10	0.10	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	0.00
Japan (OCR)	-0.07	-0.02	-0.06	-0.06	-0.03	-0.03	-0.03	-0.01	-0.02	-0.04	-0.02
Australia (OCR)	0.25	0.25	0.25	0.25	0.25	0.11	0.10	0.10	0.10	0.10	0.10

Source: Macrobond

General Government Structural Balance as a % of Potential GDP

	2013	2014	2015	2016	2017	2018	2019	2020	Forecast	
									2021	2022
US	-3.0	-2.6	-2.6	-3.7	-4.3	-5.4	-6.1	-11.7	-12.9	-6.8
Canada	-1.5	-0.6	0.0	0.1	-0.3	0.0	0.3	-7.8	-6.7	-4.2
UK	-4.2	-4.9	-4.4	-3.3	-2.5	-2.3	-2.3	0.5	-5.0	-4.8
Eurozone	-1.1	-0.7	-0.6	-0.6	-0.5	-0.5	-0.5	-4.0	-4.6	-2.6
Germany	0.6	1.2	1.2	1.2	1.2	1.3	1.3	-2.6	-4.0	-0.3
France	-2.9	-2.7	-2.3	-2.1	-2.1	-1.8	-2.0	-3.6	-5.2	-4.0
Italy	-0.5	-1.0	-0.6	-1.3	-1.7	-1.9	-1.1	-5.1	-5.2	-4.1
Japan	-7.4	-5.7	-4.4	-4.3	-3.5	-2.7	-2.6	-11.3	-8.5	-3.6
Australia	-2.7	-2.7	-2.6	-2.3	-1.6	-1.2	-3.6	-9.1	-10.1	-6.9

Source: International Monetary Fund, World Economic Outlook

Headline Consumer and Producer Price Inflation

	CPI Year/Year % Change						PPI Year/Year % Change				
	Jan	Feb	Mar	Apr	May		Dec	Jan	Feb	Mar	Apr
US	1.4	1.7	2.6	4.2			0.8	1.7	2.8	4.2	6.2
Canada	1.0	1.1	2.2	3.4			2.0	4.2	7.1	10.0	
UK	0.7	0.4	0.7	1.5							
Eurozone	0.9	0.9	1.3	1.6			-1.1	0.4	1.5	4.3	
Germany	1.0	1.3	1.7	2.0			0.2	0.9	1.9	3.7	5.2
France	0.6	0.6	1.1	1.2	1.4		-1.1	0.2	1.7	4.1	6.4
Italy	0.4	0.6	0.8	1.1			-1.8	-0.3	0.7	2.7	6.5
Japan	-0.6	-0.4	-0.2	-0.4			-2.0	-1.5	-0.6	1.2	3.6
Australia	1.1	1.1	1.1				-0.1	0.2	0.2	0.2	

Source: Macrobond

Real GDP Growth (Q/Q Seasonally Adjusted)

	Quarter/Quarter % Change					Year/Year % Change				
	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21
US	-1.3	-9.0	7.5	1.1	1.6	0.3	-9.0	-2.8	-2.4	0.4
Canada	-1.9	-11.4	8.9	2.3		-0.3	-12.7	-5.3	-3.2	
UK	-2.8	-19.5	16.9	1.3	-1.5	-2.2	-21.4	-8.5	-7.3	-6.1
Eurozone	-3.8	-11.6	12.5	-0.7	-0.6	-3.3	-14.6	-4.1	-4.9	-1.8
Germany	-2.0	-9.7	8.7	0.5	-1.8	-2.2	-11.2	-3.8	-3.3	-3.1
France	-5.9	-13.2	18.5	-1.5	-0.1	-5.5	-18.4	-3.5	-4.6	1.2
Italy	-5.6	-12.9	15.8	-1.8	-0.4	-5.8	-18.1	-5.2	-6.6	-1.4
Japan	-0.5	-8.1	5.3	2.8	-1.3	-2.2	-10.2	-5.5	-1.0	-1.8
Australia	-0.3	-7.0	3.4	3.1		1.4	-6.3	-3.7	-1.1	

Source: Macrobond

Industrial Production Index (M/M Seasonally Adjusted)

	Month/Month % Change					Year/Year % Change				
	Dec	Jan	Feb	Mar	Apr	Dec	Jan	Feb	Mar	Apr
US	1.1	0.9	-3.5	2.4	0.7	-3.4	-2.1	-5.7	1.0	16.5
Canada	1.2	1.8	-1.6			-3.1	-1.5	-3.7		
UK	0.0	-1.9	1.1	1.7		-2.3	-4.4	-3.5	3.6	
Germany	2.1	-2.2	-1.9	2.5		1.1	-3.9	-6.7	4.9	
France	-0.6	3.3	-4.8	0.8		-3.1	0.0	-6.6	13.7	
Italy	0.1	1.2	0.1	-0.1		-1.2	-2.5	-1.1	37.4	
Japan	-0.2	3.1	-1.3	1.7		-4.0	-2.2	-3.1	1.0	

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)

	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
US	11.1	10.2	8.4	7.8	6.9	6.7	6.7	6.3	6.2	6.0	6.1
Canada	12.5	10.9	10.2	9.2	9.0	8.6	8.8	9.4	8.2	7.5	8.1
UK	4.3	4.5	4.8	4.9	5.0	5.1	5.0	4.9	4.8		
Eurozone	8.0	8.5	8.7	8.7	8.5	8.3	8.2	8.2	8.2	8.1	
Germany	6.4	6.4	6.3	6.3	6.2	6.1	6.1	6.0	6.0	6.0	6.0
France	7.3	8.8	9.3	9.3	8.5	8.1	7.8	7.9	8.0	7.9	
Italy	9.3	9.9	9.9	9.9	10.0	9.6	9.8	10.3	10.2	10.1	
Japan	2.8	2.9	3.0	3.0	3.1	3.0	3.0	2.9	2.9	2.6	2.8
Australia	7.4	7.4	6.8	6.9	6.9	6.8	6.6	6.4	5.9	5.7	5.5

Source: Macrobond

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

	Q3-18	Q4-18	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21
US	-2.4	-2.5	-2.4	-2.4	-2.3	-1.9	-2.1	-3.3	-3.4	-3.5	
Canada	-1.6	-2.8	-3.0	-1.7	-2.0	-1.6	-2.9	-1.7	-1.9	-1.3	
UK	-3.3	-4.7	-6.3	-3.2	-3.2	0.3	-3.5	-3.0	-2.6	-4.8	
Eurozone	3.0	2.4	3.4	1.5	2.8	2.5	2.0	1.2	2.5	3.4	3.0
Germany	7.4	7.1	8.0	7.4	7.8	7.4	6.9	5.1	7.4	7.7	8.0
France	-0.3	-0.6	-0.2	-0.4	-1.1	-0.8	-1.5	-4.1	-1.8	-0.4	-1.2
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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