STATE STREET GLOBAL ADVISORS

June 5, 2020
Commentary

Weekly Economic Perspectives

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Spotlight on Next Week
Do not expect new action from the Fed, but we'll get new forecasts. US consumer and business sentiment should improve a little.

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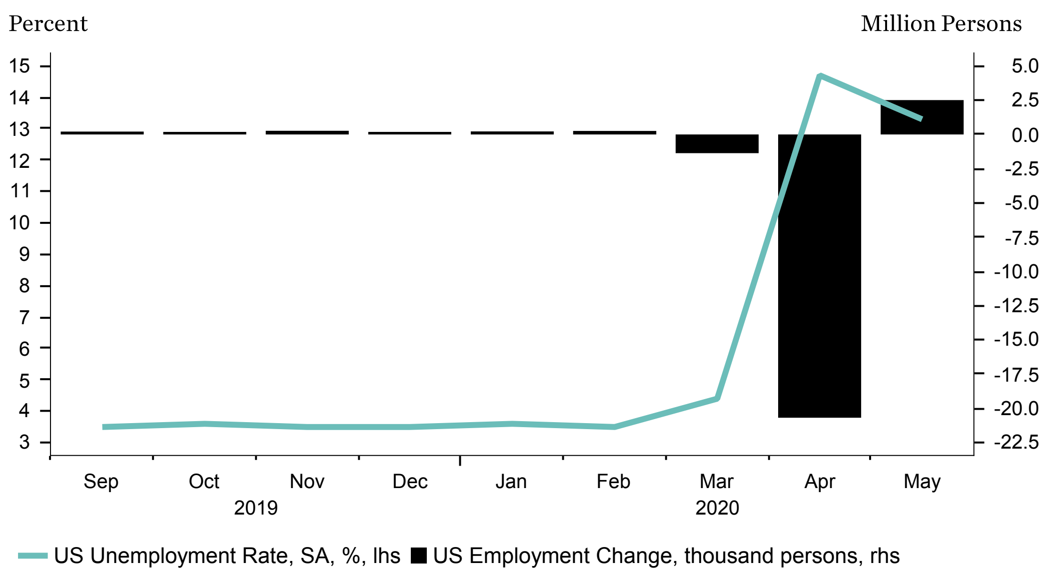
The Economy

A week dominated by positive US data surprises, ECB stimulus and OPEC cut pledges that fuel global risk-on sentiment.

US

The last couple of weeks have brought several major positive US data surprises that augment our confidence in the more constructive macro narrative we've embraced since the start of this crisis compared to consensus. We started with the April new home sales (623k actual vs 480k consensus), April personal income (+10.5% actual vs -5.9% consensus, causing personal savings rate to surge to 33%) and then the 42% increase in May light vehicle sales (see commentary below). But none of these compared in magnitude with the unprecedented upside surprise in the May employment report. Payrolls increased by 2.5 million during the month, crushing expectations for a 7.5 million decline. This is a 10 million delta that cannot be simply waved away as measurement error (even though there is some of that) but must instead be accepted as proof that the labor market healing has already begun. The result is actually not that inconsistent with other signals as many might think, although we admit that even we were taken by surprise by just how strong this update was. Payrolls data show 19.6 million jobs lost since February, which is not that far off from where continuing unemployment claims stood during the weeks ending May 15 (20.9 million) and May 22 (21.5 million). We have been stressing for some time now that continuing claims are the better signal of current labor market conditions and certainly a better predictor for payrolls. This is because initial claims are a "flow" concept whereas both continuing claims and payrolls are "stock" type concepts. In any case, while May's report was better than we anticipated, we do believe that the deterioration phase in the US labor market is over and the next phase—already afoot—is one of healing. Improved terms for the PPP program should aid this process in coming months.

Figure 1: A Huge Upside Surprise In US Payrolls But Long Way To Go



Sources: Macrobond, U.S. Bureau of Labor Statistics (BLS)

Now back to the data details. The establishment report had private payrolls up by 3.1 million, with government down 585,000. There was a very large 642,000 downward revision to the prior two months, partly driven by some methodology changes. But this wasn't big enough to alter the overall message from the May update. Goods producing sectors added 669,999, of which 464,000 were in construction. The rebound in construction jobs retraces nearly half the prior month's decline and aligns with our long-held view that the construction sector is among the best positioned to operate with fewer limitations in a social-distancing world. Of course, the resilience in housing demand (as evidenced by the mortgage applications purchase index now up almost 15% y/y) goes a long way in supporting builder confidence. Manufacturing added 225,000 jobs, which is small compared with over 1.3 million lost in April. But this makes sense since we know that many auto makers did not restart operations until the third week of May and even then at low operating levels. Service producing industries added 2.4 million jobs. This is nowhere near recouping the 17.4 million jobs lost in April, but it's a start. Proportionally, education and health made the most inroads toward recovery (which makes sense), followed by leisure and hospitality (likely a combination of re-opening and PPP assistance), with trade/transportation and business services lagging.

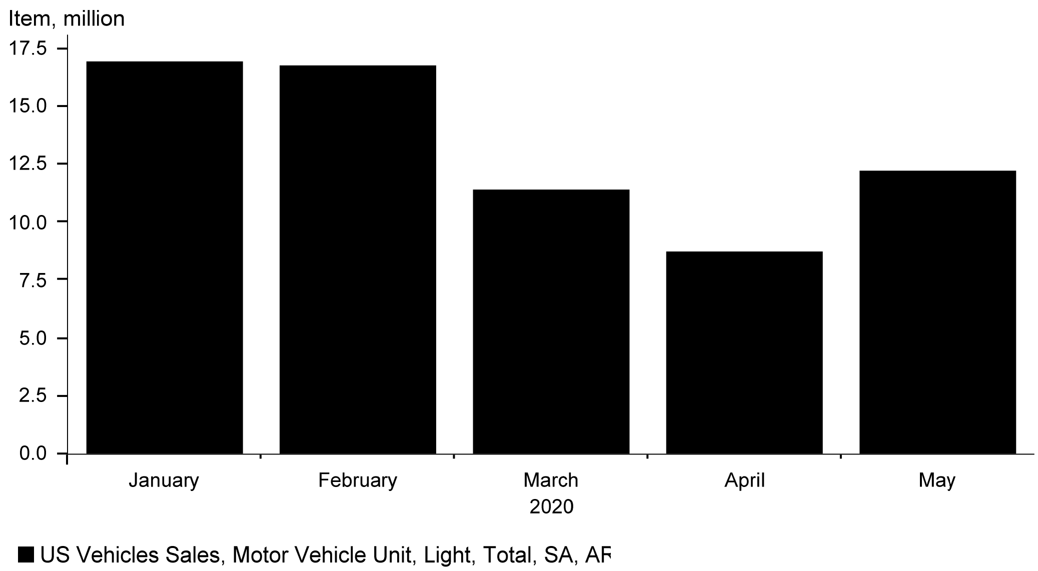
According to the household survey, employment increased by an even larger 3.8 million, which was large enough to allow the **unemployment rate** to decline from 14.7% to 13.3%. It is true that the same measurement challenges that plagued the April survey were again encountered in May as some people who should have been classified as unemployed on furlough were classified as employed but away from their jobs. With the correct classification, the BLS estimates that the unemployment rate would have been 3.0 percentage points higher. But here is an interesting comparison to consider: in April, the BLS told us that with the same correct classification, the unemployment rate would have been not 14.7% but 19.6%. So comparing apples to apples, the improvement from 19.6% to 16.3% would have actually been more meaningful that the one using the "imperfect" statistics. Another way to say it is that we measured everything correctly, the deterioration in April was worse and the May improvement even better than what the official figures show. These measurement issues should fade in importance as people are recalled to work.

The **hours data** remains somewhat perplexing. Having plunged by over two hours in April, the manufacturing workweek increased by 48 minutes in May, helping the overall workweek increase by 30 minutes. What is odd is that, despite the shutdown, the overall workweek had actually risen in April as well so it now stands at the highest level (34.7 hours) since at least 2006. Presumably, those still employed are working longer hours to compensate for those not working, but this still seems a little hard to understand. The combination of a longer workweek and higher employment raised the overall hours index (a measure of work effort) by 4.3% in May. In any case, the big decline in employment resulted in an extraordinary 14.9% decline in overall hours worked (a measure of work effort).

Compositional changes to the employed population continue to distort the **wage data**. Admittedly, after a 4.7% surge in April, average hourly earnings retreated 1.0% in May. However, this still left them 6.7% higher than a year earlier, which massively overstates underlying wage inflation.

Motor vehicle sales have now surprised to the upside for two consecutive months. They jumped 42.3% in May, although the low base kept them at only 12.2 million (annualized) and thus 29.4% lower than a year ago. Still, it seems pretty remarkable that May sales were marginally better than March sales, given the labor market deterioration that had occurred during the interim period. It suggests that consumers reigned in big ticket purchases in the early phases of the Covid-19 crisis but may be starting to act on pent-up demand now that the economy is reopening. Cumulative January-May sales are down 21.8% y/y. Industry sources now note low inventories as a constraint to June sales since car manufacturing activity had been essentially shut down for two months. The upside is that manufacturers should be incentivized to make up the lost production to the extent possible, which should lift manufacturing output in coming months.

Figure 2: US Motor Vehicle Sales Rebounded in May



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

The **manufacturing** and non-manufacturing **ISM** indexes improved a little in May, but not much. Part of this reflects the timing of the survey—which is roughly through mid-month—when large parts of the economy were still in the process of re-opening. We would venture to guess that the June surveys will show a much stronger uptick…but that's a month away. For now, here is what the May surveys told us. The manufacturing index improved 1.6 points to 43.1, with production, new orders, and employment up by 5.7, 4.7, and 4.6 points, respectively, but only to the low 30s. Notably while the index level means manufacturing activity contracted in May, it is consistent with expansion in the broader economy, which had been interrupted in April. The associated comments were insightful and had a more positive tone than in April, although cautious comments were still twice as prevalent as the positive ones. One respondent in the computer and electronic industry noted that they were seeing more quote requests, which was seen as positive even though they haven't yet turned into orders. Supply chains continued to be mentioned, not only in respect to virusrelated disruptions but also in terms of re-thinking the entire structure. One machinery producer noted they were “getting out from under several suppliers being closed worldwide. Also, looking at what really needs to be in China.” We believe that Covid-19 will have a more powerful impact on supply chain relocation than the trade war.

The **non-manufacturing ISM index** showed a larger improvement as it rose 3.6 points to 45.4. In contrast to last month, the details were stronger, as the business activity metric (the old headline) rose 15.0 points to 41.0 and new orders gained 9.0 to 41.9. Employment was little changed. Supplier deliveries unwound two thirds of their big April increase in April and were thus a drag on the overall index, but this is positive insofar as it suggests fewer lockdown-related bottlenecks.

Factory orders declined 13.0% in April, which is an awful performance but, surprisingly, not much worse than March (-11.0%). We already knew that durable goods orders were a major drag and it turns out their 17.7% decline was a bit worse than initially reported. Transportation was a big area of weakness: excluding transportation, factory orders declined “just” 8.5%. Non-defense aircraft and parts recorded a second consecutive month of net cancellations, although the value of those cancellations halved compared to March. Core orders (non-defense capital goods excluding aircraft)—a leading indicator for business equipment investment (BEI) in the GDP accounts—declined 6.1%. Overall shipments declined 13.5%, with core shipments down 5.7%. Overall inventories declined 0.4% while core inventories rose 0.5%. Backlogs declined 1.6% and the inventory -to-shipments ratio increased to 1.69 months, marking a record high in data going back to 1992.

Whatever improvement there has been so far in the labor market has had a very “fits and starts” nature so we’d like to see more consistency here. Nevertheless, the direction of travel is the right one so it probably just a matter of timing until that consistency is achieved. Initial **unemployment claims** declined by 249,000 to 1.877 million in the week ending May 29. This is still extremely high historically, but in the recent context it marks the lowest level since the second week in March. Continuing claims disappointingly rose by 649,000 to 21.487 million during the week ended May 22. California accounted for the bulk of that increase; the state has exhibited an odd up-down weekly pattern that is a bit hard to explain. But if it holds, it would suggest a big decline in the next update.

It turns out that the Q1 decline in **labor productivity** was considerably more modest than initially reported, mostly because employee hours fell more than we previously thought. Indeed, output plunged 6.5% but hours also declined a sharp 5.7% (both annualized). Compensation per hour grew a sharp 4.2%, which caused unit labor costs—a measure of inflationary pressures emanating from the labor market—to jump 5.1% (annualized). Partly offsetting this was a 4.2% decline in unit non-labor costs. Productivity rose 0.7% y/y, the least since 2016.

Canada

Our initial assessment that the pandemic is a three-month peak event seems close to being realized, as some central banks appear content with the current state of affairs and have started to gradually step down asset purchases. The **Bank of Canada** was the latest in doing so, reducing the frequency of its term repo operations to once per week, and purchase of bankers’ acceptances to bi-weekly operations. The overnight rate was maintained at 0.25% and the accompanying statement noted that “incoming data confirm the severe impact of the COVID-19 pandemic on the global economy. This impact appears to have peaked, although uncertainty about how the recovery will unfold remains high.”

Massive monetary and fiscal stimuli across the globe have helped cushion the blow, but the “global recovery likely will be protracted and uneven.” On the domestic front, the Bank noted that “the Canadian economy appears to have avoided the most severe scenario presented in the Bank’s April Monetary Policy Report (MPR).” GDP in the second quarter is expected to decline by 10-20%, before marking a recovery third quarter onwards. Despite ultra-accommodative monetary policy, inflation fails to be a concern, with “temporary factors (expected) to keep CPI inflation below the target band in the near term.” Given that the recovery in 2021 is not expected to fully recoup the activity lost in 2020, the negative output gap will keep inflation contained.

We concur with the BoC that the situation is well contained for now, and expect the policy rate remain unchanged through 2021.

The May **labor report** reflects data for the week of May 10 to May 16, when restrictions on mobility had already started to ease across provinces. The number of people employed increased 290,000 (+1.8% m/m) from April, though it is but a drop in the ocean compared to the 3.0 million workers who lost their jobs from February to April. Job growth was stronger in the goods-producing sector (+165,000) than in the services-producing sector (+125,000). The number of people who worked usual hours also declined by 292,000 (-8.6%). This represents a recovery of 10.6% of employment losses and absences recorded in the previous two months! A majority of the employment gains constituted of full time work, but number of part-time workers is still down by 27.6% compared to May. A point to note here is that around 80% of job gains were from Quebec, which was one of the first provinces to lift restrictions. Workers also took advantage of easing restrictions by frequenting workplaces, with 8.0 million working at least half of their usual hours outside of home, up from 7.2 million in April. Despite the gain in employment, the unemployment rate shot up 0.7 percentage points to 13.7%, the highest on record, but still better than consensus. More people returned to the labor force, 491,000 (+2.6%) to be precise, which pushed up the participation rate to 61.4% from 59.8% in April, though well below the February reading of 65.5%. We expect the unemployment rate to stay around current level for a few months as people on temporary layoff re-enter the labor market. Another reason is that a high proportion of workers (34.8%) still remain underutilized, though down slightly from 36.6% in April.

Labor productivity saw a record increase in the first quarter, by 3.4% q/q. Hours worked actually fell 5.8%, surpassing the 2.9% decline recorded during the GFC. This offset a 2.6% drop in output, thus leading to the rise in productivity. Employment also fell by 4.5% and hours worked per job were down 1.4%.

UK

The Covid-19 crisis and associated lockdowns were imposed later in the UK than in continental Europe, but the pattern of relative improvement in the May **manufacturing and services PMIs** holds here as well. The manufacturing PMI gained 8.0 points, although only to 40.7. New orders improved 14.9 to 35.2 and output improved 18.7 to 35.0. The services index rose 14.7 points (but only to 29.0) as new orders improved 14.7 (to 29.6) and employment was up 6.1 (to 32.2). We won't be able to speak about genuine improvement until we see the indexes cross back above 50. Whether that will happen in the next survey it remains to be seen, but by the one after that it should, indeed, happen.

Nationwide lockdowns caused UK housing activity to not just slow, but altogether stall in April. The number of approved **mortgages** plunged 72% and net new lending secured by dwellings collapsed 94%. May is unlikely to look much better given ongoing restrictions on activity. Unsurprisingly, prices declined sharply—this seems to be the required condition for clearing whatever meager activity is currently taking place. The **Nationwide** house price index plunged 1.7% in May, reducing the annual gain from 3.7% y/y to 1.9% y/y.

Consumer sentiment deteriorated incrementally in May, but given the levels at which it is sitting and given the dramatic move the month before, this additional decline almost doesn't register. Following a 25-point plunge in April, the **GfK consumer confidence index** lost another 2 points to -36 in May, marking the worst print since January 2009. Buying intentions remain at incredibly depressed levels, but at least they improved 5 points compared with April. Let's hope that as the economy reopens and economic activity resumes, consumer confidence gets rebuilt.

Eurozone

What the **ECB** did this week could be summarized in three words: more, faster, and longer. Asset purchases under the pandemic emergency purchase program (PEPP) will increase by €600 billion, nearly doubling the program size to €1,350 billion. We can't help but wonder whether this is ECB's way of getting around any charges that its purchases may not proportional to the capital key by creating so much room for maneuver that, in practice, its purchase options will not be constrained. If so, it is very clever move. It is a smart move in any case as it bolsters confidence in regional cohesion and the sustainability of the currency union. It is not surprising that the euro has surged recently—the eurozone is now displaying a noticeably higher degree of fiscal/monetary policy coordination and this speaks positively to the region's economic prospects. The horizon for these purchases has been extended to "at least June 2021"; principal repayments will be reinvested until at least end-2022. And the ECB has made it clear that it intends to front-load its purchases for maximum impact. At this point in time, interest rates are a secondary consideration and they were all left unchanged, where they are likely to remain for an extended period.

The message from the final May ***eurozone*** purchasing managers indexes (PMIs) was encouraging but far from indicating genuine strength. Indeed, activity in both the manufacturing and services sectors continued to contract during the month, though at a much slower pace than in April. The regional **manufacturing PMI** index rose 6.0 points, but only to 39.4. Output jumped 17.5 points, but only to 35.6 and new orders improved 10.6, but only to 29.4. Employment was little changed. Somewhat surprisingly, the German index didn't move much—up 2.1 to 36.6; the French index gained 9.1 to 40.6. The Spanish index rose 7.5 points and the Italian index rose nearly twice that to 38.3 and 45.4, respectively. We want to see all these numbers move back up above 50 before we can talk about genuine recovery.

The same is true for the **services PMIs**. Admittedly, the improvement was more pronounced—over 18 points in both the regional and country indexes—but since occurred from lower initial levels, the service indexes still settled just around 30. A long way still until outright expansion, though it is possible that we might get there as early as June. For now, the eurozone index stands at 30.5, the German index at 32.6, the French index at 31.1, the Italian at 28.9, and the Spanish one at 27.9. .

The ***German* labor market** is deteriorating, though government programs subsidizing employment are surely minimizing the hit. Unemployment increased by another 238,000 in May following April's 372,000 jump. The unemployment rate rose half a percentage point to 6.3%. Vacancies collapsed by another 43,000, bringing the two-month loss to 110,000 and indicating broad, deep declines in labor demand. The seasonally unadjusted rate (which garners more attention domestically) increased three tenths, also to 6.1%.

The behavior of ***Italy*'s labor market** has been starkly different from what we've observed most everywhere else. Essentially, the unemployment rate has now declined by a cumulative 3.1 percentage points since January to a thirteen year low of 6.3%. But don't get too excited as this is simply due to a massive drop in the labor force. Typically in an economic slowdown people move from employment into unemployment but in Italy's case people seem to have gone straight from employment to out of the labor force altogether. Indeed, employment declined by 274,000 but, strangely, the number of unemployed plunged by 484,000, causing the labor force to shrink by over three quarters of a million people. We suspect this reflects inability to file electronically and believe the unemployed is poised to move up sharply from May onward.

Italy was first country in the eurozone impacted by Covid-19 and it seems that the most acute deterioration in economic activity occurred in March, with April data still deteriorating but not as severely. That was true not just in the PMI data but also for **retail sales**, whose decline halved to 10.5% in April. The extraordinary divergence between food and non-food sales continues as food sales increased 0.6% while non-food sales experienced another deep (-24.0%) contraction. Make no mistake: this is still an utterly disastrous print, but it is nonetheless encouraging to see the pace of declines sharply moderate. We hope May brings about an outright expansion. One interesting details and perhaps a silver lining in this entire experience is that online retail sales have surged during this crisis. To the extent that Italian businesses have lagged those in other developed economies in leveraging online selling platforms, there may be a degree of forced technology adoption undertaken during this crisis that has long-lasting benefits in terms of future efficiency and resilience. Indeed, whereas overall retail sales fell 26.3% y/y in April, online sales jumped 27.1%.

Japan

The **index of leading economic indicators** continued to worsen. The index for April declined 8.9 points to a new post GFC low of 76.2. The coincident index also fell 7.3 points to 81.5, while the lagging index edged down 2.7 points to 98.1. Hopefully this is the bottom, and sentiment should improve gradually with the reopening of the economy in May.

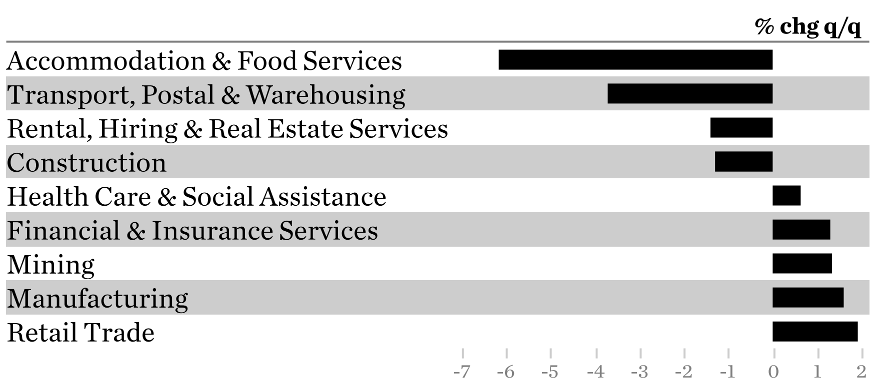
Australia

The **Reserve Bank of Australia** sounded pretty upbeat in the monetary policy announcement this week. Views on financial markets appeared to be more positive, “globally, conditions in financial markets have continued to improve, although conditions in some markets remain fragile. Volatility has declined and credit markets have progressively opened to more firms.” The worst is probably over for the economy, and more importantly, “it is possible that the depth of the downturn will be less than earlier expected. The rate of new infections has declined significantly and some restrictions have been eased earlier than was previously thought likely. And there are signs that hours worked stabilized in early May, after the earlier very sharp decline. There has also been a pick-up in some forms of consumer spending.”

This has reflected in RBA’s decisions to scale down asset purchases, “the government bond markets are operating effectively and the yield on 3-year Australian Government Securities (AGS) is at the target of around 25 basis points. Given these developments, the Bank has purchased government bonds on only one occasion since the previous Board meeting.” However, the future is uncertain and policy support remains critical. “The substantial, coordinated and unprecedented easing of fiscal and monetary policy in Australia is helping the economy through this difficult period. It is likely that this fiscal and monetary support will be required for some time.”

Australia’s **GDP** contracted by 0.3% q/q in the first quarter, slightly better than anticipated. Considering the impact of bushfires, supply chain disruptions and hit to tourism from China (the largest source of inbound tourists), it does not look too bad. But the Q1 print holds little signaling value for Q2. Domestic demand was very weak, falling by 0.5% q/q, dampened by a 1.1% fall in household consumption. Business investment was lower by 0.8%—led by falling housing construction (-1.7%, seventh consecutive fall) as well as non-housing construction (-2.3%). Public sector spending rose 1.4%, adding 0.3 percentage points (ppts) to GDP growth. Net exports added 0.5 ppts, as the fall in imports (-6.2%) far outweighed that in exports (-3.5%). The hit to the economy in the second quarter seems to be little less than earlier expected, with the RBA’s baseline scenario being that of a 10% fall in output in the first half of 2020, and around -5% for the year as a whole.

Figure 3. Discretionary Sectors Drove Aussie GDP Decline



Source: Australian Bureau of Statistics

The **retail sales** data has had a history of relatively benign movements. For example, sales have fallen by more than 2.4% just twice—first in July 2000 (−10.6% m/m due to the introduction of GST), and then in April 2020 due to COVID-19 lockdowns (−17.7% m/m). Strong gains in sales of food, and 'other' goods from March were overturned, mainly because there had been a rush to stockpile on groceries before restrictions kicked in. Food retailing dropped 17.4%, following a 24.1% gain March. Social discretionary spending fared the worst, with apparel sales down 53.6%, and restaurants down by 35.4%, worse than previous month. Sales at department stores also declined by 14.9% due to lower footfalls. On a positive note, we expect this is the worst for sales, and spending will increase May onwards, especially on grocery and household goods as people tend to stay indoors more. Discretionary spending will continue to be weak, albeit little better, depressing overall sales.

The Market This Week

Global equity markets continued their impressive ascent this week and bond yields rose amid improving risk sentiment. Another facet of that sentiment shift has been the retreat in gold and USD as safe-haven demand eased.

Figure 4: The Dollar Stumbles

Sources: Macrobond, Bloomberg

Equities: Off the charts, broad equity gains.

Bonds: Bond yields surge on improving macro views.

Currencies: The dollar moves sharply lower while euro and Aussie jump.

Commodities: Oil surges and gold retreats as safe-haven appeal fades.

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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®	3193.93	4.9%	-1.1%	0.90	24	-102	96.953	-1.4%	0.6%
Canada	TSE 300	15854.07	4.4%	-7.1%	0.73	19	-97	1.3431	-2.5%	3.4%
UK	FTSE®	6484.3	6.7%	-14.0%	0.35	17	-47	1.267	2.6%	-4.4%
Germany	DAX	12847.68	10.9%	-3.0%	-0.28	17	-9			
France	CAC-40	5197.79	10.7%	-13.1%	0.02	10	-10	1.1287	1.7%	0.7%
Italy	FTSE® MIB	20187.51	10.9%	-14.1%	1.41	-6	0			
Japan	Nikkei 225	22863.73	4.5%	-3.4%	0.05	5	6	109.62	1.7%	0.9%
Australia	ASX 200	5998.715	4.2%	-10.3%	1.09	21	-28	0.6966	4.5%	-0.8%

Commodity Markets						
Commodity	Unit	Source	Last Price	%Ch Week	%Ch YTD	%Ch Yr Ago
Oil (Brent)	US $/Barrel	Bloomberg	41.12	12.3%	-38.1%	-33.1%
Gold	US $/troy oz	Bloomberg	1684.24	-2.7%	11.0%	26.6%

Source: Bloomberg®

Week in Review (June 1–June 5)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, June 1					
US	ISM Manufacturing (May)	43.8	43.1	41.5	Survey timing likely limited the improvement.
UK	Manufacturing PMI (May, final)	40.6(p)	40.7	32.6	Long way to genuine growth.
EC	Manufacturing PMI (May, final)	39.5(p)	39.4	33.4	Long way to genuine growth.
GE	Manufacturing PMI (May, final)	36.8(p)	36.6	34.5	Long way to genuine growth.
FR	Manufacturing PMI (May, final)	40.3(p)	40.6	31.5	Long way to genuine growth.
IT	Manufacturing PMI (May)	36.8	45.4	31.1	Long way to genuine growth.
JN	Manufacturing PMI (May, final)	38.4(p)	38.4	41.9	Confirms the worst, lowest since March 2009.
Tuesday, June 2					
US	Motor Vehicle Sales (mil, saar)	11.1	12.2	8.6	Big rebound ; positive for May retail sales.
UK	Mortgage Approvals (Apr, thous)	24.0	15.8	56.1(↓)	Lockdown impairs activity.
UK	Nationwide House Prices (May, m/m)	-1.0%	-1.7%	0.9%	Lower prices needed to clear the market.
AU	RBA Monetary Policy Decision	0.25%	0.25%	0.25%	Confident enough to reduce asset purchases.
Wednesday, June 3					
US	ISM Non-Manufacturing (May)	44.0	45.4	41.8	Details were better.
US	Factory Orders (Apr, m/m)	-13.4%	-13.0%	-11.0%(↓)	Ex-transportation decline was more modest.
US	Durable Goods Orders (Apr, final, m/m)	-17.2%(p)	-17.7%	-16.6%	Core orders down 6.1%.
CA	BoC Monetary Policy Decision	0.25%	0.25%	0.25%	Scales back on operations.
CA	Labor Productivity (Q1, q/q)	2.0%	3.4%	-0.1%	Hours worked see record fall.
UK	Services PMI (May, final)	27.8(p)	29.0	13.4	Still dismal.
EC	Services PMI (May, final)	28.7(p)	30.5	12.0	Still dismal.
GE	Services PMI (May, final)	31.4(p)	32.6	16.2	Still dismal.
GE	Unemployment Rate (May)	6.1%	6.3%	5.8%	Is this the peak?
IT	Unemployment Rate (Apr, prelim)	na	6.3%	8.4%	Only because of labor force contraction.
JN	Services PMI (May, final)	25.3(p)	26.5	21.5	Employment sees sharpest fall since Feb '10.
AU	GDP (Q1, q/q)	-0.4%	-0.3%	0.5%	Decline close to baseline scenario.
Thursday, June 4					
US	Initial Jobless claims (May 30, thous)	1800	1877	2126(↑r)	Slow improvement.
US	Continuing Claims (May 23, thous)	20000	21487	20838(↓)	Follows big decline the prior week.
US	Nonfarm Productivity (Q1, final, q/q)	-2.5%	-0.9%	-2.5%	Both output and hours worked down sharply.
EC	ECB Monetary Policy Decision	0.00%	0.00%	0.00%	Significantly more QE.
AU	Retail Sales (Apr, m/m)	-17.9%	-17.7%	8.5%	Discretionary spending almost halved in April.
Friday, June 5					
US	Nonfarm Payrolls (May, thous)	-7500	2500	-20537	Probably the biggest upside surprise in history.
US	Unemployment Rate (May)	19.5%	13.3%	14.7%	Improvement, but long way to go.
CA	Unemployment Rate (May)	15.0%	13.7%	13.0%	Bounce back reflects easing restrictions.
CA	Ivey PMI (May)	na	39.1	22.8	Marked improvement across the board.
UK	GfK Consumer Confidence (May, final)	-34(p)	-36	-34	Buying intentions improved a touch.
GE	Factory Orders (Apr, m/m)	-15.0%	-25.8%	-15.0%(↑r)	Dismal but should pick up meaningfully.
IT	Retail Sales (Apr, m/m)	-20.0%	-10.5%	-21.3% (↓)	May data should be much better.
JN	Leading Index (Apr, prelim)	76.3	76.2	84.7	Post GFC lows.

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

Week Preview (June 8–June 12)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, June 8				
CA	Housing Starts (May, thous)	na	171.3	The worst is over.
GE	Industrial Production (Apr, m/m)	-15.5%	-9.2%	
JN	GDP (Q1, final, q/q)	-0.9%(p)	-1.9%	Calm before the storm.
Tuesday, June 9				
US	NFIB Small Business Optimism (May)	91.5	90.9	Might be a bit better.
US	JOLTS Job Openings (Apr, thous)	na	6191	Does not hold much meaning right now.
EC	GDP (Q1, final, q/q)	-3.8%(p)	0.1%	
GE	Labor Costs (Q1, q/q)	na	3.0%	
JN	Labor Cash Earnings (Apr, y/y)	-1.0%	0.1%	Workers on leave forced to take pay cuts.
AU	NAB Business Confidence (May)	na	-46	
Wednesday, June 10				
US	FOMC Monetary Policy Decision	0.25%	0.25%	No new actions, but new forecasts.
US	CPI (May, y/y)	0.3%	0.3%	
US	Monthly Budget Statement (May, $ bil.)	-600.0	-737.9	
FR	Industrial Production (Apr, m/m)	na	-16.2%	
JN	Core Machine Orders (Apr, m/m)	-7.5%	-0.4%	Watch closely to track revival of domestic and foreign demand.
Thursday, June 11				
US	Initial Jobless claims (Jun 6, thous)	1550	1877	
US	Continuing Claims (May 30, thous)	20600	21487	Could be better.
FR	Bank of France Ind. Sentiment (May)	na	48	
IT	Industrial Production (Apr, m/m)	na	-28.4%	
Friday, June 12				
US	U of Mich Sentiment (Jun, prelim)	76.0	72.3	Important for this to turn higher.
US	Import Price Index (May, y/y)	-6.5%	-6.8%	
CA	Capacity Utilization (Q1)	na	81.2%	
UK	Industrial Production (Apr, m/m)	-13.9%	-4.2%	
EC	Industrial Production (Apr, m/m)	-20.0%	--11.3%	
FR	CPI (May, final, y/y)	0.2%(p)	0.3%	
JN	Industrial Production (Apr, final, m/m)	-9.1%(p)	-3.7%	Supply disruptions.

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	1.6	1.8	1.8	1.3	0.5
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	2.2	2.4	2.2	0.9	-0.2
UK	Target: CPI 2.0% y/y	1.3	1.8	1.7	1.5	0.8
Eurozone	Target: CPI below but close to 2.0% y/y	1.3	1.4	1.2	0.7	0.3
Japan	Target: CPI 2.0% y/y	0.8	0.7	0.4	0.4	0.1
Australia	Target Range: CPI 2.0%-3.0% y/y	1.8	2.2	2.2	2.2	

Source: Macrobond

Key Interest Rates

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	#####	Apr-20	######
US (top of target range)	2.50	2.25	2.00	1.75	1.75	1.75	1.75	1.75	0.25	0.25	0.25
Canada (Overnight Rate)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	0.25	0.25	0.25
UK (Bank Rate)	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	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	-0.06	-0.06	-0.03	-0.03	-0.07	-0.04	-0.03	-0.07	-0.06	-0.07
Australia (OCR)	1.02	1.00	1.00	0.76	0.75	0.75	0.75	0.75	0.43	0.25	0.25

Source: Macrobond

General Government Structural Balance as a % of Potential GDP

	2011	2012	2013	2014	2015	2016	2017	2018	Forecast 2019	Forecast 2020
US	-8.2	-6.4	-4.5	-3.8	-3.6	-4.4	-4.8	-6.0	-6.3	-6.3
Canada	-3.1	-2.1	-1.1	0.1	0.8	0.7	0.0	-0.2	-0.5	-0.8
UK	-5.9	-6.0	-4.0	-4.7	-4.1	-2.9	-2.0	-1.5	-1.3	-1.4
Eurozone	-3.9	-2.1	-1.2	-0.9	-0.8	-0.7	-0.7	-0.6	-0.7	-0.9
Germany	-1.4	0.0	0.6	1.2	1.2	1.3	1.1	1.4	0.9	1.0
France	-5.0	-4.4	-3.4	-3.3	-3.0	-2.8	-2.6	-2.5	-2.4	-2.5
Italy	-4.1	-1.5	-0.6	-1.1	-0.7	-1.4	-1.7	-1.8	-1.5	-2.1
Japan	-8.0	-7.6	-7.5	-5.5	-4.3	-4.1	-3.4	-3.1	-2.9	-2.1
Australia	-4.3	-3.3	-2.6	-2.6	-2.4	-2.2	-1.5	-0.6	-0.4	-0.4

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	2.5	2.3	1.5	0.3			1.4	2.1	1.3	0.7	-1.2
Canada	2.4	2.2	0.9	-0.2			0.6	0.6	-0.4	-3.0	-6.0
UK	1.8	1.7	1.5	0.8			0.8	1.0	0.5	0.3	-0.7
Eurozone	1.4	1.2	0.7	0.3			-0.6	-0.6	-1.3	-2.8	-4.5
Germany	1.7	1.7	1.4	0.9	0.6		-0.2	0.2	-0.1	-0.8	-1.9
France	1.5	1.4	0.7	0.3	0.2		0.7	0.2	-0.6	-2.0	-3.9
Italy	0.5	0.3	0.1	0.0	-0.1		-2.1	-2.3	-2.7	-3.7	-5.1
Japan	0.7	0.4	0.4	0.1			0.9	1.5	0.8	-0.4	-2.3
Australia	2.2	2.2	2.2				1.4				

Source: Macrobond

Real GDP Growth (Q/Q Seasonally Adjusted)

	Quarter/Quarter % Change						Year/Year % Change				
	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20
US	0.8	0.5	0.5	0.5	-1.3		2.7	2.3	2.1	2.3	0.3
Canada	0.3	0.8	0.3	0.1	-2.1		1.5	2.0	1.6	1.5	-0.9
UK	0.7	-0.2	0.5	0.0	-2.0		2.0	1.3	1.3	1.1	-1.6
Eurozone	0.5	0.1	0.3	0.1	-3.8		1.4	1.2	1.3	1.0	-3.2
Germany	0.5	-0.2	0.3	-0.1	-2.2		1.0	0.3	0.7	0.4	-2.3
France	0.5	0.3	0.2	-0.1	-5.3		1.7	1.8	1.6	0.9	-5.0
Italy	0.2	0.1	0.0	-0.2	-5.3		0.3	0.4	0.5	0.1	-5.4
Japan	0.6	0.5	0.0	-1.9	-0.9		0.8	0.9	1.8	-0.7	-2.2
Australia	0.5	0.6	0.6	0.5	-0.3		1.7	1.6	1.8	2.2	1.4

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	-0.4	-0.5	0.1	-4.5	-11.2		-0.8	-0.9	-0.3	-4.9	-15.0
Canada	0.2	0.1	0.1	-3.9			-0.9	-0.2	0.8	-4.9	
UK	-0.2	-0.1	-0.1	-4.2			-2.2	-3.1	-3.4	-8.2	
Germany	-1.7	2.5	0.3	-9.2			-5.0	-1.5	-1.8	-11.4	
France	-2.3	0.9	0.8	-16.2			-2.9	-3.0	-1.7	-17.3	
Italy	-2.7	3.6	-1.0	-28.4			-3.4	-0.6	-2.3	-29.3	
Japan	0.2	1.9	-0.3	-3.7	-9.1		-6.5	-2.4	-3.7	-6.8	-15.2

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	#####	Apr-20	######
US	3.7	3.7	3.5	3.6	3.5	3.5	3.6	3.5	4.4	14.7	13.3
Canada	5.7	5.7	5.5	5.6	5.9	5.6	5.5	5.6	7.8	13.0	13.7
UK	3.9	3.8	3.8	3.8	3.8	3.9	4.0	3.9			
Eurozone	7.6	7.5	7.5	7.4	7.4	7.3	7.3	7.2	7.1	7.3	
Germany	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.8	6.3
France	8.5	8.5	8.4	8.3	8.2	8.2	8.0	7.6	7.6	8.7	
Italy	9.9	9.6	9.7	9.5	9.5	9.5	9.4	9.1	8.0	6.3	
Japan	2.3	2.3	2.4	2.4	2.2	2.2	2.4	2.4	2.5	2.6	
Australia	5.3	5.3	5.2	5.3	5.2	5.1	5.3	5.1	5.2	6.2	

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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