December 2021
Commentary

Global Macro Policy Quarterly

Contents

02 Global Macro Highlights

04 Politics and Geopolitics

06 Demographics and Retirement

08 Country Macro Highlights

14 Data Calendars

16 Economic Indicators

Contact

Simona Mocuta
Chief Economist
simona_mocuta@ssga.com

Amy Le, CFA
Macro-Investment Strategist
amy_le@ssga.com

Elliot Hentov, PhD
Head, Policy Research
elliot_hentov@ssga.com

Jennifer Alé
Research Analyst
Jennifer_Ale@ssga.com

Global Macro Highlights

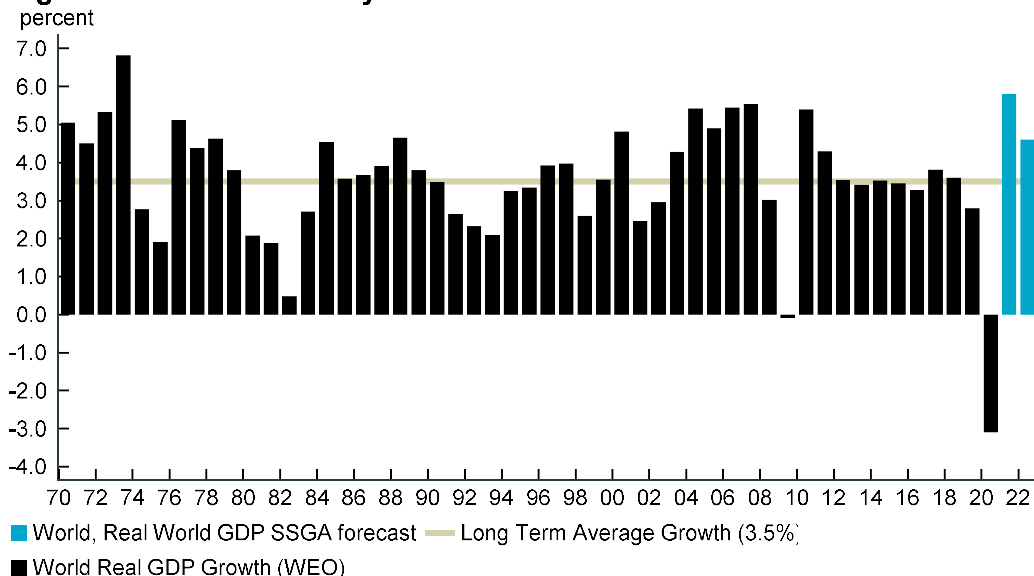
Covid In Rear-View Mirror; Rate Hikes Ahead

Our title might be considered a risky given the Omicron variant and all its associated uncertainties. However, two years into the pandemic, we believe that while the Covid battle hasn't yet been won, it is gradually being won. Each month takes us closer to the point where the pandemic phase is behind us. To be sure, there is a high likelihood that the way this occurs is by entering an endemic phase, where we simply learn to live with the virus in a way that is less constraining to economic activity. We anticipate a lot more emphasis on treatments and vaccines going forward, with lockdowns becoming a thing of the past around the second quarter of 2022.

In any case, the global economy is now far more resilient to Covid surges than in early 2020. Despite Delta, our global forecasts have been almost unchanged since the start of the year. 2021 global growth was projected at 5.7% back in March, was revised up to 5.9% in June, was unchanged in September, and was taken down a mere tenth to 5.8% in the December forecasts. That last tweak reflected supply chain problems that undermined third-quarter performance, not a reaction to Omicron. 2022 forecasts have also been exceedingly stable and we maintain the 2022 global growth forecast at 4.6%. While a small temporary negative impact from Omicron is possible, we have the rest of the year to make up for it. The sizable stock of excess savings is a powerful anchor to the forecast. Changes to individual country forecasts are discussed below.

Inflation forecasts were revised higher almost everywhere and, for 2022, by a significant degree. We have been highlighting upside inflation risks since early this year but the intensity of the surge nonetheless surprised us. As current inflation levels persist for some months, they mathematically lift the 2022 average noticeably, even though the pace of sequential (month over month) price increases moderates sharply. This accelerates interest rate hikes, with many developed markets joining the well-advanced tightening cycle that EM central banks started a while ago. Monetary policy winds change direction and the coming headwinds are bound to introduce some market volatility.

Figure 1: Global Recovery Continues



Sources: IMF WEO, SSGA Economics

Summary of World Output[1] and Inflation[2]

(Annual percent change)

	Weight	History					Forecast	
	(2020)	2016	2017	2018	2019	2020	2021	2022
World Growth	100.0	3.3	3.8	3.6	2.8	-3.1	5.8	4.6
Advanced Economies	42.45	1.8	2.5	2.3	1.7	-4.5	5.0	4.1
US	15.8	1.7	2.3	2.9	2.3	-3.4	5.6	4.4
Euro area	12.1	1.9	2.6	1.8	1.6	-6.4	5.2	4.4
Germany	3.4	2.2	2.7	1.1	1.1	-4.6	2.9	4.4
France	2.3	1.1	2.3	1.9	1.8	-7.9	6.6	4.0
Italy	1.9	1.3	1.7	0.9	0.4	-8.9	6.3	4.5
Japan	4.0	0.8	1.7	0.6	-0.2	-4.6	1.7	3.2
UK	2.2	2.3	2.1	1.7	1.7	-9.7	6.9	5.1
Canada	1.4	1.0	3.0	2.8	1.9	-5.2	4.9	4.2
Australia	1.0	2.7	2.4	2.8	2.0	-2.2	4.2	3.7
Developing Economies	57.55	4.5	4.8	4.6	3.7	-2.1	6.4	5.0
China	18.3	6.8	6.9	6.7	6.0	2.3	7.9	5.0
Advanced Economy Inflation	42.45	0.7	1.7	2.0	1.4	0.7	3.5	3.4
US	15.8	1.3	2.1	2.5	1.8	1.2	4.7	4.4
Euro area	12.1	0.2	1.5	1.8	1.2	0.3	2.4	2.4
Germany	3.4	0.4	1.7	1.9	1.4	0.4	3.1	2.6
France	2.3	0.3	1.2	2.1	1.3	0.5	1.7	2.1
Italy	1.9	-0.1	1.3	1.3	0.7	-0.2	1.8	2.3
Japan	4.0	-0.1	0.5	1.0	0.5	0.0	-0.2	1.0
UK	2.2	0.7	2.7	2.5	1.8	0.9	2.5	4.2
Canada	1.4	1.4	1.6	2.3	1.9	0.7	3.4	3.3
Australia	1.0	1.3	1.9	1.9	1.6	0.9	2.7	2.7
Developing Economies	57.55	4.3	4.4	4.9	5.1	5.1	5.5	4.5
China	18.3	2.0	1.6	2.1	2.9	2.5	1.0	2.3
Value of World Output ($ trl)								
At Market Exchange Rates		76.2	80.8	85.9	87.4	85.0	89.9	94.1
At Purchasing Power Parities		115.6	121.7	129.0	134.9	132.0	139.6	146.1

[1] Real GDP; [2] Consumer Price Inflation

Weight is the share of world GDP on a purchasing power parity basis (IMF *World Economic Outlook*)

Historical data sources: Oxford Economics, IMF. Forecast: SSGA Global Macro and Policy Research

Politics and Geopolitics

COP 26 & Climate Change: The Talk of the XXI Century

Climate change is likely to be the focus of the 2020s era. This epitome of systemic risk has become increasingly difficult for policymakers to ignore, due to the profound impact that human activity has had and will have on the physical world and subsequent negative supply shocks to the global economy. Based on current estimates, greenhouse-gas emissions must be reduced and CO2 emissions must fall by 45% from 2010 levels by 2030 for global warming to be maintained at 1.5 °C above pre-industrial levels. Enter-in the COP26: Glasgow Climate Pact- signed by almost 200 countries with aims to either end deforestation by 2030, phase-out coal, achieve net zero and/or cut methane emissions. A follow-up to COP21: The Paris agreement, which set out the initial framework for the change. To reach these goals, both the fiscal and monetary policy outlook appear highly stimulative, however the trajectory set out in the new agreement could be clearer. Global success hinges on a reversal of historically nationalist climate agendas, opening-up of green borders, careful financing levers and funding for emerging economies.

Politics in Play: COP26 & US-China

Whilst a surprising collaboration between US-China emerged at COP26, it remains to be seen which way the dial will turn. On one hand, the agreement could signal the beginnings of more lenient bilateral trade policies on renewable tech and associated sectors and a scaling up of public-private engagement across borders. However, energy independence and supply chain control are also at stake with the geopolitical balance of power. Some projections suggest that China's wind and solar capacity is set to increase 3x and 4x, respectively, by 2030, accounting for 67% of global share versus 2x and 3x in the US.[1] This is the same in EV batteries (4x further growth in China by 2025, 3x in the US).[2] Tensions could potentially arise due to China's dominance in these areas, while non-incumbent 2024 US presidential elections are another source of uncertainty. On the other hand, whilst China is a leader in green, it continues to face a lot of challenges in brown energy. They are the largest coal consumer at 54.3% of global consumption and also continue to expand their coal and nuclear production, whilst the US dithers in comparison.

Transition Risks: Supporting Low- and middle-income countries

COP26 in-part focused on alleviating the burden faced by emerging economies. OECD forecasts $100bn in financing per year between 2020 and 2025, as well as a 50% increase in funds to finance the adaptation to the transition. However, the future trajectory of these financing flows remains uncertain, as is policymakers' ability to combat external demand shocks. Particularly in regions highly dependent on fossil fuels and mineral energy materials such as sub-Saharan Africa, the economic complexities of the green energy transition appear quite daunting. On the one-hand, sub-Saharan Africa economies have a comparative advantage relative to the rest of the world in the supply of mineral energy materials (MEM) and stand to benefit as renewables and climate technologies become more affordable over time. However, will this be enough to offset the demand-shock of a fossil-fuel phase-out, comprised of obsolete stock costs and stranded assets in the upstream? The transition will shift global trading patterns where developed markets can inadvertently create domestic and trade rules that emerging markets may have difficulty meeting. Sub-Saharan

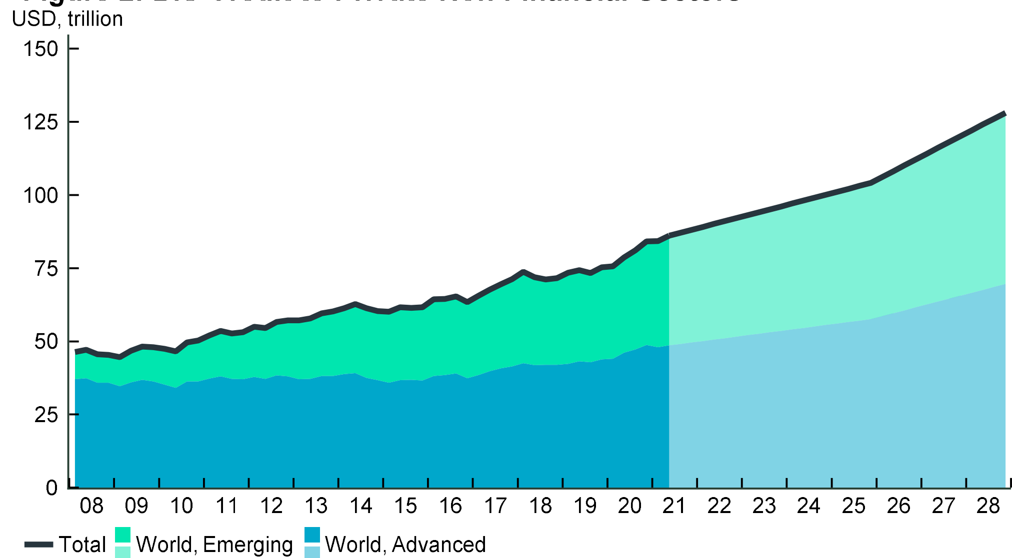
[1] Sources: SSGA Global Macro Research, BloombergNEF, EV Volumes, GWEC, BofA
[2] Sources: SSGA Global Macro Research, BloombergNEF, EV Volumes, GWEC, BofA

Africa could benefit from strengthening trade with China as its top importer of MEM. Whilst Chinese infrastructure investment into the economy has surged in recent decades, policy makers in Sub-Saharan Africa should also consider whether China's support for national players leave sufficient opportunities for non-Chinese owned small and medium-sized enterprises in the region. Most likely a vast array of funding needs are required to finance the green transition in coming years, with emerging markets' funding needs likely to surpass developed markets.

Funding the transition

Currently, $150trn investment requirement to reach net zero by 2050, which is ~2x current global GDP (+$5trn over 5y, +~0.4% of global GDP y-o-y), (International Energy Agency, IEA). Policymakers have a crucial role to play and whilst they can leverage money supply levers, raise the cost of carbon, and increasing fiscal injections, governments can still rely on the private sector for support. A key win for COP26 was the declaration of $130trn of funding provided by 450 financial institutions, and there seems to be scope for commercial bank balance sheets to absorb even more spending. Global non-financial private sector loans steadily almost doubled over the past decade (Figure X), and has increased be +~$500bn per year over the past 5 years.

Figure 2: BIS Credit to Private Non-Financial Sectors



Sources: Macrobond, SSGA Global Macro Research, BIS

Global Demographics and Pensions

UK Labor Market: Overview

The rapid economic rebound that the UK has seen in the second quarter has since then given way to slower growth due to a combination of lingering public health concerns, supply chain bottlenecks, and labor shortages. Significant hurdles remain before a full recovery is achieved and much will depend on the labor market.

The UK job market looks resilient during the last quarter, with some encouraging early signs post-furlough in October. Payroll employment rose by 160,000 in October and in late October, it was estimated that only 3% of the 1.1 million employees still furloughed at the scheme's end had been made redundant. The unemployment rate fell to 4.3% in the three months to September, the lowest level since May-Jul 2020. The employment rate also rebounded to 75.4%. In addition, following the end of furlough scheme, the claimant count continued the pattern of declines that has obtained since March 2021.

Even so, vulnerabilities remain. For instance, total weekly hours have rebounded sharply but remain 2.4% below pre-pandemic levels. Job vacancies are almost 50% higher than pre-crisis level, suggesting an unusual degree of skills mismatches that could signal longer-term structural issues in the labor market. Labor supply has shrunk and in fact, despite lower unemployment, the number of people out of work is above pre-pandemic levels. The economic inactivity rate has generally been falling since the records began in 1971; however, it has rose sharply during the pandemic (Figure 3). Except for age groups 35-49, all other age groups experienced an increase in number of inactive people relative to pre-pandemic levels. We note that the increase in economic inactivity since the onset of the pandemic was largely driven by students and by those who had other reasons that are not related to long term disability, taking care of family, being discouraged workers or retired.

Figure 3. UK economic inactivity

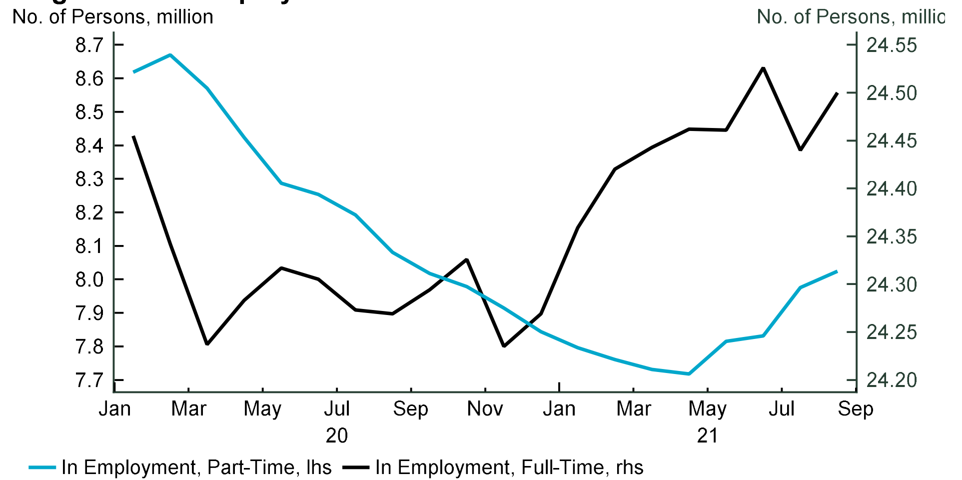
Sources: SSGA Economics, ONS

The share of inactive people who do not want a job has reached a record (Figure 3). This will likely take some time to fix due to large household savings from the pandemic, health concerns, more people getting higher education and few training opportunities. The departure of people due to the pandemic and Brexit has compounded the challenges, leading to sectoral and regional distortions, putting upward pressures on wages. For example, the latest ONS figures suggest the employment of EU nationals fell from 2.4m in Jan-Mar 2020 to 2.1m in July-Sep 2021.

We also note the strength of labor market over last quarter was partially supported by increase in part-time jobs and increase in the number of people on zero-hour contracts, driven by young people, which might not be sustainable (Figure 4).

Looking ahead, as the UK's economic activity continued to normalize, we expect that more people going back to the labor market next year. And while it's too early to say whether people leaving the UK due to the pandemic and Brexit is a temporary phenomena or a sustained affair, we anticipate that migration will pick up further in coming years, boosting labor supply. As a result, the unemployment rate will likely revert to pre-crisis levels over time. However, the tightness in the market is not going to fade any time soon, and thus, wage growth will likely stay robust in the coming months.

Figure 4. UK Employment



Sources: SSGA Economics, ONS

Country Macro Highlights

Please see country-specific commentary in the sections below.

US: Resilience Amid Shifting Risks

The US economy is closing out the year with a decent degree of momentum. Despite a multitude of sizable shocks, both positive (fiscal stimulus) and negative (Delta wave), this year's growth will come impressively close to our projections from early 2021. We were calling for 5.3% growth back in March, raised that to 5.9% in June, came in a tenth to 5.8% in September, and we are now settling for 5.6%. Think of the latest small downgrade as a reflection of acute supply chain challenges that undermined third-quarter performance, not a reaction to Omicron.

In fact, the most relevant forecast in regard to Omicron is the 2022 projection…and that remains unchanged at 4.4%. This is above the current Bloomberg consensus (3.9% as of the time of this writing) but we are comfortable with that for a number of reasons. Firstly, timing matters when discussing annual forecasts. Omicron is hitting too late in 2021 to make a difference and so early in 2022 that any potential first-quarter hit could be offset later in the year. Secondly, the narrative of delayed pent-up demand remains as valid today as it was three months ago. Household excess savings remain at record highs and there remains an acute need for inventory rebuilding following the deep inventory contraction seen in 2021. Additionally, the huge drag from foreign trade should ease a little in 2022 as foreign demand improves and the US relative growth outperformance moderates. Housing demand remains robust and residential construction should improve in coming quarters as supply chain problems ease. We are also penciling an improvement in structures investment after two utterly dismal years for mining and oil exploration investment.

Admittedly, next year's growth may look better on paper than it will feel for the average consumer. Consumer spending growth is actually poised to halve, although given its extremely high current level, a further 4.3% gain is actually quite extraordinary. We are betting that the combination of excess savings and improving labor incomes will make that resilience possible. Importantly, though, the consumer spending story over the next year will also increasingly be one of rotation away from goods and into services. Inflation and the end of deferral programs for various consumer loan obligations (mortgages, student loans) are probably the two main risks to the resilient consumer spending narrative and bear close watching. For now, however, we believe consumers have enough financial cushion to overcome these challenges.

The inflation spike has proven even more intense and persistent than we had previously anticipated. Even the upwardly revised September forecasts have proven too low and have been revised further still. The inflation peak is not only higher than anticipated, but also more akin to a plateau that an actual "peak". With first-quarter 2022 inflation likely to average above 6.0%, the 2022 forecast has been revised sharply higher to 4.1%. It could end up being higher still, but we believe monthly price increases should slow markedly as oil prices stabilize and easing supply chain problems alleviate

shortages. We've been talking about "inflation rotation" for some time, and that process is unfolding. As inflationary pressures moderate in "re-opening" categories such as hotels or "supply-chain bottlenecks" categories like automobiles, we look to rent inflation and broader housing costs to keep inflation elevated next year. Even so, headline inflation should dip back into the 2.0% y/y range by late-2022 due to base effects. We would caution against concluding that such a dip would permanently settle the inflation debate in favor of the "transient" view. To us, the question of whether we are moving toward a more inflationary regime hinges on the behavior of inflation expectations and the behavior of wages. We'll continue to watch these two indicators very closely.

The Fed has provided ample policy accommodation throughout the Covid crisis but, acknowledging progress toward the employment and inflation goals, has begun a modest tapering of its QE program in November. Since then, commentaries by Fed officials have turned markedly more hawkish, with Chair Powell (renominated for a second term) stating it was time to retire the term "transitory" from the inflation conversation. The Fed has signaled an intent to accelerate tapering; if not in December, we should see this done in January. And numerous Fed officials have publicly stated that rate hikes might be needed in 2022. We had already incorporated one 2022 rate hike in the September forecast and acknowledged the possibility of a second. Now we expect two hikes and acknowledge the possibility of a third.

That being said, anything more than two hikes might cause unnecessary volatility without doing much at all on the inflation front. To a large extent, the seeds of 2022 inflation have already been sown: in supply chain problems, in excess savings, and in rental costs that are only now starting to close the gap with the tremendous increase in house prices in 2021. As such, any rate hikes would only be relevant for 2023 inflation…and we suspect that would moderate naturally on its own as these factors fade. We think Fed tightening therefore should be a gradual exercise of calibrating the Fed Funds rate towards the neutral rate, not a race to fight the past inflation battle. A gradual but sustained tightening cycle may be best as we continue to navigate away from the Covid shock.

Canada: Building On Success

Following a contraction in the second quarter, the economy returned to solid growth in the third, driven by an impressive surge in private consumption that helped offset a big inventory drawdown. Even so, we have brought in the 2021 growth forecast to just below 5.0% as near-term momentum seems a little softer than we previously anticipated, particularly in investment. Elevated inflation and the Omicron variant also continue to pose risks. The 2022 forecast is little changed (up a tenth) to 4.2%.

Ongoing supply chain issues continue to hamper export performance; indeed, real exports were still down 1.1% y/y during the third quarter and will only retrace a small part of the deep 9.7% contraction experienced in 2020. A full recovery to pre-pandemic levels will have to wait until at least 2023. Shortages of semiconductor and construction materials have led to sharp

decline in key sectors such as motor vehicles and parts as well as construction. Providing that supply chain problems will start to ease by the second quarter, manufacturing and exports should improve.

Household consumption has made a much fuller recovery and is nearly back to pre-pandemic levels. The strength in the labor market, with employment also essentially back to pre-crisis levels partly explains this resilience, and fiscal support explains the rest. Going forward, however, elevated inflation and rising interest rates that will increase debt servicing obligations in the context of high household debt will pose some challenges.

Solid labor incomes will be a key anchor for consumption. The strength of Canada's labor market recovery is quite impressive given lagged progress elsewhere. Employment rose by 154k in November to stand about 1.0% above its February 2020 level. At 6.0%, the unemployment rate is just 0.3 percentage points above pre-pandemic levels, and long-term unemployment has drastically declined. Total hours worked are also back to pre-pandemic levels. In short, the labor market looks poised to get quite tight in 2022.

The inflation surge evident elsewhere is also quite pronounced in Canada. CPI inflation reached 4.7% y/y in October, the highest level since early 2003 (and, prior to that, 1991); excluding energy, the CPI inflation rate rose to 3.3% y/y. Given incoming data and the more elevated start point for 2022 inflation, we have made sizable upward revisions to next year's inflation forecast, now expected to exceed 3.0%.

The combination of elevated inflation and labor market strength has already caused the Bank of Canada to end asset purchases (it is now in the reinvestment phase). Rate hikes do not appear imminent—the latest guidance still suggests “the middle quarters of 2022”—but they are coming. Two hikes in 2022 are almost certain and three are likely, but current market pricing is even more aggressive than that, however.

UK: Recovery Continues Amid Rising Inflation

Despite high vaccination rates, the UK economic recovery is still constrained by elevated Covid infections. Global supply chain issues and labor shortages are additional hurdles. The 2021 growth forecast is little changed (down a tenth from September to 6.9%), but we have trimmed the 2022 projection by half a percentage point to 5.1%. The latter reflects some concerns that elevated inflation (we've made sizable upward revisions for 2022) will hinder the anticipated rebound in consumer spending.

Following a strong rebound in the second quarter, third quarter GDP growth modestly undershot expectations with net exports a major detractor. Business investment is slowly recovering, but remains substantially below late 2019 levels. And—somewhat unusual given developments elsewhere—the UK has been building inventories for the past four consecutive quarters, implying less support from inventory accumulation going forward.

While global supply issues are expected to ease in coming months, the UK recovery may be held back by other structural labor and investment shifts linked to the Brexit aftermath. The recovery in private consumption has been sluggish so far but should accelerate as the country moves past lockdowns

and consumers can deploy sizable savings more freely. On the other hand, high inflation is a headwind likely to remain strong for some time, such that on an annual average basis, real consumer spending barely returns to its 2019 level in 2022.

Headline CPI inflation shot past expectations to rise to a ten-year high at 4.2% y/y in October, driven mainly by surging energy prices. While some base effects are going to fade, energy prices will remain elevated and are poised to rise further in the spring. The Bank of England expects inflation to rise to around 5% in the spring before reverting back close to the target and we, too, have made substantial upward revisions to next year's inflation forecast, now expected to exceed 4.0%.

Unemployment has fallen but the number of people out of work remains higher than it was before the pandemic. Labor market mismatches have distorted pay growth in some sectors, driving wage inflation to unusually high levels. We are watching wage inflation very closely since—aside from the US—the UK is the country where concerns around second-round inflation effects appear most justified at the moment.

Signals from the Bank of England (BoE) had turned quite hawkish a couple of months ago, which triggered a sharp repricing of rate hike expectations by investors. At some point, markets were betting on a November hike, which, evidently, did not happen. We anticipate a small 15 basis point increase in February, followed by two additional quarter-point hikes to leave the Bank rate at 0.75% by end-2022. Market pricing is even more aggressive than this at the moment.

Eurozone: The Going Gets A Little Tougher

Our positive to consensus view on eurozone growth has come to pass. The economy grew 2.2% q/q in the third quarter—far exceeding the US performance and leading us to keep the full-year forecast unchanged. In fact, our top-line 2021 growth forecast hasn't changed much over the last nine months: we started at 5.5% in March, went to 5.4% in June, and held at 5.2% since September. The consensus moved in the opposite direction, as did the ECB staff forecasts that stood at 4.0% in March but reached 5.0% by September.

This positive overall picture obscures important country-level divergences. Specifically, Germany has been underperforming relative to our expectation all year. We had expected more resilience in consumer spending, but whether due to domestic political changes, innate cautiousness, or persistent mobility constraints, German consumer spending has badly undershot our expectations so far. Indeed, real consumer spending declined 0.4% y/y during January-September 2021; a modest improvement in the fourth quarter (not a done deal given high inflation and poor sentiment) would do little to move the dial following last year's steep 5.9% decline. Supply chain challenges in auto manufacturing have also dealt a heavier blow to German economic activity than we had anticipated. Suffice to say, we've been forced to lower Germany's 2021 growth forecast once again, to 2.9%. Moreover, we've also taken in the 2022 forecast, now at 4.4% from 4.8% in September. We are concerned that, absent a commensurate increase in wages, the current inflationary surge would undermine spending growth despite healthy household balance sheets.

Robust growth momentum in the rest of the Eurozone has offset weakness in Germany this year. However, we've trimmed 2022 growth by two tenths to 4.4% this round. The balance of risks to that forecast is probably to the downside given the inflation backdrop and the negative implications for purchasing power in the context of weak wage growth. On the other hand, progress towards full normalization in services, pent-up demand and elevated household savings rates, and supportive fiscal policy, will underpin 2022 performance.

As in the United States, eurozone's inflationary flare-up has proven far more intense than predicted even a few months ago. A slower start keeps the 2021 average fairly contained—we've only raised the 2021 average by one tenth this round to 2.4%--but we've put aside earlier expectations that 2022 would bring about a moderation and instead now see 2022 inflation also at 2.4%.

The ECB has been very conservative in its growth and inflation forecasts at the start of 2021 and has since made repeated upward adjustments on both fronts. We think another round of upgrades (mostly focused on inflation) is in store at the next meeting in December. Even so, given the lack of evidence for second-round inflation effects emanating from the labor market, the ECB has a better argument than the Fed in respect to the transitory nature of the current inflation episode. It will therefore remain extremely patient as it contemplates the removal of policy accommodation. Tweaks to asset purchases are likely in 2022 (including an end to PEPP in March) but actual rate hikes are not.

Japan: Struggling

Japan's already weak growth forecasts were trimmed further in the latest update in response to the economy's uninspiring (some count even describe it as dismal) performance so far this year and lack of convincing evidence that a turnaround is imminent. The 2021 real GDP growth forecast now stands at only 1.7%, down almost a full percentage point since September. A sizable contraction in the third quarter was the main culprit as the country battled Covid. Since then, vaccination rates have surged to the point where Japan is now among the global leaders on the vaccine front, which should provide a more supoortive backdrop as we move into 2022. We have actually raised the 2022 forecast by two tenths to 3.2% on the view that some of the consume spending that did not materialize in 2021 would do so next year. There is lft to growth from fiscal policy as well, and from an anticipated improvement in exports. Even so, risks to this forecast remain.

Inflation is—surprisingly given the global environment—nonexistant. Consumer prices are set to actually decline incrementally in 2021. With PPI inflation hovering in the neighborhood of 9.0%, this suggest a severe lack of pricing power for firms. Wage inflation is equally mouribund and so there is little reason to expect anything even close to the sort of inflationary spikes evident elsewhere. Indeed, it's probably best to think of Japan as the exception to the rule insofar as current inflation trends are concerned.

Unsurprisingly, the macro policy response remains heavilty titled in favor or additional stimulus, primarily fiscal. This will help, but will not be a game changer. And so, nor is the BoJ likely to change its playbook any time soon.

Australia: Rebounding From Delta

A third-quarter economic contraction had been widely anticipated given the severity of Covid-induced lockdowns. Indeed, real GDP declined 1.9% q/q, driven by a steep 4.8% drop in consumer spending. Even so, the early data for the fourth quarter suggest decent enough momentum that we have actually raised the full year 2021 forecast by a tenth, now at 4.2%. We also raised the 2022 projection slightly, from 3.5% to 3.7%. There remains enough room for pent-up consumer demand, for a rebound in investment, and for an improvement in the net trade position to warrant a positive outlook for 2022. There is, in fact, some upside risk to our growth forecast. The labor market is also improving, with a notable shift away from part-time to full-time employment—perhaps a reaction to a declining participation rate and a way for firms to satisfy labor needs with fewer potential workers. Robust labor incomes should support consumption in coming quarters, especially since the inflation picture is much milder than elsewhere, with less of a detrimental impact on purchasing power. Unsurprisingly, while consumer sentiment has retreated from the recent high in April, it remains nonetheless elevated historically. High current vaccination rates—indeed, after a very slow start, Australia has largely caught up with other developed markets in that regard—should help cushion both consumer sentiment and the economy as a whole from the impact of the latest Omicron variant.

Inflation has risen, but not much. After hitting 3.7% y/y in the second quarter on base effects, headline CPI inflation eased to 3.0% y/y in the third. Underlying inflation measures are only a little over 2.0%. Wage inflation has also picked up, but at just over 2.0% y/y, it remains too low to be consistent with the RBA inflation target. In fact, the Governor Lowe noted in the December policy statement that in order to bring inflation sustainably into the 2.0-3.0% target range, the labor market would need to tighten enough to generate wage inflation “materially higher” than current levels. We were reminded that “this is likely to take some time and the Board is prepared to be patient.” As such, while we expect further gradual tapering of asset purchases in coming months (this will be discussed at the February meeting), we do not currently pencil any rate hikes until early 2023. Investors are pricing a much more aggressive hike schedule but we think Australia’s subdued inflation backdrop indeed warrants patience.

Data Calendar

Week in Review (December 6–December 10)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, December 6					
GE	Factory Orders (Oct, m/m)	-0.3%	-6.90%	1.8%(↑)	Disappointing.
IT	Retail Sales (Oct, m/m)	0.3%	0.10%	1.0%	Uninspiring.
JN	Labor Cash Earnings (Oct, y/y)	0.4%	0.2%	0.2%	Weak.
AU	House Price Index (Oct, q/q)	5.0%	5.0%	6.7%	Robust.
AU	RBA Cash Rate Target (Dec)	0.10%	0.10%	0.10%	Patient.
Tuesday, December 7					
US	Consumer Credit (Oct,$bn)	25.0	16.9	29.9	Surprisingly modest.
US	Nonfarm Productivity (Q3, final)	-5.0(p)%	-5.2%	2.4%	Not new information.
US	Trade Balance (Oct, $bn)	-66.8	-67.1	-81.4(↓)	Big improvement!
CA	Ivey Purchasing Managers Index (Nov)	n/a	61.2	59.3	Economic activity expanded at a faster pace
EC	GDP (Q3, q/q, final)	2.2%	2.2%	2.2%	Already known.
GE	Industrial Production (Oct, m/m)	1.00%	2.8%	-0.5%(↑)	We need a few more months like this!
GE	ZEW Survey Expectations (Dec)	25.4	29.9	31.7	OK.
JN	GDP (Q3, q/q, final)	-0.8%	-0.9%	0.5%	Weak.
Wednesday, December 8					
US	JOLTS Job Openings (Oct, k)	10,369	11,033	10,602(↑)	Too strong to be genuinely good news.
CA	Bank of Canada Rate Decision	0.25%	0.25%	0.25%	A first hike could come as soon as April 2022
Thursday, December 9					
US	Initial Jobless Claims (04-Dec,k)	220	184	227(↑)	Another multi-decade low.
US	Continuing Claims (27-Nov,k)	1,910	1,992	1,954(↓)	Improving.
JN	PPI (Nov, y/y)	8.5%	9.0%	8.3%(↑)	Difficulty passing these costs to consumers.
Friday, December 10					
US	CPI (Nov, y/y)	6.8%	6.8%	6.2%	Wow…just wow!
US	U. of Mich. Sentiment (Dec, prelim)	68.0	70.4	67.4	Better, but no game changer.
US	Monthly Budget Statement (Nov, $bn)	-194.0	-191.3	-145.3	Deep deficits continue.
UK	Industrial Production (Oct, m/m)	0.1%	-0.6%	-0.4%	Large falls in electricity, gas and mining and quarrying
GE	CPI (Nov, final)	5.2%	5.2%	4.5%	Already known, but still eye-popping.
IT	Industrial Production (Oct, m/m)	0.3%	-0.6%	0.1%	Disappointing.

Source: for data, Bloomberg®; for commentary, State Street Global Advisors Economics.

Data Calendar

Week In Preview (December 13–December 17)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, December 13				
JN	Tankan Large Mfg Index (Q4)	19	18	
JN	Core Machine Orders (Oct, m/m)	1.8%	0%	
JN	Industrial Production (Oct, m/m, final)	n/a	-5.4%	
AU	NAB Business Confidence (Nov)	n/a	21	
Tuesday, December 14				
US	NFIB Small Business Optimism (Nov)	98.4	98.2	
US	PPI Final Demand (Nov, y/y)	9.2%	8.6%	
UK	ILO Unemployment Rate (Oct, 3m)	4.2%	4.3%	Unemployment rate is likely to continue declining trend
EC	Industrial Production (Oct, m/m)	1.3%	-0.2%	
JN	Tertiary Industry Index (Oct, m/m)	1.2%	0.5%	
AU	Westpac Consumer Conf Index (Dec)	n/a	105.3	
Wednesday, December 15				
US	Empire Manufacturing (Dec)	25.5	30.9	
US	Retail Sales Advance (Nov, m/m)	0.8%	1.7%	
US	NAHB Housing Market Index (Dec)	84	83	
US	FOMC Rate Decision (Upper Bound)	0.25%	0.25%	
CA	Housing Starts (Nov,k)	n/a	236.6	Trending lower
CA	CPI (Nov, y/y)	n/a	4.7%	Likely to remain at high level
CA	Existing Home Sales (Nov, m/m)	n/a	8.6%	Expected to decelerate
UK	CPI (Nov, y/y)	4.7%	4.2%	Likely to reach new record high
JN	Jibun Bank Japan PMI Mfg (Dec, prelim)	n/a	54.5	
AU	Unemployment Rate (Nov)	5.0%	5.2%	
Thursday, December 16				
US	Initial Jobless Claims (11-Dec,k)	199	184	
US	Continuing Claims (04-Dec,k)	n/a	1,992	
US	Housing Starts (Nov,k)	1,570	1,520	
US	Philadelphia Fed Business Outlook (Dec)	30	39	
US	Industrial Production (Nov, m/m)	0.7%	1.6%	
US	Capacity Utilization (Nov)	76.8%	76.4%	
UK	GfK Consumer Confidence (Dec)	-17	-14	Likely to worsen amid inflation worries
UK	BoE Bank Rate	0.10%	0.10%	BoE expected to keep the bank rate unchanged
UK	Manufacturing PMI (Dec, prelim)	57.6	58.1	Likely to slowdown but remains at robust level.
EC	Manufacturing PMI (Dec, prelim)	57.7	58.4	
EC	ECB Main Refinancing Rate	0.0%	0.0%	No policy change, but watch forecasts.
GE	Manufacturing PMI (Dec, prelim)	57	57.4	
FR	Manufacturing PMI (Dec, prelim)	55.3	55.9	
Friday, December 17				
CA	Teranet/National Bank HPI (Nov, y/y)	n/a	15.8%	
UK	Retail Sales Inc Auto Fuel (Nov, m/m)	0.7%	0.8%	Strongly increase with Christmas shopping
EC	CPI (Nov, y/y, final)	4.9%	4.1%	
GE	IFO Business Climate (Dec)	95.3	96.5	
JN	BOJ Policy Balance Rate	n/a	-0.10%	

Source: for data, Bloomberg®; for commentary, State Street Global Advisors Economics.

Economic Indicators

Central Bank Policy Targets

Region	Target	Year/Year % Change in Target				
		Jun	Jul	Aug	Sep	Oct
US	Target: PCE price index 2.0% y/y	4.0	4.1	4.2	4.4	5.0
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	3.1	3.7	4.1	4.4	4.7
UK	Target: CPI 2.0% y/y	2.5	2.0	3.2	3.1	4.2
Eurozone	Target: CPI below but close to 2.0% y/y	1.9	2.2	3.0	3.4	4.1
Japan	Target: CPI 2.0% y/y	-0.5	-0.3	-0.4	0.2	0.1
Australia	Target Range: CPI 2.0%-3.0% y/y	3.8	3.0	3.0	3.0	

Source: Macrobond

Key Interest Rates

	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-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)	-0.01	-0.02	-0.04	-0.02	-0.03	-0.05	-0.04	-0.04	-0.05	-0.03	-0.05
Australia (OCR)	0.10	0.10	0.10	0.10	0.10	0.10	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	Forecast 2022
US	-3.2	-2.7	-2.5	-3.5	-4.2	-5.2	-6.1	-10.7	-8.8	-8.3
Canada	-1.5	-0.6	0.0	0.1	-0.3	0.0	0.3	-8.1	-6.6	-2.7
UK	-4.2	-4.9	-4.4	-3.3	-2.5	-2.3	-2.3	1.4	-5.6	-4.9
Eurozone	-1.0	-0.7	-0.6	-0.5	-0.5	-0.3	-0.5	-4.6	-5.9	-3.1
Germany	0.6	1.2	1.2	1.2	1.1	1.6	1.3	-3.1	-5.7	-1.6
France	-2.8	-2.5	-2.1	-1.9	-1.9	-1.6	-2.1	-6.3	-7.5	-4.6
Italy	-0.5	-1.0	-0.6	-1.3	-1.6	-1.7	-0.9	-5.9	-7.1	-3.8
Japan	-7.4	-5.7	-4.4	-4.3	-3.5	-2.7	-2.6	-9.2	-8.0	-3.6
Australia	-2.7	-2.7	-2.6	-2.3	-1.6	-1.2	-4.1	-7.9	-8.1	-5.8

Source: International Monetary Fund, World Economic Outlook

Headline Consumer and Producer Price Inflation

	CPI Year/Year % Change						PPI Year/Year % Change				
	Jul	Aug	Sep	Oct	Nov		Jul	Aug	Sep	Oct	Nov
US	5.4	5.3	5.4	6.2	6.8		7.8	8.3	8.6	8.6	
Canada	3.7	4.1	4.4	4.7			16.1	14.7	15.3	16.7	
UK	2.0	3.2	3.1	4.2							
Eurozone	2.2	3.0	3.4	4.1			12.4	13.4	16.1	21.9	
Germany	3.8	3.9	4.1	4.5	5.2		10.4	12.0	14.2	18.4	
France	1.2	1.9	2.2	2.6	2.8		8.5	9.6	11.0	14.0	
Italy	1.9	2.0	2.5	3.0	3.8		11.2	11.6	13.3	20.4	
Japan	-0.3	-0.4	0.2	0.1			5.8	5.9	6.5	8.3	9.0
Australia	3.0	3.0	3.0				2.9	2.9	2.9		

Source: Macrobond

Economic Indicators

Real GDP Growth (Q/Q Seasonally Adjusted)

	Quarter/Quarter % Change						Year/Year % Change				
	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21		Q3-20	Q4-20	Q1-21	Q2-21	Q3-21
US	7.5	1.1	1.5	1.6	0.5		-2.9	-2.3	0.5	12.2	4.9
Canada	9.0	2.2	1.2	-0.8	1.3		-4.9	-3.1	0.3	11.8	4.0
UK	17.4	1.1	-1.4	5.5	1.3		-8.1	-7.1	-5.8	23.6	6.6
Eurozone	12.6	-0.4	-0.2	2.2	2.2		-4.1	-4.4	-1.1	14.4	3.9
Germany	9.0	0.7	-1.9	2.0	1.7		-3.7	-2.9	-3.0	10.0	2.6
France	18.5	-1.1	0.1	1.3	3.0		-3.6	-4.3	1.5	18.8	3.3
Italy	15.6	-1.6	0.3	2.7	2.6		-5.4	-6.6	-0.6	17.1	3.9
Japan	5.1	2.3	-0.7	0.5	-0.9		-5.4	-0.8	-1.8	7.3	1.1
Australia	3.4	3.3	1.8	0.7	-1.9		-3.5	-0.8	1.4	9.5	3.9

Source: Macrobond

Industrial Production Index (M/M Seasonally Adjusted)

	Month/Month % Change						Year/Year % Change				
	Jun	Jul	Aug	Sep	Oct		Jun	Jul	Aug	Sep	Oct
US	0.5	0.8	0.0	-1.3	1.6		10.2	6.7	5.6	4.6	5.1
Canada	2.3	0.3	0.5	-0.4			9.0	6.1	6.9	4.8	
UK	-0.6	0.3	1.0	-0.4	-0.6		10.3	4.5	4.0	2.9	1.4
Germany	-0.8	1.0	-3.5	-0.5	2.8		5.8	6.2	2.0	-0.3	-0.6
France	0.6	0.4	1.0	-1.5	0.9		7.0	4.0	3.8	0.5	-0.5
Italy	1.1	0.9	-0.3	0.1	-0.6		13.8	7.2	-0.3	4.5	2.0
Japan	6.5	-1.5	-3.6	-5.4	1.1		23.0	13.3	7.1	-2.3	-3.2

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)

	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21
US	6.3	6.2	6.0	6.1	5.8	5.9	5.4	5.2	4.8	4.6	4.2
Canada	9.4	8.2	7.5	8.1	8.2	7.8	7.5	7.1	6.9	6.7	6.0
UK	5.0	4.9	4.8	4.8	4.7	4.6	4.5	4.3			
Eurozone	8.2	8.1	8.1	8.2	8.0	7.8	7.6				
Germany	6.0	6.0	6.0	6.0	5.9	5.8	5.6	5.5	5.5	5.4	5.3
France	7.9	8.1	8.1	8.3	8.3	8.1	8.0	7.9	7.7	7.6	
Italy	10.2	10.1	10.0	10.1	9.9	9.4	9.2	9.3	9.2	9.4	
Japan	2.9	2.9	2.6	2.8	3.0	2.9	2.8	2.8	2.8	2.7	
Australia	6.4	5.9	5.7	5.5	5.1	4.9	4.6	4.5	4.6	5.2	

Source: Macrobond

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

	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21
US	-2.4	-2.3	-2.2	-1.9	-2.1	-3.2	-3.3	-3.3	-3.4	-3.3	
Canada	-3.2	-1.3	-2.2	-1.6	-3.2	-1.1	-2.0	-0.8	0.3	0.2	0.2
UK	-5.8	-2.9	-2.5	0.5	-2.6	-1.3	-1.7	-4.6	-1.6	-1.5	
Eurozone	3.7	1.7	3.0	1.8	0.9	1.0	2.7	3.3	3.9	2.4	2.0
Germany	7.9	7.6	7.6	7.3	6.7	5.4	7.2	7.7	7.9	7.1	6.1
France	0.3	-0.3	-0.7	-0.4	-1.2	-3.5	-2.2	-0.9	-1.0	-0.7	-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

About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of active and index strategies to create cost-effective solutions. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can deliver long-term performance. And, as pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become the world's third largest asset manager with nearly US $3.12 trillion* under our care.

*AUM reflects approximately $43.72 billion USD (as of December 31, 2019), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated.

ssga.com

Important Risk Discussion

Investing involves risk including the risk of loss of principal.

The whole or any part of this work may not be reproduced, copied, or transmitted or any of its contents.

This material is for informational purposes only, not to be construed as investment advice, or a recommendation or offer to buy or sell any security and should not be construed as such. The views expressed in this material are the views of the SSGA Economics Team, through the period ending December 10 2021, and are subject to change without notice based on market and other conditions. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. Past performance is not a guarantee of future results. SSGA may have or may seek investment management or other business relationships with companies discussed in this material or affiliates of those companies, such as their officers, directors and pension plans.

Intellectual Property Information

BLOOMBERG®, a trademark and service mark of Bloomberg Finance L.P. and its affiliates, and BARCLAYS®, a trademark and service mark of Barclays Bank Plc.

Standard & Poor's S&P 500 Index® is a registered trademark of Standard & Poor's Financial Services LLC. FTSE 100® is a trademark jointly owned by the London Stock Exchange Plc and The Financial Times Limited, and is used by FTSE International Limited under license. "All-World", "All-Share" and "All-Small" are trademarks of FTSE International Limited.

© 2022 State Street Corporation.

All Rights Reserved.

2537623.123.1.GBL.RTL

Exp. Date: 12/31/2022