STATE STREET GLOBAL ADVISORS

February 28, 2020
Commentary

Weekly Economic Perspectives

Contents

Spotlight on Next Week
Watch for change in tone from global central banks and possibly even some action from the Fed. And watch for virus outbreak developments.

Contact

Simona Mocuta
Senior Economist
simona_mocuta@ssga.com
+1-617-664-1133

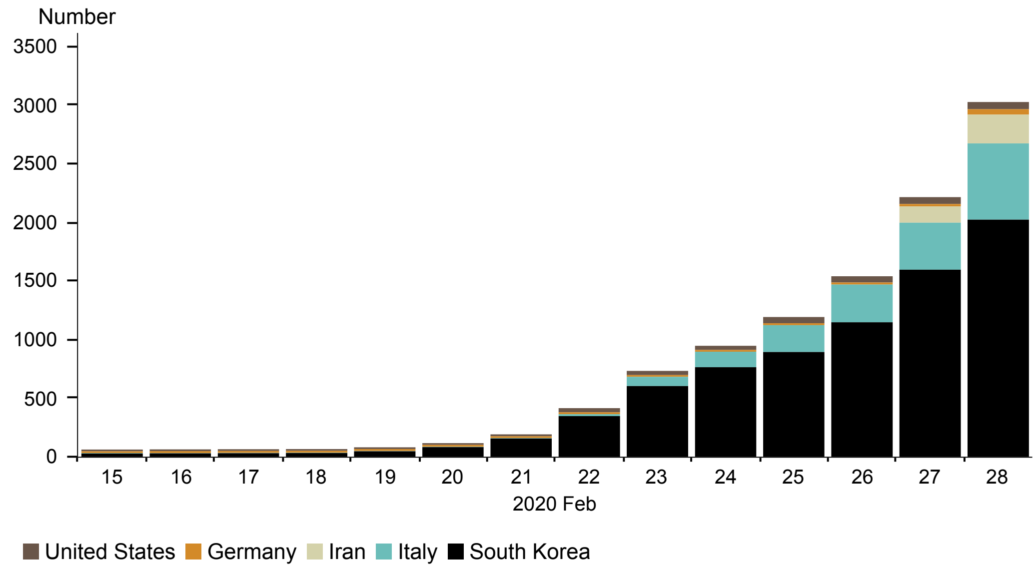
Kaushik Baidya
Economist
kaushik_baidya@ssga.com
+91-806-741-5048

The Economy

An Update on Covid-19 Economic Impact

Since we published our initial response to the Covid-19 outbreak on February 7, the situation has evolved in a much more troubling direction. Not only has the initial outbreak in China proven much more severe than initially thought but the virus has since spread to over 50 countries, with rapidly growing clusters in South Korea, Italy, and Iran (Figure 1). The first case has been reported in Sub-Saharan Africa.

Figure 1: Novel Coronavirus (COVID-19), Confirmed Cases



Sources: Macrobond, European Centre for Disease Prevention & Control

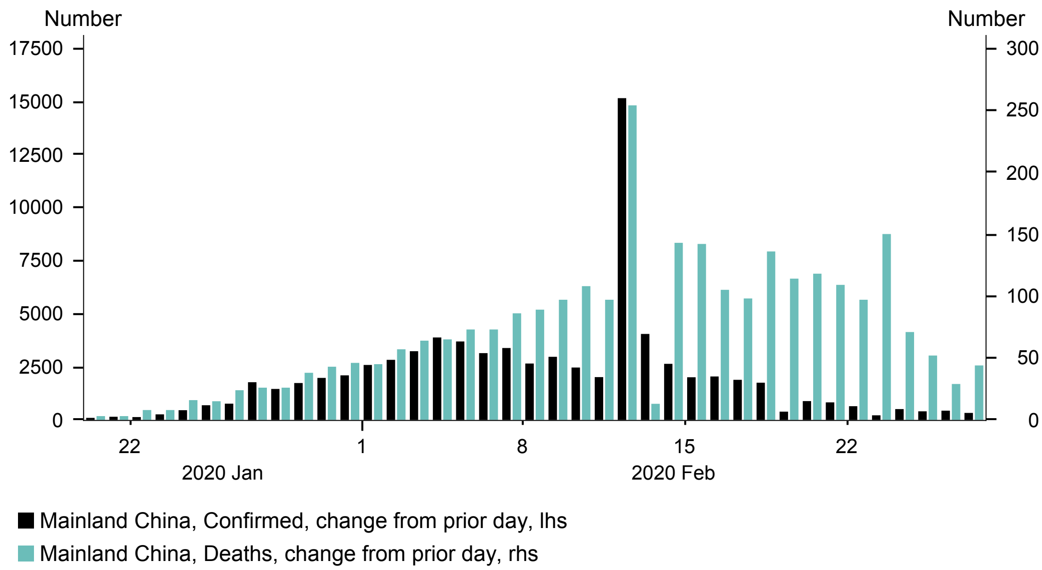
As is often the case with exogenous shocks—irrespective of their nature—the deterioration in sentiment precedes the deterioration in the hard economic data. But the speed of transmission from soft to hard data can be extremely fast in situations when population mobility is deeply impacted. The current outbreak could present such a situation as the CDC (US Center for Disease Control) warns that "current global circumstances suggest it is likely that this virus will cause a pandemic". Admittedly, we think it unlikely that the drastic quarantine measures imposed by China will be replicated in anything close to a similar extent elsewhere. However, even moderate restrictions on personal mobility can have significant economic impact above and beyond the direct costs associated with the illness.

In fact, when severe restrictions of movement are imposed, the economic impact can be almost coincidental to the sentiment downshift. A perfectly healthy worker unable to go to work or go out and shop because of public safety measures impacting mobility can instantaneously become a liability both on the supply and the demand side. Partial restrictions or self-imposed restrictions have a similar effect, it is simply a matter of magnitude and perhaps a slightly skewed distribution between the supply and demand shock (people may still go to work but restrict discretionary activities). Of course, when the situation reverts to normal, the bounce-back can be nearly instantaneous on the production side since there has been no impairment of the capital stock. Some consumption will be permanently lost, however, and not because sentiment cannot subsequently recover fully, but because the longer the mobility constraint, the larger the hit to actual labor incomes. We therefore will carefully watch incoming data to assess the degree of damage to incomes, which are the ultimate anchor to consumer spending. The number of people reporting they are working part time for economic reasons could spike in the event of a broad outbreak, aggregate hours could fall, and layoffs and unemployment claims could rise.

Precisely because the coronavirus threatens the consumer sector, so critical to the resilience theme we embraced throughout the 2019 trade war convulsions, we are now more concerned about the possibility of a recession over the next twelve months than we had been at any other time over the past year.

Estimating the ultimate economic impact of the virus is highly speculative at this time since there is so much we do not know about how the outbreak will actually evolve from here. There are encouraging signs that the outbreak is slowing in China (Figure 2), and that economic activity there is gradually coming back online. The big risk is whether—just as Chinese economic activity ramps up—activity elsewhere starts shutting down so that the global supply chain has a series of "rotating shutdowns" that persist over an extended period. The one good news is that this is not a capital stock impairment situation of the kind that often occurs during floods, earthquakes or other natural disasters. Because of this, it is reasonable to anticipate that once mobility restrictions are lifted, activity can resume very quickly.

Figure 2: Covid-19 Cases And Fatalities In China



Sources: China National Health Commission

Our full official forecasts will be published later in March. What we can definitely say already, however, is that the hit to economic activity is shaping up to be more severe than it appeared initially. It is highly unlikely that the 0.3 percentage point (ppt) improvement in global economic growth we were anticipating for 2020 back in

December will materialize. Risks are in fact starting to tilt the other way with a considerable chance that 2020 may be weaker than 2019. If so, it would mark the slowest global growth performance since 2009.

Chinese GDP growth, which we originally looked to lower from 5.9% to 5.5% may in fact come in closer to 5.2%. We are reducing US growth—which we had pushed up two tenths in December to 2.1% following the Phase 1 trade deal and USMCA—by three tenths to 1.8%. Eurozone and UK growth projections will also come down by a similar 0.3 percentage point margin. Perhaps the most significant downgrades will be made to the Japan forecast, where we were previously anticipating a fairly robust expansion but now see the economy contracting in 2020. To be clear, the Japanese downgrade is a function of several other factors, not just the coronavirus. Indeed, downward revisions to recent history and a weaker than expected fourth quarter explain the bulk of the downgrade. But Japan is highly susceptible to coronavirus impact, in part due to high dependence on external demand in general and Chinese demand in particular. But given its demographics, should the virus spread broadly in Japan, the mortality rate there could be relatively higher despite top notch care. Consequently, we anticipate outsized declines in consumer sentiment which will preclude a quick recovery in consumer spending following the post VAT-tax hike plunge in Q4. Another risk stems from the possibility that the Tokyo Olympic games may be delayed or even cancelled. Even if they are not, their commercial success could be undermined by the epidemic as tourists who might have planned to attend could alter those plans.

In assessing the ultimate growth impact both in individual economies and globally, the policy response—both monetary and fiscal— will be critical. There is considerable value in deploying such stimulus, even if temporary in nature, to partly compensate for the potential loss of income (both on the business and individual side). We've already seen such responses in China, Hong Kong, Malaysia, and others. More will likely follow.

In the United States, we anticipate the Fed to cut interest rates soon, possibly even before the March meeting. At the time of this writing, Fed Chair Powell had just released a statement saying that "The Federal Reserve is closely monitoring developments and their implications for the economic outlook. We will use our tools and act as appropriate to support the economy."

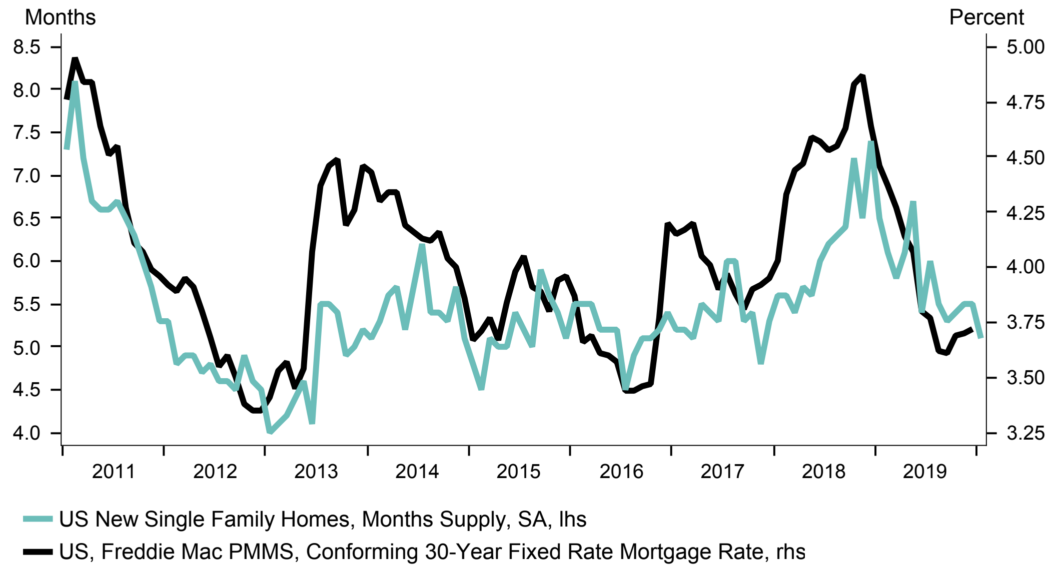
Admittedly, the Fed faces a tricky situation. Incoming data so far this year have been better than expected. January payrolls far better than expected, housing data far better than expected, ISM manufacturing back in expansion and regional Fed surveys pointing to a sharp pick-up in manufacturing activity, small business sentiment far better than expected, personal income and spending resilient, even inflation is turning a bit higher. Based on these, there would be no reason whatsoever for the Fed cut rates. The trouble is that none of these releases captures rapidly growing risks due to the coronavirus outbreak. With rapidly escalating cases outside of China, including central areas in Europe and now even sub-Saharan Africa, the CDC has warned that it is "a matter of when, not if" the virus would spread in the US and that the US population should prepared for considerable disruption to daily life. In our mind, this fully qualifies for the type of "material change to the outlook" which Fed officials have repeatedly said would be required to move them off the sidelines.

Thus, while the Fed may typically like to wait to see the risks to the outlook actually translated into data, there seems to be little benefit in waiting until that occurs and believe the Fed will deliver some pre-emptive easing soon. We believe the Fed is at most one bad payrolls or consumer confidence report away from a cut. It may not even wait for that first bad data point to materialize. Given the financial market convulsions of the last week, there is value in the Fed cutting soon even if only to minimize second round effects (well, in this case, first round effects) from tightening financial conditions. We would, however, see these cuts to be different in nature from the 2019 “mid-term adjustment” in that we would expect this easing to be subsequently fully reversed once economic activity gets back to normal. By contrast, the 2019 cuts were meant to bring actual rates close alight with a lowered estimate of the neutral interest rate.

US

The housing sector data continues to send very positive signals as lower mortgage rates aid affordability. **New home sales** soared in January, up 7.9% on the month to a new cycle high of 764,000 (annualized). The number of homes available for sale rose by only 1,000, pushing inventory down to just 5.1 months’ worth of sales, the least since November 2017. The median sales price of a new single-family home surged 7.4% during the month and was 14% higher than January 2019. The average price jumped 7.8% m/m and was 11.4% higher y/y. The number of homes sold but not yet started jumped again, suggesting that buyers may be rushing to lock in favorable mortgage rates. But since these houses will eventually need to be build, we see here some positive leading signals for residential construction in 2020.

Figure 3: Housing Market Tightening Again Amid Lower Mortgage Rates



Sources: U.S. Census Bureau, Freddie Mac

There is broadening evidence that home price inflation is reaccelerating, although the broader measures that look at existing homes paint a far less aggressive picture than what the latest price data for new homes suggested. But even these are turning. The

FHFA the **price of existing single family homes** jumped by 0.6% in December, causing this measure of home price inflation to accelerate two tenths to 5.2% y/y .

The **Case-Shiller 20-City composite price index** rose 0.4% or more in each of the four months through December, lifting this measure of home price inflation to an eleven-month high of 2.8% y/y. It appears that the higher costs, higher tax markets that suffered as a result of caps on state and local tax deductions are now making a bit of a comeback. For example, following six consecutive declines, New York home prices recoded solid back to back gains for the last four months. In Los Angeles, prices have now risen for five consecutive months and in Boston they've posted strong gains in each of the last three.

Housing demand is being supported not just by low rates, but also by strong incomes. **Personal income** rose a solid 0.6% in January, the most since February 2019, as wage and salary income rose 0.5%. Disposable income rose 0.6% and real disposable income—most relevant for consumption—was up 0.5%, the best since August. Typically, we would cheer such data. Unfortunately, given the coronavirus outbreak, these numbers tell us more about where we were going (a pretty good place), rather than where we will be going (a more uncertain one). Even with minimal restrictions on personal movement, we could see reductions in hours worked in coming weeks and that will undermine income growth from March onward. The savings rate, currently at 7.9%, offers some cushion, but probably not as much as the headline figure might suggest since those savings are not evenly distributed. Should conditions genuinely deteriorate, we see a fiscal policy response as increasingly needed and increasingly likely. Meanwhile, **personal spending** came in a bit light during the month, with real spending up only 0.1%.

The **PCE (personal consumption expenditures) deflator** was a bit softer than expected as the headline accelerated a tenth, but only to 1.7% y/y as prior data was revised lower. The same was true for the core measure, which accelerated a tenth, but only to 1.6% y/y.

Consumer confidence has also been elevated, but that could quickly and dramatically change depending on the evolution of the outbreak. In fact, we were surprised to see the **University of Michigan consumer sentiment index** tick incrementally higher in the final read for February (up 0.1 point from the preliminary read and up 1.2 points since January) to the highest level since March 2018. But this is unlikely to last. According to the accompanying statement, "the coronavirus was mentioned by 8% of all consumers in February when describing the reasons for their economic expectations. However, on Monday and Tuesday of this week, the last days of the February survey, 20% mentioned the coronavirus due to the steep drop in equity prices as well as the CDC warnings about the potential domestic threat of the virus." It seems likely that February will mark a near term high, as sentiment could deteriorate quite precipitously in coming weeks. Short term (next 12 months) inflation expectations eased a tenth to 2.4% while long term (5-10 years) drifted two tenths lower to 2.3%. The latter has bounced around in a narrow 2.2-2.6% range for nearly four years.

Had it not been for the uncertainty cloud cast by the virus, we would also have cheered the latest **durable goods orders** data. Having rebounded 2.9% in December, durable goods orders only retreated 0.2% in January, far ahead of expectations of a 1.4% drop. Capital goods orders actually rose 0.6% as there was a surprising surge in non-defense aircraft orders. Core orders (non-defense capital goods excluding aircraft)—a leading indicator for business equipment investment (BEI) in the GDP accounts—jumped 1.1%. Equally good news was the large favorable revision to the prior month, now showing a much smaller 0.5% contraction, compared with the initially reported 0.9% drop. Year-ago comparisons remain dismal, however. Durable goods orders are down 2.3% y/y, capital goods orders are down 7.9% y/y, and core orders rose just 1.4%. Overall shipments fell 0.2% but core shipments jumped 1.1%. Overall inventories were flat while core inventories fell 0.3%. The inventory to sales ratio was unchanged at 1.74 months, otherwise the highest since December 2015.

Canada

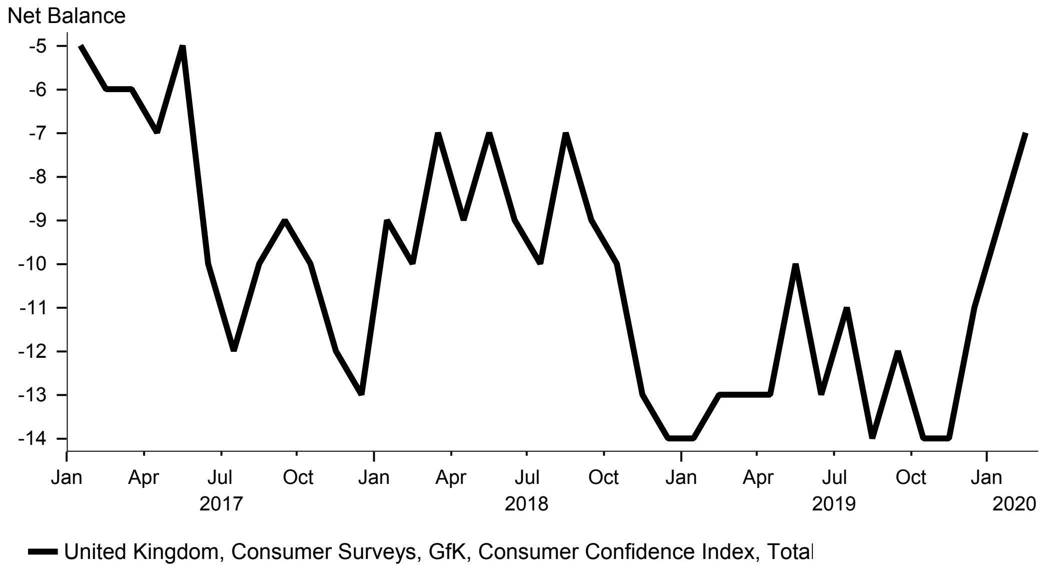
Canada's **GDP** growth slowed to 1.5% on a seasonally adjusted annual (saar) basis in the fourth quarter from 1.6% prior. On a quarterly basis however, GDP rose by just 0.1% q/q, slowest since the fourth quarter of 2015. Growth in household consumption was unchanged at 0.5%, led by a 0.7% contraction in consumption of services. The main detractor was business investment though—registering a loss of 0.8%. residential investment slowed to 0.3% (+3.1% in Q3), while investment in machinery and equipment outright contracted for the third consecutive quarter by 3.6%. Net exports also fell 0.6%, with falling exports offsetting the decline in imports. Final domestic demand edged up 0.2%, after rising 0.8% in the third quarter. Businesses accumulated C$10.5 billion of inventories, partly attributable to supply chain disruptions. As a matter of fact, activity in the fourth quarter has faced quite a lot of distractions— including pipeline shutdowns, rail transportation strikes, strikes disrupting motor vehicle and parts manufacturing, and continued global trade tensions and market uncertainty. We expect downside risks to Q1 2020 arising from supply chain disruptions and consequent loss of global trade. The annual growth rate of Canada's real GDP was 1.6% for 2019, consistent with our forecast, and a deceleration from the 2.0% growth in 2018.

UK

Various measures of house price inflation appear to be bottoming out, if they haven't already. The **Nationwide index of house prices** has now experienced two sizable increases in the past four months and has risen in each of the past five. Following a 0.3% increase in February, it settled 2.3% higher than a year earlier, the best comparison since July 2018.

Consumer sentiment has been trying to crawl back out of the hole where it had been pushed over the course of 2019 by the never-ending political/Brexit drama. The **GfK index of consumer confidence** was unchanged improved 2 points to -7, a little better than expected and the best reading since August 2018 (Figure 4, page 8). This sort of positive surprise is exactly what had been driving our more upbeat assessment of the UK economy relative to consensus so getting a little validation for that view is nice. However, this is another one of those upside surprises that really doesn't tell us much about the future anymore given the virus will likely push this back in the other direction soon.

Figure 4: UK Consumer Confidence Improves, But Can It Last?



Sources: GfK

Eurozone

The final read on fourth quarter ***German* GDP** confirmed the previously reported stagnation. GDP was unchanged from the third quarter, when it had expanded by 0.2% q/q. As a result, the GDP growth for 2019 came in at 0.6%, the lowest since 2013. Domestic demand reaccelerated despite stagnant household consumption but it mostly reflected an inventory build-up so things weren't quite as good as they seemed at first glance. Some of those stocks were sourced from imports as net exports detracted from growth in the fourth quarter.

The closely watched **IFO business climate indicator** for ***Germany*** edged up one tenth from an upwardly revised 96.0 in January to 96.1 in February. Companies were more pessimistic about current conditions (down 0.3 points to 98.9) but still upbeat on the six months ahead outlook (+0.5 points to 93.4). Manufacturing sentiment improved for the third successive month, based on improved expectations of future. Services sentiment, on the other hand, deteriorated again. All economic participants, regardless of sector, have reason to worry about the Covid-19 virus and these concerns will likely start making their way through the actual data soon.

The strength of ***Germany*'s labor market** has been a key underpinning for consumer confidence and the last few reports have been reassuring. Most importantly, some of the softer elements of the data—vacancies, number of unemployed—are showing signs of stabilization, though it remains to be seen if this trend has staying power. The number of unemployed decreased by 10,000, but the claimant count unemployment rate was unchanged at 5.0%. The seasonally unadjusted rate (which garners more attention domestically) was unchanged at 5.3% but that only matched the February 2019 level as the lowest of any February in the history of the series. Vacancies declined by 5,000, which is worse than in January, but better than what we had seen in the prior several months.

Japan

The **unemployment rate** in Japan crept up by two tenths to 2.4% in January, as the number of employed persons decreased by 25,000 to 69 million. However, another aspect of the labor report which stands out, and will probably become more important going forward is the participation rate, which dropped 0.3 percentage points (ppts) to 61.8%, the lowest since February last year. Participation fell across both sexes—a reduction of 0.3 ppts to 71.1% in males, and that of 0.4 ppts to 53.0% in females. We expect the participation rate to drop further, as more and more people refrain from going out to work due to Covid-19 scare. Actually, the number of non-regular employees dropped substantially in January, more than in October when typhoon Hagibis hit the coastal areas. However, jobs are becoming harer to come by as well. The slump in manufacturing is also posing difficulty in employment generation, as evidenced by the jobs-to-applicant ratio—a measure of labor market tightness—which fell by 0.08 to 1.49, the lowest since May 2017, while the number of new jobs per applicant decreased by 0.40 to 2.04.

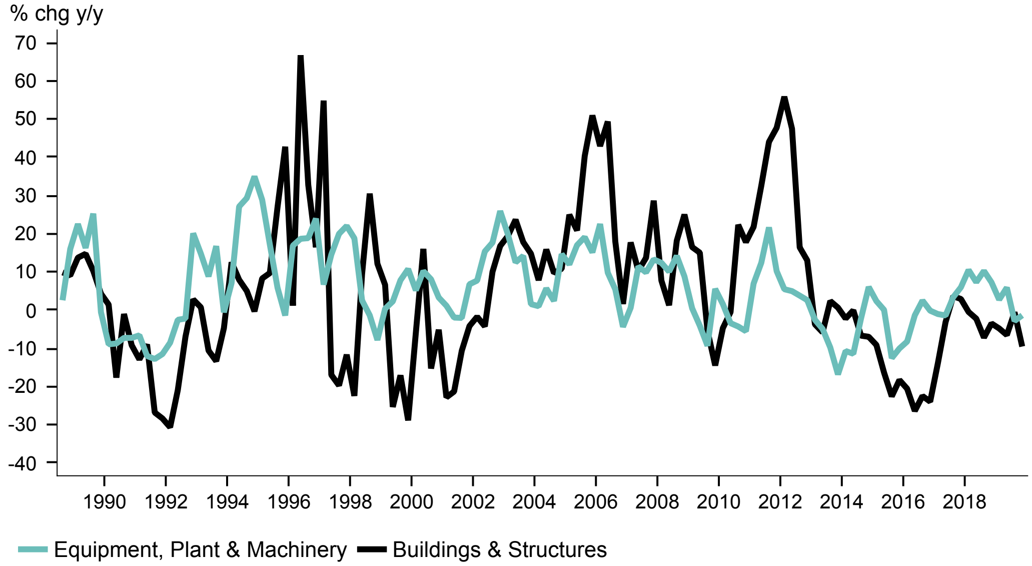
Industrial production increased for the second consecutive month in January, but again due to a sharp accumulation in inventories. Production increased by 0.8%, after a 1.2% rise in December. Production of motor vehicles increased by 5.5%, the sharpest in almost two decades; but most of the gains went into inventories (+12.6%) rather than shipments. Even excluding vehicles, there was increased activity in transport equipment industry, up 16.6%. Some of the rise was negated by falls in production machinery (-3.4%), business machinery (-2.8%), and ICT equipment (-1.8%)—typically the industries at maximum risk from supply chain disruptions originating from China. Inventories rose significantly by 1.5%, whereas shipments edged up just 0.2%. Inventories are currently at their highest level since February 2009. The shipment-to-inventory ratio fell 1.5%, still close to a record high. The inventory adjustment process will prove to be drag over subsequent months. The Ministry of Economy, Trade and Industry (METI) forecasts output to increase moderately in February (+5.3%), followed by a more-than offsetting fall in March (-6.9%), which we feel are realistic, though the figure for February looks a bit optimistic to us.

Retail sales surprised on the upside in January, rising 0.6% contrary to expectations of a fall of 0.1%. The growth trends showed a large decline for general merchandise (-2.4%) and apparels (-1.1%). They were offset by a rebound in electric machinery & household equipment which rose 5.2% following the drop post the consumption tax hike. On an annual basis, sales fell by 0.4% y/y, a substantial improvement from the 2.6% decline in December.

Australia

Capital spending quite disappointingly contracted in the fourth quarter, and the Q3 gain was revised downward to a loss of -0.4% q/q. New **private capital expenditures** contracted 2.8%, the sharpest since the third quarter of 2016, and the fourth consecutive fall. The weakness was concentrated in building and structures which fell 5.9%, the most since second quarter of 2016; which more than offset a 0.8% increase in equipment and machinery. The decline in capex was broad based across industries, including mining (-2.7%), manufacturing (-10.1%) and “other” industries (-1.9%). The forward-looking component of the survey was tad more upbeat, with solid mining capex intentions (8.8% higher in 2020) driving expected growth in 2020 and 2021. However, non-mining intentions were softer (2.3% lower in 2020) pointing to a contraction in capex over 2020. There are significant downsides to the outlook though, if the impact of Covid-19 on global supply chains intensifies. Actual 20196 spending was 2.5% lower than in 2018 and the lowest since 2016.

Figure 5. Downside Risks To Capex In Australia



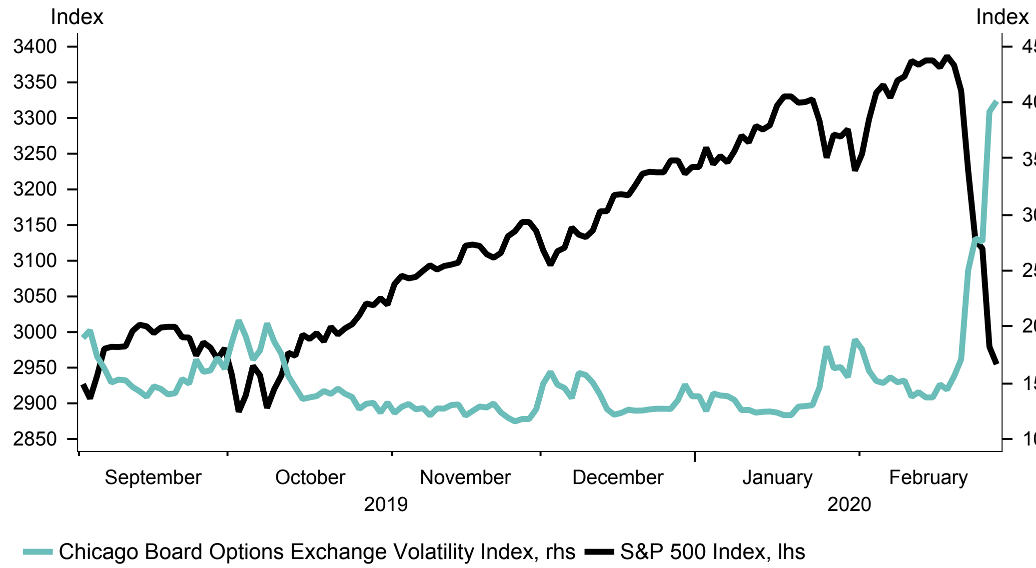
Sources: Australian Bureau of Statistics

There are indications of the deceleration in credit growth having bottomed out. **Private sector credit** rose 0.3% m/m in January, the sharpest since February of last year. Housing credit growth was unchanged at 0.3% for a fourth month, with owner-occupier credit slowing a tenth to 0.4%, but investor credit edged up by 0.1%, having remained unchanged or fallen over the past year. Business credit increased 0.5%, the most since March 2019, while personal credit (-0.6%) continued its decline. The annual rate of growth was up by 0.1 percentage points to 2.5% y/y as owner-occupier credit grew at 5.1%, the sharpest in eight months. The RBA has insisted that credit growth needs to pick up before we see a sustained improvement in housing, and these might be the first signs of a revival in housing credit, as easing regulatory conditions and the interest rate cuts feed into sentiment.

The Market This Week

Carnage. In our mind, the term appropriately describes market action this week, with many stock markets down by double digits or close thereof. The explanation can be summarized just as concisely: coronavirus.

Figure 6: Fastest Market Correction In History As Volatility Spikes



Sources: Macrobond, Bloomberg

Equities: Violent risk-off sentiment drives stocks to worst week since 2009.

Bonds: Bond yields jolt violently lower. US 10-year yields hit record lows.

Currencies: The dollar loses ground on virus worries and Fed cut expectations.

Commodities: Oil plummets; gold suddenly gives back much of its earlier gains.

2/28/20 3:29 PM

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®	2908.03	-12.9%	-10.0%	1.12	-35	-79	98.085	-1.2%	1.8%
Canada	TSE 300	16110.01	-9.7%	-5.6%	1.11	-17	-59	1.3404	1.4%	3.2%
UK	FTSE®	6580.61	-11.1%	-12.8%	0.44	-13	-38	1.2814	-1.2%	-3.3%
Germany	DAX	11890.35	-12.4%	-10.3%	-0.61	-18	-42			
France	CAC-40	5309.9	-11.9%	-11.2%	-0.29	-9	-41	1.104	1.8%	-1.5%
Italy	FTSE® MIB	21984.21	-11.3%	-6.5%	1.10	19	-31			
Japan	Nikkei 225	21142.96	-9.6%	-10.6%	-0.15	-10	-14	107.58	-3.6%	-0.9%
Australia	ASX 200	6441.2	-9.8%	-3.6%	0.82	-12	-55	0.6527	-1.5%	-7.0%

Commodity Markets						
Commodity	Unit	Source	Last Price	%Ch Week	%Ch YTD	%ChYr Ago
Oil (Brent)	US $/Barrel	Bloomberg	49.88	-13.8%	-24.9%	-24.2%
Gold	US $/troy oz	Bloomberg	1583.65	-3.6%	4.4%	20.6%

Source: Bloomberg®

Week in Review (February 24–February 28)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, February 24					
GE	IFO Business Climate (Feb)	95.3	96.1	96.0(↑r)	Steady.
Tuesday, February 25					
US	FHFA House Price Index (Dec, m/m)	0.4%	0.6%	0.3%(↑r)	Lower rates help boost prices.
US	S&P CoreLogic 20-City Index (Dec, m/m)	0.4%	0.4%	0.5%	Lower rates help boost prices.
US	Consumer Confidence (Feb)	132.2	130.7	130.4(↓r)	Looks good now, but virus is a major risk.
GE	GDP (Q4, final, q/q)	0.0%(p)	0.0%	0.2%	Dismal, but we already knew it.
JN	Leading Index (Dec, final)	91.6(p)	91.6	90.8	A slight recovery, but likely to be short-lived.
Wednesday, February 26					
US	New Home Sales (Jan, thous)	718	764	708(↑r)	New cycle high.
FR	Consumer Confidence (Feb)	103	104	104	Steady.
Thursday, February 27					
US	Initial Jobless claims (Feb 22, thous)	212	219	211(↑r)	Still low but virus is a major threat.
US	GDP (Q4, second, q/q saar)	2.1%	2.1%	2.1%	Old news by now…
US	Durable Goods Orders (Jan, prelim, m/m)	-1.4%	-0.2%	2.9%(↑r)	Core orders surged, but rear-view signal.
US	Pending Home Sales (Jan, m/m)	3.0%	5.2%	-4.3%(↑r)	Housing demand is strong!
US	Kansas City Fed Manf. Activity (Feb)	-1	5	-1	Good, but another rear-view signal…
AU	Private Capital Expenditure (Q4, q/q)	0.5%	-2.8%	-0.4%(↓r)	Downside risks to the outlook.
Friday, February 28					
US	Personal Income (Jan, m/m)	0.4%	0.6%	0.1%(↓r)	Critical indicator to watch.
US	Personal Spending (Jan, m/m)	0.3%	0.2%	0.4%(↑r)	Depends on the above.
US	U of M Cons. Sentiment (Feb, final)	100.9(p)	101.0	99.8	Best since March 2018 but virus a major risk.
US	Chicago PMI (Feb)	46.0	49.0	42.9	In line with much better regional Fed surveys.
CA	GDP (Dec, m/m)	0.1%	0.3%	0.1%	Q4 GDP was a tad underwhelming.
UK	GfK Consumer Confidence (Feb)	-8	-7	-9	Can the improvement last amid virus outbreak?
UK	Nationwide House PX (Feb, m/m)	0.4%	0.3%	0.5%	Decent.
GE	Unemployment Rate (Feb)	5.0%	5.0%	5.0%	Good.
FR	GDP (Q4, final, q/q)	-0.1%(p)	-0.1%	0.2%	We already knew this.
FR	Consumer Spending (Jan, m/m)	0.0%	-1.1%	-0.3%	Painful but not shocking given protests.
JN	Unemployment Rate (Jan)	2.2%	2.4%	2.2%	Lower employment, participation falls as well.
JN	Retail Sales (Jan, m/m)	-0.1%	0.6%	0.2%	Positive surprise.
JN	Industrial Production (Jan, prelim, m/m)	0.2%	0.8%	1.2%	Again due to a build-up in inventories.
AU	Private Sector Credit (Jan, m/m)	0.2%	0.3%	0.2%	A positive report.

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

Week Preview (March 2–March 6)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, March 2				
US	ISM Manufacturing (Feb)	50.5	50.9	Possible that lengthening delivery times skew this higher.
UK	Manufacturing PMI (Feb, final)	51.9(p)	50.0	More of a signal of what was happening than of what will happen
EC	Manufacturing PMI (Feb, final)	49.1(p)	47.9	Ditto…
GE	Manufacturing PMI (Feb, final)	47.8(p)	45.3	Ditto…
GE	Retail Sales (Jan, m/m)	0.8%	-2.0%(↑r)	
FR	Manufacturing PMI (Feb, final)	49.7(p)	51.1	
IT	Manufacturing PMI (Feb, final)	48.9(p)	46.2	Ditto…
JN	Manufacturing PMI (Feb, final)	47.6(p)	48.8	
Tuesday, March 3				
GE	Retail Sales (Jan, m/m)	0.7%	-2.0% (↑r)	
IT	Unemployment Rate (Jan, prelim)	9.8%	9.8%	
JN	Consumer Confidence (Feb)	38.3	39.1	Lowest in quite some time, and falling.
AU	RBA Monetary Policy Decision	0.75%	0.75%	No action this week, but may not be case for long.
Wednesday, March 4				
US	Fed Beige Book Report			Complete rear-view picture…
US	ISM Nonmanufacturing (Feb)	55.0	55.5	We see downside risks here from travel services.
US	Total Vehicle Sales (Feb)	16.8	16.8	
CA	BoC Monetary Policy Decision	1.75%	1.75%	No need for action immediately, global headwinds intensify.
UK	Services PMI (Feb, final)	53.3(p)	53.9	More of a signal of what was happening than of what will happen
EC	Services PMI (Feb, final)	52.8(p)	52.5	Ditto…
GE	Services PMI (Feb, final)	53.3(p)	54.2	Ditto…
FR	Services PMI (Feb, final)		-0.1%	
IT	GDP (Q4, final, q/q)	-0.3%(p)	0.1%	
JN	Services PMI (Feb, final)	46.7(p)	51.0	Not looking good…
AU	GDP (Q4, q/q)	0.4%	0.4%	Bushfires should be a slight drag on this quarter.
Thursday, March 5				
US	Initial Jobless claims (Feb 29, thous)		219	
US	Nonfarm Productivity (Q4, final, q/q)	1.4%(p)	-0.2%	
US	Factory Orders (Jan, m/m)	-0.4%	1.8%	
US	Durable Goods Orders (Jan, final, m/m)	-0.2%(p)	2.9%	
Friday, March 6				
US	Change in Nonfarm Payrolls (Feb, thous)	175	225	Probably too soon to see virus impact, but risks rising.
US	Unemployment Rate (Feb)	3.5%	3.6%	Probably too soon to see virus impact, but risks rising.
US	Consumer Credit (Jan, $ bil.)	17.0	22.0	
CA	Unemployment Rate (Feb)		5.5%	Expect a positive report.
CA	Trade Balance (Jan, C$ bil.)		-0.4	
GE	Factory Orders (Jan, m/m)	1.4%	-2.1%	
IT	Retail Sales (Jan, m/m)		0.5%	
JN	Labor Cash Earnings (Jan, y/y)	0.2%	0.0%	Ticking up, but painfully slow.
JN	Leading Index (Jan, prelim)	91.3	91.6	
AU	Retail Sales (Jan, m/m)	0.0%	-0.5%	Should be up slightly as temporary effects fade.

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

Economic Indicators

Central Bank Policy Targets

Region	Target	Year/Year % Change in Target				
		Sep	Oct	Nov	Dec	Jan
US	Target: PCE price index 2.0% y/y	1.3	1.3	1.3	1.5	1.7
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	1.9	1.9	2.2	2.2	2.4
UK	Target: CPI 2.0% y/y	1.7	1.5	1.5	1.3	1.8
Eurozone	Target: CPI below but close to 2.0% y/y	0.8	0.7	1.0	1.3	1.4
Japan	Target: CPI 2.0% y/y	0.2	0.2	0.5	0.8	0.7
Australia	Target Range: CPI 2.0%-3.0% y/y	1.7	1.8	1.8	1.8	

Source: Macrobond

Key Interest Rates

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
US (top of target range)	2.50	2.50	2.50	2.50	2.25	2.00	1.75	1.75	1.75	1.75	1.75
Canada (Overnight Rate)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
UK (Bank Rate)	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
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	-0.08	-0.07	-0.06	-0.06	-0.03	-0.03	-0.07	-0.04	
Australia (OCR)	1.50	1.50	1.28	1.02	1.00	1.00	0.76	0.75	0.75	0.75	

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				
	Oct	Nov	Dec	Jan	Feb		Sep	Oct	Nov	Dec	Jan
US	1.8	2.1	2.3	2.5			1.5	1.1	1.1	1.3	2.1
Canada	1.9	2.2	2.2	2.4			-1.3	-1.4	-0.6	0.5	0.5
UK	1.5	1.5	1.3	1.8			1.2	0.8	0.5	0.9	1.1
Eurozone	0.7	1.0	1.3	1.4			-1.1	-1.8	-1.4	-0.7	
Germany	1.1	1.1	1.5	1.7	1.7		-0.1	-0.6	-0.7	-0.2	0.2
France	0.8	1.0	1.5	1.5	1.4		-0.6	-1.2	-0.3	0.7	0.3
Italy	0.2	0.2	0.5	0.5	0.4		-1.6	-2.9	-2.6	-2.1	
Japan	0.2	0.5	0.8	0.7			-1.1	-0.4	0.1	0.9	1.7
Australia	1.8	1.8	1.8				1.6	1.4	1.4	1.4	

Source: Macrobond February 2020

Real GDP Growth (Q/Q Seasonally Adjusted)											
	Quarter/Quarter % Change						Year/Year % Change				
	Q4-18	Q1-19	Q2-19	Q3-19	Q4-19		Q4-18	Q1-19	Q2-19	Q3-19	Q4-19
US	0.3	0.8	0.5	0.5	0.5		2.5	2.7	2.3	2.1	2.3
Canada	0.2	0.2	0.9	0.3	0.1		1.8	1.5	2.0	1.6	1.5
UK	0.2	0.6	-0.1	0.5	0.0		1.4	2.0	1.3	1.2	1.1
Eurozone	0.3	0.4	0.2	0.3	0.1		1.2	1.4	1.2	1.2	0.9
Germany	0.2	0.5	-0.2	0.2	0.0		0.6	1.0	0.3	0.6	0.5
France	0.5	0.3	0.4	0.3	-0.1		1.2	1.3	1.5	1.4	0.8
Italy	0.1	0.2	0.1	0.1	-0.3		-0.1	0.1	0.2	0.5	0.0
Japan	0.5	0.6	0.5	0.1	-1.6		-0.3	0.8	0.8	1.8	-0.4
Australia	0.2	0.5	0.6	0.4			2.1	1.7	1.6	1.7	

Source: Macrobond

Industrial Production Index (M/M Seasonally Adjusted)											
	Month/Month % Change						Year/Year % Change				
	Sep	Oct	Nov	Dec	Jan		Sep	Oct	Nov	Dec	Jan
US	-0.3	-0.4	0.9	-0.4	-0.3		-0.2	-0.8	-0.5	-0.9	-0.8
Canada	-0.5	0.0	-0.4	0.3			-2.4	-2.5	-1.8	-1.2	
UK	0.2	0.1	-1.2	0.1			-1.8	-1.6	-2.5	-1.9	
Germany	-0.8	-1.2	1.2	-3.5			-4.3	-4.7	-2.5	-6.7	
France	0.3	0.4	0.0	-2.8			0.4	-0.2	0.9	-3.0	
Italy	-0.4	-0.4	0.0	-2.7			-2.3	-2.5	-0.8	-3.8	
Japan	1.7	-4.5	-1.0	1.2	0.8		-0.3	-6.6	-6.7	-5.6	-2.4

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)											
	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
US	3.6	3.6	3.7	3.7	3.7	3.5	3.6	3.5	3.5	3.6	
Canada	5.7	5.4	5.6	5.7	5.7	5.5	5.6	5.9	5.6	5.5	
UK	3.8	3.9	3.8	3.9	3.8	3.8	3.8	3.8			
Eurozone	7.6	7.6	7.5	7.6	7.5	7.5	7.5	7.5	7.4		
Germany	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
France	8.5	8.5	8.5	8.5	8.6	8.5	8.5	8.4	8.4		
Italy	10.1	10.0	9.8	9.9	9.6	9.9	9.7	9.8	9.8		
Japan	2.4	2.4	2.3	2.3	2.3	2.4	2.4	2.2	2.2	2.4	
Australia	5.2	5.2	5.3	5.2	5.3	5.2	5.3	5.2	5.1	5.3	

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

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 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 February 28 2019, 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.

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.

©2020 State Street Corporation.

All Rights Reserved.

2537623.41.1.GBL.RTL

Exp. Date: 03/31/2021