
January 14, 2022

Commentary

Weekly Economic Perspectives

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Big miss for US retail sales. Industrial production jumps in the UK and surges in the eurozone. Producer price inflation moderates in Japan. Australian retail sales surge pre-Omicron.

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Spotlight on Next Week

Mixed signals from Fed manufacturing surveys. CPI inflation to nudge higher in Canada and the UK. No hawkish pivot from the BoJ.

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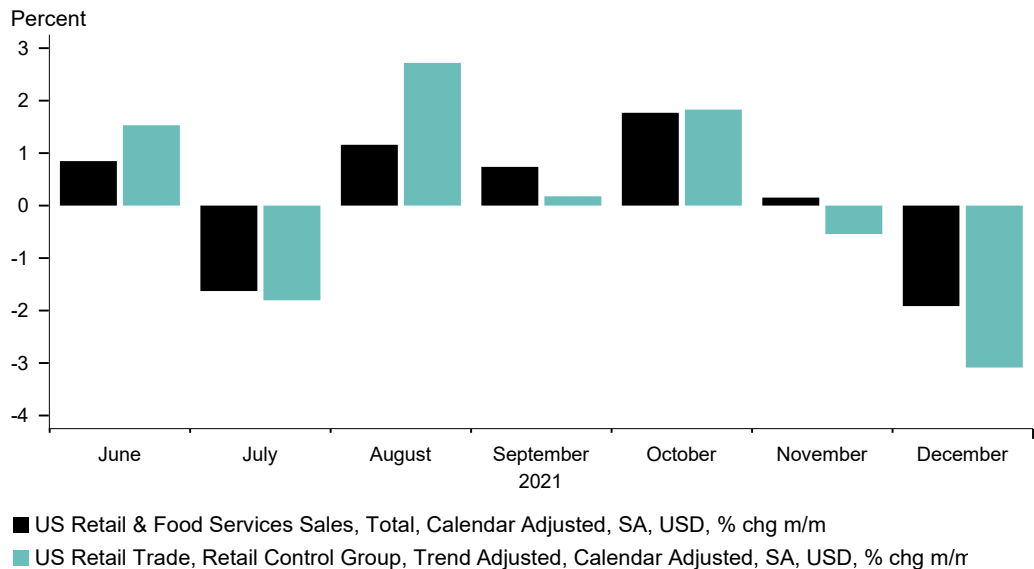
The Economy

A light data week dominated by soft prints across a range of US indicators.

US

None of the US data flow this week was particularly upbeat but **retail sales** were by far the biggest disappointment. Overall retail sales declined 1.9% in December vs the 0.1% expected slowdown. Control sales (ex food services, building materials, autos dealers and gas stations) fared even worse with a 3.1% drop that was the worst since February. Was it supply chain problems, Omicron, or high inflation that caused this decline? Probably all of the above, and perhaps something more as well. On that latter point, core retail sales have now exhibited unusually large declines in three of the last four Decembers (-3.2% in 2018 and -2.8% in 2020), suggesting some change in seasonal purchase patterns that hasn't yet been reflected in the seasonal factors used to adjust the official data. Increasingly it seems as though holiday-related shopping is being brought forward and mostly done by the time December rolls around. That most likely played a role this year given the severity of supply constraints. Omicron likely played a role as well, although the biggest impact would likely be visible this month. In December sales at restaurant and bars declined 0.8%, not nearly as much the 8.7% plunge in online sales, the 5.5% drop in furniture, or the 3.1% decline in clothing sales. Not all the details were as grim as the headline; notably, sales of building materials improved, as did the "miscellaneous" category. And let's not forget that even with the disappointing December print, total sales are still up 16.9% y/y and core sales were up 12.9% y/y.

Figure 1: Soft End To Strong Year For US Retail Sales



We do not think December retail sales are representative of the underlying strength of consumer demand. However, we wouldn't entirely dismiss the warning signal from it either; the less affluent households are facing a new year devoid of the fiscal policy largesse that has supported family finances and consumer spending. Without that income inflow going forward, spending patterns will need to align more closely with

labor incomes. Rising interest rates will add some pressure here as borrowing costs rise as well. This space is worth watching.

High inflation is eroding purchasing power and consumer sentiment. According to preliminary estimates, the **Michigan consumer sentiment index** dropped 1.8 points to 68.8 in January to hit the second-lowest level since December 2011 (the lowest was in November). Both the current situation and the expectations metrics deteriorated. Inflation expectations ticked higher. Short-term (1-year) expectations revisited the recent high of 4.9% while long-term (5-10 years) expectations made rose two tenths to 3.1%, the highest since 2011.

Inflation is certainly high and came in marginally stronger than expected yet again in December. **Consumer prices** rose 0.5% during the month, with core prices (excluding food and energy) up 0.6%. The two respective measures of inflation touched 7.0% y/y and 5.5% y/y, the highest levels since June 1982 and February 1991, respectively. Energy prices actually eased slightly, but transportation costs rose sharply on higher prices for motor vehicles, used and new. Recreation prices declined a modest 0.2%, perhaps a function of Omicron. But elsewhere, prices rose almost universally, with services up 0.3%, housing up 0.5%, and medical care up 0.3% and apparel up 1.7%. The combination of repeated upside surprises in inflation and steady uptick in inflation expectations in the context of low unemployment and rising wages is certainly a worrisome combination for the Fed. The stars seem to be aligning for a March rate hike as FOMC members feel urgent action is needed to prevent an inflationary spiral. That's fine as long as the upcoming policy tightening is not put on auto-pilot but carefully monitored at each step for evidence that the seemingly robust economy is more vulnerable than we think.

It is far too soon to conclude that pipeline inflationary pressures are easing, but there is *some* reason to hope. **Producer prices** rose just 0.2% in December, the smallest monthly gain in over a year, allowing the PPI inflation rate to ease a tenth to 9.7% y/y in December. However, energy prices had a lot to do with this slowdown. Core prices increased by 0.5% and the core measure of PPI inflation (excluding food and energy) hit a new high of 8.3%. The alternative core measure (which also excludes the volatile trade services component) was unchanged at 6.9% y/y.

Import prices eased 0.2% in December—only the second decline this year—allowing import price inflation to retreat 1.3 percentage points to 10.4% y/y. Even though this was again largely an oil price decline story that will not carry into January, we expect import price inflation to moderate noticeably in coming months. During the first quarter of 2021 import prices surged by an average 1.4% per month. That is highly unlikely to repeat so base effects should become a lot more favorable going forward. One detail of note, which we had highlighted before, is that China appears to be now exporting inflation. Import prices from China rose 4.7% y/y, the most since August 2008.

Industrial production declined incrementally in December as a 1.5% drop in utilities and a 0.3% pullback in manufacturing production offset a healthy gain in mining to leave overall output 0.1% lower than in November. Production was still up 3.7% y/y but that was the softer comp since March. For the year as a whole, industrial production was 5.8% higher than in 2020.

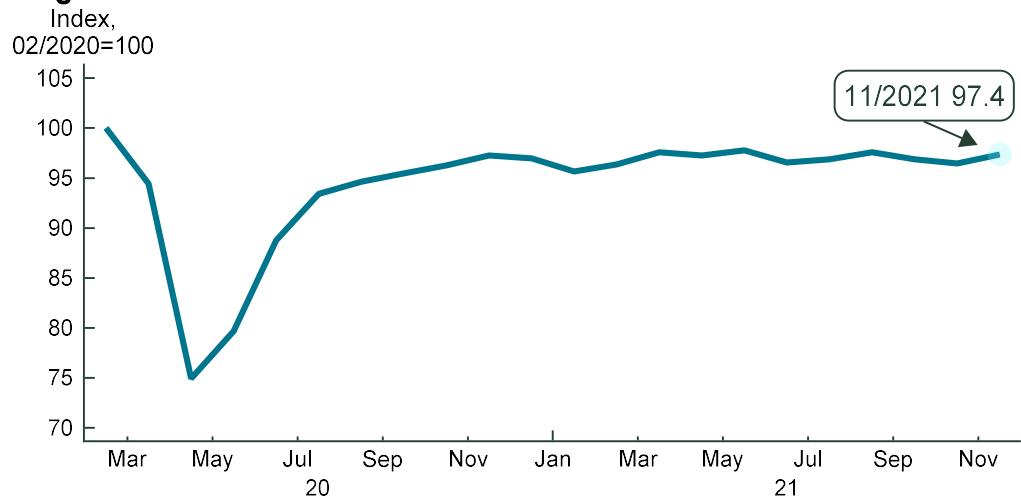
Canada

No major data releases this week.

UK

Industrial production rose 1.0% in November, beating expectations of 0.2% , and from a revised -0.5% in October. The increase was driven by the growth in three of the four production sectors, with manufacturing rising by 1.1%, water supply and sewerage by 1.6%, and electricity and gas by 1.3%. In contrast, mining and quarrying fell by 1.3% due to the decline in extraction of crude oil and natural gas (-2.3%). Output was still 2.6% below its February 2020 level.

Figure 2. UK Industrial Production Still Below Pre-Covid Level



Sources: SSGA Economics, ONS
Updated as of 1/14/2022

Eurozone

Following three sizable back-to-back declines, **eurozone industrial production** posted its best monthly gain of the year in December, up 2.3%. However, the level of output was still 1.5% lower than in December 2020. On a full-year basis, workday-adjusted industrial production grew 9.5% in 2021.

There has been little movement in the **Italian unemployment rate** in recent months, with the measure moving within a very tight range between 9.2% and 9.4% since June. This is because although employment rose by about a cumulative 320,000 since June, there has been an increase in the labor force, capping the decline in the unemployment rate. But this is a positive dynamic that we hope to see continue.

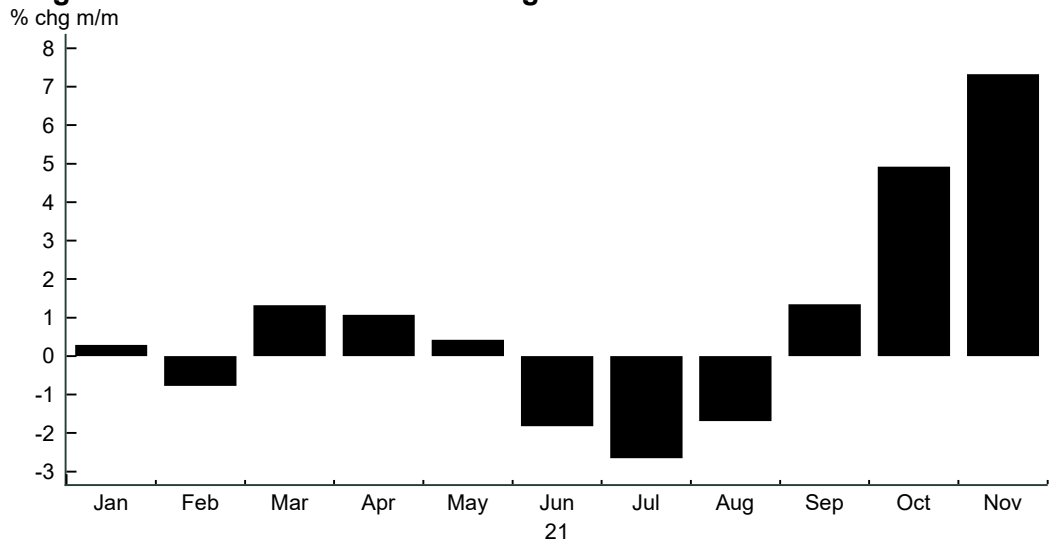
Japan

Producer prices declined for the first time in thirteen months in December, allowing **PPI inflation** to ease seven tenths to 8.5% y/y.

Australia

The end of lockdowns brought the Australian consumers out in force in October and November. After a 4.9% jump in October, sales surged a further 7.3% in November, the biggest monthly gain since May of 2020. Clothing sale soared 38.2% (on top of October’s 27.8% jump...after all, if you are finally going out, you might as well do it in style! Household goods rose 11.6% and sales at restaurants and bars increased 9.3%. Food and alcohol sales were the exception to the rule, registering sizable declines. Total sales rose 5.8% y/y in November. Unfortunately, Omicron means the party won’t last—the surge in cases is bound to bring about a big reversal.

Figure 3: Australian Retail Sales Surge Prior To Omicron



■ Australia, Retail Trade, Total, Current Prices, SA, AUC

Sources: SSGA Economics, ABS

Week in Review (January 10- January 14)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, January 10					
IT	Unemployment Rate (Nov)	9.3%	9.2%	9.4%	Little change since June.
Tuesday, January 11					
US	NFIB Small Business Optimism (Dec)	98.5	98.9	98.4	Stuck in narrow range.
FR	Bank of France Ind. Sentiment (Dec)	104	108	106 (↑)	Impressive!
IT	Retail Sales (Nov, m/m)	0.5%	-0.4%	0.2%	Up 12.5% y/y.
JN	Leading Index CI (Nov, prelim)	102.9	103	101.5	Encouraging.
AU	Retail Sales (Nov, m/m)	3.6%	7.3%	4.9%	Impressive!
Wednesday, January 12					
US	CPI (Dec, y/y)	7.1%	7.0%	6.8%	Highest since 1982; core highest since 1991!
US	Monthly Budget Statement (Dec, \$b)	n/a	-21.0	-143.6	Smallest monthly deficit during Covid era.
EC	Industrial Production (Nov, m/m)	0.5%	2.3%	1.1%	But still down 1.5% y/y...
Thursday, January 13					
US	PPI Final Demand (Dec, y/y)	9.8%	9.7%	9.8% (↑)	Was November the peak?
US	Initial Jobless Claims (08- Jan,k)	208	230	207	Odd increase, but low level.
US	Continuing Claims (01-Jan,k)	n/a	1,599	1,753 (↓)	Big drop!
IT	Industrial Production (Nov, m/m)	0.5%	1.9%	-0.5% (↑)	Very good.
Friday, January 14					
US	Retail Sales Advance (Dec, m/m)	-0.1%	-1.5%	0.2% (↓)	Big miss. Rising prices, Omicron, less transfers?
US	Import Price Index (Dec, y/y)	n/a	10.4%	11.7%	Has it peaked?
US	Industrial Production (Dec, y/y)	0.3%	-0.1%	0.7% (↑)	Lower utilities, manufacturing.
US	Business Inventories (Nov)	1.0%	1.3%	1.3% (↑)	Another large increase.
US	U. of Mich. Sentiment (Jan, prelim)	70.0	68.8	70.6	Second-lowest in a decade...a warning here.
UK	Industrial Production (Nov, m/m)	0.2%	1.0%	-0.5% (↑)	Strong report
FR	CPI (Dec, y/y, final)	2.8%	2.8%	2.8%	Likely headed higher.
JN	PPI (Dec, y/y)	8.8%	8.5%	9.2% (↑)	Has it peaked?

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

Week Preview (January 17– January 21)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, January 17				
CA	Manufacturing Sales (Nov, m/m)	1.6%	4.3%	Weaker activity
CA	Existing Home Sales (Dec, m/m)	n/a	0.6%	Market could calm down in December
JN	Core Machine Orders (Nov, m/m)	1.2%	3.8%	
JN	Tertiary Industry Index (Nov, m/m)	1.0%	1.5%	
JN	Industrial Production (Nov, m/m, final)	n/a	7.2%	
JN	Capacity Utilization (Nov, m/m)	n/a	6.2%	
Tuesday, January 18				
JN	BOJ Policy Balance Rate	-0.1%	-0.1%	Eye on future inflation but no change in stance.
US	Empire Manufacturing (Jan)	25.0	31.9	
US	NAHB Housing Market Index (Jan)	84	84	How much will rising mortgage rates hurt?
CA	Housing Starts (Dec, k)	280	301.3	Retreat from November's high
UK	Average Weekly Earnings (Nov, 3m/yoy)	4.2%	4.9%	Continue to get weaker
UK	ILO Unemployment Rate (Nov, 3mths)	4.2%	4.2%	Continue its downward trend but still above pre-covid state
GE	ZEW Survey Expectations (Jan)	32.5	29.9	
AU	Westpac Consumer Conf Index (Jan)	n/a	104.3	
Wednesday, January 19				
US	Building Permits (Dec, k)	1,705	1,717	
US	Housing Starts (Dec, k)	1,650	1,679	
CA	Teranet/National Bank HPI (Dec, y/y)	n/a	15.2%	House price inflation appears to have peaked
CA	CPI (Dec, y/y)	4.8%	4.7%	No peak yet.
UK	CPI (Dec, y/y)	5.2%	5.1%	No peak yet.
GE	CPI (Dec, y/y, final)	5.3%	5.2%	
AU	Unemployment Rate (Dec)	4.5%	4.6%	The RBA will soon have to recognize stronger data.
Thursday, January 20				
US	Initial Jobless Claims (15-Jan, k)	205	230	
US	Continuing Claims (08-Jan, k)	n/a	1,559	
US	Existing Home Sales (Dec, m/m)	-0.8%	1.9%	
US	Philadelphia Fed Business Outlook (Jan)	20.5	15.4	Watching price signals.
UK	GfK Consumer Confidence (Jan)	-16	-15	Slight deteriorated given concerns on new Covid variant
EC	CPI (Dec, y/y, final)	5.0%	4.9%	
GE	PPI (Dec, y/y)	19.4%	19.2%	
FR	Business Confidence (Jan)	109	110	
JN	Natl CPI (Dec, y/y)	0.9%	0.6%	
Friday, January 21				
US	Leading Index (Dec)	0.8%	1.1%	
CA	Retail Sales (Nov, m/m)	1.2%	1.6%	Consumer activity likely to get softened in November
UK	Retail Sales Inc Auto Fuel (Dec, m/m)	-0.5%	1.4%	Softening demand given new Covid variant and restrictions

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

Economic Indicators

Central Bank Policy Targets

Region	Target	Year/Year % Change in Target				
		Jul	Aug	Sep	Oct	Nov
US	Target: PCE price index 2.0% y/y	4.2	4.2	4.4	5.1	5.7
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	3.7	4.1	4.4	4.7	4.7
UK	Target: CPI 2.0% y/y	2.0	3.2	3.1	4.2	5.1
Eurozone	Target: CPI below but close to 2.0% y/y	2.2	3.0	3.4	4.1	4.9
Japan	Target: CPI 2.0% y/y	-0.3	-0.4	0.2	0.1	0.6
Australia	Target Range: CPI 2.0%-3.0% y/y	3.0	3.0	3.0		

Source: Macrobond

Key Interest Rates

	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-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	0.25
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)	-0.02	-0.04	-0.02	-0.03	-0.05	-0.04	-0.04	-0.05	-0.03	-0.05	-0.02
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

										Forecast	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
US	-2.7	-2.5	-3.5	-4.2	-5.2	-6.1	-10.7	-8.8	-8.3	-7.1	
Canada	-0.6	0.0	0.1	-0.3	0.0	0.3	-8.1	-6.6	-2.7	-1.0	
UK	-4.9	-4.4	-3.3	-2.5	-2.3	-2.3	1.4	-5.6	-4.9	-3.5	
Eurozone	-0.7	-0.6	-0.5	-0.5	-0.3	-0.5	-4.6	-5.9	-3.1		
Germany	1.2	1.2	1.2	1.1	1.6	1.3	-3.1	-5.7	-1.6	-0.3	
France	-2.5	-2.1	-1.9	-1.9	-1.6	-2.1	-6.3	-7.5	-4.6	-3.9	
Italy	-1.0	-0.6	-1.3	-1.6	-1.7	-0.9	-5.9	-7.1	-3.8	-3.3	
Japan	-5.7	-4.4	-4.3	-3.5	-2.7	-2.6	-9.2	-8.0	-3.6	-2.0	
Australia	-2.7	-2.6	-2.3	-1.6	-1.2	-4.1	-7.9	-8.1	-5.8	-3.8	

Source: International Monetary Fund, World Economic Outlook

Headline Consumer and Producer Price Inflation

	CPI Year/Year % Change						PPI Year/Year % Change				
	Aug	Sep	Oct	Nov	Dec		Aug	Sep	Oct	Nov	Dec
US	5.3	5.4	6.2	6.8	7.0		8.7	8.8	8.9	9.8	9.7
Canada	4.1	4.4	4.7	4.7			14.5	15.1	16.7	18.1	
UK	3.2	3.1	4.2	5.1							
Eurozone	3.0	3.4	4.1	4.9			13.5	16.1	21.9	23.7	
Germany	3.9	4.1	4.5	5.2	5.3		12.0	14.2	18.4	19.2	
France	1.9	2.2	2.6	2.8	2.8		9.8	11.1	14.3	16.3	
Italy	2.0	2.5	3.0	3.7	3.9		11.6	13.3	20.4	22.1	
Japan	-0.4	0.2	0.1	0.6			5.9	6.5	8.3	9.2	8.5
Australia	3.0	3.0					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	0.6	-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	17.6	1.5	-1.3	5.4	1.1	-7.8	-6.4	-5.1	24.2	6.8
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				
	Aug	Sep	Oct	Nov	Dec	Aug	Sep	Oct	Nov	Dec
US	-0.2	-1.0	1.2	0.7	-0.1	5.3	4.6	4.8	5.0	3.7
Canada	0.5	0.2	1.5			7.0	5.6	7.2		
UK	0.7	-0.7	-0.4	0.9		3.1	1.5	0.2	0.1	
Germany	-3.5	-0.5	2.4	-0.2		2.0	-0.3	-0.9	-2.3	
France	1.0	-1.6	0.9	-0.4		3.9	0.5	-0.6	-0.5	
Italy	-0.2	0.1	-0.5	1.9		-0.3	4.6	2.1	6.2	
Japan	-3.6	-5.4	1.8	7.2		7.1	-2.3	-2.6	3.7	

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)

	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
US	6.2	6.0	6.0	5.8	5.9	5.4	5.2	4.7	4.6	4.2	3.9
Canada	8.2	7.5	8.1	8.2	7.8	7.5	7.1	6.9	6.7	6.0	5.9
UK	4.9	4.8	4.8	4.7	4.6	4.5	4.3	4.2			
Eurozone	8.1	8.1	8.2	8.0	7.8	7.6					
Germany	6.0	6.0	6.0	5.9	5.8	5.6	5.5	5.5	5.4	5.3	5.2
France	8.1	8.1	8.3	8.3	8.1	8.0	7.9	7.7	7.6	7.5	
Italy	10.1	10.0	10.1	9.9	9.4	9.2	9.3	9.2	9.4	9.2	
Japan	2.9	2.6	2.8	3.0	2.9	2.8	2.8	2.8	2.7	2.8	
Australia	5.9	5.7	5.5	5.1	4.9	4.6	4.5	4.6	5.2	4.6	

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	-3.5	-3.7
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	-1.6	-1.5	-4.7	-2.0	-2.3	-4.2
Eurozone	3.5	1.8	3.1	1.7	0.6	1.6	2.7	3.1	3.5	2.9	2.4
Germany	7.9	7.6	7.6	7.3	6.7	5.4	7.2	7.7	8.1	7.5	6.8
France	0.3	-0.4	-0.7	-0.4	-1.2	-3.5	-2.2	-0.9	-1.0	-0.6	-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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