
April 14, 2022

Commentary

Weekly Economic Perspectives

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US housing data set to deteriorate. UK consumer confidence might continue to erode. Eurozone manufacturing and service activity to retain good momentum.

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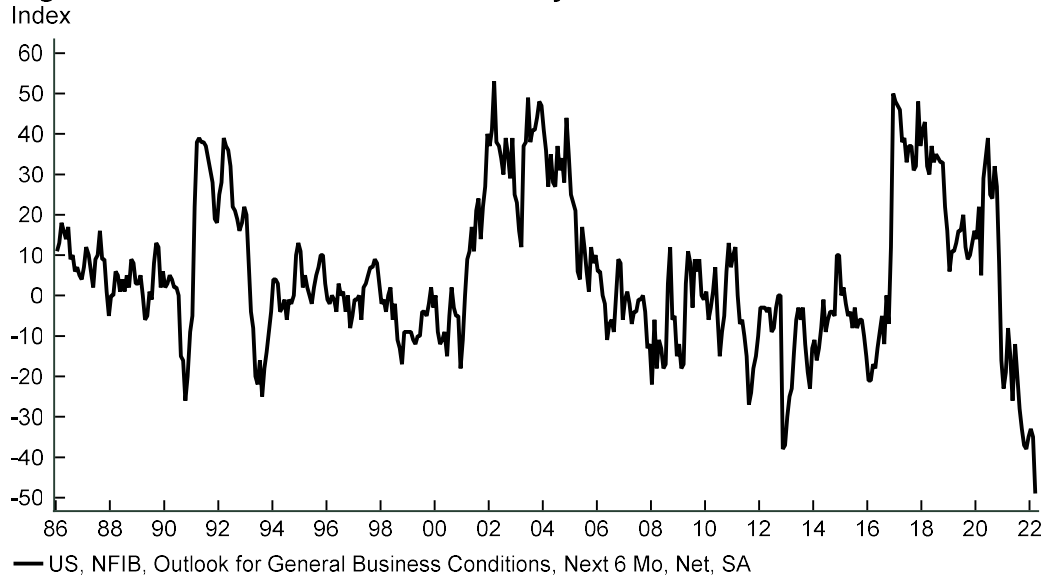
The Economy

Another week of data indicating intense inflation pressures.

US

The NFIB small business sentiment continues to deteriorate. It lost another 2.5 points in March to touch the lowest level since April 2020. The outlook for general business conditions hit a record low as sales expectations collapsed 14 points. Renewed upward pressure on costs amid the Ukraine war seems a likely culprit. Earlier evidence of incrementally diminishing wage and cost pressures was partly reversed in the latest reading, with both current and planned prices and current and planned compensations measures ticking a little higher.

Figure 1: US Small Businesses Gloomy On Business Conditions



Sources: SSGA Economics, NFIB

The March **retail sales** report did not offer much of a macro signal. The broad narrative remains one of gradual deceleration in real consumer spending growth. Nominal sales rose 0.5%, a little less than expected, but that was more than offset by the upward revision to the February data. Admittedly, higher gas prices accounted for much of the monthly gain: sales at gasoline stations surged 8.9% during the month. By contrast, sales excluding gasoline actually fell 0.3% as sales at non-store retailers dropped 6.4%. Control sales (excluding food services, building materials, autos dealers and gas stations) eased 0.1%. Total seasonally-adjusted nominal retail sales rose 6.9% y/y and control sales rose 4.4%. Given the rise in consumer price inflation of the period this implies year over year declines in real sales.

Inflation is, indeed, on everyone’s mind. How could it not be when **consumer price inflation** hit 8.5% y/y in March, and core inflation reached 6.5% y/y? Obviously, the surge in gasoline prices (up over 18% m/m) was a big driver behind the 1.2% jump in overall prices in March, although price increases remain very broad. Food prices increased 1.0%, the same as in February. Core prices rose 0.3% m/m, two tenths less than anticipated, which was very encouraging. Used car prices plunged 3.8%,

the first truly meaningful retreat in over a year and the largest in the post-Covid era. Among other things, this allowed core goods prices to actually retreat in March, a notable development. Shelter costs increased 0.5%, the same as in February, but we were a little encouraged by the slowdown in the rate of increase in primary residence rents. Thanks to some of these details, we took the March inflation print to be fairly encouraging despite the disheartening headlines.

The spike in global energy prices associated with the war in Ukraine has interrupted what appeared to be the early signs of peaking in import and producer price inflation. **Import price inflation** accelerated 1.2 percentage points (ppts) to 12.5% y/y in March, while **producer price inflation** accelerated 0.9 ppts to 11.3% y/y. Core producer price inflation (excluding food and energy) hit a new high of 9.2% y/y. The alternative core measure (which also excludes the volatile trade services component) and which had been moderating in the last couple of months reaccelerated 0.3 ppt to match the recent 7.0% y/y peak.

Canada

The **Bank of Canada (BoC)** raised its policy interest rate by 50 basis points to 1.0%, as expected. The increase was the largest since a similarly-sized move in May 2000. The BoC is also ending the reinvestment of government bonds and will start quantitative tightening on April 25. Quantitative tightening will complement increases in the policy rate, which is the bank's primary monetary policy instrument. Given soaring inflation, the BoC expects that further rate hikes will be necessary. In turn, higher interest rates should moderate growth in domestic demand, with housing market activity, which has elevated, expected to slow. On a separate note, the BoC raised its estimate of the neutral rate by 25 basis points to a range of 2.0%-3.0%, reflecting a similar change in assumptions regarding the US neutral rate. The change was explained as reflecting a smaller detrimental impact on income inequality from the Covid shock in the United States than previously anticipated.

Manufacturing sales grew by 4.2% in February on higher sales in motor vehicle assembly (+25%), food (+5.3%), petroleum and coal (+6.7%), as well as wood products (+8.5%). This was the fifth consecutive monthly increase. Excluding vehicles and parts, manufacturing sales were up 3.1%. In real terms, sales rose 2.2% in February, suggesting there was some inflationary pressure in addition to higher volumes of goods sold. The capacity utilization rate (not seasonally adjusted) for the total manufacturing sector rose from 73.7% in January to 76.9% in February on higher production. On an annual basis, sales were up 19.5% y/y.

UK

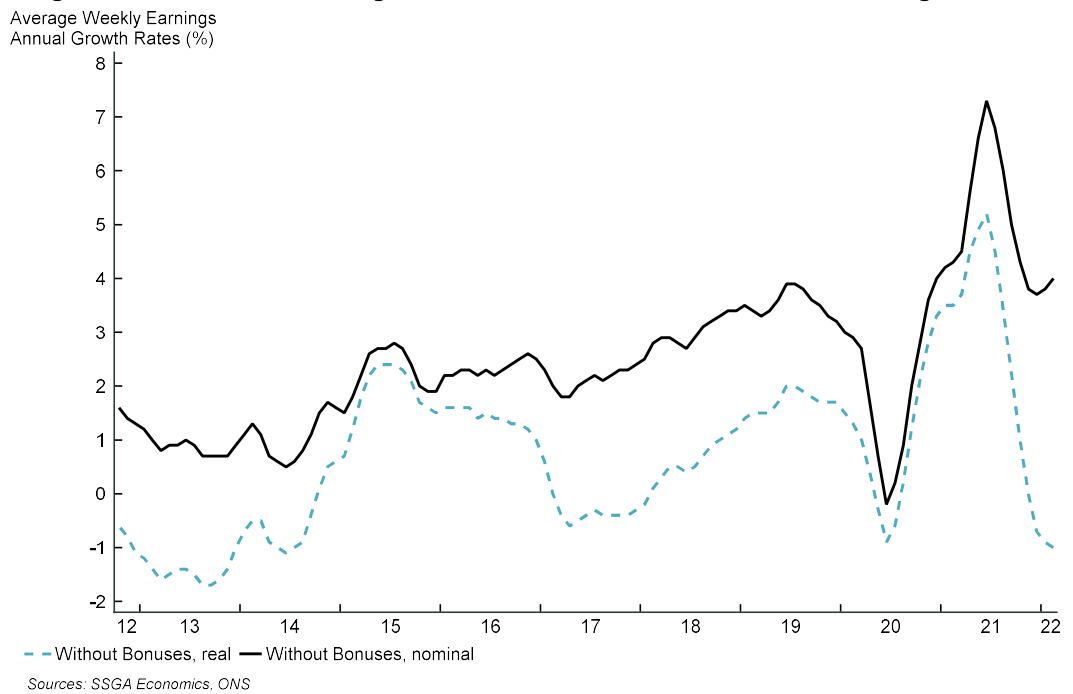
Headline **consumer price inflation** rose well above expectations to 7.0% y/y in March from 6.2% y/y in February. The increase was driven by broad-based increases, with core CPI up to 5.7% y/y in March from 5.2% y/y in February. Soaring commodity and energy prices, exacerbated by Russia's invasion of Ukraine pushed the headline inflation rate further to its highest since March 1992.

The latest data indicate that the labor market remains tight and stable but inflation has eaten into wages. The unemployment rate fell to 3.8% in the three months to February from 3.9% in January, matching the rate seen in late 2019. Payrolled employees for March increased modestly, up 35k on the revised February, to a record 29.6 million. Job vacancies also rose to a new record of 1,288,000 but the rate of

growth in vacancies continued to moderate. Despite the low unemployment rate, real earnings shrank by the most since 2013 in February. Annual growth in average earnings excluding bonuses increased to 4.0% y/y from 3.8% y/y but when adjusted for inflation, real earnings dropped by 1.0% y/y.

Industrial production disappointed with a 0.6% decline in February, with broad-based weaknesses in all subcomponent. Manufacturing output contracted 0.4%, water supply and sewerage declined 0.4%, and electricity and gas dropped 0.6%. Output was still 1.9% below its February 2020 level.

Figure 2. UK Real Earnings Fell While Labor Market Remains Tight



Eurozone

In comparison to the extremely hawkish rhetoric emanating from the Fed nowadays, this week’s **ECB meeting** was a rather subdued affair. No changes were made to policy rates (indeed, none were expected), while the asset purchase schedule under the APP program announced in March was re-iterated (€40 billion in April, €30 billion in May, and €20 billion in June). This clearly opens the door for some rate hikes as early as Q3 but in light of all the uncertainty around the Ukraine war, the ECB is wisely seeking to “maintain optionality, gradualism and flexibility in the conduct of monetary policy”. There was evidently a need to acknowledge surging inflation. Indeed, the statement noted that “Inflation has increased significantly and will remain high over the coming months, mainly because of the sharp rise in energy costs. Inflation pressures have intensified across many sectors.” Interestingly, there was no strong indication that incoming data diverged materially from expectations, but the Council will have a lot more data on hand to make that judgement in June.

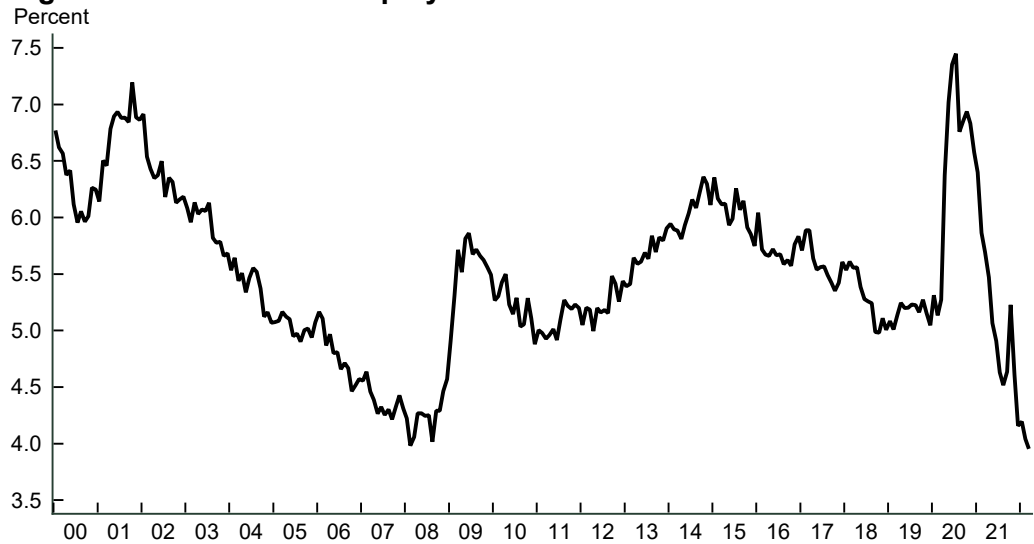
Japan

Japan's industrial sector data had perked up late last year but the start of 2022 brought a sharp retrenchment. Core machine orders dipped 2.0% in January and then plunged a much larger than expected 9.8% in February. Core orders were still 4.3% higher than a year earlier, but this is not the kind of start to the new year we were hoping to see. Between the war in Ukraine and lockdowns in China, we aren't holding out too much hope for near term improvement...

Australia

The macro data out of Australia continue to impress. Admittedly, employment gains moderated sharply to 17,900 in March, but given the one tent decline in the participation rate this was enough to keep the unemployment rate unchanged at a twin record low of 4.0%. The message to the RBA is clear: do not delay the start of normalization too much longer!

Figure 3: Australian Unemployment Rate At Twin Record Low



— Australia, Unemployment, Total, Rate, SA

Sources: SSGA Economics, ABS

Week in Review (April 11 – April 14)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, April 11					
UK	Industrial Production (Feb, m/m)	0.3%	-0.6%	0.7%	Disappointing.
JN	PPI (Mar, y/y)	9.2%	9.5%	9.7%	Elevated. Margin pressure.
AU	NAB Business Confidence (Mar)	n/a	16	13	OK.
Tuesday, April 12					
US	NFIB Small Business Optimism (Mar)	95	93.2	95.7	Business outlook at record low.
US	CPI (Mar, y/y)	8.4%	8.5%	7.9%	Core surprised to the downside.
US	Real Avg Weekly Earnings (Mar, y/y)	n/a	-3.6%	-2.2%	A headwind for consumption.
UK	Average Weekly Earnings (Feb, 3m y/y)	5.4%	5.4%	4.8%	Supported by strong bonus
UK	ILO Unemployment Rate (Feb, 3 mo)	3.8%	3.8%	3.9%	Strong data
GE	CPI (Mar, y/y, final)	7.3%	7.3%	5.1%	
GE	ZEW Survey Expectations (Apr)	-48.5	-41.0	-39.3	Not quite as bad as expected.
JN	Core Machine Orders (Feb, m/m)	-1.5%	-9.8%	-2.0%	Ouch!
AU	Westpac Consumer Conf Index (Apr)	n/a	95.8	96.6	OK
Wednesday, April 13					
US	PPI Final Demand (Mar, y/y)	10.6%	11.2%	10.0%	Broad increases.
UK	CPI (Mar, y/y)	6.7%	7.0%	6.2%	Remain elevated.
CA	Bank of Canada Rate Decision	1.00%	1.00%	0.50%	Large increase but as widely expected.
FR	Bank of France Ind. Sentiment (Mar)	104	103	107	Not a surprise amid war, elections.
IT	Industrial Production (m/m, Feb)	1.0%	4.0%	-3.4%	Welcome rebound.
Thursday, April 14					
US	Retail Sales Advance (Mar, m/m)	0.6%	0.5%	0.8%(↑)	OK.
US	Import Price Index (Mar, y/y)	11.8%	12.5%	11.3% (↑)	Broad increases.
US	Initial Jobless Claims (9 Apr, thous)	170	185	167 (↑)	Extremely low.
US	Continuing Claims (2 Apr, thous)	1,500	1,475	1,523	Extremely low.
US	Business Inventories (Feb)	1.3%	1.5%	1.3%(↑)	Steady gains.
US	U. of Mich. Sentiment (Apr, prelim)	59	65.7	59.4	Inflation expectations stable.
CA	Manufacturing Sales (Feb, m/m)	3.5%	4.2%	0.9% (↑)	Strong
EC	ECB Main Refinancing Rate	0.0%	0.0%	0.0%	Asset purchases expected to end in Q3.
AU	Unemployment Rate (Mar)	3.9%	4.0%	4.0%	Solid.

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

Week Preview (April 18 – April 22)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, April 18				
US	NAHB Housing Market Index (Apr)	77	79	Might weaken more.
CA	Housing Starts (Mar, thous)	n/a	247.3	Remain robust
Tuesday, April 19				
US	Building Permits (Mar, thous)	1,839	1,865 (↑)	
US	Housing Starts (Mar)	1,748	1,769	
CA	Existing Home Sales (Mar, m/m)	n/a	4.6%	Robust
JN	Industrial Production Feb, m/m, final)	n/a	-0.8%	
Wednesday, April 20				
US	Existing Home Sales (Mar, m/m)	-3.7%	-7.2%	
CA	CPI (y/y, Mar)	6.1%	5.7%	Still deteriorating.
CA	Teranet/National Bank HPI (Mar, y/y)	n/a	17.7%	Remain elevated
EC	Industrial Production (m/m, Feb)	0.5%	0.0%	
GE	PPI (y/y, Mar)	30.0%	25.9%	May be even worse.
Thursday, April 21				
US	Philadelphia Fed Business Outlook (Apr)	20.0	27.4	
US	Initial Jobless Claims (16 Apr, thous)	n/a	185	
US	Continuing Claims (9 Apr). thous)	n/a	1,475	
US	Leading Index (Mar)	0.3%	0.3%	
UK	GfK Consumer Confidence (Apr)	-33	-31	Erosion in consumer sentiment continues.
EC	CPI (y/y, Mar, final)	7.5%	5.9%	
FR	Business Confidence (Apr)	105	107	
JN	Natl CPI (y/y, Mar)	1.2%	0.9%	
JN	Jibun Bank Japan PMI Mfg (Apr, prelim)	n/a	54.1	.
Friday, April 22				
CA	Industrial Product Price (Mar, m/m)	n/a	3.1%	Inflationary pressure likely to increase.
CA	Retail Sales (m/m, Feb)	n/a	3.2%	Inflation might affect sales.
UK	Retail Sales Inc Auto Fuel (Mar, m/m)	-0.3%	-0.3%	Headwinds from high inflation.
UK	Manufacturing PMI (Apr, prelim)	54.0	55.2	Growth slowing down.
UK	Services PMI (Apr, prelim)	60.0	62.6	Robust.
EC	Manufacturing PMI (Apr, prelim)	54.8	56.5	
EC	Services PMI (Apr, prelim)	55.0	55.6	
FR	Manufacturing PMI (Apr, prelim)	53.0	54.7	
GE	Manufacturing PMI (Apr, prelim)	54.5	56.9	
GE	Services PMI (Apr, prelim)	55.5	56.1	

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

Economic Indicators

Central Bank Policy Targets

Region	Target	Year/Year % Change in Target				
		Oct	Nov	Dec	Jan	Feb
US	Target: PCE price index 2.0% y/y	5.1	5.6	5.8	6.1	
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	4.7	4.7	4.8	5.1	5.7
UK	Target: CPI 2.0% y/y	4.2	5.1	5.4	5.5	6.2
Eurozone	Target: CPI below but close to 2.0% y/y	4.1	4.9	5.0	5.1	5.9
Japan	Target: CPI 2.0% y/y	0.1	0.6	0.8	0.5	0.9
Australia	Target Range: CPI 2.0%-3.0% y/y	3.5	3.5	3.5		

Source: Macrobond

Key Interest Rates

	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22
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	0.25	0.25	0.50
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	-0.03	-0.05	-0.04	-0.04	-0.05	-0.03	-0.05	-0.02	-0.02	-0.01
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

	2014	2015	2016	2017	2018	2019	2020	2021	Forecast	
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				
	Oct	Nov	Dec	Jan	Feb	Oct	Nov	Dec	Jan	Feb
US	6.2	6.8	7.0	7.5	7.9	8.9	9.9	9.9	10.0	10.0
Canada	4.7	4.7	4.8	5.1	5.7	16.6	17.1	15.9	16.3	16.4
UK	4.2	5.1	5.4	5.5	6.2	8.8	9.4	9.4	9.9	10.1
Eurozone	4.1	4.9	5.0	5.1	5.9	21.9	23.7	26.3	30.6	
Germany	4.5	5.2	5.3	4.9	5.1	18.4	19.2	24.2	25.0	25.9
France	2.6	2.8	2.8	2.9	3.6	14.3	16.7	17.2	20.1	
Italy	3.0	3.7	3.9	4.8	5.7	20.4	22.2	22.8	32.9	
Japan	0.1	0.6	0.8	0.5	0.9	8.4	9.2	8.7	8.9	9.3
Australia	3.5	3.5	3.5			3.7	3.7	3.7		

Source: Macrobond

Economic Indicators

Real GDP Growth (Q/Q Seasonally Adjusted)

	Quarter/Quarter % Change					Year/Year % Change				
	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21
US	1.1	1.5	1.6	0.6	1.7	-2.3	0.5	12.2	4.9	5.6
Canada	2.2	1.2	-0.9	1.3	1.6	-3.1	0.2	11.7	3.8	3.3
UK	1.5	-1.2	5.6	1.0	1.0	-6.4	-5.0	24.6	7.0	6.5
Eurozone	-0.3	-0.1	2.2	2.3	0.3	-4.3	-0.9	14.6	4.0	4.6
Germany	0.7	-1.7	2.2	1.7	-0.3	-2.9	-2.8	10.4	2.9	1.8
France	-1.1	0.2	1.3	3.1	0.7	-4.3	1.7	19.0	3.5	5.4
Italy	-1.6	0.3	2.7	2.5	0.6	-6.1	0.1	17.6	3.9	6.2
Japan	1.9	-0.5	0.6	-0.7	1.1	-0.8	-1.8	7.3	1.2	0.4
Australia	3.2	1.9	0.8	-1.9	3.4	-0.8	1.3	9.6	4.0	4.2

Source: Macrobond

Industrial Production Index (M/M Seasonally Adjusted)

	Month/Month % Change					Year/Year % Change				
	Oct	Nov	Dec	Jan	Feb	Oct	Nov	Dec	Jan	Feb
US	1.4	0.8	-0.4	1.4	0.5	4.7	5.0	3.4	3.6	7.5
Canada	1.4	0.1	-0.4			7.1	4.8	3.2		
UK	-0.8	0.7	0.3	0.6		0.1	-0.2	0.4	2.3	
Germany	2.3	0.3	1.1	2.7		-1.4	-2.2	-2.8	1.5	
France	1.4	-0.8	-0.1	1.6		-0.5	-0.4	0.0	-1.5	
Italy	-0.7	1.8	-1.1	-3.4		2.4	6.5	4.7	-2.2	
Japan	1.8	7.0	-1.0	-0.8		-2.6	3.5	2.7	-1.2	

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)

	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22
US	6.0	5.8	5.9	5.4	5.2	4.7	4.6	4.2	3.9	4.0	3.8
Canada	8.0	8.0	7.6	7.4	7.1	7.0	6.8	6.1	6.0	6.5	5.5
UK	4.8	4.7	4.6	4.5	4.3	4.2	4.1	4.1	3.9		
Eurozone	8.2	8.0	7.8	7.6	7.5	7.3	7.3	7.1	7.0	6.8	
Germany	6.0	5.9	5.8	5.6	5.5	5.5	5.4	5.3	5.2	5.1	5.0
France	8.2	8.2	8.1	8.0	7.9	7.7	7.5	7.3	7.2	7.0	
Italy	10.1	9.8	9.4	9.1	9.2	9.1	9.3	9.1	9.0	8.8	
Japan	2.8	2.9	2.9	2.8	2.8	2.8	2.7	2.8	2.7	2.8	
Australia	5.5	5.1	4.9	4.6	4.5	4.6	5.2	4.6	4.2	4.2	4.0

Source: Macrobond

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

	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21
US	-2.3	-2.2	-1.9	-2.1	-3.2	-3.3	-3.3	-3.4	-3.5	-3.8	-3.6
Canada	-1.3	-2.2	-1.6	-3.2	-1.1	-2.0	-0.8	0.1	0.1	0.1	-0.1
UK	-2.9	-2.5	0.5	-2.6	-1.6	-1.5	-4.7	-2.0	-2.3	-4.2	
Eurozone	1.8	3.1	1.7	0.6	1.6	2.7	3.1	3.5	2.9	2.4	2.3
Germany	7.7	7.8	7.4	6.7	5.2	7.3	8.4	8.8	7.8	7.0	6.6
France	-0.4	-0.6	-0.4	-1.2	-3.6	-2.1	-0.9	-0.7	-0.4	-0.7	-1.4
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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