STATE STREET GLOBAL ADVISORS

February 11, 2022
Commentary

Weekly Economic Perspectives

Contents

Spotlight on Next Week
Autos to lift US retail sales. UK inflation to remain highly elevated. Q4 GDP rebound seen in Japan.

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The Economy

A fairly quiet data week dominated by US inflation and monetary policy expectations.

US

To be sure, there was no relief to be found in the January **inflation** data. There remains the question, however, as to whether the report was as scary as the market interpreted it to be. Although, in all fairness, the market took more fright from St. Louis Fed President Bullard's hawkish comments arguing for a 50 basis point move in March and 100 basis points worth of hikes by July 1. We admit it is getting more difficult to stick to our preferred, more measured, rates view in light such comments and current market pricing. However, we persist with that view because, although January's inflation data did not capture any of the incipient signs of easing supply chain pressures, we suspect the next few reports will start reflecting them.

Both headline and core consumer prices increased 0.6% in January, repeating their December performance and lifting the two respective measures of inflation to 7.5% y/y and 6.0% y/y—the highest levels since 1982. Prices rose across the board, with a small decline in gasoline prices among the few exceptions. Services prices jumped 0.6%, double the December rate, as seemingly everything moved up sharply. Recreation and medical services caught our eye with monthly gains of 0.9% and 0.7%, respectively, that were notably higher than recent prints. The 0.7% increase in housing was sizable but not outside recent norms and not really surprising given increases in rents and fuel/utility costs. Food prices rose 0.9% and are up 7.0% y/y. On a go-forward basis, we found the flat print on new vehicle prices encouraging as it corroborates other evidence of improving motor vehicle supply. Before long, this should start to depress used car prices, which are up an astonishing 40.5% y/y.

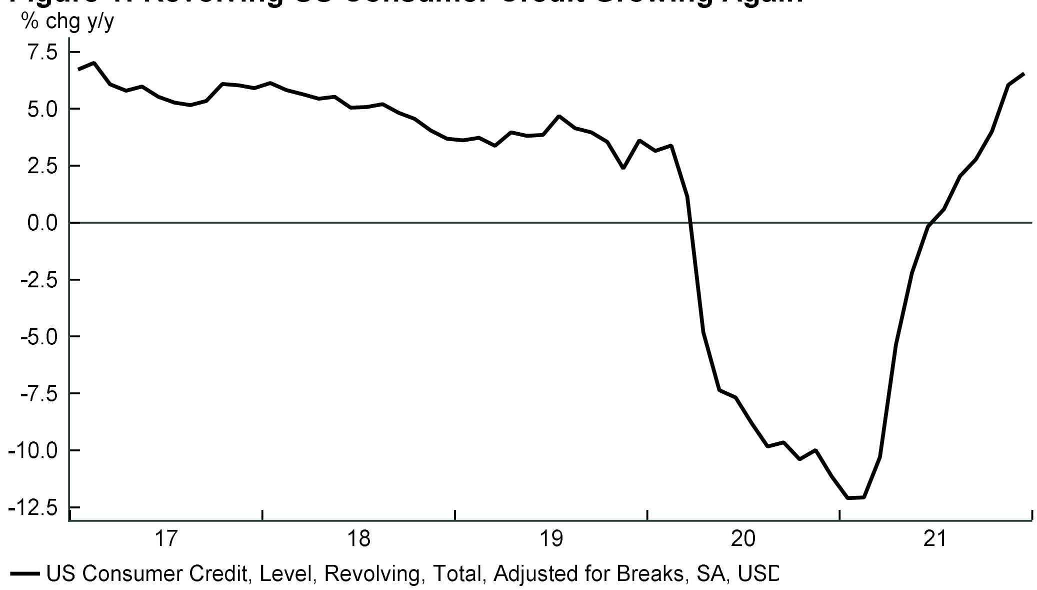
Given all the focus on monthly price changes at the moment, we find some value in looking at an inflation picture from a different angle, trying to consider what price increases would seem reasonable in a world where supply chain limitations no longer play a role. There is general agreement that a good chunk of that 40.5% surge in used car prices over the past year will have to be unwound over the coming one. But how about hotel rates – does it make sense to see them up 23.6% y/y? Has the cost of offering a room risen quite so much over the past year?

There is much to say, much we don't know, and much to await clarity on in regard to inflation. For now, let us end with a couple of lighthearted observations: does it make much sense that boys' apparel prices are up 6.7% y/y while girls' apparel prices are down 4.3% y/y? And speaking of clothing: prices for men's pants and shorts plunged 5.1% in January—the biggest decline across all CPI categories. Time to stock up!

Meltdown is a strong but not unreasonable way to describe the behavior of the **Michigan consumer sentiment index** of late. According to preliminary estimates, the headline collapsed 5.5 points to 61.7 in February, and is now at the lowest level since October 2011. More of the decline occurred on the expectations side, likely in response to a further uptick in short-term inflation expectations, now at 5.0% and the highest since 2008. Longer term inflation expectations remained at 3.1%, also the highest since 2008 (save for January). Although consumers in the aggregate still sit on considerable excess savings, the implications for consumer spending are clearly negative here. However, it might take a bit to start seeing retail sales weakness due to pent-up motor vehicle demand that can finally be met by improving supply.

Following a big surge in November, **consumer credit growth** moderated in December. The composition of that growth was also different in that it came almost exclusively from non-revolving credit. Nevertheless, the most important trend to highlight here is that revolving credit (mostly credit card), is now growing rapidly again, having shrunk on a y/y basis for over a year. To us, this links back to diminished fiscal transfers and suggests a more circumspect and price-sensitive consumer. In conjunction with improving supply chains, this softer demand backdrop is why we do anticipate inflation to moderate notably during the second half of 2022.

Figure 1: Revolving US Consumer Credit Growing Again



Sources: SSGA Economics, Fed

The **NFIB small business optimism index** declined to an 11-month low of 97.1 in January. However, the details provided the most interesting story. It is too early to draw definitive conclusions, but there were several signs that small firms are starting to see some relief in regard to both labor and inventories. The proportion of respondents saying they have trouble filling open positions touched a seven-month low. Make no mistake: this metric is still close to record highs but we are most interested in directional change; is it getting harder or easier to find workers? We vote "easier" but since no indicator can single-handedly answer the question, we look for additional evidence in the compensation data. Admittedly, the actual compensation measure (wage increases over prior three months) hit a new record high, but the forward looking planned compensation measure (wage increases planned over the next three months) eased to a five-month low. We had long argued that there is a limit to how much wage inflation small businesses can absorb and we might be starting to test that limit. Much will depend on the labor force participation rate . The inventory data was also intriguing. The net percentage of respondents saying inventories are too low was the lowest since April 2021 and the net share of respondents saying they've increased inventories recently rose to the highest level since 1998. Easing labor and inventory challenges would suggest an alleviation of inflationary pressures in coming months, a trend we are watching carefully to help ascertain the appropriate path monetary policy path.

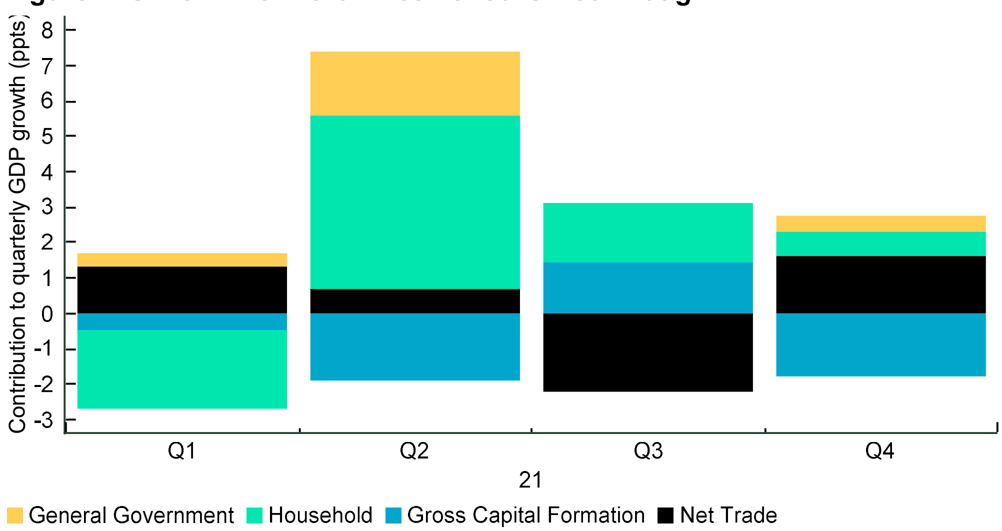
Canada

No major data releases

UK

The Omicron hit to the UK economy was modest compared to what was feared back in December. GDP contracted 0.2% in December following a 0.7% November gain, standing at its pre-covid February 2020 level. The first quarterly release of **Q4 GDP** showed that the economy grew 1.0% in Q4 2021, matching the downwardly revised Q3 performance. The increase was driven by the rise in household consumption, government consumption and exports. Household consumption rose 1.2% q/q, driven by increased spending on transport, net tourism, and clothing and footwear. Government consumption increased 1.9% q/q, largely due to rising health expenditure. Exports grew 4.9%, reversing the loss of 4.7% in Q3, driven by an 11.2% increase in the exports of goods, specifically fuels, chemicals, and machinery and transport equipment. Services exports, however, fell by 1.8% q/q. Imports contracted 1.5%, due to decline in both services and goods imports. Gross capital formation fell sharply by 10.1%, with business investment rising 0.9% but still 10.4% below pre-pandemic level. Real GDP in Q4 remained 0.4% below its pre-pandemic Q4 2019 level but expected to regain that level by Q2 this year.

Figure 2. UK GDP: Omicron Resilience Is Not Enough



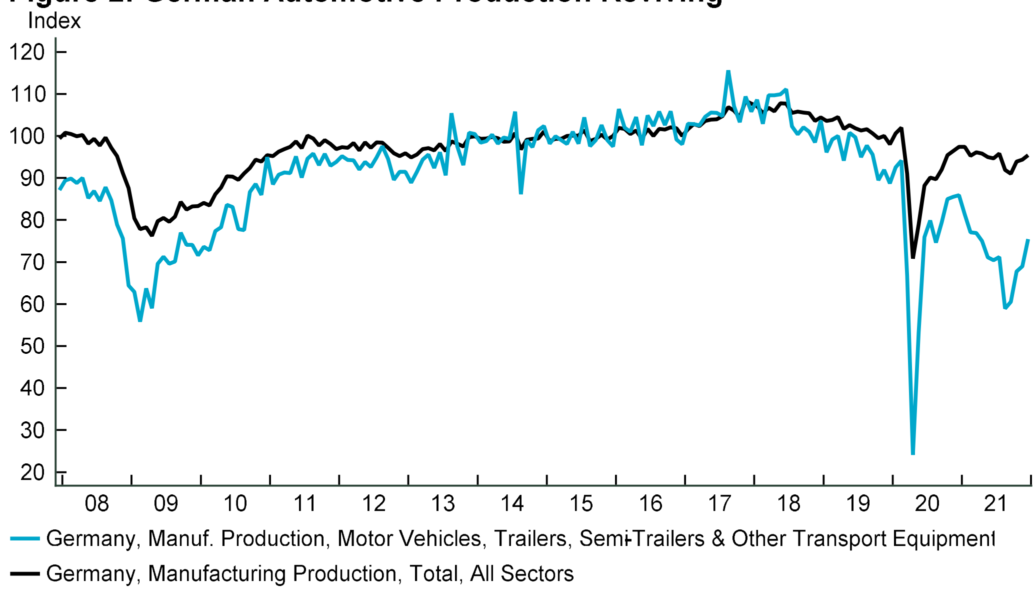
Sources:SSGA Economics, ONS

Industrial production proved relatively resilient in December, growing 0.3% m/m, from a revised 0.7% gain in November, exceeding market expectations of 0.1% m/m. The increase was largely driven by gain in manufacturing (+0.2%), water supply and sewerage (+1.7%), and electricity and gas (+1.6%). In contrast, mining and quarrying fell by 3.1% , due to extraction of crude oil and natural gas contracted 2.7%. Output remained 2.6% below its February 2020 level.

Eurozone

The ***German* industrial production** data have been a sore wound for much of 2021 as global supply chain problems severely constrained motor vehicle output. The latest data for December weren't great either since the headline disappointed with a 0.3% retreat that bucked consensus expectations of a modest gain. However, there were some encouraging signs among the details. Firstly, an upward revision to November offset most of the December softness. Secondly—and most importantly—the December miss was entirely due to construction activity, which plunged 7.3% during the month. By contrast, manufacturing and mining rose 1.2% for a third consecutive gain. The automotive sector seems to be quietly staging a turnaround. This is where supply chain problems have hit the deepest and so it is encouraging to see output in that sector reaching the highest level since March 2021. Germany could be a useful leading indicator of global progress here given the centrality of the automotive industry in its economy. The surge in US motor vehicle sales in January certainly corroborates the idea that we are past the worst of the supply chain problems here. The situation still bears close watching, but the favorable evidence is growing. The improvement is coming not a moment too soon for the German economy. German industrial production (including construction) was down 4.2% y/y in December. Manufacturing and mining were down 2.2% y/y.

Figure 2: German Automotive Production Reviving



Sources: SSGA Economics, DESTATIS

Italian industrial production declined 1.0% in December, but this followed a 2.1% gain in November and still left output 4.4% higher than in December 2020. Industrial production rose a strong 14.5% y/y in 2020.

Japan

Lower bonus payments depressed **labor cash earnings** in December, but the details weren't too bad. Overall earnings declined 0.2% y/y but regular scheduled earnings were up 0.5% and overtime up 4.8% y/y. Bonuses declined 0.9% y/y, however. The worse news is that real earnings fell 2.2% y/y, pressured by rising inflation (although the latter is nowhere near levels seen in most other developed economies).

Australia

Given the prior flow of monthly data, it was not a surprise to see real retail sales surge in the fourth quarter. Still, the 8.2% q/q jump was slightly better than expected and speaks to a very strong GDP print. Reopening categories, which had suffered considerably in the third quarter due to lockdowns, unsurprisingly led the gains.

Somewhat surprisingly, consumer confidence has been in a downtrend for quite a few months. The **Westpac consumer confidence index** retreated another 1.4 point to a seventeen-month low of 100.8 in February. Assessments of buying conditions deteriorated for both dwellings and major household items.

After two sequential declines, business sentiment improved in January but remained below the 2021 average. The **NAB business confidence** index rose a solid 15.5 points and pushed back into positive territory at 3.5. However, the details were on the softer side. We expect further improvement there next month.

Week in Review (February 7 – February 11)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, February 7					
US	Consumer Credit (Dec, $ bil)	25.0	18.89	38.8 (↓)	Driven by non-revolving credit.
GE	Industrial Production (Dec)	0.5%	-0.3%	0.3% (↑)	Better details; manufacturing up.
JN	Leading Index CI (Dec, prelim)	103.7	104.3	103.9 (↑)	Good.
JN	Labor Cash Earnings YoY	0.9%	-0.2%	0.8%	Drag from bonuses.
AU	Retail Sales Ex Inflation (Q4)	7.8%	8.2%	-4.4%	We knew this from monthly data.
Tuesday, February 8					
US	NFIB Small Business Optimism (Jan)	97.5	97.1	98.9	Early signs of labor & inventory relief.
US	Trade Balance (Dec,$ bil)	-83.0	-80.7	-79.3(↑)	Near record.
IT	Retail Sales (Dec, m/m)	-0.2%	0.9%	-0.4%	Welcome gain.
AU	Westpac Consumer Conf Index (Feb)	n/a	100.8	102.2	Lowest in seventeen months.
AU	NAB Business Confidence (Jan)	n/a	3	-12	Recovering from Omicron hit.
Wednesday, February 9					
IT	Industrial Production (Dec, m/m)	-0.9%	-1.0%	2.1%	Up 4.4% y/y.
Thursday, February 10					
US	CPI (Jan, y/y)	7.2%	7.5%	7.0%	No relief yet on inflation front.
US	Initial Jobless Claims (05-Feb, thou)	235	223	239 (↑)	Moving sideways now.
US	Continuing Claims (29-Jan, thou)	1,625	1,621	1,621 (↓)	Extremely low.
JN	PPI (Jan, y/y)	8.2%	8.6%	8.7% (↑)	Looks to have peaked.
Friday, February 11					
US	U. of Mich. Sentiment (Feb, prelim)	67.0	61.7	67.2	Meltdown!
UK	GDP (Q4, q/q, prelim)	1.1%	1.0%	1.0%	Modest impact of Omicron hit
UK	Industrial Production (Dec, m/m)	0.1%	0.3%	0.7% (↓)	Relatively resilient
GE	CPI (Jan, y/y, final)	4.9%	4.9%	5.3%	Not new news here.

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

Week Preview (February 14 -February 18)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, February 14				
JN	GDP (Q4, q/q, prelim)	1.5%	-0.9%	
JN	Industrial Production MoM (Dec, final)	n/a	-1.0%	
JN	Capacity Utilization MoM (Dec)	n/a	8.0%	
Tuesday, February 15				
US	Empire Manufacturing (Feb)	10	-0.7	
US	PPI Final Demand (Jan, y/y)	9.0%	9.7%	
CA	Housing Starts (Jan, thous)	n/a	236.1	Expected to rebound.
CA	Existing Home Sales (Jan,m/m)	n/a	0.2%	Remain historically high.
UK	Average Weekly Earnings (3m/yoy, Dec)	3.8%	4.2%	Likely to cool.
UK	ILO Unemployment Rate (3 mths, Dec)	4.1%	4.1%	Strong.
EC	GDP (Q4, q/q, prelim)	0.3% (p)	2.3%	
GE	ZEW Survey Expectations (Feb)	55	51.7	
JN	Tertiary Industry Index (Dec, m/m)	0.3%	0.4%	
Wednesday, February 16				
US	Retail Sales Advance (Jan, m/m)	1.8%	-1.9%	Aided by strong motor vehicle sales.
US	Import Price Index (Jan, y/y)	n/a	10.4%	
US	Industrial Production (Jan, m/m)	0.4%	-0.1%	
US	Capacity Utilization (Jan)	76.8%	76.5%	
US	Business Inventories (Dec)	2.0%	1.3%	
US	NAHB Housing Market Index (Feb)	83	83	Rising mortgage rates will become more of a challenge.
CA	Manufacturing Sales (Dec, m/m)	n/a	2.6%	Could feel impact of supply chain issues and Omicron
CA	CPI (Jan, y/y)	n/a	4.8%	Likely to remain elevated.
UK	CPI (Jan, y/y)	5.4%	5.4%	Continue to surge higher?
EC	Industrial Production (Dec, m/m)	0.3%	2.3%	
JN	Core Machine Orders (Dec, m/m)	-2.0%	3.4%	
AU	Unemployment Rate (Jan)	4.2%	4.2%	
Thursday, February 17				
US	Building Permits (Jan, thous)	1,750	1,885(↑)	Rising mortgage rates will become more of a challenge.
US	Housing Starts (Jan, thous)	1,700	1,702	
US	Initial Jobless Claims (12 Feb)	218	223	
US	Continuing Claims (5 Feb)	n/a	1,621	
US	Philadelphia Fed Business Outlook (Feb)	20.4	23.2	
CA	Teranet/National Bank HPI (Jan, y/y)	n/a	15.5%	Price appreciation likely to remain strong.
JN	Natl CPI (Jan, y/y)	0.6%	0.8%	
Friday, February 18				
US	Existing Home Sales (Jan, m/m)	-1.3%	-4.6%	Rising mortgage rates will become more of a challenge.
US	Leading Index (Jan)	0.2%	0.8%	
CA	Retail Sales (Dec, m/m)	n/a	0.7%	Hit by Omicron.
UK	Retail Sales Inc Auto Fuel (Jan, m/m)	0.9%	-3.7%	Bouncing back.
FR	Unemployment Rate (Q4)	7.6%	7.9%	
FR	CPI (Jan, y/y, final)	2.9%	2.8%	

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

Economic Indicators

Central Bank Policy Targets						
Region	Target	Year/Year % Change in Target				
		Aug	Sep	Oct	Nov	Dec
US	Target: PCE price index 2.0% y/y	4.2	4.4	5.1	5.7	5.8
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	4.1	4.4	4.7	4.7	4.8
UK	Target: CPI 2.0% y/y	3.2	3.1	4.2	5.1	5.4
Eurozone	Target: CPI below but close to 2.0% y/y	3.0	3.4	4.1	4.9	5.0
Japan	Target: CPI 2.0% y/y	-0.4	0.2	0.1	0.6	0.8
Australia	Target Range: CPI 2.0%-3.0% y/y	3.0	3.0	3.5	3.5	3.5

Source: Macrobond

Key Interest Rates	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-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	0.10	0.25	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)	-0.04	-0.02	-0.03	-0.05	-0.04	-0.04	-0.05	-0.03	-0.05	-0.02	-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				
	Sep	Oct	Nov	Dec	Jan		Sep	Oct	Nov	Dec	Jan
US	5.4	6.2	6.8	7.0	7.5		8.8	8.9	9.8	9.7	
Canada	4.4	4.7	4.7	4.8			15.1	16.6	17.1	16.1	
UK	3.1	4.2	5.1	5.4			7.1	8.8	9.4	9.3	
Eurozone	3.4	4.1	4.9	5.0			16.1	21.9	23.7	26.2	
Germany	4.1	4.5	5.2	5.3	4.9		14.2	18.4	19.2	24.2	
France	2.2	2.6	2.8	2.8	2.9		11.2	14.4	16.7	16.9	
Italy	2.5	3.0	3.7	3.9	4.8		13.3	20.4	22.2	22.6	
Japan	0.2	0.1	0.6	0.8			6.5	8.4	9.2	8.7	8.6
Australia	3.0	3.5	3.5	3.5			2.9	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	5.5
Canada	2.2	1.2	-0.8	1.3		-3.1	0.3	11.8	4.0	
UK	1.5	-1.2	5.6	1.0	1.0	-6.4	-5.0	24.6	7.0	6.5
Eurozone	-0.3	-0.2	2.2	2.3	0.3	-4.4	-1.1	14.4	3.9	4.6
Germany	0.7	-1.7	2.2	1.7	-0.7	-2.9	-2.8	10.3	2.9	1.4
France	-1.1	0.1	1.3	3.1	0.7	-4.3	1.7	19.0	3.5	5.4
Italy	-1.7	0.3	2.7	2.6	0.6	-6.4	-0.3	17.3	4.0	6.4
Japan	2.3	-0.7	0.5	-0.9		-0.8	-1.8	7.3	1.1	
Australia	3.3	1.8	0.7	-1.9		-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	0.6	0.1	1.1	0.0		7.3	5.7	7.0	4.5	
UK	0.5	-0.5	-0.8	0.7	0.3	3.2	1.8	0.1	-0.2	0.4
Germany	-3.5	-0.3	2.3	0.3	-0.3	1.7	-0.5	-1.4	-2.2	-4.2
France	1.0	-1.6	0.9	-0.5	-0.2	3.9	0.5	-0.5	-0.5	-0.5
Italy	-0.2	0.1	-0.6	2.1	-1.0	-0.2	4.6	2.0	6.4	4.6
Japan	-3.6	-5.4	1.8	7.0	-1.0	7.1	-2.3	-2.6	3.5	2.7

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)

	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
US	6.0	6.0	5.8	5.9	5.4	5.2	4.7	4.6	4.2	3.9	4.0
Canada	7.5	8.0	8.0	7.6	7.4	7.1	7.0	6.8	6.1	6.0	6.5
UK	4.8	4.8	4.7	4.6	4.5	4.3	4.2	4.1			
Eurozone	8.1	8.2	8.0	7.9	7.7	7.5	7.4	7.3	7.1	7.0	
Germany	6.0	6.0	5.9	5.8	5.6	5.5	5.5	5.4	5.3	5.2	5.1
France	8.1	8.3	8.3	8.1	8.0	7.9	7.7	7.6	7.5	7.4	
Italy	10.0	10.1	9.8	9.4	9.1	9.2	9.1	9.3	9.1	9.0	
Japan	2.6	2.8	3.0	2.9	2.8	2.8	2.8	2.7	2.8	2.7	
Australia	5.7	5.5	5.1	4.9	4.6	4.5	4.6	5.2	4.6	4.2	

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	-3.7	
Canada	-1.3	-2.2	-1.6	-3.2	-1.1	-2.0	-0.8	0.3	0.2	0.2	
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	
Germany	7.6	7.6	7.2	6.8	5.4	7.2	7.8	8.1	7.5	6.7	5.6
France	-0.4	-0.6	-0.4	-1.2	-3.6	-2.1	-0.9	-0.8	-0.5	-0.8	-2.0
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 fourth-largest asset manager* with US $4.14 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2020.

† This figure is presented as of December 31, 2021 and includes approximately $61.43 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated..

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