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January 24, 2020  
Commentary

## Weekly Economic Perspectives

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### Spotlight on Next Week

The Fed is widely expected to leave the Fed Funds rate unchanged. Improving UK data should stay the BoE's hand as well. Modest growth should continue in the eurozone.

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### Contact

**Simona Mocuta**  
Senior Economist  
[simona\\_mocuta@ssga.com](mailto:simona_mocuta@ssga.com)  
+1-617-664-1133

**Kaushik Baidya**  
Economist  
[kaushik\\_baidya@ssga.com](mailto:kaushik_baidya@ssga.com)  
+91-806-741-5048

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**The Economy**

This week's economic data flow brought compelling new evidence of improving manufacturing conditions in the eurozone. Notable improvements in UK manufacturing and service activity should take the pressure off the BoE in the near future. A strong employment report could do the same for the RBA.

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**US**

In keeping with the positive surprises from the Empire and Philly Fed surveys last week, this week's **Kansas Fed Manufacturing Index** hit a four-month high of -1 in January (from -8 in December). The details were mixed but included favorable signals for future performance. Production and shipments deteriorated marginally and backlogs dropped sharply but new orders jumped and employment rose to the highest since March. We couldn't help but notice the jump in the prices paid measure to the highest since December 2018. This confirms similar big moves in the price components of the Empire and Philly surveys and could potentially suggest a bump up in producer prices at the start of 2020, possibly reflecting contract renewal cycles. This bears watching.

Most measures of **home price inflation** slowed noticeably over the course of 2019 but are now trying to bottom as lower mortgage rates allow buyers to digest higher purchase prices. According to the **FHFA purchase-only index**, the price of existing single family homes increased by a modest 0.2% in November, but that followed an upwardly revised 0.4% gain in October. Admittedly, this caused this particular measure of home price inflation to moderate three tenths to 4.9% y/y, revisiting the recent August low, suggesting that according to this metric the bottoming out process is still very much in the early stages. By contrast, data from the National Association of Realtors showed the median price of an existing single family home spiked to a four year high of 7.8% y/y. The latter reflected dwindling inventories as a much larger than expected jump in **existing home sales** in December (up 3.6% versus 1.5% expected) left inventories at a record low of 3.0 months' worth of sales.

**Unemployment claims** have been moderating again after a big jump in late November. Admittedly, initial claims—a measure of job shedding—increased by 6,000 in the week ending January 18, but only to a modest 211,000. Continuing claims—a measure of unemployment—retreated by another 37,000 in the week ending January 10, having now fully retraced the big bump up two weeks prior. Current levels of unemployment claims remain consistent with a very strong labor market.

The **index of leading economic indicators** trended sharply higher from late 2016 to mid-2018, subsequently flat-line, and has recently turned lower. However, we would caution against reading too much into its otherwise large 0.3% decline in December because the components that contributed the most to that drop, namely jobless claims, building permits, and ISM new orders, have a high chance of doing better in January. In fact, weekly data on unemployment claims already guarantees a better contribution from there. Still, there is no denying that the index has essentially lost all the considerable momentum with which it had entered 2019. It was barely up 0.1% y/y in December, compared to the 4.0% y/y gain a year previously.

## Canada

The press release accompanying the **Bank of Canada's** policy decision was unexpectedly dovish as the bank flagged several concerns about internal as well as external growth environment. The policy rate was unchanged at 1.75%, but near term growth forecasts were revised lower from the October projections. Though global growth was deemed to be stabilizing, "there remains a high degree of uncertainty and geopolitical tensions have re-emerged". Domestic growth is now expected to be 0.3% q/q for the fourth quarter of 2019 and 1.3% in Q1 2020, lowering the full year forecast for 2020 by one tenth to 2.0%. Temporary factors that include strikes, poor weather, and inventory adjustments aside, some structural issues were also highlighted:

"Exports fell in late 2019, and business investment appears to have weakened after a strong third quarter. Job creation has slowed and indicators of consumer confidence and spending have been unexpectedly soft."

Inflation was judged to be at target, and is expected to remain there barring some volatility due to oil prices. However, if BoC's own assessment of weaker growth and a slower labor market are true, it is likely that core inflation will also slow somewhat from current levels. The concluding remarks seemed to open the door for a rate cut in the near future. The reference to the current accommodative policy being "appropriate" was dropped, instead mentioning "in determining the future path for the Bank's policy interest rate, Governing Council will be watching closely to see if the recent slowdown in growth is more persistent than forecast". We still maintain our consensus that the Bank of Canada will remain on hold in 2020 as Q2-Q3 strength yields the way to a more balanced combination of domestic data, supported by a resurgence of the housing market.

Headline **consumer price inflation** came in a tad below expectations at 2.2% y/y in December, unchanged from November. However, much of the increase can be attributed to energy prices, which rose 5.5%. Excluding energy, inflation was at 2.0%, the lowest since November of last year. Oil prices pushed higher due to base effect which kept the headline high, even as food prices continued to slow (down 0.4 percentage points to 3.0%). After growing above 2.5% in six out of last eight months, prices for passenger vehicles moderated to 1.4% due to larger rebates offered to buyers. The average of core inflation measures was unchanged—with both the weighted median and trimmed mean down 0.1 percentage points to 2.2% and 2.1% respectively, while the common component gained a tenth to 2.0%. On a monthly basis, prices rose 0.4% in December, following a 0.1% increase in November.

The housing market is on a clear path to recovery, as reported by the **11-City housing report** published by Teranet and the Bank of Canada. The house price index increased 0.2% in December, which is typically a slow month for prices. Non-seasonally adjusted prices showed a fifth straight increase. For the entire year, prices rose the fastest from May to August, "with smaller variations later in the year due to slowing resale activity". In annual terms, prices were up by 1.9% y/y, accelerating for the fifth consecutive month. Gains were led by Ottawa (+7.4%), Halifax (+7.3%) and Montreal (+6.4%), while prices retracted the most in Vancouver (-4.0%).

House prices attained a new high, having remained virtually unchanged since November 2017. The Statistics Canada **national house price index** rose by 0.2% in December, which along with a similar gain in September was the sharpest uptick in

two years. The index climbed to the highest on record, at 103.4. Both house and land prices gained—with house only prices up 0.3% and land only prices rising 0.1%. The annual pace of inflation edged up 0.1% y/y, having fallen or stayed unchanged for the past seven months.

Nominal **manufacturing sales** have been trending downward of late, with sales contracting for the third consecutive month. Sales retreated by 0.6% to C\$57.0 billion in November, down in 11 out of the 21 sectors. Sales of non-durable goods fell 1.3% to C\$27.0 billion, accounting for bulk of the decline. By industry, primary metals posted the largest fall since December 2008, down 11.7%, the recent rail strikes having disrupted logistics. Sales of motor vehicle and parts increased 8.8%, as shipments normalized following labor disruptions in September and October. Inventories edged up 0.5% following a similar drop over the previous month, thus raising the inventory to sales ratio to 1.54 from 1.52 in October. Encouragingly, new orders rose 1.9%, reflecting higher orders in transportation equipment industry. The capacity utilization rate dropped 1.3 percentage points to 79.2%, lowest since February. Real sales fell by 0.8%.

**Retail sales** jumped 0.9% to C\$51.5 billion in November, largely recouping the 1.1% decline seen over the previous month. The rise was due to rebound in sales of motor vehicles (+3.0%) and at food and beverage stores (0.9%). Real sales rose by 0.7%.

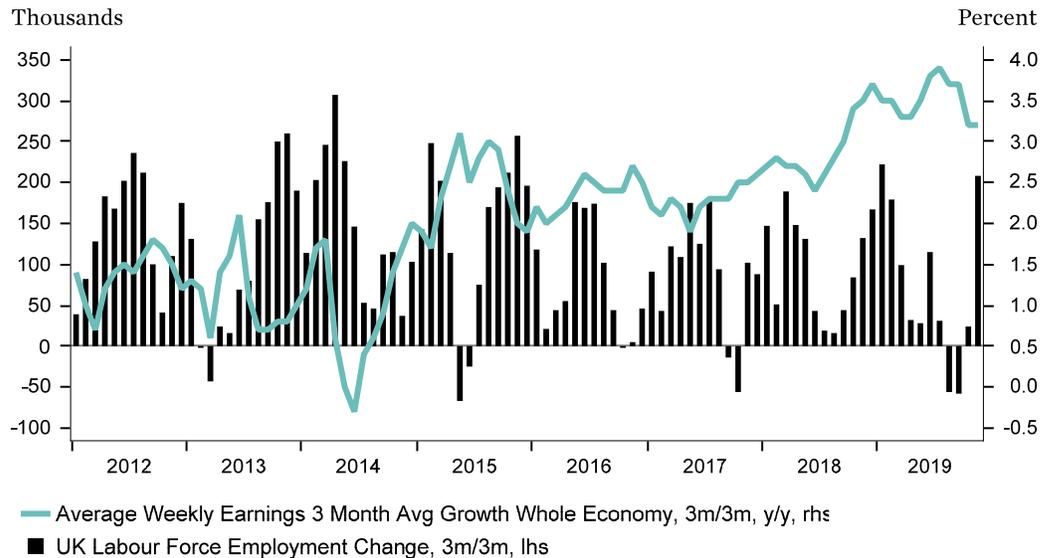
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UK

After big disappointments from industrial production and retail sales data last week, this week we got really positive news from the **purchasing managers' surveys (PMIs)**. Both the manufacturing and the service indexes came in well above expectations. The manufacturing index jumped 2.3 points to a nine-month high of 49.8 while the service index spiked 2.9 to an eleven-month high of 52.9. The details were great. For **manufacturing**, there was a 4.5-point spike in new orders, which actually expanded for the first time since April; employment rose 2.3 points and expanded for the first time since March. The **services** survey also showed a notable pick-up in incoming new business as well as business expectations. There was a noticeable pick-up in prices paid, which is worth watching for signals that the inflation moderation of the past few months may be a passing phenomenon.

Having lost considerable momentum in recent months, the **labor market** appears to be reviving, although the turn is still young. Employment surged by 208,000 in September-November, the most since the start of 2019 and, prior to that, late 2015! Admittedly, unemployment also increased by 25,000 in November, but this may be more a reflection of a 0.2 percentage point increase in the participation rate than a pullback in labor demand. In fact, we were encouraged to see that vacancies increased by 7,000, the largest and only the second increase so far this year. All this left the International Labor Organization (ILO) unemployment rate unchanged at 3.8%. The claimant count unemployment rate was also unchanged at 3.4%. Meanwhile, wage inflation has retreated, but remains quite healthy. Overall average weekly earnings moderated to 3.2% y/y in September-November, with regular pay (excluding bonuses) up 3.4% y/y. Both measures had neared 4.0% y/y several months ago. Real weekly earnings (excluding bonuses) increased 1.8% y/y, which should support much stronger consumption levels than we are currently seeing.

**Figure 1: UK Employment Rebounds**



Sources: ONS

Eurozone

As widely anticipated, the **ECB** Governing Council maintained all elements of monetary policy unchanged at this week’s meeting. All interest rates were left unchanged, as was the amount of monthly asset purchases. Forward guidance was maintained: rates are expected “to remain at their present or lower levels until [...] the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.” In the accompanying press conference, President Lagarde noted that incoming data had been “in line with our baseline scenario”. She gave a slight nod to recent developments by noting that “risks surrounding the euro area growth [...] remain tilted to the downside, but have become less pronounced as some of the uncertainty surrounding international trade is receding”.

The bigger news was the official launch of the monetary policy strategy review. This far-reaching effort will be “based on thorough analysis and open minds, engaging with all stakeholders”. The expected completion date is year-end, but judging by the Fed’s experience, this may be a tall order. The ECB specifically stated the “quantitative formulation of price stability” as an element of the review. This appears to have been the very part that has given the Fed most trouble, so much so that it seem unclear at this point whether anything would actually be agreed regarding this issue. So it will be particularly interesting to see how the ECB will approach the challenge.

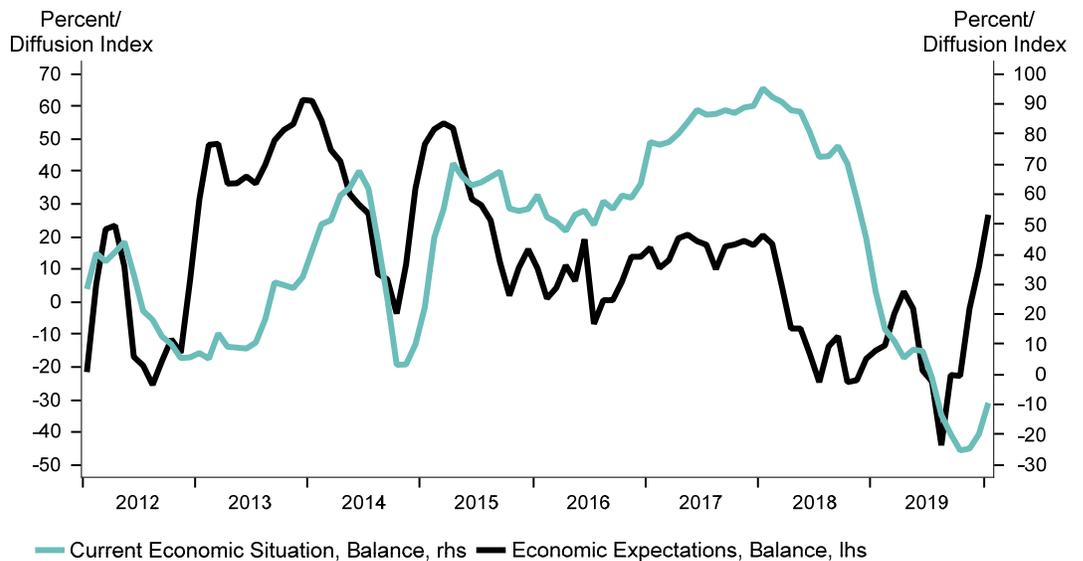
**Eurozone** manufacturing continues to contract but there is broadening evidence that activity in the sector has bottomed. According to preliminary estimates, the **manufacturing purchasing managers’ index** jumped 1.5 point to 47.8, the biggest monthly gain since November 2017 and the highest level since April 2019. Although pretty much everything is still contracting, it’s no longer too much of a stretch to state that the details were encouraging as new orders jumped 2.4 points to 49.0 and new

export orders jumped 1.8 to 49.1. Both are now at their highest levels since November 2018. Output and backlogs rose 1.4 points each, the former to a five month high of 47.5 and the latter to an eleven-month high of 47.3. Employment posted a modest 0.7 point gain and only to a weak 47.1. So let's be clear: this is still far from a rosy picture; we need all of these components to not only cross above the neutral 50 level, but do so convincingly in coming months. The bulk of the regional improvement in January reflected a nice 1.5-point bounce out of Germany; the French index also gained 0.6 to 51.0

Service activity has held up much better than manufacturing, but it is hardly buoyant. And, we were a bit surprised to see the **eurozone purchasing managers' index (PMI) for services** actually soften in January. But it so did, retreating 0.6 point to 52.2. It appears that France was a big driver for this deterioration as its index retreated 0.7 point to a four month low of 51.7. Labor unrest in protest of pension reforms likely played a big role here and so there is a reasonable expectation that conditions will improve anew. Meanwhile, the German index rose a solid 1.2 points to a five-month high of 54.2.

It's been far too long since we've been able to report a genuine positive surprise in **German** data, but we can finally do so this week. The closely watched **ZEW index** of German investor confidence skyrocketed 16.0 points to a four-and-a-half year high of 26.7 points in January. While the index had been on the mend for several months, we were particularly glad to see that January's improvement reflected not just rosier expectations but also a much improved assessment of the current economic conditions. Indeed, the current situation metric improved by 10.4 points, which marked the biggest monthly gain since early 2017. This should soon start to translate into much better hard data on economic activity. In fact, given the latest batch of PMIs, it fair to say that the process has already begun.

**Figure 2: German ZEW Index Signals Better Activity Ahead**



Sources: ZEW (Centre for European Economic Research)

## Japan

The **Bank of Japan (BoJ)** kept the current accommodative monetary policy unchanged with a 7:2 majority in the latest policy meeting. The policy rate remains at -0.1%, while the target for 10-year government bond yields was retained at 0.0% as was the commitment to expand its JGB holdings by ¥80 trillion per annum.

The Board appears more confident about global as well as domestic conditions—given the Sino-US trade deal, and receding chances of a no-Brexit deal. Optimism about the domestic economy reflects the fiscal stimulus package. Consequently, GDP growth forecasts for FY 2019-2021 were upgraded by 0.1-0.2 percentage points (ppts). Forecasts for core CPI were however, downgraded by 0.1 ppts for the same time frame, though the 2020 forecast remains fair bit above our own estimate. “This is basically because firms' cautious wage- and price-setting stance, as well as households' cautiousness toward price rises”. The BoJ is unlikely to ease policy further unless there is a sharp Yen appreciation or a sustained negative output gap. But there is also little chance of BoJ unwinding its accommodative policy, given the fragile state of recovery. We continue to believe that the policy setting will stay the same over the course of the year, with perhaps increased focus on verbal easing.

Headline inflation surprised on the upside in December, climbing for the second consecutive month. Higher food prices and reduced drag from energy led **consumer price inflation (CPI)** to accelerate three tenths to 0.8% y/y, an eight-month high. Food inflation reached 1.9% y/y, led by a rebound in prices for fresh vegetables, while energy price deflation moderated to -0.6% y/y. Housing inflation was unchanged at 0.8%, dragged down by stagnant rental growth, while household goods inflation moderated to a still high 3.0% y/y, likely a consequence of the VAT hike. The main detractor was falling cost for education (-7.8%), a result of the government's drive to subsidize education costs from pre-school to university. Core CPI inflation (excluding fresh food) accelerated 0.2 ppts to 0.7% y/y, while the new BoJ core CPI (excluding fresh food and energy) accelerated 0.1 ppt to 0.9% y/y. After factoring out the impact of the sales tax and government counter measures including free pre-school education, core inflation was 0.4% y/y, double the November rate. It remains to be seen if these are the first signs of a sustained uptick in inflation.

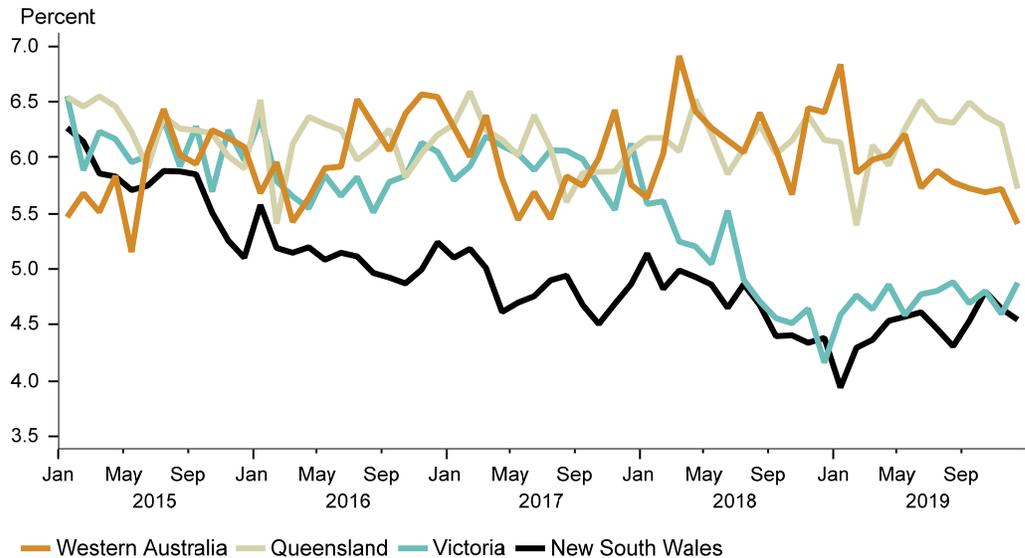
Manufacturing activity climbed to the highest since August of last year, slightly below the inflection point. The preliminary **purchasing managers' manufacturing index** gained nine tenths to 49.3 in January. It is difficult to say if this is the beginning of an uptrend, given several false starts over the course of last year. Notwithstanding the effect of the VAT hike and natural calamities which added to the external headwinds, the sector has been lagging a global recovery in manufacturing. Both new orders and new export orders fared better in January.

Services moved back into expansion zone after a month below 50. The preliminary figure for **purchasing managers' index for services** rebounded 2.7 points to 52.1 in January, as demand improved post weather related disruptions. Services has been doing the heavy lifting, but even the rebound might not be enough to offset the drawback from manufacturing. Stronger gains were seen in new businesses and employment sub-indices.

Australia

Well, the **labor market** delivered yet another stellar report to end the year with a bang. The festive season has always been characterized by very strong job reports, but our apprehensions about the bushfires interfering with the report proved to be misplaced. Employment growth surprised on the upside with a 28,900 increase in December which followed a 38,500 gain in November. There was a marked improvement in New South Wales (where Sydney is), where employment increased (+20,600) after three consecutive declines and even Victoria (where Melbourne is), the two states ravaged by the bushfires. The unemployment rate ticked down by one tenth to 5.1%, even as the participation rate was unchanged at 66.0%. Gains were concentrated entirely in part-time jobs though, which rose by 29,200 while full-time jobs contracted by 300. As a result, the underemployment rate remained at 8.3%. The strong labor report lessens the incentive to cut in the February meeting, but we will await data on the impact of bushfire as well as consumer spending to see if we need to revise our call for a rate cut in the first half of this year.

**Figure 3: Unemployment Rate Trending Down In Major Australian States**



Sources: Australian Bureau of Statistics

**The Market This Week**

Amid the week to week volatility, one runs the risk of missing some salient background trends. The sharp narrowing of the yield differential between the US and Germany is worth highlighting; stronger German data should provide further support.

**Figure 4: US-Germany Yield Differential Narrows**

Basis Points



Sources: Macrobond,

**Equities:** Equities retreat after recent solid gains.

**Bonds:** Bond yields narrow sharply amid new virus disruption fears.

**Currencies:** The dollar creeps a bit higher.

**Commodities:** Oil plunges on worries that epidemic could stall activity.

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| 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®   | 3295.52  | -1.0%    | 2.0%     | 1.69                | -13        | -23       | 97.862     | 0.3%      | 1.5%     |
| Canada        | TSE 300    | 17536.78 | -0.1%    | 2.8%     | 1.37                | -19        | -33       | 1.3142     | 0.6%      | 1.2%     |
| UK            | FTSE®      | 7585.98  | -1.2%    | 0.6%     | 0.56                | -7         | -26       | 1.3078     | 0.5%      | -1.4%    |
| Germany       | DAX        | 13576.68 | 0.4%     | 2.5%     | -0.34               | -12        | -15       |            |           |          |
| France        | CAC-40     | 6024.26  | -1.3%    | 0.8%     | -0.07               | -12        | -19       | 1.1028     | -0.6%     | -1.6%    |
| Italy         | FTSE® MIB  | 23969.13 | -0.7%    | 2.0%     | 1.23                | -14        | -18       |            |           |          |
| Japan         | Nikkei 225 | 23827.18 | -0.9%    | 0.7%     | -0.02               | -2         | -1        | 109.3      | -0.8%     | 0.6%     |
| Australia     | ASX 200    | 7090.542 | 0.4%     | 6.1%     | 1.09                | -9         | -28       | 0.6826     | -0.8%     | -2.8%    |

**Commodity Markets**

| Commodity   | Unit          | Source    | Last Price | %Ch Week | %Ch YTD | %ChYr Ago |
|-------------|---------------|-----------|------------|----------|---------|-----------|
| Oil (Brent) | US \$/Barrel  | Bloomberg | 60.22      | -7.6%    | -9.3%   | -1.1%     |
| Gold        | US \$/troy oz | Bloomberg | 1571.09    | 0.9%     | 3.5%    | 22.6%     |

Source: Bloomberg®

**Week in Review (January 20–January 24)**

| Country                      | Release (Date, format)                  | Consensus | Actual | Last      | Comments  |
|------------------------------|---|-----------|--------|-----------|---|
| <b>Monday, January 20</b>    |   |           |        |           |   |
| CA                           | Teranet/National Bank HPI (Dec, y/y)    |           | 1.9%   | 1.4%      | On a clear path to recovery.                    |
| JN                           | Industrial Production (Nov, final, m/m) | -0.9%(p)  | -1.0%  | -4.5%     | Not much sign of bottoming out.                 |
| <b>Tuesday, January 21</b>   |   |           |        |           |   |
| CA                           | Manufacturing Sales (Nov, m/m)          | -0.5%     | -0.6%  | -0.7%     | Seems to be on a downtrend.                     |
| UK                           | ILO Unemployment Rate (Nov)             | 3.8%      | 3.8%   | 3.8%      | Employment rebounded.                           |
| UK                           | Average Weekly Earnings (Nov, 3m y/y)   | 3.1%      | 3.2%   | 3.2%      | Real wages doing fine.                          |
| GE                           | ZEW Investor Expectations (Jan)         | 15.0      | 26.7   | 10.7      | Soft data leading hard data?                    |
| JN                           | BoJ Monetary Policy Decision            | -0.1%     | -0.1%  | -0.1%     | Tad more confident on domestic economy.         |
| <b>Wednesday, January 22</b> |   |           |        |           |   |
| US                           | FHFA House Price Index (Nov, m/m)       | 0.3%      | 0.2%   | 0.4%(↑r)  | Bottoming out slowly.                           |
| US                           | Existing Home Sales (Dec, m/m)          | 1.5%      | 3.6%   | -1.7%     | Record low inventories. Prices jumped.          |
| CA                           | BoC Monetary Policy Decision            | 1.75%     | 1.75%  | 1.75%     | Unexpectedly dovish.                            |
| CA                           | CPI (Dec, y/y)                          | 2.3%      | 2.2%   | 2.2%      | Holding above target.                           |
| CA                           | New Housing Price Index (Dec, m/m)      | 0.0%      | 0.2%   | -0.1%     | Positive signs for housing.                     |
| FR                           | Business Confidence (Jan)               | 105       | 104    | 105(↓r)   | Trending sideways.                              |
| IT                           | Industrial Orders (Mov, m/m)            |           | -0.3%  | 0.6%      | Foreign order weakness.                         |
| <b>Thursday, January 23</b>  |   |           |        |           |   |
| US                           | Initial Jobless claims (Jan 18, thous)  | 214       | 211    | 205(↑r)   | Indicative of strong labor market.              |
| US                           | Kansas City Fed Manf. Activity (Jan)    | -6        | -1     | -8        | Four-month high.                                |
| US                           | Leading Index (Dec, m/m)                | -0.2%     | -0.3%  | 0.1%(↑r)  | Complete loss of momentum.                      |
| EC                           | ECB Monetary Policy Decision            | 0.00%     | 0.00%  | 0.00%     | Policy unchanged, strategic review launched.    |
| JN                           | Leading Index (Nov, final)              | 90.9(p)   | 90.8   | 91.6      | Sharp deceleration.                             |
| JN                           | All Industry Activity Index (Nov, m/m)  | 0.4%      | 0.9%   | -4.8%(↓r) | Clear divergence in manufacturing and services. |
| JN                           | Trade Balance Adjusted (Dec, ¥ bil.)    | -236.0    | -102.5 | -91.9(↓r) | Gains in tech exports a positive.               |
| AU                           | Unemployment Rate (Dec)                 | 5.2%      | 5.1%   | 5.2%      | Wow!  |
| <b>Friday, January 24</b>    |   |           |        |           |   |
| CA                           | Retail Sales (Nov, m/m)                 | 0.6%      | 0.9%   | -1.1%(↑r) | Recouped previous month's loss.                 |
| UK                           | Manufacturing PMI (Jan, prelim)         | 48.8      | 49.8   | 47.5      | Great news but more improvement needed.         |
| UK                           | Services PMI (Jan, prelim)              | 51.1      | 52.9   | 50.0      | Really great news! Should stay BoE's hand.      |
| EC                           | Manufacturing PMI (Jan, prelim)         | 46.8      | 47.8   | 46.3      | Lift from Germany.                              |
| EC                           | Services PMI (Jan, prelim)              | 52.8      | 52.2   | 52.8      | Drag from France.                               |
| GE                           | Manufacturing PMI (Jan, prelim)         | 44.5      | 45.2   | 43.7      | Weak, but improving.                            |
| GE                           | Services PMI (Jan, prelim)              | 53.0      | 54.2   | 52.9      | Solid.  |
| FR                           | Manufacturing PMI (Jan, prelim)         | 50.6      | 51.0   | 50.4      | Welcome rebound, though more needed.            |
| JN                           | CPI (Dec, y/y)                          | 0.7%      | 0.8%   | 0.5%      | Encouraging, but sustainable?                   |
| JN                           | Manufacturing PMI (Jan, prelim)         |           | 49.3   | 48.4      | Highest since August 2019.                      |
| JN                           | Services PMI (Jan, prelim)              |           | 52.1   | 49.4      | Still doing the heavy lifting.                  |

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

**Week Preview (January 27–January 31)**

| Country                      | Release (Date, format)                   | Consensus | Last     | Comments   |
|------------------------------|--|-----------|----------|--|
| <b>Monday, January 27</b>    |  |           |          |  |
| US                           | New Home Sales (Dec, thous)              | 730       | 719      |  |
| GE                           | IFO Business Climate (Jan)               | 97.0      | 96.3     |  |
| <b>Tuesday, January 28</b>   |  |           |          |  |
| US                           | Durable Goods Orders (Dec, prelim, m/m)  | 1.2%      | -2.1%    |  |
| US                           | S&P CoreLogic 20-City Index (Nov, m/m)   | 0.4%      | 0.4%     |  |
| US                           | Consumer Confidence (Jan)                | 128       | 126.5    | Strong labor market is a great support.                        |
| GE                           | Retail Sales (Dec, m/m)                  | -0.5%     | 1.5%(↓r) |  |
| JN                           | PPI Services (Dec, y/y)                  | 2.1%      | 2.1%     |  |
| AU                           | NAB Business Confidence (Dec)            |           | 0        | The bushfires likely to hit sentiment negatively.              |
| <b>Wednesday, January 29</b> |  |           |          |  |
| US                           | FOMC Monetary Policy Decision            | 1.75%     | 1.75%    | On prolonged hold, watch language around risks.                |
| US                           | Pending Home Sales (Dec, m/m)            | 0.7%      | 1.2%     |  |
| UK                           | Nationwide House PX (Jan, m/m)           | 0.2%      | 0.1%     |  |
| GE                           | GfK Consumer Confidence (Feb)            | 9.7       | 9.6      | We see scope for an upside surprise.                           |
| FR                           | Consumer Confidence (Jan)                |           | 102      |  |
| IT                           | Consumer Confidence (Jan)                |           | 110.8    |  |
| JN                           | Consumer Confidence (Jan)                | 39.5      | 39.1     |  |
| AU                           | CPI (Q4, q/q)                            | 0.6%      | 0.5%     | Critical data piece for RBA.                                   |
| <b>Thursday, January 30</b>  |  |           |          |  |
| US                           | Initial Jobless claims (Jan 25, thous)   |           | 211      |  |
| US                           | GDP (Q4, first, q/q saar)                | 2.2%      | 2.1%     | Good enough.   |
| UK                           | BoE Monetary Policy Decision             | 0.75%     | 0.75%    | Rebound in PMIs should stay BoE's hand.                        |
| GE                           | Unemployment Rate (Jan)                  | 5.0%      | 5.0%     | Resilient service sector is key.                               |
| GE                           | CPI (Jan, prelim, y/y)                   | 1.6%      | 1.5%     |  |
| IT                           | Unemployment Rate (Dec, prelim)          |           | 9.7%     |  |
| <b>Friday, January 31</b>    |  |           |          |  |
| US                           | Personal Income (Dec, m/m)               | 0.3%      | 0.5%     |  |
| US                           | Personal Spending (Dec, m/m)             | 0.3%      | 0.4%     |  |
| US                           | Employment Cost Index (Q4, q/q)          | 0.7%      | 0.7%     |  |
| US                           | Chicago PMI (Jan)                        | 48.9      | 48.2(↓r) |  |
| US                           | U of M Cons. Sentiment (Jan, final)      | 99.1(p)   | 99.3     |  |
| CA                           | GDP (Nov, m/m)                           |           | -0.1%    | Likely to be positive.   |
| UK                           | GfK Consumer Confidence (Jan)            | -9        | -11      |  |
| EC                           | GDP (Q4, prelim, q/q)                    | 0.2%      | 0.2%     | Uninspiring but at least steady.                               |
| FR                           | GDP (Q4, prelim, q/q)                    | 0.2%      | 0.3%     | Uninspiring but acceptable given context.                      |
| FR                           | Consumer Spending (Dec, m/m)             |           | 0.1%     |  |
| FR                           | CPI (Jan, prelim, y/y)                   |           | 1.5%     |  |
| IT                           | GDP (Q4, prelim, q/q)                    | 0.1%      | 0.1%     | More like crawling than growing, but at least not contracting. |
| JN                           | Unemployment Rate (Dec)                  | 2.3%      | 2.2%     | As tight as ever.  |
| JN                           | Industrial Production (Dec, prelim, m/m) | 0.7%      | -1.0%    | Early signs of recovery?                                       |
| JN                           | Retail Sales (Dec, m/m)                  | 1.2%      | 4.5%     |  |
| AU                           | Private Sector Credit (Dec, m/m)         | 0.2%      | 0.1%     | Slow.  |

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              | 1.4                          | 1.3 | 1.4 | 1.5 |     |
| Canada    | Target: CPI 2.0% y/y, 1.0%-3.0% control range | 1.9                          | 1.9 | 1.9 | 2.2 | 2.2 |
| UK        | Target: CPI 2.0% y/y                          | 1.7                          | 1.7 | 1.5 | 1.5 | 1.3 |
| Eurozone  | Target: CPI below but close to 2.0% y/y       | 1.0                          | 0.8 | 0.7 | 1.0 | 1.3 |
| Japan     | Target: CPI 2.0% y/y                          | 0.3                          | 0.2 | 0.2 | 0.5 | 0.8 |
| Australia | Target Range: CPI 2.0%-3.0% y/y               | 1.7                          | 1.7 |     |     |     |

Source: Macrobond

### Key Interest Rates

|                          | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| US (top of target range) | 2.50   | 2.50   | 2.50   | 2.50   | 2.50   | 2.50   | 2.25   | 2.00   | 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)              | -0.05  | -0.06  | -0.07  | -0.06  | -0.08  | -0.07  | -0.06  | -0.06  | -0.03  | -0.03  | -0.07  |
| Australia (OCR)          | 1.50   | 1.50   | 1.50   | 1.50   | 1.28   | 1.02   | 1.00   | 1.00   | 0.76   | 0.75   | 0.75   |

Source: Macrobond

### General Government Structural Balance as a % of Potential GDP

|           | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019      | 2020 |
|-----------|------|------|------|------|------|------|------|------|-----------|------|
|           |      |      |      |      |      |      |      |      | Forecasts |      |
| US        | -3.1 | -2.1 | -1.1 | 0.1  | 0.8  | 0.7  | 0.0  | -0.2 | -0.5      | -0.8 |
| Canada    | -5.9 | -6.0 | -4.0 | -4.7 | -4.1 | -2.9 | -2.0 | -1.5 | -1.3      | -1.4 |
| UK        | -3.9 | -2.1 | -1.2 | -0.9 | -0.8 | -0.7 | -0.7 | -0.6 | -0.7      | -0.9 |
| Eurozone  | -1.4 | 0.0  | 0.6  | 1.2  | 1.2  | 1.3  | 1.1  | 1.4  | 0.9       | 1.0  |
| Germany   | -5.0 | -4.4 | -3.4 | -3.3 | -3.0 | -2.8 | -2.6 | -2.5 | -2.4      | -2.5 |
| France    | -4.1 | -1.5 | -0.6 | -1.1 | -0.7 | -1.4 | -1.7 | -1.8 | -1.5      | -2.1 |
| Italy     | -4.1 | -1.5 | -0.6 | -1.1 | -0.7 | -1.4 | -1.7 | -1.8 | -1.5      | -2.1 |
| Japan     | -4.3 | -3.3 | -2.6 | -2.6 | -2.4 | -2.2 | -1.5 | -0.6 | -0.4      | -0.4 |
| 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 |        |        |        |        |
|-----------|------------------------|--------|--------|--------|--------|------------------------|--------|--------|--------|--------|
|           | Aug-19                 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Aug-19                 | Sep-19 | Oct-19 | Nov-19 | Dec-19 |
| US        | 1.7                    | 1.7    | 1.8    | 2.1    | 2.3    | 1.9                    | 1.4    | 1.1    | 1.1    | 1.3    |
| Canada    | 1.9                    | 1.9    | 1.9    | 2.2    | 2.2    | -1.0                   | -1.3   | -1.4   | -0.4   |        |
| UK        | 1.7                    | 1.7    | 1.5    | 1.5    | 1.3    | 1.7                    | 1.2    | 0.8    | 0.5    | 0.9    |
| Eurozone  | 1.0                    | 0.8    | 0.7    | 1.0    | 1.3    | -0.8                   | -1.1   | -1.9   | -1.4   |        |
| Germany   | 1.4                    | 1.2    | 1.1    | 1.1    | 1.5    | 0.3                    | -0.1   | -0.6   | -0.7   | -0.2   |
| France    | 1.0                    | 0.9    | 0.8    | 1.0    | 1.5    | -0.5                   | -0.7   | -1.1   | -0.5   |        |
| Italy     | 0.4                    | 0.3    | 0.2    | 0.2    | 0.5    | -1.4                   | -1.6   | -2.9   | -2.5   |        |
| Japan     | 0.3                    | 0.2    | 0.2    | 0.5    | 0.8    | -0.9                   | -1.1   | -0.4   | 0.1    | 0.9    |
| Australia | 1.7                    | 1.7    |        |        |        | 1.6                    | 1.6    |        |        |        |

Source: Macrobond

**Real GDP Growth (Q/Q Seasonally Adjusted)**

|           | Quarter/Quarter % Change |       |       |       |       | Year/Year % Change |       |       |       |       |
|-----------|--------------------------|-------|-------|-------|-------|--------------------|-------|-------|-------|-------|
|           | Q3-18                    | Q4-18 | Q1-19 | Q2-19 | Q3-19 | Q3-18              | Q4-18 | Q1-19 | Q2-19 | Q3-19 |
| US        | 0.7                      | 0.3   | 0.8   | 0.5   | 0.5   | 3.1                | 2.5   | 2.7   | 2.3   | 2.1   |
| Canada    | 0.6                      | 0.2   | 0.2   | 0.9   | 0.3   | 2.0                | 1.8   | 1.5   | 1.9   | 1.7   |
| UK        | 0.6                      | 0.2   | 0.6   | -0.2  | 0.4   | 1.6                | 1.4   | 2.0   | 1.2   | 1.1   |
| Eurozone  | 0.2                      | 0.3   | 0.4   | 0.2   | 0.3   | 1.6                | 1.2   | 1.4   | 1.2   | 1.2   |
| Germany   | -0.1                     | 0.2   | 0.5   | -0.2  | 0.1   | 1.1                | 0.6   | 1.0   | 0.3   | 0.5   |
| France    | 0.3                      | 0.4   | 0.3   | 0.3   | 0.3   | 1.5                | 1.2   | 1.3   | 1.4   | 1.4   |
| Italy     | -0.1                     | 0.1   | 0.1   | 0.1   | 0.1   | 0.4                | -0.1  | 0.0   | 0.1   | 0.3   |
| Japan     | -0.6                     | 0.3   | 0.6   | 0.5   | 0.4   | -0.3               | -0.3  | 0.8   | 0.8   | 1.9   |
| Australia | 0.3                      | 0.2   | 0.5   | 0.6   | 0.4   | 2.5                | 2.1   | 1.7   | 1.6   | 1.7   |

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      | 0.8                  | -0.5 | -0.5 | 0.8  | -0.3 | 0.4                | -0.2 | -1.0 | -0.7 | -1.0 |
| Canada  | 0.2                  | -0.3 | -0.4 |      |      | -2.2               | -2.0 | -2.4 |      |      |
| UK      | -0.7                 | 0.0  | 0.3  | -1.2 |      | -1.6               | -1.1 | -0.7 | -1.7 |      |
| Germany | 0.6                  | -0.6 | -1.0 | 1.1  |      | -4.0               | -4.5 | -4.7 | -2.7 |      |
| France  | -0.9                 | 0.4  | 0.5  | 0.3  |      | -1.2               | 0.4  | -0.1 | 1.3  |      |
| Italy   | 0.4                  | -0.5 | -0.3 | 0.1  |      | -1.8               | -2.2 | -2.4 | -0.6 |      |
| Japan   | -1.2                 | 1.7  | -4.5 | -1.0 |      | -2.0               | -0.3 | -6.6 | -6.7 |      |

Source: Macrobond

**Unemployment Rate (Seasonally Adjusted)**

|           | Feb-19 | Mar-19 | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 |
|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| US        | 3.8    | 3.8    | 3.6    | 3.6    | 3.7    | 3.7    | 3.7    | 3.5    | 3.6    | 3.5    | 3.5    |
| Canada    | 5.8    | 5.8    | 5.7    | 5.4    | 5.5    | 5.7    | 5.7    | 5.5    | 5.5    | 5.9    | 5.6    |
| UK        | 3.8    | 3.8    | 3.8    | 3.9    | 3.8    | 3.9    | 3.8    | 3.8    | 3.8    |        |        |
| Eurozone  | 7.8    | 7.7    | 7.6    | 7.6    | 7.5    | 7.6    | 7.5    | 7.6    | 7.5    | 7.5    |        |
| Germany   | 5.0    | 4.9    | 4.9    | 5.0    | 5.0    | 5.0    | 5.0    | 5.0    | 5.0    | 5.0    | 5.0    |
| France    | 8.6    | 8.6    | 8.5    | 8.5    | 8.5    | 8.6    | 8.6    | 8.5    | 8.5    | 8.4    |        |
| Italy     | 10.5   | 10.1   | 10.1   | 10.0   | 9.8    | 9.9    | 9.6    | 9.9    | 9.7    | 9.7    |        |
| Japan     | 2.3    | 2.5    | 2.4    | 2.4    | 2.3    | 2.2    | 2.2    | 2.4    | 2.4    | 2.2    |        |
| Australia | 5.0    | 5.1    | 5.2    | 5.2    | 5.3    | 5.2    | 5.3    | 5.2    | 5.3    | 5.2    | 5.1    |

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

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