STATE STREET GLOBAL ADVISORS

July 8, 2022
Commentary

Weekly Economic Perspectives

Contents

Spotlight on Next Week
Headline US inflation poised to rise further. The BoC might decide to hike at least 50 bps next week.

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The Economy

Signs of economic deceleration broaden.

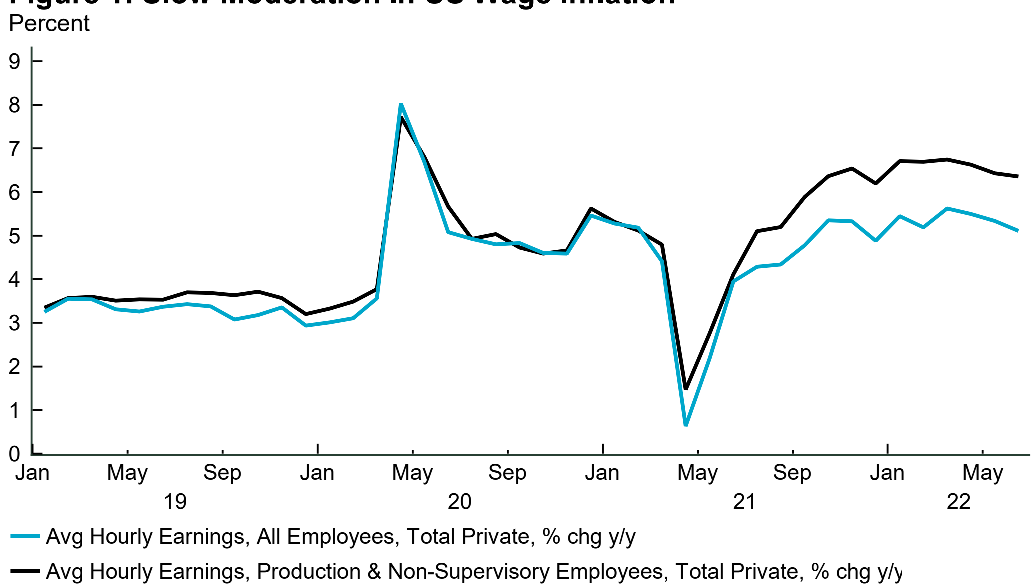
US

The June **payrolls report** was mixed. Admittedly, the economy added 372,000 jobs—nearly 100,000 more than expected—but there was a net downward revision of 74k to the prior two months so it was largely a wash in that regard. There were some notable compositional differences from last month, particularly within the private service sector. For example, retail employment, which posted a sizable decline in May, added 15k jobs in June; education and health had its best month since February, adding 98,000 people. In total, private service producing industries added 333k and good producing industries added 48k. Within the latter, manufacturing added 29k and construction added 13k. The government sector posted the lone decline (-9k) but this came after an unusually large increase the month before so it must be seen in that context.

The household survey conveyed a very different picture, however, with both employment and the labor force down substantially (315k and 353k, respectively). In this sense, this was a repeat of the April report, which exhibited the exact same discrepancy. The participation rate declined a tenth to 62.2% and the **unemployment rate** was unchanged at 3.6%. The underemployment rate dropped precipitously, down four tenths to 6.7%. We are not sure what to make of this divergence but will note that the household survey seems to be a more aligned with recent PMI signals about softening employment.

The average **workweek** was unchanged and the average manufacturing workweek declined by 12 minutes. However, higher employment levels lifted aggregate hours worked by 0.3% while manufacturing hours worked were unchanged.

Figure 1: Slow Moderation In US Wage Inflation



Sources: SSGA Economics, BLS

Wage inflation remains elevated, but has moderated somewhat (Figure 1. Page 1). Total average hourly earnings (AHE) rose 0.3%; they were 5.1% higher than a year earlier. The 3-month annualized increase slowed from 6.1% back in January to 4.3% in June, an encouraging sign that wage inflation is decelerating. Still, the story is more nuanced because AHE for production and non-supervisory employees increased 0.5% during the month and stood 6.4% higher than a year earlier.

The extremely elevated level of **job openings** had been somewhat puzzling for some time in the context of steady gains in employment, but it has become even more puzzling now that leading indicators of employment are turning lower. If the ISM indexes indicate that employment is now shrinking in both those sectors, why are there still 11.3 million open positions being advertised. There are several explanations, each of which likely helps round up the answer. Firstly, the JOLTS (Job Openings and Labor Turnover Survey) report is the most backward looking of all the high frequency labor market data. As such, it is only now beginning to show the data send a similar message. Indeed, while the level of openings remains high, it declined by 427,000 in May, the largest drop since the early Covid days. This may well be a sign of things to come. Secondly, there is also no doubt that there remain many firms seeking but unable to find suitable workers, hence they continue to advertise. In fact, because it has been so hard to attract potential employees, we suspect that many companies have advertised the same job on more than one platform so there is more double counting than usual. And, finally, there may be some degree of “legacy” postings that have not yet been withdrawn but will in coming months as the economic slowdown becomes more pronounced, leading firms to rethink their hiring plans more conservatively. The bottom line is that we expect job openings to continue to decline. This should reduce the number of quits and increase competition among workers, facilitating a moderation in wage growth.

About a month ago we wrote that enough evidence existed to assert that initial **unemployment claims** have definitely bottomed. Since then, we indeed had five consecutive weeks in which initial claims exceeded 230,000 (by contrast, they averaged 185,000 in April). Now, we feel comfortable saying that continuing claims have also bottomed. Continuing claims jumped by 51,000 to 1.375 million in the week ended June 25th, still extremely low by historical standards. Still, whereas continuing claims had been steadily declining throughout April, they rose (albeit incrementally in some cases) in four of the last five weeks. They are bound to rise further.

Unlike its manufacturing counterpart, which disappointed expectations last week, the June **services ISM index** was better than expected. While it still touched a two year low and the details were decidedly mixed, this was nonetheless a bit of a bright spot amid the slew of weak data releases of late. The headline retreated 0.6 point, but only to 55.3 and the business activity metric (the old headline) actually rebounded 1.6 points to 56.1. New orders and new export orders both softened, however, but at 55.6 and 57.5 they still indicate improvement, respectively. Backlogs rose and delivery times lengthened slightly. The employment component was by far the weakest element in the report, down 2.8 points to 47.4, the lowest level since August 2020. The employment metric has been dipping in and out of contraction for the past several months while actual services employment continued to post monthly gains in the 300,000 range. However, the latest step down is sizable enough that we expect it to translate into a visible slowdown in actual services employment in coming months.

After three spectacular prints, **consumer credit** growth slowed markedly in May, perhaps highlighting a degree of consumer exhaustion and heightened caution amid high inflation and financial market volatility. Overall consumer credit increased by $22.3 billion in May, just two thirds of the April pace. Most poignantly, revolving credit rose by just $7.4 billion, a nine-month low.

Factory orders came in quite a bit stronger than expected in May, a positive surprise further compounded by a sizable upward revision to the April data. Overall orders rose 1.6% and were 14.0% higher than a year earlier. Core orders (non-defense capital goods excluding aircraft)—a leading indicator for business equipment investment (BEI) in the GDP accounts—rose 0.6% during the month and were 10.0% higher than a year earlier. The inventory to shipments ratio was steady at 1.5 months.

Canada

The recent data strengthen the case for the BoC to hike by at least 50 bps next week. The **unemployment rate** fell to a new record low 4.9% in June, beating expectations that it would remain at 5.1%. However, this largely reflected a large 0.4 percentage point decline in the participation rate to 64.9%. Employment itself declined by 43,000—the first retreat since January—mainly driven by older demographics. Employment in the services-producing sector declined by 76,000 (-0.5%), with losses spread across several industries, including retail trade. Meanwhile, employment in the goods-producing sector rose by 33,000 (+0.8%), with gains in construction and manufacturing. Total hours worked increased 1.3% while wage inflation accelerated sharply. Average hourly wages rose 5.2% y/y in June, compared to 3.9% y/y in May.

Figure 2. Canada's Unemployment Rate Touches New Record Low

Sources:SSGA Economics, StatCan

The value of **building permits** rose 2.3% in May, driven mainly by a 7.0% jump in the non-residential sector. Residential permits edged down 0.1%, as gains in Ontario and British Columbia were insufficient to offset declines in seven other provinces.

Nationally, building intentions for the multi-family component (-5.9%) declined, while single-family home intentions rose sharply (+7.0%).

We don't always report on the **Ivey purchasing managers' index** since it is extremely volatile and does not appear to send reliable signals on the economy, except perhaps when registering outsized movements. We got such a move in June, with the index falling 9.8 points to 62.2, the lowest reading since February. Measurement of employment was unchanged from May at 67.9, while the prices index fell to 77.9 from 82.4. That was the second straight month that the prices index has fallen, reaching the lowest level since last December.

UK

The service sector continued to expand in June but at a much slower pace than during the first quarter. The **services PMI** registered 54.3 in June, up slightly from 53.4 in May but the 55.6 average reading in the second quarter was well below the first quarter's 59.1. New orders growth fell to the lowest since February 2021 as businesses and customers were reluctant to spend amid the uncertain economic outlook. June's input cost inflation was close to May's survey high record and also rose at the second-fastest rate since the survey began in July 1996, driven by high wage pressure and surging energy costs. Selling prices continued to increase at a rapid pace in June, with the rate of inflation just slightly lower than May's record high. Job creation remained robust in June but talent shortages continued to hinder business capacity. Business optimism fell to the lowest since May 2020.

Eurozone

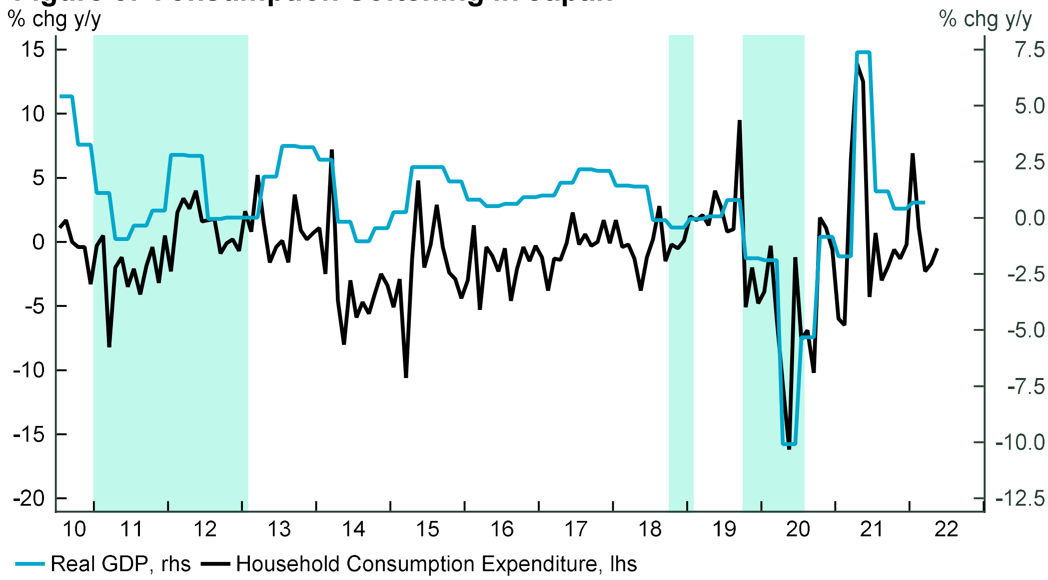
The eurozone industrial sector is struggling, although latest German industrial data was somewhat encouraging. Admittedly, ***German* industrial production** (including construction) increased just 0.2% in May—half the expected rate—but a sizable upward revision to the April data more than offset that disappointment. Excluding construction, output rose 0.1%. Performance would have been better still if not for a 5.8% plunge in energy output. Manufacturing and mining increased 0.6%. Total output, including construction, remains 1.4% lower than in May 2021. After three consecutive declines, ***German* factory orders** inched up 0.1% in May. Still, they remain 3.0% lower than a year earlier.

Japan

Data releases over past week imply softening growth momentum. **Real household spending** contracted 1.9% in May, leaving it 0.5% below year earlier levels. Consensus expectations had been for a 2.1% y/y gain. Higher inflation and supply problems at car dealers contributed to the May decline as households spent less on cars and accessories likely caused due to supply issues of chips and other parts.

The c**urrent account** surplus collapsed from over ¥500 billion in April to a little over ¥128 billion in May, largely on account of the goods and services deficit, which widened by about a third to over ¥2 trillion.

Figure 3: Consumption Softening In Japan



Sources: SSGA Economics, Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, CaO

Australia

The **RBA** met market expectations for once and raised the cash target rate by 50 bps to 1.35%. The 125 basis points worth of hikes over the past three months amount to its most aggressive hiking cycle ever. Amid growing signs of weakness in the global economy, the RBA may not be able to continue to tighten as aggressively as it might have previously signaled.

The **trade surplus** rose to A$16 billion in May, reflecting favorable terms of trade and robust external demand. Exports rose 9.5% from April, outgrowing imports which rose 5.8%. Goods exports increased 10%, the fastest since March 2020, on strong gold and coal revenues.

Week in Review (July 04 – July 08)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, July 04					
JN	Labor Cash Earnings (May, y/y)	1.5%	1.0%	1.3% (↓)	Wage pressures are soft.
Tuesday, July 05					
US	Factory Orders (May)	0.5%	1.6%	0.7% (↑)	Good.
US	Durable Goods Orders (May, final)	0.7%	0.8%	0.7%	Good.
CA	Building Permits (May, m/m)	-1.3%	2.3%	-1.0% (↓)	Encouraging.
UK	Services PMI (Jun, final)	53.4	54.3	53.4	Remain robust but rate of growth slowed down.
EC	Services PMI (Jun, final)	52.8	53.0	56.1	Close to preliminary estimate.
GE	Services PMI (Jun, final)	52.4	52.4	55.0	Close to preliminary estimate.
FR	Industrial Production (May, m/m)	0.0%	0.2%	-0.3% (↓)	OK.
AU	RBA Cash Rate Target	1.35%	1.35%	0.85%	In line with expectations.
Wednesday, July 06					
US	ISM Services Index (Jun)	54.0	55.3	55.9	Pleasant surprise but mixed details.
US	JOLTS Job Openings (May, thous)	11,000	11,254	11,681 (↑)	Perplexingly elevated.
GE	Factory Orders (May, m/m)	-0.5%	0.1%	-1.8% (↑)	Could have been worse.
Thursday, July 07					
US	Trade Balance (May, $bn)	-84.9	-85.5	-86.7 (↑)	Fine.
US	Initial Jobless Claims (2 Jul, thous)	230.0	235	231.0	Have turned higher.
US	Continuing Claims (25 Jun, thous)	1,328	1,375	1,324 (↓)	Have bottomed.
CA	Ivey Purchasing Managers Index (Jun, sa)	n/a	62.2	72.0	Lowest reading since February.
GE	Industrial Production (May, m/m sa)	0.4%	0.2%	1.3% (↑)	Upward revision evens things out.
JN	Leading Index CI (May, prelim)	101.5	101.4	102.9	Range bound and near consensus.
JN	Household Spending (May, y/y)	2.1%	-0.5%	-1.7%	Softening.
JN	BoP Current Account Balance (May, ¥ bn)	172.0	128.4	501.1	16 month low.
Friday, July 08					
US	Change in Nonfarm Payrolls (Jun, thous)	268.0	372.0	384.0 (↓)	An OK report.
US	Unemployment Rate (Jun)	3.6%	3.6%	3.6%	Participation rate declined.
US	Consumer Credit (May, $ bn)	30.9	22.3	36.8 (↓)	Pulling back slightly after torrid recent increases.
CA	Unemployment Rate (Jun)	5.1%	4.9%	5.1%	Tighter labor market.
IT	Industrial Production (May, m/m sa)	-1.4%	-1.1%	1.4% (↓)	Soft.

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

Week In Preview (July 11– July 15)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, July 11				
IT	Retail Sales (May, m/m)	n/a	0.0%	
JN	PPI (Jun, y/y)	8.9%	9.1%	Might come in softer than previous.
JN	Core Machine Orders (May, m/m)	-5.6%	10.8%	Slowing due to weak external demand.
AU	NAB Business Confidence (Jun)	n/a	6.0	Weakening.
AU	Westpac Consumer Conf Index (Jul)	n/a	86.4	Weakening.
Tuesday, July 12				
US	NFIB Small Business Optimism (Jun)	92.5	93.1	Fairly bleak…
GE	ZEW Survey Expectations (Jul)	-40.0	-28.0	
Wednesday, July 13				
US	CPI (Jun, y/y)	8.8%	8.6%	Painful!
US	Real Avg Weekly Earnings (Jun, y/y)	n/a	-3.9%	
US	Monthly Budget Statement (Jun, $bn)	n/a	-66.2	
CA	Bank of Canada Rate Decision	2.00%	1.50%	BoC might decide to increase rate by at least 50 bps.
UK	Industrial Production (May, m/m)	-0.5%	-0.6%	Weak.
EC	Industrial Production (May, m/m sa)	0.0%	0.4%	
GE	CPI (Jun, y/y, final)	7.6%	7.9%	
FR	CPI (Jun, y/y, final)	5.8%	5.2%	
AU	Unemployment Rate (Jun)	3.8%	3.9%	Tight labor market.
Thursday, July 14				
US	PPI Final Demand (Jun, y/y)	10.4%	10.8%	
US	Initial Jobless Claims (9 Jul, thous)	n/a	235	
US	Continuing Claims (2 Jul, thous)	n/a	1,375	
CA	Manufacturing Sales (May, m/m)	n/a	1.7%	Sales might be affected by motor vehicle and primary metals.
JN	Industrial Production (May, m/m, final)	n/a	-1.5%	Could remain muted.
Friday, July 15				
US	Empire Manufacturing (Jul)	-2.0	-1.2	
US	Retail Sales Advance (Jun, m/m)	0.9%	-0.3%	Real sales growth much slower.
US	Import Price Index (Jun, y/y)	n/a	11.7%	
US	Capacity Utilization (Jun)	80.2%	80.8% (↑)	
US	Industrial Production (Jun, m/m)	0.0%	0.1% (↓)	
US	Business Inventories (May)	1.1%	1.2%	
US	U. of Mich. Sentiment (Jul, prelim)	49.0	50.0	
CA	Existing Home Sales (Jun, m/m)	n/a	-8.6%	Further slowdown.
JN	Tertiary Industry Index (May, m/m)	0.5%	0.7%	Services could pick-up.

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

Economic Indicators

Central Bank Policy Targets

Region	Target	Year/Year % Change in Target				
		Jan	Feb	Mar	Apr	May
US	Target: PCE price index 2.0% y/y	6.0	6.3	6.6	6.3	6.3
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	5.1	5.7	6.7	6.8	7.7
UK	Target: CPI 2.0% y/y	5.5	6.2	7.0	9.0	9.1
Eurozone	Target: CPI below but close to 2.0% y/y	5.1	5.9	7.4	7.4	8.1
Japan	Target: CPI 2.0% y/y	0.5	0.9	1.2	2.5	2.5
Australia	Target Range: CPI 2.0%-3.0% y/y	5.1	5.1	5.1		

Source: Macrobond

Key Interest Rates

	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
US (top of target range)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	1.00	1.75
Canada (Overnight Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.00	1.50
UK (Bank Rate)	0.10	0.10	0.10	0.10	0.25	0.25	0.50	0.75	0.75	1.00	1.25
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	-0.05	-0.03	-0.05	-0.02	-0.02	-0.01	-0.02	-0.02	-0.03	-0.04
Australia (OCR)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.33	0.73

Source: Macrobond

General Government Structural Balance as a % of Potential GDP

	2014	2015	2016	2017	2018	2019	2020	2021	Forecast 2022	Forecast 2023
US	-2.7	-2.5	-3.5	-4.2	-5.2	-6.1	-10.4	-8.0	-5.3	-4.6
Canada	-0.6	0.0	0.1	-0.3	0.0	-0.2	-8.6	-3.6	-2.3	-1.3
UK	-3.9	-3.6	-2.8	-2.3	-2.4	-2.7	0.5	-3.2	-4.4	-2.0
Eurozone	-0.7	-0.6	-0.5	-0.5	-0.3	-0.5	-4.5	-4.0	-3.5	-2.3
Germany	1.2	1.2	1.2	1.1	1.6	1.3	-3.1	-2.6	-2.0	-0.5
France	-2.5	-2.1	-2.0	-1.9	-1.5	-2.1	-5.9	-5.9	-5.3	-3.4
Italy	-1.0	-0.6	-1.3	-1.6	-1.7	-1.0	-6.0	-4.6	-5.2	-3.7
Japan	-5.4	-4.2	-4.1	-3.3	-2.5	-2.5	-8.1	-6.9	-7.3	-3.3
Australia	-2.8	-2.6	-2.3	-1.6	-1.2	-4.1	-7.8	-7.7	-5.4	-3.6

Source: International Monetary Fund, World Economic Outlook

Headline Consumer and Producer Price Inflation

	CPI Year/Year % Change						PPI Year/Year % Change				
	Feb	Mar	Apr	May	Jun		Jan	Feb	Mar	Apr	May
US	7.9	8.5	8.3	8.6			10.1	10.4	11.5	10.9	10.8
Canada	5.7	6.7	6.8	7.7			16.1	15.9	17.9	16.4	15.0
UK	6.2	7.0	9.0	9.1			10.0	10.3	12.0	14.7	15.6
Eurozone	5.9	7.4	7.4	8.1			30.8	31.5	36.9	37.2	36.3
Germany	5.1	7.3	7.4	7.9	7.6		25.0	25.9	30.9	33.5	33.6
France	3.6	4.5	4.8	5.2	5.8		20.5	20.2	24.8	25.0	25.0
Italy	5.7	6.5	6.0	6.8	8.0		32.9	32.7	36.9	35.3	34.6
Japan	0.9	1.2	2.5	2.5			9.0	9.4	9.3	9.8	9.1
Australia	5.1	5.1					4.9	4.9	4.9		

Source: Macrobond

Economic Indicators

Real GDP Growth (Q/Q Seasonally Adjusted)

	Quarter/Quarter % Change						Year/Year % Change				
	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22		Q1-21	Q2-21	Q3-21	Q4-21	Q1-22
US	1.5	1.6	0.6	1.7	-0.4		0.5	12.2	4.9	5.5	3.5
Canada	1.1	-0.8	1.3	1.6	0.8		0.2	11.7	3.8	3.2	2.9
UK	-1.2	5.6	0.9	1.3	0.8		-5.0	24.5	6.9	6.6	8.7
Eurozone	-0.1	2.2	2.3	0.2	0.6		-0.9	14.7	4.0	4.7	5.4
Germany	-1.7	2.2	1.7	-0.3	0.2		-2.8	10.4	2.9	1.8	3.8
France	0.2	1.0	3.2	0.4	-0.2		1.8	19.2	3.0	4.9	4.5
Italy	0.2	2.7	2.6	0.7	0.1		0.0	17.5	4.0	6.4	6.2
Japan	-0.4	0.6	-0.8	1.0	-0.1		-1.7	7.4	1.2	0.4	0.7
Australia	1.8	0.8	-1.8	3.6	0.8		1.4	9.7	4.1	4.4	3.3

Source: Macrobond

Industrial Production Index (M/M Seasonally Adjusted)

	Month/Month % Change						Year/Year % Change				
	Jan	Feb	Mar	Apr	May		Jan	Feb	Mar	Apr	May
US	0.4	0.8	0.7	1.3	0.1		2.9	7.1	4.9	6.1	5.4
Canada	-0.6	0.8	1.0	1.9			1.2	3.6	3.8	7.2	
UK	0.9	-0.3	-0.2	-0.6			3.3	2.1	0.7	0.7	
Germany	0.9	0.4	-4.2	1.3	0.2		0.9	2.8	-4.5	-2.5	-1.4
France	1.7	-1.2	-0.5	-0.3	0.0		-1.2	2.0	-0.1	-0.6	-0.4
Italy	-3.3	4.0	0.2	1.4	-1.1		-2.0	3.3	3.2	3.5	3.5
Japan	-2.4	2.0	0.3	-1.5	-7.2		-1.6	0.5	-0.8	-3.4	-4.3

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)

	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
US	5.2	4.7	4.6	4.2	3.9	4.0	3.8	3.6	3.6	3.6	3.6
Canada	7.1	7.0	6.8	6.1	6.0	6.5	5.5	5.3	5.2	5.1	4.9
UK	4.3	4.2	4.1	4.0	4.0	3.8	3.7	3.8			
Eurozone	7.5	7.3	7.3	7.1	7.0	6.9	6.8	6.8	6.7	6.6	
Germany	5.5	5.4	5.4	5.3	5.2	5.1	5.1	5.0	5.0	5.0	5.3
France	7.7	7.6	7.5	7.4	7.4	7.3	7.3	7.3	7.2	7.2	
Italy	9.1	9.1	9.2	9.0	8.8	8.7	8.5	8.3	8.3	8.1	
Japan	2.8	2.8	2.7	2.8	2.7	2.8	2.7	2.6	2.5	2.6	
Australia	4.5	4.7	5.2	4.6	4.2	4.2	4.0	3.9	3.9	3.9	

Source: Macrobond

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

	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22
US	-2.0	-1.9	-2.0	-3.1	-3.2	-3.5	-3.4	-3.6	-3.9	-3.7	-4.8
Canada	-2.2	-1.6	-3.2	-1.1	-2.0	-0.8	0.1	-0.1	0.2	0.0	0.7
UK	-2.5	0.5	-2.2	-1.4	-1.4	-4.8	-2.2	-2.0	-4.9	-1.2	-8.3
Eurozone	3.2	1.5	0.6	1.3	2.5	3.4	4.0	3.3	2.4	0.9	0.8
Germany	7.8	7.4	6.7	5.4	7.3	8.3	8.9	8.0	7.0	6.5	4.9
France	0.3	0.5	-1.3	-3.7	-2.0	-0.4	0.6	0.7	0.4	-0.3	-0.2
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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