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March 25, 2022  
Commentary

## Weekly Economic Perspectives

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### Spotlight on Next Week

Another strong payrolls gain in the US. German inflation to spike further. Japanese manufacturing sentiment to worsen.

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**The Economy**

A light data week that highlighted broad inflation challenges.

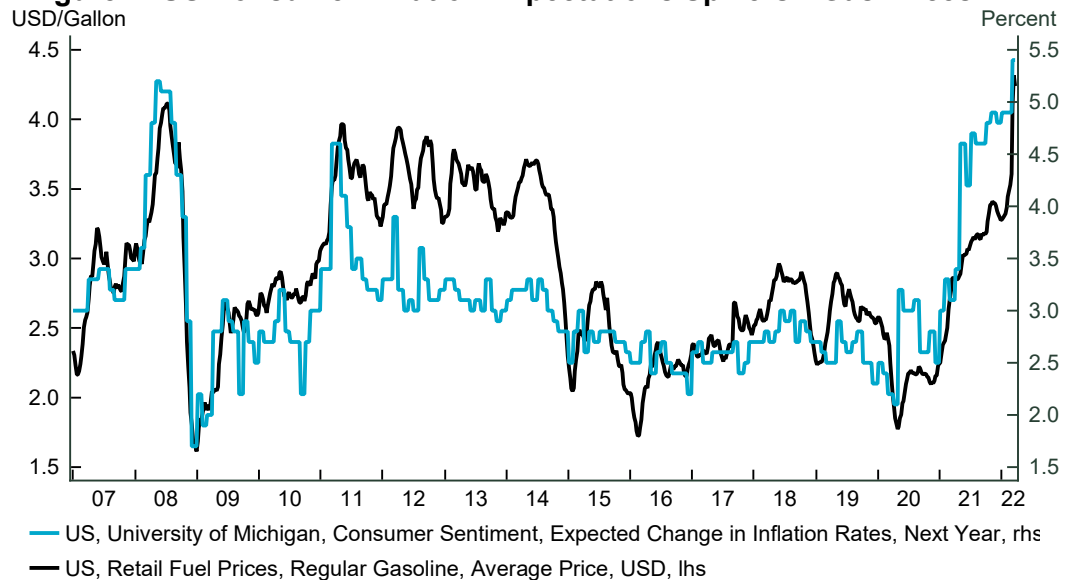
US

We highlighted in our last publication the downside risks to the housing sector stemming from rising interest rates. The evidence is broadening that a slowdown is indeed afoot, the question being only how substantial it will prove to be. **New home sales** bucked expectations for an improvement in February to instead decline 2.0% from a downwardly revised January level. Sales were 6.2% lower than in February 2021, when activity was starting to come off the boil following a pandemic-driven surge. The median price unwound its January gains but still stood 10.7% higher than a year earlier. However, this is half the rate seen for the better part of 2021.

**Pending home sales** continue to decline at a rapid pace. They dropped another 4.1% in February—the fourth consecutive decline—implying a further deceleration in home purchases over the next couple of months. Pending home sales stand 5.4% below February 2021 levels. Low inventory, high prices, sharply higher mortgage rates, and a squeeze on real incomes from elevated inflation are substantial hurdles for otherwise interested buyers.

Consumer sentiment remains weak and the inflationary implications of the war in Ukraine are doing nothing to assuage concerns. Final estimates for the Michigan consumer sentiment index showed a 3.4-point decline in March (three tenths weaker than initially reported) to 59.4, the lowest level since August 2011. The surge in gasoline prices pushed short term inflation expectations half a percentage point higher to 5.4%, the highest level since 1981. Long-run (5-10 years) inflation expectations were unchanged at a historically high 3.0% level.

**Figure 1: US Consumer Inflation Expectations Spike On Gas Prices**



Sources: SSGA Economics, EIA, University of Michigan

Following three very strong months, **durable goods orders** fell a larger than expected 2.2% in February. However, much of this reflected a 30.4% plunge in non-defense aircraft orders—likely some normalization after several strong months fueled by the resumption of orders for the 737 Max aircraft. Core orders (non-defense capital goods excluding aircraft)—a leading indicator for business equipment investment (BEI) in the GDP accounts—retreated a far milder 0.3%. Overall shipments were flat, core shipments rose 0.5%, while inventories and backlogs rose 0.4% each.

Canada

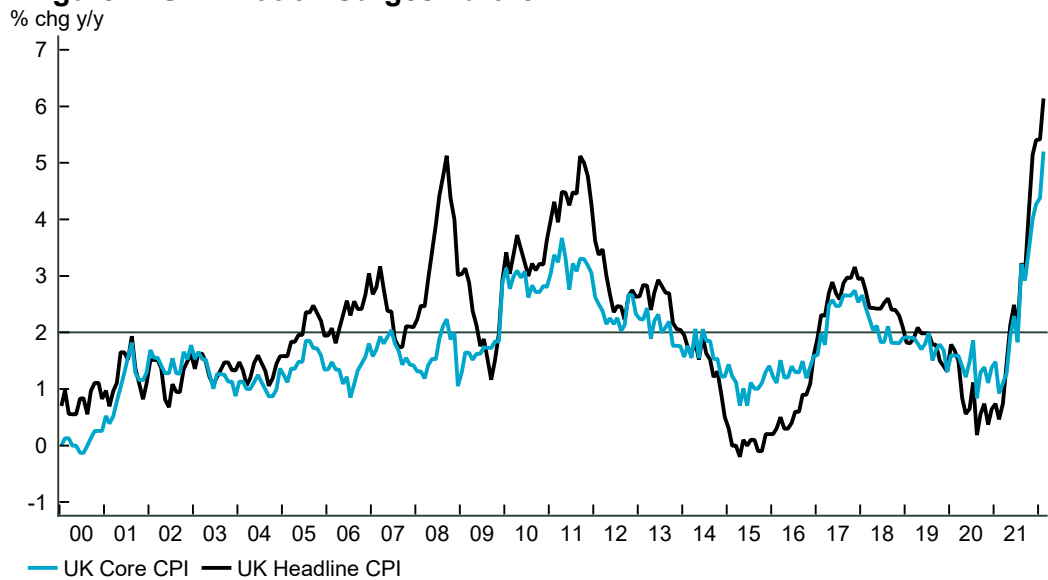
**Industrial product prices**—Canada’s version of producer prices—rose a larger than expected 3.1% in February, driven by higher raw material prices and energy in particular. Overall industrial price inflation stood at 16.4% y/y but raw material prices were 29.8% higher than a year earlier.

UK

This week’s data updates from the UK sent a very clear and consistent message: high inflation is depressing consumer sentiment as well as spending.

Both headline and core consumer prices increased 0.8% in February, pushing the two measures of **CPI inflation** up seven tenths to 6.2% y/y and eight tenths to 5.2% y/y, respectively. Evidently given the big move in core prices, price pressures are broad. Further moves higher are guaranteed given upcoming increases in energy prices so a breach above the 8.0% level seems pretty much guaranteed.

**Figure 2: UK Inflation Surges Further**



Sources: SSGA Economics, ONS

Unsurprisingly, the erosion in consumer sentiment continues. The **GfK consumer confidence index** compounded its recent losses with another five-point decline in March. At -31, the index is now at its lowest level since November 2020 and just three points above the Covid-era lows.

**Real retail sales** declined 0.3% in February—the second drop in three months—and this despite a double-digit increase in clothing sales. Almost all other categories, including food and online sales, were down for the month. Favorable base effects still left sales 7.0% higher than in February 2021, however.

Meanwhile, broader economic activity continues to expand, with the services PMI surprising positively with a 3-point jump to 61. By contrast, manufacturing activity slowed, with the manufacturing PMI down 5.0 points to 55.5.

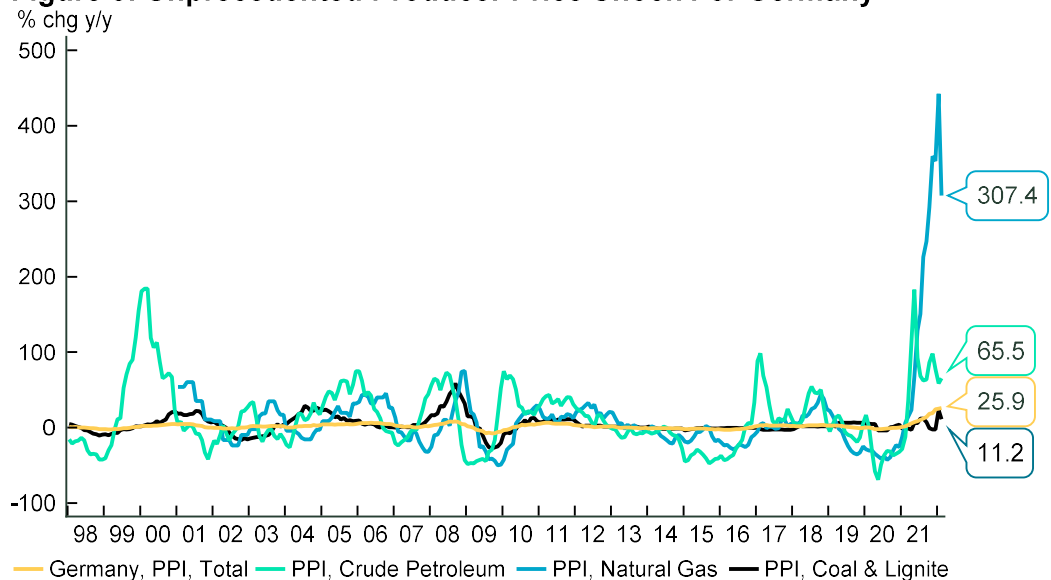
Eurozone

The headline looked better than the details in the preliminary readings for the March **eurozone manufacturing PMI**. The regional index retreated only 1.1 point and only to a robust 57.0 level, both the output and the new orders metrics experienced larger declines: output down 1.9 points, new orders down 2.8 and new export orders down 5.6. The latter fell into outright contraction territory. Meanwhile and unsurprisingly, price pressures spiked, with both input and output price metrics up sharply to near and new record levels, respectively. We worry that the March readings might prove to be the quiet before the storm, with larger declines likely next month.

The story was similar in respect to **services PMIs**. The regional index moderated 0.6 point to 54.8 but aside from employment and prices, the other metrics deteriorated. Future business expectations plunged 9.2 points, likely portending further deterioration in April. The story was more nuanced across countries, however, as the French index actually improved while Germany’s eased.

Typically, producer price data are some of the least exciting—one might even say downright boring—types of macro data releases, which is why we rarely cover them in detail. Alas, these are anything but typical times and these indicators are now as interesting as they come. In fact, they are outright astonishing, with Germany a perfect example of this phenomenon.

**Figure 3: Unprecedented Producer Price Shock For Germany**



Sources: SSGA Economics, DESTATIS, BUBA

Even prior to the Ukraine invasion, **German producer price inflation** had been on an unprecedented peace-time surge. Overall producer prices soared 25.9% y/y in February, while prices excluding energy rose a more modest yet still elevated 12.4% y/y. Even within the energy complex there have been extraordinary variations (Figure 3 above). Natural gas prices were more than three times higher than in February 2021, while coal prices were only 11.2% higher. Given these price points, it is unsurprising to hear that coal-fired power generation is being once again considered despite the country's green transition goals. Expect the PPI prints to worsen further due to the Ukraine invasion.

Given the massive plunge in the **German Zew** index last week, it was no surprise whatsoever to see the **IFO business climate indicator** lose 7.7 points in March. In fact, we felt it could have been even worse. But it was bad enough: the largest monthly drop since April 2020 to the lowest level since July of 2020.

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Japan

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Manufacturing activity continues to expand at a modest to moderate pace. The manufacturing PMI rose half a point to 53.2 in March, driven by an improvement in the output component which crossed back into expansion. But the details were otherwise mixed, with new orders incrementally weaker and not far above neutral while new export orders plunged 4.3 points to 46.4, the lowest level since July 2020.

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Australia

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No major data releases this week.

**Week in Review (March 21– March 25)**

Country	Release (Date, format)	Consensus	Actual	Last	Comments
<b>Monday, March 21</b>					
GE	PPI (Feb, y/y)	26.2%	25.9%	25.0%	Natural gas prices up over 300% y/y.
<b>Tuesday, March 22</b>					
CA	Industrial Product Prices (Feb, m/m)	2.5%	3.1%	3.0%	Big increase in raw material prices.
<b>Wednesday, March 23</b>					
US	New Home Sales (Feb, thou, saar)	810	772	788(↓)	Headwinds growing.
UK	CPI (Feb, y/y)	6.0%	6.2%	5.5%	Heading higher still.
<b>Thursday, March 24</b>					
US	Initial Jobless Claims (19- Mar, thous)	211	187	215	New cycle low.
US	Continuing Claims (12-Mar, thous)	1,400	1350	1,417	Extremely low.
US	Durable Goods Orders (Fed, m/m, prel)	-0.6%	-2.2%	1.6%	Core orders only declined 0.3%.
US	Kansas Fed Manuf. Index (Mar)	21.0	37.0	29.0	Good.
UK	Services PMI (Mar, prelim)	58.0	55.5	60.5	But still OK.
UK	Manufacturing PMI (Mar, prelim)	56.9	61.0	58.0	Pleasant surprise.
EC	Manufacturing PMI (Mar, prelim)	56.0	57.0	58.2	Details more troublesome.
EC	Services PMI (Mar, prelim)	54.2	54.8	55.5	Future expectations plunged.
GE	Manufacturing PMI (Mar, prelim)	56.0	57.6	58.4	Details more troublesome.
GE	Services PMI (Mar, prelim)	53.8	55.0	55.8	OK.
FR	Manufacturing PMI (Mar, prelim)	55.1	54.8	57.2	Details more troublesome.
JN	Jibun Bank Japan PMI Mfg (Mar, prelim)	na	53.2	52.7	Mixed details.
<b>Friday, March 25</b>					
US	U. of Mich. Sentiment (Mar, final)	59.7(p)	59.4	62.8	Inflation expectations spike on gas prices.
US	Pending Home Sales (Feb, m/m)	1.0%	-4.1%	-5.8%(↓)	Headwinds growing.
UK	GfK Consumer Confidence (Mar)	-30.0	-31.0	-26.0	Lowest since November 2020.
UK	Retail Sales (Feb, m/m)	0.6%	-0.3%	1.9%	But still up 7.0% y/y.
GE	IFO Business Climate (Mar)	94.2	90.8	98.5(↓)	Lowest level since July 2020.
IT	Consumer Confidence (Mar)	108.0	100.8	112.4	Eroding.
IT	Manufacturing Confidence (Mar)	111.8	110.3	112.9(↓)	Eroding.
JN	PPI Services (Feb, y/y)	1.2%	1.1%	1.2%	Still incredibly low.

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

**Week Preview (March 28 – April 1)**

Country	Release (Date, format)	Consensus	Last	Comments
<b>Monday, March 28 – No major data releases</b>				
<b>Tuesday, March 29</b>				
US	FHFA House Prices (Jan, m/m)	1.3%	1.2%	Bound to slow as mortgage rates rise.
US	CS 20-City House Price Index (Jan, m/m)	1.5%	1.5%	Bound to slow as mortgage rates rise.
US	Conf. Board Consumer Conf. (Mar)	107.0	110.5	
US	JOLTS Job Openings (Feb, thous)	11,000	11,263	
UK	Mortgage Approvals (Feb, thous)	74.9	74.0	
GE	GfK Consumer Confidence (Apr)	-14.5	-8.1	
FR	Consumer Confidence (Mar)	94	98	
JN	Unemployment Rate (Feb)	2.8%	2.8%	
AU	Retail Sales (Feb, m/m)	0.8%	1.8%	Good enough given recent gains.
<b>Wednesday, March 30</b>				
US	GDP (Q4, saar)	7.0%	2.3%	Old news by now.
GE	CPI (Mar, y/y, prelim)	6.2%	5.1%	
JN	Retail Sales (Feb, m/m)	-0.3%	-0.9%	
<b>Thursday, March 31</b>				
US	Initial Jobless Claims (26- Mar, thous)	200	187	
US	Continuing Claims (19-Mar, thous)	1350	1350	
US	Personal Income (Feb, m/m)	0.5%	0.0%	
US	Personal Spending (Feb, m/m)	0.5%	2.1%	
CA	GDP (Jan, m/m)	0.2%	0.0%	Good.
UK	Nationwide House PX (Mar, m/m)	0.5%	1.7%	
GE	Unemployment Rate (Mar)	5.0%	5.0%	
GE	Retail Sales (Feb, m/m)	0.5%	1.4%	
IT	Unemployment Rate (Feb)	8.7%	8.8%	
IT	CPI (Mar, y/y, prelim)	6.4%	5.7%	
JN	Industrial Production (Feb, m/m, prelim)	0.5%	-0.8%	
<b>Friday, April 1</b>				
US	Change in Nonfarm Payrolls (Mar, thous)	490	678	Very strong.
US	Unemployment Rate (Mar)	3.7%	3.8%	
US	ISM Manufacturing (Mar)	59.0	58.6	Can it deliver?
UK	Manufacturing PMI (Mar, final)	55.5(p)	60.5	
EC	Manufacturing PMI (Mar, final)	57.0(p)	58.2	
GE	Manufacturing PMI (Mar, final)	57.6(p)	58.4	
FR	Manufacturing PMI (Mar, final)	54.8(P)	57.2	
JN	Tankan Large Manuf Survey (Q1)	12.0	18.0	
JN	Jibun Bank Japan PMI Mfg (Mar, final)	53.2	52.7	

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

										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				
	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
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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