
May 13, 2022

Commentary

Weekly Economic Perspectives

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US inflation slows, but only a little. First quarter UK growth undershot expectations. French wage inflation turns higher. No real signs of Japanese wage inflation. Australian business sentiment remains robust.
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Spotlight on Next Week

US retail sales seen resilient. UK consumer price inflation to spike further. The Japanese economy likely shrank in Q1.

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The Economy

Anxiety around inflation and pace of monetary policy tightening persists.

US

The April **inflation report** was disappointing but by no means disastrous. Because consumer price inflation did not slow quite as much as expected, it triggered a new wave of anxiety about the possible need for the Fed to tighten more aggressively. We are inclined to take a more positive take on the report, however.

Overall consumer prices rose 0.3% in April, a tenth faster than anticipated, and core price rose 0.6%, two tenths faster than anticipated (and double the April pace). It was this latter detail that caused a lot of concern. To be sure, this will push the monthly core PCE read for April higher and may bring into question the staying power of the recent deceleration in that metric that Chair Powell referenced at the last press conference. Even so, the upside surprise itself also reflects influences whose persistence seems questionable. Airline fares surged 18.6% in April, on top of the 10.7% jump in March. We doubt this can be repeated. Used car prices barely declined and new car prices jumped 1.1% m/m. It is unclear how much of the latter reflected a new methodology, but even with high production costs and insufficient inventories we think that the combination of already high prices and rising financing costs should slow the rate of future gains. On a brighter side, core goods prices rose just 0.2%, having declined outright in March. Price pressures in this segment are now moderating. Elsewhere the news was less encouraging, with food prices up 0.9%, extending a run of sizable increases. Energy declined 2.7% but there are questions about the sustainability of the move. Service prices jumped 0.8%, with shelter up 0.5% and medical care up 0.4%. Headline inflation moderated two tenths to 8.3% y/y and core inflation eased three to 6.2% y/y. Base effects become much more favorable over the next few months, so the annual comparisons should improve more meaningfully.

Import and producer prices came in largely in line with expectations in April. Both inflation measures appear to have peaked, though given uncertainties around supply chains and the war in Ukraine, we might need a couple of more data prints to conclude this definitively. **Import price inflation** moderated one percentage point to 12.0% y/y. Notably, import prices from China increased 4.6% y/y, a five-month low.

Meanwhile, headline **producer price inflation** moderated half a percentage point to 11.0% y/y, with the core measure (excluding food and energy) decelerating six tenths to 8.8% y/y. The alternative core measure (excluding food, energy, and trade services) eased two tenths to 6.9% y/y; it had oscillated in a very narrow range since late last year. Producer price pressures remain most intense in goods (up 16.3% y/y) and especially construction (up 19.6% y/y), with services PPI at 8.1% y/y.

High inflation and deteriorating wealth dynamics contributed to a sizable pullback in consumer sentiment in early May. According to the preliminary **University of Michigan** survey, the **consumer sentiment index** lost 6.1 points, more than retracing last month's unexpected gain to settle at a new decade low. Both the expectations and the current situation components shared in the decline. The one small source of relief was that inflation expectations remained stable, though at the elevated levels that had prevailed over the last few months. The associated erosion in purchasing power and the recent pullback in the stock market are reverberating in sentiment. There was a notable retreat in what we consider a proxy of household net

worth (share of respondents reporting a combo of higher assets and lower debt vs those reporting lower assets and higher debt; Figure 1).

Figure 1: US Consumers' Perceptions Of Household Net Worth Worsen



Sources: SSGA Economics, University of Michigan

The **NFIB small business sentiment** held steady at 93.2 in April, the twin lowest level since April 2020. The outlook for general business conditions hit another record low despite some improvement in sales expectations following a plunge the month before. The proportion of respondents saying now is a good time to expand fell to the lowest level since April 2020. All pricing metrics—for product and labor, both current and planned—eased modestly, though all remain at very elevated levels historically. While risks of renewed upward pressures remain, it increasingly feels as though small businesses are signaling a limit to pricing power.

Canada

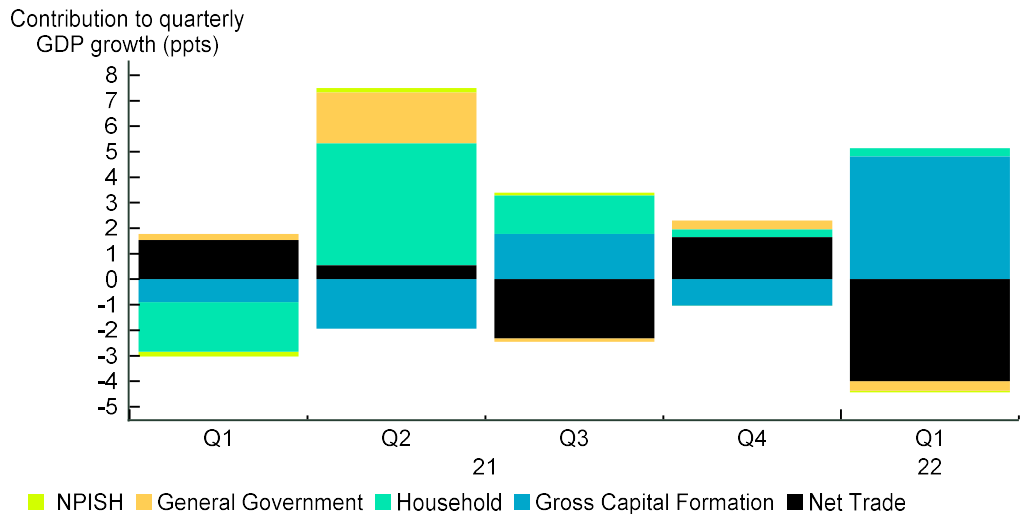
No major data releases.

UK

The Ukraine war has disrupted the UK's recovery so it was not that surprising that the economy lost momentum even before the full hit of rising living costs was felt. **First quarter GDP growth** slightly undershot expectations, but the details were more disappointing than we would have expected. The economy grew 0.8% q/q, slightly below the BoE's expectation of 0.9% q/q and market expectation of 1.0% q/q, down from revised Q4 growth of 1.3% q/q. There was a massive surge in inventories which added almost 4.0 percentage points (ppt) to growth but was essentially offset by an equally large detraction from net trade. Household consumption and gross fixed capital formation added 0.3 and 0.9 ppt, respectively, while government spending detracted 0.4 ppt. The latter reflected large declines in health expenditure following the introduction of the Living with Covid-19 program. Despite falling short of

expectations, Q1 growth is likely to mark a near-term high point. The growth outlook is set worsen given soft business investment, limited scope for net trade improvement, and the sharp deterioration in consumer confidence which will eventually filter through to business sentiment.

Figure 2: Trade Detracted, Inventories Boosted UK Q1 GDP Growth



Industrial production continued to disappoint in March, although that was partly offset by an upward revision to the February data. Overall industrial production declined by 0.2% in March, driven by weaknesses in manufacturing (-0.2%) and electricity and gas (- 2.0%). Water supply and sewerage were flat while mining and quarrying rose 2.8%. Output was 0.7% higher than in March 2021 but still 1.6% below the pre-pandemic February 2020 level.

Eurozone

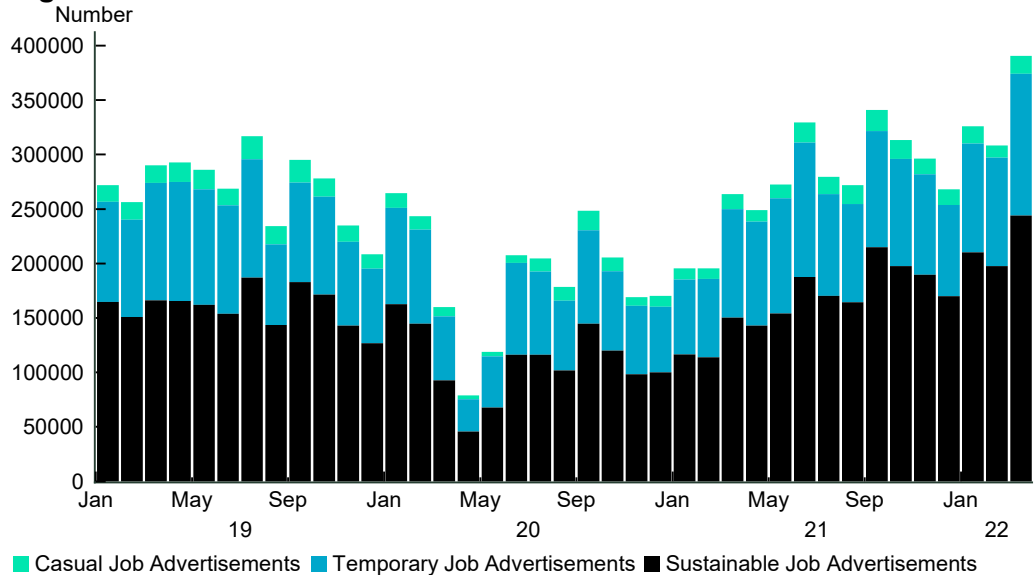
Eurozone industrial production (excluding construction) declined 1.8% in March and was 0.8% lower than in March 2021. This slightly better than expected result was offset, however, but a small downward revision to the February data. There remain large performance disparities across countries, with Germany remaining a relative underperformer among the big-3 economies.

Having collapsed a record 93.6 points in March, the **German ZEW Investor Confidence index** held essentially steady in April and surprised positively with a small gain in May that nonetheless left it at the third lowest level since March of 2020. It is unclear what to make of the improvement but we certainly are reluctant to read too much into it. It may well be reflecting a “things can’t get much worse than they already are” mentality. And, of course, they can get worse! Especially with the specter of energy supply disruptions on the horizon...

According to preliminary estimates , French hourly wages increased 1.2% q/q in the first quarter, with monthly wages up 1.1% q/q. The two respective measures of wage inflation have accelerated over the past year and now stand at 2.5% and 2.3% y/y, respectively. Elevated vacancies suggest demand for labor remains solid for now and

this could contribute to additional wage pressures, although the worsening economic outlook due to the war in Ukraine introduces risks (Figure 3)

Figure 3: French Job Vacancies On The Rise



Sources: Macrobond, SSGA Economics, DARES

Japan

Higher bonus payments contributed to a slight upside surprise in March **labor cash earnings**, but some of the other details were softer. Overall labor cash earnings rose 1.2% y/y versus the 0.9% expected, but growth in the steadier regular contracted earnings actually slowed three tenths to 0.5% y/y. Bonus payments jumped 10.7% y/y, however, masking that weakness. There is nothing here to alarm the BoJ.

Australia

Business sentiment readings have been a little erratic lately, which is not that shocking given the big swings in growth amid successive Covid waves. As such, we aren't reading too much into monthly changes at the moment. Perhaps the most important message is that, despite a pullback in April, the **NAB business confidence index** remains above its long term average and that the metrics pertaining to business conditions, profitability, and capacity utilization remain robust.

Week in Review (May 9 – May 13)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, May 9					
CA	Building Permits (Mar, m/m)	n/a	-9.3%	24.6% (↑)	Still elevated.
JN	Labor Cash Earnings (Mar, y/y)	1.0%	1.2%	1.2%	Modest.
AU	NAB Business Confidence (Apr)	n/a	10	16	Softening.
Tuesday, May 10					
US	NFIB Small Business Optimism (Apr)	92.9	93.2	93.2	Twin-lowest since April 2020.
GE	ZEW Survey Expectations (May)	-43.5	-34.3	-41.0	We wouldn't read too much into this gain...
IT	Industrial Production (Mar, m/m)	-1.5%	0.0%	4.0%	Higher energy prices, supply problems, hurt.
AU	Westpac Consumer Conf Index (May)	n/a	90.4	95.8	Pulling back.
Wednesday, May 11					
US	CPI (Apr, y/y)	8.1%	8.3%	8.5%	Set to moderate further on base effects.
US	Real Avg Weekly Earnings (Apr, y/y)	n/a	-3.4%	-3.5% (↑)	Hurting sentiment and purchasing power.
US	Monthly Budget Statement (Apr, \$bn)	260.0	308.0	-192.7	Revenue surge.
GE	CPI (Apr, y/y, final)	7.4%	7.4%	7.3%	Will get worse.
Thursday, May 12					
US	PPI Final Demand (Apr, y/y)	10.7%	11.0%	11.5% (↑)	In line with expectations.
US	Initial Jobless Claims (7 May, thous)	190	203	202 (↑)	Still extremely low historically.
US	Continuing Claims (30 Apr, thous)	1,360	1,343	1,387 (↑)	Extremely low.
UK	GDP (Q1, q/q, prelim)	1.0%	0.8%	1.3%	Headwinds to consumption intensify
UK	Industrial Production (Mar, m/m)	0.0%	-0.2%	-0.3%	Weak
Friday, May 13					
US	Import Price Index (Apr, y/y)	12.2%	12.0%	13.0% (↑)	In line with expectations.
US	U. of Mich. Sentiment (May, prelim)	64.0	59.1	65.2	New decade low.
EC	Industrial Production (Mar, m/m)	-2.0%	-1.8%	0.5% (↓)	Set to get worse.
FR	CPI (Apr, y/y, final)	4.8%	4.8%	4.5%	Elevated.
FR	Wages (Q1, q/q, prelim)	0.9%	1.1%	0.5%	Will the acceleration continue?

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

Week Preview (May 16– May 20)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, May 16				
US	Empire Manufacturing (May)	15.0	24.6	
CA	Housing Starts (Apr, thous)	n/a	246.2	Likely to fall further
CA	Manufacturing Sales (Mar, m/m)	2.0%	4.2%	Continue to increase
CA	Existing Home Sales (Apr, m/m)	n/a	-5.4%	Housing market started to moderate
JN	PPI (Apr, y/y)	9.4%	9.5%	
Tuesday, May 17				
US	Retail Sales Advance (Apr, m/m)	0.9%	0.7%	
US	Industrial Production (Apr, m/m)	0.4%	0.9%	
US	Capacity Utilization (Apr)	78.5%	78.3%	
US	Business Inventories (Mar)	1.9%	1.5%	
US	NAHB Housing Market Index (May)	75	77	
UK	Average Weekly Earnings (Mar, 3m y/y)	5.4%	5.4%	Real earnings under pressure.
UK	ILO Unemployment Rate (Mar, 3m)	3.8%	3.8%	Low
EC	GDP (Q1, q/q, prelim)	0.2%	0.2%	
FR	Unemployment Rate (Q1)	n/a	7.2%	
JN	GDP (Q1, q/q, prelim)	-0.4%	1.1%	
JN	Tertiary Industry Index (Mar, m/m)	0.8%	-1.3%	
AU	Wage Price Index (Q1, y/y)	2.4%	2.3%	
Wednesday, May 18				
US	Building Permits (Apr, thous)	1815	1870	
US	Housing Starts (Apr)	1760	1793	
CA	CPI (Apr, y/y)	n/a	6.7%	Stay high
CA	Teranet/National Bank HPI (Apr, y/y)	n/a	18.4%	Remain elevated
UK	CPI (Apr, y/y)	9.1%	7.0%	Painful!
EC	CPI (Apr, y/y, final)	7.5%	7.4%	
JN	Core Machine Orders (Mar, m/m)	3.8%	-9.8%	
JN	Industrial Production (Mar, m/m, final)	n/a	0.3%	
AU	Unemployment Rate (Apr)	3.9%	4.0%	
Thursday, May 19				
US	Philadelphia Fed Business Outlook (May)	16.7	17.6	
US	Initial Jobless Claims (14 May, thous)	n/a	203	
US	Continuing Claims (07 May, thous)	n/a	1343	
US	Existing Home Sales (Apr, m/m)	-2.1%	-2.7%	
US	Leading Index (Apr)	0.0%	0.3%	
CA	Industrial Product Price (Apr, m/m)	n/a	4.0%	Inflationary pressure get worse
UK	GfK Consumer Confidence (May)	n/a	-38	Consumer confidence continue to deteriorate
JN	Natl CPI (Apr, y/y)	2.5%	1.2%	
Friday, May 20				
UK	Retail Sales Inc Auto Fuel (Apr, m/m)	-0.2%	-1.4%	Continue to decline further?
GE	PPI (Apr, y/y)	29.5%	30.9%	

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

Economic Indicators

Central Bank Policy Targets

Region	Target	Year/Year % Change in Target				
		Nov	Dec	Jan	Feb	Mar
US	Target: PCE price index 2.0% y/y	5.6	5.8	6.0	6.3	6.6
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	4.7	4.8	5.1	5.7	6.7
UK	Target: CPI 2.0% y/y	5.1	5.4	5.5	6.2	7.0
Eurozone	Target: CPI below but close to 2.0% y/y	4.9	5.0	5.1	5.9	7.4
Japan	Target: CPI 2.0% y/y	0.6	0.8	0.5	0.9	1.2
Australia	Target Range: CPI 2.0%-3.0% y/y	3.5	3.5	5.1	5.1	5.1

Source: Macrobond

Key Interest Rates

	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22
US (top of target range)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50
Canada (Overnight Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00
UK (Bank Rate)	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.50	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	-0.04	-0.04	-0.05	-0.03	-0.05	-0.02	-0.02	-0.01	-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	-10.4	-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				
	Dec	Jan	Feb	Mar	Apr		Dec	Jan	Feb	Mar	Apr
US	7.0	7.5	7.9	8.5	8.3		10.0	10.1	10.4	11.5	11.0
Canada	4.8	5.1	5.7	6.7			15.7	16.2	15.8	18.5	
UK	5.4	5.5	6.2	7.0			9.4	9.9	10.2	11.8	
Eurozone	5.0	5.1	5.9	7.4			26.4	30.7	31.5	36.8	
Germany	5.3	4.9	5.1	7.3	7.4		24.2	25.0	25.9	30.9	
France	2.8	2.9	3.6	4.5	4.8		17.3	20.3	20.2	24.4	
Italy	3.9	4.8	5.7	6.5	6.2		22.8	32.9	32.7	36.9	
Japan	0.8	0.5	0.9	1.2			8.9	9.2	9.7	9.5	
Australia	3.5	5.1	5.1	5.1			3.7	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	3.6
Canada	1.2	-0.9	1.3	1.6		0.2	11.7	3.8	3.3	
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	2.2	0.3	0.2	-0.9	14.6	4.1	4.7	5.0
Germany	-1.7	2.2	1.7	-0.3	0.2	-2.8	10.3	2.9	1.8	3.7
France	0.2	1.5	3.0	0.8	0.0	1.6	19.1	3.5	5.5	5.3
Italy	0.3	2.7	2.5	0.7	-0.2	0.1	17.7	3.9	6.2	5.8
Japan	-0.5	0.6	-0.7	1.1		-1.8	7.3	1.2	0.4	
Australia	1.9	0.8	-1.9	3.4		1.3	9.6	4.0	4.2	

Source: Macrobond

Industrial Production Index (M/M Seasonally Adjusted)

	Month/Month % Change					Year/Year % Change				
	Nov	Dec	Jan	Feb	Mar	Nov	Dec	Jan	Feb	Mar
US	0.8	-0.4	1.0	0.9	0.9	5.0	3.4	3.3	7.5	5.5
Canada	-0.3	0.0	-0.1	1.1		3.3	2.2	1.5	4.5	
UK	1.0	0.3	0.9	-0.3	-0.2	0.2	0.9	3.3	2.1	0.7
Germany	0.3	1.0	1.4	0.1	-3.9	-2.2	-2.8	0.7	2.8	-3.3
France	-0.7	-0.1	1.8	-1.2	-0.5	-0.4	-0.1	-1.3	2.1	0.1
Italy	1.9	-1.0	-3.3	4.0	0.0	6.6	4.9	-2.1	3.3	2.9
Japan	5.0	0.2	-2.4	2.0	0.3	2.3	2.8	-1.6	0.5	-0.8

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)

	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22
US	5.9	5.4	5.2	4.7	4.6	4.2	3.9	4.0	3.8	3.6	3.6
Canada	7.6	7.4	7.1	7.0	6.8	6.1	6.0	6.5	5.5	5.3	5.2
UK	4.6	4.5	4.3	4.2	4.1	4.1	3.9	3.8			
Eurozone	7.9	7.6	7.5	7.3	7.2	7.1	7.0	6.9	6.9	6.8	
Germany	5.8	5.6	5.5	5.4	5.4	5.3	5.2	5.1	5.1	5.0	5.0
France	8.1	7.9	7.8	7.6	7.5	7.4	7.5	7.4	7.4	7.4	
Italy	9.4	9.1	9.1	9.0	9.2	9.0	8.8	8.6	8.5	8.3	
Japan	2.9	2.8	2.8	2.8	2.7	2.8	2.7	2.8	2.7	2.6	
Australia	4.9	4.6	4.5	4.6	5.2	4.6	4.2	4.2	4.0	4.0	

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	-2.2	-1.9	-2.1	-3.2	-3.3	-3.3	-3.4	-3.5	-3.8	-3.6	
Canada	-2.2	-1.6	-3.2	-1.1	-2.0	-0.8	0.1	0.1	0.1	-0.1	
UK	-2.5	0.5	-2.2	-1.4	-1.4	-4.8	-2.2	-2.0	-4.9	-1.2	
Eurozone	3.1	1.6	0.7	1.4	2.7	3.1	3.7	3.2	2.6	0.8	
Germany	7.8	7.4	6.8	5.2	7.3	8.3	9.0	7.8	7.1	6.5	5.3
France	-0.6	-0.4	-1.4	-3.5	-2.1	-0.9	-0.8	-0.3	-0.7	-1.4	-0.8
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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