May 6, 2022
Commentary

Weekly Economic Perspectives

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The Economy

Mixed macro data flow and global monetary policy tightening accelerates.

US

The **Fed** delivered its most aggressive rate hike in more than two decades, raising the Fed Funds rate by 50 basis points to a range of 0.75%-1.00%. The FOMC also clarified the timeline and schedule for balance sheet runoffs: they will begin on June 1 with initial monthly caps of $30 billion for Treasury securities and $17.5 billion for agency debt and mortgage-backed securities. After three months, these will increase to the $60 and $35 billion, respectively. While broadly as expected, this was less hawkish than it could have been. Indeed, the Fed could have started balance sheet sooner and escalated to the maximum caps sooner than this. It was also notable that, unlike at the March meeting, there was no dissent in favor of a larger hike. The biggest dose of dovishness, however, came during Chair Powell's press conference. He stated outright that 75 basis point hikes are not being "actively considered" by the Committee currently, and openly acknowledged the Fed's inability to fight supply-driven inflation. He also mentioned recent moderation in core inflation prints (month over month) and suggested that a continuation of this trend would allow the Committee to go back to 25-bp hiking steps. Given our concerns around the Fed hiking into a slowing economy and our preference for a less aggressive tightening path than implied by the market, we were quite happy with the tone of the press conference. Half-point moves are definitely on the table for the June and July meetings and are fully priced in the market. However, this does not mean they are guaranteed.

For the second month running, the April **employment report** came in quite close to expectations. This month, the headline was a little stronger (428k vs 380k expected) but for once we had downward revisions to the prior two months that totaled 39k, so it essentially all evened out in the end.

Private payrolls increased by 406k and government added 22k. Within the private sector, goods producing sectors added 66k jobs, the vast majority of which in manufacturing. Employment in service industries was slightly softer, with growth in business services and leisure and hospitality easing more visibly but gains accelerating in trade and transportation.

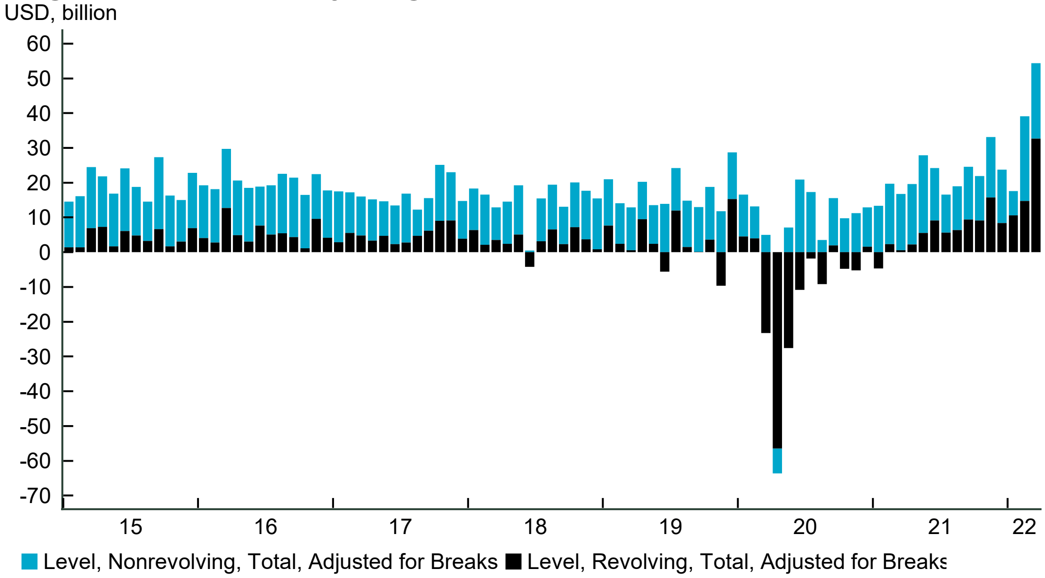
The unexpected bits came from the household survey. Unlike the establishment survey, this showed a 353k decline in employment, matched almost perfectly by a reduction in the labor force (the participation rate dropped two tenths to 62.2%) such that the unemployment rate was unchanged at 3.6%. It is not unusual to see differences between the establishment and the household surveys. However, the magnitude of the difference, and the fact that the two surveys were directionally contradictory means the May report will carry a lot of weight ahead of the next Fe meeting.

The overall workweek was flat and the manufacturing workweek shrank by 12 minutes. However, thanks to more people working, aggregate hours increased 0.4%. it is still early days, but wage growth seems to be incrementally slowing. Total average hourly earnings rose 0.3% in April, while hourly earnings for production and non-supervisory employees increased 0.4%. The two respective measures of wage inflation moderated one tenth to 5.5% y/y and two tenths to 6.4% y/y, respectively.

Given base effects and limitation to how much wage growth employers can absorb, we would not be surprised to see wage inflation ease from here.

We'd argue that the most unexpected data point this week was the extraordinary surge in **consumer credit** in March. Overall consumer credit spiked by a record $52.4 billion, on top of the large $37.7 billion increase in February. Even more surprisingly is that revolving credit accounted for the majority of the increase, up $31.4 billion. The days of US consumers paying down credit card debt seem to be over. Implicit in this data is a suggestion that some consumers no longer have the financial cushion to finance spending via savings and are now starting to resort to credit to do so. If that is the case, it would strengthen our expectation that consumer spending will slow more visibly in the second half of the year.

Figure 1: Extraordinary Surge In US Consumer Credit



Sources: SSGA Economics, Fed

Canada

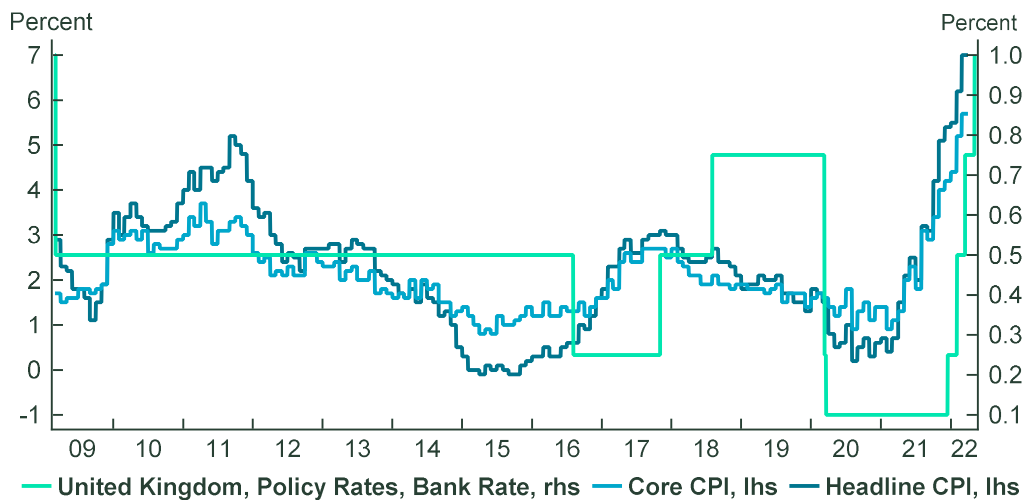
Fewer than expected jobs were added in April but because the labor force participation rate retreated, the **unemployment rate** still fell to new record low of 5.2%. Employment rose by a modest 15,300 in April after more than 400,000 jobs were added in the previous two months. Gains were entirely in part-time work (47,100), as full-time employment fell (-31,600). Hours worked fell 1.9% on the month, driven in part by illnesses and disability. Average hourly wages of permanent employees rose 3.4% y/y, a three-tenth deceleration compared with March. A number of signs have pointed to an increasingly tight labor market in recent months as in addition to increases in full-time work, the proportion of part-time workers reporting that they would prefer full-time employment decreased. This tightness is expected to boost wage growth in coming months and seems to be setting the scene for another oversized rate hike in June.

UK

The **Bank of England (BoE)** delivered the fourth consecutive rate hike this week, lifting the bank rate by 25 basis points (bp) to 1.0%. The MPC voted by a margin of 6-3, with three members favoring a 50 bp move. Forward guidance was a little more hawkish as the new language dropped the word "modest" when describing the additional degree of "further tightening in monetary policy" that "may still be appropriate in the coming months". At the same time, increasing risk to growth led two MPC members to dissented on the strong rate guidance. While growth in the first quarter of this year has been better than expected, the BoE expects the economy to stagnate in the second quarter. The BoE is also forecasting economic growth to slow sharply over next year and a half, due to sharp rise in global energy and tradable goods prices. Inflation is expected to peak at an average of slightly over 10% in Q4 2022, with the BoE also saying that UK inflation likely to peak later, and fall back later, than in other countries due to energy price cap.

The BoE plans to "commence corporate bond sales in September 2022, and for any corporate bonds held in the portfolio maturing on or before 5 April 2024 to be allowed to mature."

Figure 2: The BoE Lifts The Bank Rate To 13-Year High



Sources: SSGA Economics, ONS, BoE

The final reading on April's **manufacturing PMI** registered 55.8, edging up from the flash reading of 55.3 and the five-month low of 54.0 in March. While the expansion of output increased across consumer, intermediate and investment goods, consumer goods grew very modestly. The new orders component stood at its weakest in the current 15-month upturn, as a slowdown in the domestic market was accompanied by a further deterioration in export orders. Inflationary pressure continues to build up, with input costs rising at the second-strongest pace in the survey history, leading to a record increase in output charges. Employment rose for the sixteenth month running in April given increased production and rising order backlogs.

Services sector experienced the greatest loss of momentum since January, with **services PMI** down 3.7 points to 58.9 in April from 62.6 in March. Headwinds including the Ukraine war and rising cost of living started to limit the pace of expansion. New order growth slowed to a year low and business confidence dropped to the lowest in one and a half years. However, despite the record high inflationary pressure, businesses continue to expand employment, although at a slower pace.

Eurozone

The ***German* industrial sector** just can't catch a break. Intense supply chain problems weighed on German manufacturing activity last year and are continuing to do so. The war in Ukraine and associated disruptions to energy supplies are new sources of instability and risks. Overall German industrial production (including construction) dropped 3.9% in March, with energy output plunging 11.4% and manufacturing and mining down 4.6%. Only construction managed a slight 1.1% gain. Industrial production declined 3.3% y/y.

Figure 3: German Industrial Production Retreats Again

Sources: SSGA Economics, DESTATIS

Unfortunately, the 4.7% plunge in ***German* manufacturing orders** in March suggest more pain ahead. No quick turnaround seems likely given demand destruction domestically and abroad due to high costs, sanctions, and persistent supply chain problems.

Japan

The Japanese macro data has been rather monotonous lately and that continued this week with uninspiring, middle-of-the-road readings on consumer confidence and manufacturing PMI.

Following three outsized declines, **consumer confidence** improved incrementally—and less than expected—in April, thanks entirely to better employment prospects. The overall consumer confidence index rose 0.2 points in April, having lost a cumulative 5.5 points in the prior three months.

Meanwhile, the final reading on the manufacturing PMI was a tenth better than initially reported, but at 53.5 it was still 0.6 point lower than in March. The employment metric retreated 1.1 point to a nine-month low of 51.4.

Australia

Until quite recently, patience was a virtue in the eyes of the **RBA** as it sought to nurture the economy back to a full post-Covid recovery. Amid consistent labor market improvements, it became clear last month that RBA's patience was starting to wear thin. It wore off altogether following the release of higher than expected first-quarter inflation data so the Board decided to lift the cash rate by 25 bp to 0.35% at the May 3 meeting and to start shrinking the balance sheet by stopping the reinvestment of maturing assets. The Bank does not currently plan to actively sell holdings.

The shift in policy, to be followed by additional hikes, was driven by growing evidence that domestic price pressures, both in the goods/services and labor markets are percolating more broadly. Indeed, "domestic capacity constraints are increasingly playing a role and inflation pressures have broadened, with firms more prepared to pass through cost increases to consumer prices." And "more timely evidence from liaison and business surveys is that larger wage increases are now occurring in many private-sector firms." Governor Lowe noted that the Bank is not seeking to return inflation to target right the way. But it does "need to ensure that the inflation rate tracks back to the target range of 2 to 3 per cent over time. This would be harder to achieve if the inflation psychology in Australia were to shift in a durable way due to the recent higher inflation outcomes. The decision to move today, rather than wait, should help on this front."

Australian **retail sales** rose 1.6% in March, in line with the performance during the prior two months. Gains were broad based and reasonably evenly distributed, without major category outliers. March sales rose 9.4% y/y.

Week in Review (May 2 – May 6)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, May 2					
US	ISM Manufacturing (Apr)	58.0	55.4	57.1	Solid, but slowing.
EC	Manufacturing PMI (Apr, final)	55.3	55.5	56.5	Still robust.
GE	Manufacturing PMI (Apr, final)	54.1	54.6	56.9	Still robust, but war impact will be felt.
FR	Manufacturing PMI (Apr, final)	55.4	55.7	54.7	Still robust.
IT	Manufacturing PMI (Apr)	55.0	54.5	55.8	Still robust.
IT	Unemployment Rate (Mar)	8.4%	8.3%	8.5%	Improving, at least for now…
JN	Jibun Bank Japan PMI Mfg (Apr, final)	n/a	53.5	53.2	OK.
JN	Consumer Confidence Index (Apr)	34.9	33.0	32.8	Uninspiring.
Tuesday, May 3					
US	Factory Orders (Mar)	1.3%	2.2%	0.1% (↑)	Robust.
US	Durable Goods Orders (Mar, final)	0.8%	1.1%	-2.1%	Robust.
US	JOLTS Job Openings (Mar, thous)	n/a	11,549	11,344 (↑)	New record high, quits elevated.
US	Wards Total Vehicle Sales (Apr,m)	13.6	14.3	13.3	Best since January.
UK	Manufacturing PMI (Apr, final)	55.3	55.8	55.2	Robust.
GE	Unemployment Claims Rate (Apr)	5.0%	5.0%	5.0%	Labor market remains strong.
GE	Retail Sales (Mar, m/m)	0.4%	-0.1%	0.2% (↓)	Not great, but not terrible.
AU	RBA Cash Rate Target	0.25%	0.35%	0.10%	More hikes to follow; balance sheet runoff starts.
Wednesday, May 4					
US	Trade Balance (Mar, $ bn)	-107.9	-109.8	-89.8 (↓)	Record deficit.
US	ISM Services Index (Apr)	59.0	57.1	58.3	Softer orders, employment decline.
US	FOMC Rate Decision (Upper Bound)	1.00%	1.00%	0.50%	Balance sheet runoffs will start June 1.
UK	Mortgage Approvals (Mar, thous)	70.0	70.7	71.0	Market cools down
EC	Services PMI (Apr, final)	57.7	57.7	55.6	Encouragingly resilient.
GE	Services PMI (Apr, final)	57.9	57.6	56.1	Encouragingly resilient.
AU	Retail Sales (Mar, m/m)	0.7%	1.6%	1.8%	Robust.
Thursday, May 5					
US	Nonfarm Productivity (Q1, prelim)	-2.3%	-7.5%	6.3% (↓)	Huge quarterly swings.
US	Initial Jobless Claims (30 Apr, thous)	183	200	181 (↑)	Very low.
US	Continuing Claims (23 Apr, thous)	1,400	1,384	1,403 (↓)	Extremely low.
UK	Services PMI (Apr, final)	58.3	58.9	62.6	Strong
UK	Bank of England Bank Rate	1.00%	1.00%	0.75%	Another hike might follow
GE	Factory Orders (Mar, m/m)	-1.1%	-4.7%	-0.8% (↑)	Not good at all.
FR	Industrial Production (Mar, m/m)	-0.2%	-0.5%	-1.2% (↓)	Not good, not terrible.
Friday, May 6					
US	Change in Nonfarm Payrolls (Apr, thous)	390	428	428 (↓)	Broadly as expected.
US	Unemployment Rate (Apr)	3.6%	3.6%	3.6%	Participation rate declined.
US	Consumer Credit (Mar, $ bn)	20.0	52.4	37.7(↓)	Extreme surge in revolving credit.
CA	Unemployment Rate (Apr)	n/a	5.2%	5.3%	New record low.
GE	Industrial Production (Mar, m/m)	-1.3%	-3.9%	0.1% (↓)	Pretty bad and will get worse!
IT	Retail Sales (Mar, m/m)	n/a	-0.5%	0.7%	No great, not terrible.

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

Week Preview (May 9– May 13)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, May 9				
CA	Building Permits (Mar, m/m)	--	21.0%	Will start to decline?
JN	Labor Cash Earnings (Mar, y/y)	1.0%	1.2%	
AU	NAB Business Confidence (Apr)	--	16	
Tuesday, May 10				
US	NFIB Small Business Optimism (Apr)	92.9	93.2	Erosion.
GE	ZEW Survey Expectations (May)	--	-41	
FR	Bank of France Ind. Sentiment (Apr)	103	103	
IT	Industrial Production (Mar, m/m)	--	0.04	
AU	Westpac Consumer Conf Index (May)	--	95.8	
Wednesday, May 11				
US	CPI (Apr, y/y)	8.1%	8.5%	Can it be? Yes, probably.
US	Real Avg Weekly Earnings (Apr, y/y)	--	-3.6%	
US	Monthly Budget Statement (Apr, $bn)	260.0	192.7	Tax return season.
GE	CPI (Apr, y/y, final)	7.4%	7.3%	
Thursday, May 12				
US	PPI Final Demand (Apr, y/y)	10.7	11.2%	
US	Initial Jobless Claims (7 May, thous)	190	200	
US	Continuing Claims (30 Apr, thous)	1,360	1,384	
UK	GDP (Q1, q/q, prelim)	1.0%	1.3%	Fine, but likely to worsen.
UK	Industrial Production (Mar, m/m)	0.0%	-0.6%	Weak
Friday, May 13				
US	Import Price Index (Apr, y/y)	12.1%	12.5%	
US	U. of Mich. Sentiment (May, prelim)	64.0	65.2	
CA	Existing Home Sales (Apr, m/m)	--	-5.4%	Market continue to moderate
EC	Industrial Production (Mar, m/m)	-2.0%	0.7%	
FR	CPI (Apr, y/y, final)	4.8%	4.5%	
FR	Wages (Q1, q/q. prelim)	--	0.5%	

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

	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				
	Dec	Jan	Feb	Mar	Apr		Nov	Dec	Jan	Feb	Mar
US	7.0	7.5	7.9	8.5			9.9	10.0	10.1	10.3	11.2
Canada	4.8	5.1	5.7	6.7			17.1	15.7	16.2	15.8	18.5
UK	5.4	5.5	6.2	7.0			9.4	9.4	9.9	10.2	11.8
Eurozone	5.0	5.1	5.9	7.4			23.7	26.4	30.7	31.5	36.8
Germany	5.3	4.9	5.1	7.3	7.4		19.2	24.2	25.0	25.9	30.9
France	2.8	2.9	3.6	4.5	4.8		16.7	17.3	20.3	20.2	24.4
Italy	3.9	4.8	5.7	6.5	6.2		22.2	22.8	32.9	32.7	36.9
Japan	0.8	0.5	0.9	1.2			9.2	8.9	9.2	9.7	9.5
Australia	3.5	5.1	5.1	5.1			3.7	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			-5.0	24.5	6.9	6.6	
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	0.7	-0.6			0.2	0.9	3.1	1.6	
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	2.0	-1.1	-3.4	4.0			6.6	4.8	-2.2	3.2	
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)

	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	-2.2	-1.4	-1.4	-4.8	-2.2	-2.0	-4.9	-1.2
Eurozone	1.7	3.1	1.6	0.7	1.4	2.7	3.1	3.7	3.2	2.6	0.8
Germany	7.7	7.8	7.4	6.8	5.2	7.3	8.3	9.0	7.8	7.0	6.5
France	-0.4	-0.6	-0.4	-1.4	-3.6	-2.1	-0.8	-0.8	-0.4	-0.7	-1.3
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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