The Economy

Global monetary tightening continues amid mixed macro data.

US

The **Fed** delivered its fourth consecutive 75 basis point rate hike, bringing the upper level of the Fed Funds to 4.0%. Chair Powell maintained a fairly hawkish tone during the press conference, focusing on a few key messages, namely that it is “premature to discuss pausing”, that “we have a ways to go”, and that “we want people to understand our commitment to getting this done”. The task, of course, is bringing inflation back to the 2.0% target over time.

That said, there was an important change in the statement that suggests December will bring about a smaller rate hike: “In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.” That the signal for such a downshift came in the statement and not just during the press conference is significant as it implies broad support for the idea. Indeed, unlike prior meetings, the statement had a more dovish tone than the press conference itself.

Chair Powell noted that there are three main questions that monetary policy has been trying to address: how fast to go, how high to go, and how long to stay there. The 375 basis points worth of hikes since March have already addressed the first question: this has been an extremely fast tightening cycle. Now that the policy rate is in restrictive territory, the most relevant question has become “how high to go”. i.e., what is the level that is ‘sufficiently restrictive”. While stressing that more hikes are needed, we detected an implicit acknowledgement that the Committee is becoming a little more cautious in the repeated reminder during the press conference that, should the Fed overtighten, it has the tools to quickly correct that error. That the possibility of overtightening was discussed in more than just fleeting fashion is significant as is seems to betray some genuine concern among at least some Committee members. The alternative explanation would be that the Committee is not too worried about overtightening because they know how to quickly correct for such an error. We should learn more about the tone of that discussion from the minutes.

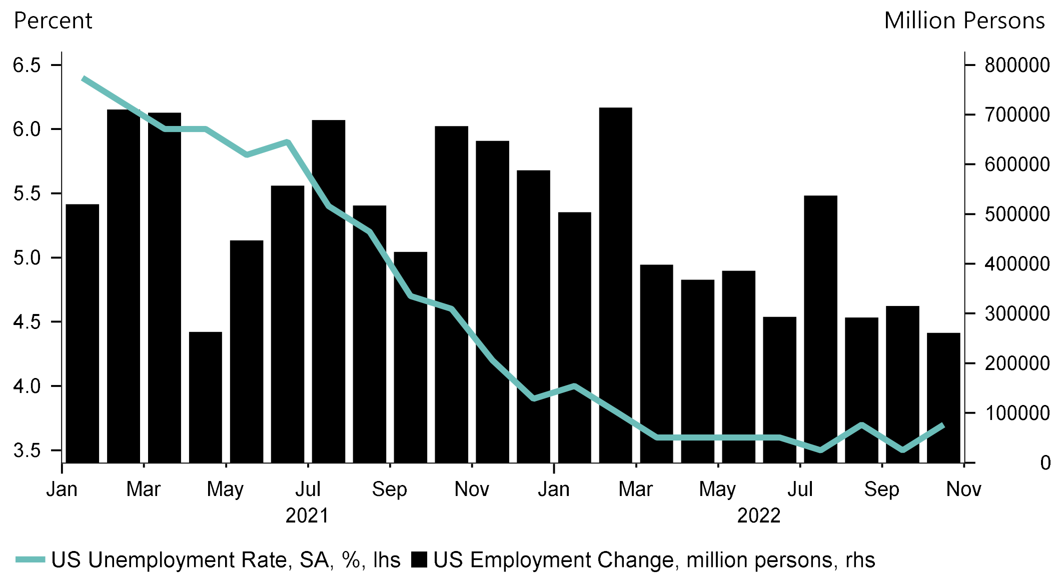
There have been several big moves in the **job openings** data over the past few months, and sizable revisions as well. The volatility makes it counterproductive to focus and read too much into any single data print. Instead, it is the trend that matters. And that trend is lower, despite the unexpected 428,000 increase in job openings in September. The August-September average stands at 9.454 million, the lowest level since June-July 2021. Hiring slowed and the hiring rate declined a tenth to 4.0%, the lowest level since January 2021. Quits retreated and are essentially back down to mid-2021 levels. There are some oddities (one might say contradictions) within the details as well. While job openings at medium to large firms have turned meaningfully lower, they have held up extremely well at firms will less than 50 employees. Such divergence is unusual and (we think) unlikely to be sustained. For the time being, this dynamic might suggest that smaller companies are finally having a chance to compete for labor now that labor demand from larger players is cooling. This could keep hiring healthy yet still facilitate ongoing moderation in wage inflation.

That very dynamic was visible in the October **employment report**, which we would describe as mixed. Admittedly, payroll gains in the establishment report exceeded expectations at 261,000, but the household report showed a 328,000 decline in employment. The unemployment rate increased two tenths to 3.7% and wage inflation moderated further. All in all, the report appears consistent with a step down in the pace of Fed rate hikes to 50 bp in December.

The sector breakdown held no notable details, except perhaps the 28k jump in government employment, which accounted for about half the upside surprise. Private payrolls rose by 233k, the twin-lowest since April 2021. Goods producing sectors added 33k jobs, almost all of it in manufacturing. Services added 200k, split between education and healthcare (79k), business services (39k), leisure and hospitality (35k) and trade and transportation (31k).

The labor force participation declined one tenth to 62.2%. The average workweek increased by six minutes in manufacturing but was flat overall. However, higher payrolls pushed aggregate hours worked up by 0.4% in manufacturing and by 0.2% overall. Total average hourly earnings (AHE) rose 0.4% m/m while AHE for production and non-supervisory employees rose 0.3% m/m. These moves allowed the two measures of wage inflation to moderate by three tenths each, to 4.7% y/y and 5.5% y/y, respectively. Both stand at their respective lowest levels since August 2021.

Figure 1: US Unemployment Rate Plateaus As Payroll Gains Slow



Sources: SSGA Economics, U.S. Bureau of Labor Statistics (BLS)

The **ISM manufacturing index** softened further in October, down 0.7 point to a soft 50.2. The output metric improved 1.7 points to 52.3 but new orders contracted for the second consecutive month (49.2). As a result, backlogs plunged 5.6 points to 45.3, the first contraction and lowest level since June 2020. The price metric dropped 5.1 points to 46.6, the first sub-50 reading since May 2020. By comparison, it stood at 78.5 as recently as June. Employment was stable at an even 50.0. All in all, a report showing meaningful deceleration in manufacturing activity. The message was reinforced by somewhat downbeat respondent comments that noted some order cancellations and cutbacks in customer capital budgets.

The **non-manufacturing ISM index** has been impressively resilient over the last six months, betraying little in the way of noticeable deceleration. Signs of that appeared in October, however, as the headline dropped 2.3 points to 54.5, the lowest level since May 2020. Still, the details were merely mixed, not universally negative. The business activity (the old headline) and new orders grew at a slower pace than in September but remained robust at 55.7 and 56.5, respectively. The disappointments came via employment and export orders—precisely the components that surprised most positively the month before. Employment fell back into contraction, down 3.9 points to 49.1, while new export orders collapsed 17.4 points to 47.7. The latter experienced a similar move back in January 2022, during Omicron. Now we wonder whether the latest drop is a sign that pent-up travel demand from foreign tourists is being exhausted, in which case the pullback could be more lasting. Inventories declined at a slower rate but continue to be seen as too low. Perhaps that is why the price metric actually rose 2.0 points to 70.7, the first increase in six months. Respondent comments were mixed, including in respect to price dynamics: “We are experiencing a bullwhip of oversupply on some goods … while still desperately short on other goods. The market is recovering very inconsistently”. A very good summary of the many cross-currents at play.

It has been a long wait but motor vehicle inventories are finally improving and, with them, sales. In fact, **motor vehicle sales** surged 10.5% to 14.9 million (seasonally adjusted, annual rate) in October, the highest since January and the second highest since June 2021. There is a lot of pent-up demand in this space and that should facilitate further gains in coming months. However, prices are high and financing costs have jumped amid the Fed’s tightening campaign; affordability is a challenge.

Canada

Macroeconomic vulnerabilities are increasingly visible in Canada. The value of **building permits** plunged 17.5% m/m, the largest on record in September, more than reversing the Ontario-driven August rise. This is the first time all components declined in three years. Also, construction intentions fell 7.7% for single-family homes, with declines in seven provinces.

Manufacturing PMI contracted for the third month in October as production and new orders fell. The headline measure declined a full point to 48.8; output fell to 47.4. New orders fell to 46.0, nine-tenths of a fall underscoring the weakening demand narrative. However, input prices eased to a two year low but the output price index rose to a startling 60.8 from 55.4 in September as firms passed costs associated with the weaker Canadian Dollar. This moderation is echoed in October’s Ivey PMI. The seasonally adjusted headline metric fell to 50.1 from 59.5 in September while its employment metric eased almost two points to 54.6. Cumulative outsized rate hikes seem to be weighing on the economy.

All these headwinds were met with an outlandish employment surge in October. The economy added 108,300 jobs, beating all expectations and recouped all losses from May to September. The entire gain was in permanent positions and was broad-based across industries. Furthermore, average hourly earnings rose 5.6% y/y, the fifth month above 5%. The rebound will undoubtedly fuel debate as to whether Bank of

Canada (BoC) has downshifted its hiking pace too soon. We see two main reasons why a return to larger hikes seems improbable. One, real wage growth remains negative and will limit demand growth. Two, the overall employment level is near post-pandemic high and there are strong indications of peak demand and employment, suggesting that October's surge may be an outlier. However, the case for hiking further into 2023 is strengthened.

UK

The **Bank of England (BoE)** delivered on market expectations for a 75 basis point (bp) hike this week but did so in a rather dovish fashion. Two committee members dissented in favor of smaller increases (one for 50 bp, one for 25 bp). Most importantly, there was direct pushback against market pricing for peak rates as "The majority of the Committee judged that, should the economy evolve broadly in line with the latest Monetary Policy Report projections, further increases in Bank Rate might be required for a sustainable return of inflation to target, albeit to a peak lower than priced into financial markets." The markets have subsequently responded, with the implied peak rate, which had exceeded 5.0% previously, down to around 4.7% as of this writing. The new path is much better aligned with our own views, as we share BoE's expectation that, after an extended period of very high inflation, the combination of base effects and demand slowdown will do much to reduce inflation over the medium term.

Updated growth and inflation forecasts in the November **Monetary Policy Report** show a more subdued inflation path than in the August report, reflecting the impact of the Energy Price Guarantee. Growth projections were tweaked a little higher in 2022, were unchanged for 2023, and were lowered for 2024. Two years of contraction in 2023-24 give way to a very tepid recovery in 2025.

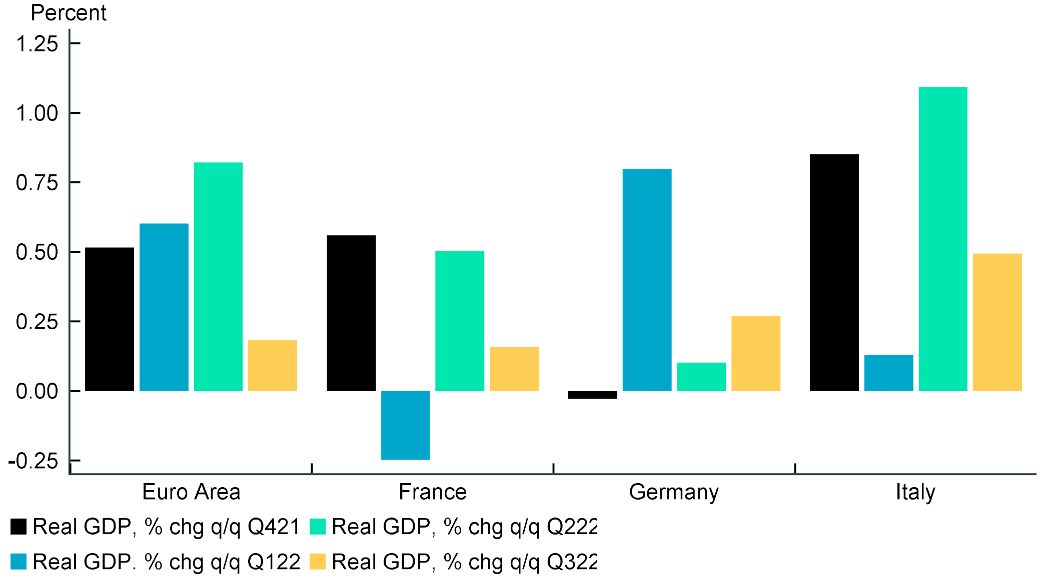
We'll get a little more clarity of near-term growth dynamics when Q3 GDP data is released on the 11th. Consensus expectations are for a 0.5% q/q decline. High frequency data such as purchasing managers' indexes indeed signal a contraction, with the **manufacturing PMI** at 46.2 and the **services PMI** at 48.8 in October.

Eurozone

It has been the under-appreciated theme of the past year and it continued in the third quarter: upside surprises in ***eurozone*** growth. Following a 0.8% q/q expansion in Q2, preliminary estimates point to a 0.2% advance in the third quarter, leaving **real GDP** 2.1% higher than a year earlier (Figure 2, page 6).

Given the 3.9% y/y growth through the first nine months of 2022, it seems increasingly likely that full-year performance might exceed our current forecast of 3.0%. Indeed, assuming no revisions to the third-quarter performance, we'd need a q/q decline of 1.2% in order to bring 2022 growth to that level. While a negative Q4 print is almost guaranteed, we doubt the retrenchment would be quite so pronounced. No details are available with the preliminary release, but we at least know that strong beats in Germany (+0.3% vs -0.2% expected) and Italy (+0.5% q/q versus 0.0% expected) were key to lifting regional performance.

Figure 2: Upside Eurozone Growth Surprises Persist



Sources: SSGA Economics, INSEE, Istat, Eurostat, DESTATIS

Other regional data are mixed. The ***German*** labor market seems resilient, with the **unemployment rate** unchanged at 5.5% but vacancies declined for the fifth consecutive month and at the fastest pace this year. And while German **real retail sales** rebounded 0.9% in September, they remained 0.9% lower than a year earlier.

Japan

The Japanese government recently announced a significant **fiscal stimulus** to ease the effects of high energy prices on households while pressing on with structural reforms. The 39 trillion yen package announced by the Cabinet Office claims to lower 2023 inflation by 1.2 percentage points by reducing electricity costs by 20% starting in January and continuing the current gasoline subsidy into next year. The stimulus also aims to ignite a virtuous cycle of wage growth, which the Bank of Japan (BoJ) views as a requirement to normalize policy. Most of the policy measures, such as investment in green technologies, accelerating 'new capitalism,' and national security, would have been included in subsequent budgets; so, the stimulus is not a fiscal overreach, just an advancement of the timeline. However, the budget needs the finance ministry onboard to be covered in the second supplementary budget.

High inflation is already burdening consumers; October's **consumer confidence** fell to 29.9, six-tenths less than consensus. All the components declined, but the fall in the standard of living was largest by 1.7 points to 27.3. The index for higher inflation in the next one-year rose to 94.3, just shy of the all-time high of 94.4 in May.

Nonetheless, the leading news this week was Governor Kuroda's first hint at a possible yield curve control (YCC) tweak during a parliament speech. Specifically, he said, "…If (the) achievement of our 2% inflation target comes into sight, making yield curve control more flexible could become an option," while maintaining that he does not see the need to change the current policy stance. We think some degree of policy normalization could occur before Governor Kuroda retires in April 2023.

Australia

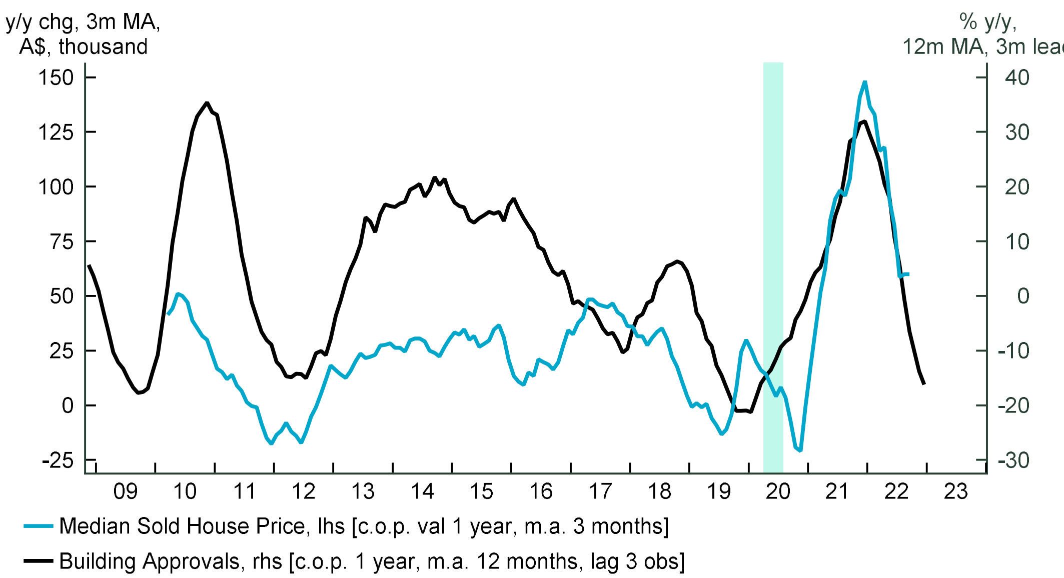
The Reserve Bank of Australia (RBA) raised the **cash rate target** by 25 bps to 3.85%, as expected, and indicated more hikes might be in store. The RBA seems confident that policy lags would work through, justifying the moderation. The accompanying **Statement on Monetary Policy** revised inflation forecasts higher and growth forecasts lower. The Bank now expects headline CPI inflation to peak at 8.0% y/y in the current quarter (previously 7.75%). Headline CPI forecasts for 2023 and 2024 were revised by higher by half and a quarter of a percentage point, to 4.75% and 3.25%, respectively. The economy is expected to grow by 3.0% this year and 1.50% next year, down by 0.25 ppts from earlier projections.

To be sure, there is emerging evidence of headwinds to growth. While September **retail sales** rose 0.6% m/m, this was a little less than expected and brought the Q3 average to 0.8%, down from the H1 average of 1.2%. Even more importantly, **real retail sales** grew only 0.2% q/q in Q3, half the anticipated gain.

The September **trade surplus** reached A$12.4 billion, easily beating expectations, thanks to a 19.5% m/m surge in LNG exports. However, we suspect there is little to cheer as contracts are priced with a quarter lag of international crude oil prices, indicating that moderation could follow the September strength. Furthermore, deflating the nominal trade data by terms of trade implies a modest drag on Q3 GDP.

Among all the headwinds to growth, the slowdown in housing is the most significant. **Residential building approvals** fell 5.8% m/m in September, in a broad-based retreat. In level terms, approvals are down nearly 30% from their peak in 2021.

Figure 3: Australia's Property Market Is Correcting



Sources: SSGA Economics, ABS, SQM

Week in Review (October 31 – November 04)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, October 31					
UK	Mortgage Approvals (Sep, thous)	63.7	66.8	74.4 (↓)	Slowing, but not collapsing.
EC	GDP (Q3, q/q, sa, advance)	0.1%	0.2%	0.8%	Yet another upside surprise.
GE	Retail Sales (Sep, m/m)	-0.5%	0.9%	-1.4% (↓)	Welcome rebound, but still weak.
IT	GDP (Q3, q/q, WDA, prelim)	0.0%	0.5%	1.1%	Welcome surprise.
JN	Industrial Production (Sep, m/m, prelim)	-0.8%	-1.6%	3.4%	Reverting back from August high.
JN	Retail Sales (Sep, m/m)	0.8%	1.1%	1.4%	Good.
JN	Consumer Confidence Index (Oct)	30.5	29.9	30.8	Higher inflation weighing on households.
JN	Manufacturing PMI (Oct, final)	50.7 (p)	50.7	51.5	Good.
AU	Retail Sales (Sep, m/m)	0.5%	0.6%	0.6%	Driven by discretionary spending.
AU	Private Sector Credit (Sep, m/m)	0.7%	0.7%	0.8%	No surprise.
Tuesday, November 01					
US	JOLTS Job Openings (Sep, thous)	9,750	10,717	10,280 (↑)	Hard to believe the improvement signal.
US	ISM Manufacturing (Oct)	50.0	50.2	50.9	Price metric contracted for first time since 2020.
US	Wards Total Vehicle Sales (Oct, mn)	14.50	14.90	13.49	Big jump, will lift October retail sales.
UK	Manufacturing PMI (Oct, final)	45.8 (p)	46.2	48.4	Weak.
UK	Nationwide House Price Index (Oct, m/m)	-0.3%	-0.9%	0.0%	Up 7.2% y/y, moderating.
AU	RBA Cash Rate Target (Nov)	2.85%	2.85%	2.60%	Forecast adjustments were key.
Wednesday, November 02					
US	FOMC Rate Decision (Upper Bound)	4.00%	4.00%	3.25%	Not done yet, but smaller moves ahead.
EC	Manufacturing PMI (Oct, final)	46.6 (p)	46.4	48.4	Weak.
GE	Unemployment Claims Rate (Oct, sa)	5.5%	5.5%	5.5%	Steady.
GE	Manufacturing PMI (Oct, final)	45.7 (p)	45.1	47.8	Weak.
IT	Manufacturing PMI (Oct)	46.9	46.5	48.3	Weak.
Thursday, November 03					
US	Nonfarm Productivity (Q3, prelim)	0.5%	0.3%	-4.1%	Still weak.
US	Initial Jobless Claims (Oct 29, thous)	220	217	218 (↑)	Continuing claims highest since March.
US	Factory Orders (Sep, m/m)	0.3%	0.3%	0.2% (↑)	Core orders down 0.4%.
US	ISM Services Index (Oct)	55.3	54.4	56.7	Lowest since May 2020.
CA	Building Permits (Sep, m/m)	-5.0%	-17.5%	12.0% (↑)	Record fall.
UK	Services PMI (Oct, final)	47.5 (p)	48.8	50.0	Soft.
UK	BoE Bank Rate (Nov)	3.00%	3.0%	2.25%	Dovish hike, two dissents.
IT	Unemployment Rate (Sep)	7.8%	7.9%	7.8%	OK so far.
Friday, November 04					
US	Change in Nonfarm Payrolls (Oct, thous)	195	261	315 (↑)	Unemployment rate rose to 3.7%.
CA	Employment Change (Oct, thous)	**10.0**	108.3	21.1	Massive increase.
CA	Unemployment Rate (Oct)	na	5.2%	5.2%	Resilient.
CA	Ivey PMI (Oct, sa)	na	50.1	59.5	Moderating.
EC	Services PMI (Oct, final)	48.2 (p)	48.6	48.8	Soft.
GE	Factory Orders (Sep, m/m)	-0.5%	-4.0%	-2.0% (↑)	
GE	Services PMI (Oct, final)	44.9 (p)	46.5	45.0	Weak.
FR	Industrial Production (Sep, m/m)	-1.0%	-0.8%	2.7% (↑)	Up 1.8% y/y.
AU	Retail Sales ex. Inflation (Q3, q/q)	0.4%	0.2%	1.0% (↓)	Headwinds to growth.

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

Week In Preview (November 07 – November 11)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, November 07				
US	Consumer Credit (Sep, $ bn)	32.0	32.2	
GE	Industrial Production (Sep, m/m, sa)	0.1%	-0.8%	
JN	Labor Cash Earnings (Sep, y/y)	1.7%	1.7%	
AU	Westpac Consumer Conf Index (Nov)	na	83.7	Could trend low.
AU	NAB Business Confidence (Oct)	na	5	Could moderate.
Tuesday, November 08				
US	NFIB Small Business Optimism (Oct)	91.4	92.1	
IT	Retail Sales (Sep, m/m)	0.2%	-0.4%	
JN	Leading Index CI (Sep, prelim)	97.6	101.3	Lower.
Wednesday, November 09				
No major data releases				
Thursday, November 10				
US	CPI (Oct, y/y)	7.9%	8.2%	
US	Initial Claims (Nov 05, thous)	220	217	
US	Continuing Claims (Oct 29, thous)	1,500	1,485	
US	Monthly Budget Statement (Oct, $ bn)	-90.0	-165.0	
FR	Wages (Q3, q/q, prelim)	1.2%	1.1%	
IT	Industrial Production (Sep, m/m)	-1.5%	2.3%	
JN	PPI (Oct, y/y)	8.8%	9.7%	
Friday, November 11				
US	U.of Mich. Sentiment (Nov, prelim)	59.6	59.9	
UK	GDP (Q3, q/q, prelim)	-0.5%	0.2%	
UK	Industrial Production (Sep, m/m)	-0.2%	-1.8%	
GE	CPI (Oct, y/y, final)	10.4%	10.4%	

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

Economic Indicators

Central Bank Policy Targets

Region	Target	Year/Year % Change in Target				
		May	Jun	Jul	Aug	Sep
US	Target: PCE price index 2.0% y/y	6.5	7.0	6.4	6.2	6.2
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	7.7	8.1	7.6	7.0	6.9
UK	Target: CPI 2.0% y/y	9.1	9.4	10.1	9.9	10.1
Eurozone	Target: CPI below but close to 2.0% y/y	8.1	8.6	8.9	9.1	9.9
Japan	Target: CPI 2.0% y/y	2.5	2.4	2.6	3.0	3.0
Australia	Target Range: CPI 2.0%-3.0% y/y	6.1	6.1	7.3	7.3	7.3

Source: Macrobond

Key Interest Rates

	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
US (top of target range)	0.25	0.25	0.25	0.50	0.50	1.00	1.75	2.50	2.50	3.25	3.25
Canada (Overnight Rate)	0.25	0.25	0.25	0.50	1.00	1.00	1.50	2.50	2.50	3.25	3.75
UK (Bank Rate)	0.25	0.25	0.50	0.75	0.75	1.00	1.25	1.25	1.75	2.25	2.25
Eurozone (Refi)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50	0.50	1.25	1.25
Japan (OCR)	-0.02	-0.02	-0.01	-0.02	-0.02	-0.03	-0.04	-0.01	-0.04	-0.07	-0.06
Australia (OCR)	0.10	0.10	0.10	0.10	0.10	0.33	0.73	1.28	1.81	2.25	2.58

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	-3.6	-4.1	-5.1	-5.7	-10.8	-9.5	-4.0	-5.3
Canada	-0.6	0.0	0.1	-0.3	0.0	-0.2	-8.6	-4.0	-2.7	-1.2
UK	-3.9	-3.6	-2.8	-2.3	-2.4	-2.7	0.5	-3.2	-4.3	-1.7
Eurozone	-0.7	-0.5	-0.5	-0.5	-0.3	-0.5	-4.3	-3.8	-3.5	-2.9
Germany	1.2	1.2	1.2	1.1	1.6	1.3	-2.9	-3.0	-3.0	-1.8
France	-2.5	-2.1	-1.9	-1.9	-1.5	-2.1	-5.7	-5.1	-4.5	-4.8
Italy	-1.0	-0.6	-1.2	-1.5	-1.6	-0.9	-6.0	-5.1	-5.7	-3.6
Japan	-5.5	-4.2	-4.0	-3.4	-2.5	-2.6	-8.2	-6.3	-7.3	-3.2
Australia	-2.7	-2.6	-2.2	-1.6	-1.1	-4.0	-7.9	-6.2	-3.5	-3.1

Source: International Monetary Fund, World Economic Outlook

Headline Consumer and Producer Price Inflation

	CPI Year/Year % Change						PPI Year/Year % Change				
	Jun	Jul	Aug	Sep	Oct		May	Jun	Jul	Aug	Sep
US	9.1	8.5	8.3	8.2			11.1	11.3	9.8	8.7	8.5
Canada	8.1	7.6	7.0	6.9			15.5	14.3	11.6	10.2	9.0
UK	9.4	10.1	9.9	10.1			15.6	16.3	17.0	16.4	15.9
Eurozone	8.6	8.9	9.1	9.9			36.2	36.1	38.1	43.4	41.9
Germany	7.6	7.5	7.9	10.0	10.4		33.6	32.7	37.2	45.8	45.8
France	5.8	6.1	5.9	5.6	6.2		25.0	25.3	26.1	27.8	25.8
Italy	8.0	7.9	8.4	8.9	11.9		34.6	34.1	36.9	40.1	41.8
Japan	2.4	2.6	3.0	3.0			9.2	9.5	9.1	9.4	9.7
Australia	6.1	7.3	7.3	7.3			5.6	5.6	6.4	6.4	6.4

Source: Macrobond

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* 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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