



---

**The Economy**

---

A week dominated by market turmoil and deteriorating macro backdrop.

---

**US**

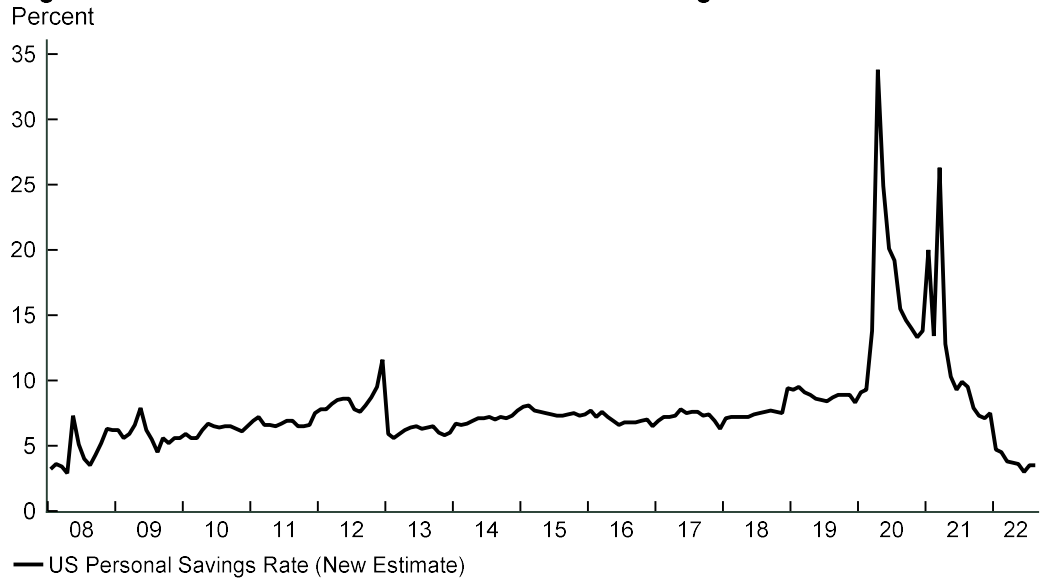
The housing and consumer data continue to deteriorate. Admittedly, **new home sales** unexpectedly surged in August, but we are deeply skeptical of the print. The magnitude of the increase was suspiciously high—nearly 29% m/m. We have only seen something of this magnitude once since 2000 and that was in June 2020, when the housing market was coming out its temporary Covid-induced paralysis. It just feels too good to be true, especially since this data series does not consider cancelled contracts, which have, according to industry sources, been rising rapidly of late. We suspect the new home sales data overstate the strength of underlying activity. Even if we were to take this report at face value, the level of sales (685,000 saar) was still only the best since March and more than 10% below the 2021 average. Unsurprisingly given the big increase in sales, the inventory ratio declined from 10.4 months to 8.1 months. Perhaps the most important dynamic here is to recognize that lower prices are required to help clear the market. The median price declined 6.3% in August (and fell in three of the last three months), but was still 8.0% higher than a year earlier. However, that rate of inflation has moderated dramatically from over 20% just several months ago.

The pullback in home prices is evident across the whole range of indicators. Both the **SP CoreLogic/Case-Shiller composite 20-city home price index** and the **FHFA home price index** declined in July. For the CS index, this marked the first decline since March 2012. The FHFA index had posted a smaller decline in March of 2020, but prior to that, it, too, had last declined back in January 2012. We anticipate continued pullback in prices in coming months as the market seeks a new equilibrium amid sharply higher mortgage rates. Indeed, the conventional 30-year mortgage rate hit 6.7% in the past week, up from a little over 3.0% at the start of the year.

On the surface, the revisions to Q2 national accounts data were minor. **Real GDP** growth for the second quarter was unchanged at -0.6% saar. However, there were some notable developments. On one hand, performance in the early phase of the pandemic recovery was even stronger than initially thought. The 2020 economic contraction, previously reported at -3.4%, has now been revised to only -2.8%. And the 2021 rebound, already extraordinary at 5.7%, was even stronger at 5.9%. Unfortunately, this doesn't really equate to great news for what's to come from here onward. In particular, estimates for GDI (gross domestic income) were revised lower for 2022. Estimates for household income were reduced and the combination led to a sharp downward revision to the household savings rate estimate. That was evident with the updated monthly data on Friday, which showed the household savings rate down to 3.6% in August. Prior estimates had pointed to a 5.0% rate. Even more troublesome, the saving rate had dipped as low as 3.0% in June, the lowest rate since April 2008 (Figure 1, page 2).

Given the end of fiscal transfers, labor income will play the key role in financing future consumption. The good news is that **unemployment claims** seem to be trending lower again, with initial claims back down under 200k during the week ended September 24. We are just not sure whether we can trust this recent downshift. We are not convinced yet that it has staying power.

**Figure 1: Dramatic Decline In US Personal Savings Rate**



Sources: SSGA Economics, BEA

When considering the July revisions, **personal income and spending** was largely as expected in August. Nominal personal income rose 0.3% and nominal spending increased 0.4%. Real disposable personal income rose 0.1% as did real spending. The price data was stronger than expected, but in line with the CPI release a couple of weeks earlier. Headline PCE (personal consumption expenditure) prices increased 0.3% and core PCE prices jumped 0.6%. The headline PCE inflation rate moderated two tenths to 6.2% y/y but the core rate reaccelerated two tenths to 4.9% y/y.

The final reading on the September **Michigan consumer confidence survey** was 0.9-point softer than the initial estimate but nonetheless incrementally better than the August reading. The bigger news came on the inflation expectations side, with the long-run (5-10 years) expectations down a tenth to 2.7%, the lowest level since April 2021. Short term inflation expectations were revised a tenth higher compared to the preliminary estimate but were still down a tenth from the previous month, to 4.7%, the lowest level since July 2021.

---

Canada

After a strong first half, momentum is slowing as high inflation and rising interest rates continue to impact the economy. **Real GDP** inched 0.1% higher in July, bucking expectations of 0.1% decline, but it is expected to have been flat in August. The strength in July was supported by gains in goods-producing sectors, which more than offset the first decrease in services-producing since January. Growth was recorded in mining, quarrying and oil and gas extraction (1.9%), agriculture, forestry, fishing and hunting (3.2%), as well as public sector (0.4%). Meanwhile, manufacturing experienced the third decline in four months (-0.5%). Wholesale, retail trade and accommodation and food services, and real estate also contracted during the month.

UK

**Real GDP** grew 0.2% in second quarter, up from the previously reported 0.1% contraction. Services output rose 0.2% in the quarter but wholesale and retail trade, and health industries continued to weaken. However, downward revisions to 2021 data mean that the level of real GDP is now 0.2% below the Q4 2019 level, as opposed to 0.6% above as was previously thought. While the economy has not yet fallen into recession, the outlook is very challenging and could get worse in the next couple of months.

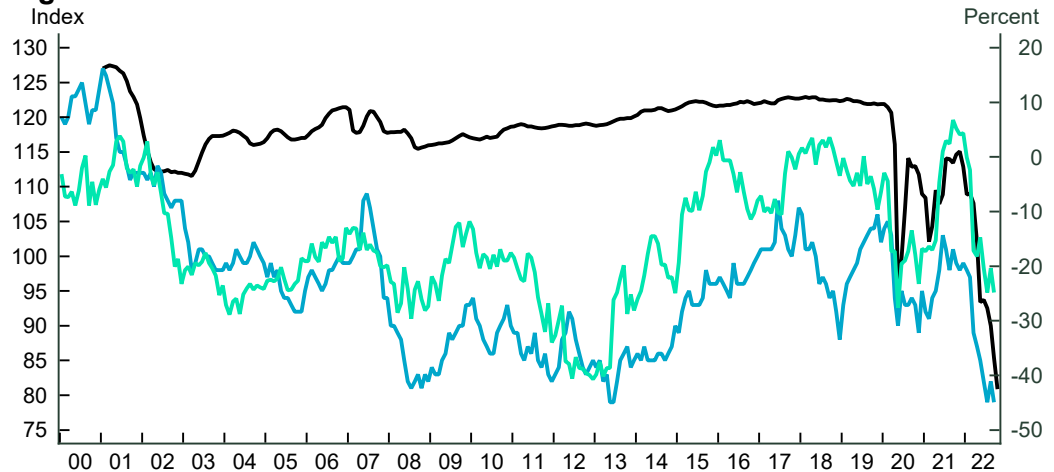
Meanwhile, housing price experienced the first stagnation since July 2021. **Nationwide house price** were unchanged in September, reflecting the impact of the cost of living squeeze and rising interest rates on the market. In annual terms, prices were 9.5% higher than September 2021, short of expectations, and slowing down from growth of 10% in August.

**Mortgage approvals** unexpectedly surged to 74,300 last month, up from 63,700 in July and the highest reading since January. This is also above the 12-month pre-pandemic average up to February 2020 of 66,800. Approvals for remortgaging (which only capture remortgaging with a different lender) also continued to rise, to 49,400 in August from 48,400 in July, close to the pre-pandemic average in the 12 months up to February 2020 of 49,500.

Eurozone

Amid surging inflation and deteriorating growth prospects, **consumer sentiment** is crumbling across the eurozone. The **German GfK consumer confidence index** hit a new record low of -42.5, **French consumer confidence** is retesting historical lows, and **Italian consumer confidence** fell to the lowest since May of 2020. It is very likely that things will get worse before getting better.

**Figure 2: Consumer Confidence Crumbles In The Eurozone**



— Italy, ISTAT, Consumer Confidence Indicator, Total, SA, Index, lhs  
 — France, INSEE, Consumer Confidence Indicator, Synthetic Index, SA, Index, lhs  
 — Germany, GfK, Consumer Climate, Consumer Climate Indicator, rhs

Sources: SSGA Economics, GfK, INSEE, Istat

**Inflation** is indeed setting records. **German CPI inflation** hit 10.0% y/y in September, according to preliminary estimates, marking a sharp acceleration from the 7.9% y/y rate recorded in August. It is in this context that a new large fiscal package aimed to shield businesses and consumers from the extraordinary surge in energy costs must be understood. **Italian inflation** reached 8.9% y/y, accelerating by up half a percentage point from August. In **France**, where steps to cap the rise in energy prices have been more forceful, **inflation** stood at 5.6% y/y, easing slightly from August.

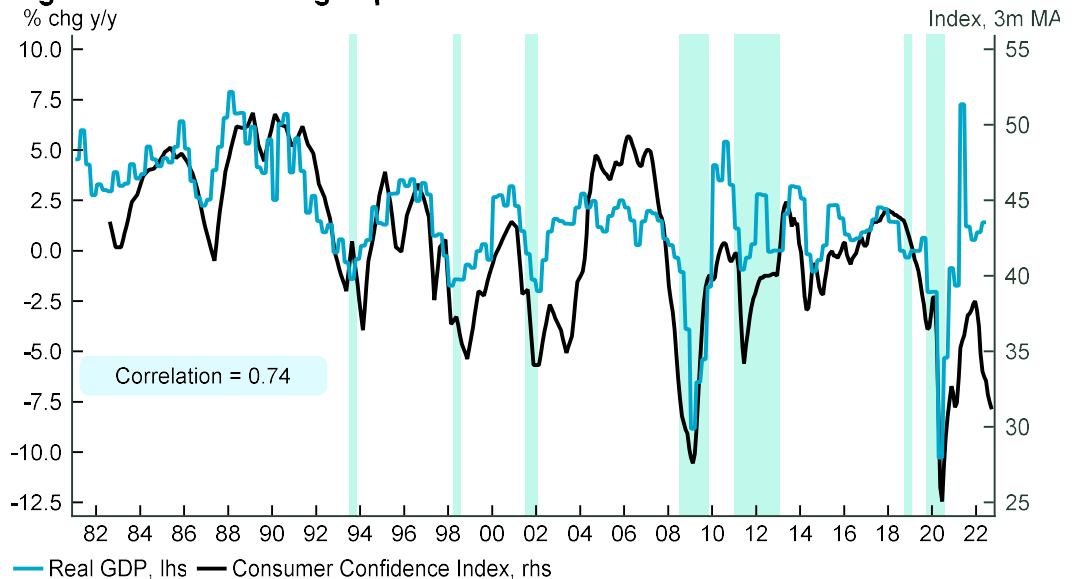
The **German unemployment rate** held steady at 5.5% in September, but the labor market is softening. Employment declined—just incrementally, to be sure—for the first time since February 2021 and vacancies declined for the fourth consecutive month.

Japan

In a welcome development, August **industrial production** rose a much stronger than expected 2.7% in August. We had written about the possibility that output may rise to catch up to order backlogs as supply chains pressures ease. In fact, the production machinery subcomponent registered the highest growth of 6.1%, while autos declined 1.1%. While we do not know how sustainable this robustness is in production, consumption data is mixed at best.

In a cautionary signal, **consumer confidence** pulled back meaningfully in September, down 1.7-point to 30.8. This was the third decline in the last four months and the seventh so far this year. Consumers are clearly weary of rising prices, as evidenced by worsening perceptions about the buying environment for durable goods.

**Figure 3: Deteriorating Japanese Consumer Confidence**



Sources: SSGA Economics, CaO

Even so, **retail sales** rose 1.4% m/m in August, once again beating expectations, although some of that reflects higher prices. Department stores and supermarkets were an area of strength but motor vehicles sales declined 6.1%. Separately, the **unemployment rate** edged down to 2.5% in August while the job offers to applicants ratio rose to 1.32.

In other news, Prime Minister Fumio Kishida is due to announce an economic stimulus package by the end of October, aimed at mitigating the impact of high inflation and a weak yen. However, in light of the market reaction to an unfunded mini-budget in the UK we expect cautiousness from the government.

---

**Australia**

Data releases in the past week firmed our expectation for another 50 bps RBA hike in October. August **retail sales** rose 0.6% m/m, two-tenths stronger than consensus, as households continue to exhibit resilience to interest rate hikes. Department stores (2.8%), household goods (2.6%), cafes, restaurants, and takeaways (1.3%), and food retailing (1.1%) were relative outperformers while spending on clothing, footwear, and personal accessories (-2.3%) declined for the first time this year. We continue to see strength in the consumer as reflected in the robustness of underlying trend in all sectors of retail sales, especially in discretionary spending.

Furthermore, **private sector credit** rose 0.8% in August from July, two tenths higher than consensus but in line with our expectations. Business credit rose strongest since 2009 at 1.2% behind higher merger and acquisition activity. However, we think this could moderate in the near term, but the latest data point strengthens the case for RBA to hike 50 bps in October.

However, **job vacancies** declined 2.1% in the 3 months through August compared to the previous three months. Even so, there are only 1.1 unemployed persons per each job opening, a sign that the labor market remains tight.

We also got the first read of Australia's **new monthly CPI** data series. The CPI inflation rate stood at 7.0% y/y and 6.8% y/y in July and August, respectively. Both were notably above the 6.1% y/y Q2 reading from the prior quarterly data.

**Week in Review (September 26– September 30)**

Country	Release (Date, format)	Consensus	Actual	Last	Comments
<b>Monday, September 26</b>					
GE	IFO Business Climate (Sep)	87.0	84.3	88.6 (↑)	Continuing to worsen.
JN	Manufacturing PMI (Sep, prelim)	na	51.0	51.5	Resilient.
JN	PPI Services (Aug, y/y)	2.4%	1.9%	2.1%	Below expectations.
<b>Tuesday, September 27</b>					
US	Durable Goods Orders (Aug, m/m, prelim)	-0.3%	-0.2%	-0.1%	
US	FHFA House Price Index (Jul, m/m)	0.0%	-0.6%	0.1%	Major decline. Likely the first of several.
US	S&P CoreLogic CS 20-City (Jul, m/m)	0.20%	-0.44%	0.19% (↓)	Major decline. Likely the first of several.
US	Conf. Board Cons. Confidence (Sep)	104.6	108.0	103.6 (↑)	Welcome improvement.
US	New Home Sales (Aug, thous)	500	685	532 (↑)	We are skeptical of this surge.
AU	Retail Sales (Aug, m/m)	0.4%	0.6%	1.3%	Resilient.
<b>Wednesday, September 28</b>					
US	Pending Home Sales (Aug, m/m)	-1.5%	-2.0%	-0.6% (↑)	More to come.
GE	GfK Consumer Confidence (Oct)	-39.0	-42.5	-36.8 (↓)	From bad to worse.
FR	Consumer Confidence (Sep)	80.0	79.0	82.0	From bad to worse.
IT	Consumer Confidence Index (Sep)	95.1	94.8	98.3	From bad to worse.
IT	Manufacturing Confidence (Sep)	102.2	101.3	104.0 (↓)	Deteriorating.
IT	Industrial Sales (Jul, m/m)	na	-0.1%	-0.4% (↓)	Softening.
JN	Leading Index CI (Jul, final)	99.6 (p)	98.9	100.3	Deteriorating.
<b>Thursday, September 29</b>					
US	Initial Jobless Claims (24 Sep, thous)	215	193	209 (↓)	Can we trust the new downtrend?
US	Continuing Claims (17 Sep, thous)	1,385	1,347	1,376 (↓)	Can we trust the new downtrend?
US	GDP (Q2, third, q/q, saar)	-0.6%	-0.6%	-1.6%	Downward revisions to GDI.
CA	GDP (Jul, m/m)	-0.1%	0.1%	0.1%	Weakening.
GE	CPI (Sep, y/y, prelim)	9.5%	10.0%	7.9%	So we reached double-digits..
JN	Jobless Rate (Aug)	2.5%	2.5%	2.6%	No change.
JN	Job-To-Applciant Ratio (Aug)	1.30	1.32	1.29	Slight improvement.
JN	Retail Sales (Aug, m/m)	0.2%	1.4%	0.8%	Robust.
JN	Industrial Production (Aug, m/m, prelim)	0.2%	2.7%	0.8%	Beat expectations as expected.
AU	Private Sector Credit (Aug, m/m)	0.6%	0.8%	0.8% (↑)	Rose as expected.
<b>Friday, September 30</b>					
US	Personal Income (Aug, m/m)	0.3%	0.3%	0.3% (↑)	Savings rate revised sharply lower.
US	Personal Spending (Aug, m/m)	0.2%	0.4%	-0.2% (↓)	Upsides surprise offset by revision.
US	U.of Mich. Sentiment (Sep, final)	59.5(p)	58.6	58.2	Long term inflation expectations declined.
UK	Nationwide House PX (Sep, m/m)	0.3%	0.0%	0.7% (↓)	Moderating
UK	Mortgage Approvals (Aug, thous)	62.0	74.3	63.7 (↓)	Unexpected increase.
UK	GDP (Q2, q/q, final)	-0.1%(p)	0.2%	0.8%	Upside surprise but outlook is getting worse.
GE	Unemployment Claims Rate SA (Sep)	5.5%	5.5%	5.5%	
FR	CPI (Sep, y/y, prelim)	6.0%	5.6%	5.9%	
FR	Consumer Spending (Aug, m/m)	-0.1%	0.0%	-0.9% (↓)	Could have been worse.
IT	Unemployment Rate (Aug)	7.9%	7.8%	7.9%	
IT	CPI NIC incl. tobacco (Sep, y/y, prelim)	8.6%	8.9%	8.4%	Higher and higher...
JN	Consumer Confidence Index (Sep)	33.3	30.8	32.5	Fell as expected.
JN	Annualized Housing Starts (Aug, mn)	0.832	0.903	0.825	Rose against expectations.

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

**Week In Preview (October 03– October 07)**

Country	Release (Date, format)	Consensus	Last	Comments
<b>Monday, October 03</b>				
US	ISM Manufacturing (Sep)	52.4	52.8	
US	Motor Vehicle Sales (Sep, mil, saar)	13.55	13.18	Sharply higher financing costs a new hurdle.
UK	Manufacturing PMI (Sep, final)	48.5 (p)	47.3	Weak
EC	Manufacturing PMI (Sep, final)	48.5 (p)	49.6	
GE	Manufacturing PMI (Sep, final)	48.3 (p)	49.1	
FR	Manufacturing PMI (Sep, final)	47.8 (p)	50.6	
IT	Manufacturing PMI (Sep, final)	47.5	48.0	
JN	Tankan Large Mfg Index (Q3)	11	9	Could come in strong.
JN	Manufacturing PMI (Sep, final)	51.0 (p)	51.5	Slight downward revision possible.
AU	RBA Cash Rate Target (Oct)	2.85%	2.35%	50 bps hike expected.
<b>Tuesday, October 04</b>				
US	Factory Orders (Aug, m/m)	0.2%	-1.0%	
US	Durable Goods Orders (Aug, m/m, final)	-0.2% (p)	-0.1%	
US	JOLTS Job Openings (Aug, thous)	11,075	11,239	Have proven resilient, but we see downside risk.
<b>Wednesday, October 05</b>				
US	Trade Balance (Aug, \$ bn)	-67.9	-70.7	Trade is a big upside risk to Q3 GDP performance.
US	ISM Services (Sep)	56.5	56.9	Price signals will be important also.
CA	Building Permits (Aug, m/m)	-0.5%	-6.6%	Weakening.
UK	Services PMI (Sep, final)	49.2 (p)	50.9	Weak.
EC	Services PMI (Sep, final)	48.9 (p)	49.8	
GE	Services PMI (Sep, final)	45.4 (p)	47.7	
FR	Industrial Production (Aug, m/m)	0.0%	-1.6%	
<b>Thursday, October 06</b>				
US	Initial Jobless Claims (01 Oct, thous)	205	193	
US	Continuing Claims (24 Sep, thous)	1,380	1,347	
GE	Factory Orders (Aug, m/m)	-0.5%	-1.1%	
JN	Labor Cash Earnings (Aug, y/y)	1.4%	1.8%	Can be higher than consensus.
<b>Friday, October 07</b>				
US	Change in Nonfarm Payrolls (Sep, thous)	250	315	Still solid.
US	Unemployment Rate (Sep)	3.7%	3.7%	
US	Consumer Credit (Aug, \$ bn)	25.0	23.8	
CA	Unemployment Rate (Sep)	5.4%	5.4%	Could increase.
GE	Retail Sales (Aug, m/m)	-1.0%	1.9%	
GE	Industrial Production SA (Aug, m/m)	-0.5%	-0.3%	
IT	Retail Sales (Aug, m/m)	na	1.3%	
JN	Leading Index CI (Aug, prelim)	na	98.9	Can be stronger.

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



## Economic Indicators

### Central Bank Policy Targets

Region	Target	Year/Year % Change in Target				
		Apr	May	Jun	Jul	Aug
US	Target: PCE price index 2.0% y/y	6.4	6.5	7.0	6.4	6.2
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	6.8	7.7	8.1	7.6	7.0
UK	Target: CPI 2.0% y/y	9.0	9.1	9.4	10.1	9.9
Eurozone	Target: CPI below but close to 2.0% y/y	7.4	8.1	8.6	8.9	9.1
Japan	Target: CPI 2.0% y/y	2.5	2.5	2.4	2.6	3.0
Australia	Target Range: CPI 2.0%-3.0% y/y	6.1	6.1	6.1		

Source: Macrobond

### Key Interest Rates

	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
US (top of target range)	0.25	0.25	0.25	0.25	0.50	0.50	1.00	1.75	2.50	2.50	3.25
Canada (Overnight Rate)	0.25	0.25	0.25	0.25	0.50	1.00	1.00	1.50	2.50	2.50	
UK (Bank Rate)	0.10	0.25	0.25	0.50	0.75	0.75	1.00	1.25	1.25	1.75	2.25
Eurozone (Refi)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50	0.50	
Japan (OCR)	-0.05	-0.02	-0.02	-0.01	-0.02	-0.02	-0.03	-0.04	-0.01	-0.04	
Australia (OCR)	0.10	0.10	0.10	0.10	0.10	0.10	0.33	0.73	1.28	1.81	

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				
	May	Jun	Jul	Aug	Sep		Apr	May	Jun	Jul	Aug
	US	8.6	9.1	8.5	8.3			11.2	11.1	11.3	9.8
Canada	7.7	8.1	7.6	7.0		17.0	15.5	14.3	11.5	10.6	
UK	9.1	9.4	10.1	9.9		14.7	15.6	16.4	17.1	16.1	
Eurozone	8.1	8.6	8.9	9.1		37.2	36.2	36.0	37.9		
Germany	7.9	7.6	7.5	7.9	10.0	33.5	33.6	32.7	37.2	45.8	
France	5.2	5.8	6.1	5.9	5.6	25.2	25.0	25.3	26.2	27.7	
Italy	6.8	8.0	7.9	8.4	8.9	35.3	34.6	34.1	36.9	40.1	
Japan	2.5	2.4	2.6	3.0		9.8	9.2	9.4	9.0	9.0	
Australia	6.1	6.1				5.6	5.6	5.6			

Source: Macrobond



