STATE STREET GLOBAL ADVISORS

June 2024
Commentary

Global Macro Policy Quarterly

Contents

Contact

Simona Mocuta
Chief Economist
simona_mocuta@ssga.com

Elliot Hentov, PhD
Head, Policy Research
elliot_hentov@ssga.com

Vladimir Gorshkov
Macro Policy Strategist
vladimir_gorshkov@ssga.com

Amy Le, CFA
Macro-Investment Strategist
amy_le@ssga.com

Krishna Bhimavarapu
Economist
VenkataVamseaKrishna_Bhimavarapu@ssga.com

Global Macro Highlights

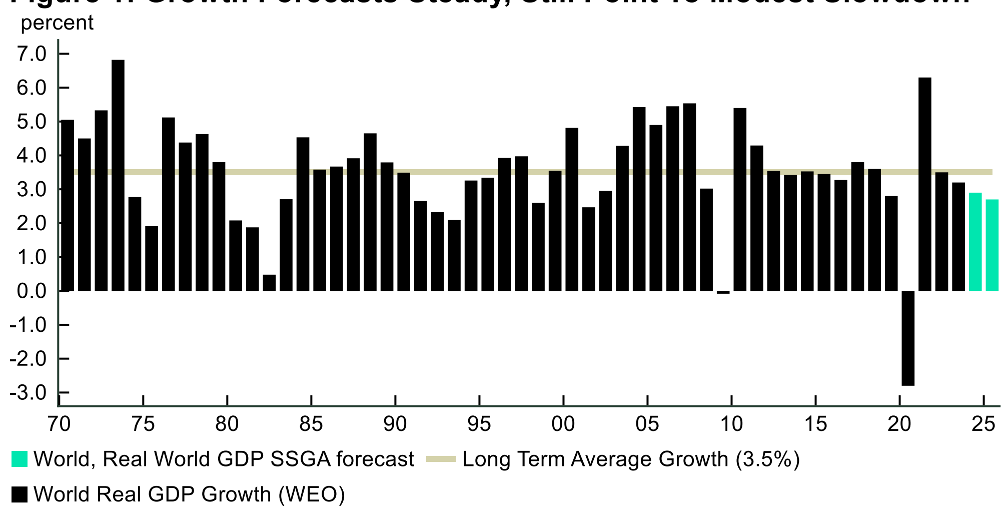
Considerable Market Volatility, But Global Forecasts Are Little Changed

Since our last update in March, the global economy has progressed largely as anticipated. Global performance remains moderate but steady, with broadening signs of a bottoming out in manufacturing, improvement in Europe (UK as well as the eurozone) and visible deceleration in the United States. Chinese economic growth has stabilized but remains constrained but weak consumer sentiment and ongoing challenges in the property sector. Consequently, there has been no change to the global growth forecast this quarter, and only modest adjustments to individual countries.

The inflation story is also progressing roughly as anticipated, with the caveat that the disinflation process had paused in the US earlier this year while continuing to unfold elsewhere. We see this as a temporary phenomenon driven largely by peculiarities around shelter inflation calculations in the US and a delayed catch-up cycle in insurance (home and auto). US inflationary pressures are increasingly narrow and, given normalizing labor market and anchored inflation expectations, the disinflation process is set to resume. The much-improved May inflation report supports this interpretation. For now, the Fed has remained on the sidelines even as other developed market central banks (most recently, the ECB and Bank of Canada) have started lowering interest rates. Nevertheless, the Fed joins the easing cycle later in the year and quickens it in 2025. The "different speeds, same direction" mantra we applied to global disinflation in 2023 applies to global policy easing in 2024-25.

Political and geopolitical risks loom large. Elections in Mexico, India, and the European Union, all brought surprising outcomes, highlighting the limitations of forecasting exercises. As we gear up for US elections in November, investors are bound to grapple with rising volatility. Risks to all forecasts are elevated and two-sided.

Figure 1: Growth Forecasts Steady, Still Point To Modest Slowdown



Sources: Macrobond, SSGA Economics, IMF World Economic Outlook
Updated as of 6/12/2024

Summary of World Output[1] and Inflation[2]

(Annual percent change)

	Weight	History					Forecast	
	(2022)	2019	2020	2021	2022	2023	2024	2025
World Growth	100.0	2.8	-2.8	6.3	3.5	3.2	2.9	2.7
Advanced Economies	41.7	1.7	-4.2	5.6	2.6	1.6	1.4	1.4
US	15.5	2.5	-2.2	5.8	1.9	2.5	2.2	1.4
Euro area	12.2	1.6	-6.2	5.9	3.4	0.6	0.9	1.3
Germany	3.3	1.1	-4.2	3.1	1.8	0.0	0.5	1.1
France	2.3	1.9	-7.7	6.4	2.5	0.9	1.0	1.2
Italy	1.9	0.5	-9.0	8.3	4.1	0.9	0.9	1.2
Japan	3.7	-0.4	-4.2	2.7	1.0	1.9	0.5	1.2
UK	2.3	1.7	-10.4	9.6	4.5	0.1	0.8	1.5
Canada	1.4	1.9	-5.0	5.5	3.8	1.3	0.9	1.4
Australia	1.0	1.8	-2.1	5.5	3.9	2.0	1.4	2.6
Developing Economies	58.3	3.6	-1.8	6.9	4.1	4.3	4.0	3.7
China	18.4	6.0	2.2	8.4	3.0	5.2	4.7	4.2
Advanced Economy Inflation	41.7	1.4	0.7	3.1	7.3	7.3	3.0	2.3
US	15.5	1.8	1.3	4.7	8.0	4.1	3.0	2.3
Euro area	12.2	1.2	0.3	2.6	8.4	5.5	2.4	1.9
Germany	3.3	1.4	0.5	3.1	6.9	6.0	2.0	1.7
France	2.3	1.1	0.5	1.7	5.2	4.9	2.5	1.7
Italy	1.9	0.6	-0.1	1.9	8.2	5.7	1.3	1.6
Japan	3.7	0.5	0.0	-0.3	2.5	3.3	2.4	2.0
UK	2.3	1.8	0.9	2.6	9.1	7.4	2.5	1.7
Canada	1.4	1.9	0.7	3.4	6.8	3.9	2.6	2.2
Australia	1.0	1.6	0.9	2.9	6.6	5.6	3.2	2.8
Developing Economies	58.3	5.1	5.1	5.9	9.8	8.2	6.8	5.2
China	18.4	2.9	2.4	0.9	2.0	0.2	0.4	1.5
Value of World Output ($ trl)								
At Market Exchange Rates		87.3	85.0	96.5	100.1	104.5	114.2	121.1
At Purchasing Power Parities		135.8	133.5	148.2	163.8	174.8	190.4	202.3

[1] Real GDP; [2] Consumer Price Inflation

Weight is the share of world GDP on a purchasing power parity basis (IMF *World Economic Outlook)*

Historical data sources: Oxford Economics, IMF. Forecast: SSGA Global Macro and Policy Research

Politics and Geopolitics

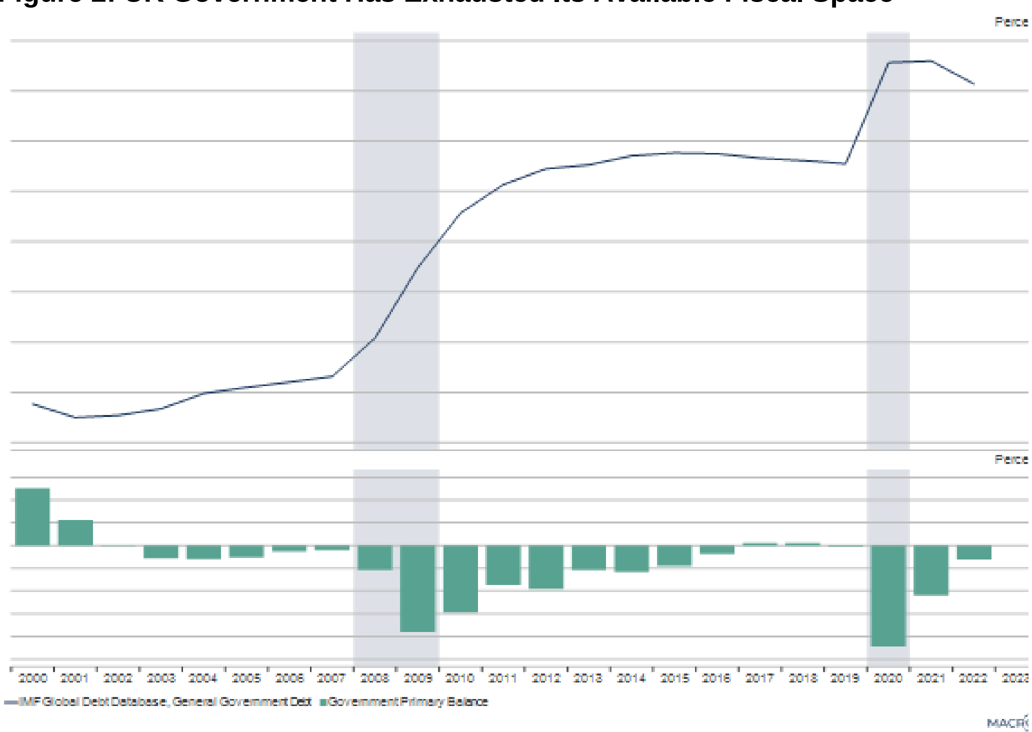
UK Elections: Potential for Upside Surprises

That Labour will win a comfortable majority in the upcoming UK general election is almost a given. After 14 years in power, the Conservative Party has accumulated too much electoral baggage — from Brexit to Liz Truss's mini-budget to Boris Johnson's Covid-era parties. For its part, Labour is running a disciplined and distinctly centrist campaign. Its platform is simple and perhaps best summarized as "it's time for change and we are a pair of safe hands." A comfortable victory seems almost certain, and a likely 80-120 seat majority will ensure Keir Starmer becomes the UK's next prime minister.

Markets have largely shrugged off the election announcement**.** Observers had expected the elections to be held in the fourth quarter of the year. The July date came as a surprise, yet this is ultimately not material. Mindful of Liz Truss's experience in 2022, Labour has promised to act with restraint in regard to the budget and debt. This has reassured investors on the downside risks of a Labour government. However, the market also sees little upside. Without a meaningful fiscal impulse, it is considered likely that a new government can do little to invigorate chronically lagging growth.

What Labour lacks in fiscal space, it can make up with policy reform. For investors, most consequential would be structural reforms that address supply side constraints on growth. We think that under a Labour government, such reforms are probable– if for no other reason than Conservative-led governments failed to deliver them during their 14 years in power. What could these look like?

Figure 2: UK Government Has Exhausted Its Available Fiscal Space



Source: IMF, UK Government, UK Office for National Statistics, Macrobond. As of June 4, 2024.

Potential Reforms Under Labour

1. **The UK could further lower trade friction with the EU.** For the Conservatives who engineered Brexit, drawing closer to the EU was tough. Labour too would hate to be viewed as undoing Brexit. However, a policy shift in this direction is growing more likely. Labour could quietly fix sectoral problems by agreeing to comply with EU law. With a comfortable majority in parliament, it has options to break down some taboos and pursue some more ambitious goals.

   The political opening for this exists, but does the political will? Polls suggest a majority of people now think Brexit was a mistake; the majority of Labour voters certainly do. And in Europe, new priorities in defense and security create new avenues for collaboration. Labour is now led by people who advocated that the UK remain in the EU. Labour has talked little of this in the campaign, but the silence is a sensible electoral strategy given it is targeting conservative-leaning voters.

2. **Labour could ease domestic impediments to growth**. Rigid planning rules are a known supply side constraint for the UK economy. For years, these have hobbled activity in the country's construction sector, from infrastructure to residential real estate – despite a massive need. Unlike the Tories, whose electorate skews heavily toward homeowners, Labour's electoral coalition is younger and more urban, and it has a higher share of renters. This allows for bolder decisions to tackle planning rules that prevent projects from moving ahead. For housebuilding in particular, Labour has promised a million and a half new homes. That is an ambitious target. However, current building levels are so low that even a moderate increase could have a broader positive impact.

3. **Where could we see change?** Labour may aim for an ambitious policy path. Internationally, we think UK-EU trade relations will be meaningfully better by the end of this decade. Domestically, we think it could focus on planning reform, more on residential real estate and less on infrastructure. In aggregate, this could shift upwards the country's medium-term growth potential. That would translate to markets by way of a stronger pound and increased valuations of UK assets; this would especially be the case for those in sectors closest to the reforms (e.g. UK small caps and export-oriented manufacturing generally in the case of the EU). The credit risk premium on UK assets could also narrow, all else being equal, though not perhaps for sovereign yields, as the country's fiscal position will likely remain challenging. As structural reforms are a long-term bet, the best time to implement them is as soon as possible. It could therefore be clear where we stand shortly after the election, but certainly by year end.

The Bottom Line

In short, we believe there is room for an upside surprise from the election. Markets see little downside uncertainty, but equally, there are low upside expectations. This may be too pessimistic given the centrist and reform-minded policy stance of the prospective Labour government that could have a material positive impact on the country's macro fundamentals in the medium term.

Country Macro Highlights

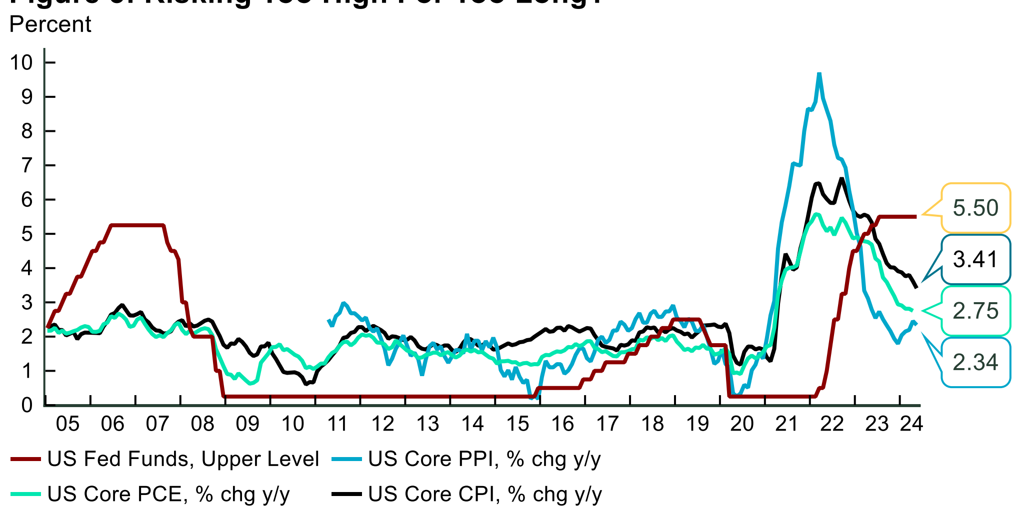
Please see individual country commentaries in respective sections below.

US: Taking Chances

Back in March, while celebrating the ongoing resilience of the US economy, we wondered whether we were approaching a “too much of a good thing” situation. We didn’t think we were there just yet, but developments since then have worsened our concerns. Simply put, we worry that the Fed stays too high for too long, and in the process, endangers the soft landing. These worries intensified this week with the release of highly favorable (i.e., soft) May inflation data that coincided with a new FOMC dot plot showing a single rate cut this year (versus three back in March). Admittedly, the June dot plot was probably obsolete even before its release because the May inflation data came out the very morning of the Fed meeting, and was not fully reflected in the SEP (summary of economic projections). We suspect that if the data were available further in advance, the median dot would have shown two, rather than just one cut. As it is, only two dots separate the two scenarios, leaving the door wide open for a dovish reversion down the line. However, the bigger question is this: are even two 2024 rate cuts enough to confidently preserve the soft landing? It is hard to say, but risks to the outlook are increasingly to the downside in our view.

Since the mid-March Fed meeting, Q1 GDP was revised lower to 1.3% saar (seasonally adjusted annualized) and the unemployment rate has ticked up another tenth to 4.0% (highest since January 2022). Core CPI inflation has eased four tenths to 3.4% y/y, and core PCE inflation is estimated to have eased two tenths to 2.6% y/y in May. Oil prices are little changed. Wage inflation as measured by average hourly earnings moderated two tenths to 4.1% y/y and Q1 unit labor costs growth was revised down to 0.9% y/y. Meanwhile, job openings have declined by about 700k.

Figure 3: Risking Too High For Too Long?



Sources: Macrobond, SSGA Economics, BLS, GAC, University of Michigan, BEA, Fed
Updated as of 6/13/2024

None of the growth/labor market indicators are weak—arguably, they are still fairly strong—and most inflation indicators are not yet fully back to where we need them to be. However, both sets of metrics tell a consistent story of a normalizing, rebalancing economy, where inflationary pressures are receding. Whatever narrow pockets of elevated inflation remain (car insurance, shelter), they are largely rate-insensitive and backward looking; reversion lower in those segments is a matter of time more so than of interest rates. Meanwhile, rising consumer delinquencies signal that the pain of high interest rates is becoming more acute despite the fact that standard measures suggest broad financial conditions remain benign. That pain likely continues to intensify even after the Fed starts easing as the share of newer, higher-rate mortgages continues to increase.

Our readers know we had long argued that the Fed should begin calibrating rates lower starting this summer. Back in March we argued for 100-125 basis points (bp) worth of cuts this year, which was then further scaled back to 75-100 bp in our mid-year Global Market Outlook. Based on incoming data, we'd certainly welcome 100 bp worth of cuts, mindful as we are that policy works with long lags. However, with only four meetings left, a dot plot now signaling a single cut, and the elections calendar complicating matters, there is a good chance that 50 bp worth of cuts may be the most we get before 2025. To us, that's dangerously and unnecessarily little. Admittedly, we have a lower growth forecast than the FOMC and project a slightly higher unemployment rate. That is perhaps the core distinction between us and the FOMC: it seems to be less about different opinions about what the Fed *should* do, but rather, different opinions about what the economy *will* do. We believe it to be less robust than the Fed thinks it is, but only time will tell. In any case, to the extent the rate cuts prove minimal this year, more of them get pushed into next year; we see the Fed Funds rate reaching the 3.5% range by end-2025.

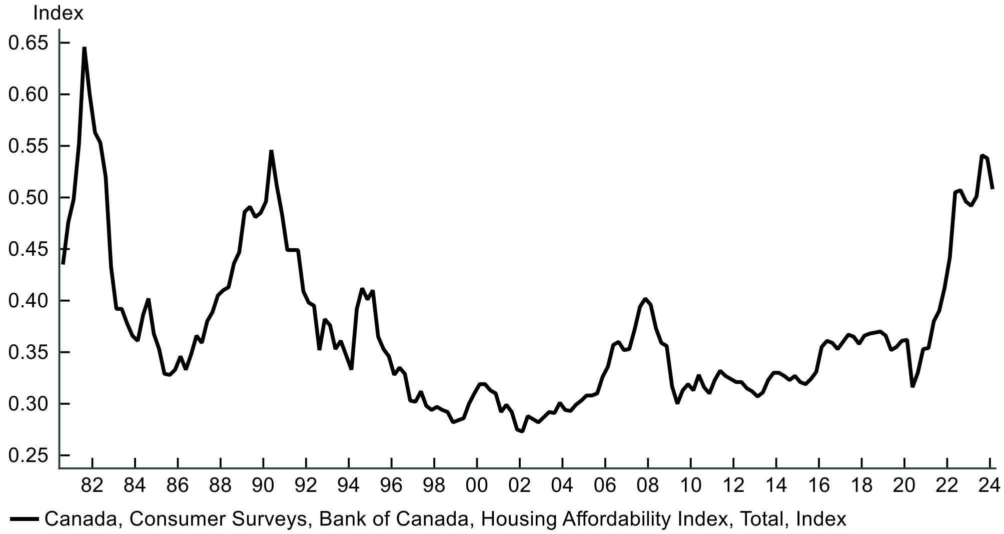
Canada: Growth Outlook Remains Muted

We now expect Canada's GDP to grow 0.9% in 2024, down slightly from the 1.0% we forecast last quarter, before the economy picks up in earnest in 2025.

Latest GDP data shows weaker-than- expected Q1 GDP growth and a big downward revision to Q4 growth. Q1 GDP grew 1.7% q/q saar, softer than consensus at 2.2% and much lower than the BoC's latest forecast of 2.8%. Q4 growth was also revised lower to just 0.1% from 1.0%. Final domestic demand came in at a very strong 2.9% q/q, with consumer spending supporting growth. However, we need to be careful when interpreting the data as there could be some temporary seasonal influences at play like last year. Business investment rebounded during the quarter, driven by higher housing activity and investment in oil& gas sector. But net trade contributed a minor lift to GDP and inventories were a substantial drag on GDP.

In addition, housing affordability remains challenging, particularly in rental markets, reflecting the impact of high mortgage interest rates and shortages of housing supply. We expect improved outlook for resales market provided that interest rate cuts are significant enough, which might happen around end of this year and early next year. Housing starts are likely to trend upwards as costs for homebuilders decline. This should support residential investment growth. Meanwhile, rents are expected to continue rising, albeit at slower rate.

Figure 4. Canadian Housing Affodability Remains Challenging



Sources: Macrobond, SSGA Economics, BoC
Updated as of 13/06/2024

Headline CPI Inflation eased further to 2.7% y/y in April, within the BoC's target range. CPI inflation excluding shelter stands at only 1.2% y/y. Core inflation measures have also made good progress, with April marking the first time since June 2021 that the weighted median, common, and trimmed mean measures of inflation all moved into the target 1-3% range. Shelter inflation, which is of critical interest to the BoC, took a small step in the right direction, but still at an elevated level. Given the evolvement in the inflation recently, we revised up 2024 forecast by one-tenth to 2.6% while keeping 2025 forecast unchanged from last quarter.

In terms of labor market, there is increasing evidence that slack is building up. Given that population has grown 3.2% over the past year, the 1.6% growth in employment is not strong enough to keep the unemployment rate from rising. Indeed, the unemployment rate edged up a tenth to 6.2% in May, even as hiring continues. Concerningly, long-term unemployment, the share of those who had been continuously unemployed for 27 weeks or more, rose to 18.2% in May, up from the low of 13.2% in August 2023. Given weak demand, Canadian labor market is likely to remain sluggish, with unemployment rate continuing to rise, and averaging to 6.5% towards end of the year. Wage growth sped up to 5.1% y/y in May, but the acceleration was largely due to base effects which are expected to fade out after June. We anticipate that wage growth will continue to decelerate as the labor market loosens further.

The Bank of Canada (BoC) has begun the process of lowering interest rates by cutting its overnight lending rate to 4.75%, down from 5%, the level it has maintained since July 2023. The BoC is convinced that it is now the time "with continued evidence that underlying inflation is easing". The bank also acknowledged that "monetary policy no longer needs to be as restrictive" while at the same time, they will proceed cautiously as "risks to the inflation outlook remain." That said, the BoC is likely to take a gradual path of loosening monetary policy. We expect the BoC will make at least two more rate cuts this year.

UK: The economy is slowly picking up steam

The UK economy seems to gain traction so far this year, with high inflation and slow economic growth being expected to fade out. We have maintained our 0.8% real GDP growth forecast for 2024 and expect 1.5% growth in 2025, given that business investment, household consumption and net trade should pick up, supporting by broadening disinflation, monetary easing, and lower energy prices.

Following a mild technical recession in the second half of 2023, Q1 GDP growth slightly overshot expectations, rising by 0.6% q/q. Net trade and household and government consumption were the major contributors to quarterly growth. Admittedly, the economy is still weak with only 0.2% y/y growth and the underlying data has been quite volatile. Even so, we expect growth to pick up in second quarter with lower inflation and rising real wages. Given monetary easing is on the way, business investment and housing activity should recover, albeit at a slower pace. We also expect to see an improvement in terms of trade given lower energy prices. Meanwhile, consumers turned more optimistic as concerns on living costs subsided, with the UK GFK consumer confidence index reaching a 29-month high in May. We anticipate that the improvement in consumer confidence should boost retail sales in the next few months. The UK PMIs for May also signaled a further expansion of UK business activity, with manufacturing coming back strongly to expansion territory, accompanied by sustained but slower service sector growth.

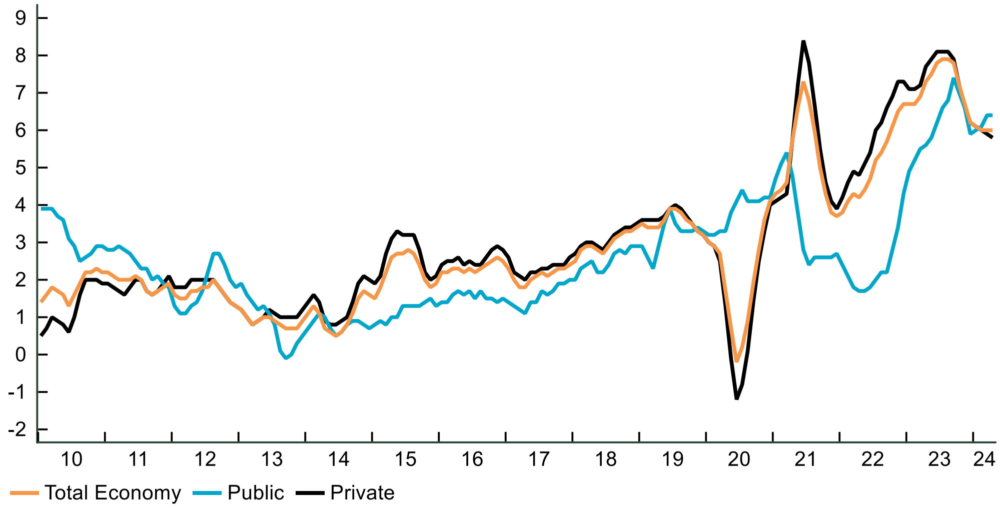
Headline inflation in the UK eased sharply to 2.3% y/y in April, albeit slightly higher than both market and the BoE expectations. Lower prices of energy, food, and core goods all contributed to the deceleration. But services inflation remains high, at 5.9% y/y in April, on the back of strong wage growth. As April data is associated with one-off annual price adjustments, we suspect that the upward surprise in inflation data mostly represented noise, rather than a true signal on inflation. Importantly, after a steep rise in April, the latest UK PMIs readings suggest that wage pressures eased in May, particularly in the services sector. Given disinflation is gaining pace except services, and further declines in utility prices expected to begin in July, we expect headline CPI will fall below 2% in May and fluctuate around the BoE's 2% target for the rest of the year.

The latest labor data revealed further easing in the job market albeit at a marginal pace. The unemployment rate for the three months to April inched up one-tenth to 4.4%, the highest level since September 2021. Labor demand continued easing as headline vacancies in the three months to March falling for the 23rd consecutive period to 904k and the vacancy-to-unemployment ratio has nearly normalized back to pre-pandemic levels[1]. Headline wage pressure came in above consensus but that was due to strong public sector earnings growth. Private sector wage growth edged down one-tenth to 5.8% y/y. We expect wage pressures to ease further in the next few months, though at slow pace, given labor market slack is growing.

[1] SSGA Economics, May 2024, Central Bank Check-In: What's Next Around the Globe

Figure 5. UK Private Sector Wage Growth Is Easing

Average Weekly Earnings, Regular Pay, SA, 3 Month MA, Change Y/Y, percent



Sources: Macrobond, SSGA Economics, ONS
Updated as of 6/14/2024

Persistently high services inflation has now taken June off the table for the first Bank of England (BoE) rate cut. We retain our base case of an August start to the easing cycle. We have scaled back our 2024 rate cut expectations, mostly due to the global repricing of rates following hawkish-leaning data, rather than the data itself. That said, broadening signs of labor market cooling mean we still look for at least two cuts this year (possibly three).

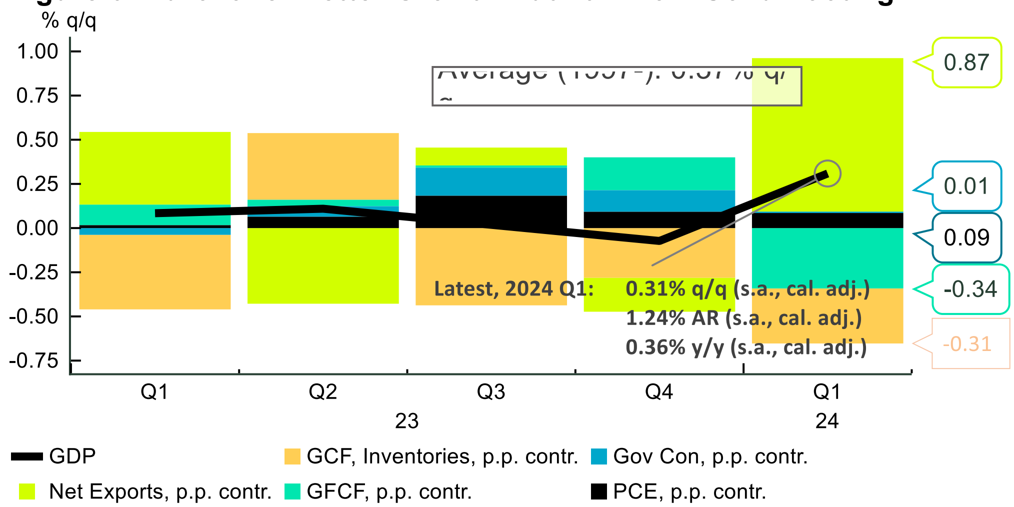
Eurozone: Green Shoots

Back in March, we wrote that "the combination of steady employment, strong nominal wage gains, and material disinflation, speaks to a delayed yet powerful boost to real consumer incomes in 2024. It is quite likely that a conservative predisposition—especially among German consumers—will limit the positive impact of this on consumer spending. But we doubt it would entirely offset it. So, we still look for above consensus growth of 0.8% this year (down a tenth from December), followed by 1.3% in 2025."

A better than expected start to the new year warrants that more optimistic view. Real GDP growth grew 0.3% q/q in Q1, and we reverted to the December forecast of 0.9% full year growth projection. This happens to be exactly in line with the latest ECB staff forecasts, yet still a little better than the market consensus. Uncertainty around recent election outcomes—particularly in France—introduces a new wrinkle into the story, but support from pent-up demand should ensure this modest degree of acceleration (the economy grew 0.5% in 2023) is achievable.

The most troubling story sifting through the GDP details is the drop in investment, which ties back to the loss of international competitiveness following Russia's invasion of Ukraine. The high cost of capital has also been weighing on investment spending. As a result, real fixed investment plunged 1.5% q/q in Q1, the worst performance since Covid. It declined y/y for the first time since Q1 2021. Evidently, a turnaround here is needed for sustained future growth, and a reduction in borrowing costs would help.

Figure 6: Eurozone: Better Growth But Far From Solid Footing



Sources: Macrobond, SSGA Economics, ECB
Updated as of 6/14/2024

On that front, the ECB delivered on its strongly telegraphed intention with a 25-basis point Interest rate cut that left the main refinancing operations rate, the marginal lending facility rate, and the deposit facility rate at 4.25%, 4.50% and 3.75% respectively. Just as Bank of Canada—which also began easing—the ECB positioned this as reducing the degree of restriction. There is now room to do so because since the last hike in September 2023, “inflation has fallen by more than 2.5 percentage points and the inflation outlook has improved markedly. Underlying inflation has also eased, reinforcing the signs that price pressures have weakened, and inflation expectations have declined at all horizons.” That being said, given elevated wage inflation and the fact that more progress still needs to be made on inflation, there was no indication on the timing of the next cut. We anticipate a pause in July and then two more cuts before year-end.

Japan: Calm Before The Storm

Three things have gotten clearer in the last three months in Japan:

One, growth impulse remains weak.
Two, the weaker yen benefits exporters, and inflation.
And three, positive interest rates might benefit the economy.

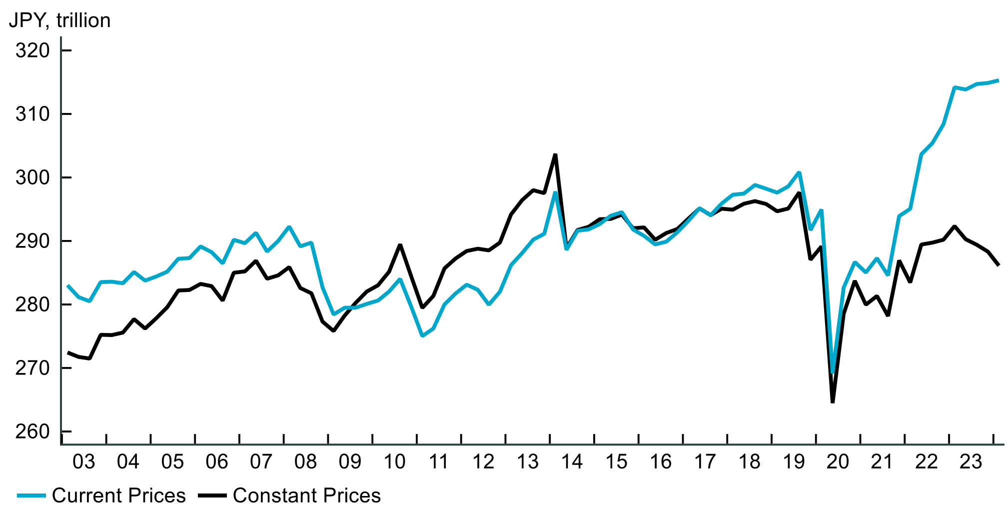
We now see the Bank of Japan (BoJ) hiking in July, as opposed to September earlier, on potentially higher inflation, and fewer cuts by the US Fed. We expect the policy rate to be raised to 0.50% by December 2024, and 1.0% by next year. The Bank will also announce the details of the reduction in its monthly JGB buying in July, making it one of the most important meetings in the BoJ’s history.

We **downgrade GDP growth** to average just 0.5% y/y this year, before picking up to 1.2% in 2025. Private capex essentially remains as the key growth driver; we expect it to reach its all-time high in 2025, as the labor saving and production enhancing capex continues to rise on structural labor shortages. Perhaps the key driver may shift from software investments over time. Furthermore, net exports may normalize in H2 on resumption of production facilities that were hit in Q1.

Household consumption will remain weak this year and average just 0.4% y/y, because of strong price effects. Nominally, it has been quite robust (figure 7). Since Q4 2021 its growth averaged 3.9% y/y, more than three times the pre-pandemic average (1.2% since 1990). Excluding Q1 (0.4%), it is even higher at 4.3%! However, when measured with price effects, the difference is a meager 0.2 ppts. (0.9% avg. from 1990 vs. 1.1% from Q4 2021). The implicit price deflator for household consumption has declined to 2.5% y/y, after peaking at 3.8% y/y in Q4 2022. We, however, do not expect this disinflation to accelerate, on resuming price pressures. Hence, real consumption may remain weak this year. It goes a long way to tell why the BoJ has to act decisively on inflation.

Figure 7: Japan's Nominal Household Consumption Is Robust

Private Household Consumption Expenditure



Sources: SSGA Economics, CAO, Macrobond
Updated as of 6/13/2024

We expect headline CPI to rise to 3.0% y/y in H2 this year, and then decline gradually to 2.0% over the next year. The yen's current level and expiring energy subsidies are expected to add price pressures from May. *Next week, we expect headline CPI to have risen 2.6% y/y in May, four-tenths higher than in April.* As such, wholesale inflation jumped to a nine month high of 2.4% y/y. We expect demand in general to improve, driven by real wages. All these dynamics lead us to **upgrade headline CPI** to average 2.4% y/y in 2024 and 2.0% next year.

The BoJ treaded cautiously at their meeting this week and did not deliver on the widely expected reduction in their JGB purchases. Instead, the Bank chose to deliver the details in the July meeting after consulting a "Bond Market Group". During the press conference, Governor Ueda said that the reduction in purchases will be 'considerable', and laid out that the Bank will offer guidance for two years, which is welcome. We think the 10y JGB yield will be anchored between 1.0%-

1.5% over the long run. The yen may remain on the weaker side for longer now, after the US Fed projected just one cut this year, as opposed to three earlier.

All this means that the BoJ may have to frontload a hike in July, should the two interim CPI reports feature upside surprises, as we expect. We see the policy rate being lifted once more this year, before reaching a terminal of 1.0% in 2025.

Australia: Not So Lucky This Time

For a country whose households are the most vulnerable to high interest rates, the path to rate cuts remains ironically complicated in Australia. We now see just one rate cut this year in November (from two earlier), only because of the Reserve Bank of Australia's unwavering (RBA) hawkishness. However, a rate hike would still be a policy mistake, and we see two cuts as the main risk scenario.

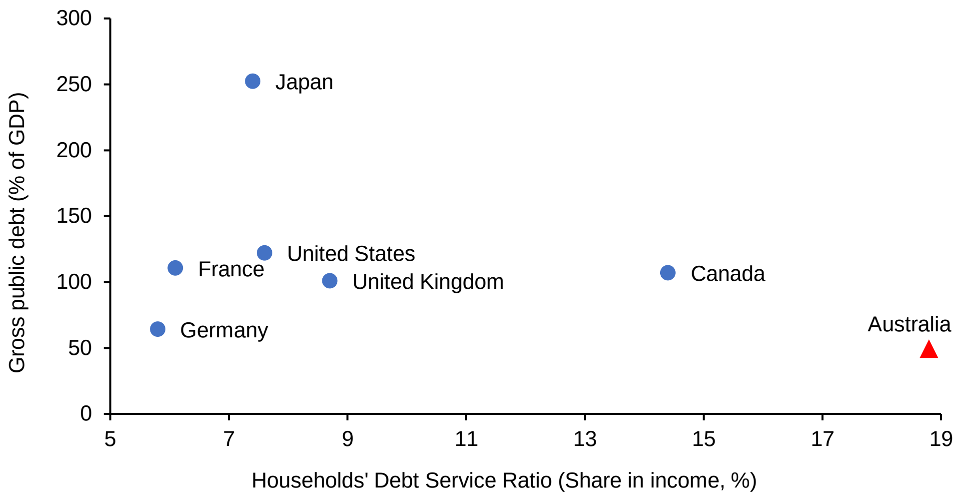
In Q1, growth was weaker than expected at 0.1% q/q, but consumption surprisingly was not (0.4%). This is because services imports were revised up significantly to lift overall consumption, which would have contracted otherwise. Nonetheless, the annual GDP growth in Q1 was at a 32-year low and if it was not for inventory built-up, growth would have contracted. This makes it amply clear that the growth pulse is weak and most importantly, so is consumption. Resultingly, we **downgrade 2024 growth** by three-tenths this year to 1.4% and maintain that for 2025 at 2.6%.

Our **view on inflation is unchanged**—that it is on track to reach the target range sooner than the RBA (H2 2025) and markets expect. Inflation has already cooled from a peak of 7.8% y/y in Q4 2022 to 3.6% in Q1 2024. The forward retail price growth tracked by the NAB, a reliable leading indicator has rebounded two-tenths in May to 1.1%, but remains on a declining trend. The impact of rate hikes, however, is clearly visible elsewhere: households.

A recent RBA research found that 75% of the 425 bps of rate hikes were already passed on to higher mortgage rates, while the remaining transmission will be completed this year (source). Although mortgages at risk remain low, Australia has the highest share of higher flexible rate mortgages, behind Chile and South Africa, according to the IMF (source).

Constrained by higher interest costs, consumers may be tapping into their savings and borrowing credit, as Australians' fixed term personal loans hit a new high of A$ 2.6 billion in April. This is in addition to revolving credit of A$ 1.5 billion. All of these accumulated interest costs have left Australian consumers with the highest debt service ratio among G7 countries at 18.8% in Q4 2023. Taken together with low public debt (Figure 8), it forms a very unique dynamic where Aussie consumer finances suffer from higher rates, but not so much the government, very unlike what we see in other advanced economies.

Figure 8: Australians Need A Break From High Rates



Source: SSGA Economics, IMF, BIS, Macrobond
Updated as of 06/14/2024

Even businesses are strained by higher rates; the PMI data has been weak in general with a marked decline in future output index. Small and medium sized businesses are also operating in poor conditions, with profitability, business conditions and confidence all negative, according to the NAB's survey.

Finally, the labor market continued to cool; in May, full-time (nsa) employment's annual growth was down to 85.2% of its October 2022 peak. The labor market is cooling faster than the average of the last nine historic cycles (59.5%).

Hence, the RBA will do well to offer some much needed alleviation to the average Aussie consumer. However, given their hawkish inclinations, we fear the Bank may delay rate cuts, especially in light of the oncoming stage 3 tax cuts and the US Fed's projection of just one cut this year. Resultingly, we see just one rate cut this year as a plausible outcome, on Cup Day, in November, instead of two earlier.

We see two sided risks to our outlook; if inflation surprises to the upside, there is good chance that rates may not be cut at all this year but, should incoming data soften considerably (our base-case), we may even get two.

Data Calendar

Week in Review (June 10 – June 14)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, June 10					
IT	Industrial Production (Apr, m/m)	0.2%	-1.0%	-0.5%	Weak.
JN	GDP (Q1, q/q, final)	-0.5% (p)	-0.5%	-0.1%	Should be rebounding in Q2.
AU	NAB Business Confidence (May)	na	-3.0	2.0 (↑)	Only rate cuts Will help lift confidence.
Tuesday, June 11					
US	NFIB Small Business Optimism (May)	89.7	90.5	89.7	Little changed, mixed details.
CA	Business Permits (Apr, m/m)	5.0%	20.5%	-12.3% (↓)	Volatile.
UK	Average Weekly Earnings (Apr, 3m, y/y)	5.7%	5.9%	5.9% (↓)	Still quite elevated.
UK	ILO Unemployment Rate (Apr, 3m)	4.3%	4.4%	4.3%	In gentle uptrend.
JN	PPI (May, y/y)	2.0%	2.4%	1.1% (↑)	Price pressures in the pipeline.
Wednesday, June 12					
US	CPI (May, y/y)	3.4%	3.3%	3.4%	Finally, a downside surprise.
US	FOMC Rate Decision (Upper Bound)	5.50%	5.50%	5.50%	Hawkish dot plot, less hawkish press conference.
US	Monthly Budget Statement (May, $ bn)	-276.5	-347.1	-240.3	Rather terrible!
UK	Industrial Production (Apr, m/m)	-0.1%	-0.9%	1.1%	Soft.
GE	CPI (May, y/y, final)	2.4% (p)	2.4%	2.2%	As already reported.
AU	Employment Change (May, m/m)	30k	39.7k	37.4k (↓)	Above our expectations, vital for RBA next week.
AU	Unemployment Rate (May)	4.0%	4.0%	4.0%	Labor market is cooling.
Thursday, June 13					
US	Initial Jobless Claims (Jun 08, thous)	225	242	229	Big jump, but one month not enough for signal.
US	Continuing Claims (Jun 01, thous)	1,795	1,820	1,790 (↓)	Turning higher also, but far too soon to worry.
US	PPI Final Demand (May, y/y)	2.5%	2.2%	2.3% (↑)	Very welcome downside surprise.
EC	Industrial Production (Apr, m/m)	0.2%	-0.1%	0.5% (↓)	Soft.
Friday, June 14					
US	Import Price Index (May, y/y)	1.3%	1.1%	1.1%	Welcome downside surprise.
US	U. of Mich. Sentiment (Jun, prelim)	72.0	65.6	69.1	Big, unexpected drop.
CA	Manufacturing Sales (Apr, m/m)	1.2%	1.1%	-1.8% (↑)	Still soft.
FR	CPI (May, y/y, final)	2.2% (p)	2.3%	2.2%	As previously reported.
JN	Industrial Production (Apr, m/m, final)	na	-0.9%	-0.1%	Has to improve more.
JN	Capacity Utilization (Apr, m/m)	na	0.3%	1.3%	Has to improve more.

Source: for data, Bloomberg®; for commentary, State Street Global Advisors Economics.

About State Street Global Advisors

Our clients are the world's governments, institutions and financial advisors. To help them achieve their financial goals we live our guiding principles each and every day:

- Start with rigor
- Build from breadth
- Invest as stewards
- Invent the future

For four decades, these principles have helped us be the quiet power in a tumultuous investing world. Helping millions of people secure their financial futures. This takes each of our employees in 29 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we have become the world's fourth-largest asset manager* with US $3.8 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2022.

† This figure is presented as of June 30, 2023, and includes approximately $63 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. Please note all AUM is unaudited.

ssga.com

Marketing Communication

Important Risk Discussion

Investing involves risk including the risk of loss of principal.

All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

The views expressed in this material are the views of SSGA Economics Team through the period ended June 14, 2024 and are subject to change based on market and other conditions. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This communication is directed at professional clients (this includes eligible counterparties as defined by the "appropriate EU regulator" who are deemed both knowledgeable and experienced in matters relating to investments. The products and services to which this communication relates are only available to such persons and persons of any other description (including retail clients) should not rely on this communication.

Intellectual Property Information

BLOOMBERG®, a trademark and service mark of Bloomberg Finance L.P. Standard & Poor's S&P 500 Index® is a registered trademark of Standard & Poor's Financial Services LLC. FTSE 100® is a trademark jointly owned by the London Stock Exchange Plc and The Financial Times Limited, and is used by FTSE International Limited under license. "All-World", "All-Share" and "All-Small" are trademarks of FTSE International Limited.

Australia: State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services License (AFSL Number 238276). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia. T: +612 9240-7600. F: +612 9240-7611.

Hong Kong: State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. T: +852 2103-0288. F: +852 2103-0200.

Japan: State Street Global Advisors (Japan) Co., Ltd., Toranomon Hills Mori Tower 25F 1-23-1 Toranomon, Minato-ku, Tokyo 105-6325 Japan. T: +81-3-4530-7380. Financial Instruments Business Operator, Kanto Local Financial Bureau (Kinsho #345), Membership: Japan Investment Advisers Association, The Investment Trust Association, Japan, Japan Securities Dealers' Association.

Singapore: State Street Global Advisors Singapore Limited, 168, Robinson Road, #33-01 Capital Tower, Singapore 068912 (Company Reg. No: 200002719D, regulated by the Monetary Authority of Singapore). T: +65 6826-7555. F: +65 6826-7501.

Abu Dhabi:. State Street Global Advisors Limited, ADGM branch is regulated by the Financial Services Regulatory Authority (FSRA). This document is intended for Professional Clients or Market Counterparties only as defined by the FSRA and no other person should act upon it.

State Street Global Advisors Limited, ADGM Branch, Al Khatem Tower, Suite 42801, Level 28, ADGM Square, Al Maryah Island, P.O Box 76404, Abu Dhabi, United Arab Emirates. Regulated by the ADGM Financial Services Regulatory Authority. T: +971 2 245 9000.

Belgium: State Street Global Advisors Belgium, Chaussée de La Hulpe 185, 1170 Brussels, Belgium. T: +32 2 663 2036. State Street Global Advisors Belgium is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2.

France: State Street Global Advisors Europe Limited, France Branch ("State Street Global Advisors France") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors France is registered in France with company number RCS Nanterre 899 183 289, and its office is located at Coeur Défense - Tour A - La Défense 4, 33e étage, 100, Esplanade du Général de Gaulle, 92 931 Paris La Défense Cedex, France. T: +33 1 44 45 40 00. F: +33 1 44 45 41 92.

Germany: State Street Global Advisors Europe Limited, Branch in Germany, Brienner Strasse 59, D-80333 Munich, Germany ("State Street Global Advisors Germany"). T +49 (0)89 55878 400. State Street Global Advisors Germany is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2.

Ireland: State Street Global Advisors Europe Limited is regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered Number: 49934. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300.

Italy: State Street Global Advisors Europe Limited, Italy Branch ("State Street Global Advisors Italy") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors Italy is registered in Italy with company number 11871450968 - REA: 2628603 and VAT number 11871450968, and its office is located at Via Ferrante Aporti, 10 - 20125 Milan, Italy. T: +39 02 32066 100. F: +39 02 32066 155.

Netherlands: State Street Global Advisors Netherlands, Apollo Building 7th floor, Herikerbergweg 29, 1101 CN Amsterdam, Netherlands. T: +31 20 7181 000. State Street Global Advisors Netherlands is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2.

Switzerland: State Street Global Advisors AG, Beethovenstr. 19, CH-8027 Zurich. Registered with the Register of Commerce Zurich CHE-105.078.458. T: +41 (0)44 245 70 00. F: +41 (0)44 245 70 16.

United Kingdom: State Street Global Advisors Limited. Authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 2509928. VAT No. 5776591 81. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. T: 020 3395 6000. F: 020 3395 6350.

Canada: State Street Global Advisors, Ltd., 1981 McGill College Avenue, Suite 500 , Montreal, Qc, H3A 3A8, T: +514 282 2400 and 30 Adelaide Street East Suite 800, Toronto, Ontario M5C 3G6. T: +647 775 5900.

United States: State Street Global Advisors, 1 Iron Street, Boston, MA 02210-1641.

2537623.244.1.GBL.RTL
Exp. Date: 06/30/2025