August 30, 2024
Commentary

Weekly Economic Perspectives

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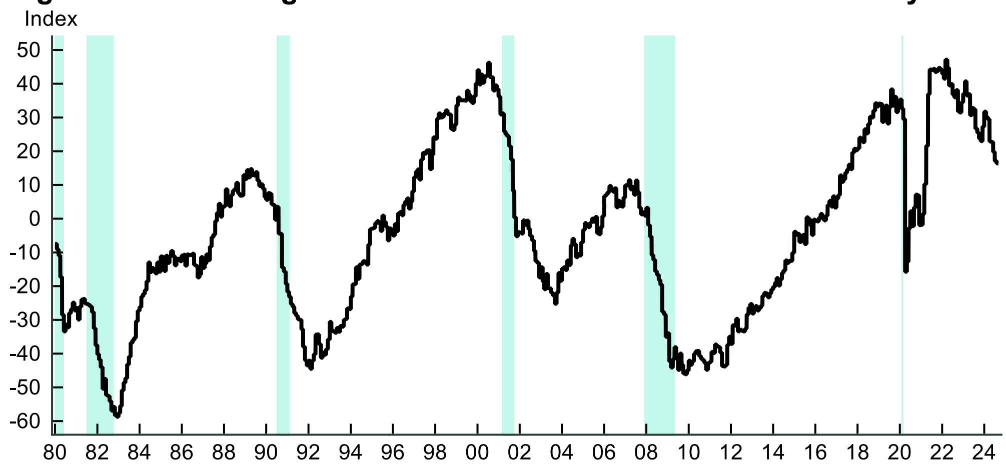
The Economy

US and Canadian GDP data look OK, German GDP data does not.

US

A rebound in expectations lifted the **Conference Board consumer confidence index** more than expected in August, but the details were fairly downbeat. The index gained 1.4 points to a six-month high of 103.3 as expectations rose to the highest in a year. However, the current situation metric, while also improving, remained at its second-lowest level since April 2021! Moreover, the important labor differential metric (which measures the difference between those who think jobs are abundant and those who think jobs are scarce) weakened to the lowest level since March of 2021. This is one of the many metrics that support Chair Powell’s assertion at the Jackson Hole symposium that the labor market today is looser than it was back in 2019.

Figure 1: Worsening US Labor Differential Catches The Fed's Eye



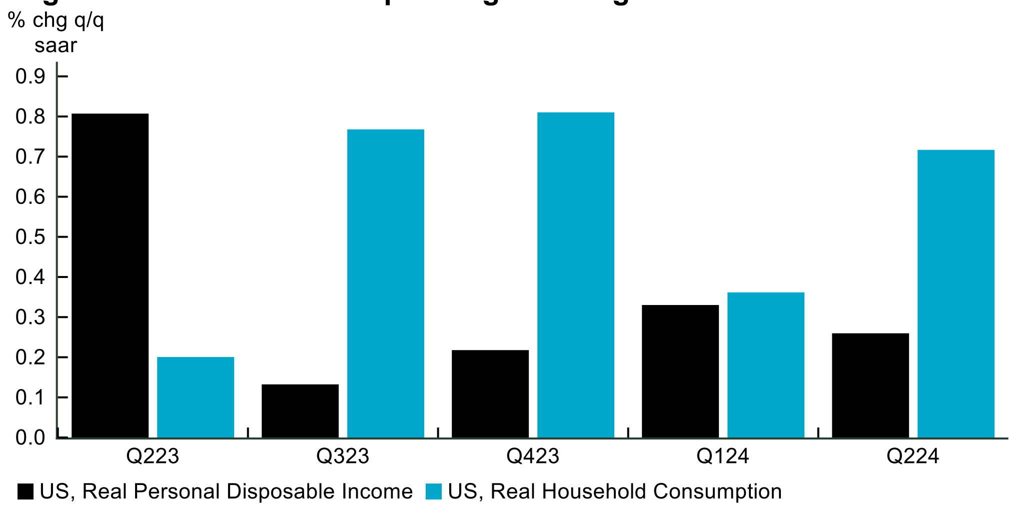
US Conf. Board Labor Differential: "Jobs Plentiful" Minus "Jobs Hard To Get"
Green bands indicate NBER-defined recessions

Sources: SSGA Economics, TCB, Fed

The second read on **Q2 GDP growth** brought a two tenth upward revision to 3.0% seasonally adjusted annualized (saar), primarily on account of stronger consumer spending. Normally, this would be welcome, but this revision pushed spending patterns even further out of line with underlying income growth (Figure 2). We anticipate a meaningful downshift in consumer spending during the third quarter, especially in light of the clear uptick in the unemployment rate in recent months, which should incentivize an increase in precautionary saving. There were modest downward revisions to investment and government spending that did not alter the big picture. As we wrote at the time of the initial release, the double-digit gain in private fixed investment looks unsustainable (it reflected an aircraft-driven 50.9% saar surge in transportation equipment). And the 2.0% saar decline in residential fixed investment seems too small in light of housing starts data so we anticipate a further decline in Q3. All in all, this update did nothing to change our assessment of the economy, which is slowing but not entering a recession in the near term.

Information Classification: General

Figure 2: US Household Spending Running Ahead Of Income



Sources: Macrobond, SSGA Economics, BEA
Updated as of 8/29/2024

The divergence between spending and income was further underscored by the decline in the **personal savings rate** to 2.9% in August. With the exception of a 2.7% print in June 2022, this was the first sub-3.0% reading since April 2008! 2022 was a time of elevated excess savings so a period of dis-savings at that time was not at all problematic. However, that dynamic is more troubling now and poses a risk to the sustainability of consumer spending. To be fair, consumers also have a lot of accumulated wealth that can independently support consumption, but that is concentrated among higher income individuals who may not boost their consumption further anyways. As such, labor income become the most important determinant of consumer spending going forward. Its growth rate has moderated in line with slower payrolls growth, shorter hours worked, and slower growth in nominal wages. It grew 0.3% m/m in July, following June's 0.2% gain. Overall nominal income also grew 0.3% m/m in July, and real disposable income grew 0.1%. Nominal personal spending grew 0.5% m/m, and real spending rose 0.4%.

Although 30-year fixed mortgage rates have come down more than 80 basis points from the recent late-April peak, home sales continue to languish. **Pending home sales** unexpectedly declined 5.5% m/m in July—implying a weak reading for existing home sales in August. Sales declined most in the Midwest and the South, with the Northeast the relative outperformer (though pending sales declined there as well). We had argued previously that once it becomes clear that the Fed is kickstarting an easing cycle, buyers may be incentivized to wait until more of those cut expectations feed through into lower mortgage rates. Given that supply of existing homes for sales has risen of late, the likely potential pullback in prices adds another reason why buyers may benefit from more rushing.

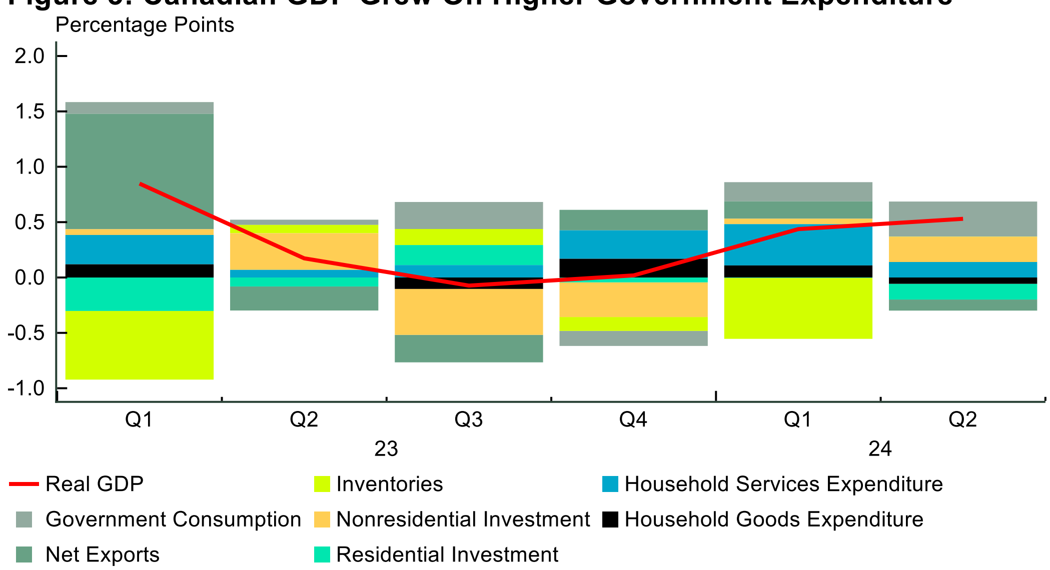
Admittedly, the **home price** data remains mixed. The S&P Corelogic Case Shiller metric shows prices rising at a steady pace in the latest data and still 6.5% higher than a year prior. But the FHFA price metrics showed prices retreating 0.1% m/m in June and up a moderate 5.1% y/y.

There was little change in the **University of Michigan consumer sentiment index** for August between the preliminary and final releases; the initially reported uptick in the headline was maintained, just modestly softened. The improvement was attributable exclusively to better expectations as assessments of the current economic situation actually worsened. As to the rise in expectations, the most noticeable uptick was among democratic party supporters, with sentiment among independents up only marginally, and down among republican party supporters. Clearly, President Biden's decision to not seek re-election has had an impact on consumer sentiment. Elsewhere, inflation expectations were well behaved. Short-term (1 year) inflation expectations dipped one tenth to 2.8%, the lowest level since December 2020, while long-term (5-10 year) inflation expectations were unchanged at 3.0%, where they've stood since April.

Canada

Canadian **Q2 GDP** growth exceed expectations, but the details were not so impressive. Real GDP rose by 2.1% q/q saar and Q1 growth was revised up by 0.1% to 1.8% q/q saar. Government consumption was the main driver, adding 0.32 percentage points (ppts) to growth. Meanwhile, household consumption was a small contributor, with services spending adding and goods spending detracting from growth. Household spending also slowed down during the quarter, to 0.6% q/q saar from 3.6% q/q saar in Q1. Non-residential investment contributed 0.2 ppts to growth, on higher spending on aircraft equipment and parts as well as on engineering structures, mostly in oil and gas sector. On the other hand, residential investment was a detractor due to lower construction and innovation activity. Net trade also subtracted 0.1 ppts from growth. Given the slowdown in household consumption and the fact that inflation continued decelerating, we expect that the BoC will deliver another 25 bps cut in their next meeting.

Figure 3: Canadian GDP Grew On Higher Government Expenditure



Sources: Macrobond, SSGA Economics, StatCan
Updated as of 9/2/2024

UK

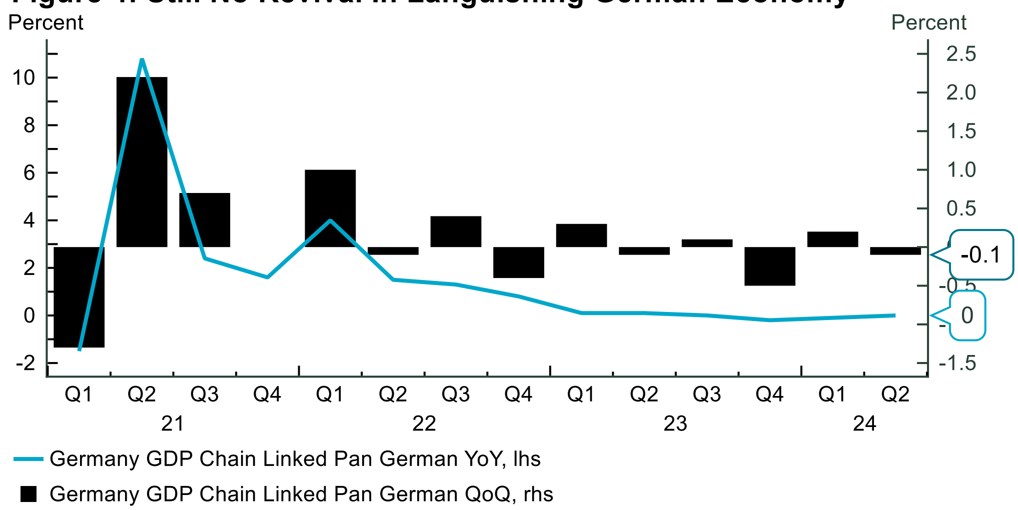
The UK housing market remained resilient in August. Regardless of an unexpected dip in August housing price, measured by the monthly change in **Nationwide House Price Index**, the annual growth rate continued climbing higher to 2.4% y/y, up from 2.1% y/y in July. This is also the fastest annual growth rate since December 2022. Going forward, we expect lower interest rates and higher real wage growth should help with easing affordability constraints and strengthening housing market activity.

In addition, mortgage approvals rose to 62k in July, the highest since September 2022 and up from 60.6k previous month. This suggests that housing market is on the up and the outlook should improve further once more interest rate cuts are delivered.

Eurozone

We wrote a quarter ago that “an analysis of German economic performance since Covid makes for depressing reading.”. Sadly, conditions got even worse since then. The economy contracted 0.q% q/q in Q2, which left real GDP unchanged from a year prior. However, the details behind that headline were far more downbeat. In particular, consumer spending contracted 0.2% q/q, the first decline since early 2023. Despite a powerful disinflationary benefit, real household consumption is flat relative to a year earlier. Equally—if not more! —troublesome was the huge 2.2% q/q plunge in fixed investment, which is now 3.7% lower than in Q2 2023. The only support came from government spending, which rose 1.0% q/q and 2.8% y/y. The domestic demand dynamics are weak—consumers are reluctant to spend despite considerable savings cushion—and export performance is curtailed by Germany’s energy cost-induced competitiveness loss. There is little in the way of near-term demand catalysts, so it is at least good that sharply lower inflation has opened the door for more ECB rate cuts, including one we expect in September. The eurozone—especially the German economy—needs those upcoming ECB cuts!

Figure 4: Still No Revival In Languishing German Economy



Sources: Macrobond, SSGA Economics
Updated as of 8/30/2024

Japan

Price pressures remained intense in August; the global core version (excluding food & energy) of **Tokyo CPI** jumped 0.5% m/m, taking the annual rate to 1.3% y/y. Although the number may seem low, it is largely the work of education subsidies and the three-month annualized growth rate picked up to 2.7% 3m ar, from 1.2% last month. Furthermore, the official core (ex-fresh food) rose to 2.4% and overall CPI to 2.7%. Both goods and services inflation accelerated 0.5% m/m. While the underlying inflation trends are progressing as expected, we are cautious of the temporary declines from next month on energy subsidies. Furthermore, **retail sales** rose 0.2% m/m in July, marking the fourth sequential gain. The annual growth eased to 2.6% y/y from 3.8% but we anticipate improvement ahead.

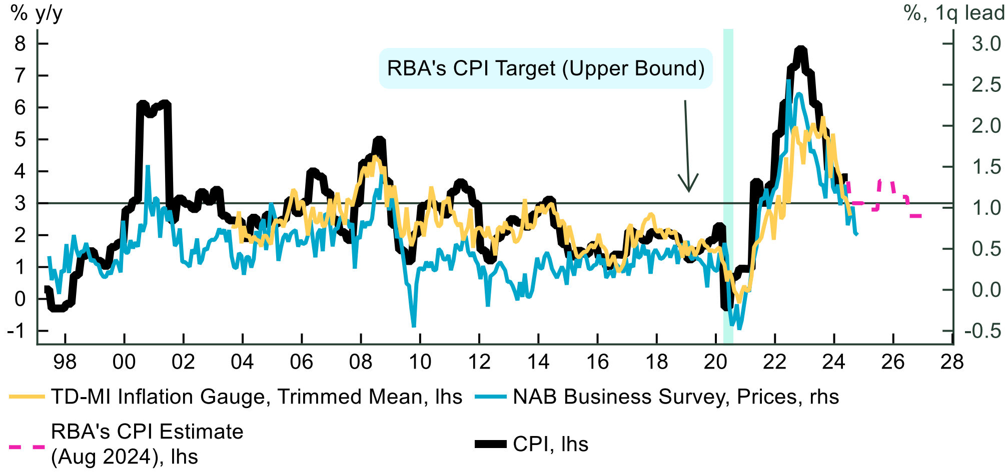
These improvements led to the first upward revision of the government's economic assessment since March 2023. **Industrial output** rose 2.8% m/m, below the consensus of 3.5%, indicating that the economy is retaining recent momentum. Technology related output rose a very impressive 9.7%, while that for the auto sector was also up 1.9% as production is restarted. This upbeat data was contradicted by the labor market data, as the **unemployment rate** inched up two-tenths to 2.7% in July. We do not want to read too much into this data, as it is also contradicted by an upbeat PMI, industrial production and robust economy highlighted recently in the GDP data as well.

Deputy Governor Ryozo Himino this week said that the Bank of Japan (BoJ) could lift rates as long as inflation data meets their expectations. While domestic consumption and prices improve, we believe the BoJ could remain upbeat and, absent severe market volatility, we think the Bank could lift rates once again in December. Next week, we expect wage growth to have remained elevated while the MoF's capex data may rise markedly, which may ultimately result in an upside revision to Q2 GDP data. Either way, upbeat macro dynamics are clearly unfolding in Japan.

Australia

CPI inflation eased to 3.5% y/y (-0.3 pp) on the introduction rebates from the Commonwealth and state governments in Western Australia, Queensland and Tasmania. The outcome is above our pick of 2.9% because households in the remaining regions did not receive their first rebates in July. So, there is a good chance that the deceleration in inflation will be sustained over the next three months. Otherwise, inflation eased in rents (6.9%, lowest since May 2023), clothing & footwear (1.9%), and transport (3.4%). Prices of holiday travel also declined as demand for international travel eased. However, food prices rose as the annual growth rate picked up five-tenths to 3.8%, led by fruits & vegetables (+3.9 pp to 7.5% y/y). Separately **private sector credit** rose 0.5% m/m as expected in July. Business and housing credit rose 0.4% and 0.5% respectively.

Figure 5: SSGA: CPI Within Target In 2024 In Australia



Sources: SSGA Economics, ABS, NAB, RBA, Melbourne Institute of Applied Economic & Social Research, Macrobond
Updated as of 8/30/2024

Retail sales remained flat in July, as opposed to the consensus of a 0.3% m/m rise. Spending declined across all categories, with non-food sales falling 0.1% and dragged largely by clothing (-0.5%), department stores (-0.4%) and cafes (-0.2%). On the margin this data shows that the stage-3 tax cuts had not led to a spike in spending, although this is just one month's data.

While we are cautious not to read too much into the week's soft inflation and retail sales data, we are reasonably confident that the headline quarterly inflation data will also meaningfully ease. This possibility has already been played down by the Reserve Bank of Australia (RBA); however, next week's Q2 GDP data may sprinkle some fairy dust on our call of the first rate cut in November, the partials we received this week are quite feeble.

Construction work done remained muted, as it rose just 0.1% q/q, significantly below the consensus pick of 0.7%. Worse, residential construction fell 0.1% q/q, and non-residential rose 0.2%. Engineering construction appears to have peaked but remains elevated. Furthermore, **private capex** fell 2.2% q/q against a consensus for a 1.0% rise, driven by smaller investments in buildings & structures (-3.8%). However, the component that feeds into the national accounts data – machinery & equipment (-0.5%) fell only marginally.

We see GDP growing just 0.3% q/q sequentially; however, an upside revision to last quarter's capex will ensure the annual growth declining below 1.0% y/y, for the first time since 1991 outside Covid. This is an extremely worrying outcome, and may lead the RBA to at least marginally soften their hawkish overdrive.

Week in Review (Aug 19 –Aug 23)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, **Aug 26**					
US	Durable Goods Orders (Jul, prelim)	5.0%	9.9%	-6.9% (↓)	Volatility in aircraft orders. Core orders fell.
GE	IFO Business Climate (Aug)	86.0	86.6	87.0	Moving sideways.
JN	Leading Index CI (Jun, final)	--	109.0	108.6	Economy is improving.
JN	PPI Services (Jul, y/y)	2.9%	2.8%	3.0%	Good data!
Tuesday, **Aug 27**					
US	FHFA House Price Index (Jun, m/m)	0.10%	-0.1%	0.00%	Up 5.1% y/y.
US	S&P CoreLogic CS 20-City (Jun, m/m sa)	0.30%	0.42%	0.39%	Up 6.5% y/y.
US	Conf. Board Consumer Confidence (Aug)	100.9	103.3	101.9	Expectations-driven rebound, other details soft.
GE	GfK Consumer Confidence (Sep)	-18.2	-22	-18.4	Too soon to worry about broken uptrend.
GE	GDP (Q2, q/q sa, final)	-0.1%	-0.1%	0.2%	Very weak details.
Wednesday, Aug 28					
FR	Consumer Confidence (Aug)	92	92	91	Steady.
IT	Industrial Sales (Jun, m/m)	n/a	0.1%	-1.0% (↓)	Soft.
Thursday, Aug 29					
US	GDP (Q2, annualized q/q)	2.8%	3.0%	1.4%	Stronger consumption.
US	Initial Jobless Claims (24-Aug, thous)	233	231	232	Steady.
US	Continuing Claims (17-Aug)	1,870	1,868	1,855 (↓)	Steady.
US	Pending Home Sales (Jul, m/m)	0.3%	-5.5%	4.8%	Demand still constrained.
GE	CPI (Aug, y/y, prelim)	2.1%	1.9%	2.3%	Little in the way of demand pressures.
JN	Consumer Confidence Index (Aug)	37.0	36.7	36.7	Steady.
JN	Jobless Rate (Jul)	2.5%	2.7%	2.5%	Likely a temporary aberration.
JN	Job-To-Applicant Ratio (Jul)	1.23	1.24	1.23	Still in downtrend.
JN	Industrial Production (Jul, m/m, prelim)	3.6%	2.8%	-4.2%	Good print.
JN	Retail Sales (Jul, m/m)	n/a	0.2%	0.6% (↑)	Fourth month of sequential improvement.
AU	Retail Sales (Jul, m/m)	0.3%	0.0%	0.5%	Broad-based decline in all categories.
Friday, Aug 30					
US	Personal Income (Jul)	0.2%	0.3%	0.2%	Moderate gains.
US	Personal Spending (Jul)	0.5%	0.4%	0.3%	Savings rate dipped to 2.9%.
US	U. of Mich. Sentiment (Aug, final)	68	67.9	66.4	Short-term inflation expectations dipped.
CA	GDP (Q2, q/q annualized)	1.9%	2.1%	1.8% (↑)	Mainly supported by government consumption.
UK	Nationwide House Price (Aug, m/m)	0.2%	-0.2%	0.3%	Unexpected decline.
UK	Mortgage Approvals (Jul, thous)	60.5	61.9	60.6 (↑)	Good.
GE	Unemployment Claims Rate (Aug, sa)	6.0%	6.0%	6.0%	In uptrend.
FR	Consumer Spending (Jul, m/m)	0.3%	0.3%	-0.6% (↓)	Moderate.
FR	CPI (Aug, y/y, prelim)	1.8%	1.9%	2.3%	Low, ECB can cut further.
FR	GDP (Q2, q/q, final)	0.3%	0.2%	0.2%	Modest.
IT	Unemployment Rate (Jul)	7.0%	6.5%	6.9% (↓)	Surprisingly large retreat.
IT	CPI NIC incl. tobacco YoY (Aug, y/y, prelim)	1.2%	1.1%	1.3%	Low, ECB can cut further.
IT	Consumer Confidence Index (Aug)	99	96.1	98.9	In volatile uptrend.
JN	Annualized Housing Starts (Jul, millions)	0.783	0.773	0.765	Extremely low.

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

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* Pensions & Investments Research Center, as of December 31, 2023.

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