**October 4, 2024**
Commentary

# Weekly Economic Perspectives

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**Weekly Highlights**

Soft landing odds improve as US labor market resilience offsets rising geopolitical tensions.

| US Sep Job Gains | US Unemployment Rate | US Sep Non-Manf. ISM |
|---|---|---|
| 254k | 4.1% | 54.9 |
| Above all forecasts, but very low response rate | Eases anxiety over rapid deterioration risks | Highest since Nov 2022 |

| UK Q2 GDP (q/q, final) | UK Sep Nationwide House Price Index (y/y) | UK Aug Mortgage Approvals |
|---|---|---|
| 0.5% | 3.2% | 64.9k |
| One touch lower than initial estimate | Highest since Nov 2022 | 2-year high |

| Japan Q3 Tankan Employment Conditions Index (Index) | Japan Manufacturing PMI September (final) | Australia Retail Sales September (m/m) |
|---|---|---|
| -36.0 | 49.7 ↑ | +0.7% |
| Lowest since Q4 1991 | Decline in new orders is worrying | Boosted by temporary factors |

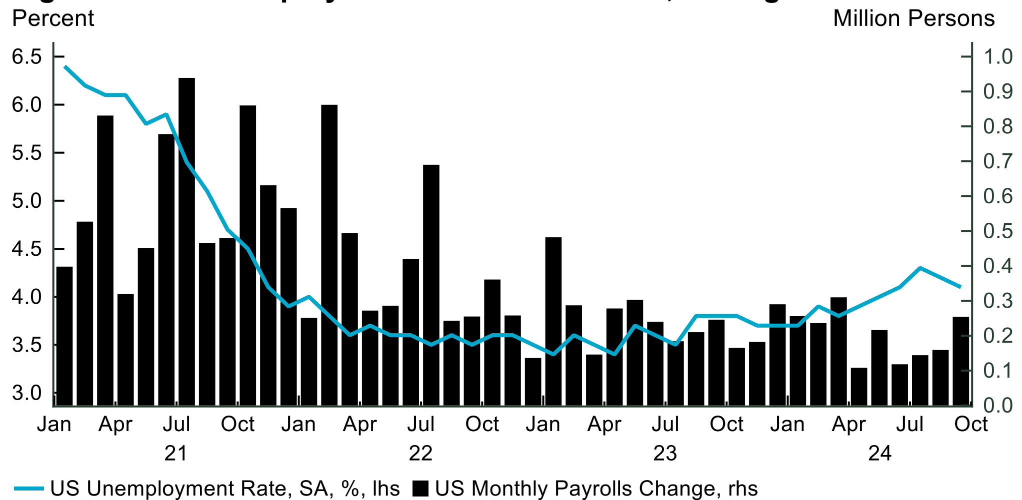
**US: Labor Market Says No Need For Another 50 bp Rate Cut**

This year, the FOMC has repeatedly made the mistake of chasing monthly data one way or another. First, high inflation turned them super hawkish in the spring, then the rise in the unemployment rate over the summer months drove them into a 50-bp cut in September and an upward revision to the end-2024 unemployment rate forecast from 4.0% in June to 4.4% in the September Summary of Economic Projections (SEP). Even though we have been arguing for a summer start to cuts, September's decision felt rushed and somewhat panicky and seemed to go against the recent data flow. This week's labor market updates, including the rise in August job openings, the jump in September payrolls, and the decline in the unemployment rate all reinforce the idea that there is no need for aggressive frontloading of rate cuts. One 50-bp cut as an insurance move is understandable. Another one is not warranted by the data flow. Admittedly, there is no getting away from elections and geopolitical risks, but we continue to expect 25 bp cuts at each of the remaining two meetings this year. The market was previously leaning more dovish but Friday's payrolls data brought it in line with our views.

**Payrolls** reportedly jumped by 254k in September, the most since March. However, we do not take this fully at face value because the response rate was unusually low, meaning that a downward revision is likely. More broadly, we do not believe this portends a new sustained pick-up in hiring.

Not only did the headline beat expectations, but for the first time in six months, we got an upward revision to the prior two months estimates (+72k). This should not be a surprise because the string of five consecutive negative revisions that preceded it were extremely unusual. However, there were some oddities with the revisions, specifically the fact that they were heavily driven by the government sector (+51k). This seems odd because if there were one sector where response rates and accuracy of survey responses should be high, it is the government sector.

**Figure 1: US Unemployment Rate Ticks Lower, Easing Worries**




*Sources: Macrobond, SSGA Economics, BLS*
*Updated as of 10/6/2024*

Coming back to September data, the increase in hiring was driven mostly by the private sector. Of the 254k total jobs added, the private sector accounted for 223k, and the service sector for 202k of those. This was nearly double the 109k service jobs added in August. Gains were broad-based across sub-industries, but we are not convinced that they will all stand up to the test of time. Hospitality had its best month since January 2023, for instance, while retail and business services both bucked the recent trend of declines. This seems counterintuitive given the Conference Board labor differential suggests jobs are getting harder to find.

Still, the payrolls and the job openings data say labor demand is hanging in there, also confirmed by persistently low unemployment claims. Indeed, the household survey showed another one-tenth decline in the **unemployment rate** in September to 4.1% in the context of unchanged labor participation. The labor underutilization rate ticked down two tenths to 7.7%.

That said, **hours** were weak, which further undermines the credibility of the strong headline payrolls. Despite the rise in employment, aggregate hours worked actually declined 0.1% m/m in September; by contrast, in March when payrolls were similarly strong, aggregate hours rose 0.4%. Something doesn't fully add up here.

**Wages** were slightly stronger than expected for the second month running, something worth keeping an eye out but not getting overly concerned at the moment. Average hourly wage (AHE) inflation for all employees rose to 4.0% y/y—the highest since May and up from July's 3.6% y/y low. However, AHE inflation for production and non-supervisory employees ticked down a tenth to 3.9% to match the recent July low. Moreover, strong productivity gains had brough unit labor cost growth all the way down to 0.4% y/y in Q2, which is unsustainably low, so a modest increase from here would make sense.

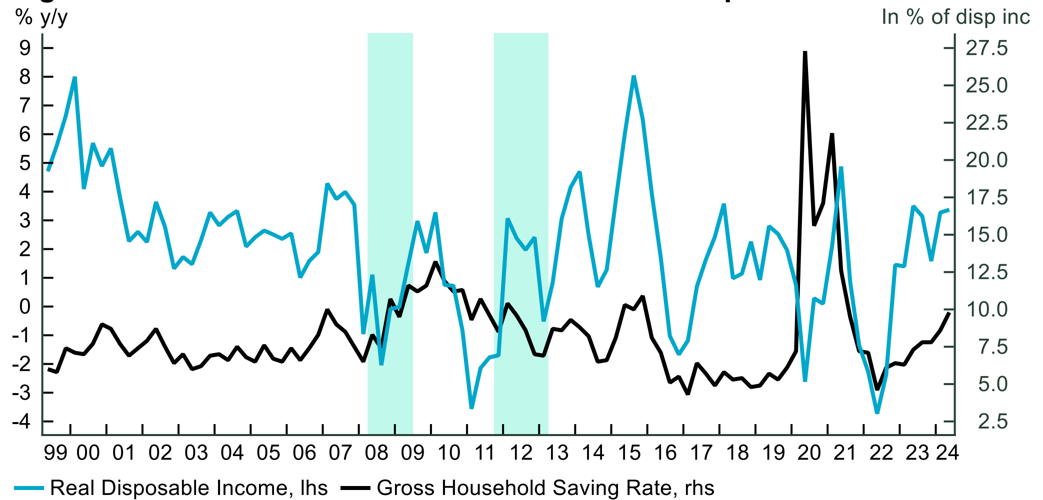
The other big news since the September rate cut was that there were considerable upward revisions to gross domestic income that lifted the **savings rate** estimate markedly, from 2.9% to 4.8%. This, too, should be reassuring to the Fed in terms of not needing to rush the rate cuts. To the extent that income is higher and the savings cushion thicker, consumers can continue to spend and employers have little inventive or need to cut workers. Hence, the virtuous cycle of growth can continue.

## UK Economy: Still On a Positive Trajectory

After almost two months since the initial estimate, the final read on Q2 GDP brought about a minor downgrade of 0.1 percentage points to 0.5% q/q. The factors driving favorable upgrade to the quarter were offset by upward revisions to last year data. Real GDP growth in 2023 is now recorded at 0.3% instead of 0.1%. Importantly, both household spending and business investment were upwardly revised.

In particular, business investment is now estimated to have grown by 1.4% in Q2, up from the first estimate of -0.1% q/q. Improving financing conditions with expectations of future rate cuts have supported business investment so far this year and are expected to continue doing so. Amongst other things, housing market has rebounded strongly as the impact of higher interest rates is fading. Mortgage approvals rose to 2-year high of 64,900 in August while Nationwide house prices rose by 3.2% y/y in September, the fastest annual growth pace since November 2022.

Households' financial conditions are also getting better due to resilient labor market and real wage growth but consumers are still cautious about spending. Indeed, real household disposable incomes increased by 1.3% q/q in Q2 while saving rate also increased from 8.9% in Q1 to 9.8% in Q2. Disinflation and lower interest rates have boosted consumer confidence and spending early this year but uncertainty around fiscal policy is holding them down. However, we expect that the latest slump in consumer confidence is temporary. As such, we anticipate a gradual strengthening in consumer spending over the coming quarters, which in turn, would bode well for business investment.




*Sources: Macrobond, SSGA Economics, ONS*
*Updated as of 10/6/2024*

The **PMI indices** remained strong in September, suggesting that the UK economy is still on a positive trajectory. The final readings of the UK manufacturing and services PMIs registered 51.5 and 52.4 in September, respectively and well above the 50 no change threshold. Domestic market remains the main driver of growth for both sectors, due to lower inflation and stability around monetary policy outlook. Strikingly, prices charged inflation in services sector, which acts as a gauge of domestic inflationary pressures, fell to its lowest since February 2021.

## A New PM In Japan

Shigeru Ishiba was sworn in as the new Prime Minister of Japan after he defeated eight other contenders in the ruling Liberal Democratic Party's (LDP) internal election. He supported the Bank of Japan's (BoJ) policy normalization before the elections and also floated the idea of raising taxes. These two policy stances earned him a reputation as a 'policy hawk'. Such positioning is diagonally opposed to Abenomics, whose economic experimentation involved negative interest rates and a weaker yen. After being sworn in, Ishiba called a snap election to the Lower-House with voting on October 27 and directed his new cabinet to compile a supplementary budget to accommodate a fiscal stimulus package for households, which will include handouts to low-income families and subsidies to local governments.

Japanese markets sank and the yen rallied after Ishiba's surprise victory, but the new PM clarified thereafter that Japan is '*not in an environment for an additional rate hike*' and suggested the BoJ should not hike rates in the '*near future*', after meeting Governor Kazuo Ueda this week. Furthermore, he affirmed the previous administration's policy of encouraging households to move assets from savings to investments, indirectly lowering the score of tax-hikes.

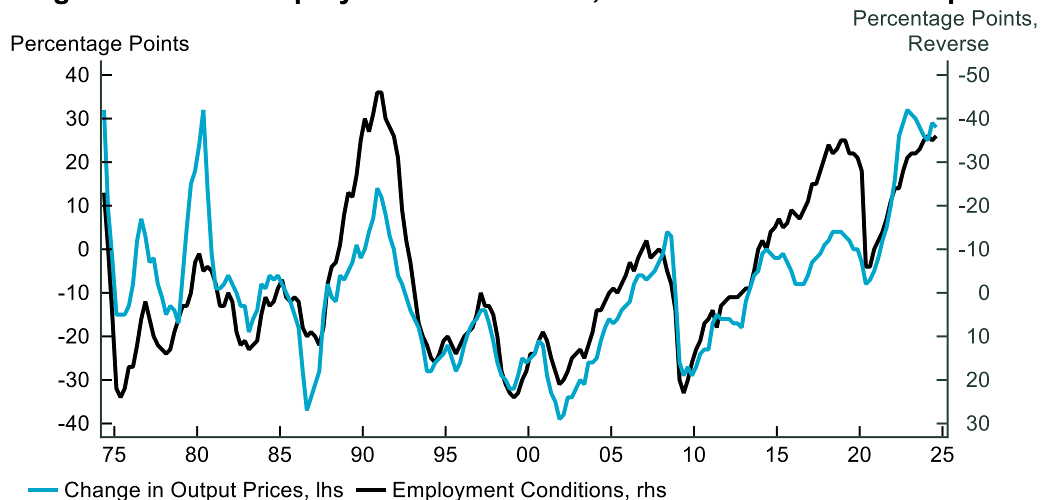
Governor Ueda also clarified that the BoJ '*can afford to spend time scrutinizing developments*', consistent with the consensus that the BoJ will hold policy when they

meet this month. Furthermore, it will be crucial for Ishiba to maintain a business friendly image till the LDP wins the Upper House elections in mid-2025.

The economic stance of the administration in power is very important for the BoJ's policy direction. While we think Ishiba's U-turns were warranted by economic limitations, the wild market swings are noteworthy. The yen was at 146 against the US Dollar before the elections on September 27, then rallied to 141 on Ishiba's surprise win and ended the week below 147. All this means that the market gyrations may be short-lived (see here for more) and the primary policy implication is that although the likelihood of a December hike has diminished, it remains on the table.

The **BoJ Tankan Survey** for Q3 showed unchanged sentiment (13) for large manufacturers and a modest gain for large non-manufacturers (+1 point to 34). The primary takeaways are that price-pressures could remain intense in the future, as highlighted by a stagnant Output price index and worsening labor market dynamics due to persistent labor shortages, as shown by the Employment Conditions index.

**Figure 3: Weak Employment Conditions, But Intense Prices In Japan**




*Sources: SSGA Economics, BOJ, Macrobond*
*Updated as of 10/4/2024*

## Week in Review

A summary of the key global data releases from the past week.

| Country | Release (Date, format) | Consensus | Actual | Last | Comments |
|---|---|---|---|---|---|
| **Monday**, Sep 30 | | | | | |
| UK | Nationwide House PX (Sep, m/m) | 0.2% | 0.7% | -0.2% | Good. |
| UK | GDP (Q2, q/q, final) | 0.6% | 0.5% | 0.7% | OK. |
| UK | Mortgage Approvals (Aug, thous) | 63.9 | 64.9 | 62.5 | Strong. |
| GE | CPI (Sep, y/y, prelim) | 1.7% | 1.6% | 1.9% | No reason for ECB not to cut in October. |
| IT | CPI NIC incl. tobacco (Sep, y/y, prelim) | 0.7% | 0.7% | 1.1% | No reason for ECB not to cut in October. |
| JN | Industrial Production (Aug, m/m, prelim) | -0.5% | -3.3% | 3.1% | Moving sideways; rebound needed for normalization |
| JN | Retail Sales (Aug, m/m) | 0.5% | 0.8% | 0.2% | Underscores strengthening consumption. |
| JN | Jobless Rate (Aug) | 2.6% | 2.5% | 2.7% | Labor market constrained by poor supply. |
| JN | Manufacturing PMI (Sep, final) | n/a | 49.7 | 49.6 | Early signs of cooler demand? |
| AU | Retail Sales (Aug, m/m) | 0.4% | 0.7% | 0.1% (↑) | Boosted by temporary special sale offers. |
| **Tuesday**, **Oct 1** | | | | | |
| US | JOLTS Job Openings (Aug, thous) | 7,693 | 8,040 | 7,711 (↑) | More reassuring. |
| US | ISM Manufacturing (Sep) | 47.5 | 47.2 | 47.2 | Continues to struggle. |
| US | Wards Total Vehicle Sales (Sep, m) | 15.7 | 15.8 | 15.1 | Modestly better. |
| UK | Manufacturing PMI (Sep, final) | 51.5 | 51.5 | 52.5 | Expanding but at slower pace |
| EC | Manufacturing PMI (Sep, final) | 44.8 | 45.0 | 45.8 | Weak. |
| GE | Manufacturing PMI (Sep, final) | 40.3 | 40.6 | 42.4 | Dismal. |
| FR | Manufacturing PMI (Sep, final) | 44 | 44.6 | 43.9 | Weak. |
| IT | Manufacturing PMI (Sep) | 49 | 48.3 | 49.4 | Soft. |
| **Wednesday, Oct 2** | | | | | |
| IT | Unemployment Rate (Aug) | 6.5% | 6.2% | 6.4% (↓) | Impressive and surprising. |
| JN | Consumer Confidence Index (Sep) | 37.0 | 36.9 | 36.7 | Modest. |
| **Thursday, Oct 3** | | | | | |
| US | Initial Jobless Claims (28-Sep, thous) | 221 | 225 | 219 (↑) | Low. |
| US | Continuing Claims (21-Sep, thous) | 1,830 | 1,826 | 1,827 (↓) | Low. |
| US | Factory Orders (Aug) | 0.1% | -0.2% | 4.9% (↓) | Normalization after aircraft-related spike. |
| US | Durable Goods Orders (Aug, final) | 0.0% | 0.0% | 9.8% | Normalization after aircraft-related spike. |
| US | ISM Services Index (Sep) | 51.7 | 54.9 | 51.5 | Impressive and surprising. |
| UK | Services PMI (Sep, final) | 52.8 | 52.4 | 53.7 | OK. |
| EC | Services PMI (Sep, final) | 50.5 | 51.4 | 52.9 | OK, offsets manufacturing weakness. |
| GE | Services PMI (Sep, final) | 50.6 | 50.6 | 51.2 | Softening noticeably. |
| **Friday, Oct 4** | | | | | |
| US | Change in Nonfarm Payrolls (Sep, thous) | 150 | 254 | 159 (↑) | A little suspect with very low response rate. |
| US | Unemployment Rate (Sep) | 4.2% | 4.1% | 4.2% | Fed's RU forecast looks too pessimistic. |

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

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