November 15, 2024
Commentary

Weekly Economic Perspectives

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Weekly Highlights

Market exuberance ebbs as investors ponder inflation and the policy outlook.

US CPI Inflation (Oct, y/y)
2.6%
As expected.

US Core CPI Inflation (Oct, y/y)
3.3%
As expected.

US PPI Final Demand (Oct, y/y)
2.4%
Still quite low.

UK Q3 GDP (q/q, preliminary)
0.1%
Sharp slowdown.

UK ILO Unemployment Rate (Sep, 3 months)
4.3%
Higher than expected.

UK Average Weekly Earnings (Sep, 3m y/y)
4.3%
Higher than expected.

JP Private Consumption (Q3, q/q)
0.9% ↑
Higher than Q2 & consensus.

JP Contribution of Net Exports (Q3, ppt)
-0.4 ↓
Worse than Q2 & expectations.

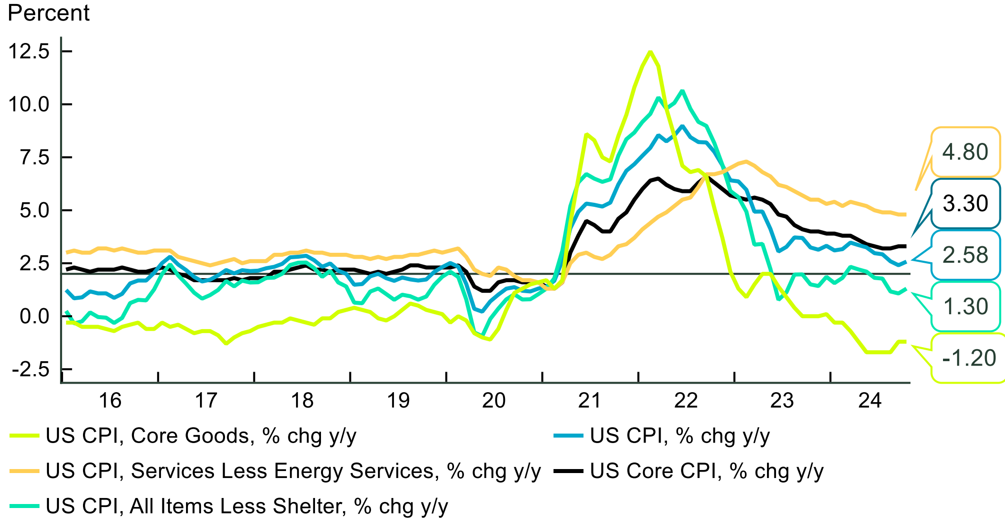
AU Employment Growth (Oct, m/m)
15.9K ↓
Below expectations.

US: No Need For Fed To Skip December Cut

The consumer price data for October came in as expected, with overall prices rising 0.2% m/m and core prices (ex food and energy) up 0.3% m/m. This lifted the headline inflation rate by two tenths to 2.6% y/y while leaving the core inflation rate unchanged at 3.3% y/y. Both of the consumer price as well as the producer and import price data remain consistent with another rate cut in December. The market pricing for a December cut has oscillated widely, up to about 80% in the aftermath of the CPI data and then down to about 60% following Friday's retail sales data.

Truth be told, the US inflation data remains mixed. There is something in there for those worried about a potential reacceleration, just as there is plenty for those who share our view that the broad disinflation trend of the past two years has further to run. The big elephant in the room remains shelter, which accounts for over a third of the CPI basket. Housing overall (including fuel, utilities, etc.) is 45% of the basket. Excluding shelter, CPI inflation is running well below 2.0%, just as it did prior to Covid (Figure 1, page 3).

Figure 1: More To Go On US Disinflation



Sources: Macrobond, SSGA Economics, BLS

Core goods inflation is in deeper negative territory than had been the case pre-Covid. We anticipate shelter inflation will continue to moderate (market rent data suggest so) whereas goods deflation abates. Whether today's goods deflation turns to outright inflation in 2025 will depend on the extent and magnitude of tariffs. Earlier tariffs in 2018 did not have that effect, but they were much more targeted in nature relative to what is being considered this time around. Still, there is an argument to be made that as global supply chains continue to heal from Covid disruptions, some degree of price normalization could still be in the cards. Furthermore, a stronger dollar could further diminish the inflationary impact of higher tariffs.

Ultimately, it will be shelter and services, i.e., domestically driven inflation, that will determine the behavior of overall inflation in 2005 and beyond. Shelter inflation was steady at 4.9% y/y in October, having eased from 6.1% in January 2024 and a peak of 8.2% in March 2023. We believe it can ease another full percentage point by mid-2025. Pockets of acute services inflation remain, with car insurance a sore case in point. Motor vehicle insurance costs were 14.0% higher y/y in October, although that was the lowest in nearly two years and down substantially from April's 22.6% y/y peak. Further considerable moderation is expected here as well, reflecting slower increases in underlying costs (both new and used car prices have actually declined over the past year) and the fact that the premium catch-up process is already well advanced. Transportation services prices also remain elevated at 8.2% y/y. While off post-pandemic highs, there has been little normalization here so far. We suspect a lot more will occur over the next year.

All in all, this leaves our inflation forecast a little higher than where it stood a couple of months ago, yet not materially so. Our call for further Fed rate cuts, including one in December, remains to a large extent a "level" argument. We see core CPI and core PCE easing to 2.5% and 2.3% y/y, respectively, in Q2 2025, so even the current 4.75% Fed Funds rate appears unnecessarily restrictive. Following a December cut, we see the Fed easing an additional 75 bp in 2025.

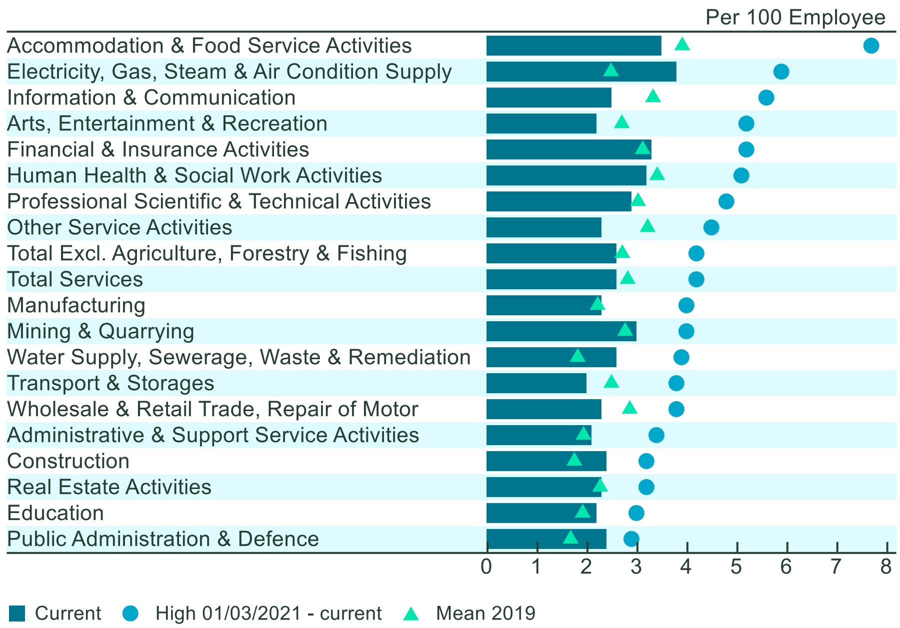
UK Wage Growth Remains Sticky

The latest labor report showed a 0.3-ppt jump in the unemployment rate to 4.3% in September. This was well above expectations yet not a complete shock. It is merely a reverse of unusual plunges in the unemployment rate since May. And of course, this tells us very little. The unreliability of the Labor Force Survey data has been a long-time problem at the ONS; Bank of England (BoE) chief economist Huw Pill criticized the agency in October for failing to fix it.

Nevertheless, this is just one of many problems with the UK labor market right now. Most obviously is the persistence in high wage growth, one of the main reasons delaying further rate cuts from the BoE.

Admittedly, total pay growth has slowed significantly since its August peak; without government intervention in public sector pay, it would have probably dropped further. Lower private sector wage growth drove the decline but in September there was no further progress there. The annual average regular earnings growth for the private sector was stable at 4.8% y/y, in line with the BoE's latest forecast. It is highly likely to hover around 4.5% till year-end. That is a bit strange given vacancy rates broadly below the pre-Covid levels (Figure 2). Private sector employment also fell albeit modestly by 0.82% since the beginning of the year.

Figure 2: UK Unfilled Vacancies



Sources: Macrobond, SSGA Economics, ONS
Updated as of 11/15/2024

Meanwhile, total pay growth has risen more than expected to 4.3% y/y, mainly due to base effects from rises in public sector's total pay growth. Considering the effect of the 5-6% pay deals agreed recently, public sector pay will doubtlessly surge again in October. Overall, given the increased intervention from the new Labour government, pay growth is likely to remain sticky in the coming months.

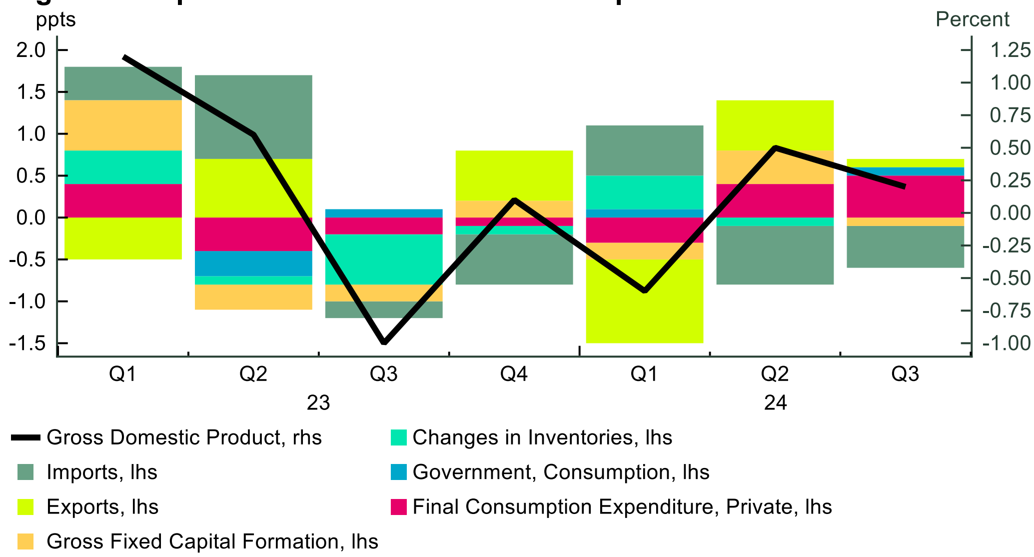
Resilient Japan

Political certainty is improving in Japan, in its own unique style. Like we expected, the ruling coalition government will continue governing Japan with case-to-case support from other parties. We had maintained that 'inaction is not in anybody's interest', and all parties have been deliberating positively on a fiscal stimulus through a supplementary budget, which may reportedly be around JPY 13.5 trillion (2.3% of GDP). The package reportedly includes grants for AI, semiconductors and an exemption of personal taxes to low income households.

The stimulus also extends energy subsidies to March 2025, which may weigh on inflation for a slightly extended period of time. However, we still expect it to be around the 2% target with no major impact on the Bank of Japan 's (BoJ) next hike. The Democratic Party for the People, the current "kingmaker", had proposed a lower threshold for personal income taxes, which may cost the exchequer about JPY 7.6 trillion. We think an agreement will be reached but for a smaller number.

The key positive development this week was the upside surprise in domestic demand in Q3 GDP data. Private consumption grew 0.9% q/q, two tenths faster than Q2 and markedly above the consensus of 0.2%. Spending on durable goods (3.7%) was the key driver, although non-durables (0.9%) also grew solidly. Still, the economy grew 0.2% (0.9% when annualized), in line with expectations. This is primarily because external demand threw a curve ball, as net exports detracted crucial 0.4 percentage points off growth. Exports grew modestly (0.4%), with strength in goods (1.9%) but, weaker services (-4.2% q/q). The modest exports growth was offset by a 2.1% jump in imports, which suggests that the economy may have fared better than what the numbers suggest as domestic demand also grew strongly.

Figure 3: Improved Domestic Demand In Japan



Sources: SSGA Economics, CAO, Macrobond
Updated as of 11/15/2024

All these developments have improved the chances of a December hike by the BoJ. We look keenly for any hints in Governor Ueda's speech next week; even otherwise, the consensus among economists has swiftly moved into the hike camp recently.

Week in Review

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

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Nov 11					
AU	Westpac Consumer Conf Index (Nov)	n/a	94.6	89.8	The tide is turning.
AU	NAB Business Confidence (Oct)	n/a	5	-2	The tide is turning.
Tuesday, Nov 12					
US	NFIB Small Business Optimism (Oct)	92	93.7	91.5	
UK	Average Weekly Earnings (Sep, 3m/ yoy)	3.9%	4.3%	3.9% (↑)	Strong and likely to stuck above 4% till year end.
UK	ILO Unemployment Rate 3Mths (Sep)	4.1%	4.3%	4.0%	Not reliable.
CA	Building Permits (Sep, m/m)	3.2%	11.5%	-6.3% (↑)	Strong.
GE	CPI (Oct, y/y, prelim)	2.0%	2.0%	2.0%	Steady.
GE	ZEW Survey Expectations (Nov)	13.2	7.4	13.1	Softening.
JN	PPI (Oct, y/y)	2.9%	3.4%	3.1% (↑)	Resilient goods & services pressures in pipeline.
AU	Wage Price Index (Q3, y/y)	3.6%	3.5%	4.1%	Great!
Wednesday, Nov 13					
US	CPI (Oct, y/y)	2.6%	2.6%	2.4%	As anticipated.
US	Federal Budget Balance (Oct, $ bn)	-232.5	-257.5	-66.5	Fiscal picture is terrible.
FR	ILO Mainland Unemployment Rate (Q3)	7.2%	7.2%	7.1%	Not much change.
AU	Unemployment Rate (Oct)	4.1%	4.1%	4.1%	Slower employment growth, but no case for a cut.
Thursday, Nov 14					
US	PPI Final Demand (Oct, y/y)	2.3%	2.4%	1.9% (↑)	Looks fine.
US	Initial Jobless Claims (09-Nov, thous)	220	217	221	Low.
US	Continuing Claims (02- Nov, thous)	1,873	1,873	1,892	Still low but in gentle uptrend.
EC	GDP (Q3, q/q, prelim)	0.4%	0.4%	0.2%	As signaled by advance estimates.
EC	Industrial Production (Sep, m/m sa)	-1.4%	-2.0%	1.5% (↓)	Dismal.
JN	GDP (Q3, q/q, prelim)	0.2%	0.2%	0.7%	Great data underscored by domestic demand.
JN	Industrial Production (Sep, m/m, final)	n/a	1.6%	1.4%	Great.
JN	Capacity Utilization (Sep, m/m)	n/a	4.4%	-5.3%	Great.
JN	Tertiary Industry Index (Sep, m/m)	0.2%	1.9%	-2.9%	Great.
Friday, Nov 15					
US	Empire Manufacturing (Nov)	0	31.2	-11.9	Huge rebound but extremely volatile.
US	Retail Sales Advance (Oct, m/m)	0.3%	0.4%	0.8% (↑)	Big upward revision to September.
US	Import Price Index (Oct, y/y)	0.3%	0.8%	-0.1%	Looks fine.
US	Industrial Production (Oct, m/m)	-0.3%	-0.3%	-0.5% (↓)	Down 0.3% y/y.
CA	Manufacturing Sales (Sep, m/m)	-0.8%	-0.5%	-1.3%	Weak.
CA	Existing Home Sales (Oct, m/m)	6.0%	7.7%	1.9%	Strong, market finally reacts to rate relief.
UK	Industrial Production (Sep, m/m)	0.1%	-0.5%	0.5%	Disappointing performance.
UK	GDP (Q3, q/q, prelim)	0.2%	0.1%	0.5%	In line with our expectations.
FR	CPI (Oct, y/y, final)	1.2%	1.2%	1.1%	Ample room for more ECB cuts.

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

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

† This figure is presented as of June 30, 2024 and includes ETF AUM of $1,393.92 billion USD of which approximately $69.35 billion USD is in gold 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.

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