STATE STREET GLOBAL ADVISORS

December 6, 2024
Commentary

Weekly Economic Perspectives

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Weekly Highlights

Odds of Fed December cut increase after payrolls report.

US Non-farm Payrolls (Nov., m/m)

227k

In line with expectations

US Unemployment Rate (Nov.)

4.2%

It nearly rounded up to 4.3%.

US ISM Non-Manufacturing (Nov.)

52.1

Big drop after big recent gains.

UK Nationwide House PX (Nov., m/m)

1.2%

Well above expectations.

UK Manufacturing PMI (Nov., final)

48.0

Much weaker than expected.

UK Services PMI (Nov., final)

50.8

Plunge in business sentiment.

Australia GDP Growth (Q3, y/y)

0.8%

Lowest in 32-years.

Australia Household Consumption (Q3, q/q)

-0.03%

Trailing peers.

Japan Overall Labor Cash Earnings (Oct, y/y)

2.6%

Real earnings were flat.

US Labor Market Argues for December Rate Cut

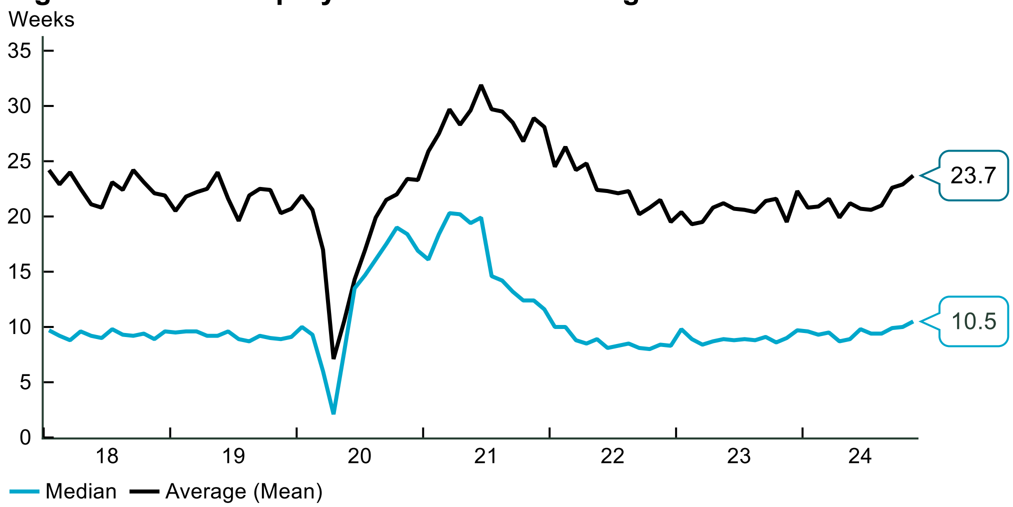
There was a lot of anxious anticipation ahead of the November **employment report** given this was supposed to provide a cleaner view of the labor market health following a very weak weather-distorted October report. A weak print could have reignited concerns about the labor market resilience while a very strong print would have reignited inflation concerns and reduced the odds of a December Fed cut.

In the event, the report came very close to expectations. The economy added 227k jobs during the month, against a 200k consensus. There was a 56k upward revision to the prior two months, which left October at a positive 36k versus the initially reported -12k. However, all of the October gain was accounted for by the government sector, with private payrolls still down 2k.

The sector distribution in November skewed slightly weak insofar as retail showed no recovery whatsoever, in fact, job losses intensified in November (-28k). This seems odd given the approaching holiday season and may be sending a cautionary signal about the health of consumer spending. It is too early to say, however, given that early sales data for Black Friday were reportedly strong, so it may be more of a reflection of a shortened shopping season (Thanksgiving was late in November this year). Still, weakness in retail employment warrants monitoring, especially since the November rebound is private payrolls did not in any way alter the downtrend in the pace of hiring. Over the last six months, private payrolls have risen by 108k per month; in the prior six months, that number was 190k. Unmistakable downshift.

This is why, despite a one-tenth drop in the labor force participation rate to 65.5% in November, the **unemployment rate** ticked up a tenth to 4.2% and was within a hairsbreadth of rounding up to 4.3%. The underemployment rate ticked up a tenth to 7.8%. And both the average (23.7 weeks) and the median (10.5 weeks) duration of unemployment increased noticeably. All of this should finally settle the case for a Fed cut in December, which had always been our call. The market has indeed lifted the odds of a December cut to about 90% (from as low as 50% recently) and is now also pricing higher odds of 3 cuts in 2025 (out view) rather than two.

Figure 1: US Unemployment Duration Rising



Sources: Macrobond, SSGA Economics, BLS
Updated as of 12/6/2024

In a nutshell, the Fed's dual mandate is what drives the continuing calibration lower in policy rates over the course of 2025 despite less compelling progress on inflation. The pullback in the non-manufacturing ISM, down 3.9 points to 52.1 in November, was another reminder that it is not just about inflation.

Wages were the only element in the jobs report that could have been cited to raise objections to a December cut, but even there the evidence was mixed. Overall average hourly wages increased a brisk 0.4% m/m, keeping the y/y increase at 4.0% y/y, which is probably still a little too high to be consistent with a sustained return to 2.0% inflation. However, average hourly earnings for production and non-supervisory employees, which is a more stable series, increased 0.3% m/m and that measure of wage inflation eased two tenths to 3.9% y/y, the twin lowest level since 2021.

It is not that inflation does not matter anymore. It still matters a lot, especially in light of tariff risks. Indeed, while the Michigan consumer sentiment index showed an encouraging improvement in November, it also showed an uptick in short-term inflation expectations, most likely reflecting tariff concerns. Just as the Fed will be keenly focused on the labor market in 2025, it will be also keenly focused on inflation and inflation expectations. 2025 will truly be a dual mandate year for the Fed!

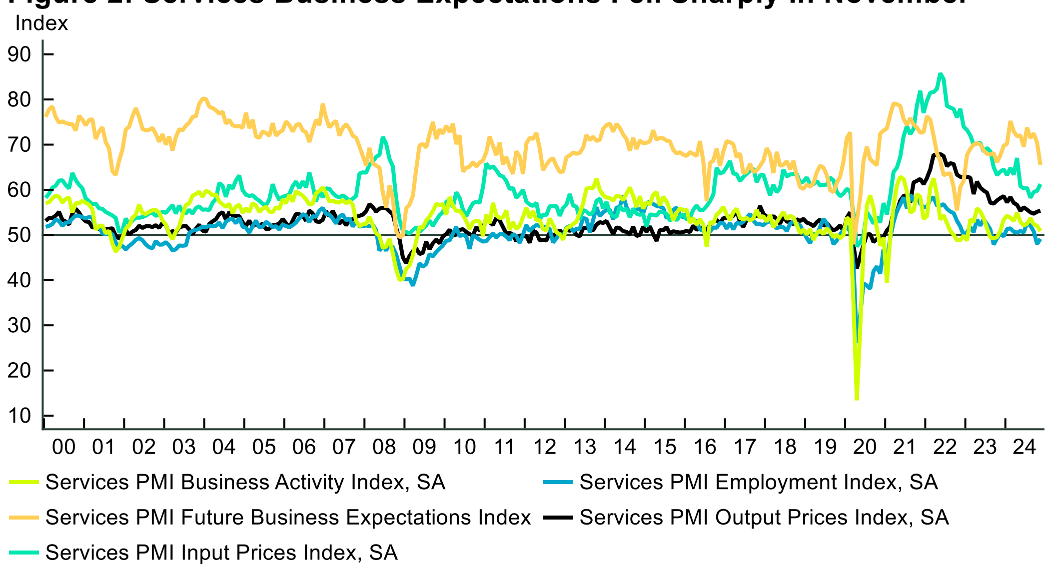
Growing Downside Risks to UK Growth

Recently, some downside risks to growth have arisen. The labor market, while data is somewhat questionable, is undoubtedly easing further. Vacancies continue to trend lower while payroll data suggested that private sector employment declined modestly since the beginning of the year.

Moreover, the economy's underlying momentum in Q4 appears to be weaker than we previously thought. November's final PMIs indicated a much slower pace of activity growth. The **services PMI** retreated to 50.8 from 52.0 the month before, while the **manufacturing PMI** dropped to 48.0, well below 49.9 in October and the flash estimate of 48.6. Some of the weaknesses, especially in services, can be explained by a dramatic dip in business expectations following the budget. Incoming increases in employers NICs, uncertainty around the economic outlook and lower demand have weighed on output, business investments and staff recruitment.

Importantly, higher costs and prices growth were also reported in the PMI surveys, supporting the BoE and market expectations that inflationary pressures will re-emerge. Over the past few months, the BoE has shifted toward a more hawkish view, and it is unlikely that the bank will deviate from its holding pattern in the near-term. We still expecting the bank rate to remain unchanged at 4.75% in December.

Figure 2: Services Business Expectations Fell Sharply In November



Sources: Macrobond, SSGA Economics, S&P Global
Updated as of 05/12/2024

The UK economic outlook is also clouded by increasing geopolitical risks and uncertainty around trade following the US elections. At this stage, the impact on the UK seems modest. The US is UK's largest trading partner but more than two-thirds of exports to US are services, which are less subject to tariffs, compared to goods. Still, the US expansionary fiscal policy could slow the pace of rate cuts in both US and UK, which could further delay consumption and investment recovery in the latter.

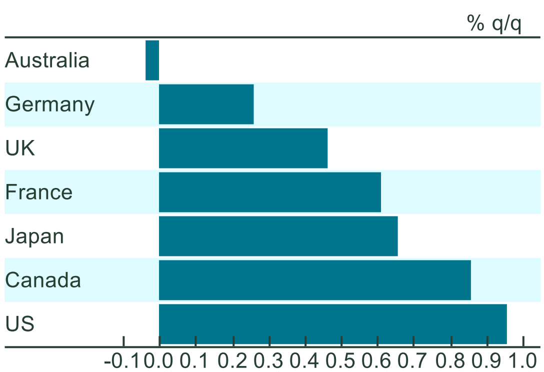
In the short-term, UK growth is set to accelerate when the additional government spending is deployed. However, the factors above are likely to limit the impact of the fiscal stimulus. The long-term impact remains unclear as it depends on whether the government spending and related reforms can truly improve productivity and efficiency in the economy.

Australia: Weakest Growth in 32 Years

Third-quarter **GDP growth** surprised to the downside at only 0.3% q/q, or 0.8% y/y. This undershot consensus as well as our own expectations and marked the weakest annual growth in 32 years. It is now clear as day that private consumption has faded as a growth driver and the government is doing the heavy lifting.

Household consumption remained muted and marginally negative for a second consecutive quarter at -0.03% q/q (0.4% y/y). Government consumption grew solidly 1.4% (4.7%), and added 0.3 ppts to quarterly growth. This confirms our view that subsidies did little to lift private consumption. Furthermore, Australia now has the weakest household consumption and is the only country to have negative growth among advanced economy peers, something that we have warned of recently as an adverse effect of restrictive monetary policy for an extended period of time.

Figure 3: Household Consumption In The Latest Available Data



Sources: Macrobond, SSGA Economics, ABS, StatCan, INSEE, DESTATIS, CAO, ONS, BEA
Updated as of 12/8/2024

Furthermore, private capex too was muted (0.1% q/q) while public investment was sound (6.3%). They also added vital points to growth (0.4 ppts). Net exports added 0.1 ppts to growth while inventories detracted 0.4 ppts.

On the income side, compensation of employees rose 1.4% q/q while private non-financial corporate profits declined 3.9% q/q. Productivity fell 0.6% q/q or -0.7% y/y but was balanced by upward revision to the last quarter's annual growth. Terms of trade declined 2.5% q/q, along with export prices.

The data should ideally bring about a dovish pivot from the Reserve Bank of Australia (RBA), as Governor Michele Bullock commented last week that "*if consumption in particular doesn't pick up like we're forecasting*," it could bring about a 'response' from the RBA board. The RBA forecasts Q4 GDP and consumption forecasts at 1.5% y/y and 1.0% respectively. While the Q3 numbers are well below their forecast, we only expect that the Bank downgrades these numbers (again) next week. The RBA's recent hawkish tilt resulted in the consensus pushing out the first rate cut expectation to H2 2025, while we still expect an earlier start. Our base case is February; a cut next week would be a welcome surprise. The weak GDP print offers an opportunity for a dovish pivot, but we are unsure whether the Bank would actually take it. Why do we prefer a cut next week when the base case is February? Simply because growth could benefit from a cut in the interim, which is essentially two-thirds of a quarter. We made this argument already.

Week in Review

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

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Dec 2					
US	ISM Manufacturing (Nov)	47.5	48.4	46.5	Soft.
UK	Nationwide House PX (Nov, m/m)	0.2%	1.2%	0.1%	Good.
UK	Manufacturing PMI (Nov, final)	48.6	48	49.9	9-month low.
EC	Manufacturing PMI (Nov, final)	45.2	45.2	46.0	Prolonged weakness.
GE	Manufacturing PMI (Nov, final)	43.2	43.0	43.0	Prolonged weakness.
FR	Manufacturing PMI (Nov, final)	43.2	43.1	44.5	Prolonged weakness.
IT	Manufacturing PMI (Nov)	46	44.5	46.9	Prolonged weakness.
IT	Unemployment Rate (Oct)	6.1%	5.8%	6.0% (↓)	Looks very good.
IT	GDP (Q3, q/q, wda, final)	0.0%	0.0%	0.2%	Uninspiring.
Tuesday, Dec 3					
US	JOLTS Job Openings (Oct, thous)	7,519	7,744	7,372 (↓)	Labor demand nonetheless softening.
US	Wards Total Vehicle Sales (Nov, mil)	16.1	16.5	16.0	Sales look to be perking up.
AU	GDP (Q3, q/q saar)	0.5%	0.3%	0.2%	Lowest in 32-years.
Wednesday, Dec 4					
US	ISM Services Index (Nov)	55.7	52.1	56.0	Broad retreat, but nothing to panic about.
US	Factory Orders (Oct)	0.2%	0.2%	-0.2% (↑)	Have been largely flat this year.
US	Durable Goods Orders (Oct, final)	0.2%	0.3%	-0.4%	Have been largely flat this year.
EC	Services PMI (Nov, final)	49.2	49.5	51.6	Weakest since January.
UK	Services PMI (Nov, final)	50.0	50.8	52.0	Business sentiment fell sharply.
GE	Services PMI (Nov, final)	49.4	49.3	51.6	Weakest since February.
Thursday, Dec 5					
US	Initial Jobless Claims (30 Nov, thous)	215	224	215	Still very low.
US	Continuing Claims (23 Nov, thous)	1,904	1,871	1,896	Low, but in gentle uptrend.
GE	Factory Orders (Oct, m/m)	-2.0%	-1.5%	4.2%	Persistently weak.
FR	Industrial Production (Oct, m/m)	0.3%	-0.1%	-0.8% (↑)	Has been largely flat this year.
Friday, Dec 6					
US	Change in Nonfarm Payrolls (Nov, thous)	218	227	36 (↑)	Matched expectations.
US	Unemployment Rate (Nov)	4.1%	4.2%	4.1%	Almost rounded up to 4.3%.
US	U. of Mich. Sentiment (Dec, prelim)	73.2	74.0	71.8	Short-term inflation expectations rose.
US	Consumer Credit (Oct, $bn)	10.0	19.2	3.2	Big jump in revolving credit.
CA	Unemployment Rate (Nov)	6.6%	6.8%	6.5%	Weakening continues.
EC	GDP (Q3, q/q, final)	0.4%	0.4%	0.2%	Hit by exports but domestic demand was strong.
GE	Industrial Production (Oct, m/m sa)	1.0%	-1.0%	-2.0% (↑)	Terrible. Down nearly 5.0% y/y so far in 2024.
JN	Leading Index CI (Oct, prelim)	108.8	108.6	109.1	Has flattened.

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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