STATE STREET GLOBAL ADVISORS

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Commentary

Weekly Economic Perspectives

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Weekly Highlights

Fed pauses but BoC and ECB ease anew as tariff anxiety builds.

US Real GDP (Q4, q/q, saar)
2.3%
Some internal oddities.

US Real Consumption (Q4, q/q, saar)
4.2%
Untenable strength.

US Core PCE Deflator (Dec, y/y)
2.8%
As expected; poised to ease.

BoC Policy Rate
3.00%
In line with expectations.

ECB Deposit Facility Rate
2.75%
More cuts ahead.

Eurozone Real GDP (Q4, q/q)
0.0%
Softness in large economies.

AU: Trimmed-Mean CPI (Q4, y/y)
3.2%
Matched our forecast.

AU : Non-Discretionary CPI (Q4, y/y)
1.8%
Lowest since 2021.

JP: Unemployment Rate (Dec)
2.4%
Leads to better wage growth

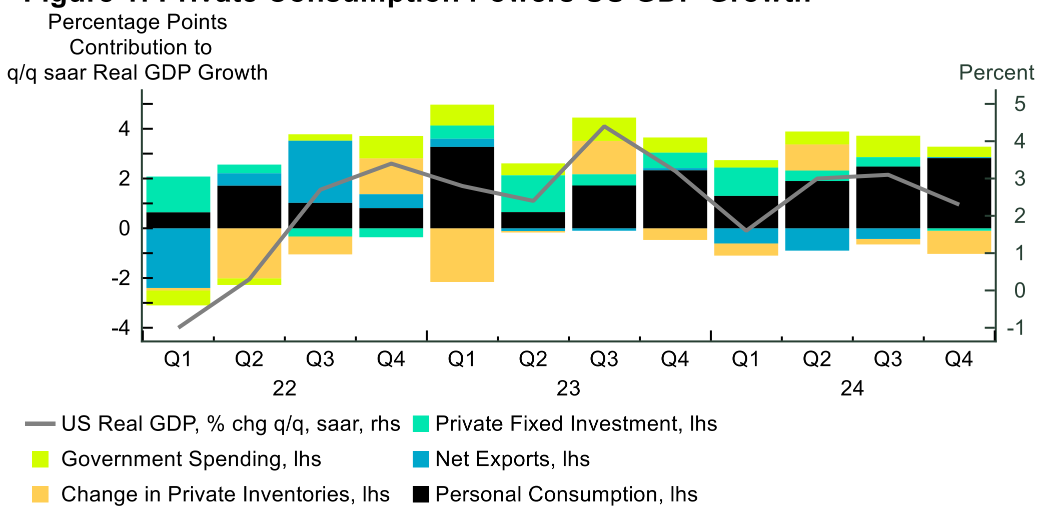
US: Strong Economy, Cautious Fed

The US economy grew 2.3% saar (q/q, seasonally adjusted annualized) in Q4, slightly below expectations. What was surprising was not the top line number, but the details. Consumer spending was exceedingly strong, equipment investment surprisingly soft, and inventory accumulation unusually weak. As such, we would not view Q4 performance in either of these areas as indicative of underlying trends.

Consumer spending grew 4.2% saar, the best showing since the start of 2023. The data paint a picture of steady acceleration over the course of the year, a progression that seems somewhat difficult to reconcile with more subdued growth in real disposable income. Admittedly, there exists the possibility that current data underestimate income strength (this happened in 2023 also), but that is mere speculation at this point. To be sure, monthly data on motor vehicle sales have shown a clear increase in Q4, and this played a big role in lifting goods spending at a torrid 6.6% saar pace in Q4. Still, having approached 17.0 million (annualized) in December, the scope for further material gains here seems limited. Services consumption grew at a solid but much more sustainable pace of 3.2% saar.

Private fixed investment shrank 0.6% saar, the first contraction in two years, and this was despite higher residential investment. The culprit was a large 7.8% saar plunge in private equipment investment which, while following two very strong quarters, is nonetheless difficult to pin entirely on labor disputes that have plagues activity in the aerospace sector. Also of note, intellectual property investment growth appears to be slowing, so the combination warrants close monitoring. There was almost no inventory accumulation during the quarter, which is very unusual; this alone subtracted over 90 bp from GDP growth. Part of that was offset by declining imports such that the trade deficit was not quite as bad as feared.

Figure 1: Private Consumption Powers US GDP Growth



Sources: Macrobond, SSGA Economics, BEA
Updated as of 1/30/2025

All in all, a lot of peculiar dynamics that look likely to reverse in coming quarter. The big picture remains one of a resilient economy growing at above-trend pace with easing inflationary pressures. In 2024 the economy grew 2.8%, little changed from 2.9% in 2023. The GDP deflator moderated from 3.6% in 2023 to 2.4% in 2024.

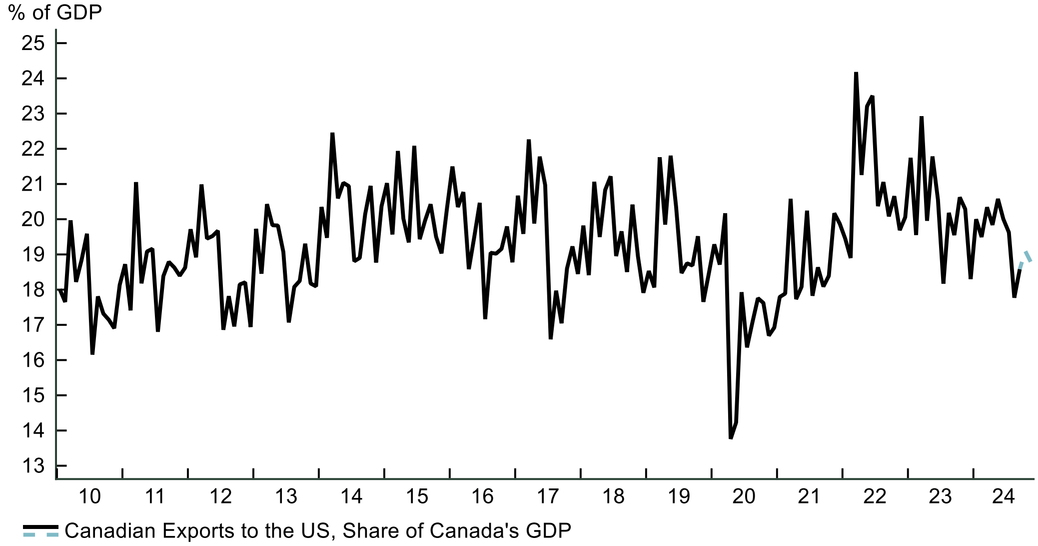
Canada: BoC Rate Cuts Slow Down

The BoC has reduced the overnight rate by 25bp to 3.0% as widely expected. Meanwhile, the policy guidance that previously indicated that the bank would be “evaluating the need for further reductions in the policy rate one decision at a time,” was removed. Growth forecasts were revised downwardly as expected, while inflation forecasts were raised marginally.

For context, economic activity remains subdued while the labor market continues to loosen: the unemployment rate has risen to 6.7% from 5.8% a year ago. Inflation remains close to the 2.0% target, allowing the bank to focus more on economic growth. Still, there are further signs that lower interest rates have started to boost the economy, given recent pick up in household spending and housing market. Along with the fact that the policy rate has been lowered substantially by 200bps since June 2024, that justified the slowdown in the pace of rate cuts.

Even so, the economic outlook has become highly uncertain given tariffs threats from the US president. Given that, the BoC has removed explicit guidance on further rate cuts and assumes no new tariffs in the forecasts. The bank forecast indicates firm economic growth, averaging 1.8% in 2025 and 2026. Core inflation is projected to reach 2.1% by end-2025.

Figure 2: Canada Has Large Export Exposure To The US



Sources: Macrobond, SSGA Economics, ISED
Updated as of 1/31/2025

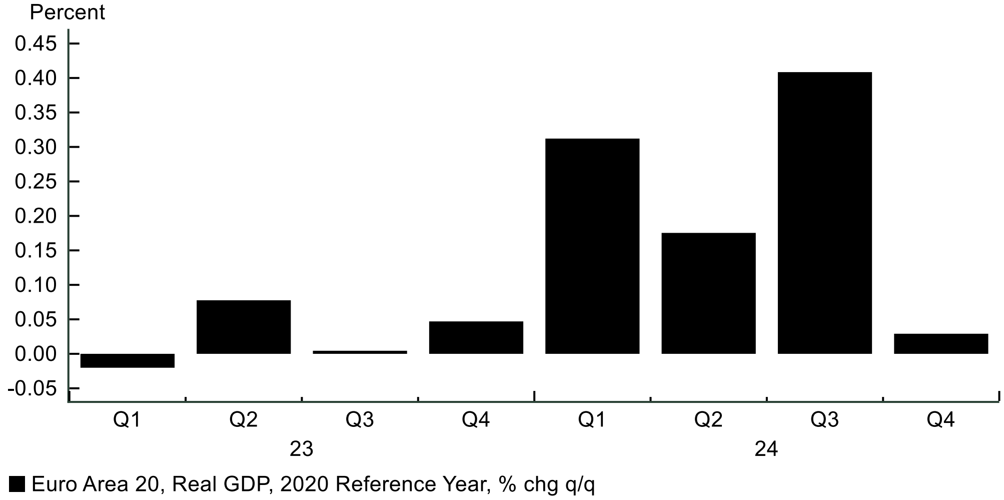
We are still not expecting 25% tariffs on February 1, but should these take effects and last for more than a few months, the BoC would likely cut more aggressively to support the economy. In the press conference, Governor Macklem was also asked about the weak Canadian dollar. While conceding the exchange rate feeds into forecasts, he gave few indications that exchange rates would affect monetary policy significantly.

The BoC has also announced its plan to end quantitative tightening program. Instead, the bank will restart asset purchases, so its balance sheet stabilizes as a proportion of GDP.

Eurozone: ECB Stays The Easing Course

With the disinflation process “well on track” and the economy “set to remain weak in the near term”, the ECB delivered on another widely anticipated rate cut this week. The three policy rates were all lowered by 25 bp each, leaving the main refinancing activity rate at 2.9%, the deposit facility rate at 2.75%, and the marginal lending facility at 3.15%. Given that “financing conditions continue to be tight”, the ECB also signaled further reductions ahead, with the usual caveat that policy is not on any preset course. Balance sheet runoffs are proceeding as planned, with the ECB no longer reinvesting maturing securities.

Figure 3: The Eurozone Economy Ended 2024 On Tepid Note



Sources: Macrobond, SSGA Economics, Eurostat
Updated as of 1/31/2025

Even though the regional economy stagnated in the fourth quarter, the ECB seems to be taking a glass half full view on the outlook. Specifically, President Lagarde said in the press conference that “the conditions for a recovery remain in place” and that “fiscal and structural policies should make the economy more productive, competitive and resilient.” We hope she is right, and look to French and German elections this year to give more clarity on Europe’s commitment to much needed structural reforms. For the time being, the mildly improved growth picture for 2025 rests more on the idea that strong household balance sheets will eventually allow consumption to rebound now that inflation has been materially lowered. It remains to be seen to what extend this happens.

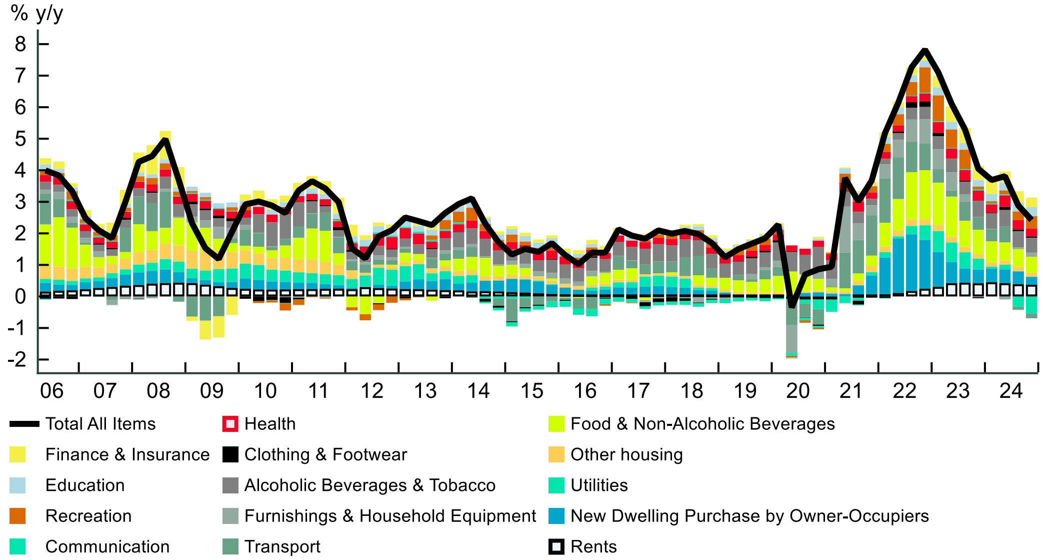
Given trade-related risks, the ECB seems poised to continue with consecutive cuts at the next two meetings. Thereafter, the pace should materially slow. We currently look for three additional rate cuts this year, but the risks to that view are heavily skewed in favor of more aggressive easing.

Australia: What After The First Rate Cut?

There is finally a consensus for the first rate cut in February. The Q4 trimmed-mean CPI, the preferred inflation metric of the Reserve Bank of Australia (RBA) landed exactly on our forecast of 3.2% y/y, which was a tenth below the consensus. The headline, which includes electricity, whose prices dropped markedly (25.2%), because of the energy subsidies, eased to 2.4%, well in the target range.

The details were even more encouraging, featuring broad-based disinflation. Price-pressures declined across the basket, including food (Q4: 0.6% q/q, Q3: 0.8%), clothing & footwear (-0.4%, -0.1%), housing (-0.6%, -0.8%), rents (0.6%, 1.6%) and transport (-0.5%, -2.3%). However, they held firm in health (1.1%, 0.6%) and alcohol & tobacco (1.7%, 1.7%), and insurance (0.8%, 1.2%). Nonetheless, the annual chance in prices remained intact across most categories (figure 3). We expect this encouraging disinflation to continue for some time, leading the trimmed mean into the target range of 2-3% in H1 this year.

Figure 4: Easing Inflationary Pressures In Australia



Sources: SSGA Economics, ABS, Macrobond
Updated as of 1/31/2025

The non-discretionary CPI, the basket of items that consumers are ‘less able’ to reduce consuming eased to 1.8%, which is the lowest since 2021. The discretionary basket’s inflation however rose to 3.2% after remaining low for most of last year.

Needless to say, this data has turned the balance of risks and favors the first rate cut to happen in our forecast month of February, one which is now consensus with about 78% market pricing. We still expect three cuts this year to a terminal of 3.60%. However, we think the Q4 GDP data (to be released on March 05) could be more important for the RBA’s outlook. We think a turnaround is plausible, with the GDP growth and consumption likely having bottomed in Q3. However, if the GDP data surprises to the downside, there is a good chance of more cuts this year.

Week in Review

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

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Jan 27					
US	Building Permits (Dec, final, thous)	n/a	1,482	1,493	Down 3.1% y/y, broad weakness.
US	New Home Sales (Dec, thous)	675	698	674	Up 6.7% y/y.
US	Dallas Fed Manf. Activity (Jan)	0	14.1	4.5	Highest since October 2021!
JN	Leading Index CI (Nov, final)	n/a	107.5	109.1 (↑)	Good data.
JN	PPI Services (Dec, y/y)	3.2%	2.9%	3.0%	Are price pressures easing?
GE	IFO Business Climate (Jan)	84.8	85.1	84.7	Virtually unchanged in past five months.
Tuesday, Jan 28					
US	Durable Goods Orders (Dec, prelim)	0.6%	-2.2%	-2.0%	Core orders rose.
US	FHFA House Price Index (Nov, m/m)	0.3%	0.3%	0.5%	Up 4.2% y/y.
US	S&P CoreLogic 20-City Price Index (Nov, m/m)	0.30%	0.41%	0.35% (↑)	Up 4.3% y/y.
US	Conf. Board Consumer Confidence (Jan)	105.7	104.1	109.5	Notable reversal, Labor differential weakened.
AU	NAB Business Confidence (Dec)	n/a	-2	-3	Needs to improve substantially.
Wednesday, Jan 29					
US	FOMC Rate Decision (Upper Bound)	4.50%	4.50%	4.50%	On hold, on guard, and in no rush.
CA	Bank of Canada Rate Decision	3.00%	3.00%	3.25%	As widely expected.
GE	GfK Consumer Confidence (Feb)	--	-22.4	-21.3	Earlier improvements have stalled.
AU	CPI (Dec, y/y)	2.5%	2.4%	2.3%	Seals the first rate cut in February.
Thursday, Jan 30					
US	GDP (Q4, q/q, annualised, advance)	2.7%	2.3%	3.1%	Surge in consumption seems unsustainable.
US	Initial Jobless Claims (25 Jan, thous)	225	207	223	Low.
US	Continuing Claims (18 Jan, thous)	1,899	1,858	1,900 (↑)	Low.
US	Pending Home Sales (Dec, m/m)	0.0%	-5.5%	1.6% (↓)	Clearly hurt by high mortgage rates.
UK	Mortgage Approvals (Dec, thous)	65	66.5	65.7	Remained high.
GE	GDP (Q4, q/q, sa, prelim)	-0.1%	-0.2%	0.1%	Disappointing.
FR	GDP (Q4, q/q, prelim)	0.0%	-0.1%	0.4%	Disappointing.
IT	GDP (Q4, q/q, wda, prelim)	0.1%	0.0%	0.0%	Disappointing.
IT	Unemployment Rate (Dec)	5.7%	6.2%	5.7%	Surprising jump, let's see how it setles.
JN	Jobless Rate (Dec)	2.5%	2.4%	2.5%	Strength in labor market means higher wages.
JN	Industrial Production (Dec, m/m, prelim)	0.3%	0.3%	-2.2%	Good improvement.
JN	Retail Sales (Dec, m/m)	-0.1%	-0.7%	1.9%	Trending sideways.
Friday, Jan 31					
US	Personal Income (Dec)	0.4%	0.4%	0.3%	Steady.
US	Personal Spending (Dec)	0.5%	0.7%	0.6% (↑)	Savings rate declined three tenths to 3.8%.
US	PCE Price Index (Dec, y/y)	2.6%	2.6%	2.4%	As expected. Core PCE steady at 2.8% y/y.
UK	Nationwide House PX (Jan, m/m)	0.3%	0.1%	0.7%	Up 4.1% y/y.
GE	Retail Sales (Dec, m/m)	0.0%	-1.6%	-0.1% (↓)	Up 1.8% y/y.
GE	CPI (Jan, y/y, prelim)	2.6%	2.3%	2.6%	Core inflation 2.9% y/y.
AU	Private Sector Credit (Dec, m/m)	0.5%	0.6%	0.6% (↑)	Improving.

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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