STATE STREET GLOBAL ADVISORS

January 10, 2025
Commentary

Weekly Economic Perspectives

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Weekly Highlights

Strong US employment triggers rate cuts rethink, but move may be premature.

US Payrolls Change (Dec.)

256K

Big upside surprise.

US Unemployment Rate (Dec.)

4.1%

Eased a tenth.

US Avg. Hourly Earnings (Dec., y/y)

3.9%

Eased a tenth.

UK Services PMI (Dec., final)

51.1

Softer than expected.

Canada Unemployment Rate (Dec.)

6.7%

Continued improvement.

Canada Building Permits (Nov., m/m)

-5.9%

Weaker than expected.

JP: Overall Cash Earnings (Nov., y/y)

3.0%

Important expectations met.

AU: Trim-Mean CPI (Nov., y/y)

3.2%

Underlying inflation easing.

AU: Retail Sales (Nov., m/m)

0.8%

Missed expectations.

US: Misleading Strength?

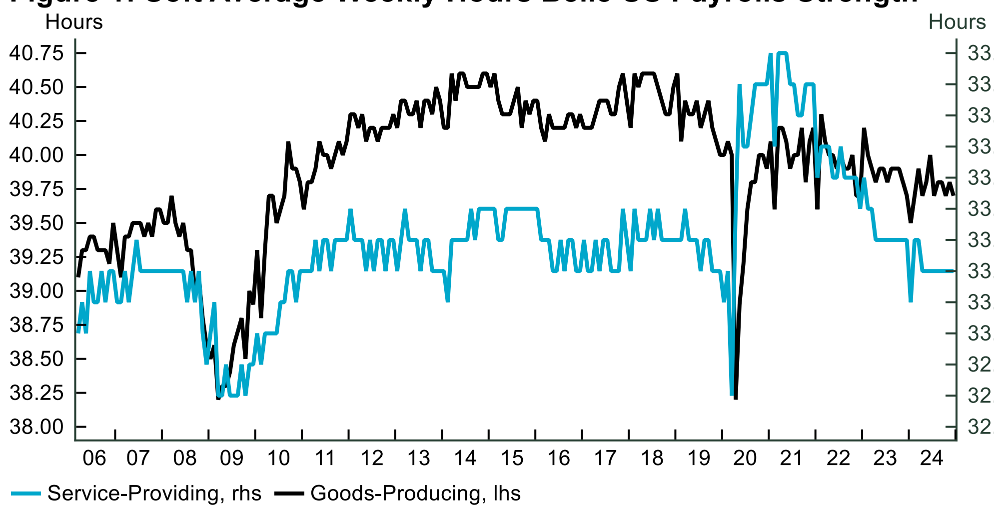
For anyone who was hoping to ease into the macro data releases of the new year, the December **employment report** certainly did not offer such opportunity. Reported job gains totaled 256k, far above the 165k consensus. Revisions to the prior two months were insignificant. The participation rate was unchanged at 65.5% and the unemployment rate eased a tenth to 4.1%. The market reaction was violent with investors trimming Fed rate cut expectations to a single rate cut in 2025.

The response may have been overblown. Yes, the headline was much stronger than expected. But a single sector— retail—explained the bulk of the upside surprise and the story it tells seems to be one of catch-up, rather than sustained resurgence.

But let's start with the big picture. Private payrolls grew by 223k, with services adding 231k and goods producing sectors losing 8k. Manufacturing was down 13k. Within services, trade and transportation added 49k jobs, 43k of them in retail. Contrast this with November's 29K loss and 70% of the upside surprise in December is clarified. We had mentioned last month that the decline in retail employment could well reflect a shortened holiday season; the new data validate that hypothesis. But if that's the driver, we should not be counting on persistent strength here. Elsewhere within services, we were a little surprised by the 28k rise in professional services. Nonetheless, this category has oscillated between gains and losses through most of 2024 so to us, the strong December seems more suggestive of a decline in January than a trend improvement. The two big service sectors—education/healthcare and leisure/hospitality—were steady and betrayed no signs of acceleration.

Neither did the hours data. Average weekly hours were flat and average manufacturing hours declined. Wage inflation was also well behaved, with total average hourly earnings (AHE) up 3.9% y/y (a tenth less than in November). Moreover, average hourly earnings for production and non-supervisory employees rose 3.8% y/y. With the exception of distorted readings in April and May 2021, this was the lowest annual gain since before the pandemic.

Figure 1: Soft Average Weekly Hours Belie US Payrolls Strength



Sources: Macrobond, SSGA Economics, BLS
Updated as of 1/10/2025

Our read is that this report was not nearly as strong as the headline made it appear. Investors dramatically lowered the odds of a March rate cut as a result and have also trimmed 2025 rate cut expectations to just one. We still think a March cut is likely, but its likelihood is indeed more questionable after this report. More importantly, we believe strongly that the Fed has room to cut rates multiple times this year. Calls for no more cuts or even hikes simply in response to this one report seem premature.

Canada: Labor Market Strengthening Continues

Stronger employment gains in December, largely in full-time positions, suggest that labor market conditions are improving. Rising political and trade uncertainty as well as soft domestic demand still suggest that the BoC will deliver a 25bp rate cut at this month's meeting, but the odds of a pause have now clearly increased.

The 90.9k jump in employment was much stronger than the consensus forecast of a 25k gain. The unemployment rate also ticked down by one-tenth to 6.7% despite steady labor force participation.

However, private sector employment, which the BoC would like to see grow strongly, rose modestly by 26.7k compared to 40k increase in public sector employment. Much of the strength in employment in December was also led by workers aged 55+, suggesting that the increase might not sustain in the future. Still, we would not try to read too much into the figure given the volatility in related data.

Otherwise, the report was broadly positive. The increase was widespread and in cyclically sensitive industries. Hourly wages of permanent employees also moved into lower level of 3.7% y/y, which is more consistent with inflation oscillating around the BoC's 2% target. Encouragingly, total hours worked rose by 0.5% last month despite the strike among postal workers.

Slowing population growth will drive uncertainty in employment data in coming months while impacting labor supply in some sectors. We expect the unemployment rate to peak at around 7.2% before falling back again towards year-end.

Figure 2: Canadian Unemployment Rate Fell Unexpectedly In December

Sources: Macrobond, SSGA Economics, StatCan
Updated as of 10/01/2025

Australia: Swift Disinflation

The November **inflation** data featured positive surprises, which supports expectations of a first rate cut in February. Overall CPI ticked up from 2.1% y/y to 2.3% but, more importantly the Reserve Bank of Australia's (RBA) preferred trim-mean CPI eased three-tenths to 3.2%. The headline's month-to-month data is muddied by the rollout schedule of the Commonwealth Energy Bill Relief Fund

(EBRF). In November, electricity prices rose 22.3% m/m (but -21.5% y/y) as many households returned to a single monthly installment in most states including a few in New South Wales and Victoria.

Prices in the new dwelling category that includes both new buildings and renovations rose just 2.8% y/y, which was the slowest since July 2021 and down from 4.2% in the previous month. However, rents continued rising stronger as the market still remains tight. The November report also featured a number of categories that are directly inputted into the Q4 quarterly data including meals out and take away (0.6% m/m), spare parts & accessories (-0.1%), other services (-1.1%) and insurance (1.1%) most of which have been evolving as expected.

Retail sales rose 0.8% m/m in November, missing expectations by two-tenths. The result is stronger than recent months but weaker than the prior two November prints implying that either demand was a tad weaker, or that seasonal adjustments have improved. As expected, sales in the non-food category were stronger, given Black Friday discounted sales. Departmental stores and clothing and footwear categories were the strongest at 1.8% and 1.6%, respectively.

Finally, total job vacancies in the quarter to November rose 4.2% q/q, the first increase since May 2022 when they peaked. At 344,000, the total openings are 27.3% lower than their peak but still 51.3% higher than before the pandemic. So, the aggregate demand perhaps is relatively higher. Openings rose the most in arts & recreation services (28.5%) and accommodation & food services (20.1%). Most worryingly, openings in manufacturing declined a startling 36.9% from last year. Furthermore, construction and education openings declined 11.5% and 9.5%, respectively, from last quarter. The unemployment rate declined to 3.9% in November, yet the picture is not very bright. We expect total employment to have fallen 10k in December, and the unemployment rate to have mean-reverted to 4.1%.

Otherwise, the inflation and retail sales data have brightened the case for a February cut in Australia. However, the headline quarterly data will be released at the end of the month and it may seal the deal for the cut.

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 6					
US	Services PMI (Dec, final)	58.5	56.8	58.5	Robust.
US	Factory Orders (Nov)	-0.3%	-0.4%	0.5% (↑)	Down 1.9% y/y.
US	Durable Goods Orders (Nov, final)	-0.5%	-1.2%	-1.1%	Down 6.4% y/y.
UK	Services PMI (Dec, final)	51.4	51.1	50.8	Weaker than expected.
GE	Services PMI (Dec, final)	51.0	51.2	49.3	Modest but welcome improvement.
GE	CPI YoY (Dec, prelim)	2.4%	2.6%	2.2%	Anticipated rebound.
FR	Services PMI (Dec, final)	48.2	49.3	46.9	Persistent weakness.
IT	Services PMI (Dec)	50	50.7	49.2	Uninspiring, but at least signals some growth.
JN	Jibun Bank Japan PMI Services (Dec, final)	n/a	50.9	51.4	Good resilience but need to improve.
Tuesday, Jan 7					
US	JOLTS Job Openings (Nov, thous)	7,740	8,098	7,839 (↑)	But quits touched cycle low.
US	ISM Services Index (Dec)	53.5	54.1	52.1	Solid.
FR	CPI (Dec, y/y, prelim)	1.5%	1.3%	1.3%	Modest.
IT	Unemployment Rate (Nov)	5.8%	5.7%	5.8%	Repeated new lows!
IT	CPI NIC incl. tobacco (Dec, prelim, y/y)	1.5%	1.3%	1.4%	Supports multiple ECB cuts this year.
Wednesday, Jan 8					
US	Initial Jobless Claims (04 Jan, thous)	215	201	211	Very low,
US	Continuing Claims (28 Dec, thous)	1,862	1,867	1,834	In gentle uptrend.
US	Consumer Credit (Nov, $bn)	10.5	-7.5	17.3 (↓)	Highly unusual plunge in revolving credit..
GE	Retail Sales (Nov, m/m)	0.5%	-0.6%	-0.3% (↑)	Up 2.5% y/y.
GE	Factory Orders (Nov, m/m)	-0.2%	-5.4%	-1.5%	Down 1.6% y/y.
JN	Labor Cash Earnings (Nov, y/y)	2.7%	3.0%	2.2% (↓)	Solid.
AU	CPI (Nov, y/y)	2.2%	2.3%	2.1%	The core metric fell in line with expectations.
AU	Job Vacancies (Nov, q/q)	n/a	4.2%	-5.2%	Impressive resilience.
Thursday, Jan 9					
GE	Industrial Production (Nov, m/m sa)	0.5%	1.5%	-0.4% (↑)	Down 2.8% y/y.
AU	Retail Sales (Nov, m/m)	1.0%	0.8%	0.6%	Better seasonal effects or softer demand?
Friday, Jan 10					
US	Change in Nonfarm Payrolls (Dec, thous)	163	256	212 (↓)	Surprising strength seems unlikely to last.
US	Unemployment Rate (Dec)	4.2%	4.1%	4.2%	Hovering near NAIRU estimate of 4.2%.
US	U. of Mich. Sentiment (Jan, prelim)	74.0	73.2	74.0	Jump in inflation expectations.
CA	Unemployment Rate (Dec)	6.9%	6.7%	6.8%	Good.
CA	Building Permits (Nov, m/m)	1.4%	-5.9%	-3.1%	Disappointing.
FR	Industrial Production (Nov, m/m)	-0.1%	0.2%	-0.3% (↓)	Down 1.1% y/y.
IT	Retail Sales (Nov, m/m)	n/a	-0.4%	-0.5%	Up 1.1% y/y.

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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Exp. Date: 1/31/2026