STATE STREET GLOBAL ADVISORS

January 24, 2025
Commentary

Weekly Economic Perspectives

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Weekly Highlights

A well flagged hike by BoJ took the policy rate to 0.50% but, without any market jitters like in August last year.

US Services PMI (Jan, prelim)

52.8

Expansion of business activity.

US U. of Michigan Sentiment (Jan)

71.1%

Lower than expected.

US Existing Home Sales (Dec, m/m)

2.2%

Well above expectations.

JP CPI (Dec, y/y)

3.6%

Higher than any other advanced economy.

JP BoJ Core CPI (Dec, y/y)

2.4%

Keeping steady.

JP Machinery Orders (Nov, m/m)

3.4%

Well past the consensus for a small fall.

Canada CPI (Dec, y/y)

1.8%

Lower than expected, impacted by GST-related fall.

UK Average Weekly Earnings (Nov, 3m/yoy)

5.6%

Remained elevated.

UK GfK Consumer Confidence (Jan)

-22

Well below expectations.

BoJ: Well Flagged Hike

The Bank of Japan (BoJ) delivered on their well flagged hike this week and lifted the policy rate to a 17-year high of 0.50%. The accompanying statement had a slightly confident undertone, noting *“the likelihood of realizing the outlook has been rising.”* The core CPI (excluding fresh-food) forecast was lifted half a percentage point to 2.4% for the current fiscal, in line with our December forecast of 2.6%. The forecasts of the underlying BoJ core (excluding fresh food and energy) also rose two-tenths and held steady for FY 2026. We inherently see this as the BoJ’s “rising” confidence in the sustainability of inflation around the 2% target.

In the press conference, Governor Ueda was asked the question on the top of our minds by a few reporters – why did the BoJ hike in January after staying put in December? The governor’s answers were perfunctory as he pointed to better confidence on wage growth in the upcoming *shunto* negotiations, as highlighted by the BoJ branch managers’ report. He also pointed to the absence of market volatility after President Trump took office earlier in the week.

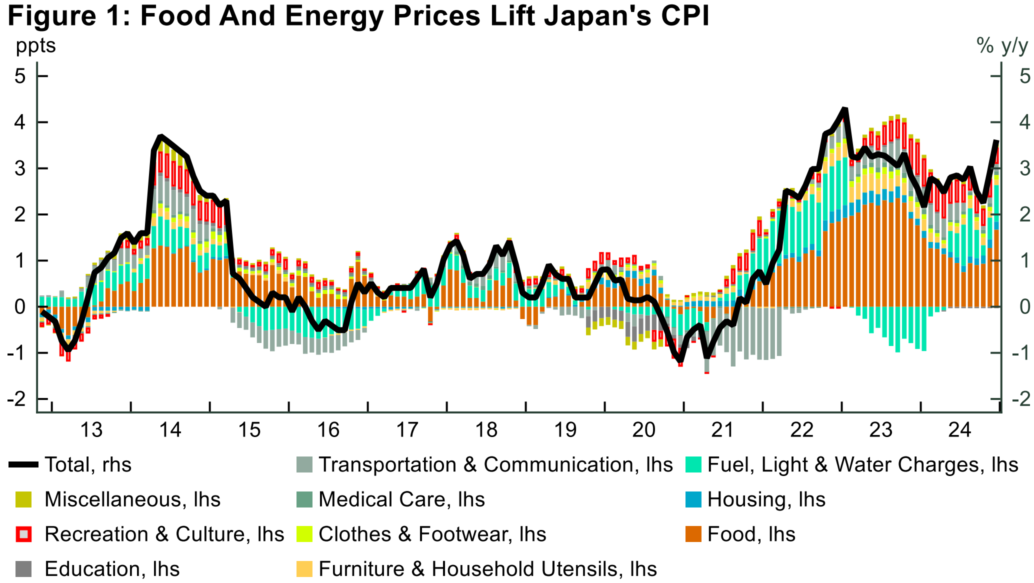
We still believe December was truly the best timing wise, but feel the 'process' behind the hike was rather well carried in January. Governor Ueda and Deputy Governor Himino did well to speak ahead of the decision and prepped the markets for the event. We believe the Bank also was able to gauge the positive market reception this time, compared to the high volatility event in August last year.

However, none of this clarifies the path of interest rates in the future as the risks pertaining to Japan's economy are still 'high'. Governor Ueda mentioned that the next hike would depend less on economic growth but inflation, but we will be surprised if the Bank hikes if growth slows (although that is not our expectation).

We maintain our expectation of one more hike this year, likely in July, as it gives the Bank sufficient information on wage growth in the *shunto* negotiations, and also an idea whether underlying inflation would evolve in line with the outlook. We also note that the Upper House elections may be conducted in July, and see the risk of pushing out the hike in the event of higher political uncertainty. So, we believe the Bank would hike only after confirming intact domestic macro factors (growth, inflation and wages), and also, global macro backdrop as well. Furthermore, ensuring low volatility post-hike may also be an important consideration for the Bank. Finally, the yen is a key pillar and to reiterate our key message, the BoJ likes to keep it at levels that support exports and maintain inflation around 2%. Hence, we believe the Bank may hike only when all these factors align, which we think may happen by July.

Furthermore, hours before the meeting, Japan's **December CPI** data was released, and it showed that price pressures remained intact. The termination of energy subsidies and rising food prices ensured that the headline CPI rose 0.6% m/m, lifting the annual rate to an eyebrow-raising 3.6% y/y. Japan's CPI was above that of the US's in eight of the last nine months, on a sequential growth basis. The core CPI (excluding fresh-food) also rose to 3.0%, while the BoJ core (excluding fresh food and energy) remained at 2.4%.

Figure 1: Food And Energy Prices Lift Japan's CPI



Sources: SSGA Economics, SBJ, Macrobond
Updated as of 1/24/2025

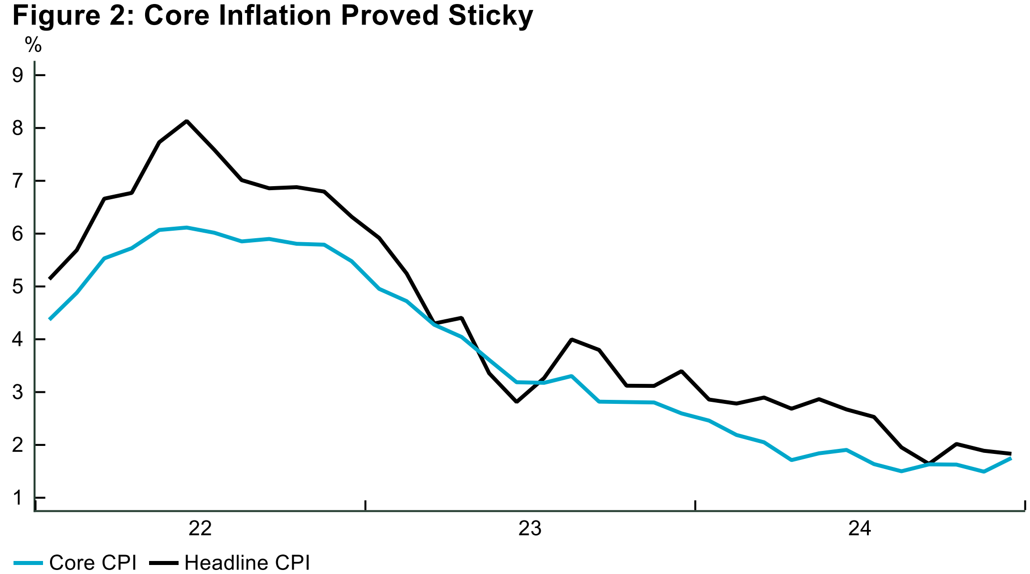
Finally, the flash PMIs for January painted a sanguine picture. The services index rose sharply by 1.8 points to 52.7, in line with our assessment of solid domestic conditions. But, the manufacturing index slipped and remained in contractionary territory for the seventh month at 48.8. All this means that, the outlook for the economy is cautiously optimistic and the BoJ may want to allow some time to see the impact of the rate hike.

Canada: BoC Will Move Carefully

Along with subdued economic activity, rising political and trade uncertainty suggest another 25bp rate cut from the Bank of Canada (BoC) this coming Wednesday. This will lower the policy rate by 200bp since the bank kicked off easing in June 2024.

GDP growth remains soft while labor market continues to ease. Unemployment rate jumped to 6.7% in December from 5.8% a year ago. At the same time, **headline inflation** fell modestly to 1.8% y/y in December, helped by GST break on certain goods such as food and beverages. Encouragingly, shelter and rent inflation cooled further in December. Meanwhile, core inflation measures have strengthened, suggesting that the underlying inflation pressures are likely to move up in the next few months. Still, we expect the pickup will be temporary and see higher risks of slower inflation this year given weaker demand and slowing population growth.

Figure 2: Core Inflation Proved Sticky



Sources: Macrobond, SSGA Economics, StatCan
Updated as of 25/01/2025

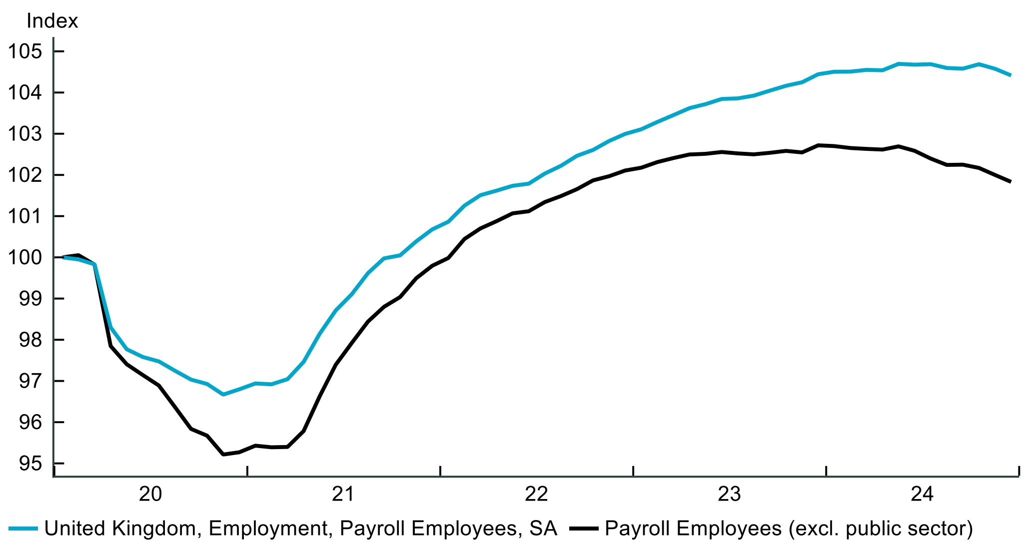
President Trump's renewed threat to impose up to 25% tariffs on imports from Canada, possibly by 1 February, has escalated trade tensions between the two countries. The US is Canada's most important trading partner, with 78% of Canada's exports, worth 21% of Canadian GDP going to the US. The proposed tariffs will undoubtedly hurt both economies. For now, we do not expect that Trump will follow through with his most recent threat. Having said that, there is a lot of uncertainty around this and the BoC is likely to move carefully until the trade policy with US is clear.

UK: Labor Market Easing Continues

Wage growth remains hot, despite further loosening in labor market. Three-month **average earnings growth** rose from 5.2% y/y in October to 5.6% in November, entirely driven by the strength in private sector wage growth. Looking into details, regular private sector wage growth, the measure that is closely watched by the BoE, increased from an upwardly revised 5.5% to 6.0%, which is well above the Bank's Q4 forecast in its November Monetary Policy Report of 5.1%. The more timely PAYE measure of median pay also fell 6.4% y/y in November to 5.6% in December.

Meanwhile, there are increasing signs that job market is continuing to ease. Given the ongoing reliability issues of the LFS data, the BoE will not pay much attention to the latest increase in the **unemployment rate** from 4.3% in October to 4.4% in November. Instead, the bank will look at payrolled employment, which is a more reliable indicator at this stage. PAYE employment dropped 47k in December. In annual terms, total payrolled employment remained literally unchanged compared to a year ago. **Private sector employment** fell by 0.87% in 2024. Although the decline is modest, it points to a backdrop that employment and wage growth will both come lower in 2025. Vacancies also continued trending down and most importantly, vacancy rates are now well below the pre-Covid levels for most sectors.

Figure 3: UK Private Sector Payrolled Employees Dropped Further



Sources: SSGA Economics, ONS
Updated as of 25/01/2025

Overall, while sticky private sector wage growth and inflation remain concerning for the BoE, the bank is increasingly more cautious about weak employment and lower wage growth. We continue to expect a cut in February.

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 20					
GE	PPI (Dec, y/y)	1.1%	0.8%	0.1%	Lower than expected.
JN	Industrial Production (Nov. m/m, final)	n/a	-2.2%	-2.3%	Manufacturing is in contraction.
JN	Tertiary Industry Index (Nov, m/m)	0.1%	-0.3%	0.1% (↓)	Manufacturing needs to improve.
Tuesday, Jan 21					
CA	CPI (Dec, y/y)	1.9%	1.8%	1.9%	Distorted by GST-related fall.
UK	Average Weekly Earnings (Nov, 3m/yoy)	5.7%	5.6%	5.2%	Remained elevated.
UK	ILO Unemployment Rate (Nov, 3Mths)	4.4%	4.4%	4.3%	Unreliable.
GE	ZEW Survey Expectations (Jan)	15.1	10.3	15.7	Weak.
FR	Retail Sales (Dec, y/y, sa)	n/a	-0.8%	-0.1%	Weak.
AU	Westpac Leading Index (Dec, m/m)	n/a	-0.02%	0.06% (↑)	Sideways.
Wednesday, Jan 22					
No major data releases.					
Thursday, Jan 23					
US	Initial Jobless Claims (18 Jan, thous)	220	223	217	Above expectations.
US	Continuing Claims (11 Jan, thous)	1,868	1,899	1,853 (↓)	Above expectations.
US	Kansas City Fed Manf. Activity (Jan)	n/a	-5	-5 (↓)	Contraction continued.
CA	Retail Sales (Nov, m/m)	0.2%	0.0%	0.6%	Perhaps impacted by GST break in December.
JN	Natl CPI (Dec, y/y)	3.4%	3.6%	2.9%	Great data supportive of more normalization.
Friday, Jan 24					
US	Manufacturing PMI (Jan, prelim)	49.9	50.1	49.4	Rising optimism.
US	Services PMI (Jan, prelim)	56.5	52.8	56.8	Further growth of business activity
US	U. of Mich. Sentiment (Jan, final)	73.2	71.1	74.0	Lower than expected.
US	Existing Home Sales (Dec, m/m)	1.2%	2.2%	4.8%	Above expectations.
UK	GfK Consumer Confidence (Jan)	-18	-22	-17	Weak.
UK	Manufacturing PMI (Jan, prelim)	47	48.2	47	Weak.
UK	Services PMI (Jan, prelim)	50.8	51.2	51.1	Slightly better.
GE	Manufacturing PMI (Jan, prelim)	42.7	44.1	42.5	Weak.
GE	Services PMI (Jan, prelim)	51	52.5	51.2	OK.
FR	Manufacturing PMI (Jan, prelim)	42.5	45.3	41.9	Weak.
FR	Services PMI (Jan, prelim)	49.4	48.9	49.3	Weak.
JN	Manufacturing PMI (Jan, prelim)	n/a	48.8	49.6	Weak.
JN	Services PMI (Jan, prelim)	n/a	52.7	50.9	Ok.
JN	BOJ Target Rate	0.50%	0.50%	0.25%	In line with expectations.

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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