October 11, 2024
Commentary

Weekly Economic Perspectives

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Weekly Highlights

Mixed data across the board and across geographies.

US Sep CPI (YoY)
2.4%
Above expectations

US Sep Core CPI
3.3%
Above expectations

US Sep PPI
1.8%
Above expectations.

CA Sep RU
6.5%
Drop in youth unemployment.

UK Aug GDP (MoM)
0.2%
After two months of stagnation.

UK Aug IP
0.5%
Supported by manufacturing.

JP Goods PPI (YoY)
2.8%
Above expectations.

AU Consumer Sentiment
89.8
Highest since Sep 2021.

NAB Survey Prices
0.5 %
Lowest since February 2021.

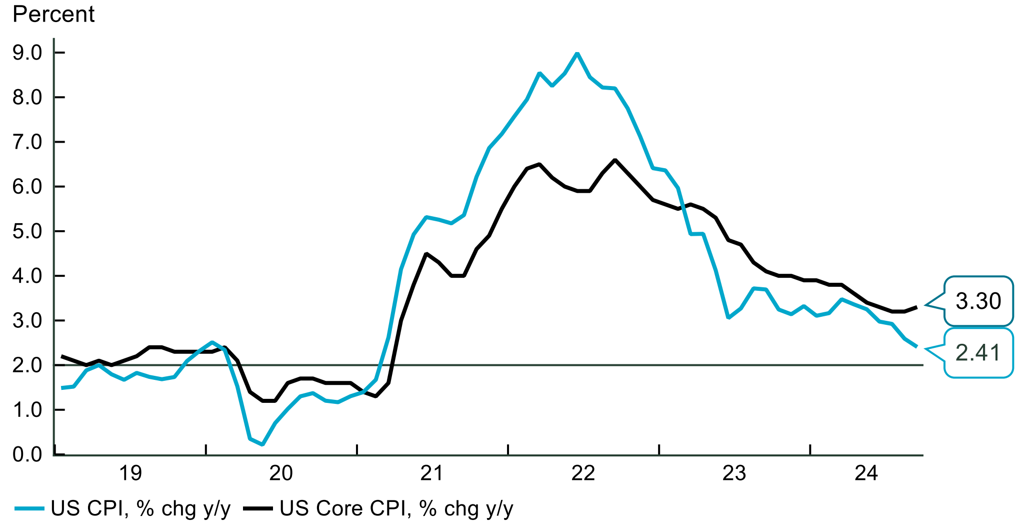
US: Data Fluctuates, Policy Should Not

Last month, we thought that the in-line August inflation print would lead the Fed to settle for a typical 25-basis point cut. Instead, it went for a larger 50-bp point reduction, mostly on account of a softening labor market. Such are the ironies of the data flow: since then, the labor market data has improved, and the **September CPI** came in a touch stronger than expected. Should this lead the Fed to pause in November? We do not believe so. There is little to be gained but confusion from any sort of stop and go approach to policymaking so we remain on board with cuts in both November and December. The January meeting would be an opportune moment to pause and then allow incoming data to dictate whether the pause should be extended to March (right now, we do not think so).

Overall prices rose 0.2% m/m in September, and core prices rose 0.3%. The headline was flattered by a 1.9% m/m decline in energy prices (gasoline was down 4.1% m/m) but food prices rose 0.4%. Services also increased 0.4%, but not because of housing, which only rose 0.2%. Indeed, shelter was up just 0.2% and owners' equivalent rent 0.3%, the least in three months. However, we don't want to read too much into this downshift as it has happened before and did not last. There seems to be some lingering seasonality as well, which suggest a higher print next month. And this month shelter was flattered by a big drop in hotel rates, that is unlikely to repeat (itself payback for big jump the month before).

Core goods prices increased 0.2% m/m, the most since May of 2023 on a combination of surging apparel prices and higher car prices. The broader trend of goods disinflation may be starting to abate and risks on this front are intensifying (threat of tariffs, strikes, weather, etc.). This is something to watch for in 2025 but we suspect we'll slide towards, not fall into it. Services prices rose 0.4% m/m overall, lifted by a 1.4% m/m jump in transportation services (airfares posted another big increase) and a 0.7% jump in medical care services.

Figure 1: Mixed US Inflation Should Not Deter November Rate Cut



Sources: Macrobond, SSGA Economics, BLS

All this left headline CPI inflation at 2.4% y/y in September, a tenth lower than in August, but core inflation rose a tenth to 3.3% y/y. Headline inflation looks likely to tick up a little further though year-end, though core should stabilize here or even improve incrementally..

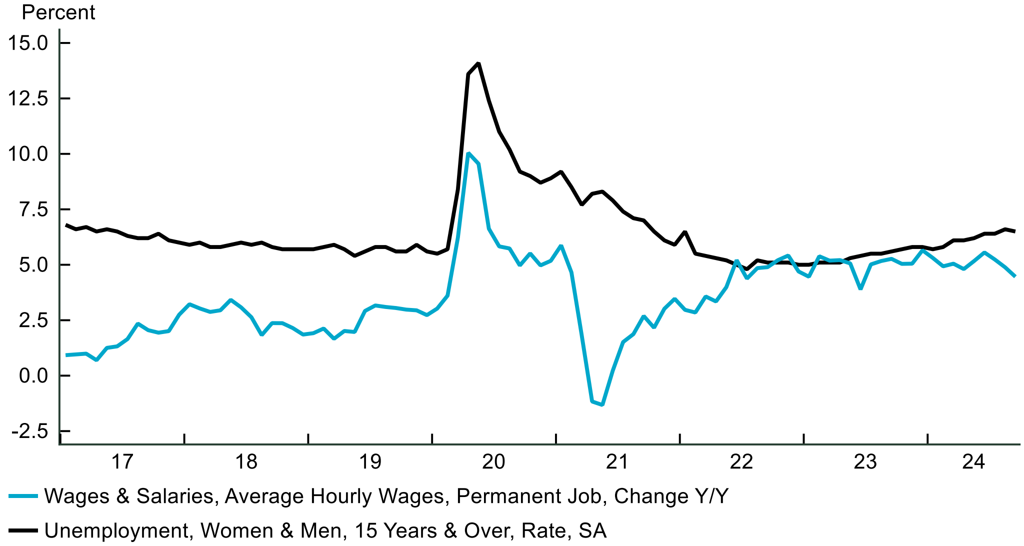
Canada: Labor Market Easing Continues

The Canadian labor market has remained relatively strong in light of surging immigration. Post-pandemic, temporary immigration added more than 1 million people to population. That led to a population growth of 3.2%, the highest rate since the late 1950s. Labor force also grew robustly, boosting near-term economic activity and lowering upward pressure on wages.

As the economy started feeling the impact of interest rate hikes, the labor market has cooled down considerably. The unemployment rate has increased from 5.7% in January to 6.6% in August. Importantly, during the past four months, the weakening trend has been supported by lower hiring demand and increasing unemployment, which is consistent with a slowdown in economic activity.

After four months of little change, the economy added 47k jobs in September, driven entirely by full-time jobs (+112k). Meanwhile, the unemployment rate edged down one tenth to 6.5%, but the decline was entirely driven by youth aged 15-24, implying that this retreat might just be temporary. The labor participation rate also fell two tenths to 64.9%.

Figure 2: Canadian Labor Market Easing Continues



Sources: Macrobond, SSGA Economics, StatCan
Updated as of 10/13/2024

The modest decline in the unemployment rate in September does not change our view that the labor market is weakening. We expect the unemployment rate should rise further in coming months, likely to close to 7.0% by the year end.

Wage growth was down to 4.5% y/y from 4.9% y/y previous month, remaining relatively strong and still well above productivity growth. We expect this downtrend in wages will continues as labor market eases further, lowering inflationary pressure.

UK: Low Growth Ahead of Autumn Budget

The latest monthly GDP data was released less than three weeks before the Autumn Budget and might have some implications on policy.

Prime Minister Sir Keir Starmer and the Chancellor Reeves have put growth at the heart of Labour’s agenda. But with public debt hitting 100% of GDP in August, the highest level since early 1960s, it is quite challenging for them to deliver target growth with a tight budget.

The Chancellor is considering a few ways to unlock some extra fiscal headroom and increase capital investment. Remember that the fiscal rules in place are that public sector net debt excluding the Bank of England (BoE) should be on course to fall as a share of GDP in five years’ time, and that public sector borrowing should not exceed 3% of GDP in five years’ time. As of March, those rules meant very modest headroom of just £8.9bn, just 0.3% of the GDP.

Without introducing major tax increases, the Chancellor is considering to shift to different debt targets, which will call for the government to balance the current budget over five years. That will of course boost the available headroom, but only to a certain extent as shown in Figure 3.

Figure 3: Fiscal Headroom Under Different Definitions (against rule in March 2024)

		Headroom		
	Definition	**£ bn**	**Change (£bn)**	**Change (% of GDP)**
	Public sector net worth	66.8	57.9	1.8
	Public sector net financial liabilities	62.0	53.0	1.6
	Public sector net debt (ex BOE and ex APF)	25.8	16.9	0.5
	Public Sector Net Debt	24.9	16.0	0.5
	General Government Gross Debt	15.6	6.6	0.2
Current rule	Public sector net debt (ex BOE)	8.9	0.0	0.0

Source: OBR, SSGA Economics

Labour might have also hoped that their upcoming budget will have some support from strong growth so far this year. However, the latest **GDP** figures were soft.

Following two quarters of robust expansion, the UK economy slowed markedly in Q3. Real GDP grew 0.2% m/m in August, after two months of stagnation. The modest increase was driven by broad-based increases in manufacturing, services and construction. Overall, Q3 growth is now estimated to be around 0.2%, which is lower than previous expectation of a 0.3% increase. It is also a marked slowdown from 0.7% and 0.5% in Q1 and Q2, respectively. It seems that the figure is far from perfect for the Labour if they were really looking for some additional headroom via stronger growth. Still, it’s worth noting that the key here is the projections from the Office for Budget Responsibility, which might already be too optimistic.

Meanwhile, monthly **industrial production** increased 0.5% in August 2024, bucking expectations of a smaller expansion of 0.2% and following an upwardly revised July. The increase was mainly supported by higher manufacturing (+1.1%). Production output for the three months to August 2024 remained flat compared with prior three months as gains in manufacturing, water supply and sewerage was offset by declines in mining and quarrying and electricity and gas.

Intact Disinflation In Australia

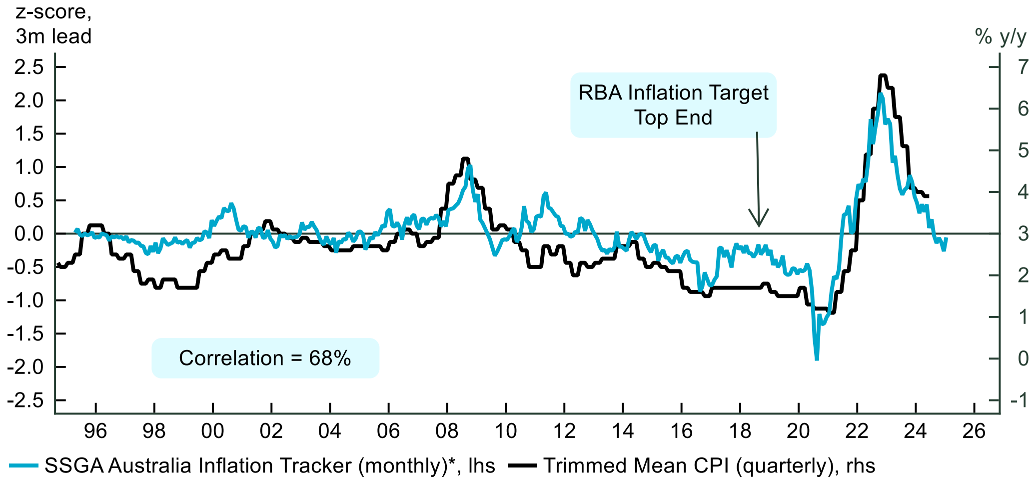
In a signal of rebuilding optimism, consumer and business sentiments improved in Australia. The **NAB Survey’s Business Conditions** rose 3 points to 7 in a broad-based improvement. However, the continued decline in prices metrics is our key takeaway, as the headline prices index eased to 0.5%, the lowest since February 2021. Retail prices eased to 0.5% too and was nearly cut in half from 1.2% last month. Consumer inflation expectations too from the Melbourne-Institute’s (MI) survey too have eased markedly. These high-frequency leading indicators point to where the headline quarterly inflation is headed, and has been an unappreciated data development.

Headline inflation is already in the RBA target range (2%-3%) already, but we now see the Bank’s preferred trimmed-mean CPI also declining to 3% by the year end, as implied by our newly developed leading indicator (Figure 4).

Our SSGA Australia Inflation Tracker is a simple average of the z-scores of eight high-frequency inflation metrics – inflation expectations in the MI Survey (trimmed mean) and that in the ANZ/Roy Morgan Survey (2-year expectations), the price metrics of the NAB Business Survey, AI Group’s Industry Survey, Manufacturing & Services PMIs (output), the TD-MI Inflation Gauge (trimmed-mean) and the CBA

Household Spending Insights Index. This tracker leads the headline and RBA's preferred trimmed-mean CPI with a 68% correlation (Figure 4) and implies easing core inflation.

Figure 4: Our Tracker Indicates Easing Inflation In Australia



Sources: Macrobond, SSGA Economics, NAB, Melbourne Institute of Applied Economic & Social Research, ABS, Ai Group, ANZ-Roy Morgan, CBA, S&P Global
Updated as of 10/13/2024

**avg. of z-scores of eight high-frequency price metrics in Australia.*

Despite this signal, we worry that the RBA may not deliver rate cuts until the February 2025 meeting; the consequence could be below-potential GDP growth for an extended period of time. However, there is a possibility of a pivot by November or December if the central bank's confidence improves. Next week, we expect a step down from the recent outsized prints in job additions to 35k, with the unemployment rate staying at 4.2%. We see downside risks to these expectations.

Week in Review

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

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Oct 7					
US	Consumer Credit (Aug, $ bn))	12.0	8.9	26.6 (↑)	Modest.
GE	Factory Orders (Aug, m/m)	-2.00	-5.8%	3.9%	Persistently weak.
JN	Labor Cash Earnings (Aug, y/y)	2.9%	3.0%	3.4% (↓)	Fluctuating.
AU	Westpac Consumer Conf Index (Oct)	n/a	89.8	84.6	Oncoming optimism.
AU	NAB Business Confidence (Sep)	n/a	-2	-5 (↓)	Good, but forward orders very weak.
Tuesday, **Oct 8**					
US	NFIB Small Business Optimism (Sep)	92	91.5	91.2	Details were softer.
GE	Industrial Production (Aug, m/m sa)	0.8%	2.9%	-2.9% (↓)	Soft.
Wednesday, Oct 9					
JN	PPI (Sep, y/y)	2.3%	2.8%	2.6% (↑)	Inflation is alive and kicking in Japan.
Thursday, Oct 10					
US	CPI (Sep, y/y)	2.3%	2.4%	2.5%	Core ticked up a tenth to 3.3%
US	Initial Jobless Claims (05-Oct, thous)	230	258	225	Impacted by weather.
US	Continuing Claims (28-Sep, thous)	1,830	1,861	1,819 (↓)	Still very low.
GE	Retail Sales (Aug, m/m)	n/a	1.60%	1.50%	Modest.
Friday, Oct 11					
US	PPI Final Demand (Sep, y/y)	1.6%	1.8%	1.9% (↑)	Mixed.
US	U. of Mich. Sentiment (Oct, prelim)	71.0	68.9	70.1	Steady.
CA	Unemployment Rate (Sep)	6.7%	6.5%	6.6%	Modest decline.
CA	Building Permits (Aug, y/y)	-7.8%	-7.0%	22.1%	Better than expected.
UK	Industrial Production (Aug, m/m)	0.2%	0.5%	-0.8%	OK.
UK	GDP (Aug, m/m)	0.3%	0.2%	0.0%	Return to growth.
GE	CPI (Sep, y/y, final)	1.6%	1.6%	1.9%	No reason for ECB to skip October.

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

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

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