Capital Group

Weekly Economic Perspectives

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STATE STREET GLOBAL ADVISORS

March 13, 2020
Commentary

Weekly Economic Perspectives

Contents

01 **The Economy**
Thoughts on US economic impact of lower oil prices. Consumer confidence starts to erode in the US as fiscal package still being worked out. Housing data still decent in Canada. Well-coordinated monetary/fiscal easing in the UK. ECB seeks to incentivize bank lending. Japan's Q4 GDP revised downward. Australia's business confidence weakens further.

12 **The Market**
A week to remember…and not for good reasons as equities collapse. Bond yields spike…likely driven not by optimism but lack of liquidity. The dollar rebounds with a vengeance...another sign of constrained liquidity? Oil crashes on Saudi shock and gold plunges.

13 Week in Review

14 Week Preview

15 Economic Indicators

Spotlight on Next Week
The Fed likely to cut big again and may even restart QE. The BoJ likely to boost asset purchases. Macro data will start deteriorating on covid-19 impact.

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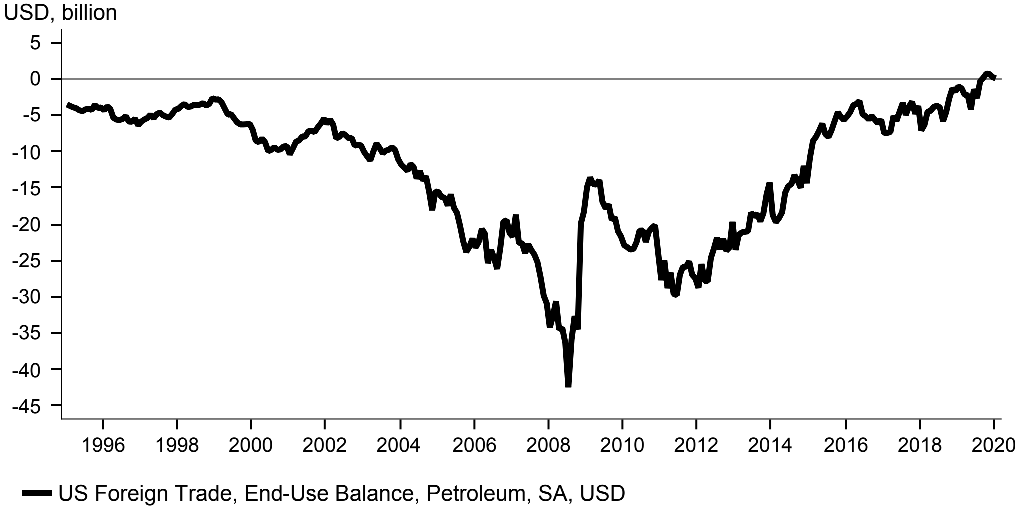
The Economy

Thoughts on US economic impact of lower oil prices

When it rains, it pours! That's how it felt this week after another black swan entered the scene. While investors were already struggling with the implications of a global Covid-19 outbreak, the unexpected price war between Russia and Saudi Arabia caused oil prices to collapse on Monday. The VIX spiked to levels not seen since the Global Financial Crisis and the Dow plunged more than 2,000 points that day.

For many years, as the United States was a net oil importer with a petroleum balance deficit that at its peak approached $400 billion a year, lower oil prices were seen as a net positive for the economy. However, that calculation has become far more nuanced recently as the shale revolution has turned the US into the world's largest oil producer and—very recently—a net exporter (Figure 1).

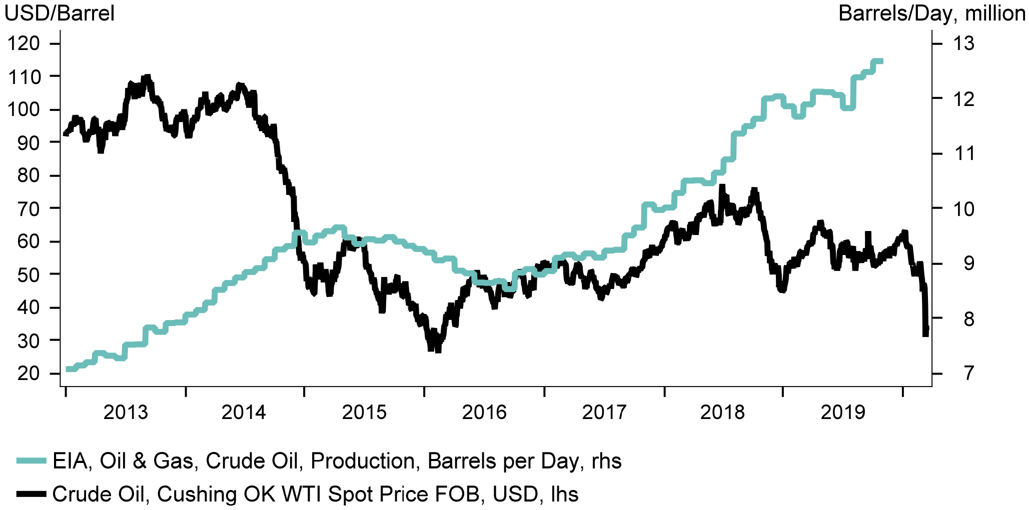
Figure 1: US Petroleum Balance Crosses Into Surplus



Sources: U.S. Census Bureau

Given this new reality, the typical positive effects of lower oil prices on consumer spending (cheaper gas prices act like a tax cut for consumers) must be weighed against the negative effects on oil producers. The US oil industry—and shale in particular—was still recovering from the 2015-16 oil price declines when oil prices dropped again in late 2018 (Figure 2, page 3). That US oil production has continued to rise despite such headwinds is in many ways a testament to the industry's improved productivity and declining production costs. Part of that cost adjustment involved capital, and part involved labor. In fact, oil and gas exploration employment was heavily curtailed in the 2015/16 episode and has since barely recovered (Figure 3, page 3).

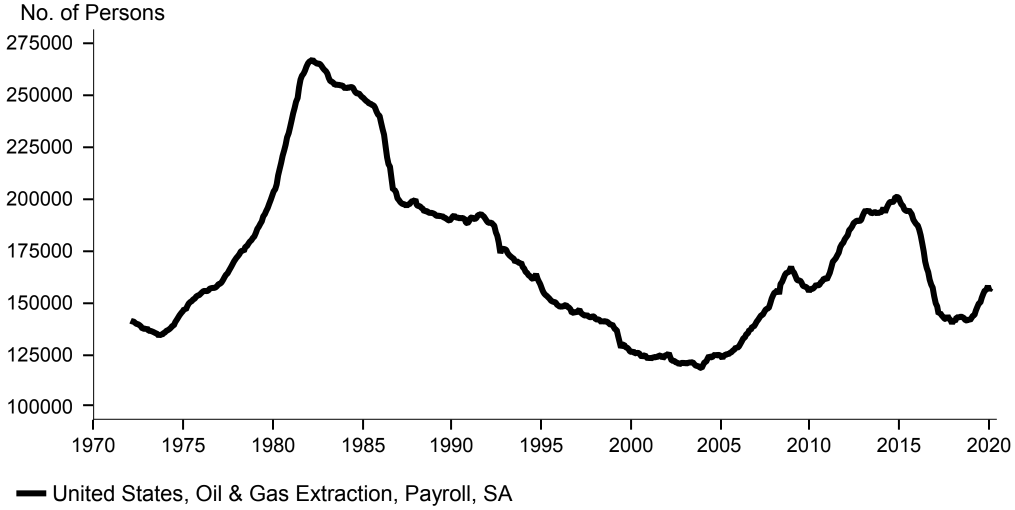
Figure 2: US Oil Production vs. Oil Prices



Sources: Energy Information Administration (EIA)

The oil industry has always been capital intensive and labor light; it seems to be getting even lighter. In fact, North Dakota topped the nation in labor productivity growth in 2007-17 (BLS data), double that of the second-placed California.

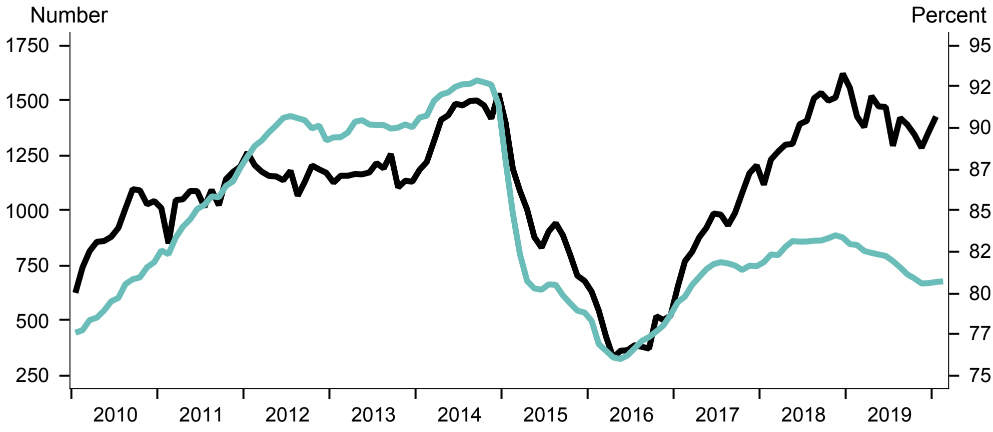
Figure 3: US Oil & Gas Employment Yet To Recover From 2015 Blow



Sources: U.S. Bureau of Labor Statistics (BLS)

There may be limited scope for significant labor savings now. Thus, while there may be some layoffs, there probably won't be many and almost certainly not as many as there were in 2016. Instead, we are more likely to witness capex reductions that will then hurt the producers of those capital goods, i.e., the manufacturing sector. However, one silver lining there is that that, unlike in 2015-16 when the oil industry was forced to undergo a rapid reduction in the rig count and was still experiencing a drop in capacity utilization, starting point conditions appear more favorable today.

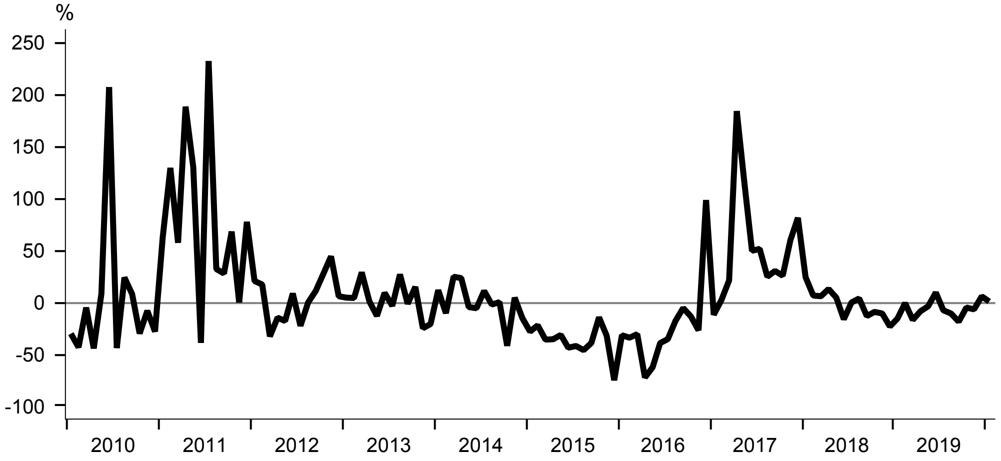
Figure 4: US: Oil Rigs and Mining Capacity Utilization



Sources: Federal Reserve, Baker Hughes

Producers have been judicious about to rig expansion, suggesting cautious capex deployment. Thus, while further capex curtailment is likely, the magnitude should be mitigated by these dynamics (Figure 5). There are also favorable implications for balance sheet resilience in the industry, possibly mitigating the credit risks that investors may be concerned about. In short, the industry is facing a renewed challenge, but there are some supportive trends that should help it cope.

Figure 5: Mining, Oil & Gas Field Machinery Durable Goods Orders



Sources: U.S. Census Bureau, Energy Information Administration (EIA)

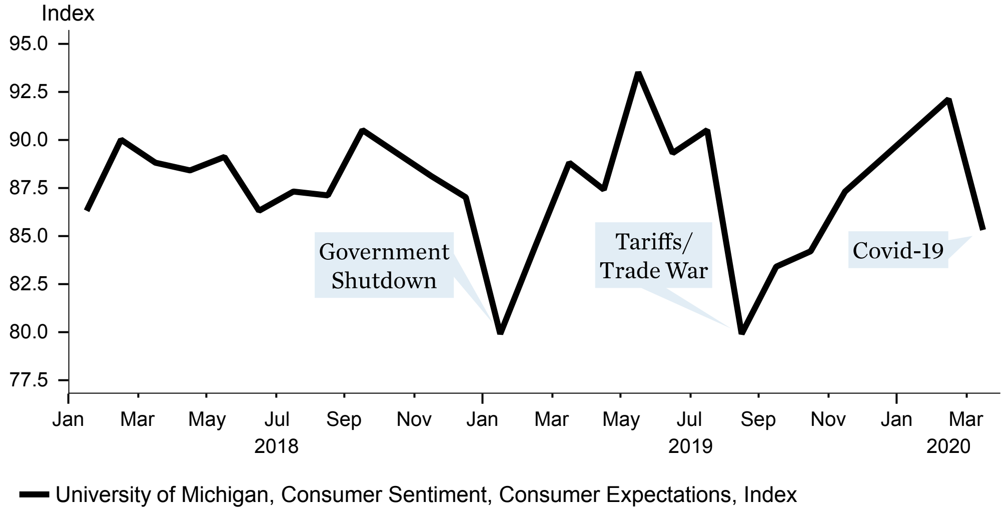
US

Having announced an emergency interest rate cut of 50 basis points on March 3, the Fed was once again called to offer emergency support this week as market functioning came under pressure as liquidity dried up. On Thursday afternoon, the **New Yok Fed** announced a major liquidity injection to “address temporary disruptions in Treasury financing markets”. It broadened the types of securities it will buy under its current $60 billion a month reserve management program in a bid to “roughly match the maturity composition of Treasury securities outstanding” (i.e, it is going out the curve). A day later, the Fed also announced that it was bringing those purchases forward rather than distributing them through the month as it had previously done. The Fed also announced up to $1.5 trillion in one and three-month repo operations; it more than tripled its daily overnight repo operations to $175 billion and announced “at least $45 billion in two-week term repo operations twice per week” over the next month. It was a lot. It helped only a little. But at least it helped, and market functioning seemed to improve on Friday.

The **Fed** has a regularly scheduled meeting next Wednesday. Market pricing is for almost 100 basis points worth of cuts, which would bring the Fed Funds rate to 0.00-0.25%, essentially back to the zero lower bound. There are widespread expectations that the Fed would also restart QE as a means of providing longer-term stability to markets, as the repo tool is perhaps not the best channel for support beyond emergency liquidity injections. With some early signs of stress in mortgage backed securities, if the Fed restarts QE, we would expect them to include such assets in their purchase mix.

As expected, consumer confidence has started to decline amid the coronavirus outbreak. The preliminary March reading on **Michigan survey of consumer sentiment** showed a pattern similar to what we saw last August amid the trade war escalation, though smaller in magnitude so far. Namely, there was a smaller decline in current situation assessment and a larger one in expectations. Unlike in August 2019, which proved to be a brief deterioration, the current soft patch will probably extend for at least a couple of months as tests broaden and confirmed cases spike. Thus, we would expect the final reading for March to settle lower still. So far, the headline index retreated 5.1 points to a historically elevated 95.9, a little stronger than expected. The current economic conditions measure declined 2.3 points with expectations down 6.8 points to 85.3. As usual, the statement offered some interesting color on the underlying dynamics: “the component of the Sentiment Index that posted the greatest loss involved judgements about prospects for the economy during the year ahead; this component fell by 29 points, accounting for 83% of the total point decline in early March. In sharp contrast, consumers more favorably judged the economic outlook over the next five years”. Short term (next 12 months) inflation expectations eased another tenth to 2.3% while long term (5-10 years) were unchanged at 2.3%. The latter has bounced around in a narrow 2.2-2.6% range for nearly four years.

Figure 6: Consumers' Expectations Deteriorate



Sources: University of Michigan

Aside from the Michigan survey above, most macro data do not yet reflect the covid-19 outbreak impact and so they continue to point a rosy picture while markets are going wild amid the dual whammy of the coronavirus and oil price collapse that is sure to dent economic performance going forward. However, although the upside surprise from the February **NFIB small business optimism index** will be chucked out as irrelevant, it is still worth acknowledging as it speaks to not just resilience, but even downright strength in the system before these two black swans hit. Indeed, the NFIB index bucked expectations for a sizable decline by instead inching up 0.2 point to 104.5. The details were unsurprisingly mixed. Perhaps the most impressive was the second consecutive big increase in actual employment—now at a record high in the series history going back to 1985. This probably has a lot to do with the surprisingly strong employment reports of last two months. Hiring plans also ticked up a little, but we would be surprised if that didn’t reverse in March given broadening activity disruptions amid the virus. We take a similar view of the big 8-point jump in the assessments of general business conditions, now at the highest since November 2018. Among the weaker details we noticed a modest drop-off in capital expenditure plans and a larger one in employee compensation plans. It will be another month before we get the first true glimpse at how small businesses sentiment is changing due to the outbreak.

Incoming **unemployment claims** data is currently not very useful given they do not yet reflect any outbreak impact, but we would expect this to once again become a critical indicator within the next couple of weeks. The trend recently has been that unemployment claims hovered near cycle lows without, however, making new lows. Initial claims—a measure of job shedding—declined by 4,000 to 211,000 in the week ending March 7, close to the cycle low of 193,000 reached in March 2019. Continuing claims—a measure of unemployment—have experienced sizable moves in recent weeks but were a bit lower at 1,722,000 in the week ended February 29. Given the acute virus-related pain in travel, hospitality, and recreational activities, claims are bound to start spiking soon even if firms will be somewhat cautious about laying off workers that had previously been so hard to find. Still, many may have to do so if the choice is between limiting the short term financial bleeding versus dealing with hiring headaches down the line. Besides, labor shortages are bound to ameliorate given this dynamic so that potential future problem may actually dissipate altogether.

Headline **consumer price inflation** has turned higher recently, although it seems poised to partly reverse that ascent in coming months following the recent collapse in oil prices. In February, however, both headline and core inflation rates exceeded expectations by a tenth, and in so doing they repeated the January experience. The headline rate now stands at 2.3% with core back up to the cycle high of 2.4%. Admittedly, overall prices rose only a modest 0.1% m/m but that was in spite of a 2.0% plunge in energy prices, a 0.5% decline in transportation costs, and a 0.3% decline in recreation. Apparel prices rose 0.4% on top of January's 0.7% gain, food was up 0.4% and housing was up 0.2%. But this may well be the last positive print on m/m prices for a while. We suspect the Covid-19 outbreak will trigger deep discounts in a multitude of categories, which the oil price collapse will further accentuate. Even housing inflation may be at risk of (at least temporarily) relapsing. In any case, inflation is the least of the Fed's worries right now as it seems bound to push through more stimulus in the system.

Canada

Housing starts weakened to 210,069 units in February, a decrease of 1.9% from the upwardly revised 214,031 units in January. Urban starts declined by 1.9% to 199,304 units—with multiple urban starts down by 6.1%, while single-detached urban starts were higher by 11.9%. The number of starts in Toronto trended lower, while multi-unit starts hampered activity in Montreal. This offset a slight up-tick in Vancouver.

Building permits rose 4.0% to C$9.2 billion in January, the highest since April of last year. This was led by a 52.1% surge in permits for British Columbia, ahead of an increase in development fees effective January 15th. Residential permits gained 12.7% to C$5.8 billion, while non-residential permits fell 7.8% to C$3.5 billion.

Capacity utilization fell to 81.2% in the fourth quarter from 81.5% in the third. Capacity utilization in mining fell 3.2 percentage points (ppts) to 68.2%, while oil and gas extraction rose 1.1ppts to 81.5%. The rise was capped somewhat by the disruptions in rail transportation and Keystone pipeline leak. Manufacturing utilization fell 1.4ppts to 77.7%, lowest in nine years, with 13 out of the 21 industries registering declines.

UK

March 11, 2020 will probably be remembered as a shining moment for the **Bank of England (BoE)**, a day when the institution demonstrated how monetary policy should be done in a time of crisis. In fact, alongside the UK government, it has jointly demonstrated how macroeconomic policy, i.e., monetary and fiscal policy coordination, should be done in a time of crisis. Admittedly, there was a fortuitous element present in that a budgetary announcement had already been scheduled so the stage had been set and ready for timeliness. Nevertheless, the manner in which this coordination has taken place, with full partnership, shared purpose, and re-enforced effectiveness, stands in contrast situations elsewhere, where either fiscal and monetary authorities experience strained relations (with blame assignations ever present) or are more institutionally constrained from undertaking effective action. Frankly, we wish that US and eurozone authorities could display a similar degree of coordination. The lessons aren't the same for the two areas, but there are lessons here nonetheless.

So, what has the Bank done? For starters, it announced a unanimous intra-meeting emergency rate cut of 50 basis points, bringing the bank rate to 0.25%. Given similarly sized moves by both the Fed and the Bank of Canada last week, this may perhaps not seem surprising. But the BoE has actually done something that neither the Fed nor the BoC had managed, which was to heavily exceed market expectations in terms of the size and timing of the cut. Markets had already priced the Fed move by the time it was announced, and they had also already priced the BoC's move before it was announced. Not so with the Bank of England: not even a 25-bp rate cut was priced in for the March 26 meeting as of yesterday. Instead we got twice as much and two weeks early. Bravo!

We were even more heartened by the other measures announced today:

- A new term funding scheme (so called TFSME) that, over the next twelve months, will make available four-year funding equivalent to at least 5% of participants' stock of real economy lending at interest rates very close to the bank rate. There are special incentives for lending to small and medium sized firms in an effort to ensure today's rate cut feeds through to the real economy. The facility could release in excess of £100 billion in term funding.

- A reduction in the counter-cyclical capital buffer from 1% to 0%. In reality, the value of the announcement is twice as much as the buffer was actually slated to go up to 2% by December. This is estimated to support up to £190 billion of bank lending, thirteen times the amount of bank's net business lending in 2019.

- New supervisory guidance and expectation that "banks should not increase dividends or other distributions, such as bonuses, in response to these policy actions".

Conspicuously absent among the measures announced? An expansion in the stock of UK government bonds purchased, which was kept at £435 billion. We are glad to see this unchanged because the sort of shock to which the BoE is responding requires a speed of transmission to the real economy that just buying more government bonds cannot deliver.

In short, we see BoE's package as exactly the sort of action that can prove effective under the circumstances. Unsaid but readable between the lines is an implicit expectation that it will require heavy and extended limitations to the movement of people in order to bring the covid-19 outbreak under control. Therefore, the short term economic costs could be quite severe, even if temporary. As such the bank is focusing its energy on things that, as Governor Carney noted during the press conference, will "keep firms in business and people in jobs". The bank dividend and bonus bit in the package also struck us as a clever way of getting both to the banks' potential temptation as well as the frequent criticism that rate cuts don't work because banks simply take the lower funding costs and pass them on to their own shareholders without benefitting the real economy.

There was a lot here that may yet come to be seen as a template for effective central bank policy action at times when a dual supply and demand shock hits.

The **budget announcement** contained some useful lessons as well. First, the size. The government announced a £30 billion fiscal stimulus package, equivalent to about 1.3% of GDP. A little over a third of this will directly go to fighting the coronavirus outbreak both via additional funding for the NHS (National Health System) and through a raft of measures to help affected businesses and individuals. Second, the messaging. We were struck by the commonality of language between Chancellor Rishi Sunak statement that the budget sought to "provide security and support for those who get sick or can't work through funding our public services, and a strengthened safety net" and "to provide a bridge for businesses, to ensure that what is a temporary impact on our productive capacity does not become permanent." This is essentially Carney's "keep firms in business and people in jobs" message, only in slightly different words. Again, bravo!

Industrial production has been reeling for months. It didn't show much promise in January, and is bound to suffer anew in coming months amid the covid-19 epidemic. If there was one silver lining in the modest 0.1% retreat in output in January was that it was driven exclusively by a large 4.2% drop in electricity production. Everything else was up, including a 1.8% increase in mining output and a 0.2% gain in manufacturing. Unfortunately, neither look likely to be sustainable short-term. Output was down 2.9% y/y, the worst since February 2013.

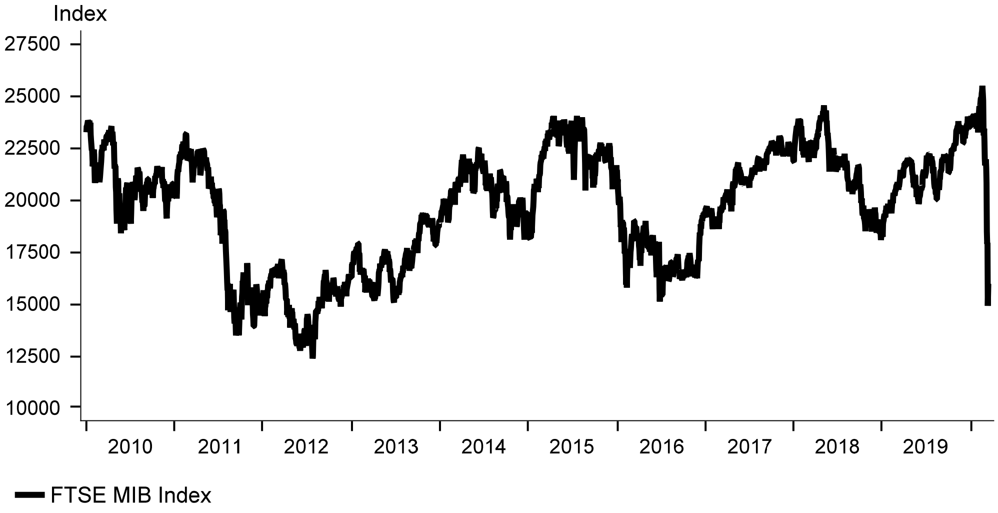
Eurozone

What the **ECB** did this week was, in our view, the right thing, but investors were in too much pain to notice. Admittedly, they did not get the 10 basis point reduction in the deposit facility rate (unchanged at -0.5%) that they expected but we have long been skeptical of negative interest rates and we do not believe a cut would have helped the real economy. In fact, we think it probably would have hurt banks even more at a time when they are needed to provide credit to a faltering economy. The other interest rates were also unchanged (main refinancing rate at 0.0% and the marginal lending facility rate at -0.1%).

But the ECB did announce considerably more favorable terms to the TLTRO III program slated to begin in June. Funding will be provided at 25 basis point discount to the main refinancing rate (in some cases that could go even lower) and more funds will be made available in the program (now up to 50% of the stock of eligible loans from 30% previously). To bridge the period from now until then, the bank launched additional weekly long-term refinancing operations. It also increased its asset purchase program by €120 billion total through the end of the year (from €20 billion per month). And it also temporarily eased some capital requirements and hinted that national macro-prudential authorities complement those by relaxing the counter-cyclical capital buffers. All of these are, in our view, steps that should boost liquidity in the banking system and help support credit flow through the economy. In layman terms, we'd say the ECB is moving from a stick to a carrot approach to encourage credit issuance.

Still, it all seemed to fall somewhat flat (Figure 4). Part of that was global market dynamics. Part of it was dismay at President Lagarde's statement during the press conference that "we are not here to close spreads". That was an odd choice of words given the tense circumstances and especially given that she went to great lengths to repeatedly imply that ECB asset purchases will temporarily deviate from the capital key while “towards the end” converging to it. And part of that was just unfortunate timing as, unlike the Bank of England (BoE), the ECB did not have the luxury of a joint announcement with fiscal authorities. So while the ECB package was well balanced in the context of an assumed fiscal policy response, that fiscal package was still an assumed future possibility at that time. Investors will probably turn more sanguine once there is some clarity on what the fiscal response will be. And in fact, we got some broad strokes of what’s coming on Friday, when we heard European Commission (EC) plans for a €37 billion investment initiative, and the intent to “activate the general escape clause to accommodate a more general fiscal policy support”. According to EC Vice President Dombrowskis, the “EU is not suspending the Stability and Growth Pact but using its flexibility” temporary suspension of the fiscal rules”. Between the Commission and the ECB, it seems investors are about to find out just how flexible the EU/Eurozone regulatory infrastructure can become in a time of crisis.

Figure 7: Italian Stocks Plunge



Sources: Macrobond,

The final read on **fourth-quarter *eurozone* GDP** confirmed the earlier estimate of a 0.1% q/q advance. This matched the second-quarter performance but was otherwise the weakest print since early 2013. Growth was driven by domestic demand—essentially fixed investment—while net exports were a big drag. Domestic final consumption expenditure was weak, contributing a mere 0.1 percentage point (ppt) to growth (it had added 0.4 pp in Q3). Fixed investment added 0.9 ppt, essentially reversing the prior quarter poor performance. Some of that was satisfied via imports, however, which detracted a full percentage point from growth. Exports only marginally offset that weakness and inventories were another small drag. Seasonally adjusted GDP growth decelerated two tenths to 1.0% y/y in the fourth quarter. The eurozone economy grew 1.2% in 2019.

January was a rare good month for ***eurozone* industrial production** but the Covid-

19 outbreak makes a near term relapse more likely than not. ***Eurozone*** **industrial production** bounced 2.3% in February. Much of that reflected a 3.0% jump in ***German*** **industrial production** as manufacturing and mining gained 2.9% and construction advanced 4.7%. Overall output was still down 1.5% y/y, but that was the best comparison since February 2019. ***Italian*** **industrial production** jumped an even larger 3.7% on broad-based gains than included a 7.0% surge in durable goods production. The improvement left output down just 0.1% y/y, also the best comparison since February 2019. ***French*** **industrial production** also grew but by a smaller than expected 1.2%, which left it 2.8% below year-earlier levels.

The uptrend in ***German*** **labor costs** may have peaked, but it remains too soon to be sure. Labor costs were flat in the fourth quarter but that still left them 3.0% higher than a year earlier. In 2019 as a whole, labor costs also increased 3.0%.

Japan

The final read on Japan's third quarter **GDP** was revised further downward by two tenths to -1.8% q/q (-7.1% annualized), which was only marginally better than the fall observed post the tax hike in April 2014. Household consumption was revised up slightly, now having fallen 2.9% (-11.1% annualized), but the main drag came from business investment. Non-residential investment was revised downward by 0.9 percentage points (ppts) to -4.6% q/q (-17.3% annualized), which alone deducted 0.7 ppts off headline. Despite fiscal and monetary policy cushioning the fall, we expect GDP to contract again in the first quarter of 2020.

Services more than compensated for the fall in December, with the **tertiary industry activity index** rising 0.8% to the highest in four months. Ironically, recreational services increased by 2.4% and had the highest positive contribution. This industry is likely to take the maximum hit from loss in tourism and domestic consumption over the coming months. Other gainers were transport and postal activities (+2.4%), and finance (+1.5%); offset partly be decline in wholesale trade (-1.4%). In annual terms, activity was down 1.1% y/y.

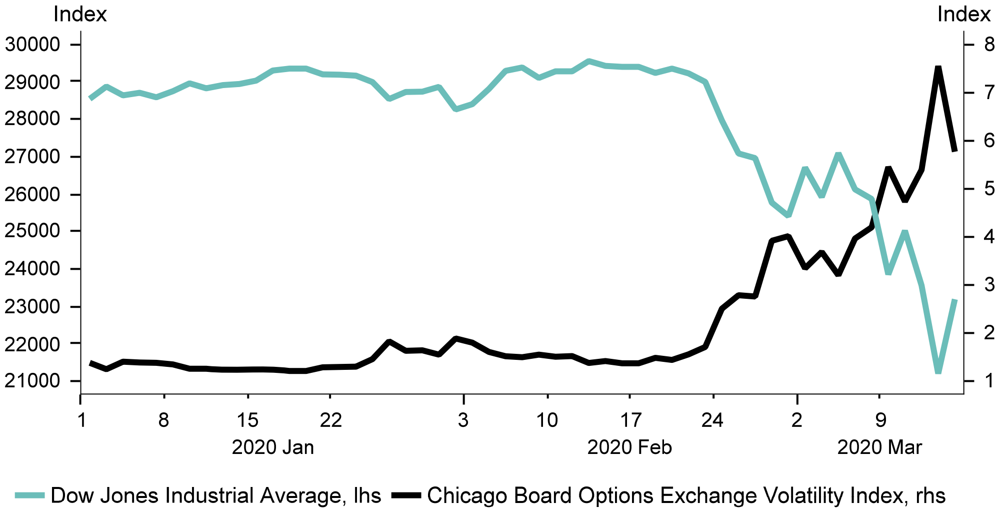
Australia

Business confidence worsened considerably in Australia, reaching multi-year lows. The **NAB Business confidence** index lost 2.6 points to -3.6 in February, the lowest since July 2013. Business conditions also recorded a decline of similar magnitude to end up at 0.4, somewhat better but still at the lowest since September 2014. More worryingly, around 50% of the firms reported no impact to date due to coronavirus. Details were downbeat—with profitability down sharply (by 0.9 points to -5.0), while forward orders were also quite weak, declining from -1.0 to -3.9. Capacity utilization edged down from 81.3% to 81.1%. The employment index gained a little (from 0.8 to 1.7). Conditions in the services sectors remained favorable, but these are the most vulnerable to a negative impact of the coronavirus outbreak.

The Market This Week

There are few historical parallels to what transpired in markets this week as the oil price war collided with broadening virus concerns to drive volatility to the highest since the global financial crisis. The long equity bull market officially came to an end. Liquidity dried up, forcing emergency injections by the Fed

Figure 8: From One Shock To Another



Sources: Dow Jones, Chicago Board Options Exchange (CBOE)

Equities: A week to remember…and not for good reasons as stocks collapse.

Bonds: Bond yields spike…likely driven not by optimism but lack of liquidity.

Currencies: The dollar rebounds with a vengeance...another illiquidity sign?

Commodities: Oil crashes on Saudi shock, gold down too.

3/13/20 4:25 PM

Stock Markets					10 Year Bond Yields			Currencies		
Country	**Exchange**	**Last**	**% Ch Week**	**% Ch YTD**	**Last**	**BP Ch Week**	**BP Ch YTD**	**Last**	**% Ch Week**	**% Ch YTD**
US	S&P 500®	2710.95	-8.8%	-16.1%	0.98	22	-94	98.611	2.8%	2.3%
Canada	TSE 300	13702.88	-15.3%	-19.7%	0.85	12	-85	1.3845	3.2%	6.6%
UK	FTSE®	5366.11	-17.0%	-28.9%	0.41	18	-41	1.2317	-5.6%	-7.1%
Germany	DAX	9232.08	-20.0%	-30.3%	-0.54	17	-36			
France	CAC-40	4118.36	-19.9%	-31.1%	0.02	36	-10	1.1086	-1.8%	-1.1%
Italy	FTSE® MIB	15954.29	-23.3%	-32.1%	1.79	71	37			
Japan	Nikkei 225	17431.05	-16.0%	-26.3%	0.05	18	7	108.12	2.6%	-0.5%
Australia	ASX 200	5539.295	-10.9%	-17.1%	0.98	30	-39	0.6188	-6.8%	-11.9%

Commodity Markets						
Commodity	**Unit**	**Source**	**Last Price**	**%Ch Week**	**%Ch YTD**	**%ChYr Ago**
Oil (Brent)	US $/Barrel	Bloomberg	33.84	-25.2%	-49.1%	-49.6%
Gold	US $/troy oz	Bloomberg	1522.34	-9.1%	0.3%	16.3%

Source: Bloomberg®

Week in Review (March 9–March 13)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, March 9					
CA	Housing Starts (Feb, thous)	206.5	210.1	214.0(↑r)	Construction still positive.
CA	Building Permits (Jan, m/m)	-3.0%	4.0%	9.9%(↑r)	Construction still positive.
GE	Industrial Production (Jan, m/m)	1.7%	3.0%	-2.2%(↑r)	Welcome bounce, but relapse likely.
FR	Bank of France Ind. Sentiment (Feb)	95	96	96	Steady, but won't be for long…
JN	GDP (Q4, final, q/q saar)	-1.6%(p)	-1.8%	0.5%	Revised down further.
Tuesday, March 10					
US	NFIB Small Business Optimism (Feb)	103.0	104.5	104.3	Poised to come down in March.
EC	GDP (Q4, final, q/q)	0.1%(p)	0.1%	0.3%	Old news.
GE	Labor Costs (Q4, y/y)		3.0%	3.1%	May be peaking.
FR	Industrial Production (Jan, m/m)	1.8%	1.2%	-2.5%(↑r)	Welcome bounce, but relapse likely.
IT	Industrial Production (Jan, m/m)	1.5%	3.7%	-2.6%(↑r)	Welcome bounce, but relapse likely.
AU	NAB Business Confidence (Feb)		-4	-1	Not the bottom.
Wednesday, March 11					
US	CPI (Feb, y/y)	2.2%	2.3%	2.5%	Core rose a tenth to 2.4% y/y.
US	Monthly Budget Statement (Feb $ bil.)	-236.8	-235.3	-234.0	Will get a lot worse soon.
CA	Capacity Utilization Rate (Q4)	81.1%	81.2%	81.5%(↓r)	Manufacturing lowest in nine years.
UK	BoE Monetary Policy Decision (unscheduled)		0.25%	0.75%	Impressive delivery.
UK	Industrial Production (Jan, m/m)	0.3%	-0.1%	0.1%	Details were a bit better.
Thursday, March 12					
US	Initial Jobless claims (Mar 7, thous)	218	211	216	Poised to spike soon.
US	PPI Final Demand (Feb, y/y)	1.8%	1.3%	2.1%	Expect further declines near term.
EC	ECB Monetary Policy Decision	0.00%	0.00%	0.00%	Is this admission that negative rates don't work?
EC	Industrial Production (Jan, m/m)	1.4%	2.3%	--1.8%(↑r)	Poised to relapse.
Friday, March 13					
US	U of Mich Sentiment (Mar, prelim)	95.0	95.9	101.0	First signs of virus impact.
US	Import Price Index (Feb, y/y)	-1.5%	-1.2%	0.3%	Oil price collapse will be a drag.
GE	CPI (Feb, final, y/y)	1.7%(p)	1.7%	1.7%	Bound to relapse on oil prices.
FR	CPI (Feb, final, y/y)	1.4%(p)	1.4%	1.6%	Bound to relapse on oil prices.
JN	Tertiary Industry Index (Jan, m/m)	0.0%	0.8%	-0.3%(↓r)	A modest rebound in January.

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

Week Preview (March 16–March 20)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, March 16				
US	Empire Manufacturing (Mar)	5.1	12.9	
CA	Existing Home Sales (Feb, m/m)	0.5%	-2.9%	
JN	Core Machine Orders (Jan, m/m)	-0.9%	-12.5%	Poised for a fall.
Tuesday, March 17				
US	Retail Sales Advance (Feb, m/m)	0.2%	0.3%	
US	Industrial Production (Feb, m/m)	0.4%	-0.3%	
US	JOLTS Job Openings (Jan, thous)	6400	6423	This won’t tell us anything about what comes next.
US	NAHB Housing Market Index (Mar)	74	74	Poised to drop.
US	Business Inventories (Jan, m/m)	-0.1%	0.1%	
CA	Manufacturing Sales (Jan, m/m)		-0.7%	
UK	ILO Unemployment Rate (Jan)	3.8%	3.8%	
UK	Average Weekly Earnings (Jan, 3m y/y)	3.0%	2.9%	
GE	ZEW Investor Expectations (Mar)	-25	8.7	It won’t last forever, but it will be bad…
JN	Industrial Production (Jan, final, m/m)	0.8%(p)	1.2%	
AU	House Price Index (Q4)	4.5%	2.4%	Still strong, RBA easing to offset dip in demand partially.
Wednesday, March 18				
US	FOMC Monetary Policy Decision	0.75%	1.25%	The Fed may do more than this.
US	Building Permits (Feb, thous)	1500	1550(↓r)	
US	Housing Starts (Feb, thous)	1500	1567	
CA	CPI (Feb, y/y)		2.4%	Likely to stay close to target.
CA	Teranet/National Bank HPI (Feb, y/y)		2.1%	Housing market still robust.
EC	CPI (Feb, final, y/y)	1.2%(p)		
IT	Industrial Orders (Jan, m/m)		1.4%	
JN	Trade Balance Adjusted (Feb, ¥ bil.)	543.5	-224.1	Exports to deteriorate.
Thursday, March 19				
US	Initial Jobless claims (Mar 14, thous)		211	
US	Philadelphia Fed Business Outlook (Mar)	10	36.7	This will be a very valuable signal.
US	Leading Index (Feb, m/m)	0.1%	0.8%	
JN	BoJ Monetary Policy Decision	-0.10%	-0.10%	Expect increase in asset purchase program.
JN	CPI (Feb, y/y)	0.5%	0.7%	Virus shock big impediment to achieving inflation target.
JN	All Industry Activity Index (Jan, m/m)	0,4%	0.0%	
AU	Unemployment Rate (Feb)	5.3%	5.3%	Calm before the storm?
Friday, March 20				
US	Existing Home Sales (Feb, m/m)	1.1%	-1.3%	
CA	Retail Sales (Jan, m/m)		0.0%	
FR	Wages (Q4, final, q/q)		0.2%	

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

Economic Indicators

Central Bank Policy Targets

Region	Target	Year/Year % Change in Target				
		Sep	Oct	Nov	Dec	Jan
US	Target: PCE price index 2.0% y/y	1.3	1.3	1.3	1.5	1.7
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	1.9	1.9	2.2	2.2	2.4
UK	Target: CPI 2.0% y/y	1.7	1.5	1.5	1.3	1.8
Eurozone	Target: CPI below but close to 2.0% y/y	0.8	0.7	1.0	1.3	1.4
Japan	Target: CPI 2.0% y/y	0.2	0.2	0.5	0.8	0.7
Australia	Target Range: CPI 2.0%-3.0% y/y	1.7	1.8	1.8	1.8	

Source: Macrobond

Key Interest Rates

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	#####	Jan-20	Feb-20
US (top of target range)	2.50	2.50	2.50	2.50	2.25	2.00	1.75	1.75	1.75	1.75	1.75
Canada (Overnight Rate)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
UK (Bank Rate)	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Eurozone (Refi)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Japan (OCR)	-0.07	-0.06	-0.08	-0.07	-0.06	-0.06	-0.03	-0.03	-0.07	-0.04	-0.03
Australia (OCR)	1.50	1.50	1.28	1.02	1.00	1.00	0.76	0.75	0.75	0.75	0.75

Source: Macrobond

General Government Structural Balance as a % of Potential GDP

									Forecast	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
US	-8.2	-6.4	-4.5	-3.8	-3.6	-4.4	-4.8	-6.0	-6.3	-6.3
Canada	-3.1	-2.1	-1.1	0.1	0.8	0.7	0.0	-0.2	-0.5	-0.8
UK	-5.9	-6.0	-4.0	-4.7	-4.1	-2.9	-2.0	-1.5	-1.3	-1.4
Eurozone	-3.9	-2.1	-1.2	-0.9	-0.8	-0.7	-0.7	-0.6	-0.7	-0.9
Germany	-1.4	0.0	0.6	1.2	1.2	1.3	1.1	1.4	0.9	1.0
France	-5.0	-4.4	-3.4	-3.3	-3.0	-2.8	-2.6	-2.5	-2.4	-2.5
Italy	-4.1	-1.5	-0.6	-1.1	-0.7	-1.4	-1.7	-1.8	-1.5	-2.1
Japan	-8.0	-7.6	-7.5	-5.5	-4.3	-4.1	-3.4	-3.1	-2.9	-2.1
Australia	-4.3	-3.3	-2.6	-2.6	-2.4	-2.2	-1.5	-0.6	-0.4	-0.4

Source: International Monetary Fund, World Economic Outlook

Headline Consumer and Producer Price Inflation

	CPI Year/Year % Change						PPI Year/Year % Change				
	Oct	Nov	Dec	Jan	Feb		Oct	Nov	Dec	Jan	Feb
US	1.8	2.1	2.3	2.5	2.3		1.0	1.1	1.3	2.1	1.3
Canada	1.9	2.2	2.2	2.4			-1.4	-0.6	0.5	0.5	
UK	1.5	1.5	1.3	1.8			0.8	0.5	0.9	1.1	
Eurozone	0.7	1.0	1.3	1.4			-1.9	-1.4	-0.6	-0.5	
Germany	1.1	1.1	1.5	1.7	1.7		-0.6	-0.7	-0.2	0.2	
France	0.8	1.0	1.5	1.5	1.4		-1.2	-0.3	0.7	0.3	
Italy	0.2	0.2	0.5	0.5	0.4		-2.9	-2.6	-2.1	-2.3	
Japan	0.2	0.5	0.8	0.7			-0.3	0.2	0.9	1.5	0.8
Australia	1.8	1.8	1.8				1.4	1.4	1.4		

Source: Macrobond

Real GDP Growth (Q/Q Seasonally Adjusted)

	Quarter/Quarter % Change						Year/Year % Change				
	Q4-18	Q1-19	Q2-19	Q3-19	Q4-19		Q4-18	Q1-19	Q2-19	Q3-19	Q4-19
US	0.3	0.8	0.5	0.5	0.5		2.5	2.7	2.3	2.1	2.3
Canada	0.2	0.2	0.9	0.3	0.1		1.8	1.5	2.0	1.6	1.5
UK	0.2	0.6	-0.1	0.5	0.0		1.4	2.0	1.3	1.2	1.1
Eurozone	0.4	0.5	0.1	0.3	0.1		1.2	1.4	1.2	1.3	1.0
Germany	0.2	0.5	-0.2	0.2	0.0		0.6	1.0	0.3	0.6	0.5
France	0.5	0.3	0.4	0.3	-0.1		1.2	1.3	1.5	1.5	0.9
Italy	0.1	0.2	0.1	0.1	-0.3		0.0	0.2	0.4	0.5	0.1
Japan	0.6	0.5	0.6	0.0	-1.8		-0.2	0.8	0.9	1.7	-0.7
Australia	0.2	0.5	0.6	0.6	0.5		2.2	1.7	1.6	1.8	2.2

Source: Macrobond

Industrial Production Index (M/M Seasonally Adjusted)

	Month/Month % Change						Year/Year % Change				
	Sep	Oct	Nov	Dec	Jan		Sep	Oct	Nov	Dec	Jan
US	-0.3	-0.4	0.9	-0.4	-0.3		-0.2	-0.8	-0.5	-0.9	-0.8
Canada	-0.5	0.0	-0.4	0.3			-2.4	-2.5	-1.8	-1.2	
UK	0.2	0.1	-1.2	0.1	-0.1		-1.8	-1.6	-2.5	-1.9	-2.9
Germany	-0.8	-1.2	1.3	-2.2	3.0		-4.3	-4.7	-2.5	-5.3	-1.4
France	0.4	0.4	-0.2	-2.5	1.2		0.3	-0.2	0.5	-3.0	-2.8
Italy	-0.4	-0.3	0.0	-2.6	3.7		-2.2	-2.4	-0.8	-3.7	-0.4
Japan	1.7	-4.5	-1.0	1.2	0.8		-0.3	-6.6	-6.7	-5.6	-2.4

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	#####	Jan-20	Feb-20
US	3.6	3.6	3.7	3.7	3.7	3.5	3.6	3.5	3.5	3.6	3.5
Canada	5.7	5.4	5.6	5.7	5.7	5.5	5.6	5.9	5.6	5.5	5.6
UK	3.8	3.9	3.8	3.9	3.8	3.8	3.8	3.8			
Eurozone	7.6	7.6	7.5	7.6	7.5	7.5	7.4	7.4	7.4	7.4	
Germany	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
France	8.5	8.4	8.5	8.5	8.5	8.4	8.3	8.2	8.2	8.2	
Italy	10.1	10.0	9.8	9.9	9.6	9.9	9.7	9.7	9.8	9.8	
Japan	2.4	2.4	2.3	2.3	2.3	2.4	2.4	2.2	2.2	2.4	
Australia	5.2	5.2	5.3	5.2	5.3	5.2	5.3	5.2	5.1	5.3	

Source: Macrobond

Current Account Balance as a % of GDP (Seasonally Adjusted)

	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18	Q4-18	Q1-19	Q2-19	Q3-19
US	-2.2	-2.5	-2.0	-2.3	-2.3	-2.1	-2.4	-2.8	-2.6	-2.4	
Canada	-2.2	-2.7	-3.4	-3.0	-2.8	-2.6	-1.8	-2.8	-3.0	-1.2	-1.7
UK	-3.2	-4.0	-3.4	-3.3	-3.4	-4.4	-4.3	-5.1	-6.0	-4.6	
Eurozone	3.1	1.9	3.9	3.6	3.5	3.6	2.6	2.8	3.1	2.4	
Germany	8.3	7.0	8.6	8.6	8.5	7.6	6.5	7.4	7.8	7.6	8.1
France	-1.3	-0.7	-0.7	-0.3	-0.3	-1.4	-0.5	-0.5	-0.8	-0.8	-1.0
Japan	4.3	3.7	4.6	4.2	3.6	4.0	3.4	3.1	3.4	3.5	3.5
Australia	-1.5	-2.5	-2.8	-3.5	-2.2	-2.7	-2.2	-1.4	-0.2	1.2	

Source: Macrobond

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