STATE STREET GLOBAL ADVISORS

Weekly Economic Perspectives
May 8, 2020

IMPORTANT NOTICE

The following material is provided by a third-party strategist unaffiliated with AssetMark. The strategist is solely responsible for its content. Please read the risks and disclosures section for additional important information. AssetMark has not verified the accuracy of the information contained in this material.

For financial advisor use with advisory clients.

C20-15705 | 05/2020 | EXP 12/31/2021

AssetMark, Inc. is an investment adviser registered with the Securities and Exchange Commission.

May 8, 2020
Commentary

Weekly Economic Perspectives

Contents

01 **The Economy**
A special commentary on Germany's Constitutional Court ECB decision. Unemployment spikes in the US and Canada. The BoE is watchfully on hold. German and Italian industrial production plunges. Wages for part time employees take a hit in Japan. The RBA on hold but expands eligible collateral for repo operations.

13 **The Market**
A risk-on week despite some nasty macro data. Broad equity gains on reopening expectations. Bond yields widen a little. The dollar creeps a bit higher. A big gain for oil.

14 Week in Review

15 Week Preview

16 Economic Indicators

Spotlight on Next Week
Contraction in US retail sales and industrial production set to deepen. Data to show UK, German, and eurozone Q1 GDP contraction.

Contact

Simona Mocuta
Senior Economist
simona_mocuta@ssga.com
+1-617-664-1133

Kaushik Baidya
Economist
kaushik_baidya@ssga.com
+91-806-741-5048

The Economy

Eurozone: The Judges Have Spoken, But The Jury Is Still Out

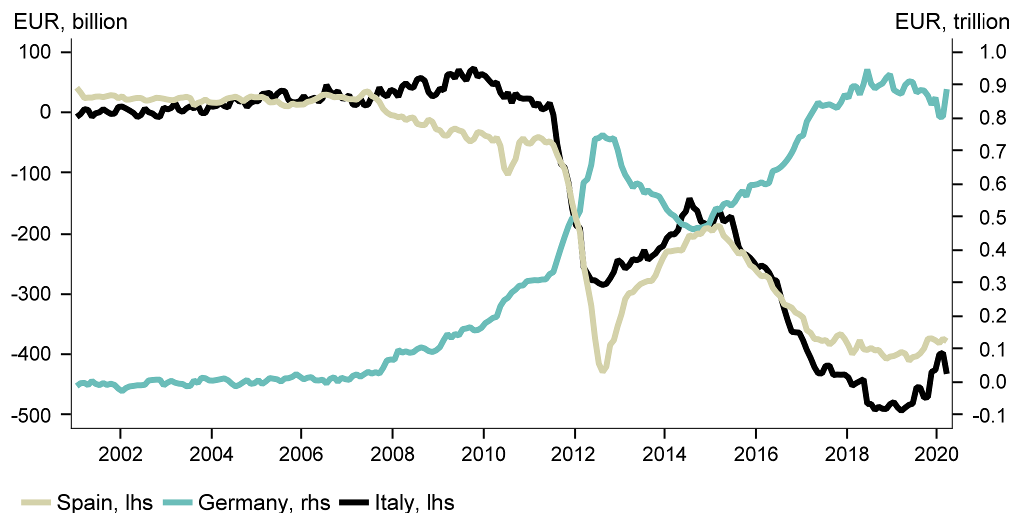
Guest commentary by Elliot Hentov

This week's ruling by the German Constitutional Court (BVGH) decreed that the ECB had exceeded its mandate in the implementation of its QE program of purchasing government bonds. The main argument suggested that the ECB measures were "not proportional" to the monetary policy objectives and therefore veered into economic and fiscal policy areas. In addition to the dangerous precedent of contradicting the European Court of Justice (ECJ), this has raised market concerns about the ability of the ECB to sufficiently conduct future QE in order to maintain financial stability and help engineer the economic recovery.

While peripheral spreads rose and the Euro weakened after the court ruling, existential worries are misplaced. The economic crisis resulting from the pandemic is massive and though the eurozone's architecture has not been reformed enough to fix the monetary union's deficiencies, the tail risk of an Italian exit is lower than the market consensus.

Specifically, there are three major developments in 2020 that support the prospect of a sustainable European solution for Italy and other peripheral public debt challenges. ***First***, the crisis has worsened the fiscal profile of all European sovereigns. Even relatively optimistic forecasts by the European Commission predict Germany and the Netherlands to experience an increase of 12-15% rise in their debt-to-GDP ratios this year. But more importantly, France is forecast to end the year with a ratio of 116%. The political ramification is that public debt management moves from a peripheral issue to a core eurozone problem. Thus, any policy approach will need to help France cope, and by extension, such measures are likely to support Italy and others as well.

Figure 1: ECB Target 2 Balances



Sources: ECB (European Central Bank)

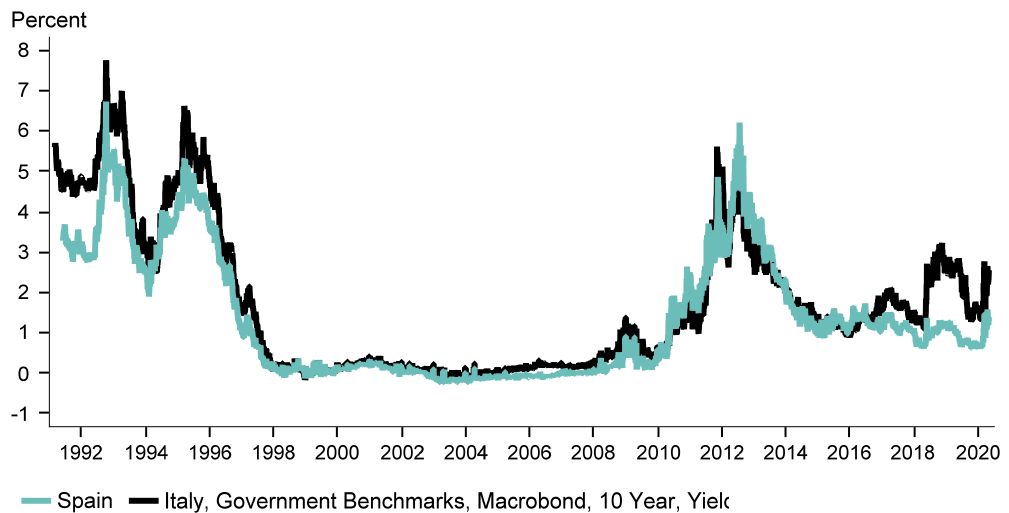
Second, all of the enacted measures over the past decade have created an increasing stock of liabilities that would make the cost of any eurozone breakup much higher for all parties. This changes the incentive structure around seeking

compromises to ensure sustainability and financial stability. In other words, exposure to Italian debt prevents a Greek-style standoff where most of the exit pains would fall to the departing country. In detail, after five years of QE and the coming months of pandemic emergency response, the ECB is likely to hold about a half a trillion of Italian government bonds on its consolidated balance sheet by year-end 2020 (up from roughly EUR 400 billion pre-crisis), roughly 20% of Italian debt outstanding.

As per Figure 1 above, this direct exposure is augmented by the corollary Target 2 imbalance, where Italy is currently in deficit of roughly EUR 430 billion and also likely to exceed a half trillion by year-end. The latter is currently just an accounting figure, but this would become a real liability in the case of an Italian exit. Germany's overall Target 2 surplus remains close to its all-time highs near one trillion euros. A shrunken eurozone would require remaining members to recapitalise the ECB on all of these losses, with Germany by far the largest shareholder.

Third, the Covid-19 crisis is transforming European politics, particularly in Germany. There has been a notable shift in public opinion perceiving this crisis as a shared challenge. In turn, the Merkel government has stressed European solidarity, and the leadership race to succeed her looks increasingly favorable to Armin Laschet who has an even more constructive view of Germany's role in Europe. Any German governmental decision in support of the ECB actions would obviate this week's court decision, which stressed that economic and fiscal policy impacts require German governmental approval. None of this will bring about the long-desired fiscal union or debt mutualisation, but the range of policy options and the degree of fiscal transfers will certainly be greater than any time since the creation of the Euro.

Figure 2: Peripheral Eurozone 10-Year Bond Spreads vs. Germany



Sources:Macrobond Financial AB

In the interim, the patchwork of measures already in place are quite durable. As per Figure 2 above, spreads may have widened, but this does not signal severe distress. They remain much lower than during the 2011-2012 crisis and even below the reign of the Lega-Five Star government in 2018-2019. Moreover, actual debt servicing costs remain more muted. The 10-year yield on Italian debt stands below 2% and its

5-year average. ECB bond purchases will ensure yields remain at these levels. Factoring in the estimated fiscal support of approximately EUR 150 billion from the various EU programs (SURE, EIB, Recovery Fund) and a possible concessional credit line from ESM worth 2% of GDP, Italy's need to tap private sector lenders is limited despite the blowout in its deficit. Thus, there is very little immediate rollover risk and no expected spike in spreads over the course of the coming months.

In the long-term, the challenges remain and the ECB's role as monetary financer will need to be legitimised or larger scale fiscal support will be required. The irony is that the German Constitutional Court (of all institutions) has implicitly suggested that the ECB actions require the approval of fiscal authorities, i.e. signalling that a de facto end to ECB independence would be in line with the legal requirements. The jury is still out whether the German judges imagined such an outcome.

Conclusions: First, despite an initial widening of spreads and a weakening of the currency, we would expect the reverse to happen as the contours of European support become clearer. The Euro may also benefit from a more skilful exit from the lockdown compared to the US, as well as from the latter's growing instability ahead of the presidential election. Second, the key political variables to watch are French positioning within Europe as well as domestic German politics and the race to succeed Merkel. The core problem has been a political incongruity of the eurozone to its economic fundamentals, so watching whether that incongruity shrinks or widens is the best predictor of the strength of European policy actions.

US

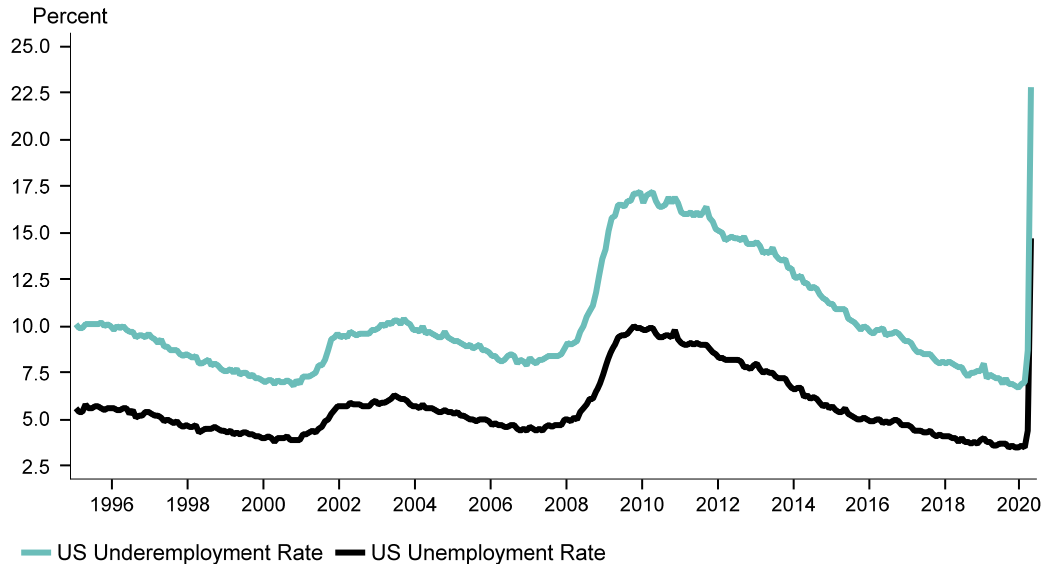
Here is a statistic to behold: from January 2010 to February 2020, the US economy added 22.7 million jobs; in the last two months, it lost 21.4 million! 20.5 million of them were in April alone. However, since unemployment claims data had already indicated the direction of travel, nobody was surprised. The equity market even rose following the release because the deterioration was a bit less than expected. However, there was no real positive surprise here, but rather data collection and classification challenges. The BLS noted that millions of people on furlough have been incorrectly classified as employed and that if that adjustment were to have been made, the unemployment rate would have been not 14.7% but five percentage points higher.

The establishment report showed 20.5 million jobs lost, 19.5 million of which in the private sector. Losses were concentrated in service producing sectors, which were down 17.2 million. Unsurprisingly, leisure and hospitality was worst hit, with almost 7.7 million jobs lost. Employment in this sector is now a mere 51% of the February level! Trade and transportation lost 3.1 million jobs, of which 2.1 million in retail. Education and health lost 2.5 million, with the bulk of them in healthcare as non-essential health services shut down. Healthcare spending was a negative surprise in Q1 GDP data—this suggests further drag in early Q2. Business services lost 2.1 million, a third of which in temp jobs. Goods producing sectors lost 2.4 million, split roughly 60/40 between manufacturing and construction.

According to the household survey, employment declined by 22.4 million and unemployment increased by 15.9 million, About 6.5 million people dropped out of the labor force. The unemployment rate shot up to 14.7%, but given the classification issues noted by the BLS, the augmented unemployment rate was estimated at

19.8%. The median duration of unemployment dropped from 7.0 weeks to just 2.0 weeks, reflecting the huge number of people who had just recently joined the ranks of the unemployed.

Figure 3: US Unemployment Spikes



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

The **hours** data were perplexing. The manufacturing workweek plunged by more than two hours, which makes sense given the shutdowns, but the overall workweek reportedly increased by six minutes. This seems strange and implausible given how many service businesses shut down. Presumably, those still employed are working longer hours to compensate for those not working, but this still seems a little hard to get our head around. In any case, the big decline in employment resulted in an extraordinary 14.9% decline in overall hours worked (a measure of work effort).

The **wage** data were misleading. Overall average hourly earnings jumped 4.7%. This is *not* a true representation of wage inflation during April. It is true that a few employers in areas seeing high demand offered temporary raises to select employees, but the main driver for the surge was a change in the composition of employment. As the bulk of job losses occurred in lower paid services (retail, leisure and hospitality), higher paid workers made up a higher share of those still employed.

Initial **unemployment claims** declined to a six-week low of 3.2 million during the week ended May 2. The number was a bit higher than expected but the bigger surprise was the much bigger surprise was the 4.6 million jump in continuing claims. This changes the dynamic of the last few weeks, when continuing claims were rising by a lesser extent than what initial claims would have suggested. It is as yet unclear how to interpret this change, but at the very least it raises some questions about the effectiveness of the PPP program. All but six states experienced a decline in initial claims. One notable exception was Oklahoma, where initial claims exceeded 68,000…Remarkably, that was on a par with Michigan, and above Massachusetts…and clear evidence of oil sector pain!

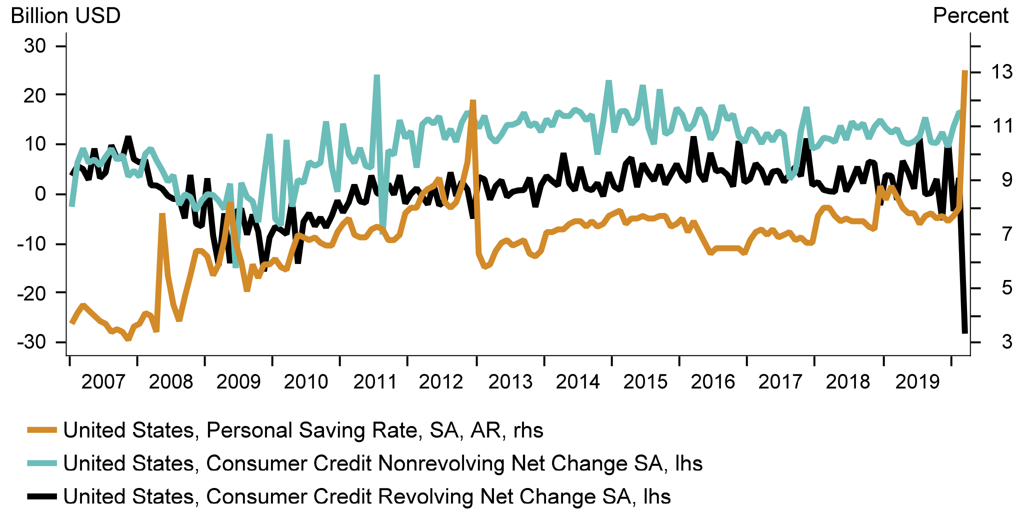
Prior to the COVID-19 outbreak, **services** activity was chugging along at a good pace, with the non-manufacturing ISM index at 57.3 in February. After an “interim” slide to 52.4 in March, the index collapsed to 41.8 in April, the lowest level since March 2009. The reality is even worse as the headline was artificially flattered by lengthening supplier delivery timelines. This component surged 16.2 points to 78.2, but we know this does not reflect the usual sort of demand-driven pressure of supply chains but rather, disruptions amid the shutdown. The key metrics of business activity, new orders, and employment were much weaker, down 22.0, 20.0 and 17.0 points, to 26.0, 32.9, and 30, respectively. Two of the details seemed a bit surprising. First was the relatively smaller 9.6-point decline in export orders (to 36.3)—we are not quite sure how to read this. And the second was the 5.1-point jump in the prices paid metric, to 55.1. This seems outright odd given the presumed loss of pricing power amid the demand shock.

Unsurprisingly, **factory orders** declined sharply in March; also unsurprisingly, they didn’t fare quite as well as durable goods orders. Still, they fared bad enough: down an unprecedented 10.3%. Non-durable goods orders fell 5.8%, with durables down 14.7% (close to the earlier 14.4% estimate). Core orders (non-defense capital goods excluding aircraft)—a leading indicator for business equipment investment (BEI) in the GDP accounts—declined 0.1% (originally reported as +0.1%). Overall shipments declined 5.2%, with core shipments down 0.2%. Overall inventories declined 0.8% while core inventories rose 0.8%. Backlogs declined 2.0% and the inventory -to-shipments ratio increased to 1.46 months, the highest level since April 2009.

Having shrank to a four-year low in February, the **trade deficit** widened again in March as exports plunged 9.6% while imports declined a more moderate 6.2%, causing the nominal deficit to widen by about $4.6 billion. The real trade deficit (more relevant for growth) worsened by a larger $6.5 billion. Both are much more favorable than a year earlier, however.

Something very unusual happened with **consumer credit** in March. It declined…by a lot! Total consumer credit outstanding shrank by $12 billion, but this figure obscures extreme differences across credit types. Revolving credit collapsed by $28 billion even as non-revolving credit increased by $16 billion and showed no material behavior change versus February. This degree of divergence is quite extraordinary. Above and beyond a normal response to the crisis via heightened risk aversion, the combination of sharply lower revolving credit and a personal savings rate that has shot up to a multi-decade high of 13.1% also speaks to a degree of “forced savings” associated with lockdowns. It remains to be seen how the savings rate will evolve in coming months. To the extent that risk aversion persists beyond lockdowns, keeping it elevated, this could well slow the recovery. But there is so much leeway here that even an-elevated savings rate could still allow for considerable pent-up demand to materialize. In other words, we’ll take a 13% savings rate any day over the low single digit rates prevailing in the years leading to the Great Recession.

Figure 4: A Very Unusual Chart!



Sources: U.S. Bureau of Economic Analysis (BEA)

Unsurprisingly given recent developments, **labor productivity** declined sharply during the first quarter. Still, the 2.5% annualized decline was considerably more muted than consensus expectations owing to a decline in hours worked. Output plunged 6.2% while employee hours declined 3.8% (both annualized). Compensation per hour grew 2.2%, which caused unit labor costs—a measure of inflationary pressures emanating from the labor market—to jump 4.8% (annualized). Offsetting this was a 4.5% decline in unit non-labor costs. Productivity rose 0.3% y/y, the least since 2016.

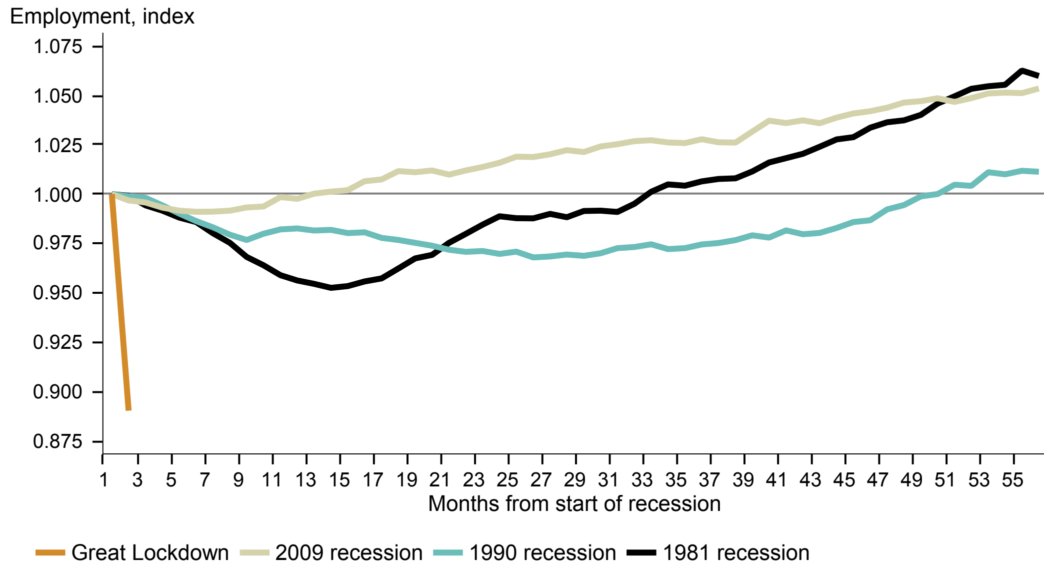
Canada

Job losses accelerated in Canada, with the April labor market report fully reflecting the impact of Covid-19 disruptions. **Employment** declined by nearly 2 million, bringing the total number of jobs lost since February (the last somewhat normal month) to 3 million. Even among those who kept their jobs, nearly 2.5 million worked for less than half of their usual hours. 4 out of 10 of these workers feared layoffs. The unemployment rate increased by 5.2 percentage points (ppts) to 13.0%, the second highest on record since 1982! Had it not been for people dropping out of the labor force, Statistics Canada estimates that nearly one out of every five persons would have been without a job! The "recent labor underutilization rate" consequently increased to 36.7%.

The brunt of the collapse in activity was borne by construction and manufacturing industries, which lost a cumulative 581,000 jobs. Job losses were similar for both sexes, but concentrated in age group 15 to 24 years, who are more likely to work part -time or in retail and hospitality services. The youth unemployment rate increased by 10.4 ppts to 27.2%. The survey was supplemented by additional questions to better portray the impact of restrictions, which revealed that a quarter of the workforce has been forced to work from home. Despite the intensely gloomy picture, the spike in unemployment rate was lower than expected, thanks to the Canada Emergency Response Benefit (CERB), aimed at complementing the Employment Insurance (EI)

program and moderating the impact of lost employment. Despite the fiscal measures expected to keep the unemployment rate in check, we expect it to get worse before getting better.

Figure 5. Most Severe Crisis For Canadian Employment



Sources: Statistics Canada, Macrobond Financial AB

Housing starts came in much stronger than expected in April, although they were still down by 12.4% to 171,000. The survey was not conducted in Quebec, following lockdown measures introduced in late March. Surprisingly, the trend growth in sales excluding Quebec was pretty strong (up 1.6%), due to gains in multi-family starts in Ontario, Saskatchewan and Manitoba. Overall urban starts increased by 12.4% (annualized)—with multiple urban starts up by 35.7% (annualized), while single-detached urban starts were lower by 27.1%. We expect a decline in sales across the country in the near term.

Building permits dropped 13.2% to C$7.4 billion in March, this being the sharpest decline since August 2014. This only confirms our skepticism about rising starts, which are bound to fall soon. The result reflected notable drops in Ontario (-12.9%), Quebec (-18.1%) and British Columbia (-19.4%), which coincided with considerable restrictions in place. . Residential permits fell 13.1% to C$4.6 billion, while non-residential permits decreased 19.7%, the third consecutive decline.

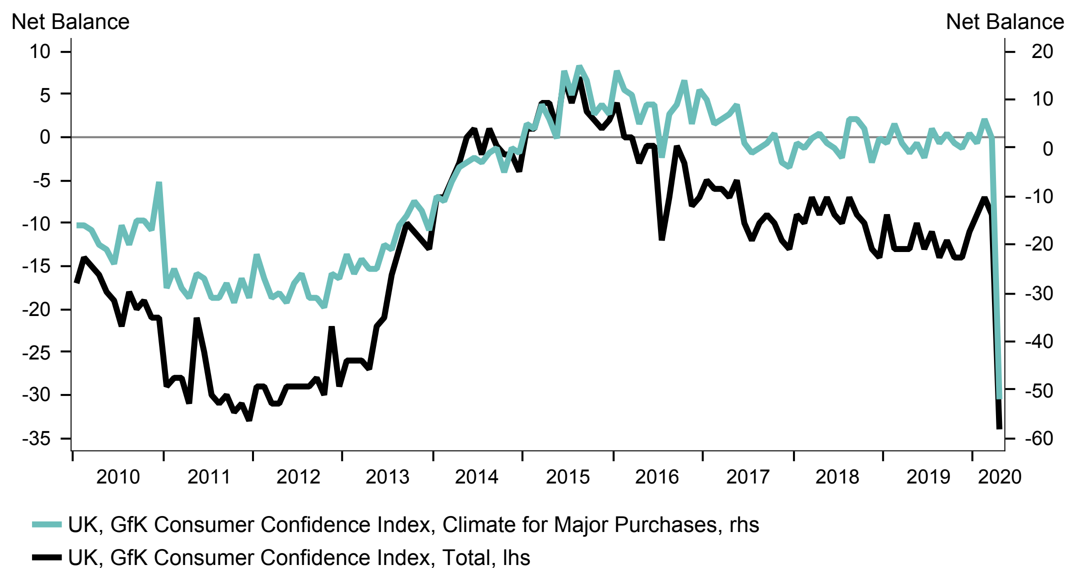
UK

The **Bank of England**'s Monetary Policy Committee (MPC) announced no new policy actions this week, although two members voted in favor of a further increase in the size of the QE program. For the time being, however, the Bank Rate remained at 0.1% and the targeted stock of asset purchases at £645 billion. The most important development was an update of what the Committee views as a “plausible illustrative economic scenario”. The scenario assumes a roughly 3% decline in GDP in Q1, followed by another 25% or so contraction in Q2. Even with considerable uptake for the job protection program, the unemployment rate is expected to rise to 9% during

the second quarter. The illustrative scenario assumes social distancing policies and government support schemes are largely unwound by the end of Q3, and that only a small part of the lost consumption and investment during the period of social distancing is subsequently made up. Specifically, about a quarter of the lost consumption and about a tenth of the delayed investment is made up; some housing transactions are also “assumed to complete once the measures are lifted”. Notably, it also assumed that “the UK moves to a comprehensive free trade agreement with the EU on 1 January 2021.” The result is that GDP declines by 14% this year, followed by a 15% rebound in 2021 and a further small decline in 2022. The uncertainty around this scenario is high risks are seen as “skewed to the downside”. Unsurprisingly, then, the MPC “stands ready to take further action as necessary to support the economy and ensure a sustained return of inflation to the 2% target”.

Given the introduction of an interim release, we already knew that **consumer confidence** plummeted in April. Indeed, the GfK consumer confidence index plunged 24 points to -34, the worst print since February 2009. Even more dramatic was the collapse in buying intentions, with lost 50 points to a new record low.

Figure 6: UK Consumers Put Purchases On Hold



Sources: GfK

This is quite different from the dynamic at play in the immediate aftermath of the Brexit referendum, when consumers became quite worried about the broader economic outlook but were somewhat more confident about their own personal financial situation. Now that the damage has been done, the next big question is “how long will this last”?

Eurozone

The final April readings for **manufacturing and services purchasing managers’ indexes** were little changed from the horrid preliminary releases. Service prints in the teens, manufacturing prints in the low 30’s speak to an economy brought to a near

standstill by lockdowns. It is no surprise that a majority of respondents tell us business conditions are deteriorating. The trouble is—they don't tell us by how much! B the same token, while the May surveys are likely to rebound above 50 as countries gradually re-open, they will once again fail to tell us anything about the intensity of that coming improvement.

German **industrial production** plunged 9.2% in March. Manufacturing and mining led declines with an 11.6% contraction; within manufacturing, capital goods production fell 16.5%. Almost surprisingly, construction activity managed a 1.8% gain for the month. Compared with a year earlier, overall industrial production declined 11.4%, manufacturing and mining declined 14.5%, but construction was up 5.0%.

April's industrial production will look worse if **factory orders** are any guide. They plunged a larger than expected 15.6% in March, although we wouldn't describe this as a genuine surprise given broad lockdown conditions across the eurozone and beyond. The group breakdown was telling, as consumer goods orders were down by a modest 1.3%, intermediate goods by 7.5% and capital goods by a far larger 22.6%. There was almost no distinction in performance between domestic and foreign orders…perhaps a good illustration that a lockdown looks the same everywhere… The sector breakdown showed considerable divergence, ranging from minimal declines in chemicals and a nearly 30% drop in autos and parts.

A big reason behind ***France***'s 5.8% GDP contraction during the first quarter was the big drop in March **industrial production**. Output (excluding construction) declined 16.2% during the month as manufacturing shrank 18.2%. There was huge performance dispersion across industries, with utilities little changed but automotive manufacturing down 49.7%. Production plunged 17.3% y/y, worst since April 2009.

Italian **retail sales** plunged 20.5% in March. The headline figure is eye-popping enough, but the details were surprising as well. Unlike the behavior seen in many other countries, there is no evidence of consumers "stocking up" on food as food sales were flat during the month, and had only increased 1.5% in February. Non-food sales plunged 36.0%. Whether this reflects extreme lockdown conditions, financial hardship, or a higher degree of food self-reliance (family gardens) is unclear, but the overall pattern stands in sharp contrast to what has been observed in the US, UK, or Australia, for instance. Retail sales declined 18.4% y/y.

Japan

Wage pressures eased considerably in March, though they came in slightly above consensus. **Labor cash earnings** decelerated to 0.1% y/y in March from a downwardly revised 0.7% in February. Basic and fixed wages were mostly unchanged, with discretionary pays taking the hit. Wage growth for full-time workers was broadly unchanged at 0.4%, but wages dropped sharply for part-time workers by -0.7%. Base wage growth grew 0.7%, slightly up from 0.6% in February, while overtime wages declined 4.1%. Special wages also dropped by 3.0%, after two solid monthly rises. Real wages also fell modestly, down 0.3% y/y, after two consecutive monthly increases. Total hours worked contracted by 1.5%, because of social distancing and quarantines in effect. Working hours of part-time employees are likely to be notably affected further in future reports, with wage growth also impacted adversely.

Australia

Given that the cash rate is already at its effective lower bound, the **Reserve Bank of Australia** reaffirmed the targets for the cash rate and the yield on 3-year Australian government bonds at 0.25%. The bank reiterated its commitment “to do what it can to support jobs, incomes and businesses during this difficult period and to make sure that Australia is well placed for the expected recovery. The Board will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2–3 per cent target band.” The bond purchase program has been working well, with yields for 3 year ACGB firmly near target. Consequently, RBA has scaled back its bond purchase program, but is ready to step up purchases again to ensure smooth functioning of bond markets. In tune with major central banks across the world, the RBA also stepped up efforts to provide relief to cash strapped corporates beset by a standstill in activity. In order to facilitate corporate liquidity, the RBA expanded the range of eligible collateral for repo operations to include a broader range of investment grade AUD-denominated securities issued by non-bank corporations (previously high quality IG securities only).

On the economic outlook, the Bank’s baseline scenario remains that of a 10% fall in output in the first half of 2020, and around -6% for the year as a whole. On the labor market, the RBA expects unemployment rate to rise to around 10% in the near-term and remain “above 7%” by end 2021. There are however, downside risks to the outlook if “the reduction in labor demand is accompanied by a larger reduction in average hours worked, rather than by people losing their jobs”.

Several other scenarios were discussed, both optimistic as well as pessimistic, in the May **Statement of Monetary Policy** published later in the week. The alternate scenarios were presented as:

“A stronger economic recovery would be possible if further gains in controlling the virus were achieved in the near term and most containment measures were phased out over coming months.”

“Alternatively, if the lifting of restrictions is delayed, the restrictions need to be reimposed or household and business confidence remains low, the outcomes would be even more challenging than those in the baseline scenario.”

The baseline scenario is that the economy suffers a big hit in the first half of 2020 and then starts to recover gradually, though unemployment remains elevated for longer. The forecasts for GDP and unemployment rate are as mentioned above, with GDP revisions substantially worse than our forecasts. Inflation is also expected to fall short of target for another two years. This only reinforces the idea floated by RBA earlier, that rates will stay at current level for “years”.

Retail sales saw the sharpest uptick on record in March, biggest since the introduction of GST in 2000, though only tad higher than consensus. The increase was mainly due a surge in spending on essential items as consumers stockpiled ahead of social distancing and lockdown measures. Nominal sales increased 8.5% following a 0.6% rise in February. Strong sales in food retailing (24.1%), 'other' retailing (16.6%) and household goods (9.1%) more than offset sharp declines in spending on apparels (-22.6%), department stores (-8.9%) and cafes & restaurants (-22.9%). Looking at quarterly volumes however, real sales grew just 0.7% q/q in the first quarter, much lower than expected. Food volumes rose 6.4% while spending on

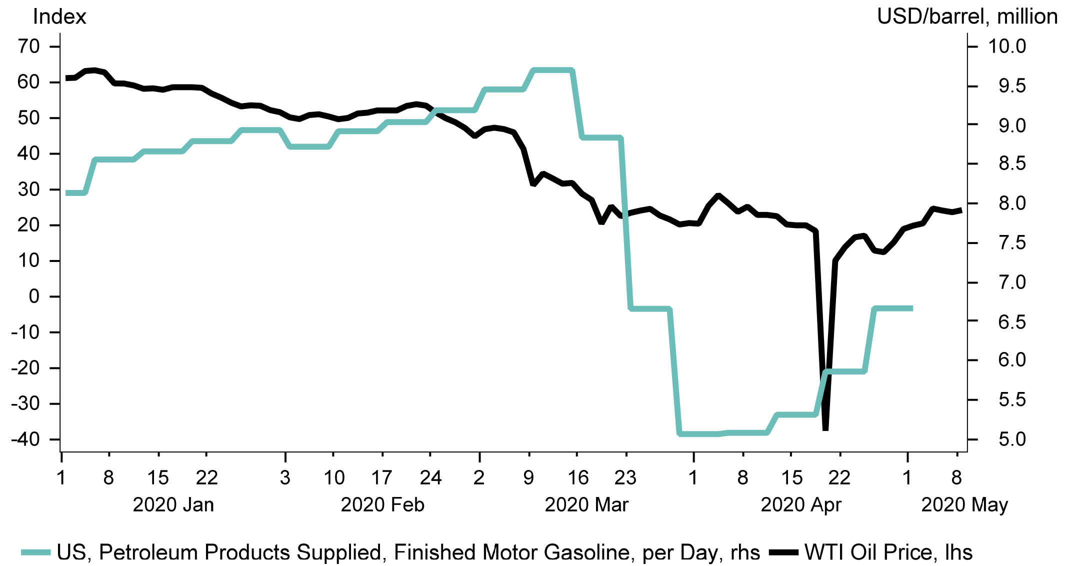
apparels fell 12.1%. The implicit price deflator jumped 1.9%, the sharpest in almost two decades, due to a spike in food prices. With panic buying now over, retail sales are expected to stay benign for most part of this year.

The new weekly **payrolls data** published by the Australian Bureau of Statistics is based on based on the Single Touch Payroll data from the Australian Taxation Office, which enables the exchequer to track wage payments at the source. Estimates showed that jobs contracted by 1.5% for the week ending April 14, bringing jobs lost between 14th March and 18th April by 7.5%. Total wages paid by employers for the month also decreased by 8.2%. The accommodation and food services industry was the most impacted, with every one out of three jobs eradicated. Meanwhile, ANZ job advertisements, a leading indicator for employment growth fell 53.1% m/m in April. We believe the JobKeeper program will limit the rise in unemployment to some extent, but probably not enough to keep unemployment rate from pushing 10%.

The Market This Week

The WTI oil price has recovered from their mid-April collapse. Can it hold onto those gains? Gasoline demand has bottomed (a positive), but petroleum storage capacity utilization in Cushing was up to 83% as of May 1 (a negative).

Figure 7: Can Oil Prices Hold On To Recent Gains?



Sources: Macrobond, Bloomberg Energy Information Administration (EIA)

Equities: Broad equity gains on reopening expectations.

Bonds: Bond yields widen a little.

Currencies: The dollar creeps a bit higher.

Commodities: A solid gain for oil.

5/8/20 3:05 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®	2920.04	3.2%	-9.6%	0.68	7	-124	99.73	0.7%	3.5%
Canada	TSE 300	14949.01	2.2%	-12.4%	0.58	5	-112	1.3932	-1.1%	7.3%
UK	FTSE®	5935.98	3.0%	-21.3%	0.24	-1	-59	1.2409	-0.8%	-6.4%
Germany	DAX	10904.48	0.4%	-17.7%	-0.54	5	-35			
France	CAC-40	4549.64	-0.5%	-23.9%	-0.04	7	-15	1.084	-1.3%	-3.3%
Italy	FTSE® MIB	17439.3	-1.4%	-25.8%	1.85	8	43			
Japan	Nikkei 225	20179.09	2.9%	-14.7%	0.00	2	1	106.67	-0.2%	-1.8%
Australia	ASX 200	5391.078	2.8%	-19.3%	0.89	2	-48	0.6527	1.7%	-7.0%

Commodity Markets						
Commodity	Unit	Source	Last Price	%Ch Week	%Ch YTD	%Ch Yr Ago
Oil (Brent)	US $/Barrel	Bloomberg	28.57	21.8%	-57.0%	-59.5%
Gold	US $/troy oz	Bloomberg	1704.4	0.2%	12.3%	33.1%

Source: Bloomberg®

Week in Review (May 4–May 8)

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, May 4					
US	Factory Orders (Mar, m/m)	-9.7%	-10.3%	-0.1%(↓r)	Better non-durables performance.
US	Durable Goods Orders (Mar, final, m/m)	-14.4%(p)	-14.7%	1.1%	Core orders down only 0.1%.
EC	Manufacturing PMI (Apr, final)	33.6(p)	33.4	44.5	May should look much better.
GE	Manufacturing PMI (Apr, final)	34.4(p)	34.5	45.4	May should look much better.
FR	Manufacturing PMI (Apr, final)	31.5(p)	31.5	43.2	May should look much better.
IT	Manufacturing PMI (Apr)	30.0	31.1	40.3	May should look much better.
AU	ANZ Job Advertisements (Apr, m/m)	na	-53.1%	-10.0%(↑r)	Previous record: -11.3% in January 2009.
Tuesday, May 5					
US	ISM Non-Manufacturing (Apr)	37.1	41.8	52.5	Artificially lifted by supplier deliveries.
US	Trade Balance ($, bil)	-44.2	-44.4	-39.8	Still much better than a year ago.
CA	Trade Balance (Mar, C$ bil.)	-2.5	-1.4	-1.0	Exports fell 4.7% to lowest since January 2018.
UK	Services PMI (Apr, final)	12.3(p)	13.4	34.5	This should mark the bottom.
AU	RBA Monetary Policy Decision	0.25%	0.25%	0.25%	Scope of corporate bond purchase increased.
Wednesday, May 6					
EC	Services PMI (Apr, final)	11.7(p)	12.0	26.4	This should mark the bottom.
GE	Factory Orders (Mar, m/m)	-10.0%	-15.6%	-1.2%(↑r)	Big declines in capital goods orders.
GE	Services PMI (Apr, final)	15.9(p)	16.2	31.7	This should mark the bottom.
AU	Retail Sales (Mar, m/m)	8.0%	8.5%	0.6%(↑r)	Spike in food prices boosted value of sales.
Thursday, May 7					
US	Initial Jobless claims (May 2, thous)	3000	3169	3846(↑r)	Continuing claims at 22.6 million.
US	Nonfarm Productivity (Q1, prelim, q/q)	-5.5%	-2.5%	1.2%	Hours declined alongside output.
US	Consumer Credit (Mar, C$bil.)	15.0	-12.0	19.9(↓r)	Revolving credit shrank by $28 billion!
CA	Ivey PMI (Apr)	na	22.8	26	Lowest on record. Employment down sharply.
UK	BoE Monetary Policy Decision	0.10%	0.10%	0.10%	On hold, considering more QE.
GE	Industrial Production (Mar, m/m)	-7.4%	-9.2%	0.3%	Manufacturing down sharply, construction up.
FR	Industrial Production (Mar, m/m)	-13.4%	-16.2%	0.8%(↓r)	Auto production was down almost 50%.
IT	Retail Sales (Mar, m/m)	-15.0%	-20.5%	0.9%(↑r)	No evidence of food stockpiling.
Friday, May 8					
US	Change in Nonfarm Payrolls (Apr, thous)	-21300	-20500	-701	Leisure/hospitality, trade services worst hit.
US	Unemployment Rate (Apr)	16.3%	14.7%	4.4%	Understates the deterioration.
CA	Housing Starts (Apr, thous)	na	199.6	204.9(↑r)	Not sustainable.
CA	Building Permits (Mar, m/m)	na	-13.2%	-7.3%	Bad news for starts.
CA	Unemployment Rate (Apr)	na	13.0%	7.8%	Second highest on record!
UK	GfK Consumer Confidence (Apr)	-37	-33	-34	Record decline in purchase climate.
JN	Labor Cash Earnings (Mar, y/y)	0.0%	0.1%	0.7%(↓r)	Part time wages took a hit.
JN	Services PMI (Jan, final)	22.8(p)	21.5	33.8	Sharpest fall on record.

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

Week Preview (May 11–May 15)

Country	Release (Date, format)	Consensus	Last	Comments
Monday, May 11				
US	Mortgage Delinquencies (Q1, q/q)	na	3.8%	
IT	Industrial Production (Mar, m/m)	-20.0%	-1.2%	
Tuesday, May 12				
US	CPI (Apr, y/y)	0.4%	1.5%	
US	NFIB Small Business Optimism (Apr)	86.5	96.4	
US	Monthly Budget Statement (Apr, $ bil.)	-370.0	-119.1	You don't want to know
FR	Bank of France Ind. Sentiment (Apr)	40	93	
JN	Leading Index (Mar, prelim)	84.4	91.7	
AU	NAB Business Confidence (Apr)	na	-66	Likely to get worse before getting better.
Wednesday, May 13				
US	PPI Final Demand (Apr, m/m)	-0.2%	0.7%	
UK	GDP (Q1, prelim, q/q)	-2.5%	0.0%	It's Q2 that has us worried!
UK	Industrial Production (Mar, m/m)	-5.5%	0.1%	
EC	Industrial Production (Mar, m/m)	-12.0%	-0.1%	
AU	Wage Price Index (Q1, y/y)	2.1%	2.2%	Disruptions in early 2020 not much negative for wages.
Thursday, May 14				
US	Initial Jobless claims (May 9, thous)	2500	3169	
US	Import Price Index (Apr, y/y)	na	-4.1%	
CA	Manufacturing Sales (Mar, m/m)	na	0.5%	Expect a sharp drop here.
FR	Unemployment Rate (Q1)	8.4%	7.9%	
AU	Unemployment Rate (Apr)	8.3%	5.2%	JobKeeper program to push rate downward.
Friday, May 15				
US	Retail Sales Advance (Apr, m/m)	-11.3%	-8.4%(↓r)	May well be worse!
US	Industrial Production (Apr, m/m)	-11.6%	-5.4%	
US	Empire Manufacturing (May)	-65	-78.2	
US	Business Inventories (Mar, m/m)	-0.3%	-0.4%	
US	JOLTS Job Openings (Mar, thous)	na	6882	
US	U of Mich Sentiment (May, prelim)	67.5	71.8	
CA	Existing Home Sales (Apr, m/m)	na	-14.3%	Will continue to be bad.
EC	GDP (Q1, prelim, q/q)	-3.8%	-3.8%	
GE	GDP (Q1, prelim, q/q)	-2.3%	0.0%	Bad, but better than most…
IT	Industrial Orders (Mar, m/m)	na	-4.4%	

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

Economic Indicators

Central Bank Policy Targets

Region	Target	Year/Year % Change in Target				
		Nov	Dec	Jan	Feb	Mar
US	Target: PCE price index 2.0% y/y	1.3	1.6	1.8	1.8	1.3
Canada	Target: CPI 2.0% y/y, 1.0%-3.0% control range	2.2	2.2	2.4	2.2	0.9
UK	Target: CPI 2.0% y/y	1.5	1.3	1.8	1.7	1.5
Eurozone	Target: CPI below but close to 2.0% y/y	1.0	1.3	1.4	1.2	0.7
Japan	Target: CPI 2.0% y/y	0.5	0.8	0.7	0.4	0.4
Australia	Target Range: CPI 2.0%-3.0% y/y	1.8	1.8	2.2	2.2	2.2

Source: Macrobond

Key Interest Rates

	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	#####	Mar-20	Apr-20
US (top of target range)	2.50	2.50	2.25	2.00	1.75	1.75	1.75	1.75	1.75	0.25	0.25
Canada (Overnight Rate)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	0.25	0.25
UK (Bank Rate)	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.10	0.10
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)	-0.08	-0.07	-0.06	-0.06	-0.03	-0.03	-0.07	-0.04	-0.03	-0.07	-0.06
Australia (OCR)	1.28	1.02	1.00	1.00	0.76	0.75	0.75	0.75	0.75	0.43	0.25

Source: Macrobond

General Government Structural Balance as a % of Potential GDP

	2011	2012	2013	2014	2015	2016	2017	2018	Forecast 2019	Forecast 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				
	Dec	Jan	Feb	Mar	Apr		Nov	Dec	Jan	Feb	Mar
US	2.3	2.5	2.3	1.5			1.0	1.3	2.1	1.3	0.7
Canada	2.2	2.4	2.2	0.9			-0.4	0.5	0.6	-0.3	-2.4
UK	1.3	1.8	1.7	1.5			0.5	0.8	1.0	0.5	0.3
Eurozone	1.3	1.4	1.2	0.7			-1.4	-0.6	-0.7	-1.4	-2.8
Germany	1.5	1.7	1.7	1.4	0.8		-0.7	-0.2	0.2	-0.1	-0.8
France	1.5	1.5	1.4	0.7	0.4		-0.3	0.7	0.2	-0.6	-2.1
Italy	0.5	0.5	0.3	0.1	0.0		-2.6	-2.1	-2.3	-2.7	-3.6
Japan	0.8	0.7	0.4	0.4			0.2	0.9	1.5	0.8	-0.4
Australia	1.8	2.2	2.2	2.2			1.4	1.4			

Source: Macrobond

Real GDP Growth (Q/Q Seasonally Adjusted)

	Quarter/Quarter %Change						Year/Year %Change				
	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20
US	0.8	0.5	0.5	0.5	-1.2		2.7	2.3	2.1	2.3	0.3
Canada	0.2	0.9	0.3	0.1			1.5	2.0	1.6	1.5	
UK	0.7	-0.2	0.5	0.0			2.0	1.3	1.3	1.1	
Eurozone	0.5	0.1	0.3	0.1	-3.8		1.4	1.2	1.3	1.0	-3.3
Germany	0.5	-0.2	0.2	0.0			1.0	0.3	0.6	0.5	
France	0.4	0.3	0.3	-0.1	-5.8		1.3	1.5	1.5	0.9	-5.4
Italy	0.2	0.1	0.1	-0.3	-4.7		0.2	0.4	0.5	0.1	-4.8
Japan	0.5	0.6	0.0	-1.8			0.8	0.9	1.7	-0.7	
Australia	0.5	0.6	0.6	0.5			1.7	1.6	1.8	2.2	

Source: Macrobond

Industrial Production Index (M/M Seasonally Adjusted)

	Month/Month %Change						Year/Year %Change				
	Nov	Dec	Jan	Feb	Mar		Nov	Dec	Jan	Feb	Mar
US	0.9	-0.4	-0.5	0.5	-5.4		-0.4	-0.8	-0.9	0.0	-5.5
Canada	-0.3	0.1	0.4	-0.1			-1.3	-0.9	-0.1	0.7	
UK	-1.1	-0.2	0.3	0.1			-2.5	-2.2	-2.7	-2.8	
Germany	1.0	-1.7	2.5	0.3	-9.2		-2.4	-5.0	-1.5	-1.8	-11.4
France	-0.3	-2.3	0.9	0.8	-16.2		0.4	-2.9	-3.0	-1.7	-17.3
Italy	0.2	-2.7	3.6	-1.2			-0.2	-3.3	-0.6	-2.5	
Japan	-0.6	0.2	1.9	-0.3	-3.7		-6.6	-6.5	-2.4	-3.7	-6.8

Source: Macrobond

Unemployment Rate (Seasonally Adjusted)

	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	#####	Mar-20	Apr-20
US	3.7	3.7	3.7	3.5	3.6	3.5	3.5	3.6	3.5	4.4	14.7
Canada	5.6	5.7	5.7	5.5	5.6	5.9	5.6	5.5	5.6	7.8	13.0
UK	3.8	3.9	3.8	3.8	3.8	3.8	3.9	4.0			
Eurozone	7.5	7.6	7.5	7.5	7.4	7.4	7.3	7.3	7.3	7.4	
Germany	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.8
France	8.5	8.5	8.5	8.4	8.3	8.2	8.2	8.1	7.9	8.4	
Italy	9.8	9.9	9.6	9.8	9.6	9.5	9.6	9.5	9.3	8.4	
Japan	2.3	2.3	2.3	2.4	2.4	2.2	2.2	2.4	2.4	2.5	
Australia	5.3	5.2	5.3	5.2	5.3	5.2	5.1	5.3	5.1	5.2	

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

About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of active and index strategies to create cost-effective solutions. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can deliver long-term performance. And, as pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become the world's third largest asset manager with nearly US $3.12 trillion* under our care.

*AUM reflects approximately $43.72 billion USD (as of December 31, 2019), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated.

ssga.com

Important Risk Discussion

Investing involves risk including the risk of loss of principal.

The whole or any part of this work may not be reproduced, copied, or transmitted or any of its contents.

This material is for informational purposes only, not to be construed as investment advice, or a recommendation or offer to buy or sell any security and should not be construed as such. The views expressed in this material are the views of the SSGA Economics Team, through the period ending May 8 2020, and are subject to change without notice based on market and other conditions. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. Past performance is not a guarantee of future results. SSGA may have or may seek investment management or other business relationships with companies discussed in this material or affiliates of those companies, such as their officers, directors and pension plans.

Intellectual Property Information

BLOOMBERG®, a trademark and service mark of Bloomberg Finance L.P. and its affiliates, and BARCLAYS®, a trademark and service mark of Barclays Bank Plc.

Standard & Poor's S&P 500 Index® is a registered trademark of Standard & Poor's Financial Services LLC. FTSE 100® is a trademark jointly owned by the London Stock Exchange Plc and The Financial Times Limited, and is used by FTSE International Limited under license. "All-World", "All-Share" and "All-Small" are trademarks of FTSE International Limited.

© 2020 State Street Corporation.

All Rights Reserved.

2537623.40.1.GBL.RTL

Exp. Date: 05/08/2021