Supply-side bottlenecks and ongoing struggles to fill vacancies are staging to drag on the recovery. And as we learned through July, rising caseloads can quickly turn consumers cautious. An upsurge in cases as schools return (and evidence of falling vaccine efficacy as time elapses) might conspire to be the next 'bumpy' part of the recovery.

Slower gear. The UK Composite PMI came in notably below consensus expectations, easing to 55.3 in August vs a healthier July print (59.2). This stands in contrast to the evidence on pickup in consumer spending over August as the third wave subsided. What could explain this? Two factors. First, supply side shortages could be limiting activity. Details within the survey show that proportion of businesses reporting that output had been curtailed by staff or material shortages was 14 times higher than usual level! Second, growth in demand is slowing after rebounding sharply in Q2.

Going fast. Retail sales returned to growth in August according to a widely watched barometer. The CBI Distributive Trades Survey 'sales balance' leapt to +60 last month, its highest in over six years, as consumers hit – and clicked – the shops in greater numbers. Alongside supply-chain disruptions, the sheer strength of demand is proving a double-edged sword for retailers battling to keep shelves filled. Stock levels fell to the lowest ever recorded in almost 40 years of the survey. Goods shortages largely remain confined to certain product categories, like new vehicles, but they aren't expected to resolve anytime soon.

Clearing view. Not much weekly change on the UK 'real time' indicators front. So let's look longer term. Take card spend. It's currently running at 94% Feb 2020 levels, i.e., we're spending less on cards than 'the beforetime'. Yet we're doing much more online, including spending. Hence footfall remains 80% pre-pan. Or observe flights. They're rising yet are less than half the number seen in 2019 (49%). This sector's ecosystem is still reeling. And it looks like 18% of firms will shift to a hybrid working model. That's probably more workers though, as it'll be larger outfits.

A bumpy road. With the vast majority of coronavirus restrictions now lifted in the UK we're starting to find out how close to previous production levels most businesses can reach. For car manufacturers July was a torrid month where production was down by over a third on 2020's level. Several factors combined to pose such difficulties, including staff self-isolating and the global shortage of semi-conductors. The change in self-isolation rules should help reduce that shortfall in August, but the scarcity of microchips will take longer to fix. One positive trend to report is the pace of transition to alternatively fuelled vehicles in the UK’s production, now accounting for 26% of what the UK makes, a record high.

Robust. Eurozone business activity continued to grow at a robust rate in August (59.5) easing only slightly from July’s 15-year high (60.2). Buoyed by strong growth in new orders, firms continued to hire on all cylinders with the August PMI’s employment index matching the previous month’s 21-year high. Supply chain disruption continued to contribute to rising backlogs of work with input cost and output price inflation remaining close to its recent record rates. Growth in the services sector overtook its manufacturing counterpart for the first time during the post-pandemic recovery. Q3 looks set to mark the peak for the Eurozone’s economic recovery with growth set to fade moving into the final quarter.

Weak. The latest monthly US PMI survey was downbeat. Witness the fall in the headline (composite) index to 55.4 in August 2021, from 59.9 in July 2021. This was the lowest level since December 2020. The rising delta COVID19 variant took its toll on the services sector in August particularly consumer-facing services. Manufacturing output also weakened in August, but remain in expansion territory, supported by continued strong demand. Ongoing supply chain problems continue to exert upward pressure on costs for firms, with increased signs that higher input prices are being passed on. Meanwhile, labour shortages remain a common theme in the services sector, keeping a lid on jobs growth.

Heightened. US consumers had a soft start to Q3 with inflation-adjusted personal spending falling 0.1% in July. But habits are shifting back. Spending on things like travel & entertainment rose 0.6%, while spending on goods fell 1.6%. Meanwhile inflation remains on the higher side. The core PCE index, which excludes food & energy, rose 3.6% compared to a year earlier, in line with the largest rise since 1991. Savings habits are normalising, though still remain elevated. The savings ratio was 9.6% in July, from a pre-Covid trend of

7.5%.

Jacked Up. The highly awaited Jackson Hole symposium began with Federal Reserve Chair Jerome Powell sending out a strong signal that the Fed could start paring down its $120-billion-a-month bond-buying program before the end of 2021. This came on the back on ‘clear progress’ in the labour market and ‘substantial further progress’ on the inflation front. This was in line with the FOMC stance in July where most members viewed this year as appropriate to start tapering the QE program. However, central bankers across the world are struggling to reach a consensus on the exact timing of the wrapping up on bond purchase as economic data continues to send conflicting signals.