EcoNews of 31 August 2026

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Exceptionally, this EcoWeek covers the developments of the past month rather than just the last week.

Survey data are improving. The manufacturing PMI hit 52.8 in August (+0.9 pt), its highest since May 2022, driven by employment and new orders, with solid gains in both France and Germany. Services remain stable and healthy (51.7). Despite the ECB increasing its key interest rates in June for the first time in nearly three years, loans to households increased to 3.1% y/y in July, up from 3.0% in June. Loans to NFCs also rose to 4.4% y/y from 4%.

The European Commission Sentiment surveys were solid in August, corroborating the PMI data: the ESI rose for the fourth month running (+1.3 pt to 98.4) to above February's level. The industry, services and retail indices all recorded solid improvements, led by a notable upturn in the employment indices (especially in industry where the indices recorded the biggest m/m jump since July 2021, to a three-year high). Indices in construction remain weak though.

Inflation edged up in July but remains energy driven. Headline CPI rose to 2.9% y/y and core CPI to 2.5% y/y, both broadly in line with consensus. Input and output price indices fell again in August but are still well above their pre-Middle East conflict levels. Household inflation expectations eased to 2.9% at one year and remain anchored at 2.4% at five years. Negotiated wages slowed to 2.4% y/y in Q2 and labour costs to 3.0%, the lowest since late 2021. Producer prices decelerated sharply (+4.6% y/y from +5.9%), largely on falling energy prices. Real GDP for Q2 was confirmed at 0.4% q/q while employment rose again (+0.1% q/q).

These data keep the ECB on track for a rate hike in September, now fully priced by markets.

Weaker than expected growth in Q2 but Q3 data is net positive so far. GDP growth in Q1 was revised down from -0.1% to -0.2% and Q2 from 0.2% to 0%, reducing the growth carryover as of mid-year to 0.3% (from 0.5%). The main drivers are a downward revision of agricultural output and an upward revision of the services deflator. In parallel, households' purchasing power decreased by 0.6% q/q in Q2. Nevertheless, household consumption of goods increased by 0.5% m/m in July, adding to positive data recorded earlier on the business climate –notably, the Banque de France August survey signaled good momentum in the industrial sector, while INSEE business climate improved to 98 in August (100 being its long-term average), driven by manufacturing (103; +2 m/m), and a services index back to 100 for the first time since October 2024. The signal from S&P flash PMI survey was more mixed. In all, our Nowcast suggests a recovery in Q3, to 0.3% q/q although the negative growth impact of the heatwaves and fires could be about -0.1pp.

Inflation increased as expected. August harmonized inflation increased to 2.7% y/y from 2.4% y/y in July mainly driven by higher energy prices (the previous peak was 2.8% in May). Producer prices went up from 2.8% y/y in June to 3.4% y/y in July.

Positive growth momentum confirmed across the board. Q2 GDP growth was revised up to +0.3% q/q (from +0.2%) driven by stronger than expected exports. The Ifo August Business climate rose to 88.8 (+2.1pts), its highest in over a year, with manufacturers standing out as most optimistic, especially manufacturers of "textile", "computer, electronic and optical products, electrical equipment", "other transport equipment" and "other manufacturing" (riding the wave of investment in data centers, German manufacturers of electrical equipment and IT and electronics companies are particularly optimistic). August PMIs signaled continued expansion, with the composite index at 51 (-0.3 m/m) and manufacturing rising to 56.7 (+2 m/m), its highest level since early 2022. Input prices slowed down a bit (-0.2 m/m) while output prices index stayed at the same level it was in July and close to the June level. Services business activity stayed in contraction territory (-1.3 m/m to 48.5). However, a second successive slight uptick in new business and a renewed rise in employment in the sector are goods signs.

Solid growth and inflation tame enough to keep the BOE on hold for now. The UK economy grew by 0.4% q/q in Q2, a slight deceleration from the 0.6% seen in Q1. Growth was primarily supported by the services (+0.5%) and construction (+0.3%) sectors. In August, the Flash PMI Composite reached a four-month high of 52.5, with strength in services PMI at 52.8 (a 6-month high), while the manufacturing PMI eased to 51.

After hitting a 15-month low of 2.6% in June, headline CPI rose to 2.9% y/y in July. This uptick was primarily driven by a 13% surge in the household energy price cap. While services inflation eased to 3.4%, core inflation remained steady at 2.6%. Input prices fell 1.7% m/m (annual increase of 4.9%), while output prices rose 0.2% m/m (annual increase of 3.1%). August PMIs indicated that inflationary pressures resurged as input costs accelerated for the first time in four months. The Bank of England held the Bank Rate at 3.75% (3rd of August). The decision reflected a 6–3 split, with three members (including Chief Economist Huw Pill) advocating for a 25bp hike.

Sticky inflation dominates concerns amid resilient activity

Headline CPI inflation edged down to 3.4% y/y in July while core PCE, the Fed’s preferred gauge, was unchanged at 3.3% y/y (in line with expectations). Headline CPI came down 0.1pp from June y/y thanks to energy prices. Core CPI inflation fell to 2.5% y/y (-0.1pp), its lowest since February 2025, with services remaining relatively sticky. PPI inflation also came in softer than expected, at 4.7% y/y (down 0.8pp, consensus: 4.9%). However, PCE inflation came in above expectations, accelerating to 0.2% m/m (prior and consensus: 0.1%) as the disinflationary impulse from energy faded (-1.5% m/m after -5.9% the month before). The annual rate held at 3.7% (consensus: 3.6%). Core PCE inflation was 0.3% m/m, up 0.1pp from June.

Activity undershot expectations but remains buoyant. GDP growth slowed to 1.5% annualized in Q2 (down from 2.1% in Q1), with the headline dragged down by negative contributions from net trade and government. However, consumer spending and business investment grew 4.4% AR, the fastest pace since Q1 2023. Industrial production advanced 0.2% m/m, below consensus expectations owing to a dip in the automotive component (-2.1% m/m). By contrast, the aerospace and electronics sectors remained solid growth drivers. However, capital goods orders excluding defence and aircraft, a proxy for private capex intentions, slowed markedly to 0.2% m/m in July (prior: 1.7%, consensus: 0.9%).

Poor payrolls but resilient labour market. Nonfarm payrolls came in well below expectations in July, contracting by -23k m/m (vs. consensus: 85k) – its first negative print since February – with the two prior months revised down a cumulative 103k. The drop was primarily driven by local government employment (down 57k), whereas private payrolls held steady at 30k. The unemployment rate, meanwhile, ticked down to 4.1% (down 0.1pp, consensus: 4.2%), driven entirely by a decrease in participation. Wage growth was soft; average hourly earnings rose just 0/1% m/m (-0.2pp), taking the annual pace to 3.2%, the lowest since 2021.

Fed credibility questioned, then restored, for now. While the late July FOMC press conference led to renewed questions about the Fed's commitment to its 2% inflation target (contributing to upward pressure on long-term bond yields and a weaker US dollar), the minutes of that meeting actually indicated healthy willingness to raise rates should inflation fail to decline, and the Fed Chair's speech at Jackson Hole further anchored this expectation. As a result, expectations of a rate hike on September 16 rose back from a trough of 35% to 55%.

Mini-trade war with Canada. Following a breakdown in US-Canada trade talks, tariffs of up to 50% are set to be implemented by Canada on 8 September on USD 20bn of US imports, in response to a similar measure announced by Washington. For now, only 5% on US-Canada trade is covered by these tariffs, but President Trump has since threatened to lift tariffs on Canadian cars to 50%. The White House has approved tariffs on drones and their components, ranging from 10–15% (incl. UK; EU) to 100% ("of a certain size or with certain capabilities particularly sensitive for national security purposes"). Additionally, the administration is reportedly considering an additional 7.5% tariff on goods from China due to "excess manufacturing capacity" and has announced the set-up of an "AI Detective Border" to tackle "transshipment"—that is, goods from China using alternative routes (countries) to circumvent higher tariffs.

Coming up: August Nonfarm Payrolls (Friday), August ISM Manufacturing (Tuesday) and Non-Manufacturing (Thursday), July JOLTS Job Openings (Tuesday), Fed Beige Book (Wednesday), July Trade Balance (Thursday).

GDP growth disappointing but resilient, while manufacturing strength persists. GDP advanced by 0.3% q/q in Q2, down from 0.4% in Q1 and well below expectations (0.5%). The softness stems mainly from a further slippage in business investment (down 1.2% q/q, following a 1% Q1 dip) and flat consumer spending. Foreign trade, driven by a decline in imports, contributed very positively. Meanwhile, industrial production grew 1.9% m/m in June (up 1.8pp). This largest monthly increase since January was driven by transportation equipment and electronics. The Manufacturing PMI rose to 55.1 (up 0.6 m/m) in August, with the new orders gauge hitting a 9-year high of 56.0 (up 1.6 m/m) driven by exports (56.2, up 2.6 m/m).

Emerging countries have continued to weather the global energy shock relatively well: Activity has been resilient, helped by the surging demand for AI-related goods. The inflation rise remained temporary, and inflation eased in June and July in most countries. Average CPI inflation in EMs reached 6.1% y/y in July vs. 6.4% in June. Food price inflation has accelerated recently in a few countries (such as India, Egypt and Türkiye) while it remained negative in countries such as China, Poland and Hungary. Upside risks are high due to El Nino and recent heatwaves. EM financial markets have also withstood well the recent sell-off in developed bond markets. Since end-June, only Türkiye and Poland have faced a greater rise in LT domestic government bond yields than UST and Bunds.

Central banks on pause, except Philippines and South Korea: Inflationary pressures have remained subdued or eased in Indonesia, Malaysia and Thailand, allowing their central banks to maintain relatively accommodative stances. In the Philippines, inflation has remained above target, prompting the BSP to raise policy rate further (+25bp to 5%). In South Korea, strong growth momentum and inflation above target led the central bank to hike for a second consecutive month (+25bp to 3%).

China: Following the slowdown in July (industrial production: +4.5% y/y vs. +5.3% in June and services activity: +4.3% y/y vs. +4.7% in June), growth remained sluggish in August. Official PMIs stayed below 50 in both manufacturing (49.8 in August vs. 49.2 in July) and services (49.0 in July and August). On the demand side, export growth was still very strong (which drove the slight uptick in the manufacturing PMI) whereas retail sales barely increased during the summer (+0.1% y/y in volume in July).

Monetary policy status quo over the summer; Hungary is the exception with its third consecutive policy rate cut.

Mixed growth performance: Brazil's economy lost momentum entering Q3. Mexico rebounded in Q2 (2.1% y/y) but entered Q3 on a softer footing. Argentina's recovery remains uneven, with most sectors outside mining and agriculture struggling. Colombia continued to grow strongly (3.5% y/y in Q2) on robust domestic demand, while Chile recorded a second consecutive quarter of contraction.

Stability for crude oil but growing price pressures on products and European gas. During August, the oil market managed to reach a precarious equilibrium, containing prices. Brent oil prices averaged 88 $/b and end-of-month prices remained unchanged in August vs. July (around 89 $/b). By contrast, refined products markets are increasingly tense, especially in the US where diesel crack spread reached more than 100 $/b (August 22nd) for the first time ever. Meanwhile, European gas prices (TTF) reached their highest since Jan 2023 at 67 €/MWh (August 27th +15% m/m, +74% compared to pre-war level), while European gas inventories remain at seasonally low levels. Average EU wholesale electricity prices rose sharply during August.

Central bank independence is not as hard-wired in modern institutions as they might appear to anyone born after the 1970s. That it went largely unchallenged in its first thirty years of history owes much to economic circumstances [...]

Equity indices, currencies, commodities, bond markets. [...]

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