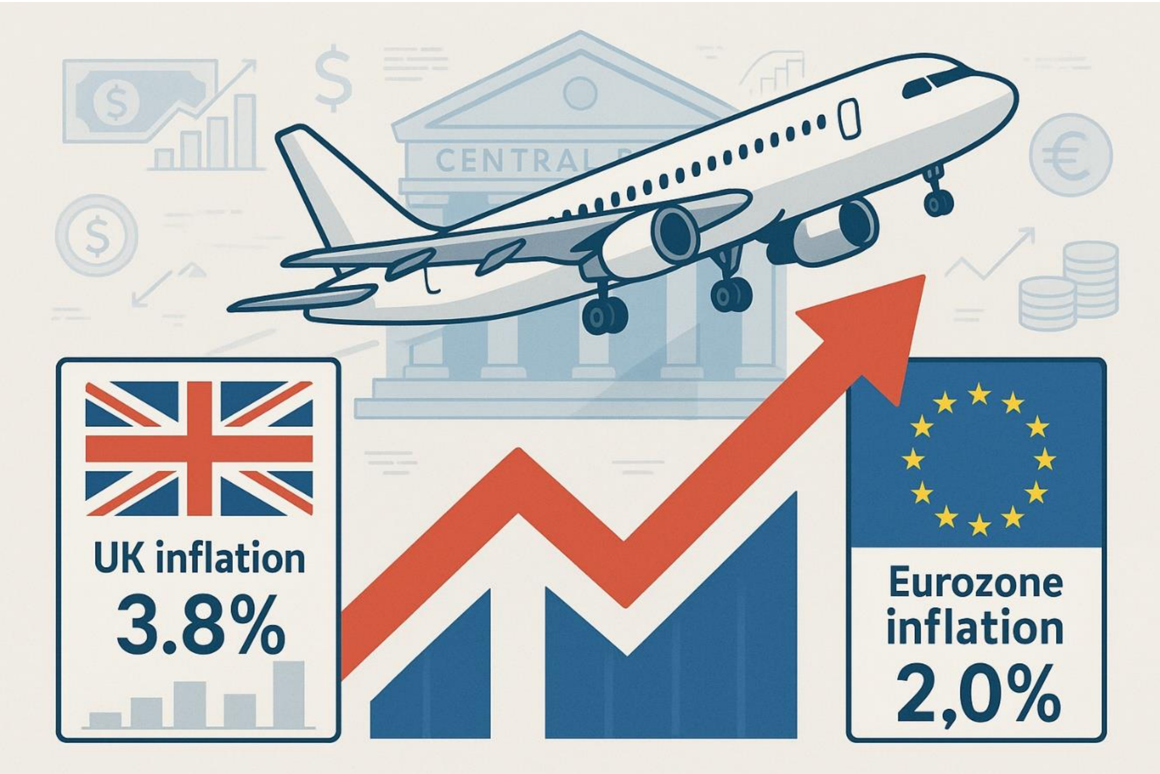
All Eyes on Jobs and Inflation: Planes, Claims and Central Bank Games

Similar to last week there has been a slew of economic data to pick over this week. On the back of last week's inflation data in the US, the year-on-year UK Consumer Price Index rose +3.8%, the highest since January 2024 and above consensus expectations of +3.7%. Core CPI also came in at +3.8% year on year.

The main upward pressure came from a 30.2% surge in airfares over the school holidays, higher motor fuel costs, and increased prices at hotels and restaurants. Food and non-alcoholic beverages inflation was 4.9%.



The month-on-month CPI figure rose 0.1%, defying consensus forecasts of a -0.1% decline and the Core CPI version came in at +0.2%, also above expectations of +0.1%.

Meanwhile Europe's inflation data came in bang on the target with the year-on-year increase in CPI reading at +2.0%, which was in line with expectation. Core CPI came in as expected at +2.3% year on year, whilst there was no change in the monthly headline CPI (it coming in at 0%), whilst Core CPI came in with a deflationary number of -0.2%.

In summary, Eurozone inflation data is currently in check and on target whilst the UK remains above target and the short term measures pointing to a increasing rate of inflation, albeit the levels are nowhere near the peaks of 10%+ in 2022.

The preliminary Purchasing Managers' Indices released on Thursday reported mainly with surprises to the upside:

PMI	Actual	Expected	Previous
UK Manufacturing	47.3	48.2	48.0
EUR Manufacturing	50.5	49.5	49.8
US Manufacturing	53.3	49.7	49.8
UK Services	53.6	51.8	51.8
EUR Services	50.7	50.8	51.0
US Services	55.4	54.2	55.7
UK Composite	53.0	51.6	51.5
EUR Composite	51.1	50.7	50.9
US Composite	55.4	53.5	55.1

As you may recall from previous updates, the PMI Data is a leading economic indicator and is compiled from surveys conducted across the entire economy. The results of those surveys are boiled down to an index number, where a result below 50 indicates a recessionary outlook and a result of 50+ indicates an expansionary outlook.

As you can see only the UK Manufacturing Sector is n recessionary territory and its reading came in even worse than expected.

UK Services PMI climbed to 53.6 in August from 51.8 in July, showing the fastest growth rate in a year. As a result the UK Composite PMI picked up to 53.0, its highest reading since August last year.

The story in the Eurozone was very encouraging with the Manufacturing PMI increasing to 50.5, the first expansionary reading since April 2022; and its highest in 38 months.

Services PMI was also better than expected and showed expansion for the third consecutive month, supporting the view that there is something of a recovery taking place in the region.

Not surprisingly therefore the Eurozone Composite PMI also made for good reading with and increase to 51.1 in August, being the third consecutive monthly improvement, and the fastest overall rate in 15 months.

The US Manufacturing PMI surged to 53.3 in August from 49.8 in July, its highest level since May 2022. It was also significantly ahead of expectations of 49.7. This marked improvement is contrary to the expected slowdown caused by Trade Tariffs, signalling renewed factory growth and strong new orders.

A similar pattern is evident in the US Services PMI, leading to a robust reading of 55.4 in the Composite PMI also at its highest level since mid-2022.

Overall these PMIs suggest improving consumer and business sentiment and the US manufacturing upswing hints at resilience but must be weighed against the worsening labour market signals that we reported on last week.

The labour market data this week offered little comfort with US Initial Jobless Claims (the equivalent of UK dole claims) rose to 235,000 in the week — the highest count in 8 weeks - up from 224,000 the prior week. Ongoing claims reached 1.97 million, also a two-month high, continuing to indicate a softening labour market.

This aspect of the US economy was uppermost in the minutes from the Federal Reserve's last interest rate deliberations, which were released on Wednesday. Whilst the minutes showed most Committee Members preferred leaving rates unchanged due to concerns about tariffs and the impact on inflation, two members argued for a rate cut amid concerns over jobs data.

Despite this relatively hawkish consensus, the current market probability of a rate cut at the next meeting currently sits at 85%. This probability strengthened this afternoon as a result of Jerome Powell's speech at the Jackson Hole Symposium in Wyoming.

The symposium is a gathering of the world's Central Bankers that takes place every year over 3 days and where they discuss problems, issues and priorities. This year's speech by Powell was his final address to the audience before he steps down from the role in May 2026.

In his speech he noted that "*risks to inflation are tilted to the upside, and risks to employment to the downside — a challenging situation*". He went on to say that even though Trump's tariffs will be inflationary this is likely to be a one off event and that thereafter inflation should not persist.

He concluded by saying that "*With policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance.*" In plain English, that is Central Banker code for saying that he supports a reduction in the US Federal Reserve Rate. Whilst the decision on rates at the next meeting in September is a committee decision, Powell's influence as Chair is very strong.

The hawkish signals from the minutes weighed on equity market sentiment on Wednesday, a situation not helped by shares in the Tech Sector taking a dent over growing concerns about the profitability of AI, following a highly critical report released from a branch of the Massachusetts Institute of Technology.

The report claimed that 95% of organisations were seeing "zero return" on their AI investments, raising doubts over the hype around AI. It is difficult to see that the claim is strong given the productivity gains and process improvements that we can see in day to day activities.

Nonetheless this helped keep the US markets subdued through Thursday and Friday morning. At the time of writing however both the bond and equity markets are rallying hard following Powell's comments this afternoon.

The big geo-politics story was of course the summit between Trump and Putin last weekend, followed by the meetings in the White House between various European leaders, Zelensky of Ukraine and Trump. Our assessment of both of these is that a lot of hot air was expended and not a lot of concrete progress was achieved, although there seems to have been a shift towards offering more support to Ukraine by Trump.

Where are markets up to?

The rolling 12 month % cumulative returns in local currency from various indices is shown in the following chart:

Where are the portfolios up to?

The portfolio performance, net of fees, to close of business on Thursday is as follows:

	1 week	1 month	3 months	12 months
Cautious	-0.09%	+0.39%	+3.60%	+3.50%
Balanced	-0.07%	+0.75%	+5.15%	+4.87%
Adventurous	+0.02%	+0.83%	+5.96%	+5.80%

As ever, if you would like to discuss any aspect of your portfolio, please do not hesitate to contact us on service@blythefinancial.com.