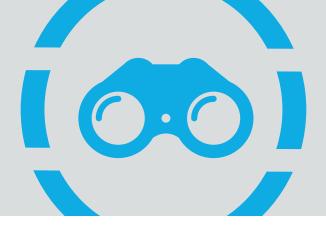
September stutters



With retail sales falling, it's a sign that the UK economy is cooling following a resilient summer. But inflation is on the rise.

September was a volatile month for financial markets, with many factors at play including supply chain disruptions, a rise in inflation and concerns that the pandemic could carry on moderating the recovery for some time. Global stock markets dipped during the month, after reaching record highs in previous weeks. The FTSE 100 index struggled, with falls in sectors including construction and commercial property firms.

The Organisation for Economic Cooperation and Development (OECD) sounded a warning during the month to central banks about withdrawing stimulus support abruptly. Its economists underlined that the recovery from the pandemic-induced recession is still ongoing.

UK struggles with shortages and rising prices

Despite the successful vaccination rollout across most of the UK and healthy economic activity over the summer, the rebound has slowed in recent weeks. Attention has turned to the effects of Brexit and lockdowns on the economy and trade in particular. Employers are facing a severe shortage of workers in key service, construction and supply chain industries (like the lack of drivers of heavy goods vehicles).

The rise in prices was reflected in the inflation figures for August, which at 3.2% marked the highest rate since 2012 and the biggest jump on record.

European central bank to slow stimulus

In early September the European Central Bank (ECB) announced it had decided to slow the pace of its \in 1.85 trillion pandemic bondbuying programme. Germany suffered supply chain bottlenecks, causing the lowest level in factory output in six months. The region's annual rate of inflation rose to 3% in August, with Germany's rate at 3.9% – its highest since the early 1990s. The ECB believes the pressure on prices due to the reopening of economies will ease as we move into 2022.

Key takeaways

- The UK's economic rebound has slowed in recent weeks and attention has now turned to the effects of Brexit on the economy and trade.
- The S&P 500 dropped more than 4% over the month; its first decline since January and the worst drop in over a year.
- Financial markets were rocked by the news of a \$13.9 billion injection from China's central bank into its financial system.

US markets drop amid a turbulent month

In the US, the S&P 500 fell more than 4% over the month (its first decline since January and the worst drop in over a year). There were a number of reasons, including the prospect of a government shutdown and rise of the federal debt ceiling, a signal from the Federal Reserve (Fed) that economic tapering could begin soon, and the Evergrande crisis in China.

China central bank bailout

Financial markets were rocked by the news of a \$13.9 billion injection from China's central bank into its financial system during September, around fears about the heavily indebted property giant Evergrande. Yet China's exports and imports performed well due to strong overseas demand. This helped calm internal concerns about a slowdown in industrial growth (and the drop in retail sales in August) in light of recent issues, such as the government's clampdown on tech companies and declaring cryptocurrencies illegal.

The news that Japan's prime minister Yoshihide Suga will not seek re-election – after just one year in office – did not deter Japanese equities. Investors rallied the stock market to a 30-year high in the belief that a new prime minister could bring increased stimulus to the economy.

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