

**ECONOMIC RESEARCH – MARCH 2026**

**INVESTMENT INSIGHT UK**



- ✓ **The UK confirms near-stagnation in Q4**
- ✓ **A difficult end to the year and a major geopolitical shock in 2026**

**THE BOE'S CURRENT STANCE IN THE FACE OF THE INFLATIONARY THREAT**

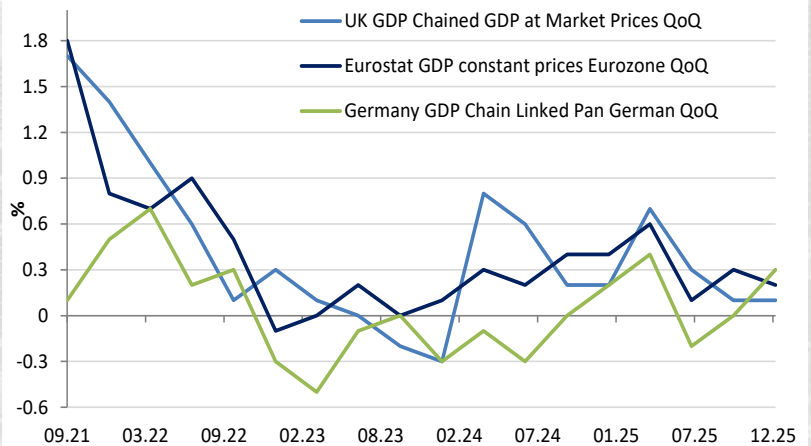
**Marginal Q4 recovery and annual performance**

The UK economy narrowly avoided a technical recession in late 2025 with a marginal GDP increase of just 0.1%. This underwhelming result brought total annual growth for 2025 to a modest 1%, while per capita GDP suffered its second consecutive quarterly decline, signaling a persistent erosion of individual prosperity. This lackluster performance underscores a broader structural weakness, as the economy fails to generate meaningful momentum despite the avoidance of a formal downturn.

**Manufacturing rebound vs. services stagnation**

A stark contrast has emerged within the British industrial landscape as the manufacturing sector rebounded by 1.2%, primarily driven by a recovery in automotive production. Conversely, the services sector—the traditional engine of the UK economy—remained completely stagnant at 0.0% for three straight months. This imbalance is further exacerbated by a severe 2.1% collapse in construction and a 14% surge in retail bankruptcies. The fragility of these core sectors suggests that the economy is walking a tightrope, where any further industrial hiccup could trigger a broader contraction.

**Quarterly GDP growth - United Kingdom**



Sources : Bloomberg, BBGI Group

## Frozen investment and weak external demand

Business investment remains effectively paralyzed as heightened geopolitical uncertainty forces the suspension of major capital projects across the country. This internal caution is matched by weakening external demand, with net exports shaving 0.3 percentage points off growth due to persistent shipping disruptions. While the Bank of England had initially hoped for a moderate growth pace, the reality of frozen corporate spending and cooling international markets has dampened any immediate optimism for a private-sector-led recovery. The lack of capital flow into new ventures effectively caps the UK's long-term productivity potential.

## Energy market destabilization and regional conflict risks

The sudden military escalation in the Middle East in February 2026 has introduced a systemic shock to an already vulnerable British economy. Brent crude has surged past the critical \$100 threshold, and European gas prices have doubled in a matter of days, creating an immediate energy crisis. Given the UK's sensitivity to global energy markets, this conflict threatens to derail the faint signs of resilience observed at the start of the year. The rapid deterioration of regional security serves as a grim catalyst for a renewed era of high operational costs for British firms.

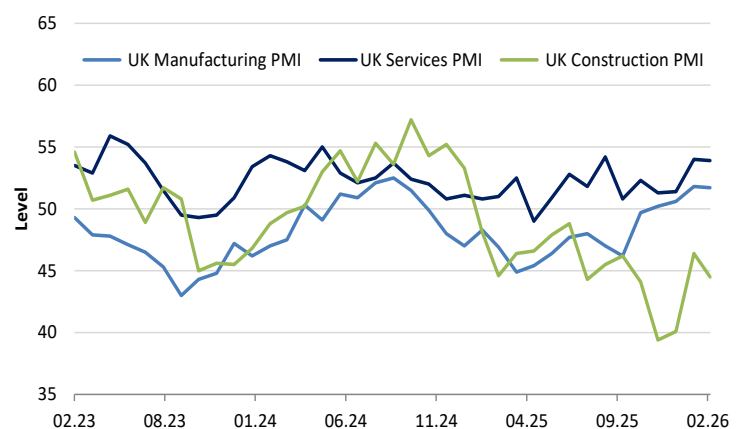
## Supply chain paralysis and imported inflation

The conflict has triggered a massive spike in logistical costs, with marine insurance premiums for Red Sea transit quadrupling almost overnight. This bottleneck exerts unprecedented upward pressure on the price of goods imported from Asia, reminiscent of the post-COVID supply chain crisis. Analysts now anticipate that this "inflation tax" will effectively wipe out recent wage gains by April, leading to a sharp downward revision of Q2 2026 growth forecasts to -0.4%. These logistical hurdles act as a secondary inflationary engine, complicating the path toward price stability and consumer recovery.

## The specter of stagflation and monetary policy dilemma

The UK is now facing the looming threat of prolonged stagflation, characterized by stagnant growth and resurging inflation. While early 2026 data initially suggested a cooling labor market and potential monetary easing, the energy shock has forced a complete reassessment of the Bank of England's trajectory. Forecasts for Q1 2026 have been slashed to 0.1%, far below the pre-conflict consensus of 0.3%, as the risk of a new inflationary spiral takes hold. This environment leaves policymakers with few tools to stimulate growth without further stoking the fires of rising living costs. The risk of a policy error is higher than ever as the central bank navigates these conflicting economic signals.

PMI indicators (manufacturing, services, construction)



Sources : Bloomberg, BBGI Group