

**ECONOMIC RESEARCH – MARCH 2026**

**INVESTMENT INSIGHT UK**



- ✓ **An imminent reversal in PMI leading indicators**
- ✓ **A deterioration in the labor market**
- ✓ **Household confidence set to take a hit**
- ✓ **Inflation once again threatened by the oil shock**
- ✓ **BoE maintains status quo in the face of inflationary threat**

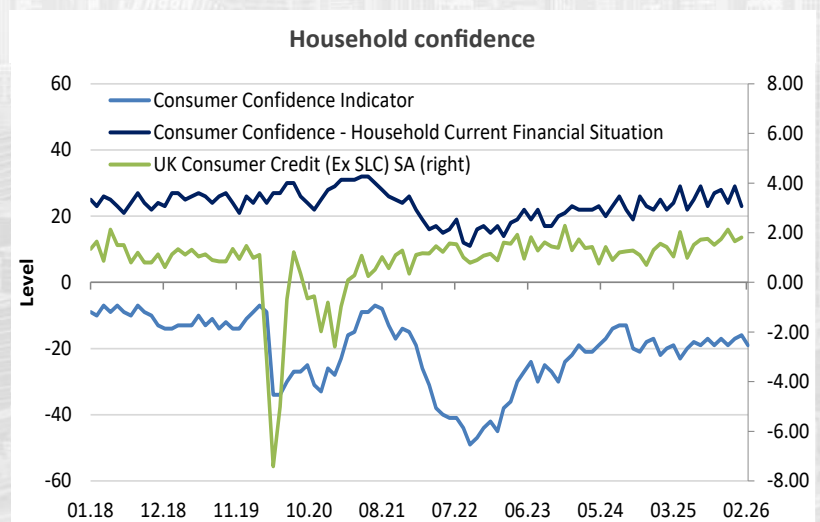
**THE BOE'S CURRENT STANCE IN THE FACE OF THE INFLATIONARY THREAT**

**Imminent reversal of leading PMI indicators**

The latest PMI indices signal a definitive end to the post-election recovery, as the dynamic services sector stalls under the weight of high operating costs and fiscal uncertainty. While the construction sector has already plunged into contraction, the upcoming data for March is expected to reflect a broader collapse in business activity as service providers freeze spending in response to increased employer social security contributions.

**Accelerated deterioration of the labor market**

The British job market is experiencing its most significant downturn in over a decade, with unemployment hitting a symbolic peak of 5.2%. As job vacancies drop to a four-and-a-half-year low, bargaining power has shifted decisively back to employers who are scaling back hiring to preserve margins against tax hikes and minimum wage increases. This cooling trend is now prompting aggressive layoff plans across the technology, financial, and construction sectors to safeguard profitability. The necessity of protecting corporate balance sheets against fiscal shocks ensures that employment will remain the primary adjustment variable throughout the spring.



Sources : Bloomberg, BBGI Group

## Erosion of consumer confidence and discretionary spending

Household morale was already in decline before the Middle Eastern conflict, but the geopolitical reality of March is set to exacerbate the trauma of the 2022 energy crisis. With the GfK confidence index at -19 and falling, consumers are rapidly postponing major purchases such as vehicles and home renovations to prioritize essential heating and fuel costs. This shift toward precautionary savings is effectively starving the local economy of vital liquidity at a critical juncture. Furthermore, the reliance on unsecured consumer credit has reached a breaking point, signaling a potential wave of defaults as purchasing power continues to evaporate.

## Persistent inflationary threats amid the oil shock

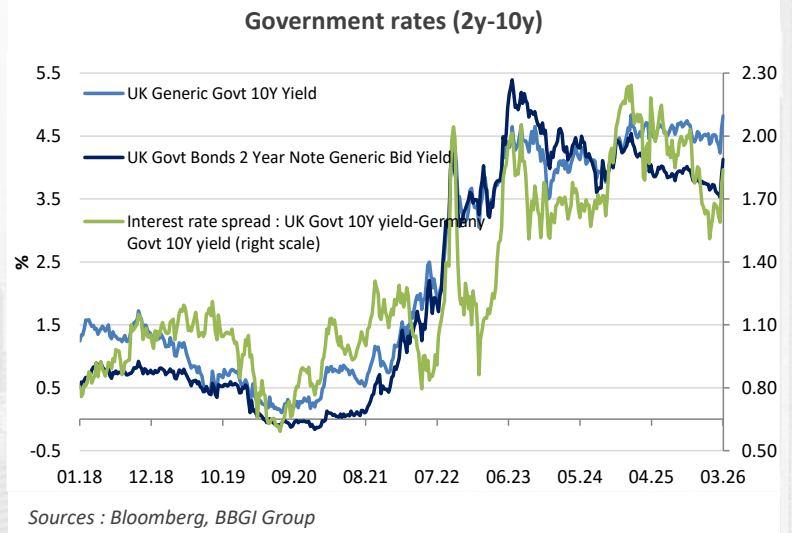
Inflation remains a significant hurdle for the UK, with the CPI stagnating at 3.8%—nearly double the Bank of England's target. While volatile energy prices had previously moderated, food inflation and core service costs remain stubbornly high at 4.7%, fueled by persistent wage growth. The recent 100% surge in global crude prices presents a massive upside risk that threatens to undo the slow progress made toward price stability. This renewed energy shock creates a "stickiness" in domestic prices that makes the path back to the 2% target increasingly long and fraught with systemic risk.

## The Bank of England's pivot to a prolonged status quo

The Monetary Policy Committee has been forced into a dramatic strategic reversal, abandoning previous expectations for a March rate cut as inflationary risks now outweigh recessionary fears. Markets have repriced significantly, now anticipating almost no rate reductions for the entirety of 2026 as the BoE prioritizes the defense of the pound sterling against soaring oil prices. Governor Andrew Bailey's recent shift toward "utmost vigilance" confirms that the central bank is prepared to sacrifice short-term growth to prevent a stagflationary spiral. Consequently, the base rate is expected to remain at 3.75%, with the possibility of further hikes if the energy crisis intensifies.

## Quantitative tightening and liquidity constraints

In tandem with its restrictive interest rate policy, the Bank of England is maintaining an aggressive Quantitative Tightening (QT) program at a pace of £100 billion per year. This sustained reduction of the balance sheet is actively drying up liquidity within the retail banking sector, making financing significantly more difficult for both businesses and households. As the BoE persists with this "double tightening" approach, the cost of borrowing is set to remain elevated regardless of broader economic stagnation. This policy environment ensures that credit conditions will remain exceptionally tight, further cooling investment and compounding the headwinds facing the UK's recovery.



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