

ECONOMIC RESEARCH – JUNE 2026

INVESTMENT INSIGHT

UK



- ✓ The ONS is likely overestimating growth in Q1 2026
- ✓ Negative growth (-0.2%) expected for Q2

WILL THE BOE ADOPT A RESTRICTIVE MONETARY POLICY AS EARLY AS JUNE?

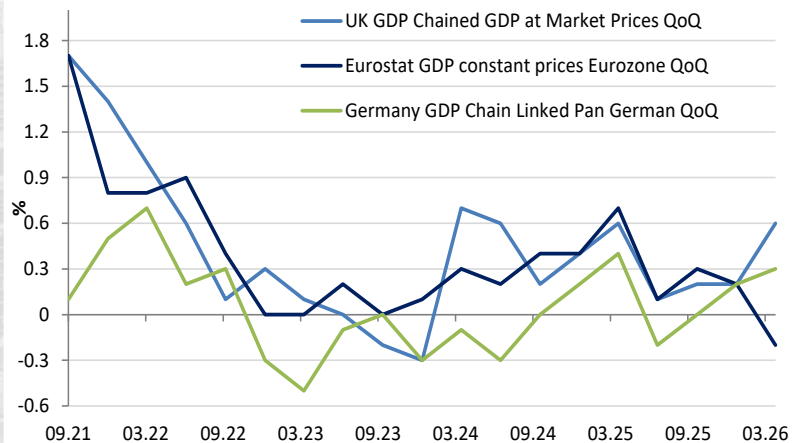
ONS Data Paradox: Artificial Q1 Growth

Official figures indicate that the UK economy started 2026 with an unexpectedly robust real GDP expansion of +0.6%, driven by consumer spending and services. However, these surprisingly strong results have been met with deep skepticism from private forecasters and Bank of England monetary policymakers. Experts suggest the statistical agency failed to properly account for shifting seasonal variations, significantly overestimating underlying economic momentum. Data discrepancies leave underlying strength unconfirmed.

The Services Engine Confronts an Abrupt Halt

While the ONS heralded an encouraging +0.8% service sector expansion driven by wholesale trade, advertising, and software development, more recent indicators suggest this momentum is entirely evaporating. The superficial Q1 boom is giving way to a severe inflationary squeeze as the Middle East conflict dramatically escalates core input costs. Service-providing companies are currently facing a massive, dual shock from soaring domestic electricity prices and rising structural labor costs. These escalating pressures are forcing firms to pass expenses onto consumers at a near-record pace. Rapid price hikes are actively choking off local consumer velocity.

Quarterly GDP growth - United Kingdom



Sources : Bloomberg, BBGI Group

Middle East Oil Shock Targets Manufacturing

The prolonged maritime crisis has pushed Brent crude oil prices sustainably above \$90 per barrel, acting as a direct, forced tax on the British industrial base. With regional gas prices stagnating at highly punitive levels, the structural competitiveness of UK manufacturing is rapidly deteriorating. Factories are facing severe supply-side disruptions alongside soaring logistics costs as container shipping rates spike on critical east-west maritime corridors. This sustained exogenous shock is forcing companies to abruptly freeze capital expenditures and urgently re-engineer their entire supply networks. Prohibitive energy costs are crippling industrial output.

Stagflation Consolidates as Real Wages Stagnate

The brief, unexpected +0.6% improvement in per capita living standards registered during the first quarter has proven to be entirely short-lived. A massive domestic energy price shock in April completely absorbed the nominal wage gains secured by workers earlier in the spring. As wholesale price pressures migrate directly to retail shelves, real disposable household income is suffering an acute, structural contraction. Consumer behavior is turning aggressively defensive, with retail sales stabilization completely erasing under the weight of daily living costs. The feared stagflationary environment is now firmly entrenched.

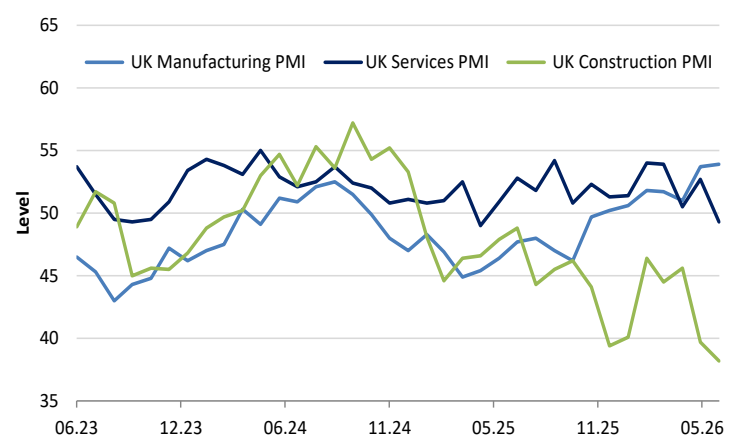
Widening Trade Deficits and Global Isolation

The sole negative component within the ONS's initial Q1 report was a notable widening of the national trade deficit, a trend expected to worsen significantly. British trade flows are being disproportionately harmed by the partial blockade of critical international shipping lanes, which leaves the island nation highly vulnerable to import cost inflation. As domestic production costs climb, UK exporters are finding it increasingly difficult to compete in global markets, further compounding the structural trade imbalance. This persistent drag prevents net trade from offering any macroeconomic buffer. Rising import costs continue to fuel external imbalances.

An Imminent Contraction for the Second Quarter

The cumulative weight of embedded supply shocks, paralyzed consumer demand, and monetary policy constraints points directly toward a -0.2% GDP contraction for Q2. The central bank is trapped in a hawkish policy corner, unable to offer monetary relief through interest rate cuts because cost-push inflation remains dangerously unanchored. Consequently, corporate profit margins and sales volumes are heading toward a simultaneous contraction over the summer months. This clear loss of economic velocity confirms that the brief early-year recovery has completely run its course. A technical recession looms for the second half.

Leading indicators



Sources : Bloomberg, BBGI Group