

**ECONOMIC RESEARCH – JUNE 2026**

**INVESTMENT INSIGHT**

**UK**

- ✓ **Alarming drop in the services PMI**
- ✓ **Massive shock to the labor market in May (-100k)**
- ✓ **Household confidence at a 36-month low**
- ✓ **Sharp rise in producer prices (+7.7%) in April**
- ✓ **Will monetary policy turn restrictive again starting in June?**



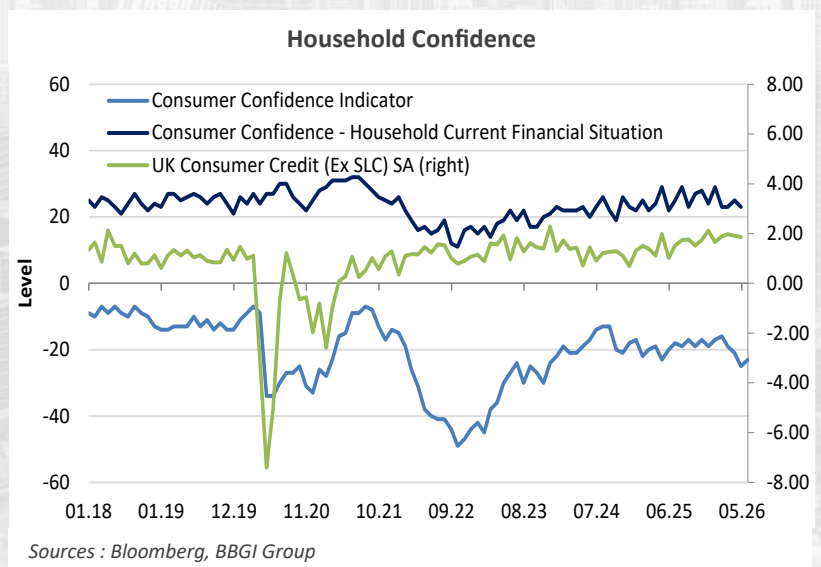
**WILL THE BOE ADOPT A RESTRICTIVE MONETARY POLICY AS EARLY AS JUNE?**

**Services PMI Plummet and Sectoral Divergence**

The latest PMI surveys confirm that UK business activity has stalled as the compiled leading indicators slide toward contraction. The services PMI plummeted to 49.3, a near-reversal of early-year resilience, driven down by rising labor costs and a freeze on hiring following increased employer tax contributions. Paradoxically, the manufacturing PMI surprised with a rise to 53.9, while the construction sector collapsed to a dismal 38.2. Order books are emptying rapidly across the broader economy. Purchasing managers' metrics signal a severe recession risk for the coming quarters of 2026.

**Massive Labor Shock: Ten-Year High in Job Losses**

The British job market suffered an alarming blow in May with the destruction of 100k jobs, marking the largest non-pandemic monthly loss in a decade. This massive workforce contraction pushed the unemployment rate up to 5% and follows twelve consecutive months of dwindling job openings. CFOs are aggressively slashing hiring budgets to defend profit margins against April's minimum wage hikes and compounding labor taxes. Average earnings growth slowed to a post-2020 low of +3.4%. Severe corporate cost-cutting measures have completely broken the labor market's long-term resilience.



## Consumer Sentiment Stagnates at 36-Month Low

The GfK Consumer Confidence Index remained deeply depressed at -23 in May, matching its lowest level in three years as households face an intense purchasing power crisis. An April spike in regulated electricity rates completely derailed retail velocity, forcing consumers to freeze discretionary spending on durable goods to cover basic necessities. Compounding this stagnation, precautionary savings are rising while unsecured credit card balances have climbed to critical warning levels. This dangerous reliance on debt points to a major wave of consumer loan defaults by the fall.

## Producer Price Surge Halts Disinflation

While headline CPI edged down slightly to +2.8% in April, an underlying inflationary shift occurred as the producer price index (PPI) surged to +7.7% year-over-year. This dramatic reversal from January's negative wholesale prints reflects the aggressive pass-through of global logistics costs, high freight rates, and domestic energy hikes. Rising input prices are quickly traveling downstream, keeping headline inflation forecasts pinned well above 3% for the remainder of 2026. Economists have revised year-end inflation expectations up to +3.4%. This persistent price pressure thoroughly dashes hopes for rapid summer monetary easing.

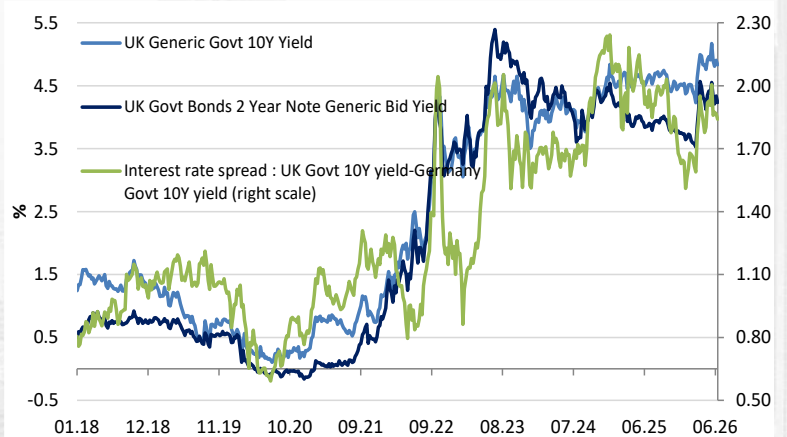
## Hawkish BoE Pivot and Rate Hike Risks

The Bank of England held its policy rate steady at 5.25% in May, but persistent cost pressures have entirely erased previous expectations of immediate interest rate cuts. Governor Andrew Bailey confirmed that monetary policy must remain restrictive for longer, entirely ruling out a June rate cut and pushing potential easing down the calendar. Crucially, futures markets have pivoted to price in a 25-basis-point rate hike in November to defend the pound and curb imported inflation. Quantitative tightening continues to drain interbank liquidity. This hawkish stance will severely tighten credit conditions for local business refinancing.

## Corporate Debt Strain and Bankruptcy Risks

The cumulative pressure of rising borrowing costs, high wholesale input prices, and empty order books is threatening the solvency of domestic corporate sectors. Service and real estate firms are bearing the brunt of this margin squeeze, as they lack the global scale of manufacturing conglomerates to easily absorb rising domestic overhead. Financial engineering like dividend cuts and hiring freezes are no longer sufficient to offset the deep slowdown in consumer velocity. This intense operational strain points toward an elevated wave of corporate restructurings and bankruptcies as the year progresses.

Government yields (2-year — 10-year)



Sources : Bloomberg, BBGI Group

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