

MACRO RESEARCH INSIGHT

CROSS-ASSET ANALYSIS

UK ASSETS

September 2026

THE BOE MAINTAINS ITS TIGHT MONETARY POLICY STANCE – Part 1

- ✓ The ONS confirms growth of +0.4% in Q2 2026
- ✓ Economy avoids contraction despite the shocks

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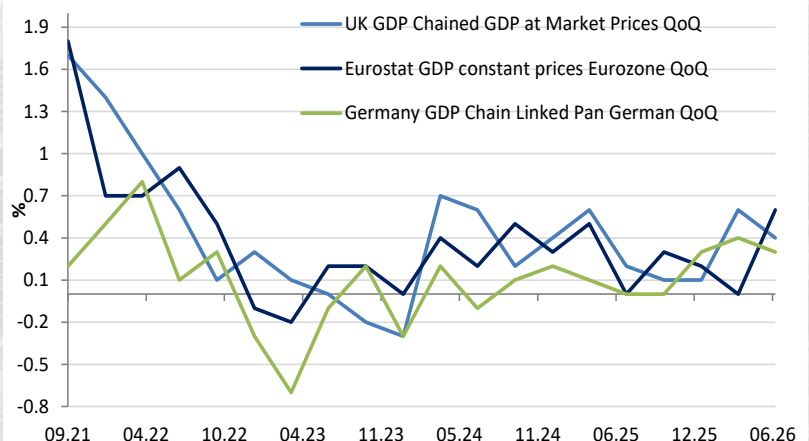
ONS Confirms +0.4% GDP Growth for Q2

The Office for National Statistics revised U.K. Q2 2026 GDP growth to a solid +0.4%, following a +0.6% expansion in Q1. Over the first half of the year, British economic growth outpaced both the Eurozone and Germany. This performance confirms that underlying private demand absorbed monetary shocks far better than early estimates suggested. The upward revision resolves earlier seasonal adjustment controversies while validating a structural recovery in business services.

Business Services and Capital Investment Lead Expansion

A powerful rebound in information services, communications, and business-to-business auditing drove positive overall activity through June and July. Gross fixed business investment maintained a steady +0.5% pace alongside a +0.2% rise in household consumption. Per capita GDP grew by 0.4% over the quarter, providing a tangible net gain in household purchasing power. However, net foreign trade continued to drag on top-line performance, leaving a trade deficit of 2.1% of nominal GDP. Robust commercial services activity successfully offset international tariff pressures and high domestic financing costs.

Quarterly GDP growth - United Kingdom



Sources : Bloomberg, BBGI Group

Strategic Reserves Prevent Energy Supply Chain Breakdown

Despite Brent crude prices remaining elevated above \$90–95 per barrel due to Middle East conflict, U.K. industrial supply chains avoided severe stagflation. Firms strategically deployed existing cash reserves to buffer volatile input costs rather than instituting immediate corporate layoffs. Targeted energy tax relief and resilient corporate balance sheets prevented factory closures across the productive sector. Although high natural gas prices erode operational margins, final consumer price spillovers have developed more gradually than anticipated. Logistics bottlenecks stabilized during late summer, eliminating the risk of widespread supply chain shutdowns.

Resilient Labor Market Supports Consumer Demand

Retail sales posted a steady recovery through July and August, anchored by stable employment metrics and real wage growth that now matches inflation. Increased purchasing power has stabilized consumer sentiment across discretionary spending categories. Strong labor market fundamentals continue to insulate household balance sheets from elevated borrowing costs. Retail activity maintained modest expansion without triggering secondary domestic wage-price spirals. Meanwhile, high-frequency activity trackers indicate consumer confidence remains firmly anchored going into autumn.

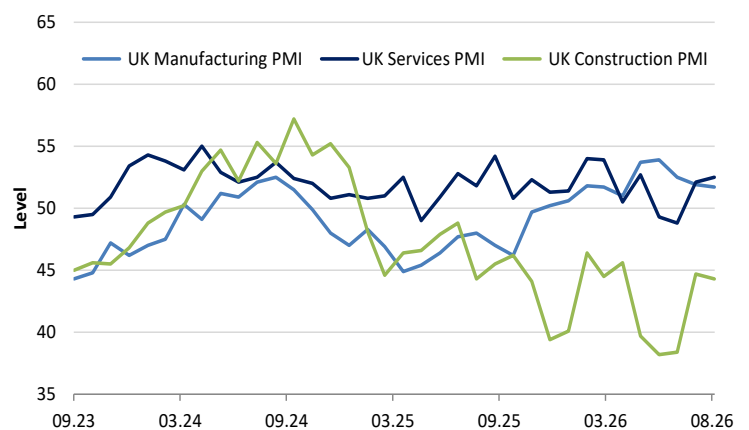
Technical Recession Risk Falls to 25%

The immediate threat of a two-quarter economic contraction has receded significantly heading into the second half of 2026. Consequently, economic forecasters lowered the 12-month U.K. recession risk index from 45% in May to 25% in September. The probability of an immediate technical recession has dropped sharply as private demand stabilizes. Quarterly GDP is now projected to advance at a modest +0.2% to +0.3% pace through year-end. This trajectory points to a classic soft-landing scenario rather than a sharp cyclical downturn.

Soft Landing Framework Confirmed

Looking ahead to the second half of the year, U.K. economic activity will transition to a modest pace led by financial, auditing, and engineering services. Strategic corporate buffers and persistent wage growth provide a sufficient cushion against targeted government spending cuts. Maintaining positive growth through late 2026 relies entirely on the continued stability of business services. If energy price pressures re-emerge, resilient private consumption will need to offset higher input costs. Ultimately, the British economy enters the final quarters of 2026 on a far firmer footing than continental peers.

PMI indicators (manufacturing, services, construction)



Sources : Bloomberg, BBGI Group

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