13 May 2026

UK in Focus

Economics
United Kingdom

Some demand resilience, but price pressures intensify

- There have been some signs of resilience heading into the latest shock…
- …but sentiment has tumbled as price pressures intensify
- The BoE is focused on the risk that this latest bout of inflation becomes embedded in wages

The UK economy reported the fastest pace of growth since April 2025 in the three months to February. That means the UK had a firm base heading into the latest period of uncertainty. In fact, activity surveys in April continued to report a degree of demand momentum. The manufacturing sector PMI jumped to 53.7, bolstered by new order growth, while the services sector reported higher business activity with a PMI of 52.0. However, reports of inventory accumulation ahead of expected supply disruption likely overstate activity momentum. Retail sales demand was also flattered by a degree of panic buying of motor fuel, +3.2% m-o-m in March, while overall, retail sales volumes excluding fuel grew a meagre 0.2% m-o-m.

Elsewhere, consumer confidence fell further in April, taking sentiment to its lowest level in more than two years. It's no surprise that facing another inflation shock has left consumers particularly cautious about the future state of the economy, and their own personal financial situations, for the latter, the net balance fell back negative. Savings intentions also rose, new-buyer enquiries for home purchases fell to their lowest level since August 2023 in March, and medium-term inflation expectations have spiked higher.

While the initial volatility across both household and business surveys may subside in the coming months, energy prices and supply disruption will continue to pass through the global economy for a while yet. And early indicators suggest agents have a greater sensitivity to price rises with a degree of pass-through evident despite the prospect of softer demand – see chart.

For the Bank of England (BoE), the extent to which the latest price shock translates into domestically driven inflation will determine the policy response. In our view, the risk of any second-round inflationary effects is smaller than in recent years, and at its latest policy meeting, the BoE seemed to agree. Nonetheless, the BoE's scenarios showed how different assumptions on second-round effects, namely through higher wage growth, would require greater interest rate hikes. Such effects can take well over a year to materialise, but if the central bank were to wait for that, it may need to respond more aggressively than otherwise needed; therefore, hikes sooner to mitigate the risk are more likely.

For now, market expectations of rate hikes have tightened financial conditions, meaning the BoE may opt to wait and see, in the hope of greater clarity on the outcome of the Middle East conflict, and to see how households and businesses respond.

KEY UK DATA

▲ **0.5%**
GDP growth in 3M to February

▲ **3.3%**
Consumer Price Inflation, March y-o-y

▼ **4.9%**
Unemployment rate, 3M to February

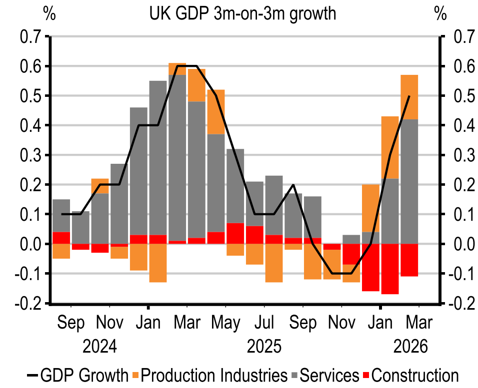
► **3.75%**
Bank of England Base Rate

Source: HSBC

HSBC

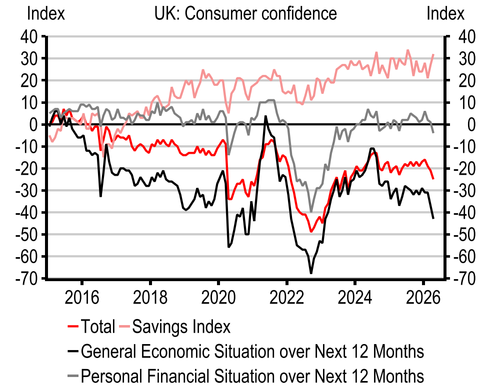
That being said, unless there is a swift resolution to the conflict and a reopening of the Strait of Hormuz, we expect the BoE will need to raise Bank Rate in the summer. The rate of inflation is set to accelerate, and with households and businesses more sensitive to higher prices, we think policymakers are likely to opt to lean against the risk that higher inflation now becomes embedded within household and business price expectations.

1. GDP growth accelerated at the start of the year…



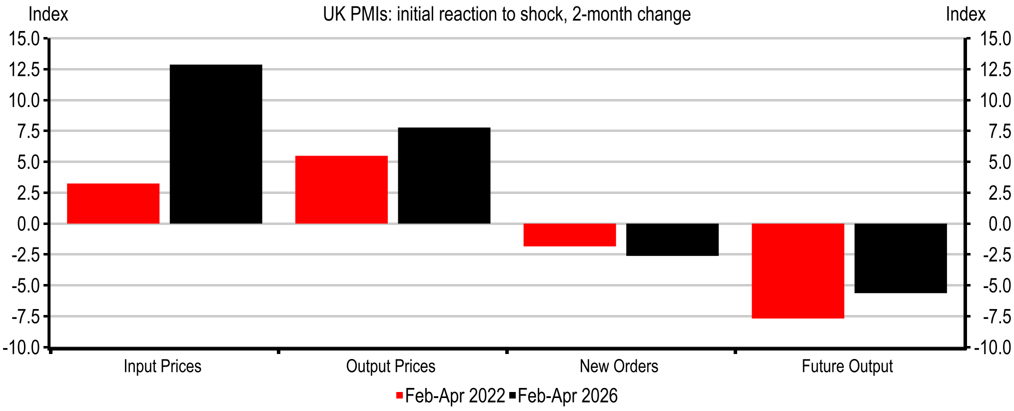
Source: ONS, Macrobond

2. …but that may be short-lived with sentiment falling to its lowest since 2023



Source: Gfk, Macrobond

3. Firms have reacted quickly to prices rises, despite expected soft demand



Source: S&P Global, Macrobond

Disclosure appendix

Important disclosures

1 This report is dated as at 13 May 2026.

2 All market data included in this report are dated as at close 12 May 2026, unless a different date and/or a specific time of day is indicated in the report.

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