1 June 2026

UK in Focus

Economics
United Kingdom

Demand weakness, price pressures and policy change

- Headline indicators evidence the UK's relatively benign position before the latest energy supply shock…
- …but business surveys point to weaker demand and greater price pressures…
- …a combination which could leave the BoE on the sidelines, waiting for more clarity before deciding on any policy change

KEY UK DATA

▲ **0.6%**
GDP growth in 3M to March

▼ **2.8%**
Consumer Price Inflation, April y-o-y

▲ **5.0%**
Unemployment rate, 3M to March

► **3.75%**
Bank of England Base Rate

Source: HSBC

Sector divergence across activity indicators

On the face of it, the official data over the past month has been encouraging. Growth came in stronger than expected in Q1, the rate of inflation slowed to 2.8% y-o-y in April, and labour market conditions were soft – soft enough such that the risk of persistent inflation was subsiding but not weak enough to be of major concern to activity. However, those indicators are inherently backward looking, and other than higher petrol prices putting now upward pressure on inflation, largely reflect economic conditions before the conflict in the Middle East.

Timelier business surveys paint a less reassuring picture. The PMI survey in May showed a loss of activity momentum and confidence in future output, driven by a subdued services sector. Within the sector, concerns are broad based, from higher energy costs, business rates, inflation and falling demand, with the pressures most acute in hospitality. The manufacturing sector, meanwhile, was more resilient, with the output index rising to its highest since October 2024. However, that perceived momentum is likely to be short lived given that both the proportion of manufacturers accumulating inventory, and those reporting global supply chain disruption, have doubled, according to an ONS business survey.

For consumers, while official pay data may overstate the current decline in real incomes (-0.5% 3m/3m). Other pay indicators point to more robust pay growth but, in any case, a likely rise in inflation over the summer will drag on household purchasing power. Moreover, subdued confidence and heightened uncertainty may leave consumers sat on the sidelines, with both the housing market and leisure travel having already seen a drop in demand.

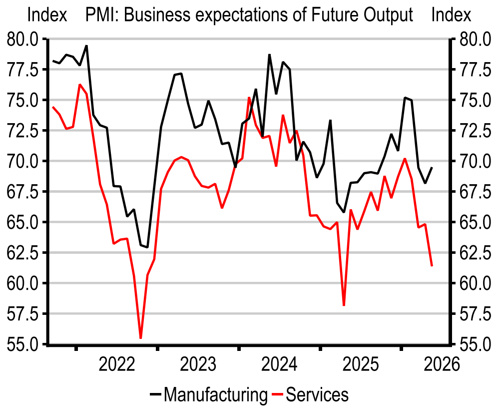
Price pressures and policy choices

Alongside the troubling demand backdrop, price pressures have intensified to levels comparable to previous global price shocks (chart 2). Forty percent of firms reported a rise in the cost of inputs in April, according to an ONS survey, with 20% of firms expected to raise prices in June. Higher energy and raw material prices are compounding elevated labour costs, and with further supply disruption possible, those pressures may persist over the second half of 2026. However, realised price increases have often undershot expectations (chart 3), a possible reflection of an inability to fully pass costs on when pressures are sector agnostic and demand is weak.

For the Bank of England (BoE), the current growth-inflation mix in the data supports the premise that there is not a compelling case to rush to raise interest rate. Growth is soft, and despite price pressures in the pipeline, prospective pass through to consumer prices is uncertain. Indeed, BoE Governor Andrew Bailey recently noted the trade-off that higher interest rates have on ensuring inflation falls back to 2% in the medium term, and output growth. And as such, financial markets are not entirely convinced that we will see a rate hike this side of the summer. However, the pipeline of price pressures is evident. We expect inflation to accelerate to c4%, and the risk of second-round effects from both the pass-through of higher production costs and higher wage demands will keep the BoE on high alert for some time.

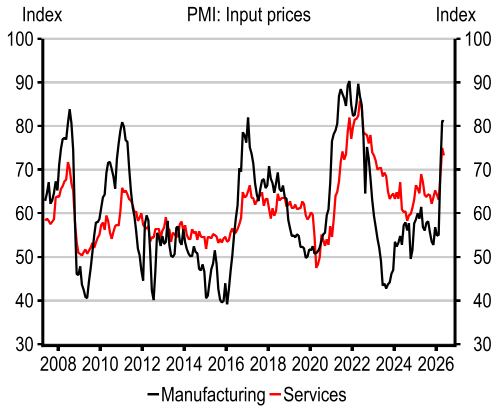
For now, though, with the policy rate still in restrictive territory and already tighter financial conditions, policymakers may prefer to wait and see, in the hope for greater clarity on the conflict, and to see how households and business will respond.

1.Business expectations of future growth has fallen, particularly in services



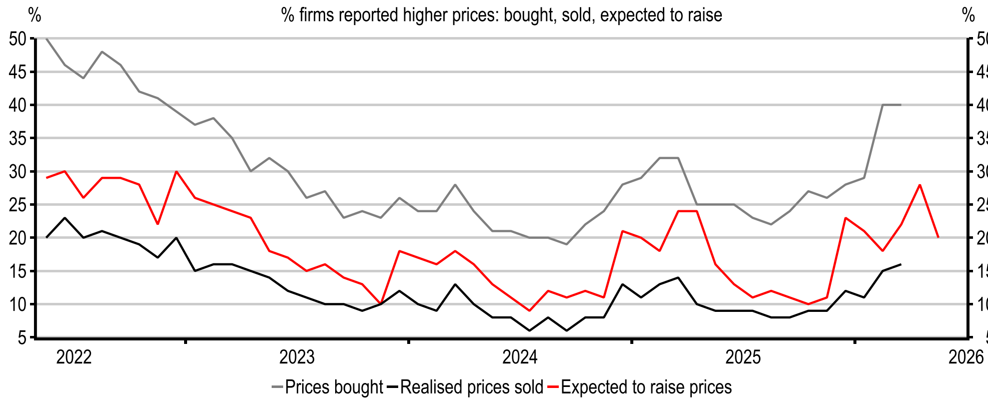
Source: S&P Global, Macrobond

2.Amid input price pressures comparable to previous energy supply shocks



Source: S&P Global, Macrobond

3.Proportion of firms that raise prices often lags those that intended to raise prices



Source: ONS Business Insights Survey, Macrobond

Disclosure appendix

Important disclosures

Additional disclosures

1 This report is dated as at 02 June 2026.

2 All market data included in this report are dated as at close 01 June 2026, unless a different date and/or a specific time of day is indicated in the report.

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