9 July 2026

UK in Focus

Economics
United Kingdom

Pockets of resilience

- Activity in June was subdued, while sentiment is weak but stable
- An easing of tensions in the Middle East and a lower savings rate could see some resilience, though inflation is still set to rise
- Questions remain as to whether a new UK government will help or hinder the currency

Activity and employment down, but some pockets of resilience

UK economic data in June showed an economy losing momentum. Activity has softened, hiring has cooled, and consumer confidence remains subdued. Business surveys showed slowing demand – the UK PMI output index reported a second month of contraction – consistent with a pullback in GDP growth from the current strong 0.7% 3m-o-3m rate in April. The services and construction sectors are especially downbeat. New business for services firms has been declining for four months, while construction activity has been falling since January 2025. Both are victims of higher costs and weak sentiment. Meanwhile, the rebound in manufacturing has continued, despite supply chain disruption and global volatility (Chart 1).

Employment growth is subdued, with firms preferring temporary placements against a backdrop of higher labour costs and activity uncertainty. Despite that, starting salaries are rising (Chart 2), as firms looked to attract experienced, skilled staff. This is consistent with a two-tier labour market, whereby weak demand in certain sectors, and higher costs, are disproportionately impacting younger workers, while a degree of tightness remains for higher skilled, experienced roles. Indeed, despite more applicants per job role, a lack of qualified applicants is the top reason for recruitment difficulties, according to an ONS survey of businesses. A more segmented labour market poses a risk to wage growth, inflation pressures, and for the Bank of England (BoE) in setting interest rates.

A fragile outlook and renewed policy uncertainty

From here, easing Middle East tensions and the reopening of the Strait of Hormuz could all help lead to a pick-up in sentiment. Warm weather, plenty of sports, and a willingness from households to lower their savings rate – as seen in Q1 – could further contribute to some resilience in the economy over the summer. Meanwhile, corporates and households show financial resilience – the Bank of England's (BoE) Financial Stability Report showed that overall corporate and household indebtedness, and debt vulnerability, remains low.

That said, the outlook is fragile. Sustained peace in the Middle East is not a certainty, tailwinds to businesses and households continue to drag, and inflation is set to rise over the coming months, despite lower oil prices. Financial conditions are more restrictive than a few months ago, housing demand has fallen back with mortgage approvals down 11% y-o-y in May, and corporate credit growth momentum has slowed. Business investment growth in Q1 appeared robust but was concentrated in transport equipment. And renewed policy uncertainty is unlikely to be helping.

KEY UK DATA

▲ **0.7%**
GDP growth in 3M to April

► **2.8%**
Consumer Price Inflation, May y-o-y

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

► **3.75%**
Bank of England Base Rate

Source: HSBC

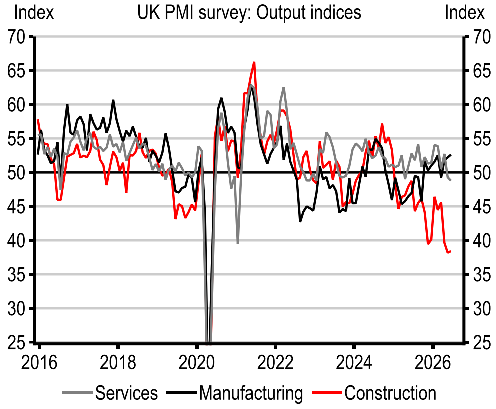
HSBC

Dare to dream for the UK currency under new leadership?

In the near term, the UK's new Prime Minister is unlikely to rewrite the playbook for the pound (GBP), and markets may treat their opening weeks as a live test of the UK's 'investability'. While the GBP can live with ambition, it struggles with a combination of unfunded promises and policy surprises. However, HSBC Global Investment Research FX analysts set out three scenarios for how the GBP may respond to the new government further ahead but conclude that to see a meaningful upside to the GBP, sentiment needs to improve, and private capital needs to be mobilised to long-term use, while policy certainty and fiscal credibility will also be key. Indeed, the Office for Budget Responsibility (OBR) has warned in its latest long-run fiscal sustainability report that policy changes should address long-run challenges as well as short-term needs.

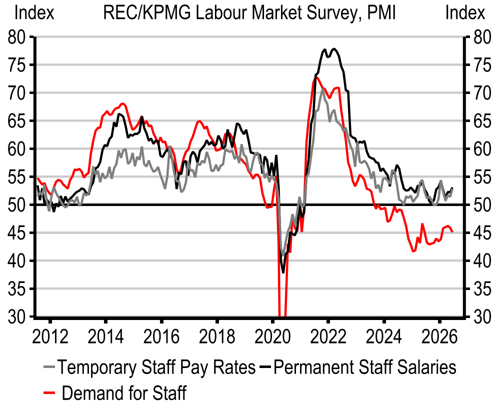
So, while an agenda of 'good' growth is welcomed, the challenges that have plagued the UK in recent years remain, and financial markets will likely be cautious. They have heard grand plans before but would not trade on ideas alone – proof is in the growth-flavoured pudding.

1.Services and construction sectors are experiencing contractions in activity



Source: S&P Global, Macrobond

2.Despite subdued aggregate labour demand, pay is relatively more robust



Source: S&P Global, Macrobond

Disclosure appendix

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