4 August 2026

# UK in Focus

**Economics**
United Kingdom

## A bit hot, but can it last?

- Consumer demand was boosted by the hot weather and the World Cup through June and July
- The BoE left rates unchanged, but pointed to the upside risks to, and uncertain outlook for, inflation
- PM Burnham announced some small policy changes, but the big tough decisions are yet to come

**KEY UK DATA**

| | |
|---|---|
| ▼ 0.7% | GDP growth in 3M to May |
| ▼ 2.6% | Consumer Price Inflation, June y-o-y |
| ► 4.9% | Unemployment rate, 3M to May |
| ► 3.75% | Bank of England Base Rate |

Source: HSBC

### A bit hot all round…

The UK economy entered the summer with decent consumer momentum. Retail sales in June rose 1.0% m-o-m, bolstered by sales related to the hot weather and the FIFA World Cup. Notwithstanding those events, retail sales rose 2.6% 3m/yr (Chart 1), likely supported by real income growth of +0.4% y-o-y in June, and a fall in the net inflow of cash savings year-to-date. However, the hot weather was cited as reducing footfall – online sales grew strongly – and fuel sales were down, despite lower prices.

That said, the prospect and change of the Prime Minister (PM) in July appear to have helped bolster consumer confidence, particularly across younger age cohorts (Chart 2). Meanwhile, business surveys reported improved activity in July, notably the UK services PMI returned to expansion, manufacturers continued to report growth, but employment growth remained soft.

### …but can it last?

While a sizzling summer of activity is welcomed, some caution over its sustainability is warranted, given the looming headwinds in the second half of the year. Importantly, for households, it will depend on the path of real income growth and the confidence to draw upon savings. On the former, inflation slowed to 2.6% y-o-y in June, but is set to rise to c3.7% in Q4 (Chart 3), and with private sector nominal wage growth expected to remain subdued, the squeeze on household budgets will tighten further, although if the savings rate falls faster than we expect, demand could remain relatively resilient. However, we expect volatile conditions in the Middle East and uncertainty from domestic policymakers to keep a lid on any upside news on demand in H2 2026.

### The Bank of England's mixed messaging…

At its latest policy meeting, the Monetary Policy Committee voted 6-3 in favour of leaving interest rates unchanged at 3.75%. Against a backdrop of global uncertainty, the tone of the committee was cautious and the risks to inflation were still judged to be on the upside. The Bank of England (BoE) is vigilant to risk that the disruption in the Middle East sparks second-round inflation effects, i.e., price rises ripple through non-energy sectors and into wage negotiations.

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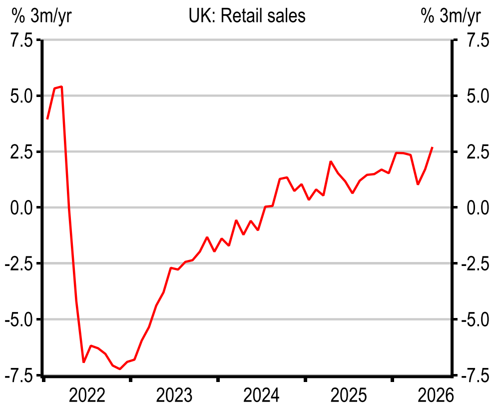
The challenge for policymakers is the time lag between the initial shock and the evidence of second-round effects being visible. As such, the nine committee members differ in their views over the scale of risk, but also to the correct course of action to mitigate the risk – act now, but risk unduly hurting the economy, or wait and risk being late to contain inflation. We maintain our view that the Bank of England would prefer to avoid hiking interest rates if it can and its own forecasts suggest that financial market rate expectations are high (Chart 4). Indeed, Governor Bailey said that the Bank of England was not "edging towards a hike", although that message is at odds with the additional vote from the MPC for a hike (6-3 versus 7-2 at its previous meeting).

**…and a new government finding its feet**

The new Prime Minister, Andy Burnham, hit the ground running with a series of policy announcements aimed at offering some households and businesses "breathing space". While there were concerns over the funding of such policies, the costing is small relative to the broader challenges in the UK public finances. Indeed, before the new Prime Minister considers his ambitions and how to fund them, there are existing, expensive issues to deal with, from defence, to pencilled in real-terms cuts in departmental spending in the coming years, and higher debt servicing costs. So, while the UK has a new Prime Minister and cabinet, the same challenges remain, and trade-offs will need to be made.

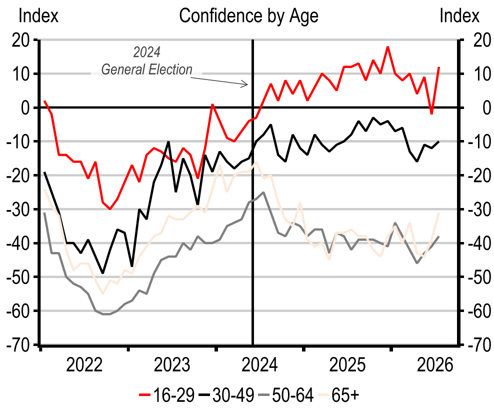
For now, financial market volatility has been sanguine, but an Autumn Budget scheduled on 28 October 2026 and a lack of detail on any objective (including social care and devolution) mean that policy uncertainty could complicate this in the weeks to come.

**1. Consumer demand for goods picked up pace in June…**



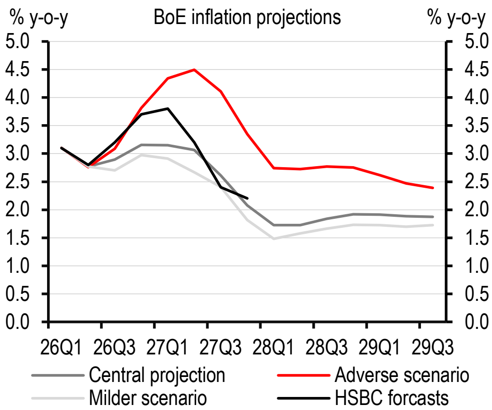

Source: S&P Global, Macrobond

**2. …while consumer confidence improved in July, possibly boosted by a new PM**



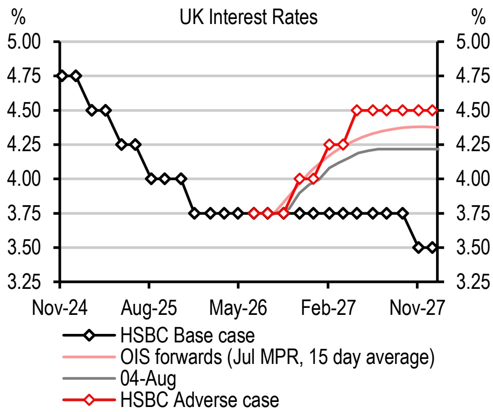

Source: S&P Global, Macrobond

**3. UK inflation was 2.6% in June, but is set to rise from here**




Source: BoE, HSBC

**4. The BoE recognised risks to inflation, but appears reluctant to raise rates**




Source: Bloomberg, HSBC

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