

WEEKLY ANALYSIS

WILL THE BOE ADOPT A RESTRICTIVE MONETARY POLICY FROM JUNE ONWARD?

GDP overestimated in Q1. Negative growth likely in Q2. Services sector slumps. Massive blow to employment in May. Consumer confidence at an all-time low. Rise in producer prices (+7.7%). Opportunities in real estate. Be cautious with stocks.

Key points

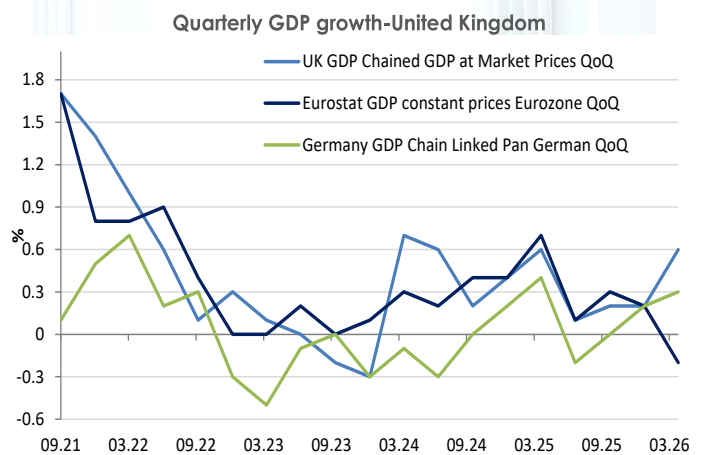


- The ONS is likely overestimating growth in Q1 2026
- Negative growth (-0.2%) expected for Q2
- Alarming drop in the services PMI
- Massive shock to the labor market in May (-100k)
- Household confidence hits lowest level in 36 months
- Sharp rise in producer prices (+7.7%) in April
- Will monetary policy turn restrictive again starting in June?
- Bond yields stabilizing at high levels
- British pound supported by interest rates
- Direct real estate less attractive than discounted REITs
- British stocks still consolidating

The ONS is likely overestimating growth in Q1 2026

The BoE had hoped for a rebound in the spring. The figures released by the ONS do indeed show that the United Kingdom started the year with strong economic growth, with businesses and consumers appearing to be resilient in the face of the first weeks of the war in Iran. Real GDP growth came in at +0.6%, following a final increase of +0.2% in Q4 2025. This strong start to the year is largely due to a particularly robust February, when the economy grew by +0.4%, a trend that remained solid in March with a broad-based increase in output (+0.3%). Most sectors contributed positively to this strong momentum, with consumer spending rising by +0.6%, business investment also increasing by +0.7%, and government spending on goods and services rising by +0.4%. The only downside was that foreign trade developments weighed slightly on growth, as the trade deficit widened. In the services sector, which remains the main driver of the British economy, growth was encouraging (+0.8%), thanks to strong expansion led by wholesale trade, advertising, and software development. The standard of living for Britons improved unexpectedly, as GDP per capita rose by +0.6% in Q1, compared with +0.1% in Q4 2025. These results,

published by the ONS, are surprisingly strong given particularly adverse external conditions. It is worth noting that various experts and organizations monitoring and analyzing British economic data have expressed doubts about the figures published by the ONS, suggesting that the national statistics office may not have properly accounted for seasonal variations, thereby overestimating the quarter's actual momentum. For several years now, the ONS seems to have struggled to account for changes in consumer behavior, which is consistently stronger in Q1. Even monetary policy makers at the Bank of England have expressed doubts about the reliability of the data released this quarter. Indeed, the figures diverge significantly from the expectations of private forecasters, who had anticipated a more challenging situation in Q1.



Negative growth (-0.2%) expected for Q2

Beyond the issue of seasonality, growth is now threatened by the repercussions of the conflict in the Middle East in Q2. Reports from April and May indicate that the imported supply shock has become embedded in the price structure, dashing hopes for a rapid drop in interest rates. Furthermore, ongoing regional geopolitical tensions and the partial blockade of shipping lanes have pushed the price of Brent crude oil above \$90 per barrel.