

United Kingdom: Following a rebound in growth in Q1, a risk of stagflation from Q2 onwards

onwards emerges

		Apr 25	May 25	Jun 25	Jul 25	Aug 25	Sep 25	Oct 25	Nov 25	Dec 25	Jan 26	Feb 26	Mar 26
Global	Composite Index	-0.9	-0.6	-0.2	-0.4	0.1	-0.6	-0.2	-0.4	-0.4	0.1	0.1	-0.6
	Credit*												
	Interest rate on NFC loans, %	6.4	5.6	5.9	5.8	5.7	5.5	5.8	5.6	5.6	5.7	5.7	
	New NFC loans (GBP bn)	24	25	23	24	29	24	25	27	27	25	28	
Industry	Business Climate												
	Composite	-1.5	-1.3	-1.0	-0.9	-1.1	-1.3	-0.5	-0.4	-0.3	0.0	-0.1	-0.2
	Expected production	-1.2	-1.1	-1.0	-0.5	-0.6	-1.2	-0.1	-0.4	-0.3	-0.2	0.0	-0.6
	Order books	-1.4	-1.2	-0.6	-0.6	-1.3	-1.3	-0.7	-0.3	-0.2	0.3	0.1	0.0
	Export order books	-2.5	-1.3	-0.7	-0.9	-1.6	-1.8	-1.7	-0.6	-0.1	0.5	0.6	0.3
	Price expectations	0.5	0.1	0.1	-0.1	-0.4	-0.6	-0.5	-1.1	-0.7	-0.6	-0.6	0.1
	Employment expectations	-1.7	-1.8	-1.4	-1.6	-1.5	-1.4	-0.6	-0.6	-0.4	-0.4	-0.3	-0.8
Services	Business Climate												
	Composite	-0.9	-0.5	-0.1	-0.3	0.2	-0.5	-0.2	-0.4	-0.4	0.1	0.1	-0.6
	Expected activity	-2.1	-0.4	-0.8	-0.5	-0.1	-0.4	0.2	-0.2	0.2	0.5	0.1	-0.7
	Price expectations	1.1	0.3	-0.2	0.1	0.3	0.1	0.0	-0.5	0.2	0.3	0.3	1.0
	Employment expectations	-1.1	-0.7	-1.0	-1.3	-1.0	-1.0	-0.4	-1.5	-1.1	-1.3	-1.2	-1.0
Retail	Business Climate												
	Retail trade	-1.4	-1.5	-1.7	-2.2	-1.5	-0.8	-1.7	-1.8	-1.2	-2.5	-1.4	-0.9
	Price expectations	-0.8	-0.8	-0.8	0.5	0.5	0.5	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
	Wholesale trade	-1.2	-1.3	-1.4	-1.8	-1.4	-1.3	-1.1	-1.6	-1.6	-2.2	-1.9	-1.5
Construction	Business Climate												
	Composite	-0.9	-0.7	-0.6	-1.3	-1.1	-1.0	-1.3	-2.0	-1.9	-0.9	-1.2	-1.1
	Price expectations	-0.6	-0.5	-1.0	-0.8	-1.3	-1.3	-1.2	-1.8	-1.0	-0.7	-0.1	-0.8
	Employment expectations	-0.8	-1.2	-1.0	-0.9	-1.1	-1.1	-1.4	-2.3	-2.1	-1.3	-0.4	-1.2
	Credit*												
	Interest rate on housing loans, %	4.5	4.5	4.3	4.3	4.3	4.2	4.2	4.2	4.2	4.1	4.1	0.0
	New housing loans (GBP bn)	17	21	24	24	23	25	24	24	23	24	24	
Consumption	Household Confidence & Credit*												
	Composite												
	Expected financial situation	-0.2	0.4	0.4	0.4	0.7	0.6	0.5	0.3	0.4	0.8	0.4	0.3
	Major purchases opportunity	0.4	0.2	0.2	0.2	0.0	0.2	0.0	0.2	-0.1	-0.2	0.1	-0.4
	Interest rate on consumer loans, %	8.7	8.7	8.4	8.3	8.3	8.3	8.4	8.6	8.7	9.0	9.0	0.0
	New consumer loans (GBP bn)	33	34	34	33	35	34	35	35	35	36	36	



Indicators are converted into z-scores, i.e. deviations from their long-term average (expressed in standard deviations). Positive (negative) values indicate that the indicator is above (below) its long-term average by a given number of standard deviations. Red shading corresponds to strong economic activity, elevated inflation expectations, and low unemployment fears, while blue indicates a slowdown in activity, moderate inflation expectations, and heightened unemployment fears.

*Credit indicators are neither standardised as z-scores nor associated with any colour coding: they are shown in levels (or as 12-month cumulative flows) and should be interpreted separately from the other indicators.

Surveys suggest a healthy level of activity in Q1 but are already showing signs of deterioration from Q2 onwards. Business sentiment indicators were fairly positive at the start of 2026. However, they now point to a downturn, with a resurgence of supply constraints and an expected deterioration in demand (from both businesses and households). The manufacturing output index is contracting for the first time in six months.

Before the outbreak of the war in Iran, lending remained buoyant. Year-to-date new mortgage lending had stabilised above pre-pandemic levels, driven by falling interest rates. Net consumer-lending flows are growing at a faster pace than their historical average. Net bank lending to businesses was also quite strong, concentrated mainly on large firms. In the near term, the inflationary climate and pressure on bond yields are likely to result in tighter financial conditions and rising interest rates, which could weigh on lending growth.

GDP: growth, carry-over and forecasts									
OBSERVED GROWTH (q/q)			CARRY-OVER	FORECAST (q/q)			ANNUAL FORECAST		
Q2 2025	Q3 2025	Q4 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	2025 (observed)	2026	2027
0.2	0.1	0.1	0.1	0.3	0.2	0.1	1.4	0.6	-

Source: Refinitiv, BNP Paribas

According to our forecasts, growth is expected to have accelerated to 0.3% q/q in the first quarter of 2026 (after 0.1% q/q in Q4). The growth recorded in February (+0.5% m/m, following +0.1% m/m in January) is consistent with this figure.

From Q2 onwards, the energy shock resulting from disruptions from the war in Iran is expected to weigh on growth, which would be limited to 0.6% on an annual average as a result. This slowdown compared with 2025 is expected to be due to a downward revision in household consumption, as well as a decline in private investment (already trending downwards by the end of 2025). GDP growth is expected to be driven by public spending.

Marianne Mueller (completed on 16 April 2026)



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