- The first half of 2026/27 (April to September) saw:

- Continued resilience in the face of the ongoing energy shock, with real GDP up 0.4% m/m in July, following on from GDP of 0.5% q/q (1.4% y/y) for the quarter ending 30 June 2026.

- The 3myy rate of average earnings growth excluding bonuses remained stable throughout the period under review, initially stagnating at 3.4% in April and more latterly holding steady at 3.5% in July.

- CPI inflation stuck at 2.8% in May, but is now ticking upwards, standing at 3.1% in August and forecast to rise to 4.3% by January 2027.

- The Bank of England left interest rates unchanged at 3.75% although it intimated in its September meeting that rates will be hiked in November or December if a resolution to the conflict in the Middle East is not forthcoming before then.

- The 10-year gilt yield fluctuated between 5.43% and 4.69%, ending September at 5.43%.

- The economy has continued to surprise to the upside, with real GDP growth of 0.6% q/q for the period January to March, followed by a resilient 0.5% q/q rise through to the end of June. That has been followed by another strong monthly increase of 0.4% m/m in July. That marked the biggest rise since the Middle East conflict started and suggests the resilience of the economy in the first half of the year continued into the early stages of the second half. That rise in July was broad-based with services output up by 0.4% m/m, industrial production 0.2% m/m higher and construction output rising by 0.1% m/m. The Office for National Statistics also noted that businesses reported stronger activity related to AI and cloud computing.

- If real GDP were flat in both August and September, a further healthy rise of 0.6% q/q is anticipated. However, the economy's prolonged resilience is unlikely to last as the drag from rising energy prices (the January energy cap is projected to increase by c20%) and borrowing costs will be felt before long.

- The fall in the composite Purchasing Manager Index (PMI) from 49.7 in May to a 14-month low of 49.4 in June was entirely driven by services activity. Indeed, the services activity PMI fell from 49.3 to a 41-month low of 48.7 due to rising costs and political uncertainty weighing on consumer confidence. That weakness was partly offset by a rise in the manufacturing output for a third consecutive month but that was due to fears of shortages causing businesses to build stocks. Overall, the composite PMI suggested the strong start to the year would be followed by tepid growth at best.

- By September, the composite PMI stood at 52.0. While this was still indicative of expanding activity, it was weaker than August's 52.5 and the lowest level in three months, suggesting the latest leap in energy prices and the prospect of another tax-raising Autumn Budget are weighing on activity. Within the composite report, employment contracted (i.e., a reading below 50) for the twenty-fourth consecutive month while higher fuel and payroll costs contributed to the sharpest rise in prices charged since May. The services PMI fell from 52.5 to 52.1, reportedly due to subdued domestic economic conditions and ongoing geopolitical uncertainty. Meanwhile, weak consumer demand constrained production, bringing the manufacturing output subcomponent balance down from 52.1 to a six-month low of 51.5. The press release also noted that weaker consumer demand was partly offset by AI investment and greater defence spending.

- Retail sales volumes were up in every major category except "other stores" and fuel in August, leaving the headline figure up 0.5% m/m. That fully reversed the 0.5% m/m decline in July and left the level of retail sales 2.4% higher than last August. Even if retail sales volumes were flat in September, volumes for the quarter as a whole would still rise by 0.5% q/q, higher than the 0.2% q/q rise in the previous quarter. August's figure suggests that other factors are offsetting the drag on real incomes from higher energy prices and borrowing costs, or that households remain able and willing to reduce their saving rate to sustain recent spending growth. That said, with inflation yet to peak, the biggest drag on households' real income has yet to come.

- The public finances have been challenged for several months now. Public sector net borrowing of £23.3bn in May was above the Office for Budget Responsibility's (OBR's) forecast of £17.7bn and £5.4bn above the corresponding figure last year. The weak performance in May was mainly due to the strength of government spending, as the rise in Retail Prices Index inflation in March meant debt interest payments were £4.1bn higher than in May 2025, £3.3bn higher than the OBR anticipated in March and the highest in any May on record. Tax receipts of £85.5bn were also below OBR predictions.

- More recently, public sector net borrowing of £18.3 billion in August was once again higher than the OBR's forecast of £14.8 billion. It also marked the second highest August borrowing figure since records began in 1993. At £12.4 billion, current borrowing (i.e., excluding investments) which is important for the Chancellor's fiscal mandate, was also above the OBR's forecast of £10.4 billion. Higher central government tax receipts were not enough to offset the effect of higher government spending. Central government expenditure overshot the OBR's forecast by £2.3 billion, partly due to higher inflation pushing up debt interest payments and government spending on public services.

- Regarding employment, the latest PAYE employment figure for August saw a 26,000 fall, leaving employment 95,000 lower than before the start of the Iran War in February and 0.5% lower than a year ago. The number of job vacancies continued to fall, edging down from 706,000 in the three months to July to 702,000 in the three months to August. While alternative measures of employment show a slightly stronger picture, the unemployment rate stayed at 4.9% in July for the fourth consecutive month.

- That recent further weakening of the labour market continues to weigh on pay growth. The 3myy growth rate of average earnings including bonuses eased from 4.2% in June to 3.9% in July entirely off the back of a slowdown in private sector bonus growth. By contrast, a jump in public sector bonus growth meant that total public sector pay growth rose from 6.2% to 6.6%. The timelier HMRC median PAYE measure of pay tells a similar story, with the 3myy growth rate falling from 4.5% in July to a seven-month low of 4.1% in August. That points to a further fall in average earnings growth from 3.9% to around 3.6%.

- The knock-on impact from surging energy prices is now being felt, pushing CPI inflation up from 2.9% in July to 3.1% in August. That increase was entirely due to the 6.9% m/m rise in fuel prices, which lifted annual fuel inflation from 15.3% to 23.0%. Even so, higher energy costs do not yet seem to be boosting other items of the CPI just yet. For example, food and drink inflation stayed at 1.3%. That said, the combination of the current levels of energy prices, with brent crude still around $100pb, and the eventual "first-round" effect of businesses passing on some of their higher energy costs will likely result in CPI inflation rising to around 3.6% in September and to a peak of about 4.3% in January based on forecasts from Capital Economics.

- Regarding Bank Rate, the Bank of England will want to steer clear of allegations of taking too long to act as inflation picks up, and in September intimated that despite a 6-3 vote against increasing Bank Rate to 4%, four of the majority who voted for no change are minded to vote for a rate hike in November or December if the conflict in the Middle East remains unresolved.

- April through to September brought more volatility for the gilt market. For example, after ending March at 4.92%, the 10-year Gilt shot up to 5.18% in mid-May, its highest level since 2008. Its movement since has reflected sentiment in the Middle East, falling back to 4.7% in June but finishing September at 5.43% as US/Iran relations remain sour.

- The FTSE 100 started April below 10,200, below its record high of around 10,900 in late February. Nonetheless, the index surged to just shy of that level in late July. More recently, it has struggled, ending September at 10,606. Moreover, it materially underperformed the broader more domestic-focused FTSE 250 and most other international indices over this period, weighed down by weightings towards energy, mining, financials and pharmaceuticals and lack of exposure to tech stocks which generally outperformed globally.

MPC meetings: 30 April, 18 June, 30 July, 17 September 2026

- There were four Monetary Policy Committee (MPC) meetings held in the first half of the financial year. In April, the Committee voted 8-1 to keep rates at 3.75%, with one dissenter voting for 4%. By June, the split had become 7-2, with concerns that rising energy prices, emanating from the conflict in the Middle East, would lift inflation and potentially give rise to second round inflation effects reflected in higher wages.

- As the year has progressed, the split has grown further. The July and September meetings both recorded a 6-3 split, with Greene, Mann and Pill voting for a hike in rates to 4% at both meetings. As noted, several other members of the committee have intimated that they are likely to vote for an increase in November or December if there is no resolution to the conflict in the Middle East.