UK Outlook

Insights into the UK economy

May 2025

Outlook deteriorates amid tariff uncertainty

Since our last projections in January the global outlook has unfortunately deteriorated, due in the main to the trade policies of the Trump administration. With uncertainty high we have decided to reduce our 2025 and 2026 growth forecasts by 0.2% and 0.3% respectively, to 1.0% and 1.3%. Unemployment, which has been on a gradual upward trend, is likely to continue on that path. Inflation pressures, while likely to rise in the near term, may ebb gradually later this year and next on foot of slower growth and lower energy/import prices. We expect the BoE to cut rates to 3.25% by mid-2026.

UK will not escape tariff fallout despite 'trade deal'

Clearly the most impactful development since out last outlook has been the tariff announcements from US President Trump. While the exact position vis-à-vis individual US trading partners has been in flux, the overall impact is clear – a significantly higher average tariff rate on goods imports to the US. This will slow US and global growth – both through direct channels such as lower trade and disrupted supply chains, and indirect channels such as damage to business and consumer confidence and financial market strains. Following the 'trade deal' between the UK and US last week the UK now faces a tariff of 10% on most goods, including cars, with 0% on steel (pharma remains unclear). While this provides some welcome clarity and helps slightly reduce the direct hit to the UK economy, exports to the US are nonetheless still likely to be negatively impacted and the broader spillover effects from US trade policy on the world economy will remain negative for the UK.

GDP growth set to slow

However, given the degree of uncertainty about the final position on tariffs globally, and the frequent and somewhat chaotic changes, putting a precise estimate on the hit to UK growth is not straightforward. While the latest survey data points to a slowdown, it is too early to gauge its severity. As such we have assumed a hit of 0.2% to UK growth in 2025 and 0.3% in 2026, leaving growth at 1.0% and 1.3% respectively (revised down from 1.2% and 1.6%). The 2025 projection may somewhat mask the impact on growth as it reflects a strong bounce in Q1 before the tariffs were announced – in reality output growth is likely to be quite soft for most of the rest of this year. We assume that as the global economy adjusts to the new tariff regime activity will pick up in 2026.

Unemployment to rise, inflation pressures to ease

The latest labour market data has continued to send somewhat conflicting signals with regard to employment growth. However, what looks clear is that the labour market is loosening gradually, with unemployment ticking up slowly, vacancies dropping to pre-Covid levels, and wage growth easing a bit. We expect this process to continue, perhaps accelerating somewhat in coming quarters as activity slows. Unemployment may approach 5% by the end of this year, before levelling off and starting to ease back through 2026. While inflation has been somewhat sticky and headline CPI is set to rise in the near term, the conditions for a gradual easing of inflationary pressures later this year now seem to be coming into place – growth is slowing, energy prices have declined and import prices may ease (these factors are likely to outweigh any upward impetus to prices from supply chain disruptions).

Monetary policy easing, fiscal policy challenges

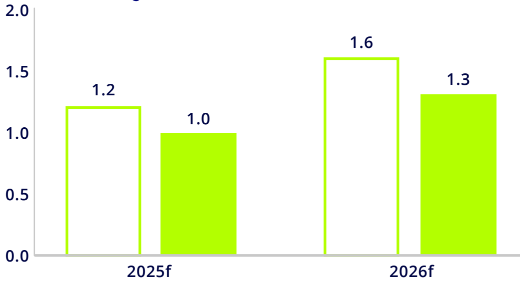
With growth weakening and signs that inflation pressures may decline, the BoE is likely to continue easing monetary policy. We expect Bank Rate to be cut to 3.25% by the middle of next year. The UK fiscal position remains challenging and the final public finance figures for the 2024/25 period were disappointing, with a larger deficit than expected (primarily on foot of weak revenues). With a worse starting position for 2025/26, and the outlook deteriorating, Chancellor Reeves is likely to have to pare back some spending plans, particularly on welfare, later this year – this will further weigh on demand.

Elevated uncertainty

Levels of uncertainty are now high, with risks to growth in both directions. On the downside there is a risk that the global economy is more negatively impacted by the tariffs than feared – as well as the risk of further measures from the US and retaliation from major trading partners. Other risks remain as well, with conflicts ongoing in several parts of the world, while the principal domestic risk relates to the challenging fiscal position. However, with growth forecasts now materially lower, and following the 'trade deal' between the US and UK, there are perhaps upside risks as well – the US may roll back its global tariff plans to a degree and/or economies may adjust with less of a hit to activity than feared.

Outlook	2024	2025f	2026f
GDP Growth	1.1%	1.0%	1.3%
Employment Growth	0.8%	0.8%	0.6%
Unemployment Rate	4.3%	4.6%	4.8%
Inflation Rate	2.5%	2.8%	2.2%

Growth Projections



GDP (annual % change, Jan and May projections compared)
Source: Bank of Ireland

Economy

Growth Outlook Deteriorates

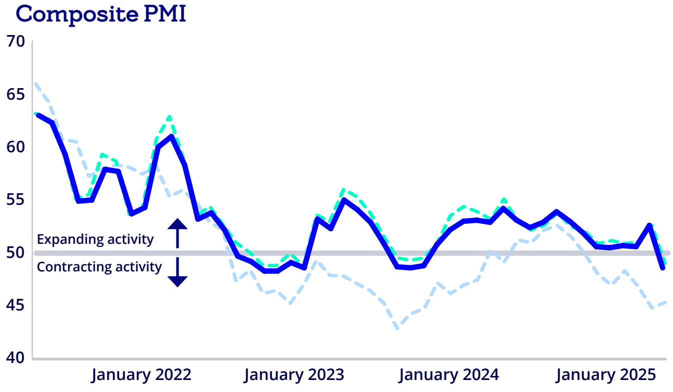
Global impact of Trump's tariffs set to slow UK growth

Recent macro data has been a mixed bag. Although some survey data has been soft the official GDP data has surprised on the upside, particularly a 0.7% quarter-on-quarter jump in Q1, with business investment and exports quite robust (though perhaps distorted somewhat by firms anticipating potential tariffs). Though retail sales data has also surprised on the upside, with solid gains in each of January, February and March, overall consumption was a little more subdued than anticipated in Q1. However, unfortunately, the Q1 data now looks less relevant in the face of a large external shock – namely President Trump's April 2 announcement of tariffs on virtually all US trading partners, including the UK. The scale of the tariffs has taken most people by surprise and has been greeted by volatility in financial markets and a deterioration in consumer and business sentiment (albeit the US has softened its position over the past few weeks, and global equity markets have rebounded). While we do not yet have much data to gauge the impact, the April PMIs showed a significant deterioration, with the composite index slipping below 50 – the manufacturing PMI was particularly weak, as was the construction PMI.

Before discussing the impact of the tariffs it is useful to place them in context. In 2024 the UK exported almost £60bn of goods to the US, 16% of goods exports and equivalent to roughly 2% of GDP – about half of these exports are machinery and transport equipment. Following the recently announced UK-US 'trade deal' (it is important to note however that it is not a full legally binding trade agreement at this stage, and many more details remain to be negotiated) we now have a bit more certainty regarding the tariffs the UK will face – a 10% tariff on most UK goods exports to the US, including cars, with a 0% tariff on steel (pharmaceutical sector tariffs have yet to be decided). The UK offered a number of relatively small concessions to the US to get the deal over the line. The direct effects of the tariffs on the UK economy are likely to be negative, but with an exposure of only 2% of GDP these effects will likely be manageable. However, unfortunately there are likely to be a range of indirect effects which will the dial the hit up further – in particular global economic growth is likely to slow (the IMF recently significantly downgraded its global forecasts).

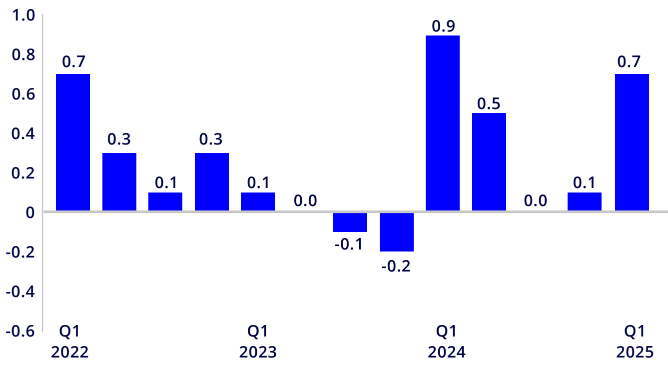
Given the large degree of uncertainty about the impact of the tariffs on the UK and global economies, we have decided to take a cautious approach and reduce our GDP forecasts, by 0.2% for 2025 and 0.3% for 2026. We now see GDP growth of 1.0% in 2025 (down from 1.2%) and 1.3% in 2026 (down from 1.6%). We expect that output growth will be sluggish in Q2 and Q3, before picking up gradually thereafter. Slower growth is likely to put pressure on the already strained public finances, meaning fiscal support may have to be scaled back somewhat at the next Budget. This means monetary policy will have to do most of the heavy lifting in terms of supporting the economy – thankfully the BoE has scope to continue easing policy.

Composite PMI



Composite PMI (50 = no change)
Manufacturing PMI Services PMI
Source: S&P Global

Quarterly GDP Growth



GDP Growth (quarterly % change)
Source: ONS

Investment and exports to weaken, consumption more resilient

Household and government consumption were both a touch weaker than expected in Q1 – consumer spending was up 0.2% in the quarter, while government consumption declined. Its likely consumer confidence will dip somewhat in the wake of the tariffs announcement and we expect consumer spending to remain moderate through the middle of this year. Nonetheless, still fairly healthy disposable income gains (wages continue to expand at rates well above inflation) means it should remain in positive territory and pick up later this year and as we go into 2026. Overall we expect consumption growth of 1.1% this year and 1.4% next year, marked down marginally on our prior forecasts (1.3% and 1.6%). Government spending is also likely to drive solid government consumption growth of about 3% this year and 2% next year.

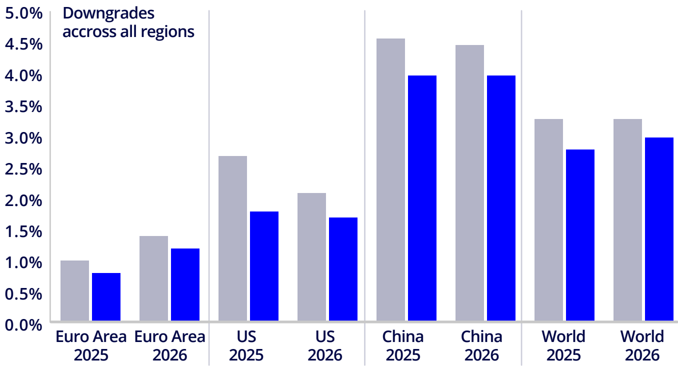
Both business investment and exports were better than expected in Q1. However, there may have been some distortions related to firms front running anticipated US tariffs. Given the heighted uncertainty around tariffs and their effect on the global economy business investment may now struggle over the balance of the year. Investment in new housing also seems likely to slow in this environment. Government investment should act as a stabiliser to a degree though – solid growth remains the base case, in line with government plans to ramp up infrastructure spending. Clearly the outlook for exports has weakened (looking through any short term boost due to front loading) and demand is likely to soften. While the risks to exports to the US are clear (though reduced a little since the UK-US 'trade deal' as cars and steel are no longer covered by 25% tariffs) exports to other countries are likely to suffer as global growth slows. In addition, some goods produced in Asia may be redirected from the US market to Europe, putting downward pressure on prices and profit margins for UK and European firms that compete in those segments. We have reduced our exports forecast from 0.6% to -0.3% for 2025, and from 1.2% to 0.8% for 2026.

Elevated levels of uncertainty around forecasts

Unfortunately, uncertainty about the outlook is quite high, with risks in both directions. There is obviously a risk that additional measures are forthcoming from the US administration – though developments in the past week, with the UK-US agreement and a lowering of US-China tariffs (albeit from very high levels, and on a temporary basis with negotiations ongoing), have perhaps reduced – though not eliminated - risks on that front slightly. Furthermore, the negative impact on the economy may be worse than feared – there are no real precedents in the modern era for a policy such as this. It is of course important to note that other downside risks have not gone away either. There are multiple ongoing conflicts globally (Ukraine/Russia, the Middle East, and now India and Pakistan as well) and tensions between the US and China will not be helped by the tariffs brinkmanship. On the domestic front the fiscal position remains challenging. However, with growth forecasts now lower there are upside risks – the US could back down and reduce the tariffs somewhat, or implement so many exemptions they become less relevant. In addition, the global and UK economies could prove more resilient than feared and adjust to the tariff shock with only a moderate hit to growth.

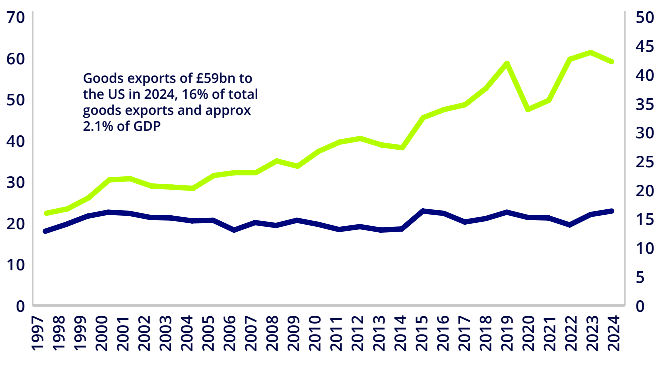
Finally, the longer term structural challenges for the economy remain – meeting them will become both increasingly challenging, but also increasingly necessary - these include an aging population, sluggish productivity growth, stretched public services and insufficient investment in infrastructure and housing.

Global Growth Outlook



Source: IMF

Exports to the US



Source: ONS

Annual % Change	2023	2024	2025 F	2026 F
Consumer Spending	0.5%	0.6%	1.1%	1.4%
Government Consumption	1.6%	3.0%	3.0%	2.0%
Investment	0.3%	1.5%	1.3%	1.3%
- Business Investment	4.4%	2.0%	1.8%	1.0%
- Government Investment	0.0%	1.0%	2.5%	2.2%
- Housing Investment	-6.9%	0.6%	-0.5%	1.2%
Exports	-0.4%	-1.2%	-0.3%	0.8%
Imports	-1.2%	2.7%	1.1%	1.4%
GDP	0.4%	1.1%	1.0%	1.3%

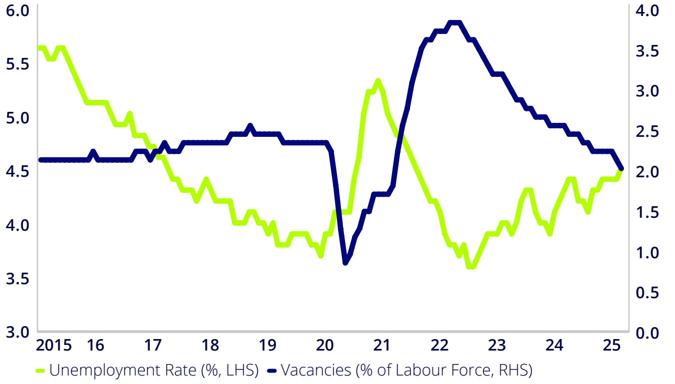
Labour Market

Jobs market to loosen further

Employment growth to stall, unemployment to rise

The ONS data on the labour market has continued to send conflicting signals on employment growth, with the Labour Force Survey data pointing to solid growth, but the payrolls data (based on tax data) looking weaker. On balance we believe employment has expanded at a moderate pace of about 0.1% quarter-on-quarter recently. The unemployment rate has ticked up marginally of late, though at 4.5% it remains relatively low, while the number of vacancies has declined and is now back below pre-Covid levels. Wage growth remains fairly robust, with private sector wages up 5 ½% annually, though surveys do point to some easing ahead. The increase in employer National Insurance came into effect in April, while the 'minimum wage' increased by almost 7%, adding to business costs. Going forward we expect slower growth, weaker business confidence and higher employment costs to weigh on labour market conditions. Employment growth is likely to stall in the coming months, with job losses in exposed sectors. Unemployment will continue to tick up, approaching 5% at the turn of the year. With labour market conditions loosening, wage growth is likely to continue to ease. We expect the labour market slowdown to last until the turn of the year – at that point employment growth should begin to pick up again, albeit gradually, with unemployment levelling off before starting to fall back.

Unemployment and Vacancies



Source: ONS

	2023	2024	2025 F	2026 F
Labour Force Growth	1.4%	1.1%	1.0%	0.9%
Employment Growth	1.2%	0.8%	0.8%	0.6%
Unemployment Rate	4.1%	4.3%	4.6%	4.8%
Wage Growth	6.5%	5.4%	4.2%	3.3%

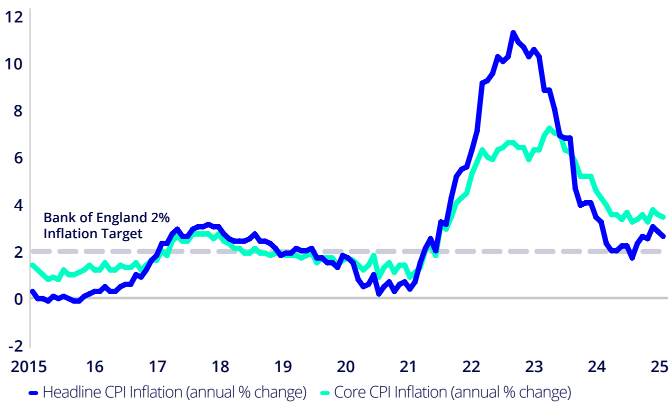
Inflation

Pressures set to ease later this year

While near term inflation will remain above target, price pressures should then ease

While inflation has bounced around a bit of late, headline CPI remains about ½% above the BoE's target. Inflation is likely to rise a bit in the coming months due to an increase in the OFGEM energy price cap and as firms adjust to higher wage costs. However, this pick up is anticipated and may well be smaller in magnitude than was feared a few months ago. After that we feel the conditions are in place for inflation to decline back towards the target, albeit it may take some time. Weaker growth is likely to lead to some spare capacity in the economy, easing price pressures. Energy prices have recently fallen (amplified by sterling appreciating against the dollar) and, if sustained, this should prove disinflationary. In addition, US tariffs on Asian economies could see some exports from those economies diverted to Europe, putting some downward pressure on goods import prices. However, there are some risks – disruption to supply chains due to the tariffs could potentially place some countervailing pressure on prices. Overall, we expect headline inflation to average 2.8% this year, before declining to 2.2% next year, with core inflation a touch higher.

Headline and Core Inflation



Source: ONS

	2023	2024	2025 F	2026 F
Inflation Rate (CPI)	7.3%	2.5%	2.8%	2.2%
Core Inflation Rate (CPI ex-Energy)	7.3%	3.8%	3.3%	2.4%

Fiscal Policy

Public finances under strain

Reducing the fiscal deficit over the next few years will be challenging

Developments in the public finances over the past 6 months have surely disappointed Chancellor Reeves. The increase in employer National Insurance used to fund the Budget increase to spending looks to have had a more negative impact on business sentiment than thought. The boost to growth anticipated by the OBR has not come through, while their projections for revenues have proven too optimistic – as a result the public finance figures for 2024/25 show a larger deficit than projected. Long term bond yields also remain on the high side, adding to debt servicing costs. And now, on top of this, the outlook for both the UK and global economies has soured. This all clearly leaves the Chancellor with a significant challenge ahead. She has commenced making adjustments, with measures to trim welfare spending. It now seems likely that further, potentially deeper, and more politically fraught adjustments will be required later this year. This in turn is likely to have knock on effects on confidence and growth, further slowing demand and amplifying the effects of the tariff related slowdown. Ring fencing growth positive measures related to capital spending should be a priority. A final point – this all surely again calls into question the wisdom of the UK's fiscal rules, which are so heavily reliant on OBR projections 5 years in the future – in reality precisely forecasting the UK's economic and fiscal position that far out seems next to impossible, making it a poor anchor for fiscal policy.

OBR Projections	2024/25 F	2025/26 F	2026/27 F
Revenue Growth	3.8%	7.7%	5.1%
Expenditure Growth	4.0%	5.3%	3.1%
- Current Spending Growth	3.6%	5.3%	3.1%
- Capital Spending Growth	6.7%	6.6%	2.8%
Fiscal Balance* (% GDP)	4.8% (4.5%)	3.9% (3.6%)	3.1% (2.9%)
Government Debt-to-GDP** (% GDP)	95.9%	95.1%	95.8%

*Public Sector Net Borrowing, prior forecast in brackets
**Public Sector Net Debt

Monetary Policy

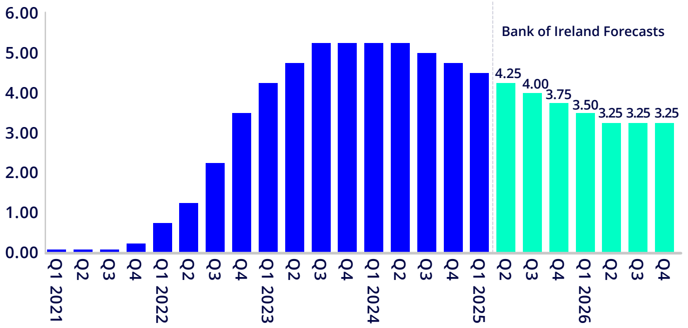
BoE to continue easing

Amidst growth risks the BoE is likely to cut Bank Rate to 3.25% by mid-2026

The Bank of England (BoE) has now cut interest rates by 100bp cumulatively since commencing an easing cycle last year, despite inflation remaining somewhat above the 2% target and wage growth remaining fairly robust. The BoE is projecting GDP growth of 1% in 2025 and 1.25% in 2026 (the latter revised down by ¼%) and is forecasting that headline inflation will fall back to 2% by end 2026 (several quarters sooner than previously projected). We expect the MPC to continue on an easing path, cutting rates by about 100bp in total over the next year, taking the base rate down to a broadly 'neutral' rate of 3.25%. The risks to the outlook now look to be to the downside - though perhaps with the caveat that the BoE will watch carefully to see if tariff related supply-chain disruptions could offset disinflationary pressures from elsewhere (we think not, but it remains to be seen).

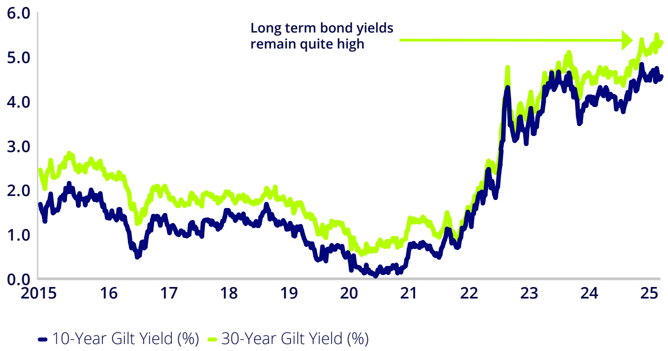
UK 10 year government bonds have traded in a range with yields between roughly 4.40% and 4.75% over the year to date and are currently in the middle of that range. Sterling has strengthened against the dollar over the past month as the US currency sold off following the announcement of tariffs (trading at $1.33 as we go to print). The pound weakened against the euro immediately following the US tariff announcement (as the single currency seemed to benefit from capital flows out of the US to a greater degree), but has appreciated back in recent weeks and now stands at £0.84.

BoE Policy Outlook



Source: Bloomberg, Bank of Ireland

Gilt Yields



Source: Bloomberg

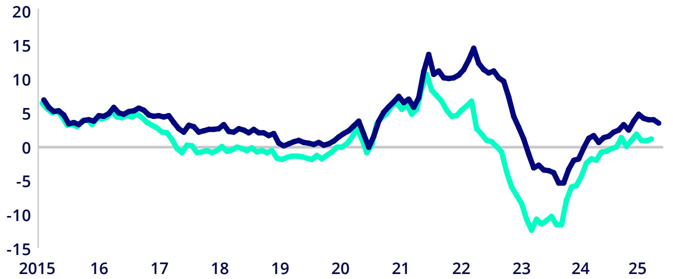
Housing Market

Outlook deteriorates

Recent short lived pick up in conditions to give way as macro outlook worsens

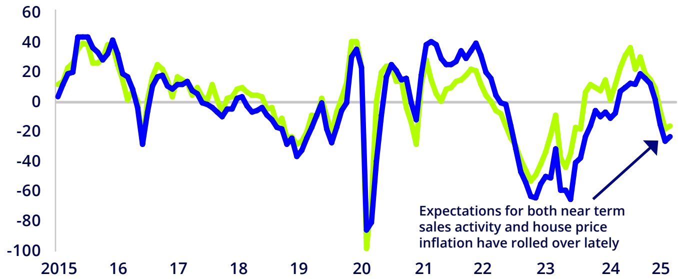
The housing market seemed to enjoy a bit of a bounce through late last year and early this year, with both activity and prices on the rise, perhaps partly due to buyers trying to get ahead of the end of the stamp duty holiday (end March 2025). However, the market now seems to have lost momentum – it looks like prices were down in April (though the monthly change was negatively impacted by the stamp duty change), and the March and April RICS surveys noted a falloff in buyer enquiries and sales activity. The announcement of US tariffs seems likely to dent sentiment and further slow the market. Indeed, expectations for prices over the next 3 months had already slipped into negative territory in the March RICS survey, and they remained there in April, though 12 month expectations are still in positive territory. Overall, our previous expectation for price growth of 3% in 2025 now looks a little on the high side, with prices potentially moving sideways over coming quarters, and ending the year up by about 2% or thereabouts. As regards the mortgage market, one silver lining of the likely slowdown is that mortgage interest rates may gradually drop over the coming quarters as the BoE steadily eases monetary policy. However, it would not be surprising if mortgage approvals fell back a bit, towards a monthly average of 60k.

House Prices



House Prices (annual % change) House Prices Adjusted for Inflation (annual % change)
Source: Nationwide, ONS, Bank of Ireland

RICS Survey



House Price Expectations next 3 months (% net balance)
Sales Expectations next 3 months (% net balance)
Source: RICS

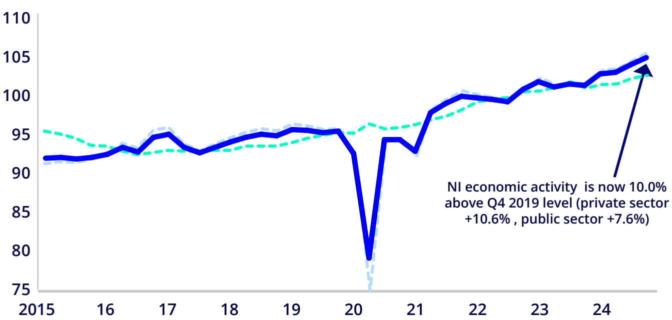
Northern Ireland

Growth to stall, risks rising

Survey data and deteriorating global picture point to a slowdown

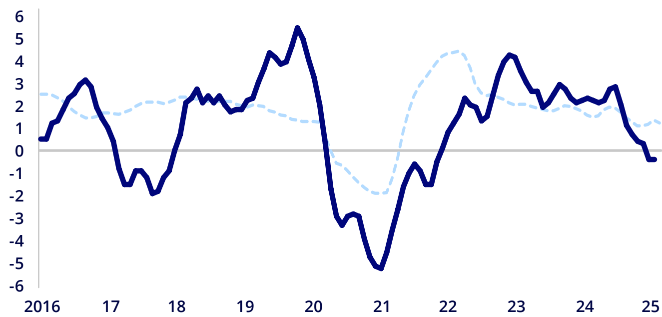
After a fairly robust performance in 2024, as evident by the Composite Economic Index which was up by 2.2%, the PMIs indicated that activity slowed in Q1 this year (particularly retail and construction). The PMIs stabilised in March, but unfortunately this predates the announcement of US tariffs and the ensuing disruption in financial markets – sentiment may well weaken further in Q2. Overall, while the Northern Ireland (NI) economy has performed solidly over the past couple of years, and it has fairly limited direct exposure to the US economy (i.e. exports to the US as a share of GDP are low), it will not be able stay out of the crosshairs of the wider global fallout from the policies of the Trump administration. In addition, the evolving US-EU-UK trade relationship may add further complexity to NI's post Brexit arrangements, with additional costs for businesses to navigate. As such lower growth looks in prospect. Predicting the extent of the downturn at this point is challenging given the level of uncertainty. Our assumption is that as the global trading system adjusts growth should recover steadily in 2026.

NI Economic Activity



Northern Ireland Composite Economic Index (CEI)
Northern Ireland CEI - Private Sector Northern Ireland CEI - Public Sector
Source: NISRA

NI Labour Market



Northern Ireland LFS Employment Growth (annual % change, 3 month moving average)
Northern Ireland Payrolls Growth (annual % change, 3 month average)
Source: ONS

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