UK Outlook

Insights into the UK economy

July 2025

Growth outlook broadly unchanged

Our forecasts are largely unchanged compared to our last Outlook in May amidst ongoing global trade uncertainty. We expect moderate slightly below trend GDP growth of 1.1% this year (a minor tweak from our prior forecast of 1.0%) and 1.3% next year (unchanged). Unemployment is set to continue edging upwards to 5% before stabilising. Inflation pressures have proven persistent, but should begin to ebb in an environment of slower growth and a weaker labour market. We continue to expect the BoE to cut rates to 3.25% by mid-2026. The outlook is subject to downside risks.

Global outlook remains uncertain

Global trade uncertainty remains elevated. While the UK has struck a trade deal with the US, which will result in tariffs of 10% on most UK goods exports to the US, negotiations between the US and many of its major trading partners, including the EU, remain ongoing amidst threats from President Trump to impose elevated tariffs should no 'deals' be agreed by August 1st. World growth is likely to be weighed down somewhat both by the current high levels of trade-related uncertainty and, eventually, by the impact of the tariffs themselves on trade once they are fully rolled out.

Ongoing moderate growth

Amidst this weak global growth picture, the UK economy is expected to continue expanding at a moderate - somewhat below potential - pace this year and next. Following a bounce in growth in Q1, with GDP up 0.7% quarter-on-quarter, we expect sluggish growth through Q2 and Q3 before activity begins to pick up in response to easier monetary policy. Overall, we have tweaked our 2025 GDP growth forecast to 1.1% (from 1.0%) but left our 2026 forecast unchanged at 1.3%. Our forecasts are broadly in line with consensus expectations for this year, but are a touch higher for next year.

Unemployment to tick up, persistent inflation

Labour market conditions continue to loosen. While there is uncertainty regarding the exact pace of jobs growth, due to conflicting signals from different indicators, we believe that employment growth is running at a below trend rate. With labour force growth somewhat stronger, bolstered by inward migration, the unemployment rate is continuing to tick up, albeit gradually. We expect the unemployment rate to reach 5% before stabilising. Price pressures remain persistent, with both headline and core inflation above expectations in June. Nonetheless, with growth fairly soft and unemployment rising we expect inflation pressures to gradually ease, though we have revised up our inflation projections – to 3.3% this year and 2.4% next year (from 2.8% and 2.2%).

Further monetary easing

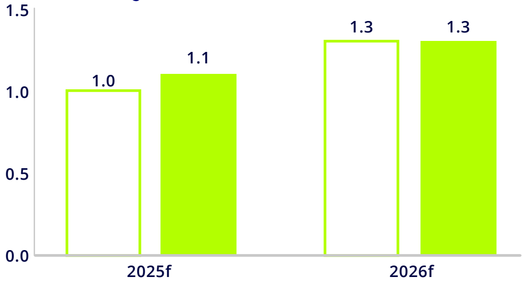
The fiscal outlook has become somewhat more challenging over recent quarters. Growth has been soft, constraining revenue growth, while spending pressures remain significant, with little progress on reducing the deficit. Gilt yields remain fairly elevated given the macro backdrop. In addition the Chancellor's planned overhaul of welfare spending failed to produce hoped for savings. It seems likely the Chancellor will have to consider adjustments in the Budget – potentially some tax increases - weighing slightly on demand. However, there is scope for monetary policy to offset this to a degree – we continue to expect the BoE to ease policy further, cutting Bank Rate to 3.25% by the middle of 2026.

Risks and challenges to the fore

Levels of uncertainty remain high, with risks to the downside. These include the possibility that US tariffs may slow world growth more than feared, with retaliation from major trading partners leading to escalating trade barriers. Geopolitical risks remain present, with ongoing conflicts in Ukraine and the Middle East – though thankfully the feared escalation following the US strike on Iranian nuclear facilities has not come to pass. There are some domestic risks too. Firstly, any further deterioration in the public finances could require additional growth-harming fiscal consolidation. Secondly, if inflation, which has been persistent, does not come down as we expect then this could lead the BoE to pause or curtail its monetary easing. The realisation of either or both of these risks has the potential to slow growth, particularly into 2026. However, there are some upside risks too – both the UK and global economies may adjust to the US tariffs with less of a hit to growth than feared, allowing consumer and business confidence to rebound.

Outlook	2024	2025f	2026f
GDP Growth	1.1%	1.1%	1.3%
Employment Growth	0.8%	1.2%	0.6%
Unemployment Rate	4.3%	4.8%	5.0%
Inflation Rate	2.5%	3.3%	2.4%

Growth Projections



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

Economy

Moderate growth ahead

GDP to rise 1.1% in 2025 & 1.3% in 2026

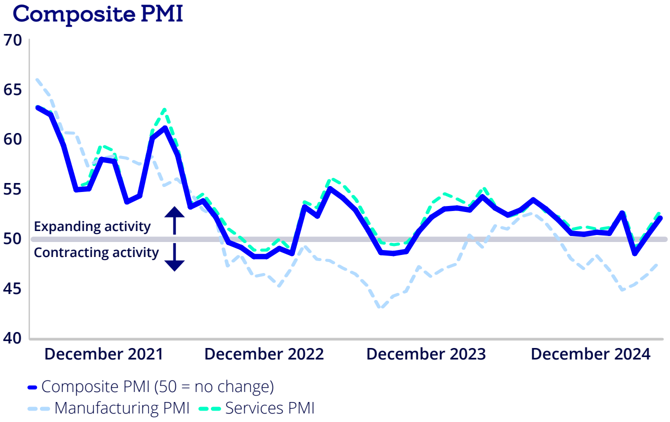
In our view the latest data on the UK economy remains consistent with ongoing subdued below trend growth in Q2 and Q3 to date, following the strong reading in Q1. While monthly GDP was weaker than expected in both April and May, it is a volatile indicator and this weakness comes after a strong print in March. Retail sales were also weak in May, though it too has been volatile and the trend on a quarter-over-quarter basis remains in positive territory. The Composite PMI picked up a bit in June, coming in at 52, versus 50 in May and a below 50 reading in April in the wake of the tariff announcements. Consumer confidence has also recovered somewhat following a dip in April, though it remains at fairly subdued levels.

The situation with respect to US tariffs remains uncertain. While the UK secured a welcome early trade deal with the Trump Administration (with tariffs of 10% on most UK goods exports to the US) many other major economies have not and negotiations are ongoing. President Trump has threatened quite high tariffs on several major trading partners, including 30% on the EU, should trade deals (largely acquiescing to US demands) not be agreed by August 1st. The US and China did however agree a trade deal of sorts at the end of June, though clearly there remains a risk of further tensions in this key global trade relationship in future. As such, while the direct effects of US tariffs on the UK economy should be limited by the trade deal (though they will not be zero) the UK is still likely to be negatively impacted by negative spillover effects as world growth slows (the IMF reduced their growth forecasts in their most recent World Economic Outlook).

In relation to macroeconomic policy our central view is that the impulse from policy to growth is likely to be slightly supportive over the next 18 months, eventually offsetting the negative drag from uncertainty, tariffs and slower world growth. While fiscal policy may be a bit less supportive than previously hoped, with some tax rises in the Budget looking more likely, we continue to expect the Bank of England to be supportive of demand, easing rates by another 100bp over the next 12 months.

Overall, therefore, the picture has not changed much since our last outlook and the data has broadly tracked in line with expectations. As a result, following the strong reading in Q1, we continue to expect moderate quarterly GDP growth in Q2 and in Q3 (perhaps 0.1% to 0.2% per quarter) before activity starts to pick up somewhat towards the end of this year and into next year on foot of easier monetary policy and improving sentiment. We are projecting GDP growth of 1.1% in 2025 (revised up very slightly from 1.0%) and 1.3% in 2026 (unchanged). Consensus expectations for growth in 2025 have ticked up slightly in recent months, and are now in line with our forecast (having dropped to 0.8% a few months ago). We are little higher than consensus expectations for next year.

Composite PMI



Source: S&P Global

GDP & Unemployment Expectations

Source: UK Treasury

Consumer spending to pick up

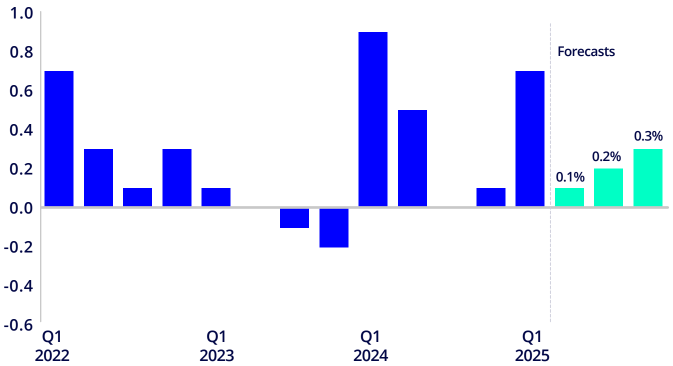
Turning to the key components of demand - consumption growth has been positive, but somewhat subdued over recent quarters, while investment growth has surprised on the upside, particularly business investment (though it can be volatile). Exports bounced in Q1, though this may partly be due to front loading ahead of US tariffs. Looking forward we expect growth over the next 18 months to be driven by consumption - in turn supported by ongoing solid household income growth - along with government spending. Our forecasts for consumer spending are unchanged at 1.1% and 1.4% for 2025 and 2026. Investment growth may prove more robust than previously expected this year, though the current pace of growth is unlikely to be maintained due to lagged effects from the more uncertain economic environment that has prevailed over recent quarters. Exports, particularly but not only goods exports, have underperformed over the past few years on foot of Brexit and are one of the reasons for the relatively subdued overall growth performance of the UK economy. We expect exports to be flat this year (a little better than our previous forecast for -0.3%), and we are pencilling in a modest pick-up in export growth in 2026 to about 1% year-over-year (a minor revision versus 0.8% previously).

Risks tilted to the downside

Uncertainty remains higher than normal, and this may remain the case for some time. We believe the risks are now somewhat to the downside on both the external and domestic fronts. US tariffs may lead to a tit-for-tat ratcheting up of trade barriers between the worlds major economies, slowing global growth to a greater degree than feared. Geopolitical risks also clearly remain present – the war in Ukraine is ongoing with no real end in sight and the situation in the Middle East remains tense, though thankfully the US strike on Iranian nuclear sites has not led to an escalation in that conflict. Turning to domestic risks – coming in the wake of recent setbacks any further deterioration in the public finances could require the Chancellor to accelerate fiscal consolidation materially in the Budget. In addition, inflation has been a bit higher than expected over recent months – if this does not begin to reverse this could lead the BoE to curtail or pause its easing cycle. Though not our base case, the realisation of either or both of these domestic risks could push growth below our projections (particularly in 2026). However, there are some upside risks – the UK and/or global economies may adjust to the US tariffs with less of a hit to growth than feared, allowing growth to rebound to trend (about 1.5%) more quickly.

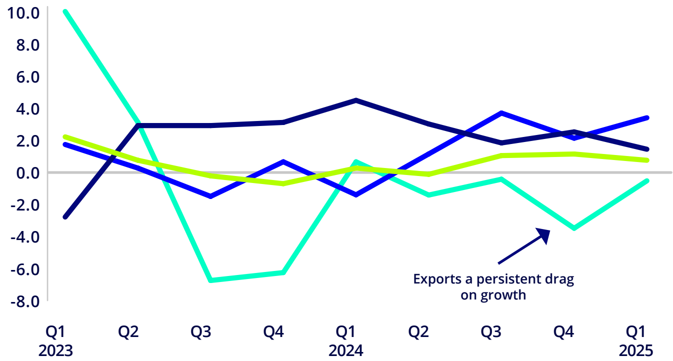
Finally, longer term structural challenges for the economy remain and meeting them will become both increasingly challenging, but also increasingly important. These include an aging population, sluggish productivity growth, stretched public services, a sub-optimal planning system and (relatedly) insufficient investment in infrastructure and housing.

Quarterly GDP Growth



Source: ONS

What is Driving Growth?



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%	2.5%	2.0%
Investment	0.3%	1.5%	2.2%	1.3%
- Business Investment	4.4%	2.0%	3.2%	1.2%
- Government Investment	0.0%	1.0%	3.2%	1.8%
- Housing Investment	-6.9%	0.6%	-0.5%	1.2%
Exports	-0.4%	-1.2%	0.0%	1.0%
Imports	-1.2%	2.7%	2.2%	1.4%
GDP	0.4%	1.1%	1.1%	1.3%

Labour Market

Jobs market continues to loosen

Unemployment to increase to 5%

Labour market data has continued to send conflicting signals - the ONS LFS data suggests quite solid jobs growth, though the tax-return based payrolls data points to a weaker trend. Our read of the evidence suggests that employment is expanding, though at a slow pace below the rate of labour force growth. Consistent with this view the unemployment rate has continued to tick up, reaching 4.7% for the Mar-May period, versus 4.5% in Q1 this year and 4.4% in Q4 last year, while the number of vacancies is now below pre-Covid levels. Wage growth remains fairly robust, though it is slowing gradually. We expect that weaker output growth, soft business confidence and higher employment costs (following the National Insurance and minimum wage increases) will weigh on the jobs market. Employment growth is likely to remain quite subdued in the period ahead (as with other forecasters, we forecast the official ONS LFS measure of employment growth, which we think will show growth of 1.2% this year, though we suspect this is somewhat overstating the true underlying pace of jobs growth). We expect unemployment to rise further, reaching 5% later this year, before levelling off.

Unemployment

Source: ONS

	2023	2024	2025 F	2026 F
Labour Force Growth	1.4%	1.1%	1.7%	0.8%
Employment Growth	1.2%	0.8%	1.2%	0.6%
Unemployment Rate	4.1%	4.3%	4.8%	5.0%
Wage Growth	6.5%	5.4%	4.5%	3.3%

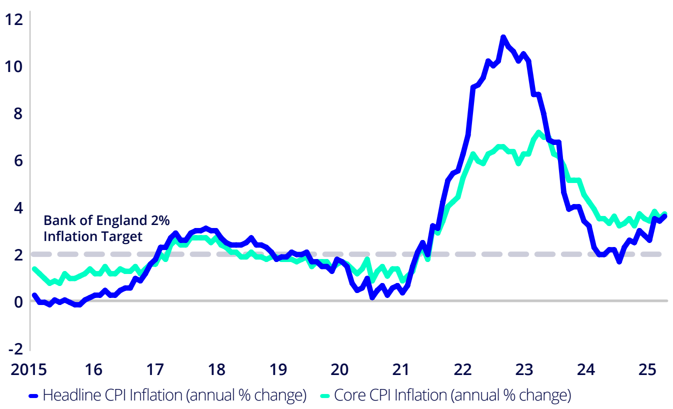
Inflation

Price pressures proving persistent

Inflation above expectations in June

Inflation has risen a bit more than expected over recent months, with headline CPI registering 3.6% in June, and 3.7% on the core measure. Food price inflation has risen notably, while the housing component of the CPI has been pushed up lately by an increase in both energy and water bills. Several volatile components, such as air fares, also rose in June. We continue to believe that inflation should fall back somewhat in the months ahead on foot of slower growth and a weaker labour market, aided by a 7% reduction in the OFGEM energy price cap in July, though it looks like disinflation will be a bit more gradual than we had previously thought and the risks are now to the upside. Energy prices rose somewhat in the run up to the US strike on Iranian nuclear facilities, but have thankfully retreated, with Brent oil prices back below $70. The impact of tariffs on inflation is uncertain, but on balance will probably be negative (due to slower growth and potentially cheaper goods imports from Asia, though disruptions to supply chains could place countervailing pressure on prices). Overall, we expect inflation to average 3.3% this year, before declining to roughly 2.4% next year (revised up from 2.8% and 2.2%).

Headline and Core Inflation



Source: ONS

	2023	2024	2025 F	2026 F
Inflation Rate (CPI)	7.3%	2.5%	3.3%	2.4%
Core Inflation Rate (CPI ex-Energy)	7.3%	3.8%	3.6%	2.6%

Fiscal Policy

Limited progress on deficit reduction

Long term Gilt yields remain quite high

The situation facing the Chancellor remains challenging. The fiscal deficit has failed to improve much, amidst softer than hoped for economic growth and a deteriorating international picture. Long term bond yields remain high given the weak macro backdrop. And to add to this, the Chancellor's plans to cut costs by reforming welfare spending led to political tension in the ruling Labour party and have been effectively shelved. It now seems likely that some additional measures will be needed in the Budget to put the deficit on a downward trajectory, particularly if the OBR downgrades their estimates of potential/ trend growth. This would likely be somewhat negative for sentiment, and come at a bad time given other challenges (e.g. tariffs), though as noted below monetary easing can help offset this. Ring fencing growth positive measures related to capital spending should be a priority and can help ensure the growth outlook is not derailed. Reforms to the UK fiscal rules – to make them less sensitive to highly uncertain five year ahead OBR projections – should be considered.

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

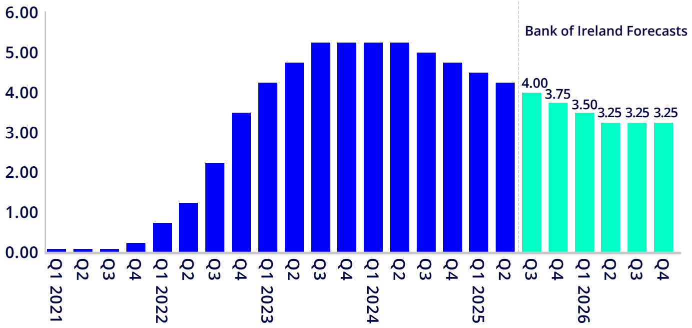
BoE to continue easing

100bp of cuts expected by mid-2026

The Bank of England left rates on hold at their mid-June meeting as expected, though the vote was 6-3, with three MPC members voting in favour of cutting rates 25bp. The MPC noted that growth remains weak, the labour market has loosened, and that the pick-up inflation (at the time inflation data up to May was available) was expected and comes against the backdrop of substantial disinflation over the past couple of years. It now seems probable the BoE will cut rates 25bp at their early-August meeting, taking Bank Rate to 4.00%. We continue to expect a further 75bp of easing over the following quarters, taking the base rate down to a broadly 'neutral' rate of 3.25%. However, the risks to this view are now to the downside (i.e. less easing) given higher than expected inflation in June. While this is not our base case, any significant curtailment of monetary easing would increase downside risks to our 1.3% GDP growth forecast for 2026.

UK 10 year government bonds remains in a broad 4.50% to 4.75% range. Sterling has strengthened against the dollar over recent months as the US currency sold off following the announcement of tariffs, though it has weakened somewhat against the euro (the single currency seems to have benefited more from flows out of the US currency).

BoE Policy Outlook



Source: Bloomberg, Bank of Ireland

Gilt Yields

Source: Bloomberg

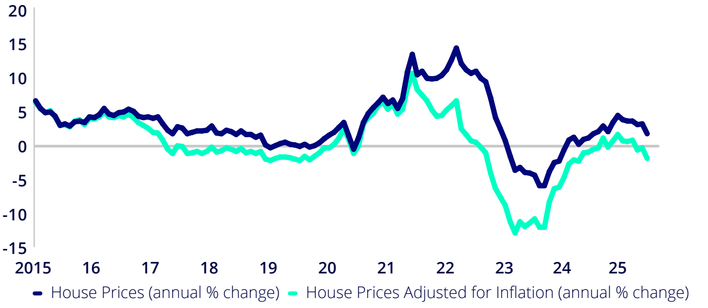
Housing Market

Subdued sentiment

Moderate house price growth ahead

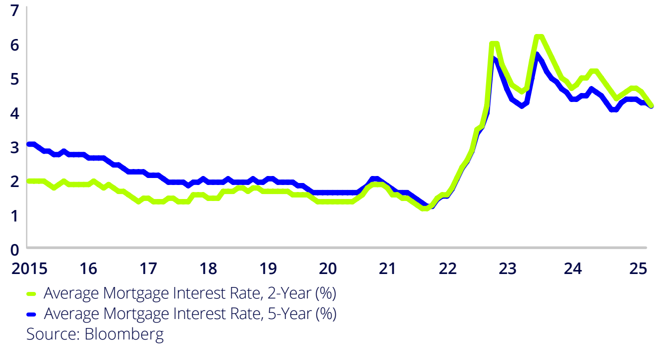
The housing market appeared to lose momentum in H1, with a falloff in buyer enquiries and sales activity, and a softening of prices and near term price expectations. The announcement of US tariffs in April may have dented sentiment somewhat, while the end of the stamp duty holiday has created some volatility in the data. The latest survey evidence tentatively shows that sentiment may now have begun to stabilise as we enter Q3, though the picture remains uncertain. We are projecting moderate house price growth in a 0% to 3% range this year – this is below wage growth and as such affordability should improve, albeit marginally. We expect mortgage approvals a bit above 60k per month over coming quarters. Easier monetary policy should eventually lead to lower mortgage rates which should support a recovery in the market in 2026.

House Prices



Source: Nationwide, ONS, Bank of Ireland

Mortgage Rates



Source: Bloomberg

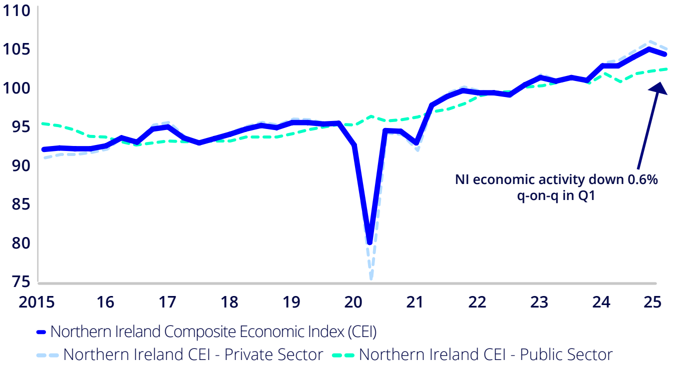
Northern Ireland

Softer growth this year

Economic indicators point to a slowdown

The Composite Economic Index, which was up a robust 2.7% in 2024, dipped 0.6% in Q1 this year, with both manufacturing and construction weakening while the services sector was flat. The PMIs for Q2 have been mixed, with the composite measure drifting below the 50 mark in June after a small bounce in May. Employment growth has softened, though unemployment remains low. We expect growth to remain subdued over the balance of this year - the Northern Ireland (NI) economy will not be able to escape the global fallout from US tariffs, although the direct exposure of the NI economy is small (i.e. exports to the US as a share of regional GDP are low). The evolving US-EU-UK trade relationship may add further complexity to NI's post Brexit arrangements, particularly in the case of a sizeable difference between US-UK and US-EU tariff rates. Growth should pick up a bit in 2026 on foot of easier monetary policy from the Bank of England and as the UK and global economies begin to adjust to the new US tariff regime.

NI Economic Activity



Source: NISRA

NI Labour Market

Source: ONS

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