UK Outlook

Insights into the UK economy

September 2025

Bank of Ireland

Moderate growth amidst fiscal challenges

We have slightly adjusted our GDP growth projections, pushing up this year to 1.3% (from 1.1%) and reducing 2026 to 1.2% (from 1.3%). The upcoming Budget will require measures to reduce the deficit, weighing a bit on activity next year. We expect growth to pick up to 1.5% in 2027 as the global economy strengthens and monetary easing boosts demand. Unemployment is set to rise to about 5% by year end before levelling off, with wage growth continuing to cool. Inflation pressures have surprised on the upside and while we continue to expect disinflation in 2026, it is likely to be more gradual than previously hoped. As a result we now expect the BoE to postpone its next 25bp rate cut until February next year.

Trade uncertainty eases

Global trade/tariff uncertainty has eased somewhat over the past few months. Following on from the UK-US 'trade deal' the US has struck similar deals with a range of other key trading partners, including the EU. While further changes to the trade environment cannot be ruled out, including due to legal challenges in the US, worst case scenarios now seem less likely. As such, while world growth is still likely to be negatively impacted by the US tariffs, the drag may be a bit less than was feared.

2026 growth forecast reduced slightly

Recent data suggests the UK economy continues to expand at a moderate slightly below trend rate. GDP growth was 1.3% year-on-year in the first half of 2025. Reflecting this slightly stronger than expected outturn we have pulled up our 2025 GDP forecast marginally, to 1.3% from 1.1%. However, although trade uncertainty has eased somewhat, it now looks likely that fiscal consolidation in the upcoming budget will weigh somewhat on demand in 2026 and as a result we have pulled back our growth forecast slightly, from 1.3% to 1.2%. We expect growth to pick up to 1.5% in 2027, in line with potential, as trade headwinds fade and lower interest rates boost demand.

Cooling labour market, persistent inflation

The labour market continues to loosen, with unemployment ticking up gradually and vacancies declining. While the exact pace of jobs growth is uncertain, with conflicting signals from different indicators, it seems likely that employment growth is running at a below trend rate. We continue to expect the unemployment rate to reach 5% around the turn of the year before stabilising and then beginning to decline into 2027. Inflationary pressures remain persistent, with both headline and core inflation well above target. Nonetheless, with the jobless rate rising and wage growth easing, we continue to expect price pressures to reduce next year. However, the pace of disinflation will likely be slower than previously thought and we have revised our inflation forecasts – to 3.4% this year (from 3.3%) and 2.7% next year (from 2.4%). We expect inflation to fall to 2% by mid-2027.

Fiscal adjustment in the Budget

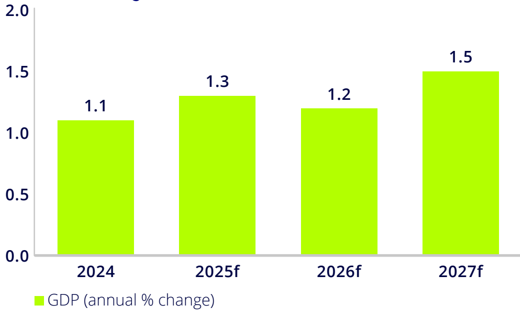
The fiscal outlook has continued to deteriorate and the Chancellor will face some difficult decisions in the Budget on November 26th. With the deficit well above target, long term Gilt yields elevated, the OBR likely to downgrade its growth forecasts, and significant spending pressures in a wide range of areas it now seems likely that the Chancellor will have to deliver an adjustment of just under 1% of GDP (£25bn) in the Budget, with risks to the upside (i.e. a larger adjustment). This is likely to weigh on growth a bit, though many of the policy changes are likely to be backloaded, somewhat reducing near term growth effects. A package of measures which is seen as targeted and credible, setting fiscal policy on a more sustainable path, and which does not add to consumer prices/business costs, should be the goal. As a result of inflationary pressures we have pushed out our projections for further Bank of England easing a bit. We now expect the next 25bp rate cut in February next year. While our base case is that we get two further cuts, in Q2 and Q3, taking Bank Rate to 3.25% by year end, the risks are skewed towards fewer cuts should inflation prove more persistent than expected.

Risks remain to the downside

While downside risks with respect to tariffs look to have eased somewhat, quite a bit of uncertainty remains and it should be borne in mind that tariffs will still weigh on global growth. Furthermore, geopolitical risks remain significant, with conflicts ongoing in Ukraine and the Middle East, while US-China tensions could increase at some point. On the domestic front any further material deterioration in either the fiscal or inflation pictures, leading to a more sizeable and upfront/immediate fiscal contraction and/or a curtailment of monetary easing, or even tightening, could slow growth and push up unemployment to a greater degree than our projections assume.

Outlook	2025f	2026f	2027f
GDP Growth	1.3%	1.2%	1.5%
Employment Growth	1.3%	0.6%	0.8%
Unemployment Rate	4.7%	5.0%	4.8%
Inflation Rate	3.4%	2.7%	2.2%

Growth Projections



Source: ONS and Bank of Ireland

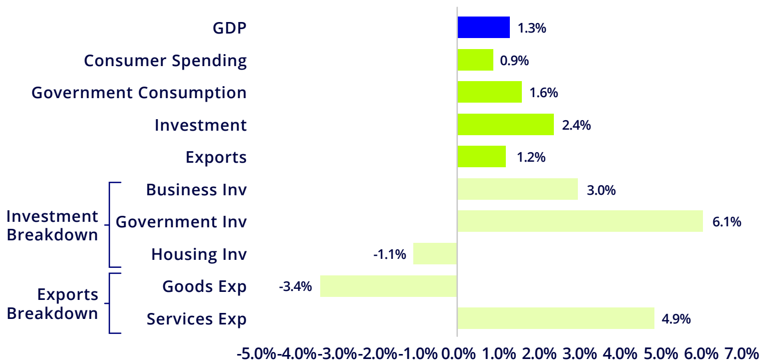
Economy

Steady but moderate growth

Output expanded by 1.3% on an annual basis in H1

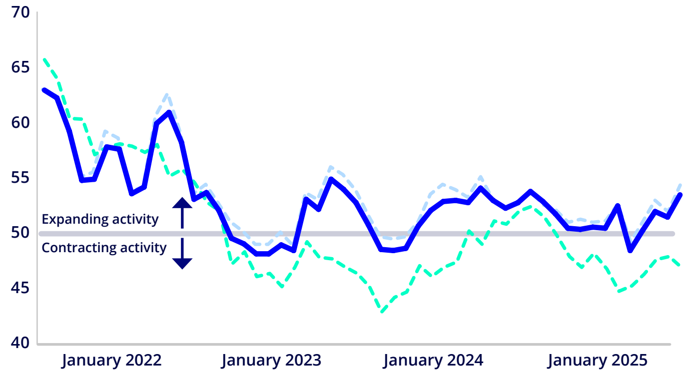
A full set of national accounts data is now available for the first half of 2025 and it shows the economy expanding moderately ahead of our 1.1% growth forecast. GDP was up 0.7% in Q1 and 0.3% in Q2 on a quarterly basis and this translated into an annual expansion of 1.3% year-on-year for H1 as a whole. Growth was driven by government spending – both current and capital – and by business investment and services exports. Consumption was somewhat lacklustre, with consumer spending expanding by 0.9% annually. The two most notable drags on growth were housing investment and goods exports – the latter negatively impacted by the ongoing adjustment to Brexit and also possibly by the impact of high energy costs on some export oriented manufacturing firms. More recent data suggests the that economy has continued to expand in Q3. The Composite PMI picked up to 53.5 in August, its strongest reading in 12 months – driven by services with industry and construction lagging. Monthly GDP remains volatile – output was up 0.4% month-on-month in June but was flat in July. Most other indicators have been mixed, broadly consistent with moderate below trend growth.

Growth Breakdown - H1 2025



Growth H1 2025 (volume terms, year-over-year)
Source: ONS

Composite PMI



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

There have been a number of developments in relation to US tariffs over recent months. Following on from the 'trade deal' between the US and UK the Trump Administration struck similar deals with the EU and several other key trading partners (though at higher tariff rates than the 10% the UK secured – 15% in the case of the EU). In addition, the tariffs now face a significant legal challenge in the US. Overall, while uncertainty regarding the tariffs remains, it does appear that worst case outcomes are now less likely, though global growth will still be negatively impacted.

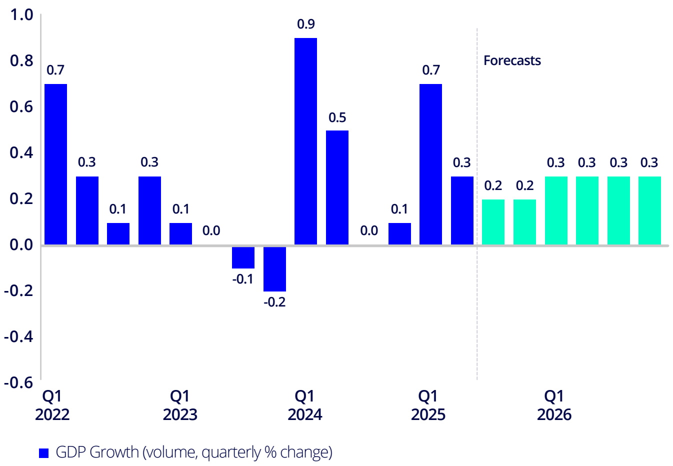
While the drag from tariffs may be less than feared the outlook for the public finances has become more challenging (see 'Fiscal Policy' section on page 5). The Chancellor's headroom versus the fiscal rules has been eroded for a range of reasons (higher Gilt yields, ineffective welfare reform, likelihood of OBR growth downgrades, spending pressures). As such she is likely to have to deliver an adjustment worth close to 1% of GDP in the Budget. This is likely to weigh on growth a bit next year. However, many of the measures are likely to be backloaded to the latter half of the OBR projection period, limiting the near term impact somewhat. The adjustment is likely to be focused on tax increases. A package of measures that is seen as targeted and credible, putting fiscal policy back on a sustainable path, and which does not add to inflationary pressures, can help limit the damage to sentiment. As regards monetary policy - with inflation proving persistent we expect the BoE to adjust the timing of further easing, delaying the next 25bp rate cut until February, before cutting again in Q2 and Q3. This is only a slight delay relative to our previous projections and as such the impact on growth should be limited.

2025 growth forecast upgraded slightly, 2026 downgraded marginally

The slightly stronger than expected expansion in the year to date, along with our expectation for moderate growth of 0.2% quarter-over-quarter in Q3 and Q4, has led us to upgrade our growth projection for this year to 1.3%. However, as fiscal policy is likely to be a slight drag next year, we have reduced our 2026 forecast by 0.1% - the downgrade would have been a little larger were it not for the fact trade/tariff uncertainty has reduced. We now expect growth of 1.2% instead of 1.3%. Growth should pick up to a trend like rate of 1.5% in 2027 amidst a strengthening of global economic activity as the dampening effect of US trade policies fades and as the impact of monetary easing feeds through into the UK economy to a greater degree. Our growth projections are in broadly line with the Bank of England and are marginally higher than consensus.

In terms of the detail of our forecasts, we have pulled back our consumer spending projections slightly. Consumption growth has disappointed over recent quarters - fairly solid household income growth has not translated into much of a pick up in consumer spending, with savings rising instead. Still subdued consumer confidence amidst a generally gloomy news-flow (tariffs, inflation, geopolitics, domestic politics) likely contributed to this. We expect consumption growth of 1.0% in 2025 and 1.2% in 2026 (down from 1.1% and 1.4%) before an acceleration to 1.5% in 2027 as the household savings rate falls slightly. Government consumption spending has been solid and we expect this to remain the case, though we have trimmed our numbers a little. Investment spending was fairly solid in H1, driven by business investment and government capital expenditure, though housing investment was weak. We expect investment growth to soften a bit next year as government investment growth normalises, before strengthening into 2027 with lower interest rates proving supportive. Export growth has picked up in the year to date, though this may be partly due to front loading ahead of US tariffs. Forecasting exports is challenging given its inherent volatility and uncertainty regarding the timing and magnitude of the effects of Brexit, US tariffs and other geopolitical shocks – nonetheless we have upgraded our numbers and now expect moderate growth driven by healthy services exports along with a stabilisation on the goods side after a number of years of declines.

Quarterly Growth



Source: ONS

External Forecasts	Forecast Date	2025 F	2026 F	2027 F
Bank of England	August	1.25%	1.25%	1.50%
NIESR	August	1.3%	1.2%	1.1%
IMF	July	1.2%	1.4%	
HMT Survey Average*	September	1.2%	1.1%	1.4%
Bank of Ireland	September	1.3%	1.2%	1.5%

*New forecasts
Source: Bank of England, NIESR, IMF, HM Treasury, Bank of Ireland

Risks remain tilted to the downside

While trade/tariff risks have reduced somewhat (though clearly they have not gone away entirely) other external and domestic risks have not diminished much. On the external front geopolitical risks remain, with conflicts in Ukraine and the Middle East ongoing, while tensions between the US and China could rise at some point. On the domestic side there are risks on both the fiscal and monetary side. Should the fiscal situation deteriorate further, requiring an adjustment that is materially larger and/or more immediate/front loaded than what we have assumed, this would be negative for growth and employment in 2026 and 2027. And should inflation prove more persistent that we – or the BoE – now expect, requiring an end to the easing cycle, or even tightening, this would clearly be negative as well. However, there are some upside risks – the UK and/or global economy may adjust to the US tariffs with less of a hit to growth than feared, while new technologies could support productivity growth.

Finally, longer term structural challenges for the economy remain. These include an aging population, sluggish productivity growth, stretched public services, a sub-optimal planning system and (relatedly) insufficient investment in infrastructure and housing. Much work remains to be done on these issues.

Annual % Change	2024	2025 F	2026 F	2027 F
Consumer Spending	0.6%	1.0%	1.2%	1.5%
Government Consumption	3.0%	1.8%	1.7%	1.5%
Investment	1.5%	1.7%	1.5%	2.0%
- Business Investment	2.0%	1.7%	1.5%	2.0%
- Government Investment	1.0%	5.0%	2.0%	2.0%
- Housing Investment	0.6%	-0.5%	1.2%	2.0%
Exports	-1.2%	2.5%	1.5%	1.7%
Imports	2.7%	3.5%	1.5%	2.0%
GDP	1.1%	1.3%	1.2%	1.5%

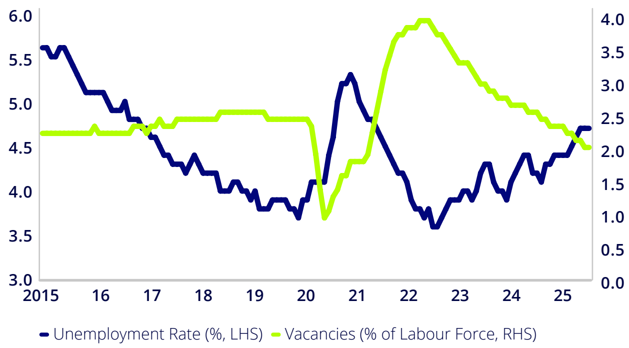
Labour Market

Jobs market continues to cool

Unemployment has ticked up gradually while vacancies are falling

Data on employment growth remains conflicting - the ONS's LFS data suggests robust jobs growth while the alternative tax-return based payrolls data points to a weaker trend. The latter tallies with other survey based indicators to a greater degree. Our view is that employment is indeed expanding, though moderately, and as a result unemployment is ticking up. We continue to expect that soft GDP growth and higher employment costs will weigh on the jobs market over the balance of this year and into early next year. Unemployment is likely to rise to around 5% by the turn of the year, with wage growth continuing to ease. We expect unemployment to remain at about that rate during 2026 before output and employment growth picks up and it starts to decline into 2027 (note: as with other forecasters, we forecast the official ONS LFS measure of employment growth, which we think will show growth of 1.3% this year, or a touch higher – however we believe this is overstating the true underlying pace of jobs growth).

Unemployment and Vacancies



Source: ONS

	2024	2025 F	2026 F	2027 F
Labour Force Growth	1.1%	1.8%	0.8%	0.7%
Employment Growth	0.8%	1.3%	0.6%	0.8%
Unemployment Rate	4.3%	4.7%	5.0%	4.8%
Wage Growth	5.4%	4.5%	3.5%	3.2%

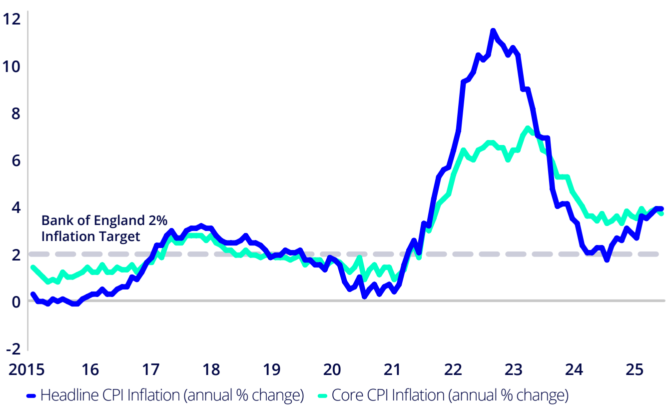
Inflation

Persistent price pressures

We have revised up our projections for inflation in 2026

Inflation has somewhat exceeded our expectations over recent months. Headline inflation came in 3.8% in August, with core inflation at 3.6%. A range of factors contributed to this, including a renewed rise in food prices, higher administrative prices and the pass through of higher employment costs into services prices. Inflation is likely to remain close to 4% for several more months. However, with output growth below trend, and unemployment ticking up (which is leading to a gradual fall in both actual and planned wage growth), we continue to believe that inflation should fall back next year and into 2027. We are forecasting inflation to average 3.4% this year (up from 3.3% previously), 2.7% next year (revised up from 2.4%) and 2.2% in 2027. There are a number of risks to this view. Inflation expectations have risen somewhat of late and it is possible persistent above target inflation could de-anchor household or firm inflation expectations. Any rise in import/energy prices, due to geopolitical events or the impact of trade disruptions, would clearly be negative at this juncture. The Bank of England will be closely monitoring developments in relation to these risk factors.

Headline and Core Inflation



Source: ONS

	2024	2025 F	2026 F	2027 F
Inflation Rate (CPI)	2.5%	3.4%	2.7%	2.2%
Core Inflation Rate (CPI ex-Energy)	3.8%	3.8%	3.0%	2.2%

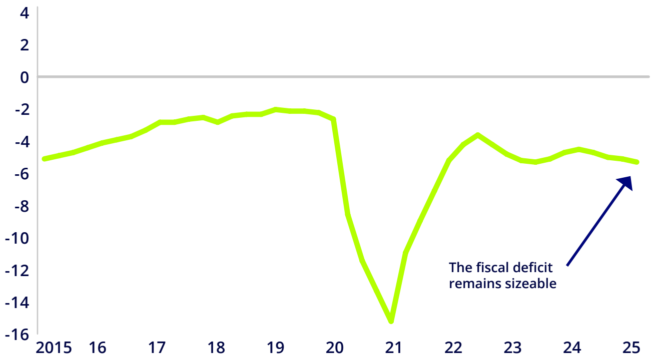
Fiscal Policy

Fiscal pressures mount

The Chancellor is likely to deliver a fiscal adjustment in the upcoming Budget

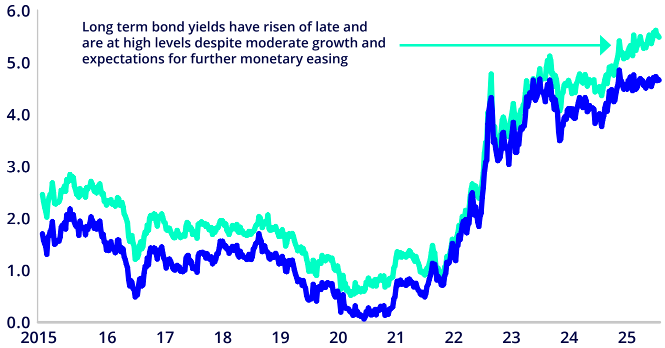
The Budget date has been set for November 26th and the Chancellor faces a significant challenge. The fiscal loosening introduced last year failed to boost growth materially and the sizeable fiscal deficit has moved sideways since. The failure to deliver any real savings from welfare reform earlier this year damaged credibility, while Gilt yields remain elevated in the context of sluggish growth. Furthermore, it now seems likely that the OBR will revise down their estimates of medium term productivity growth - this will reduce estimates for tax revenue growth, widening deficit projections. All this has eroded fiscal space and means that the Chancellor is going to have to turn to consolidation in the Budget. She may opt for an adjustment of close to 1% of GDP. It seems likely that the majority of the adjustment will be backloaded to the latter part of the 5-year fiscal projection period and will fall on higher taxation given a wide range of spending pressures (aging population, NHS, defence, infrastructure deficits) and already very tight medium term spending envelopes for some government departments.

Fiscal Defect



Public Sector Net Borrowing (% of GDP, 4Q rolling)
Source: ONS

Gilt Yields



10-Year Gilt Yield (%) 30-Year Gilt Yield (%)
Source: Bloomberg

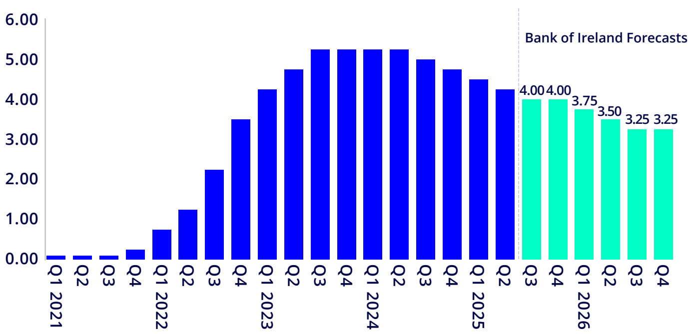
Monetary Policy

BoE to slow the easing cycle

Next 25bp rate cut to be delayed until February next year

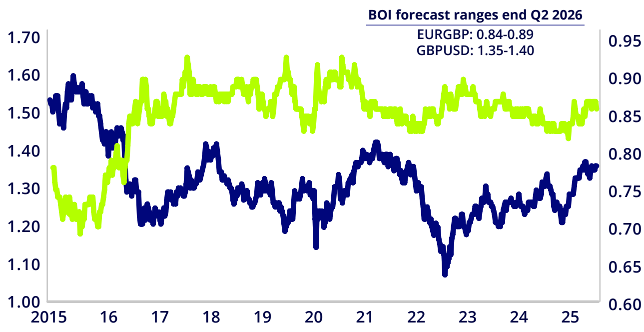
The Bank of England left Bank Rate unchanged at 4.00% at their September meeting, as expected. The vote was 7-2, with two members preferring to cut. The MPC also voted to reduce the Bank's stock of Gilts (QT) by £70bn during Oct 25-Sept 26. This implies active sales will rise to £21bn (from £13bn), though the share of long-dated bond sales is being reduced. The MPC noted that "a gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate". Given the persistence of inflation and caution regarding inflation expectations we now expect the BoE to postpone their next rate cut until February next year. We expect the Bank to cut again in Q2 and in Q3, taking the policy rate down to 3.25% by end 2026. This easing path is only marginally slower than our previous projections and so the implications for growth are likely to be modest. However, should price pressures prove more persistent than expected then easing may have to be curtailed - or even reversed - with more negative implications for economic activity. Sterling has continued to trade around $1.35 versus the US Dollar over recent months, and in a fairly narrow £0.86 to £0.87 range versus the Euro.

BoE Policy Outlook



Bank Rate (%, end period)
Source: Bloomberg, Bank of Ireland

FX Forecasts



GBPUSD (LHS) EURGBP (RHS)
Source: Bloomberg

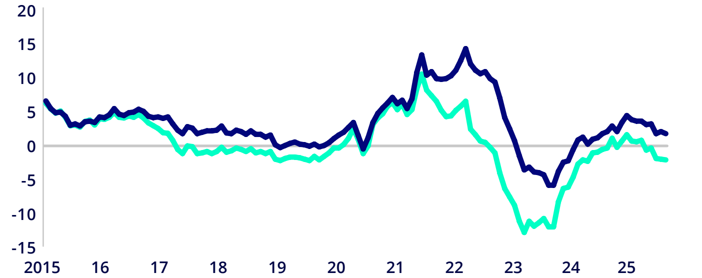
Housing Market

Softening outlook

Survey indicators point to a weakening trend for prices and activity

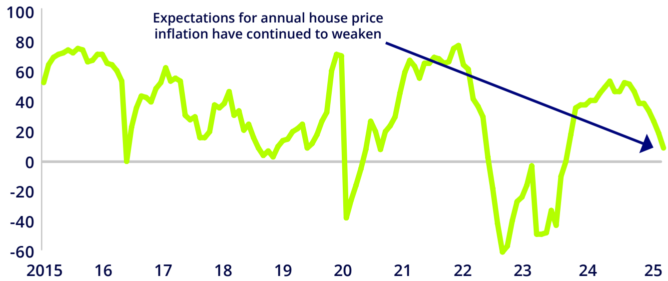
The latest RICS Housing Market Survey paints a picture of a softening housing market. House price inflation has eased over recent months, as have expectations for prices over the next 3 and 12 months (the former is now in negative territory, while the latter remains in positive territory, though only just). Expectations for activity (buyer enquiries, vendor instructions, sales, letting) have also deteriorated for the most part. Subdued consumer confidence amidst sluggish growth, inflation pressures and concerns regarding budget measures are likely dampening sentiment. We expect house price inflation to end the year at or just under 2%, below both inflation and wage growth, with a similar performance through much of next year. A pick up in sentiment amidst better growth and lower mortgage rates (as monetary easing passes through) should lead to slightly stronger conditions in H2 2026 and into 2027.

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 12 months (% net balance)
Source: RICS

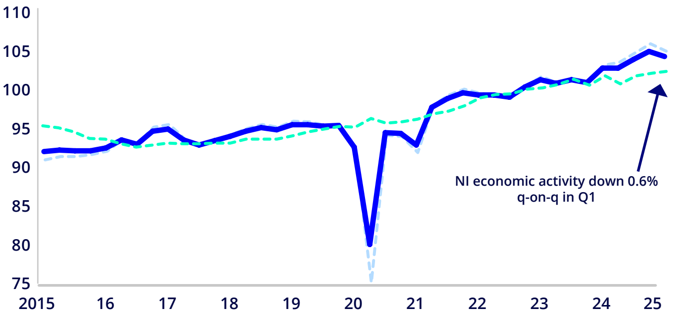
Northern Ireland

Growth has eased

The NI economy has lost some momentum in the year to date

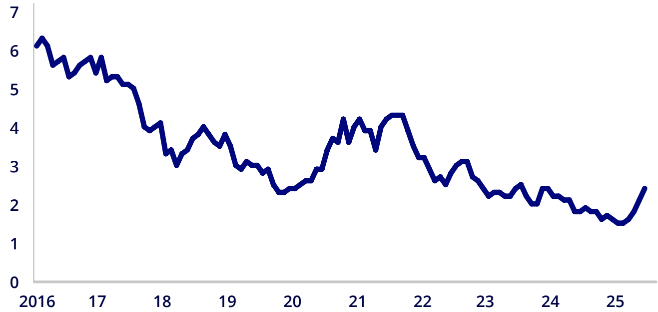
Economic activity was down in Q1, while the PMIs point to softness since with cost pressures facing many firms. The labour market also looks to have weakened a little - the unemployment rate has increased though it remains low in absolute terms. However, it should be borne in mind that this deceleration comes after several years where the NI economy has outperformed the UK generally, and there have been some bright spots as well including a number FDI announcements in recent months. Overall, conditions in the NI economy look consistent with growth of about 1% this year, driven by government spending and consumption. The NI housing market has continued to perform solidly, with activity and price inflation both ahead of long-term trends. The US tariffs will add to an already complex set of trading arrangements for NI businesses (given the different tariff rates for the UK and EU), though the direct macro impact of tariffs on the NI economy is likely to be limited as goods exports to the US represent less than 2.5% of NI GDP.

NI Economic Activity



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

NI Labour Market



Unemployment Rate (%)
Source: ONS

Contact Us

economics@boi.com
+353 1 250 8900

Conall MacCoille
Group Chief Economist
+353 87 788 4264

Michael Crowley
Economist
ext. 44268

Mark Leech
Head of Media Relations
+353 87 905 3679

Conn Creedon
Economist
ext. 35134

Alan Bridle
UK Economist & Market Analyst
+44 77 3636 2138