UK Outlook

Insights into the UK economy

February 2026

Ongoing moderate growth amidst risks

We have marginally downgraded our 2026 and 2027 GDP forecasts, to 1.0% (from 1.2%) and 1.4% (from 1.5%), reflecting a loss of momentum through late 2025 and ongoing challenges and risks. Unemployment is set to rise more than previously expected - reaching 5.5% this year before levelling off and beginning to fall back through 2027. Wage growth should continue to cool, while inflation looks set to fall back over the coming months. We expect the BoE to deliver two 25bp rate cuts this year, taking Bank Rate down to 3.25% before going on hold through 2027.

Growth forecast pared back slightly

The UK economy appeared to lose momentum through the latter part of last year, with uncertainty regarding the Budget weighing on consumer and business sentiment. While the Budget was, in the end, not as tight as feared, sentiment has yet to rebound materially, though there have been a few tentative positive signs in the data in recent weeks. Overall, we expect activity to strengthen gradually from Q2 onwards, though the weak end to last year means growth for 2026 as a whole is likely to be a touch lower than previously anticipated. Growth should pick up somewhat in 2027, supported by the lagged effects of monetary policy easing.

Unemployment to rise further, inflation set to ease

Partly reflecting the weak growth environment, but also a rise in labour force participation, unemployment has continued to tick up and is now just above 5%. The evidence suggests it will take some further time for the labour market to stabilise and we now expect the jobless rate to reach 5 ½% this year (averaging 5.3% for the year as a whole) before levelling off and falling back through 2027. Wage growth is likely to continue decelerating. Inflationary pressures, which were more persistent than expected last year, but which have eased a bit of late, should continue to soften. We have reduced our 2026 inflation forecast to 2.3%, and our 2027 projection to 2.0%.

Further monetary easing

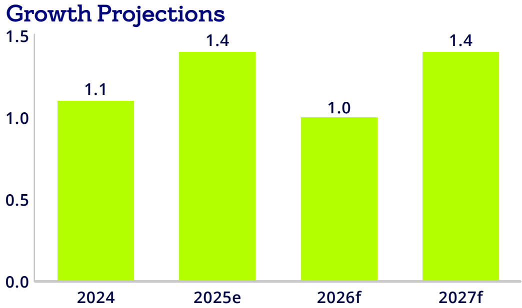
The Bank of England left Bank Rate on hold at their February meeting, having narrowly decided to cut by 25bp to 3.75% in December. Amidst moderate growth, rising unemployment and easing price pressures we expect two 25bp rate cuts this year. This will take the policy rate down to 3.25%, closing in on most estimates of the neutral rate. The Budget delivered by Chancellor Reeves at the end of November was less contractionary than expected. Luckily for the Chancellor the OBR revised up some of their revenue growth projections (due to the impact of higher inflation, offsetting a downward revision to productivity assumptions), giving her more room to manoeuvre without the need for politically difficult welfare cuts or income tax increases. Nonetheless, the deficit remains sizeable and measures to reduce it over the next few years will continue to weigh on demand.

Downside risks and challenges to the fore

While businesses, consumers and policy makers have no doubt been hoping for a more settled external environment in 2026 (hopes that would have been boosted following the successful negotiation of a UK-US pharmaceutical sector 0% tariff deal at the end of last year) the year has not gotten off to a good start. While the situation regarding Greenland seems to have been de-escalated for now, the risk of further destabilising foreign or trade/tariff policies from the Trump Administration clearly remains significant. Furthermore, the Russia-Ukraine war is ongoing, while tensions between the US and China, or in the Middle East, could escalate at some point. Stretched financial market valuations, particular tech/AI stocks also represent a risk, as do threats to Federal Reserve independence in the US (particularly given large US fiscal deficits). On the domestic front the fiscal position remains the main risk, while the UK economy faces a range of structural challenges which are holding back productivity growth.

Outlook	2025e	2026f	2027f
GDP Growth	1.4%	1.0%	1.4%
Employment Growth	1.6%	0.6%	0.8%
Unemployment Rate	4.8%	5.3%	5.1%
Inflation Rate	3.4%	2.3%	2.0%

Growth Projections



GDP (annual % change)
Source: ONS and Bank of Ireland

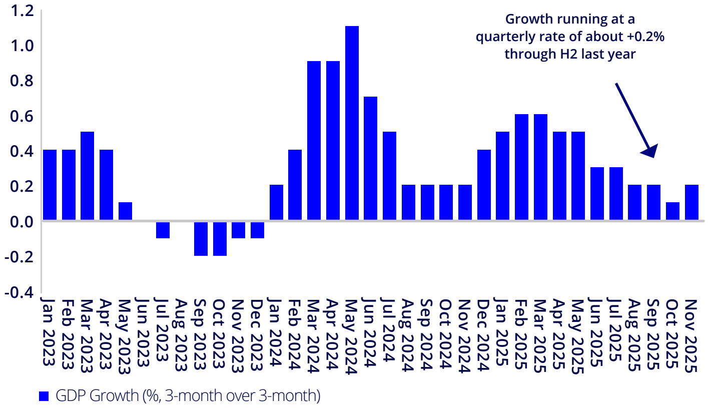
Economy

Subdued recent growth

GDP growth was about 1.4% in 2025

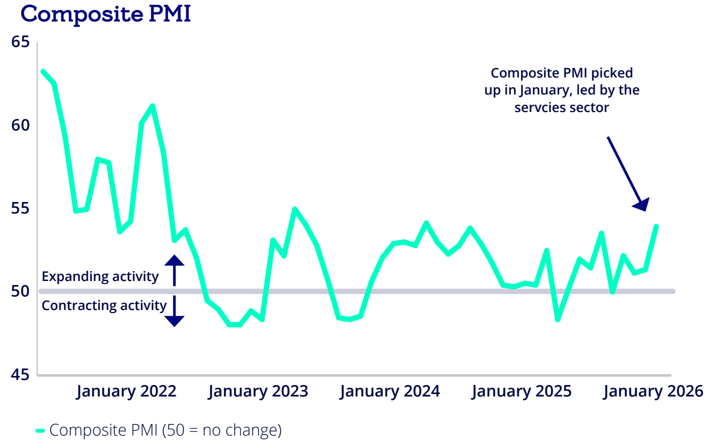
Data over the past few months has pointed to ongoing, though sluggish, output growth. Speculation ahead of the Budget seemed to dent consumer and business confidence, dampening demand growth through the Autumn and into Winter. National accounts data showed a soft 0.1% quarter-on-quarter expansion in Q3, though output was up 1.3% on an annual basis. The Services sector grew by 0.2% in the quarter, but this was offset by a 0.3% contraction in Industry (weighed down by a cyber-attack on a major UK car manufacturer). With monthly GDP up 0.3% in November (as production in the auto sector resumed), following a decline of 0.1% in October, growth of around 0.2% seems in prospect for Q4 (depending on December's reading and any revisions). This would leave combined growth in Q3 and Q4 at only 0.3%, though growth for the year as a whole should come in at 1.4% (close to our 1.3% forecast from September last). Growth on a Q4 over Q4 basis, which is more reflective of the actual expansion throughout the course of 2025, looks set to be a bit weaker, at around 1.1%. Early indications from 2026 so far remain mixed – while the January Composite PMI showed a promising rebound (to 53.7 from 51.4 in December), other indicators such as the latest Confederation of British Industry business surveys have been softer.

Monthly GDP



Source: ONS

Composite PMI



Source: S&P Global

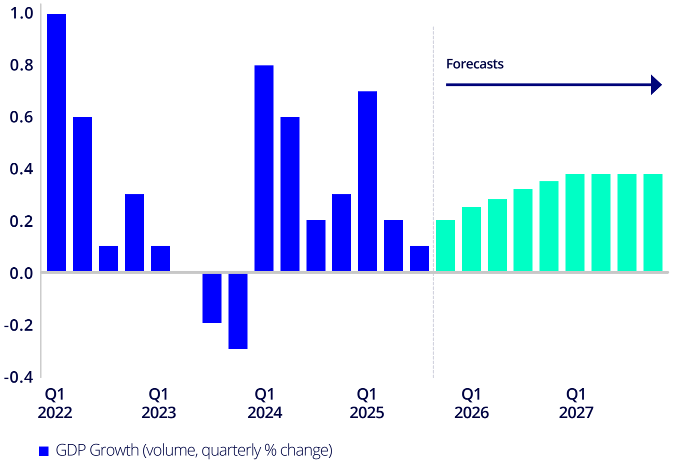
A range of factors are going to shape UK macroeconomic performance this year. On the domestic front fears that fiscal policy will have a significant negative impact on demand now seem overstated, with much of the heavy lifting of fiscal adjustment put off until later this decade. Monetary policy on the other hand is set to be supportive of growth this year, with further rate cuts anticipated from the Bank of England. The external picture remains volatile and its impact on growth highly uncertain. On a more positive note, the UK did manage to negotiate a further enhancement to the US-UK trade deal in the form of a 0% tariff rate for pharmaceutical trade.

GDP to expand by 1.0% in 2026 and 1.4% in 2027

Against this backdrop our base case for the UK economy this year is for ongoing moderate slightly below trend growth, with sentiment picking up somewhat after a recent weak patch. Consumer spending disappointed a little in 2025 – while income growth was solid, higher than expected inflation, and an increase in the savings rate, means this not translate into an expansion of consumption to the degree hoped. With inflation easing and with scope for consumers to ease back on savings a bit, helped by declining interest rates, we expect a slightly better, though still somewhat muted performance this year, with consumption growth of about 1.1%. Government consumption spending is likely to continue expanding at a solid rate. Investment is often volatile and hard to predict, as it can be influenced by significant one off factors (imports of planes or military equipment, intellectual property transfers, large government projects), and it looks to have come in somewhat stronger than anticipated last year (c. 3 ½%). We expect growth of 1.7% this year, with business investment growth easing a bit after a strong 2025, while government and housing investment remain solid. Export growth is likely to remain modest given a range of factors including competition from China, the impact of high energy costs on heavy industry, Brexit adjustment and global uncertainty (our growth forecast is 1.1% versus 1.5% previously). Overall, we expect quarterly GDP growth of about 0.2% in Q1, with a pick up to around 0.3% in the remaining quarters. This should see 2026 annual GDP growth of about 1.0% (a marginal downward revision from 1.2% in September). The Q4/Q4 growth rate (i.e. Q4 2026 vs Q4 2025) should be a little better at about 1.2%.

We expect growth to pick up to about 1.4% in 2027 (both on an annual average and Q4/Q4 basis), a slight downward revision from our prior 1.5% forecast. The lagged feedthrough of monetary policy easing should support a slightly better performance than this year. Consumer spending growth has scope to increase towards 1 ½% as households reduce their relatively elevated savings rate. Investment and exports should strengthen a bit in 2027 too. However, government consumption spending may slow a bit as the fiscal adjustment proceeds. Our forecasts for this year and next are broadly in line with the major UK forecasting institutions.

Quarterly Growth



Source: ONS, Bank of Ireland

External Forecasts	Forecast Date	2025	2026	2027
Bank of England	February	1.4%	0.9%	1.5%
NIESR	November	1.5%	1.2%	1.2%
OBR	November	1.5%	1.4%	1.5%
IMF	January	1.4%	1.3%	1.5%
HMT Survey Average*	January	1.4%	1.0%	-
Bank of Ireland	February	1.4%	1.0%	1.4%

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

Downside risks remain dominant amidst geopolitical uncertainties

While it looked for a short while as if external risks had diminished a bit, this year has obviously gotten off to a somewhat chaotic start, with the US action in Venezuela and then the issue of Greenland (which has at least been de-escalated for now.) It is clearly very difficult to predict where US policy will go in the period ahead. However, it seems imprudent to not recognise the risk of disruptive developments. In addition the conflict in Ukraine is ongoing, while tensions between the US and China, or in the Middle East, could escalate at some point. Stretched financial market valuations, particular tech/AI stocks also represent a risk, as do threats to Federal Reserve independence in the US, particularly in the context of large US fiscal deficits. On the domestic side there are also risks on both the fiscal and monetary side. Should the fiscal situation deteriorate, requiring a larger adjustment, this would be negative for growth. And should inflation prove more persistent, requiring tighter monetary policy, this would clearly be negative as well (though the risks here have diminished a bit as inflation pressures have eased). However, there are some upside risks as well – global growth could prove stronger than expected, particularly due to the roll out of new technologies such as AI.

Finally, longer term structural challenges for the economy remain. These include an aging population, high energy prices, sluggish productivity growth, stretched public services, a sub-optimal planning system and (relatedly) insufficient investment in infrastructure and housing, while geopolitical changes point to the need to increase defence spending. Unfortunately, progress in meeting these challenges seems fairly limited to date and much work remains to be done.

Annual % Change	2024	2025 E	2026 F	2027 F
Consumer Spending	-0.2%	1.0%	1.1%	1.4%
Government Consumption	2.9%	1.9%	1.6%	1.4%
Investment	1.7%	3.5%	1.7%	2.2%
- Business Investment	2.5%	4.5%	1.2%	1.7%
- Government Investment	4.3%	0.3%	2.3%	3.3%
- Housing Investment	-1.4%	3.3%	2.5%	2.5%
Exports	1.4%	2.2%	1.1%	1.7%
Imports	2.7%	4.0%	1.5%	2.0%
GDP (annual growth rate)	1.1%	1.4%	1.0%	1.4%

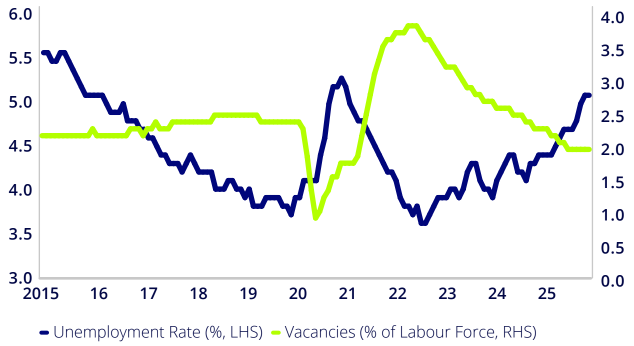
Labour Market

Ongoing loosening

Unemployment to rise further before stabilising

The labour market has continued to cool, with unemployment ticking up further and wage growth easing. The data for the September-November period showed the unemployment rate at 5.1%, up about ½% over the past 6 months. The data has been sending mixed signals on employment growth for some time, with the LFS (survey) data pointing to expansion and the payrolls (tax return) data to contraction – on balance we think underlying jobs growth has probably been close to flat of late. Wage growth has continued to ease, with private sector pay growth now down to 3.9%, from nearly 6% at the start of last year (albeit total pay growth has decelerated less sharply, due to strong growth in public sector compensation, which should fall back soon). With ongoing moderate somewhat below trend output growth in H1 this year we expect unemployment to rise a bit further, approaching 5.5% before stabilising (averaging 5.3% for the year). Earnings growth should continue to slow, contributing to a wider easing of price pressures. Employment growth should pick up, and the jobless rate start to fall back, later this year and into 2027.

Unemployment and Vacancies



Source: ONS

	2024	2025 E	2026 F	2027 F
Labour Force Growth	1.1%	2.1%	1.0%	0.7%
Employment Growth	0.8%	1.6%	0.6%	0.8%
Unemployment Rate	4.3%	4.8%	5.3%	5.1%
Wage Growth	5.3%	5.0%	3.7%	3.2%

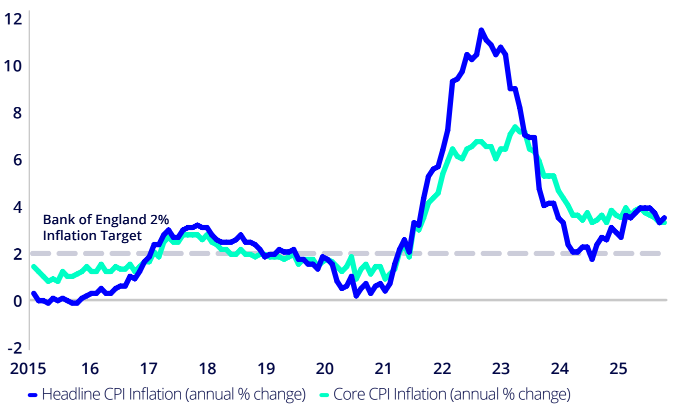
Inflation

Price pressures to ease

We expect inflation of 2.3% in 2026 and 2.0% in 2027

Having eased back a bit in November, inflation picked up again slightly in December, though this was largely expected, with headline inflation finishing the year at 3.4% and core inflation at 3.2%. For the year as a whole headline inflation was 3.4%, well above the Bank of England's 2% target. However, we continue to expect inflation to ease in 2026, due to lower increases in regulated prices, Budget measures and lower growth in labour costs (partly due to the effect of higher unemployment on wage growth, but also due to a fading impact from the increase in employer national insurance). However, given the persistence of inflation in recent years, it seems reasonable to note that there are risks to this outlook, albeit they have reduced a bit recently in our view – any domestic or international shocks which put upward pressure on prices (energy, tariffs, supply chain) could derail the anticipated disinflationary trend and ultimately force the Bank of England to curtail or even reverse its monetary easing.

Headline and Core Inflation



Source: ONS

	2024	2025	2026 F	2027 F
Inflation Rate (CPI)	2.5%	3.4%	2.3%	2.0%
Core Inflation Rate (CPI ex-Energy)	3.8%	3.7%	2.6%	2.0%

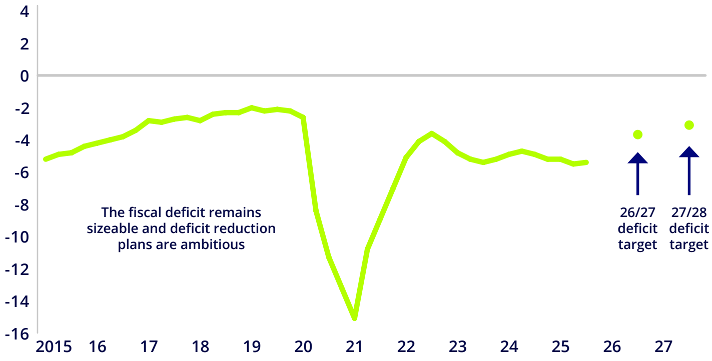
Fiscal Policy

Budget relief - but challenges remain

The Budget was not as tight as feared

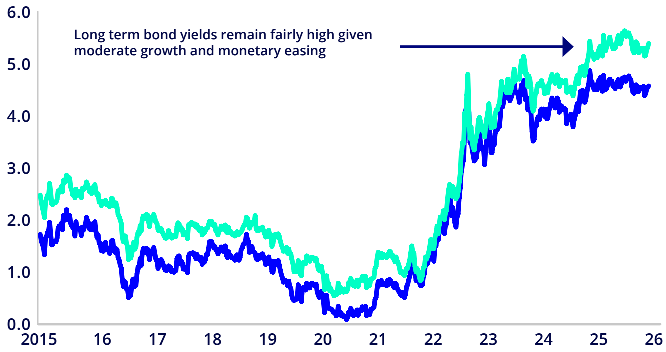
The period in the run up to the November 26th Budget was marked by a lot of speculation regarding the size of the fiscal adjustment, which likely weighed on consumer and business sentiment, and economic activity, for a few months. In the end the package delivered by Chancellor Reeves was not quite as negative as feared. The OBR numbers presented to the Chancellor before budget day included an upward revision to tax revenue projections, partly due to higher inflation, which offset the effects of a downward adjustment to productivity growth assumptions, meaning there was less need for additional revenue raising measures or a sharp curtailment of spending plans. In the end the Chancellor had room to push up spending while keeping to core taxation commitments (no increase to income tax or VAT), though there were a number of tax measures focused on capital. Nonetheless, the fact remains the UK is running a sizeable deficit and this needs to be reduced steadily in coming years, weighing on the growth picture. However, the negative impulse to demand in 2026 will not be all that large, with the heavy lifting put off until later this decade.

Fiscal Deficit



Source: ONS, OBR

Gilt Yields



Source: Bloomberg

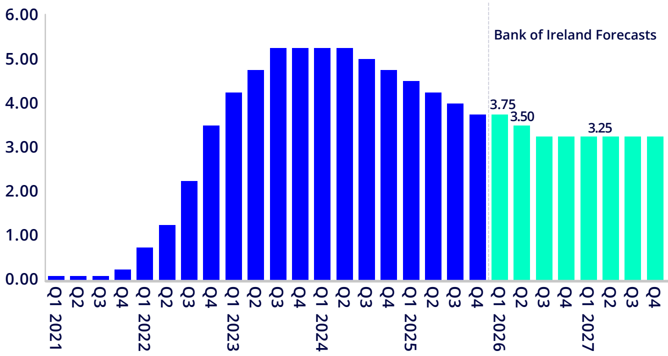
Monetary Policy

Further easing ahead

BoE to cut 50bp this year taking the policy rate to 3.25%

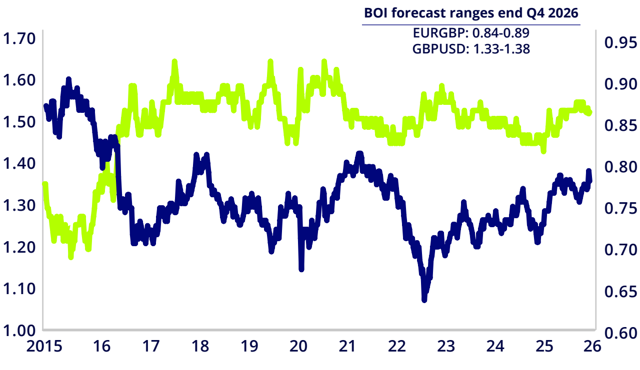
The Bank of England held Bank Rate unchanged at their February 5th meeting (having cut by 25bp at their December meeting). The vote was closer than anticpated, 5-4 in favour of holding, whereas market expectations prior to the meeting were for a 7-2 result. The MPC noted they expect inflation to fall materially over coming months, and that the latest macro data is "consistent with…subdued economic growth and building slack in the labour market". The MPC indicated that "if the economy and the outlook for inflation evolve as we expect, there should be scope for some further cuts to Bank Rate this year". Overall, with inflation pressures waning we continue to expect Bank Rate to be cut two further times to 3.25% by end 2026 (unchanged from our prior forecast), taking policy back towards a 'neutral' rate. This should prove supportive for confidence and growth. However, should inflation pressures re-emerge (for example due to a renewed rise in energy prices, or global trade/ supply chain disruptions) the Bank would likely have to curtail or reverse its easing. UK long term Gilt yields remain fairly high, with the 10 year yield at 4.55% and the 30 year yield at 5.35%. Having dipped a bit Sterling has moved up slightly versus the US Dollar, to around $1.36 currently. The pound weakened to over £0.88 in November versus the Euro, but is back around £0.87 now.

BoE Policy Outlook



Source: Bloomberg, Bank of Ireland

FX Forecasts



Source: Bloomberg

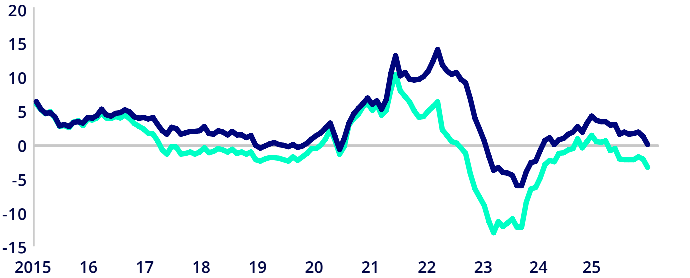
Housing Market

Subdued conditions

House prices close to flat in 2025

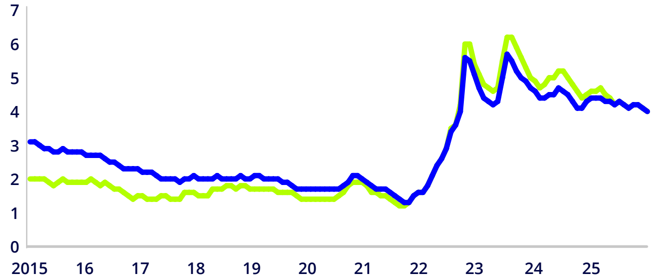
House prices finished 2025 in a relatively weak fashion, with prices down in December and gains in annual terms of under 1% on both the Nationwide and Halifax measures, well below both annual inflation (~3 ½%) and wage growth (~4 ½%). As such house prices declined somewhat in real 'inflation-adjusted' terms, while affordability improved as measured by the price-to-income ratio. The RICS Housing Market Survey also points to a sluggish residential market in recent months, with new buyer enquiries remaining weak. However, forward looking components have started to improve, with expectations for prices (both for 3 and 12 months) and sales activity rebounding a bit into year end (and prices rose 0.3% on a monthly basis in January according to Nationwide). Overall, with budget uncertainty now out of the way, and some further interest rate cuts likely, we expect prices to increase moderately (low single digits) over the course of the year. Mortgage rates may ease a bit, while mortgage approvals should also pick up gradually. Although new house building remains soft we expect a slight pick up later this year.

House Prices



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

Mortgage Rates



Average Mortgage Interest Rate, 2-Year (%) Average Mortgage Interest Rate, 5-Year (%)
Source: Bloomberg, Bank of England

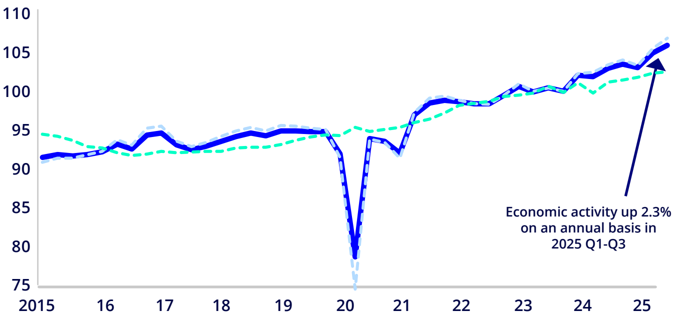
Northern Ireland

Resilient performance

Composite economic index up 2.9% year-on-year in Q3

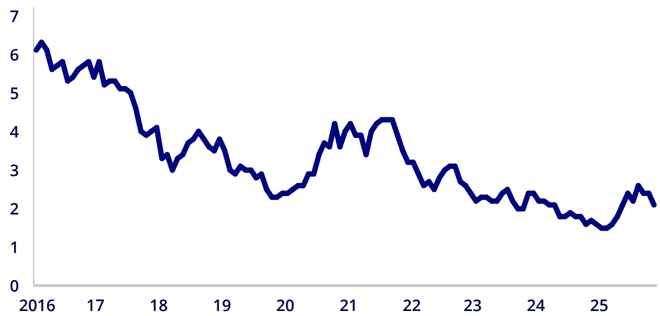
Economic activity, as measured by the Composite Economic Index, has surprised to the upside of late, driven by the private sector (services and industry). This is a solid performance during a period of soft growth in the UK and continues a trend which has seen NI outperform over the past few years. The labour market performance has also proved resilient, with unemployment down recently and payrolls employment expanding on a yearly basis while the comparable figures for England, Scotland and Wales are all weaker. House price growth has also been fairly robust (+7.1% annually in Q3). That said, the latest survey indicators paint a mixed picture, with consumer confidence on the soft side and businesses reporting that input cost inflation is picking up. Nonetheless, overall, the recent performance of the NI economy has been a bit better than we had previously expected and, while there are obviously a range of external risks (geopolitcs, trade/tariffs – though it should be noted that NI goods exports to the US trade are only 2.5% of GDP) and long-term structural challenges (infrastructure/housing, labour market/skills, productivity), along with uncertainties in relation to reaching a political agreement on a multi-year budget by April, the outlook for 2026 is perhaps a bit brighter than previously thought.

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