# UK Outlook

## Insights into the UK economy

July 2026

## New Prime Minister, Similar Outlook

**We have kept our outlook unchanged for the most part, with a few slight tweaks. The economy continues to face a number of headwinds, including ongoing geopolitical tensions and high/volatile global energy prices. We expect below trend GDP growth of 0.9% this year and 1.1% next year (both upgraded by 0.1%). Inflation is still set to rise over coming months, though by slightly less than we were projecting in May. Unemployment is likely to tick up further, though it may peak at a slightly lower rate than previously expected. With monetary policy remaining slightly restrictive and spare capacity rising we expect the BoE to leave rates on hold for the balance of this year. The change of government is likely to usher in some adjustments to economic and fiscal policy. Downside risks continue to dominate, most obviously the situation in the Middle East, which remains volatile.**

### Minimal change to GDP forecasts

GDP growth in the year to date has exceeded expectations somewhat, though other indicators of demand and sentiment have been a bit softer. The situation in the Gulf  remains volatile – while it looked like things were improving following the signing of a Memorandum between the US and Iran in mid-June, tensions have ratcheted up again in recent weeks. As such, the conflict is likely to remain a drag on confidence and activity via a number of different channels, most notably energy prices. Nonetheless, on foot of recent data we have increased our growth forecasts this year and next, though only very marginally given still elevated external uncertainty. Overall, the new government, led by PM Andy Burnham, faces a challenging macroeconomic outlook.

### Inflation to rise near term before easing

Inflation has come in a touch below expectations over recent months, with food/drink and clothing prices declining a bit. While inflation is still likely to rise above 3% in H2, largely due to a higher OFGEM household energy price cap, new government measures and lower recent inflation outturns have led us to lower our inflation projections slightly. We now expect inflation to average 3.1% this year and 2.5% next year, versus 3.3% and 2.7% previously. Unemployment has also come in a touch below our expectations recently, though volatility in the labour market data makes interpretation of short term changes challenging, and payroll employment continues to contract. As such we continue to expect a further tick up in unemployment, but now expect a peak closer to 5 ¼% at year end instead of 5 ½%.

### New Chancellor to proceed cautiously

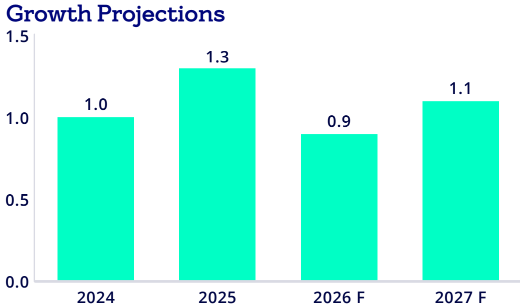
The BoE left policy unchanged at their June meeting. The MPC continues to face a challenging policy dilemma with sluggish growth amidst inflationary pressures. We expect the committee to ultimately opt to maintain the current - still slightly restrictive - policy rate for the balance of this year, as weaker growth, tighter financial conditions and rising spare capacity counteract price pressures. We are pencilling in 50bp of cuts next year as inflation falls back. In somewhat of a surprise move John Healey has been appointed Chancellor. Given the scale of the fiscal deficit and elevated Gilt yields, his room for manoeuvre is limited. That said, it is possible he opts to close the deficit slightly more gradually than his predecessor, along with tweaking the fiscal rules a little. This, along with increases to capital taxes, may make room to increase spending a bit relative to previous plans and fund some cost-of-living measures.

### US-Iran conflict remains key risk

The main risk remains the ongoing conflict in the Middle-East. A prolonged/intensified conflict would be negative for growth and inflation, and could force the BoE to tighten while placing the fiscal position under further pressure (of course should the crisis resolve quickly there may be some upside risks to our projections). Poorly designed and/or communicated policy changes by the new government could destabilise the Gilt market and obviously must be avoided. Finally, additional external risks include a potential correction in equity markets and further erratic/damaging US foreign or trade policies.

| Outlook | 2025 | 2026 F | 2027 F |
|---|---|---|---|
| GDP Growth | 1.3% | 0.9% | 1.1% |
| Employment Growth | 1.6% | 0.7% | 0.7% |
| Unemployment Rate | 4.9% | 5.2% | 5.3% |
| Inflation Rate | 3.4% | 3.1% | 2.5% |

### Growth Projections




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

## Economy

# Ongoing below trend growth

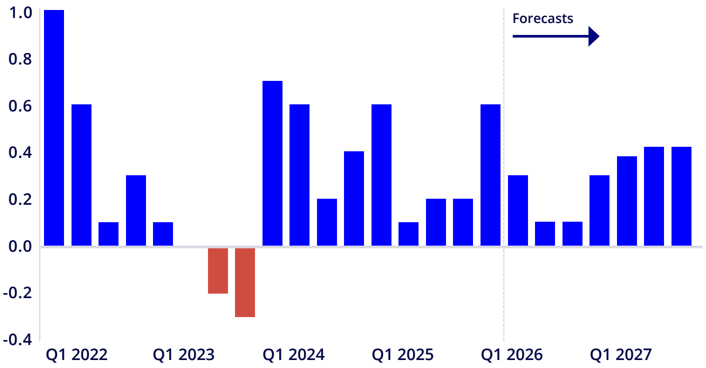
**Output continues to grow at a moderate pace, while uncertainty remains elevated**

The major domestic development since our last Outlook has been the resignation of Keir Starmer as Prime Minister and his replacement with Andy Burnham. The new PM has appointed John Healey as Chancellor. He will face the same challenges as his predecessor – raising growth and closing the fiscal deficit, all while retaining the confidence of the Gilt market. While it is a bit too early to assess exactly what changes to fiscal policy might be forthcoming, and what the growth impact could be, there are some early indications. Slightly higher spending (departmental spending, capital investment, defence, cost-of-living measures) seems like the direction of travel. Funding this will clearly be challenging, as many of the largest tax heads have been ruled out – we anticipate a focus on capital taxes, though raising substantial sums there will be difficult. As such we expect a slightly slower pace of deficit reduction than under previous plans, possibly alongside some tweaks to the fiscal rules to free up some additional fiscal space. Retaining the confidence of financial markets and keeping a lid on Gilt yields will be a key challenge for the new Chancellor. While these changes may raise demand somewhat, the timing (likely 2027/28) and magnitude (probably modest) remains to be seen. Other economic policy changes may include an increased focus on regional development and possibly quasi-nationalisation of some privatised network industries (transport and water seem most likely).

The major external driver of the outlook remains the US-Iran conflict. Since the last Outlook the situation has remained volatile. As of a couple of weeks ago it looked like the Memorandum signed by the US and Iran in mid-June (which committed both sides to a ceasefire along with talks on a range of issues) had deescalated the conflict considerably and allowed for a reopening of the Strait of Hormuz. Oil prices reacted strongly to this news at the time, dropping from well over $100 to around $75 (Brent Crude). However, so far talks have made little progress, particularly on the contentious issue of Iran's nuclear programme, and tensions have ratcheted up again over the past couple of weeks, with renewed hostilities breaking out of late. Oil prices have risen back to near $100, though have not quite - thus far - pushed back to the previous highs. The outlook for the conflict clearly remains very uncertain. Our forecasts remain predicated on the oil forward curve, which assumes prices remain close to current levels before easing back gradually (though remaining above pre-war levels). In relation to trade, the US Administration has replaced the previous temporary tariff measures (which it introduced when the US Supreme Court struck down the Liberation Day tariffs) with new measures that have a different legal basis, but the same 10% rate. Overall, big picture wise, the situation for the UK remains in line with the UK-US trade deal agreed on last year. In their recent Global Economic Outlook the IMF did not significantly change their global growth forecasts – they continue to expect a hit to demand this year from the US-Iran war, with a pick-up next year.

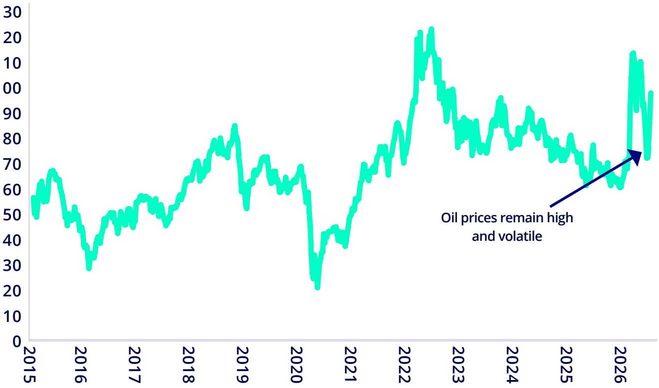
As regards the economic data flow, taken in the round recent indicators continue to paint a picture of an economy expanding at a below trend rate. GDP expanded by 0.7% on a quarterly basis in the three months to May. Services expanded by 0.7%, industry by 0.1% and construction by 1.6% on the same basis, though the latter two sectors were down in May on a monthly basis. However, there is uncertainty regarding the true underlying pace of growth given the tendency in recent years for the GDP data to show robust growth in H1 and weak outcomes in H2 – calling into question whether seasonal factors, which have potentially shifted over time, are being adequately captured. Furthermore, other data, such as the PMIs and sentiment surveys, have been soft, though not disastrous. We expect that, when published, GDP data for Q2 will show an expansion of about 0.3%-0.4%, following 0.6% growth in Q1.

### Quarterly Growth




■ GDP Growth (volume, quarterly % change )
Source: ONS

### Oil Prices



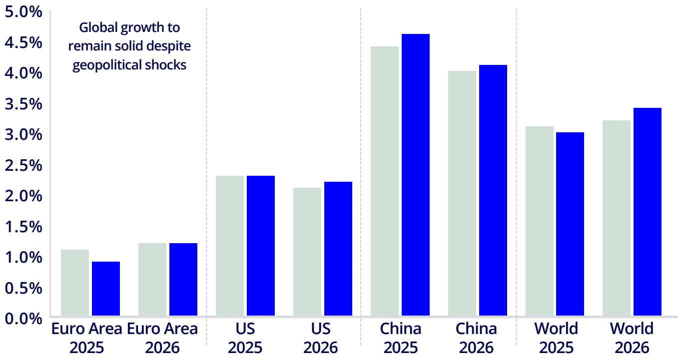

Oil Prices - Brent Crude ($ per barrel)
Source: Bloomberg

Turning to our forecasts – after this fairly solid (albeit potentially overstated) growth in H1 we expect subdued quarterly growth through H2 as the lagged impact of higher energy prices and heightened uncertainty negatively impacts the UK economy. We are pencilling in growth of perhaps 0.1% on a quarterly basis for both Q3 and Q4. Overall, we expect growth of 0.9% this year and 1.1% next year, revised up very slightly from 0.8% and 1.0%. The stronger Q2 GDP performance accounts for the majority of the slight upgrade rather than any more fundamental change in outlook. As noted fiscal policy may possibly end up a little looser over the coming year or two than previously assumed, though without further information it is difficult to quantify this and any effect is likely to be modest. We expect Bank Rate to remain on hold for some time and so monetary policy is not likely to either dampen or boost activity appreciably in the near term. The adjustments to our forecasts are broadly in line with changes to consensus expectations over the past couple of months – growth expectations fell more and have rebounded more than our numbers, but ultimately ended up in roughly the same place.

## GDP to expand by 0.9% in 2026 and 1.1% in 2027

As regards the expenditure components, we have marginally upgraded our projections for consumer spending, though the outlook is still quite subdued. Business investment is likely to soften this year on foot of weaker demand and cost pressures, before recovering in 2027. Government current and capital spending is likely to remain solid and support economic activity over coming quarters. With external demand holding up we have slightly raised our export forecasts, though again the change is modest. As we move into 2027 demand should begin to recover as energy prices fall back and confidence picks up, with consumption, business investment and export growth recovering.

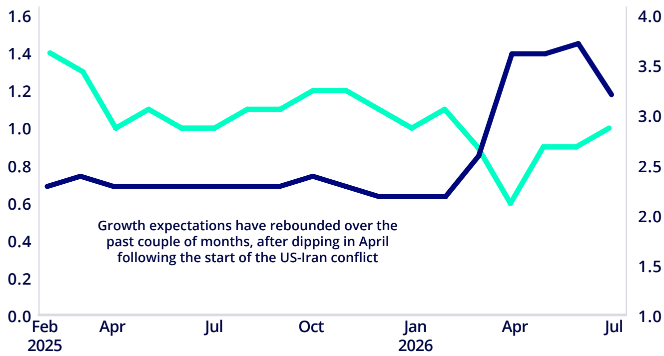
### Global Growth Outlook




IMF GDP Growth Forecast - Apr WEO ■ IMF GDP Growth Forecast - Jul WEO

Source: IMF

### GDP & Inflation Expectations




GDP Growth Expectations for 2026 (%, annual growth, LHS)
Inflation Rate Expectations for 2026 (%, Q4/Q4, RHS)

Source: UK Treasury

## Downside risks remain dominant

Unfortunately, risks remain to the downside. Clearly the main risk is still the ongoing conflict in the Middle-East. A prolonged and possibly intensified conflict would likely push growth down and inflation up, forcing the BoE to tighten while simultaneously putting the fiscal position under additional pressure. Another risk is that poorly designed and/or communicated policy changes by the new government could destabilise the Gilt market. Finally, additional external risks include geopolitical tensions elsewhere (Russia-Ukraine, China) a correction in highly valued equity markets and further erratic/damaging US foreign or trade policies. There are obviously some upside risks – the conflict in the Gulf could end quickly, leading oil and gas prices to drop sharply, while in the medium term productivity growth could rise as AI is rolled out across the economy.

Longer term structural challenges remain - an aging population, structurally high energy costs, weak productivity growth, an inefficient planning system, insufficient investment and the need for higher defence spending. All significant challenges for the new PM and Chancellor to grapple with.

| Annual volume growth rates | 2024 | 2025 | 2026 F | 2027 F |
|---|---|---|---|---|
| Consumer Spending | -0.2% | 1.1% | 0.9% | 1.1% |
| Government Consumption | 2.9% | 1.7% | 1.7% | 1.4% |
| Investment | 1.8% | 4.0% | 1.0% | 1.8% |
| - Business Investment | 2.6% | 4.3% | -1.2% | 1.0% |
| - Government Investment | 4.3% | 4.2% | 7.0% | 3.0% |
| - Housing Investment | -1.5% | 3.3% | 1.8% | 2.5% |
| Exports | 1.3% | 1.9% | 0.9% | 1.2% |
| Imports | 2.7% | 4.1% | 1.0% | 1.3% |
| GDP (annual growth rate) | 1.0% | 1.3% | 0.9% | 1.1% |
| GDP Growth (Q4/Q4 ) | 2.0% | 1.0% | 1.0% | 1.5% |

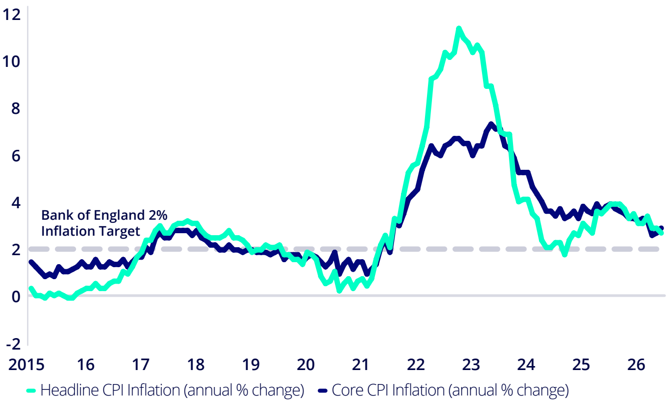
Inflation

# Inflation a bit below expectations recently

**We expect headline CPI to average 3.1% this year and 2.5% next year**

Headline inflation came in at 2.6% in June, down from 2.8% in May, a touch lower than market expectations (and those of the Bank of England). The decline was due to both energy and food prices, with core inflation unchanged at 2.6%. Overall, inflation has been a bit lower than expected over recent months, though it is still set to rise in July as the OFGEM energy price cap is reset higher. It now looks like inflation will peak in H2 this year at a slightly lower rate than we previously anticipated, before easing further into 2027. In addition, cost-of-living measures from the new government, including a cut to VAT on electricity, may help reduce price pressures, though the effects will likely be modest enough. Overall, we now expect inflation to average 3.1% this year, before easing back to 2.5% in 2027 (revised down from 3.3% and 2.7% previously). This projection is based on current energy price forwards. Should the US-Iran conflict escalate – and risks on that front have unfortunately risen in the past week or so - there are obviously upside risks.

### Headline and Core Inflation




Source: ONS

| | 2024 | 2025 | 2026 F | 2027 F |
|---|---|---|---|---|
| Inflation Rate (CPI) | 2.5% | 3.4% | 3.1% | 2.5% |
| Core Inflation Rate (CPI ex-Energy) | 3.8% | 3.7% | 2.7% | 2.5% |

Labour Market

# Jobs market continues to gradually loosen

**Payrolls data show employment down 40k since January**

The latest labour market data, for the March-May period, show unemployment at 4.9%, unchanged from the prior period, and down a touch since Q4 last year. However, we continue to expect that, with output growth likely to be somewhat subdued over coming quarters, the jobless rate will rise a bit further, though we now expect a peak near end year at around 5 ¼% rather than 5 ½% previously. Unemployment should ease a bit towards the end of 2027. The signs regarding employment growth remain mixed – the official LFS data (survey based) point to solid growth, while the payrolls data (tax return based) point to weak conditions. We believe the latter indicator, which tallies with survey data, is likely closer to the mark on an underlying basis. However, we continue with convention and provide forecasts for the official LFS measure. Interpreting recent trends in earnings has been complicated somewhat by the significant difference between the public and private sectors in the official data, and by trends in bonuses. However, overall it seems clear that wage growth (particularly private sector 'regular' earnings) is easing gradually, and given rising spare capacity in the labour market this looks set to continue.

### Employment Expectations


Source: Bank of England

| | 2024 | 2025 | 2026 F | 2027 F |
|---|---|---|---|---|
| Labour Force Growth | 1.1% | 2.2% | 1.1% | 0.8% |
| Employment Growth | 0.8% | 1.6% | 0.7% | 0.7% |
| Unemployment Rate | 4.3% | 4.8% | 5.2% | 5.3% |
| Wage Growth | 5.3% | 4.8% | 3.9% | 3.3% |

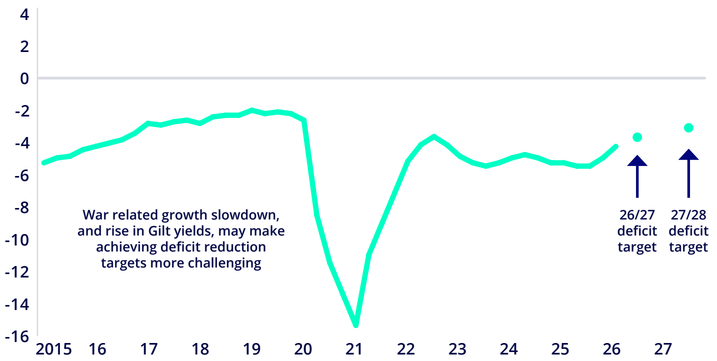
## Fiscal Policy

# New Chancellor, same challenges

**Gilt market will remain sensitive to economic and fiscal policy changes**

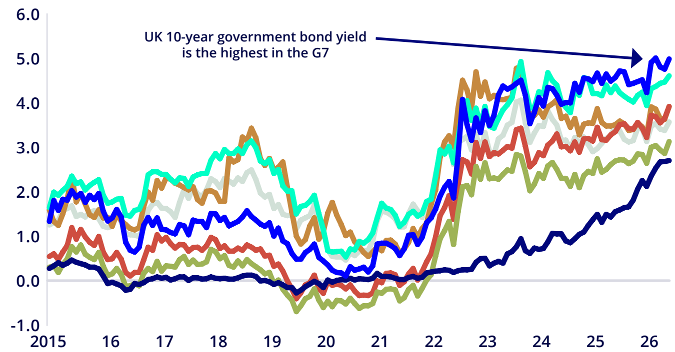
It is clearly still very early days for new Chancellor John Healey and time will tell what precise policy changes he may adopt. However, from a big picture perspective it seems clear he will want to maintain the confidence of financial markets and avoid any risk of a spike in already elevated Gilt yields. This points towards a cautious approach with careful sequencing and communication. Nonetheless, we expect that over time he will seek to increase spending slightly relative to what his predecessor had set out, focusing on departmental expenditure, defence and infrastructure investment (particularly in the regions), along with a range of 'cost-of-living' measures (adding to the already announced cut to electricity VAT), financed by a range of capital tax changes and ultimately a slightly slower pace of deficit reduction. It seems premature to try and gauge the economic effects of any changes in the absence of detailed proposals. However, given the constraints faced under the fiscal rules, which may be tweaked but are unlikely to be radically changed, large macroeconomic effects seem unlikely, at least in the near term.

### Fiscal Deficit




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

### Gilt Yields




10-Year Gilt Yield (%) US Japan Germany France Italy Canada
Source: Bloomberg

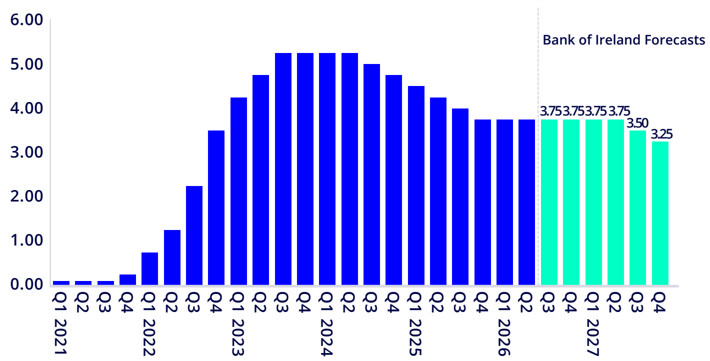
## Monetary Policy

# BoE on hold until next year

**Bank Rate unchanged at 3.75% at June MPC meeting**

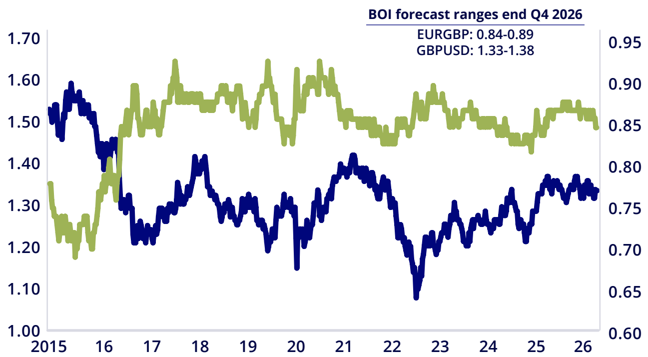
The Bank of England again left the policy rate unchanged at its June meeting, keeping the policy rate in (mildly) restrictive territory. We continue to expect that the slowdown in growth, rising spare capacity and tighter financial conditions (mortgage rates have increased quite a bit), in conjunction with the fact that the rise in inflation has thus far proven to be contained, will be enough to persuade the Bank to keep rates on hold over the balance of this year. We expect the next move from the BoE will be a cut, probably in the middle of next year, as the Bank seeks to spur a rebound in demand amidst ebbing inflationary pressures. However, should the conflict in the Middle East escalate and energy prices spike sharply then the MPC is likely to change course and to implement several precautionary hikes to contain inflation expectations. At this juncture it seems unlikely that policy changes from the new Chancellor (relative to what was already assumed by the BoE in its projections) will be dramatic enough to change the Bank's calculus in relation to policy. UK 10-year Gilt yields are currently above 5%, versus 4.5% pre-war, the highest in the G7. Sterling is trading at $1.33 versus the dollar and £0.85 versus the euro. Both Gilts and sterling have been under a little pressure in recent sessions on foot of uncertainty regarding the new government and potential policy changes.

### BoE Policy Outlook




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

### FX Forecasts




GBPUSD (LHS) EURGBP (RHS)
Source: Bloomberg, Bank of Ireland

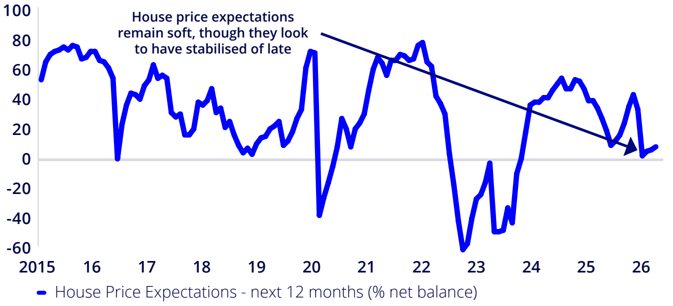
## Housing Market

# Continued headwinds but some early signs of stabilisation

**House prices up around 2% annually in recent months**

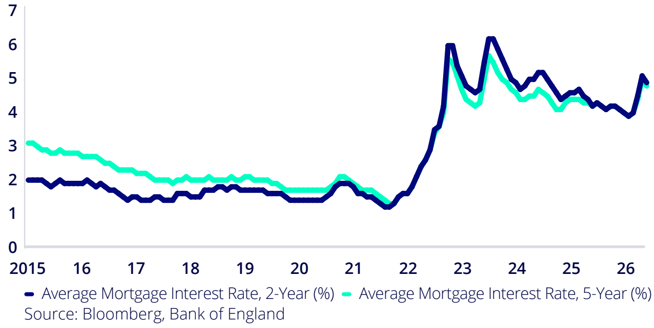
Housing market conditions remain soft, though there has not been any further deterioration over the past couple of months. House price growth continues to track below the rate of inflation and wage growth (weakest in London and the South East, somewhat better elsewhere). The latest RICS survey tentatively suggests that, after a period of deterioration, a range of indicators have begun to stabilise, albeit at still quite weak levels (the survey does however predate the latest deterioration in the US-Iran situation). Mortgage rates still remain higher than they were before the US-Iran war, and mortgage approvals are down significantly on an annual basis. The Construction PMI has been weak of late, and house building is running at too low a rate given underlying demand (a key challenge for the new Housing Minister). Overall, we continue to expect prices to largely move sideways over coming quarters – with annual price inflation ending the year near the current rate. The market should start to recover in 2027, with mortgage rates easing. There are downside risks should the external situation deteriorate.

### RICS Housing Survey




Source: RICS

### Mortgage Rates




Source: Bloomberg, Bank of England

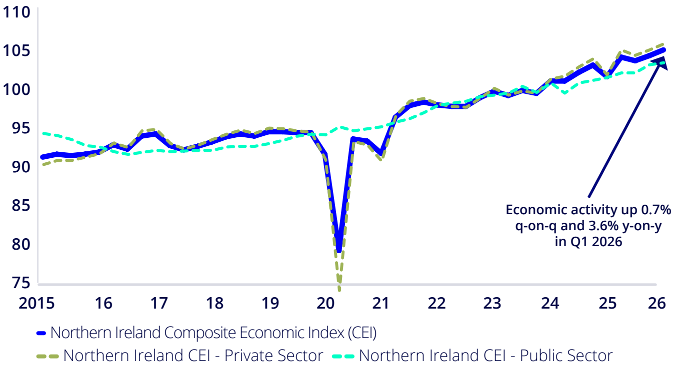
## Northern Ireland

# Growth set to ease

**Latest survey data points to a weakening of economic activity in recent months**

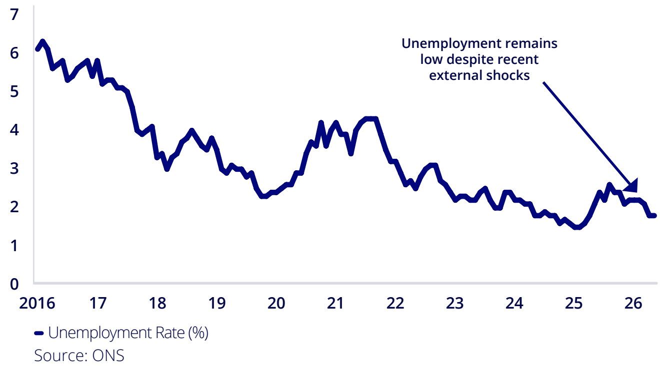
The Composite Economic Indicator, a proxy for regional GDP, was up a robust 0.7% on a quarterly basis and 3.6% on an annual basis in Q1. However, this perhaps is somewhat overstating the strength of underlying conditions and the latest PMI data suggests that activity and new orders weakened in Q2 on foot of higher energy prices (and other cost pressures) and the negative impact of the US-Iran war on business and consumer confidence. Overall we expect output growth to slow in H2 after a strong run over the past couple of years, during which it has outperformed the wider UK economy, before it picks up again next year. The labour market appears to still be holding up fairly well, despite the more volatile external backdrop, with unemployment remaining low – though some recent indicators of employment have been a little softer. The latest data from the property market continues to remain quite healthy, with prices up solidly, though higher mortgage rates and lower consumer confidence may start to slow things a bit. As with the overall UK and global outlooks, risks remain to the downside due to the ongoing conflict in the Gulf.

### NI Economic Activity




Source: NISRA

### NI Labour Market




Source: ONS

# Contact Us


economics@boi.com

+353 1 250 8900

**Conall Mac Coille**

Group Chief Economist

+353 87 788 4264

**Michael Crowley**

Economist

ext. 44268

**Mark Leech**

Head of External Communications

+353 87 905 3679

**Conn Creedon**

Economist

ext. 35134

**Alan Bridle**

UK Economist & Market Analyst

+44 77 3636 2138