UK Regional Economic Forecast 2025

March 2025

EY

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Foreword

UK Regional Economic Forecast 2025

On behalf of Ernst and Young LLP (EY UK), we are delighted to welcome you to our tenth regional economic forecast for the United Kingdom. It is an understatement to say that there has been a lot of political and economic change in the last 12 months, both domestically and internationally. The new Labour administration, facing an incredibly challenging set of domestic and international headwinds, has rightly put the economic growth mission at the top of its priority list. In this context, understanding the differentials and constraints to regional growth performance in the UK has never been more important. As a nationwide employer, we are committed to supporting efforts to rebalance the UK's economic geography, and our forecasts are aimed at broadening understanding of the current disparities. As in previous years, we are collaborating with EY colleagues across the country to share detailed findings with local stakeholders.

So, what does our latest research and analysis tell us about the relative economic performance and outlook for the UK's regions? At a macro level, the national economy is struggling, despite a modest rebound during 2024. In regional terms, the upturn was led by the North West, along with some regions recovering from slowdowns in the previous year, including the South West. However, on a more positive note, the growth outlook for the country and most regions is expected to improve through 2025, thanks to a combination of falling inflation, rising real wages, and steady reductions to interest rates.

This sets the scene for our forecast period from 2025 to 2028. During this time, we project that regional Gross Value Added (GVA) growth (as ever) will be led by London and the East of England, with the North East and Scotland bringing up the rear. The key determinant behind these contrasting performances? The mix of sectors – with those regions that are strong in higher-growth sectors such as information and communication forging ahead, while those with a large presence of slower-growing or declining sectors like oil and gas lag behind. As in previous years, employment growth is expected to mirror GVA, driven by similar sectoral factors. These same drivers are reflected in the varying outlooks for the UK's cities and combined authorities, where Reading and Thames Valley are set to lead on GVA growth, and Manchester (city) and Greater Manchester on job creation.

A drill-down into specific sectors shows that retail, consumer-facing services, and manufacturing have faced particularly strong headwinds since the pandemic. In contrast, sectors like professional services, and information and communication, have achieved buoyant growth. Tellingly, retail sales volumes are still 11% below their pre-pandemic trend, underlining the difficulties for that sector. And the challenges for UK manufacturers include having to pay the highest electricity prices anywhere in the developed world.

What are the implications of our analysis for policy going forward? The Government's recent announcements on increasing investment in infrastructure and unlocking barriers to delivery are welcome. High-quality infrastructure remains critical for delivering the economic ambitions of any region, and achieving equitable growth across the UK will require policies that address the existing variations in infrastructure quality and density.

This need applies across multiple infrastructure sectors and asset classes. Take housing and construction; there are significant shortages in housing across all regions. Arguably, the greatest need is in London and the South East, traditionally the two fastest growing regions in the UK. Housing arguably should be built where people want to live to maximise national growth opportunities, but such an approach risks entrenching regional differences in economic performance given the direct and indirect boost to the economy that the construction of new homes can provide. Policymakers will need to be cognisant of the trade-offs and risks that exist if investment is entirely demand led.

A further powerful influence on regional economic growth is connectivity in all its forms. The availability of rail, road and air transport links varies widely across the UK, creating imbalances that policy needs to address. Regional growth is also being constrained by variations in digital infrastructure, with different regions at widely differing stages in rolling out gigabit-capable broadband. Raising the pace of investment in energy infrastructure is also important given the vital role that the UK's grid infrastructure will play in enabling growth and innovation around AI.

The overarching message? According to our forecast, all regions of the UK will see annual average GVA growth of between 1.3% and 1.7% between 2025 and 2028. These figures are disappointing by historical standards. The policy challenge is therefore to raise the growth prospects for the UK in aggregate, while ensuring that the benefits of that growth are shared equitably across the nation. Understanding regional differences in infrastructure needs will play a role in achieving this.

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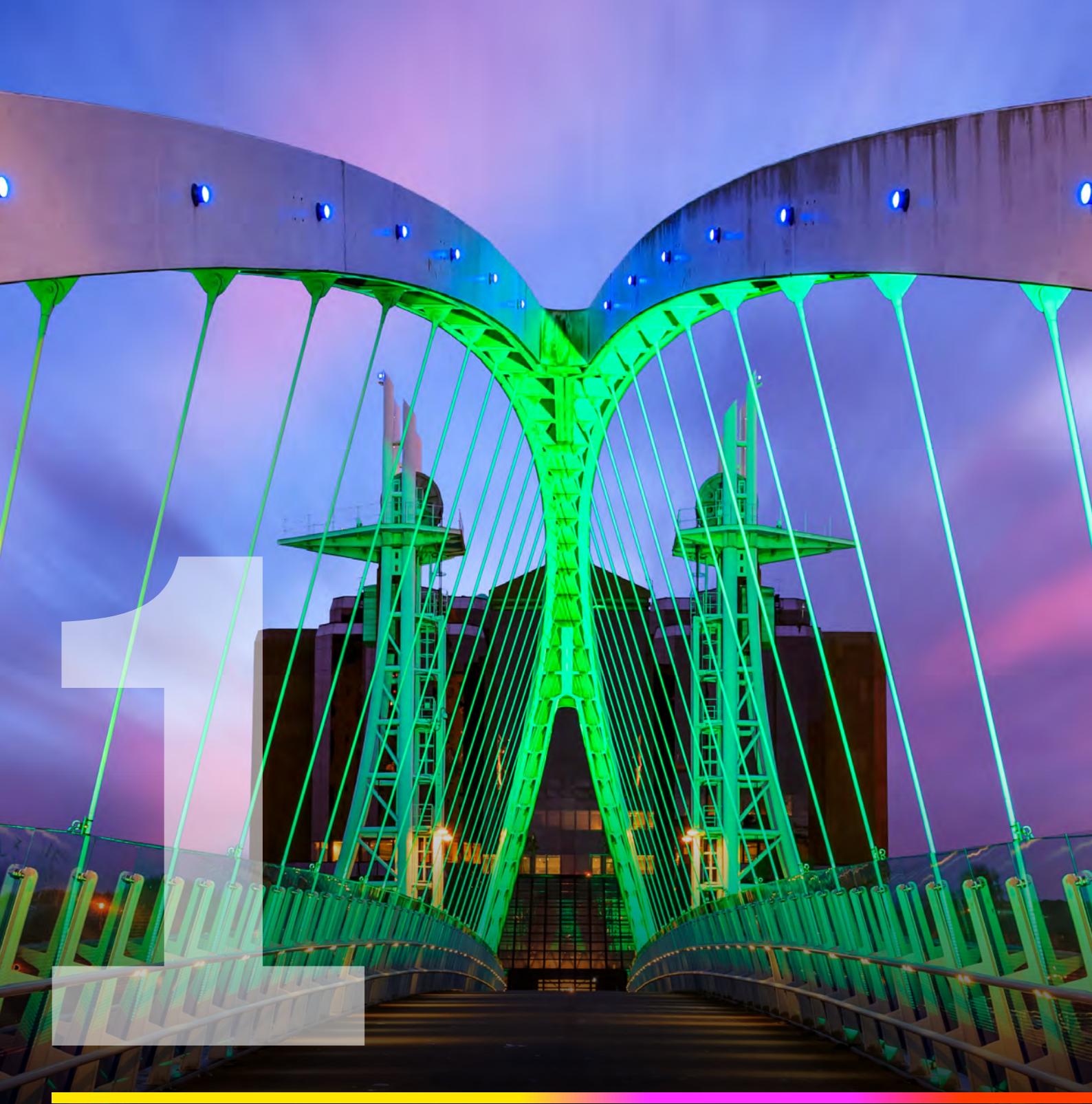
UK and regional economic performance in 2024

The UK economy experienced a solid start to the year in 2024, with the economy seeing a modest rebound following a 'mini recession' at the end of 2023. However, the second half of the year saw a return to stagnation, with the latest data from the ONS suggesting that the UK economy only just remained in positive territory in the final quarter of the year. With the public sector doing a lot of the heavy lifting in Q3, the UK ended 2024 with GDP growth of only 0.1% in Q4, giving an overall growth rate of a disappointing 0.9% across the year as a whole. While policymakers will be relieved that the UK's growth did tick up in 2024, its performance hardly provides grounds for celebration.

However, underneath the weak headline growth, major differences between sectors are driving the constituent parts of the economy at different speeds, and powerful geopolitical and macroeconomic headwinds are holding it back. Since 2019, manufacturing and consumer-facing services have faced a difficult struggle, while business-facing services (and the public sector) have fared better in relative terms.

The North West led the way in terms of regional growth

Looking across the UK, the fastest growing region in 2024 was the North West. It recorded GVA growth of 1.3% during the year, buoyed up by a return to stronger growth in the manufacturing, retail and healthcare sectors. Northern Ireland was the next fastest growing region year-on-year at 1.2%, followed by the South West (also 1.2%) and then the South East (1.1%). It was driven by similar factors to the growth in the North West – with retail, public services, healthcare and manufacturing performing strongly relative to the rest of the UK.

The South West's comparatively strong growth also represented a rebound, from a -0.1% decline in 2023, but by contrast, resulted from a more even spread of sectoral growth, with less high-value-add sectors such as real estate activity and public services leading the upturn. The weaker relative performance in London in 2024, reflected a slightly more subdued consumer services landscape than the country as a whole (reflecting inflationary headwinds), plus challenges in the key financial and insurance activities sector.

Figure 1: GVA growth in UK regions and nations, %, 2024, y/y

Source: EY ITEM Club

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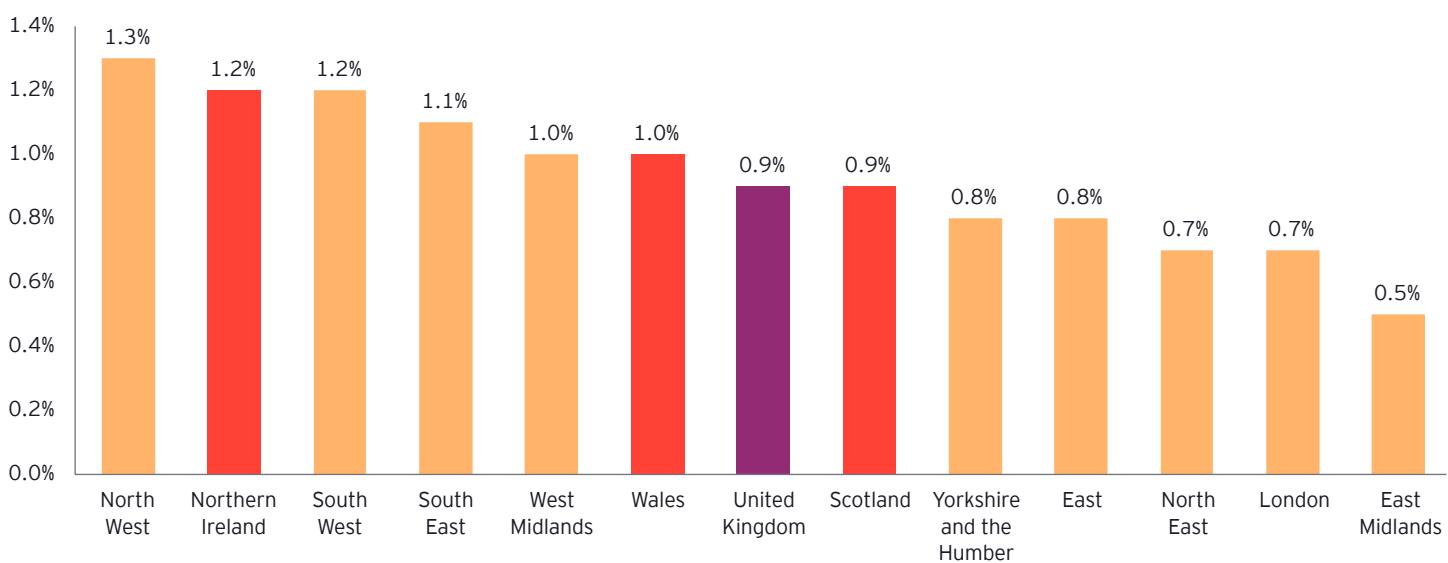
The outlook for 2025 and beyond

Stronger growth is in prospect during 2025 …

Despite the disappointing end to 2024, and increasing geo-political uncertainty, the economic outlook is expected to improve through 2025 and into 2026. Inflation is on track to fall to 2% by early 2026, and voting patterns on the Monetary Policy Committee indicate that the Bank of England will likely continue to prioritise growth in the economy and cut rates even if headline inflation remains above the 2% target. Combined with rising real wages and lower energy prices (albeit with increases in prospect later in the year), these factors should provide a boost to the economy, particularly in the second half of the year. While forward-looking indicators such as the Composite Purchasing Managers Indices (PMI) were consistent with a slowing economy over the course of 2024, the PMI has been recovering since October 2024, and the most recent measure in February 2025 showed that it had been hovering between 50.4 and 50.6 since November – consistent with weak but positive growth.[1,2] The uptick in retail sales figures in January 2025 provides some grounds for optimism about the UK's growth prospects.

From a regional perspective, London, the other Southern regions of the UK, and Northern Ireland are expected to lead in terms of average growth over the forecast period from 2025 to 2028, outperforming the UK as a whole. On average, GVA in London is expected to grow by 1.7%, with the East of England also achieving 1.7%, and the South East, South West and Northern Ireland all on 1.6%, level with the UK average. The recovery in these regions will be underpinned by continued strength in their labour markets reflecting relatively high concentrations of skills in high-value-add sectors, a recovery in consumer spending as inflation falls, and then fairly robust growth in sectors like information and communication, utilities, R&D, and construction.

… although not for all, as the squeeze on consumers continues …

In contrast to these faster growing regions, the North East is expected to experience the lowest average rate of GVA growth across the forecast period from 2025 to 2028, at just 1.3%. This underperformance compared to the rest of the UK is largely due to relative stagnation in the region's labour market with a near flat (0.5%) average growth forecast for total employment. The region has a relatively low proportion of its workforce in the faster growing sectors such as information and communication. However, the important manufacturing and commodities extraction sectors in the North East are projected to see declines in activity (as headwinds from higher

energy prices remain), alongside subdued growth in electricity, gas and steam, which is forecast to be a relatively strong area for the rest of the UK. Similarly, in Scotland, growth across the forecast period will be held back by the distinctive composition of the Scottish economy and a muted performance in consumer-facing sectors, with agriculture, forestry and fishing (0.0%), mining and quarrying (which includes oil and gas extraction) (0.3%) and manufacturing (0.5%) projected to see flat or, at best, fairly low levels of average GVA growth between 2025 and 2028.

Figure 2: Annual average GVA growth, %, 2025F–2028F
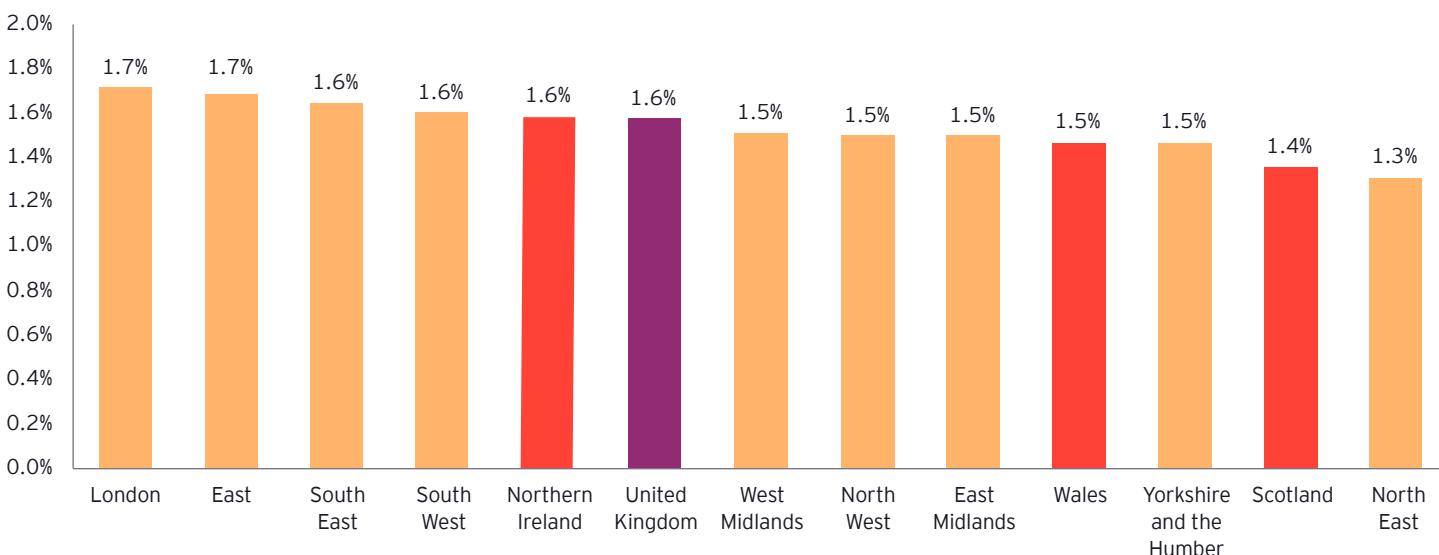
Source: EY ITEM Club

... with regional differences in sector strengths and composition playing a pivotal role.

As is the case every year, our forecast continues to reveal significant differences in growth rates (and absolute growth) between sectors. As a result, the relative weight of each sector in a national or regional economy tends to have a strong influence on its overall growth outlook. For example, the ongoing challenges in the mining and quarrying sector – projected to experience average negative growth of -1.8% for 2025-2028 at the UK level – largely reflect the long-term decline in North Sea oil production and will act as a particularly strong headwind for Scotland (and Aberdeen in particular), and to a lesser extent for the North East of England.

The decline in activity in this sector is largely driven by structural changes at the economy-wide level, as many oil fields reach the end of their useful life. However, it is hard to dispute the fact that policy has played a key part too. The Scottish Government is at best ambivalent towards new investment in oil and gas production. And while the UK Government is marginally warmer, the imposition of significant windfall taxes has also acted as a barrier to investment – this despite energy price shocks over recent years, and the exposure by the Russia-Ukraine War of the UK and European economies' reliance on imported oil and gas. Overall, these developments present a significant impediment to growth – and one that may be further weighted to the downside, given the changed geopolitical trajectory since the new US administration took office.

In contrast, the information and communication sector (2.6% average growth for 2025-28) is set to top the growth charts, regaining the leadership position it has tended to occupy despite the volatility experienced in recent years. The strength of productivity in this area can largely be attributed to the rush of activity around AI and the substantial investments businesses are making in this domain. Over the forecast period, London is projected to see the most significant proportionate expansion in the sector, at 2.8%, with most regions of the UK also performing strongly, achieving growth averaging 2.4% to 2.8% in this domain.

Elsewhere, we anticipate continued strong performances from other high-value-add services sectors. Electricity, gas and steam, which includes everything from electricity generation, transmission, trading and distribution to fuel mains, is expected to perform equally as well as the information and communication sector. In this sector, growth will average 2.6%, reflecting increased investments in networks and renewable energy generation. The professional, scientific and technical activities sector is also forecast to grow strongly at 2.2% on average per annum, reflecting ongoing rapid advances in technology and the continued rebalancing of the UK economy towards services.

The information and communication sector (2.6% average growth for 2025-2028) is set to top the growth charts ... the strength of productivity in this area can largely be attributed to the rush of activity around AI ...

Figure 3: UK annual average GVA growth by sector, %, 2025F–2028F

Sector	Value
Information and communication	2.6%
Electricity, gas and steam	2.6%
Administrative and support services	2.3%
Professional, scientific and technical	2.2%
Construction	2.1%
Other service activities	2.0%
Transportation and storage	1.9%
Arts, entertainment and recreation	1.9%
Accommodation and food service	1.8%
Human health and social work	1.8%
Wholesale and retail trade	1.5%
Water supply and sewerage	1.3%
Real estate activities	1.2%
Manufacturing	1.2%
Financial and insurance activities	1.1%
Agriculture, forestry and fishing	0.9%
Education	0.7%
Public administration	0.4%
Mining and quarrying	-1.8%

Source: EY ITEM Club

Figure 4: Employment by sector, %, 2025F–2028F

| Sector	Value
Professional, scientific and technical	1.6%
Administrative and support services	1.6%
Construction	1.5%
Arts, entertainment and recreation	1.2%
Other service activities	1.1%
Human health and social work	1.0%
Transportation and storage	1.0%
Information and communication	0.9%
Accommodation and food service	0.9%
Wholesale and retail trade	0.6%
Education	0.3%
Financial and insurance activities	0.1%
Water supply and sewerage	0.0%
Real estate activities	-0.1%
Agriculture, forestry and fishing	-0.3%
Public administration	-0.5%
Electricity, gas and steam	-1.2%
Manufacturing	-1.7%
Mining and quarrying	-3.0%

Source: EY ITEM Club

As usual, employment growth rates are expected to track GVA at national and regional levels.

London is expected to lead the UK in employment growth from 2025 to 2028, as it did last year, reflecting its continued ability to attract international and domestic talent − although the average rate of increase is projected to remain comparatively low by historical standards, at 0.9%. Other parts of the South of England are expected to record employment growth towards the higher end of the range for the UK as a whole, consistent with the relatively high GVA growth anticipated in those regions. Conversely, lower growth in employment is projected for Scotland (0.4%), the North East (0.5%) and East Midlands (0.6%), consistent with the weaker GVA growth from leading sectors in those regions.

Elsewhere in the UK, Northern Ireland and the West Midlands, despite fairly positive GVA growth overall, are also expected to experience employment growth below the UK average from 2025 to 2028. In these locations, the biggest proportionate declines in employment are anticipated in sectors focused heavily on extraction of commodities, as well as agriculture, forestry and fishing. These are relatively low productivity sectors in terms of GVA per worker, and the expected reductions in employment are generally in line with the trends seen in those sectors at both the national and regional level.

Figure 5: UK employment growth in UK nations and regions, %, 2025F−2028F

Region	Growth
London	0.9%
East	0.9%
South West	0.8%
South East	0.7%
United Kingdom	0.7%
North West	0.6%
West Midlands	0.6%
Northern Ireland	0.6%
Wales	0.6%
Yorkshire and the Humber	0.6%
East Midlands	0.6%
North East	0.5%
Scotland	0.4%

Source: EY ITEM Club
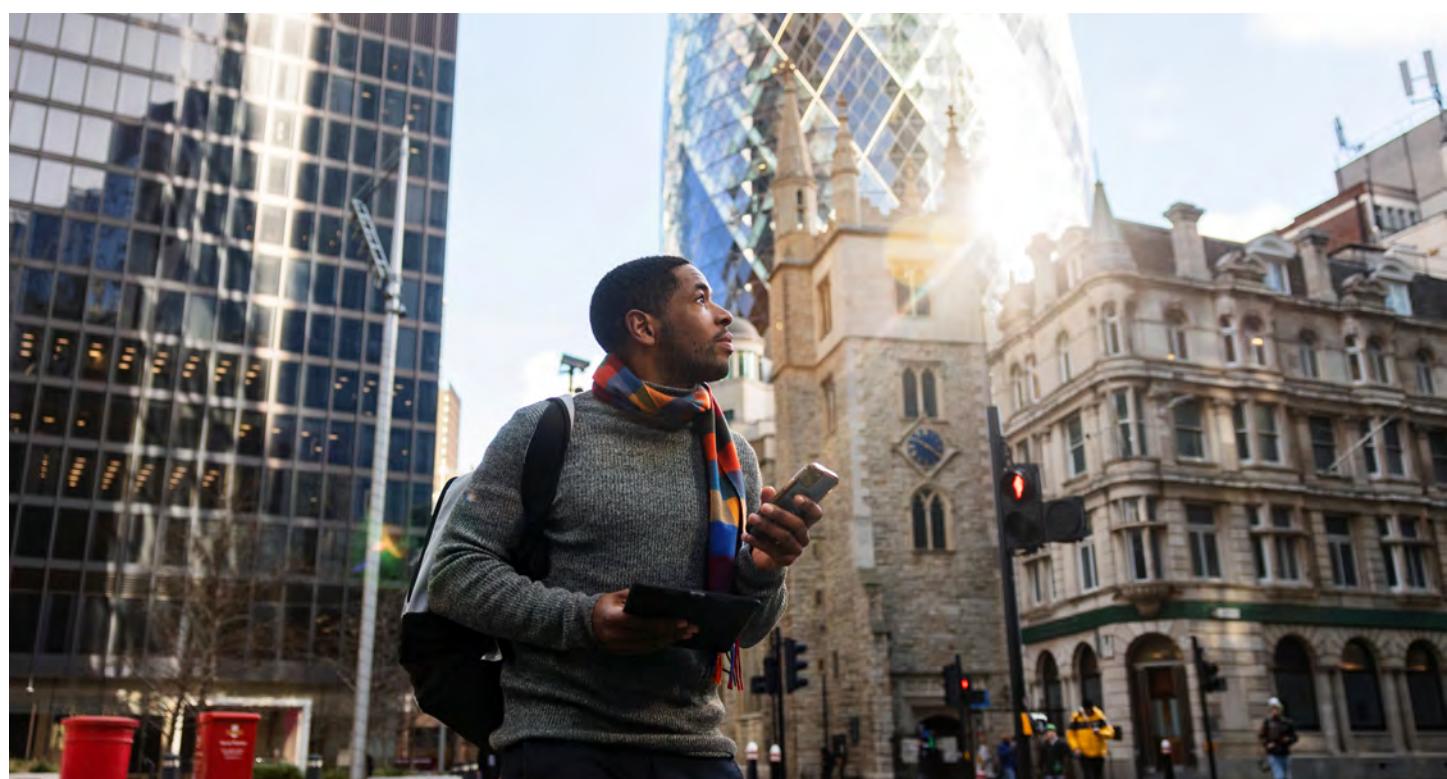
The outlook across the UK at a city and authority level

Major metropolitan areas with diverse sectoral strengths are expected to keep driving activity ...

The variations in performance that we expect to see between core cities across the UK are more pronounced than those between its different regions and nations. For example, Reading (2.2%), Manchester (2.1%) and Cambridge (1.9%) are projected to drive relatively high levels of growth compared with the national and regional figures. This outperformance largely comes down to having a strong focus on growth in sectors where the UK has a competitive advantage, combined with population growth, increased household income and increased consumer spending.

Reading, for example, is more focused than the UK average on the professional, scientific and technical (R&D), education, and information and communication sectors. Equally, Manchester (the city) also benefits from rapid growth in these sectors, which in turn drives more rapid growth in adjacent sectors

such as construction, arts and entertainment, and R&D – all helping to make it an attractive location to invest.

A further attribute of places like Manchester and Cambridge is that they exhibit especially marked asymmetry in employment growth, with both cities' total employment projected to rise by 1.3% on average between 2025 and 2028 as they continue to attract talent into high-value sectors. Meanwhile, Belfast provides an interesting growth story of its own. The Northern Ireland capital is projected to achieve growth averaging 1.7% between 2025 and 2028, driven by strong performances from some of its principal sectors and also by increases in household income (1.8%) and consumer spend (2.4%). Based on these metrics, Belfast is set to take top spot in the UK by combining a relatively low cost of living with a strong growth profile.

... while some cities will be held back by their poorer-performing sectors.

By contrast, several cities are forecast to experience much more subdued average growth, including Aberdeen (0.9%), Durham (1.0%) and Dundee (1.2%) – locations that all seem to be held back by having a larger concentration of poorer-performing sectors. Movements in household income also appear to play a role, with cities such as Aberdeen forecast to experience negative household income growth averaging -0.4% from 2025 to 2028. This decline is in stark contrast to some other cities where growth in household income is projected to remain relatively strong, including Belfast (1.8%), Manchester (1.5%) and Bristol (1.5%).

Aberdeen is uniquely exposed to the decline in oil and gas extraction. New investments in renewable energy are yet to (and may never fully) replace the lost activity and employment.

At the combined authority level, Thames Valley and Greater Manchester are almost neck-and-neck in our growth forecast, with both places expected to achieve GVA growth averaging 1.7% over 2025-28. While the Liverpool Combined Authority is set to lag behind its peers, as a major population centre, it is still expected to enjoy moderate GVA growth averaging 1.3%.

Figure 6: Average annual GVA growth in major cities and local authorities, %, 2025F–2028F
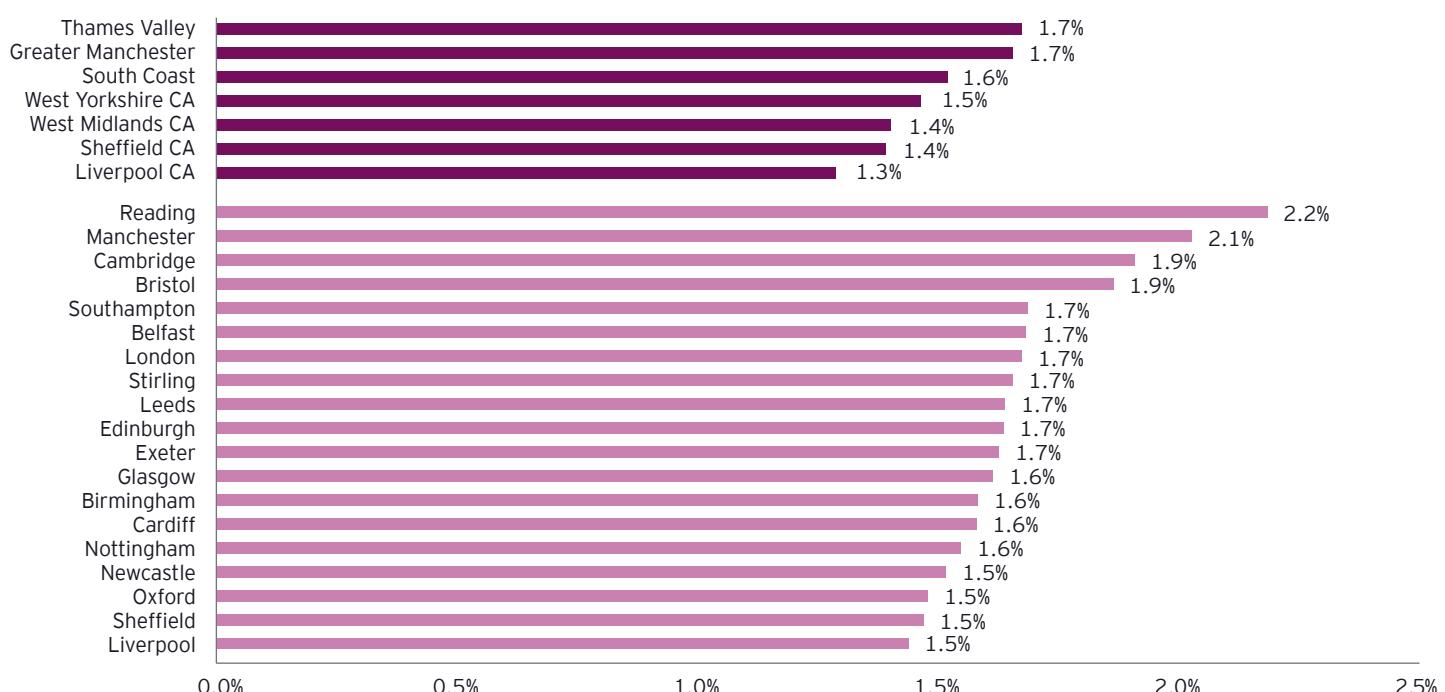
Source: EY ITEM Club

**Figure 7:** Average annual employment growth in major cities and local authorities, %, 2025F–2028F

City / Local Authority	Growth
Greater Manchester	0.9%
North Yorkshire	0.8%
South Coast	0.7%
West Midlands CA	0.6%
West Yorkshire CA	0.6%
Sheffield CA	0.6%
Liverpool CA	0.5%
Manchester	1.3%
Cambridge	1.3%
Bristol	1.1%
Edinburgh	1.1%
Reading	1.1%
Exeter	0.9%
Belfast	0.9%
Southampton	0.9%
Birmingham	0.9%
Stirling	0.8%
Leeds	0.8%
Newcastle	0.8%
Cardiff	0.8%
Glasgow	0.8%
Oxford	0.8%
Nottingham	0.8%
Liverpool	0.7%
Sheffield	0.7%
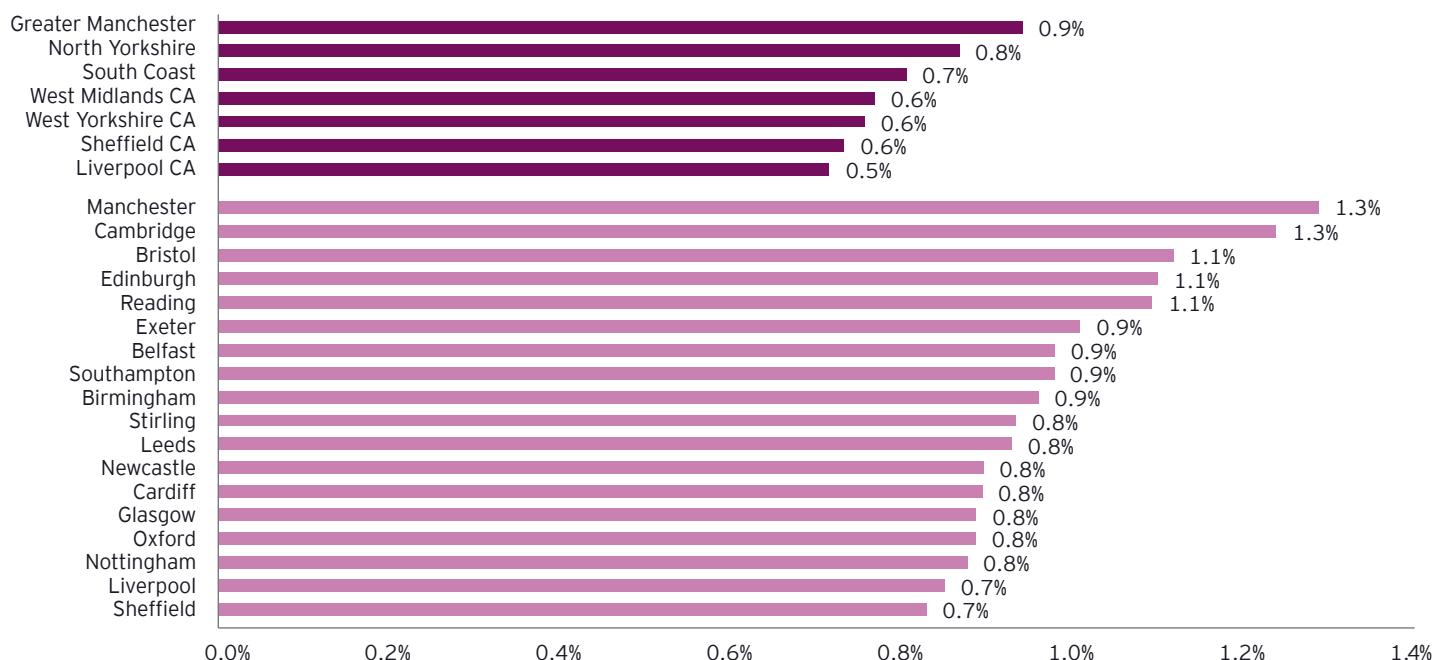
Source: EY ITEM Club

Taking a wider perspective, there have been long-term impacts since the pandemic on retail, consumer-facing services and manufacturing ...

Since the COVID-19 pandemic, the UK economy has been characterised by some contrasting performance between sectors, reflecting global economic conditions, technological advances and market dynamics. An analysis of the aggregated sector performances reported by the ONS from 2019 to the present reveals noteworthy trends and outcomes indicating which industries have broadly fared well in the face of high energy prices and a cost-of-living squeeze.

Notably, some sectors have grown strongly and are now much larger than pre-pandemic levels. For example, professional services has recorded especially buoyant growth (18%) since 2019, fuelled by digital transformation initiatives, particularly

in response to the pandemic. Conversely, consumer-facing sectors, such as hospitality (-9.4%), arts, entertainment and recreation (-9.2%), and retail (-7.7%) have yet to recover fully from the pandemic. Part of this is structural; the rise of hybrid working has seen much reduced levels of commuter-driven spend in city centres. However, a period of high inflation and interest rates has sapped consumer confidence and spending power while encouraging households to save more. These sectors account for a significant proportion of the UK economy and employment. So, if a correction or a return to pre-pandemic levels of activity could be achieved in these sectors, we might see much more growth in the UK economy.

Figure 8: Sector output – growth since 2019 Q4, %

| Sector	Growth
Professional services	18.0%
Information and communication	15.4%
Administrative and support services	10.3%
Construction	8.0%
Public sector	5.8%
Whole economy	3.1%
Transportation and storage	1.8%
Financial services	-1.8%
Manufacturing	-3.8%
Retail	-7.7%
Arts, entertainment and recreation	-9.2%
Hospitality	-9.4%
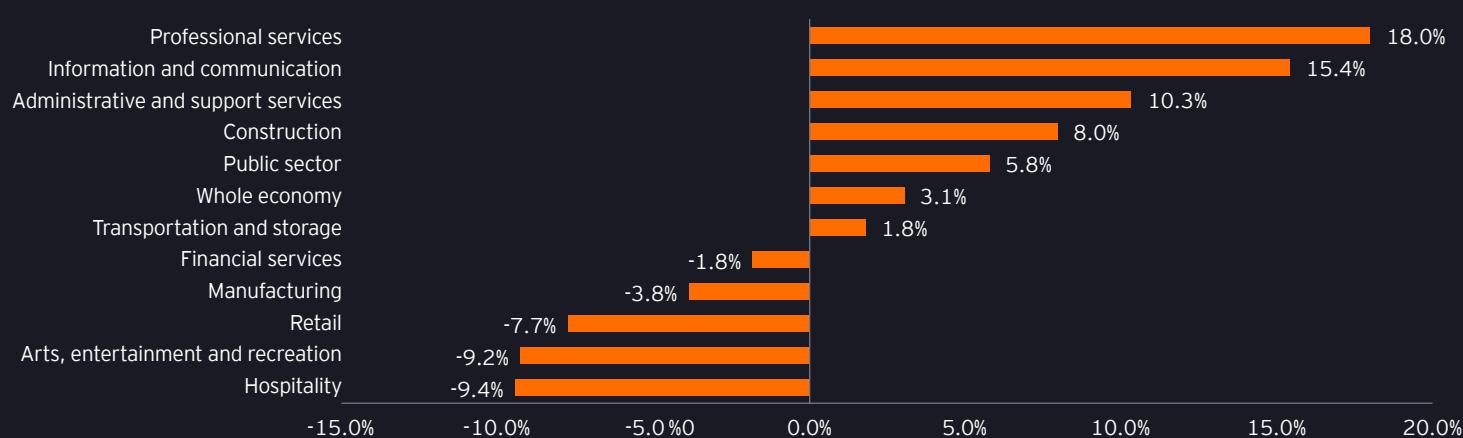
Source: Office of National Statistics

... with longer-term retail data showing that sales volumes remain over 11% below their pre-pandemic trend ...

The ONS reports that retail sales volumes (quantity bought) are estimated to have risen by 1.7% in January 2025, following a fall of 0.6% in December 2024. However, more broadly, sales volumes fell by 0.6% in the three months to January 2025 compared with the three months to October 2024, suggesting that consumer spending remains fragile.[3] Indeed, retail sales volumes are still slightly below their pre-pandemic levels; if they had followed pre-pandemic trends, they would be 11% higher than current levels.

Figure 9: Retail sales volumes, seasonally and non-seasonally adjusted, 2010–25, index 2022 = 100
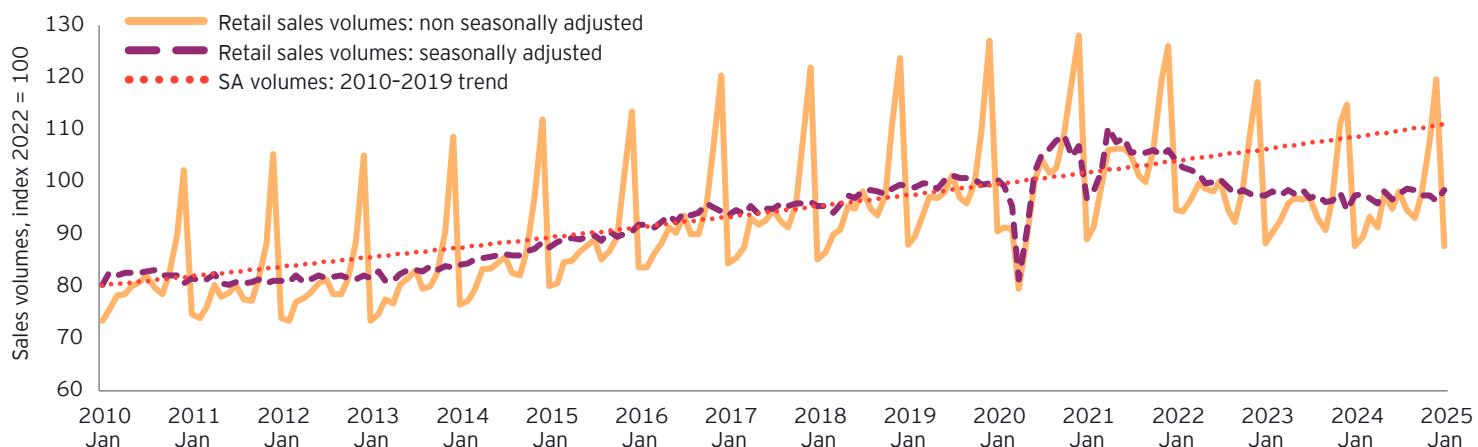
Source: Office of National Statistics

... and with the UK paying a higher price than its peers to power its industries.

Given such figures, it's little surprise that the UK sectors that have struggled since the pandemic include those hit hardest by consumer demand falling due to the rising cost of living. At the same time, the UK's major industrial and manufacturing sectors have been impacted by a much higher energy cost than their peers in other countries.

In fact, current figures show that UK companies are paying the highest electricity prices anywhere in the developed world, reflecting an unhelpful mix of intermittent renewables and declining domestic oil and gas production. UK industrial businesses have seen the cost of power leap by 124% in just five years, meaning it is now 50% more expensive than in Germany and France – and four times as expensive as in the United States. This burden is a crucial contributor to the struggles faced by the UK manufacturing sector, and policy measures aimed at alleviating it stand to yield positive effects broadly across the economy. With this in mind, in the next section we explore some of the wider infrastructure issues facing the UK as a whole and the various constituent parts of its economy.

Figure 10: Energy prices – industrial energy prices in pence per kWh
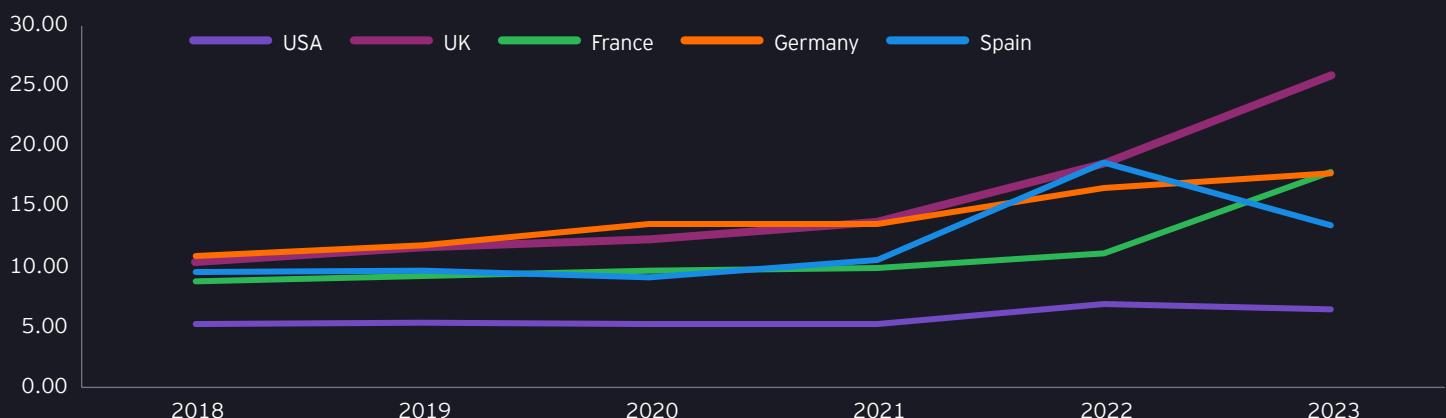
Source: Office of National Statistics

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A focus on the UK's regional infrastructure as an enabler to growth

Infrastructure is of critical importance in unlocking growth across the UK …

Making infrastructure a central policy focus across the UK could potentially deliver a sea-change in macroeconomic and social outcomes. However, there are several challenges, including the impact of recent inflation on input costs and energy, and high interest rates increasing the cost of financing. There is also a significant investment backlog to overcome. In September 2024, we estimated in our 'Mind the (Investment) Gap' report that the UK faces an infrastructure spending shortfall of at least £700bn by 2040.[4] This funding shortfall is being driven by a combination of economic headwinds driving up the cost of capital projects, and the massive investment required to meet the UK's long-term economic, social, strategic, environmental and defence priorities.

Against this challenging backdrop, high-quality infrastructure remains a critical enabler for the economic ambitions of any region of the UK. Infrastructure's importance reflects its pivotal role in facilitating trade and commerce, reducing costs and encouraging the innovation, regional development and investment that underpins growth. The Government has recognised this reality, positioning infrastructure development as a central element of its growth agenda, as signalled by the 10-year infrastructure strategy working paper and the rescoping of the fiscal rules to unlock further funding for infrastructure.[5]

… and policy needs to be designed to reflect this vital role.

As the Government looks to translate its focus on infrastructure into real economic outcomes, achieving equitable growth across the regions of the UK through infrastructure development will require policies designed to level out the existing variations in infrastructure quality and density. With this objective in mind, we have explored some of the most glaring and critical regional variations in infrastructure asset classes across the construction, housing, transport and connectivity sectors. Interestingly, some of the data and analysis shows that differences in infrastructure

needs and quality do not always follow the typical pattern of relative economic performance observed in the UK. In some cases, the need for greater investment infrastructure is greatest in London and the South East, perhaps reflecting the costs of relative success. For example, housing is less affordable and roads typically more congested in the southern part of the UK. Hence infrastructure policy and investment should balance the need to drive growth across the UK in aggregate, without entrenching regional inequalities.

Infrastructure's importance reflects its pivotal role in facilitating trade and commerce, reducing costs and encouraging the innovation, regional development and investment that underpins growth.

To start with, there is a wide disparity in construction spend between London and the other regions of the UK ...

Over the past decade, the UK's total construction spend – encompassing both public and private projects – has been heavily concentrated in London. At £50,000 per capita, London attracts more than double the total construction spend per capita of those regions with the lowest construction activity. The disparity between the UK capital and other regions is further evidenced by the fact that Scotland, the UK's second-highest-performing region, attracts 30% less construction activity than London.

This yawning gap between London and the rest is indicative of several issues. Foremost among these is that commercial developers favour regions such as London and the South East due to the higher financial returns they offer as the UK's leading centres for employment. These two regions' higher local demand for labour makes them the prime destinations attracting construction spending. However, as shown by ONS labour market costings and reports from organisations such as the Centre for Cities, construction projects in London and the South of England also generally face higher costs because of more expensive labour and higher land values.[6,7]

Figure 11: Construction spend per head in UK regions, 2013–23, in 2023 prices[8]
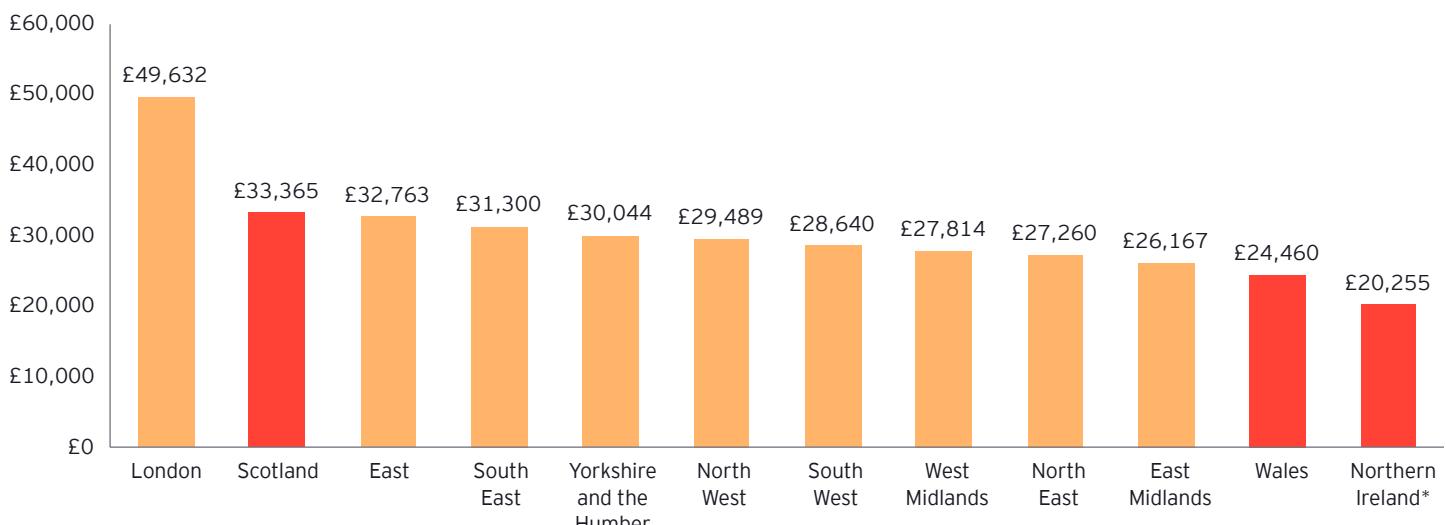
Source: ONS, NISRA (*Construction Output in Northern Ireland)

... housing plans have to balance need without reinforcing existing disparities.

The UK Government has committed to building an increased target of 350,000 homes per year and has targeted planning reform as a key policy lever to accelerate house building. If this is achieved, it would be quite an achievement, as at no point since the 1970s has the UK built over 300,000 homes a year.

The widely recognised impact of housing as a major force for labour mobility, wealth building and local spending makes it a critical infrastructure class for business and society. However, there is a risk that the current regional allocation of housing targets, while representing a significant and challenging acceleration of the targets previously in place, will have the effect of reinforcing the status quo on supply.

The regions with the greatest need (on the basis of demand and relative affordability) are arguably London and the South East, and the Government's housing targets reflect this. However, this does risk entrenching regional disparities and there is a certain circularity that exists economically. Successfully economic regions attract people and investment. If the regions in the South of England deliver on the targets they have been set, they will have the capacity to further build and retain population growth. They can continue to capitalise on all the benefits of urbanisation, wealth building and multiplier effects generated by additional dwellings.

A comparison between the average net additional dwellings since 2021 and the proposed new housebuilding targets shows that the Southern regions (South West, South East, London, and East of England) have both the higher average shortfall of homes (about 29,000 homes per year), but also the higher targets. London and the South East have the most acute shortfall in housing supply against the modelled housing needs, with shortfalls of 60% and 42% respectively against the new proposed targets.

In contrast, in the Northern regions (North East, North West, and Yorkshire and the Humber) and Midlands (East Midlands and West Midlands) have much smaller shortfalls of around 5,000 new dwellings per year. Notably, the North West (27,000), East Midlands (23,000), Yorkshire and the Humber (19,000) and the North East (9,000) all succeeded in meeting their previous housebuilding targets, suggesting that higher targets could perhaps be applied in areas with ample land availability.

Figure 12: Average net additional dwellings per annum since 2021, alongside proposed and new regional housing targets[9]

Source: Ministry of Housing, Communities and Local Government
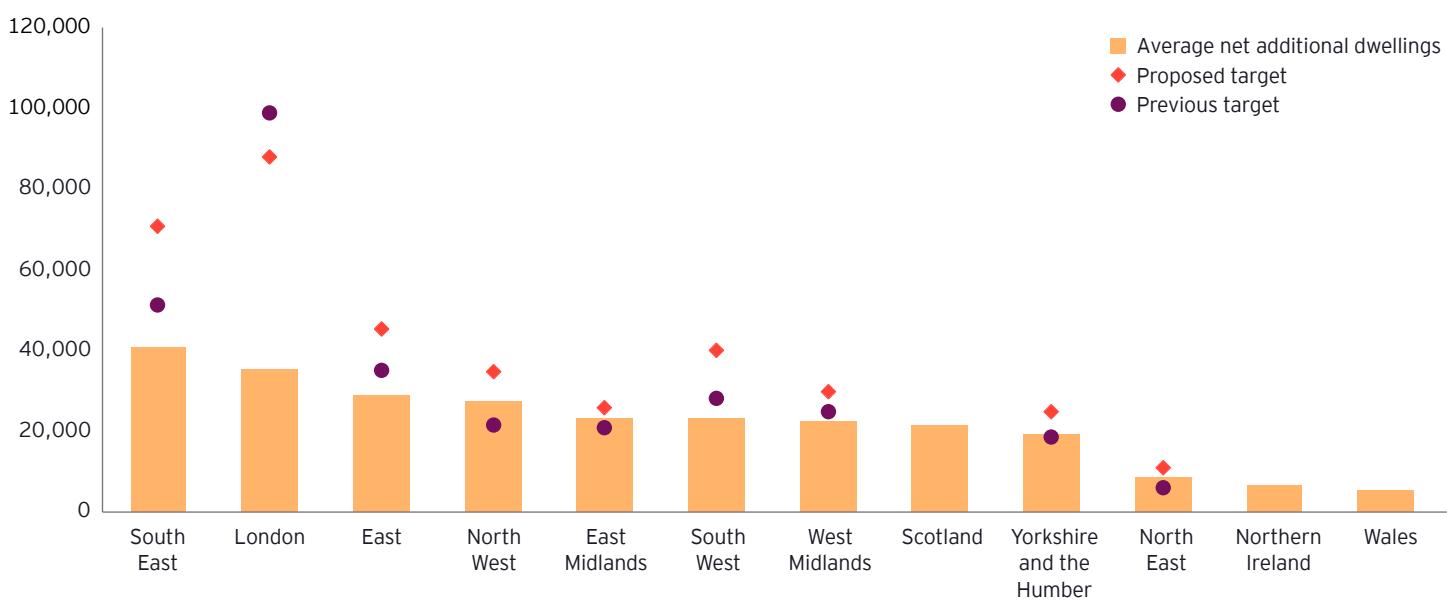
Connectivity to employment centres and efficient transport infrastructure can be important differentiators for a region's employee and investment offer ...

Investment in transport infrastructure is often posited as a cause of the disparities in productivity performance across the UK's regions compared with other countries. When the transport network allows people to travel easily into and around economic centres, businesses can access a wider labour market, costs are lower, and the agglomeration effects vital to supporting economic growth are unlocked.

... and there are significant differences between regions' access to connectivity by rail.

The first connectivity metric we examine is the extent to which the quality of rail links varies across the UK regions. The proximity of people to railway stations and the level of rail connectivity by rail are crucial factors in driving regional economic growth. This is because transportation infrastructure – and specifically rail networks – have a significant impact on various aspects of economic activity, including employment, business investment and access to resources.

One measure of the density of the rail network is the proportion of people living within 30 minutes of a railway station. Here, London has a significant advantage with, on average, 97% of individuals being able to access their nearest railway station on foot within 30 minutes. The North West – with its large urban areas around Manchester and Liverpool does reasonably well (67%), and better than the South East (58%). The more rural South West is at the other scale with just 32% of the population

within a 30-minute walk. However, it can be seen that both the East and West Midlands appear to lack rail capacity despite their relatively larger populations and urban centres.

One aspect that this data doesn't capture is that the UK rail network is London-centric, with routes from cities in the Midlands and the North reasonably well connected to London, but much less well connected to each other.

These imbalances in rail infrastructure have several consequences for regional economic growth. By concentrating on those areas that are currently below the UK average, rail infrastructure could be improved to reduce transportation costs, increase labour mobility and encourage investment in the areas that need it most. The case for inter-city rail between the UK's major urban conurbations should also be considered as part of the solution.

Figure 13: Proportion of people within a 30-minute walk from the nearest rail station, local authorities by region (as of June 2024)[10]

Source: Office for National Statistics (ONS)
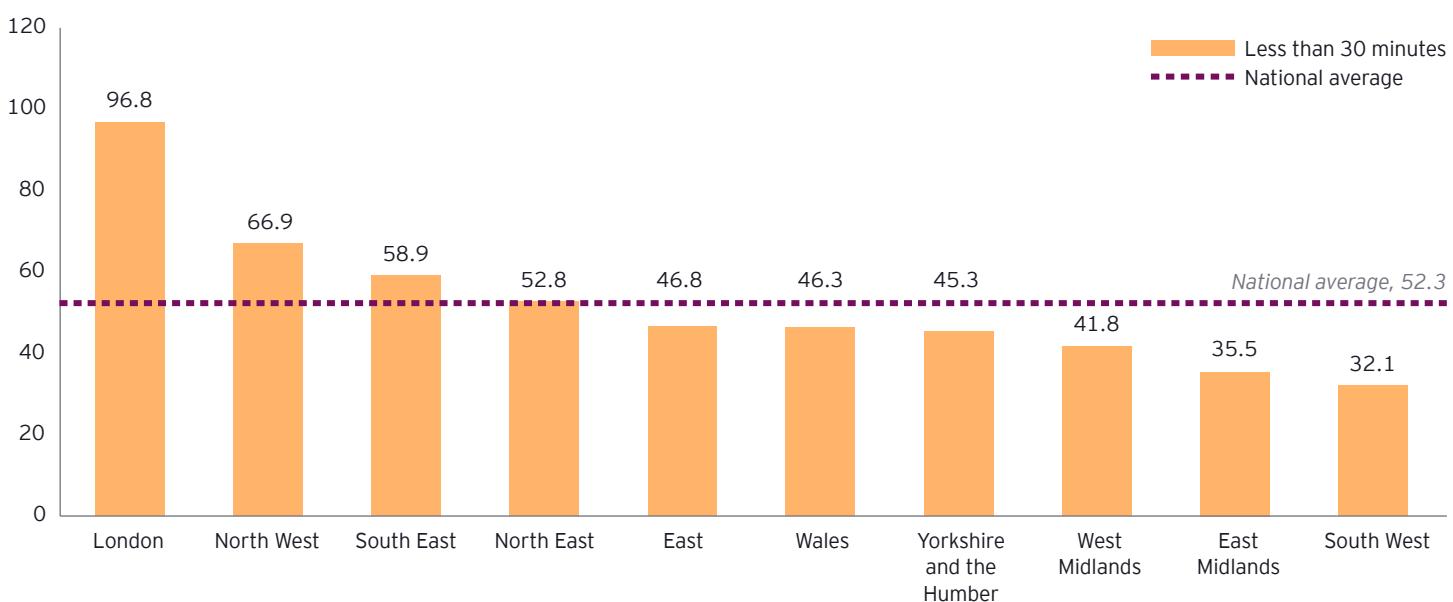
There is a mismatch between the provision of roads in the UK and the number of vehicles using them in each region.

The quality of road infrastructure also varies across the country, with the Motorway network similar to the Rail network in that it is quite London-centric. While transport policymakers can be reluctant to prioritise road investments due to their perceived environmental costs, the latest data from the UK Department for Transport (DfT) for 2023 indicates that by passenger kilometres, 90% of domestic travel was conducted via road. This dominance makes road density and road traffic flow key in assessing the quality of the UK's regional connectivity infrastructure.

DfT data on traffic flow on UK roads shows that the South East region had the highest traffic flow levels in 2023, with "[sic] 52.8 billion vehicle miles (c. 85.0bn km) driven on its roads". This figure equated to 16% of all UK traffic in 2023.[11]

To assess the provision of road infrastructure across the UK's regions, we began by examining road density. This metric is defined by the DfT as the total length of roads in a given area relative to its geographic size, usually expressed as kilometres of road per square kilometre of land area. We then cross-examined this measure against road traffic flow, which refers to the movement of vehicles along a road or highway, typically measured as the number of vehicles passing a specific point over a day.

When we compare the total vehicle traffic flow across the UK regions with the road infrastructure provided in those regions, some significant disparities emerge. In particular, the South East, East of England, South West and Scotland have higher levels of traffic flow relative to their total road density than other UK regions (see Figure 14). Highways England has demonstrated that increasing the provision of roads in regions with higher traffic flow is crucial for improving economic growth, as it enhances connectivity, reduces congestion and improves the efficiency of transportation networks.

There is, therefore, a similar story to what we see in housing. This data does suggest that growth could potentially be being held back in the relatively fast-growing regions such as the South East and the East of England, although the North West also sits in the upper half of the chart when it comes to traffic flow. Again, there exists a trade-off between maximising aggregate growth for the UK as a whole, versus entrenching regional differences if investment in road infrastructure is too concentrated in already successful regions. One way to balance this is to again think about investing in links between major conurbations in the North and cross-country routes in the South, rather than further investment in a London-centric motorway network.

Figure 14: UK regional road density and annual average daily road traffic flow[12]

Source: Department for Transport and EY analysis
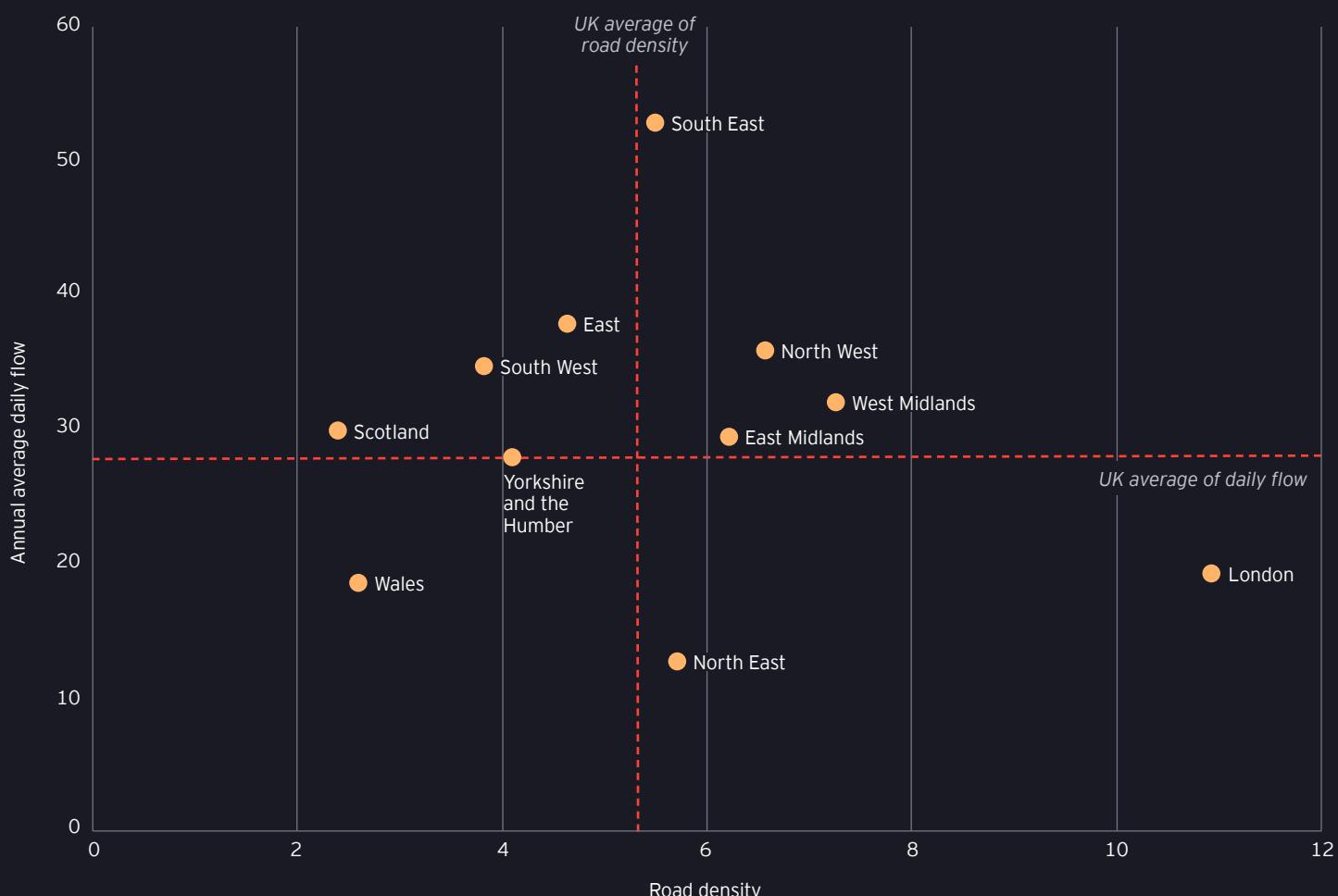
In air connectivity, passenger traffic is concentrated in the South East even after allowing for population density, a position reinforced by recent announcements on Heathrow and Gatwick.

Regional air infrastructure directly impacts the ease with which businesses, tourists and skilled workers can access different regions. Improved air links facilitate trade, attract investment and enable regions to access global markets. All of these benefits can play an important role in driving regional economic growth and reducing geographical disparities in economic opportunities.

In assessing the relationship between air connectivity and regional economic growth, we have examined the proportion of air passenger numbers throughout the UK compared with the population share residing in each of the UK's regions. Based on this analysis, it is evident that air connectivity is concentrated in and around London, which accounts for 30% of all aviation passenger traffic but just 13% of the UK's population. Further, the airports in London, the South East and the East of England – regions that include all of the airports servicing London – account for 61% of passenger flows but only 36% of the UK's population. This does suggest that the Midlands and North of England are potentially underserved by airport capacity.

Figure 15: Share of total airport passenger flow by UK regions, 2024
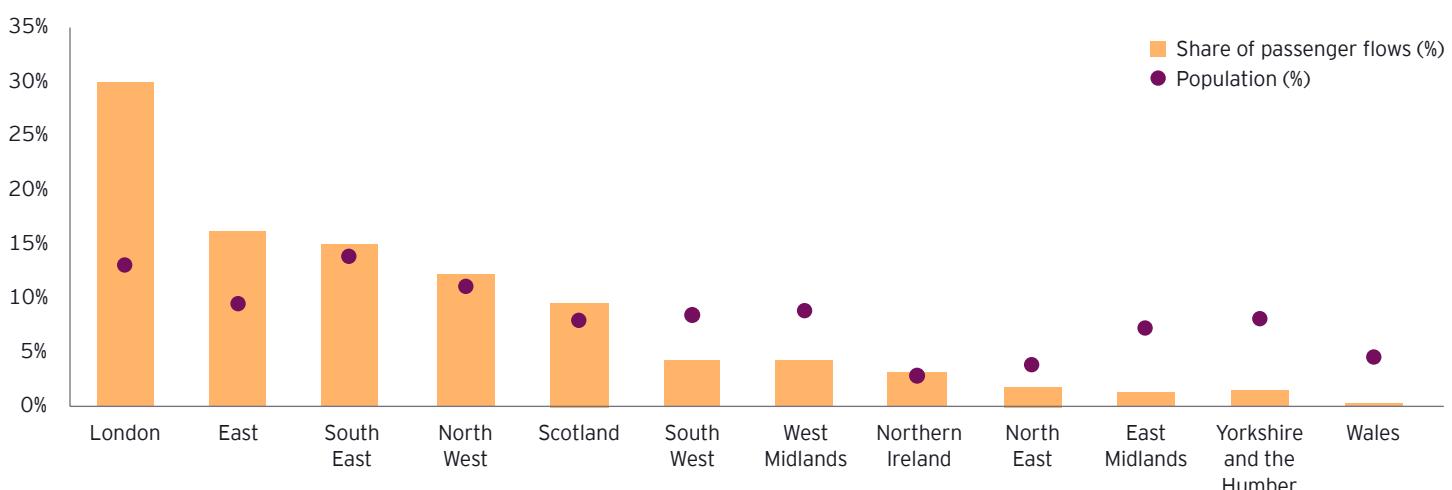
Source: Civil Aviation Authority, ONS

Figure 16: Map showing the passenger flow to different UK airports
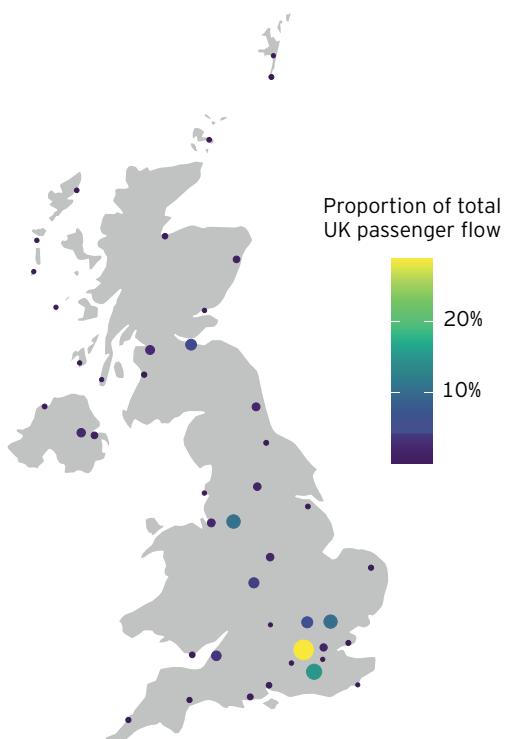
Source: Civil Aviation Authority

Variations in digital infrastructure are also constraining regional growth ...

Modern, high-quality, high-speed digital infrastructure can attract high-growth sectors and firms to a region and is becoming an enabling force underpinning other sectors from financial services to offshore renewable power generation. Over the decade from 2013 to 2023, the information, communications and technology (ICT) sector grew at three times the average rate of the UK economy as a whole, demonstrating the rapid growth that can be delivered on a foundation of fast and uninterrupted internet connectivity.[13] While the Government recognises the vital importance of upgrading the UK's digital infrastructure, with the commitment to fully roll out gigabit-capable broadband nationwide by 2030 being maintained across both recent parliaments, variable performance in working towards this target is currently impacting some regions' ability to accelerate growth.[14]

... with Northern Ireland appearing well-equipped to meet the nationwide rollout target by 2030, but some other regions requiring significant focus and investment to achieve it.

Looking across the UK regions, there is a positive story to tell about broadband speeds and connectivity. Perhaps surprisingly, Northern Ireland leads the UK in the availability of gigabit-capable broadband, at 93%. London, Yorkshire and the Humber, and the North East follow with gigabit broadband capabilities well above 80%. This suggests that these regions look well-placed to benefit from continued growth in the information and communication sector.

The North West, East and West Midlands and the South East lag slightly behind, suggesting that there may be some scope for increased public and private investment. However, the biggest gaps are, as might be expected, in the more rural, less densely populated nations like Scotland and Wales, as well as in the South West and East of England. This urban/rural 'digital divide' is an international phenomenon reflecting the commercial reality of the costs of coverage. However, given the success of the information and communication sector in the UK, anything that can be done from a policy perspective to close this divide would be welcome.

Figure 17: Gigabit availability, % premises, as at July 2024
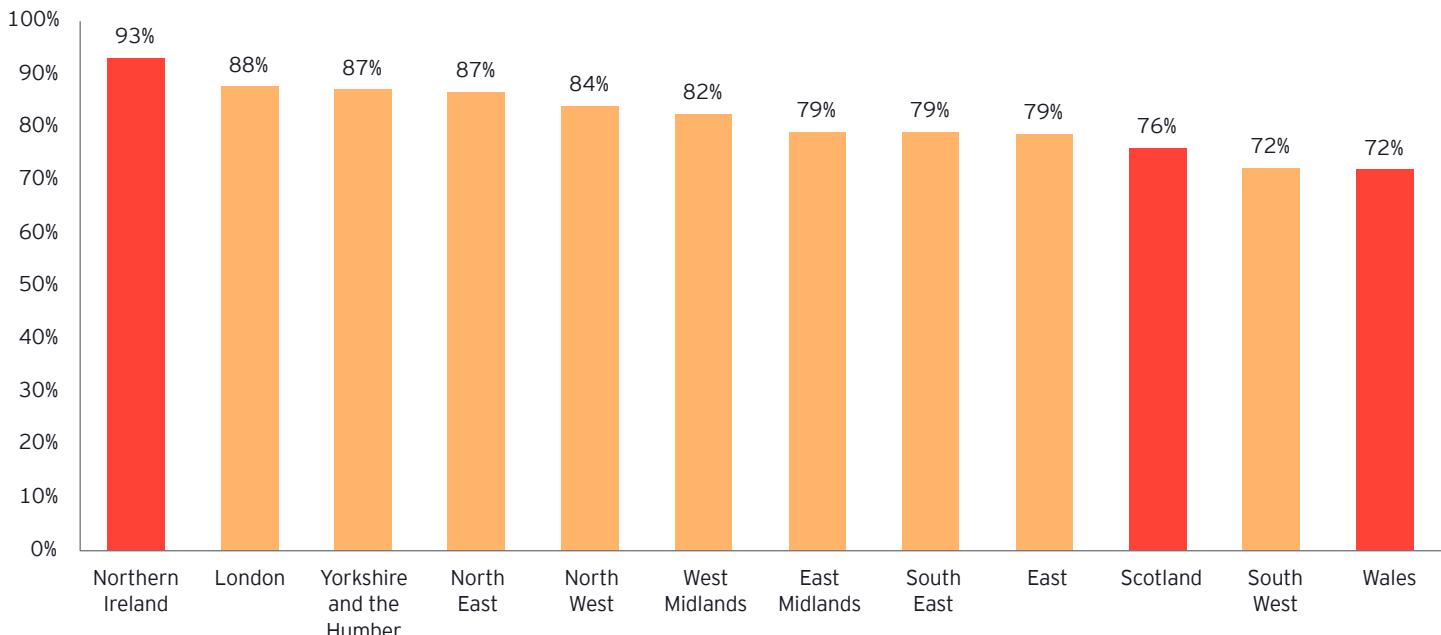

Source: Connected Nations Report 2024

The UK's grid infrastructure will play an important role in enabling growth and innovation in the AI space.

Over the coming years, large-scale adoption of AI technologies is poised to unlock productivity benefits across various sectors of the UK economy, making it a vital enabler of growth. A study by the IMF has suggested that full adoption of AI technologies could deliver a significant boost to UK productivity, generating gains up to an average of £47 billion per year over a decade.[15] However, rising adoption of AI also presents challenges, with the energy-intensive nature of the data centres that support AI tools set to significantly boost energy consumption. For example, even smaller-sized data centres generally require around 10MW of power and typically enable a real-time interface between AI applications and local data storage; larger hyperscaler data centres demand 100MW.[16,17] At the same time, limited transmission network capacity could act as a further constraint on AI scalability in the UK. This comes at a time where the UK faces some of the highest energy prices in the world.

To put the data centre opportunity into context, we have undertaken an analysis of the demand headroom provided by the existing primary substations to accommodate different sizes of data centres within the UK.[18] Figure 18 below shows a map of the UK with each individual substation location; a green dot indicates that there is sufficient capacity to support a smaller data-centre investment, a blue dot would allow for a hyperscaler centre, while a red dot indicates that no headroom exists. As the map suggests, sufficient energy capacity is most prevalent in city centres, and in London in particular.

Figure 18: Ability of UK transmission network primary substations to accommodate a small or hyperscaler data centre based on existing demand headroom

Asset type available
- 🔴 None
- 🟢 Small data centre
- 🔵 Hyperscaler data centre
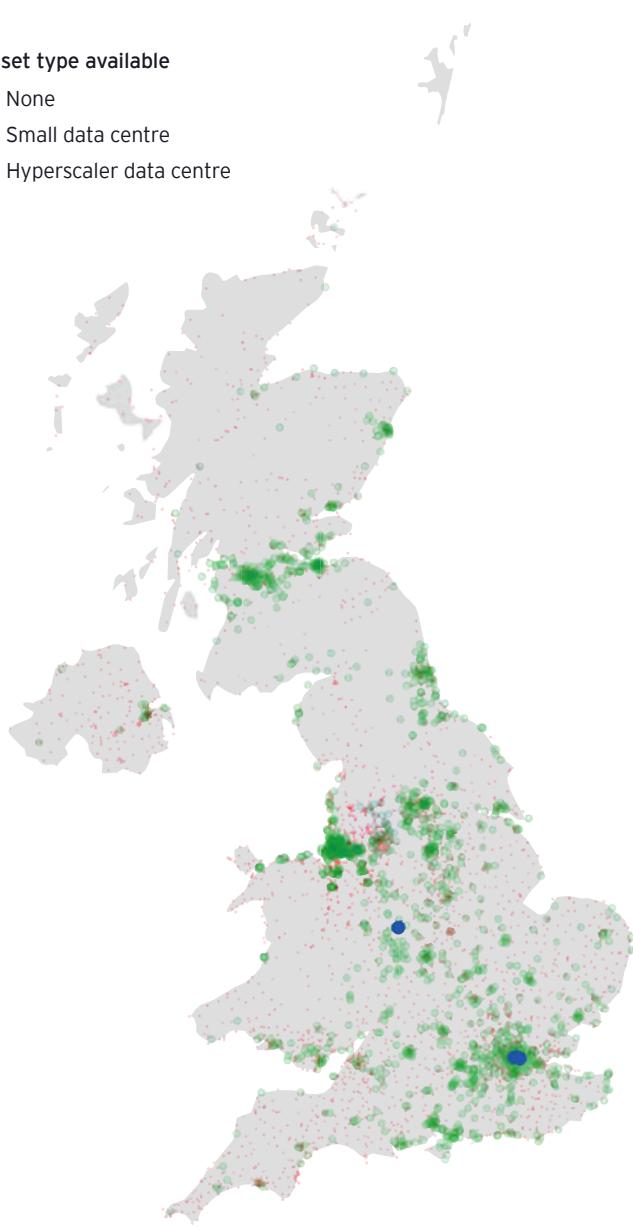
Source: Network operator demand heatmap data

Transmission network capacity risks are becoming a major constraint on AI scalability in the UK, as no regions are well-equipped to accommodate hyperscaler data centres.

A further important insight from our analysis is that the majority of substations in the UK are not equipped to accommodate a hyperscaler data centre. In fact, as indicated by the blue dots in the map, only four UK substations out of more than 4,000 have existing demand headroom of over 100MW. Furthermore, three out of these four substations are located in London. Taken together, these findings suggest that upgrades to the transmission network across the UK will be vital in delivering the objectives of the Government's AI Opportunities Action Plan.

Implications for policy

This report underscores some of the significant regional disparities across the UK and also highlights areas of great strength in the UK regional economy. In tandem with the EY ITEM Club's traditional economic forecast for the regions, which has set out the headline macroeconomic forecast for regions and cities, this report has shown that infrastructure investment and its impact on living standards is a key component in understanding the productivity opportunity for the UK's regions. Growth will require tailored policy interventions that address gaps, as certain areas will likely experience a continued lag in economic growth without government strategy sensitive to regional variation in housing, transport and digital connectivity. As the report highlights, regions with stronger infrastructure assets – particularly in transport and housing – are poised to perform better economically, attracting investment, supporting job creation and improving productivity, and this has significant implications for policy makers.

Firstly, the devolution of economic powers and decision-making must continue at pace and with much bigger ambitions to address regional differences.

Our report indicates that across a range of infrastructure measures, there is not a one-size-fits-all approach for the UK's regions and nations. Given the Government's intent on transferring additional powers to local governments in the English regions, it seems prudent to continue to advocate for faster and larger devolution. This will place economic and financial powers closer to regional stakeholders with the greatest understanding of their footprint, who can target interventions with greater precision and impact.

Targeted support of underperforming sectors that haven't recovered to pre-pandemic levels of growth is key …

On aggregate, we have illustrated how some sectors simply haven't recovered to pre-pandemic levels of growth. Policymakers must take a regionally place-based approach to boost struggling sectors like hospitality, arts, retail, and manufacturing. This could involve immediate stabilisation measures to protect businesses and jobs, helping promote and stoke demand in key industries or tax relief and support measures for the arts and culture, for example. Longer-term measures should encompass sectoral studies and actions plans that are founded upon and tailored to regional strengths. This could include regional strategies that build upon high-growth sectors identified in Invest 2035, evaluating cultural investment zones with longer-term tax breaks and support, and devolution of more education and skills powers to allow localised planning in these sectors.

High energy prices are driving down UK competitiveness and growth ambitions – efforts focused on bringing down these costs will result in systemic benefits

We have shown that UK businesses, nationally, pay too much for energy, which is affecting competitiveness and growth – particularly in manufacturing and major infrastructure, but potentially in more nascent areas such as digital technology. Policymakers aiming to reduce energy prices in the medium to long term should focus on a combination of supply-side and demand-side measures. On the supply side, expanding renewable energy sources, improving energy storage technologies and investing in energy infrastructure to reduce reliance on imported fossil fuels would help stabilise and lower prices. Additionally, teeing up the right incentives for energy efficiency improvements across both residential and industrial sectors can reduce overall demand, further driving down costs. Over the medium to long term, these policy changes would alleviate the financial burden on households and businesses and stimulate regional economic growth by attracting energy-intensive industries to lower-cost regions, improving competitiveness, and creating job opportunities in emerging technologies. Moreover, lower energy prices would support productivity gains across all sectors, especially in energy-intensive industries such as manufacturing, and provide a stable foundation for long-term regional economic development, particularly in areas facing higher energy costs in recent years.

To give local housing targets a chance of being met, the Government should incentivise the housebuilding ecosystem nationally and reduce obstacles in the planning system.

Any efforts, whether tax incentives, planning frameworks, or financing initiatives enabling the pursuit of housebuilding and incentivising construction across the UK regional economies, would undoubtedly benefit regional economic growth. This is largely because reducing the burden of housing costs would increase real disposable personal incomes (RDPI) and stimulate local demand for goods and services, alongside organic growth in the construction sectors. Expanding the housing supply, particularly of affordable homes, could also provide the necessary footfall of low-growth sectors in urban sectors that we have highlighted as struggling since 2019, like retail, local services, and hospitality. The challenge for policymakers will be moving fast enough and with enough scale and ambition to meet the required targets which have been missed for decades.

Target transport investment in regions of the UK which already exhibit increased demand for such services and will generate multiple regeneration benefits …

Policymakers looking to address imbalances in infrastructure investment more evenly across the UK should prioritise improving road density where traffic flow is shown to be higher in demand and access to rail stations is sparse. Over the medium to long term, this could involve increasing investment in regional road networks to reduce congestion and improve accessibility, particularly in areas with limited transport links. Expanding access to rail stations, especially in rural and peripheral regions, would encourage greater mobility, connect local businesses to larger markets, and promote job creation. Further airport connectivity, particularly in regions outside of London, should be seen as a route to strengthening trade links, attracting inward investment, and facilitating the movement of both people and goods.

Grid infrastructure for high-speed internet access and increasing transmission capacity will fuel UK regions' growth.

Our analysis shows that connectivity and transmission network capacity is currently imbalanced across UK regions – and not reflective of the usual 'North-South' divide. Policymakers focused on driving growth from the benefits of AI and future technologies should focus policy efforts on access to high-speed internet and increasing the transmission network capacity across all UK regions. This would include prioritising expanding broadband infrastructure to underserved and rural areas while investing in the necessary upgrades to support the scalability of emerging technologies like AI. Northern Ireland is a case study in how to realise this strategy through the strength of political will and investment capital made available. Over the medium to long term, this could involve rolling out 5G networks and full-fibre broadband in more remote regions, ensuring that high-speed internet becomes universally accessible. Simultaneously, enhancing the national transmission network capacity would enable AI-driven industries to thrive, particularly in sectors such as data analytics, automation and smart manufacturing, which are increasingly dependent on fast, reliable internet and can bring sectoral productivity shifts.

In concluding, policymakers must take a nuanced approach that both protects distinct infrastructure strengths that have driven growth to date, such as road density and airport proximity in London, to designing new incentives and regulatory reform that stimulate growth, for example, the use of private investment models to deliver ambitious housing targets. Closing regional infrastructure gaps will raise growth and competitiveness at the UK level and deliver a needed boost in regional economic performance. The challenge is there to be grasped by all national and regional actors seeking to deliver meaningful local prosperity.

Endnotes

1. Below the 50 mark indicates contraction, whilst above the 50 mark indicates growth.
2. S&P Global.
3. Office for National Statistics (ONS), released 21 February 2025.
4. EY – 'Mind the (Investment) Gap' report.
5. HM Treasury – '10 Year Infrastructure Strategy Working Paper'.
6. ONS Labour Market Statistics.
7. Centre for Cities – Cities Outlook 2025.
8. Construction spend includes all new work and repair and maintenance. This includes spend on housing, infrastructure, public works, private commercial work and private industrial work.
9. The devolved regions do not follow the same housing targets framework as England.
10. In Scotland and Northern Ireland, the Scottish Transport Statistics and Department for Infrastructure provide extensive data on rail usage and infrastructure, though they do not explicitly detail the percentage of the population within a 30-minute walk of a rail station.
11. Highways England – 'Economic Growth and the SRN'.
12. Road density is estimated by taking a ratio of average road length and land mass of the specific UK region.
13. OECD – Digital Economy Outlook 2024 (Volume 1).
14. Labour Election manifesto 2024.
15. Prime Minister sets out blueprint to turbocharge AI, GOV.UK.
16. What the data centre and AI boom could mean for the energy sector – Analysis, IEA.
17. ibid.
18. Demand headroom is the capacity of a substation to accept new connections (in MW terms) and is calculated as the difference between total firm capacity and total modelled existing demand on the primary substation.

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