

EY UK Economic Outlook

Spring 2026



The better the question. The better the answer. The better the world works.



Shape the future
with confidence

Introduction



Peter Arnold
EY UK Chief Economist

Welcome to the new EY UK Economic Outlook, a quarterly forecast to help businesses cut through the noise to separate the signals that actually matter. It brings together analysis of the key macroeconomic issues and thematic drivers shaping the global and UK economy, alongside clear scenarios to draw out upside and downside risks.

The global and UK economy had proved remarkably resilient in 2025, and at the start of 2026, despite headwinds from ongoing geopolitical uncertainty, particularly around the impact of tariffs on global trade. This has been underpinned by a robust US economy, and optimism around the potential productivity benefits of AI.

In the UK, there were grounds for optimism, with data showing improving consumer confidence, and accelerating growth, as inflationary pressures eased, and interest rates were expected to fall.

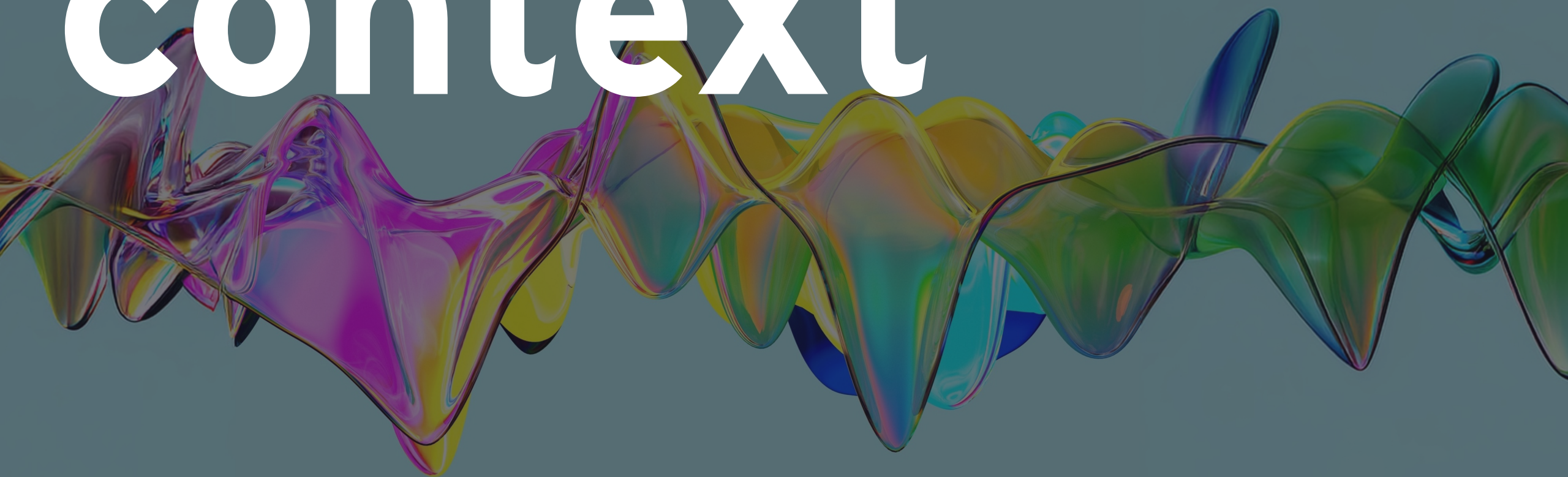
However, the renewed disruption to energy supply represents a major headwind. It will increase prices, drive up inflation and keep interest rates higher for longer. This will squeeze consumer spending, force businesses to cut costs and delay investments, and hence lead to slower economic growth.

Consumer-facing and industrial sectors are most exposed (as they were during the energy price shock in 2022-23), and hence this Outlook explores the underlying business drivers and implications for these sectors in particular.

Understanding the structural forces driving the numbers matters more than ever. Read the Outlook to help inform your next move.

Global

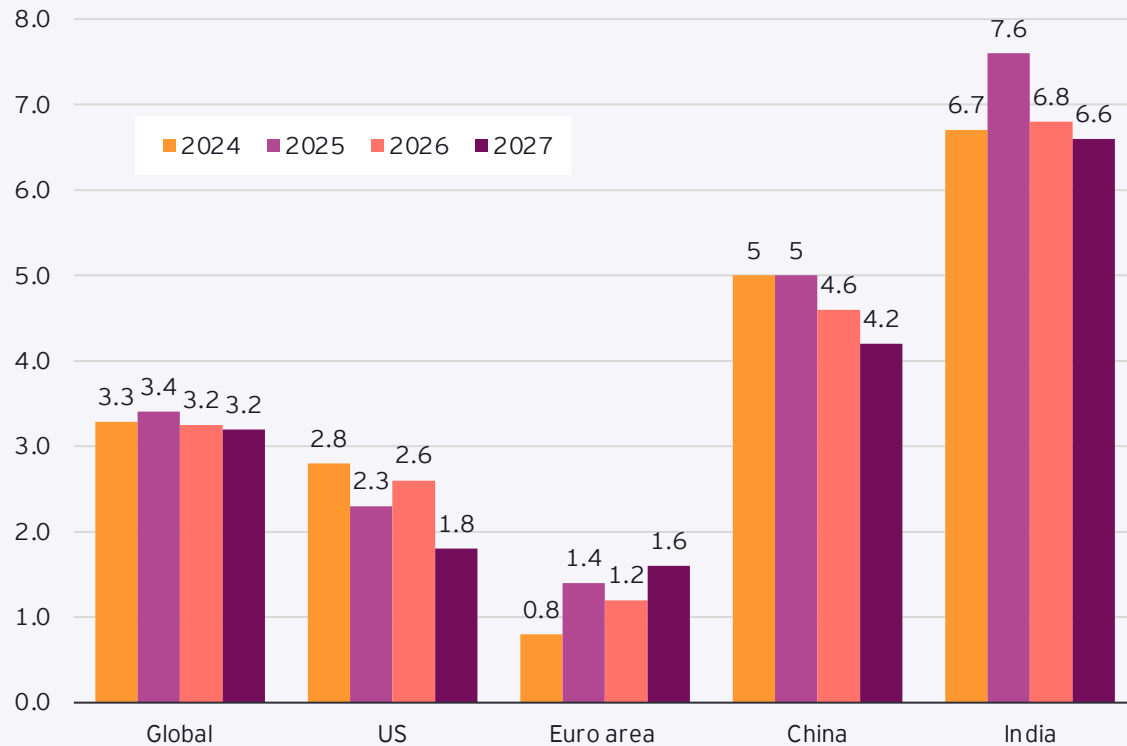
context



The global economy was holding up at the beginning of the year, with the US in particular beating expectations, against a backdrop of geopolitical uncertainty

Year-over-year (y/y) percentage change in real GDP

January forecast, 2024-27F

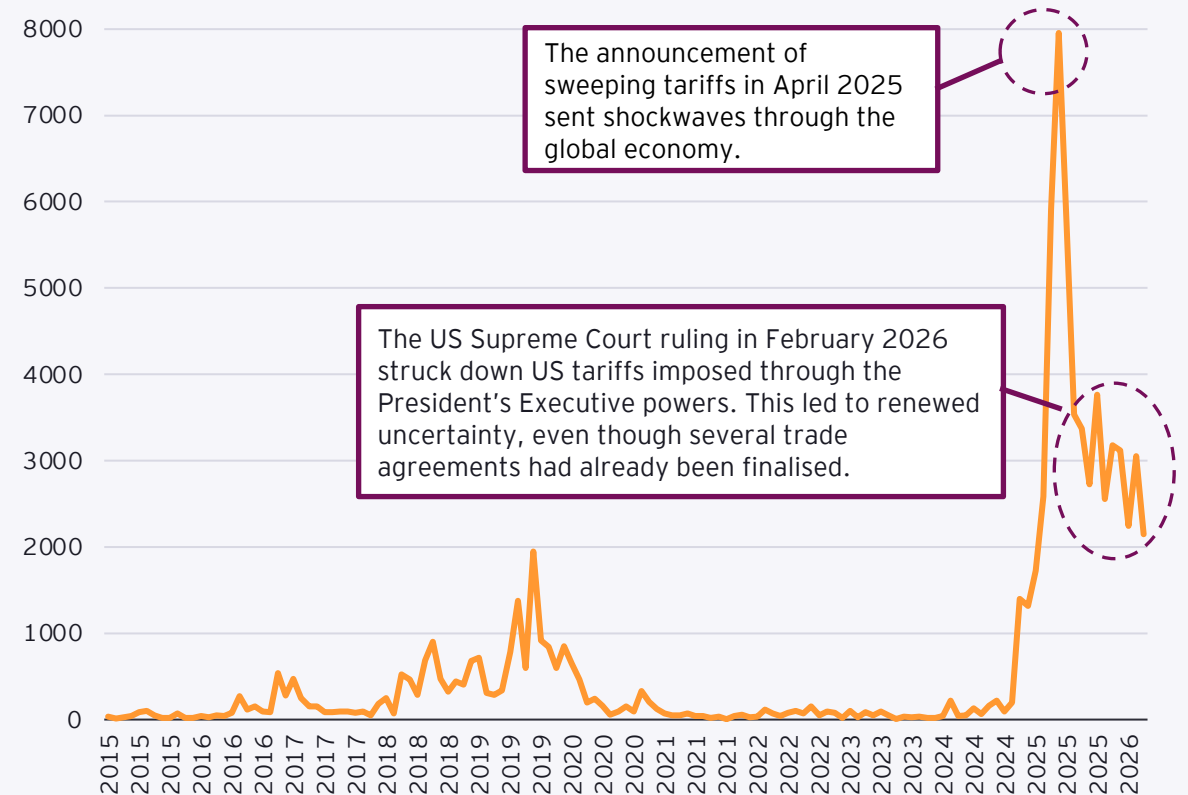


Note: Euro area includes 20 countries.

Source: EY-Parthenon

US Trade Policy Uncertainty index

2015-2026

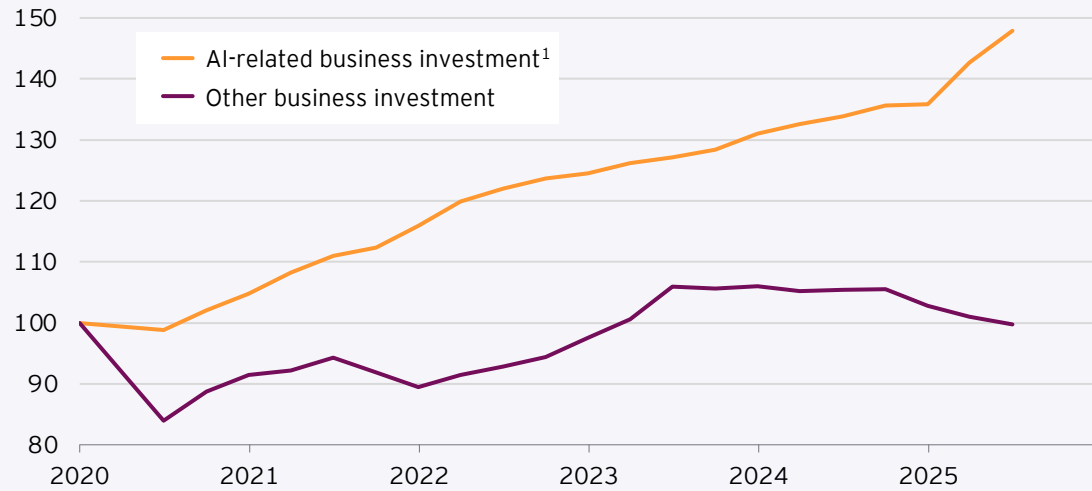


Note: The Trade Policy Uncertainty index is calculated by counting the frequency of joint occurrences of trade policy and uncertainty terms across major newspapers.

Source: Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo, "The Economic Effects of Trade Policy Uncertainty,"

US growth has been driven by the sheer scale of investment in AI – in anticipation of significant productivity gains

US real non-residential fixed investment
(Q1 2020 = 100) Q1 2020-Q2 2025

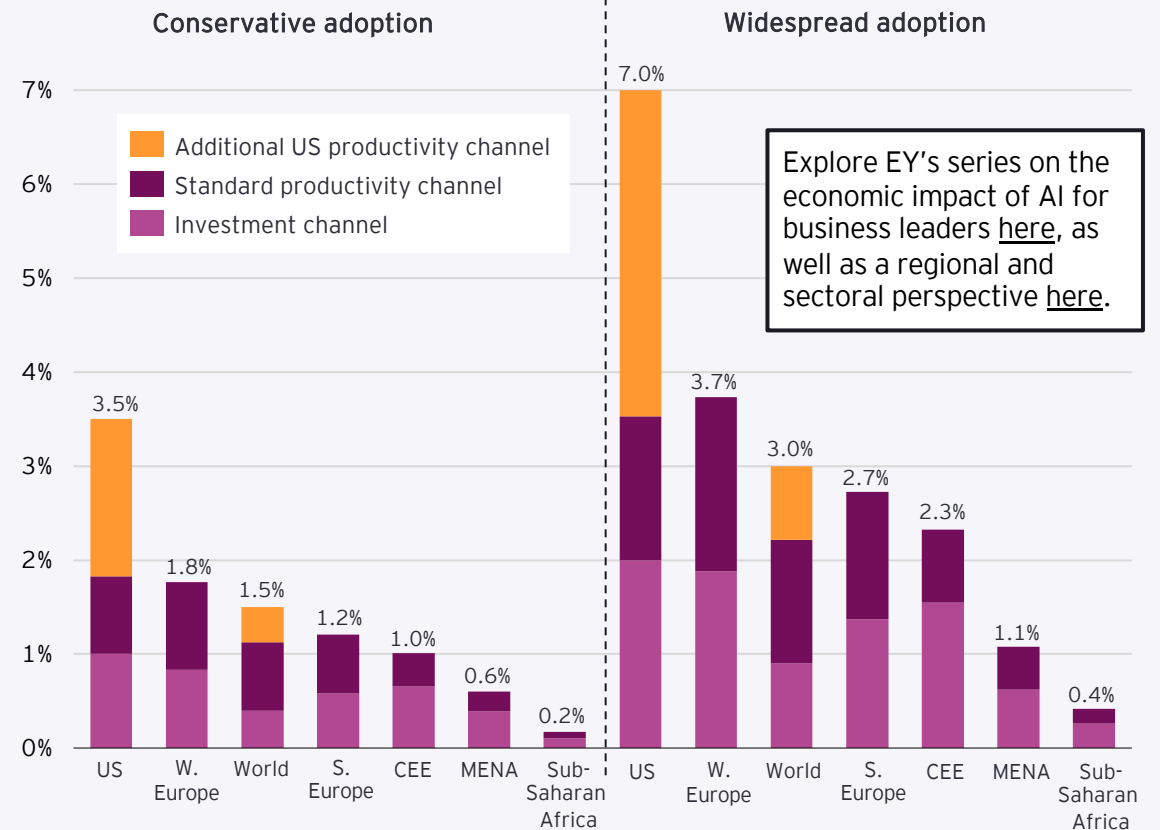


Despite headwinds from tariffs, a weaker domestic labour market and geopolitical turbulence, US growth proved resilient thanks, in part, to significant investments in AI-related projects. This investment has been driven by the anticipation of significant gains in productivity, potentially adding up to 7% to US GDP by 2033.

1. Includes investment in software, R&D, computer and peripheral equipment, communication equipment, data centers and power infrastructure.

Source: stooq.pl; S&P Global; Nasdaq; U.S. Census Bureau; U.S. Bureau of Economic Analysis; EY-Parthenon analysis

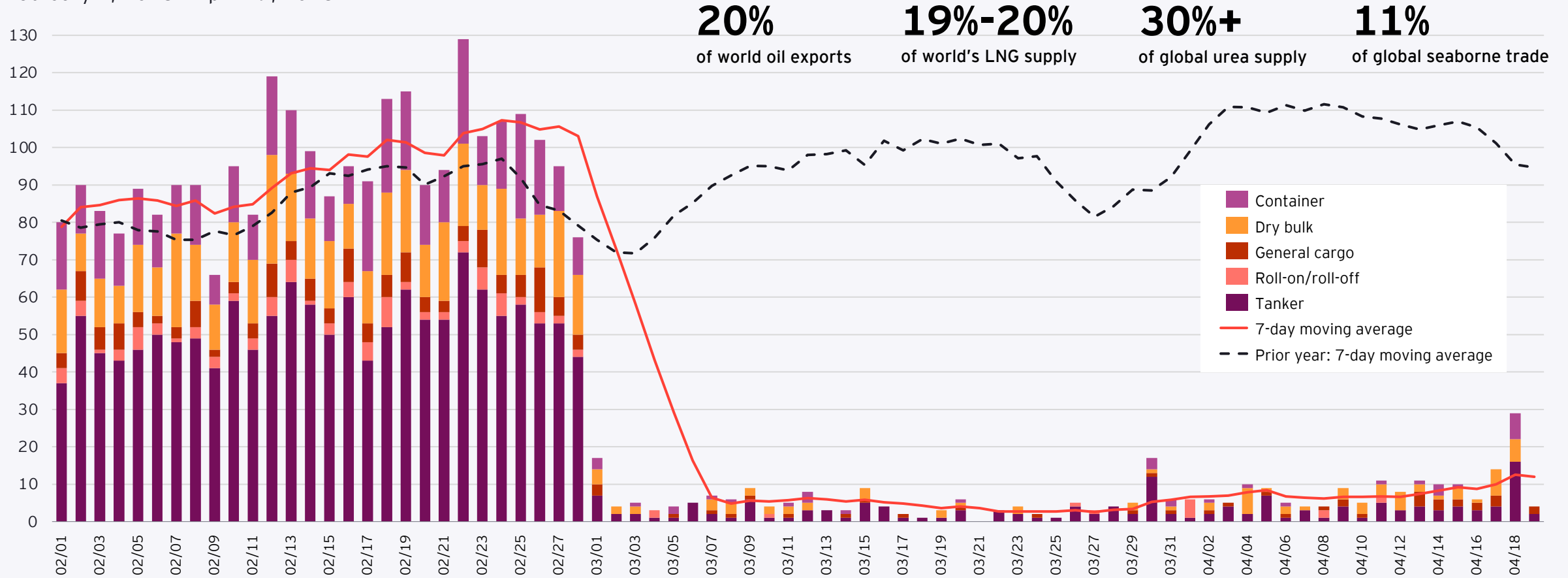
Impact of artificial intelligence (AI) on real GDP level relative to no-AI scenario (percentage)
2033F



Source: EY-Parthenon

The resilience in the global economy is threatened by the outbreak of conflict in the Middle East, leading to a near-complete halt on traffic through the Strait of Hormuz, a vital artery of global trade

Number of ship arrivals by vessel type through the Strait of Hormuz
February 1, 2026 - April 19, 2026

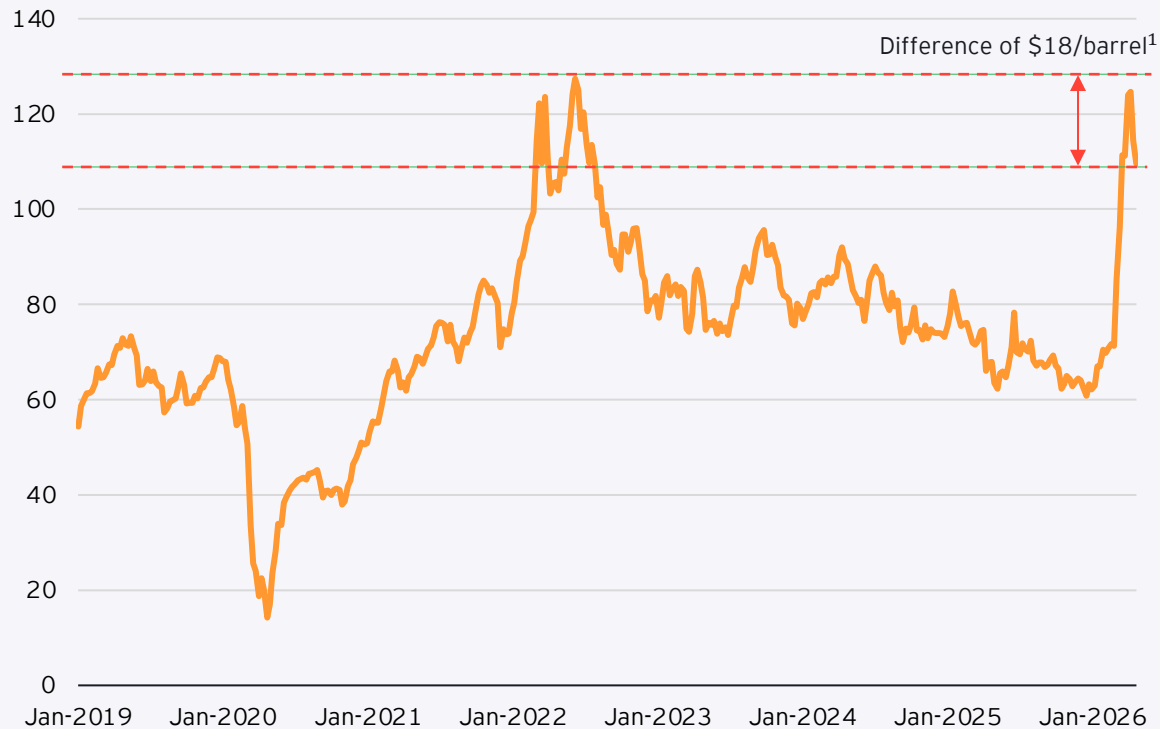


Source: UN Global Platform; PortWatch, EY research and analysis

The disruption in the supply of energy has quickly fed through to higher oil and gas prices, although for now gas prices remain well off their 2022 peak

Brent crude spot price FOB, dollars per barrel

January 2019 to March 2026

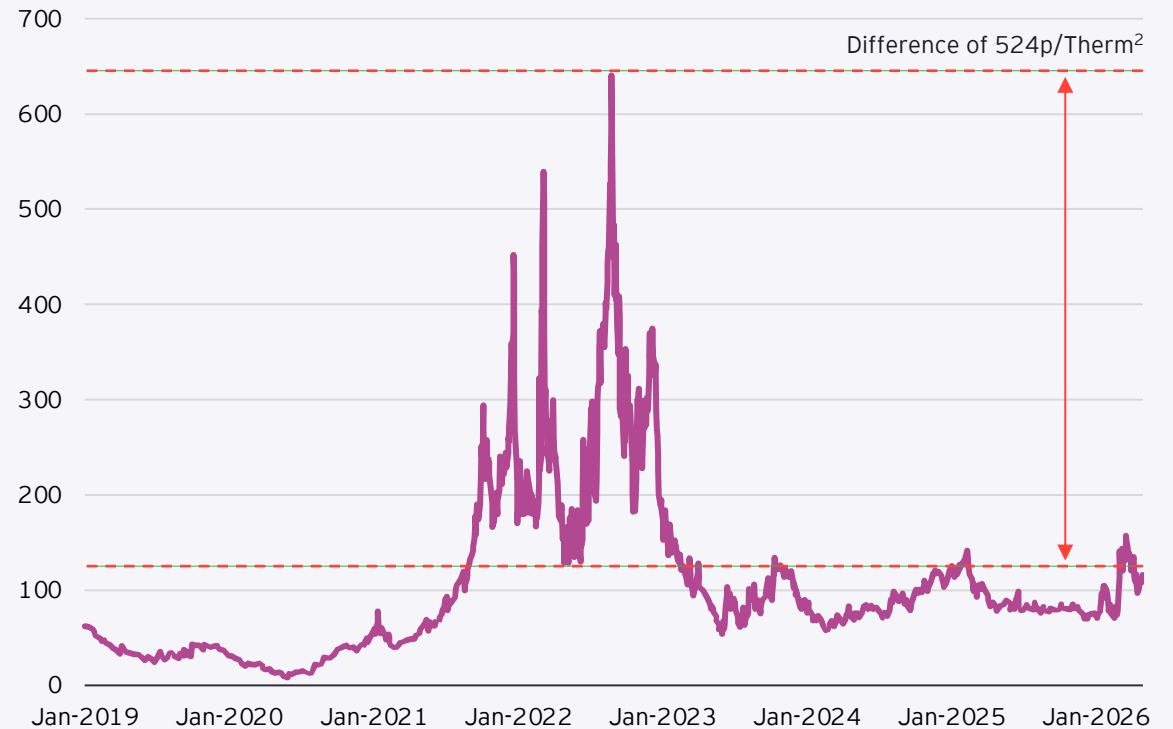


1. The difference of \$18/barrel is calculated based on the max price over the time series less the price as at 24/04/2026.

Source: U.S. Energy Information Administration (EIA)

UK National Balancing Point (NBP), front month gas futures, GBP/Therm

January 2019 to March 2026



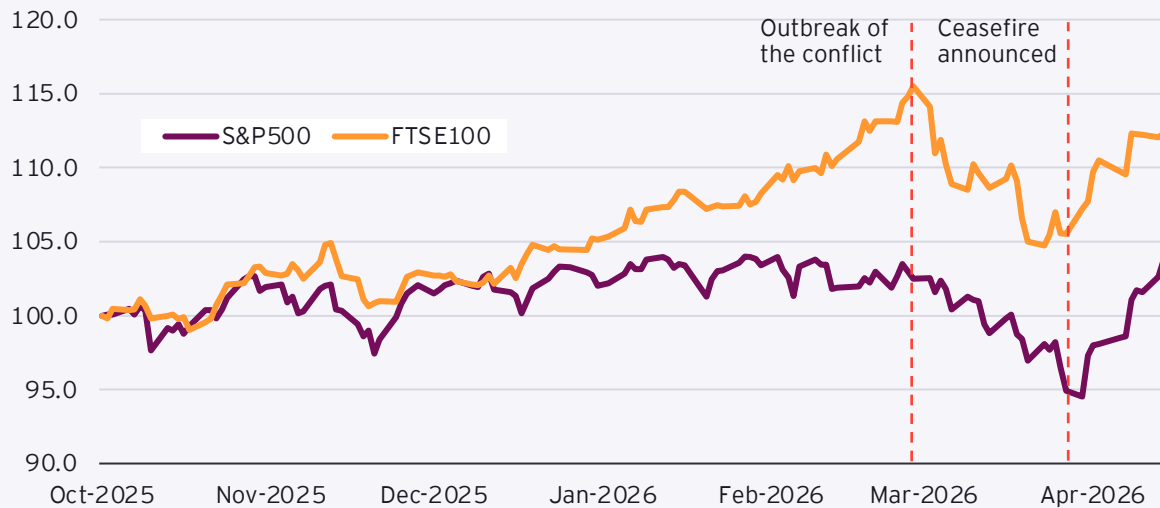
2. The difference of 524p/Therm is calculated based on the max price over the time series less the price as at 30/04/2026

Source: Intercontinental Exchange (ICE), LSEG

Financial markets have been volatile; while equity markets have recovered on hopes of a ceasefire, bond yields remain elevated in anticipation of higher interest rates

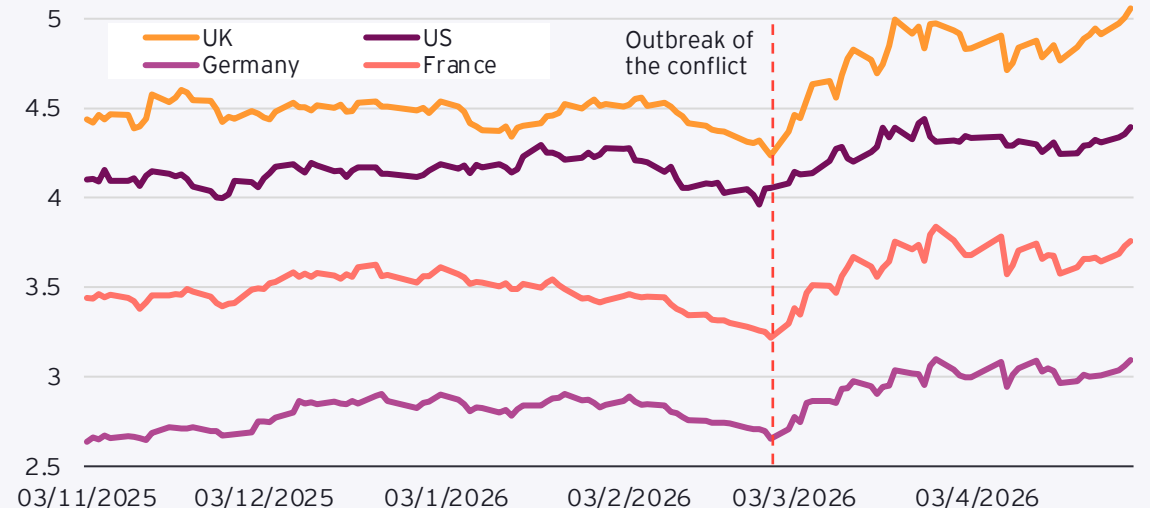
S&P500 vs. FTSE100, Index (October 2025 = 100)

October 2025 to April 2026



10-year Bond yields, %

December 2025 to April 2026



Prior to the latest outbreak of conflict in the Middle East, UK-listed equities had been outperforming US markets, with investors looking to hedge against US policy risk and the potential impact of an “AI bubble” on US tech stocks. Bond yields have risen globally since the start of the conflict as markets priced-in expectations of higher interest rates. Yields on 10-year UK Gilts remain higher than other G7 economies.

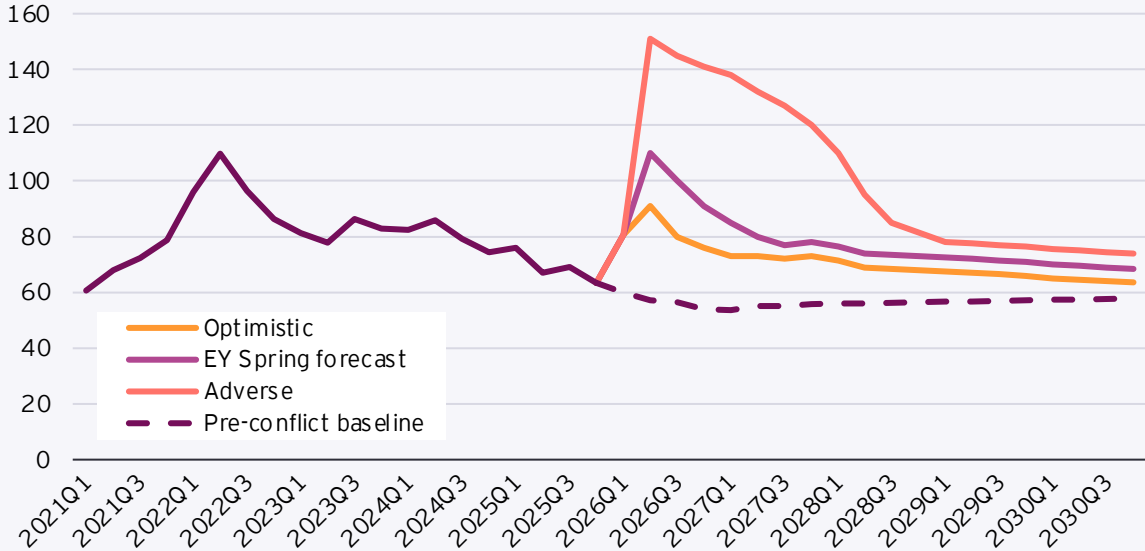
Business impact: Increased gilt yields will increase borrowing costs for UK businesses and households. However, some UK-listed firms could benefit if international investors continue to shift capital out of US equities as a hedge against US policy and AI risk.

Source: S&P Global, LSEG

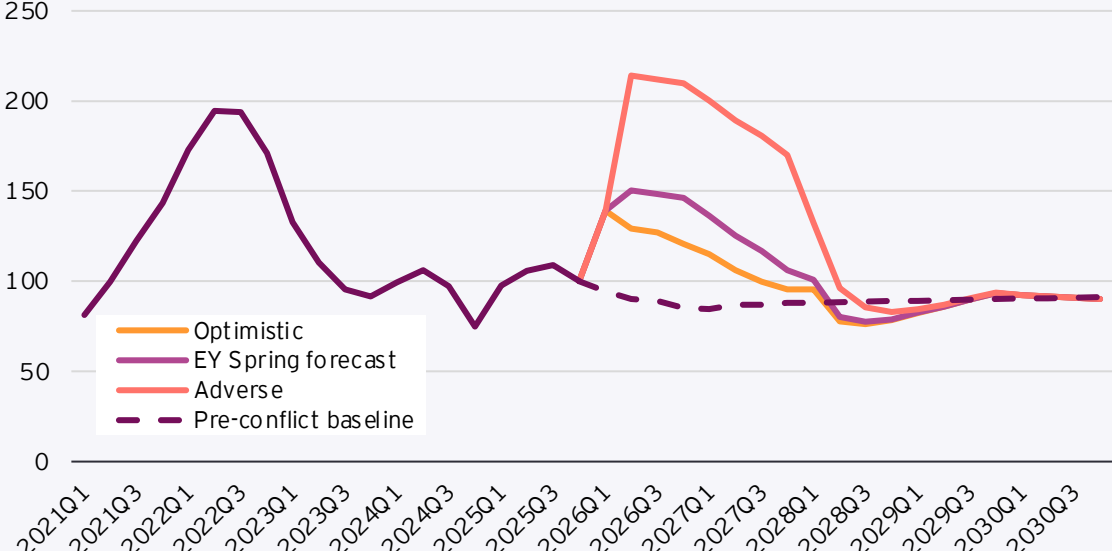
Source: LSEG

The outcome of the conflict in the Middle East is hard to predict; but under all scenarios energy prices are likely to peak in Q2 2026 and remain elevated through 2027

Brent crude spot price FOB, dollars per barrel
2019-2030F



Global natural gas price, 2025 = 100
2019-2030F



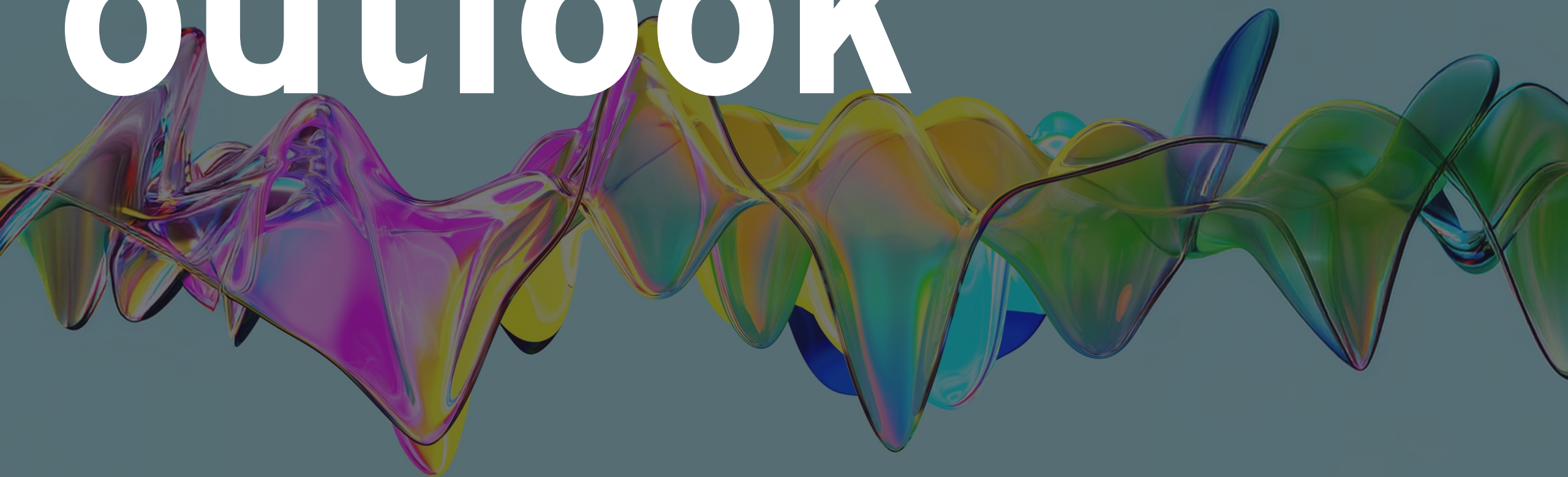
Optimistic: The conflict is concluded within the next few weeks, and a lasting peace agreement is reached. The Strait of Hormuz is fully reopened.

Baseline forecast: The current ceasefire holds and the Strait is reopened by end-Q2. Lingering tensions and extended negotiations on a peace deal means tanker flow remains subdued.

Adverse: The conflict significantly escalates, with further damage to Gulf oil and gas facilities. The Strait remains closed until end-2026, before a partial reopening takes place.

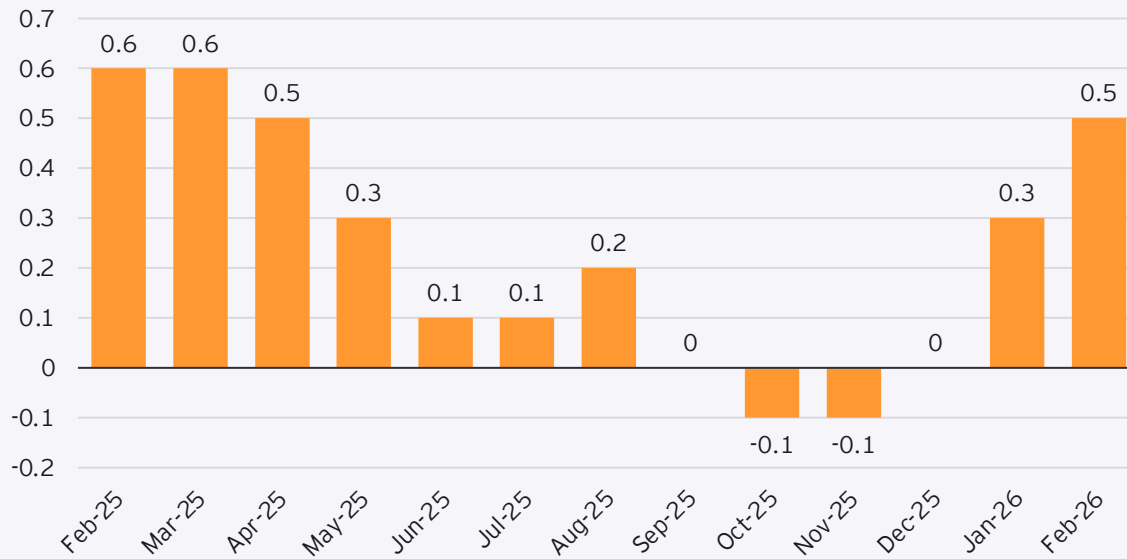
Source: LSEG; EY Calculations in the NiGEM model

UK economic outlook

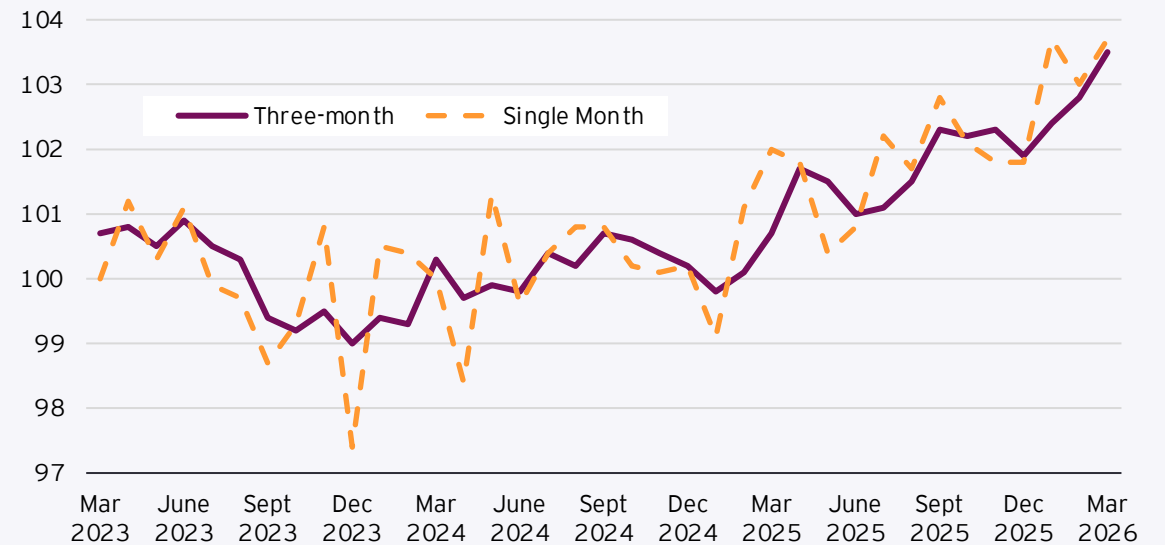


There had been signs that UK growth was picking up at the start of 2026, helped by a recovery in retail sales volumes

UK Monthly Gross Domestic Product (GDP), 3-month on 3-month growth, (%)
February 2025 to February 2026



UK retail sales volumes: Rolling 3-month and single-month index
February 2023 to February 2026

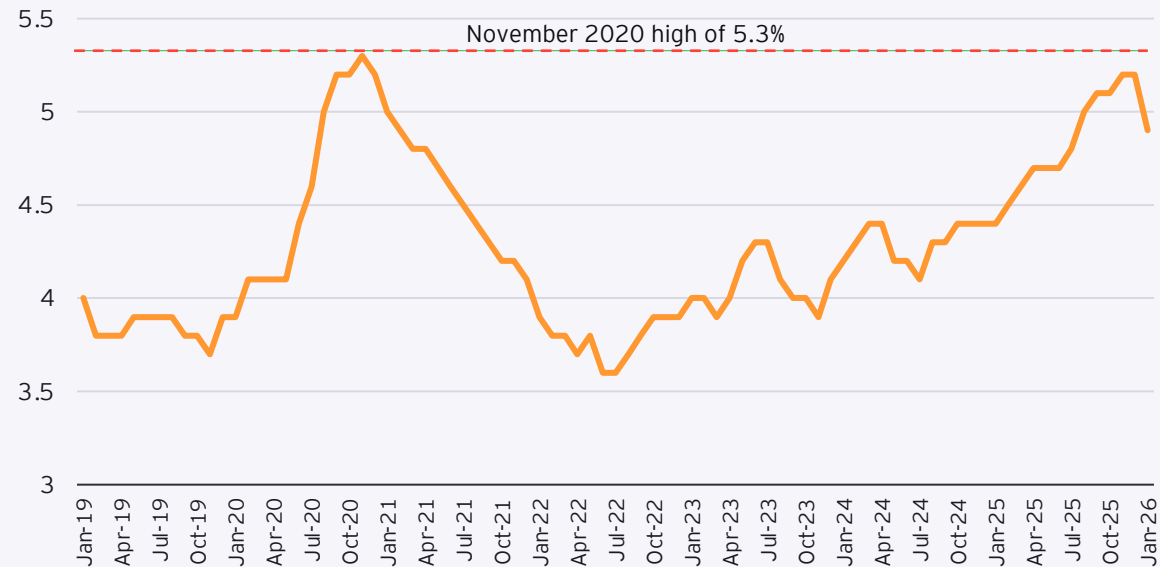


Having slowed through 2025, UK GDP growth showed surprising upside in February, accelerating to 0.5% on the rolling 3-month growth rate. Growth was supported by the retail sector which grew by 1.6% over Q1 2026.

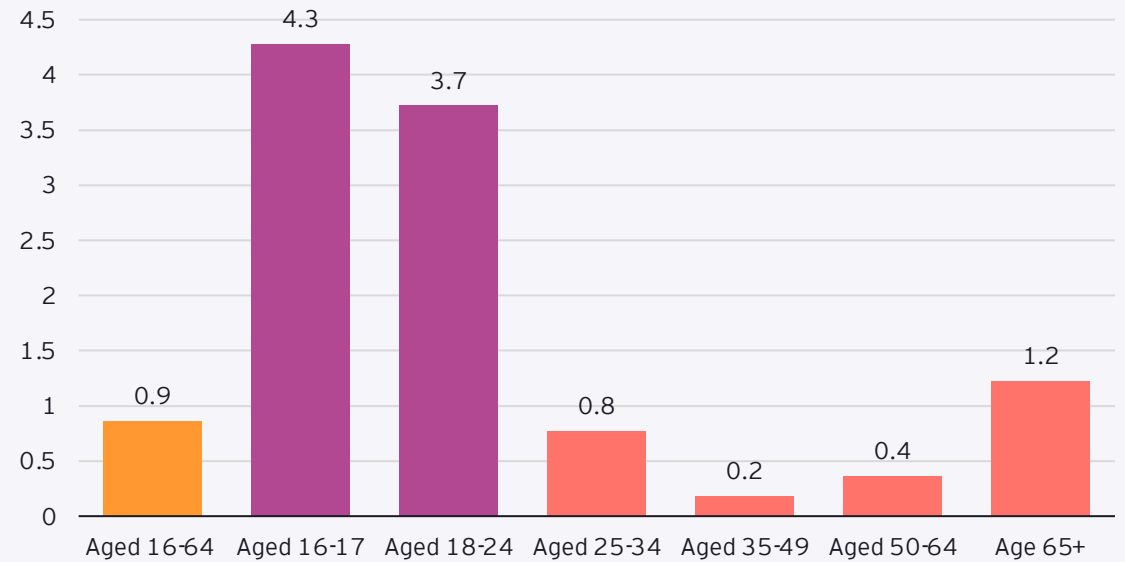
Business impact: After facing challenging trading conditions since 2022, UK retailers had been seeing early signs that sales volumes were beginning to recover as consumer sentiment improved.

The UK labour market has loosened considerably since 2024, driven by falling employment among younger age groups...

UK unemployment rate %
January 2019 to December 2025



UK change in unemployment rate by age group, pts
Nov-Jan 2024 to Dec-Feb 2026



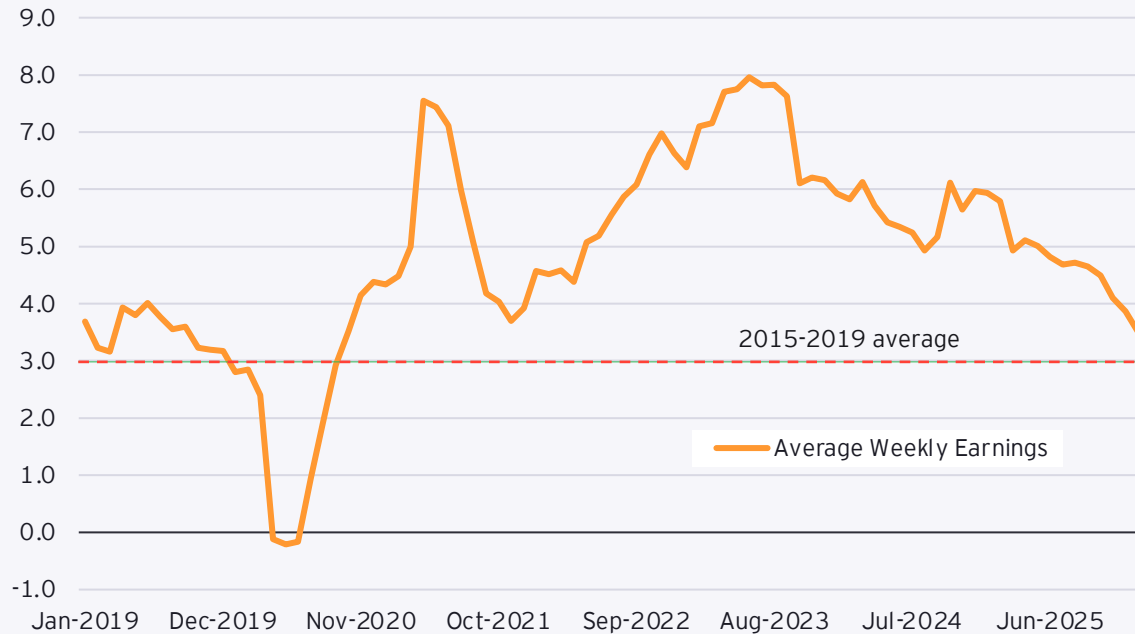
The unemployment rate increased through 2025 as firms cut headcount (particularly among younger age groups). Unemployment fell unexpectedly in February; driven, in part, by younger people leaving the labour market to become “inactive”.

Business impact: Tax and policy changes see businesses adjusting their staffing plans. This reflects increased costs of employment through higher employment taxes, and wage compression driven by minimum wage increases.

...helping to reduce inflation and raising hopes of faster interest rate cuts

UK average weekly earnings, regular pay, y/y growth (%)

January 2019 to January 2026

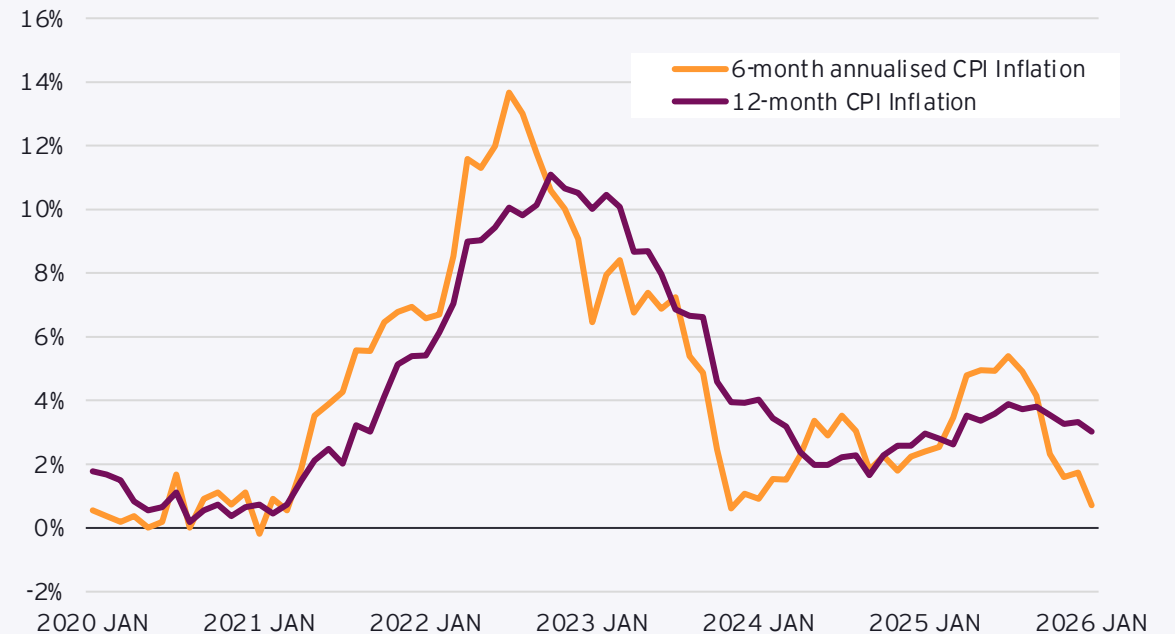


A softer labour market had led to reduced wage pressure. After several years of strong growth, wage settlements had begun to settle back to pre-pandemic average rates.

Source: ONS

UK CPI inflation, 12-month and 6-month annualised rate, %

January 2020 to January 2026

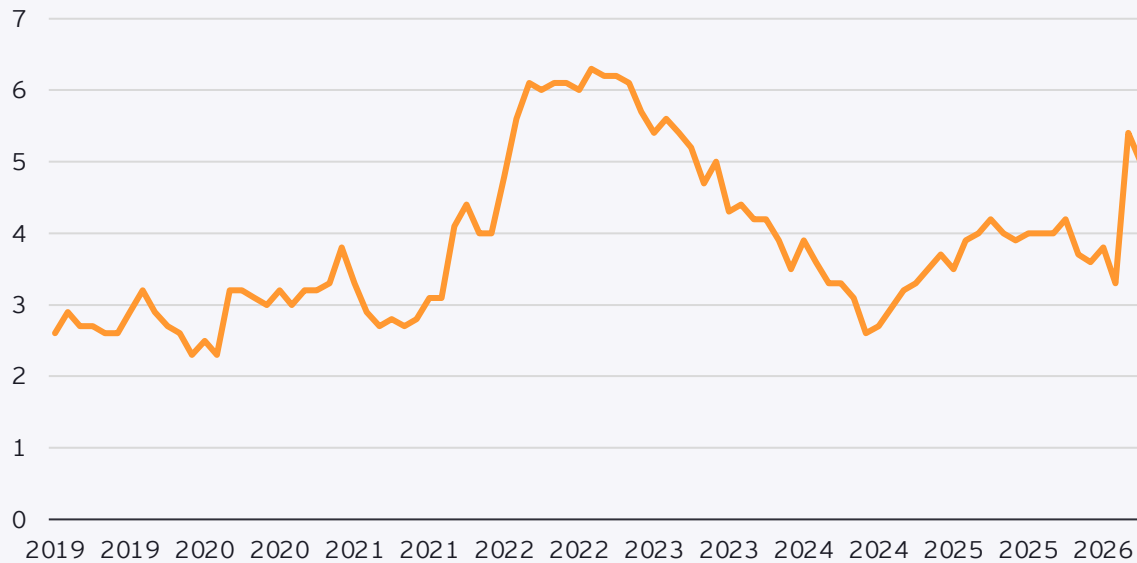


Wage growth had been one of the key drivers of the stubbornly high rate of inflation. With wage growth dropping, inflationary pressure had been easing in the final six months of 2025.

Source: ONS, EY Calculations

But now the Middle East conflict means households and businesses are bracing for another round of energy price inflation...

UK inflation expectations 12-months ahead, (%)
January 2019 to March 2026

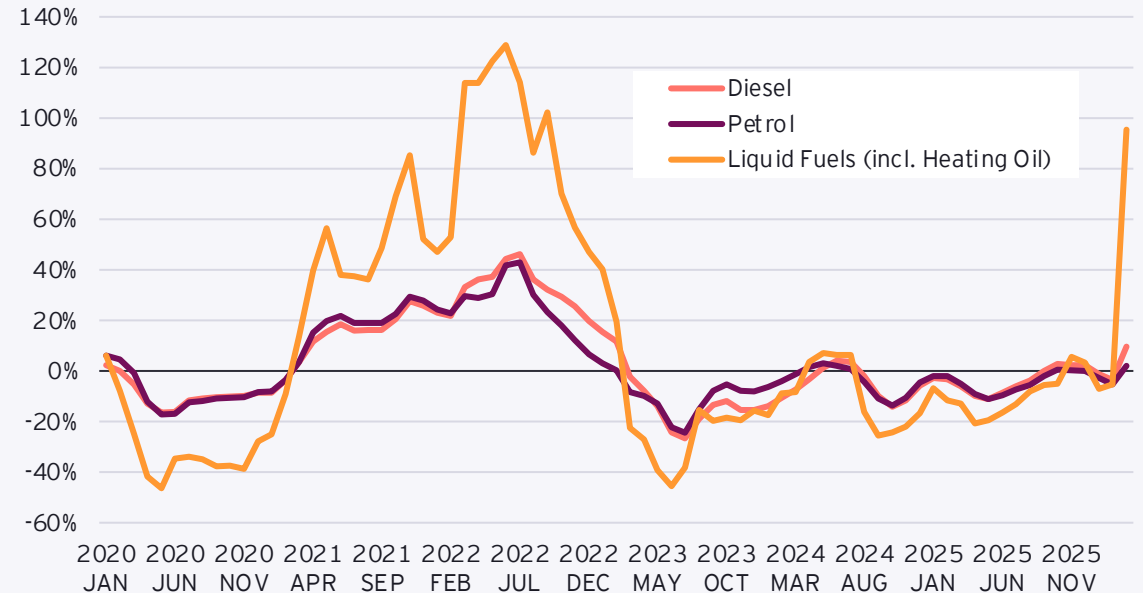


Survey data from March and April shows that the UK public expects prices to rise significantly over the next 12 months.

Fuel prices have already increased, and this will feed into broader measures of inflation over Q2 and Q3.

Source: YouGov/Citi Group, LSEG

Price inflation in selected fuel categories, 12-month rate %
2020-2026

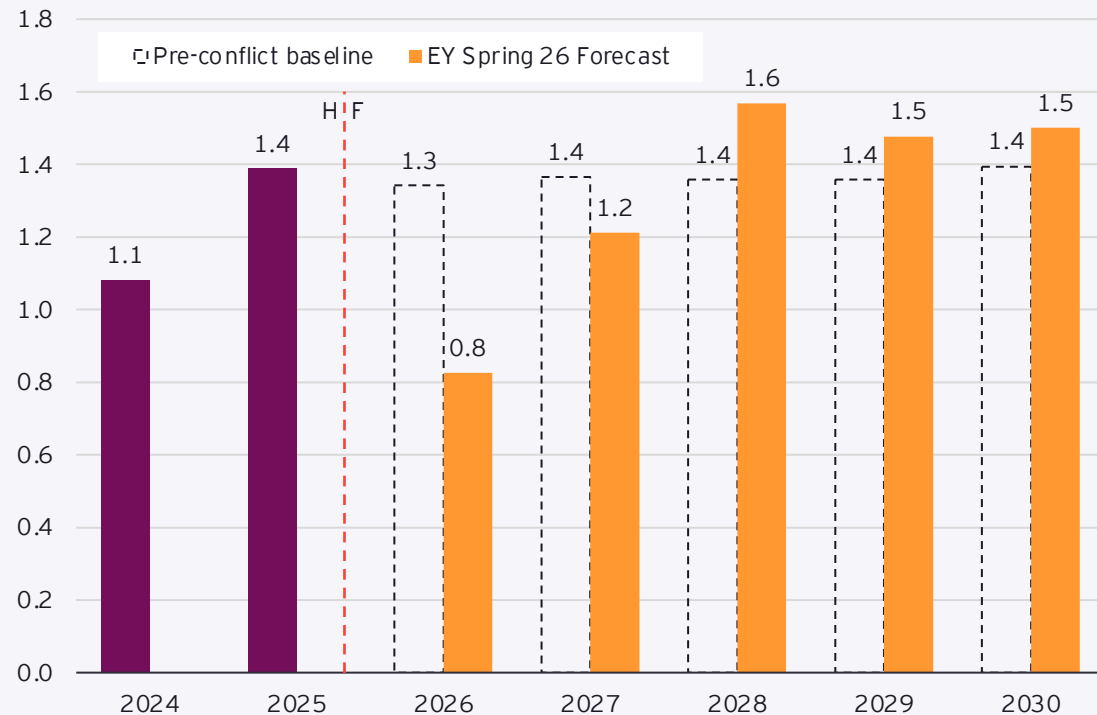


Business impact: UK households are likely to adjust spending based on expectations of coming price rises.

Source: ONS, EY Calculations

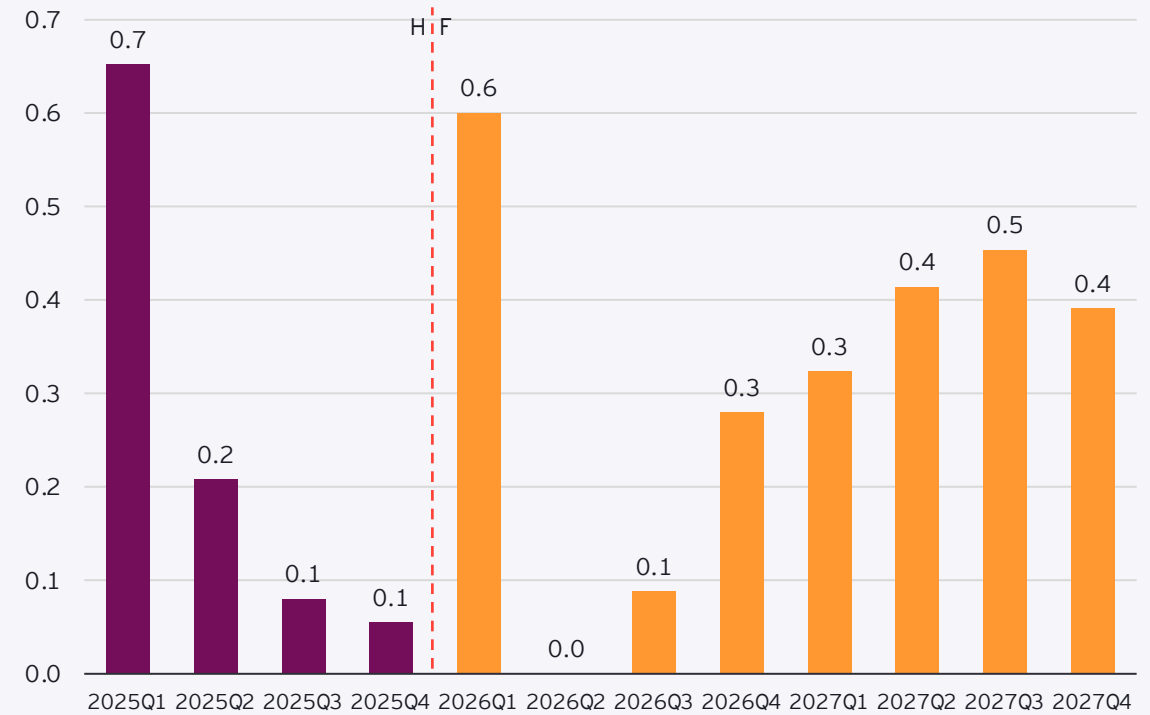
The impact of the Middle East conflict will lead to weaker UK GDP growth through 2026 and into 2027, despite the strong start to the year

UK real GDP growth (year-on-year rate, %)
2024-2030F



Growth is forecast to slow to 0.8% this year and 1.2% next year, down from 1.3% and 1.4% in EY's pre-conflict forecast.

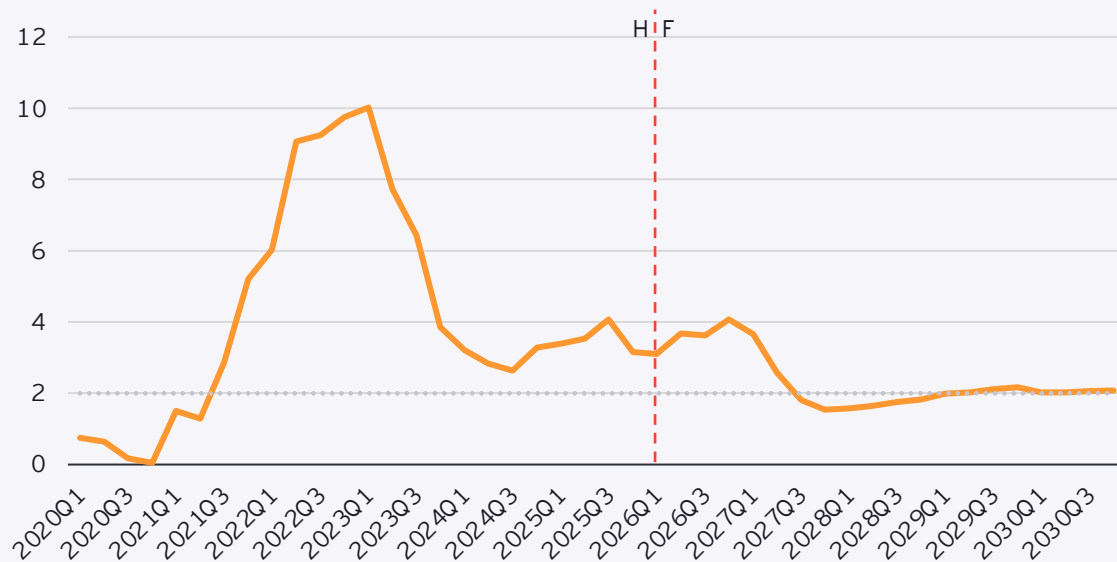
UK GDP growth, (quarter-on-quarter rate, %)
2025 Q1-2027 Q4



After a strong start to 2026, the economy is expected to flatline in Q2 and Q3 before gradually recovering into 2027.

Higher energy prices will send inflation back above 4% by the end of 2026, delaying any further interest rate cuts until spring 2027

UK CPI inflation (12-month rate, %)
2020-2030F

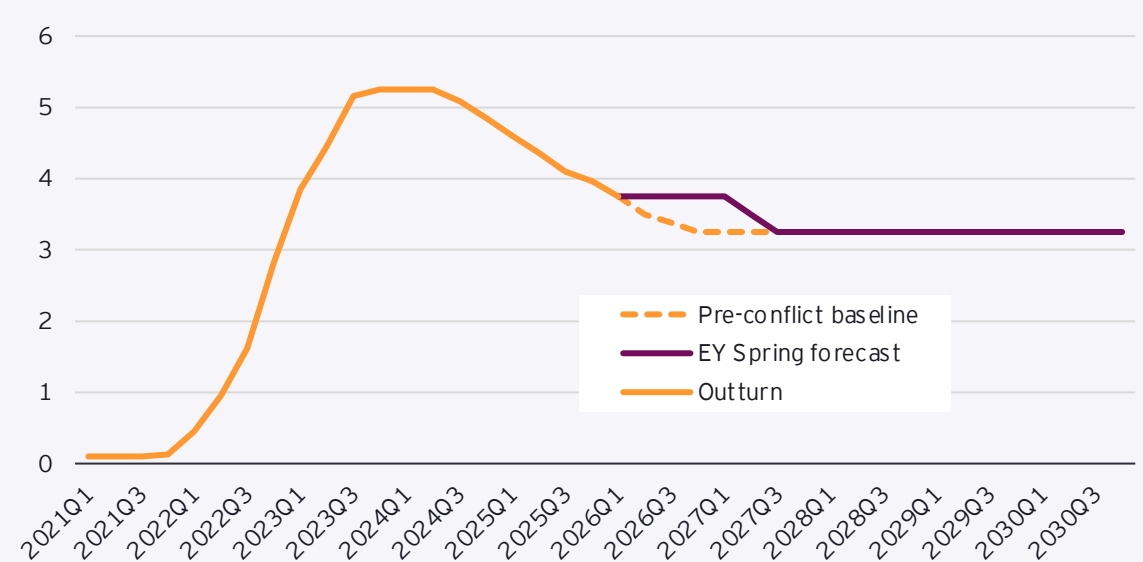


Inflation is expected to peak at just over 4% by end-2026.

Markets have signaled that they expect further interest rate hikes this year, but the Bank of England is likely to hold rates steady, adopting a “wait and see” approach to the evolution of the conflict.

Source: ONS, EY calculations in the NiGEM model

Bank of England base rate
2021 Q1-2033 Q4 F

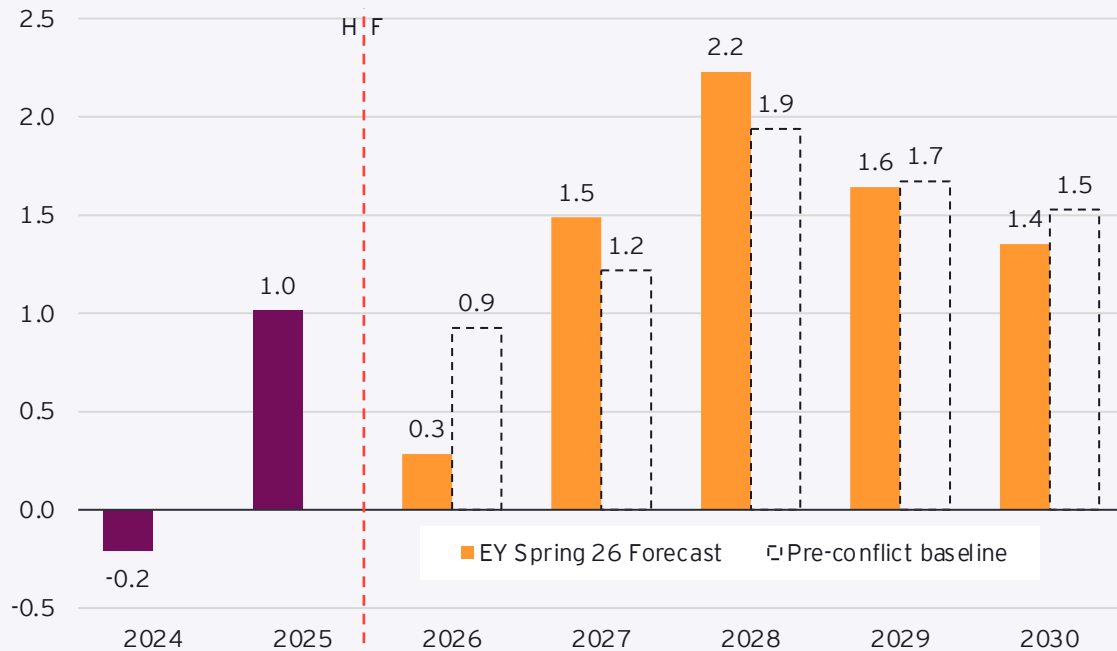


Business impact: Interest rates being held higher for longer will increase businesses' cost of borrowing, potentially impacting long-term investment plans and making it more expensive to service existing loans.

Source: Bank of England, EY

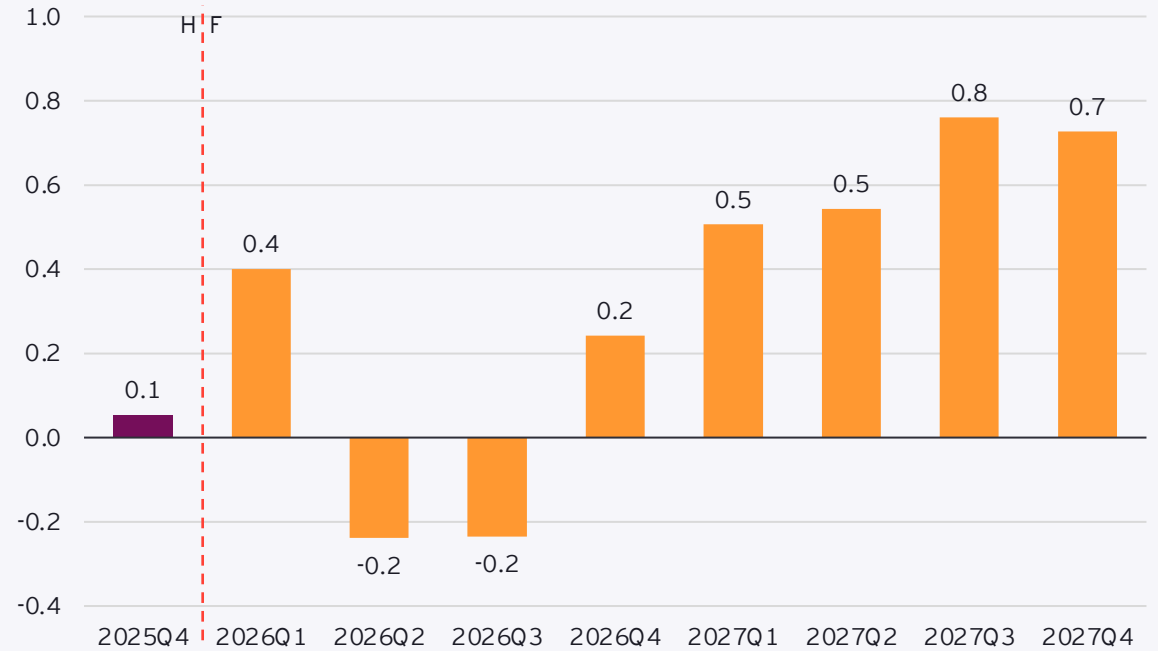
Higher inflation and interest rates will (again) hit UK consumer spending in 2026, with any recovery delayed to 2027 as inflationary pressures ease

UK household consumption growth (year-on-year rate, %) 2024-2030F



Household consumption growth is likely to slow to 0.3% this year. However, if energy prices ease, a recovery is expected in 2027.

UK household consumption growth, (quarter-on-quarter rate, %) 2025 Q1-2027 Q4

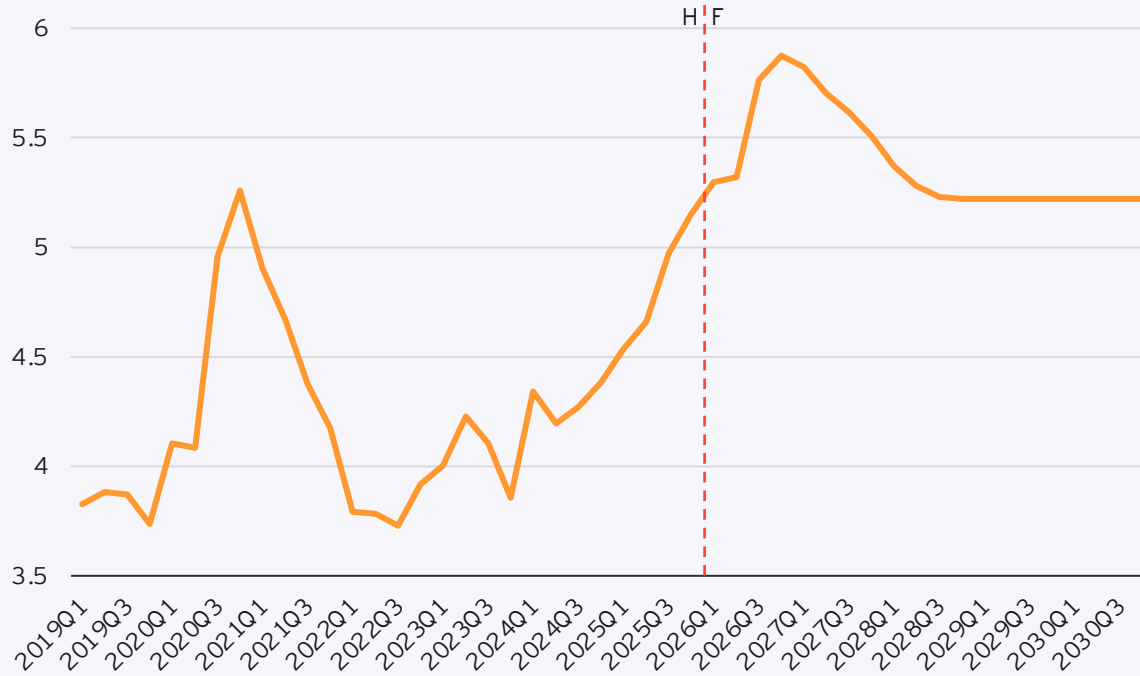


The level of consumer spending is expected to fall in real terms this year, with households more cautious in the face of higher bills and increased uncertainty.

Source: ONS, EY calculations in the NiGEM model

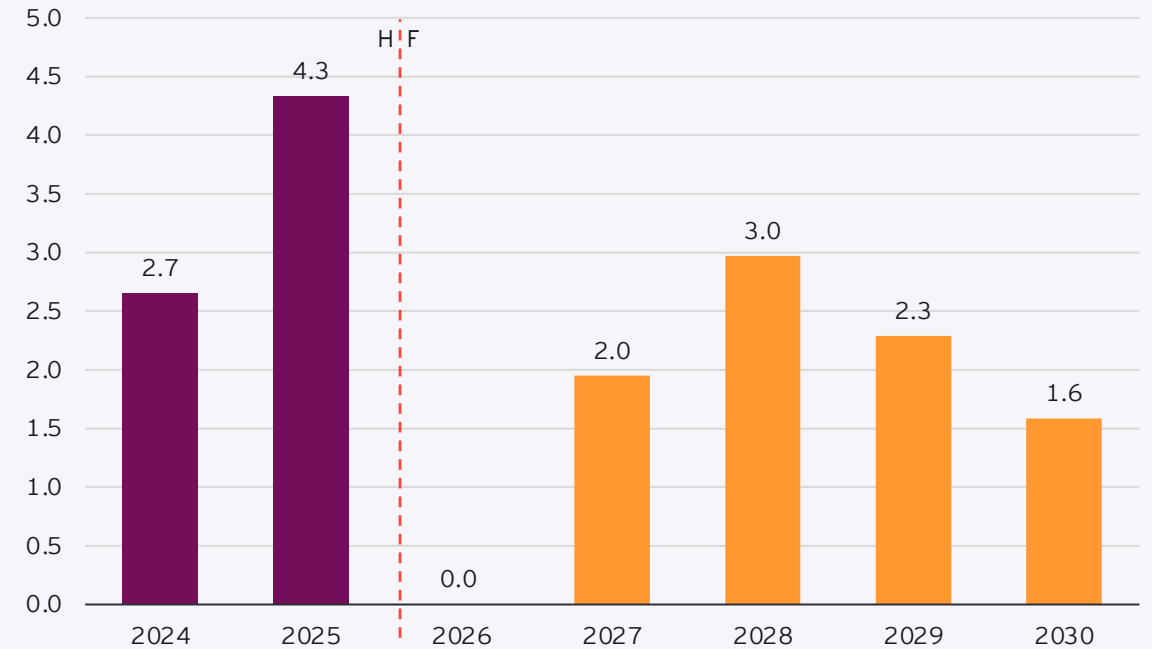
Weaker growth and increased uncertainty mean businesses are likely to reduce headcount and shelve planned investments

UK unemployment rate
2019 Q1-2033 Q4 F



Unemployment is expected to increase to just under 6% as weaker growth leads to further headcount reductions.

UK business investment growth (year-on-year rate, %)
2024-2030F



The increased cost of capital and heightened uncertainty will also see many businesses put long-term investment decisions on hold.

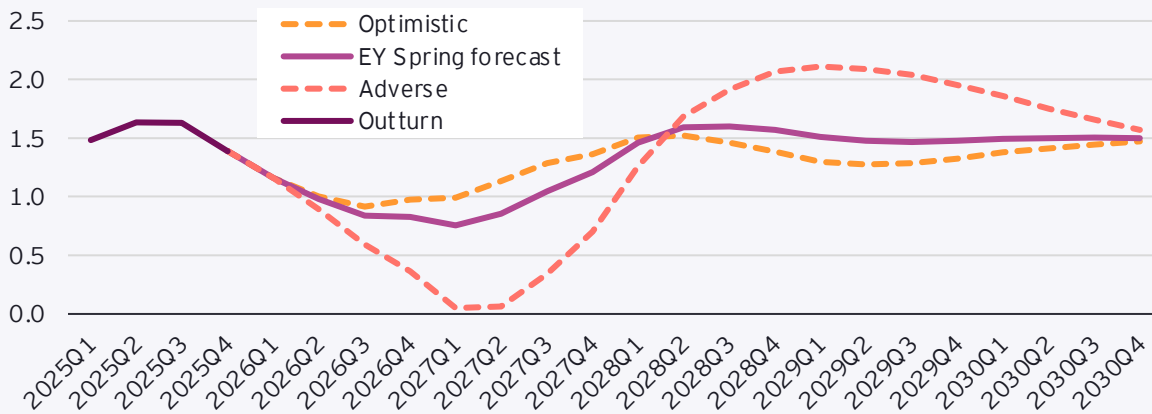
Source: ONS, EY calculations in the NIGEM model

Uncertainty around duration of conflict poses significant downside risks to the central forecast

If the conflict escalates, and the Strait of Hormuz remains closed for an extended period, growth would slow to near zero by the end of this year and inflation would peak above 7%.

Business impact: With the risks to the economy skewed heavily to the downside, businesses should formulate mitigation strategies now to prepare for the broad range of possible downside scenarios.

UK GDP growth scenarios, quarter-on-year %
2025-2030F

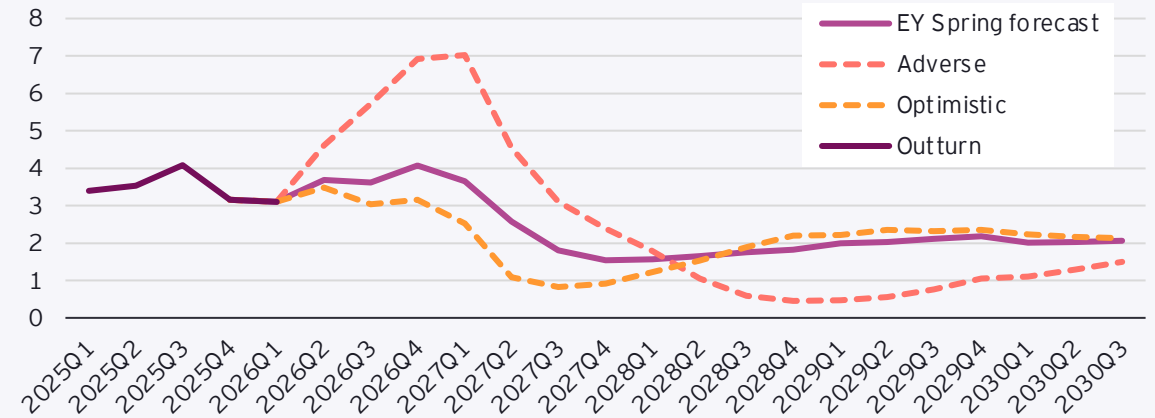


Optimistic: The conflict is concluded within weeks, and a lasting peace agreement is reached. The Strait is fully reopened.

Baseline forecast: The ceasefire holds and keeps on being extended with the Strait reopened by the end of Q2, though tanker flow remains subdued as tensions linger.

Adverse: The conflict significantly escalates, with further damage to Gulf oil and gas facilities. The Strait remains closed until the end of 2026.

UK inflation scenarios, 12-month rate %
2025-2030F



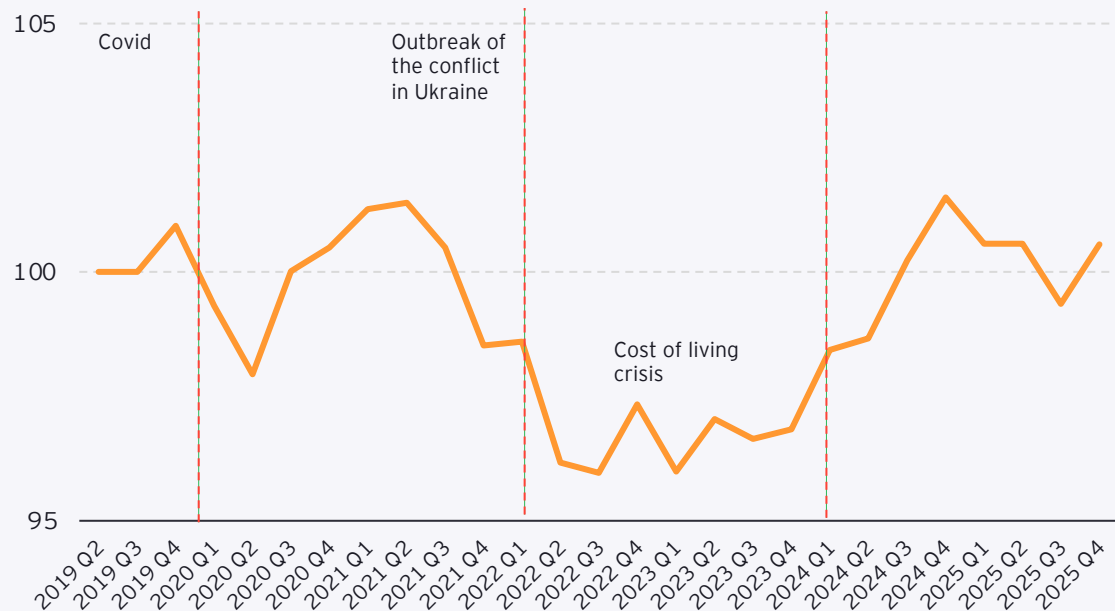
Source: EY calculations in the NiGEM model

In focus

sector insights

While household incomes have largely recovered from the 2022 energy price shock, the consumer sector has not seen an equivalent recovery in demand

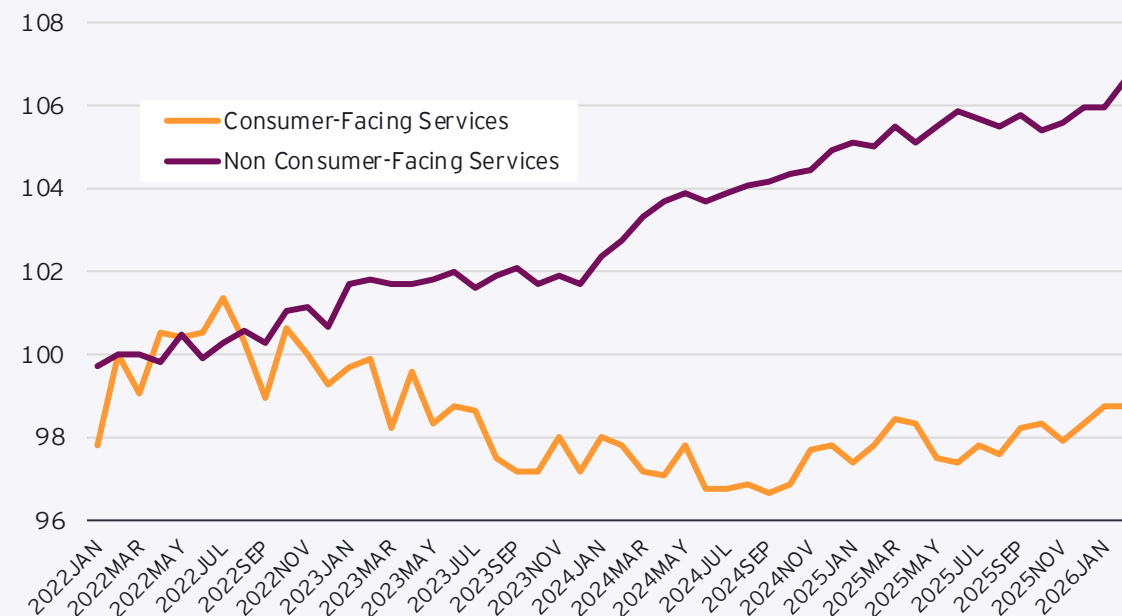
Change in real household disposable income
Index 2019Q2 = 100



Household incomes fell significantly in real terms between 2022 and 2023 as a consequence of the energy price shock. However, a tight labour market led to rapid wage growth, even as inflation fell. As a result, incomes in real terms had largely recovered by late 2024.

Source: ONS, EY calculations

UK consumer vs non-consumer services, February 2022 = 100
2022-2026

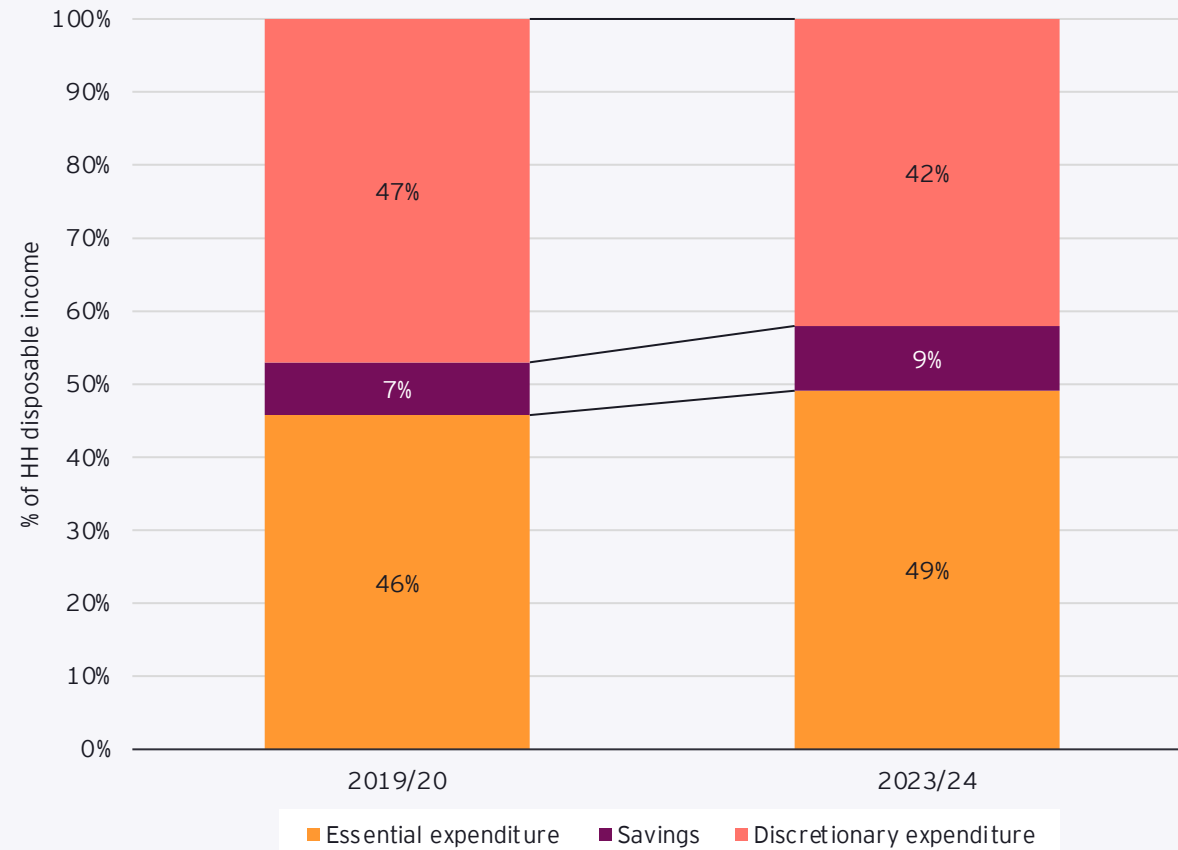


However, despite this recovery in incomes, the UK consumer sector is still struggling. Demand has stagnated since 2024, and it has significantly underperformed non-consumer services (e.g., professional and legal services, ICT, finance etc.).

There have also been shifts in consumer behaviour, with households spending more on essentials and choosing to save more, at the cost of discretionary purchases

Breakdown of household disposable income

2019/20 vs 2023/24



Spending more

Households in 2023/24 were spending 3 percentage points more of their disposable income on essentials vs 2019/20 – driven by steep price increases.

Saving more

Households were also choosing to save a larger share of their incomes, reflecting economic uncertainty (and higher cash returns from their savings).

£2,700 reduction

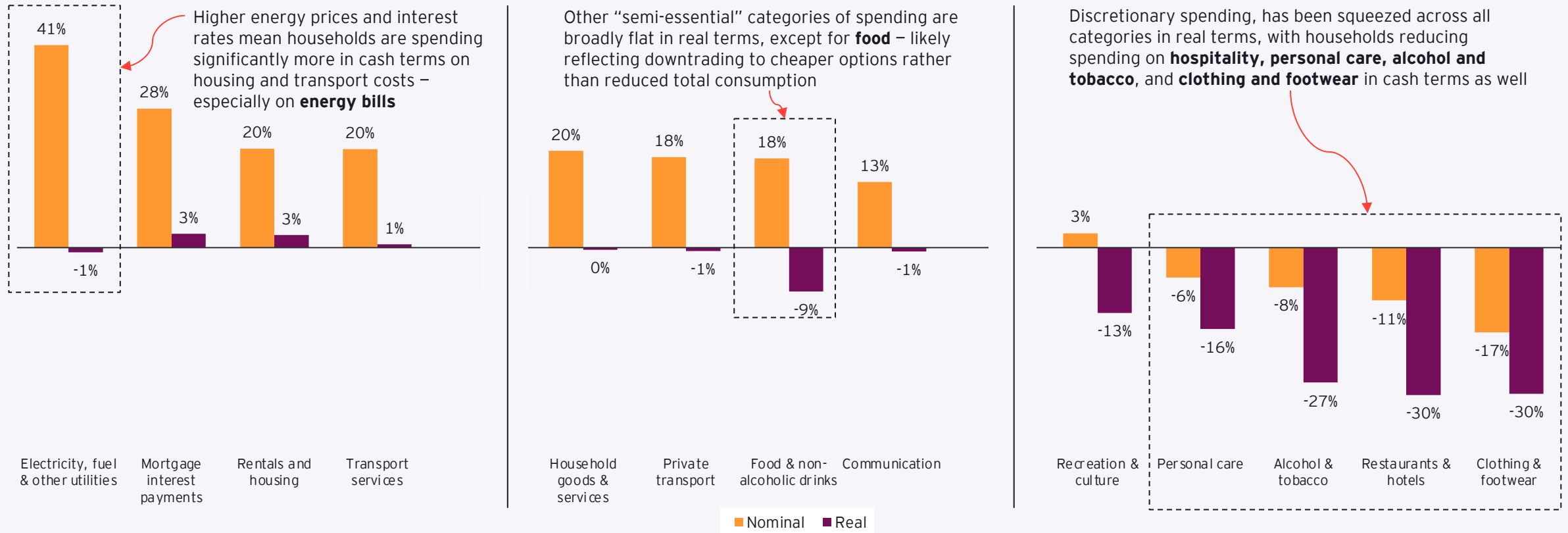
The reduction in the share of discretionary spending is estimated to be worth around £2,700 per household – or £78bn per year.

Note: The analysis estimates household expenditure shares using data from the ONS household spending survey “Family Spending in the UK”, along with official estimates of the household saving rate and household disposable income. Essential and Discretionary classifications are assigned by EY.

The impact has varied by segment – with hospitality, alcoholic beverages, and clothing and footwear being hardest hit

Change in household expenditure (real and nominal) on goods and services

2019/20 vs 2023/24



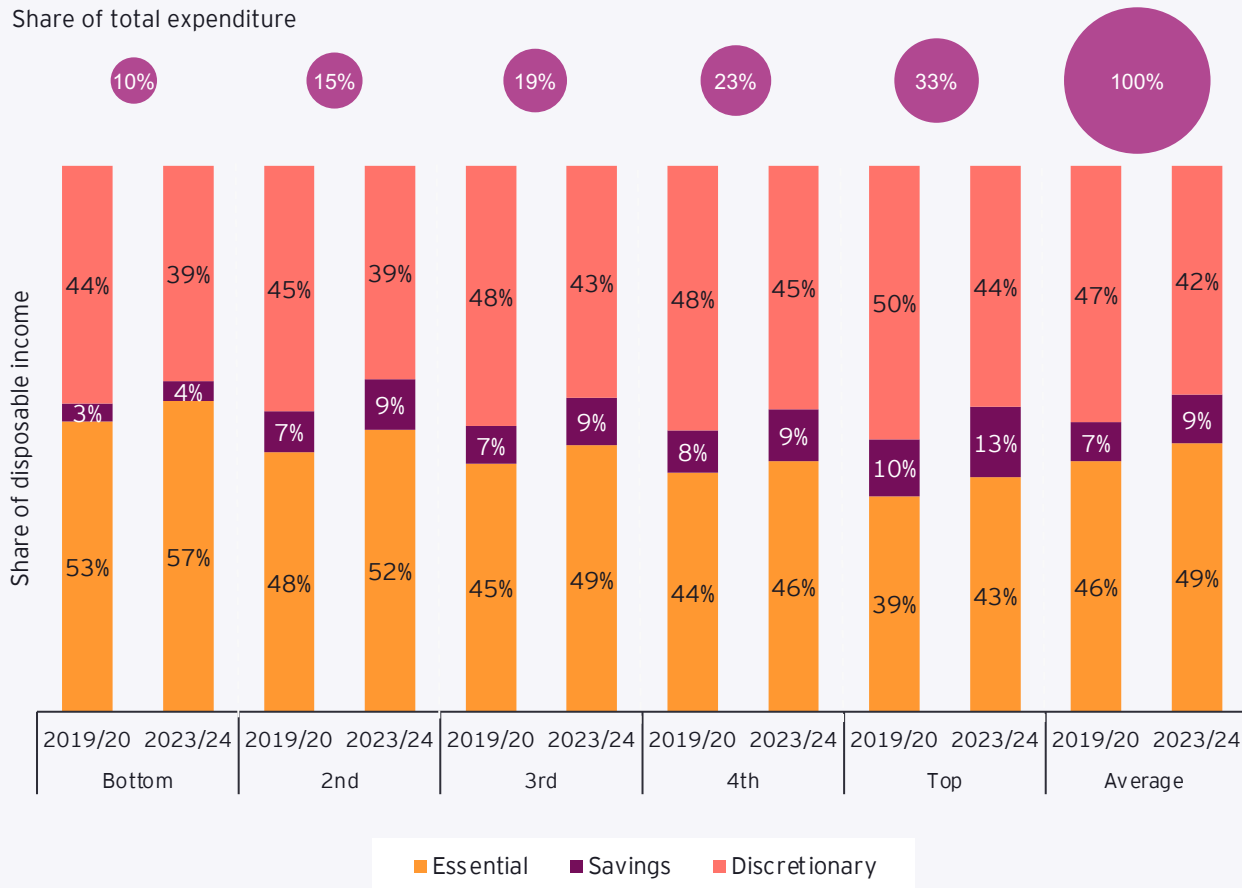
Note: The analysis uses household expenditure data from the ONS Household Spending Survey “Family Spending in the UK”. Real values are calculated using item-specific CPI deflators for each expenditure category.

Source: ONS, EY analysis

The reduction in discretionary spend has occurred across all income groups, but for the higher paid this has been driven by higher saving as much as by cost-of-living pressures

Breakdown of disposable income by income quintile 2019/20 vs 2023/24

Share of total expenditure



Source: ONS, EY analysis

- All income groups have cut discretionary spending in similar proportions – although for higher income groups, more of this shift has been driven by increased saving
- The cash value of the higher savings share is ~£24bn. Of this, around 82% (~£20bn) of the additional savings sits with the top two income quintiles.
- Higher-income households remain the largest contributors to aggregate spend, and have most scope to cut back on saving.

Business impact:

Lower-income households are more constrained by rises in the cost of essentials. For these consumers, the value proposition of discretionary items will be more important.

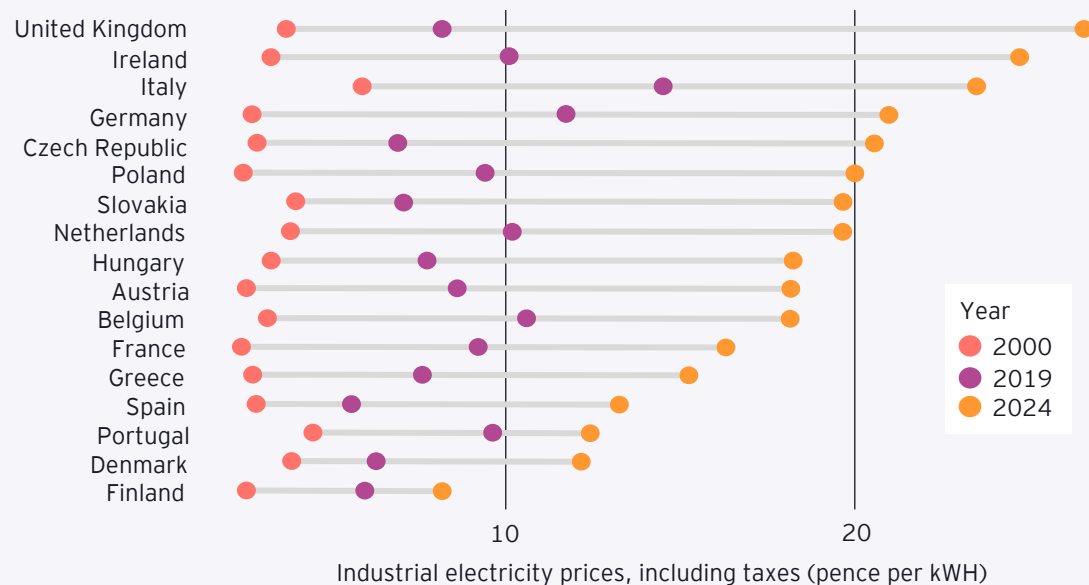
For better-off households, businesses should focus on how they can regain some of the share of spend lost to higher saving.

Note: The analysis estimates household expenditure shares using data from the ONS household spending survey "Family Spending in the UK", broken down by income quintile along with official estimates of the household saving rate and household disposable income. Essential and Discretionary classifications are assigned by EY.

High energy prices were already hitting UK industrial output hard – with the decline in energy intensive industries leading to a loss of £30bn of annual GDP since 2019

International industrial energy prices (pence/kWh)

European IEA Countries, 2000 vs 2024

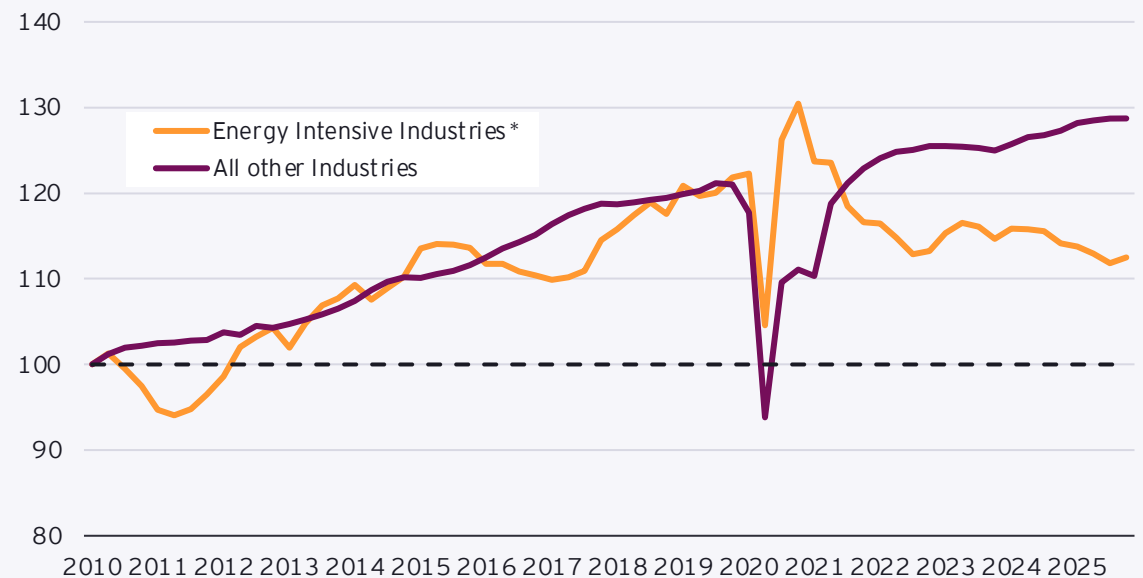


UK industrial energy prices were broadly comparable to European benchmarks prior to 2019 – since then, much steeper relative price increases have left UK industry paying more for energy than the rest of Europe.

Source: DESNZ, EY analysis

UK Gross Value Added (GVA), real, pounds millions

(Q1 2010 = 100)



*Energy Intensive Industries are defined in accordance with DESNZ's classification: [Energy Intensive Industries](#)

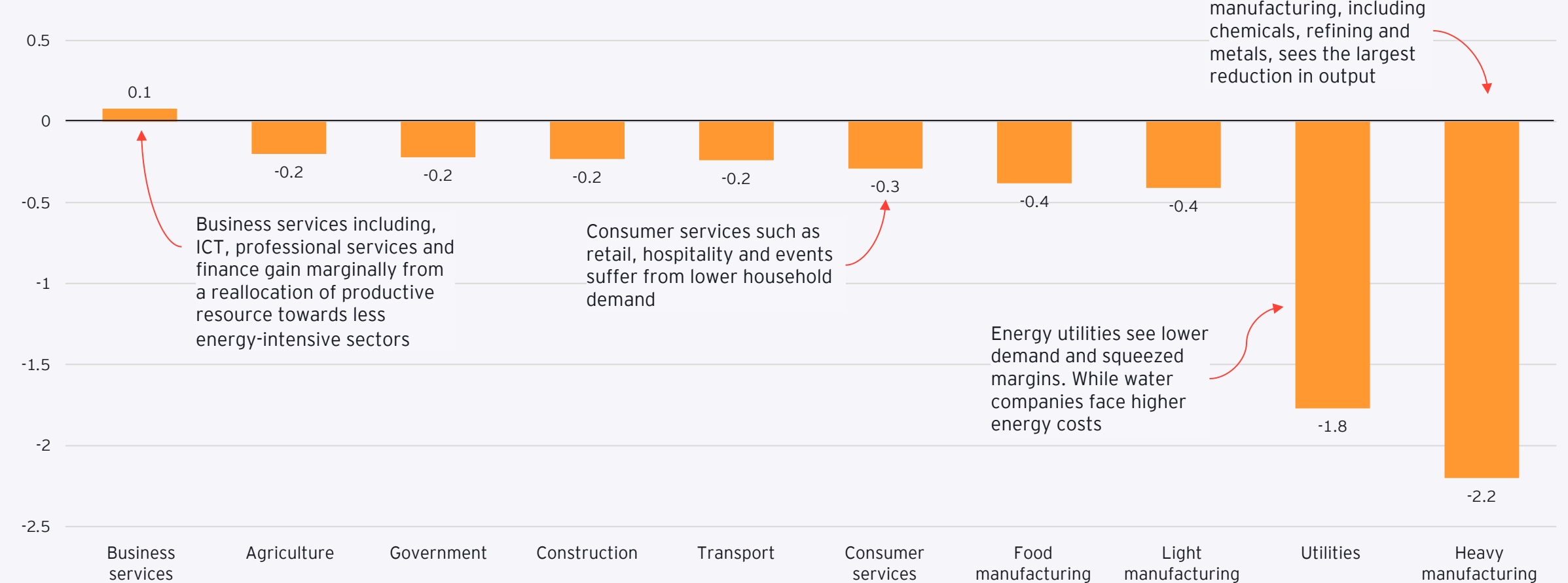
Since 2019, higher relative energy costs have seen output from the UK's energy-intensive industries fall by 8%, compared to economy-wide growth of 6%. If the energy-intensive sector had instead simply kept pace with the wider economy, then GDP would have been £30bn higher in 2025.

Source: ONS, EY analysis

This latest energy price shock will intensify these pressures, leading to further headwinds for UK industry

Change in sector output in response to an energy price shock (% difference from pre-shock baseline)

Long term impact

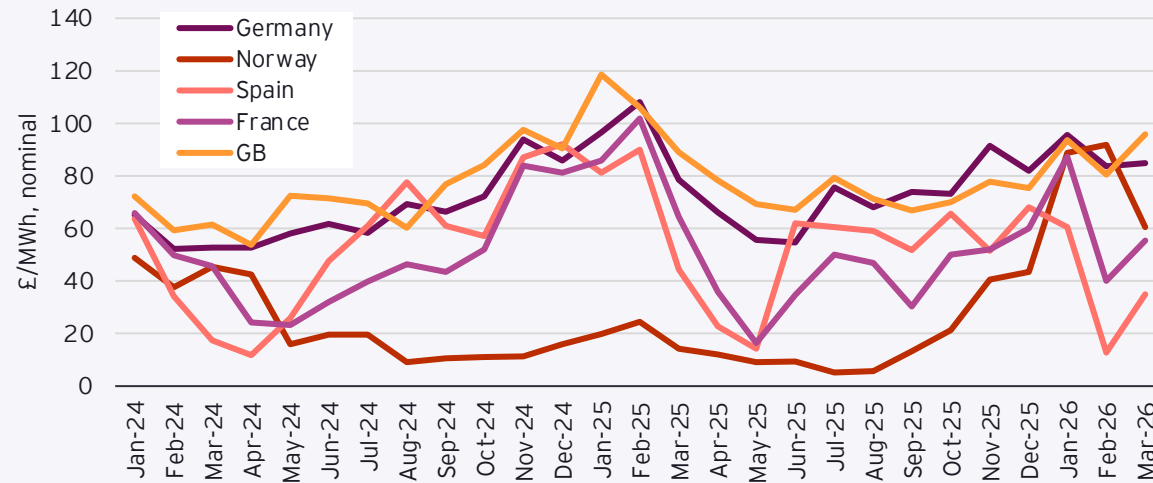


Source: EY CGE Modelling using GTAP

Aguilar, A., Baldos, U., Chepeliev, M., Corong, E., & Simonato, T. (2025). The Global Trade Analysis Project (GTAP) Data Base: Version 12. *Journal of Global Economic Analysis*, 10(2), 1-45. <https://doi.org/10.21642/JGEA.100201AF>

Higher electricity prices are driven by the UK's power sector being more exposed to global commodity markets than many other European countries, exacerbated by a growing stack of non-commodity costs levied on bills

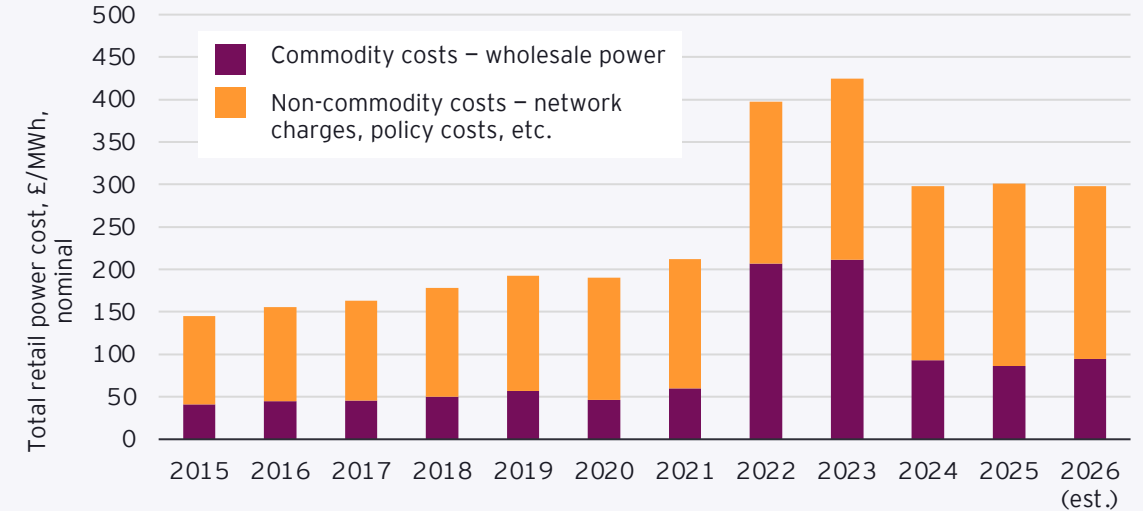
Wholesale power prices in Great Britain compared to European peers
Monthly average, £/MWh



The structure of the UK energy market, and long-term decisions around the generation mix, means that gas prices typically set the marginal price for wholesale electricity. The volatility in commodity markets (particularly for gas) since 2022 have resulted in the UK having some of the highest energy prices in Europe. This has driven extensive policy debate as to whether it is possible to de-link gas prices from wholesale power prices.

Source: ENTSOE, LCCC, Bank of England, EY analysis

Decomposition of retail power costs in Great Britain
Illustrative retail power consumer, £/MWh



However, in addition to high wholesale costs, the average bill includes a growing set of policy costs to support new renewables, new nuclear, and capacity to meet peak demand, as well as the cost of an expanding power grid.

The Government has recently announced a range of measures to partially insulate businesses and households from these costs, effectively shifting them from bills to general taxation.

Source: Ofgem retail price cap model, EY analysis

Summary

- Conflict in the Middle East is disrupting the supply of oil and gas, this will ultimately result in higher inflation, and interest rates held higher for longer.
- As a result, UK GDP growth is forecast to be just 0.8% this year and 1.2% in 2027, down from 1.3% and 1.4% respectively. Risks to this forecast are weighted to the downside given the uncertainty about how the conflict will play out
- Higher energy prices drive up the cost of essential spend, leading to a hit on consumer spending power.
- This will have a disproportionate impact on lower income groups, with the better off able to call on savings built up since the pandemic. Businesses will need to clearly think through their pricing strategy, and the trades-offs between margins and volume.
- Energy intensive industries in the UK, already facing some of the highest energy prices in Europe, are again exposed.
- In response, the UK Government is exploring options for mitigating some of the impacts through targeted interventions and support, alongside broader energy market reform.

Economic Outlook

	2026	2027	2028	2029	2030
GDP (y/y, %)	0.8	1.2	1.6	1.5	1.5
Optimistic	1.0	1.4	1.4	1.4	1.5
Adverse	0.3	0.7	2.0	1.9	1.6
Inflation (Q4, %)	4.1	1.5	1.8	2.1	2.0
Optimistic	3.2	0.9	2.1	2.3	2.1
Adverse	6.9	2.3	0.5	1.1	1.7
Domestic Demand (y/y, %)	0.7	1.7	2.0	1.4	1.4
Consumption (y/y, %)	0.3	1.5	2.2	1.6	1.4
Investment (y/y, %)	0.0	2.0	3.0	2.3	1.6
Exports (y/y, %)	1.1	2.0	1.7	2.2	2.2
Imports (y/y, %)	0.9	3.4	2.9	1.7	2.2
Unemployment rate, Q4, %	5.8	5.5	5.2	5.2	5.2
Bank Rate (Q4, %)	3.75	3.25	3.25	3.25	3.25
Current Account (£bn)	-74.2	-97.3	-112.1	-113.1	-116.6

The information in this document includes data derived National Institute Global Econometric Model (NiGEM) software. The NiGEM economic model is the property of the National Institute of Economic and Social Research (NIESR) and NiGEM is a Trademark of the Institute <https://www.niesr.ac.uk>

This publication has been prepared by Ernst & Young LLP ("EY") for information purposes only and reflects EY's own analysis, assumptions and judgements based on information available at the date of publication. NIESR has not reviewed, validated or endorsed the analysis and accepts no responsibility for any reliance placed upon them

Key contacts



Peter Arnold

EY UK Chief Economist
parnold@parthenon.ey.com



Henry Glasspool

Economic Advisory
EY Parthenon
henry.glasspool@parthenon.ey.com



Explore content from our team

Subscribe for the quarterly
EY UK Economic Outlook



[Click here](#)

LinkedIn: Subscribe to Peter Arnold's
Business of Economics newsletter

[Click here](#)

Report: How defence investment can
drive UK investment and growth

[Click here](#)

Key contacts



Anna Anthony

EY UK&I Regional Managing Partner
aanthony@uk.ey.com



Rob Atkinson

EY UK&I Technology, Media and
Telecommunications Market Leader
ratkinson@uk.ey.com



Stephen Church

EY UK Private and Mid-Market
Leader
schurch1@uk.ey.com



Lee Downham

EY UK&I Industrials & Energy
Market Leader
ldownham@uk.ey.com



Martina Keane

EY UK&I Financial Services
Market Leader
martina.keane@ie.ey.com



Rohan Malik

EY UK&I Government and
Infrastructure Market Leader
rmalik@uk.ey.com



Paddy Moser

EY UK&I Private Equity Market Leader
pmoser@parthenon.ey.com



Michael Thompson

EY UK&I Consumer
and Health Market Leader
michael.thompson1@uk.ey.com

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multidisciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

© 2026 EYGM Limited.
All Rights Reserved.

SCORE 111657-26-UK
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com