EY UK Economic Outlook

Summer 2026

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Introduction

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The EY UK Economic Outlook arrives at a pivotal moment. The global economy has proved more resilient to conflict in the Middle East than many expected. Strategic energy reserves, diversified supply chains and lower demand helped offset the initial shock, allowing energy prices to return close to pre-conflict levels.

That resilience is now being tested. The ceasefire has broken down, and energy prices are rising again. The economic impact may have been delayed rather than avoided.

In the UK, growth softened through the spring, but underlying momentum remained relatively robust. Inflation has eased faster than expected, supporting a more positive outlook for 2026. However, a prolonged escalation in the Middle East presents a significant downside risk.

The country also enters this period under its seventh Prime Minister in a decade. While the political landscape has shifted, the economic challenges remain familiar. A constrained fiscal position will limit the Government's room for manoeuvre.

Against this backdrop, the Prime Minister's first Budget will be a defining moment. Early signals suggest a focus on household finances, housing delivery and strategic infrastructure investment.

This edition of the Outlook explores the UK's infrastructure challenge in more detail. The pipeline of investable projects is strong, but funding constraints and labour shortages continue to hinder delivery.

We also highlight one of the UK's key competitive advantages: its high-value services sector. Information and communication technology, alongside professional and business services, have delivered strong growth and continue to underpin export performance.

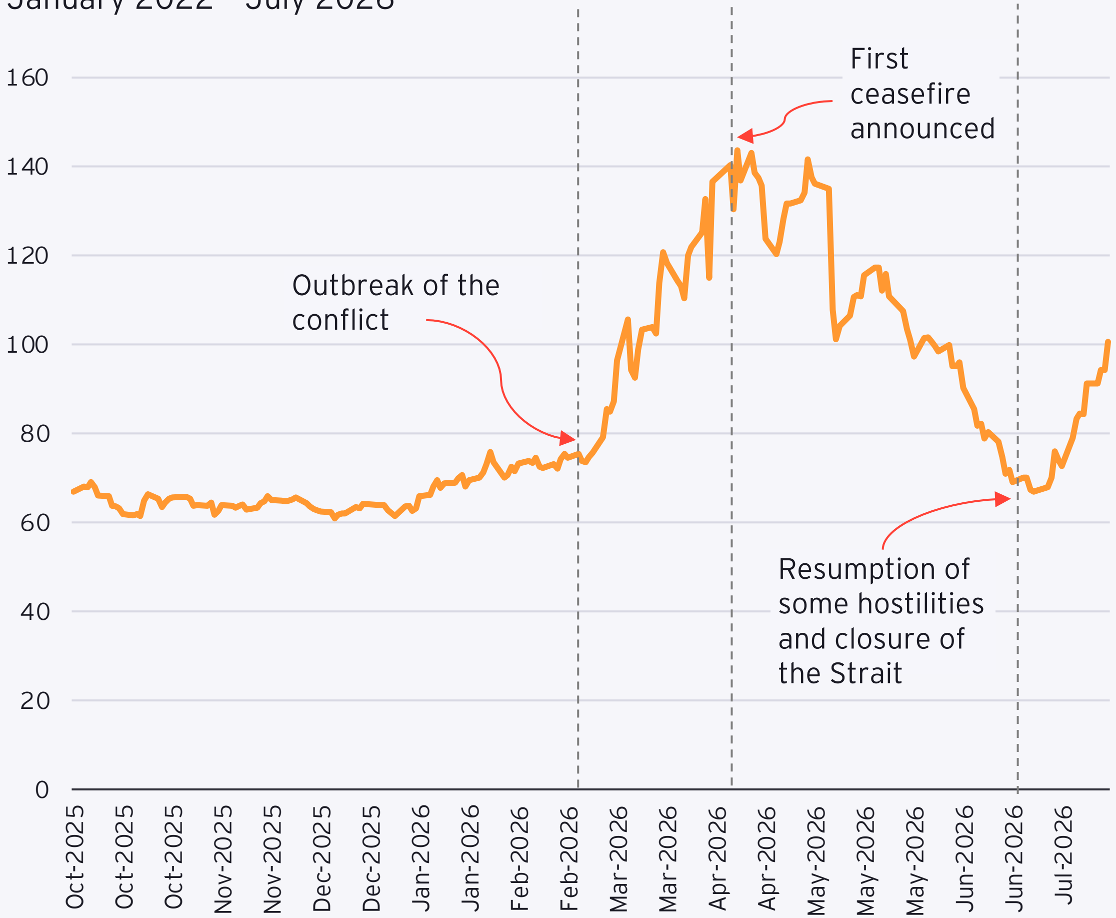
Building on these strengths, while investing in energy resilience, infrastructure and productivity, will be essential to securing the UK's long-term economic success.

3 August 2026

Global context

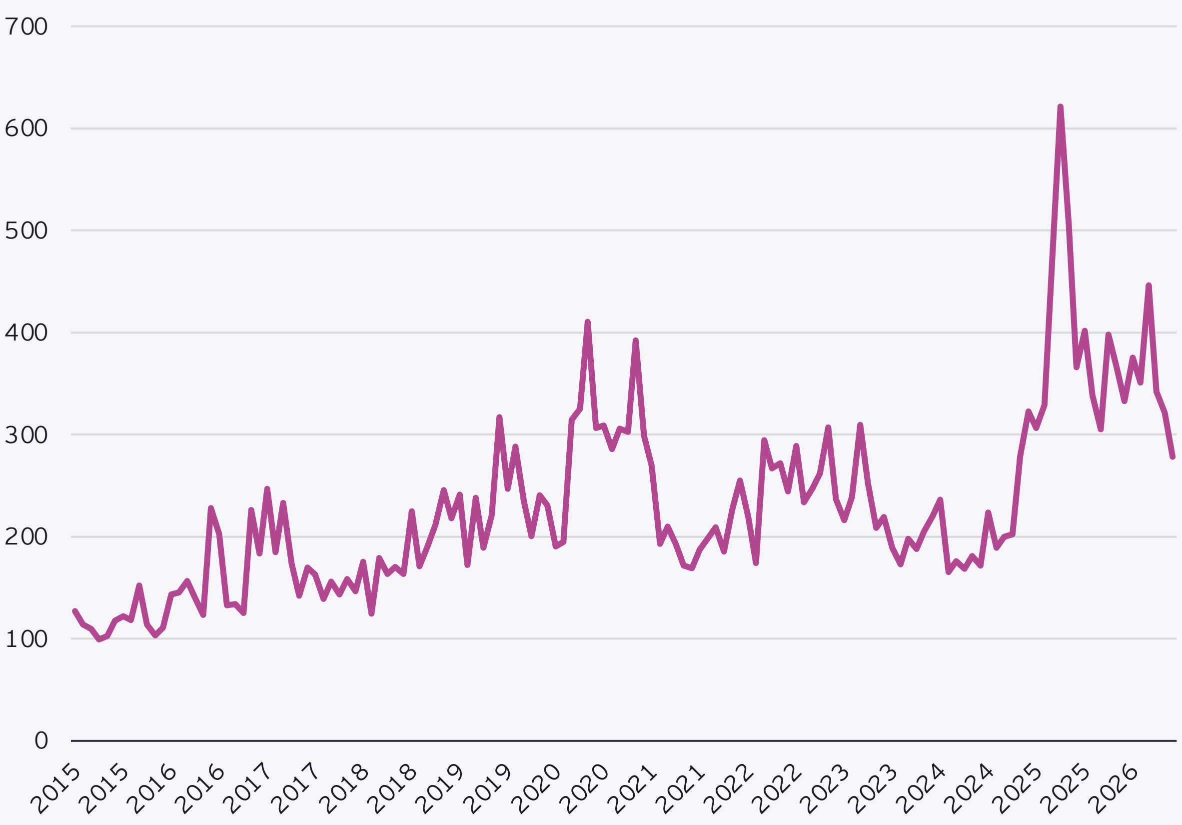
Commodity prices and uncertainty fell with the agreement of a ceasefire in the Middle East, but recent hostilities have seen a resurgence in both

Brent crude oil price (USD/bbl)
January 2022 – July 2026



Source: LSEG

Global Economic Policy Uncertainty index[1]
2015 – 2026

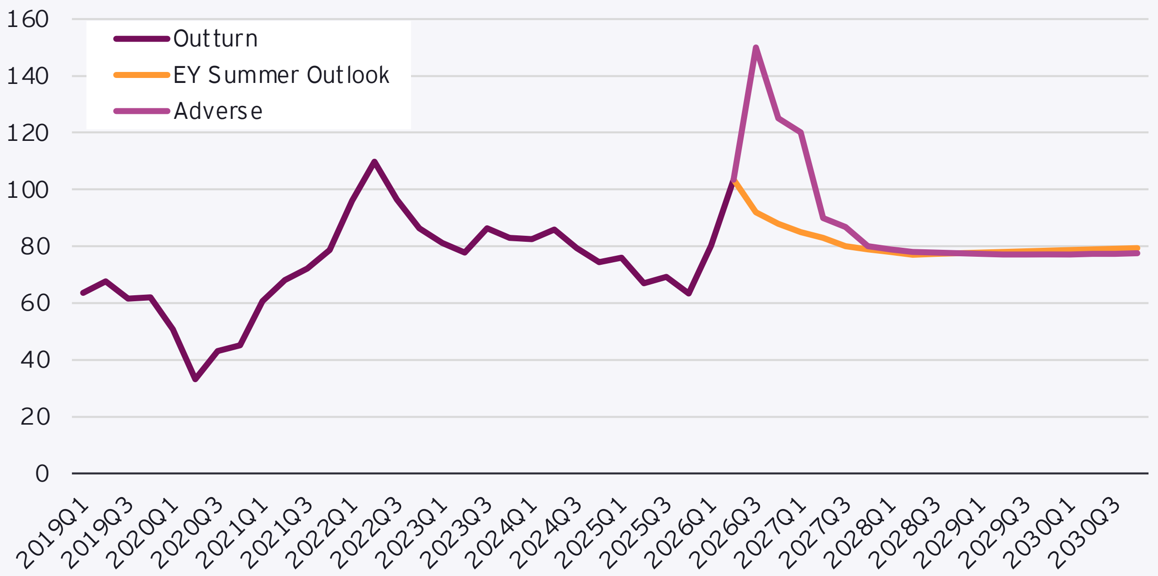


[1] The Global Economic Policy Uncertainty (EPU) Index measures the level of uncertainty about economic policy by tracking the frequency of newspaper articles that simultaneously mention the economy, uncertainty, and government policy-related terms.

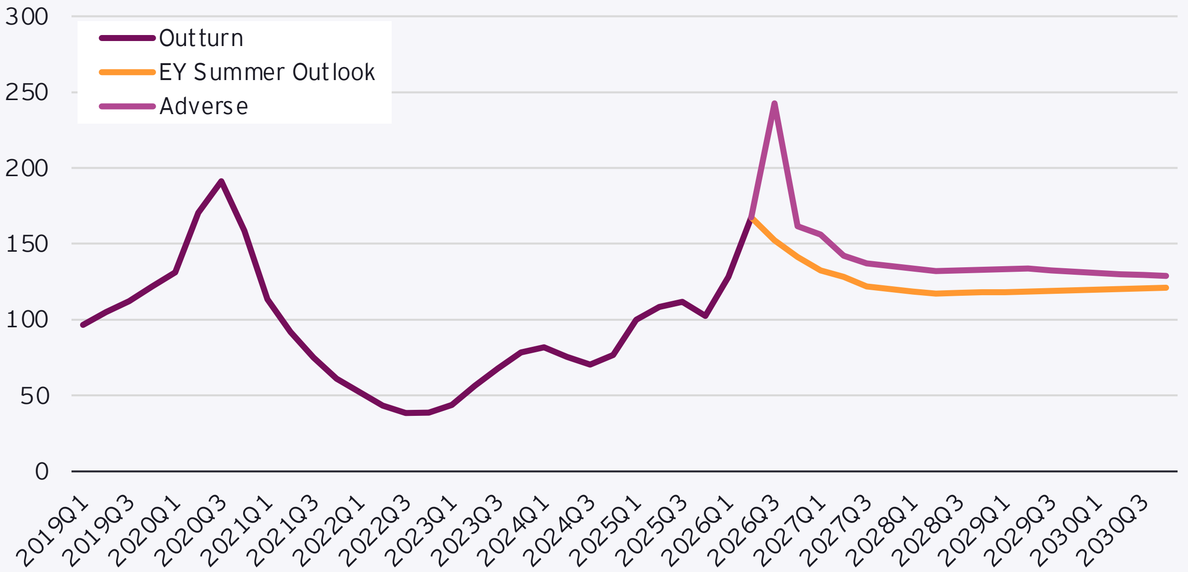
Source: Baker, Scott R., Bloom, Nick and Davis, Steven J., Global Economic Policy Uncertainty Index: PPP-Adjusted GDP

While global energy prices remain lower than the recent peak, the threat of a return to full-blown conflict raises the possibility of a further surge

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



Global natural gas price, 2025 = 100
2019 - 2030



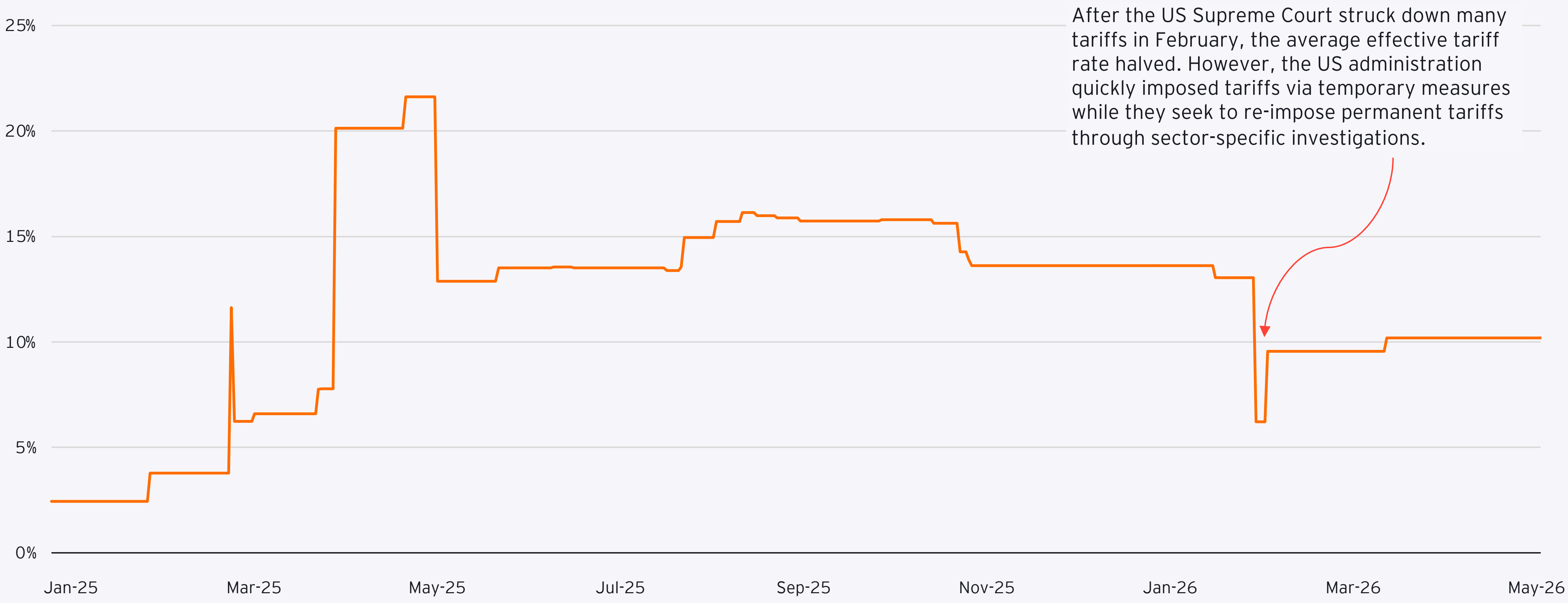
Central outlook
Conditioned on a return to a ceasefire agreement that allows the Strait of Hormuz to partly re-open before the end of Q3 2026, albeit with subdued levels of tanker traffic and a continued risk of disruption. Energy prices continue to fall from the peak in Q2 2026, though oil still averages above $90 per barrel through Q3 2026.

Adverse scenario
Conditioned on a return to full-blown conflict over the summer. No ceasefire agreement is possible until early 2027, meaning the Strait of Hormuz remains closed until mid-2027. The oil price rises to $150 per barrel in Q3 2026 and remains above $100 until 2027 Q2. Gas follows a similar path, though damage to production facilities means prices remain higher than in the baseline forecast through to 2030.

Source: EY calculations in the NiGEM model

Additionally, despite some tariffs being struck down, the average US tariff rate remains significantly higher than in 2024

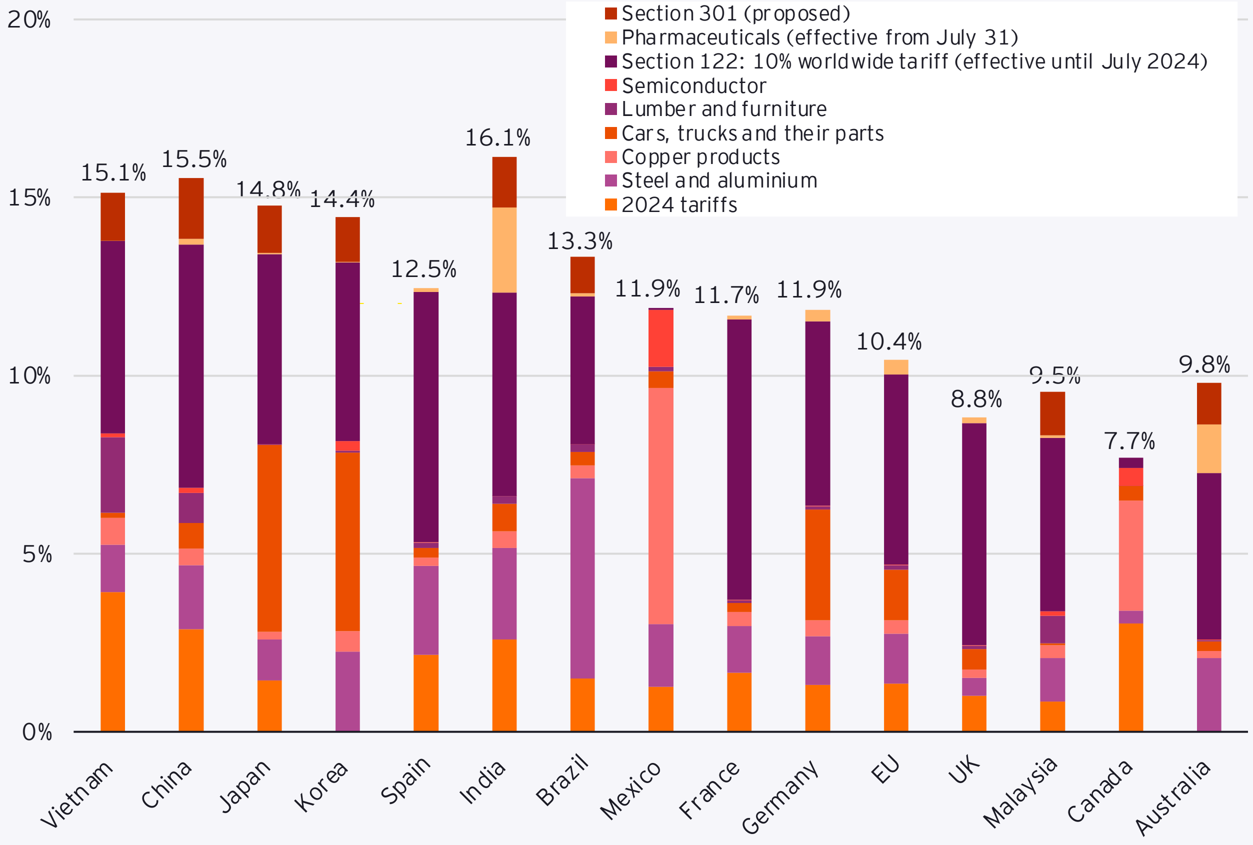
US effective statutory tariff rate
1 January 2025 – 29 May 2026



Source: International Monetary Fund; World Trade Organization; EY analysis

The US administration is now re-imposing tariffs through alternative means including sector-specific investigations

Average effective tariff rate on imports to the US by country of origin
9 June 2026



All major trading partners still face elevated US tariffs. However, the US Supreme Court ruling gave President Trump less freedom to set blanket tariffs unilaterally country by country.

In response, the administration has re-imposed tariffs via investigations into sectors and products or specific issues such as forced labour.

This means that the average US tariff faced by each country is now determined more by the share of products they export to the US, rather than simply a tariff assigned to the country.

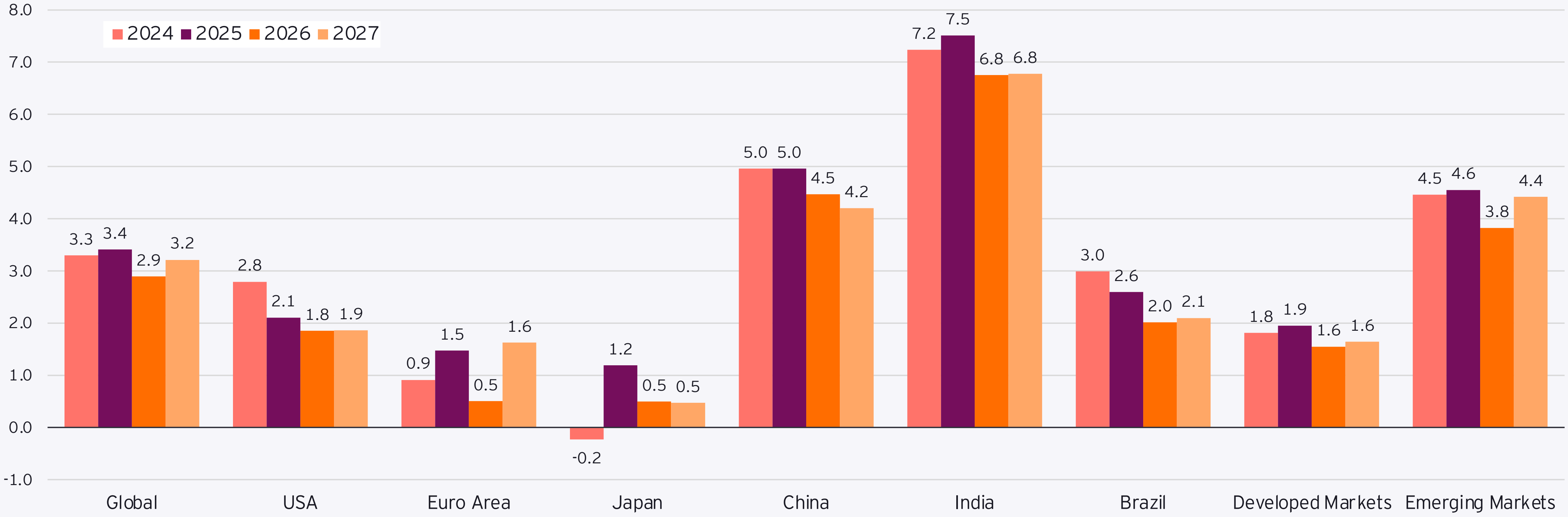
Business impact: Despite having been pushed out of the headlines, US tariffs are still driving significantly higher costs for businesses that trade or operate in the US, with the impacts now more concentrated on certain sectors and products.

1. Section 301 investigations into acts, policies and practices of 60 economies relating to the failure to impose and effectively enforce a prohibition on the importation of goods produced with forced labor.
2. Section 122 (10% tariffs) tariff for a maximum of 150 days to address fundamental international payment problems, such as serious balance-of-payments deficits or to prevent an imminent depreciation of the dollar.

Source: International Monetary Fund; World Trade Organization; EY analysis

Collectively, this multitude of headwinds is straining the global economy. Growth is set to slow, despite the sustained boost from AI-related investments

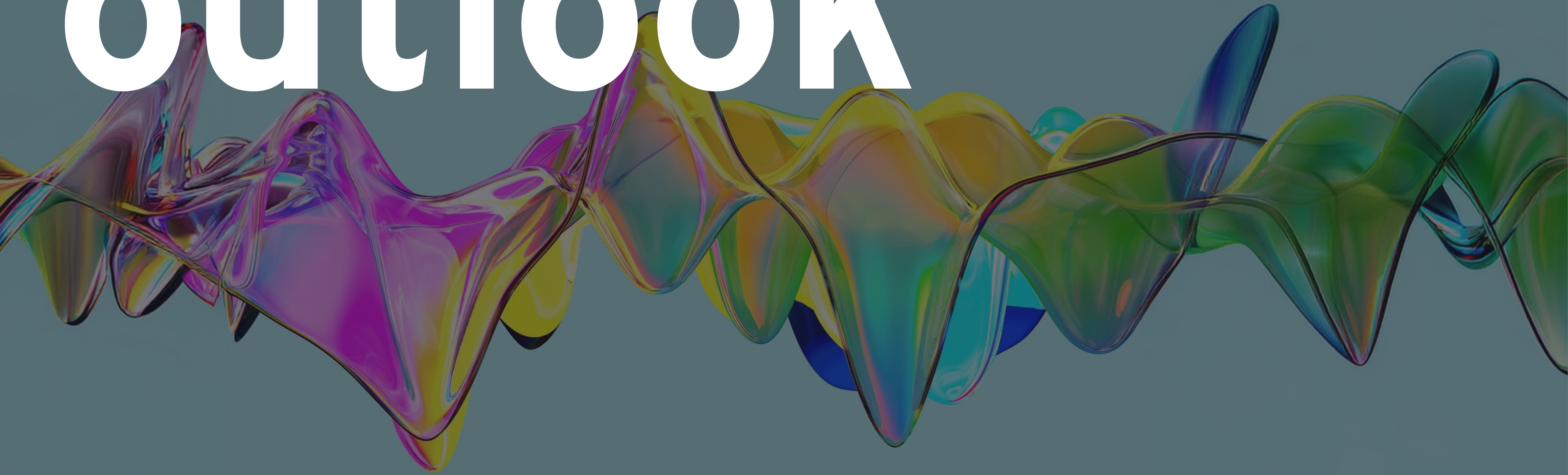
EY June 2026 Global Economic Outlook, year-on-year real GDP growth, %
2024 - 2027



Euro area includes 20 countries.
"Developed markets" according to the definition of advanced economies from the International Monetary Fund (IMF).
"Emerging markets" is the rest of the world.

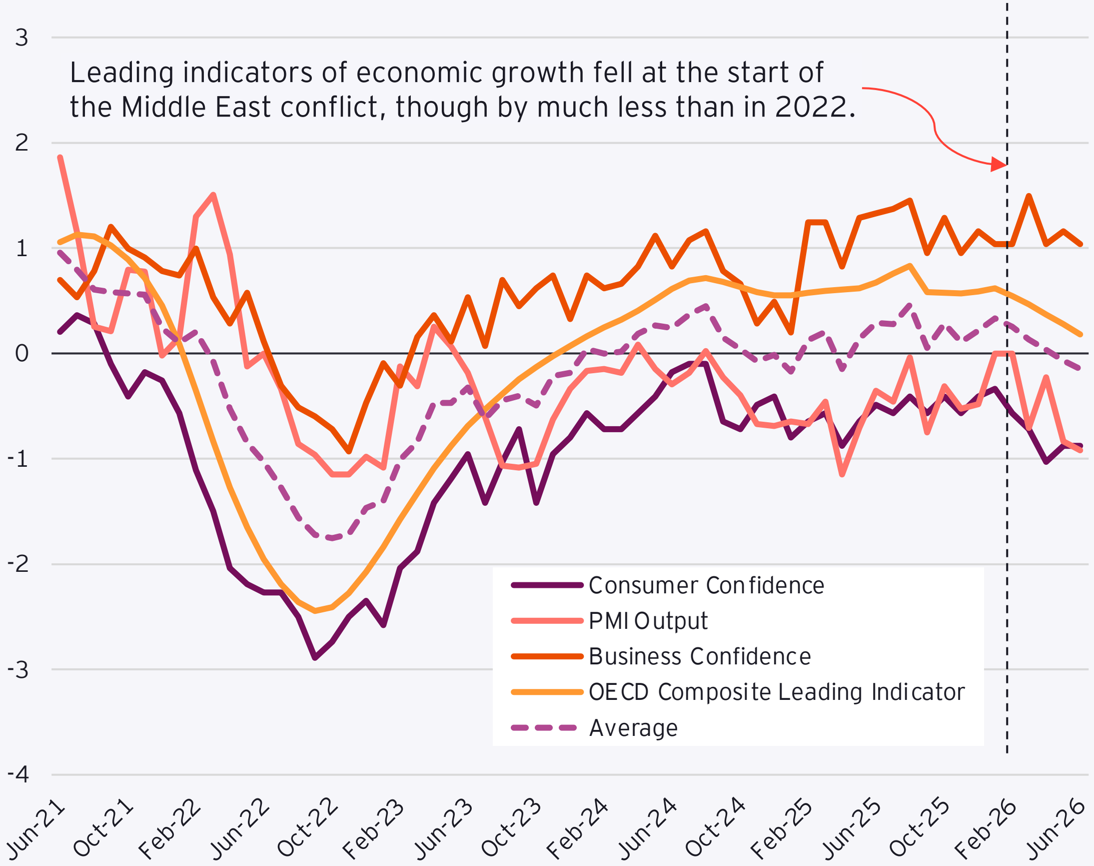
Source: EY-Parthenon

UK economic outlook



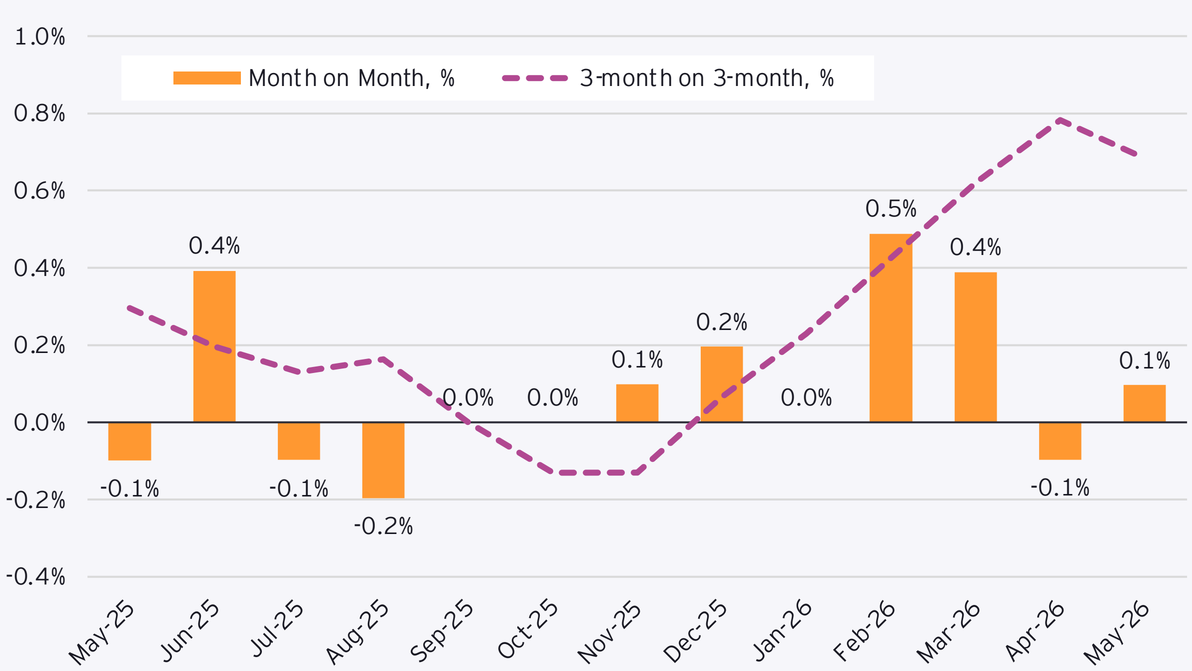
Economic activity softened in Q2, though underlying momentum held up slightly better than expected

UK: Selected leading indicators of GDP growth, standardised
June 2021 - June 2026



Source: GfK, Lloyds, S&P Global, OECD, EY Calculations

UK: monthly GDP, 3-month on 3-month growth rate, %
April 2025 - April 2026

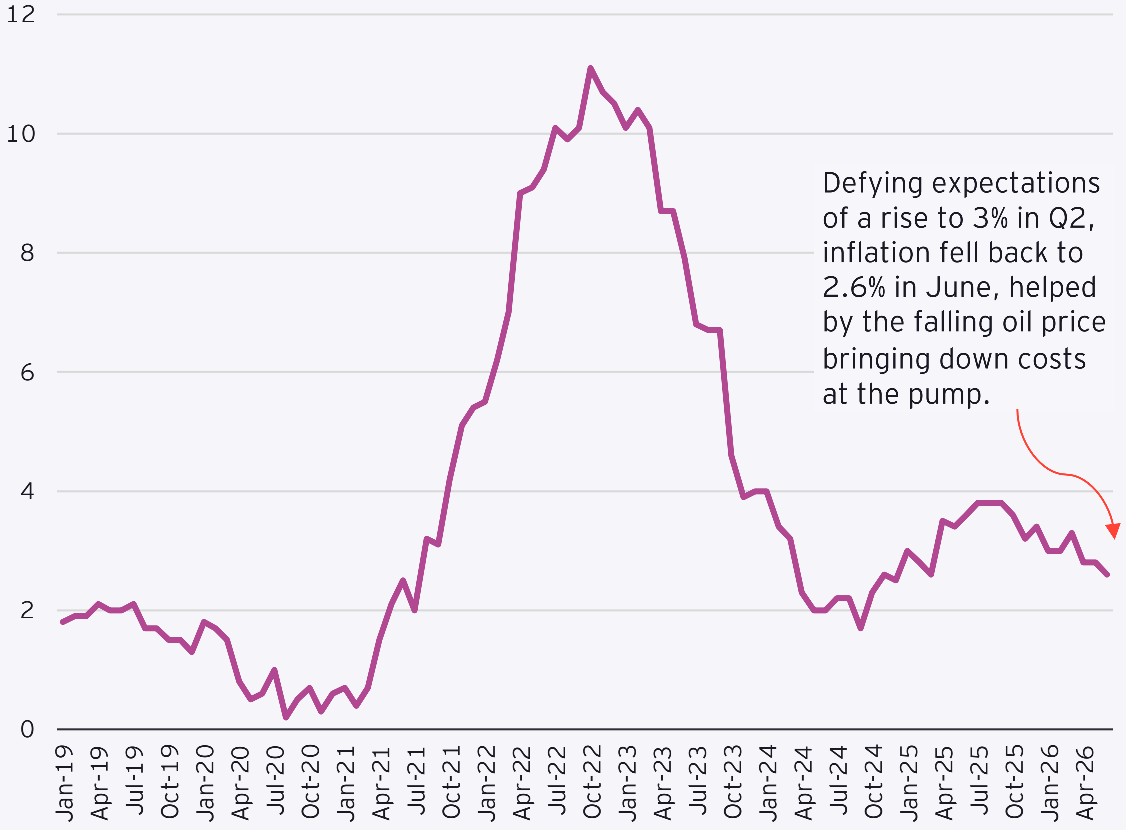


Consistent with the weakening but still relatively resilient measures of confidence and output, monthly GDP data shows that while growth softened, it has held up slightly better than expected through Q2. While output fell in April, it rebounded in May, when good weather helped drive an increase in retail sales volumes.

Source: ONS

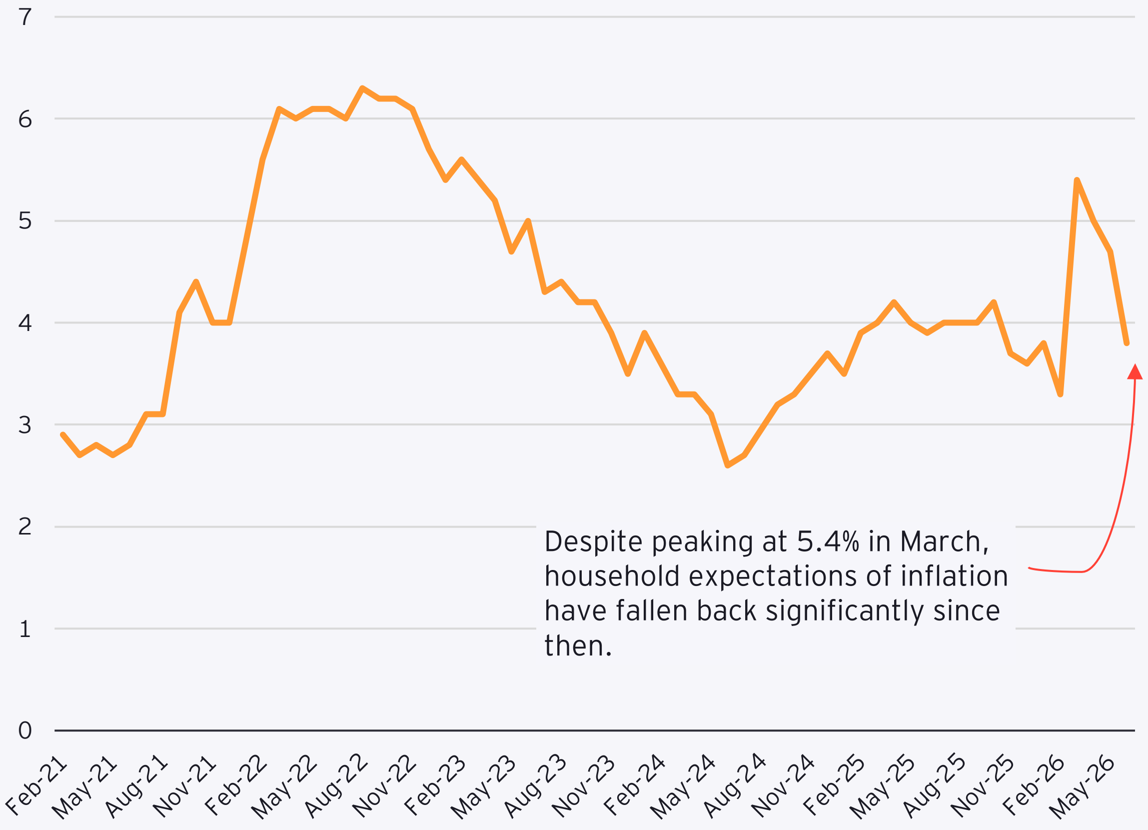
Inflation was also lower than expected through Q2 and household fears of being hit with another severe cost-of-living crisis have eased somewhat

UK monthly CPI inflation, 12-month growth rate
January 2019 - June 2026



Source: ONS

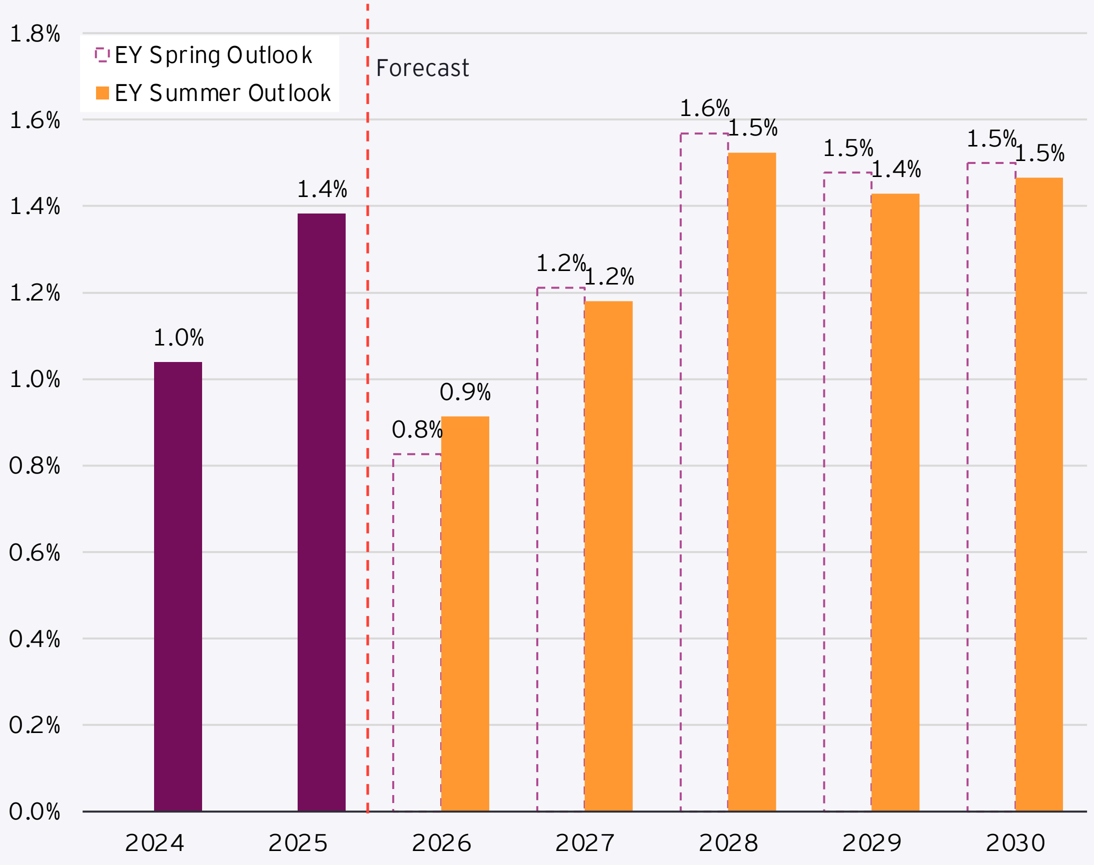
UK household inflation expectations, % in 12-months' time
April 2025 - June 2026



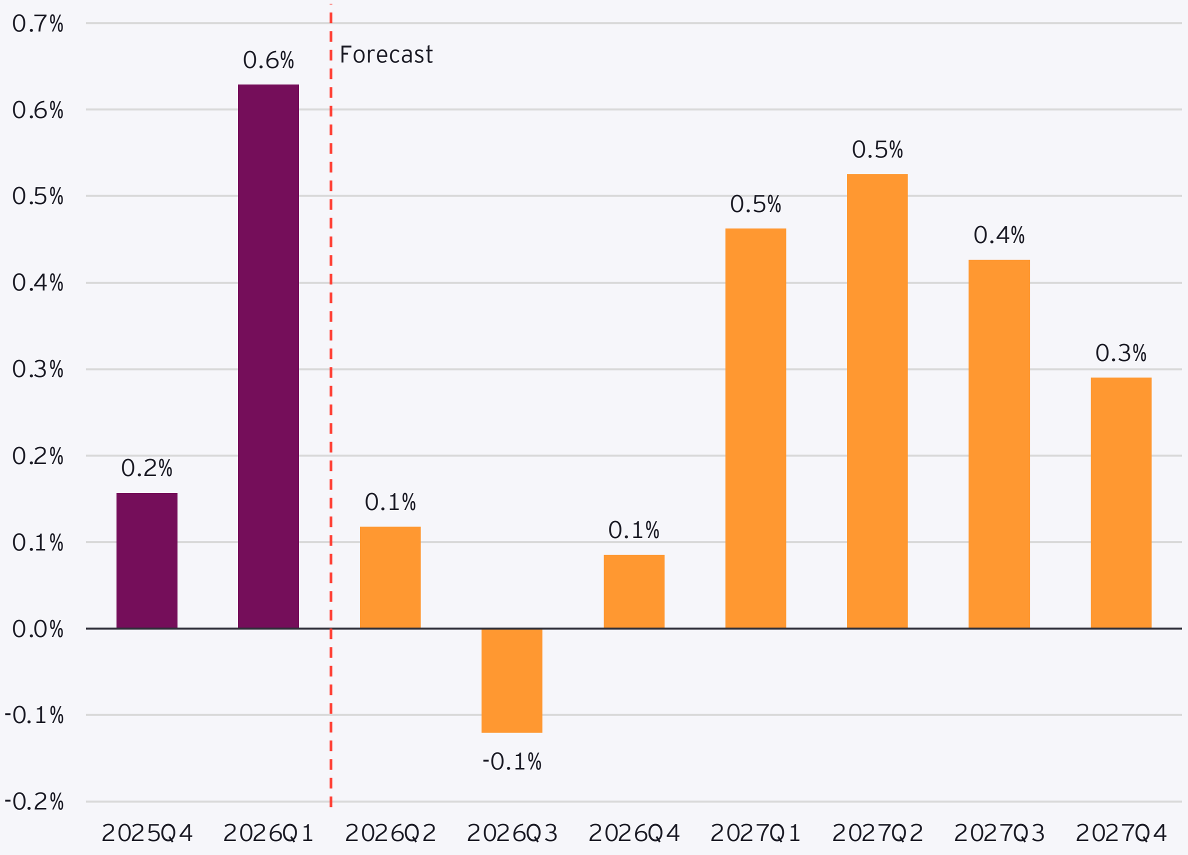
Source: YouGov/Citi via LSEG

Resilience in Q2 supports a small upgrade to the outlook for 2026, though higher energy costs are still expected to drag on growth later in the year

UK real GDP growth, year-on-year rate, %
2024 – 2030



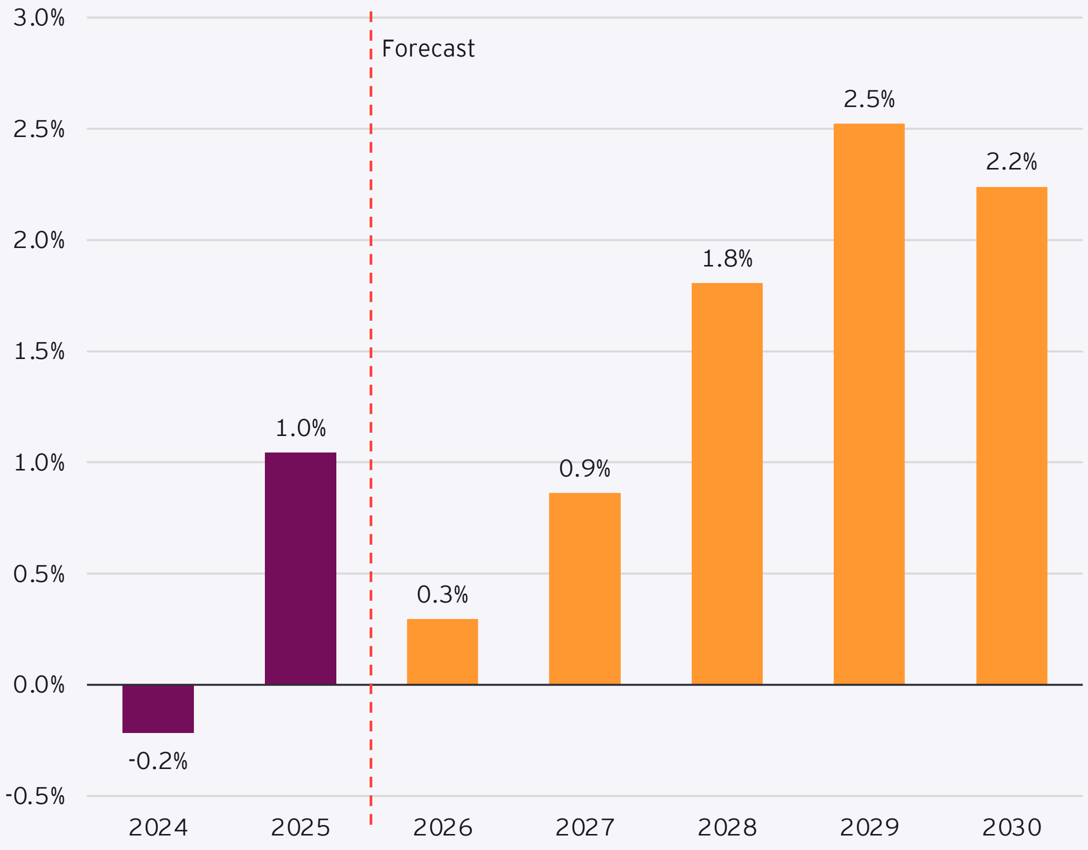
UK GDP growth, quarter-on-quarter rate, %
2025 Q1 – 2027 Q4



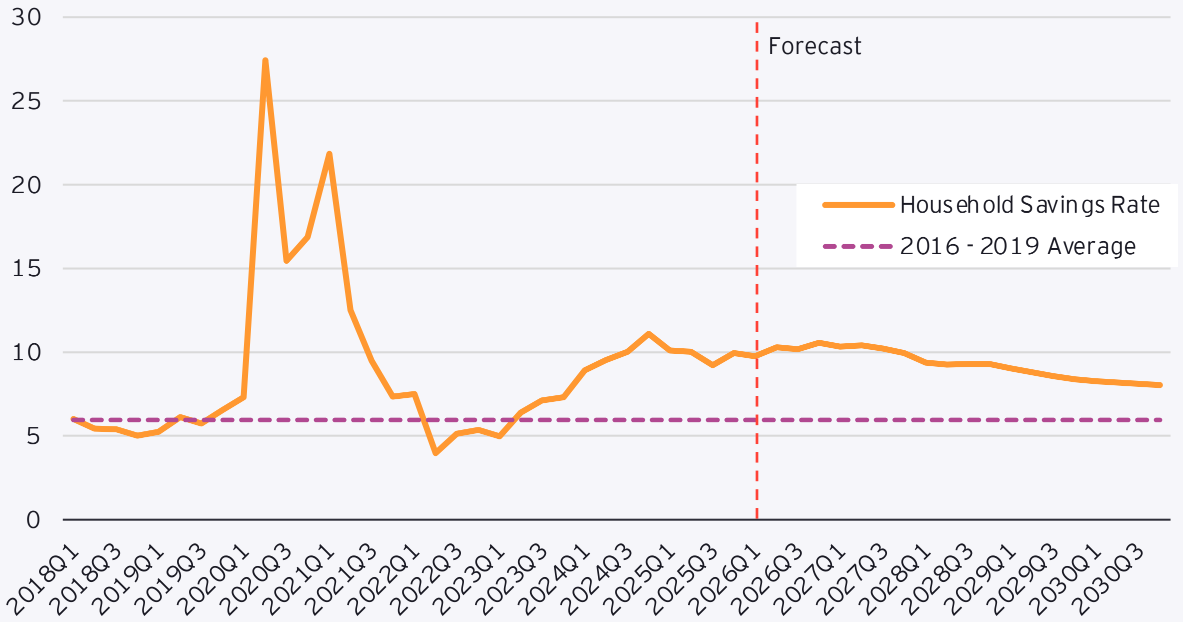
Source: EY calculations in the NiGEM model

Households will pull back spending this year in the face of higher inflation, pushing back the anticipated recovery in consumption into late-2027

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



UK household savings rate, %
2024 - 2030

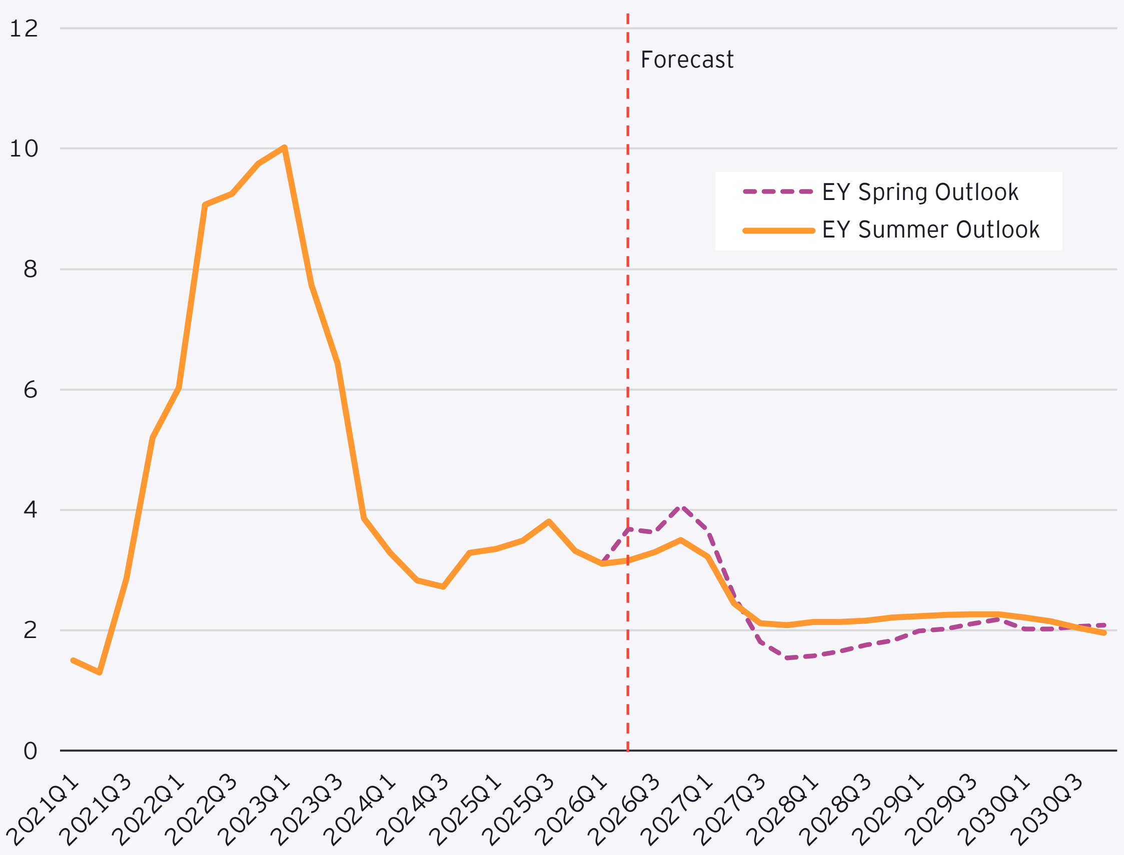


Business impact: Increased saving, particularly among richer households, has held back spending and will continue to do so in 2026/27. Any recovery in spending will require consumers to save less, so consumer businesses will need to focus on how to regain this lost share of spending by affluent households.

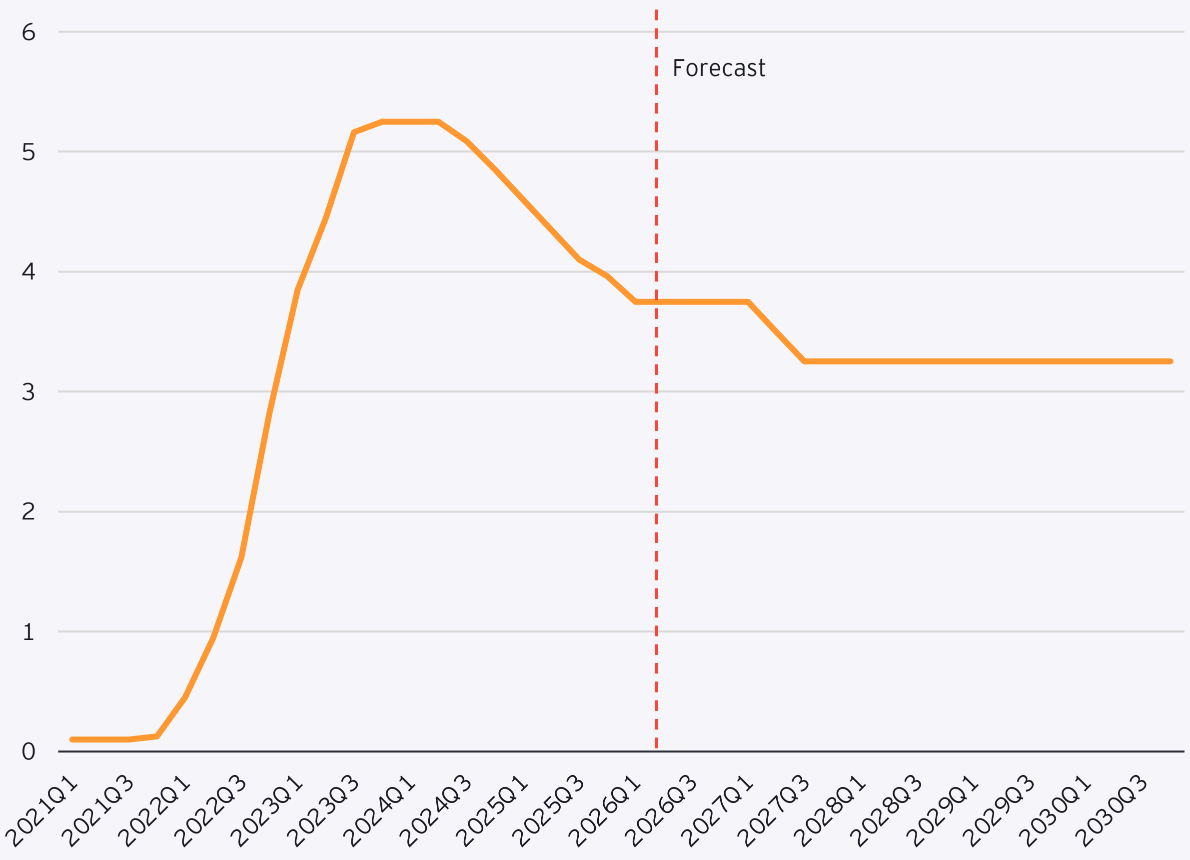
Source: EY calculations in the NiGEM model

Inflation is now expected to peak at 3.5%, lower than previously expected. The BoE is expected to hold rather than increase rates

UK CPI inflation, 12-month rate, %
2021 - 2030



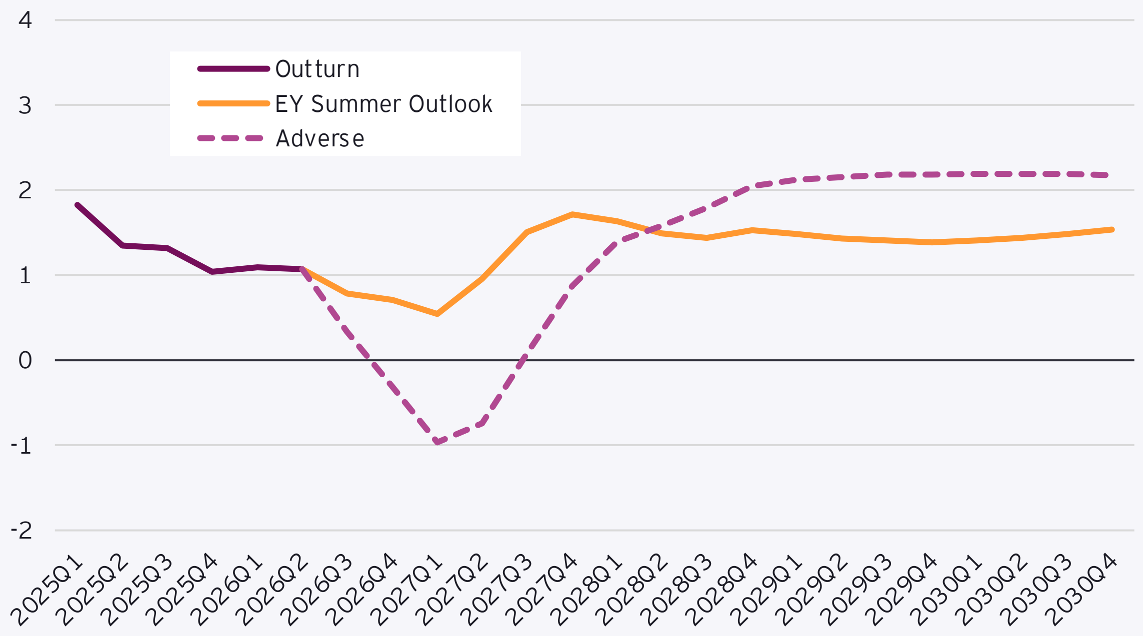
Bank of England base rate, %
2021 Q1 - 2033 Q4



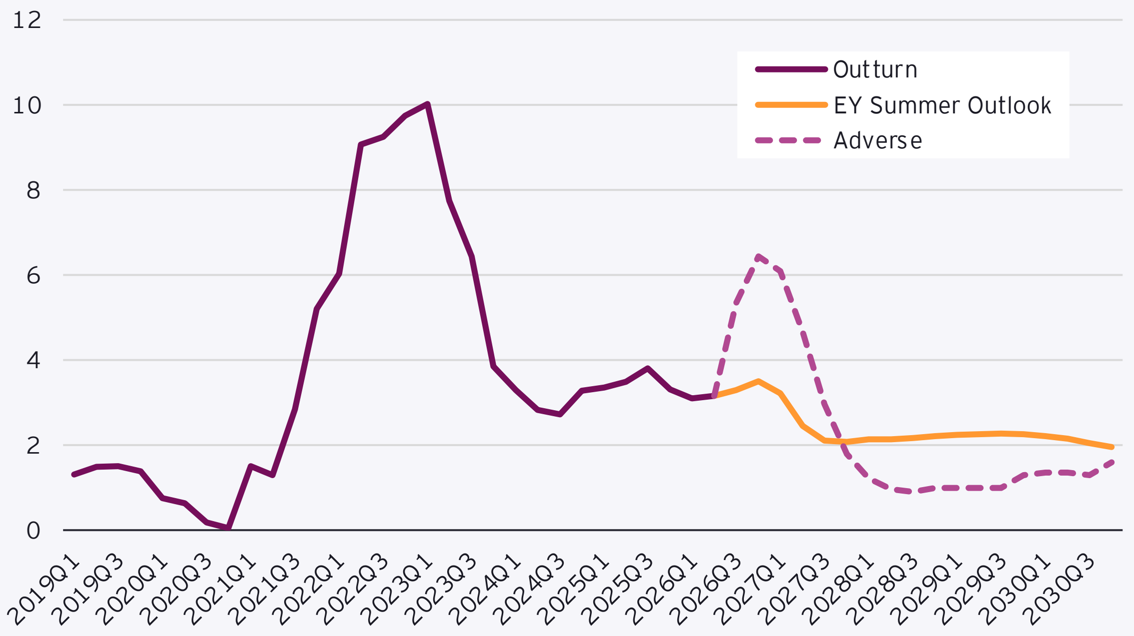
Source: EY calculations in the NiGEM model

However, the outlook is threatened by further escalation in the Middle East, which could see the economy contract and inflation rise to over 6%

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



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



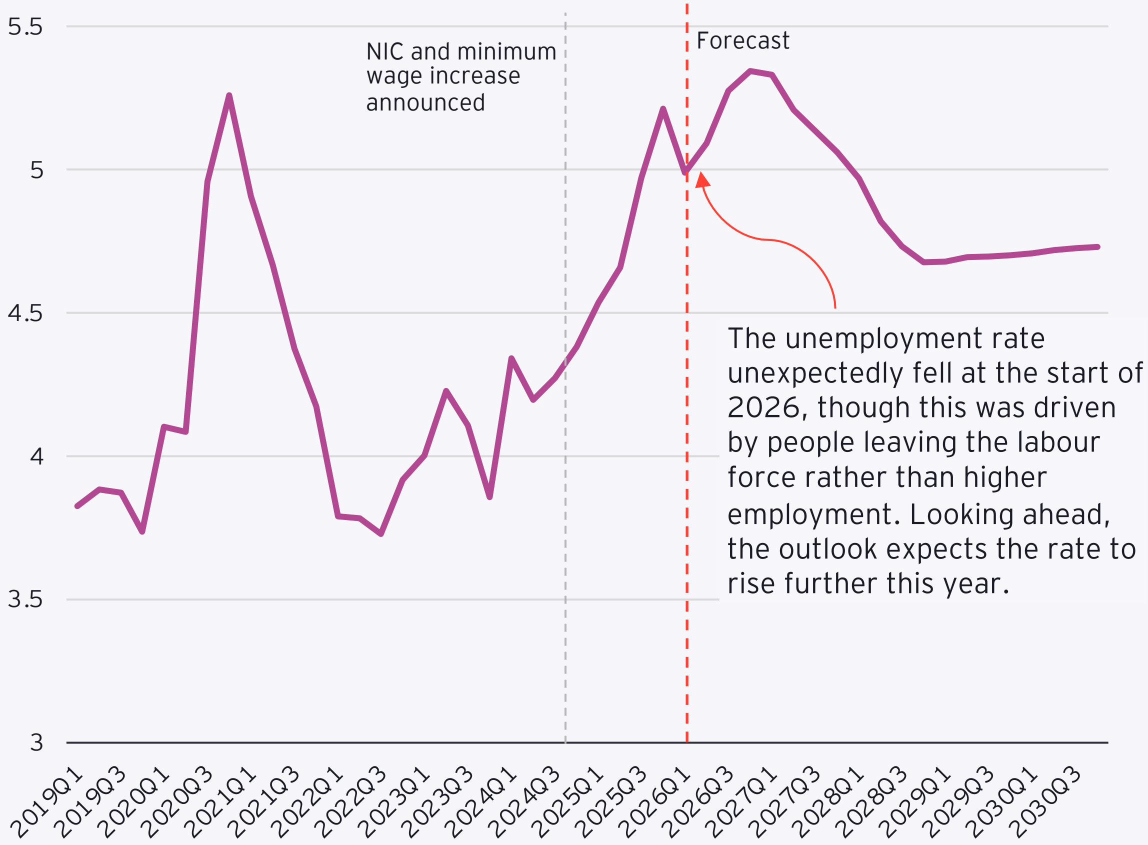
The risks to the central EY Summer Outlook are firmly skewed to the downside. Further escalation in the Middle East threatens to unwind the recent falls in energy prices. In the adverse scenario, UK inflation could hit 6% by the end of the year, driving the UK economy into a recession in the second half of 2026 and early 2027.

Business impact: With global geopolitics driving commercial outcomes. businesses should consider the broad range of macroeconomic scenarios as part of their strategic planning and consider what mitigations can be put in place.

Source: EY calculations in the NiGEM model

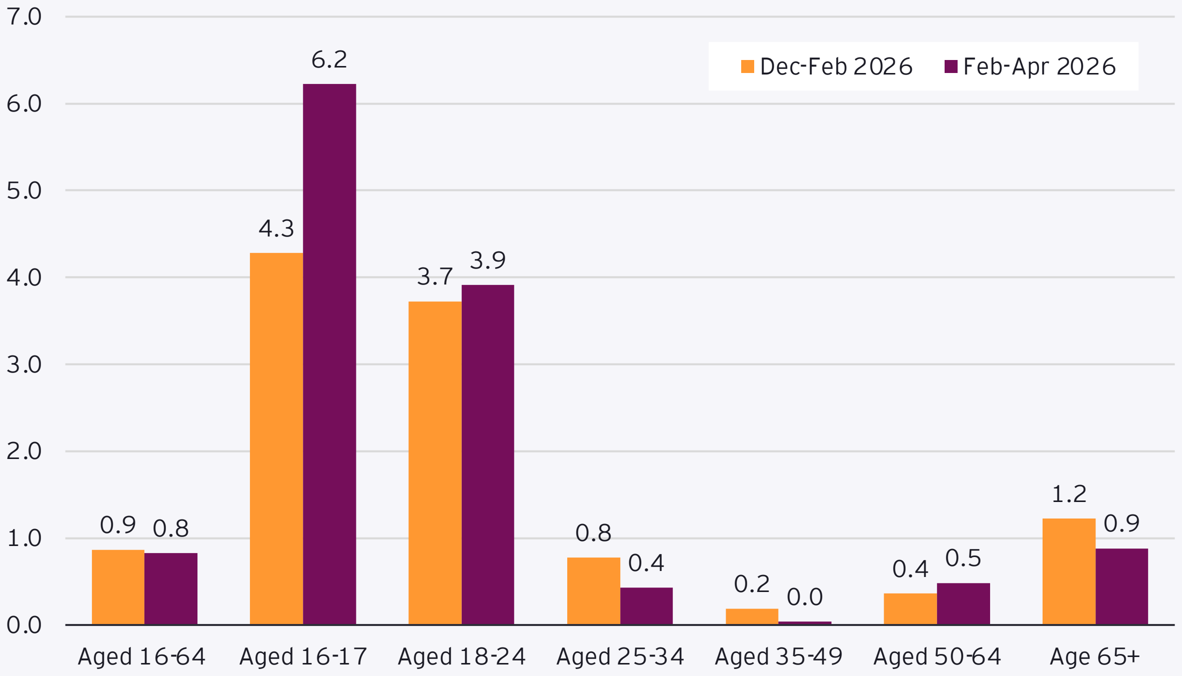
Focus on employment: The UK unemployment rate had risen steadily in recent years, driven primarily by younger people

UK unemployment rate, %
2019 Q1 – 2030 Q4



Source: EY calculations in the NiGEM model

UK change in unemployment rate by age group, ppts
2026 periods relative to November – January 2024

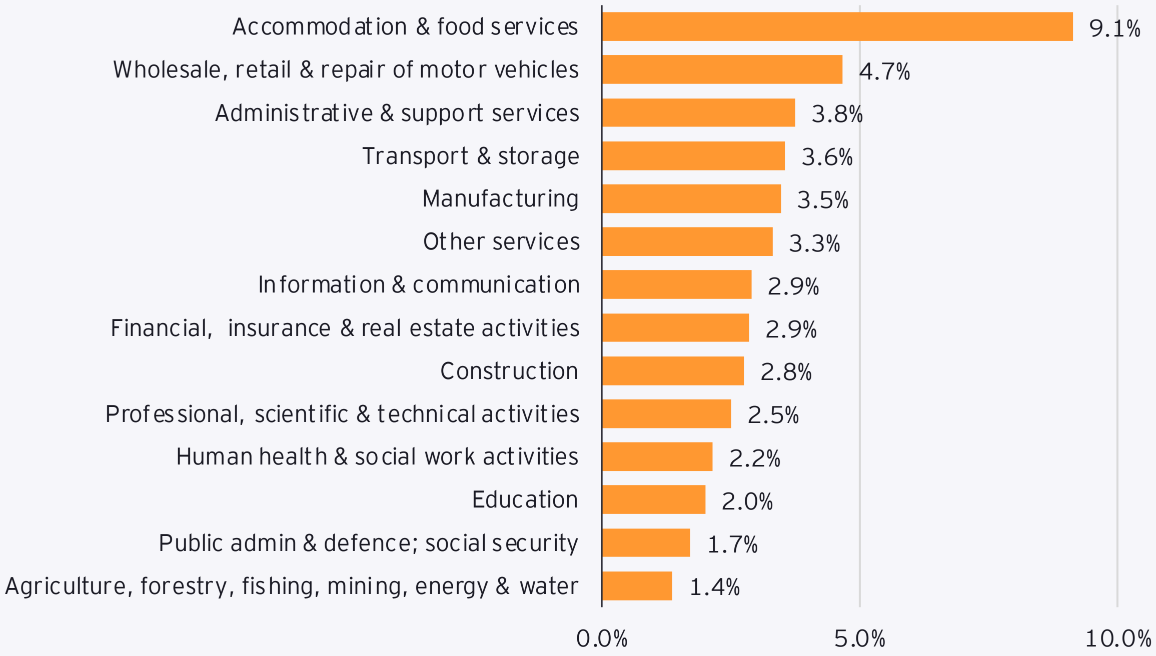


Unemployment among 16- to 24-year-olds has continued to rise in the last quarter and is now higher than the EU average for the first time in decades. Economic inactivity within this age group remains elevated.

Source: ONS, EY analysis

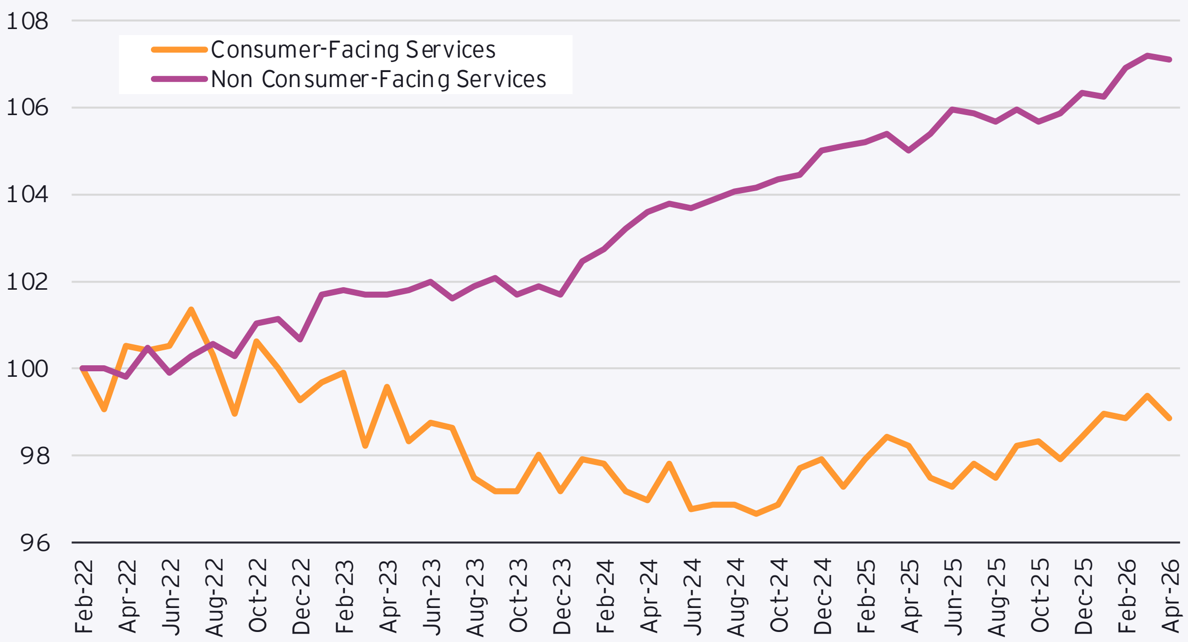
Unemployment pressures remain most pronounced in consumer-facing sectors, where weak consumer demand and higher labour costs are weighing on hiring

UK unemployment rate by industry, %
February 2026 - April 2026



Unemployment remains concentrated in consumer-facing sectors such as retail, accommodation and hospitality where hiring appears most exposed to higher labour costs due to increased employment taxes and the minimum wage increase.

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

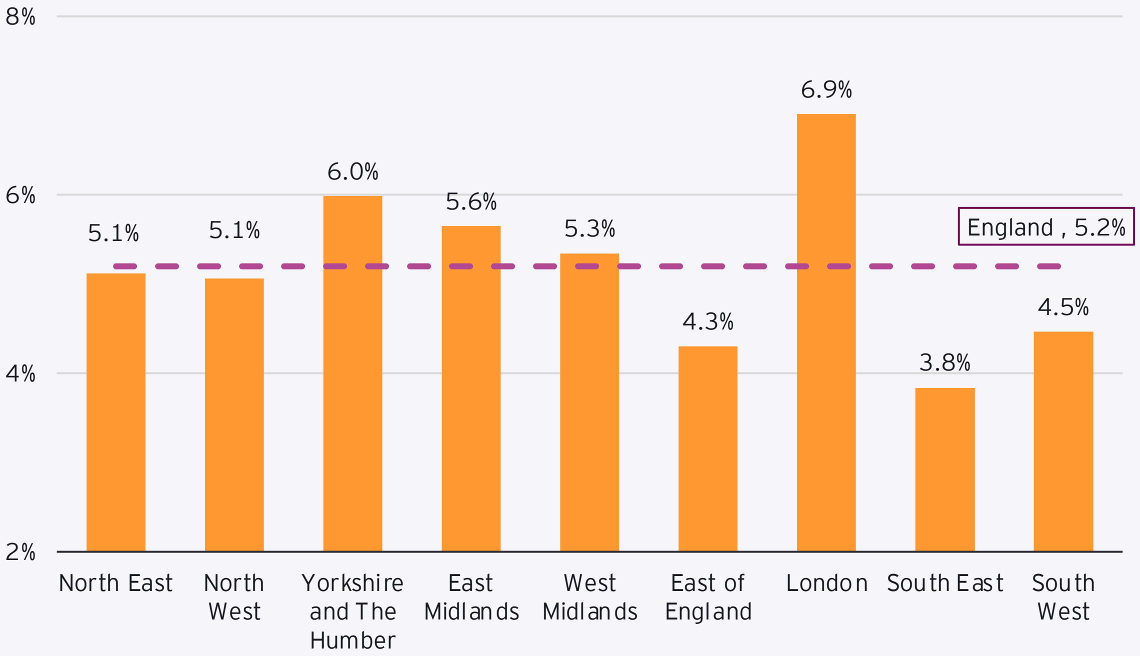


In addition, while business-facing services have grown steadily since 2022, demand for consumer-facing services has largely stagnated, further dampening hiring demand in the sector.

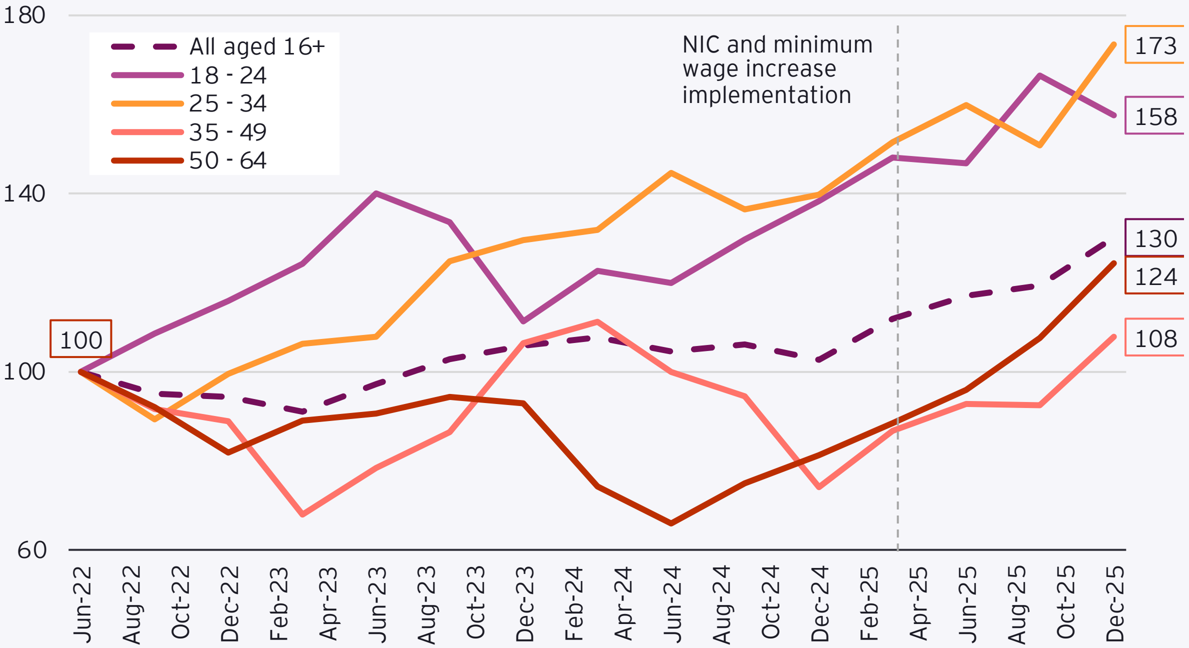
Source: ONS, EY analysis

Within the UK, unemployment is (perhaps surprisingly) highest in London, with the increase disproportionately concentrated among younger workers

Unemployment rate across England regions, %
February 2026 - April 2026



London: Unemployment by age groups, June 2022 =100
June 2022 – December 2025



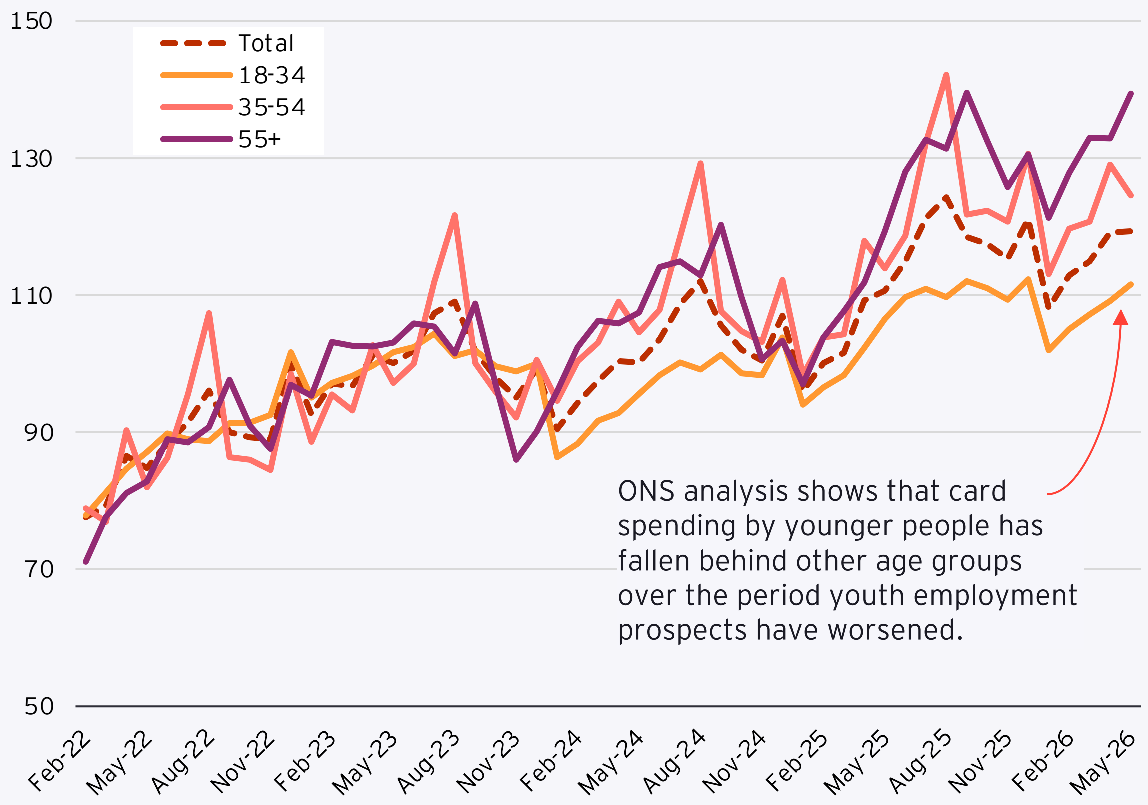
England continues to record the highest unemployment rate among the UK nations. Within England, unemployment in London recorded the highest unemployment rate (6.9%) followed by the Yorkshire and Humber region, and the Midlands.

Similar to the rest of the UK, unemployment rose across all age groups in London in 2025 but was concentrated among younger workers aged 18–34, reflecting weak labour demand and fewer entry-level vacancies.

Source: ONS, EY analysis

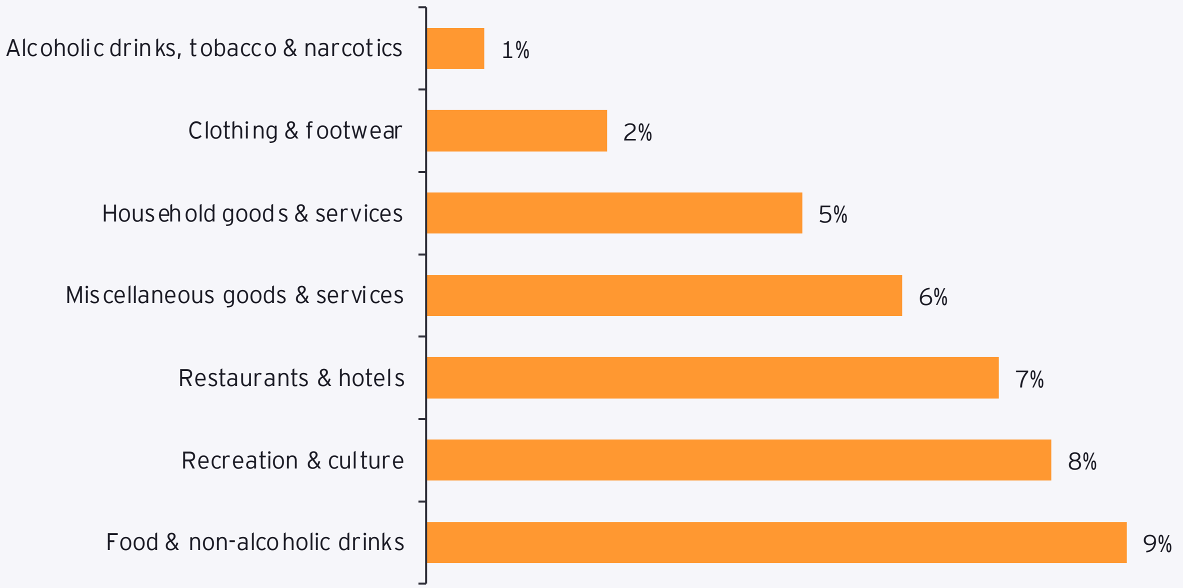
Young people tend to spend a significant amount in the sectors most impacted – creating a vicious cycle …

Spending on debit cards by age, 2023 =100
February 2022 - May 2026



Source: ONS, Revolut

Share of household spending on consumer services where the household reference person is aged under 30
% share of total expenditure, 2025

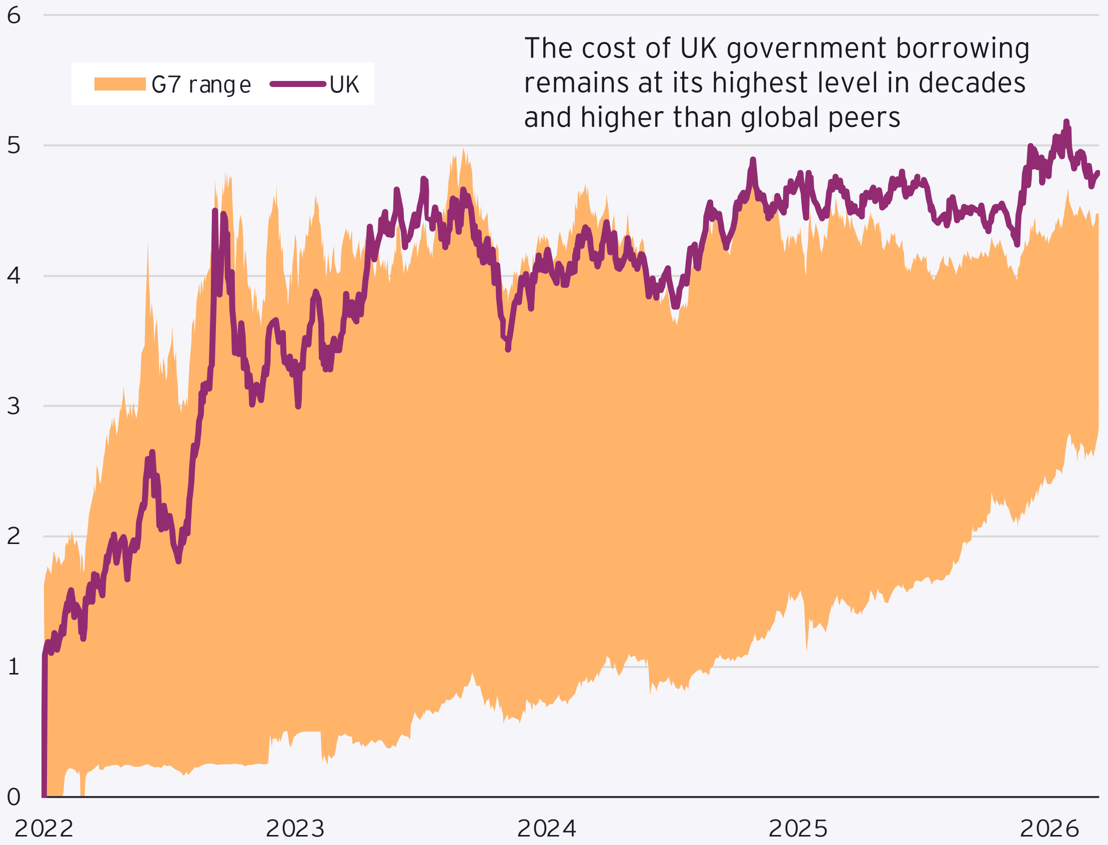


Business impact: Certain consumer segments within retail and hospitality are more exposed to falling employment and incomes among younger people. If this group continues to pull back spending, then the value proposition of discretionary spending becomes even more important.

Source: ONS, EY analysis

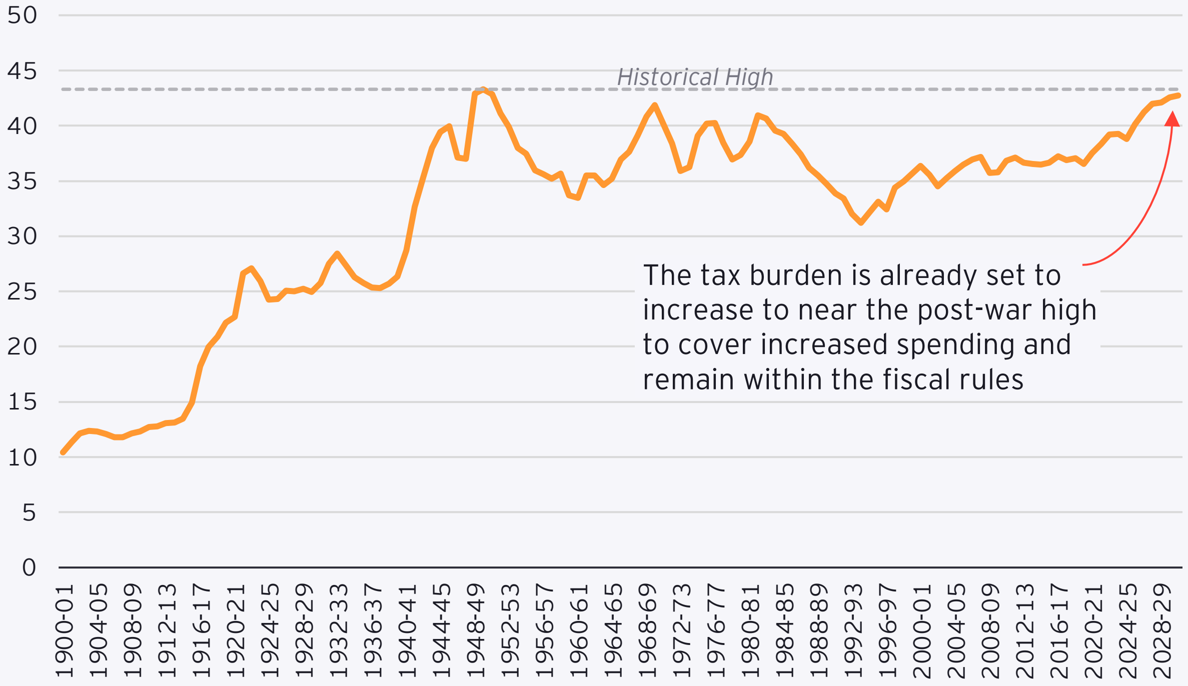
Looking to the Budget – any ambitions to reset UK economic policy will face the same fiscal constraints as in previous fiscal events

UK 10-year gilt yields vs G7 range, %
January 2022 - July 2026



Source: LSEG, EY analysis

UK: Total tax receipts, OBR forecast, % of GDP
1900/01 - 2030/31



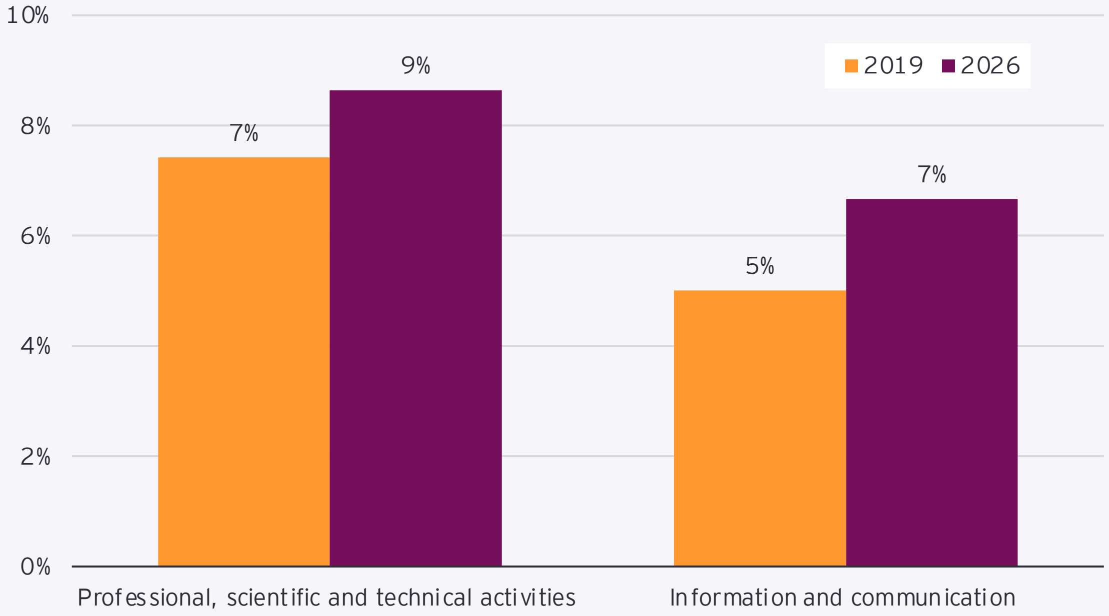
The UK is facing high levels of debt and deficit, while taxes are approaching a post-war high and borrowing remains expensive, with the UK still paying a premium. This combination will limit the fiscal options of any government in the coming years.

Source: OBR

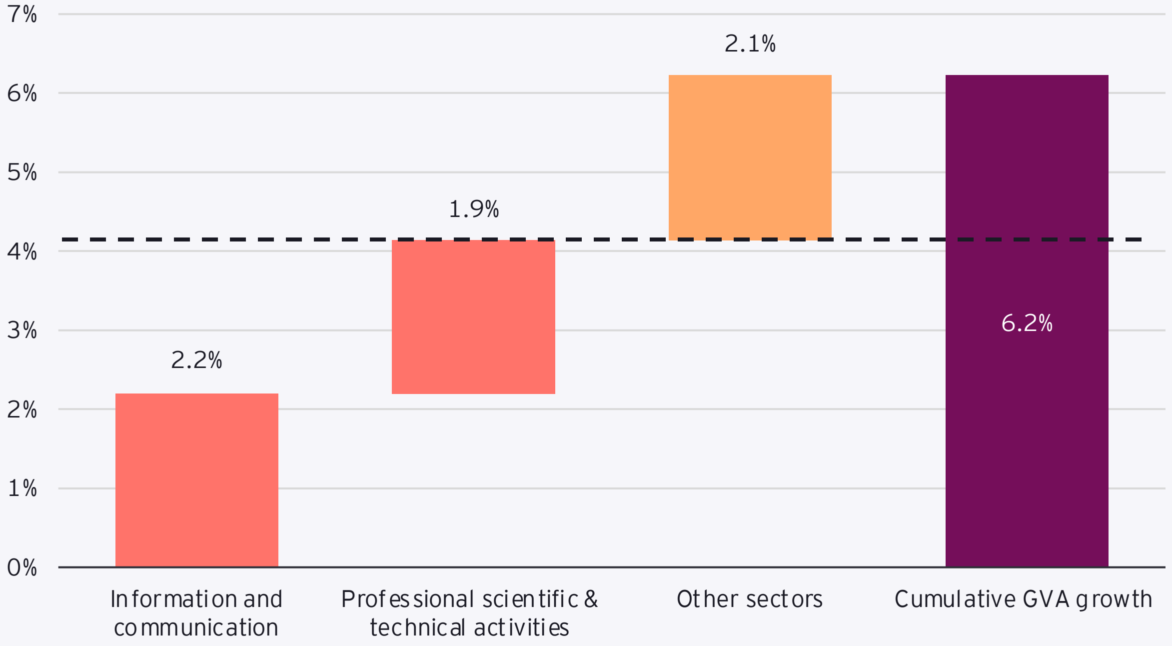
In focus
sector insights

Slow aggregate growth in the UK masks a success story: High value-add business and professional services have grown rapidly since 2020

GVA share of major economic sectors in the UK
2019/20 vs 2025/26



UK cumulative GVA growth rate across major sectors
2019/20 - 2025/26



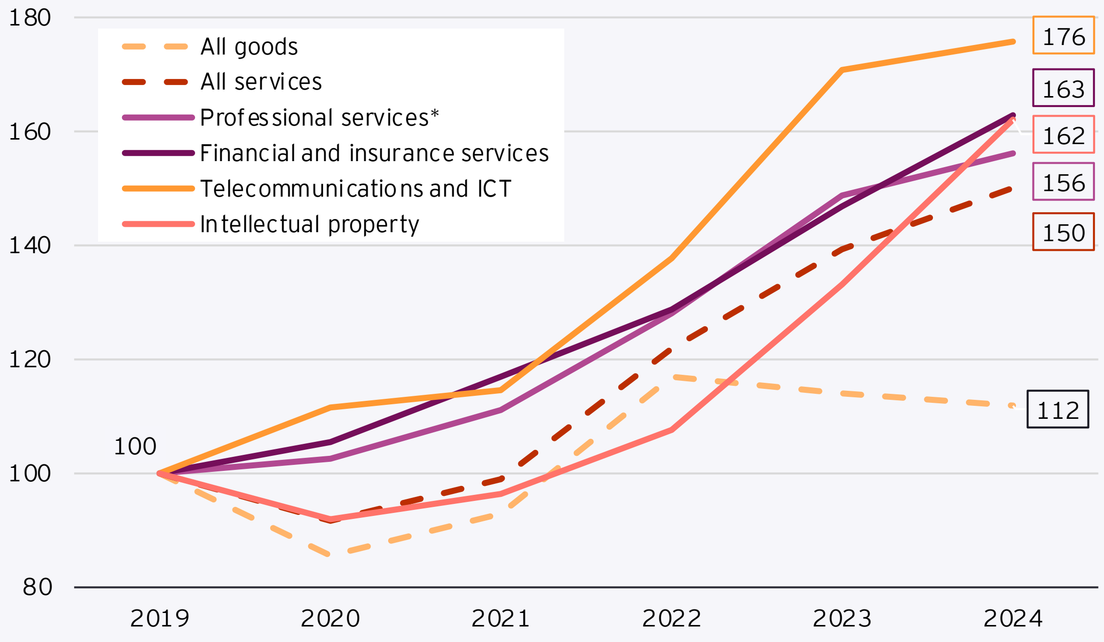
Between FY2020 and FY2026, the information and communication services[1] (ICT) and professional, scientific & technical activities[2] contribution to the UK GVA increased from 12% to 16% adding almost £100bn to the UK GDP and accounting for 70% of UK GDP growth.

1 Includes telecommunications, information services, computer programming, motion picture programming and broadcasting activities
2 Includes scientific R&D, management consulting, advertising, architectural, legal and other professional services.

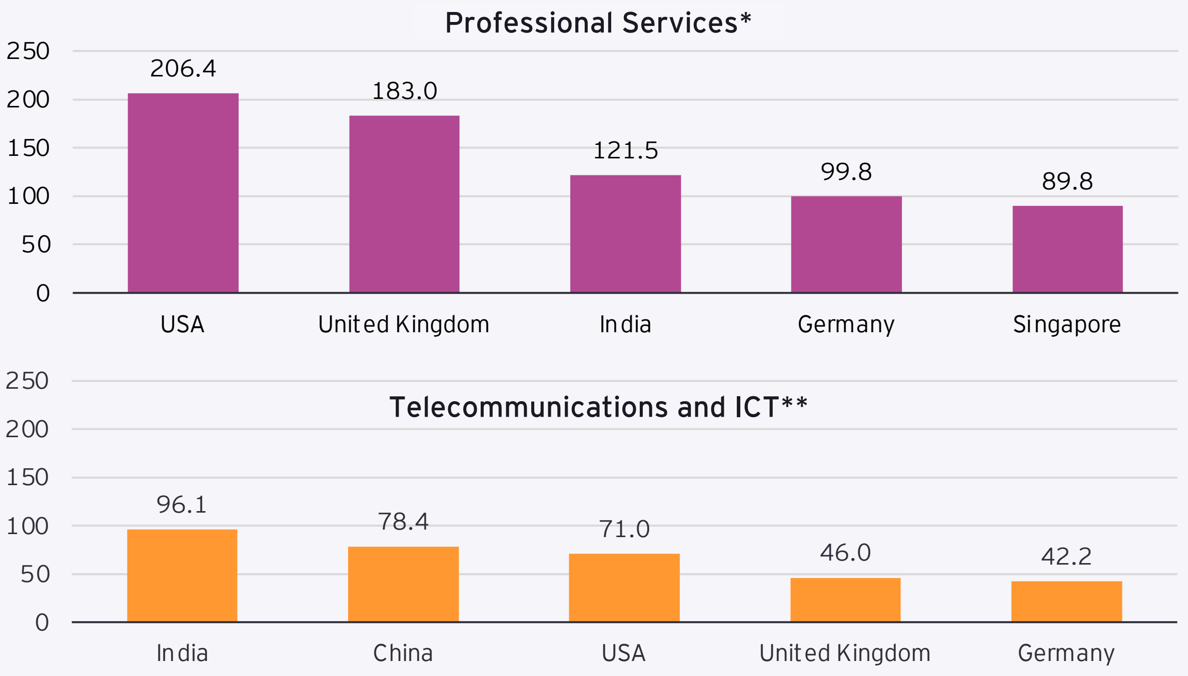
Source: ONS, EY analysis

This has been underpinned by strong export growth – even as goods exports have stalled

Change in services exports across major service categories, 2019 =100
2019 -2024



Top global exporters of technology and professional business services, $bn
2024



UK services exports have grown strongly since 2019 rising at an 8% CAGR. Growth has been led by telecommunications and ICT, while other high-value services such as financial and insurance services, business services, and intellectual property also significantly outperformed their 2019 levels.

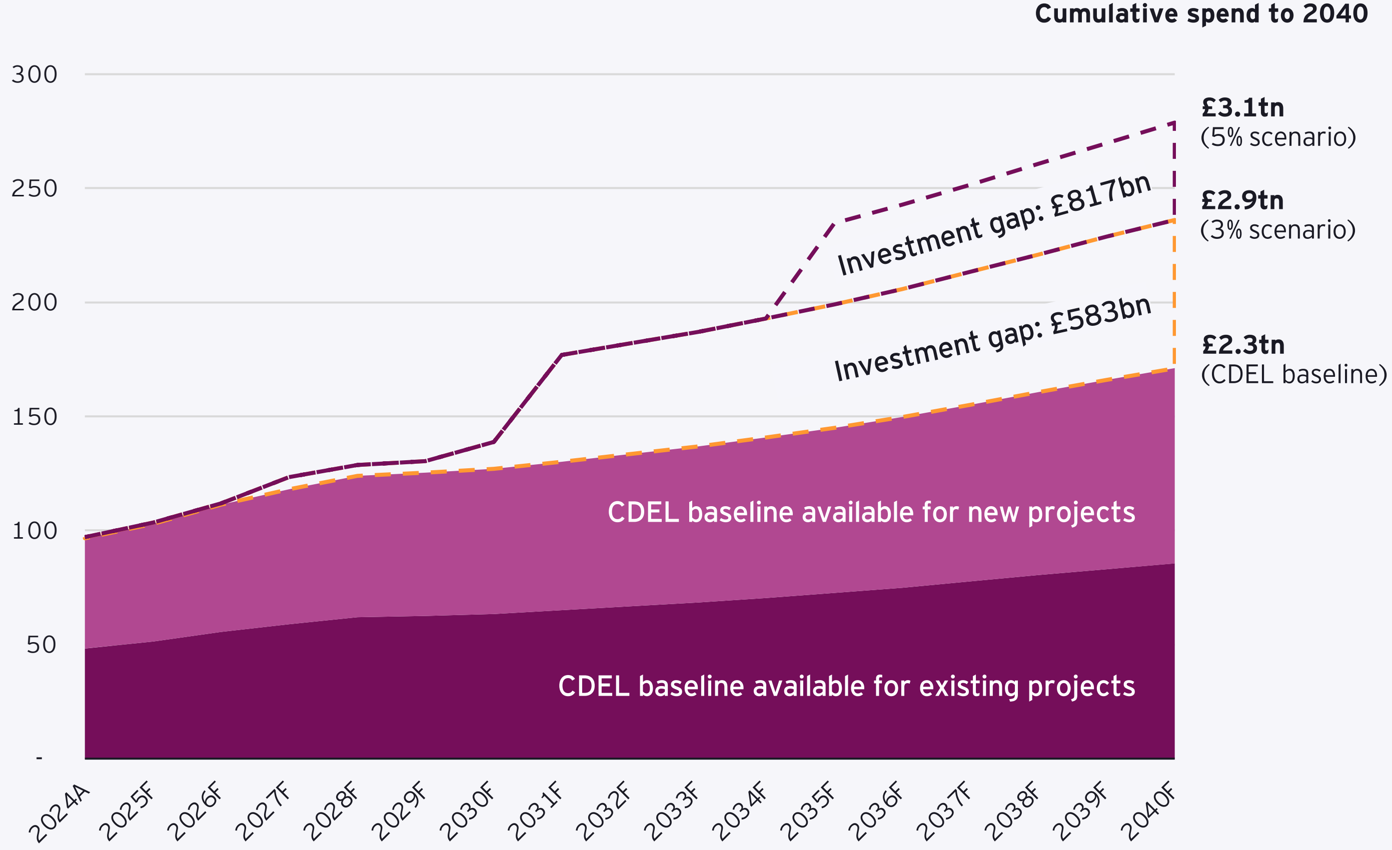
Source: ITC, UNCTAD, WTO trade in services database based on Eurostat, International Monetary Fund, Organisation for Economic Co-operation and Development (OECD) and relevant national statistical authorities statistics, EY analysis

The UK also holds a strong global position (2nd) and leads across Europe in services exports. In 2024, it ranked 4th globally for telecommunications and ICT exports at $46bn, and 2nd for business services exports at $183bn, behind only the US.

*Professional services include technical, trade-related, professional, management consulting and R&D services
**Excluding Ireland

The pipeline of infrastructure projects to 2040 is significant, and alternative financing models will be needed to deliver this

Investment gap caused by difference between government capital spending (CDEL) available for new projects vs value of unfunded programmes through to 2040, £bn
2024 - 2040



The demand outlook for investment and infrastructure projects in the UK is significant, with over 1,000 projects scheduled to commence or complete by 2040.

This is before including the potential additional commitments on defence spending and social housing.

The overall value of currently unfunded programmes to 2040 is £1.7tn (rising to almost £2tn in a 5% defence spending scenario).

We estimate that £1.1tn will ultimately be covered by government funding, leaving a funding gap of up to £817 billion.

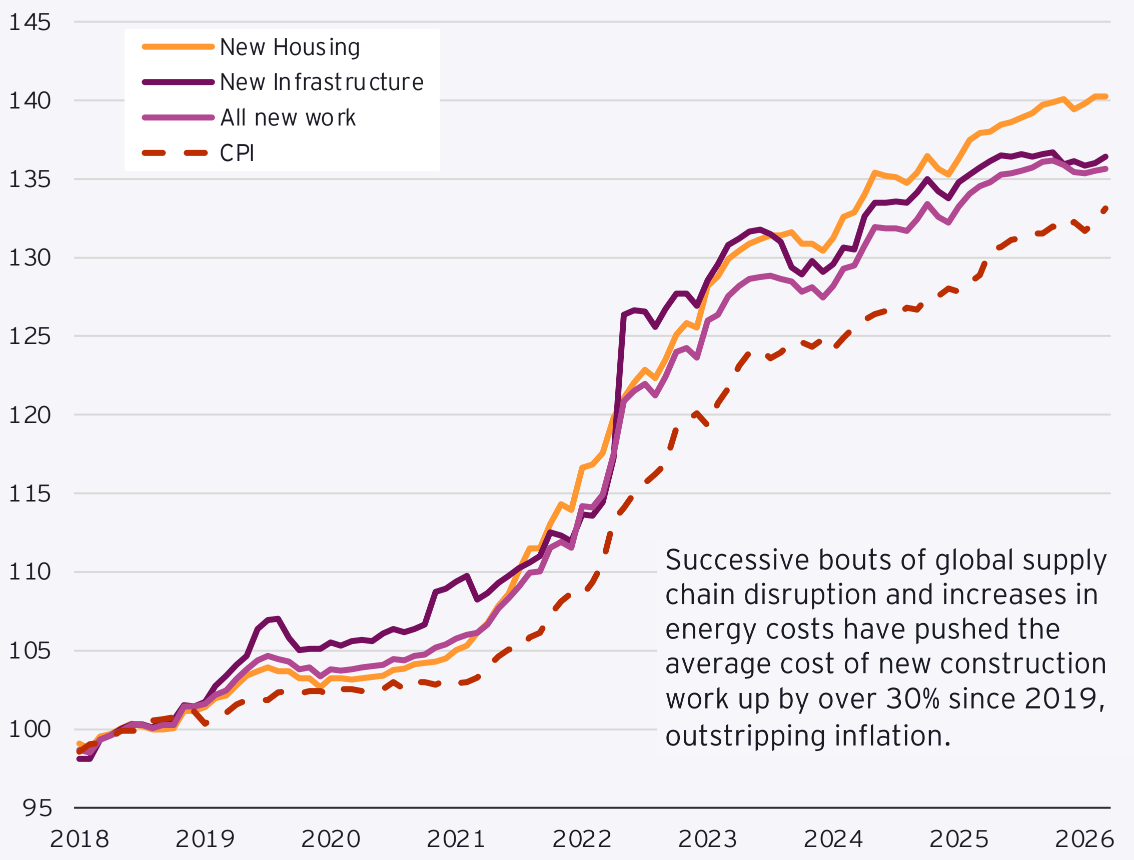
While a challenge, it's possible to close this gap via a combination of technology adoption, better delivery models and alternative finance.

Explore EY's analysis of the investment gap here

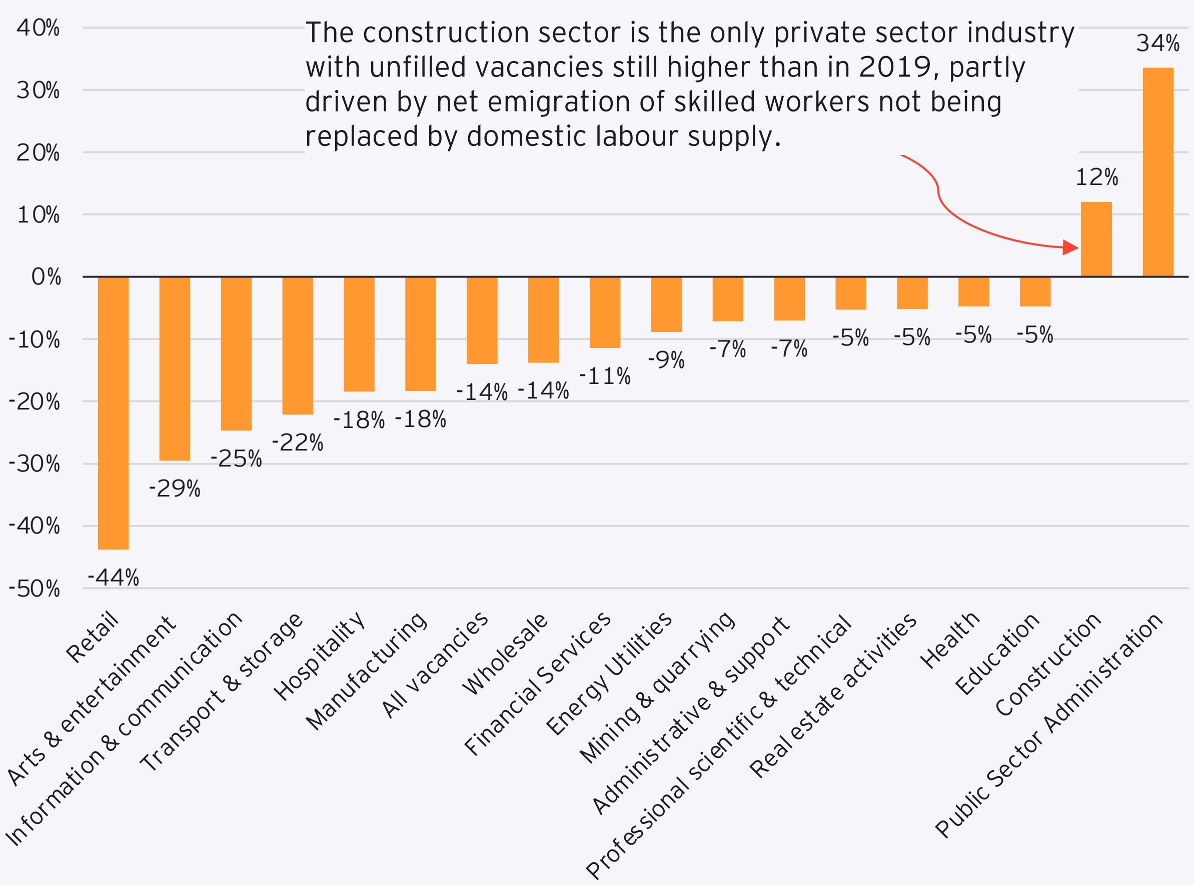
Source: "Mind the (Investment) Gap", EY-Parthenon, January 2026

Delivery will, however, be a major challenge for a construction sector that is already facing acute supply-side constraints from material costs and labour shortages

Construction Sector Output cost Indices and CPI, 2018 =100
2018 -2026



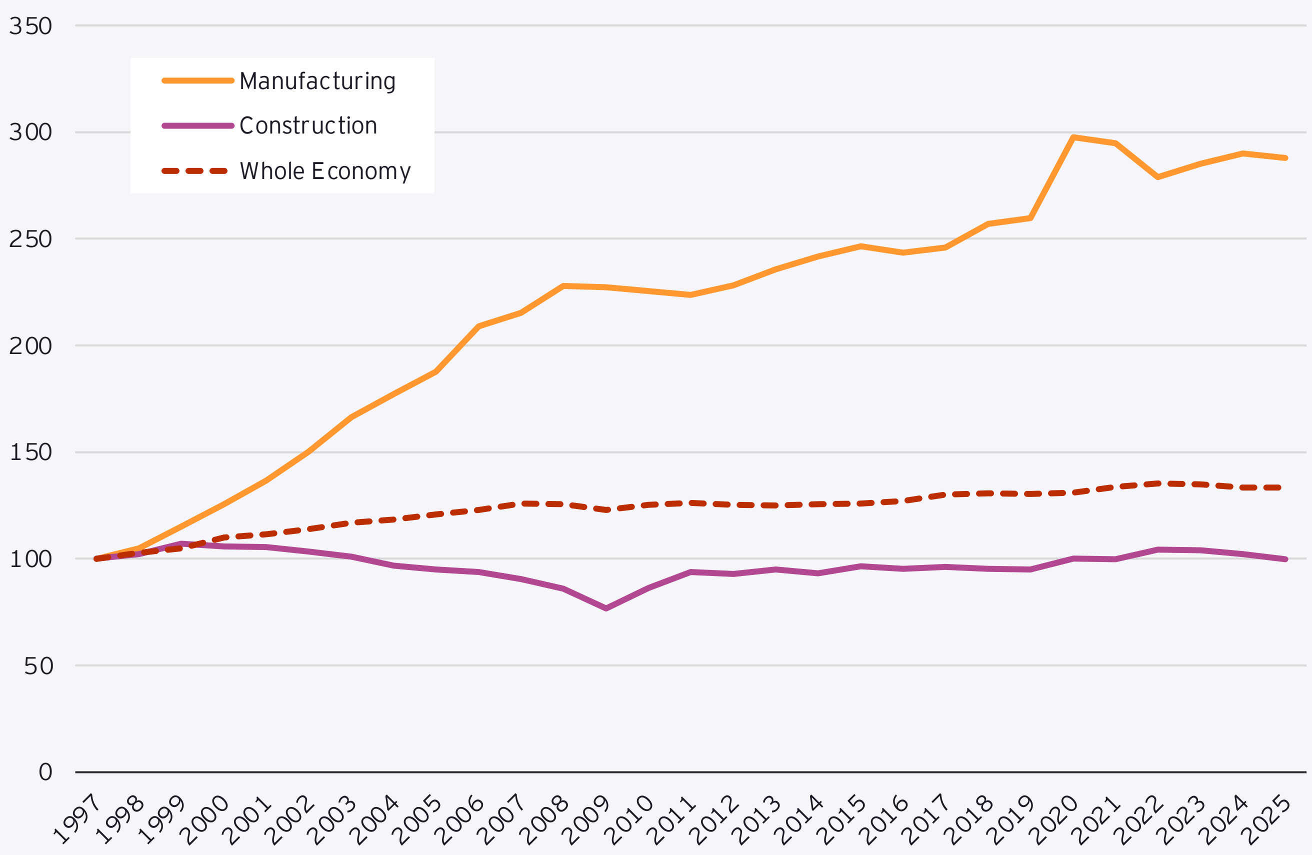
Change in total vacancies by sector
% change in the 12-months to May 2026 vs 12-months to May 2019



Source: ONS, EY analysis

Ultimately, the only solution will be much-needed innovation and productivity gains within the construction sector

Output per hour: UK construction and manufacturing sectors, 1997 =100
1997 - 2025



Productivity in the construction industry has been stagnant for almost 30 years.

This contrasts with manufacturing, where productivity has surged (188% up) driven by technology adoption and automation.

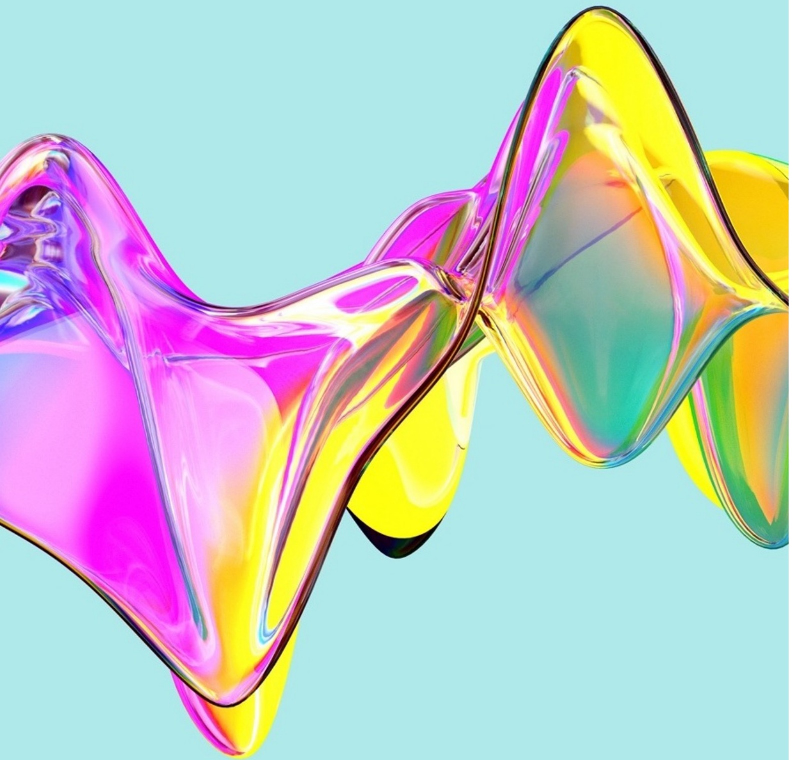
Policymakers can help by providing more certainty over long-term infrastructure projects to provide incentives to innovate and build and maintain skills and capacity within the sector.

This could create sufficient scale to improve the commercial viability of existing technological innovations like modular building.

At the same time, there is real scope for significant productivity gains from new innovations like agentic AI.

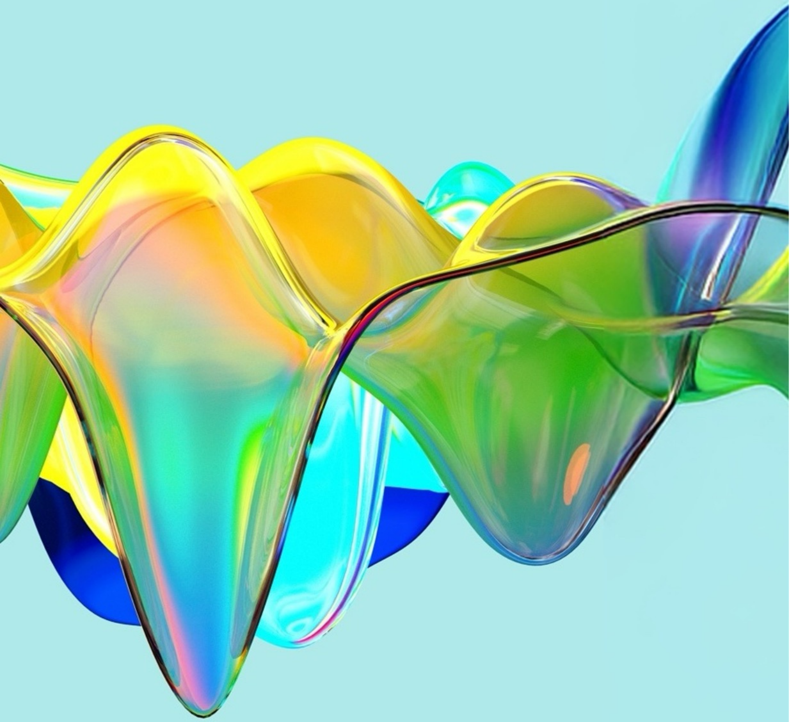
Explore how agentic AI solutions can help transform infrastructure projects and expedite delivery here

Source: ONS, EY analysis



Summary

- Despite activity softening, underlying economic momentum held up relatively well in Q2 2026, helped by lower-than-expected inflation and falling global energy prices during the period of ceasefire in the Middle East.
- This resilience has supported the outlook this year, pushing the growth forecast up to 0.9% from 0.8% and reducing the expected peak of inflation from around 4% to just over 3.5% by the end of 2026.
- However, this slight improvement in the outlook is threatened by recent hostilities and the re-closure of the Strait of Hormuz. A return to full-blown conflict and an extended closure of the Strait could see UK inflation peak above 6% and economic growth go into reverse before the end of 2026.
- Increased energy prices are a further headwind to the UK labour market, which has already loosened considerably since 2024, driven by worsening employment prospects among younger people.
- High-value, business-facing services sectors continue to drive the majority of UK growth, supported by strong growth in exports.
- The UK construction sector remains constrained by labour shortages, and material costs and will struggle to deliver the significant pipeline of infrastructure projects without increases in productivity.



Economic Outlook

	2026	2027	2028	2029	2030
GDP (y/y, %)	0.9	1.2	1.5	1.5	1.5
Adverse	*0.5*	*-0.2*	*1.7*	*2.2*	*2.2*
Inflation (Q4, %)	3.5	2.1	2.2	2.2	2.0
Adverse	*6.4*	*1.8*	*1.0*	*1.3*	*1.6*
Domestic Demand (y/y, %)	1.1	1.2	1.5	1.7	1.8
Consumption (y/y, %)	0.3	0.9	1.8	2.5	2.2
Investment (y/y, %)	-0.7	1.8	2.6	2.2	1.5
Exports (y/y, %)	1.0	1.0	1.7	1.9	1.7
Imports (y/y, %)	1.9	1.1	1.6	2.8	2.7
Unemployment rate, Q4, %	5.3	5.1	4.8	4.7	4.7
Bank Rate (Q4, %)	3.75	3.25	3.25	3.25	3.25

The information in this document includes data derived from 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

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