CBI Economics

Economic Forecast

Expert analysis on the outlook for the UK economy, so your business can plan for the future.

June 2025

UK outlook: muddling through

Our latest forecast expects that UK economic momentum will remain modest, with GDP growing by 1.2% in 2025 and 1.0% in 2026. Household spending is the main driver of growth over our forecast – supported by real incomes gains and lower interest rates – but higher labour costs and global economic uncertainty will weigh on business investment. The increase in employment costs following the Autumn Budget will lead to higher prices, subdued business investment, and slower employment growth. US tariff hikes pose a modest headwind to UK output, primarily through reduced exports and dampened investment. Furthermore, productivity will lag slightly below its pre-COVID trend, which weighs on the UK's long-term growth prospects.

1.2%

CBI's GDP growth forecast for 2025

GDP

UK economy will grow at a modest pace through 2026

The UK saw tepid GDP growth of 1.1% over 2024, reflecting a mix of cautious household spending behaviour, lacklustre business investment, and a drag from net trade. While the economy began 2025 strongly, business surveys suggest that underlying activity remains weak, due to measures in the 2024 Autumn Budget and global trade uncertainty.

We expect that UK GDP will grow at a mild rate of 1.2% in 2025 and 1.0% in 2026. The downgrades from our December forecast reflect a mix of weaker-than-expected outturn data and domestic & international headwinds. It's worth noting that the expected slowing in annual GDP growth masks a gradual strengthening in quarter-on-quarter growth over 2026.

The Autumn Budget added significant costs to UK businesses, through a higher employer NICs rate, lowering of the secondary employer NICs threshold, and a sharp rise in the National Living Wage (NLW). As in our previous projections, we expect that the increase in labour costs will result in higher prices, slower pay growth, softer private sector employment, and weaker investment over our forecast.

Higher US tariffs are expected to reduce US demand and hit global trade more broadly. The direct impact on the UK will be limited, given that goods exports to the US account for only around 7% of total exports. However, US tariffs are still likely to weigh on UK activity through heightened economic uncertainty, weaker global trade, and financial market volatility.

Household consumption over our forecast is supported by growth in real incomes and lower interest rates, but cooling labour market conditions will pose a headwind to spending. We anticipate that households will maintain some measure of cautious spending behaviour this year, but this eases off somewhat in 2026 as inflation falls back below 3%.

Business investment growth over 2025 is projected to be boosted by a sharp rise in Q1, which was partly due to a (likely temporary) increase in aircraft purchases. Underlying investment intentions remain poor, however. We expect that this weakness will become more noticeable in the coming quarters, reflecting the impact of higher labour costs and global economic uncertainty.

Productivity is expected to remain weak over our forecast, lagging slightly behind its pre-COVID trend. This underlines the need for domestic policy measures that drive forward sustainable growth amid a volatile global outlook.

3.3%

CPI inflation in Q4 2025

Inflation and monetary policy

Inflation set to ease back down next year, allowing for continued rate cuts

CPI inflation began rising over the second half of 2024 and early 2025, reflecting a mix of energy-related base effects and sticky services inflation. In April, inflation rose to 3.5% due to increases in Ofgem's energy price cap and other regulated prices (e.g. water bills). This was compounded by passthrough of the rise in employer NICs and the NLW to prices.

We expect inflation to average 3.3% in 2025, peaking at 3.8% in September. Housing & utilities prices are the main drivers of inflation over the year, with price pressures also remaining elevated in hospitality, food & drink, transport, and recreation & culture. Inflation then eases to 2.5% (on average) over 2026, broadly in line with our previous forecast. The slowdown mostly reflects this year's rises in energy and regulated prices falling out of the annual comparison.

We expect that the Bank of England's Monetary Policy Committee (MPC) will cut Bank Rate by 25 basis points each quarter until it reaches 3.5% in Q1 2026, reflecting the Committee's "gradual and careful" approach to reducing interest rates. The MPC has noted that they believe the near-term increase in inflation will prove to be temporary (broadly in line with our own forecast), which means that they can continue to (cautiously) cut rates this year.

0.9%

Household spending growth over 2025

Households

Household spending is projected to gradually firm through 2026

High interest rates and the lingering impact of elevated inflation led to many households holding back on spending in 2024. This is despite robust gains in real incomes over the past couple of years. Recent data on consumer spending have been giving mixed signals on the outlook: overall expenditure figures remain weak, but retail sales growth has picked up noticeably in the last few months. Anecdotally, firms in consumer-facing sectors continue to note gloomy sentiment affecting demand.

We expect consumer spending to pick up to a modest pace in 2025, supported by real incomes growth (on the back of real wage gains) and lower interest rates. However, a loosening in the labour market weighs on consumption, and we expect some measure of cautious spending behaviour to persist this year. Consumption will gradually gather pace in 2026 due persistent tailwinds from lower interest rates and continued incomes growth (alongside reduced inflation). Nevertheless, spending growth remains subdued compared to pre-COVID norms.

Our forecast expects that the household savings ratio will gradually decline through 2026, as consumption grows by more than incomes and lower interest rates help disincentivise saving. A key risk to the outlook is that households may maintain a preference for a measure of precautionary saving due to heightened global economic uncertainty.

4.7%

Business investment growth over 2025

Investment

Business investment to be held back by higher labour costs and global uncertainty

CBI surveys show that private sector investment intentions have deteriorated to the greatest extent in nearly five years. Many firms mention that they are in a risk-averse mindset, reflecting higher employment costs and tariff-related uncertainty.

In our forecast, annual business investment growth over 2025 is boosted by a significant increase in Q1, which was mostly due to temporary factors like aircraft purchases. Following a partial pullback in Q2, we expect that investment growth will be more modest through 2026. This reflects a balance of tailwinds, such as subdued GDP growth and lower interest rates, against headwinds from higher employment costs and global economic uncertainty.

We project that the UK will continue to lag its G7 counterparts in business investment as a proportion of GDP. Subdued capital spending is likely to drag on UK productivity and potential growth going forward.

0.9%

Exports to grow in 2025

Trade

Downturn in world trade will lower UK exports

In early 2025, the newly elected Trump administration in the US introduced sweeping tariff hikes on imports from practically every country in the world. The imposition of these tariffs triggered an unprecedented increase in global economic uncertainty, heightened volatility in global markets, and raised concerns about a potential slowdown in global trade and economic activity.

We expect that higher US tariffs and global trade tensions will result in a downturn in world trade over our forecast. This will translate into lower UK exports growth this year and a contraction in 2026, driven by weaker non-fuel goods exports. While imports are also expected to soften and then fall next year, net trade is still projected to drag slightly on GDP growth through 2026.

The UK-US trade agreement will mitigate the impact of tariffs for the UK steel, aluminium, and automotive sectors. However, the agreement only covers less than 1% of total UK exports. This means that products accounting for around 5% of total UK exports will face the new 10% tariff rate, while a further 1% will be left at risk to potential future tariffs (e.g. pharmaceuticals). As a result, we expect that the agreement will have a minimal impact for the UK at a macroeconomic level.

£88bn

Public sector borrowing declines through to 2026/27

Public finances

Public finances outlook improves but remains tight overall

The near-term outlook for the public finances has changed moderately since our previous forecast. This is mostly due to the policies announced in March's Spring Statement, as well as some external factors such as the effects of tariffs and other global events.

Public sector net borrowing is still set to fall continually over our forecast, reaching £88bn in 2026/27. This projected level of borrowing is £3bn less than our previous forecast, due to lower net investment in the economy. As a share of GDP, net borrowing is expected to decline from 5.2% in 2024/25 to 2.8% in 2026/27.

We expect the net debt to GDP ratio to have peaked in 2023/24 (at 95.7%), and that it will drop to 93.2% by 2026/27. On the other hand, net financial debt (which is the measure consistent with the Chancellor's fiscal rules) is expected to rise from 82.4% in 2024/25 to 83.1% in 2026/27.

What does this forecast mean for business?

Our latest economic forecast expects that the UK will see modest GDP growth through 2026. The downgrades to growth relative to our December forecast reflect the weakness in recent economic data and headwinds from higher labour costs and US tariff hikes. Household spending is projected to gradually firm over our forecast, but business investment remains weak.

The increases in employer NICs and NLW following last year's Autumn Budget have likely contributed to the recent deterioration in firms' hiring and investment plans. These measures are expected to push up prices, reduce margins, weigh on pay growth, and lower business investment & employment growth over our forecast.

We expect that higher US tariffs will pose a limited headwind to the UK economy, mostly through channels such as heightened economic uncertainty, weaker global trade, and financial market volatility. This impact will be greater in goods-producing sectors that are directly exposed to US markets. The UK-US trade agreement is expected to provide some support for steel, aluminium, and car manufacturers, but the broader impact will be marginal.

The uncertain global outlook underscores the need for UK policy measures that strengthen domestic conditions and help shift the economy out of low gear.

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