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ABCC Monthly UK Economic Report

July 2026

An overview of the latest developments in the UK economy covering major sectors and policy initiatives based on published data and forecasts from key institutions, government departments and private sector bodies.

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01

UK Economy Returns to Growth

+0.1%

GDP growth in May, after April's contraction (ONS)

The UK's economy returned to growth in May after having shrunk in the previous month, latest official data shows. The economy expanded by 0.1%, the Office for National Statistics (ONS) said, driven by growth in the service sector, although this was offset by falls in production and construction. In the three months to May, the ONS said the economy grew by 0.7% compared with the previous three months.

+0.7%

Growth in the three months to May

"The economy recorded robust growth in the three months to May, though the pace eased slightly as the latest two months showed a weaker picture," said Liz McKeown, director of economic statistics at the ONS.

1.0%

IMF growth forecast for the UK in 2026

"Computer programming and advertising led the way, while the often-volatile pharmaceutical industry also performed well," she added.

02

Annual Forecasts and Interest Rates

1.0%IMF UK growth forecast,
2026

The UK economy is set to grow by just one per cent this year, according to the International Monetary Fund. “In the UK, growth is projected to fall to 1.0 percent in 2026 before recovering to 1.3 percent in 2027 as the energy shock fades,” the IMF said.

IMF economists slightly revised up the UK’s previous forecast of an anaemic 0.8 per cent growth. UK growth will lag behind the US and Canada this year although it is projected to surpass other G7 nations Germany, France, Italy and Japan.

1.3%IMF UK growth forecast,
2027

Interest Rates

The Bank of England held interest rates unchanged at 3.75% in June, citing continued uncertainties over high energy prices. It was the fourth month in a row that rates were left unchanged. The BoE is predicted to hold interest rates again when it meets on 30 July.

3.75%Bank of England base rate
(held)

Outlook

Meanwhile, low economic growth will be a “big issue” for the UK, the Governor of the Bank of England, Andrew Bailey, has stated on the eve of the new Prime Minister Andy Burnham taking office. Bailey raised concerns that renewed tensions in the Middle East could impact financial stability. The bank governor was speaking to MPs on the Treasury Committee on 14 July: “The overall message I would give is that I think the big issue is growth in the economy.”

2.0%Core inflation target, by
mid-2027 (IMF)

While there were “signs of a very resilient financial system”, Bailey said, “We will not get growth if we don’t have financial stability.” What was challenging was that the UK has experienced “low growth in the economy now for the best part of 16 to 17 years.”

03

Business Conditions

17%

Firms planning to raise investment (was 21%)

66%

Firms citing inflation as a concern (was 50%)

29%

Firms reporting higher sales over the quarter

Business conditions are weakening with confidence levels dipping following a strong start to 2026. Fewer firms report rising sales, export sentiment have weakened, confidence remains fragile, and investment intentions dropped to their lowest level since the pandemic, according to the latest British Chambers of Commerce (BCC) Quarterly Economic Survey, published on 5 July.

Key findings in the BCC survey were:

- Only 17% of responding firms plan to increase investment, down from 21% in Q1.
- Just 44% of businesses said they expected improved turnover in the next 12 months, down from 49% in Q1. 23% expect a decline.
- Less than a third (29%) of firms reported increased sales over the previous three months, while 28% report a decrease.
- Concern about inflation rose to nearly two thirds of businesses (66%) – up from 50% in Q1, with fuel costs nearly doubling as a cited pressure (now 52%).

04

A Decade of Brexit

-14%

UK goods exports to the EU
in 2025 vs 2019

-10%

UK goods imports from the
EU vs 2019

+57%

UK services exports to the
EU since 2016

Goods trade

The UK marked a decade since the people voted to withdraw from the European Union (Brexit) last month (on 23 June). The anniversary led to a debate on the impact of the decision on the economy and the country's position in the world. UK trade with Europe had been on an upward trend before 2016. But official figures show that compared to 2019, UK exports to the EU in 2025 were 14% down and imports were down 10%, the BBC reported. Last year was the worst for UK goods export volumes to the EU this century, apart from one year in the depths of the financial crisis.

Services boom

There has been a “services trade boom” with the EU, according to BBC economics editor, who explained, “One area that has performed more strongly since 2016 is services, which make up over 80% of total UK economic output. Services sector exports from the UK to the EU are up 57% over the last decade, driven by a category that includes accountancy, legal services and consultancy.

Non-EU services exports are up 49%. Imports from the EU are up 35% in the same time, and up 60% from outside the EU.



6

New UK trade deals since Brexit

54%

Exporters say the EU deal makes trading harder

16%

Say the current EU deal supports them to grow

New Trade Deals

One advantage of Brexit has been the UK's ability to sign new trade deals. There have been new trade deals with the GCC, India, the United States, South Korea plus a new deal with the EU. The latest trade deal is with Switzerland.

Business view

The British Chambers of Commerce called on the government to set out a clear plan to ease the burdens Brexit has placed on business.

BCC research showed over half of UK exporters (54%) think the UK's current trade deal with the EU is making it harder to export and the need for change is urgent. Only 16% say the current deal is supporting them to grow. For its part, the CBI indicated that business did not want to see a rerun of the referendum.

05

Public Finances and Taxation

£59.2bn

Estimated unpaid tax in 2024–25 (a 6.4% gap)

The tax gap estimate – the difference between what UK tax is expected to be paid and was actually paid – was 6.4% for the 2024 to 2025 tax year, according to HM Revenue and Customs (HMRC), which collected £865.2 billion in 2024 to 2025, representing 93.6% of all tax due. This means an estimated £59.2 billion was unpaid that tax year, HMRC provisional figures published 23 June show.

£10bn

Targeted extra revenue a year by 2029–30

Corporation Tax accounted for 35% share of the total tax gap while small businesses continued to represent the largest customer group of the tax gap (at 62%), HMRC said. The government is seeking to close the tax gap and announced plans to raise a further £10 billion a year by 2029 to 2030 through closing tax loopholes.



06

AI Reshaping Financial Services

11m

UK adults likely to use
autonomous AI in finance

4

Major AI shifts identified
by the FCA review

In response to concerns that British consumers are starting to rely on chatbots for their financial advice, the Financial Conduct Authority (FCA) carried out a review led by its executive director Sheldon Mills into how Artificial Intelligence could reshape retail financial services for consumers, firms, markets and regulators. Drawing on views from across the financial services industry, the report identifies four major AI-driven shifts likely to impact retail financial services: the transformation of firm operations; the evolution of consumer journeys; the reshaping of competition and market power; and the amplification of fraud and cyber risks. The Mills report finds consumer appetite for the use of agentic AI in personal finance, with research showing that a fifth of people – equivalent to 11 million UK adults – are likely to use AI that can act autonomously within pre-set goals.

07 Future Productivity

Growth outlook

The OECD Economic Survey of the United Kingdom projects that growth will slow temporarily to 0.9% in 2026, down from 1.4% in 2025, before picking up to 1.1% in 2027. Inflation is expected to rise to 3.7% this year from 3.4% in 2025, before easing to 2.4% in 2027.

Policy priorities

Reallocating spending towards productivity-enhancing public investment, together with improving the efficiency of the tax system and reducing inefficient tax expenditures, would help rebuild fiscal buffers and support long-term growth. Reducing regional productivity gaps and strengthening energy security would support more resilient and broad-based growth, the OECD said.



08

Housing and Construction

£650

Average saving for first-time buyers under reforms

4 wks

Cut in typical homebuying times

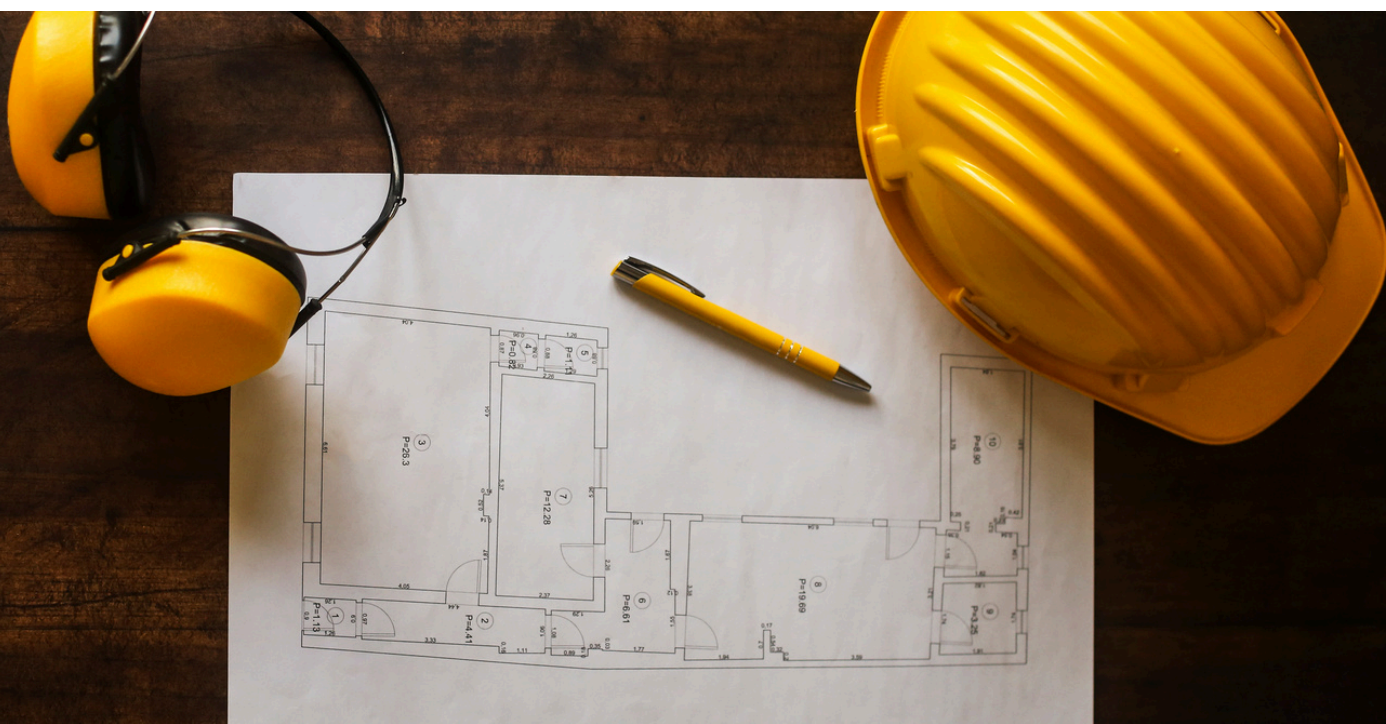
206k

Extra construction workers needed by 2030

Buying and selling a home is to become faster, cheaper, and less stressful under government reforms to cut delays, reduce and digitalise paperwork, and stop sales collapsing. At a time when families are feeling the squeeze, the new changes announced by the Ministry of Housing, Communities and Local Government on 19 June aim to cut homebuying times by around four weeks, save first-time buyers an average of £650, and stop unwanted surprises (known as “gazumping”).

Sellers and estate agents will have to provide key information in ‘sales packs’ at the point of listing. The incoming Prime Minister is expected to shake-up housebuilding policy to boost social housing.

The UK construction industry will need an additional 206,000 workers by 2030 to meet demand, according to the Construction Industry Training Board (CITB).



Sources & further reading

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