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CHAMBER OF COMMERCE

ABCC Monthly UK Economic Report

August 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 Inflation is Rising

2.9%

CPI inflation in the year to July 2026 (ONS)

Inflation in the UK is noticeably rising in response to increased energy costs caused by the protracted war in the Middle East. Higher energy bills drove up UK inflation to 2.9% in the year to July 2026, the highest level in four months, according to new figures from the Office for National Statistics (ONS), with gas prices soaring at their sharpest in almost four years.

In response, experts predicted that the new inflation figure was unlikely to influence the Bank of England to change the interest rate at its next meeting in September. Meanwhile, the British Chambers of Commerce warned that inflation was the number one concern of businesses, and urged government action, “The government must use the Budget as an opportunity to back business, cut costs and deliver growth. The Chancellor needs to give firms the breathing space they desperately need by outlining ambitious measures to drive forward trade, investment and productivity.”



02

Growth in the Latest Figures

+0.4%

GDP growth, Q2 (April to June 2026)

The UK economy grew 0.4 per cent between April and June, official data from the ONS released on 13 August revealed, seen as a sign that businesses and consumers have so far weathered the Iran war's worst shocks.

ONS director of economic statistics, Liz McKeown, commented: "Growth slowed in the second quarter of the year, following a strong start to 2026, but remained relatively robust. Services were once again the main driver of growth, while production was broadly unchanged and construction also grew."

+0.3%

Monthly GDP growth in June, ahead of forecasts

The growth figure was in line with analysts' expectations but came alongside a surprise boost of 0.3 per cent in June, ahead of forecasts. Figures for May were revised down from 0.1 per cent growth to no growth.

City economists polled by Bloomberg had predicted that growth in the second quarter would be 0.4 per cent while data for June would show a decline in total product value of 0.1 per cent. Production was flat with no change from the first quarter while the construction sector struggled to build momentum with an expansion of 0.3 per cent.

03

Labour Market

707k

Job vacancies (May to July 2026)

The number of job vacancies has fallen to its lowest level in more than five years as smaller businesses cut back on recruitment, the latest figures from the ONS indicated. Vacancy numbers dipped slightly over the May-to-July period to 707,000, according to the ONS, which mentioned that small firms give labour and operating costs as the reasons for scaling back on hiring. Nevertheless, the UK labour market was "little changed overall", with unemployment remaining at 4.9%, the figures released on 18 August reveal.

4.9%

Unemployment rate

04

UK Budget Set for 28 October

28 Oct

Date confirmed for the next
UK Budget

Britain's Chancellor of the Exchequer, John Healey MP, announced a date for the next UK Budget as 28 October. Healey said: "I'm confirming the date of my first Budget as Chancellor will be Wednesday 28th October. This will be a Budget that moves money and power out of Westminster, and into every postcode around Britain. It will be built on fiscal discipline. It will meet our fiscal rules. It'll give businesses and families some of the stability they need to plan for the future."

Boost to Investment

If the government wants to deliver stronger economic growth across the country, it must create the conditions that encourage investment, the British Chambers of Commerce has argued. To be serious about delivering growth, the new Prime Minister must take a fresh look at investment, the BCC said. Persistent uncertainty, rising costs, delays in the planning system, infrastructure constraints, and difficulties accessing finance, all reduce business confidence to invest. Outlining the key economic priorities for government, the BCC called for further reforms to planning regulations, arguing that investment in planning capability must be viewed as an investment in growth itself. When businesses can move projects forward more quickly, the benefits will be felt through increased development, more jobs and stronger local economies.

The BCC stressed the importance of investing in infrastructure to enable economic growth, with investment in transport, energy and digital infrastructure being critical. High energy costs remain one of the greatest challenges facing businesses, the BCC continued, pointing to its research which shows that three-quarters of firms expect their energy costs to increase over the next 12 months.

Tax incentives were needed to reduce the burdens on businesses, the BCC said. It called on the government to use the tax system to encourage investment, support business expansion and reward innovation. Raising taxes or cutting reliefs simply exacerbates business costs and deters investment.

Finally, improving access to finance should be a key priority, the BCC argued, pointing out that many businesses have the ambition to grow but struggle to access the finance they need to invest. This is particularly the case for SMEs and scale-ups, which often face barriers when seeking funding for expansion, innovation and new technologies.

05

Positive Signs in Manufacturing Sector

51.9

S&P Global UK Manufacturing PMI
in July

9 mths

PMI above the neutral 50.0 mark in
a row

The start of the third quarter saw further positive signs in the UK manufacturing sector. Upturns in production, new business and new export orders all gained momentum, while the impact of the twin headwinds of high cost inflation and severe supply chain disruption eased. The seasonally adjusted S&P Global UK Manufacturing Purchasing Managers' Index (PMI) posted 51.9 in July, a four-month low and below June's 52.5. The headline PMI remained above the neutral 50.0 mark for nine consecutive months.

Manufacturing output rose for the fourth month running in July, with the rate of growth picking up to a near two-year high. Although all three product categories covered by the survey (consumer, intermediate and investment goods) registered expansions of output, imbalances between different company sizes were apparent. A mild downturn in production volumes at small-scale manufacturers contrasted with growth at medium and large sized firms. The latest increase in production was strongly linked to rising intakes of new business from both domestic and export clients. Total new orders rose for the eighth successive month, with some firms noting an improvement in market conditions.

New export business meanwhile rose for the seventh month in a row, amid reports of order growth from North America, the EU, mainland China, India and South Korea. Business optimism remained relatively subdued despite the accelerations in output and new order growth, slipping to a three-month low.

06

Confidence in Construction

56%

Construction sector confidence,
up 10 points

65%

Construction firms planning
to take on more staff

The Lloyds Business Barometer showed that overall confidence in the UK construction sector jumped 10 points to 56%, well above the 12-month average of 47%. More than two thirds of industry firms now expect business activity to increase over the next year, with 65% planning to take on more staff, up from 55% in June, the report on 31 July revealed. Confidence in firms' own trading prospects remained strong at 68%, while optimism about the wider economy climbed to 53%. More than half of construction firms surveyed by Lloyds said stronger customer demand was the main driver behind their improved outlook, while 38% pointed to easing interest rates and better financial conditions. Across all UK sectors, overall business confidence rose five points to 49%, a four-month high, helped by lower global energy prices, steady interest rates and improving geopolitical conditions during the survey period. The Lloyds survey was carried out between 1 and 16 July.

07 Bank of England

While the Bank of England kept interest rates unchanged at 3.75% for the fifth time at its meeting in July, it indicated that rates could be raised if the war in the Middle East continues to escalate. Prior to the start of the US war on Iran, UK interest rates were projected to be lowered. They are expected to be held in September despite rising inflation. While major uncertainties remain because of the war, the BoE predicts the UK economy will grow this year by more than previously forecast.

Governor Andrew Bailey told the BBC: "If we get a continuation of this conflict going on and oil prices stay above \$100 a barrel... the odds are that interest rates will have to go up higher." Bailey warned that events remained "highly unpredictable" and outside the UK's control.



08

House Prices

£277k

Average UK house price in July
(Nationwide)

Economic uncertainty dampened UK house price growth in July as prospective buyers remained cautious about interest rates in what should be the peak house buying season. House prices rose by only 0.1% in July from a month earlier, according to Nationwide, while annual price growth slowed to 1.8% this month, down from 2.2% in June.

1.8%

Annual house price growth,
down from 2.2%

Nationwide, the UK's biggest building society, is a reliable guide to developments in the housing market. It said the price of an average home edged slightly higher in July to £277,542, up from £277,484 in June. Robert Gardner, Nationwide's chief economist, said: "Financial market expectations for the future path of bank rate have been volatile, reflecting shifting views about the inflationary implications of events at home and abroad."

£554k

London's average house price,
down 2.5%

Nevertheless, house prices in some of London's most sought-after areas have been falling with the average price in some postcodes falling by nearly £300,000 year on year in June, latest ONS figures show. London's average house price slipped by 2.5 per cent to £554,000 in the year to June, ONS revealed.

09

Agriculture & Food Security

2/3

More than two thirds of
England fell into drought.

More than two thirds of England fell into drought, with farming leaders demanding urgent action on water supplies as growers face abstraction restrictions, falling reservoir levels with mounting pressures on food production. The month of July delivered just 7% of its expected rainfall across England, falling to only 1% in southern areas. The country is experiencing its second consecutive summer drought, with widespread effects on agriculture, nature and public water supplies. The drought areas named were East Anglia, Hertfordshire and London, the Thames Valley, Hampshire and the Isle of Wight, Devon and Cornwall, the West Midlands, and Wessex.

The dry conditions are affecting farms, with early cereal harvesting, reduced yields in some crops and an increased risk of field fires. A protracted heatwave poses social challenges and has serious economic impact with implications for food security, shortages, reduced water supplies and public health. Further heatwaves are possible in September.

The Department for Environment, Food & Rural Affairs (DEFRA) stated that this year's drought means there had been three droughts in the past five years – 2022, 2025 and now 2026. There has been a dramatic shift in the UK's weather this year – from a very wet winter to an exceptionally hot and dry summer. The winter rainfall helped replenish reservoirs and groundwater, helping the country through a dry spring without any major impacts. DEFRA warned the summer has continued to be exceptionally hot and dry with no substantial rain expected. Combined with continued heatwaves, with average temperatures regularly above 30C, water storage has begun to deplete. Higher temperatures also mean water is evaporating from soils and vegetation, making wildfires more likely, as has been seen in various parts of the country. Britain is currently heavily dependent on overseas horticulture, importing 86% of its fruit and 44% of its vegetables. Increasing domestic production is coming to be viewed as the way to make supplies less vulnerable to extreme weather shocks and import disruptions.

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