CBI Economics

Economic Forecast

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

December 2024

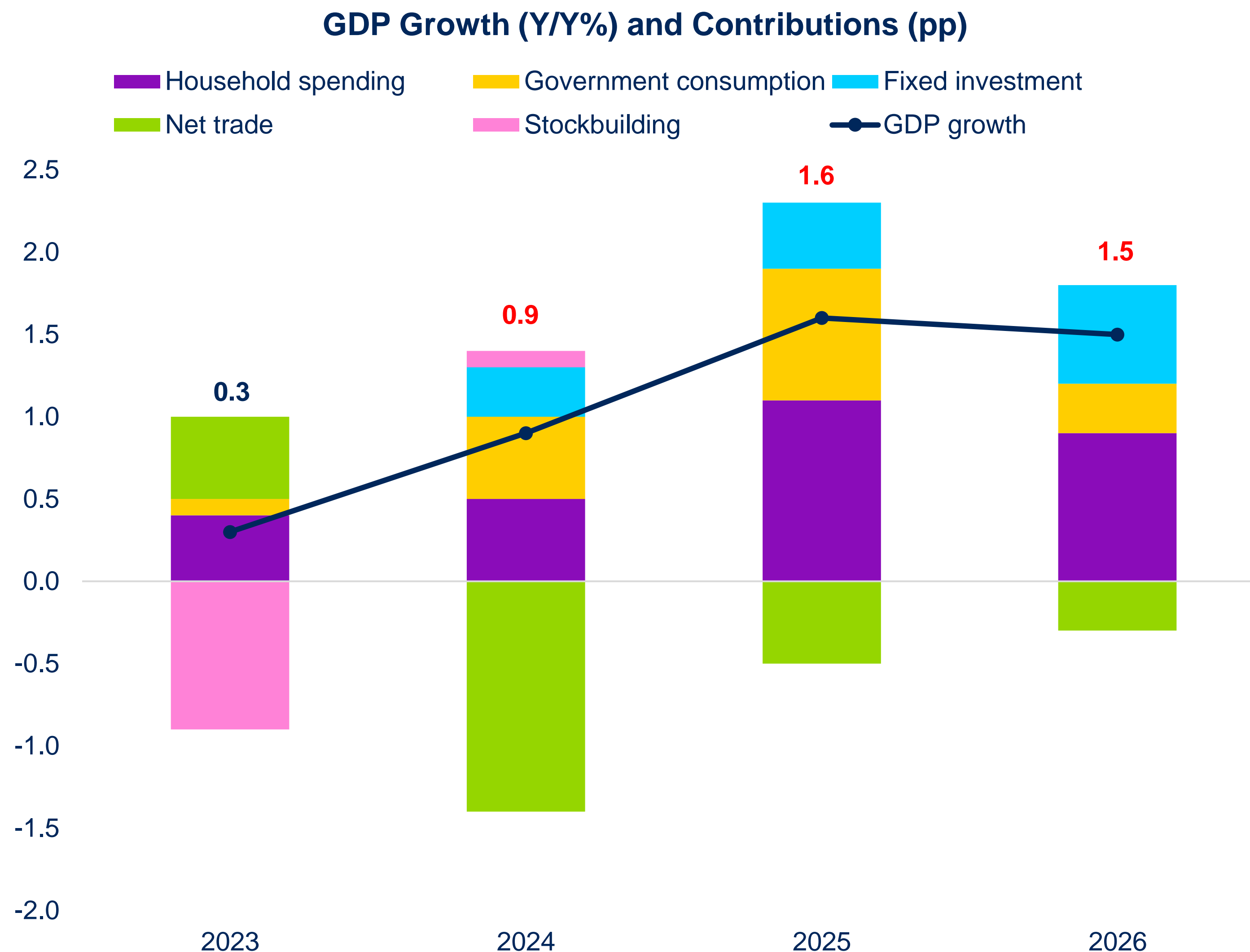
UK economic outlook: steady pace ahead

- The UK economy began to recover in 2024, following a weak 2023. GDP grew at an above-trend rate over the first half of this year but then eased down a gear in Q3. We project that the UK economy will grow by 0.9% over 2024, a marginal downgrade compared to our June forecast (of 1.0%).
- We continue to expect that economic activity will pick up steam over 2025; however, we now expect growth to be somewhat slower than previously forecast. Specifically, GDP is projected to increase by 1.6% over the year, which marks a downgrade from June's forecast (of 1.9%). The UK economy then maintains a steady, but unimpressive, pace of growth in 2026, at 1.5%.
- The announced measures in the Autumn Budget have resulted in changes to the composition of growth over our forecast. Government spending and investment are expected to expand to a greater extent than in our previous forecast, while higher employment costs and the crowding out of private sector activity will weigh on household spending and business investment.
- Consumers held back spending over much of 2024, partly reflecting cautious behaviour following recent economic shocks. We still expect households to increase spending over 2025, but to a lesser extent than in June. This is due to real incomes growth being dragged back by higher inflation following the net fiscal loosening in the Autumn Budget. Consumption growth then slows slightly over 2026, as incomes growth eases further.
- Business investment is now expected to have grown over 2024, primarily reflecting historical data revisions. We expect capex growth to pick up in 2025 (as GDP growth improves), but it then eases slightly in 2026. Despite a firmer outlook, our forecast for investment is weaker than what we would have expected before the Budget, reflecting the drags from higher employment costs and crowding out from government investment.
- Inflation is expected to pick up in Q4 2024 and remain somewhat above the Bank of England's 2% target over our forecast period (2.6% in 2025 and 2.5% in 2026). Our upgraded projection partly reflects the feedthrough of Budget measures to higher prices, particularly in sectors such as hospitality and retail.
- Labour market data continue to be shrouded by uncertainty due to sampling issues. We generally expect that Autumn Budget measures will weigh on private sector employment, but the unemployment rate will remain low by historical standards. Wage growth is set to slow through 2026, reflecting a combination of higher employment costs, lacklustre productivity, a slight margin of labour market slack, and normalising inflation expectations.
- Higher inflation over our forecast means that we now expect a more gradual pace of interest rate cuts. We anticipate that the Monetary Policy Committee (MPC) will reduce Bank Rate by 25 basis points each quarter, until reaching a terminal rate of 3.5% in Q1 2026. This would leave monetary policy in a slightly restrictive stance, as the MPC looks to bring inflation down to target in the medium-term.
- We project that productivity (output per worker) will lag slightly behind its lacklustre pre-pandemic trend through 2026. This weak outlook underlines the need to turbocharge growth and improve the UK economy's competitiveness.

UK economic outlook: steady pace ahead

	CBI December 2024 forecast (y/y%, unless otherwise stated)				Change from previous forecast (pp)		
	2023*	**2024**	**2025**	**2026**	***2023****	***2024***	***2025***
GDP growth	**0.3**	**0.9**	**1.6**	**1.5**	***+0.2***	***-0.1***	***-0.3***
Household spending	0.7	0.8	1.7	1.4	*+0.4*	*0.0*	*-0.8*
Government consumption	0.6	2.6	3.9	1.5	*+0.1*	*+0.1*	*+2.1*
Business investment	2.7	1.6	2.4	2.1	*-2.8*	*+1.8*	*+0.6*
Stockbuilding (ppt. contribution)	-0.9	+0.1	0.0	0.0	*0.0*	*+0.7*	*0.0*
Exports	-2.2	-1.8	2.0	2.0	*-1.7*	*-0.9*	*-0.7*
Imports	-3.4	2.5	3.2	2.6	*-1.9*	*+4.4*	*-0.1*
Net trade (ppt. contribution)	+0.5	-1.4	-0.5	-0.3	*+0.2*	*-1.7*	*-0.3*

**2023 is outturn data*

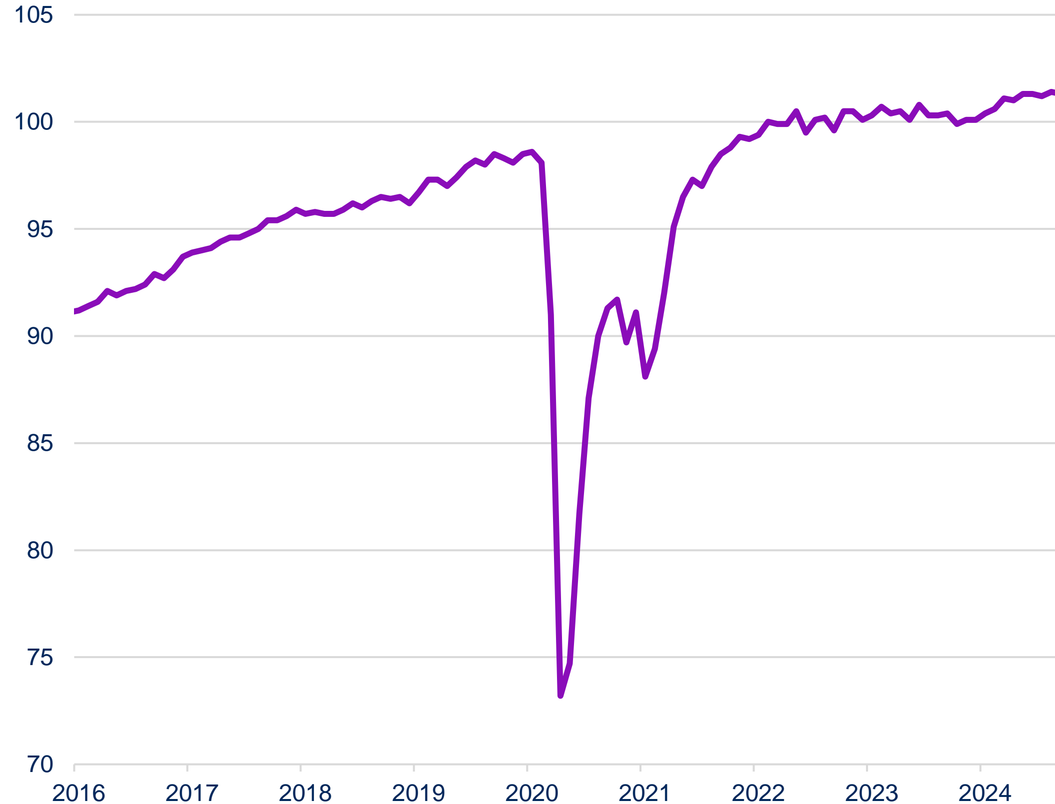


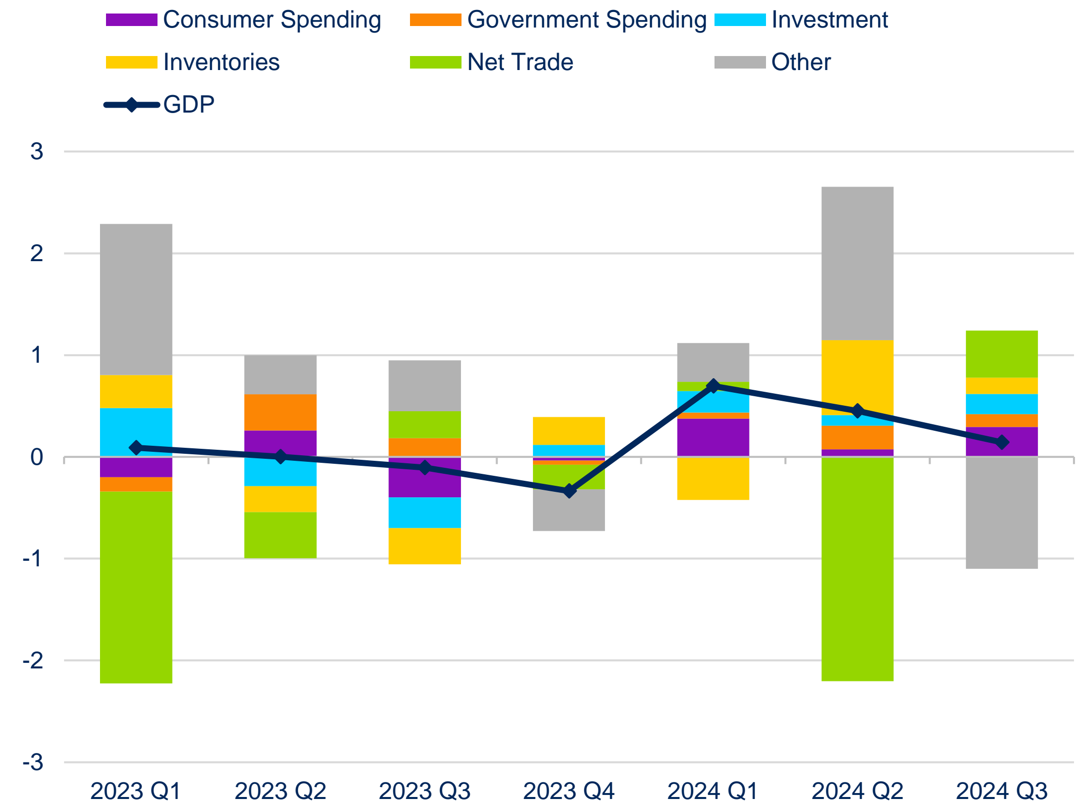
Source: ONS, CBI forecast

What does our forecast mean for your business?

- Our latest forecast expects the UK economy to see steady growth over the next couple of years (1.6% in 2025 and 1.5% in 2026). The expansion will be primarily driven by household spending, but it's worth noting that consumption growth in 2025 is weaker than projected in June. This is due to slower growth in real incomes, as inflation remains above the Bank's 2% target through 2026.
- The Autumn Budget is expected to affect the drivers of UK economic growth over the next couple of years. Government spending and investment are anticipated to play a bigger role in the economy, but this comes at the cost of a weaker outlook for household spending and business investment (due to higher inflation and crowding out effects). Higher employment costs will particularly hit labour-intensive sectors like hospitality and retail, but some private sector firms in healthcare, education, and construction may see an indirect boon from higher government spending in these areas.
- Higher employment costs, due to Budget measures such as higher employer National Insurance Contributions (NICs) and the uprating of the National Living Wage (NLW), are expected to have a wide-ranging impact on the private sector. Two-thirds of businesses responding to a recent CBI survey mentioned that they expect these measures to damage UK investment, and half are now looking to reduce headcount. Many firms also said that these policies will weigh on pay growth and push up prices.
- Wage growth is set to slow going forward, with recent surveys suggesting that private sector pay growth will be between 3-4% next year. While investment intentions have deteriorated recently, some businesses have mentioned that they have been prioritising investment in digital technologies like cloud computing, AI, and automation.
- We expect the Bank of England MPC to reduce Bank Rate by a gradual quarterly pace of 25bp until it reaches 3.50% in Q1 2026. Despite a firmer inflation outlook over our forecast horizon, Governor Bailey has emphasised that the Bank expects inflation to return to target in the medium term (i.e., 2027, which is beyond our own forecast horizon) under a similar interest rate trajectory. Lower interest rates should help support a partial pick-up in consumer spending and investment.
- Our baseline forecast assumes a "limited" Trump presidency, in which the UK avoids additional US tariffs that are placed on imports from China and the EU. As such, the UK sees a slight tailwind from stronger US demand in 2026. Under a more extreme scenario where the US imposes universal 10% tariffs on UK goods, and the UK retaliates proportionally, we would still only expect a marginal impact on UK GDP and inflation. This reflects the fact that the majority of the UK's exports to the US are in services. However, some UK-based sectors that are more exposed to US goods trade, such as pharmaceuticals, would see a more noticeable negative impact in this scenario.

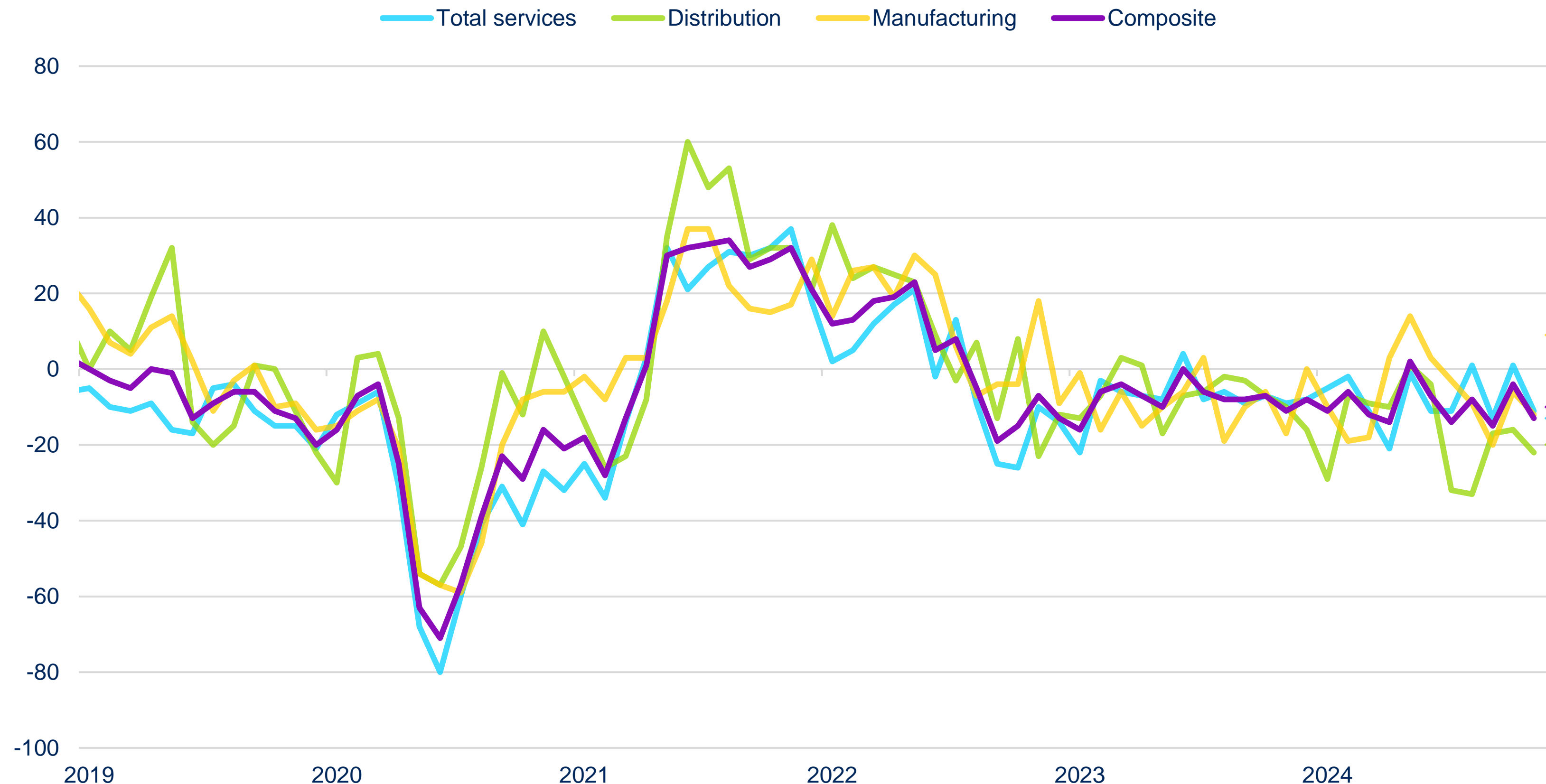
UK economy began to recover in 2024





- The UK economy has been recovering after broadly stagnating over 2023, when growth was held back by the dual headwinds of high inflation and increased interest rates.
- Economic activity got off to a strong start in the first half of 2024, with two quarters of above-trend quarter-on-quarter growth (0.7% in Q1 and 0.5% in Q2). While GDP subsequently increased by a weak 0.1% in Q3, this mostly reflected a drag from volatile changes in flows of non-monetary gold. By comparison, domestic demand over the quarter was relatively firm. Expansions in household spending, government consumption, and business investment suggest that momentum will be sustained ahead, albeit at a more moderate pace than earlier this year.

Private sector activity has been broadly lacklustre



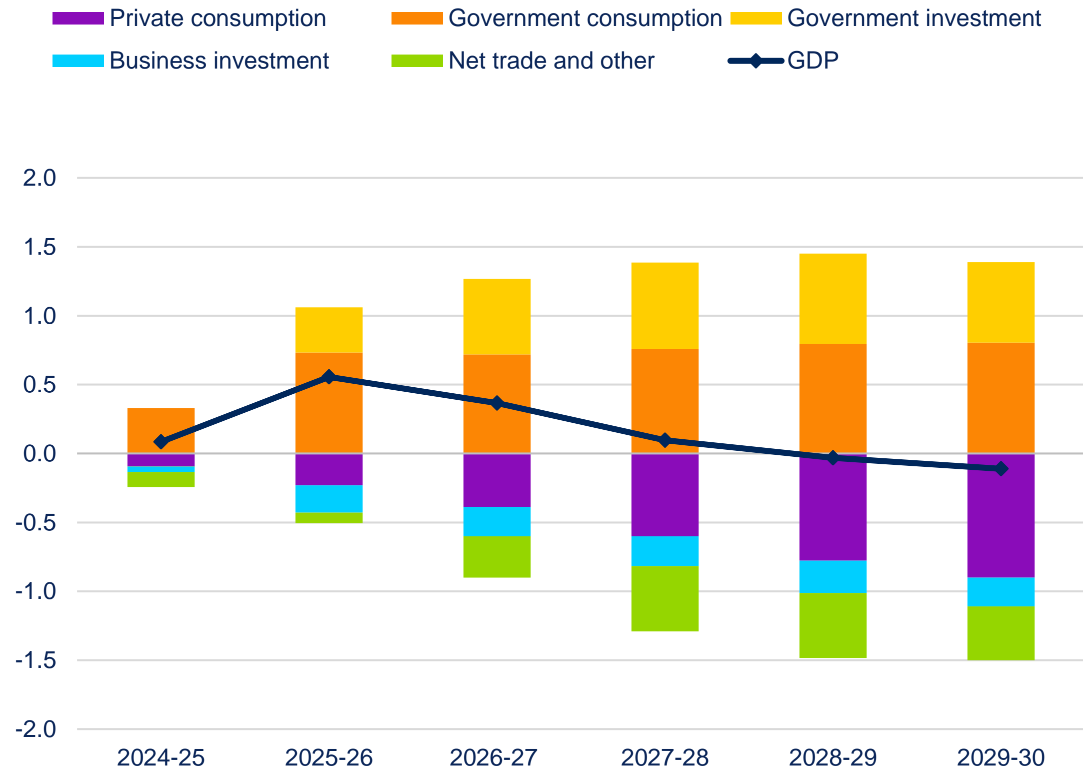
Source: CBI surveys

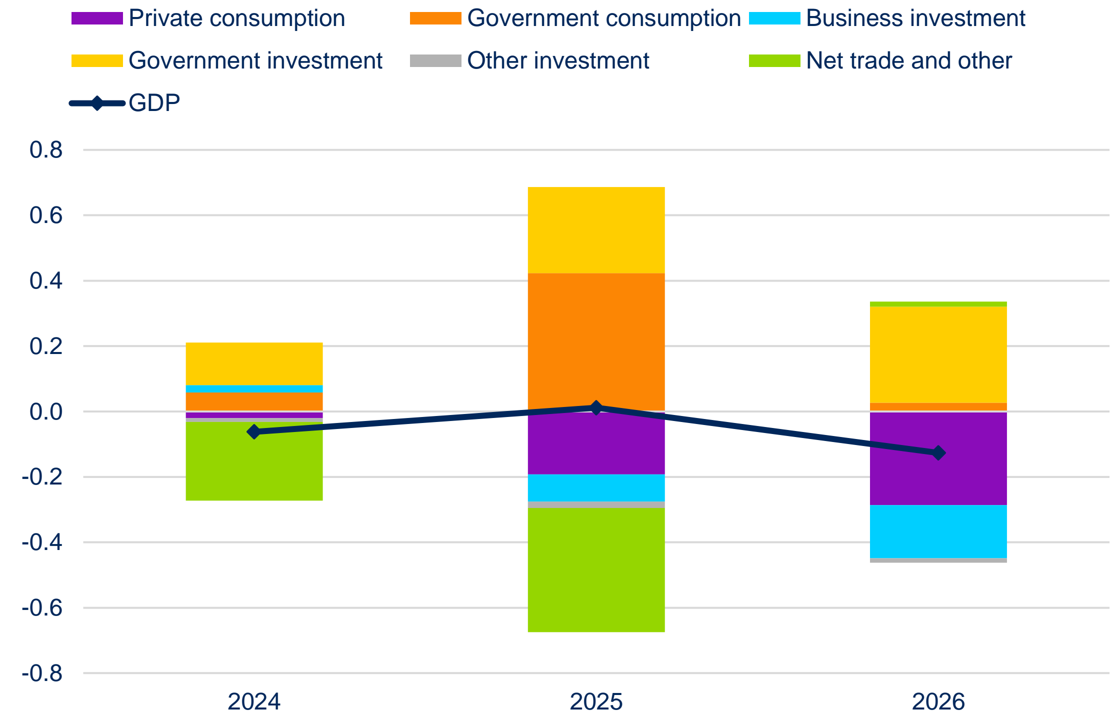
Business view

- Business-facing services firms report a stop-start environment in recent months, while consumer-facing services continue to see weak consumer confidence holding back sales.
- Manufacturing sector performance has been mixed, although the aerospace and defence industries continue to report strong levels of demand.
- Many businesses appear to be somewhat pessimistic about the near-term economic outlook following the Autumn Budget.

- The CBI's Growth Indicator, a composite measure of private sector activity, suggests that momentum has been weak recently across the distribution, manufacturing, and non-financial services sectors.
- Many private sector firms have become gloomier about the outlook for activity going forward. In our surveys, distribution and non-financial services firms expect sales to fall in the three months to February. Manufacturers, by comparison, anticipate output to rise modestly.

Budget measures will weigh on private sector activity





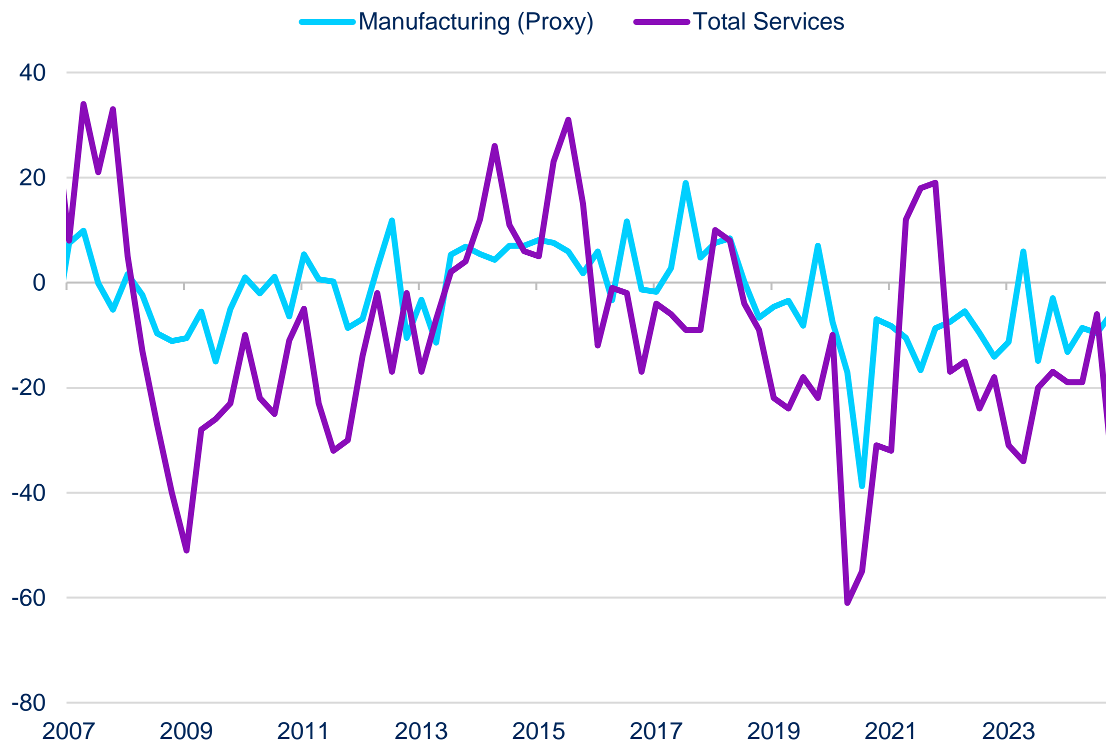
**Pre-Budget figures are from a provisional projection, not a full forecast*
Source: ONS, CBI forecast

- The new Labour government delivered their first Autumn Budget in October 2024, which saw a significant loosening in fiscal policy compared to the previous government's plans. In total, £74bn of new spending measures were announced, partially offset by £41bn worth of tax increases that will be mostly imposed upon businesses.
- The OBR expect the announced fiscal stimulus to boost GDP growth in the near-term, with a peak uplift of 0.6pp in the fiscal year 2025-26. However, this tailwind fades in subsequent years, as higher government spending and investment "crowds out" private sector activity. In addition, higher employment costs are expected to weigh on firms' investment/hiring plans and push up inflation, which will feed through to weaker business investment and household spending.
- These changes in the drivers of growth are reflected in the revisions to our forecast compared to a provisional pre-Budget projection. Government spending and investment are expected to be higher post-Budget, while household spending and business investment have been downgraded.

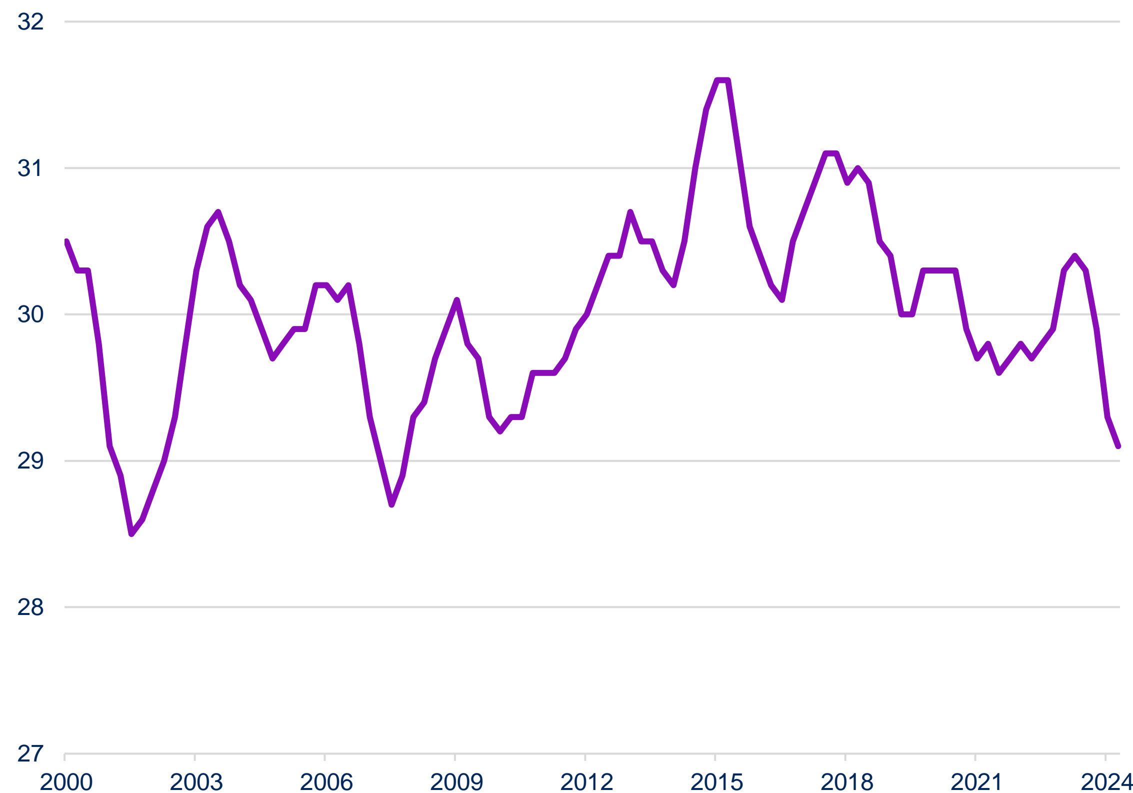
Higher employment costs will have a wide-ranging impact on business

- Autumn Budget measures are expected to have a significant impact on businesses across the UK. Specifically, policies such as the increase in employers' National Insurance Contributions (NICs) are expected to negatively affect firms' workforce plans, costs, and future investment.
- A recent survey of CBI members and non-members found that 62% of surveyed firms plan to pull back on hiring and 48% plan to reduce current headcount due to higher employer NICs. Additionally, nearly half of surveyed firms (46%) expect to delay or temporarily reduce pay rises due to the measures.
- The survey also found that higher employment costs are widely expected to result in higher output prices (55% of respondents). This likely reflects, at least in part, the fact that only 24% of firms believe they can absorb these costs with lower profits.
- Notably, a far higher share of surveyed firms expect the measures to reduce investment plans (52%) compared to those that anticipate an increase in capital spending on, for example, automation and AI (5%).

Higher costs come at a time when firms' profits are already squeezed



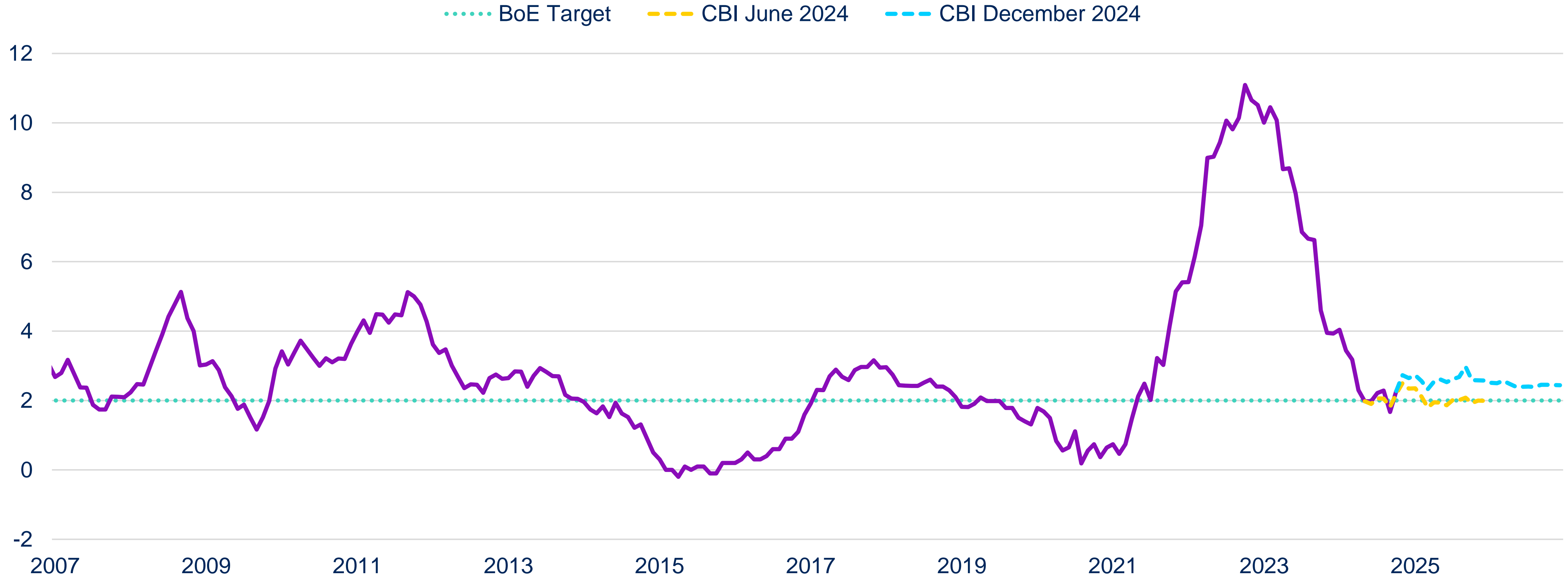
Manufacturing proxy constructed from ITS costs and prices data
Total services represents profitability growth in the past three months
Source: CBI surveys, CBI analysis



Source: ONS, Bank of England (November 2024 MPR)

- Profits have been squeezed in recent years as firms' costs have risen faster than their prices. CBI surveys have reported that business & professional and consumer services have seen falling profitability since February 2022 (when Ukraine was invaded by Russia), while manufacturers have mostly reported shrinking margins since the end of 2018.
- This picture of squeezed margins is backed up by national accounts data, which show that profits as a share of GDP have been on a downward trend.
- As highlighted in Rain Newton-Smith's recent CBI Annual Conference speech, a persistent fall in profits will impact firms' ability to invest and create new jobs, which will feed through to a weaker growth outlook for the UK economy.

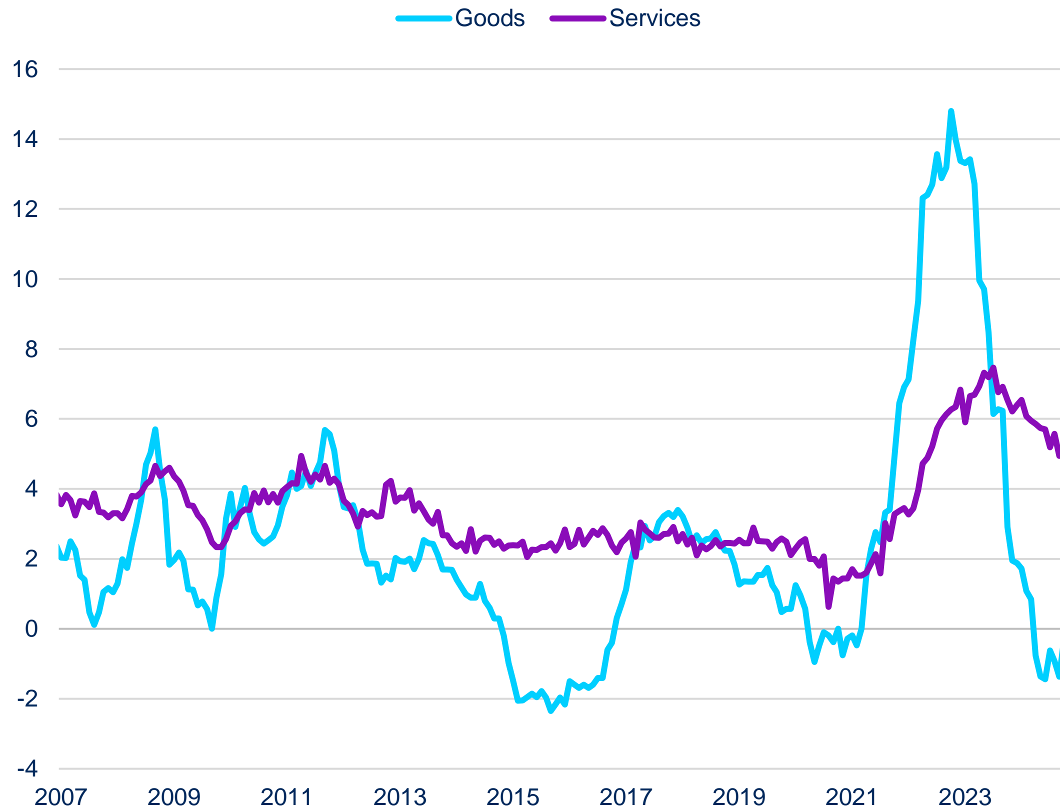
Inflation set to remain above the Bank's 2% target

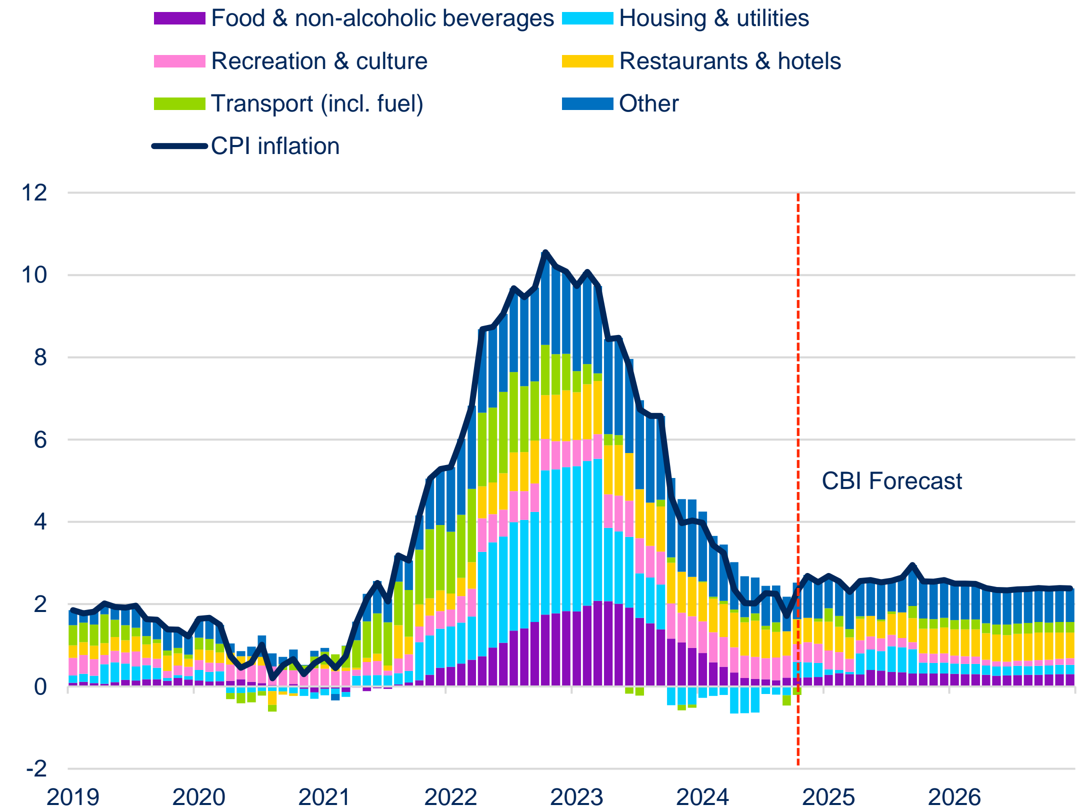


Source: ONS, Bank of England, Macrobond, CBI forecasts

- CPI inflation eased noticeably over 2024, returning to the Bank's 2% target in the early summer. The fall was driven by lower energy, transport, and food price inflation as the impact from recent global commodity shocks faded. However, domestic price pressures have remained somewhat stickier.
- Inflation ticked back up in October (to 2.3%), primarily reflecting a higher Ofgem energy price cap. Going forward, we expect inflation to average 2.6% over 2025, which marks an upgrade to our previous inflation forecast from June. This is largely due to higher employment costs (following the Budget) pushing up price growth, broadly in line with the OBR's forecast assumptions.
- We expect that inflation will subsequently remain somewhat above the Bank's 2% target in 2026, averaging 2.5% over the year. This partly reflects a slightly diminishing boost to prices from Budget measures.

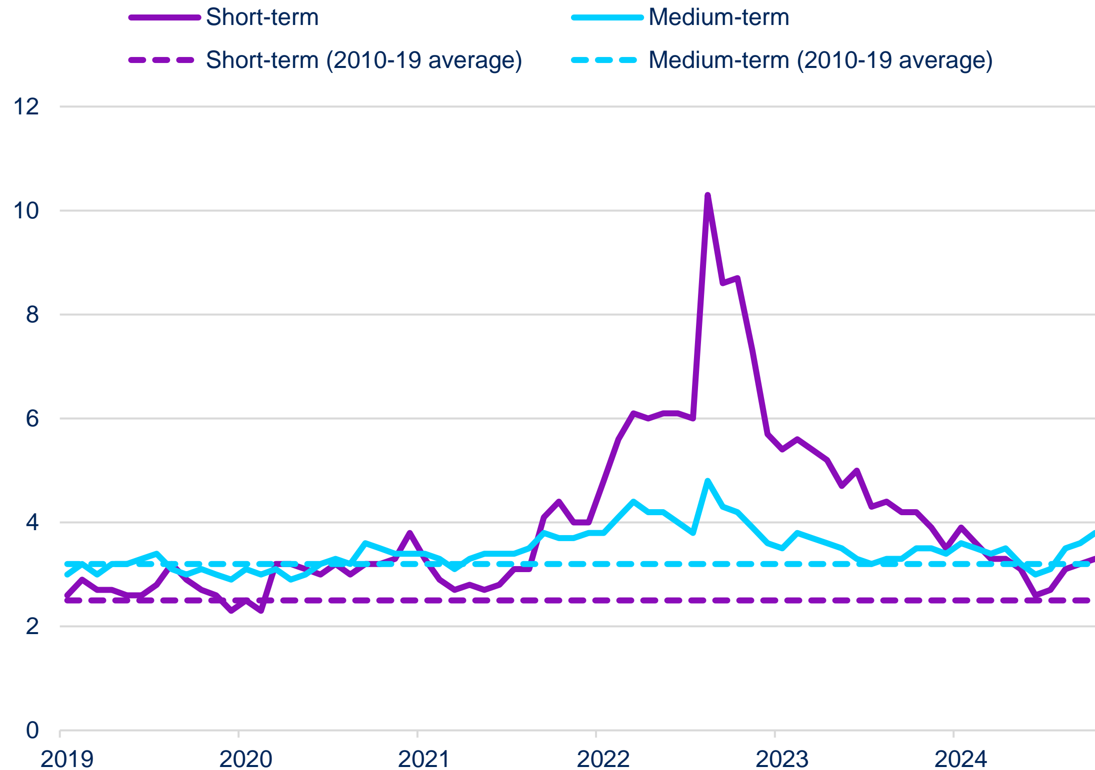
Services inflation expected to remain relatively sticky

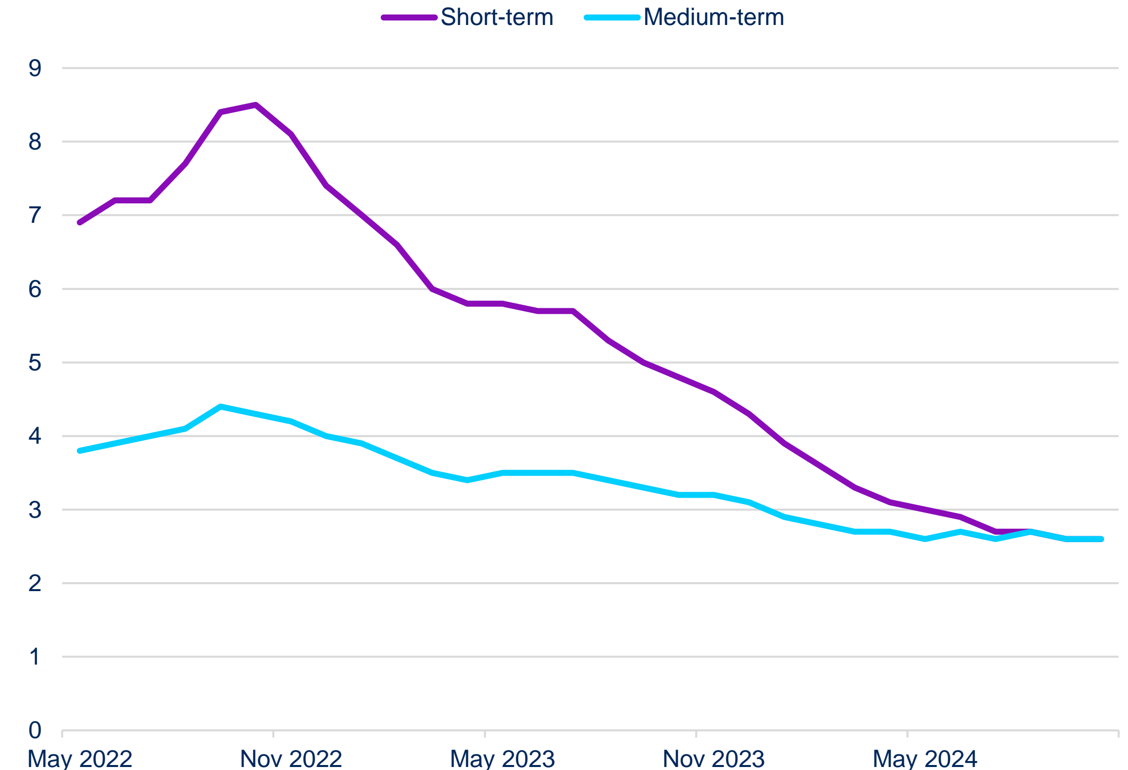




- The recent fall in inflation from its peak in late 2022 was driven primarily by easing goods inflation. In particular, food price growth slowed noticeably, while utilities and fuel prices recently weighed on headline inflation.
- By comparison, services inflation has remained elevated. This reflects, at least in part, the passthrough of high labour costs to prices.
- Looking ahead, we expect Budget measures to put upward pressure on price growth in components like restaurants & hotels. This moderately firmer outlook for services inflation will be accompanied by a normalisation in goods inflation through 2026.

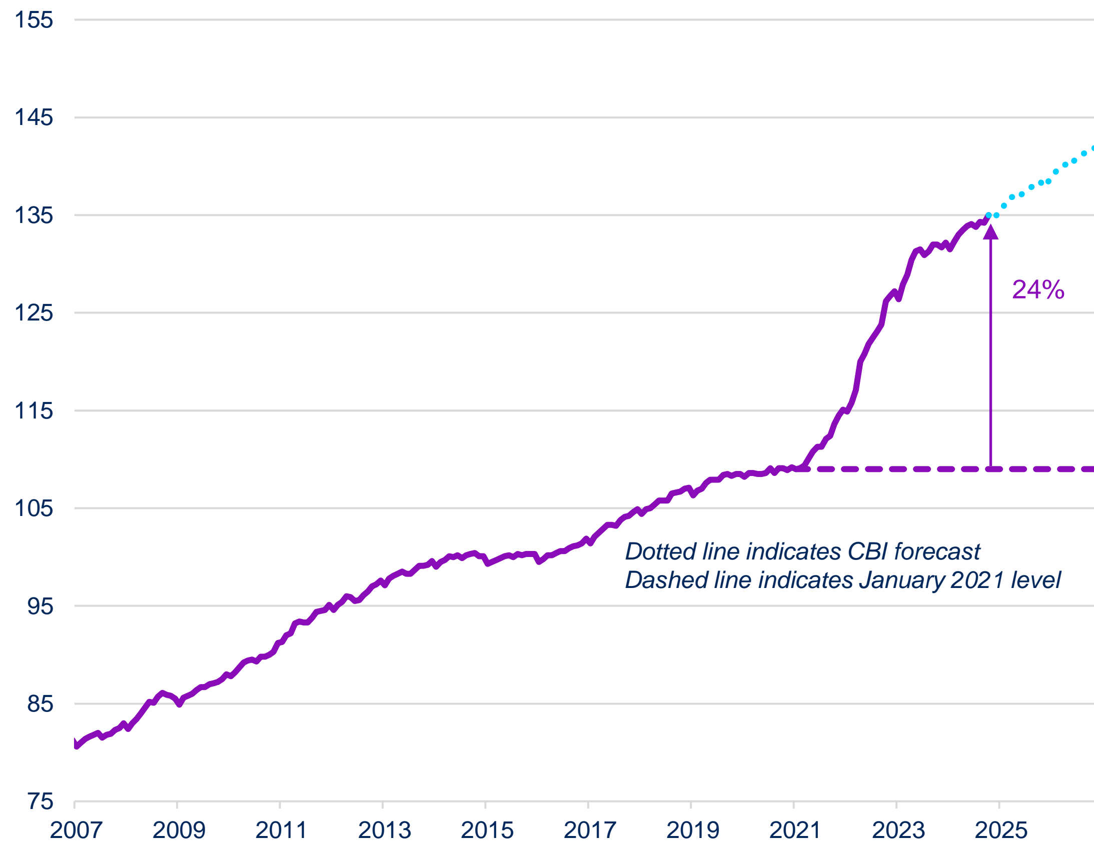
Inflation expectations have broadly normalised…

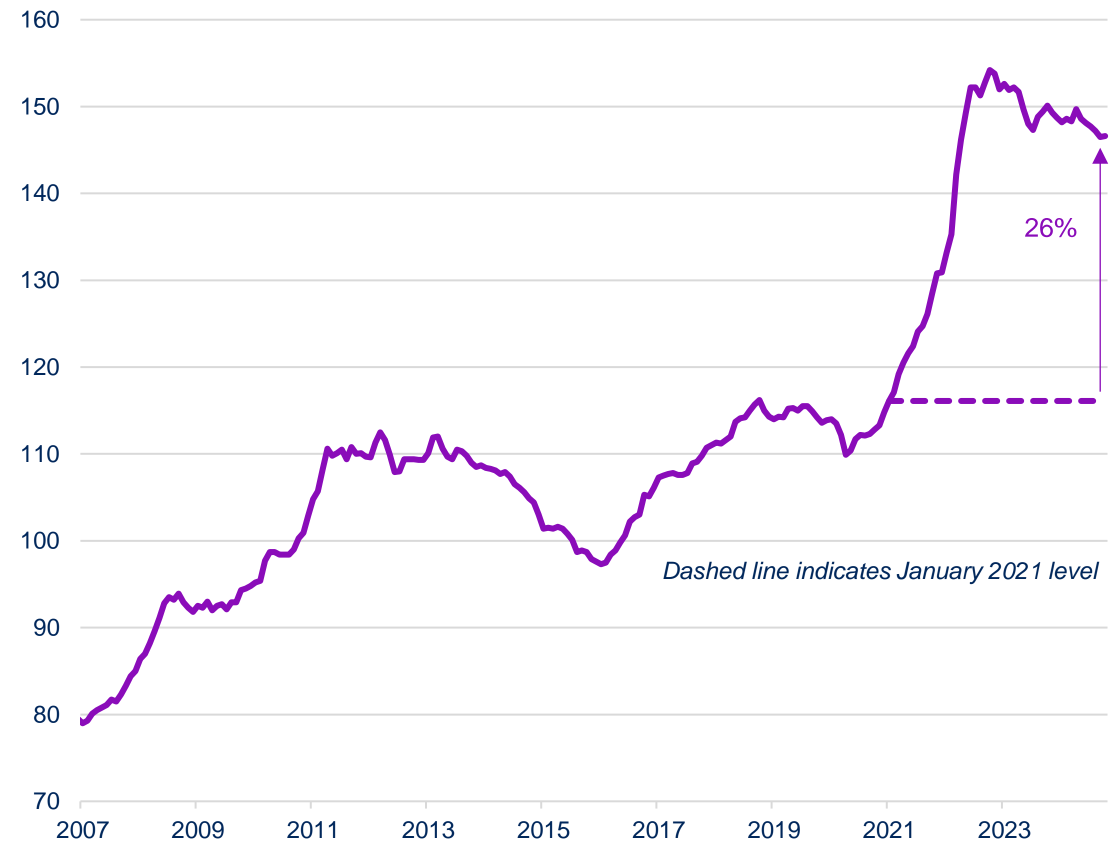




- Inflation expectations over the short and medium-term have fallen from recent highs for both businesses and households. Household expectations have picked up slightly in recent months, though.
- Expectations of inflation are a key influencing factor for purchasing, pricing, and wage setting behaviour. The fact that expectations have returned to a level more consistent with stable inflation helps to explain why the Bank of England MPC began cutting interest rates this year.

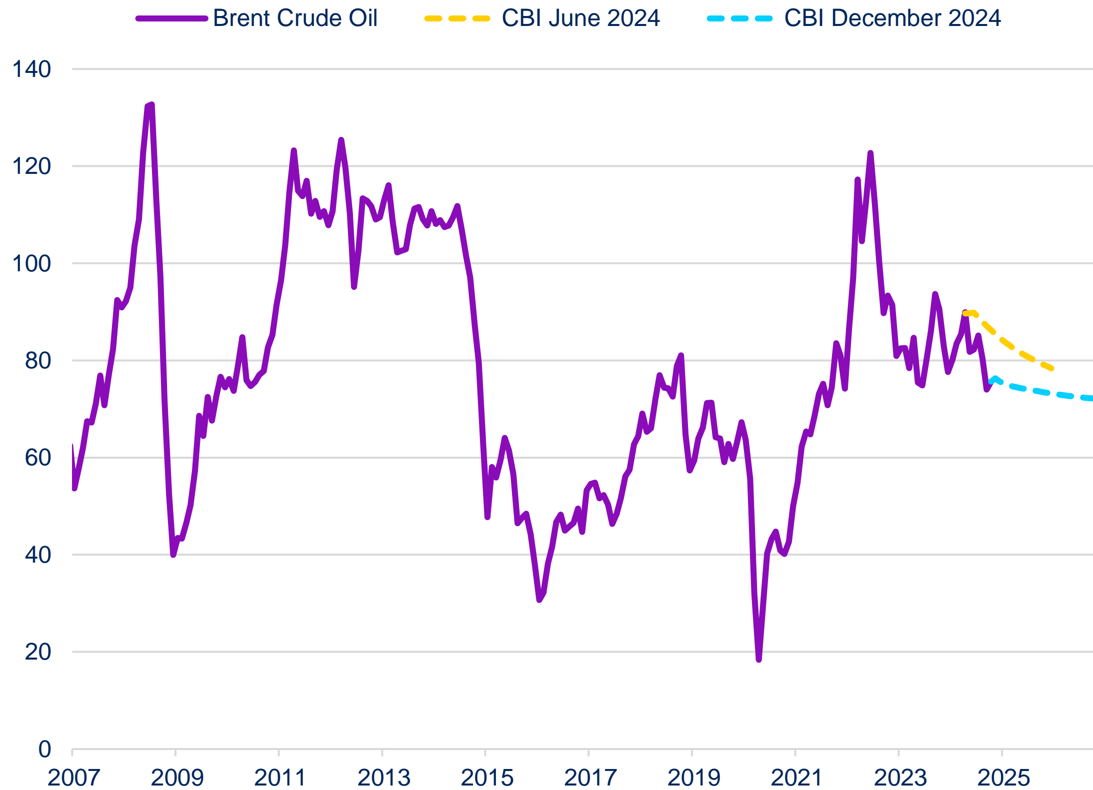
… but consumers and firms still feel a lingering squeeze from inflation

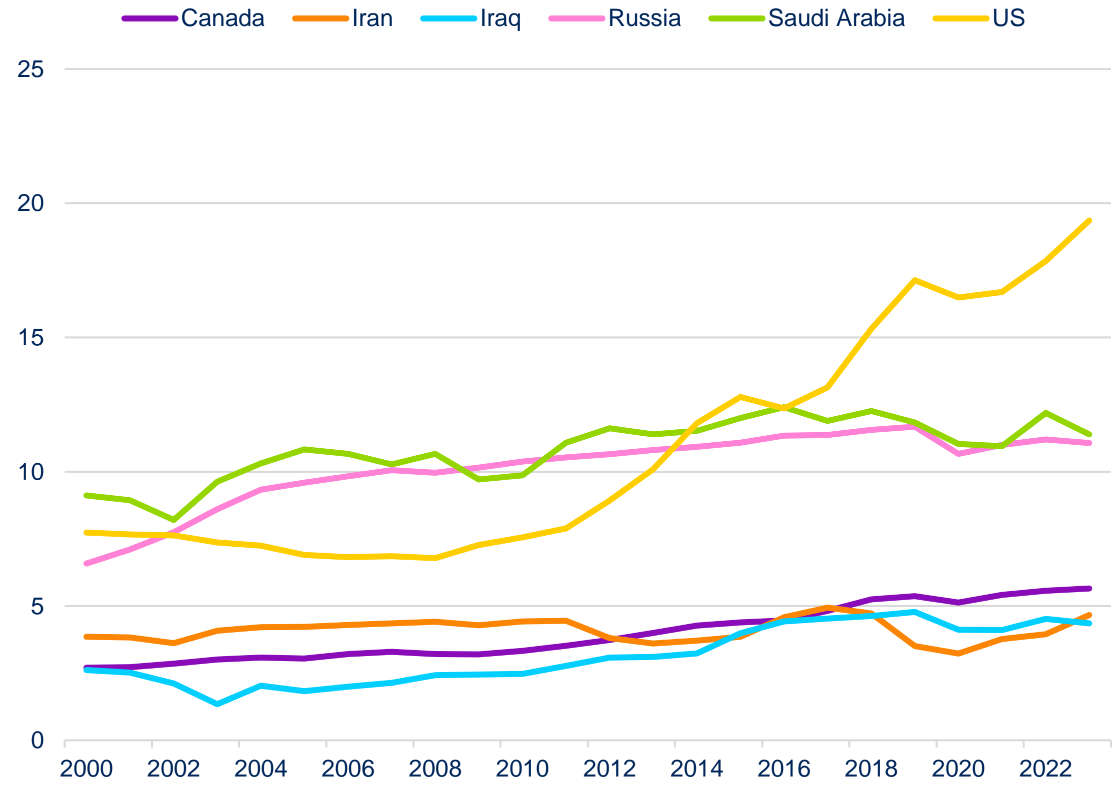




- Many households still feel a squeeze from the cumulative increase in prices over the last few years. Specifically, consumer prices are 24% higher than they were in early 2021. Essential spending categories, like food and housing costs, have risen by around a third over the same period. The higher level of prices explains some of the “sticker shock” that has weighed on consumer spending recently, despite the more benign inflationary environment and growth in real incomes.
- Additionally, many businesses continue to struggle with elevated cost pressures. Manufacturing input prices, for example, are 26% higher than they were in January 2021. Higher input prices for firms particularly reflect increases in energy and labour costs over the past few years.

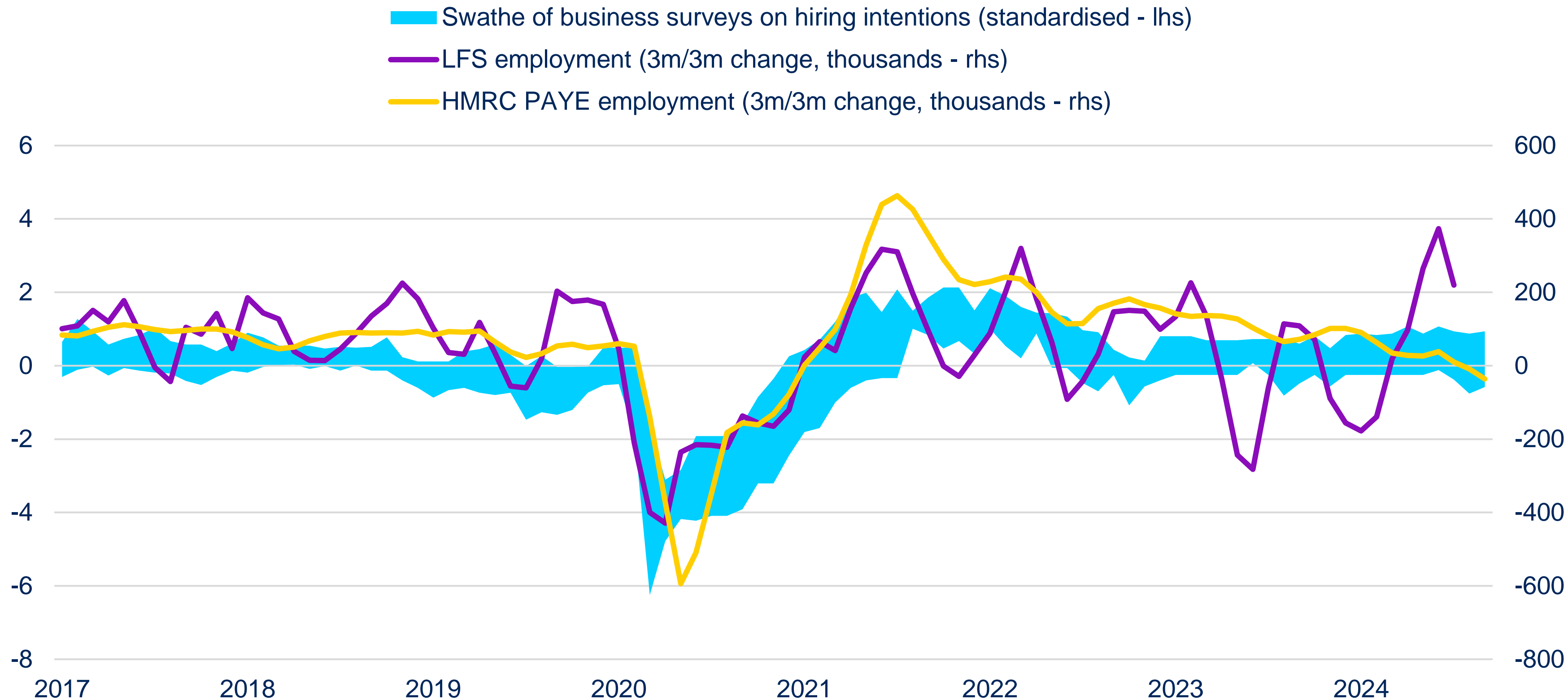
Geopolitics pose a risk to the outlook for oil prices





- Oil prices have fallen recently, driven by weak Chinese demand and plentiful global supplies. Our latest oil price forecast, which is based on the futures curve, expects Brent Crude to trade between $70-75/barrel through 2026.
- Tensions in the Middle East continue to pose an upside risk to oil prices in the near-term. For example, tighter US sanctions on Iran or an escalation in the regional conflict could put pressure on oil supply. This would likely to push up UK fuel prices, which would feed through to higher consumer price inflation.
- The potential increase in US tariffs would have mixed effects on oil prices. All else equal, a stronger US dollar would push up the price of oil for importers in other currencies, but this would possibly be offset by a drag from weaker demand.

Employment growth has been muted



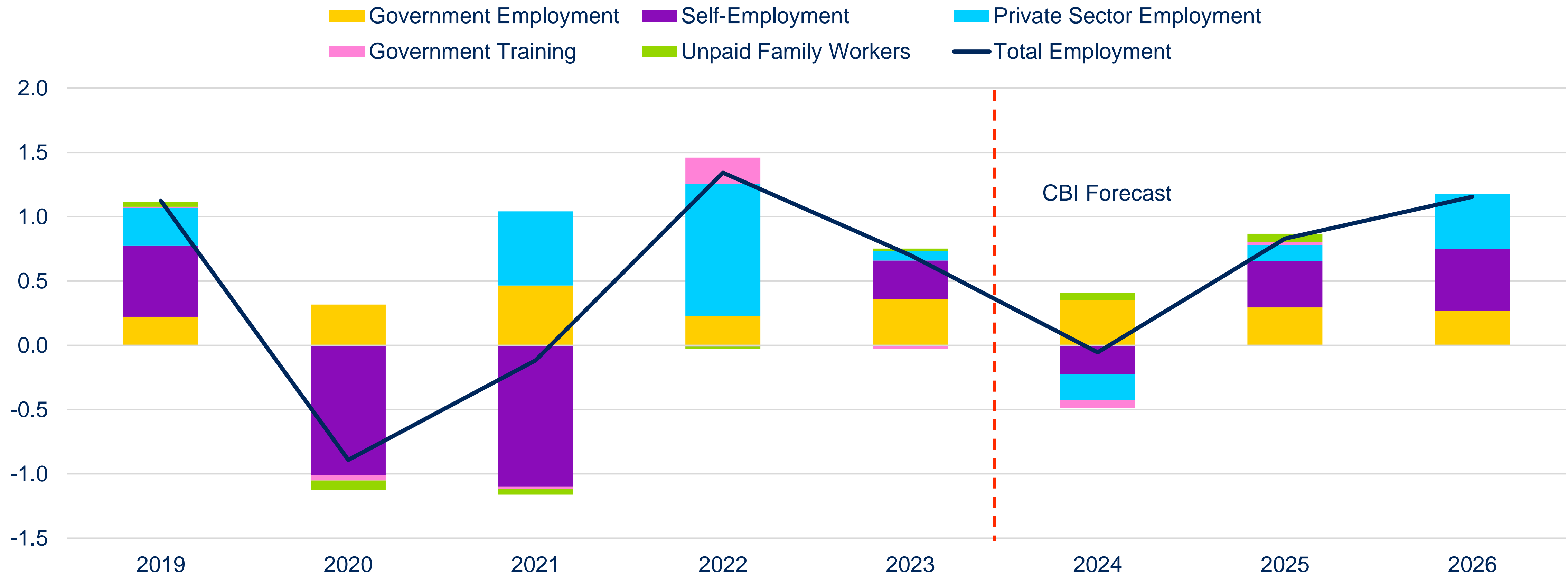
Source: Bank of England Agents' Survey, Lloyds Business Barometer, Bank of England DMP, BCC, S&P Global, CBI surveys, ONS, HMRC, Macrobond, CBI analysis

Business view

- Rising employment costs following the Budget come against the backdrop of a cooling labour market.
- A focus on cost reduction will lead firms to review their headcount and hiring plans.
- Companies are adjusting plans for pay, pensions, and other benefits as well.

- Official employment data from the ONS' Labour Force Survey (LFS) continue to be distorted by sampling issues. A broader swathe of measures – including CBI surveys – suggest that employment growth has weakened recently.
- The CBI's surveys reported that hiring intentions worsened significantly in November, following the Autumn Budget. This deterioration was broad-based across the distribution, manufacturing, and non-financial services sectors.

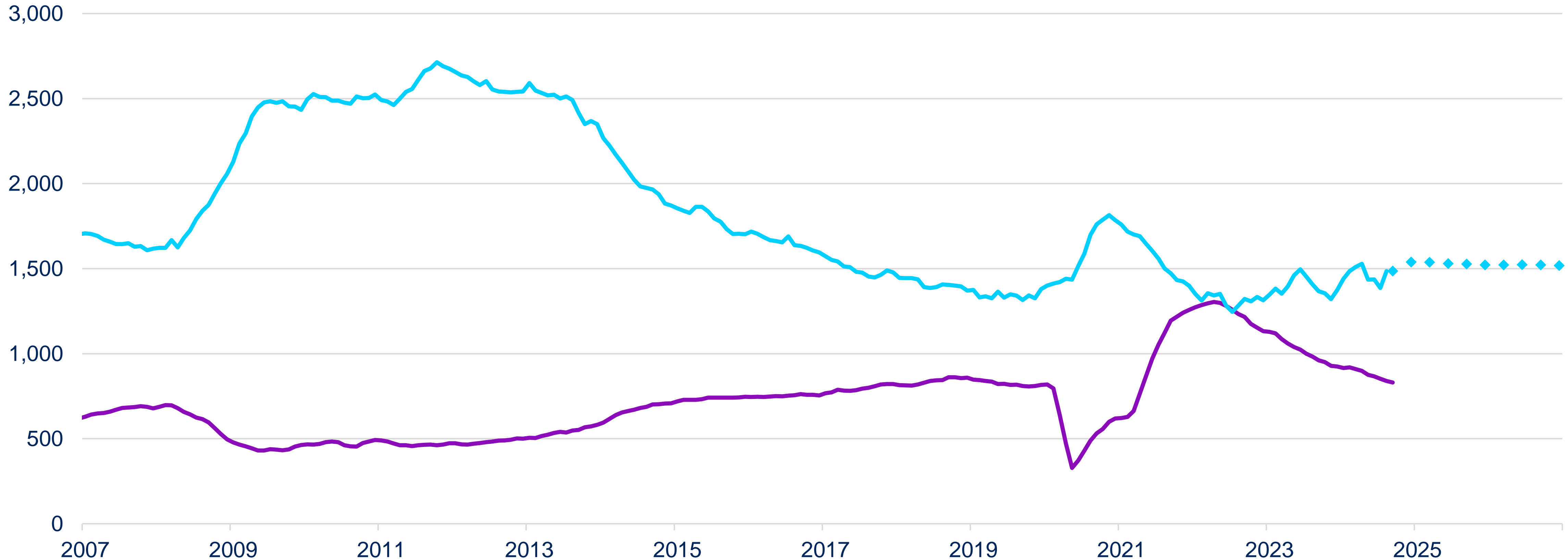
Self-employment expected to drive jobs growth



Source: ONS, CBI forecast

- Our latest forecast expects employment to steadily increase over 2025 and 2026, following a marginal dip in 2024. It's worth noting, though, that the outlook for 2025 is weaker than in our June forecast due to slower growth in private sector and self-employment.
- Employment growth over 2025 and 2026 is set to be primarily driven by self-employment. This partly reflects the fact that higher employer NICs will reinforce (pre-existing) tax advantages from self-employment. The public sector is also expected to be a key employment driver following the Autumn Budget's announced fiscal loosening.
- By comparison, private sector employment is expected to see weaker growth following the Budget. This is due, at least in part, to the drag from higher employer NICs and minimum wage.

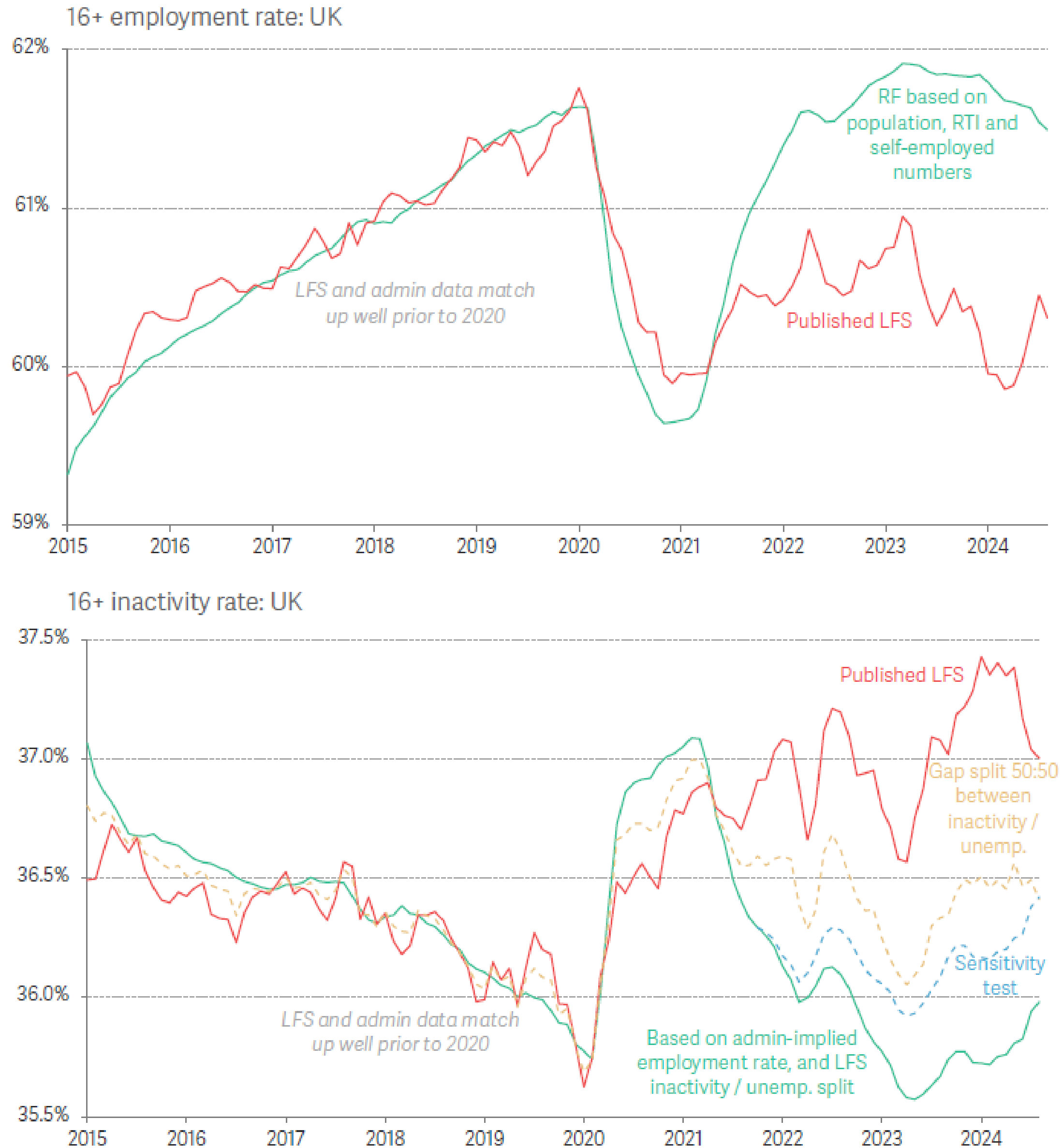
Unemployment set to be broadly steady



Source: ONS, Macrobond, CBI forecasts

- The ratio of job vacancies to unemployed persons has fallen over 2024, suggesting a moderation in labour market tightness. This broadly chimes with the gradual easing in measures of labour shortages in CBI surveys.
- Looking ahead, we project that the unemployment rate will be broadly steady at 4.4% in 2025 and 4.3% in 2026. This reflects the expectation that we will see similar rates of growth in employment and labour supply (both of which are anticipated to be weaker than in our June forecast).

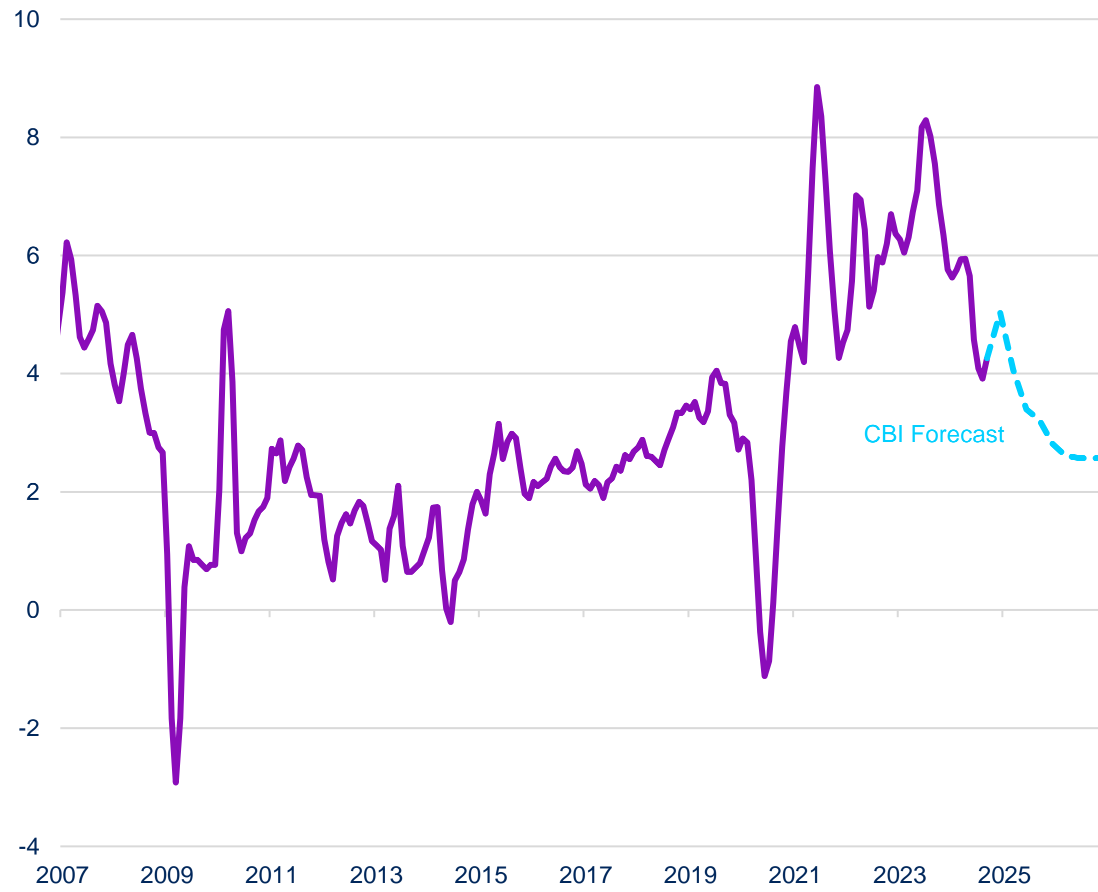
True labour market picture remains unclear due to data issues

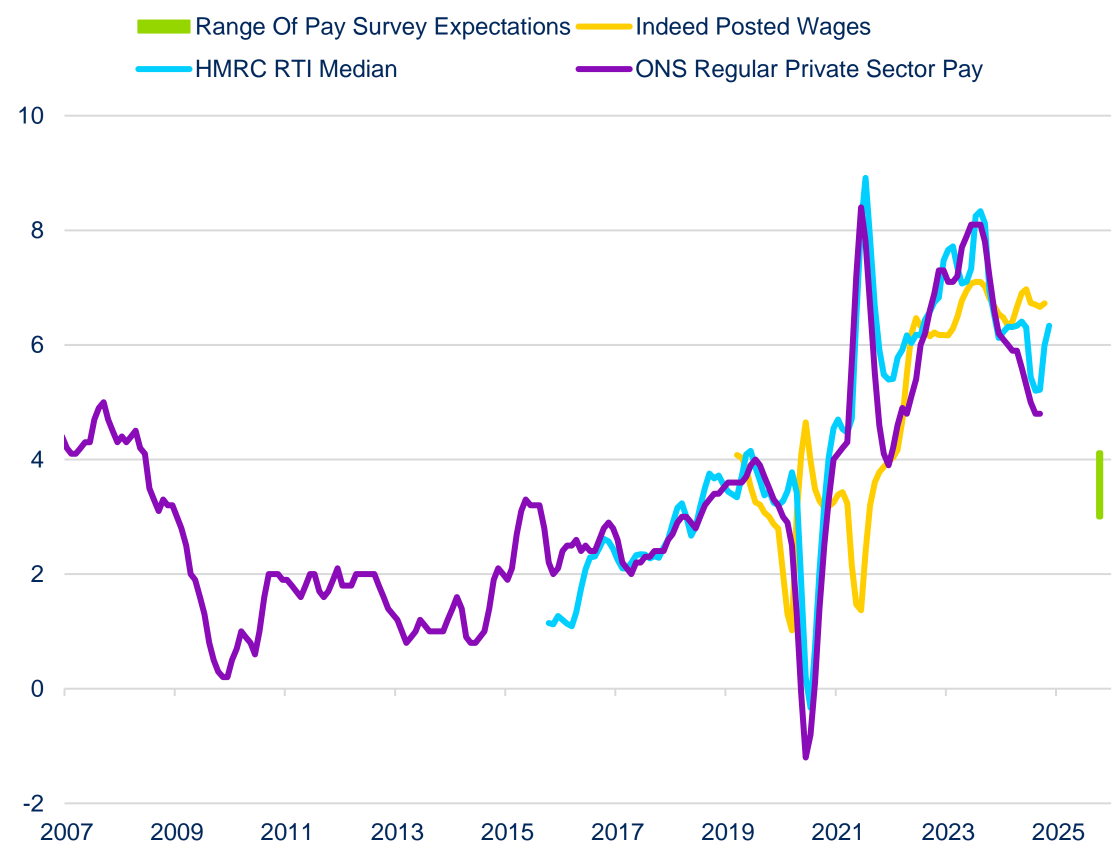


Source: Resolution Foundation

- A lack of reliable labour market data has resulted in persistent uncertainty for monetary and fiscal policymakers in their assessment of economic developments and prospects.
- Recent analysis from the Resolution Foundation suggests that official Labour Force Survey (LFS) employment data may be underestimating the extent of labour market tightness following the COVID-19 pandemic.
- Their research creates alternative estimates of employment, unemployment, and inactivity in the UK using HMRC payrolls and ONS workforce jobs data (which circumvents the LFS sampling issues).
- These alternative measures suggest that the LFS has been materially underestimating the UK's employment rate. Specifically, their figures estimate that the employment rate would currently be broadly unchanged from its level in Q4 2019, instead of being 1.2pp below.
- The Resolution Foundation's analysis also points to the UK inactivity rate being 1pp lower than the latest LFS data, while the unemployment rate is likely to be slightly lower (3.9% instead of 4.3%).
- These findings paint a more positive story around labour force participation following the pandemic. However, they would also imply that the UK's potential supply could be more limited than previously believed. Greater labour market tightness would also help explain some of the persistence in elevated wage growth.

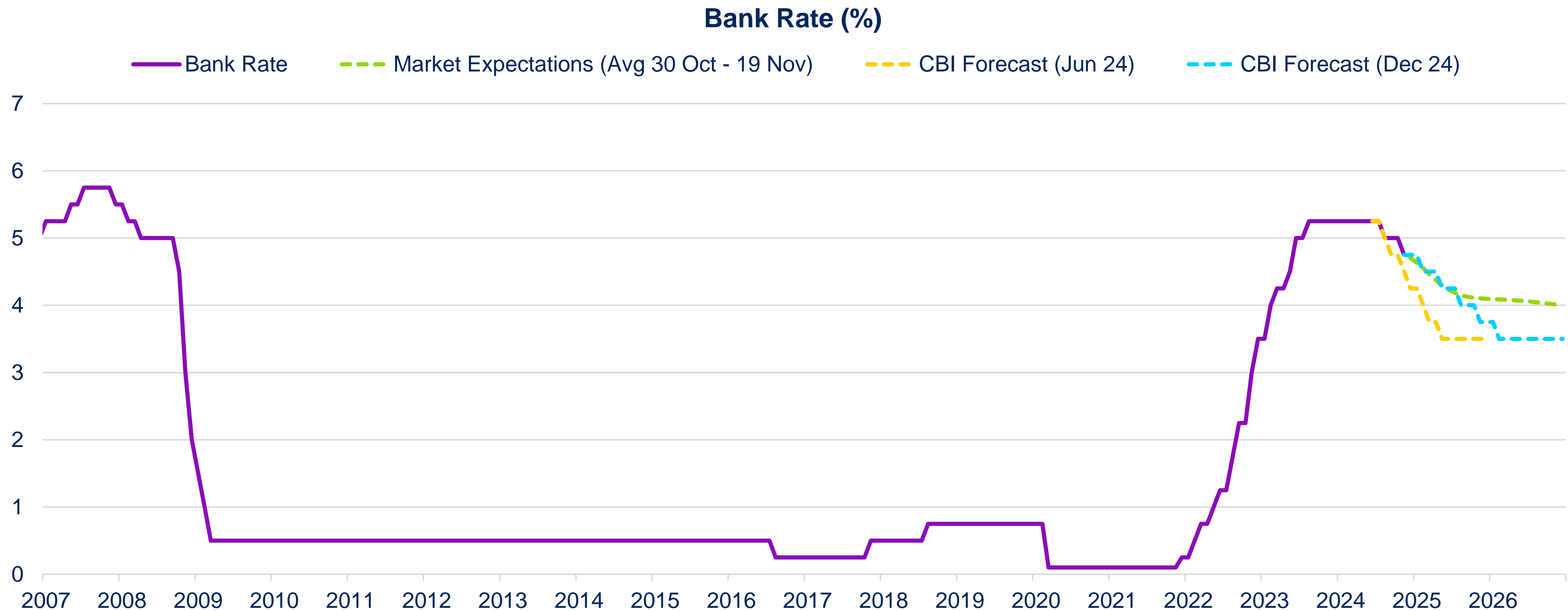
Wage growth projected to slow through 2026





- Falling inflation and cooling labour market conditions have resulted in slower wage growth. Annual private sector regular pay growth has slowed from its recent peak of 8.1% in mid-2023 to 4.8% in the three months to September 2024. Surveys, including the CBI's own data, suggest that private sector wage growth will decelerate to a range of 3-4% in the year to October 2025.
- We expect that total pay growth will ease from 4.9% in 2024 to 3.4% in 2025 and 2.6% in 2026. This slowdown reflects the combined drag from weak potential productivity, a slight measure of labour market slack, and normalised inflation expectations. Firms have also mentioned that they expect higher employment costs following the Budget to weigh on pay growth next year.

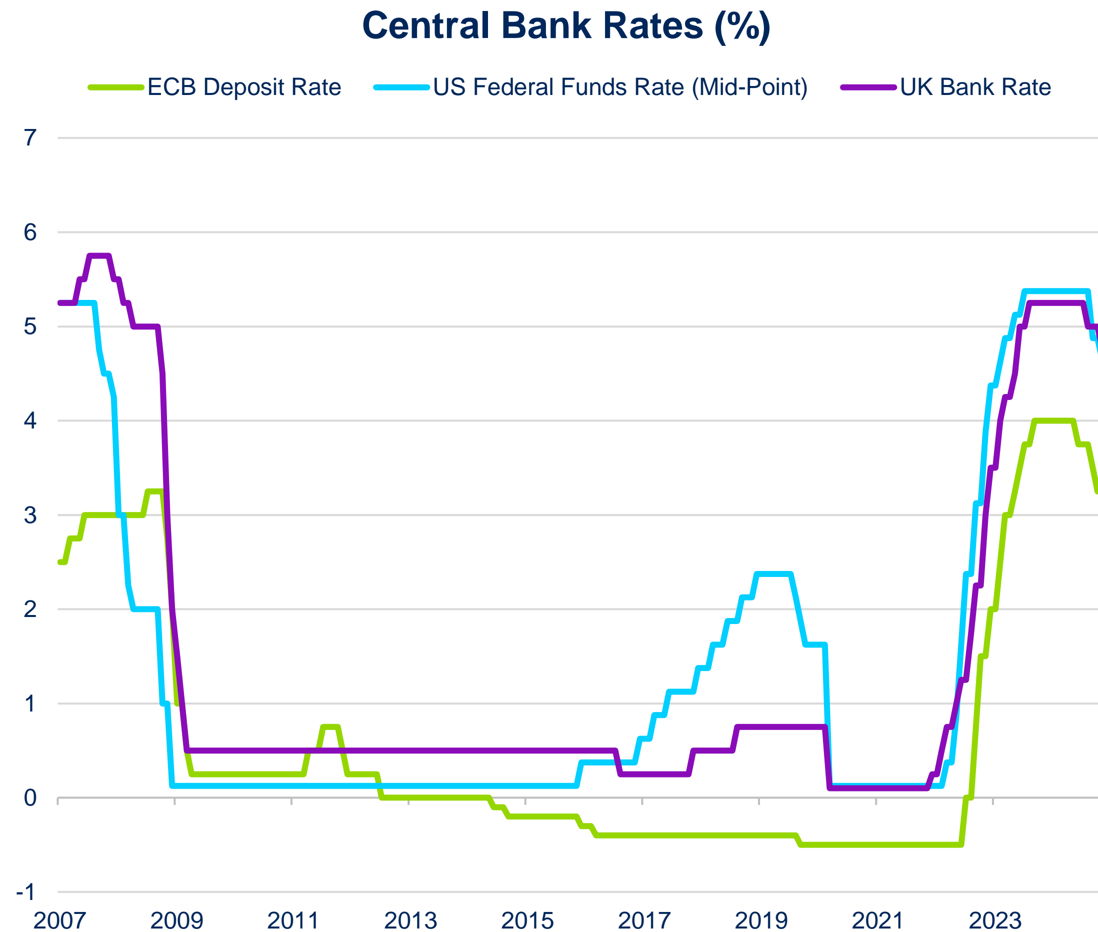
Higher inflation means we now expect more gradual Bank Rate cuts

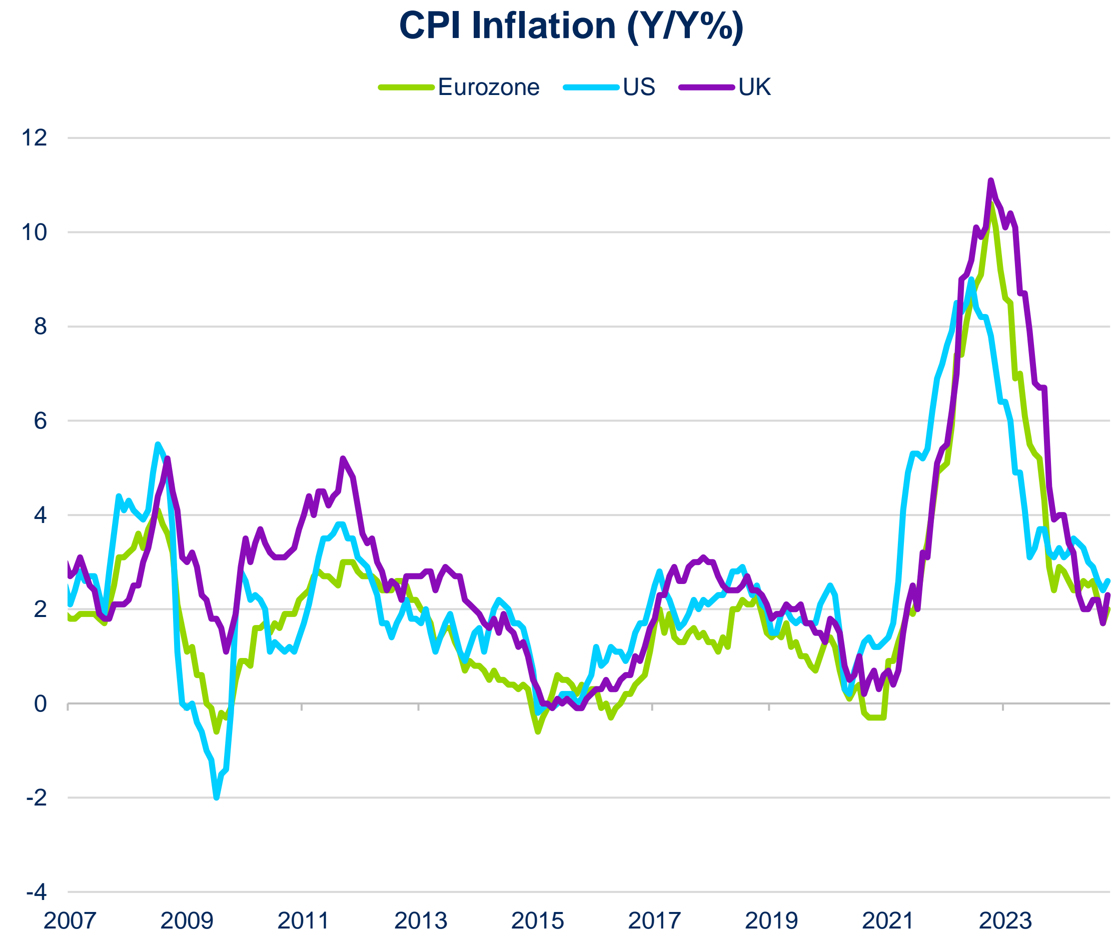


Source: Bank of England, Macrobond, CBI forecasts

- The Bank of England's Monetary Policy Committee (MPC) began its rate-cutting cycle this summer and has, in total, reduced Bank Rate twice so far this year (by 25bp in both August and November) to its current level of 4.75%. The MPC has stated in its forward guidance that they will take a "gradual approach" to loosening policy. This reflects the view that underlying price pressures need to abate further for inflation to remain sustainably at the 2% target.
- Our baseline forecast expects Bank Rate to be gradually reduced by 25bp each quarter until it reaches a terminal rate of 3.50% in Q1 2026. This slower pace of easing compared to our June forecast reflects the cautious approach of the MPC and our higher inflation forecast. Notably, Governor Bailey has emphasised that the Bank expects inflation to return to target in the medium term (i.e., 2027, which is beyond our own forecast horizon) under a similar interest rate trajectory
- Alternatively, we could see a scenario where firmer inflation post-Budget, in addition to structural changes in price and wage pressures, leads to Bank Rate being reduced by an even more gradual pace. This scenario would be more in line with market expectations, which expect Bank Rate to settle around 4% in 2026.

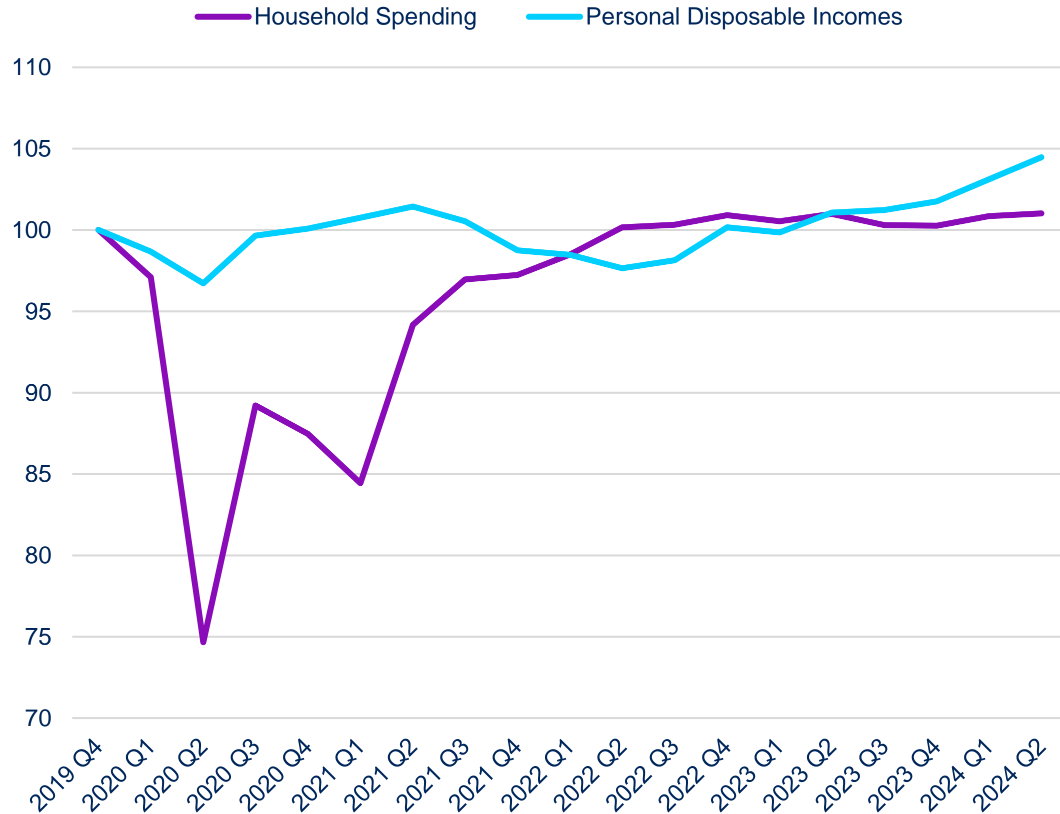
Eurozone and US have also begun their rate-cutting cycles

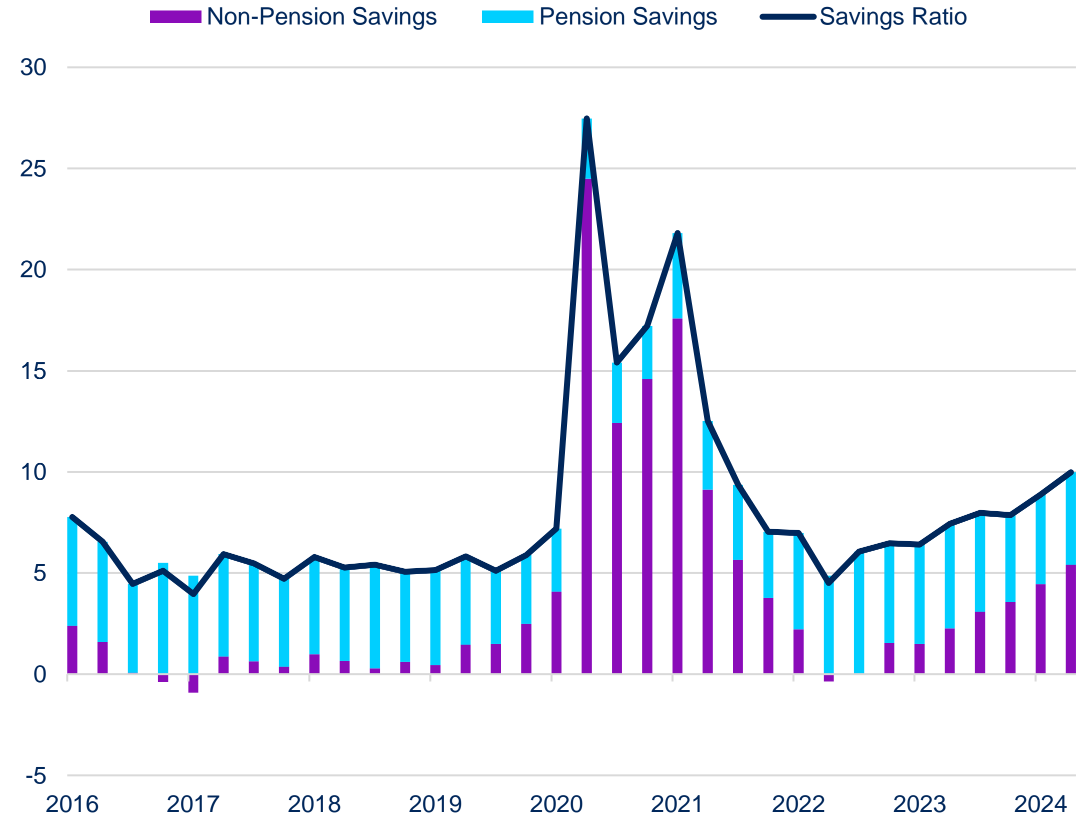




- The European Central Bank (ECB) and the US Federal Reserve (Fed) have also begun their respective rate cutting cycles this year.
- The ECB was the first major central bank to reduce rates (in June) and has gone on to cut its headline Deposit Rate down to 3.25% (from 4.00% at its peak in this cycle). By comparison, the Fed waited until September for its first cut (due to relatively stickier inflation in the US) and has now brought down the Federal Funds Rate to a range of 4.50%-4.75% (from its peak of 5.25-5.50%).
- Looking ahead, the potential for looser fiscal policy and higher tariffs under the incoming Trump administration means that the Fed will likely take a more gradual approach to cutting rates going forward. Meanwhile, falling inflation amid a weak growth outlook means that interest rates will likely decline faster and further in the Eurozone.

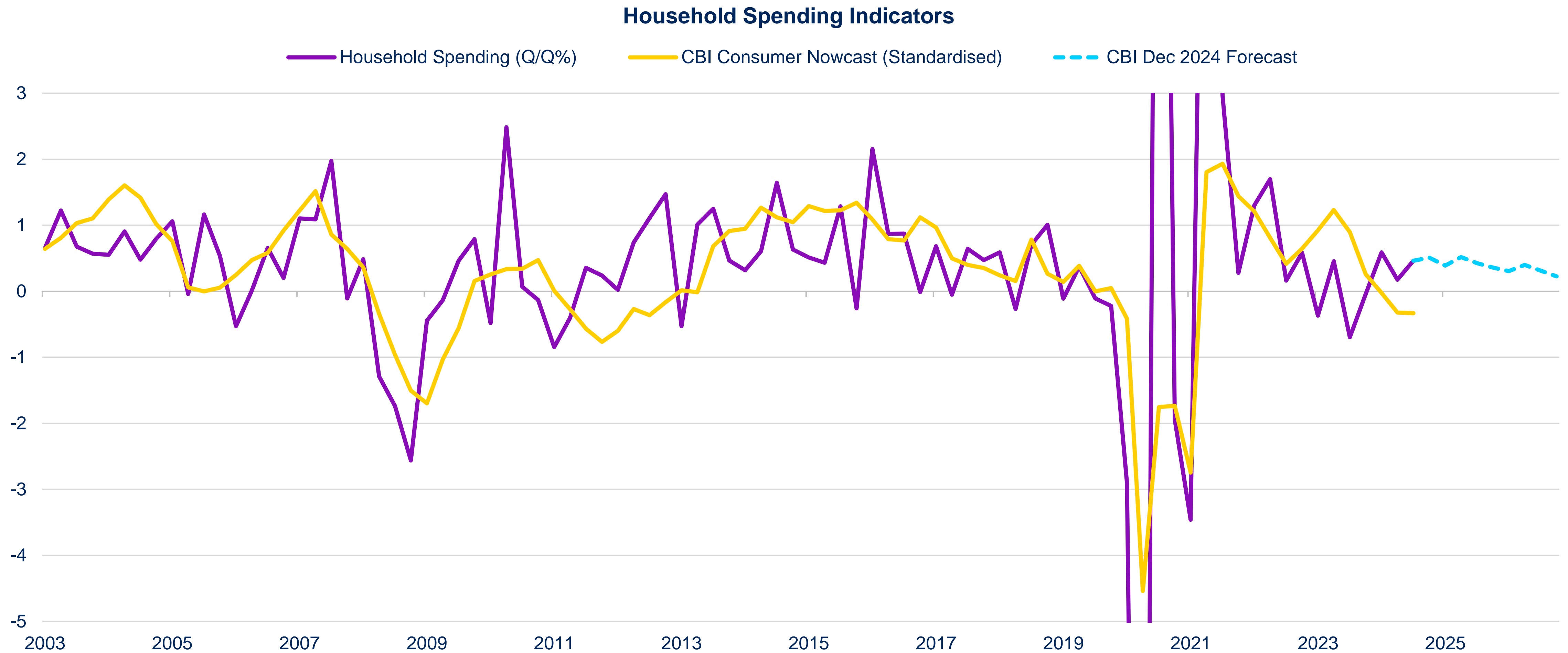
Cautious consumers held back spending in 2024





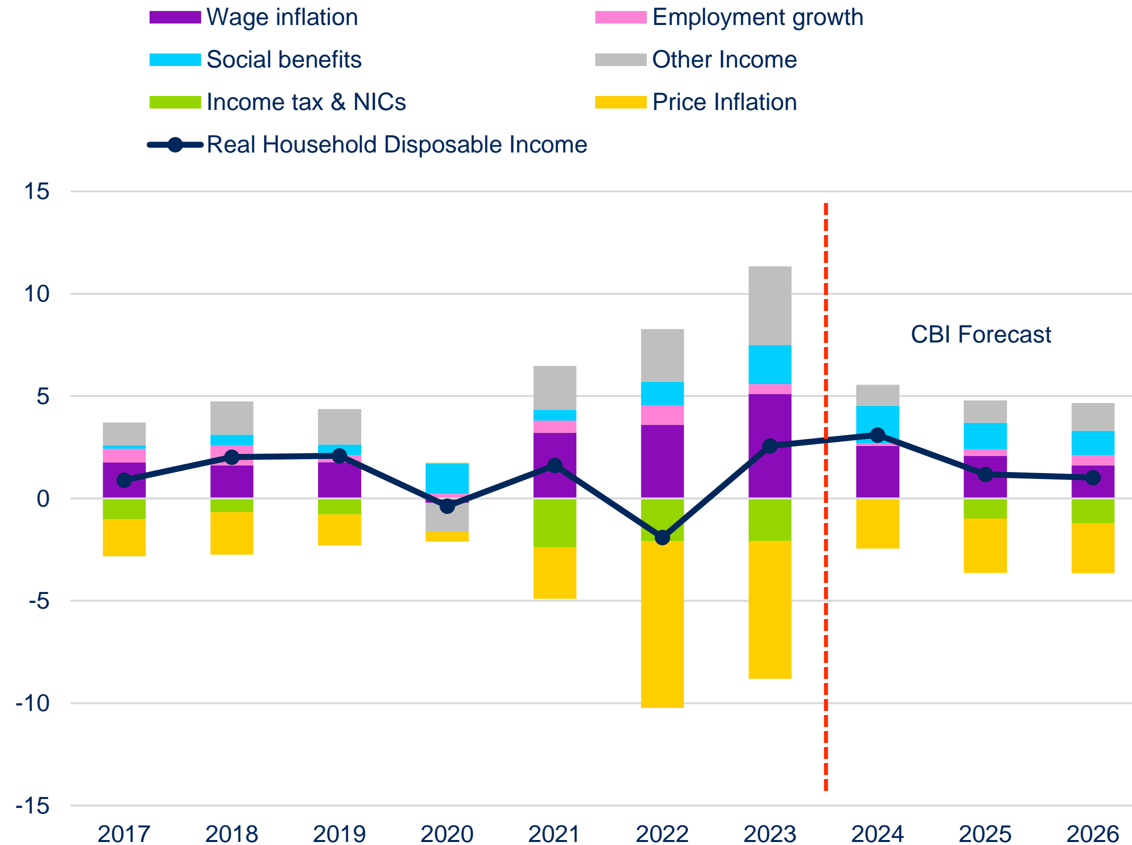
- Increased interest rates and the lingering impact of high inflation prompted many consumers to hold back on spending in 2024, despite gains in real incomes. Research from the Bank of England suggests that this partly reflects households having “smoothed” through changes in their incomes and spending to maintain a broadly similar standard of living over the past few years.
- As a result, there’s been a rise in the household savings ratio over 2023 and 2024, which has been driven by non-pension savings.

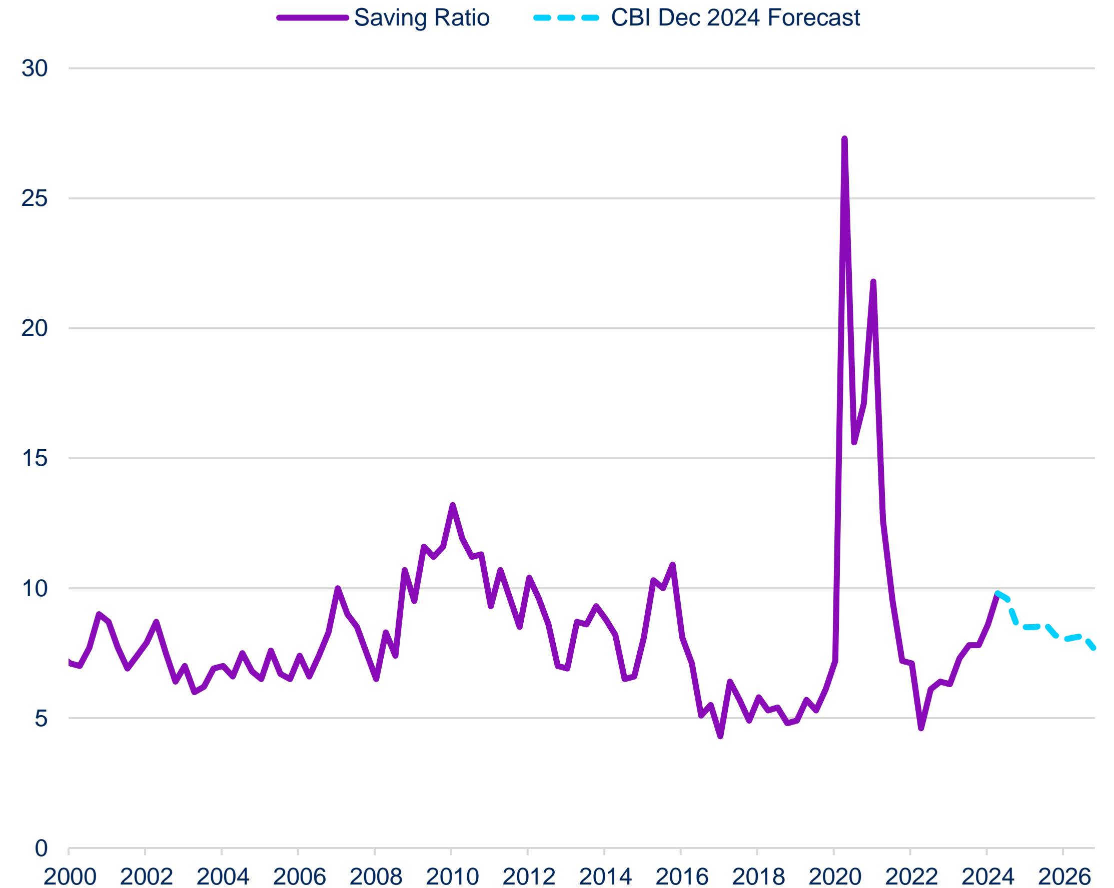
Household spending growth will remain modest



- We expect household spending to converge with incomes growth in 2025, as interest rates decline and consumers gradually increase expenditure off the back of recent real incomes gains.
- However, consumption growth remains relatively modest and gradually slows through 2026 (in line with incomes).
- Our forecast assumes that Budget measures will weigh on household spending due to weaker incomes growth.

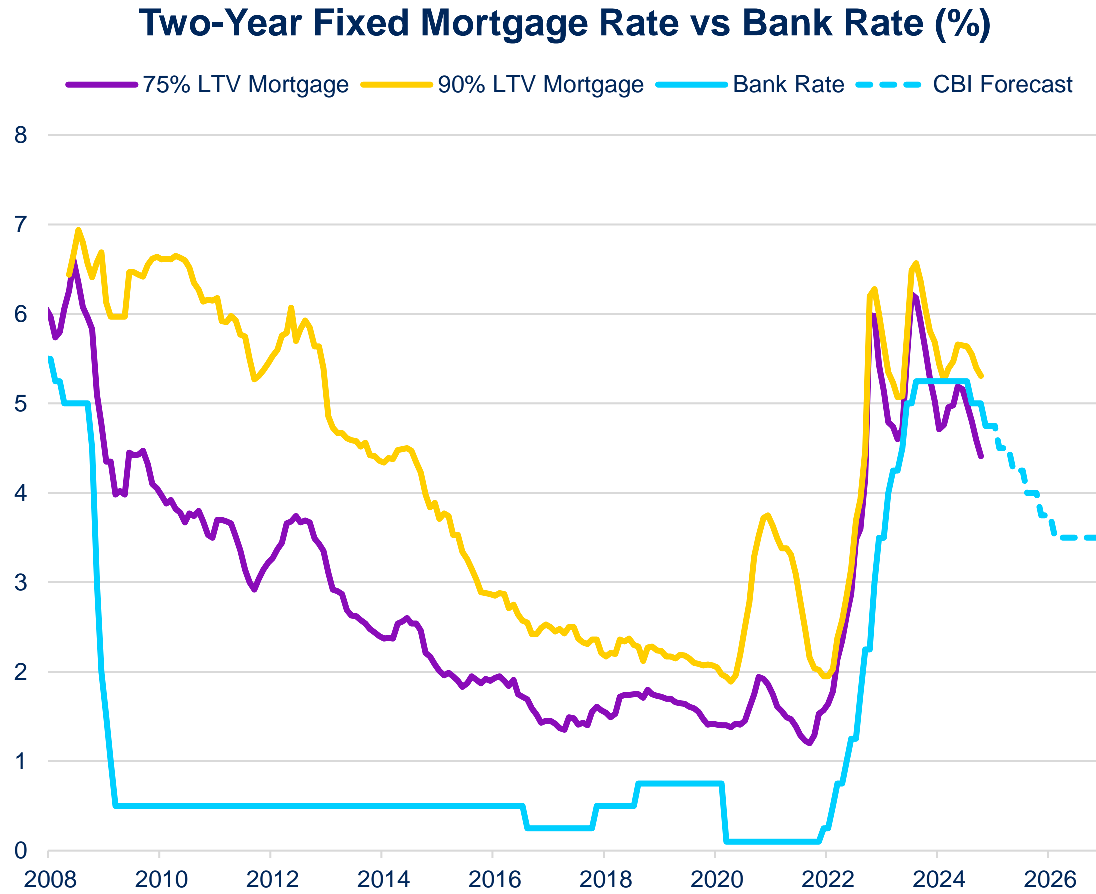
Budget measures will weigh on household income growth



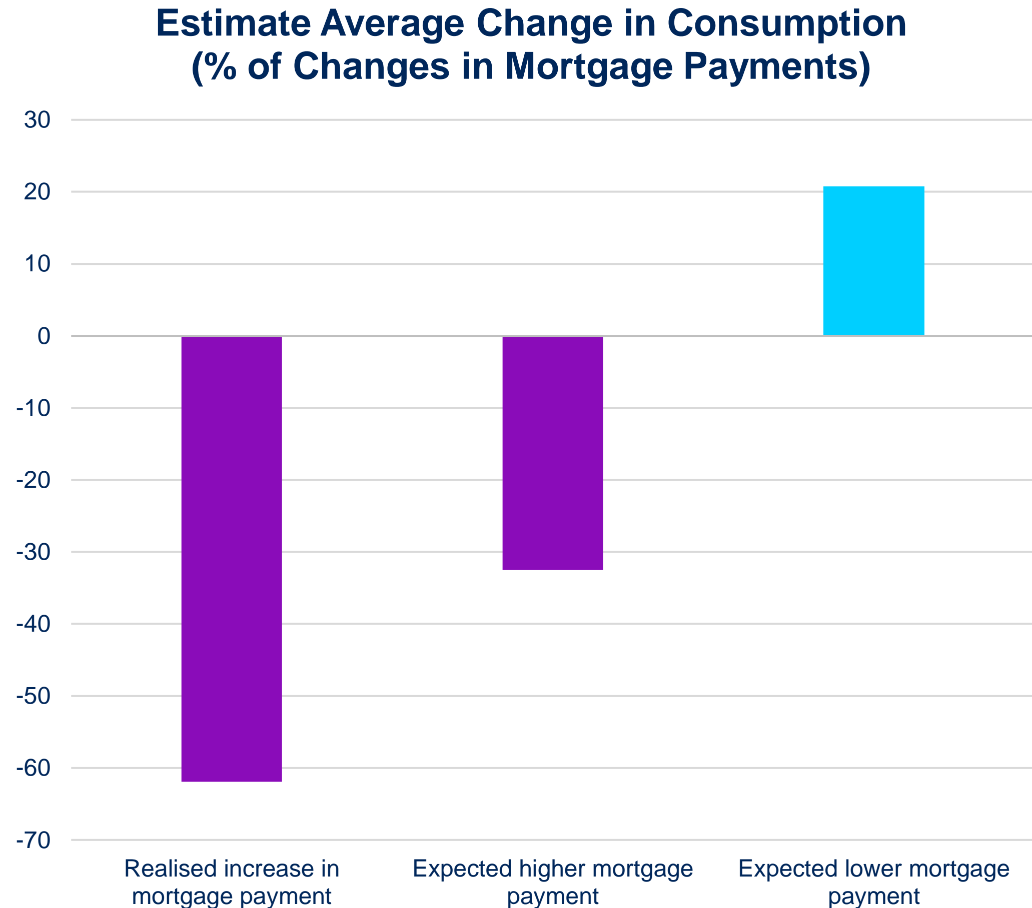


- We project that real incomes growth will pick up slightly in 2024, driven by increases in wages and social benefits alongside a waning drag from price inflation.
- Real incomes growth is subsequently projected to decelerate to a noticeably slower pace in 2025 and 2026, primarily due to weaker wage growth and firmer inflation. Autumn Budget measures are, in aggregate, expected to weigh on incomes through slower wage growth, higher inflation, and weaker employment growth.
- Slower incomes growth and lower interest rates mean that we expect the savings ratio to gradually decline to a level that is broadly in line with its pre-pandemic average. However, there is a possibility that households may prefer to maintain a higher savings ratio due to scarring from recent economic shocks, which would imply weaker consumption (all else equal).

Drag from higher mortgage rates will ease somewhat



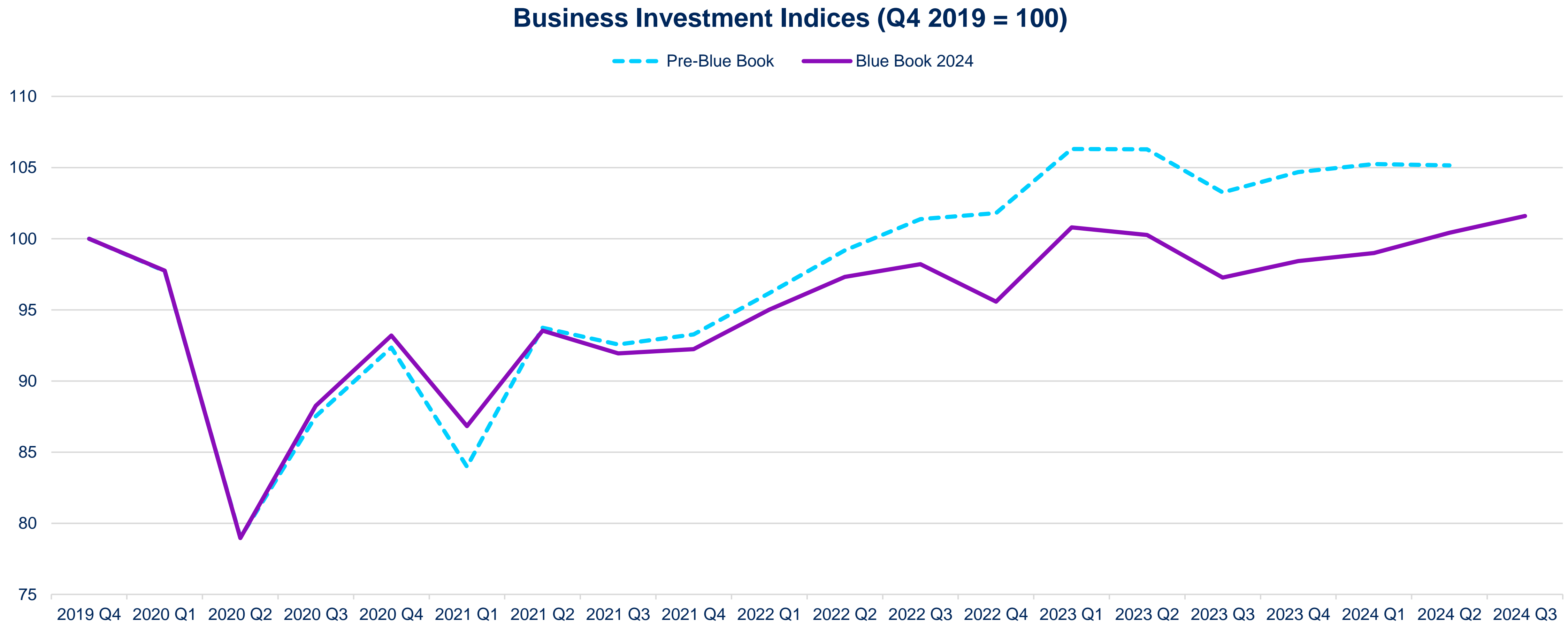
Source: Macrobond, CBI forecast



Source: Bank of England / NMG survey, Bank of England (November 2024 MPR)

- Higher mortgage rates have likely dragged on spending over 2023 and 2024. Increased rates are expected to still gradually feed through to those mortgage holders that took out a mortgage in 2021 (or earlier).
- Bank of England survey data suggests that the drag on spending from higher mortgage rates will be partially offset by a growing number of households that will be able to refinance at a lower rate in the coming years. However, mortgage rates are unlikely to return to pre-pandemic levels over our forecast period.

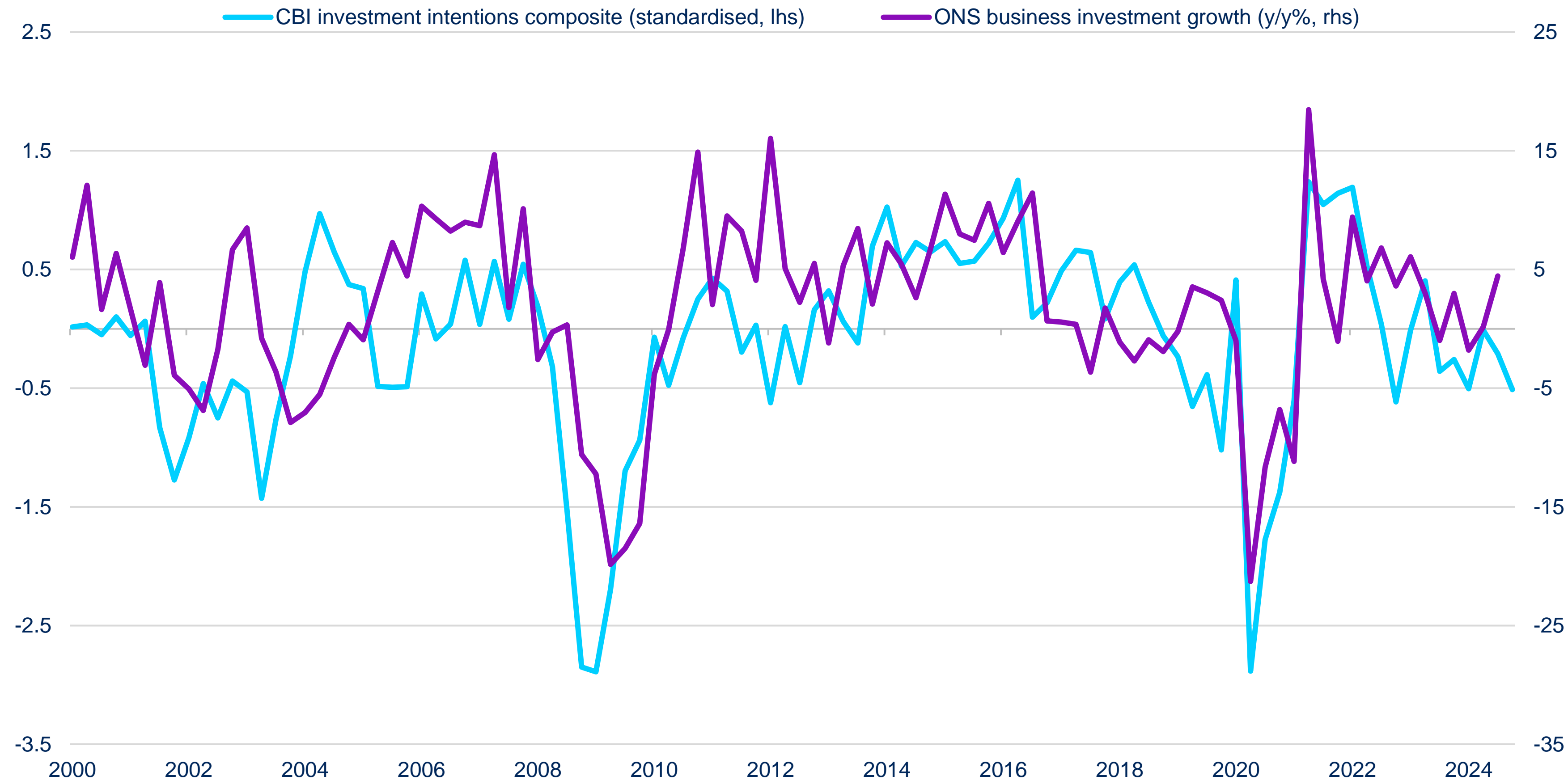
Blue Book revisions change historical picture for business investment



Source: ONS, Oxford Economics Global Model, CBI analysis

- Official data on business investment were revised significantly following the ONS' Blue Book 2024. These changes suggest that business investment has seen a weaker recovery from the pandemic than previously estimated, but also that it has grown at a quicker pace in 2024.
- These data revisions are the primary reason why our business investment forecast has been upgraded in 2024 and 2025. It is also worth noting that the OBR's October forecast, which expected capex to fall in 2024 and 2025, was based on the pre-Blue Book figures.

Surveys point to a more muted investment outlook



Source: ONS, Macrobond, CBI surveys, CBI analysis

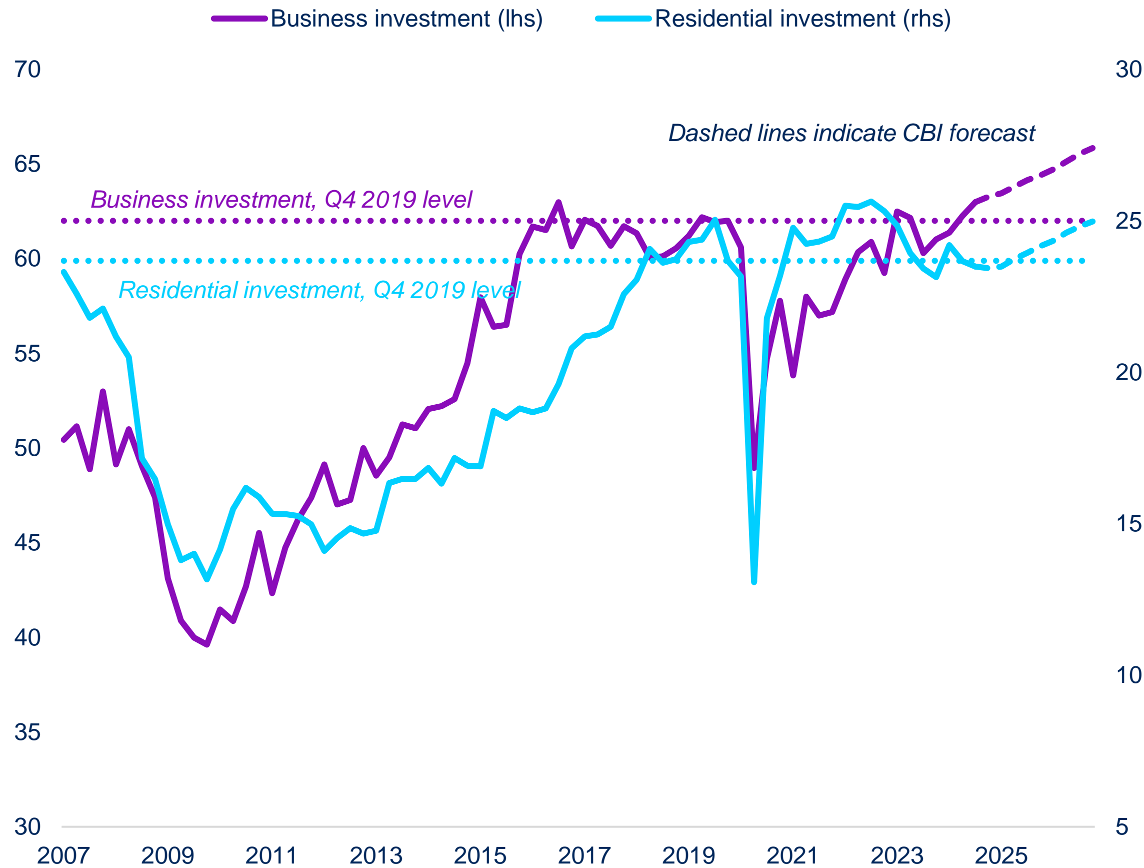
CBI data on investment intentions data is a composite of our manufacturing, distribution and non-financial services surveys, weighted by each sector's share of business investment

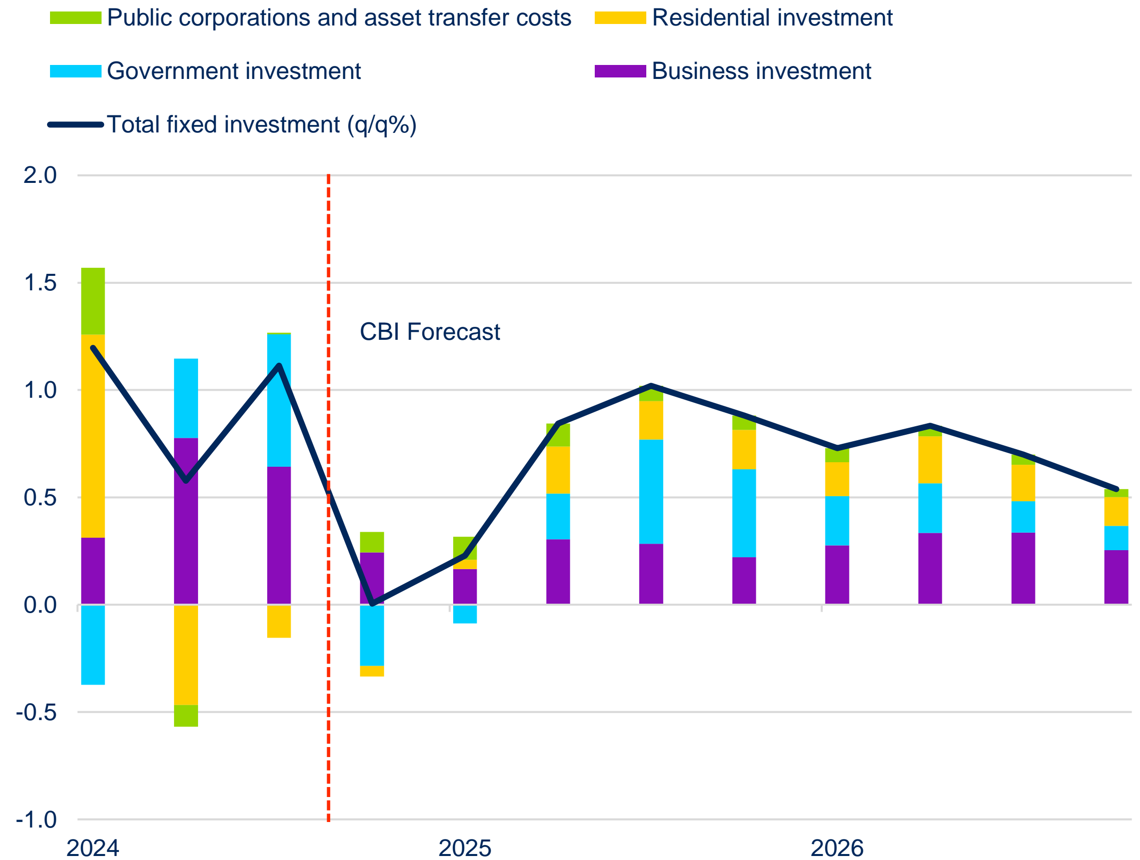
Business view

- Investment intentions were already subdued before the Budget, and capex plans are now being scaled back to fund higher labour costs.
- Businesses are balancing cost reductions with selective investments in digital technology and automation.
- There are concerns about the UK's competitiveness as an investment destination.

- Our surveys suggest that private sector investment intentions have worsened recently. These business survey data point to a gloomier picture for investment compared with official data.
- Firms across the distribution, manufacturing, and non-financial services sectors expect to cut back on capital spending over the next 12 months (compared to the previous 12). Recent survey data and anecdotes suggest that higher employment costs (following the Autumn Budget) will likely weigh on investment plans going forward, particularly given the ongoing squeeze in profit margins.

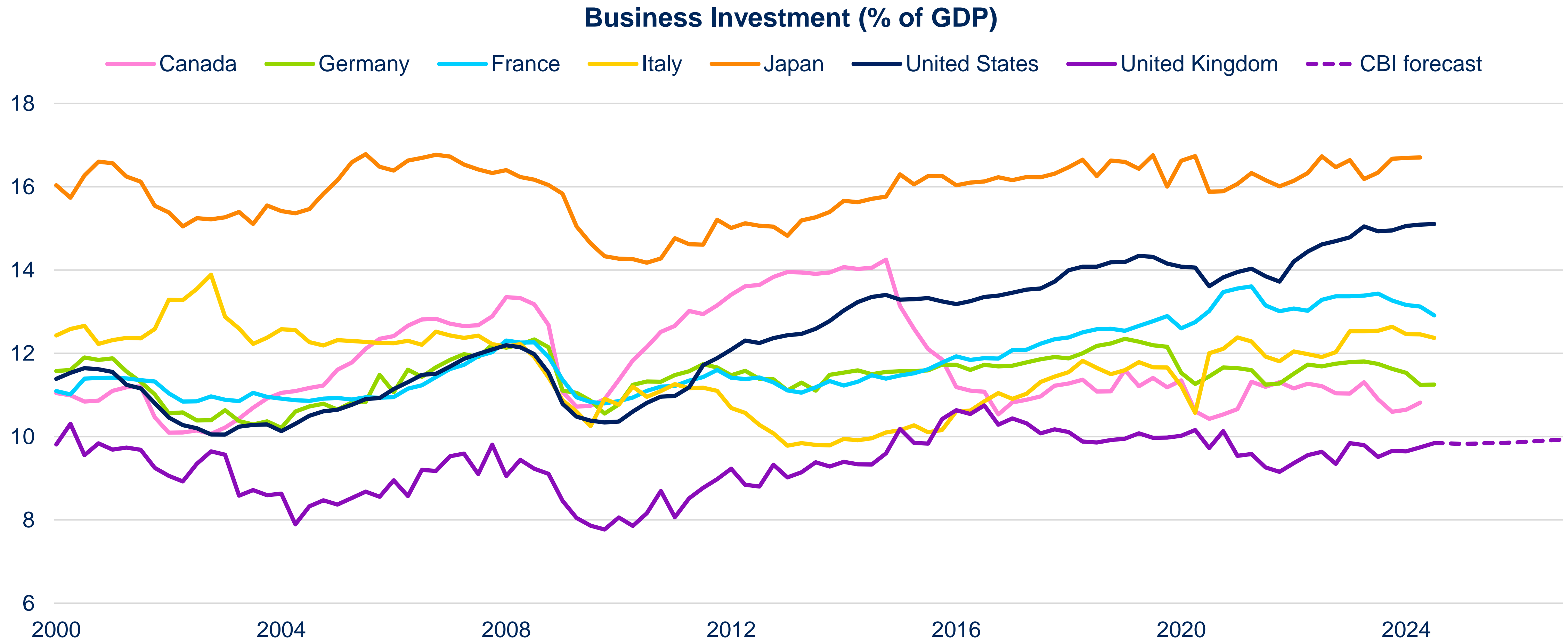
Business investment will be weighed down by Budget measures





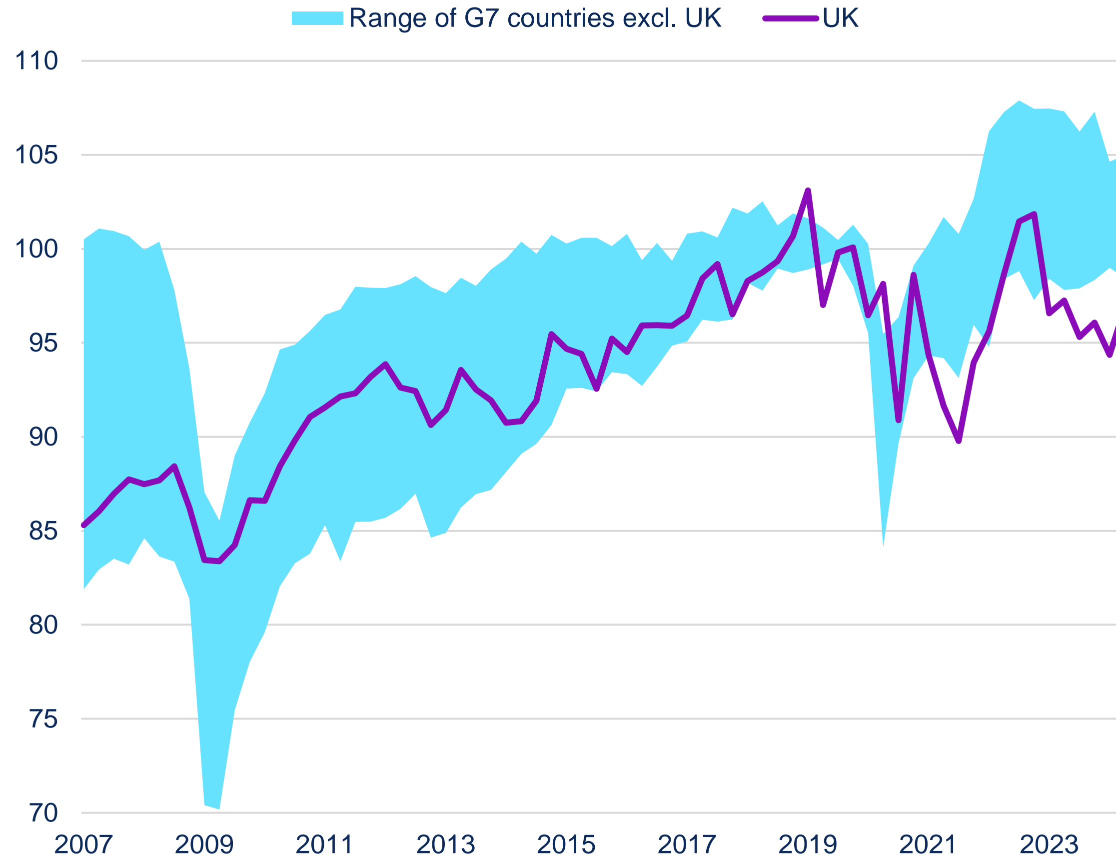
- Business investment is projected to expand moderately over 2025 and 2026. Tailwinds from firmer GDP growth and lower interest rates are expected to offset drags from higher employment costs and "crowding out" effects from higher government investment. It's worth noting that our projection for business investment growth is considerably weaker than what it would have been without these Budget-related drags.
- Government investment is expected to grow through 2026 following the Budget, marking a noticeable upgrade compared to our June forecast. However, this increase in government investment is set to "crowd out" private sector investment due to the economy growing near its potential rate. Residential investment is set to gradually recover through 2026 due to real incomes growth and lower interest rates.

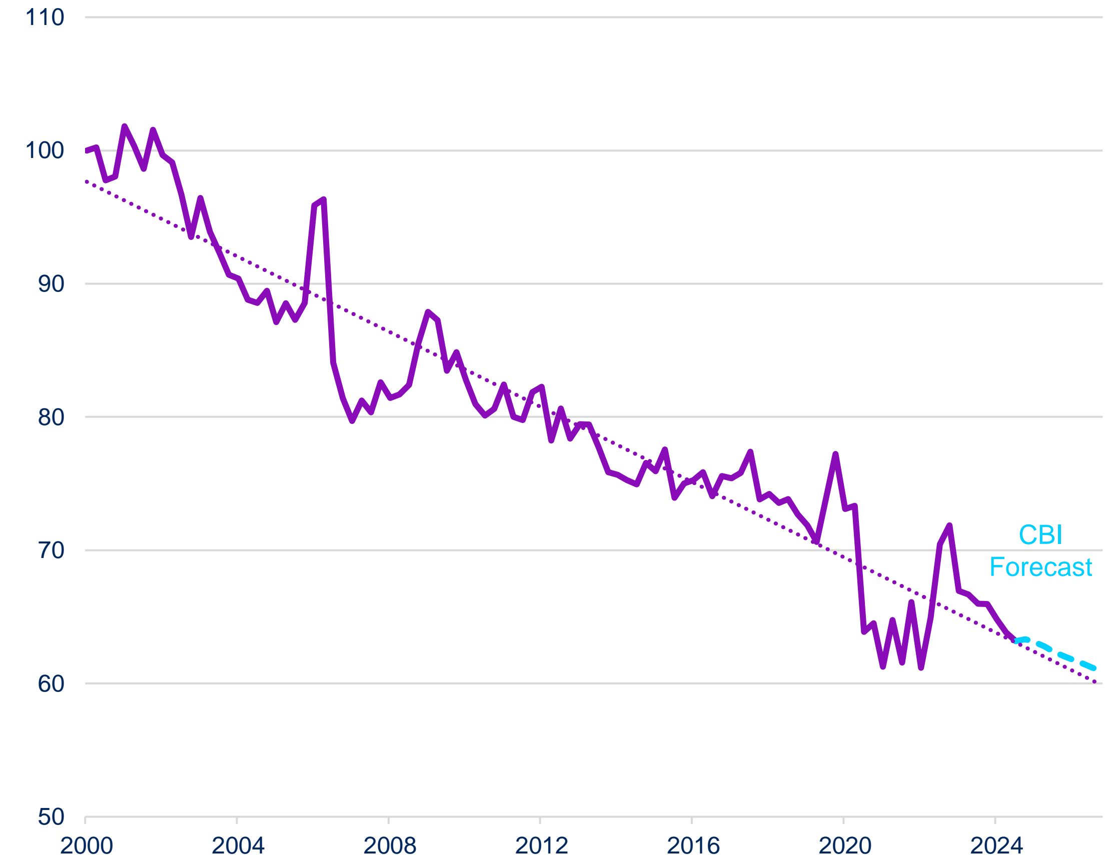
UK business investment will continue to lag behind G7 peers



- UK business investment as a share of GDP has consistently lagged its G7 peers since 2017. Relatively weaker capital expenditure has likely weighed on UK productivity and potential growth.
- Our forecast expects the UK's underperformance in business investment to continue through 2026.

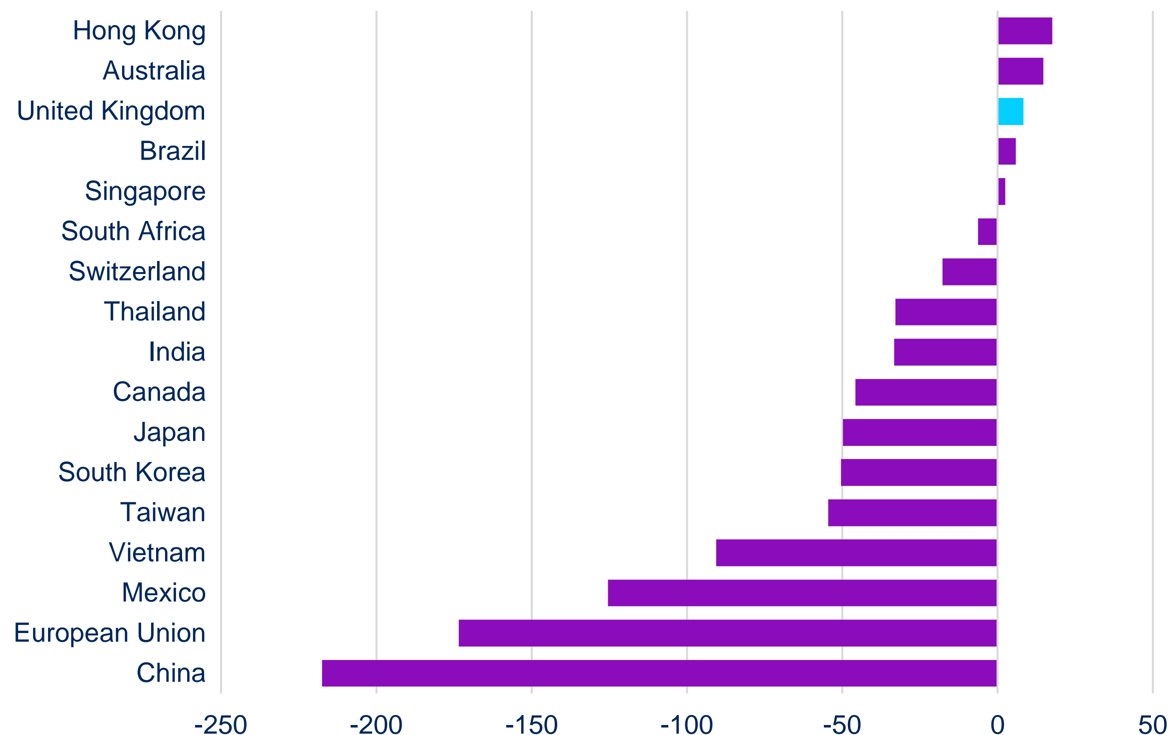
Underperformance in UK trade is set to continue



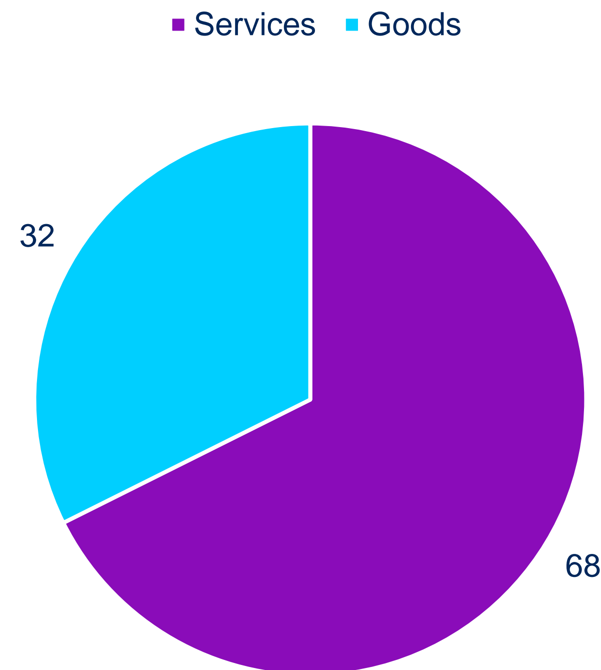


- Our latest forecast expects UK trade to continue to underperform its G7 peers. Net trade is projected to drag on growth over the forecast period, as imports increase faster than exports.
- The UK's trade intensity has remained at the bottom of the G7 table, and we expect the UK's global exports share to continue its downward trend through 2026.

UK is relatively less exposed to US tariffs on goods trade



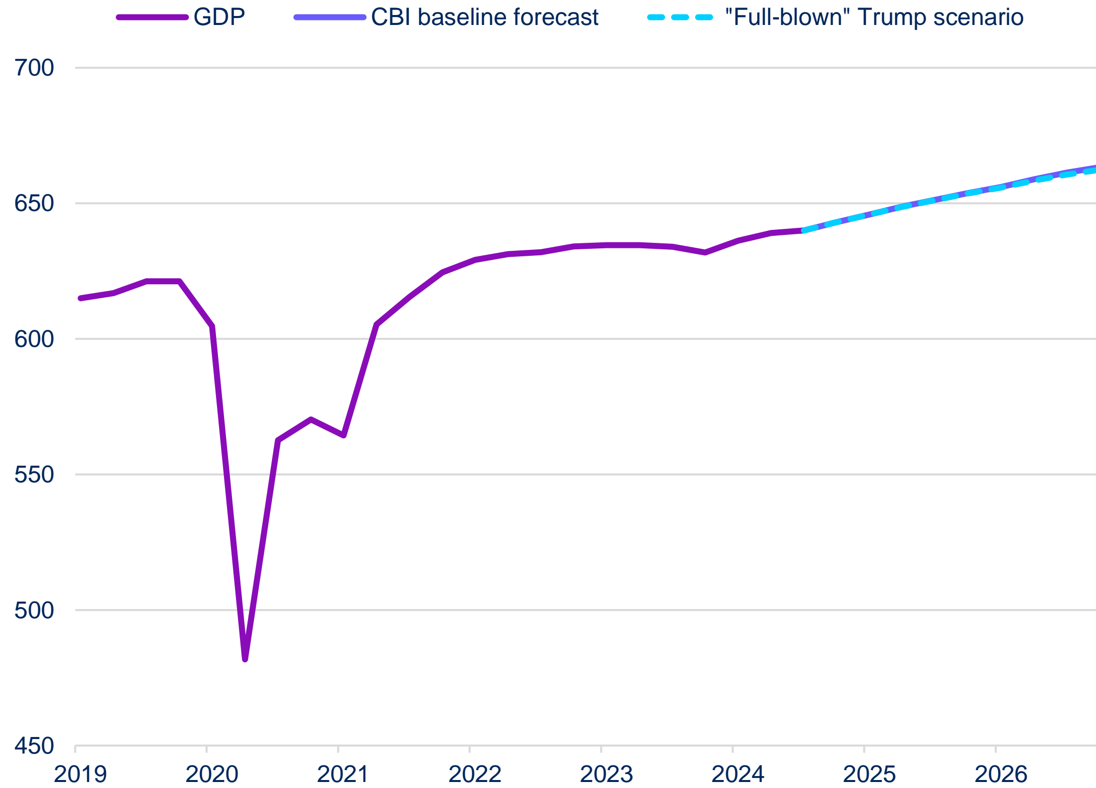
Source: BEA

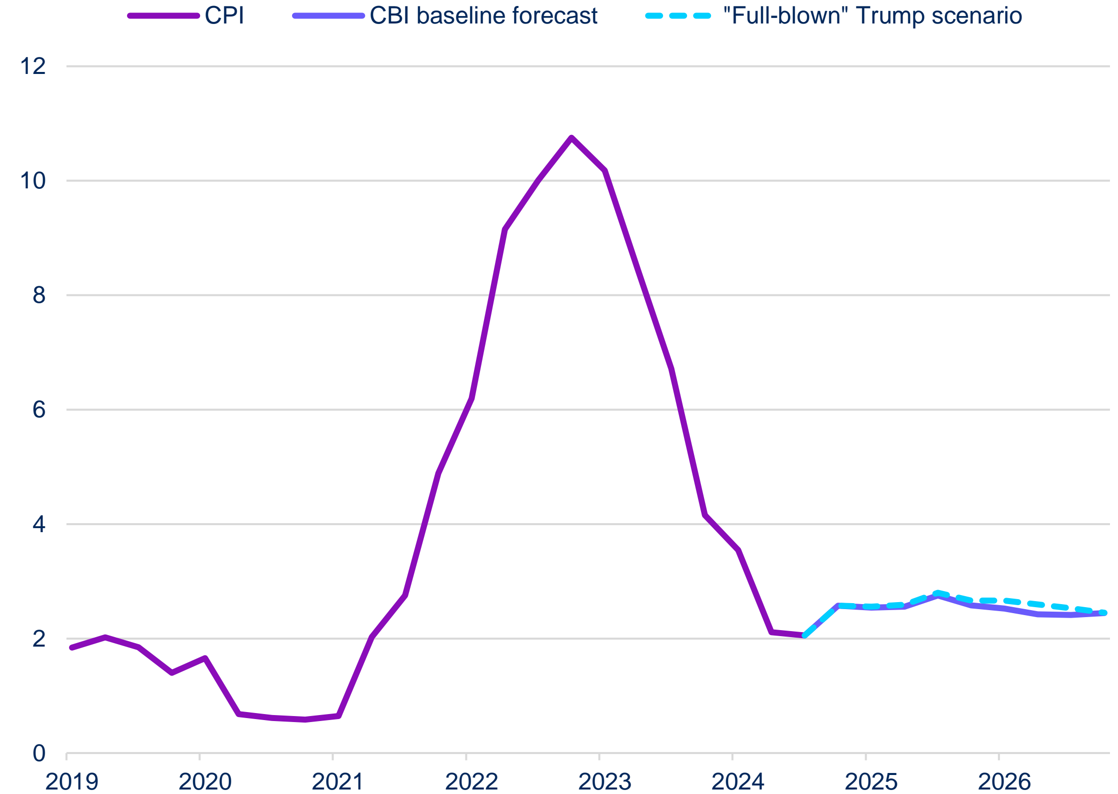


Source: ONS

- While trade tensions are a major source of uncertainty for the global outlook following the US presidential election, it is worth noting that the UK is relatively less exposed to potentially higher US tariffs on goods. This is partly because the US reports a goods trade surplus with the UK, which suggests that the UK is less likely to be targeted for higher tariffs compared to countries like China, Germany, and Mexico (which have large trade surpluses with the US).
- Additionally, the composition of UK trade with the US means that goods tariffs pose less of a risk to the UK economy. Specifically, over two-thirds of UK exports to the US are in services, which would not be affected by the tariffs that are currently being discussed. However, some UK-based exporters of goods such as pharmaceuticals and cars would likely see an impact if higher tariffs were to be imposed on UK-US trade.

Trump presidency poses modest risk to UK under extreme scenario





- Our baseline forecast adopts a “limited” Trump presidency, in line with Oxford Economics’ scenario assumptions. Specifically, we assume that the US imposes higher tariffs on imports from China and the EU, but not the UK. This scenario also expects looser fiscal policy in the US, which boosts US demand in the near-term.
- However, a more extreme scenario (i.e., “full-blown” Trump) would see the US imposing universal tariffs of 10% on imports from major trading partners, including the UK, and 60% on China. It also assumes that the UK would fully retaliate with its own tariffs on US imports. US fiscal policy is expected to be even looser under this scenario.
- Due to its relatively low exposure to US goods trade, the impact on UK GDP growth and inflation would be quite modest even under a “full-blown” Trump scenario. The level of GDP would be only 0.1% lower than in our baseline forecast in 2026, while CPI inflation would be 0.1pp higher. It’s also worth noting that much of this impact would be avoided if the UK does not impose retaliatory tariffs on imports from the US.

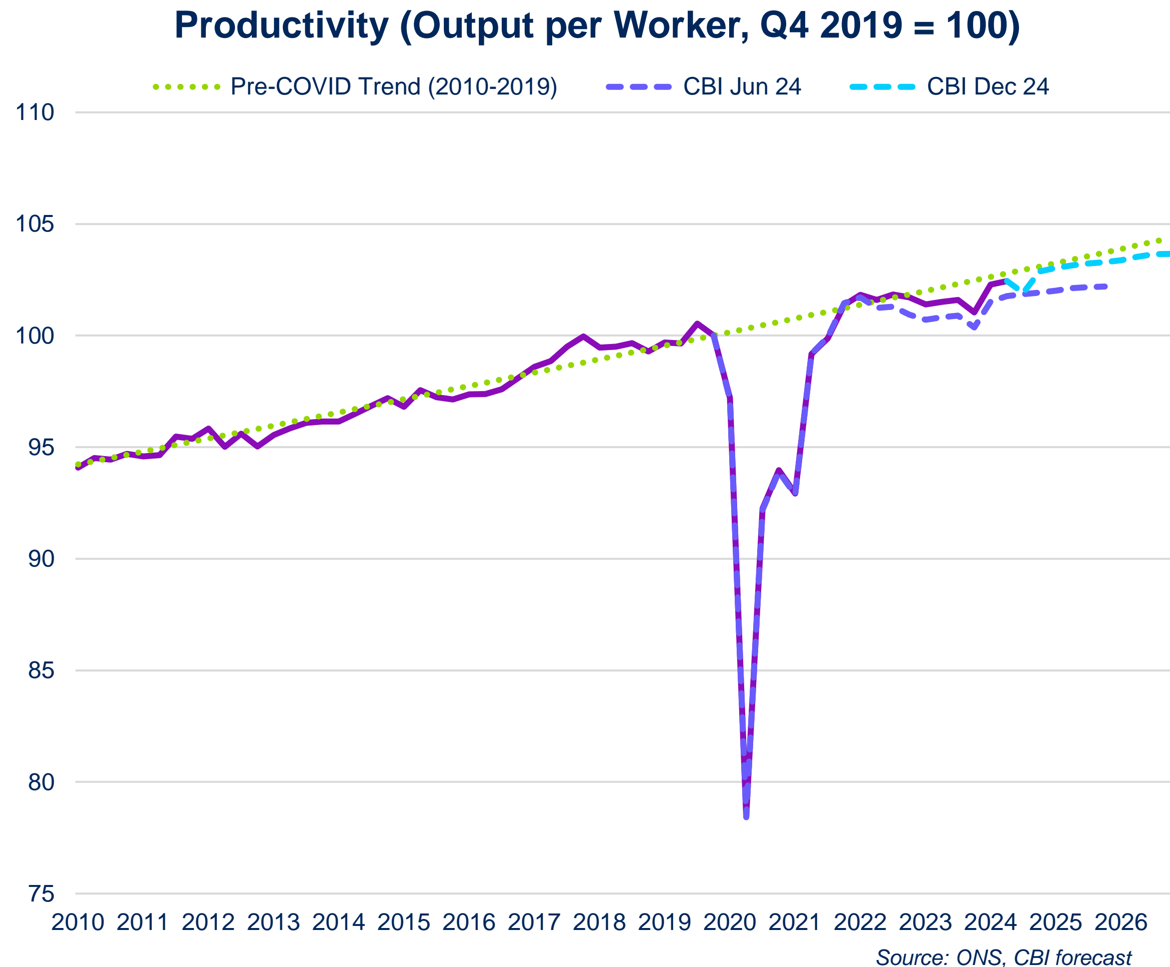
US economy set to continue outperforming peers

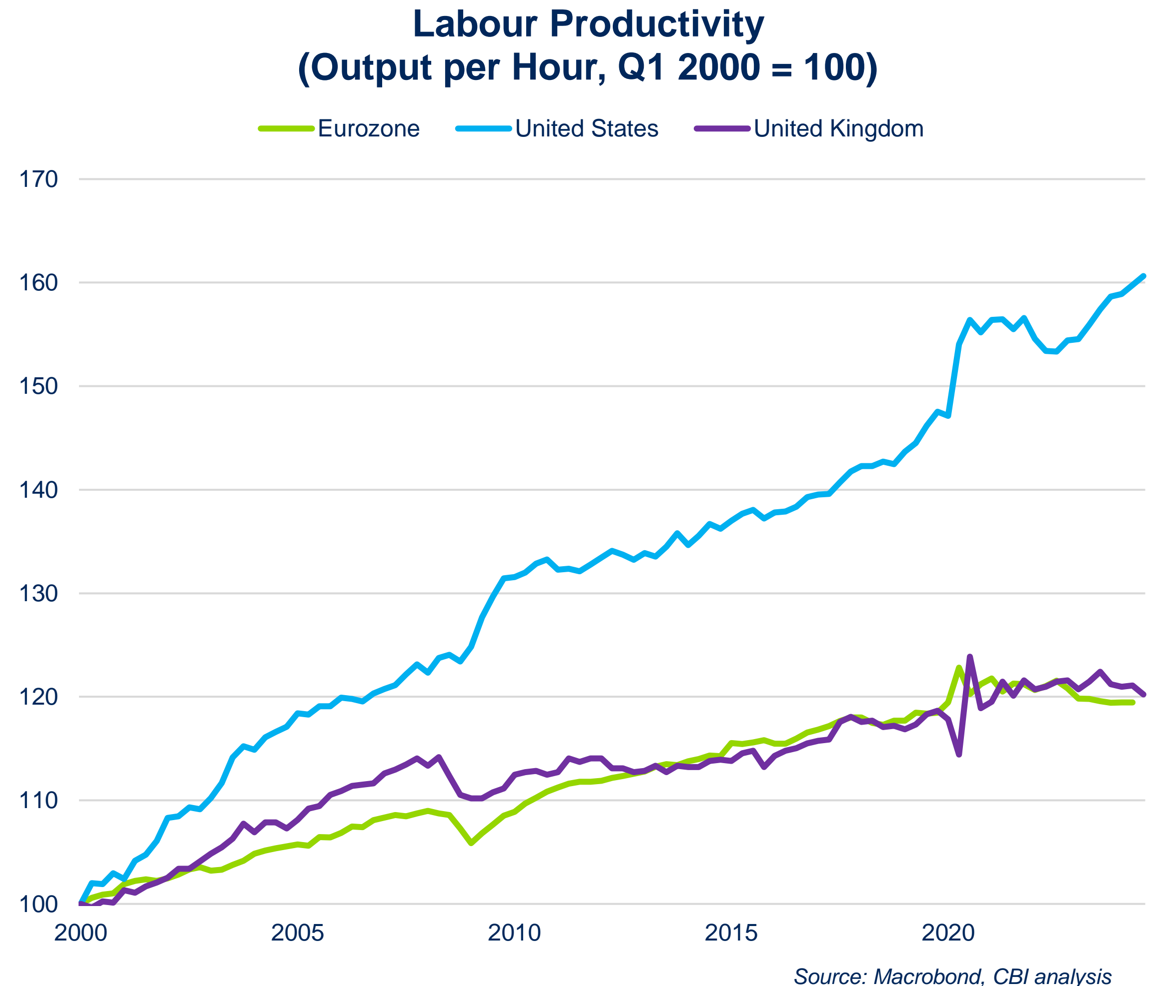
	GDP Growth (Y/Y%) *Oxford Economics November 2024 forecast (unless otherwise stated)*			
	2023	**2024**	**2025**	**2026**
Canada	1.2	1.0	1.3	1.7
Eurozone	0.5	0.8	1.2	1.6
France	*1.1*	*1.1*	*0.8*	*1.5*
Germany	*-0.1*	*-0.1*	*0.6*	*1.4*
Italy	*0.8*	*0.4*	*0.9*	*0.9*
Japan	1.7	-0.1	1.2	0.7
UK (CBI forecast)	0.3	0.9	1.6	1.5
US	2.9	2.8	2.6	2.8
China	5.2	4.8	4.4	4.1
India	7.7	6.8	6.8	6.8
World (purchasing power parity)	**3.2**	**3.1**	**3.2**	**3.3**

Source: Oxford Economics Global Model, CBI forecast

- Oxford Economics projects that the US will continue its strong economic performance over the next couple years, reflecting the prospect of a near-term boost from looser fiscal policy under Trump's second term as president. The Eurozone is set to see GDP growth slowly improve over the coming years. The Chinese economy is expected to continue decelerating, while India is projected to see stable, quick growth.
- Our latest forecast expects the UK to be around the upper half of the G7 GDP growth table through 2026.

Productivity projected to remain in line with pre-COVID trend





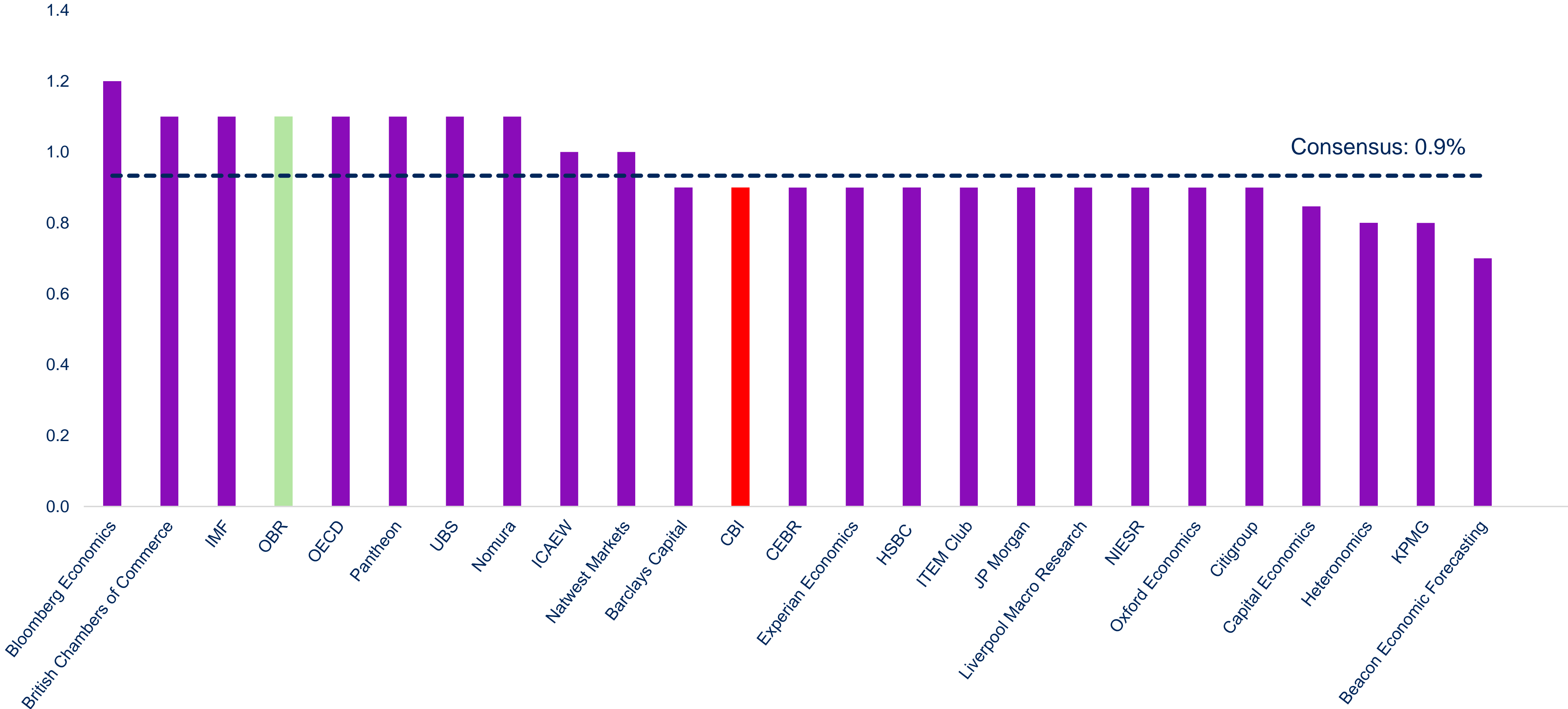
- Historical data revisions mean that UK productivity (output per worker) has tracked closer to its weak pre-COVID trend in recent years. Our latest forecast expects productivity to remain broadly in line with this trend, although a small gap starts opening up in 2026 as GDP growth slows. The gap with the pre-2008 financial crisis trend remains large over our forecast (23% below in Q4 2026).
- The recent Draghi report on European competitiveness has put a spotlight on the large gap between the productivity of the US and EU. This report suggests that part of the divergence can be explained by gaps in technology adoption and digital innovation over the past two decades. This chimes with UK-focused research that posits that inadequate diffusion of innovation and technology is one of the reasons behind the country’s weak productivity performance.

CBI Economics

Martin Sartorius
Principal Economist, CBI

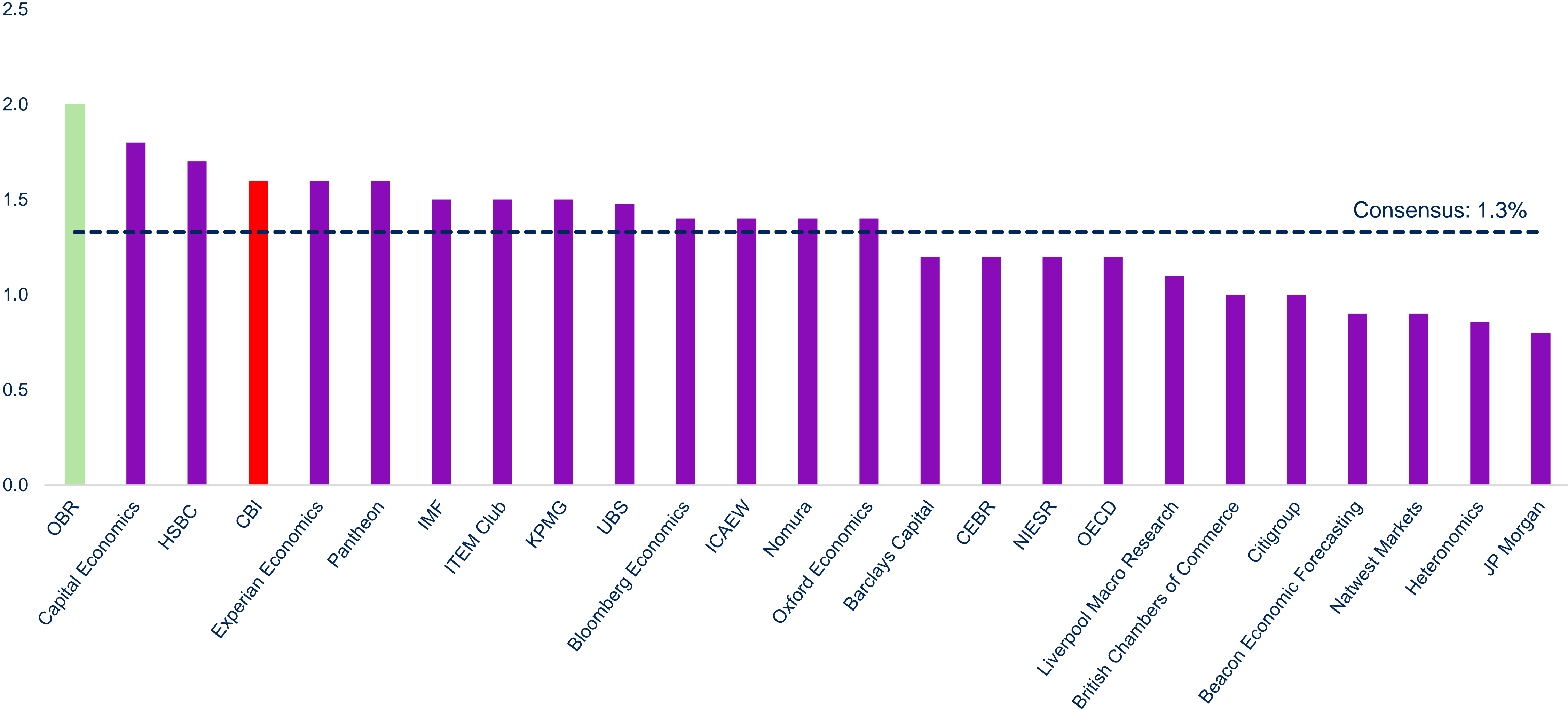
Email: martin.sartorius@cbi.org.uk
@CBI_Economics

CBI vs External Forecasts: 2024



Source: HM Treasury, CBI forecast

CBI vs External Forecasts: 2025



Source: HM Treasury, CBI forecast