UK economy rebounds in November despite budget uncertainty

A rebound in the British car industry helped the economy back to growth in November, despite another woeful month for construction. Our view is that growth is likely to be slower in 2026 than in 2025

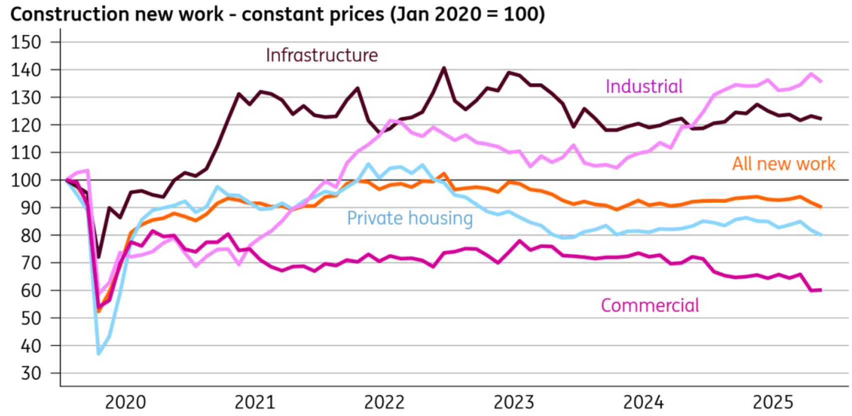
UK car production surged in November following a cyber attack in September

The UK economy fared better than expected in November, with GDP rising 0.3% on the month, after a narrow contraction through October. In a month that was supposed to be dominated by uncertainty from the Autumn Budget, it shows the peril of trying to overlay big picture narratives onto what are often volatile monthly activity data.

These numbers do bounce around a fair bit and recently that's been driven in large part by a cyber attack in the car industry that resulted in a 30% drop in vehicle production in September. Now, things are getting back to normal, production surged and that helps explain a decent chunk of November's growth.

What really stands out in these figures, though, is what's happening in construction. Output was down sharply (again) in November and is now almost 3% lower since July. That goes hand-in-hand with a purchasing managers index (PMI) which has recently fallen off a cliff.

Construction output is having a shocker



Source: Macrobond, ING

It's easy to blame the Budget in late November for delaying projects and the surveys suggest that was the case. But we doubt that explains everything; new work across housing and commercial property is slumping. And this is a sector that should in theory be benefiting the most from lower interest rates. On housing at least, we aren't looking for an imminent turnaround. The impact of past rate hikes is still feeding into the mortgage market, given the prevalence of five-year fixes.

Still, overall the better November data suggests we should get 0.1-0.2% growth for the fourth quarter overall, leaving annual growth for 2025 at 1.4%.

What next? We think 2026 will experience slower growth than 2025 for three reasons. Firstly, yes inflation is set to fall dramatically, but so too is wage growth. And employment is still ticking lower, too. That means disposable income growth will probably be flat – and for household spending to grow materially, we're going to need to see the recent drop in the savings ratio sustained into the new year.

Secondly, government spending will be less of a tailwind. Departmental budgets are growing much less aggressively in FY2026. Government hiring, which has grown significantly over recent years and has acted as an offset to recent private-sector weakness, is unlikely to be sustained. And remember, the budget deficit is set to fall from 4.5% to 3.5%, largely on account of the tax threshold freeze.

Finally – to the point about construction earlier, overall investment confidence is low. That points to weakness in business investment through the first part of this year, even if faster lending growth hints we could see a bit of a turnaround later on.

None of this is the central consideration right now for the Bank of England, which is much more focused on inflation. We doubt next week's inflation/wage data will garner enough votes for a February rate cut. Headline CPI is likely to pick up because of volatile air fares. But by March, if the jobs market remains under pressure and wage growth continues to prove benign, then we expect a cut at that meeting – followed by another in June.

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