

## Lacklustre end to 2025 for UK growth

The UK economy grew by just 0.1% in the final quarter of 2025 and 1.3% for the year as a whole. We expect 2026 to grow a little more slowly than that, on account of little-to-no disposable income growth, weak business confidence and tighter government policy



The UK economy grew by just 0.1% in the final quarter of 2025

### UK GDP grew just 0.1% in the fourth quarter

Britain's economy ended 2025 on a lacklustre note, not that it was a huge surprise. The economy grew by 0.1% in the final quarter and 1.3% overall last year.

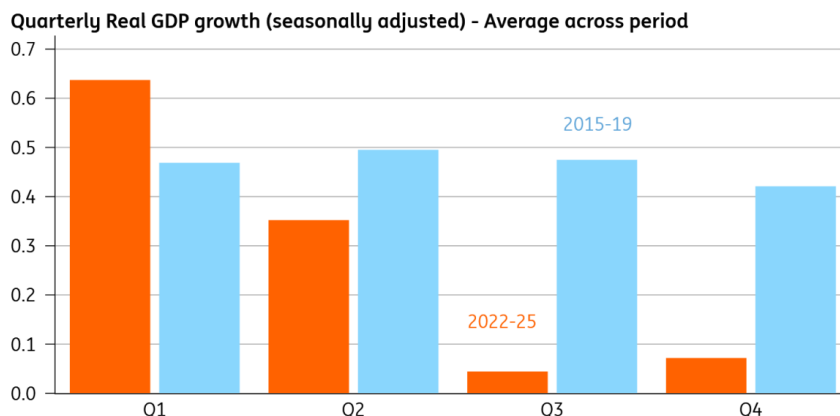
What's particularly eye-catching from the release is just how weak business investment (-2.7%) and construction (-2.1%) came in during the final few months of the year. The former will have been heavily influenced by volatile car production, linked to a major cyberattack at the tail-end of the third quarter, even if it's tempting to blame it on the wider uncertainty in the run-up to the Budget and the weakness in business confidence.

The weakness in construction is a reminder that past Bank of England rate hikes are still biting. The average interest rate on outstanding mortgage debt is still rising, not least given the jump in mortgage refinancing expected over the next few months.

That being said, we have to take the latest GDP figures with at least a pinch of salt. Growth has become suspiciously seasonal. The first half of the year has looked much stronger than the second

every year since 2022. Though hard to pin down, we suspect it's partly down to higher inflation, the prevalence of price hikes early on in the year, which are not being fully adjusted for in the deflator/seasonal adjustment process somewhere along the line. There's no reason to think this trend will stop in 2026, and if for no other reason, we suspect we'll get a bit of a bounce back in Q1 GDP.

## UK GDP growth has become suspiciously seasonal



Source: Macrobond, ING

## 2026 is likely to be weaker than 2025

However, we think 2026 will be weaker than 2025 – though not dramatically so. Real disposable income growth is likely to be virtually flat. Inflation is set to fall dramatically – from 3.4% in December to 1.8% in April, where it will more-or-less stay for the rest of the year. But wage growth is falling rapidly too. For there to be meaningful consumption growth this year, we're going to need to see further downward progress in the savings ratio. And we're sceptical that it will happen at scale.

The weakness in business confidence will likely be a further drag on investment too, though the pick-up in lending growth hints that this weakness needn't last much beyond the first or second quarter. And finally, the government is likely to be more of a drag this year. Departmental spending is growing much less rapidly, while the one percentage-point projected fall in the deficit, driven heavily by the freeze in tax brackets, is a drag. The jobs market remains fragile too, judging by surveys. We're forecasting 1% growth this year.

Nothing in the latest GDP data is of huge consequence for the Bank of England. It had already acknowledged that the fourth quarter looked weak. If the recent weakness in hiring/unemployment, coupled with rapid falls in wage growth, persists over the next couple of readings, then we think a March rate cut is highly likely. We expect another cut in June.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).