December 2025

Monthly Economic Review

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November was busy with the penultimate MPC meeting of 2025 and the Chancellor's second budget statement. We run through the main points as well as digging into the latest UK GDP release, and some post-shutdown US data.

Growth slows in Q3

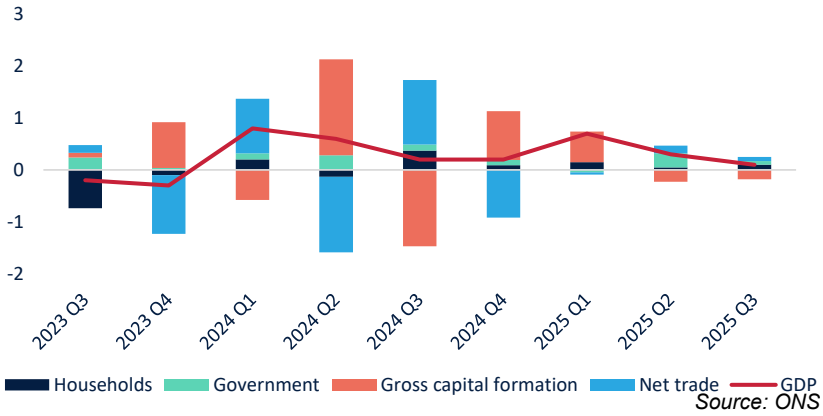
Following a couple of stronger than expected quarters of GDP growth in the first half of 2025, the pace of increase slowed to 0.1 per cent in the three months to September (**chart 1**). This was a bit softer than economists, including the Bank of England, were expecting. Looking across both output and expenditure components, there are few signs of momentum to be found.

Starting with the expenditure components (shown above), household spending rose 0.2 per cent on the quarter, up slightly from Q2 but still weak but historical standards. We note similar trends in UK Finance consumer data, with spending on cards broadly flat, with continued weakness in spending on services, and a continued year-on-year rise in household deposits.

This trend reflects the protracted fragility of consumer sentiment. In addition, the Bank of England noted in its latest Monetary Policy Report (MPR) that households are seeking to rebuild savings buffers driven by some concerns about possible tax rises,

high housing costs and job market worries. The October GfK consumer sentiment index, while still weak overall, suggested that people were gearing up for a Black Friday splurge. With the budget announcing tax rises mostly deferred to later in the parliament, we may yet see a boost to spending in the run up to Christmas.

Chart 1. Contributions to GDP growth, percentage points



Source: ONS

Elsewhere, and as expected, there was a small boost to growth from government spending (up 0.3 per cent). However, business investment contracted again and the contribution from net trade was broadly flat.

Turning to sector trends, services output rose by just 0.2 per cent – the slowest pace of increase for a year. Outside of public administration and defence, growth across services subsectors was fairly lacklustre. It was, however, a challenging quarter for hospitality with output contracting by 0.4 per cent. Keeping with the theme of flat output, construction activity also posted only modest growth of 0.1 per cent.

In line with expectations, it was a difficult quarter for production activity, which fell by 0.5 per cent and mainly driven by a sharp fall in manufacturing output. The JLR shutdown, as discussed last month, led to a 29 per cent fall in automotive output in September alone. The latest industry figures don't indicate a rebound in production in October, with car production down 24 per cent on a year earlier. (little better than the 27 per cent fall the SMMT reported in September.)

In other data released last month, we saw the first fall in inflation since May. As the Bank forecast, CPI does appear to be past the peak, with October's fall driven by slower energy price rises compared with a year ago, and a moderation in services inflation (finally). November's rate decision was a close call with five MPC members voting to hold Bank Rate at four per cent.

Some on the MPC see weak demand accelerating the disinflation process, with a possibility of CPI undershooting the Bank's targets. And others attached more weight to concerns about consumers' inflation expectations and the potential for higher pay growth next year. With slower growth and easing inflation confirmed, markets are now expecting a further 25- basis point cut in December.

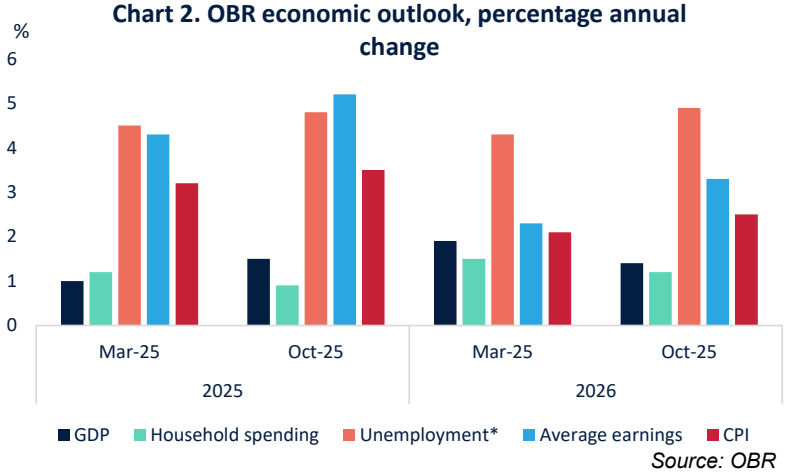
OBR revises forecasts

There has been as much speculation about the Office for Budget Responsibility's (OBR) assessment of the economy in the run up to the Budget as the content of the speech itself. Judgements on the growth outlook, underlying productivity and inflation impact on the likelihood of meeting/missing fiscal rules and by what margin.

As was widely anticipated, the OBR downgraded its trend productivity forecast. The OBR report notes that on its own this would have reduced revenues by £16 billion by the end of the forecast period (2029/30). There were offsetting upward revisions to nominal income growth, which supports higher tax revenues. In the end, the much-discussed 'black hole' didn't need as much repair work as feared.

Chart 2 outlines the main changes to the economic outlook compared with the OBR's March forecast. The better-than-expected 2025 H1 noted above underpinned an upgrade to the GDP forecast for this year, from one per cent to 1.5 per cent, but with weaker household spending, more persistent inflation and higher unemployment.

Chart 2. OBR economic outlook, percentage annual change



Source: OBR

Next year, and across the rest of the forecast period, growth is expected to hover close to 1.5 per cent per year. This is a bit stronger than independent forecasters assume. Unemployment is expected to stay close to current levels next year, before gradually heading lower from 2027.

Despite repeated references in the Chancellor's speech to tackling cost of living pressures (I counted ten), households are unlikely to feel materially better off through the rest of this parliament. The OBR expects real household disposable incomes to grow at around 0.7 per cent per year, compared with over 2 per cent annual growth in the decade after the GFC.

The other notable downgrade was to business investment, where the forecast has been revised down in every year to 2029/30, with the OBR noting '*continued weakness in business sentiment, lower profit growth, and increases in long-term interest rates which have pushed up the cost of capital.'*

Before accounting for the measures announced by the Chancellor government borrowing this year was set to be £17 billion higher than the March forecast, and £6

billion higher at the end of the forecast period – essentially further reducing an already wafer-thin buffer to meet fiscal targets.

A wide range of tax-raising measures were announced – with the bulk of additional revenue raised in the last two years of the forecast period, rising to an extra £26 billion in 2029/30. The main gains will come from extending the free of personal tax allowances, limiting tax relief on pensions contributions and changes to gambling duty. Though the widely trailed smorgasbord approach to revenue raising can be seen in a total of (approx.) 28 tax changes which increase revenues by 2029/30, covering savings, electric vehicles, writing down allowances, landfill tax, soft drinks industry levy etc.…etc..

There were also some significant spending announcements, including an end to the child benefit cap, freeze to rail fares and fuel duty, as well as a raft of infrastructure, and innovation investments.

The consequence of the package is a greater degree of headroom against fiscal rules by the end of the parliament. This provided some reassurance to financial markets and ten-year gilt yields fell slightly following the statement. That said, the OBR noted that *'… this Budget addresses some fiscal risks and increases the margin held against the Government's fiscal targets, it still leaves the UK public finances relatively vulnerable to future shocks.'* Indeed, the debt to GDP ratio is forecast to be slightly higher compared with the March forecast.

Businesses dealing with the last budget

One further assessment of the package may also be that it missed the mark on a clear growth narrative. The UK's productivity problem is expected to persist, and sluggish business investment growth will do little to help.

Business groups, such as the CBI and British Chambers of Commerce, gave a muted welcome to no additional business taxes, but also noted the need for a clearer growth-aligned policy agenda. The government had previously set out its industrial strategy stall, and the budget did bring forward a number of targeted measures in support or priority sectors, such as supporting investment in zero-emission vehicle technology, and announcements on semiconductor and novel compute technologies. Government will need to be seen to move this agenda forward in the year ahead.

While businesses will, no doubt, be somewhat relieved not to be at the sharp end of tax raising measures, as was the case last year. Another above inflation increase in the minimum wage rates was announced – a 4.1 per cent uplift to the main rate, and an 8.5 per cent increase for 18-20 year olds.

This may not be straightforward to absorb for all businesses. We're nearly nine months into the employer NICs increase that was announced at the last budget and contrary to business expectations that they might use a combination of price rises, slower wage growth and reducing headcount to manage the higher labour costs, **chart 3** shows that the dominant reaction has been to absorb the increase with lower margins.

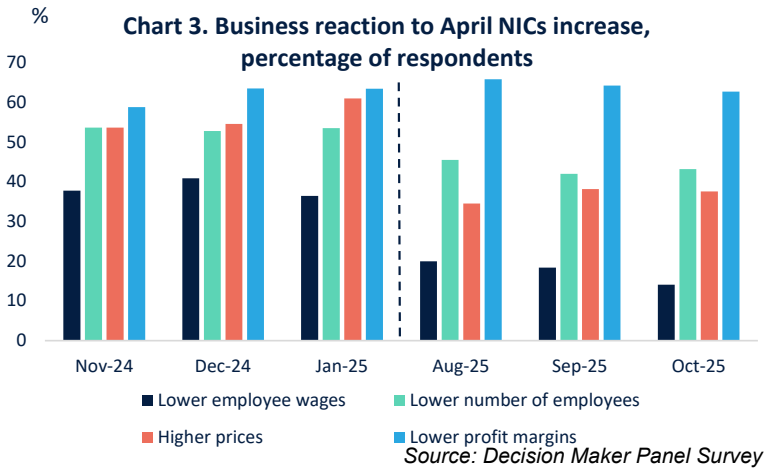


Chart 3. Business reaction to April NICs increase, percentage of respondents

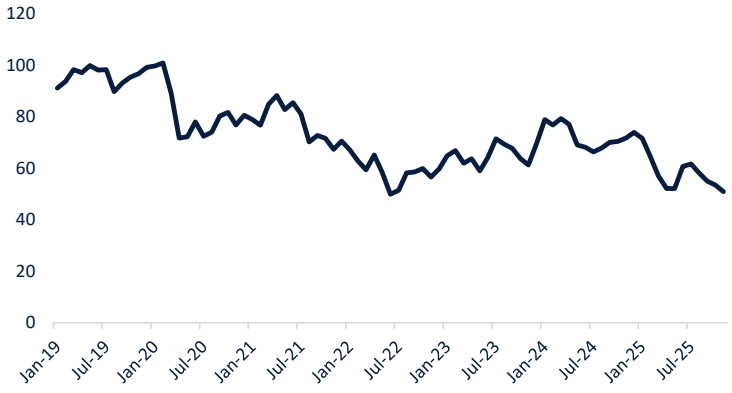
Source: Decision Maker Panel Survey

Recent Bank of England analysis showed that SME cashflow positions are weaker than in recent years and have returned to pre-pandemic levels. The proportion of SMEs in overdraft has broadly eased back to pre-pandemic levels and average real current account balances are now a little below pre-pandemic levels, meaning additional costs or weaker demand could take their tolls on firms' ability to hold onto employees. In our upcoming Business Finance Review, we'll further dig into the cashflow position for SMEs across sub-sectors.

The search for US data continues….

The US shutdown is over, but it's taking a little while to fire up the data engines again. The Fed meets for its next interest rate decision on 9th/10th December, and with the continued delay in key data releases, it will again fly (somewhat) blind going into that decision. While the Fed awaits official labour market data, and Q3 GDP numbers, it is relying on surveys and sentiment indicators.

Chart 4. US consumer sentiment index



Source: University of Michigan

Labour market data has been something of a mixed bag since the Fed's October meeting. There was a pickup in non-farm payrolls in September after a weak hiring over the summer, but growth was concentrated in health and hospitality.

Separately the National Retail Federation is expecting the sector to hire significantly fewer seasonal workers this year, indicating that the labour market is indeed cooling.

On any measure of sentiment, the mood of consumers is in the doldrums. The University of Michigan's consumer sentiment index (**chart 4**) in November was the second lowest on record, with households buffeted by high prices and weakening incomes. This mood also seems to be hitting retail sales, where growth has been trending down since the summer.

The Conference Board index was similarly downbeat, and the survey also showed that consumers' average inflation expectations remained elevated – a metric the Fed is keeping a watchful eye on. And adding to potential inflation risks, business surveys such as the service PMI point to a renewed acceleration in selling prices. While the data available could argue for an against a rate cut, markets currently think another cut in December is odds on, with at least a couple more to come in 2026.

ICYMI and coming up…

In November we published the monthly Card Spending Update and our new quarterly Card Expenditure Statistics dashboard. Also on the consumer side we produced a short paper on BNPL based on the data in our annual National Payments Study.

We published quarterly Arrears and Possessions, and Later Life Lending in November and our Q3 Household Finance Review in December.

Coming up later this month we have the Q3 Business Finance Review (11th December) and our hotly anticipated Mortgage Forecasts (8th December). You can find all our data outputs here and on the UK Finance member portal.

Key indicators

Indicator	Period	Value	Change	2026 Forecast
GDP	Q3 2025	0.1%	↓	1.2%
CPI inflation	Oct 2025	3.6%	↓	2.3%*
Unemployment rate	Sep 2025	5.0%	↑	4.9%*
Average earnings	Sep 2025	4.8%	↓	3.2%
Brent crude	Oct 2025	$64.54	↓	-
$ Exchange rate	Nov 2025	$1.31	↓	-
Bank Rate	Nov 2025	4.0%	↔	3.4%*

Source: ONS, HM Treasury, Bank of England, EIA

*Q4 2026