

February 2026

Monthly Economic Review



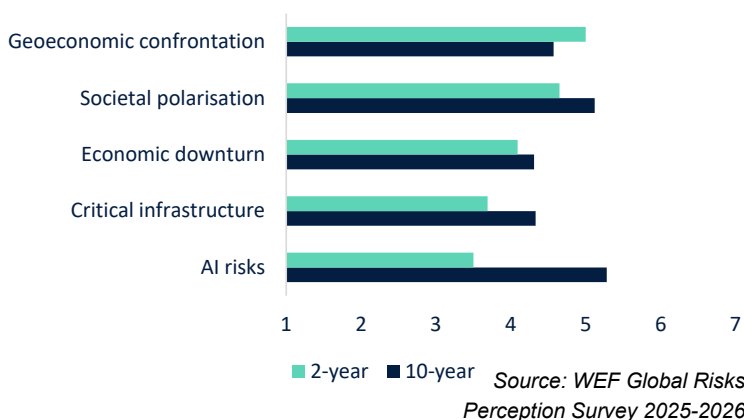
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2026 began with geopolitical risks again high on the agenda. Despite this, we look at some tentative signs of optimism in business surveys and whether consumer sentiment might follow suit.

Geopolitics tops the risk list again

We entered 2026 with geopolitical tensions, old and new, again in the headlines. Risks from ongoing conflict and trade policy uncertainty have been dominant over the past year and expected to retain their top spot on the risk list in the year ahead, according to the annual Global Risk Report 2026¹ published by the World Economic Forum (WEF) (chart 1).

Chart 1. Global risk outlook, 1=low, 7=high severity



¹ [The Global Risks Report 2026 | World Economic Forum](#)

The report is based on the global risks perception survey, which brings together views from academia, business, government, and civil society. The risk with the highest severity rating for the next two years is geoeconomic confrontation, defined as *deployment of economic levers by global or regional powers to reshape economic interactions between nations, restricting goods, knowledge, services, or technology*. This risk has leapt up the rankings from ninth last year.

The report notes that the risk extends beyond tariffs, though there has been a new spate of tariff threats already this year, to a loss of trust in underpinning institutions, the use of sanctions to protect ‘strategic capabilities’, and fewer constraints on unilateral action. It is also linked to risk of state conflict, renewed supply chain tensions and implications for fiscally constrained economies.

The prominence of geopolitical risks globally was also echoed closer to home in the Deloitte CFO survey². At the start of this year geopolitics remains the top external risk for finance chiefs of large UK businesses – as it has in the previous three years.

Turning to the outlook in ten years, the risks from artificial intelligence come to the fore. WEF survey participants put AI-related risks down at number 30 in the rankings in the next two years. Rather, there are potentially more acute risks further out – from negative labour market impacts, uneven accrual of the benefits from AI and deepening inequality, as well as risks from inappropriate use and governance.

Other organisations, however, are more alive to near-term concerns about AI. The International Monetary Fund (IMF), for example, calls out concerns about corporate valuations and a possible abrupt financial market correction as a downside risk to global growth this year.

Business sentiment turning a corner?

Despite the persistence of geopolitical and market worries at the turn of the year, there are, nevertheless, some (tentative) signs of improving business sentiment. Recent business surveys including those from the Institute of Directors, Lloyds Business Barometer, and the latest Purchasing Managers’ indices (PMIs) all look to have strengthened at the start of 2026 – albeit from a weak starting point.

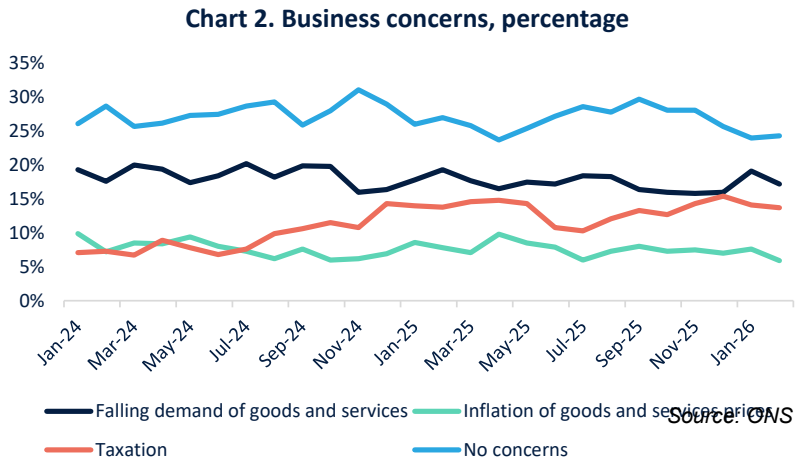
A theme of the surveys is somewhat improved confidence in businesses’ confidence about their own prospects, with views on the general economic outlook remaining pessimistic. For example, the IoD survey³ reports that in January nearly 40 per cent

² [CFO Survey | Deloitte UK](#)

³ [IoD press release: Business confidence jumps in January | IoD](#)

of firms were very or quite optimistic about their own business prospects in the next 12 months, compared with around one in six feeling similarly optimistic about the wider UK economy.

The Lloyds Barometer⁴ tells a similar story with softer optimism about the economy at the start of the year, contrasting with firms’ reporting ‘*robust trading conditions, pointing to manageable external risks and a focus on controllable opportunities.*’ And concerns about falling demand as reported in the ONS BICS survey, has also edged down in recent months (**chart 2**).



In addition, both the services and manufacturing PMI began the year in positive territory. The manufacturing index pointed to the fastest pace of expansion for the sector since August 2024 with stable domestic

demand and an improving export picture. January also marked the ninth consecutive month of expansion for services, with growth at a 21-month high.

Some of the rise in sentiment can be attributed to a post-Budget bounce in confidence. Businesses had expressed concerns about potential new measures adding to costs, but the Chancellor’s November statement did not bring forward any significant new measures for businesses. The latest ONS Business Conditions Survey pointed to a small fall in the proportion of business citing concerns about taxation since the November Budget.

However, a further theme of the latest crop of business surveys is ongoing price pressures. The manufacturing PMI reported that input costs and selling prices increased more quickly in January, reflecting higher raw material costs and suppliers passing through price rises. While the ONS BICS survey suggested businesses were less concerned about risks from inflation, elsewhere in the survey the proportion of firms expecting selling prices to rise picked up materially in the first two months of 2026.

These surveys will feed into the Monetary Policy Committee’s (MPC) deliberations at its February meeting. The MPC cut Bank Rate by 25 basis points in December, but even amongst the narrow majority voting for the cut there was caution about the pace

⁴ [Business Barometer | Economic Business Reports | Lloyds Bank](#)

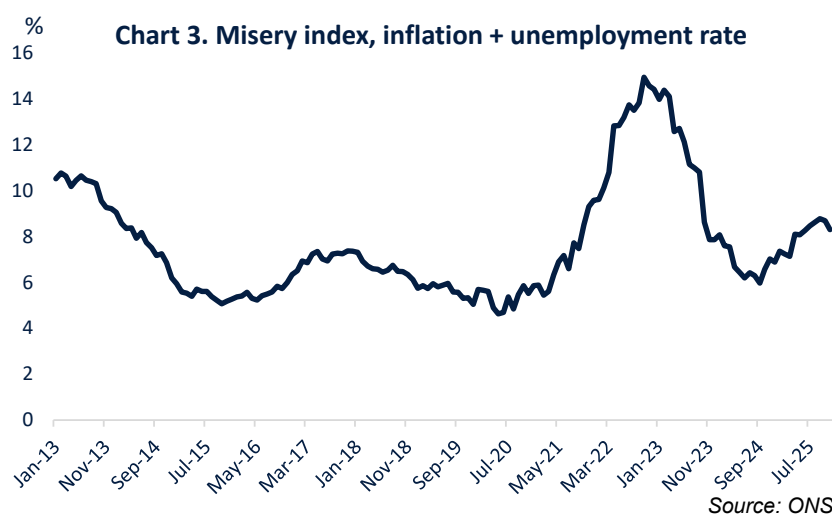
of any future cuts. Most economists are expecting the Bank to pause in February, but at least one more rate reduction is predicted in 2026.

Consumer caution continues

While there are some modest signs of improving business sentiment, consumer confidence, measured by the GfK sentiment index has barely budged over the past year. January's print saw a small one-point rise to -16. While this is the highest reading since August 2024, GfK also noted that it was exactly ten years since the last positive reading for the index.

Similar to the business view, the gradual improvement in confidence about households' financial situation in the coming year continued, but the mood about the general macroeconomic outlook remains in the doldrums. Another way of capturing this is to look at movements in the 'misery index' – a combination of headline inflation and the unemployment rate (**chart 3**).

After falling sharply with the decline in CPI inflation through 2023 and early 2024, the



index has been on rise as unemployment has ticked higher and inflation has remained sticky, and above target – a misery-inducing combination for households.

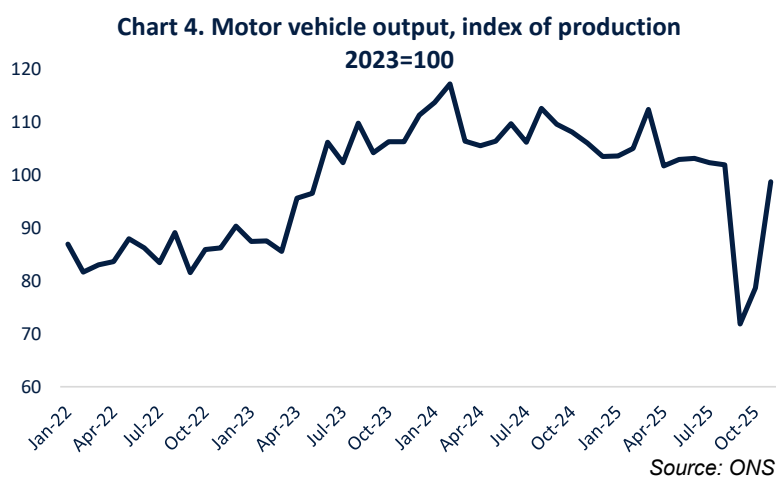
In the very near term, we can expect the index to tick higher as CPI inflation posted a

larger than expected increase to 3.4 per cent in December 2025 – largely a consequence of a large seasonal increase in airfares, which should unwind in subsequent readings.

Furthermore, with inflation expected to fall sharply from April, this will pull down the overall index closer to pre-pandemic averages.

GDP up in November

UK GDP rose 0.1 per cent in the three months to November, up from flat output in the three months to October. In the month of November output rose by 0.3 per cent, with a decent expansion of 0.3 per cent in services, a rebound of 1.1 per cent on the month in production output, while construction fell by 1.3 per cent.



While monthly data is always subject to revision, November appeared to be a solid month for retail, and professional services. While there were falls in accommodation and food, and real estate activity.

Growth in production was buoyed by a 2.1 per cent month-on-month increase

in manufacturing, in large part due to a recovery in motor vehicle output. As shown in **chart 4**, the industry has now recovered much of the losses associated with the cyber-attack on Jaguar Land Rover at the end of August 2025. In addition, manufacturing growth was also boosted by gains for pharmaceuticals and basic metals.

The run of poor data from the construction sector continued. The monthly fall of 1.3 per cent in November follows from a downwardly revised 1.2 per cent decrease in October. On these provisional readings the fall in construction output in the three months to November is the worst performance since 2023 Q1. The declines were broad based with new work, and repair and maintenance sliding in the three months to November.

ONS will publish full Q4 data later this month. At the December MPC meeting, the Bank noted that it expected growth to remain flat in the three months to December. This is weaker than other independent forecasters, such as NIESR, are expecting (around 0.2 per cent).

ICYMI and coming up...

January saw the publication of our quarterly [Buy-to-Let dashboard](#) and [Card Spending Update](#) for October 2025.

February is a busy month for mortgage outputs – coming up we have quarterly releases of Arrears and Possessions data and Later Life Lending. Our regional

mortgage market forecasts will also be updated with data to the end of Q4 2025. All our data releases can be found [here](#), with full member data available on the [UK Finance portal](#).

Key indicators

Indicator	Period	Value	Change	2026 Forecast
GDP	Q3 2025	0.1%	↓	1.0%
CPI inflation	Dec 2025	3.4%	↑	2.2%*
Unemployment rate	Nov 2025	5.1%	↔	5.1%*
Average earnings	Nov 2025	4.7%	↓	3.2%
Brent crude	Dec 2025	\$62.54	↓	-
\$ Exchange rate	Jan 2025	\$1.35	↑	-
Bank Rate	Dec 2025	3.75%	↓	3.3%*

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

*Q4 2026