2026 Economic Predictions

UK and Global Economic Update

PwC UK Economics Team
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Chief's Desk

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Predictions for 2026: The year of adaptation

After turmoil comes adaptation. Against the backdrop of the unprecedented shifts in global economic governance we saw last year, 2026 will be the second act of these changes, namely the year when governments, businesses and households react and adapt.

The reaction to these changes we saw in the past few months will be subtle but significant. For example, in our main scenario, we expect headline global and UK growth broadly consistent with potential rates. So the story will not be a big move in the top-line economic numbers.

But the main developments for the next year will be in the underlying plumbing of the economy. At a global scale, this means more barriers and more caution around the movement of goods (tariffs) and people (greater aversion to immigration). We expect restrictions to gradually spill over into other areas too, including the re-routing of capital flows (via more activist sovereign wealth funds, regulation to encourage domestic rather than foreign investment, and more activist industrial strategies) and possibly services trade over time.

Outside of the pandemic years, we have not seen this scale of change happen in such a short period in the 21st century. Businesses, households and society at large will need to adapt, probably in ways they are not used to.

But what does this mean for the UK? I see three main areas where policy will be active, and businesses will need to be alert to these changes.

- First, on the external front, we have seen trade deals with India, Australia and others emerge. In 2026, we are also likely to see further changes in our relationship with the EU, our largest trading partner, as the Trade and Cooperation Agreement is up for review.
- Second, on the domestic front, there will be a much stronger focus on levers for domestic growth. Off the back of new fiscal rules announced more than a year ago, public investment will pick up at a record pace, alongside continued pressure to deliver on housebuilding and on building infrastructure faster.
- Third, we should expect implementation to matter more, whether that is to drive forward the industrial strategy, skills, or the take-up of artificial intelligence across the economy.

Taken together, all of these moves are intended to boost security, resilience and economic activity.

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2026 Economic Predictions

Ten economic predictions for 2026

1 World GDP is set to grow by 3%, equivalent to adding an economy the size of the UK, driven by Asia and Africa. The US leads the G7 but still lags 188 other economies.

2 The UK will be the third-fastest growing G7 economy, maintaining its post-Brexit mid-table position, with pockets of strength in IT, manufacturing and creative industries.

3 The UK population will see little to no growth in 2026. Slower net migration means that reducing inactivity and increasing productivity become much more important levers to grow the economy.

4 Public investment is set to grow by a cumulative £14bn in 2026-27, the biggest two-year increase recorded since at least the Global Financial Crisis. Meanwhile business investment will stagnate due to weaker business sentiment and lower profit growth.

5 All else remaining equal, AI will add £2bn to UK GDP in 2026, one-tenth of the total rise. The impact will gradually rise with deeper adoption to total £23bn by 2032.

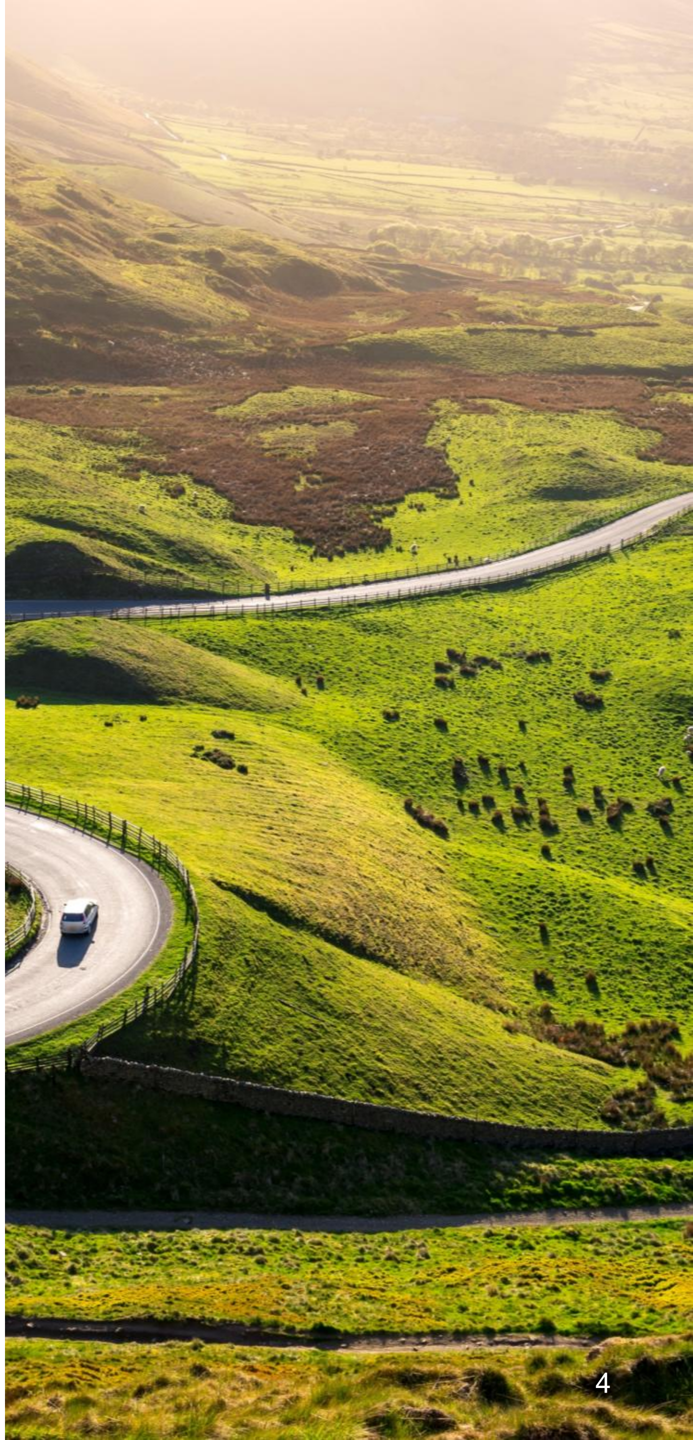
6 London and Manchester to feature strongly on economic growth and living standards, but small cities like Chelmsford and Luton will lead on happiness.

7 London house prices continue to stagnate, out of step with major global cities such as New York, Los Angeles and Toronto, where prices are expected to rise at a faster pace.

8 The rapid rise in the supply of increasingly sophisticated manufactured goods that are made in China will mean that cost-ineffective producers in the UK (and wider) will come under renewed pressure.

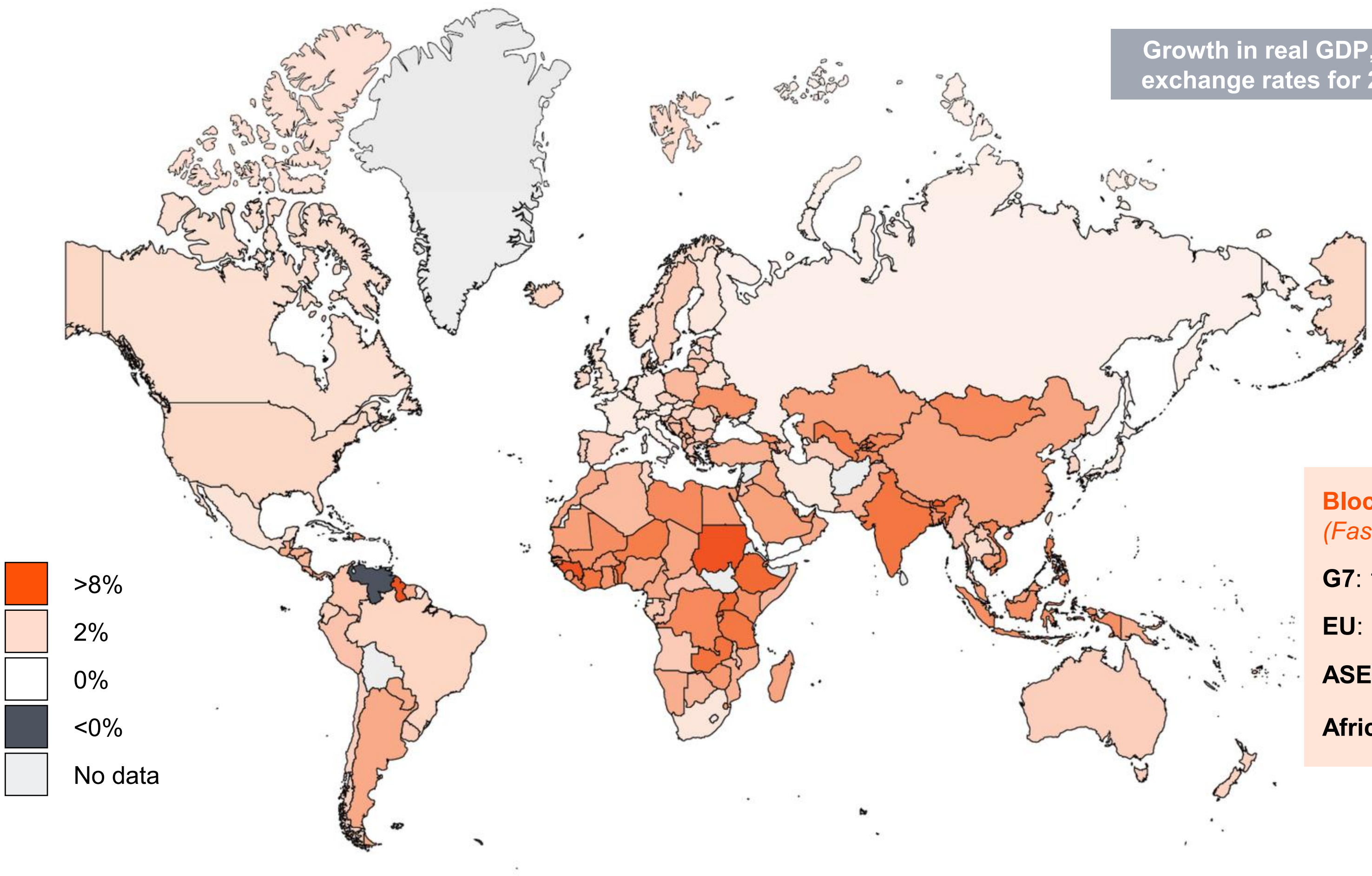
9 Friendshoring will continue to reshape global FDI, pulling investment closer to home directed mainly towards geopolitically aligned destinations.

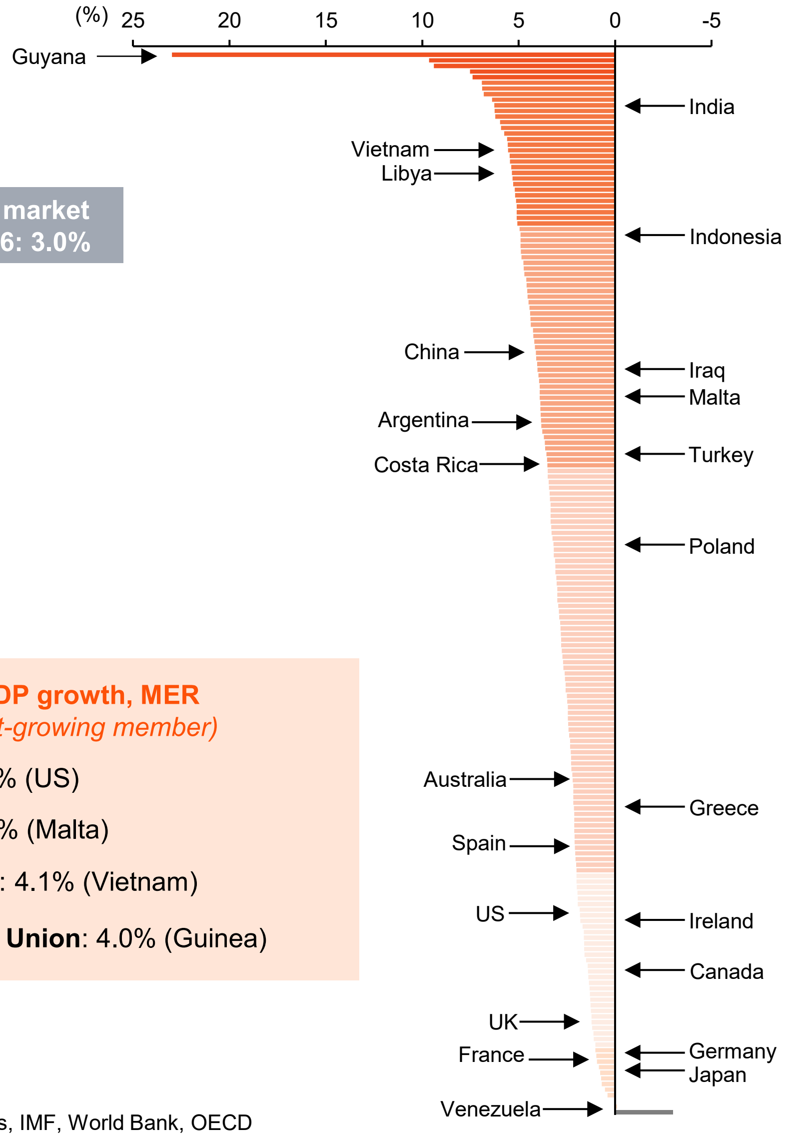
10 Our modelling predicts Spain will win the World Cup, but England still has an outside chance. In 7,600 of our 100,000 simulations, England finish as champions.



1. World GDP is set to grow by 3%, equivalent to adding an economy the size of the UK, driven by Asia and Africa. The US leads the G7 but still lags 188 other economies.

Main scenario real GDP growth projections, 2026





Bloc GDP growth, MER
(Fastest-growing member)

G7: 1.5% (US)

EU: 1.4% (Malta)

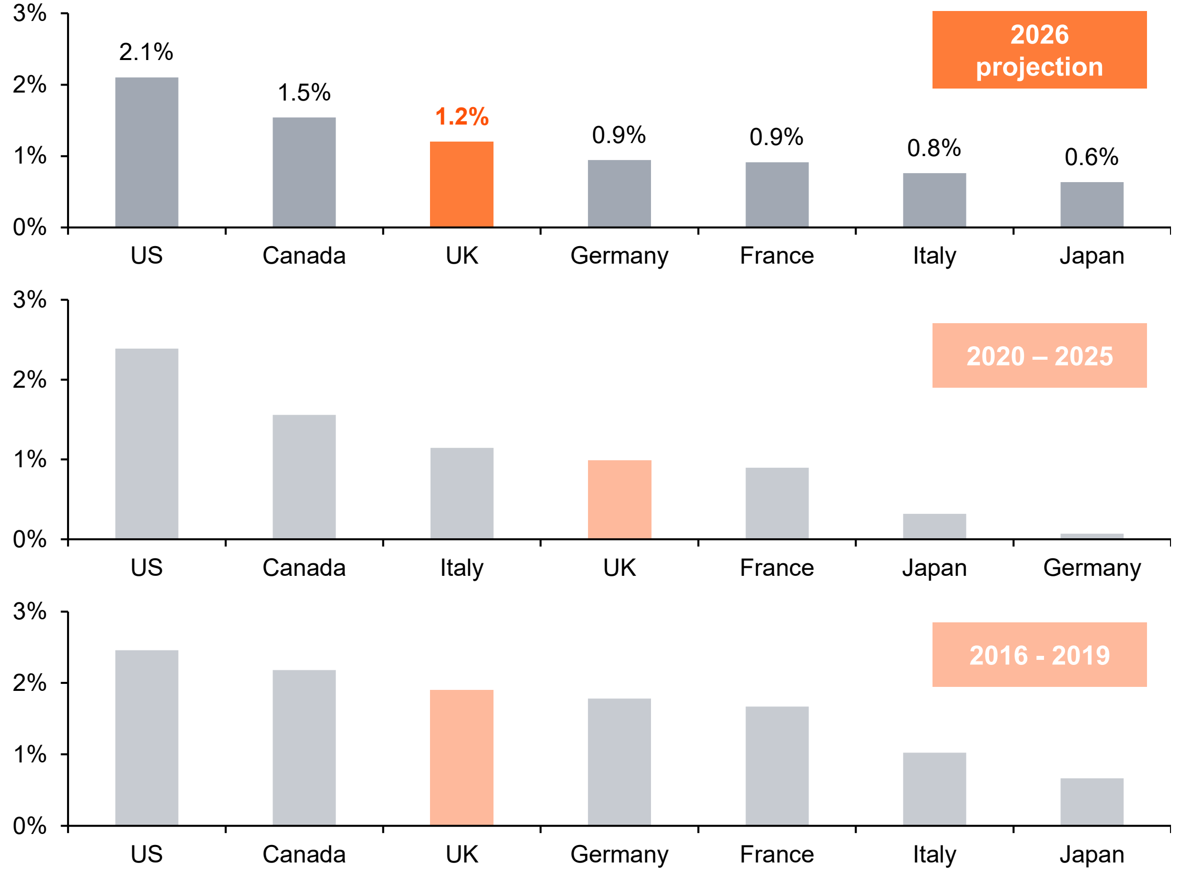
ASEAN: 4.1% (Vietnam)

African Union: 4.0% (Guinea)

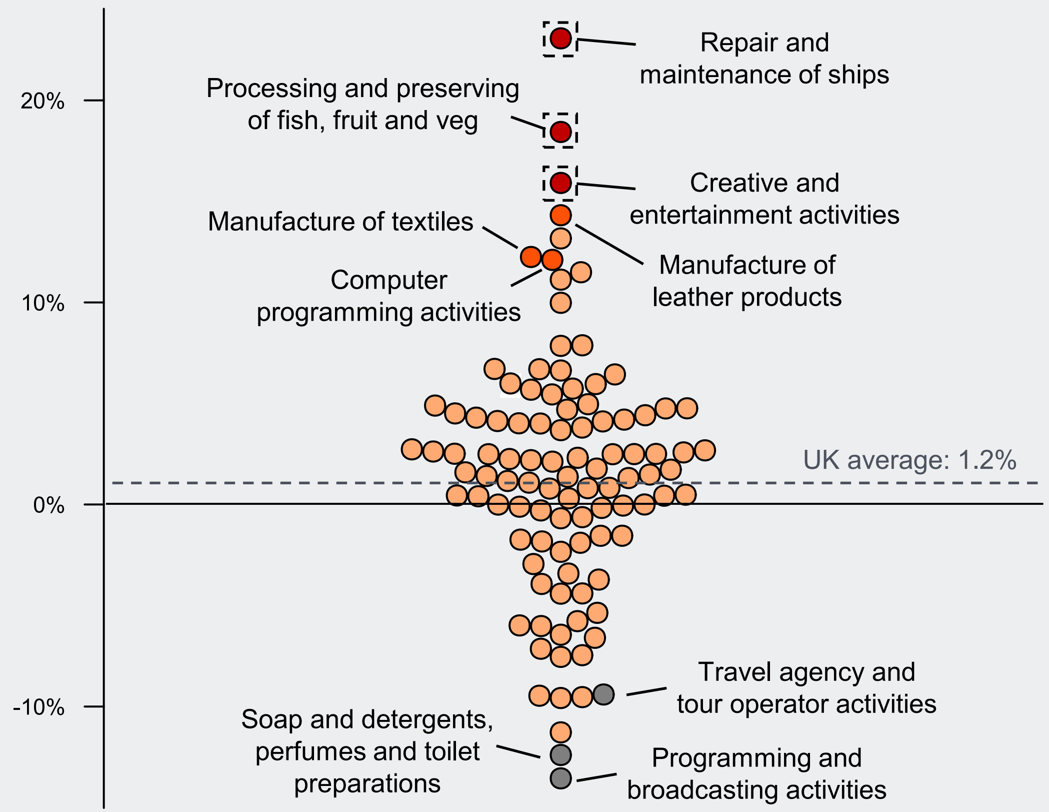
 Notes: Projections use BVAR modelling for the UK and a consensus of external sources (IMF, World Bank, OECD) for other regions. | Sources: PwC analysis, IMF, World Bank, OECD

2. The UK will be the third-fastest growing G7 economy, maintaining its post-Brexit mid-table position, with pockets of strength in IT, manufacturing and creative industries.

Annual average real GDP growth rates, G7 economies



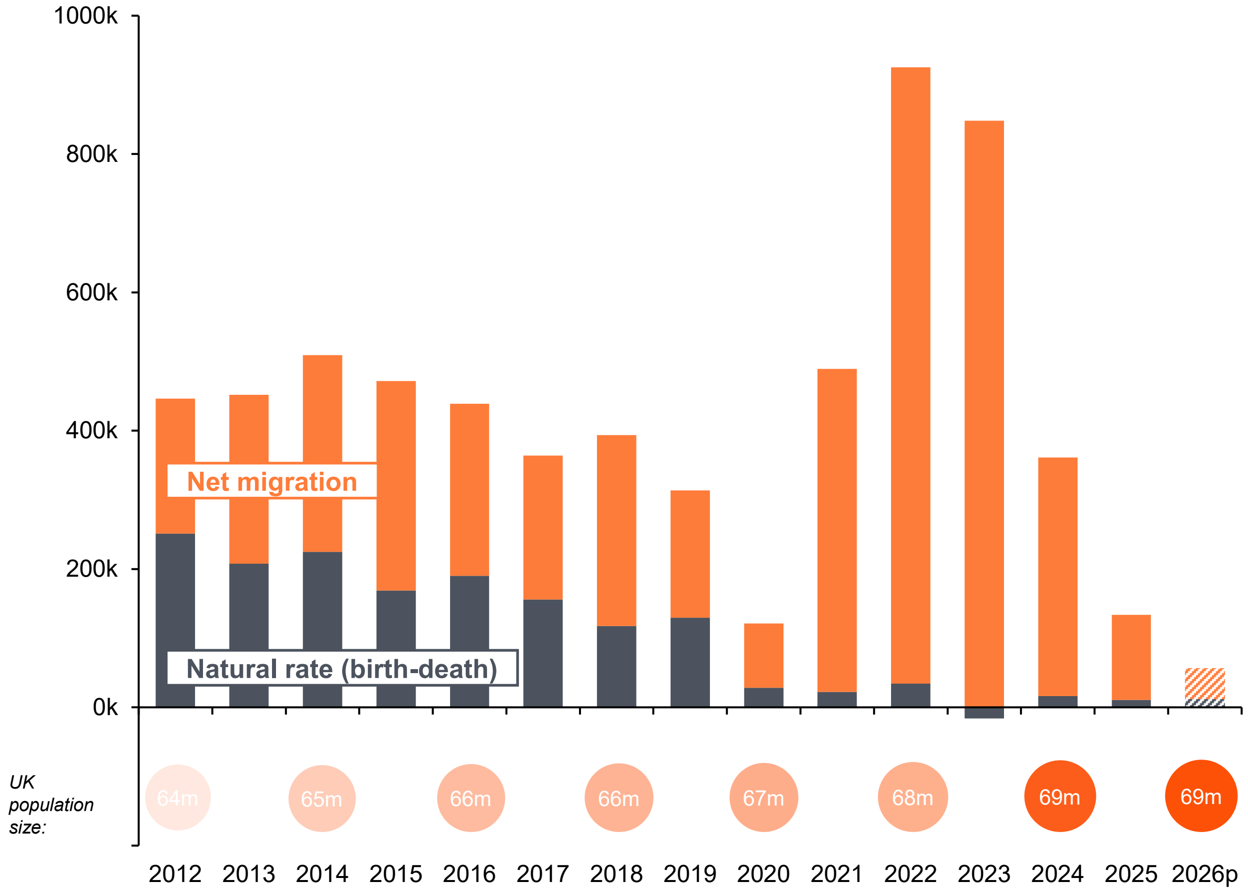
Projected 2026 real GVA growth, by sub-sector



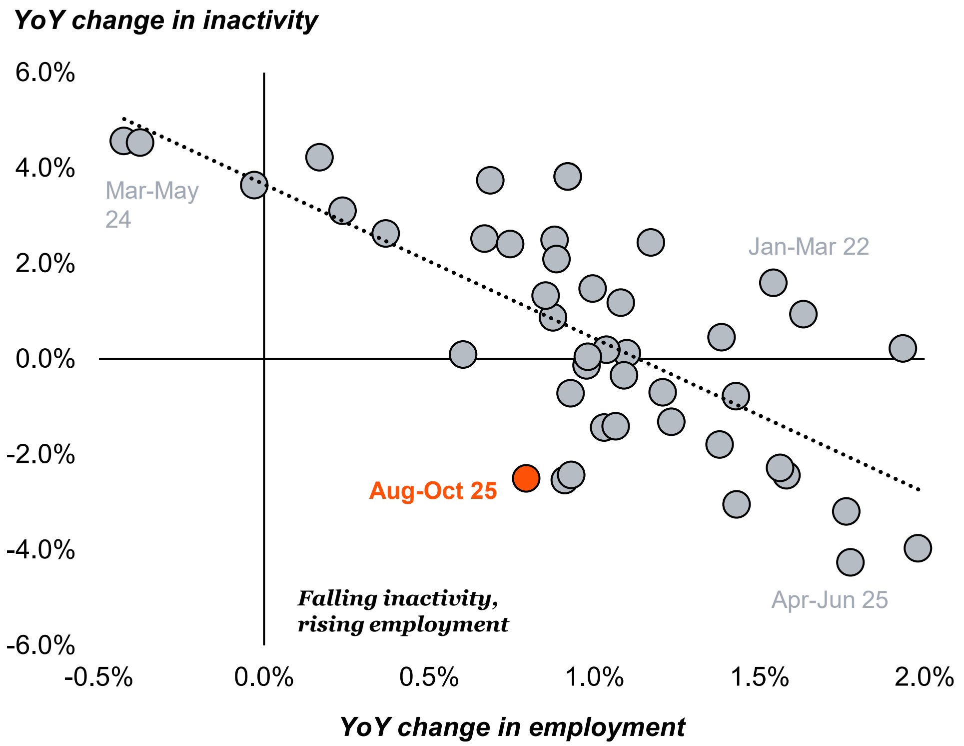
 Notes: PwC's main scenario 2026 UK real GDP growth projection is derived from a Bayesian VAR model. Sub-sector GVA growth is estimated using autoregressive techniques and calibrated for consistency with the main-scenario GDP projection. | Sources: PwC analysis, IMF, ONS

3. The UK population will see little to no growth in 2026 because of a twin slowdown in net migration and natural increase. This means that reducing economic inactivity and increasing productivity will become much more important levers to grow the economy.

UK population growth by source: natural change vs net migration



YoY change in working-age inactivity vs employment

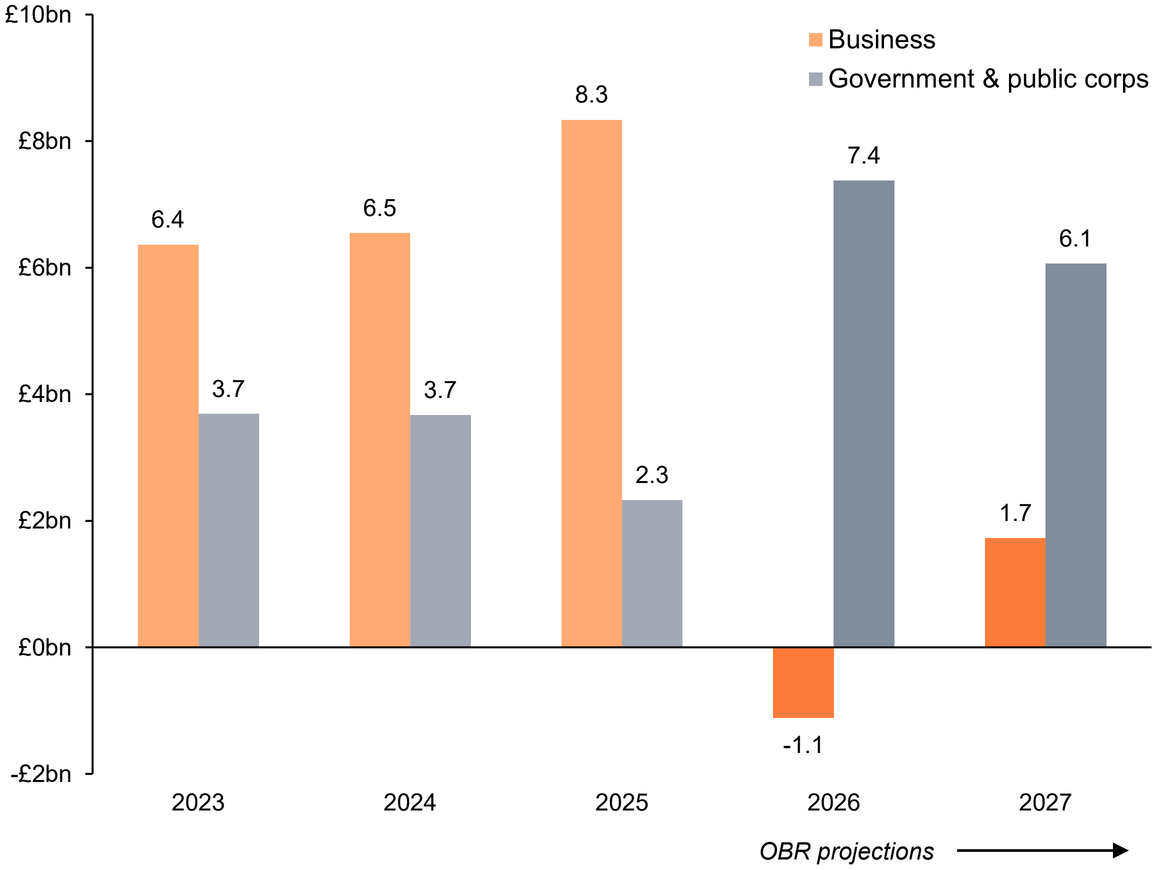


As migration slows, economic growth will increasingly have to come from getting inactive workers back into work as it has done in recent months and by increasing productivity which is much more challenging.

 Notes: Our 2026 population projections use internal modelling of net migration growth based on ONS November 2025 assumptions alongside the latest projections (2022-based) for natural change (births minus deaths). | Sources: PwC analysis, ONS

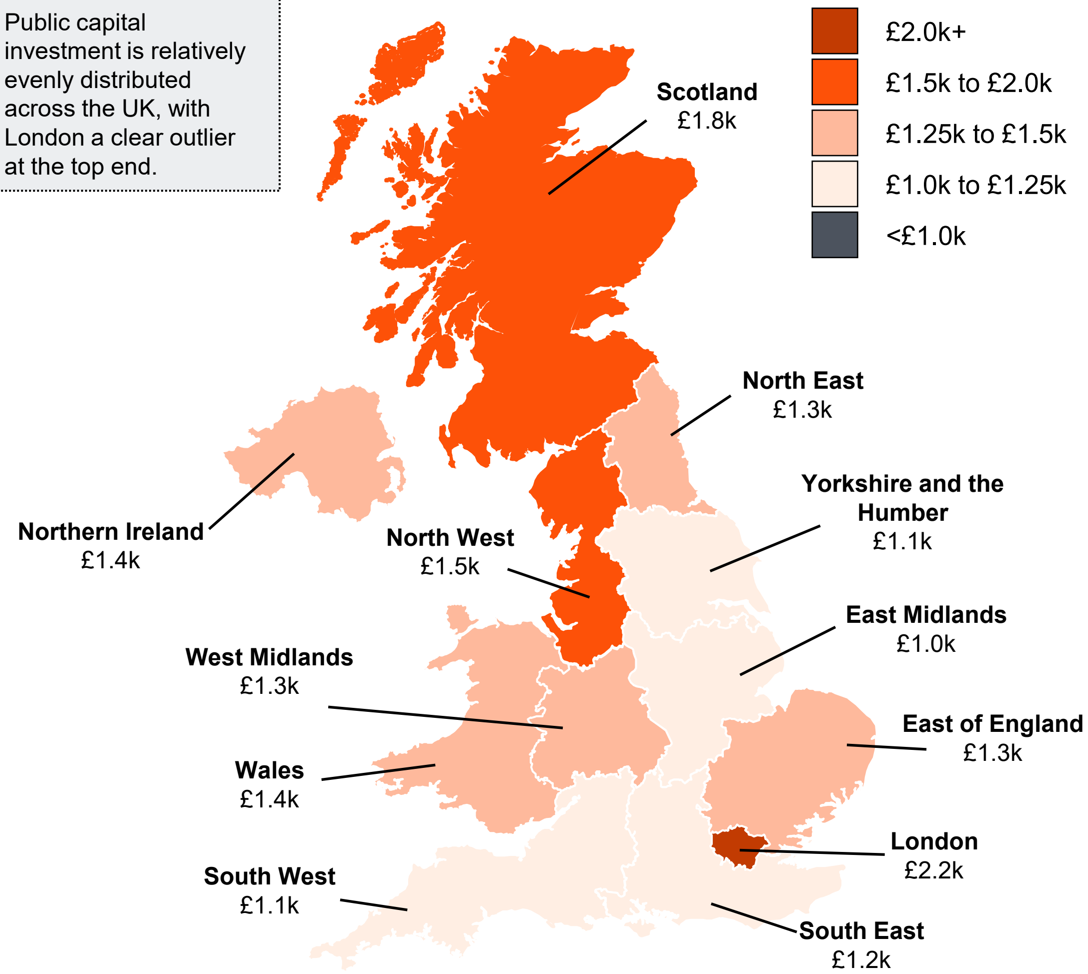
4. Public investment is set to grow by a cumulative £13bn in the next two years, the biggest two-year increase recorded since at least the Global Financial Crisis. But business investment growth will stagnate due to weaker sentiment and lower profit growth.

Annual absolute *change* in real-terms fixed investment, £bn chained volume measures (reference year = 2023)



Public capital spending per head, 2023-24

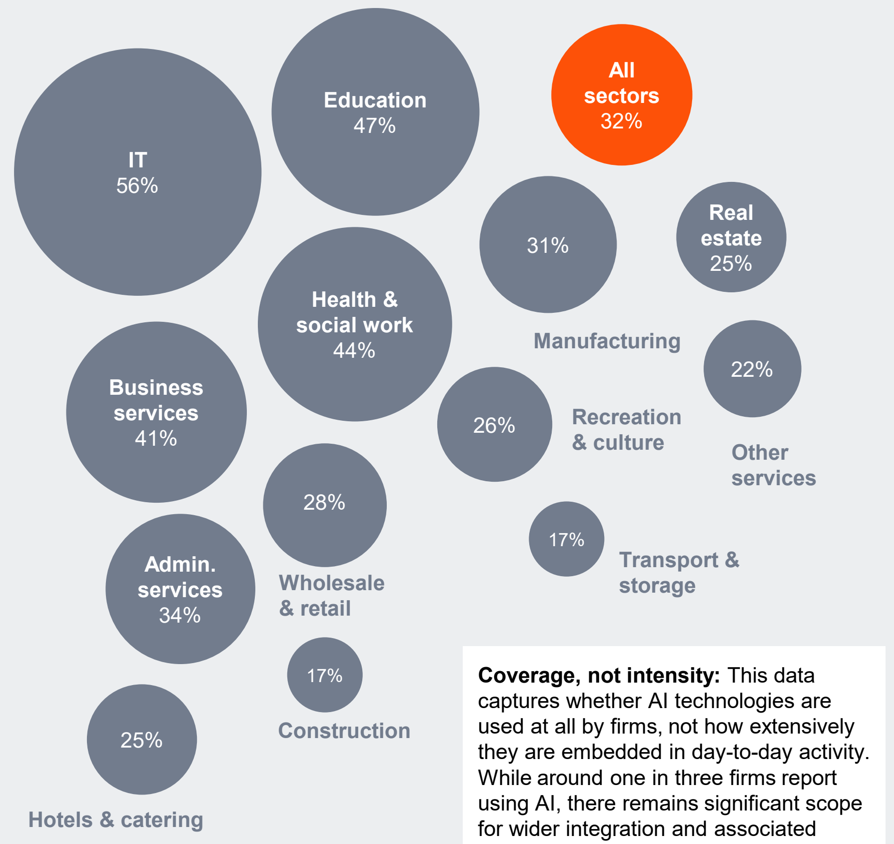
Public capital investment is relatively evenly distributed across the UK, with London a clear outlier at the top end.



 Notes: Fixed investment excludes private dwellings investment. | Sources: PwC analysis, OBR

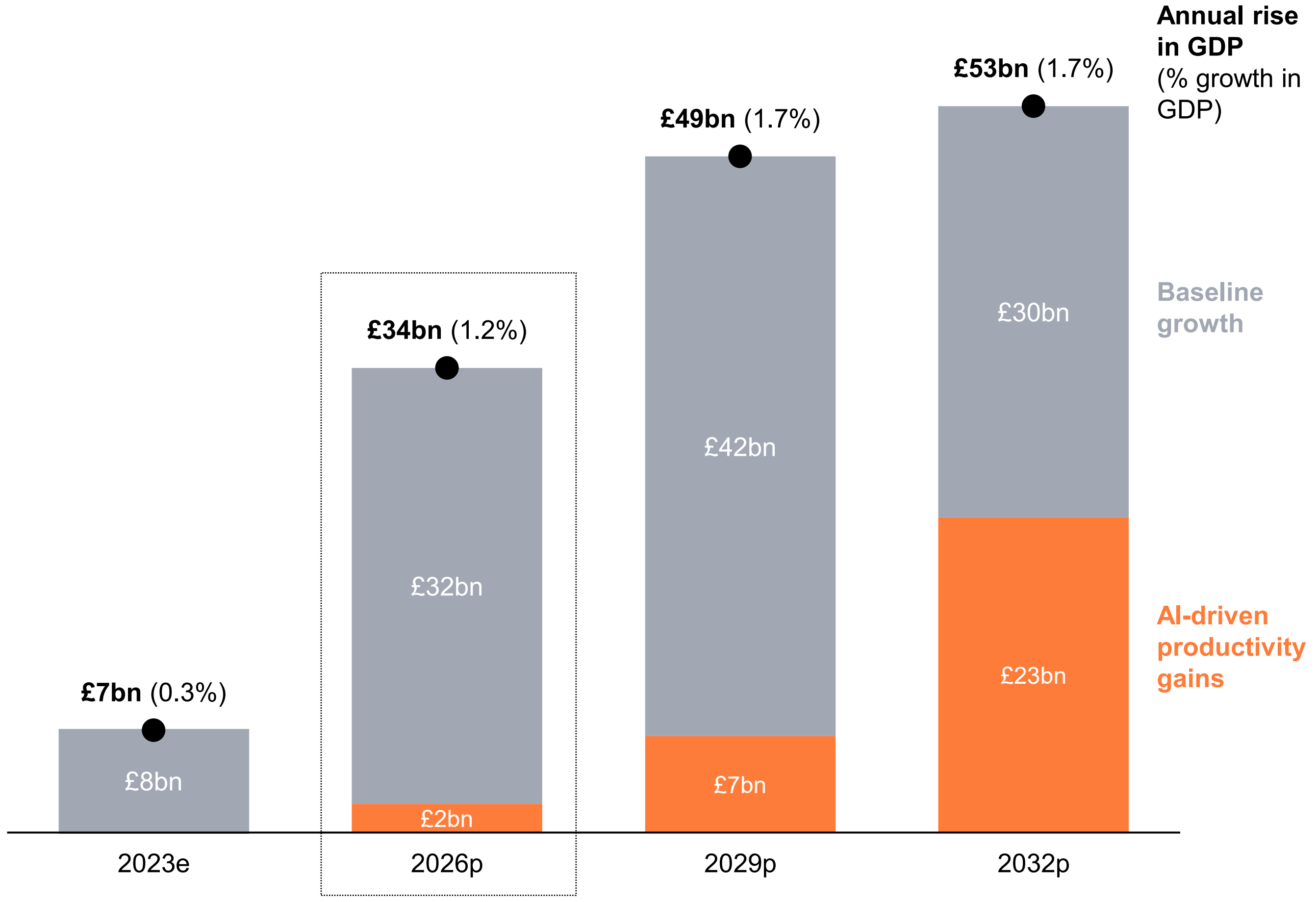
5. AI will directly add around £2bn to UK GDP in 2026, all else equal. The direct economic impact will gradually rise with deeper adoption of AI across the economy to total £23bn by 2032.

% of firms using at least one AI tech, Sep-25



Coverage, not intensity: This data captures whether AI technologies are used at all by firms, not how extensively they are embedded in day-to-day activity. While around one in three firms report using AI, there remains significant scope for wider integration and associated productivity gains in years to come.

Main scenario projection of absolute annual rise in real UK GDP, split by AI contribution, £bn chained volume measures (reference year = 2023)



Notes: Financial services excluded from the LHS chart as it is not included in the ONS survey. Real GDP growth assumptions are based on PwC main-scenario projections using a Bayesian Vector Autoregression (BVAR) model. The AI uplift follows OBR assumptions for a J-curve adoption path, with 2022 treated as the first year of meaningful uptake. We assume no further changes in working hours worked or investment/capital deepending which could change the results. We will explore this topic in more detail in PwC's AI Jobs Barometer (2026) | Sources: PwC analysis, ONS, OBR

6. London and Manchester to feature strongly on economic growth and living standards, but small cities like Chelmsford and Luton will lead on happiness.

Projected 2026 real GDP per capita growth by UK city region, top 10

1	Ipswich	1.7%
2	Warrington	1.6%
3	Preston	1.6%
4	London	1.6%
5	Manchester	1.5%
6	Belfast	1.5%
7	Chelmsford	1.5%
8	Luton	1.5%
9	Southend	1.4%
10	Medway	1.4%

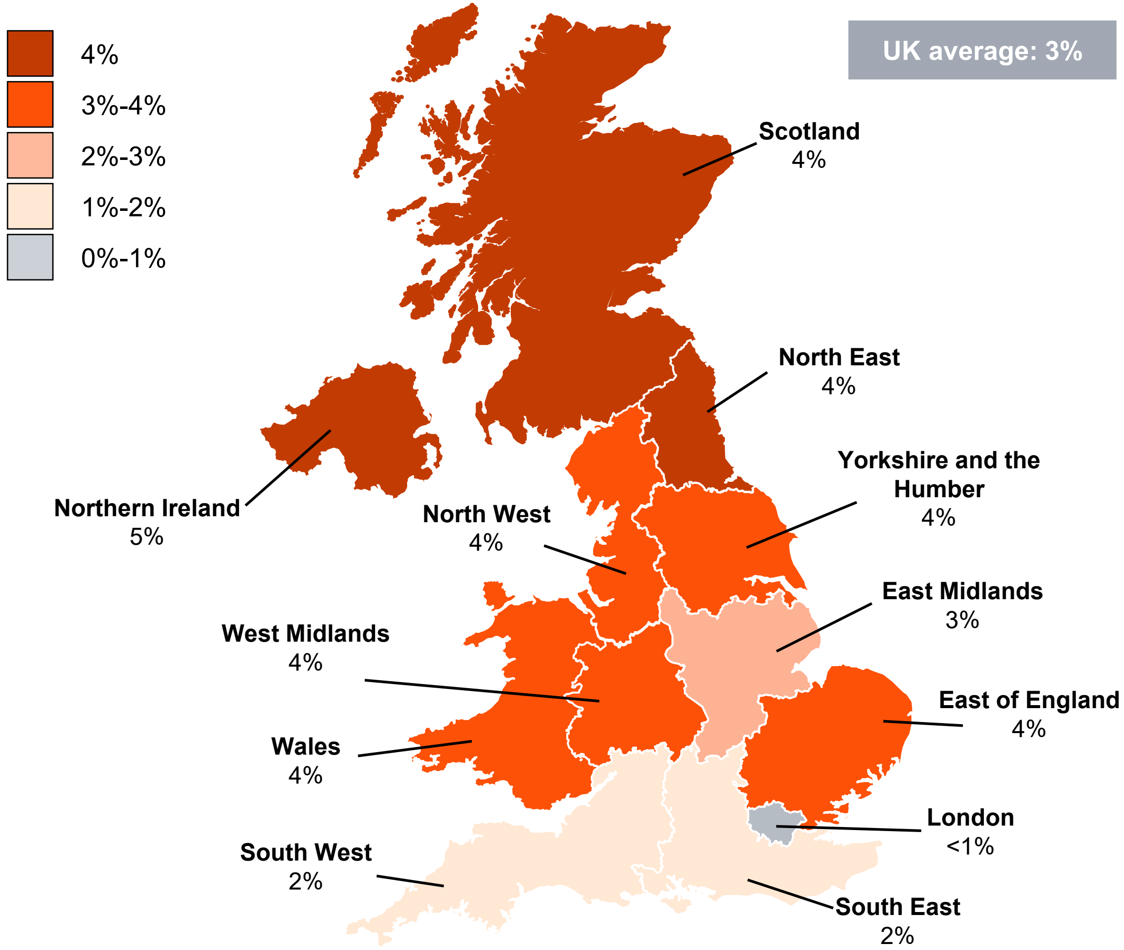
Projected 2026 real GDP per capita and happiness index by UK city region, top 10

Estimated 2026 real GDP per capita, in 2022 prices (rank)			2026 Happiness index (rank)		
London	£65k	1	1	7.64	Chelmsford
Edinburgh	£65k	2	2	7.54	Luton
Reading	£61k	3	3	7.51	Reading
Manchester	£61k	4	4	7.50	London
Cambridge	£57k	5	5	7.50	Portsmouth
Milton Keynes	£57k	6	6	7.49	Plymouth
Swindon	£54k	7	7	7.48	Oxford
Belfast	£53k	8	8	7.47	Warrington
Oxford	£51k	9	9	7.46	Exeter
Exeter	£49k	10	10	7.46	Preston

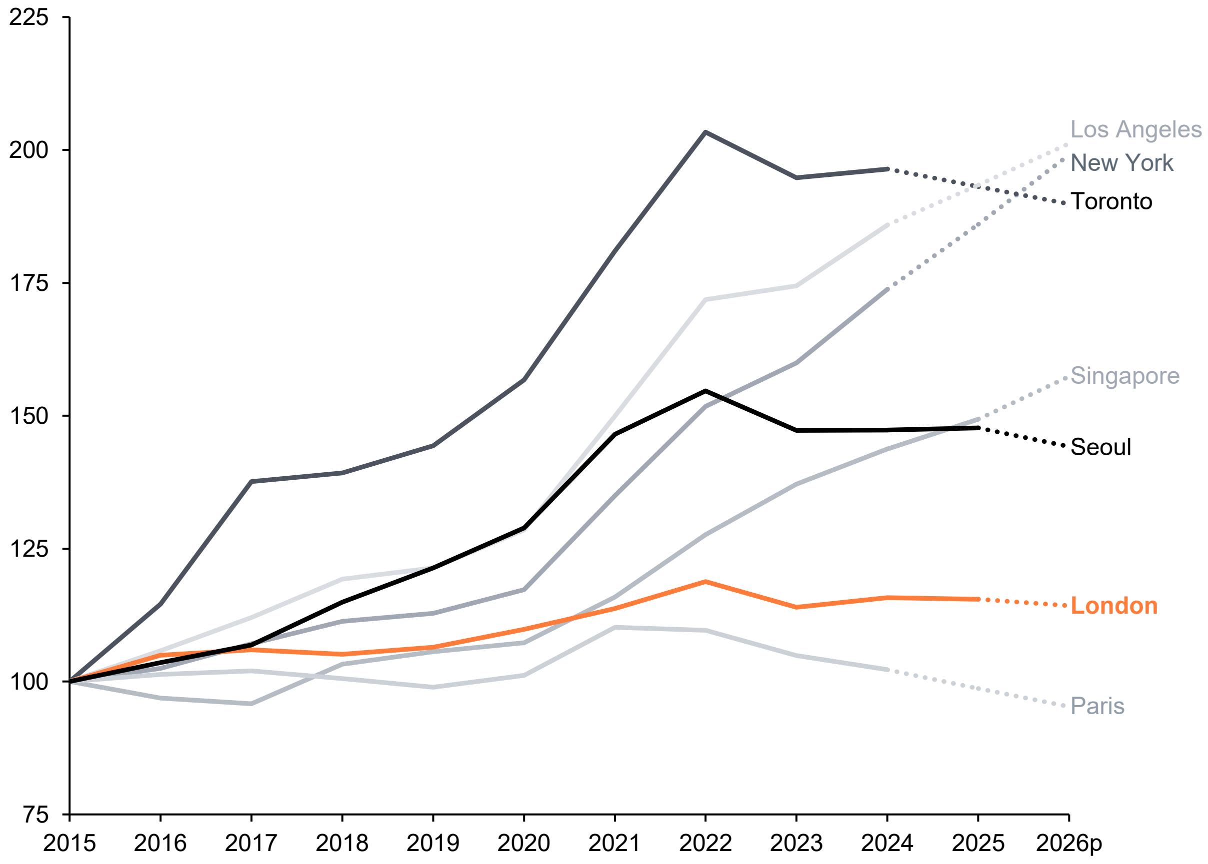
PwC Notes: The happiness index is out of 10. | Sources: PwC analysis, consistent with Good Growth for Cities methodology, ONS

7. London house prices continue to stagnate, out of step with major global cities such as New York, Los Angeles and Toronto, where prices are expected to rise at a faster pace.

Main scenario nominal 2026 house price growth projections



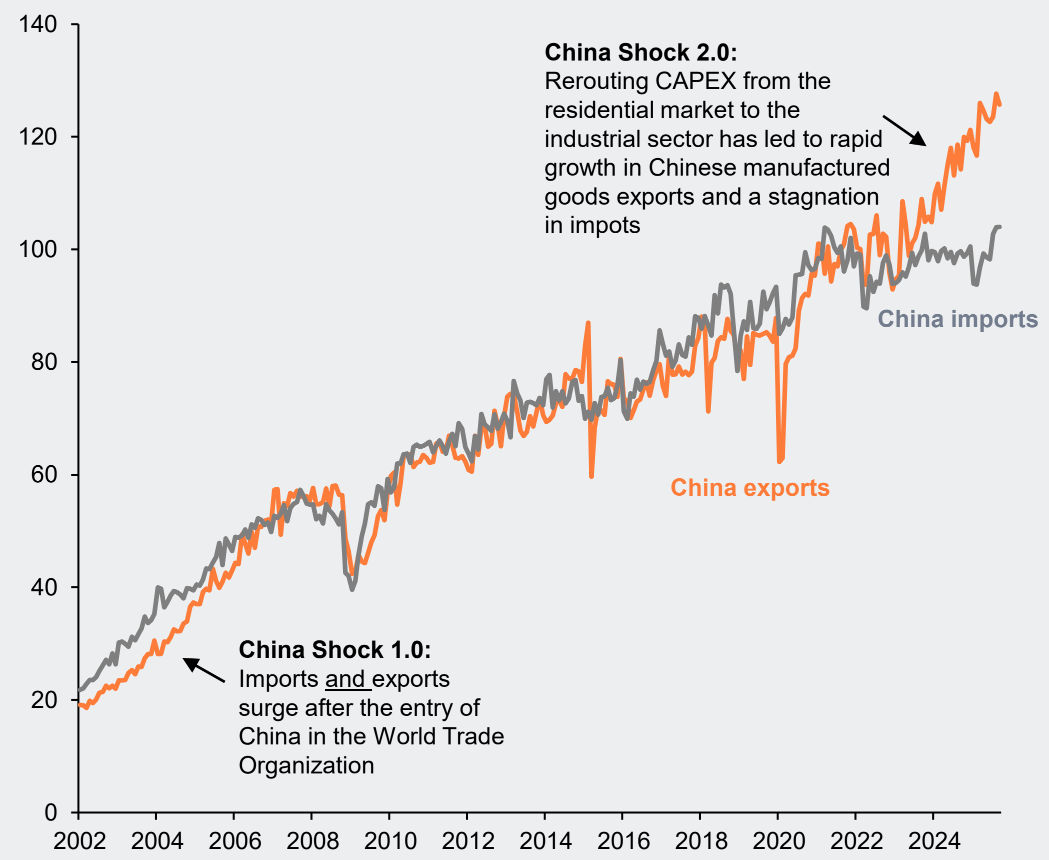
Major world cities house price growth index, 2015=100



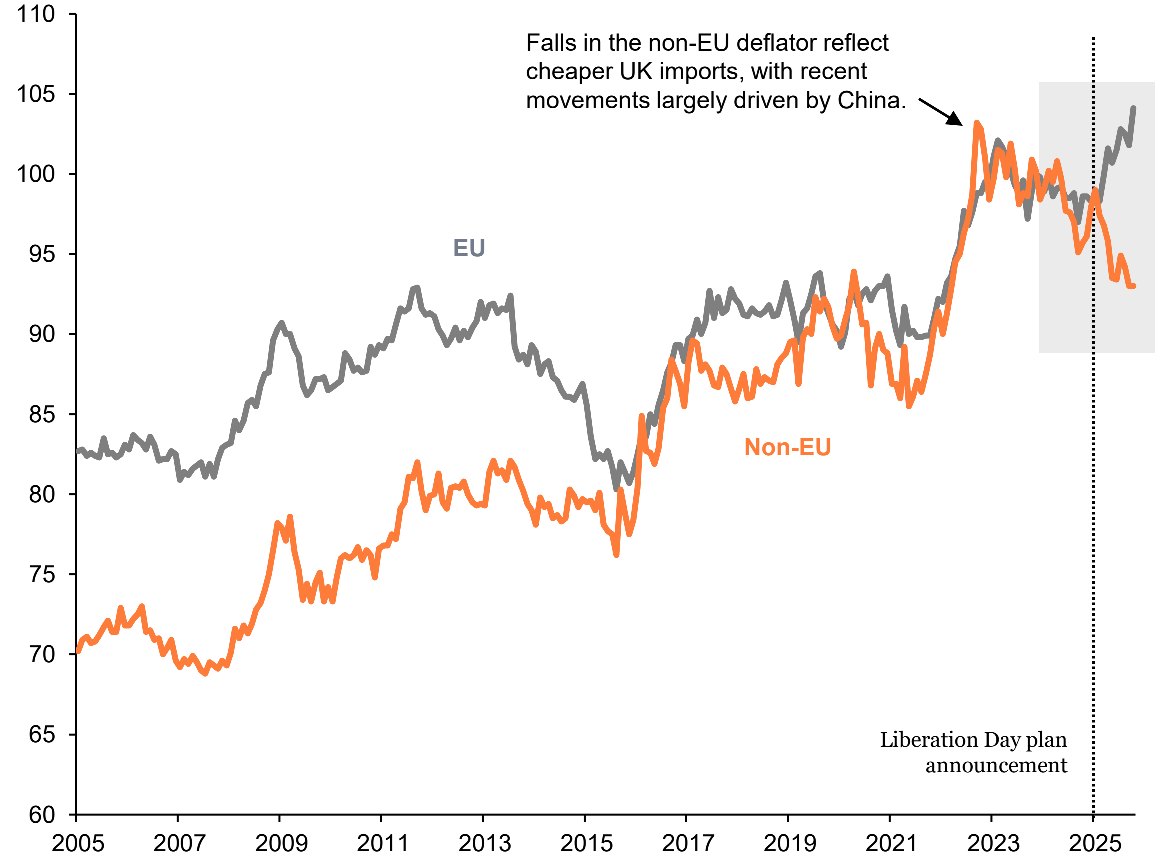
 Notes: World cities data is re-indexed for 2015=100. The index for Paris house prices is the average index of existing and new dwellings, re-indexed to 2015=100. We use the ONS House Price Index for our main scenario projections. 2025-26 projections for Los Angeles, New York, Toronto and Paris are based on average house price growth over 2023-24; projections for the rest are based on average growth over 2023-25. | Sources: PwC Analysis, OBR, ONS, Refinitiv Eikon

8. The rapid rise in the supply of increasingly sophisticated manufactured goods that are made in China will mean that cost-ineffective producers in the UK (and wider) will come under renewed pressure.

China merchandise trade volumes (2021=100)



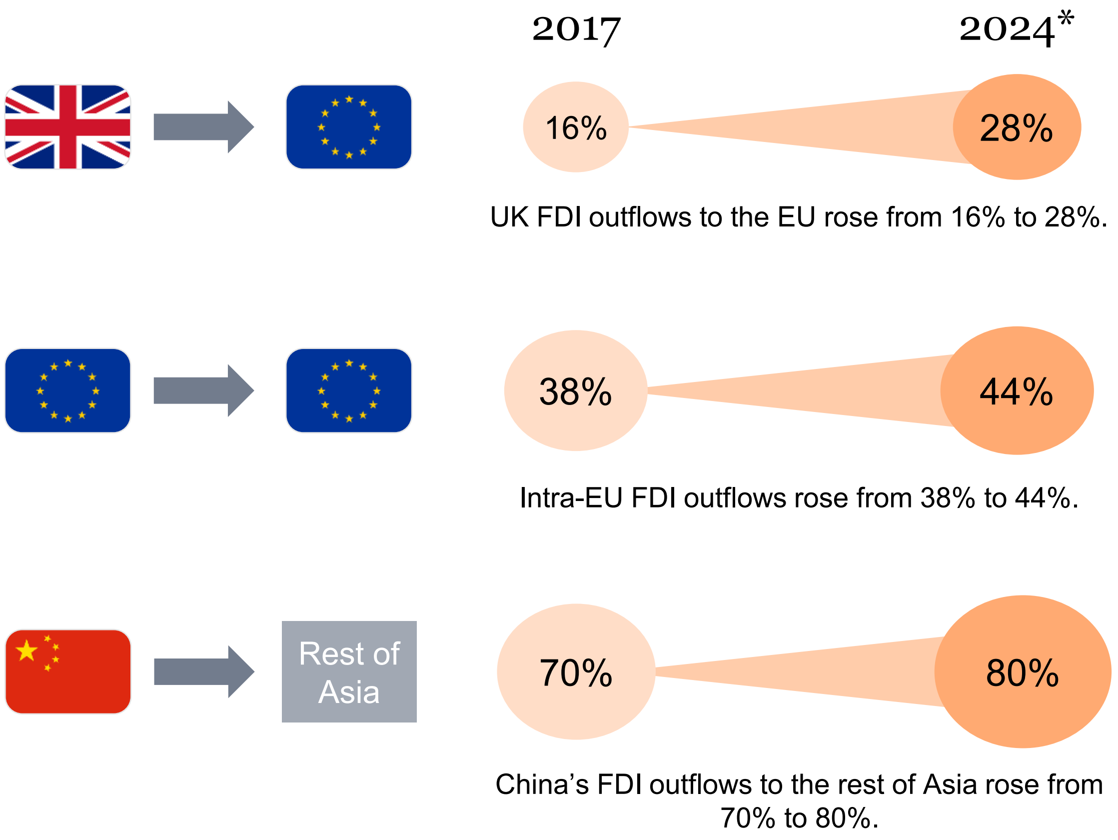
UK import price deflators for misc. manufactures (2023 = 100)



 Notes: Miscellaneous manufactures include furniture, clothing, toys and related consumer goods. | Sources: PwC analysis, CPB World Trade Monitor, ONS

9. Friendshoring will continue to reshape global FDI, pulling investment closer to home directed mainly towards geopolitically aligned destinations.

Outward FDI flows to main partners, 2017 vs 2024



What is driving the shift?

1. Rising geopolitical risk

- Firms are redirecting FDI towards politically aligned and nearby countries.
- Exposure to geopolitically sensitive markets continues to fall.

2. Supply chain resilience

- Firms are shortening and regionalising supply chains to reduce disruption risk.
- North America and Europe are seeing more capital retained within their own regions.

3. Policy & regulation

- Industrial policy is increasingly shaping where firms invest.
- US and EU incentives continue to favour domestic and allied production, particularly in clean energy, semiconductors and defence.

What will 2026 look like?

- **Global FDI** will remain weak relative to pre-pandemic norms and increasingly regional.
- **Friendshoring will deepen** rather than unwind.
- **Investment** will be concentrated in:
  - Digital infrastructure and AI
  - Clean energy and advanced manufacturing
  - Countries offering policy certainty and geopolitical alignment

 Notes: 2023 latest year of available data for UK FDI flows. | Sources: PwC analysis, ONS, Eurostat, China National Bureau of Statistics, UNCTAD.

10. Our modelling predicts Spain will win the World Cup, but England still has an outside chance. In 7,600 of our 100,000 simulations, England finish as champions.

PwC modelled World Cup probabilities, %

Country		QF	SF	Final	Win
Spain	1	76	66	42	26
Argentina	2	80	57	35	19
France	3	65	50	29	17
Brazil	4	82	53	29	15
England	5	75	38	18	8
Netherlands	6	67	25	10	4
Germany	7	32	20	9	4
Portugal	8	51	19	8	3
Belgium	9	60	14	4	1
Croatia	10	15	10	4	1

England won in nearly 8,000 out of 100,000 simulations, leaving it with an ~8% chance of winning overall. Example illustrated below.

 Notes: Monte Carlo simulation used to estimate probability distribution of overall tournament win. Of the 100,000 simulations conducted, simulation 109 is presented for illustrative purposes. | Sources: PwC analysis, BMI, Kaggle

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Economic Projections

Economic Projections: UK

PwC main scenario projections

	2010-19 Average	Latest	2024 Q1	Q2	Q3	Q4	2025 Q1	Q2	Q3	Q4	2025	2026	2027-29	As-at
Economic output														
UK real GDP growth, %	2.0	1.3 *Q3*	0.3	0.9	1.4	1.9	1.8	1.4	1.3	1.5	1.5	1.2	1.6	*19th Dec*
UK Prices and Policy rate														
Consumer prices, %	2.2	3.2 *Nov*	3.5	2.1	2.0	2.5	2.8	3.5	3.9	3.3	3.4	1.9	1.8	*19th Dec*
- Services, %	3.0	4.4 *Nov*	6.2	5.8	5.2	4.8	4.9	4.9	4.9	4.4	4.8	2.6	2.3	*19th Dec*
- Core goods, %	0.8	1.1 *Nov*	2.0	0.1	0.2	0.9	1.3	1.5	1.5	1.1	1.4	0.8	0.7	*19th Dec*
- Energy, %	3.2	1.9 *Nov*	-14	-16	-13	-8	-7	-1	2.7	1.7	-0.9	1.1	2.8	*19th Dec*
Base interest rate, %	0.5	3.75 *Dec*	5.3	5.3	5.1	4.8	4.6	4.3	4.1	3.9	4.2	3.5	3.6	*19th Dec*
Residential property, UK														
Prices, annual growth rate, %	3.7	3.6 *Jun*	-1.3	0.3	0.9	2.7	5.0	3.1	-	-	3.2	2.7	2.8	*18th Dec*
Transactions, monthly avg, 000s	92	96 *Jul*	84	92	92	97	128	81	-	-	-	-	-	

Notes: 'MER' refers to market exchange rates and 'PPP' is purchasing power parity. We continue to recommend our clients to undertake scenario analysis given uncertainties in the global and UK economic outlook. | Sources: PwC UK and global analysis, national statistical authorities, EIKON from Refinitiv, IMF, Consensus Economics, the OECD, and Fitch Solutions.

Economic Projections: Global

PwC main scenario projections

	2010-19 Average	Latest	2024 Q1	Q2	Q3	Q4	2025 Q1	Q2	Q3	Q4	2025	2026	2027-29	As-at
G7 GDP, annual growth rate, %														
US	2.4	2.1 *Q2*	2.9	3.0	2.7	2.5	2.0	2.1	-	-	1.9	2.1	2.1	*19th Dec*
Canada	2.3	1.2 *Q2*	0.1	0.5	1.4	1.9	2.3	1.2	-	-	1.3	1.4	1.8	*19th Dec*
Germany	2.0	0.2 *Q2*	-0.5	-0.6	-0.6	-0.2	0.2	0.2	-	-	0.2	1.1	1.5	*19th Dec*
France	1.4	0.8 *Q2*	1.7	1.0	1.1	0.6	0.6	0.8	-	-	0.8	1.0	1.3	*19th Dec*
Italy	0.2	0.4 *Q2*	0.3	0.7	0.5	0.6	0.7	0.4	-	-	0.5	0.8	0.9	*19th Dec*
Japan	1.2	1.8 *Q2*	-0.9	-0.7	0.7	1.3	1.6	1.8	-	-	1.2	0.9	0.6	*19th Dec*
Eurozone	1.4	1.5 *Q2*	0.5	0.5	0.9	1.3	1.6	1.5	-	-	1.4	1.2	1.5	*19th Dec*
Commodities														
Brent crude, $/bbl	79	61 *Dec*	82	85	79	76	76	66	69	62	70	60	62	*19th Dec*

Notes: We continue to recommend our clients to undertake scenario analysis given uncertainties in the global and UK economic outlook. | Sources: PwC UK and global analysis, national statistical authorities, EIKON from Refinitiv, IMF, Consensus Economics, the OECD, and Fitch Solutions.

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About us

Our team of economic consultants and strategists who work alongside a wide range of clients, using economic insights to inform strategic choices, guide the development of policy and assess the impact of major investments and spending decisions. In the boardroom, in front of regulators and with policy makers and decision-makers at large we develop big, distinctive ideas and important insights that are grounded in robust economic analysis.

We're one of the UK's leading economics practices and are part of PwC's global network of economists.

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