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News in Review

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"What's happening around the world is compounding the UK's low-growth story"

The Confederation of British Industry (CBI) has lowered its predictions for UK growth in its latest Economic Forecast. It is expected that UK GDP will grow by 1.1% in 2026 and 0.9% in 2027, down from the CBI's previous projections of 1.3% and 1.5% respectively.

These revised statistics take into consideration the economic uncertainty caused by the Middle East conflict, with the CBI predicting that UK inflation will now rise to 4% by the end of 2026. While this will negatively affect consumer confidence and household income growth, the CBI notes that inflationary pressures should not be as severe as during the 2022 energy crisis. Before the outbreak of war, businesses were already facing higher labour and borrowing costs, so the recent global shocks have added further pressure. Momentum is therefore muted across much of the private sector, with business investment expected to contract this year. The labour market is also projected to weaken further, with unemployment on track to rise to 5.5% as we head into 2027.

The CBI report comes as the Office for National Statistics (ONS) released the latest GDP figures, showing that the UK economy contracted by 0.1% in April, following growth of 0.3% in March. The first monthly fall since August 2025 was widely anticipated, as the impact of geopolitical events filter through. April's GDP contraction was driven by a 0.2% decline in the services sector, partially offset by a 0.1% increase in construction.

Louise Hellem, Chief Economist at the CBI, commented on the UK's outlook,*"What's happening around the world is compounding the UK's low-growth story."*

She added,*"Last year it was tariffs and this year it's the conflict in the Middle East. The reality is that a world of elevated uncertainty and volatility is no longer the exception, it's the norm – the backdrop against which businesses must operate."*

US-Iran deal signals hope for stability

Over three months since the Middle East conflict started, the White House and the Iranian regime have agreed on a framework deal aimed at securing an end to hostilities. A formal signing ceremony is scheduled to take place in Switzerland this week. On Monday, financial markets reacted positively to the breakthrough, with stocks rising, while oil prices fell as investors welcomed plans to reopen the Strait of Hormuz. Experts caution that a return to normal shipping operations through the vital trade route will take time, meaning the economic effects of the conflict could continue for months. Speaking at the G7 summit this week, Trump said he would now focus his efforts on ending the wars in Ukraine and Lebanon.

A welcome lift for retail sales

According to the British Retail Consortium (BRC), UK retail sales increased by 3.7% annually last month, up from growth of 1.0% in May 2025. Food sales rose by 3.9% year-on-year, which is above the 12-month growth average of 3.5%. It seems that many consumers turned to online shopping during May's heatwave, with non-food online sales increasing by 10.6% annually, significantly above the 12-month average of 1.2%.

Helen Dickinson at the BRC said, *"While the sunshine gave retail a welcome lift, this momentum should not be taken for granted. Household finances remain under pressure, consumer confidence is still fragile, and many retailers continue to face rising costs."*

Housing market update

The latest RICS Residential Market Survey shows that economic uncertainty is still weighing on the housing market, although there are signs of stabilisation. In May, new buyer enquiries remained unchanged with a net balance of -34%; while this is weak, it is the first time since January where the reading has not fallen further. Agreed sales also held steady at -37%, suggesting that the challenging conditions have not worsened. However, the average time taken to complete a sale is now the longest since records began in 2017, at 21.5 weeks.

Tax bills rise for savers

Recent data from Paragon Bank shows there is a growing number of people who have a significant tax bill on their savings income. In the 2025/26 financial year, there were 137,000 savers with a tax liability of more than £5,000, nearly triple that of the 2022/23 financial year. The figure could rise further to 144,000 in the current financial year.

Andrew Wright, Head of Savings at Paragon Bank, commented, *"With CACI data showing 1.1 million non-ISA savings accounts hold more than £100,000, it is clear there are a lot of people with larger balances who may need to think carefully about how their money is structured."*

Here to help

Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.