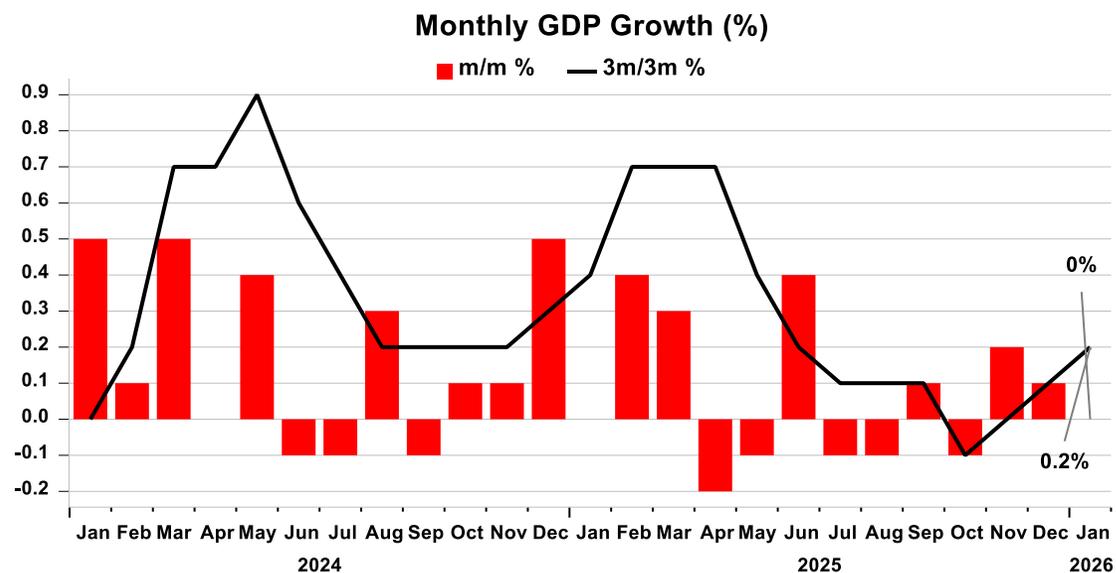


# UK Economic Update

March 2026

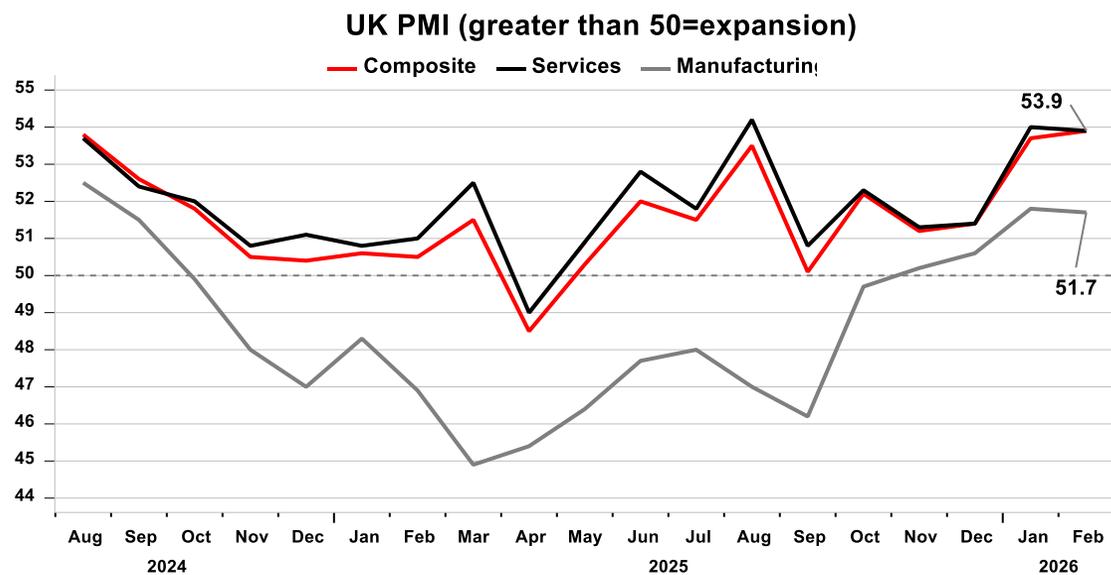
*Prepared by Santander UK Economic Analysis*

# Economic growth lacked momentum at end of 2025



- The UK posted growth of 0.1% q/q in Q4 leaving annual growth for 2025 at 1.3%.
- However, it was government expenditure rather than households that propped up the UK economy.
- The weakness fed through to the start of 2026 with January growth flat.

## But what does the start to 2026 look like?

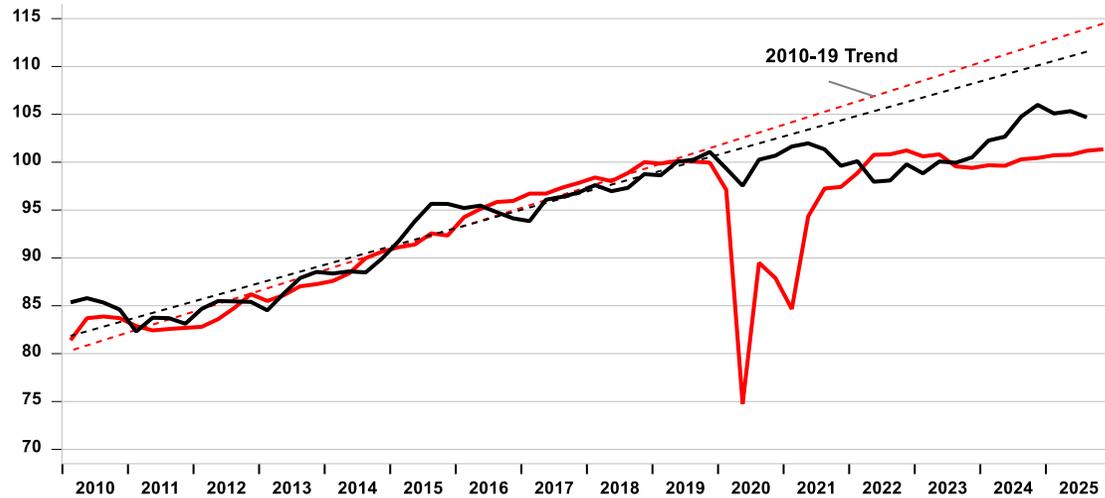


- Survey data showed a sharp rebound in economic activity at the start of 2026 to the strongest since April 2024, with services recovering strongly.
- However, likely that March data will be weaker.

# Consumer behaviour will be key in 2026

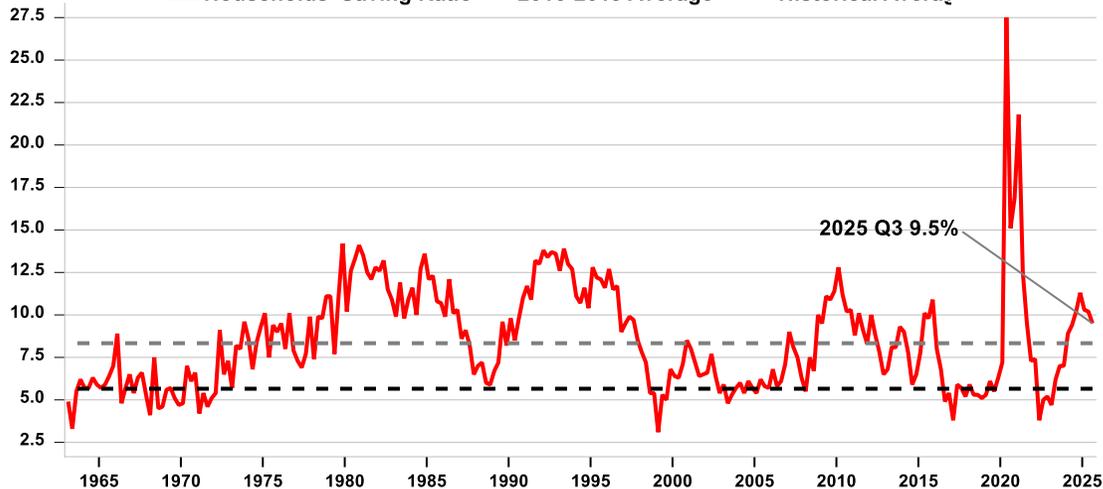
Real Household Spending and Disposable Income (2019 = 100)

— Real Consumer Spending — Real Household Disposable Incc



Households' Saving Ratio (%)

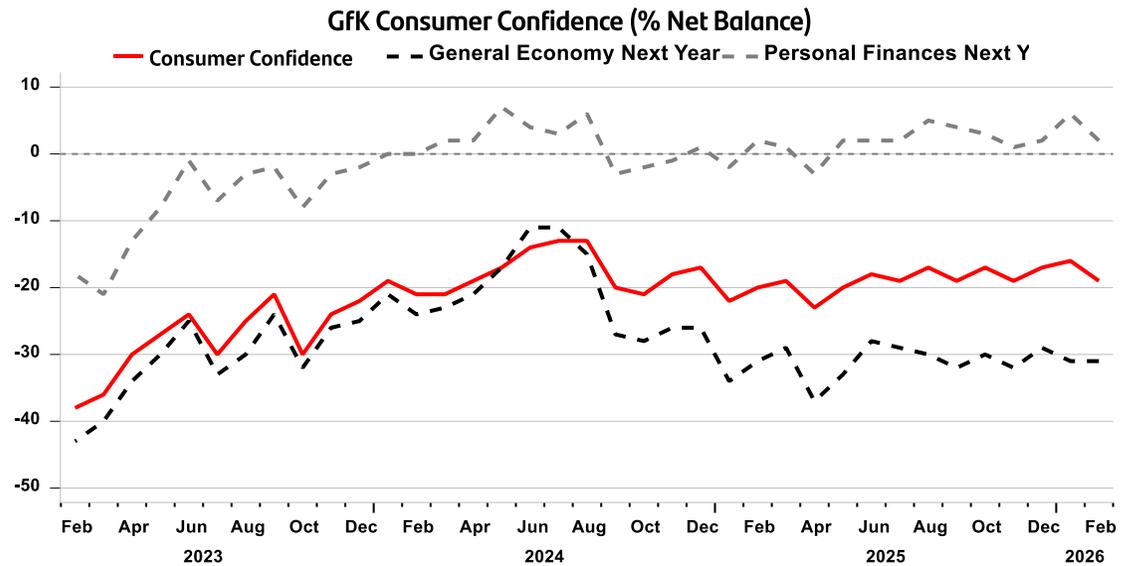
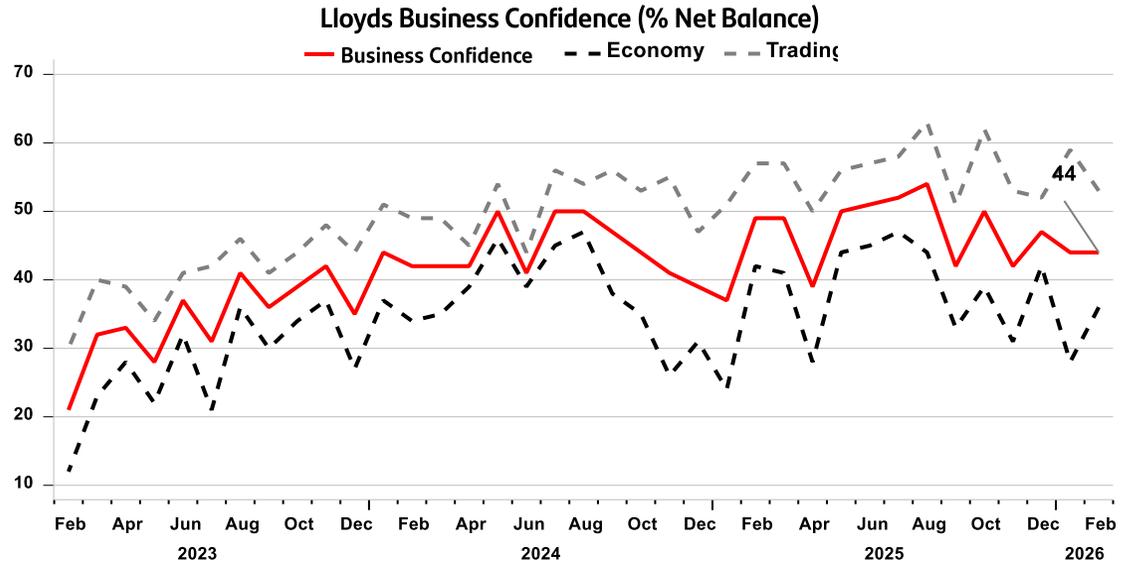
— Households' Saving Ratio — 2016-2019 Average — Historical Average



- Despite a rise in disposable income in the household sector in 2025, this did not translate into higher consumer spending which ultimately drives GDP growth.
- And even prior to the Iran conflict, real disposable income was set to fall which is partly why growth is set to fall compared to 2025.

- Households' saving ratio remains above historical norms. Consumers' willingness to spend rather than save will be key to the UK's economic performance in 2026.

# Survey data has been surprisingly resilient, but increasing geopolitical volatility will dampen sentiment



Sources: Lloyds, GfK and Santander UK Economic Analysis

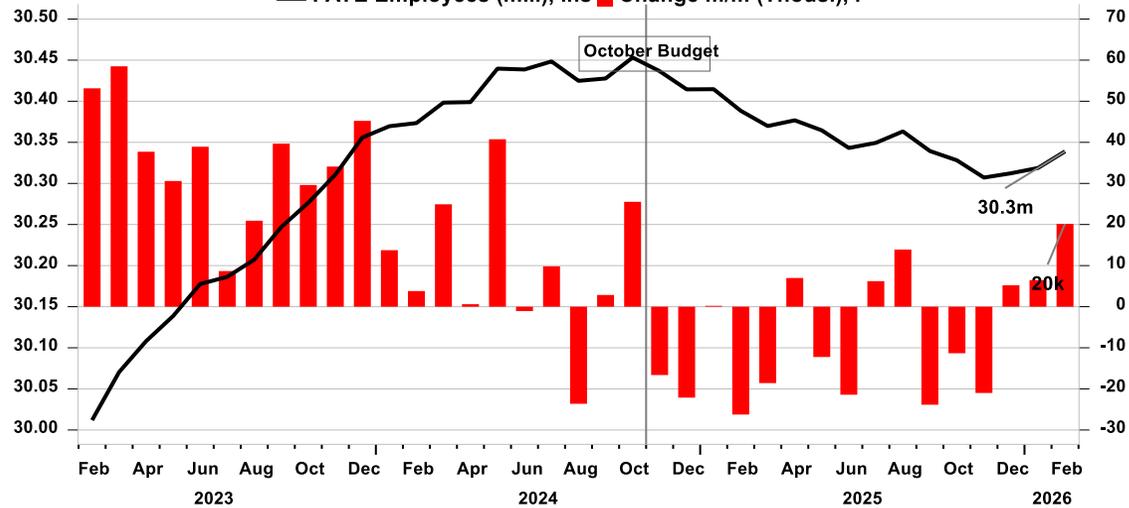
- Business confidence has been volatile but picked up after the Budget uncertainty. However, increasing oil prices will almost certainly lead to a drop in confidence.

- Consumer confidence has been relatively stable and views on personal finances are positive. But expect this all to change in March.

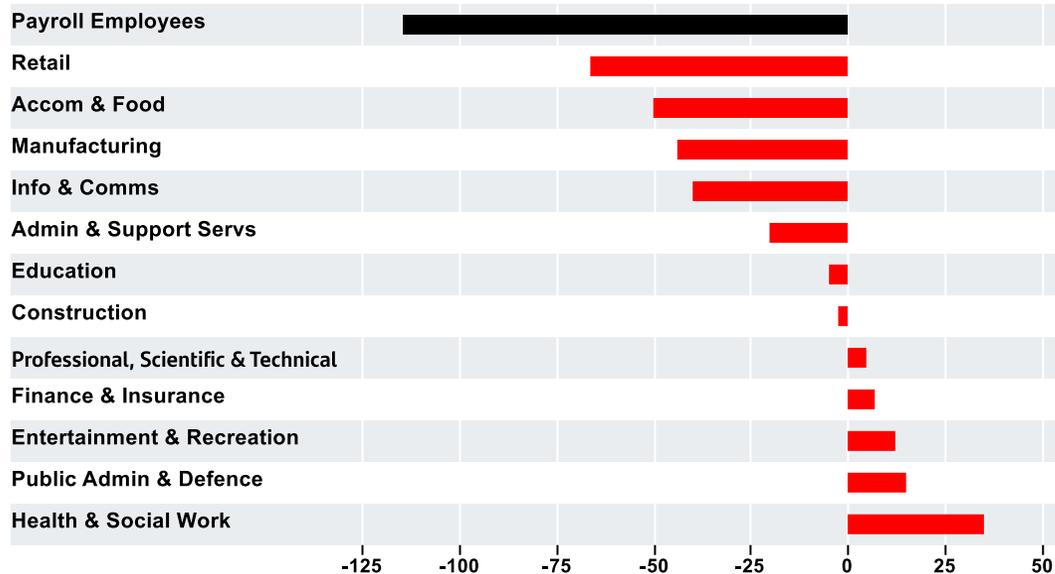
# The labour market has loosened gradually

**Payrolled Employees**

— PAYE Employees (mil.), lhs ■ Change m/m (Thous.), r



**Change in Payrolled Employees Since Budget (Thous.)**

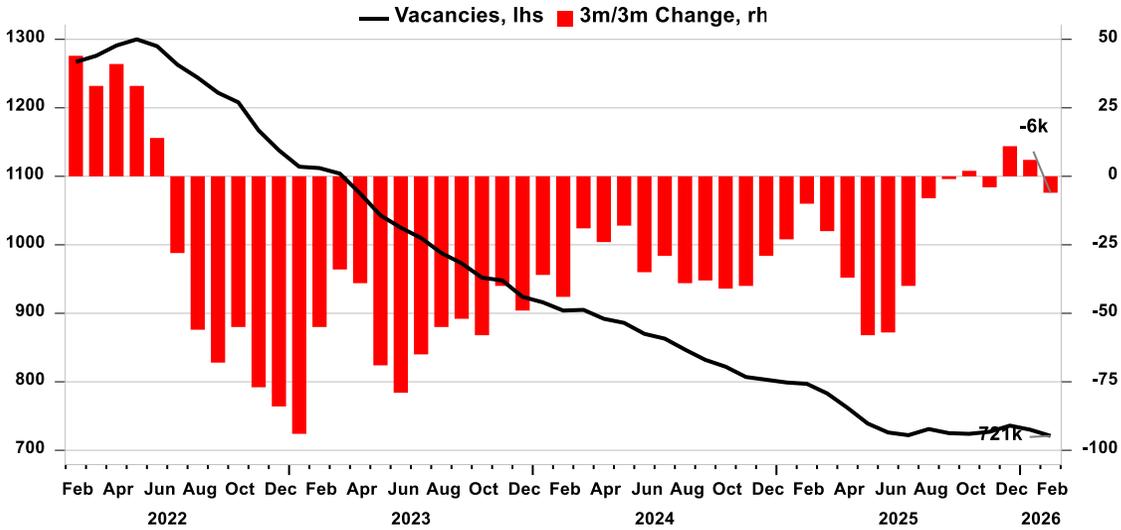


- The number of payrolled employees has fallen in most months since higher employment taxes were announced in last year's October budget.
- However, February saw an increase along with changes to the January outturn suggesting the market could be stabilising at least prior to the conflict.

- Declines in payrolls have been concentrated in the private sector in industries where a higher proportion of workers are on the minimum wage. Public sector employment has risen.

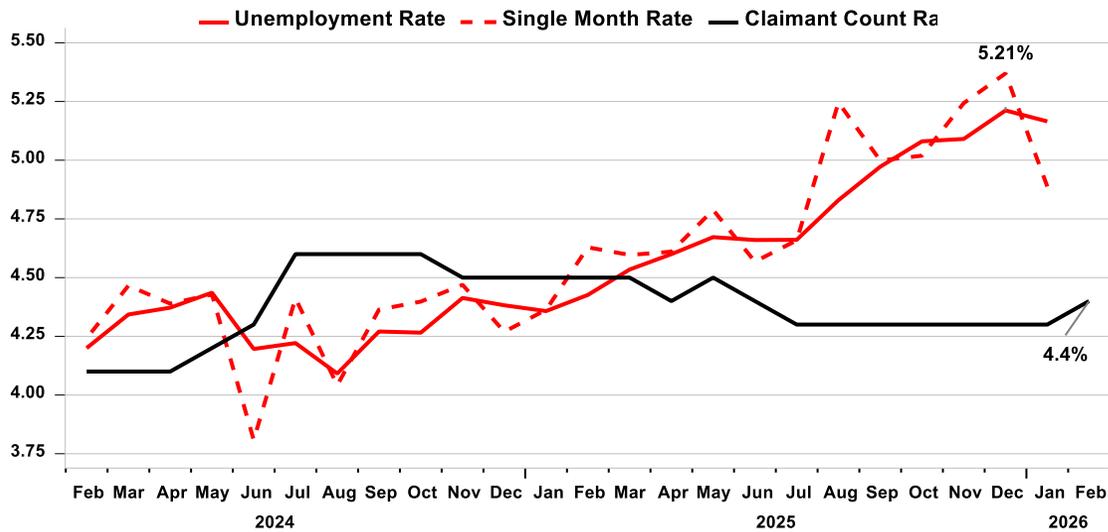
# The labour market has loosened gradually

Vacancies (Thous.)



- Vacancies have declined as labour demand has softened. Recent data suggest vacancies are stabilising.

LFS Unemployment Rate and Claimant Count (%)

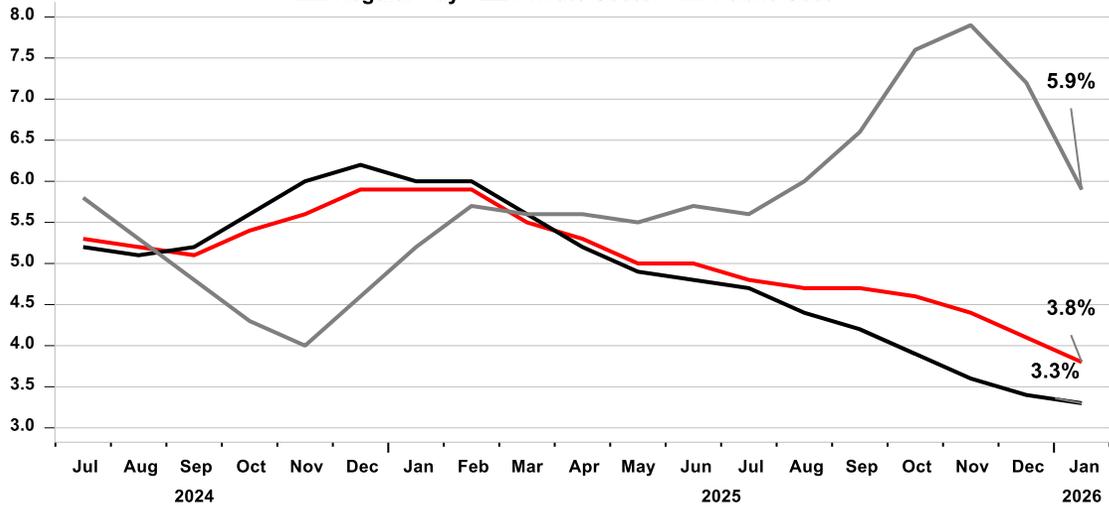


- Official labour market statistics are suffering from data quality issues but also suggest a modest loosening in labour market conditions.
- Although recent data suggests that stability could be returning – although looking further forward this may not last.

# Wage growth is slowly moderating

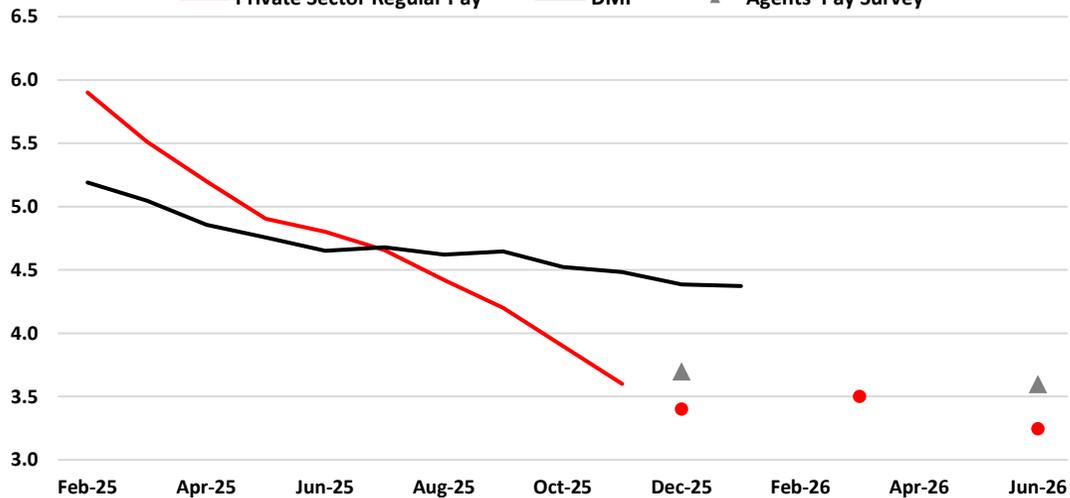
Regular Pay Growth (3m y/y %)

— Regular Pay — Private Sector — Public Sector



Measures of Private Sector Wage Growth (%)

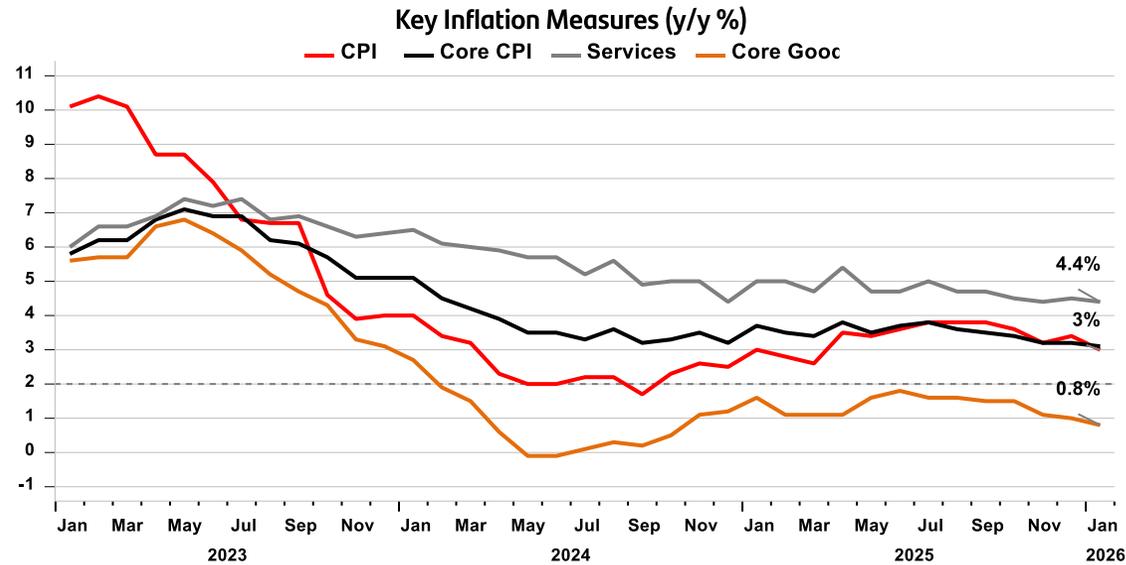
— Private Sector Regular Pay — DMP ▲ Agents' Pay Survey



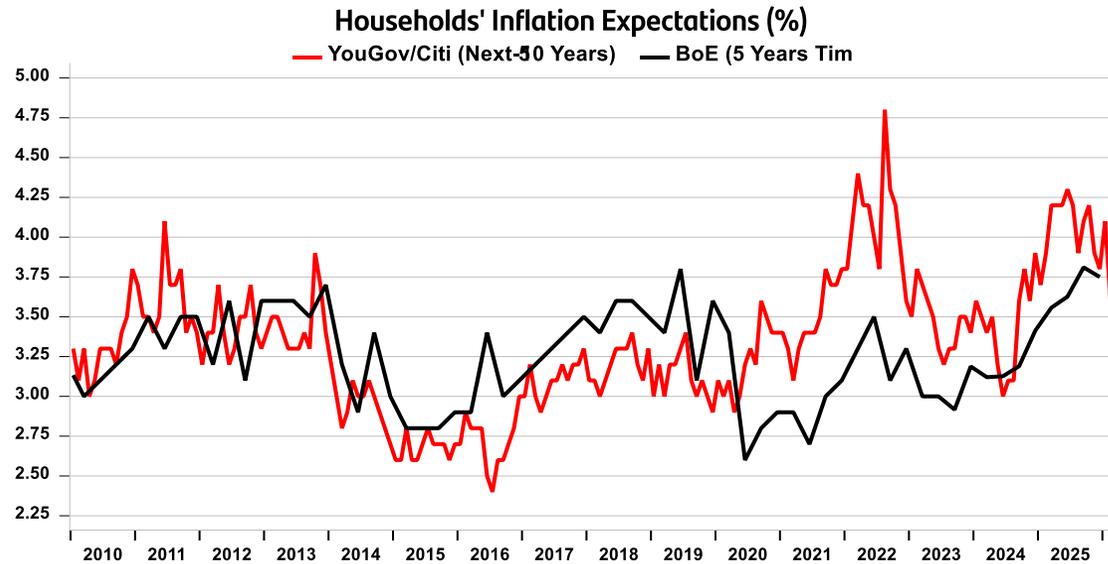
- Wage growth has eased from 6% at the end of 2024 to 3.8% now but it remains elevated and at levels inconsistent with the 2% inflation target.
- However, private sector wage growth is near to the 3.25% the Bank of England has acknowledged as being consistent with its 2% inflation target.

- However, in the latest Agents' Pay Survey report, businesses have increased forecasts for 2026 to 3.6% from 3.4%.

# What happens next to inflation?



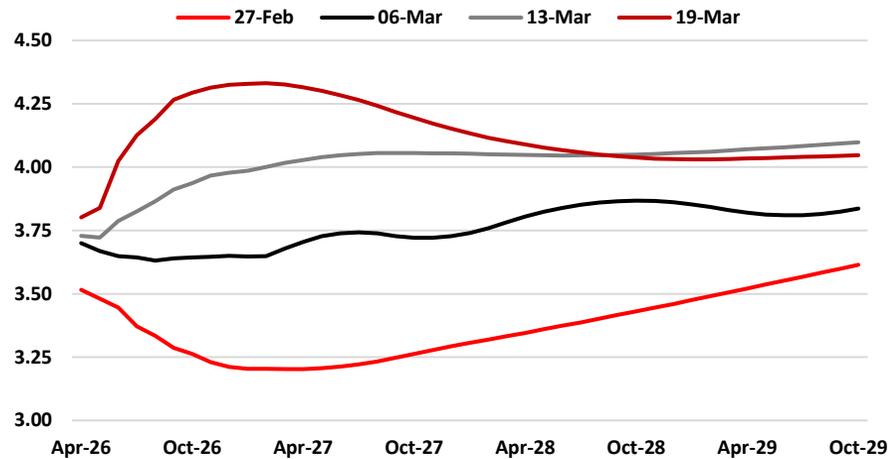
- Inflation was expected to reach target in April, partly supported by Budget policies. However, as oil and gas prices rise this will increase prices and so inflation.



- Inflation expectations remain elevated and appear to be partially de-anchored. This will be key to determining how strong second round effects from the increase in oil and gas prices could be.

# The interest rate outlook is uncertain

Market Pricing (19<sup>th</sup> March)



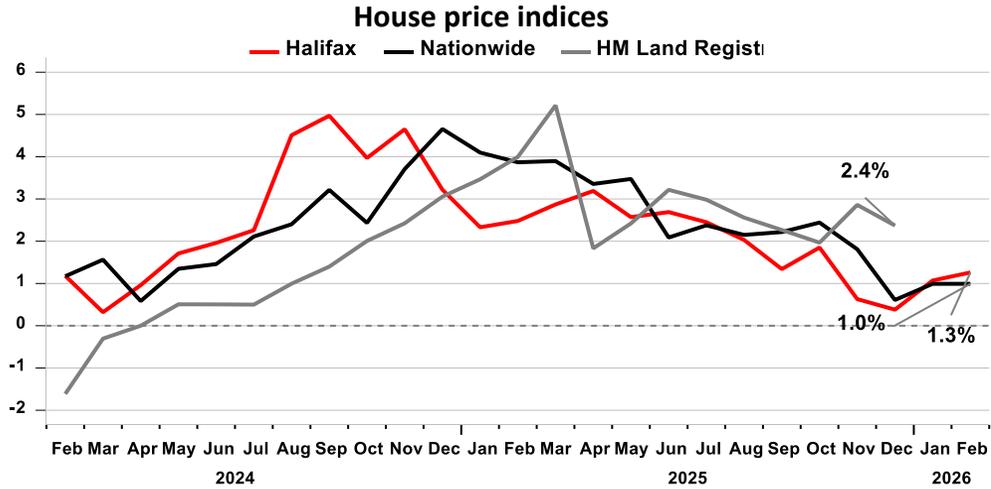
MPC member votes

	MPC Members								
	Catherine Mann	Alan Taylor	Megan Greene	Dave Ramsden	Andrew Bailey	Clare Lombardelli	Huw Pill	Sarah Breeden	Swati Dhingra
	External	External	External	Internal	Internal	Internal	Internal	Internal	External
Aug-24	0	--	0	-25	-25	-25	0	-25	-25
Sep-24	0	0	0	0	0	0	0	0	-25
Nov-24	0	-25	-25	-25	-25	-25	-25	-25	-25
Dec-24	0	-25	0	-25	0	0	0	0	-25
Feb-25	-50	-25	-25	-25	-25	-25	-25	-25	-50
Mar-25	0	0	0	0	0	0	0	0	-25
May-25	0	-50	-25	-25	-25	-25	0	-25	-50
Jun-25	0	-25	0	-25	0	0	0	0	-25
Aug-25	0	-25	0	-25	-25	0	0	-25	-25
Sep-25	0	-25	0	0	0	0	0	0	-25
Nov-25	0	-25	0	-25	0	0	0	-25	-25
Dec-25	0	-25	0	-25	-25	0	0	-25	-25
Feb-26	0	-25	0	-25	0	0	0	-25	-25
Mar-26	0	0	0	0	0	0	0	0	0

- Bank Rate was forecast to be cut twice in 2026, however with the Iran conflict this is no longer likely. Market is no longer pricing in any cuts for 2026, but they are pricing in hikes.
- Depending on the length of the conflict and how quickly oil and gas prices fall once the conflict ends will determine if there are any cuts this year.

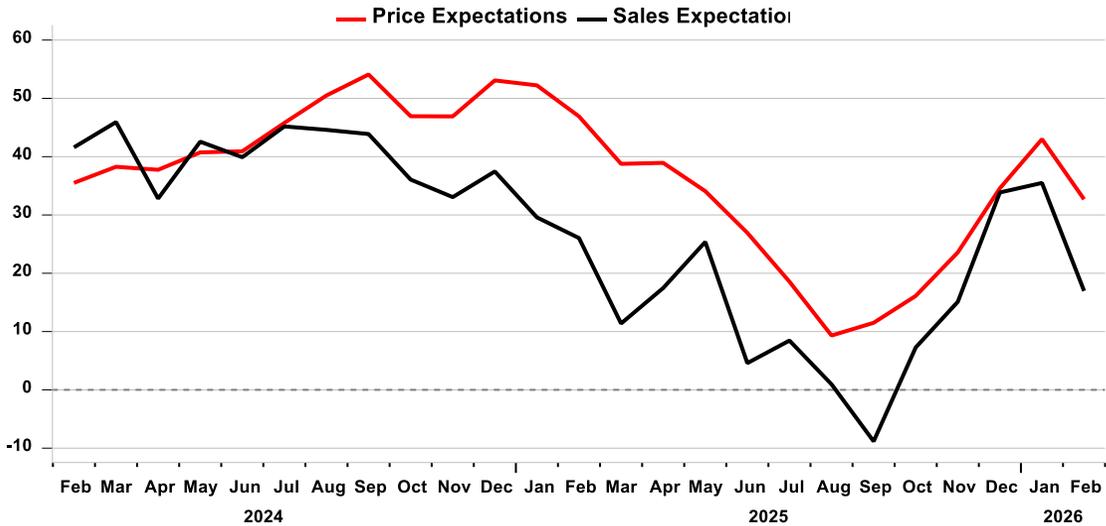
- Markets were surprised by the 9-0 vote for a hold on 19<sup>th</sup> March with all members looking to proceed cautiously until more certainty on the resolution of the conflict.

# The housing market has weakened



- House prices were recovering at start of 2026, but with no Bank Rate cuts likely in 2026 growth will be weaker.

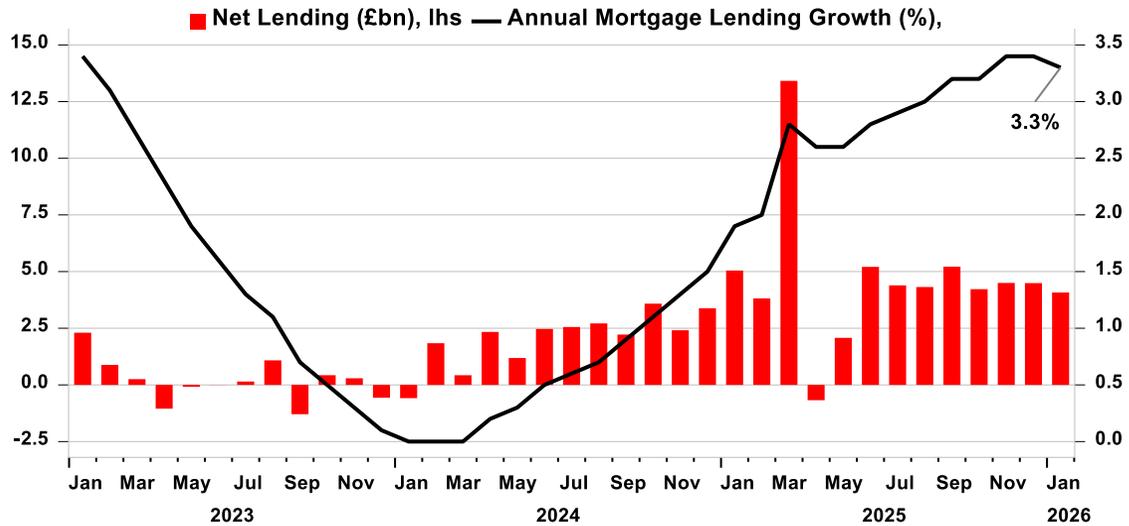
## RICS Year Ahead Price and Sales Expectations (% Net Balance)



- RICS said market conditions remained weak with buyer demand downbeat, but forward-looking indicators suggest conditions will improve, but that is before the Iran conflict.

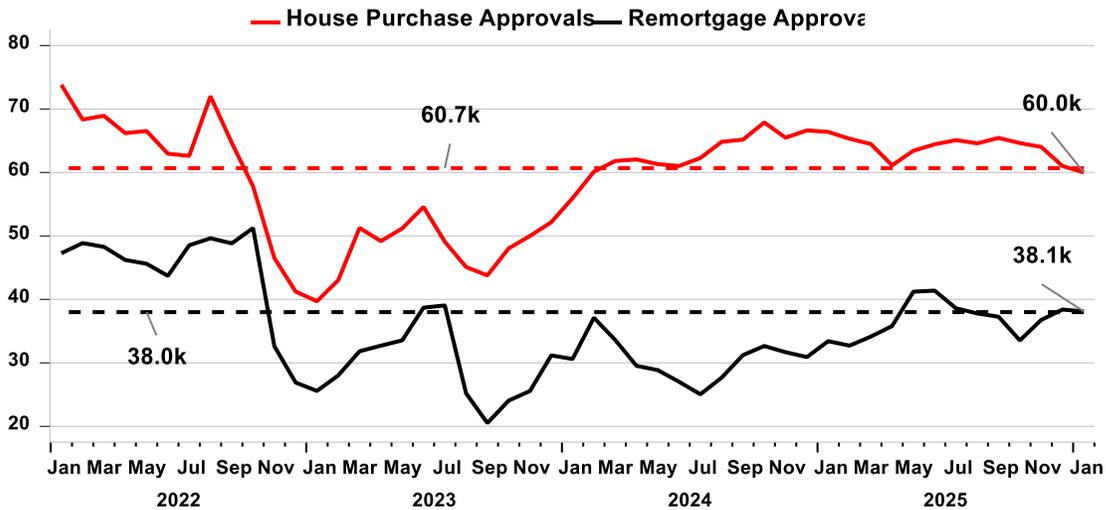
# Mortgage activity has been surprisingly strong

## Mortgage Lending



- Mortgage lending growth has been rising, but increasing mortgage pricing following increases in swaps could slow growth in the months ahead.

## Mortgage Approvals with 2010s Average (Thous., sa)



- Mortgage approvals for house purchase have risen above their monthly average seen throughout the 2010s. A good sign that underlying demand is still there.

# What is on our radar in 2026?

- 1. Inflation and interest rates** – Budget policies reducing inflation while survey data suggests sticky inflation; wide range of views on Bank Rate.
- 2. Consumers key to economic growth** – More caution from consumers could require policymakers to cut by more than expected and vice versa.
- 3. Domestic political uncertainty** – Ongoing concerns over the public finances; could local elections in May trigger a leadership change?
- 4. Geopolitics** – Geopolitical uncertainty to continue; UK and EU scheduled to review the Trade and Cooperation Agreement.