Article

Quarterly economic commentary: January to March 2026

Economic commentary for the latest quarterly national accounts, prices and labour market indicators.

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Correction

20 July 2026 13:21

We have corrected an error in this article's Figure 2 data. Because of human error, we originally stated that the household saving ratio for Quarter 1 (Jan to Mar) 2026 was 8%. It should have said 8.9%. We apologise for this error.

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1 . Main points

- The UK economy increased in Quarter 1 (Jan to Mar) 2026, with real gross domestic product (GDP) growing by 0.6%.
- The UK remained a net borrower from the rest of the world in Quarter 1 2026, with a current account deficit of 2.8% of GDP (excluding precious metals, this deficit was 1.9%).
- Several indicators point to a subdued labour market, as early estimates showed an annual fall of 0.4% in payrolled employees in May 2026, while the number of vacancies continued to decrease.
- UK consumer price inflation (CPI) was 2.8% in the year to May 2026; annual growth in regular earnings was 3.4% in the 12 months to February to April 2026, which is its lowest rate since the coronavirus (COVID-19) pandemic.
- Public sector net borrowing for the financial year ending March 2026 was £128.0 billion, £23.5 billion lower (15.5%) than in the previous financial year, with increases in central government receipts offsetting increases in expenditure, compared with the previous financial year.

2 . National accounts

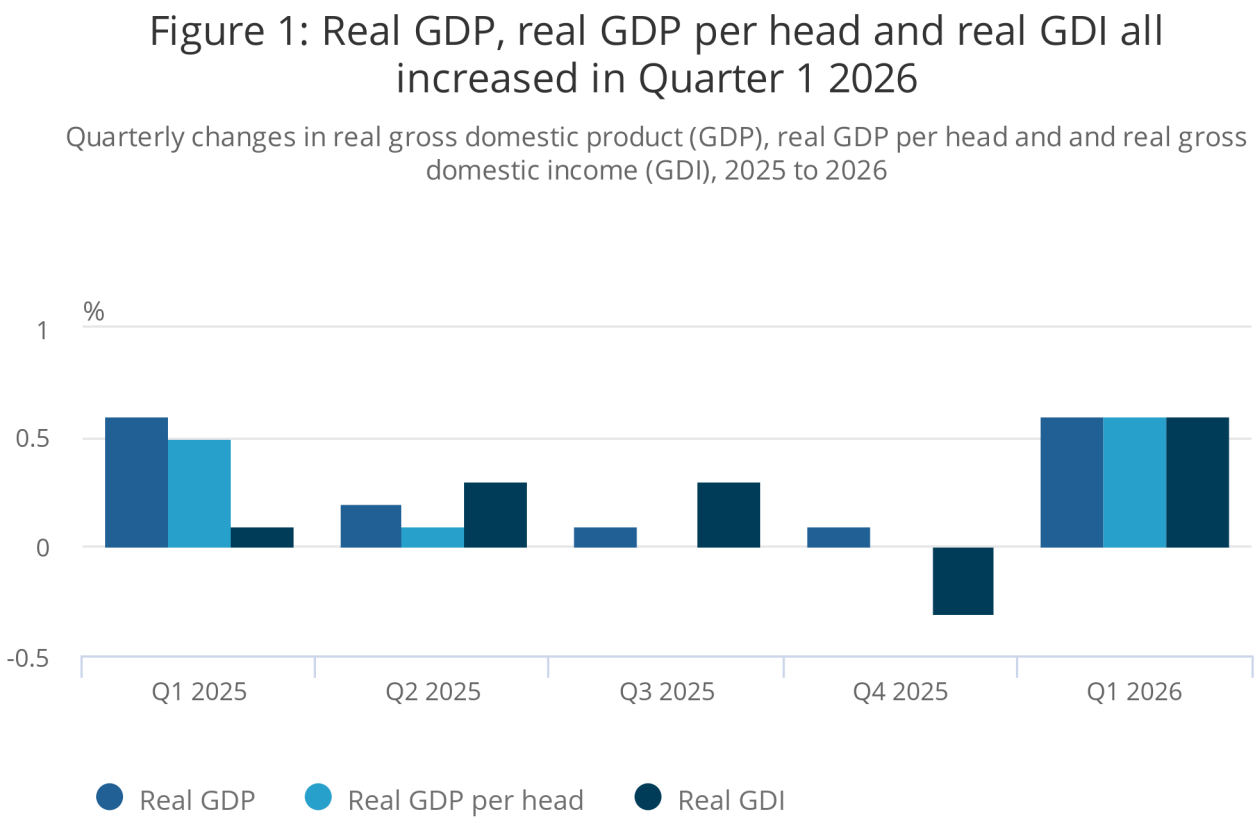
Real gross domestic product (GDP) increased by 0.6% in Quarter 1 (Jan to Mar) 2026, following 0.1% growth in Quarter 4 (Oct to Dec) 2025. This leaves UK real GDP 0.9% higher, compared with a year ago.

More recently, real GDP grew by 0.7% in the three months to April 2026, indicating continued expansion in output. Monthly data suggest some loss of momentum, with real GDP decreasing by 0.1% in April 2026. This indicates some moderation at the start of Quarter 2 (Apr to June). More information is available in our GDP monthly estimate, UK: April 2026 bulletin.

Real GDP per head, a proxy measure for economic welfare, is estimated to have increased by 0.6% in Quarter 1 2026 and is up 0.7% compared with the same quarter a year ago. Real gross domestic income (GDI) measures the purchasing power of UK output over goods and services in global markets. It increased by 0.6% in Quarter 1 2026 and is 0.9% higher than a year ago.

Figure 1: Real GDP, real GDP per head and real GDI all increased in Quarter 1 2026

Quarterly changes in real gross domestic product (GDP), real GDP per head and and real gross domestic income (GDI), 2025 to 2026



Source: Quarterly national accounts from the Office for National Statistics

Notes:

1. Percentage change on previous period.

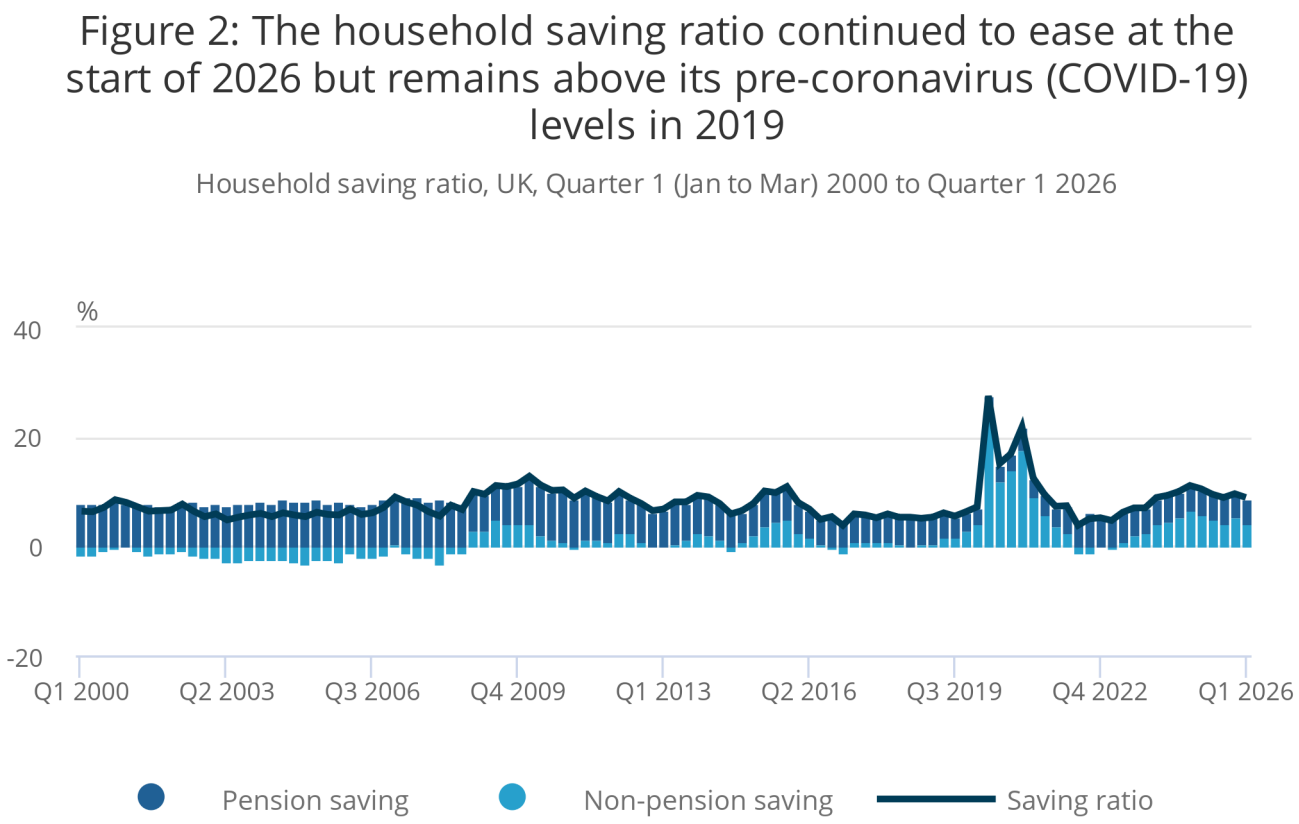
2. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

3. Population figures for up to mid-2024 are based on mid-year UK population estimates published on 26 September 2025. Figures for Quarter 3 (July to Sept) 2024 up to Quarter 1 (Jan to Mar) 2025 are based on an interpolation between mid-year estimates and 2024-based national population projections using the principal variant published on 28 April 2026. Figures for Quarter 2 (Apr to June) 2025 onwards are based on the 2024-based national population projections.

Household consumption in volume terms increased by 0.6% in Quarter 1 2026, following modest growth of 0.1% over the previous three quarters, and it was 0.9% higher than a year ago. Despite remaining above pre-coronavirus (COVID-19) pandemic levels, the household saving ratio continued to ease in Quarter 1 2026, at 8.9%. This is down from 9.6% in Quarter 4 2025, where saving slowed more than income. The decline in the saving ratio was driven primarily by non-pension saving, while pension saving increased slightly from 4.2% in Quarter 4 2025 to 4.8% in Quarter 1 2026 (Figure 2).

Figure 2: The household saving ratio continued to ease at the start of 2026 but remains above its pre-coronavirus (COVID-19) levels in 2019

Household saving ratio, UK, Quarter 1 (Jan to Mar) 2000 to Quarter 1 2026



Source: Economic accounts from the Office for National Statistics

Notes:

1. The household saving ratio is the proportion of the household sector's total resources that are available but have not been used for consumption.

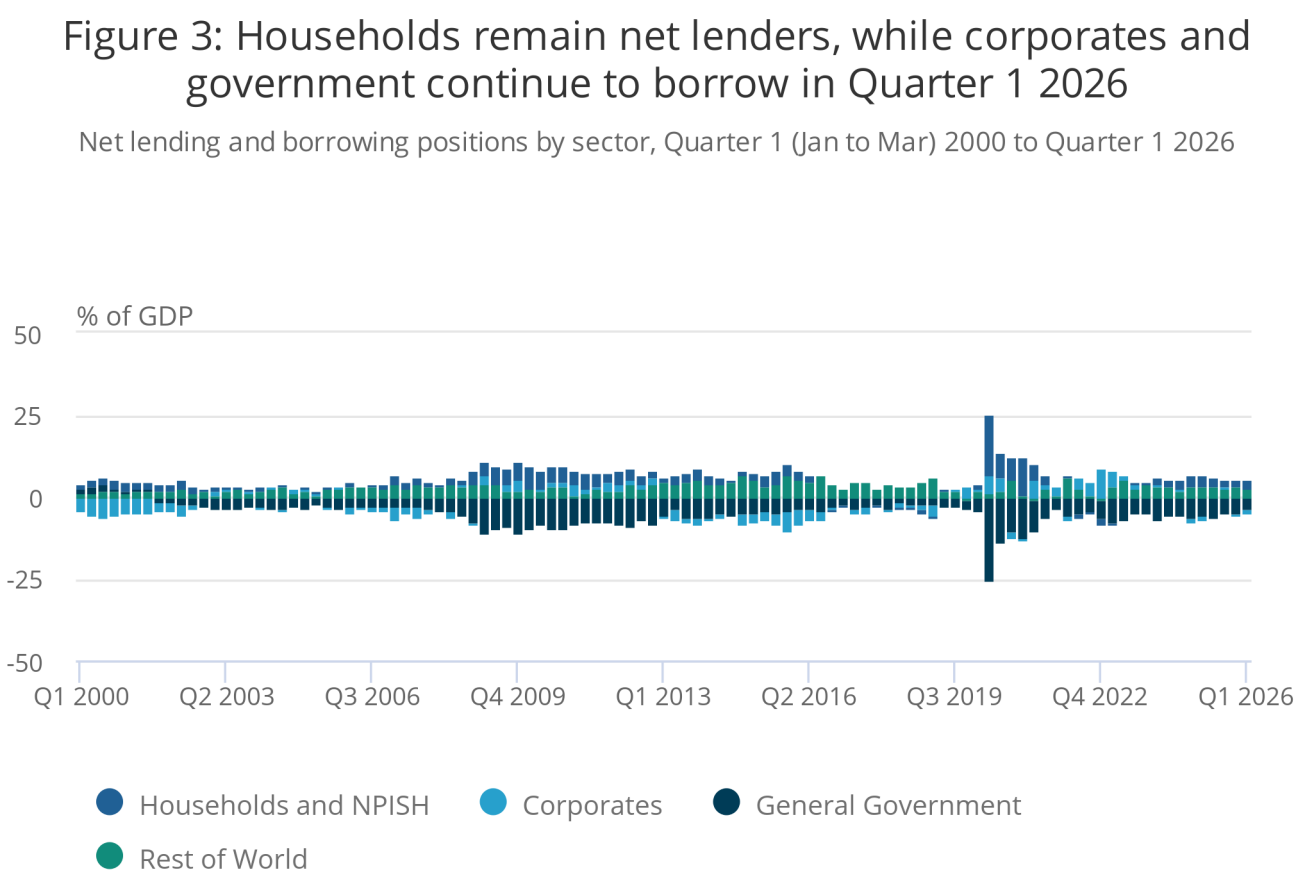
2. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

Figure 3 provides wider context on households' financial position, as measured by sector net lending and borrowing, which reflects the balance after spending and investment. The households and non-profit institutions serving households (NPISH) net lending position was 2.3% of GDP in Quarter 1 2026, which is lower than the same period a year ago. Net lending rose through 2024 and into early 2025, then eased over the rest of 2025 before picking up slightly in Quarter 1 2026.

This net lending is partly offset by borrowing in other sectors. Corporates as a whole were net borrowers in Quarter 1 2026. This was mainly driven by financial corporations, while non-financial corporations reduced their net borrowing. Government remained the largest net borrower, although its borrowing position narrowed in Quarter 1 2026, while the UK continued to borrow from the rest of the world.

Figure 3: Households remain net lenders, while corporates and government continue to borrow in Quarter 1 2026

Net lending and borrowing positions by sector, Quarter 1 (Jan to Mar) 2000 to Quarter 1 2026



Source: Economics Accounts from the Office for National Statistics

Notes:

1. Net lending (+) indicates that a sector is a net provider of funds to other sectors, while net borrowing (-) indicates that a sector requires financing from others.
2. Corporates include financial and nonfinancial corporations.
3. Households include nonprofit institutions serving households (NPISH).
4. Data are shown as a percentage of gross domestic product (GDP).
5. Q1 refers to Quarter 1 (Jan to Mar), Q2 to Quarter 2 (Apr to June), Q3 to Quarter 3 (July to Sept) and Q4 to Quarter 4 (Oct to Dec).

Business investment increased by 0.9% in Quarter 1 2026, following a 3.0% fall in Quarter 4 2025, but is 1.3% lower than a year earlier. Survey evidence from the March 2026 Bank of England Agents' summary suggests that investment intentions showed some signs of stabilising earlier in the year, with fewer reports of firms pulling back and more maintaining or undertaking replacement and efficiency-related investments. However, intentions remained broadly flat overall. More recent evidence from the April 2026 summary and June 2026 summary showed increased caution and delays to projects amid heightened uncertainty, including from the conflict in the Middle East and higher financing costs.

In the latest Business Insights and Conditions Survey, business activity remained mixed, with 25% of firms reporting falling turnover in May, which is slightly lower than in April. The share of larger firms reporting increased turnover remained broadly stable. Economic uncertainty (33%) remained the most reported challenge affecting turnover. Energy prices continued to be a concern for businesses, with around 27% citing this as a factor influencing price rises.

Global supply chain disruption affected a small number of businesses, although this has eased compared with recent peaks. Overall, the data point to continued uncertainty, alongside some weakness in business activity.

3 . Balance of Payments

The UK remained a net borrower from the rest of the world in Quarter 1 (Jan to Mar) 2026, with a current account deficit of 2.8% of gross domestic product (GDP). Excluding precious metals, the deficit was 1.9%. This is a narrowing of the deficit compared with the previous quarter, which was driven by the primary income balance and partly offset by a widening in the goods and services trade deficit.

Our Balance of payments bulletin measures the quarterly cross-border transactions between the UK and the rest of the world. In this section, we summarise these transactions on a four-quarter-moving-sum basis to provide a medium-term analysis and to remove some of the quarterly variation. With data available until Quarter 1 2026, this corresponds with the financial year.

In Quarter 2 (Apr to June) 2025 to Quarter 1 2026 (which corresponds to the financial year 2025 to 2026), the UK cumulative current account deficit, including precious metals, was 3.1% of GDP. This largely reflects the highest trade in goods deficit of any financial year on record, of around 8.3% of GDP, which was partly offset by a record trade in services surplus of 6.8%. The resulting total trade deficit of around 1.5% of GDP is the largest since the financial year 2018 to 2019.

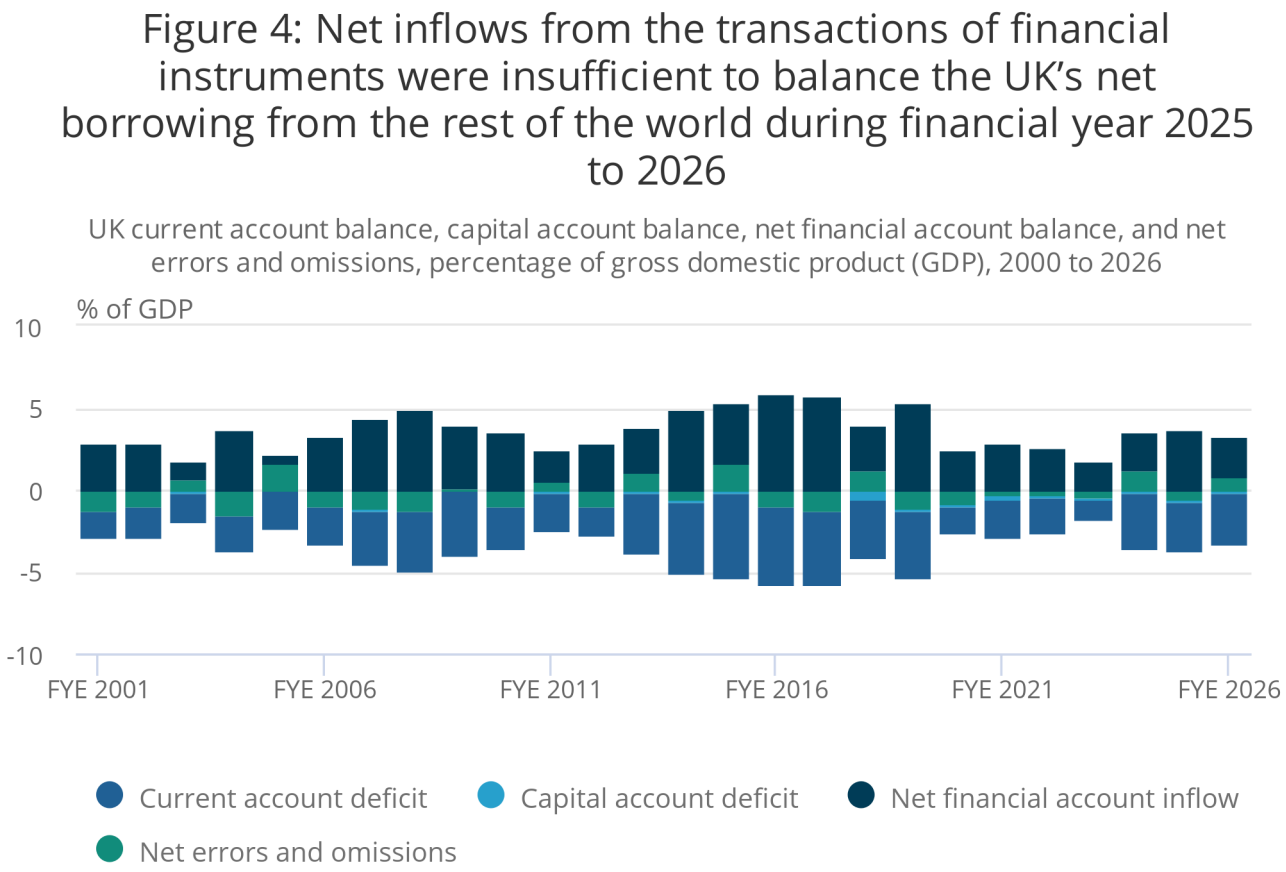
The UK is a global trading hub for precious metals and its terms of trade have been worsened by high import volumes and large increases in the prices of precious metals, especially during the financial year 2025 to 2026. Excluding precious metals, the goods trade deficit was 7.5% of GDP over this period.

The UK is also a large energy importer, and its terms of trade can be influenced by international prices of energy commodities, such as crude oil and natural gas. These prices have risen following the renewed conflict in the Middle East. As an important product of intermediate consumption, this effect on the UK's terms of trade might further impact the net trade in other industries that are reliant on energy commodities as an input for production. The impact of global energy price increases on the UK's net trade position as a result of producer input price inflation was recently noted by The Organisation for Economic Co-operation and Development (OECD) in their Economic Outlook, Volume 2026 Issue 1.

As net borrower from the rest of the world, the UK needs to finance its current account deficits through net inflows on its financial and capital accounts. Figure 4 shows that the slight increase in the current account deficit during financial year 2025 to 2026 continued to be financed mainly by net financial account inflows, although these have fallen as a share of GDP compared with the previous year, from approximately 3.7% to 2.5%. To account fully for the UK's net borrowing from the rest of the world, net errors and omissions increased as a balancing item from negative 0.6% to 0.8% of GDP.

Figure 4: Net inflows from the transactions of financial instruments were insufficient to balance the UK's net borrowing from the rest of the world during financial year 2025 to 2026

UK current account balance, capital account balance, net financial account balance, and net errors and omissions, percentage of gross domestic product (GDP), 2000 to 2026



Source: Balance of payments from the Office for National Statistics

Notes:

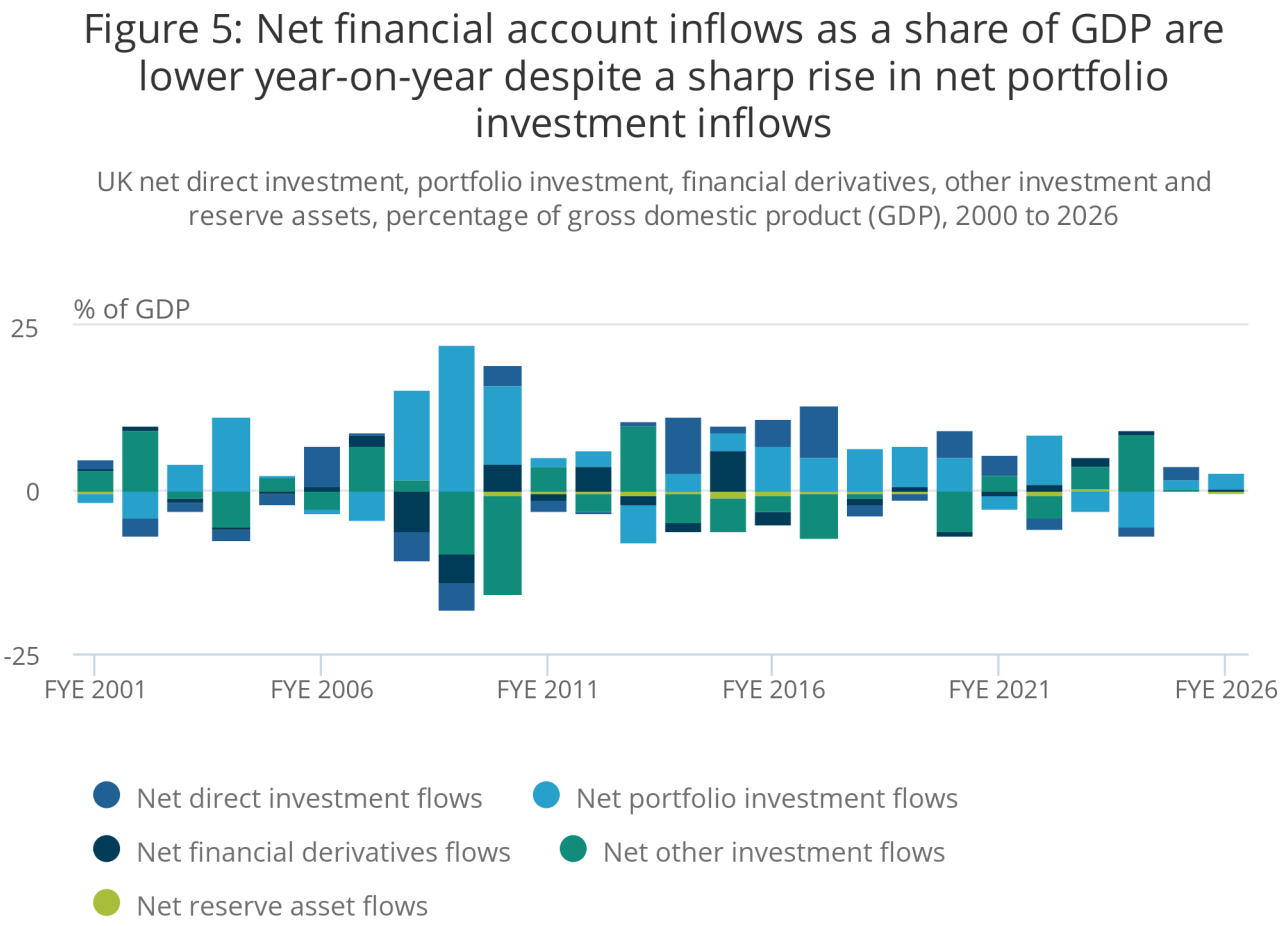
1. The current account balance, capital account balance, net financial account balance, net errors and omissions, and GDP measures are all non-seasonally adjusted and in current prices. The current account balance includes precious metals.

Figure 5 breaks down the flows that contributed to the reduction in net total measured financial account inflows during the 2025 to 2026 financial year, as shown in Figure 4. The largest contributor was net direct investment, which moved from a net inflow of around 1.9% of GDP in financial year 2024 to 2025 to around 0.1% of GDP in financial year 2025 to 2026.

This was partly offset by an increase in net portfolio investment inflows from 1.4% to 2.3% of GDP between the 2024 to 2025, and 2025 to 2026 financial years. These international financial flows were incentivised by higher yields on UK bonds, and strong equity performance.

Figure 5: Net financial account inflows as a share of GDP are lower year-on-year despite a sharp rise in net portfolio investment inflows

UK net direct investment, portfolio investment, financial derivatives, other investment and reserve assets, percentage of gross domestic product (GDP), 2000 to 2026



Source: Balance of payments from the Office for National Statistics

Notes:

1. The financial account components and GDP measures are all non-seasonally adjusted.

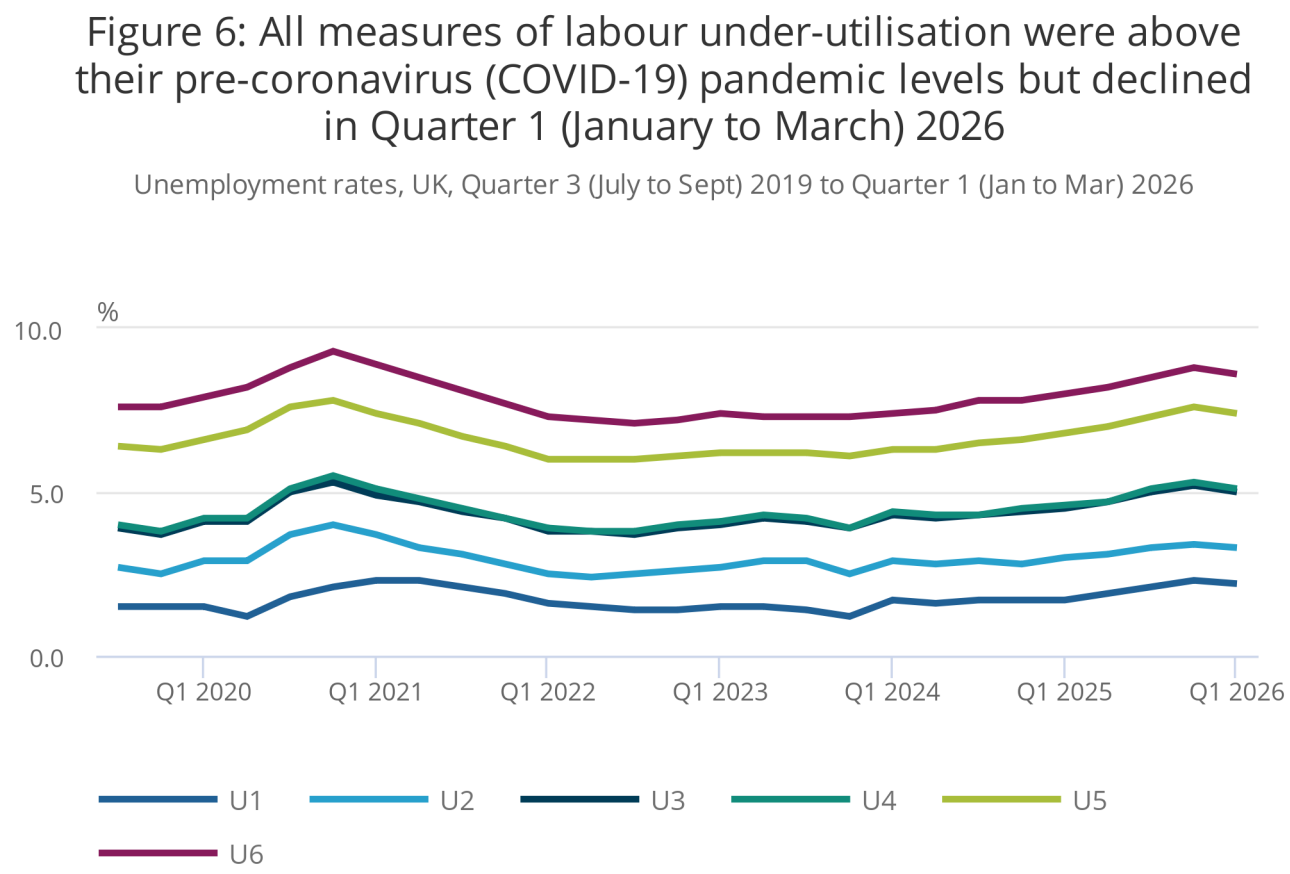
4 . Labour Market

Early estimates show there was a 0.4% fall in payrolled employment in the 12 months to May 2026, while the unemployment rate was 4.9% in the period from February to April 2026 (higher than a year earlier). The number of vacancies has fallen in recent periods, while the ratio of unemployed people to vacancies remained at 2.5 in February to April 2026. This ratio was last higher, excluding the coronavirus (COVID-19) pandemic, in the period December 2014 to February 2015. For more information, see our Vacancies and jobs in the UK: June 2026 bulletin.

Broader measures of labour market availability declined in the first quarter of 2026, following an upward trend since the end of 2023. Despite this fall, they remain above their pre-pandemic levels (Figure 6). For more information on labour market availability measures, see our Alternative measures of underutilisation in the UK labour market article.

Figure 6: All measures of labour under-utilisation were above their pre-coronavirus (COVID-19) pandemic levels but declined in Quarter 1 (January to March) 2026

Unemployment rates, UK, Quarter 3 (July to Sept) 2019 to Quarter 1 (Jan to Mar) 2026



Source: Labour Force Survey from the Office for National Statistics

Notes:

1. U3 refers to the headline unemployment rate.

2. Narrower measures (U1 and U2) reflect that unemployment can be harder for some groups than for others, and the implications of this. For example, it can be more challenging for those who are long-term unemployed and those who were previously employed, rather than for a new entrant to the labour market.

3. Broader measures (U4, U5, and U6) reflect that official unemployment figures may understate the full extent of labour availability (for example, by excluding inactive persons who want a job and those in employment who are working fewer hours than desired).

External labour market indicators point to reduced recruitment activity. According to the latest Bank of England Monthly Decision Maker Panel, mean realised employment fell by 0.4% in the three months to May 2026, compared with a year earlier. The latest KMPG and REC Report on Jobs reported a further decline in permanent placements, with May seeing the sharpest fall in ten months.

Labour market slack continues to affect regular pay growth. Average weekly earnings for regular pay (excluding bonuses) has eased to 3.4% in the 12 months to February to April 2026, which is the lowest rate since August to October 2020. This easing was largely driven by private sector regular pay growth, which slowed to 2.9% over the same period. Broader pay indicators show a similar trend. Pay settlements for 2026 are below last year's levels, averaging approximately 3.5%, according to the Bank of England's latest Agents' summary of business conditions. More information is available in our Average weekly earnings in Great Britain: June 2026 bulletin.

5 . Prices

Headline consumer price inflation (CPI) was 2.8% in May, while core inflation (excluding energy, food, alcohol and tobacco) was 2.6%. Headline and core inflation declined since the start of the year amid easing domestic pressures, bringing core inflation within the range of other G7 members (Table 1).

Table 1: UK core inflation is now within the range of other G7 members
Core inflation, G7 group of countries, December 2025 to May 2026

	Canada	France	Germany	Italy	UK	US	Japan
December	2.8	1.4	2.2	1.7	3.2	2.6	1.6
January	3.0	0.8	2.4	1.7	3.1	2.5	1.5
February	2.3	1.1	2.3	2.6	3.2	2.5	1.5
March	1.9	1.1	2.5	2.0	3.1	2.6	1.6
April	1.3	1.1	2.3	1.6	2.5	2.8	1.1
May	1.4	1.3	2.5	2.0	2.6	2.9	1.1

Source: National measures of consumer price indices from the Organisation for Economic Co-operation and Development, Consumer price inflation from the Office for National Statistics

Notes

1. Core inflation in the UK is based on the Consumer Prices Index (CPI) excluding energy, food, alcohol and tobacco. Core inflation in the United States is based on CPI excluding food and energy as reported by the US Bureau of Labor Statistics (BLS).

2. Figures for other countries are based on the national measures of consumer price indices, excluding energy and food, as reported by the Organisation for Economic Cooperation and Development (OECD).

3. Data as of 29 June 2026.

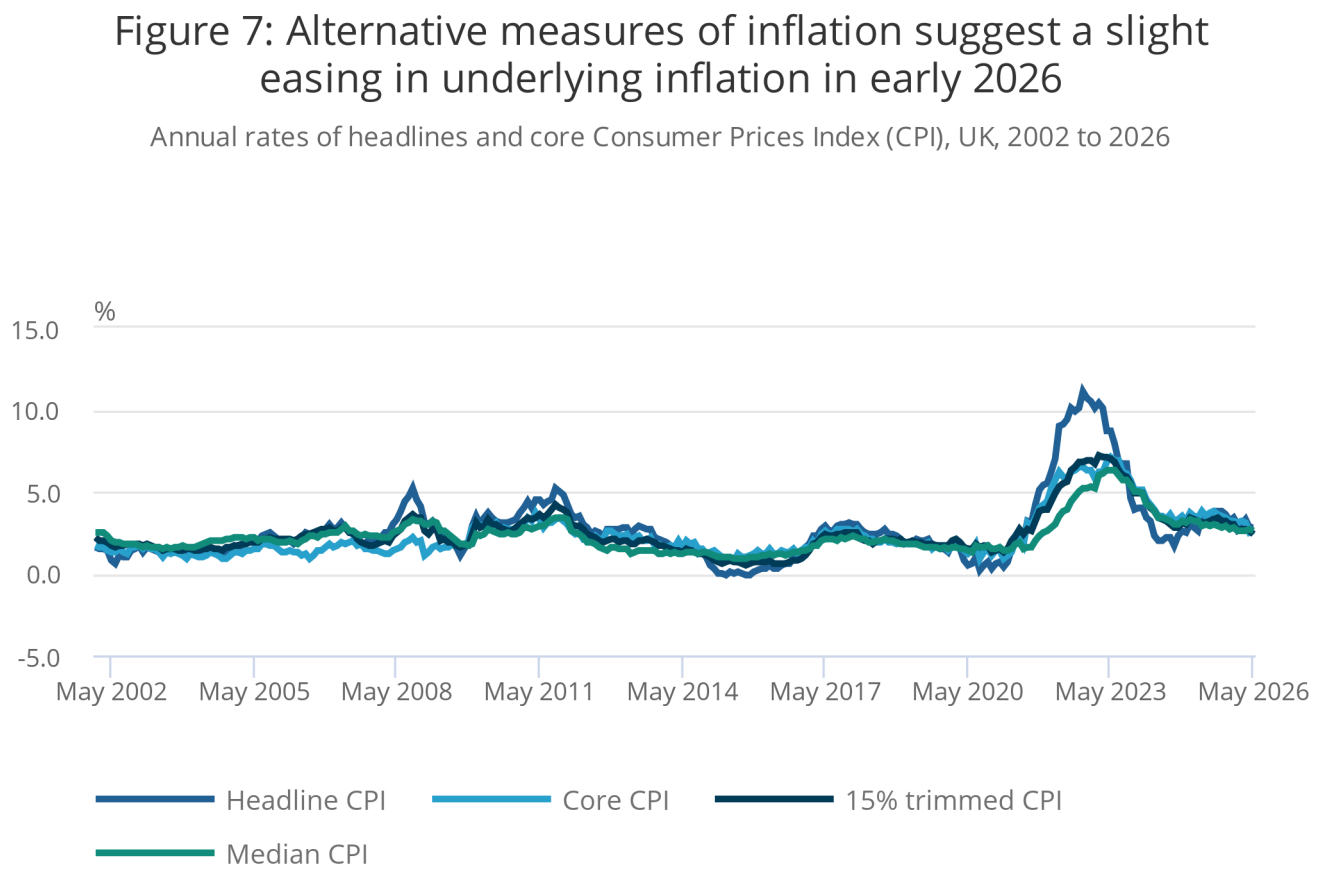
This decline in core inflation was mainly driven by services prices, where the slowing pace of wage growth is a potential factor. Previous increases in wages had put upward pressure on inflation, with a stronger effect in services because they are more labour intensive. This effect has eased over the past year, helping to keep core inflation lower than previously.

However, evidence from our Business insights and impact on the UK economy: May 2026 bulletin suggests labour costs remain a concern for firms, as 66% of businesses reported rising staffing costs over the previous three months, while 54% reported increases in wages in April compared with March. This partly reflects the April minimum wage rise. In response, around 44% of firms reported that they would raise prices, while 38% reported they would absorb costs within margins, and 23% reported that they would reduce employment.

Alternative measures of core inflation, derived from published CPI data using Office for National Statistics (ONS) calculations, also point to some easing in underlying price pressures in recent months. The 15% trimmed mean CPI declined to 2.4% in May (whereas it was over 3% for most of last year) while the median measure was 2.6% (Figure 7). These measures exclude the most volatile price movements and therefore provide a more stable indication of underlying inflation trends, pointing to some gradual easing in core inflation. These alternative measures are discussed in our New estimates of core inflation, UK: 2022 article.

Figure 7: Alternative measures of inflation suggest a slight easing in underlying inflation in early 2026

Annual rates of headlines and core Consumer Prices Index (CPI), UK, 2002 to 2026



Source: Consumer price inflation from the Office for National Statistics

Energy price inflation has increased since the conflict in the Middle East has intensified, mainly driven by transport fuel prices (petrol and diesel) and household heating oil. Utility prices (gas and electricity) will also increase with a time lag, as the Ofgem price cap for Quarter 3 (July to Sept) increases in July. So far, utility prices have had a dampening effect on headline inflation, as the Ofgem price cap was reduced for Quarter 2 (Apr to June), because of previous falls in wholesale gas prices and the change in government policy to reduce energy bills.

The Inflation Attitudes survey from the Bank of England and Ipsos showed that measures of inflation expectations have risen following the increase in energy prices, especially for households, where median expectations for inflation in the coming year increased to 4% in May. Firms' inflation expectations have also risen. One-year-ahead CPI expectations of firms responding to the Bank of England Monthly Decision Maker Panel Survey increased to 3.7% in the three months to May.

Food inflation has been lower in the past few months, which is partly because of large upward movements last year. Food prices are sensitive to movements in energy and transport costs, meaning the conflict in the Middle East may influence price pressures.

6 . Public Sector Finances

Public sector net borrowing for financial year ending March 2026 was £128.0 billion, £23.5 billion lower (15.5%) than the previous financial year. The current budget deficit fell by £29.3 billion (38.4%) to £47.1 billion, supported by strong financial-year central-government current receipts, which were £89.0 billion (8.6%) above the previous financial year. The main contributors included:

- a £32.6 billion (18.7%) rise in compulsory social contributions following the employer National Insurance rate increase
- £18.4 billion (7.0%) more in Pay As You Earn (PAYE) income tax, as fiscal drag moved more taxpayers into higher bands
- a £10.6 billion (77.5%) increase in capital gains tax (CGT) receipts (the highest on record is £24.3 billion)

The March 2026 Economic and Fiscal Outlook from the Office for Budget Responsibility (OBR) attributed these increases to investors increasing their disposal of assets in the 2024 to 2025 financial year, ahead of rate increases. The Capital Gains Tax (CGT) on these disposals was mainly paid in the 2025 to 2026 tax year. The resulting self-assessment tax on those disposals was due in January 2026, falling within financial year ending March 2026, which explains why the surge is recorded in this financial year rather than the year in which the disposals took place.

Central government current expenditure reached £1,093.9 billion, with increases in expenditure on public sector pay of £17.1 billion (8.1%) and interest payments of £11.6 billion (13.5%). Social assistance expenditure and National Insurance Fund benefits also increased by £11.4 billion (7.1%) and £10.3 billion (7%), respectively, compared with the previous financial year, with increases in the state pension and working-age benefits from April 2025.

Debt servicing costs were also elevated by the UK's comparatively high exposure to index-linked gilts, which accounted for around 25% of its debt portfolio. Further information is available in the 2026 to 2027 Debt Management Report from HM Treasury (PDF, 569KB). Higher Retail Price Index inflation contributed directly to interest payments throughout the year.

While public sector net borrowing (PSNB) measures the flow of government spending and receipts over a financial year, public sector net debt excluding public sector banks (PSND ex) measures the total stock of accumulated debt at a point in time. Crucially, the change in PSND ex is not always equal to net borrowing, as balance sheet transactions, asset sales and reclassifications can also move the debt stock independently of the deficit.

Figure 8 decomposes the annual change in PSND ex into three components to show the relative importance of each driver.

1. The deficit, or net borrowing (PSNB ex) accrued during the financial year, reflecting the gap between government expenditure and receipts.

2. Additional cash requirements that fall due from the public sector beyond net borrowing during the financial year. This is the difference between public sector net borrowing (PSNB) and the public sector net cash requirement (PSNCR), arising from the purchase and sale of illiquid financial assets, timing adjustments as borrowing is measured on an accruals basis, and other financial transactions. The sale of government shareholdings in public sector banks acquired during the financial crisis has been a notable contributor to negative cash requirements since 2011.

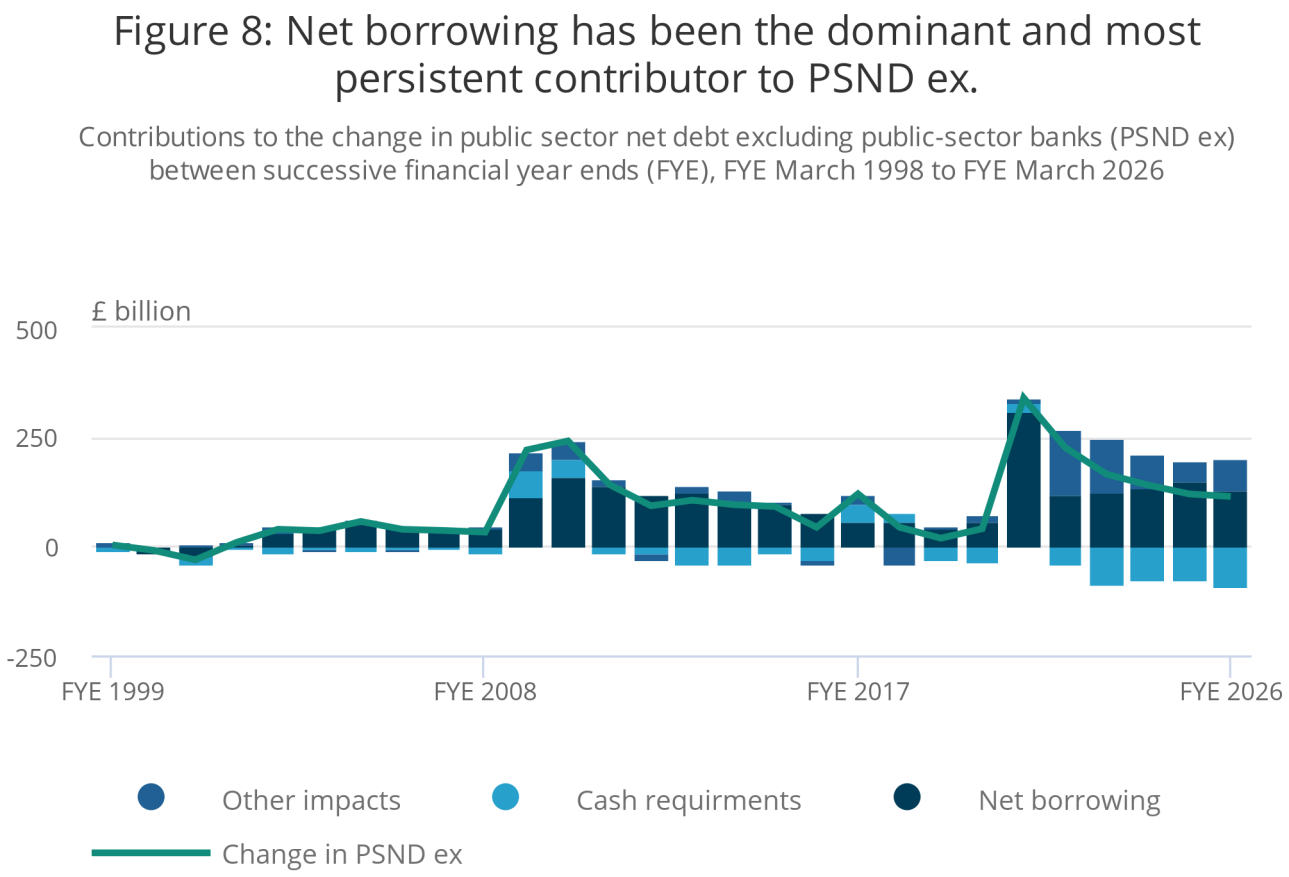
3. Other one-off factors, that include reclassifications but also other impacts such as revaluation of existing assets and liabilities on the government's balance sheet.

From the 2021 to 2022 financial year, the additional cash requirements have been negative. This means that cash has been raised that has partly offset the accumulation of net deficits. This primarily reflects the Bank of England's ongoing quantitative tightening (QT) programme, through which the Monetary Policy Committee (MPC) has been reducing the stock of gilts held in the Asset Purchase Facility (APF), through a combination of active sales and gilt maturities. When the APF sells gilts, the cash proceeds flow back to the public sector, directly reducing the public sector net cash requirement (PSNCR) and therefore the cash requirements component of the change in PSND ex.

The "other impacts" component was positive at £74.8 billion in financial year 2025 to 2026, adding to the change in PSND ex. The capital uplift on index-linked gilts, where the gilt principal rises in line with RPI, increases PSND ex as a balance sheet liability without flowing through borrowing. With RPI averaging 4.2% in financial year 2025 to 2026 (up from 3.3% in the previous financial year, as shown in our RPI time series) this increase was statistically significant. In addition, central government made payments of £16.7 billion to the Bank of England Asset Purchase Facility (APF) in the financial year ending March 2026, which were recorded as balance sheet transactions rather than borrowing. This contributed to movements in PSND ex that fall outside both the net borrowing and cash requirements components. Further information is available in our Public sector finances, UK bulletin.

Figure 8: Net borrowing has been the dominant and most persistent contributor to PSND ex.

Contributions to the change in public sector net debt excluding public-sector banks (PSND ex) between successive financial year ends (FYE), FYE March 1998 to FYE March 2026



Source: Public Sector Finances from the Office for National Statistics

More recently, public sector net borrowing was £46.3 billion in the first two months of the financial year 2026 to 2027 (April and May), while public sector net debt was provisionally estimated at 95.1% of gross domestic product (GDP) at the end of May 2026. This was an £8.9 billion (23.9%) increase in net borrowing compared with the financial year to May 2025, and £7.7 billion more than the £38.6 billion forecast by the Office for Budget Responsibility.

[GDP quarterly national accounts, UK: January to March 2026]
Bulletin | Released 30 June 2026
Revised quarterly estimate of gross domestic product (GDP) for the UK. Uses additional data to provide a more precise indication of economic growth than the first estimate.

[Balance of payments, UK: January to March 202]
Bulletin | Released 30 June 2026
A measure of cross-border transactions between the UK and rest of the world. Includes trade, income, capital transfers and foreign assets and liabilities.

[Public sector finances, UK: May 2026]
Bulletin | Released 19 June 2026
How the relationship between UK public sector monthly income and expenditure leads to changes in deficit and debt.

[Labour market overview, UK: June 2026]
Bulletin | Released 18 June 2026
Estimates of employment, unemployment, economic inactivity, and other employment-related statistics for the UK.

[Consumer price inflation, UK: May 2026]
Bulletin | Released 17 June 2026
Price indices, percentage changes, and weights for the different measures of consumer price inflation.