United Kingdom Economic Outlook, Q4 2026

Global Strategy Files, October 31, 2026

1. Verdict: an oil shock the Bank of England must lean against, not a wage spiral

The United Kingdom is facing an energy-price shock, not a pay-price spiral, and the Bank of England will hike in November and probably once more in February, but stop short of what markets price. CPI inflation is 3.5% (core 2.8%) and we expect it to peak near 4.1% in the first quarter of 2027, then fall to about 2.5% by the fourth quarter of 2027 if oil eases along our scenario path (Brent near USD 91 by the end of 2027; the lower path of the US Energy Information Administration would give about 2.4%). Total pay growth has slowed to 3.7% (the lowest since 2020), private regular pay is 3.0% and unemployment is 4.7%, so the second-round risk is real but not yet visible in the data. Growth is holding up (+0.5% in the second quarter, +0.53% nowcast for the third), but the base is narrow, and 10-year gilts at 5.29% with debt at 94.0% of GDP make every extra point of rates or oil expensive for the public finances.

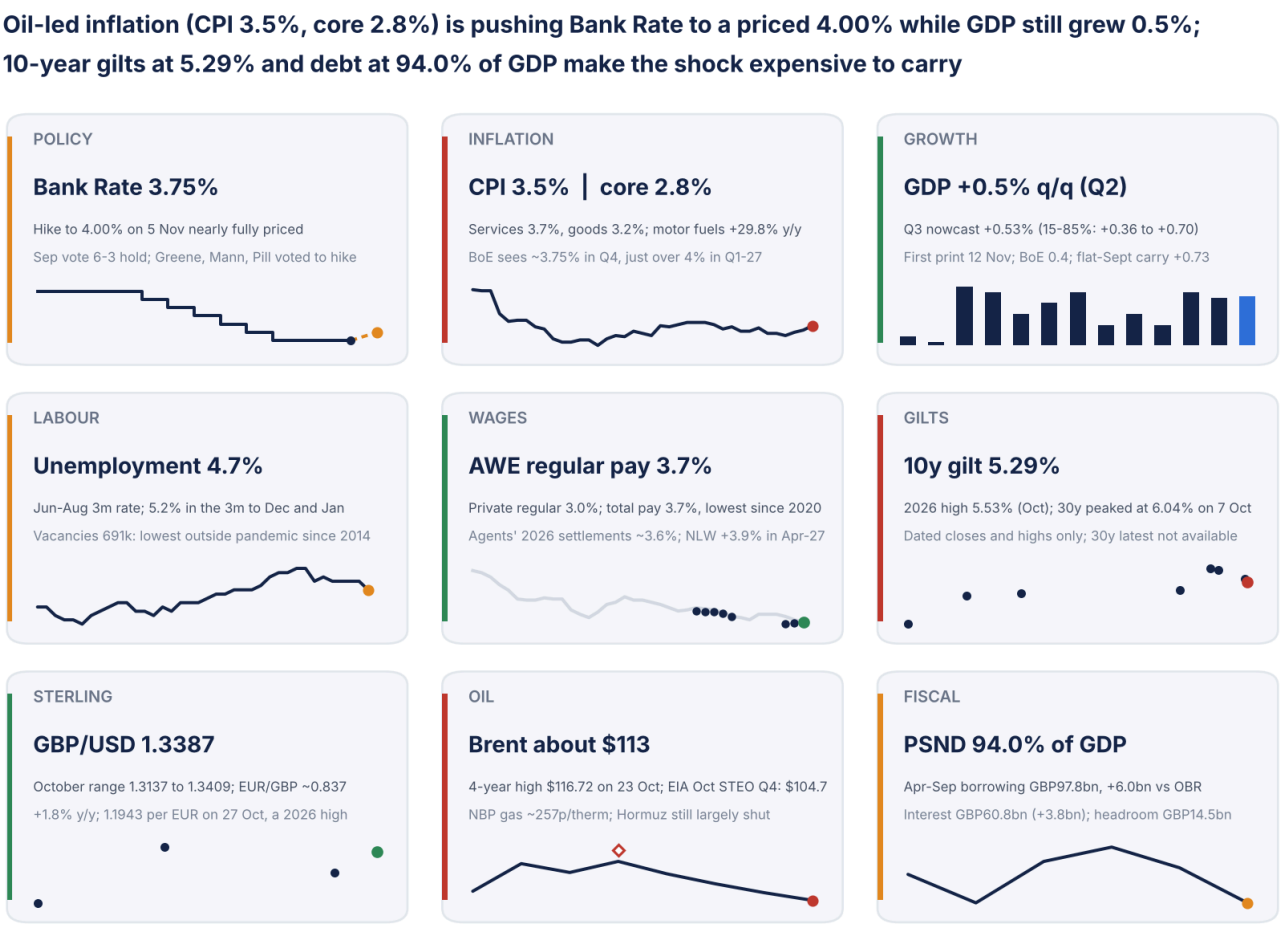


Figure 1. Cockpit of nine indicators, data to 30 October 2026. The November hike was nearly fully priced on 30 October; our sources show 93% to 99% between 19 and 26 October, with no exact figure for 30 October. Public sector net debt of 94.0% of GDP is the ONS measure and differs from the OBR's 96% basis. Brent and UK gas carry source conflicts of about USD 1 and 2 pence. The gilt, sterling and oil sparklines are dated observations, not continuous series. The Q3 nowcast and the debt baseline are model outputs; our 90% hike probability is a judgment.

Our five calls

1. **Inflation peaks in early 2027 and then falls, because the cause is energy.** The median path is 3.55% in Q4 2026, 4.1% in Q1 2027 (15th to 85th percentile 3.7% to 4.7%) and 2.5% in Q4 2027 (1.8% to 3.9%). Calendar-2027 CPI averages 3.45%, close to the OBR's 3.4%, though that closeness depends on how we treat an unexplained gap in household energy prices (3.8% if the gap is held constant). Core inflation stays between 2.4% and 2.8%.

2. **Bank Rate rises to 4.00% on 5 November and peaks near 4.25%.** We put the probability of the November hike at 90% (a judgment; the market treats it as nearly certain and our vote model gives 79%). We see a final rate of 4.25%, below the 4.5% to 4.6% the market has priced, because private regular pay is only 3.0% and we expect unemployment to drift up toward 5%.
3. **Growth is about 1.4% in 2026 and 1.2% in 2027, above the OBR (1.2% and 1.0%).** Even flat output from the third quarter would give 1.4% for 2026 because of carry-over from the strong first half. Unemployment drifts from 4.7% to about 5.1% by the end of 2027.
4. **The fiscal margin is thin.** Headroom against the OBR's fiscal rule is GBP 14.5 billion, which a rise of about 89 basis points in gilt yields would erase on our calibration (about 120 basis points if the OBR's GBP 16 billion cost per 100 basis points refers to 2030-31 rather than 2029-30). Debt interest was GBP 60.8 billion in April to September, GBP 3.8 billion above the OBR's forecast.
5. **The larger risk is to inflation and rates, but growth is exposed too.** The scenario median for CPI in Q4 2027 ranges from 1.8% (de-escalation) to 4.0% (energy persists with second-round effects), while median GDP growth in 2027 ranges from 0.6% to 1.6% and the chance of a contraction is 11% in scenario B and 20% in scenario D.

Table 1. Forecast summary (medians; ranges are the 15th to 85th percentile of the scenario-weighted distribution unless stated)

Indicator	Latest	End-2026	End-2027	Range or reference
Real GDP growth, calendar year (%)	1.2 (2025, published)	1.4	1.2	2026: 1.2 to 1.7; 2027: 0.4 to 2.0. OBR 1.2 and 1.0
GDP, Q3 2026 q/q (%)	0.5 (Q2)	+0.53	n/a	0.36 to 0.70. First print 12 November; BoE staff 0.4
CPI inflation y/y, Q4 (%)	3.5 (September)	3.55	2.5	2026: 3.4 to 3.8; 2027: 1.8 to 3.9. HM Treasury survey 3.6 and 2.5
CPI inflation, calendar-year average (%)	n/a	3.1	3.45	2027: 2.8 to 4.5. OBR 3.1 and 3.4
Core CPI y/y, Q4 (%)	2.8 (September)	2.8	2.4	Pooled scenario median
Unemployment rate, Q4 (%)	4.7 (Jun-Aug)	4.9	5.1	Scenario spread for end-2027: 5.0 to 5.3

Indicator	Latest	End-2026	End-2027	Range or reference
Bank Rate (%)	3.75	4.00	4.25	Scenario inputs, not model outputs: 3.25 to 4.75 at end-2027
10-year gilt yield (%)	5.29 (30 October)	about 5.2	4.8	Scenario inputs: 4.3 to 5.7 at end-2027
Public sector net debt (% of GDP)	94.0 (September)	n/a	about 94	Baseline peaks near 94.6%; headroom GBP 14.5 billion
Brent crude (USD a barrel)	about 113	about 111	about 91	Scenario inputs. EIA October outlook: 105 and 74

What would change the call

- **Toward lower inflation and an earlier pause (our de-escalation scenario, 25%):** a lasting reopening of the Strait of Hormuz and Brent falling below about USD 85 (our de-escalation path is USD 100 in Q4 2026 and USD 75 by end-2027). CPI would end 2027 near 1.8%, Bank Rate would peak at 4.00% and be cut to about 3.5% by the end of 2027.
- **Toward higher inflation and a longer hiking cycle (energy persists, 20%):** services inflation at 4.0% or more together with private regular pay at 3.5% or more, while oil stays high (or Brent above USD 125 for a quarter). CPI would stay above 4% through most of 2027 and Bank Rate would reach 4.75%.
- **Toward weaker growth (escalation with a global slowdown, 10%):** a further oil spike combined with weaker external demand. Calendar-2027 growth would fall to about 0.6% and unemployment would pass 5.3%.
- **The dated tests** are the 5 November MPC vote and guidance, the 12 November first print of third-quarter GDP, and the 18 November CPI for October. Section 9 lists the full calendar.

Scenario weights are our judgment, and the Bank Rate, gilt-yield and oil paths are inputs, not model outputs (section 10).

END OF THE FREE PREVIEW

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