

Article

# Quarterly economic commentary: October to December 2025

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

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# 1 . Main points

- The UK economy increased slightly in Quarter 4 (Oct to Dec) 2025, with real gross domestic product (GDP) growing by 0.1%.
- The UK was a net borrower from the rest of the world in Quarter 4, with a current account deficit of 2.4% of GDP. Excluding precious metals, this deficit was 1.1%.
- Several indicators point to a flattening in the labour market; the unemployment rate remained at 5.2% in the three months to January, while the ratio of unemployed people to vacancies remained at 2.6 over the same period.
- UK consumer price inflation (CPI) was 3.0% in the year to February 2026, while annual growth in regular pay eased to 3.8% in the three months to January 2026.

## 2 . National accounts

The UK economy slowed in 2025. Real gross domestic product (GDP) increased by 0.1% in Quarter 4 (Oct to Dec) 2025. This leaves UK real GDP 1.0% higher compared with a year ago, which is its slowest annual increase since early 2024. Real GDP per head is a proxy measure of economic welfare. It fell by 0.1% in Quarter 4 2025, following no change in Quarter 3 (Figure 1). This leaves real GDP per head 0.6% higher compared with a year ago.

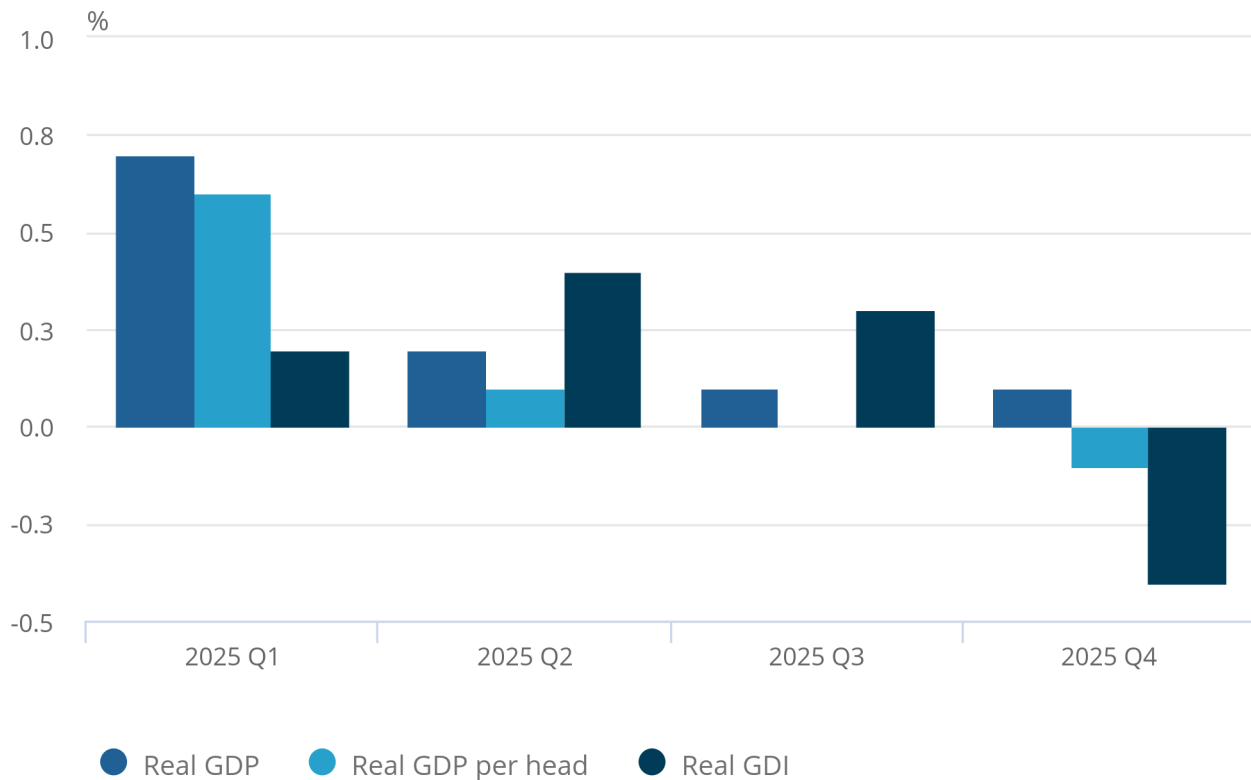
Real gross domestic income (GDI) measures the purchasing power of UK output over goods and services in global markets. It declined by 0.4% in Quarter 4 2025 as import prices outpaced export prices, weighing on the UK's terms of trade. The recent increase in international crude oil and wholesale gas prices following the escalation of the conflict in the Middle East is another headwind to UK's terms of trade in 2026. This is because the UK is a net importer of energy products.

## Figure 1: Real GDP increased slightly in Quarter 4, while real GDP per head and real GDI fell

Quarterly changes in real gross domestic product (GDP) and gross domestic income (GDI), 2025

### Figure 1: Real GDP increased slightly in Quarter 4, while real GDP per head and real GDI fell

Quarterly changes in real gross domestic product (GDP) and gross domestic income (GDI), 2025



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. Figures for Quarter 1 2025 are based on an interpolation between the mid-2024 estimate and the provisional mid-2025 estimate published on 27 November 2025. For Quarter 2 2025, the population figure is based on the provisional mid-2025 estimate. The population figure for Quarter 3 2025 is based on an interpolation between UK 2022-based population projections for mid-2026 (as published on 28 January 2025). This is using the migration category variant and the mid-2025 provisional UK population estimate.

More recent monthly GDP data indicated that the economy grew by 0.2% in the three months to January 2026, where services output grew by 0.2%, production output increased by 1.3%, and construction output fell by 2.0%. For more information, please see our [GDP monthly estimate. UK: January 2026](#) bulletin.

The median estimate from HM Treasury's survey of [Forecasts for the UK Economy: March 2026](#) shows that expectations are for the UK economy to pick up in Quarter 1 (Jan to Mar) 2026. However, the outlook for the remainder of the year has become much more uncertain, as higher energy prices are expected to put upward pressure on inflation and squeeze real incomes.

In our latest [Business insights and impact on the UK economy survey](#), economic uncertainty remained the most reported challenge affecting turnover for trading businesses, and it edged higher in March. The share of businesses reporting that they are considering increasing their prices because of higher energy costs also increased. Businesses further reported labour costs and material costs as important headwinds to turnover, and potential reasons to increase prices. These trends may weigh on firms' investment spending and employment demand in the period ahead. Private non-financial corporations (PNFCs) have already increased their saving and reduced their net borrowing in 2025, compared with the year prior.

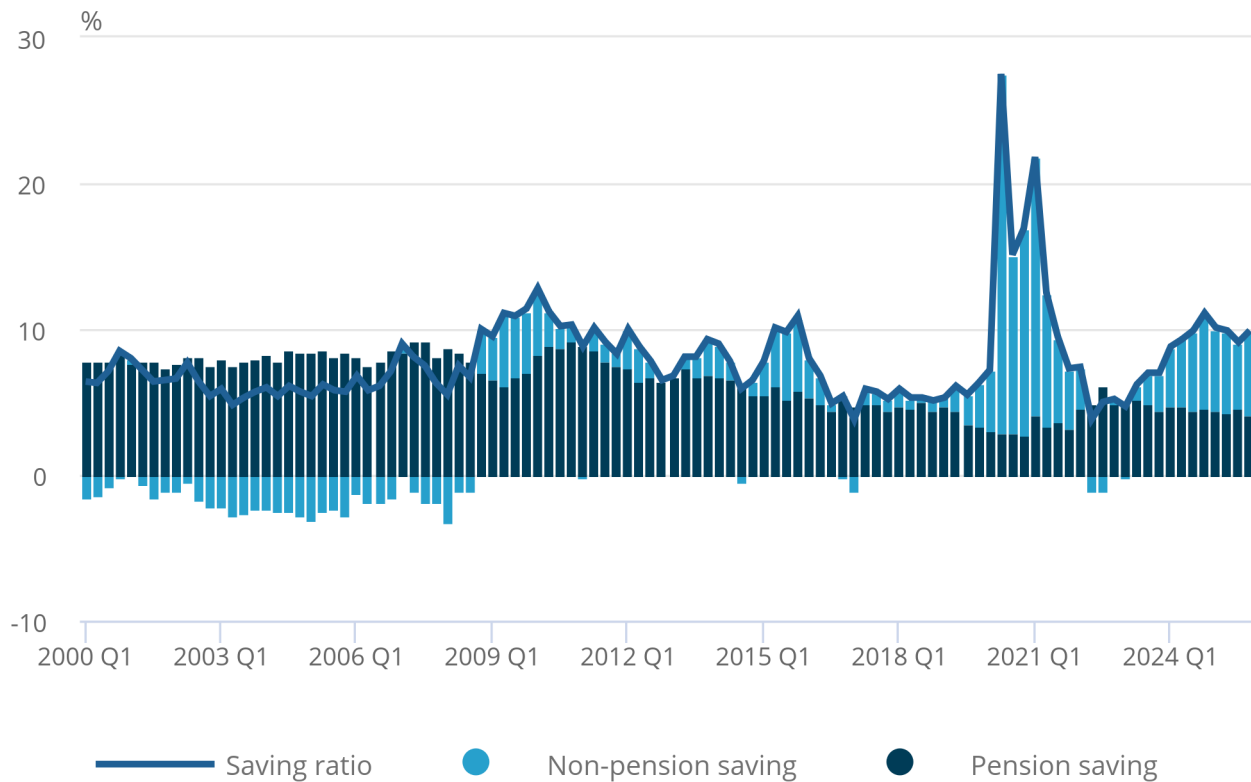
Higher inflation and a weaker employment outlook would be headwinds to household spending. Households have so far used previous increases in their real incomes to increase their saving ratio, which remained high by historical standards at 9.9% in Quarter 4 2025 (Figure 2). The volume of consumption increased slowly, by 0.1% in Quarter 4, and it is up by 0.4% compared with a year ago. Households might use some of their savings to smooth consumption amidst headwinds from higher energy prices, although this will not be feasible for all households, and the impact will vary by income distribution. More information about the household saving ratio is available in our [Households' finances and saving, UK: 2020 to 2024](#) article.

**Figure 2: The household saving ratio remained high by historical standards in 2025**

Household saving ratio, UK, 2000 to 2025

## Figure 2: The household saving ratio remained high by historical standards in 2025

Household saving ratio, UK, 2000 to 2025



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).

### 3 . Balance of payments

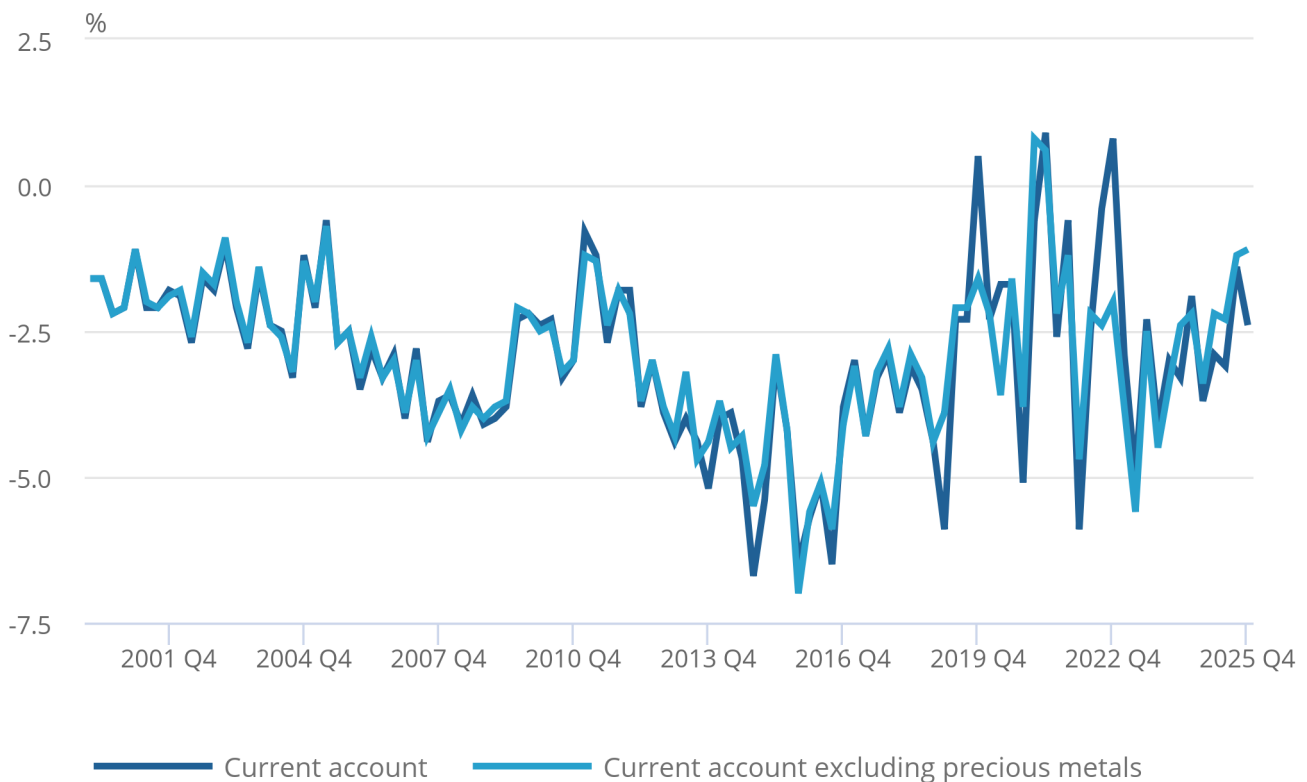
The UK was a net borrower from the rest of the world in Quarter 4 (Oct to Dec) 2025. The current account deficit, including precious metals, widened to 2.4% of GDP (Figure 3). Excluding precious metals, the underlying current account deficit was 1.1% of GDP, where the difference reflects a sharp increase in the value of precious metal imports and a fall in exports compared with Quarter 3 2025.

**Figure 3: The UK's current account deficit widened to 2.4% in Quarter 4 2025; excluding precious metals, this deficit narrowed to 1.1%**

Balance of payments current accounts, UK, Quarter 1 (Jan to Mar) 2000 to Quarter 4 (Oct to Dec) 2025

Figure 3: The UK's current account deficit widened to 2.4% in Quarter 4 2025; excluding precious metals, this deficit narrowed to 1.1%

Balance of payments current accounts, UK, Quarter 1 (Jan to Mar) 2000 to Quarter 4 (Oct to Dec) 2025



Source: Balance of payments from the Office for National Statistics

Notes:

1. The current account, excluding precious metals, is often used as an underlying measure. This is because movements in non-monetary gold, an important component of precious metals, can sometimes be large and highly volatile, distorting underlying trends in goods trade.

The widening of the current account deficit was led by an increase in imports of precious metals from £2.6 billion in Quarter 3 2025, to £10.1 billion in Quarter 4. Looking ahead, as a net energy importer, the recent increase in energy prices risks worsening the UK's trade balance in 2026 by raising the cost of imported gas, electricity and liquid fuels. This would increase the value of energy imports relative to the UK's exports, leading to a deterioration in the terms of trade.

Primary income flows also contributed to widening the UK current account deficit in Quarter 4 2025. This mainly reflected a decrease in earnings on UK residents' direct investments abroad, alongside higher foreign earnings on direct investment in the UK.

In financing the UK's net borrowing from the rest of the world, there was a net financial inflow into the UK in Quarter 4 2025. However, this was smaller than in Quarter 3 2025. Sharp quarter-on-quarter increases in net equity and investment fund share inflows were offset by a change to net outflows for other investment. These overall net financial inflows contributed to a £48 billion increase in the UK's net international investment liability position to £199.8 billion in Quarter 4 2025.

## 4 . Labour market

Labour market conditions saw little change at the start of the year. The unemployment rate was 5.2% in the period from November to January 2026, which was the same rate reported last month but up on the quarter and year. However, broader measures of labour market availability have been increasing since the end of 2023 and are above their pre-coronavirus (COVID-19) pandemic levels (see Figure 4). For more information on labour market availability measures, see our [Alternative measures of underutilisation in the UK labour market article](#).

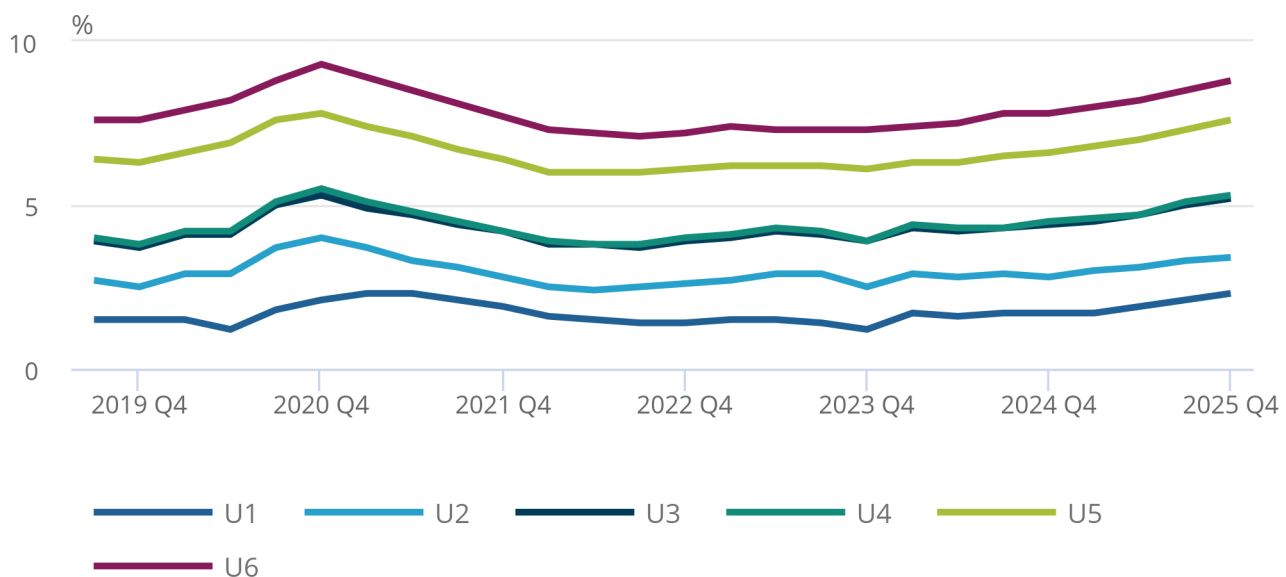
The ratio of unemployed people to vacancies remained at 2.6 in November to January 2026, unchanged from last month. This is the highest level (excluding the pandemic) since the period November 2014 to January 2015. For more information, see our [Vacancies and jobs in the UK: March 2026 bulletin](#). The number of vacancies and the number of payrolled employees (PAYE) remained broadly flat across recent periods, compared with a decline over most of last year.

### Figure 4: Measures of labour under-utilisation were above their pre-coronavirus (COVID-19) pandemic levels and continued to increase in Quarter 4 (Oct to Dec) 2025

Unemployment rates, UK, Quarter 3 (July to Sept) 2019 to Quarter 4 2025

#### Figure 4: Measures of labour under-utilisation were above their pre-coronavirus (COVID-19) pandemic levels and continued to increase in Quarter 4 (Oct to Dec) 2025

Unemployment rates, UK, Quarter 3 (July to Sept) 2019 to Quarter 4 2025



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's [Monthly Decision Maker Panel](#), mean realised employment in the three months to February 2026 was 0.2% lower compared with a year ago. The latest [KMPG and REC Report on Jobs](#) reported a further downturn in recruitment activity, with permanent placement and temp billings both declining amid economic uncertainty and rising cost pressures. The [Purchasing Managers' Index \(PDF, 145KB\)](#) also pointed to further falls in private-sector employment in recent months. This was initially led by non-replacement of leavers, but more recently, firms reported that they reduced the number of jobs.

Labour market slack appears to be affecting pay growth, which is still strong, but has softened. Average weekly earnings (AWE) regular pay (excluding bonuses) increased by 3.8% in the 12 months preceding November 2025 to January 2026, while total pay (including bonuses) increased by 3.9% over the same period. For more information, see our [Average weekly earnings in Great Britain: March 2026 bulletin](#).

## 5 . Prices

Headline consumer price inflation (CPI) was unchanged at 3.0% in February 2026, while core inflation (excluding energy, food, alcohol and tobacco) was at 3.2%, where service prices continued to outpace core goods prices. Despite the easing of inflation in Quarter 4 2025, UK core inflation remains among the highest in the G7 group of countries (see Table 1).

Table 1: UK core inflation remains among the highest in the G7  
Core inflation, G7 group of countries, July 2025 to February 2026

	Canada	France	Germany	Italy	UK	US	Japan
<b>July</b>	2.5	1.7	2.4	1.9	3.8	3.4	1.8
<b>August</b>	2.5	1.5	2.4	1.9	3.6	3.4	1.8
<b>September</b>	2.5	1.6	2.6	1.9	3.5	3.2	1.5
<b>October</b>	2.6	1.5	2.7	1.8	3.4	-	1.8
<b>November</b>	2.4	1.4	2.6	1.7	3.2	2.7	1.7
<b>December</b>	2.8	1.4	2.2	1.7	3.2	2.6	1.6
<b>January</b>	3.0	0.8	2.4	1.7	3.1	2.5	1.5
<b>February</b>	2.3	1.1	2.3	2.5	3.2	2.5	1.5

Source: Organisation for Economic Co-operation and Development (OECD), and consumer price inflation statistics from the Office for National Statistics

### Notes

1. Core inflation in the UK is based on the Consumer Prices Index (CPI) excluding energy food
2. 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). 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). Data as of 25 March 2026

Part of the reason why UK core inflation was higher than other advanced economies is related to wage growth, which outpaced productivity growth. This wedge between pay and productivity is the unit labour costs, which increased in the UK faster than in other G7 economies, [based on Organisation for Economic Co-operation and Development \(OECD\) data](#).

Higher labour costs typically put upward pressure on output prices, with a stronger effect in services because they are more labour-intensive. However, this effect has eased over the past year as wage growth has moderated, leaving the services inflation rate at 4.3% in the year to February 2026. This is still high compared with long-run averages.

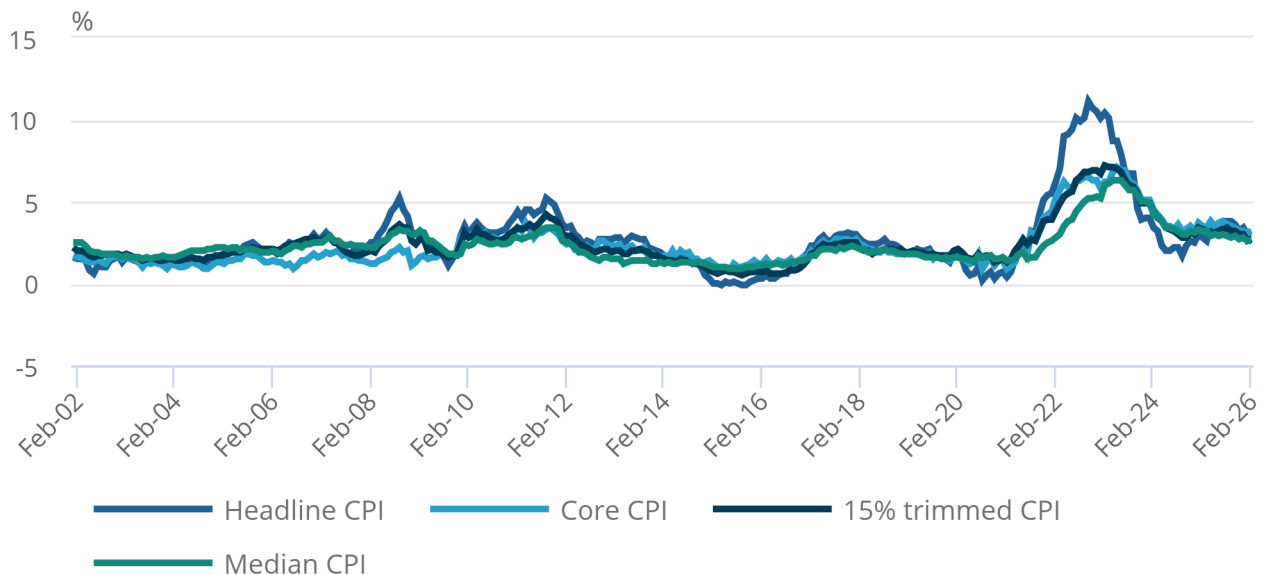
Alternative measures of core inflation continued to trend lower at the start of 2026. The 15% trimmed-mean CPI was 2.7% in February 2026, while the median CPI was 2.6% (see Figure 5). These measures exclude the most volatile price movements and provide more stable estimates of the recent easing in underlying inflation trends. These alternative measures are discussed in our [New estimates of core inflation, UK: 2022 article](#).

## Figure 5: Alternative measures of core inflation continued their downward trend at the start of 2026

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

### Figure 5: Alternative measures of core inflation continued their downward trend at the start of 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

The February CPI data do not include the impact of the recent increase in crude oil and wholesale gas prices, which noticeably accelerated in March 2026. This has started to put upward pressure on retail energy prices, where weekly road fuel (petrol and diesel) prices and daily heating oil prices already reflect some pass-through. Similarly, household utility prices (electricity and gas) are expected to increase with the setting of the Ofgem price cap for Quarter 3 (July to Sept) 2026.

Food prices are often sensitive to increases in energy prices, owing to distribution costs and a comparatively high energy intensity of agricultural production both in the UK and globally. Our [UK input-output analytical tables: product by product dataset](#) help with tracking some of these dependencies, where food products have a relatively high use of intermediate energy products in their supply chain. Indirect effects from higher energy prices are also common in some services sectors, such as transportation, accommodation, and hospitality, which also use noticeable amounts of energy inputs.

Some research suggests that increases in food and energy prices may have an outsized effect on households' inflation perceptions and expectations (see [Bank of England's Staff Working Papers No. 1,125 \(PDF, 2.605KB\)](#) and [Bank of England's Staff Working Paper No. 1,094 \(PDF, 2.605KB\)](#)). While some inflation expectations measures had declined ahead of the escalation of the conflict in the Middle East, households' inflation expectations remained above their historical averages in the latest [Bank of England/Ipsos Inflation Attitudes Survey: February 2026](#). The cyclical position of the UK economy is different compared with the previous energy shock, as economic slack is now estimated to be higher compared with 2022, when energy prices increased because of the war in Ukraine.

## 6 . Public sector finance

The latest public finances data show net borrowing of around £125.9 billion in the financial year to February 2026. This was £10.4 billion (7.7%) lower than at the same eleven-month period in the last financial year, but still the third-highest April to February borrowing (not adjusted for inflation) on record. Borrowing in the financial year to February 2026 was also £1.9 billion lower than the £127.8 billion forecast by the Office for Budget Responsibility set in November 2025 (see Figure 6).

This reduction in public sector net borrowing reflects a fall in the current budget deficit (after accounting for depreciation), which covers day to day public sector spending. The deficit fell by £15.3 billion to £62.1 billion in this financial year, compared with the same eleven month period a year earlier.

Cumulative central government current receipts were the highest on record at this stage in the financial year, £79.0 billion greater than the same period in 2024 to 2025. Compulsory social contribution receipts increased by £28.8 billion, as the rate of employer National Insurance contributions rose. Income tax receipts increased by £24.7 billion, possibly reflecting fiscal drag as taxpayers moved into higher bands. There was also a sizeable £8.2 billion (62.1%) increase in capital gains tax receipts.

While still the highest on record, central government current expenditure rose by less, around £65.2 billion to £1,006.6 billion. Public sector pay was £17.5 billion higher than at this stage in the last financial year, reflecting both previous, and current, yearly pay settlements and some workforce expansion. Increased inflation also drove higher interest, social assistance and National Insurance fund benefit payments.

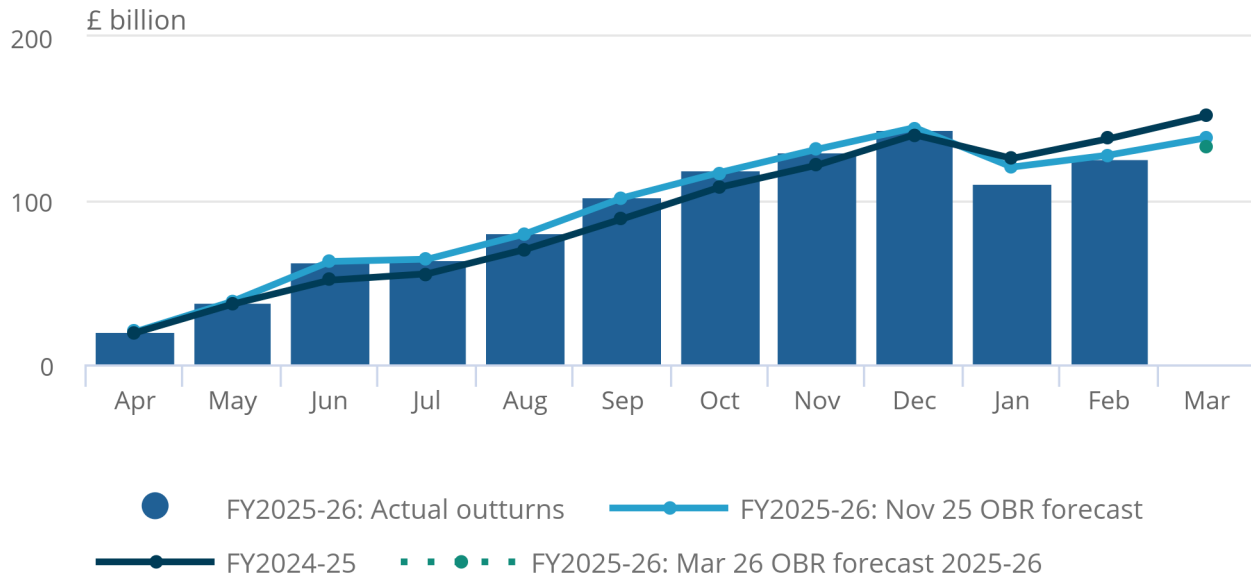
These figures will not include the impact of the increase in energy prices and bond yields owing to the conflict in the Middle East, which risks adding further upward pressure to debt servicing costs. Some Gilt yields recently tested their highest levels since the financial crisis, mainly for longer date maturities.

**Figure 6: As we approach the end of the FYE 2026, borrowing is lower than in the same eleven-month period last year**

Cumulative public sector net borrowing excluding public sector banks, UK, financial year ending (FYE) 2025 and FYE 2026

## Figure 6: As we approach the end of the FYE 2026, borrowing is lower than in the same eleven-month period last year

Cumulative public sector net borrowing excluding public sector banks, UK, financial year ending (FYE) 2025 and FYE 2026



Source: Public sector finances from the Office for National Statistics, and the Office for Budget Responsibility (OBR)

**Notes:**

1. This chart uses forecasts published in the [Economic and fiscal outlook: March 2026](#) and the [Economic and fiscal outlook: November 2025](#) forecast, and their corresponding monthly profiles published in February 2026 from the Office for Budget Responsibility.

## 7 . Related links

### [GDP quarterly national accounts, UK: October to December 2025](#)

Bulletin | Released 31 March 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: October to December 2025](#)

Bulletin | Released 31 March 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: February 2026](#)

Bulletin | Released 20 March 2026

How the relationship between UK public sector monthly income and expenditure leads to changes in deficit and debt.

### [Labour market overview, UK: March 2026](#)

Bulletin | Released 19 March 2026

Estimates of employment, unemployment, economic inactivity, and other employment-related statistics for the UK.

### [Consumer price inflation, UK: February 2026](#)

Bulletin | Released 25 March 2026

Price indices, percentage changes, and weights for the different measures of consumer price inflation.

## 8 . Cite this article

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