BRITISH CHAMBERS OF COMMERCE

4 June 2025

QUARTERLY ECONOMIC FORECAST Q2 2025

The BCC's award-winning Quarterly Economic Forecast has increased growth predictions for 2025 due to a strong start to the year, but growth will remain sluggish.

- UK GDP growth is expected to be 1.1% for the whole of 2025, 1.2% in 2026, and 1.5% in 2027.
- CPI inflation is expected to be 3.2% in Q4 2025, and 2.2% and 2.0% in 2026 and 2027. The interest rate is expected to be cut to 4% by the end of 2025.
- Exports and imports are both projected to increase by 2.0% and 3.0% in 2025, respectively. Overall, net trade continues to fall in both 2025 and 2026 due to significant tariff uncertainty.

GDP growth

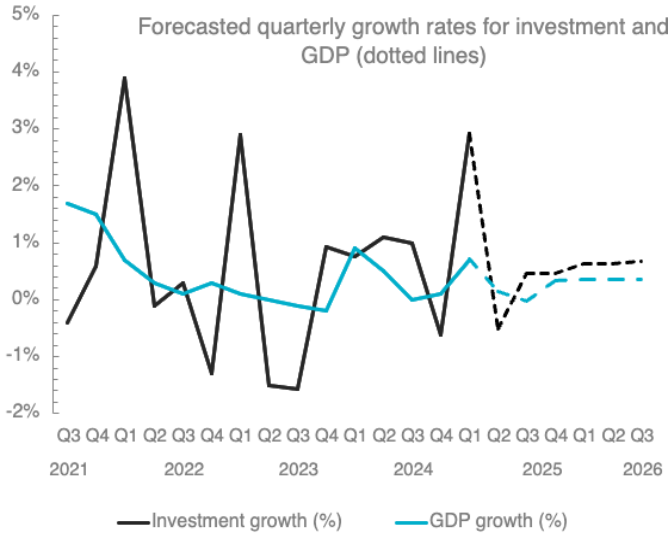
GDP is expected to grow by 1.1% in 2025, an upgrade from the previous forecast of 0.9%. This year's growth is expected to be driven by better-than-expected GDP figures in Q1, before the national insurance hike and main US tariff announcements. It is then expected to rise in 2026 and 2027 to 1.2% and 1.5%.

Better-than-expected business investment in Q1 is forecast to boost GDP across 2025. After some recent positive trade developments with the US, EU and India, UK exports are projected to grow by 2% in 2025 (an increase from -0.5% in the last forecast), 2.1% in 2026 and 2.4% in 2027. Imports are expected to grow by 3% this year before falling to 1.2% in 2026 and then 2.6% in 2027.

1.1%
forecast GDP growth for 2025

4.8%
forecast business investment growth for 2025

3.2%
forecast CPI inflation rate by Q4 2025



Inflation

With household costs and tax hikes fuelling inflation, CPI is predicted to hit 3.2% by Q4 2025. It is then expected to ease, falling to 2.2% in 2026 and 2% by Q4 2027. The Bank of England is likely to continue along a cautionary path, with one more cut expected in 2025, bringing the base rate to 4% by the end of 2025. The interest rate is expected to be cut to 3.75% by the end of 2026.

Employment

The unemployment rate is expected to be 4.6% by the end of 2025, unchanged from previous forecast, as increased labour costs, particularly NICs, weaken business sentiment and hiring intentions. Average earnings are expected to remain above inflation this year, reaching 4.2% by the end of Q4, putting further cost pressures on businesses. The forecast expects annual wage growth will remain elevated in the coming years, falling only very gradually to 4.1% in 2026 and 4% in 2027.

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Current forecast (2025 Q2)				
BCC Economic Full Forecast (Annual % change)				
	2024	**2025**	**2026**	**2027**
GDP	1.1%	1.1%	1.2%	1.5%
Household Consumption	0.6%	0.9%	1.2%	1.5%
General government	3.0%	1.7%	1.1%	0.9%
Investment	1.5%	3.2%	2.1%	2.6%
of which: Business Investment	2.0%	4.8%	2.0%	3.0%
Exports	-1.2%	2.0%	2.1%	2.4%
Imports	2.7%	3.0%	1.2%	2.6%
Total Production	-1.2%	-0.1%	1.0%	1.2%
Manufacturing	0.0%	0.5%	1.4%	1.6%
Construction	0.5%	0.8%	1.8%	1.8%
Services	1.5%	1.2%	1.2%	1.6%
Unemployment rate %*	4.3%	4.6%	4.6%	4.6%
Unemployment 000's**	104	131	17	-22
Youth unemployment rate %*	14.0%	14.3%	14.5%	14.4%
Youth unemployment 000's**	87	21	4	-4
CPI inflation (Q4)^	2.4%	3.2%	2.2%	2.0%
Average earnings (Q4)^	5.8%	4.2%	4.1%	4.0%
Interest rates (end-of-year)*	4.75	4.00	3.75	3.50
NetTrade-Goods&Services-%GDP*	-1.1%	-1.2%	-1.1%	-1.2%
BofP-CurrentAccount-%GDP*	-2.7%	-2.6%	-2.7%	-3.2%
PSNBex-BCC forecast-FinYears-%GDP*	5.2%	4.1%	3.4%	2.7%
PSNBex-BCC forecast-FinYears-£bn*	148.3	120.0	100.0	80.0

* Reported as levels

** Change in levels

^ Annual % change in Q4

In 2024, the BCC's QEF won the FocusEconomics 'Best UK GDP Forecast' award

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