

MOODY'S

U.K. Outlook: Higher Prices, Hard Policy Choices

Andrew Hunter, Associate Director, Senior Economist, Moody's Analytics

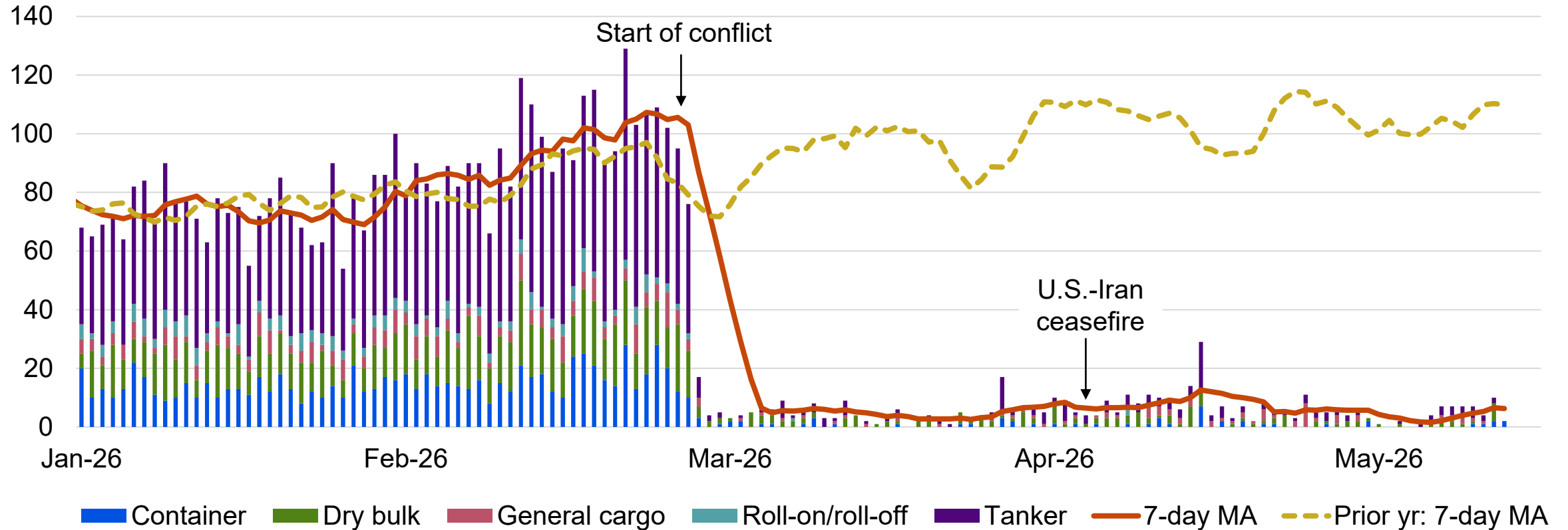
David Muir, Associate Director, Senior Economist, Moody's Analytics

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27 May 2026

U.S.-Iran Ceasefire Fails to Drive Recovery in Shipping

of vessels going through the Strait of Hormuz



Sources: IMF PortWatch, Moody's Analytics

Oil Prices Remain Volatile

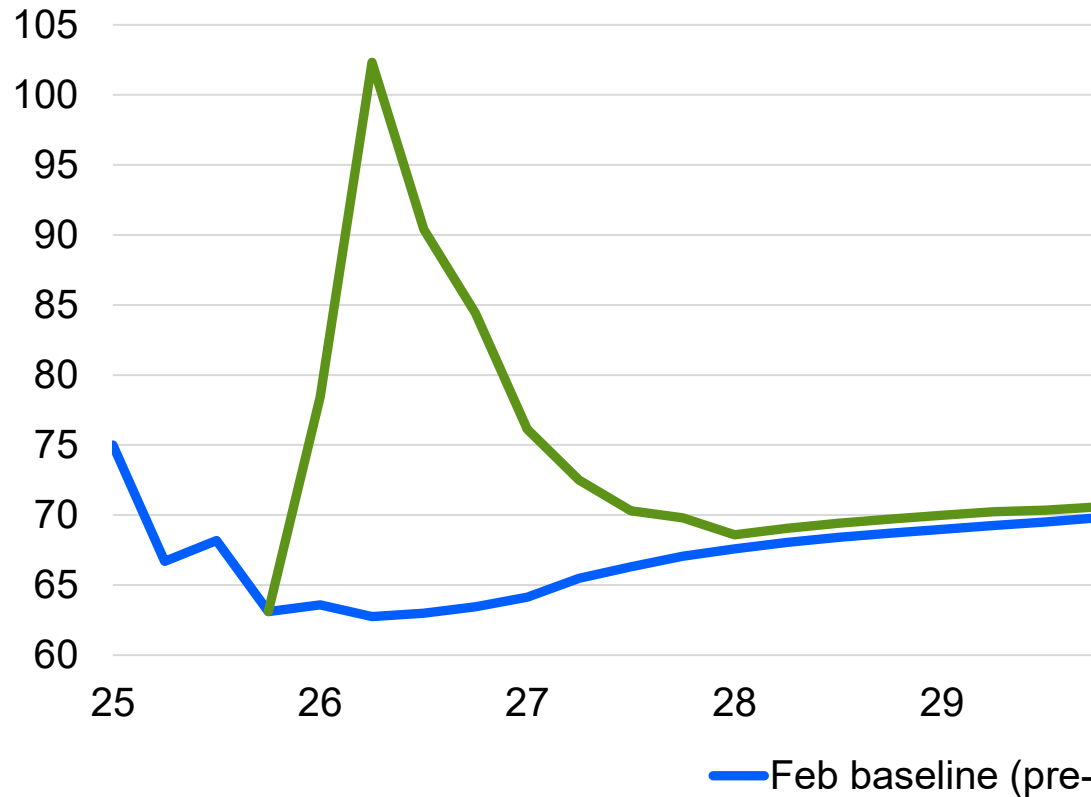
Brent crude oil, \$ per bbl



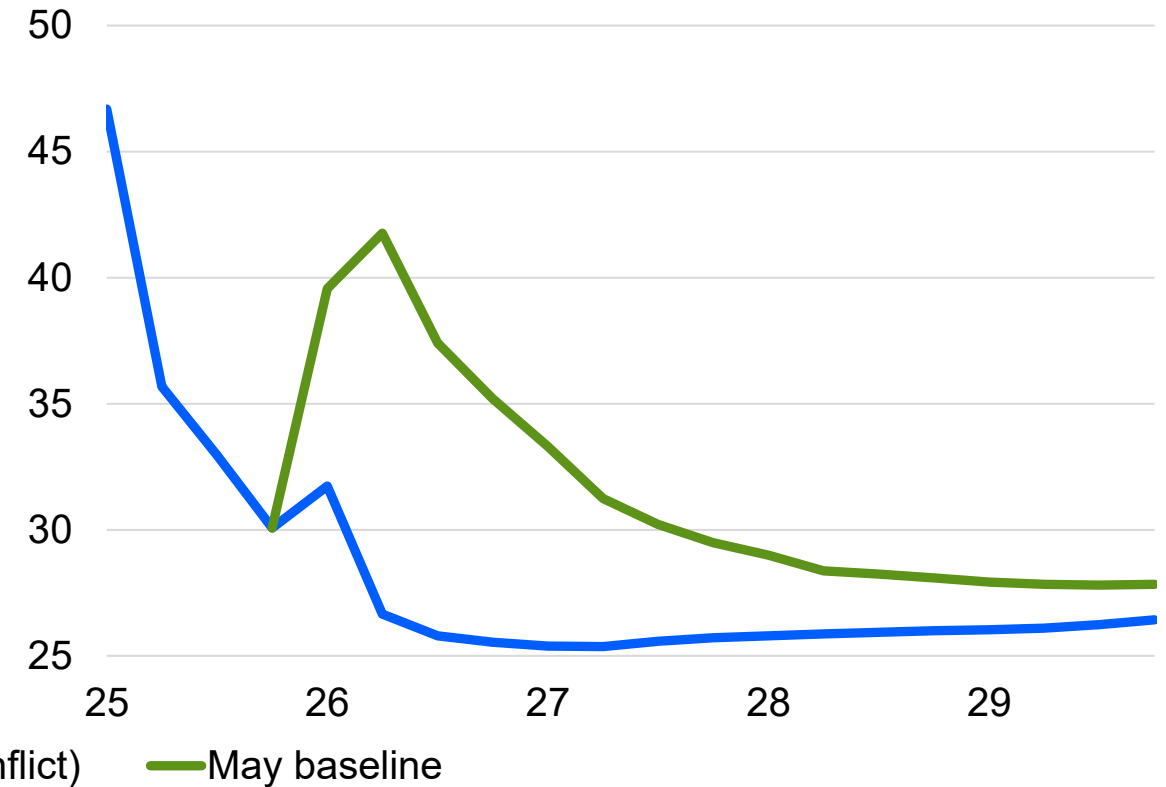
Sources: EIA, Moody's Analytics

Energy Prices Expected to Drop Back Slowly

Brent crude oil, \$ per bbl; scenario forecasts



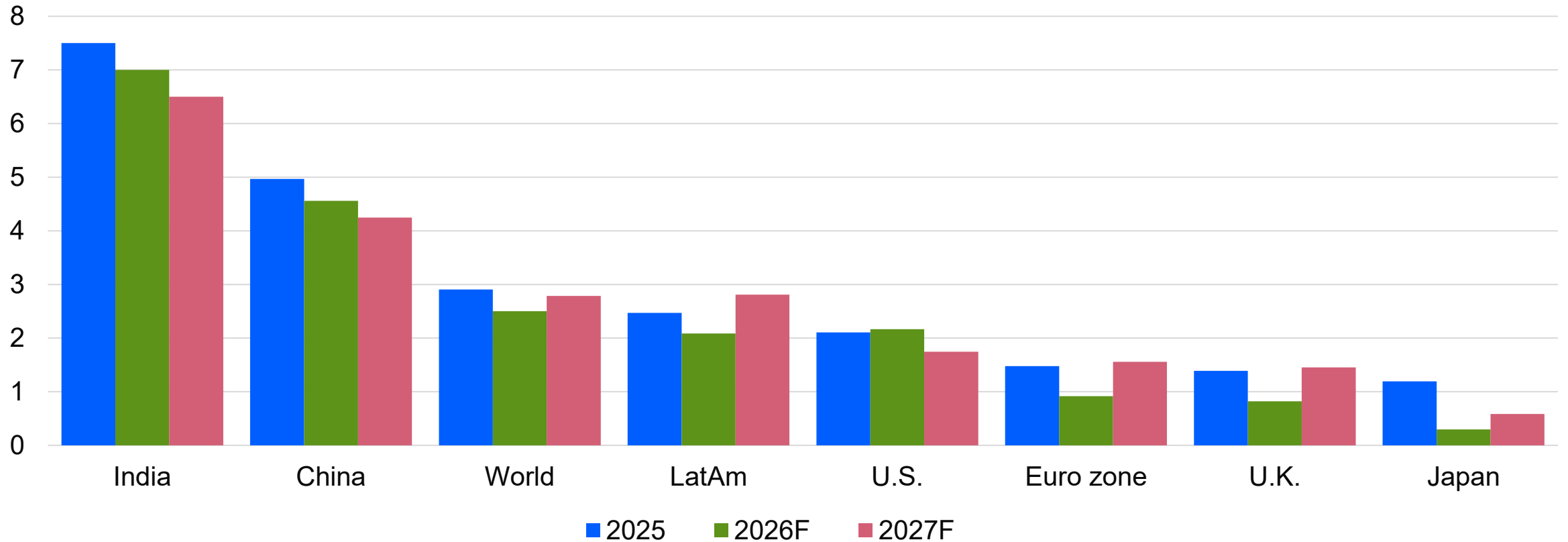
Europe TTF natural gas, € per MWh; scenario forecasts



Source: Moody's Analytics

Middle East Conflict Takes a Toll on Global Growth

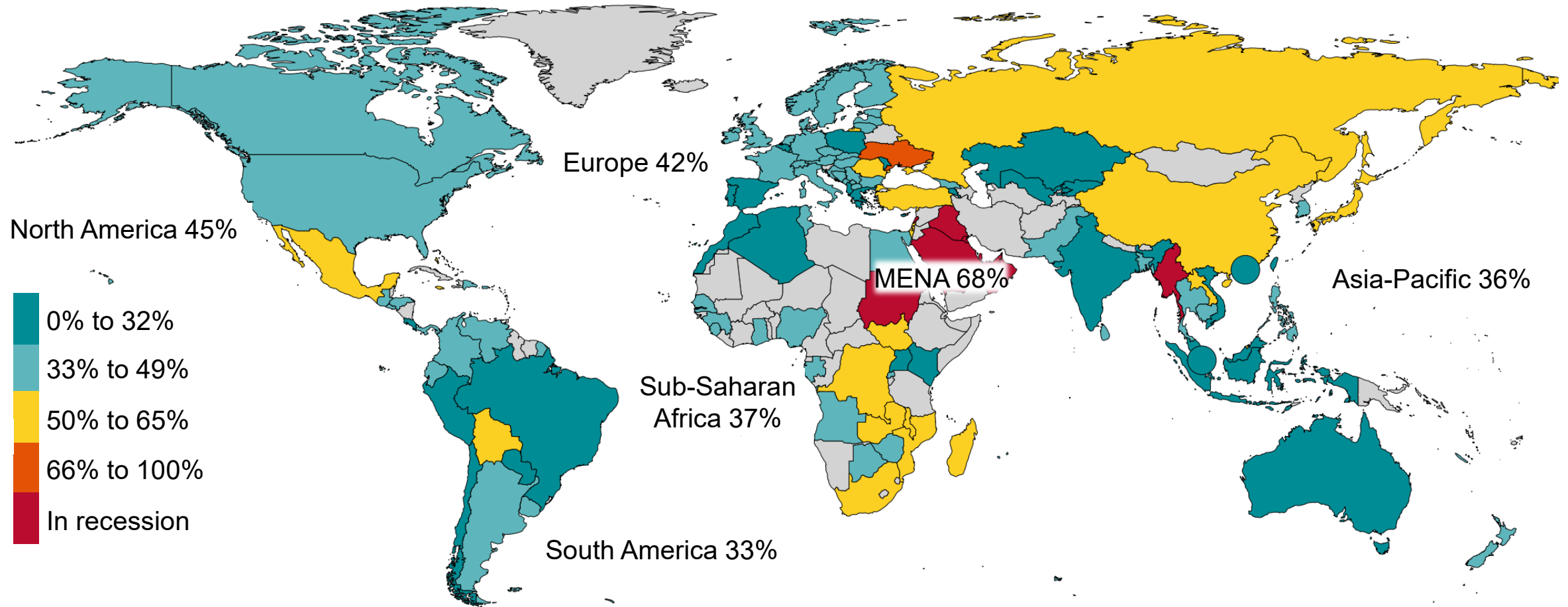
Real GDP, % change, May baseline forecast



Source: Moody's Analytics

Recession Risks Are Uncomfortably High

Probability of recession in next 12 mo, regional aggregates, weighted by real GDP at PPP



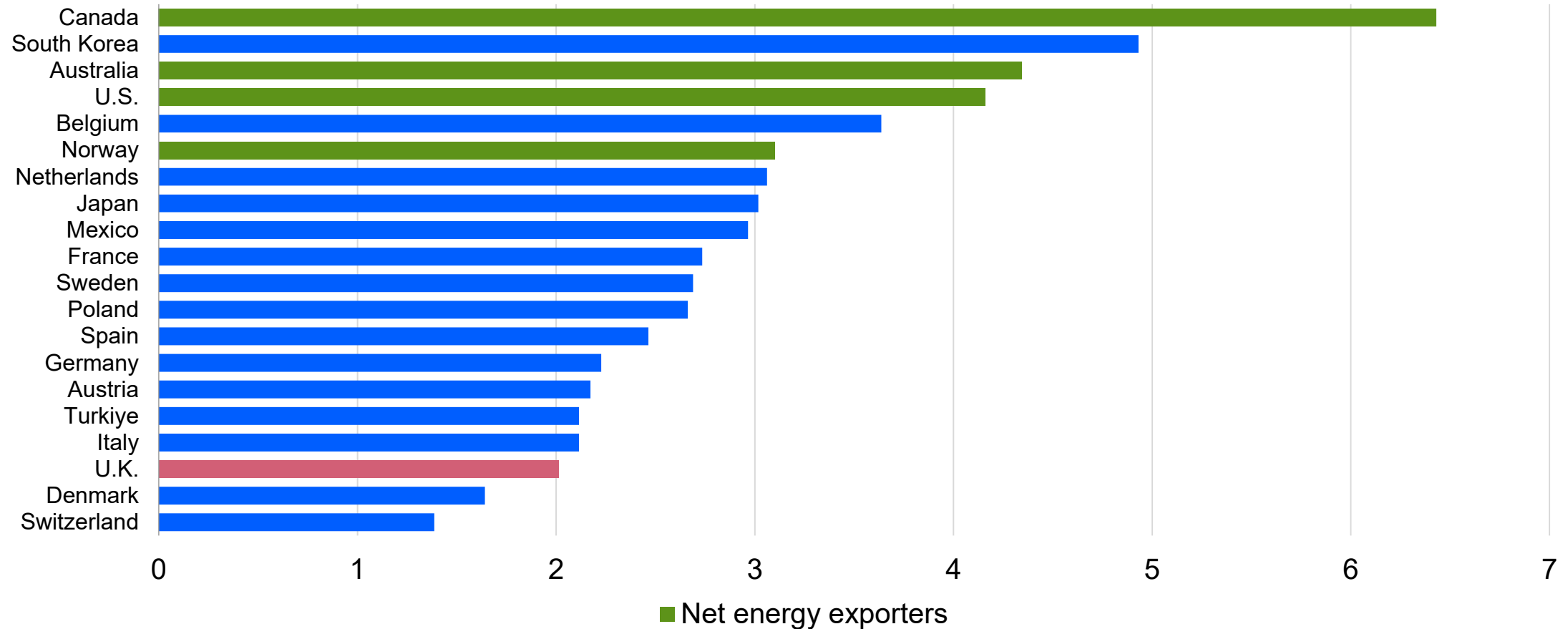
Source: Moody's Analytics

The background is a solid dark blue color. It features several large, overlapping, wavy patterns of thin, light blue lines. These lines form a complex, grid-like structure that undulates across the page, creating a sense of depth and movement. The patterns are most prominent in the upper left and lower right corners, with some lines extending towards the center.

U.K. Outlook

U.K. Less Exposed to Direct Energy Hit, but Indirect Damage Greater

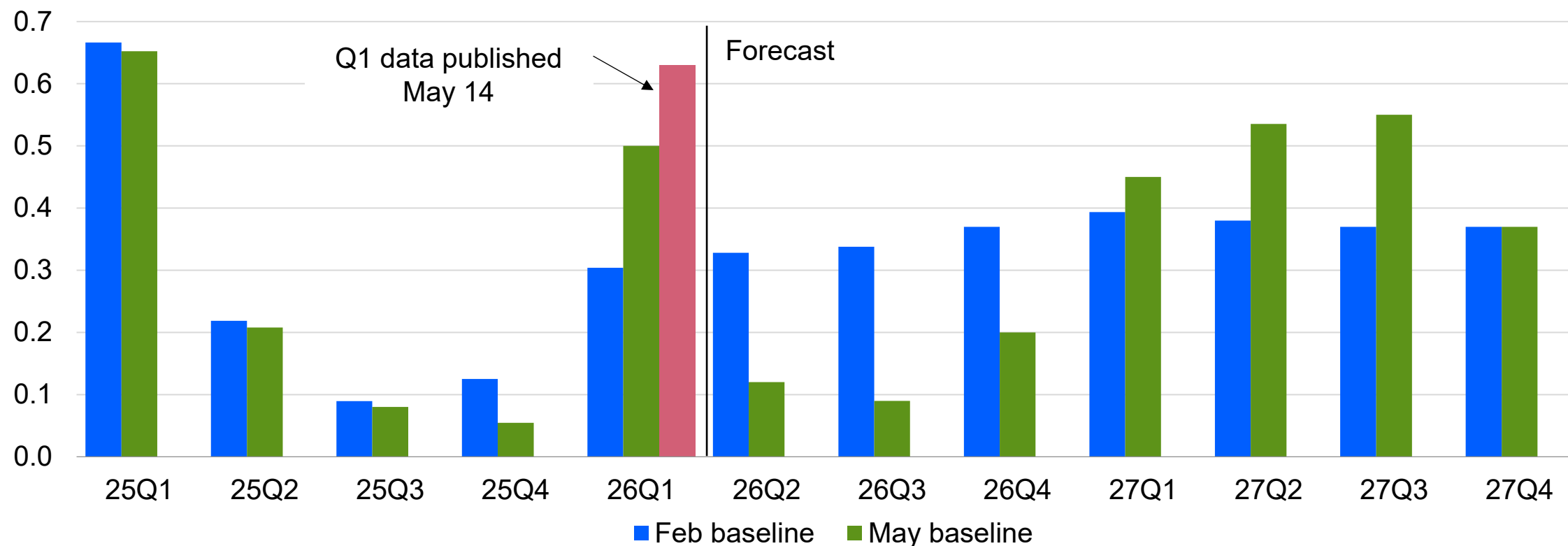
Energy intensity of GDP (1,000 BTUs of energy consumed per \$ of GDP, 2015 PPP)



Sources: IEA, Moody's Analytics

U.K. Growth Set to Slump After Surprisingly Strong Q1

U.K. real GDP, % change



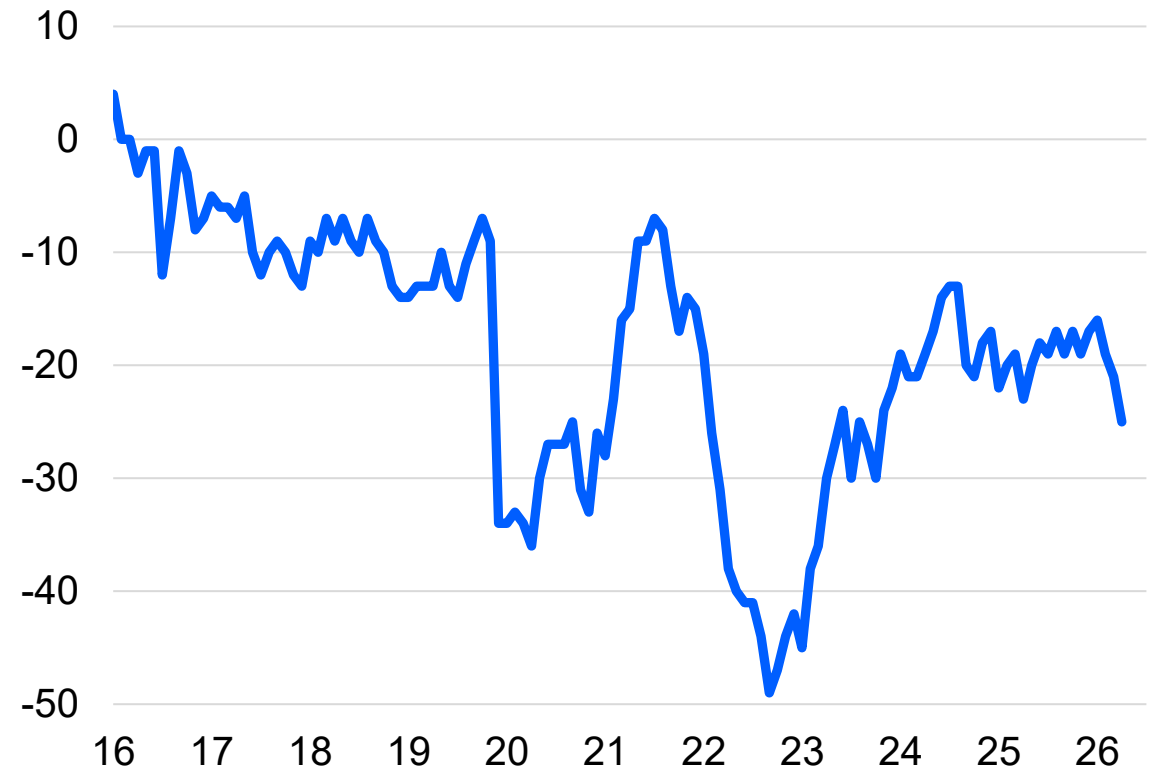
Sources: ONS, Moody's Analytics

Consumers Likely to Bear Brunt of Economic Hit

U.K. retail sales, 2023=100



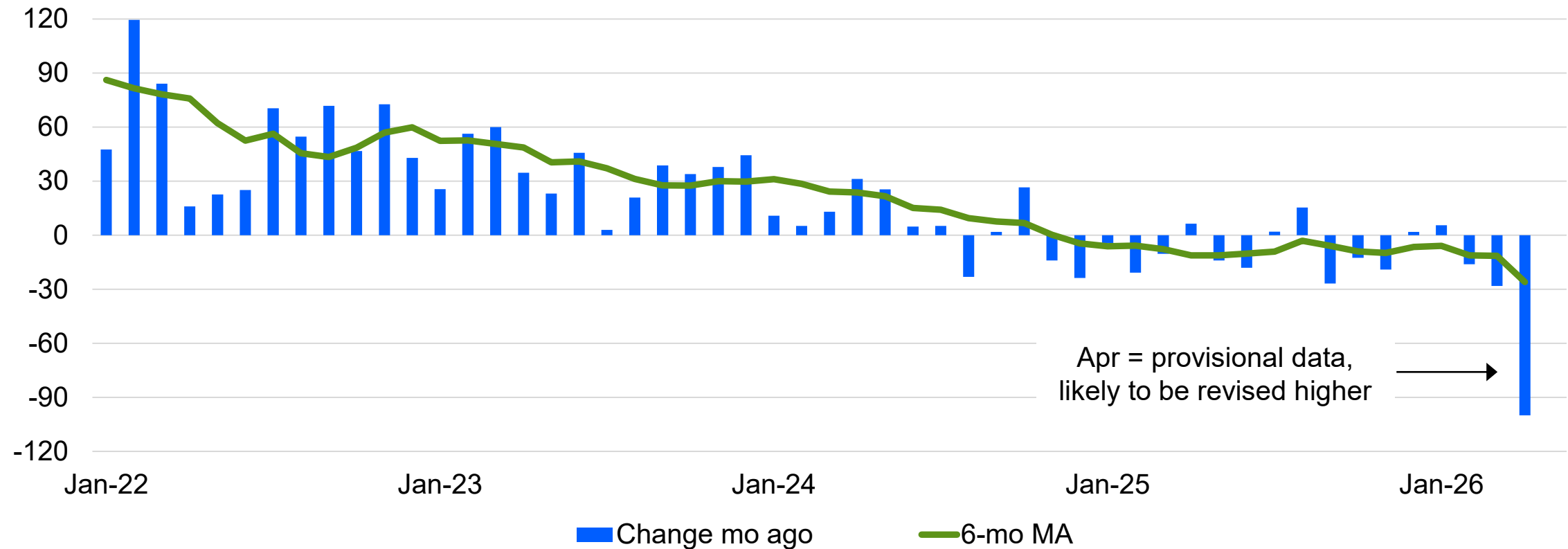
U.K. GfK consumer confidence index



Sources: ONS, GfK, Moody's Analytics

Payroll Employment Shows Renewed Weakness

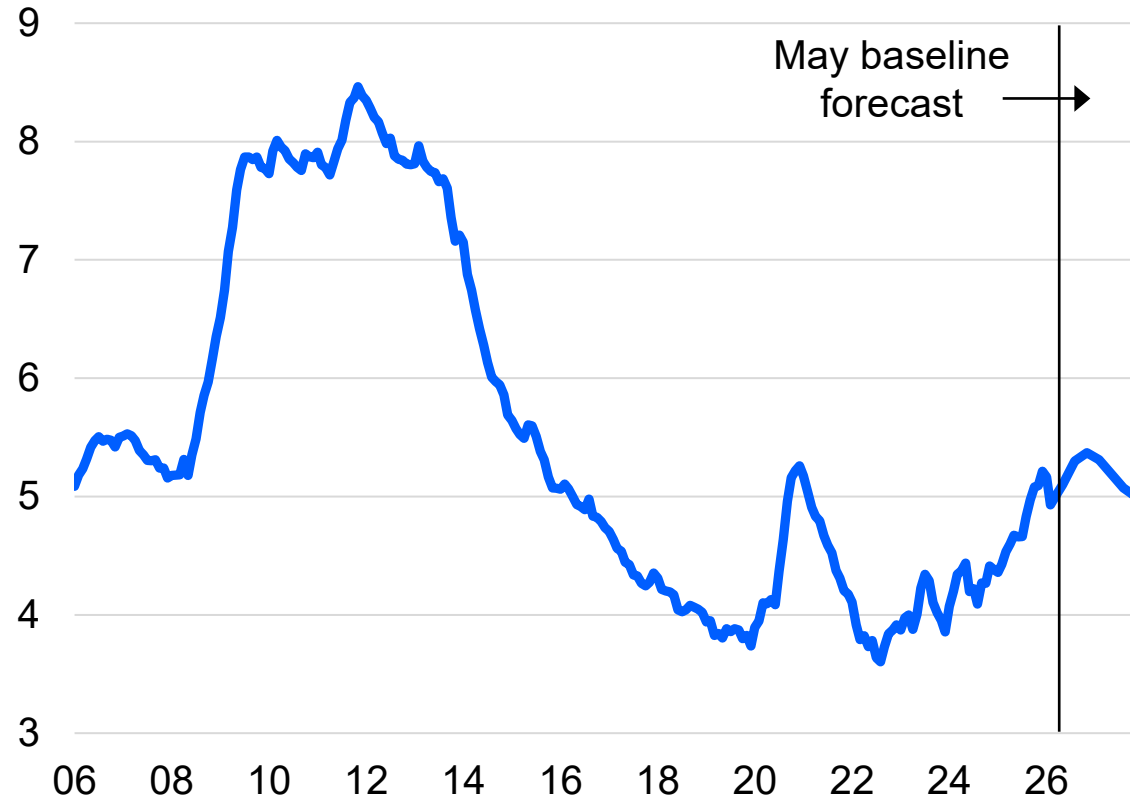
Payrolled employees, ths



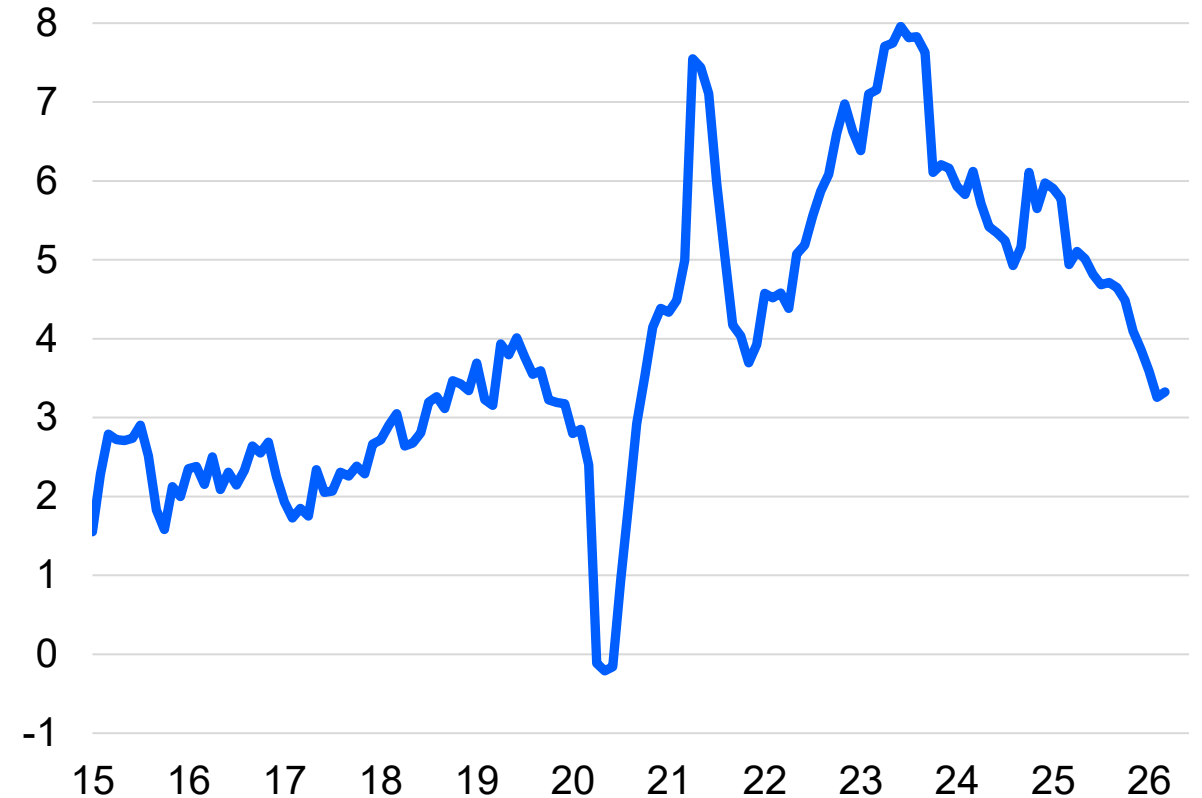
Sources: ONS, Moody's Analytics

Loose Labour Market Keeps Downward Pressure on Wage Growth

Unemployment rate, %



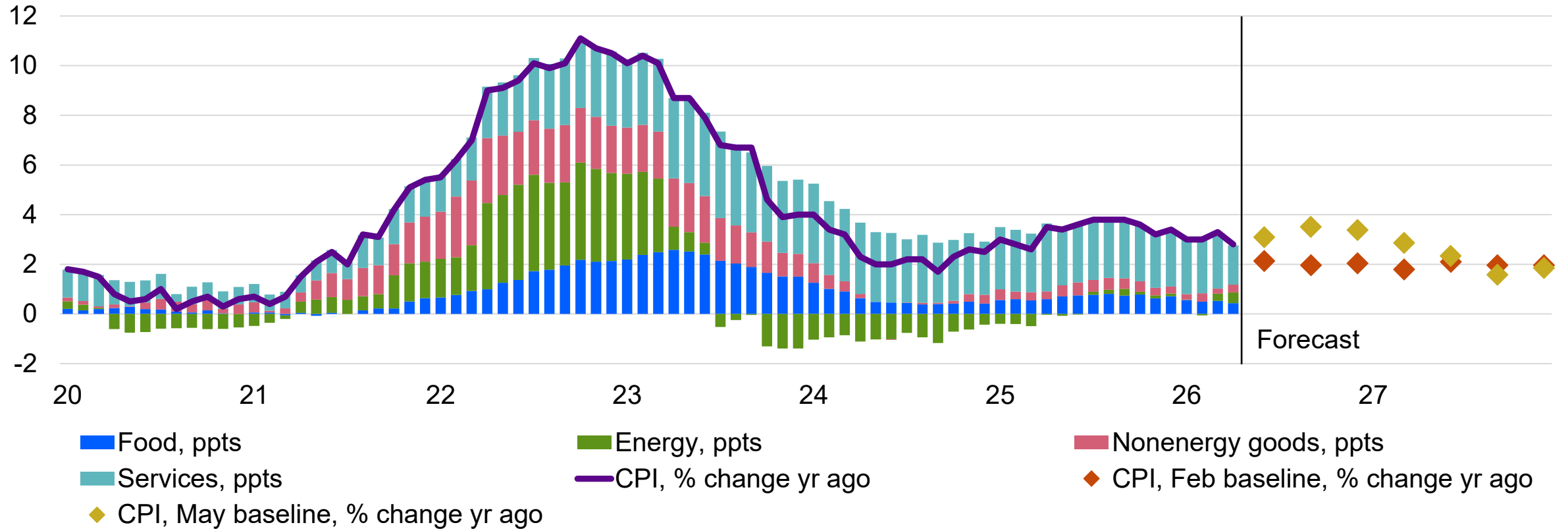
Avg weekly earnings, % change yr ago



Sources: ONS, Moody's Analytics

U.K. Inflation to Rise Further in the Second Half of 2026

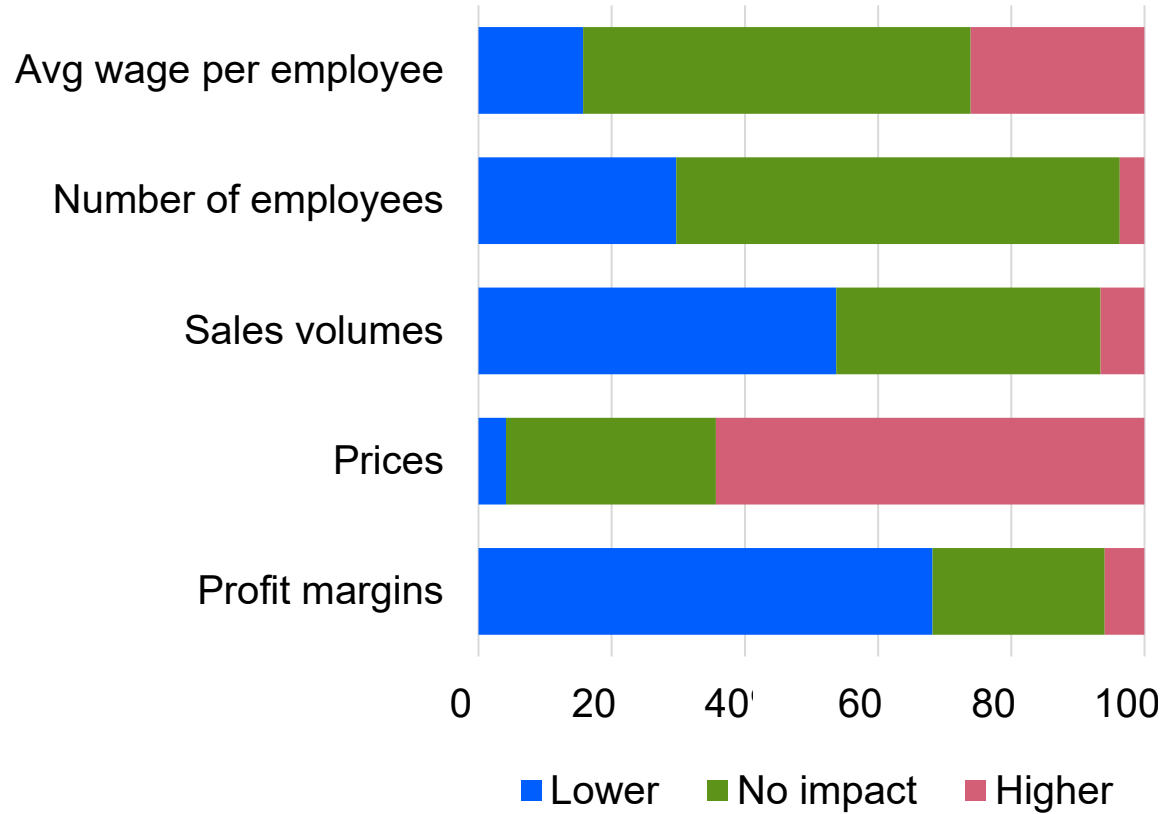
Consumer price index and components



Sources: ONS, Moody's Analytics

Firms Have Raised Their Expectations for Price Growth but Not Wage Growth

Response to energy price shock, share of firms, %



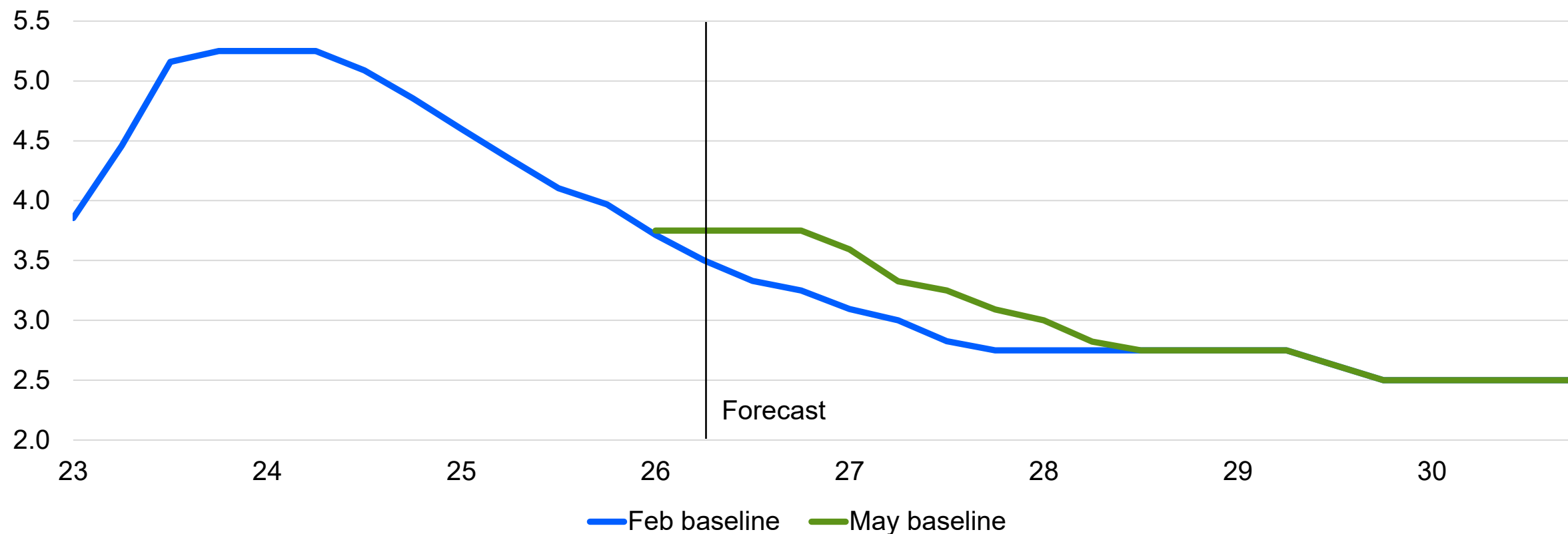
Expected growth over the next yr, %



Sources: BoE, Moody's Analytics

Bank of England on Hold for Longer; No Rate Hikes in the Baseline

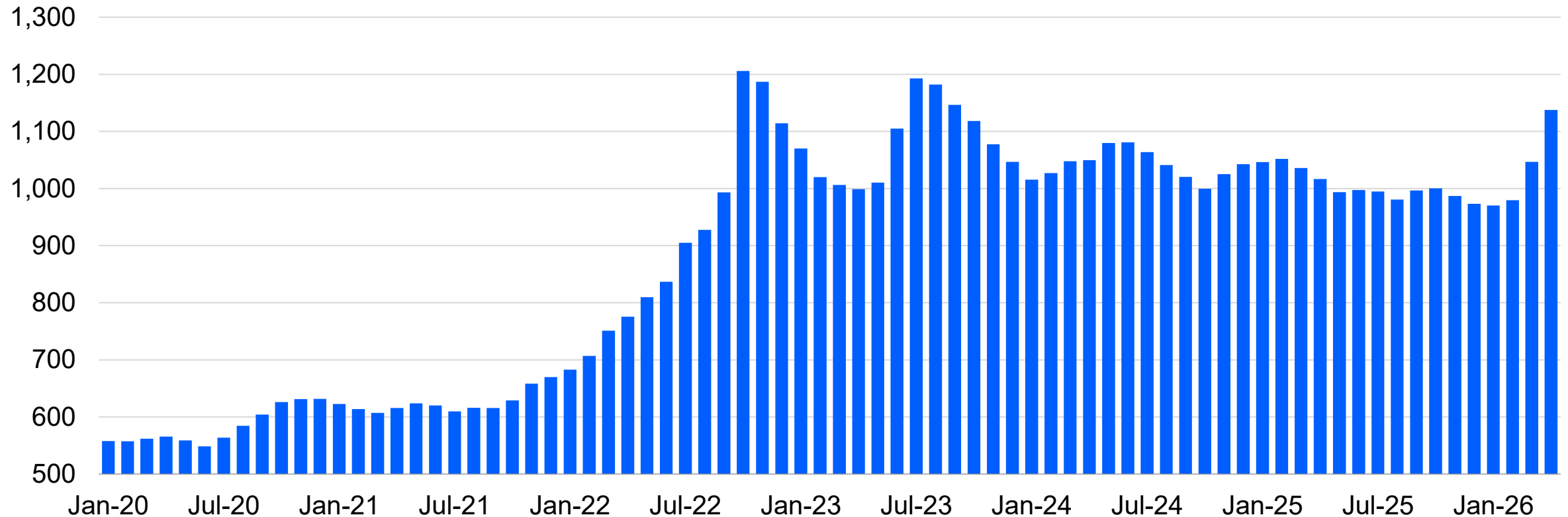
Bank of England policy rate, %



Sources: BoE, Moody's Analytics

Average New Buyer Mortgage Payment Has Risen Sharply

New buyer's monthly mortgage payment on the avg-priced house, £

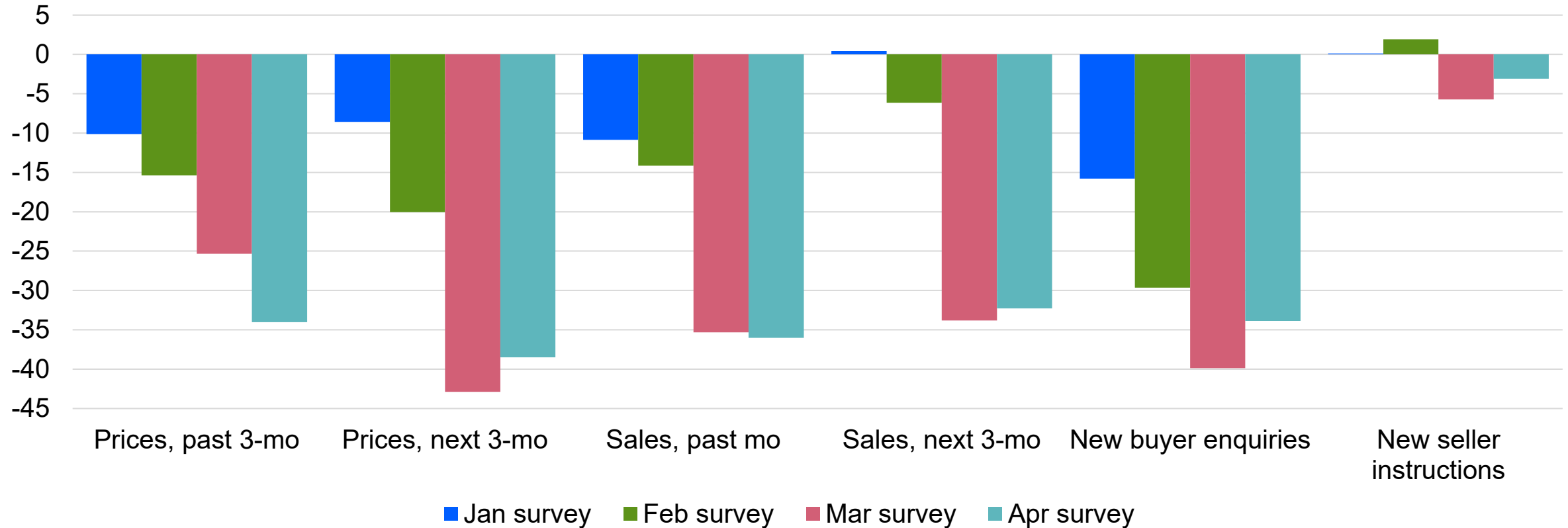


Note: The mortgage calculation is based on the avg U.K. house price, with a 2-yr fixed-rate mortgage at 75% LTV and a repayment term of 30 years.

Sources: Nationwide Building Society, BoE, Moody's Analytics

Widespread Pessimism Around Housing Market Among Chartered Surveyors

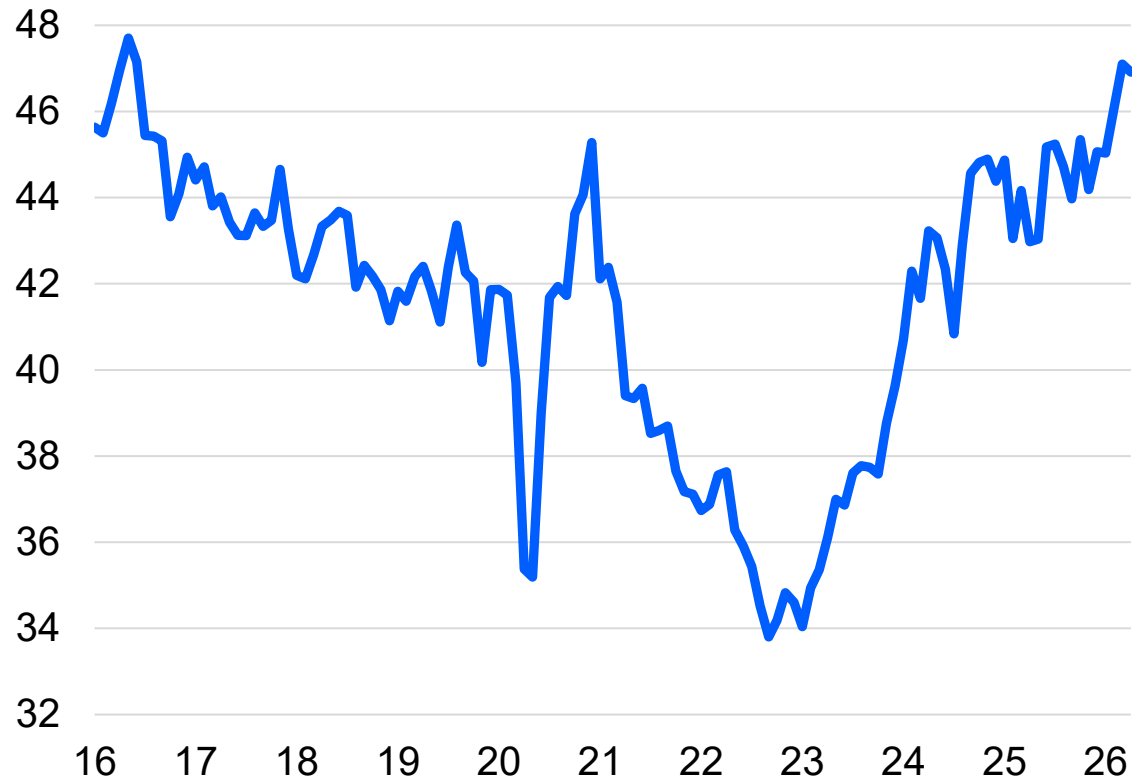
Net balance of chartered surveyors, %



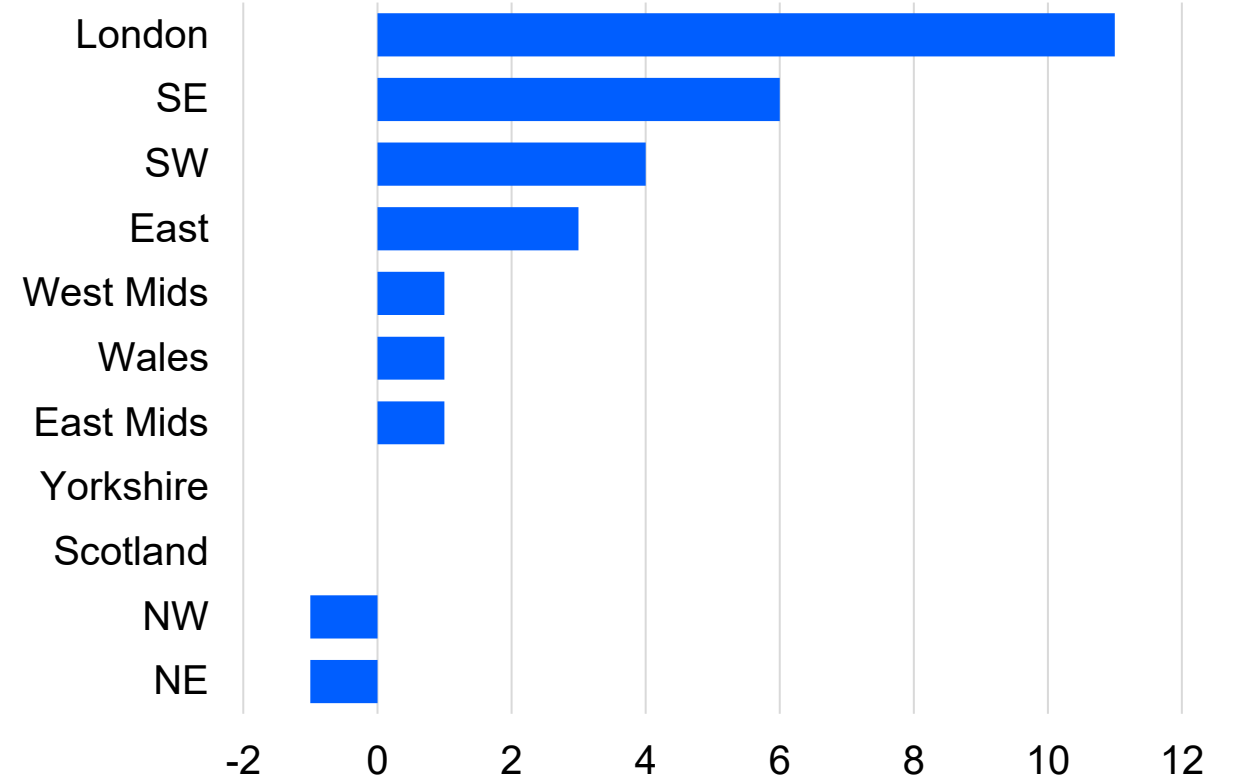
Sources: Royal Institution of Chartered Surveyors, Moody's Analytics

Inventory Is Rising and Finding a Buyer Is Taking Longer in Most Regions

Avg stock per surveyor, England and Wales



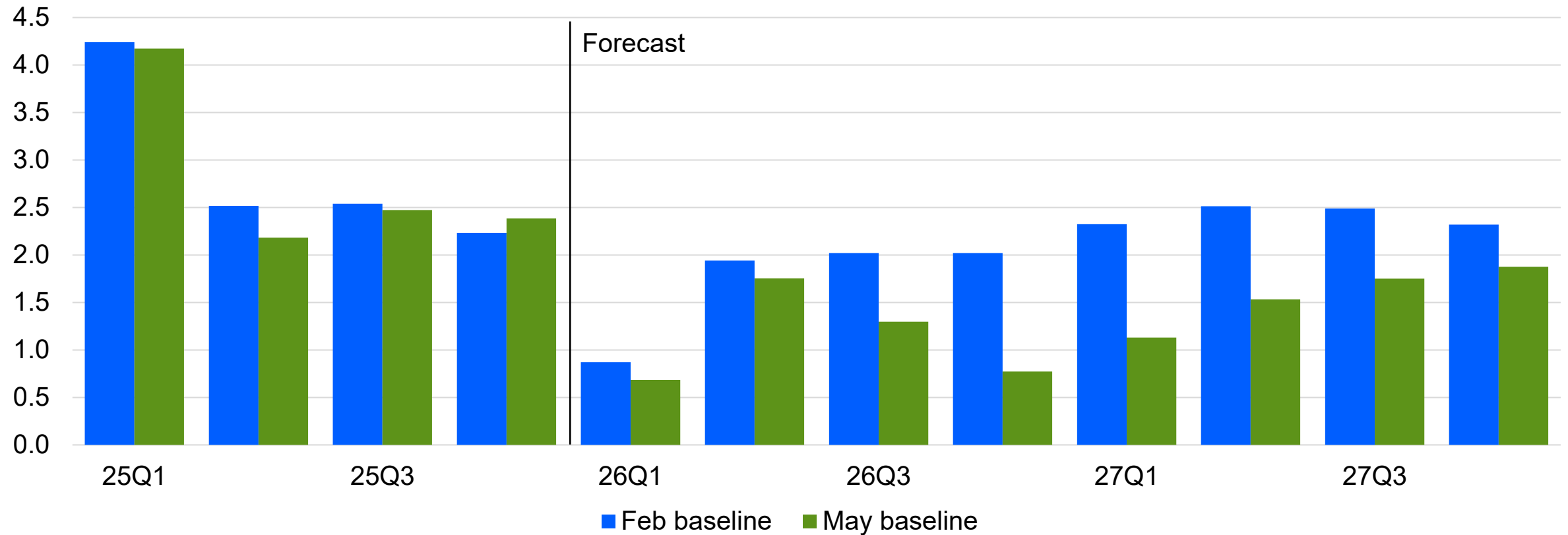
Avg # of days to find a buyer in May, % change yr ago



Sources: Royal Institution of Chartered Surveyors, Rightmove, Moody's Analytics

House Price Forecast Has Been Lowered Due to Higher Mortgage Rates

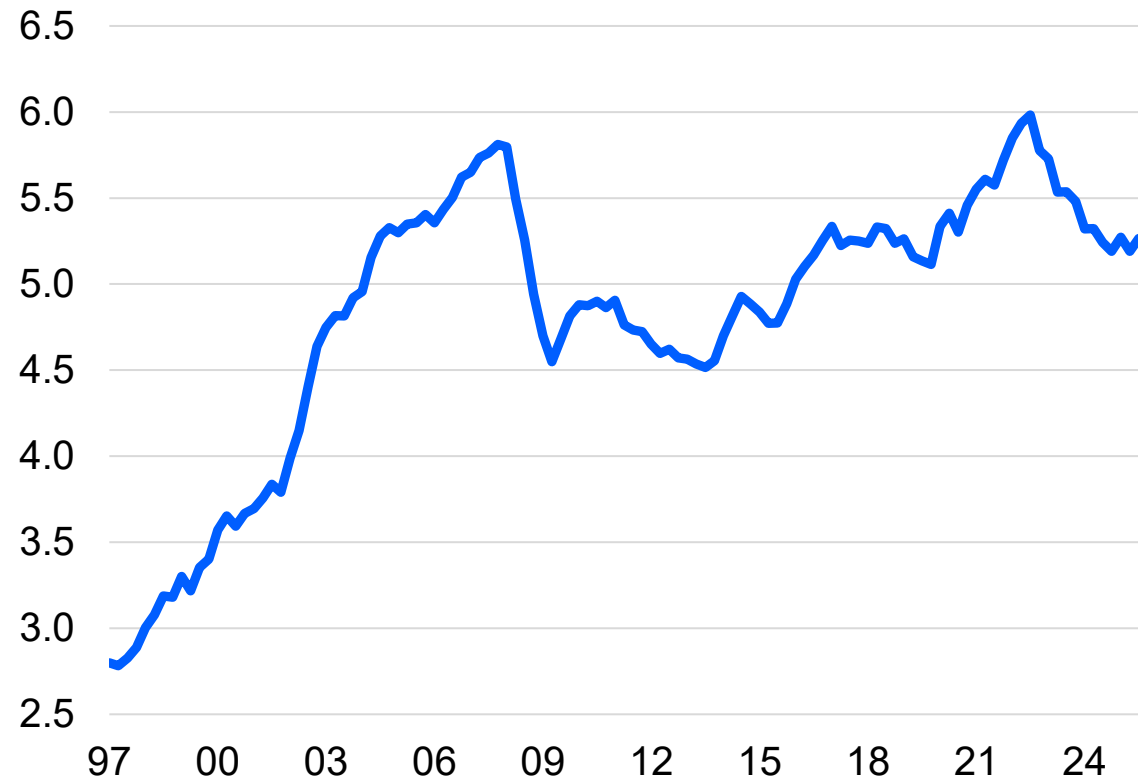
Avg U.K. house price, % change yr ago



Sources: HM Land Registry, Moody's Analytics

House Prices Have Become Less Misaligned With Incomes and Rents

Ratio of avg house price to avg income



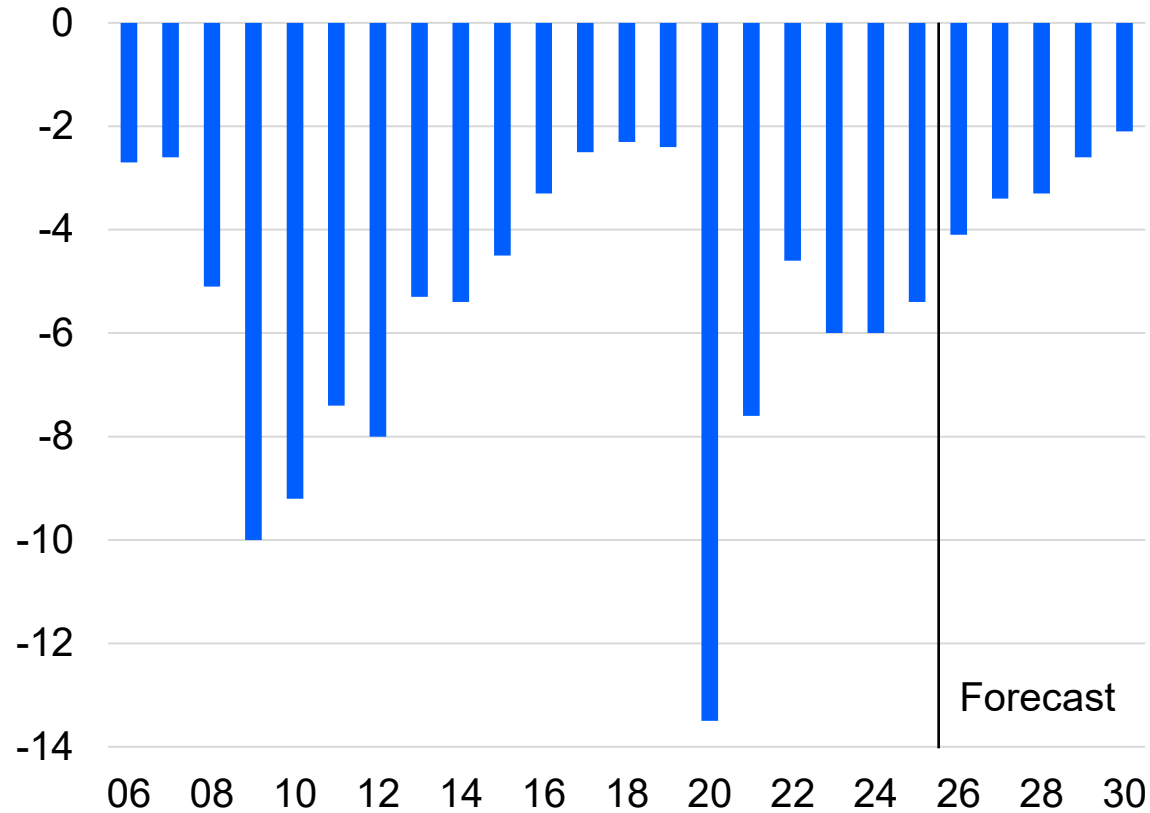
Ratio of avg house price to avg rent



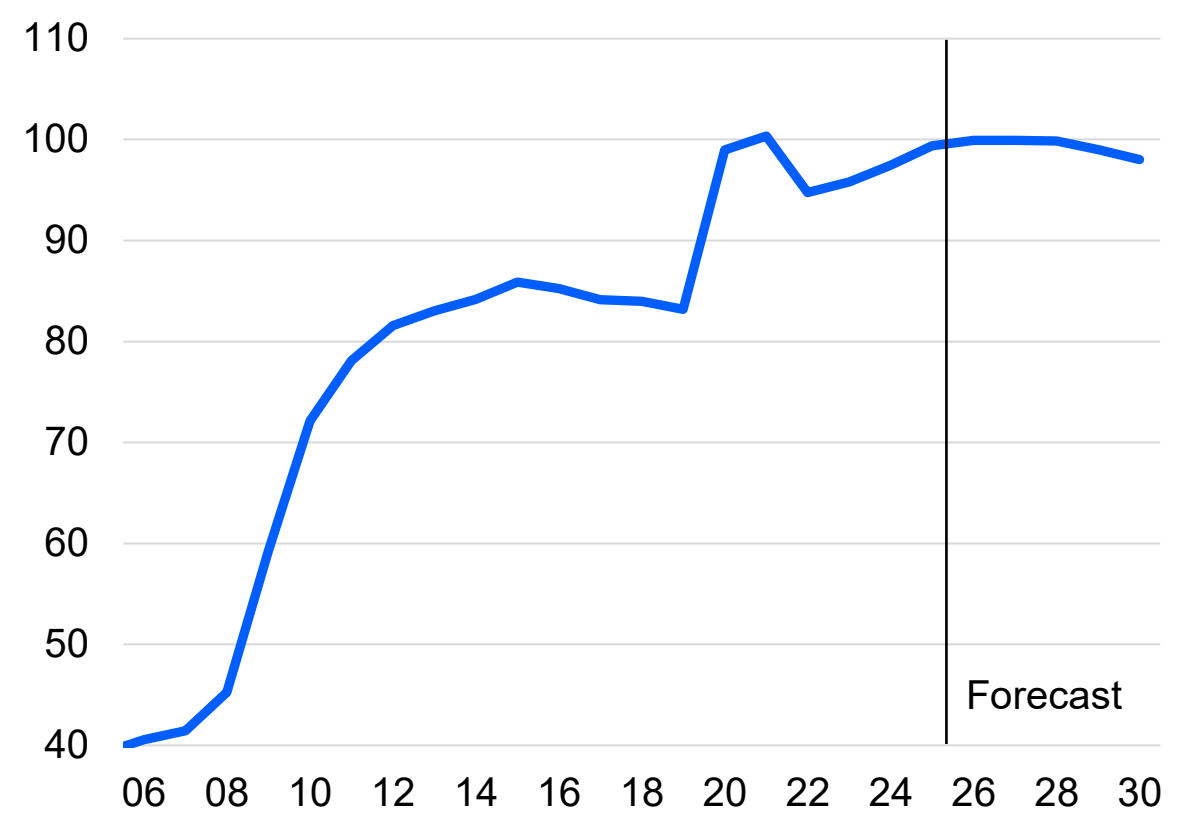
Sources: HM Land Registry, ONS, Moody's Analytics

Narrowing in Budget Deficit Only Enough to Stabilise Public Debt

U.K. govt budget balance, % of GDP



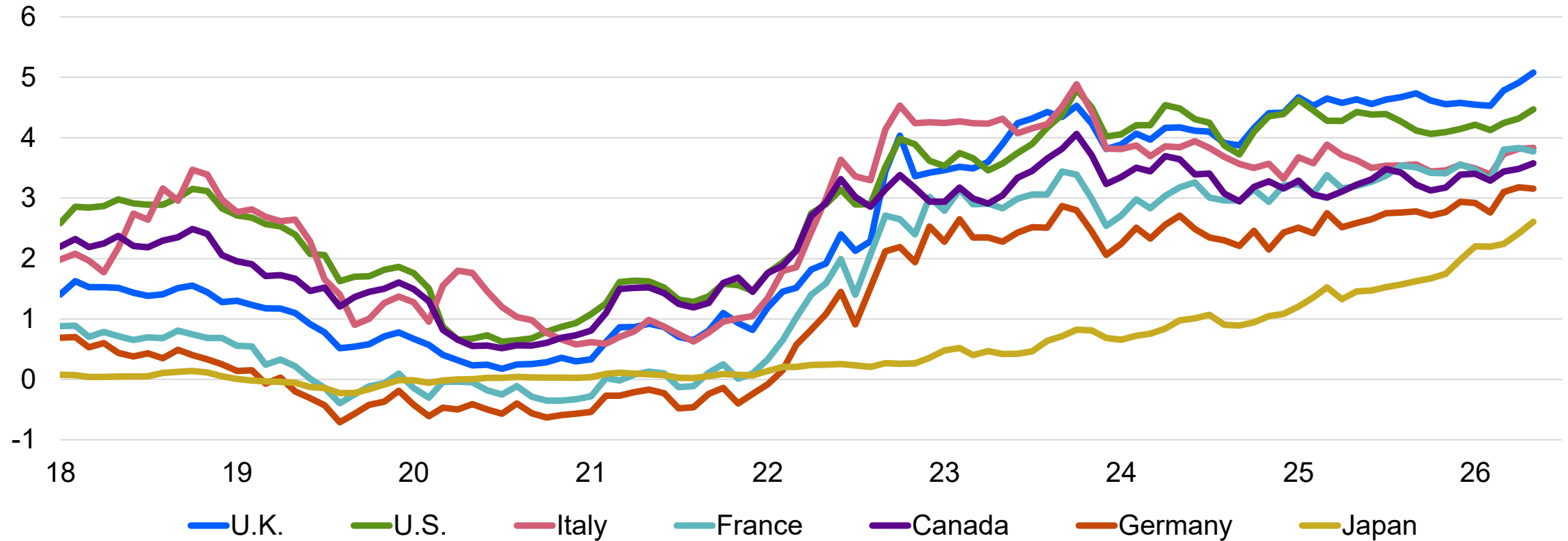
U.K. govt debt, % of GDP



Sources: ONS, Moody's Analytics

U.K. Bond Yields Rise Further Above Peers

10-yr govt bond yields, %



Sources: Federal Reserve, BoE, ECB, Moody's Analytics

The background is a solid dark blue color. It features several decorative elements: a large, complex pattern of thin, light blue wavy lines that create a sense of depth and movement, primarily on the left side; and a smaller, simpler pattern of similar wavy lines on the right side.

Conflict Adds to Long List of Risks

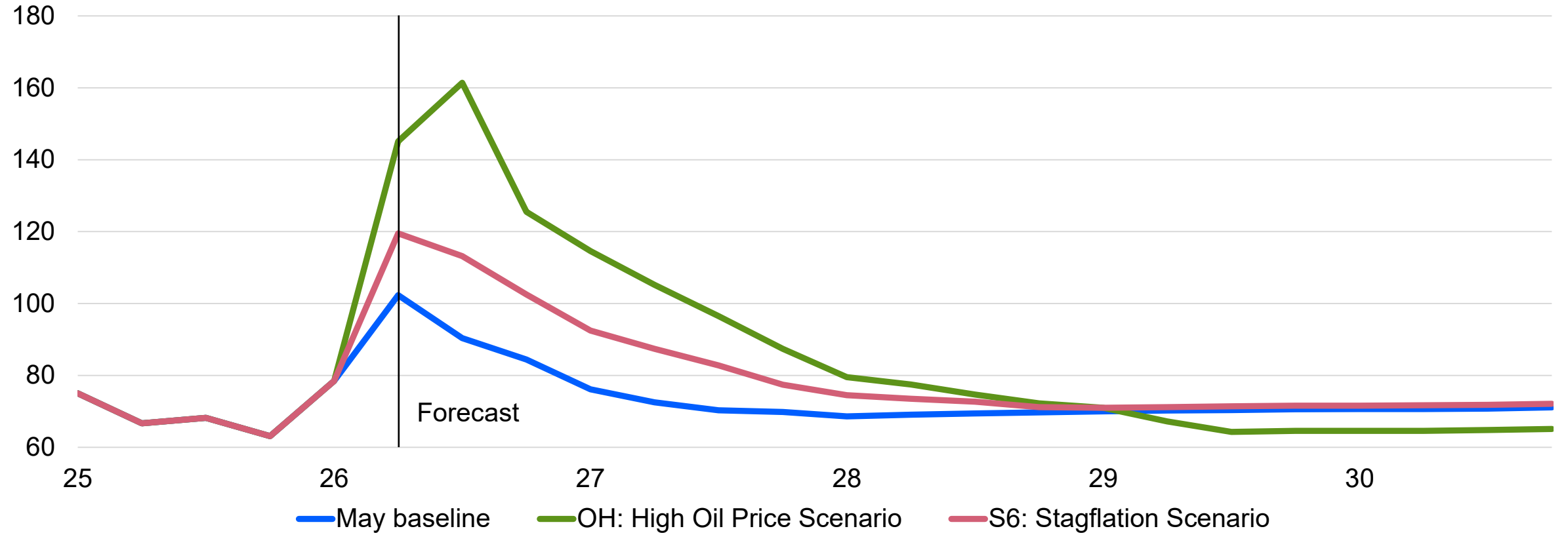
Baseline and Alternative Scenario Assumptions

	Baseline	S6: Stagflation Scenario	OH: High Oil Price Scenario
Middle East conflict	Strait of Hormuz gradually reopens from late May	Strait of Hormuz closed 1 mo longer than in baseline	Strait of Hormuz remains closed through summer
Oil production	Gulf oil production gradually restored	Damage to energy infrastructure greater than in baseline	Conflict escalates; greater energy production damage than in S6
Oil price peak	\$102	\$120	\$160
U.K. inflation	Moderate rise, peak in Q3	Rises to 5%; slow to ease	Spike to 6% is short-lived
BoE policy rate	Rates on hold in 2026	Rate rise every meeting in 2026	Fewer rate rises than in S6

Source: Moody's Analytics

More Prolonged Supply Disruption Would Raise Oil Prices Further

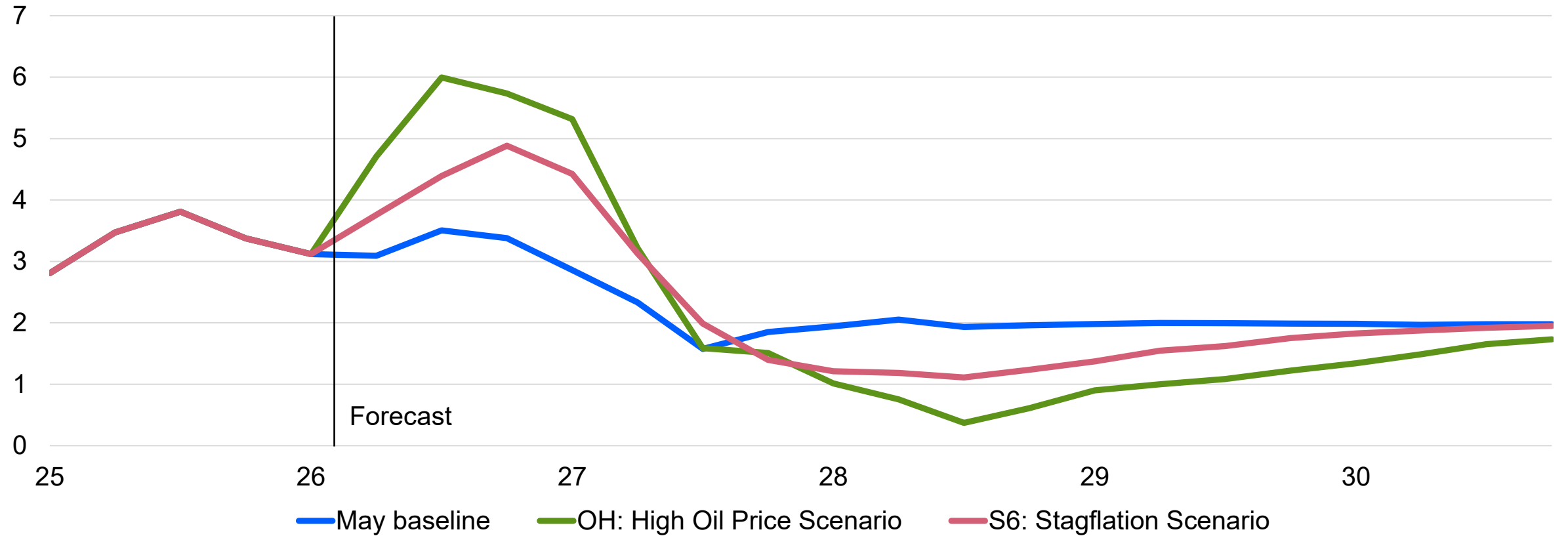
Brent crude, \$/bbl



Source: Moody's Analytics

Higher Oil Prices Cause Inflation to Surge Later in 2026

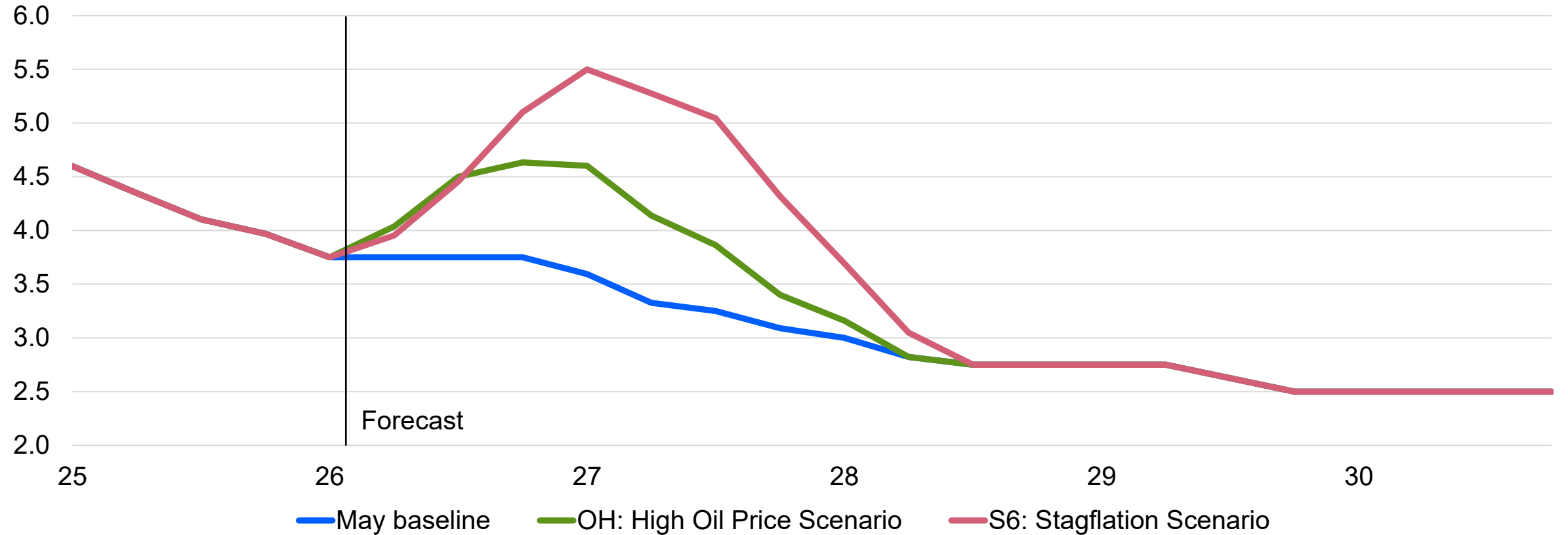
U.K. CPI inflation, %



Sources: ONS, Moody's Analytics

Bank of England Raises Rates to Maintain Inflation Credibility

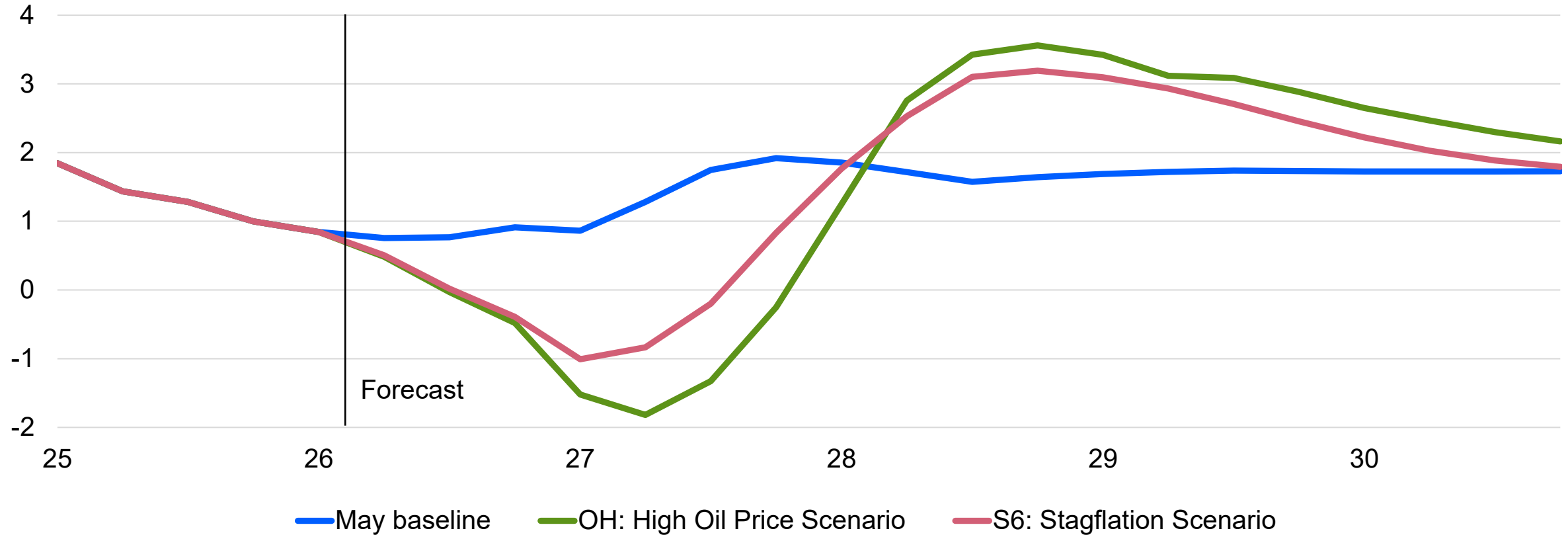
BoE policy rate, %



Sources: BoE, Moody's Analytics

Higher Oil Prices Tip the U.K. Economy Into Recession

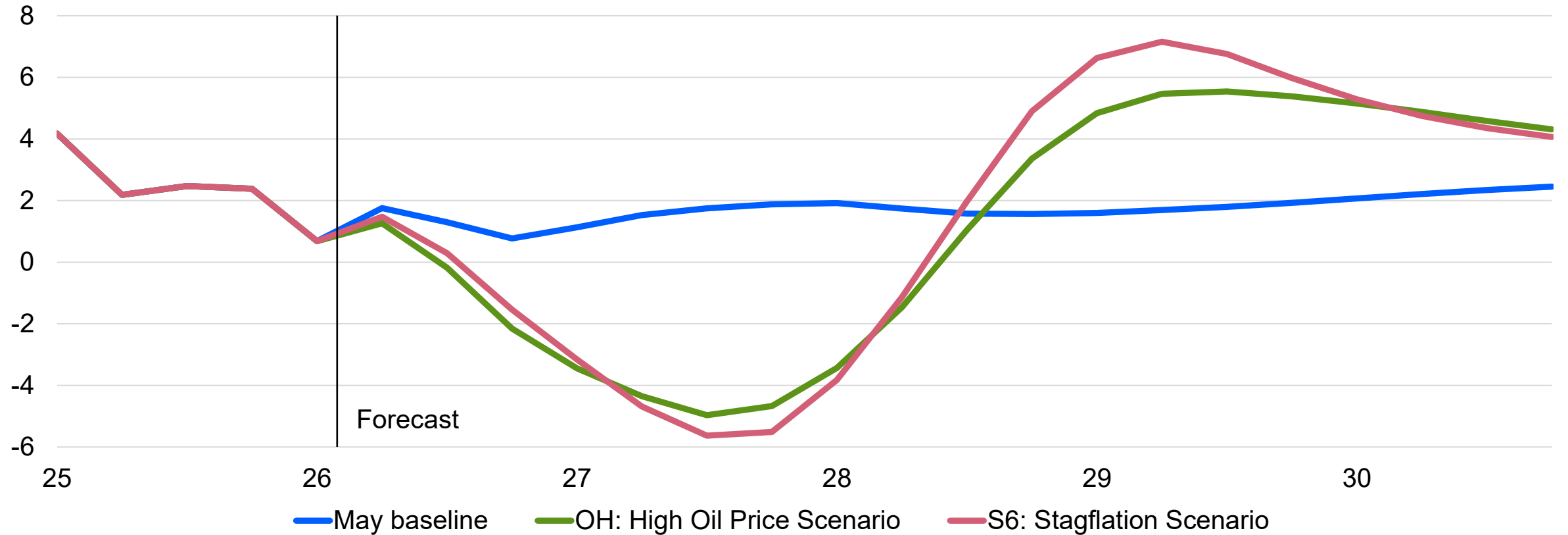
U.K. real GDP, % change yr ago



Sources: ONS, Moody's Analytics

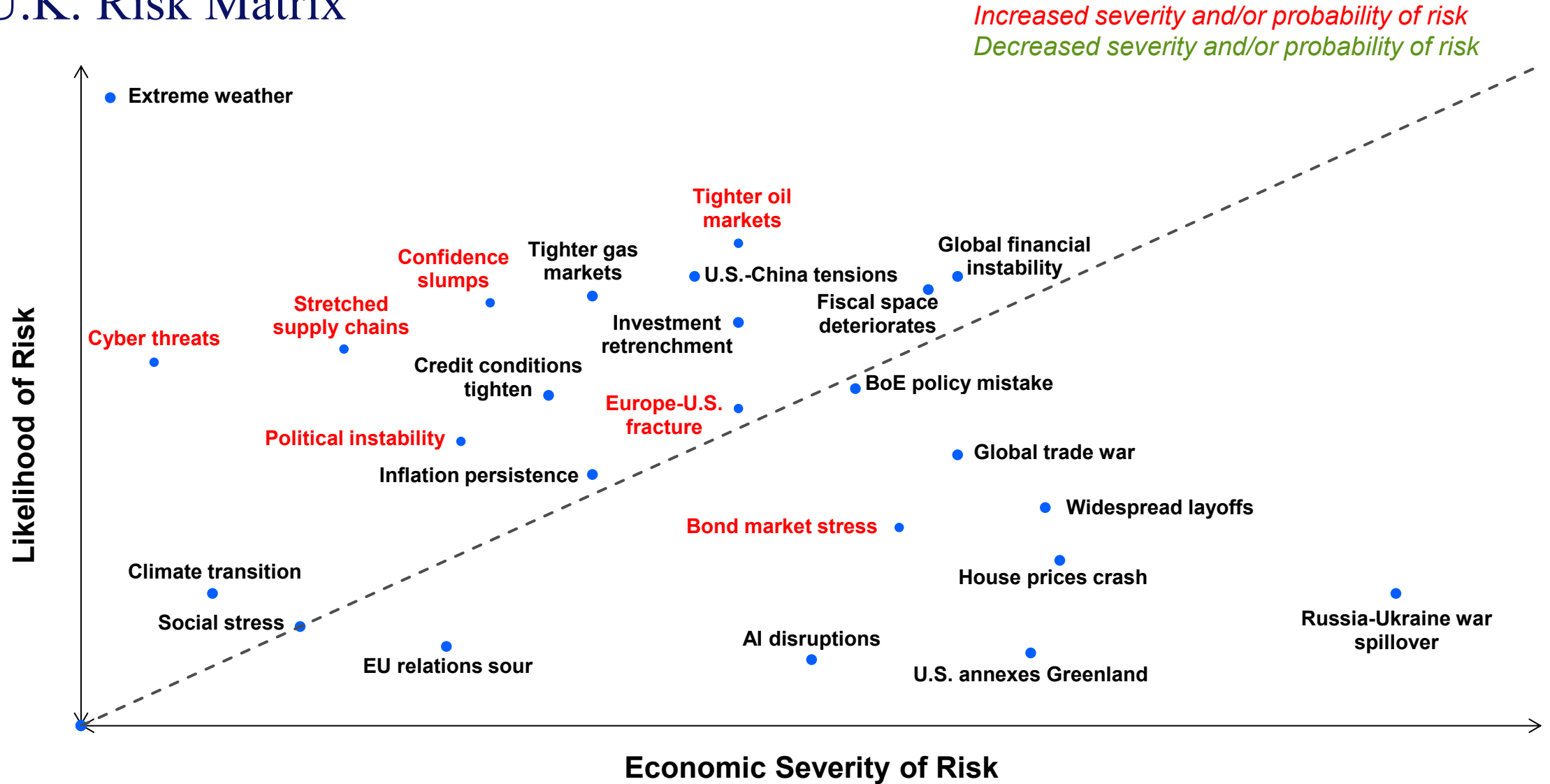
Higher Interest Rates Drive House Prices Lower

U.K. avg house price, % change yr ago



Sources: HM Land Registry, Moody's Analytics

U.K. Risk Matrix



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Global economy unwrapped

Insights into the shifting dynamics
and risks of the global economy

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