Snap | 11 September 2026

UNITED KINGDOM

UK economy defies gravity with surprise July growth

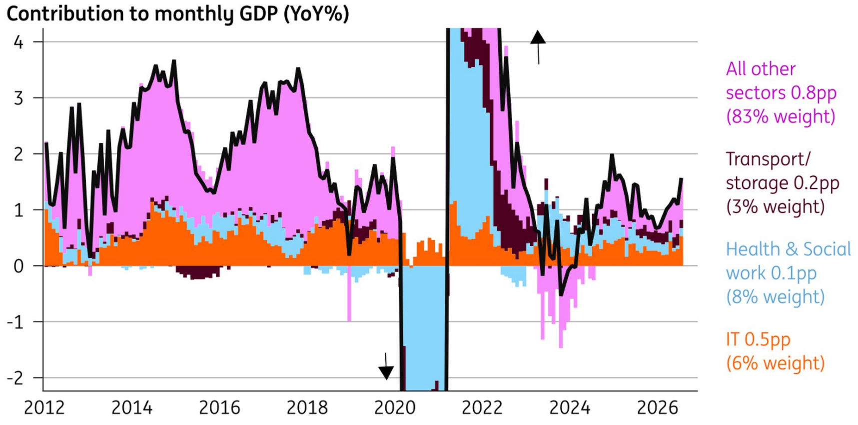
The UK economy has performed much better than expected amid the fallout of the Iran war. Partly that is down to disproportionate growth in IT. Partly it s down to relatively benign inflation. And partly, we think, it s down to residual seasonality in the data. We expect momentum to slow through the second half

The UK economy has held up much better than expected

For the second month in a row, the UK economy has defied expectations and grown significantly faster than expected. Activity was up 0.4% in July against our own and consensus expectations for zero growth. It was a similar story in June (0.3%).

That said, we still think the GDP figures are overstating the true pace of economic growth. Roughly half of June's rise in output was down to IT, a sector that makes up just 7% of total economic activity. This is a recurring theme: on an annual basis, the sector makes up a third of the UK's 1.5% year-on-year growth rate. Though it's not totally clear what's driving this, we suspect AI is playing a role. CapEx data for "other buildings" has been solid through this year, and we suspect that's a euphemism for data centres.

IT has done a lot of the heavy lifting

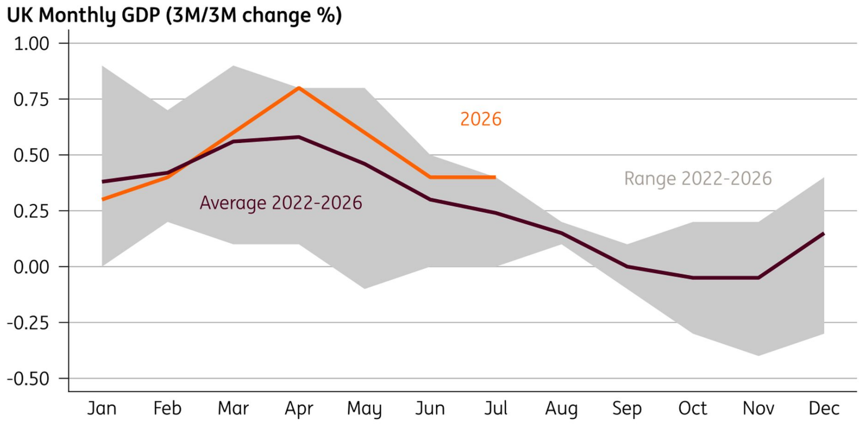


Source: Macrobond, ING

That aside, it's worth remembering that the UK's GDP figures have a well-worn trend of performing better in the first half of the year than the second. That's been the case ever since 2022, and we think that's down to challenges with seasonally adjusting the data in a high inflation period. The performance of the three-month change in monthly GDP since the start of the year has been broadly consistent with this trend, though generally a bit stronger.

Still, it is undeniable that the UK economy has performed better than widely expected amid the fallout of the Iran war. We think that can be partly explained by the simple fact that inflation hasn't risen as much as it could have done. Food inflation in particular has been surprisingly benign. And that has helped ease the initial squeeze on households. How much longer that can continue, in an environment of rising energy prices and a fragile jobs market, is debatable.

GDP data has broadly followed a familiar seasonal pattern this year



Source: Macrobond, ING

As for the Bank of England, it has long appeared sceptical about the UK's growth figures. It has been relying instead on its own "survey-based" metric of activity, which through the first quarter had run significantly cooler than the GDP figures had suggested. And in any case, it remains squarely focused on inflation.

While the rise in energy prices – particularly for natural gas – are a headache for the Bank, there is very little sign that the shock is broadening out into other areas of the inflation basket via so-called second-round effects. We expect another 6-3 vote to keep rates on hold next week, and we remain unconvinced that the Bank will hike rates at all over the coming months.

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