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Britain's Economy as Burnham Takes the Keys

Low Growth, High Debt, Fragile Inflation: The Narrow Corridor Awaiting the Next PM

★ July 2026 ★

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Executive Summary

Britain's next prime minister will inherit an economy that is no longer in acute crisis, but remains boxed in by weak trend growth, high debt, elevated tax pressure, fragile inflation dynamics, and a cooling labour market. Keir Starmer announced his resignation on 22 June and remains in office until the leadership process concludes. Under the timetable set by Labour's National Executive Committee, nominations run from 9 to 16 July; Andy Burnham is the only declared candidate and, if unchallenged, is on course to be confirmed at a special conference on 17 July and formally appointed thereafter, which would make him the seventh prime minister in a decade. The constraints, however, transcend personalities. Whoever takes over will face the same hard arithmetic: Britain needs faster growth yet has limited room for unfunded tax cuts, broad demand stimulus, or large spending commitments not clearly linked to productivity.

The economy is not collapsing. Real GDP grew 0.7% in the three months to April 2026, the fifth consecutive three-month expansion. Yet institutional forecasts cluster around 0.9% to 1.1% for the full year, implying that momentum is expected to fade. Inflation has eased to 2.8% but remains 0.8 percentage points above the Bank of England's 2% target, with services inflation sticky at 3.7%. Bank Rate is 3.75%, held in June by a 7-2 vote in which two members sought a hike. Public sector borrowing is overshooting forecasts, debt stands at 95.1% of GDP, May debt interest alone reached £11.7 billion, and the tax take is heading toward a historic 38.5% of GDP. Real regular pay is barely positive, and productivity remains the binding constraint.

The central message is one of a narrow corridor. There is enough momentum to build on, but not enough to relax. The base case is slow improvement if the next government preserves fiscal credibility, avoids inflationary stimulus, and executes supply-side reform. The downside case, driven by fiscal slippage, weak delivery, or an energy shock, would keep inflation above target, delay monetary easing, lift gilt yields, and squeeze households again. Success will depend less on rhetoric than on execution.

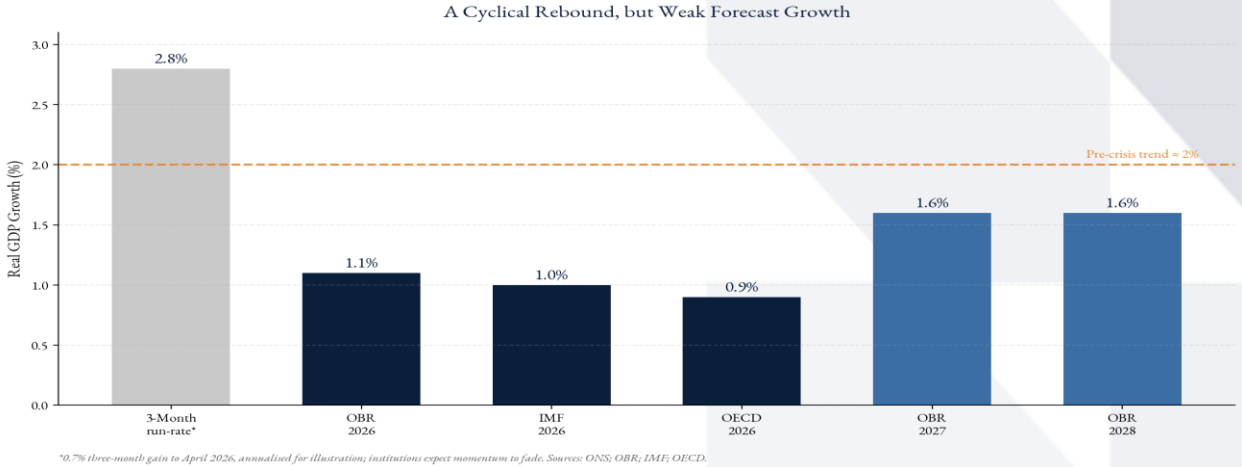

Figure 1. A cyclical rebound, but forecast growth well below the pre-crisis trend. Sources: ONS; OBR; IMF; OECD.

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Growth: A Rebound That Is Not Yet Enough

The recovery is real but uneven, and still heavily dependent on services. Services output rose 0.8% in the three months to April and construction rose 1.6%, while production output fell 0.1%. Manufacturing expanded 0.6%, not enough to offset weakness elsewhere in production. The recovery is therefore not yet broad-based across the productive economy.

The monthly picture is less reassuring. GDP fell 0.1% in April after rising 0.3% in March and 0.4% in February, the first monthly fall since August 2025. Services fell 0.2% on the month, production was flat, and construction rose only 0.1%. The economy entered the second quarter with less momentum than the three-month figure implies.

Institutional forecasts show the scale of the challenge. The Office for Budget Responsibility expects real GDP growth of 1.1% in 2026, then 1.6% in 2027 and 2028. The IMF projects 1.0% in 2026, while the OECD forecasts 0.9% in 2026 and 1.1% in 2027. These are not recession forecasts, but they are too weak to generate a strong fiscal dividend. A 0.7% three-month gain looks strong, yet the full-year range of roughly 0.9% to 1.1% implies institutions expect the pace to ease, a fading linked to energy costs, global uncertainty, high real interest rates, weak investment, and activity pulled forward earlier in the year.

The first challenge for the next prime minister is therefore to convert a cyclical rebound into a durable improvement in potential growth. A services-led recovery can support employment and tax receipts, but it cannot by itself solve Britain's productivity weakness, housing shortage, infrastructure bottlenecks, or regional disparities. The policy focus has to move from headline GDP to the composition and sustainability of growth.

Inflation: Eased, But The Target Is Not Secured

Inflation has fallen sharply from the cost-of-living crisis, but it is not yet safely back at target. CPI inflation was 2.8% in May 2026, unchanged from April, which is 0.8 percentage points above the Bank of England's 2% target. CPIH, which includes owner-occupiers' housing costs, stood at 3.0%, a full percentage point above target.

The composition matters more than the headline. Core CPI rose to 2.6%, while services inflation rose to 3.7% from 3.2% in April. Goods inflation, by contrast, slowed from 2.4% to 2.0%. The gap between services and goods inflation therefore widened to 1.7 percentage points in May from 0.8 in April. That widening explains the Bank's caution: goods disinflation is helping, but domestic services prices, closely linked to wages, rents, and local costs, remain sticky and are harder to dismiss than imported goods swings.

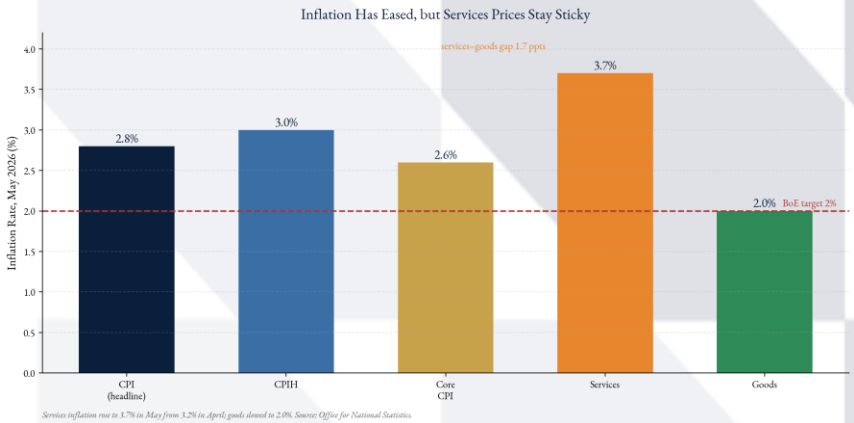

Figure 2. Sticky services inflation keeps the Bank of England cautious. Source: Office for National Statistics.

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The Bank of England held Bank Rate at 3.75% in June by a 7-2 vote, with the two dissenters seeking a rise to 4.0%, a hawkish signal. The real policy rate is still restrictive: using headline CPI, Bank Rate implies an ex-post real rate of about 0.95 percentage points, or about 0.75 using CPIH. Monetary policy therefore remains tight enough to weigh on mortgages, business finance, and investment. The implication for the next prime minister is clear: any fiscal package that looks inflationary could slow easing, keep mortgage rates higher for longer, and raise borrowing costs. The safest growth strategy expands supply capacity rather than demand, through planning reform, grid investment, housing delivery, participation, skills, and business-investment incentives.

Public Finances: The Hardest Constraint

The fiscal numbers are the central constraint on the next government. Public sector borrowing was £23.3 billion in May 2026, £5.4 billion higher than a year earlier (a rise of 30.4%) and £5.6 billion above the OBR forecast of £17.7 billion, a single-month miss of roughly 32%. Coming early in the financial year, it matters for credibility. Borrowing in the financial year to May reached £46.3 billion, £8.9 billion higher than a year earlier and £7.7 billion above the OBR forecast, around 20% above profile.

The current budget deficit, which measures borrowing for day-to-day activity rather than investment, reached £18.5 billion in May and £34.5 billion in the year to May, £7.0 billion (25.5%) above a year earlier and £6.0 billion above forecast. This weakens the argument that borrowing pressure is only about long-term investment.

Debt interest is the clearest warning. Central government debt interest payable was £11.7 billion in May, up £4.1 billion from May 2025, a rise of 54.4%, and equivalent to about half of total public sector borrowing in the month. For every £2 borrowed in May, roughly £1 was matched by debt interest. Index-linked gilts make monthly interest volatile (RPI uplift added £4.9 billion to May interest), but the direction of risk is clear. With public sector net debt at 95.1% of GDP, 0.7 points above the OBR's March forecast, the public finances are highly sensitive to inflation, gilt yields, and nominal growth. The issue is not simply that debt is high, but that it is high while borrowing overshoots, current spending is under pressure, and interest costs are volatile. A government with this profile cannot afford a market-credibility shock.

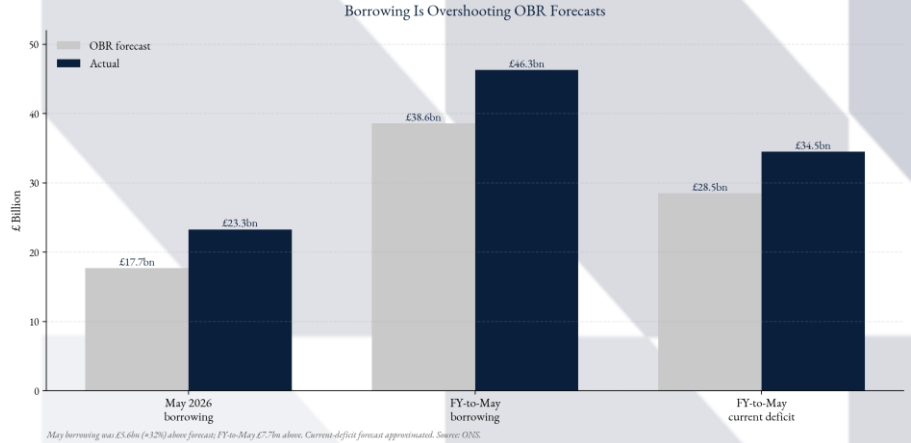

Figure 3. Borrowing is running materially above the OBR's profile. Source: Office for National Statistics.

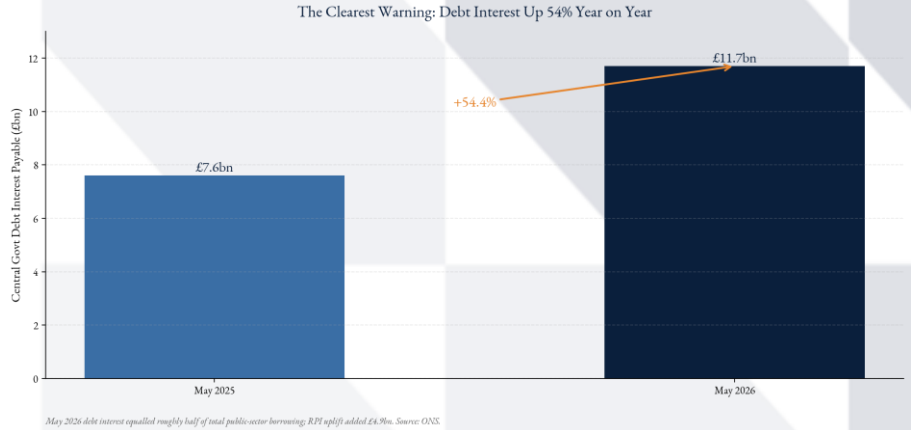

Figure 4. Debt interest up 54% year on year, about half of monthly borrowing. Source: ONS.

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The Tax Burden: A Political Squeeze

The UK already faces a heavy tax outlook. The OBR expects National Accounts taxes to rise from 34.5% of GDP in 2024-25 to 38.5% by 2030-31, a four-percentage-point increase over six years that would be a historic high, and 5.6 points above the pre-pandemic level of 32.9% in 2019-20.

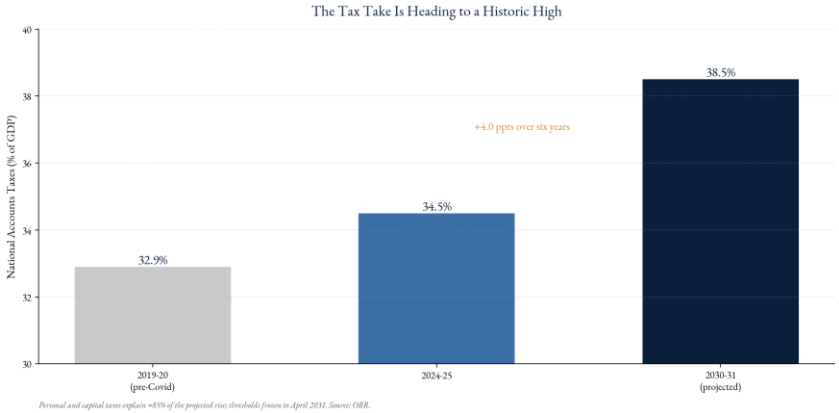

Figure 5. The tax take is projected to reach a historic high by 2030-31. Source: OBR.

The drivers matter. The OBR attributes 2.4 percentage points of the rise to personal taxes (mainly income tax and National Insurance) and 0.9 points to capital taxes, together about 85% of the increase. Much of the personal rise is linked to earnings growth and the freeze in personal tax thresholds until April 2031. This creates a political trap: households feel overtaxed and businesses argue the system discourages hiring and investment, yet the fiscal numbers leave little room for broad tax cuts unless spending falls, growth accelerates, or markets accept higher borrowing.

The next prime minister should therefore focus on tax reform rather than large headline cuts, improving incentives per pound of fiscal cost through predictable investment allowances, better-targeted research and development incentives, simpler business taxation, reform of property-related distortions, and a structure that encourages work, saving, and investment. The key test is not whether a tax cut is popular, but whether it raises potential output: a reform that lifts investment, labour supply, or productivity may pay for part of itself, whereas one that only lifts disposable income temporarily risks worsening borrowing and inflation.

The Labour Market: Cooling, With Weak Living Standards

The labour market is no longer overheating. The employment rate was 75.0% in February to April 2026, broadly unchanged; the unemployment rate was 4.9%, up 0.3 points over the year but down 0.3 on the quarter; and economic inactivity stood at 21.0%. Payroll data show clearer softening: payrolled employees fell by 138,000 between April 2025 and April 2026 (down 0.5%), and by 53,000 between March and April alone. The early May estimate showed payrolls down 119,000 year on year, though broadly flat on the month at 30.3 million. Vacancies fell by 19,000 to 707,000 in March to May, the lowest since early 2021, suggesting employers are becoming more cautious.

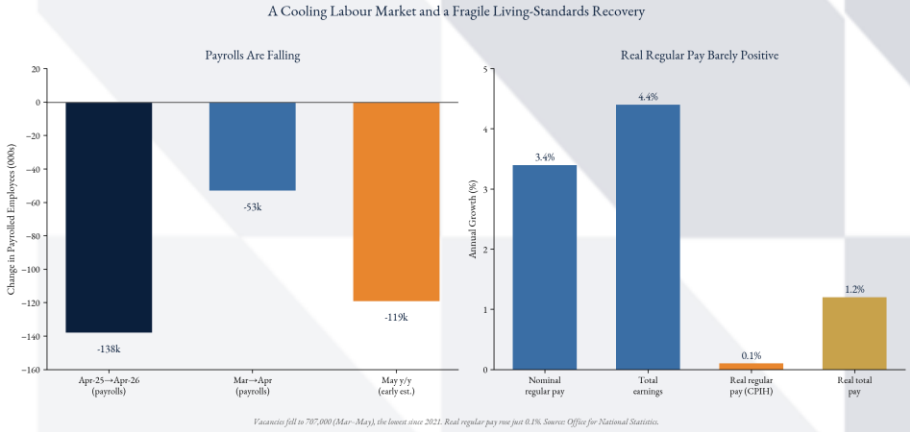

Figure 6. Payrolls and vacancies are falling while real regular pay is barely positive. Source: ONS.

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Pay data show why the living-standards recovery is still fragile. Nominal regular earnings rose 3.4% in February to April and total earnings rose 4.4%, but after adjusting for CPIH, real regular pay rose only 0.1%. Total real pay rose 1.2%, helped by bonuses, yet regular pay is the better guide to household income momentum. This is growth without feel: headline GDP can improve while households still feel little recovery in their daily budgets. The next prime minister will need a growth strategy that raises real wages through productivity, not through inflationary wage pressure or fiscal transfers funded by higher borrowing.

Productivity: The Binding Constraint

Productivity remains the core structural weakness. ONS estimates based on the Labour Force Survey show output per hour in the first quarter of 2026 was only 0.4% higher than a year earlier, while output per worker fell 0.1%. GVA rose 1.1% while the number of workers rose 1.2%, so the economy produced more largely because it used more workers, not because each worker produced meaningfully more. Administrative-data estimates give a stronger picture (output per hour up 2.1%, output per worker up 1.6%), but even with that caveat the long-term problem is unchanged: productivity growth remains too weak compared with the pre-financial-crisis period.

This is why the next prime minister's programme should be judged by productivity outcomes. Housing, transport, health, skills, planning, energy, and artificial intelligence are not separate silos; they all affect output per hour. A productivity-led agenda should target specific bottlenecks: faster planning approvals to unlock housing, laboratories, data centres, logistics, and energy infrastructure; grid investment to reduce delays for renewable and industrial users; better transport to enlarge effective labour markets; skills reform for construction, engineering, health, care, digital, and advanced manufacturing; and broad-based AI adoption to lift services productivity beyond a few large firms.

Housing And Infrastructure: Now Macroeconomic Policy

Housing supply is one of the clearest examples of a social issue becoming a macroeconomic constraint. The OBR expects net additions to the UK housing stock to fall from an average of 260,000 a year in the early 2020s to a low of 220,000 in 2026-27, a fall of about 15%. It then expects net additions to rise to just over 305,000 by 2030-31 if planning reforms take effect, an increase of nearly 39% from the low. The scale of that required acceleration shows why planning reform is central to the growth model, not a marginal issue.

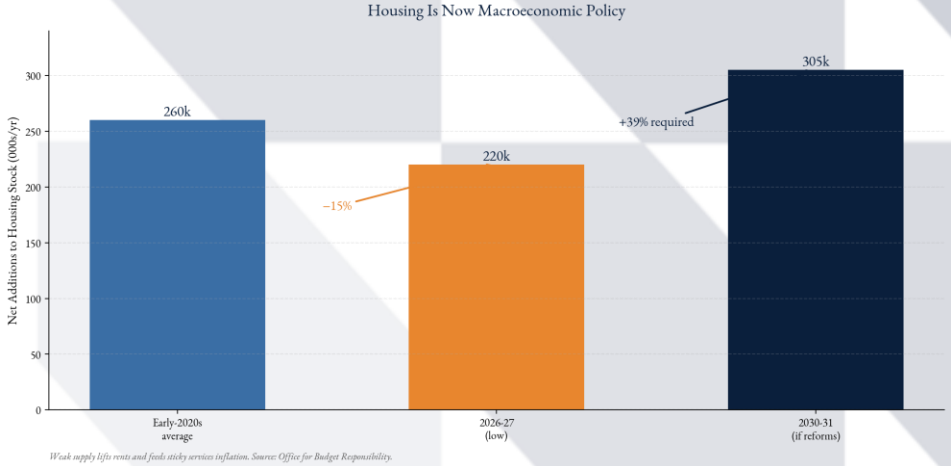

Figure 7. Housing delivery must accelerate nearly 39% from its 2026-27 low. Source: OBR.

The housing-to-inflation link is direct. Weak housing supply puts upward pressure on rents, which feed into household costs and contribute to the stubbornness of services inflation, already 3.7% and well above target. Weak supply also limits labour mobility, makes it harder for workers to move to high-productivity areas, worsens intergenerational inequality, and creates recruitment problems for public services in expensive regions.

If housing supply disappoints, the growth agenda will disappoint with it. Infrastructure follows the same logic: Britain needs faster delivery of energy networks, water, transport, and digital capacity, but high debt means the state cannot do everything alone and must crowd in private capital, including pension funds and long-term institutional investors, while reducing planning, regulatory, and delivery risk.

The External Position: A Structural Goods Gap

The UK's external position adds another constraint. The total goods and services trade deficit, excluding precious metals, widened by £7.7 billion to £9.9 billion in the three months to April 2026, up from around £2.2 billion in the previous period. The goods deficit is the structural weak point, widening by £7.6 billion to £62.5 billion, while the services surplus of £52.6 billion offset most but not all of the gap. In April alone, goods imports were £54.1 billion against exports of £33.1 billion, a £21.0 billion monthly deficit, with imports about 63% above exports.

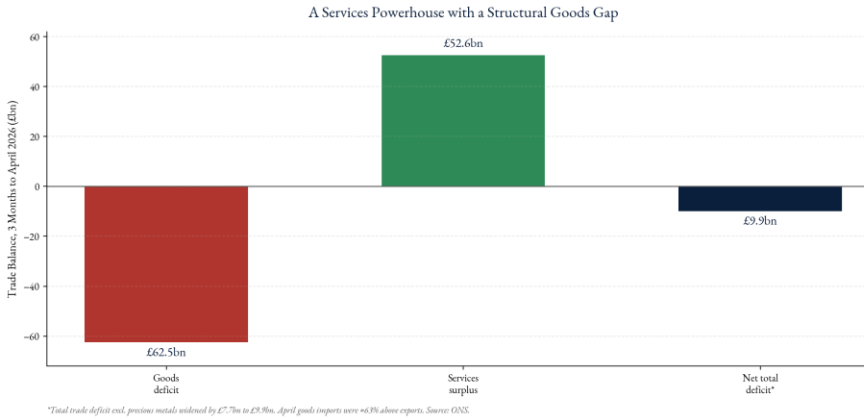

Figure 8. A services surplus cannot fully offset a large goods deficit. Source: ONS.

The policy implication is not protectionism but targeted competitiveness. Britain should build on strengths in financial and professional services, higher education, life sciences, creative industries, clean-energy services, financial technology, and AI applications, while strengthening industrial capacity where energy costs, planning delays, and infrastructure bottlenecks currently weaken competitiveness. The external data reinforce the case for energy resilience and export competitiveness as central to the growth model.

Regional Growth: The Political Test

The next prime minister will also face a regional living-standards challenge. Britain's growth problem is not evenly distributed: London and parts of the South East remain highly productive, while many towns and regions face weaker transport links, lower investment, fewer high-wage jobs, and poorer health outcomes. A devolution and regional-growth agenda could be politically powerful, but it must be measured against hard outcomes, not slogans, tracking housing completions, private investment, business formation, employment rates, journey times, skills, health participation, and productivity by region.

For the incoming Burnham government, expected to take office on 17 July, devolution would be judged by whether it accelerates delivery. Burnham has pledged to work within the current government's overall spending and borrowing plans and not to raise taxes on working people, signals aimed at reassuring markets, while floating an easing of the recent rise in employer National Insurance contributions and a decentralising agenda that would hand regions greater control over housing, transport, skills, and investment. Moving power out of Whitehall can help if local leaders gain real control over transport, housing, skills, and investment coordination, but devolution will not automatically raise productivity; it needs funding clarity, accountability, and the ability to mobilise private capital. The risk is that regional policy becomes another layer of governance; the opportunity is that it becomes a delivery mechanism for housing, infrastructure, skills, and local investment.

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Policy Priorities

Seven priorities follow from the data:

- Fiscal credibility first. Reaffirm that day-to-day spending will be funded sustainably and borrowing focused on productive investment; treat the fiscal rules as a credibility anchor. May's overshoot and the debt-interest spike show the margin is thin.

- A supply-focused growth package. Put planning reform, grid acceleration, housing delivery, infrastructure permitting, technical education, and business-investment incentives at the centre, all compatible with the inflation and debt constraints.

- Labour-market participation. Treat health-related inactivity, youth disconnection, childcare barriers, and skills mismatches as macroeconomic issues; raising labour supply improves growth and the fiscal position without higher tax rates.

- Productivity through technology and investment. Link AI, digital adoption, clean-energy technology, life sciences, and advanced services to practical diffusion across ordinary businesses, not only leading firms.

- Energy resilience. With the Bank of England and IMF both flagging energy shocks as a risk, expand domestic capacity, storage, grid investment, and efficiency; frame energy policy as inflation and competitiveness policy.

- Tax reform for investment. With the tax take heading toward 38.5% of GDP, avoid unfunded broad cuts and improve incentives via investment allowances, research and development, business rates, and property taxation, viewed through a productivity lens.

- Delivery discipline. Britain does not lack policy papers; it lacks consistent execution. Choose a small number of measurable economic missions and report progress publicly against clear indicators.

Outlook

Britain's next prime minister will not inherit an economy in free fall, but one where the margin for error is narrow. Growth has returned, yet the 2026 forecast range of roughly 0.9% to 1.1% is weak. Inflation has eased, but CPI remains 0.8 points above target and services inflation is still 3.7%. Bank Rate is 3.75%, with two MPC members seeking a rise. Borrowing is overshooting, debt is 95.1% of GDP, and May debt interest alone reached £11.7 billion. The tax take is heading toward a historic high, the labour market is cooling, and real regular pay growth is barely positive. Productivity remains the binding constraint.

The base case is slow improvement if the government preserves fiscal credibility, avoids inflationary stimulus, and executes supply-side reform; under that scenario, growth can gradually firm, real incomes can recover, and interest rates can move lower over time. The downside case is equally clear: fiscal slippage, weak delivery, or another energy shock could keep inflation above target, delay monetary easing, lift gilt yields, and squeeze households again, leaving the government trapped between public pressure for relief and market pressure for restraint. Success will depend less on rhetoric than on execution. Britain needs a government that can raise potential output while anchoring fiscal expectations; the numbers permit neither complacency nor overreach, only credible execution.

Sources & References

References are numbered; each links to the primary statistical or institutional source. Data current to June 2026.

Official Statistics & Institutions

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[3] Public sector finances, UK (May 2026): borrowing, current deficit, debt interest, net debt. Link - *Office for National Statistics*

[4] Labour market overview, UK: employment, unemployment, payrolls, vacancies, pay. Link - *Office for National Statistics*

[5] Productivity (output per hour and per worker), UK, Q1 2026. Link - *Office for National Statistics*

[6] UK trade (goods and services balances), three months to April 2026. Link - *Office for National Statistics*

[7] Monetary Policy Summary and Bank Rate decision, June 2026 (7-2 vote). Link - *Bank of England*

[8] Economic and Fiscal Outlook (growth, tax take to 38.5% of GDP, housing net additions). Link - *Office for Budget Responsibility*

[9] World Economic Outlook (UK growth projection, 2026). Link - *International Monetary Fund*

[10] OECD Economic Outlook (UK growth projections, 2026-2027). Link - *OECD*

[11] UK political transition coverage (Starmer resignation 22 June; leadership timetable; Burnham expected confirmation 17 July). Link - *BBC*

Methodology & Disclaimer

This report restructures and contextualizes The Edge for Economic Consultancy's published analysis of the UK economic outlook, with all quantitative claims drawn from the named official sources above as reported through June 2026: GDP, inflation, public finances, labour-market, productivity, and trade data from the Office for National Statistics; the Bank Rate decision and vote from the Bank of England; growth, tax, and housing projections from the Office for Budget Responsibility; and cross-checks from the IMF, OECD, and BBC. Charts present figures exactly as stated in the underlying data; Figure 1's annualised run-rate is illustrative and labelled as such. Forecasts are subject to revision and downside risks including energy costs, gilt yields, and global uncertainty; figures should be re-verified before republication.

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