

What's next?

Predictions for the UK economy in 2025

December 2024



Executive summary

As we turn the page into a new year, businesses, government and the public at large will be planning. With this in mind, we outline predictions on what we think 2025 could look like. We do not claim we have a crystal ball. No one does. However, we understand the need to plan and so we set out plausible trajectories informed by our views based on where the economy and specific sectors within it are likely to head in the future.

What emerges from our analysis is a picture of the UK economy that we anticipate will undergo a subtle yet significant transformation. For instance, we find that:

- Despite a slowdown in recent growth momentum, we continue to expect the UK to extend its lead as the second largest services exporter in the world, second after the US,
- The UK's energy and transport infrastructure continues to evolve to become greener, contributing to an economy that is more resilient and less susceptible to external shocks (something that is not always directly reflected in the headline growth numbers) with commensurate increase in demand for construction workers; and
- The UK's external environment is changing in ways that has not been observed in the past, with economic and defence spending power in the European continent shifting eastwards.

Change brings friction. We will be seeing a lot of this in 2025. Although costly to the affected sectors in the short-term, the silver lining is that it creates space for businesses to innovate, adapt and capture new opportunities. Here's to a healthy and productive 2025.

This pack may not capture the full extent of economic uncertainties at play and the predictions presented should be considered as such.



Our predictions for 2025

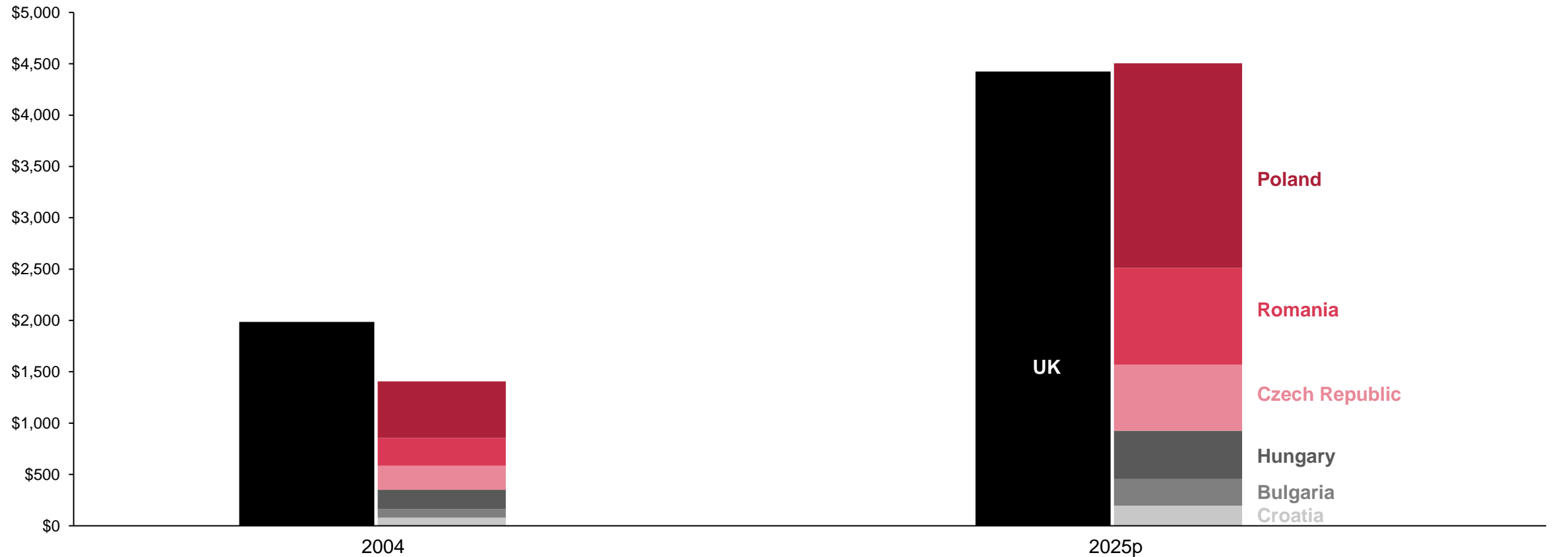
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1. UK dethroned: Eastern Europe to topple UK's longtime lead

Two decades ago, the UK economy was 40% larger than the combined output of the six largest Eastern European EU 'newcomers' – Poland, Romania, Czech Republic, Hungary, Bulgaria and Croatia. In 2025, their collective economy will surpass the UK's.

Gross Domestic Product (PPP terms), in \$bn, 2004 vs 2025p, UK and six largest European newcomers

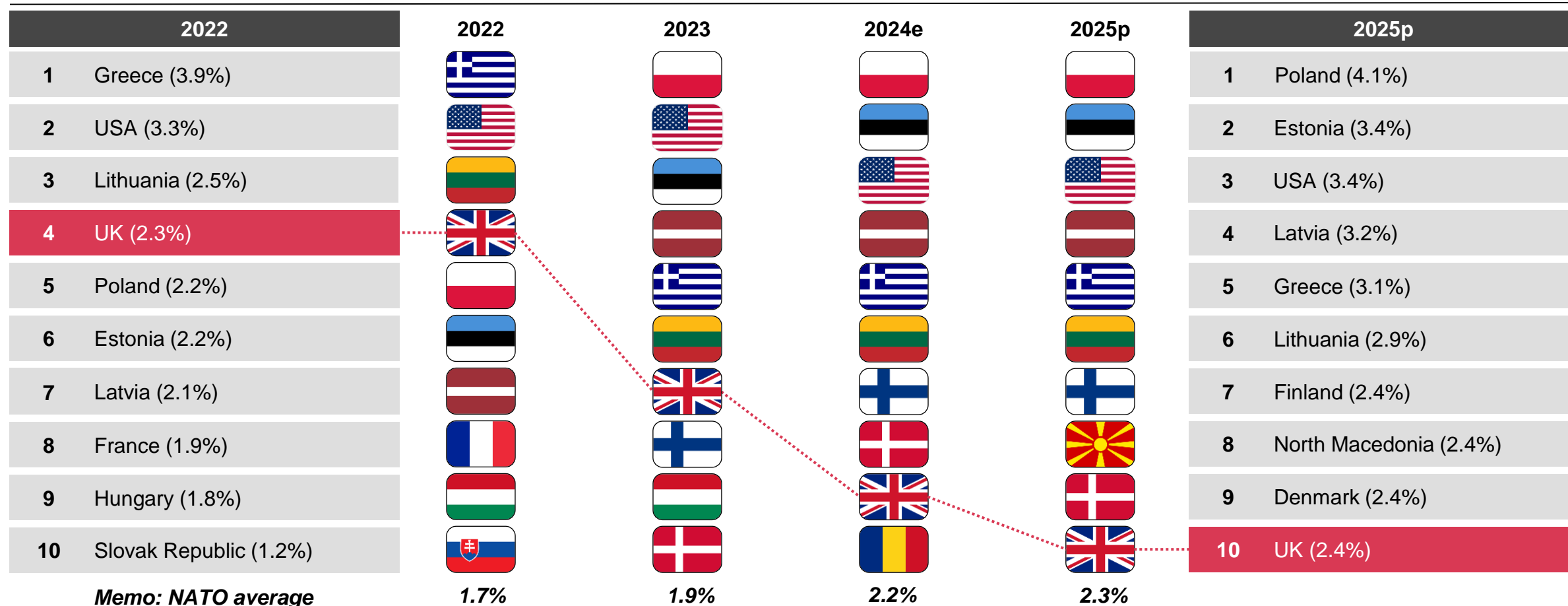


Sources: PwC analysis, IMF (PPP data in 2021 prices). Notes: We include the six largest economies that joined the European Union since 2004.

2. Scaling down: UK to drop in NATO defence spending ranks

On current trends, the UK will fall from the fourth to the tenth largest spender on defence relative to GDP amongst NATO member states. This suggests that it is more likely than not to see some change happening in the future.

Defence spending as a share of GDP for NATO member states, top 10, ranked in descending order, 2022 vs 2025p

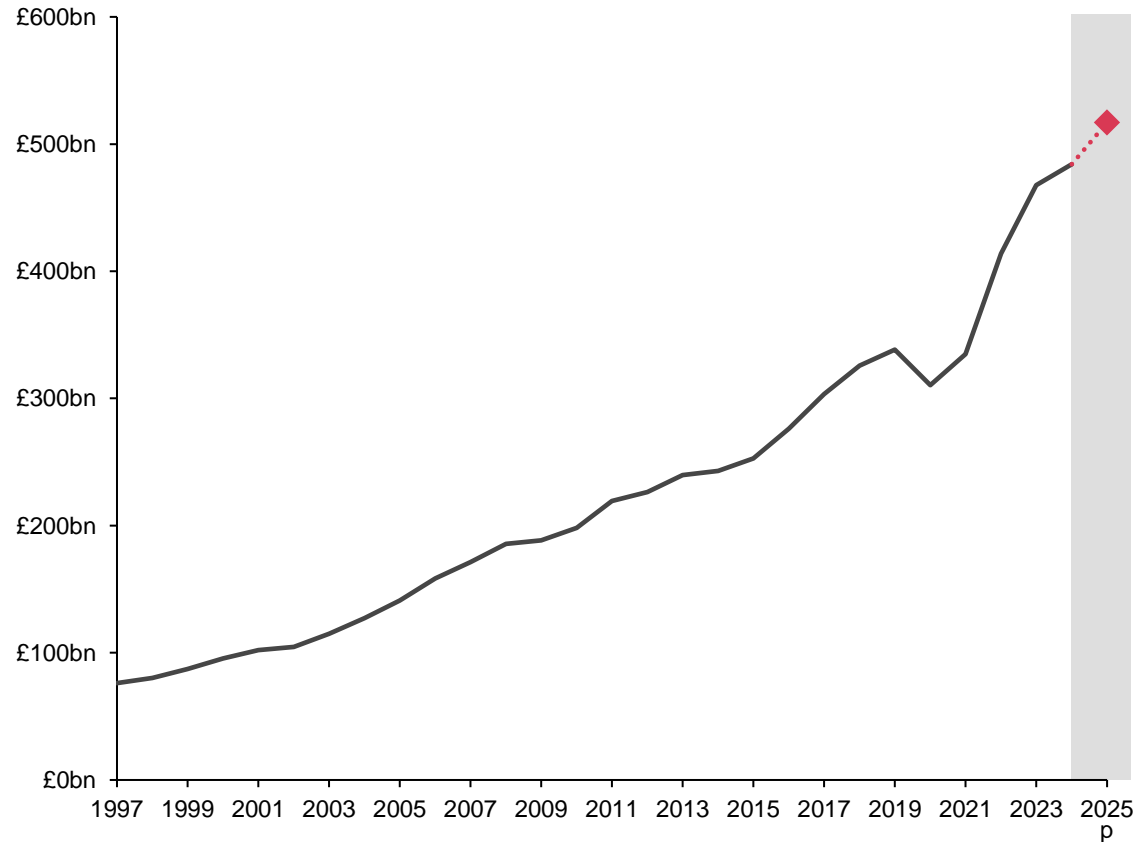


Sources: PwC analysis, NATO. Notes: The UK government will release its plan for defence spending in Spring '25. We assume the defence spending target (2.5%) is met by the end of the parliament (2029) and we assume a linear increase in spending each year to hit this target. We hold defence spending as % of GDP constant from 2024 for all other members states except North Macedonia, which has a defence spending target of 2.4% of GDP in 2025. North Macedonia ranked 11th in 2024 so isn't included on the LHS.

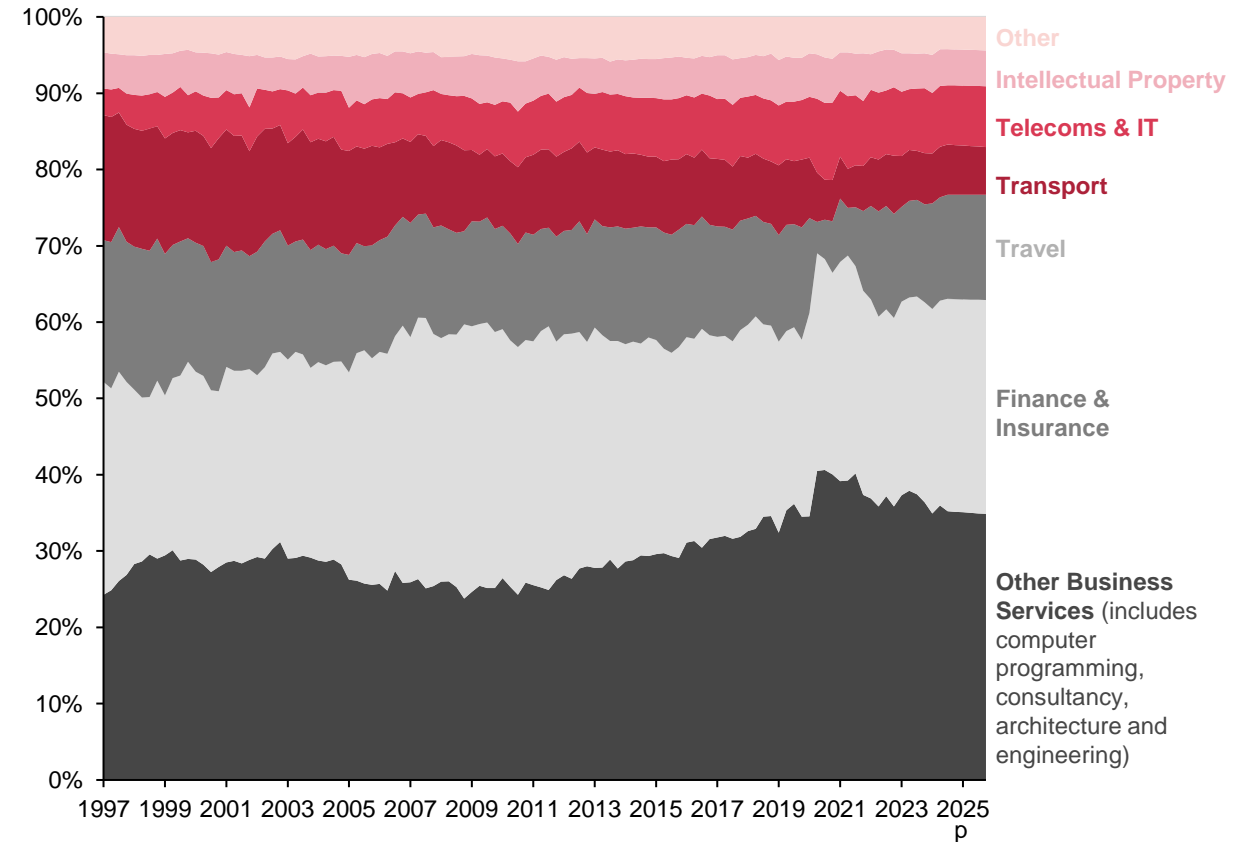
3. Britain's golden engine: Services exports to smash half a trillion, c.20% of UK GDP

UK services exports will surpass the £500bn mark in 2025, equivalent to around one-fifth of the UK's GDP. Finance & Insurance and Other Business Services (which includes computer programming, consultancy, architecture and engineering) will make up almost two-thirds of this figure. In 2025, total UK services exports will be double their levels in 2015, when they were just over £250bn.

UK services exports, £bn, current prices, 1997 to 2025p



Share of total UK services exports, by category, in %, 1997 to 2025p

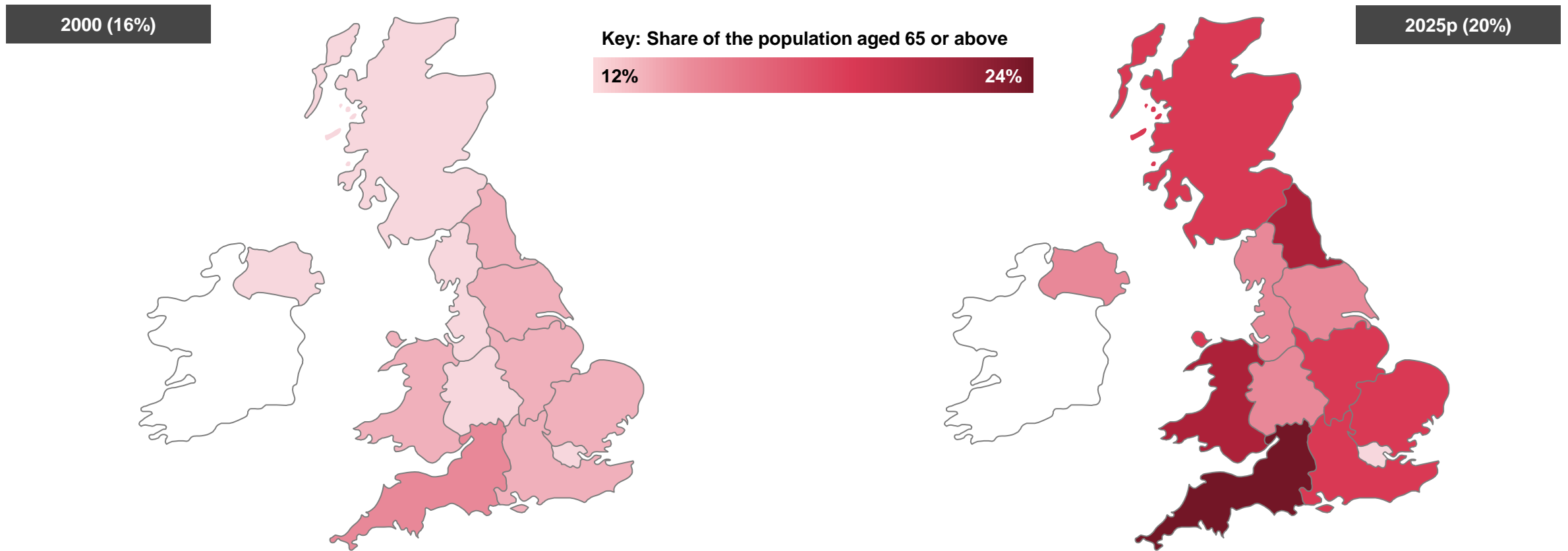


Sources: PwC analysis, ONS. Notes: 'Other' includes Manufacturing and Maintenance Services, Construction Services, Personal, Cultural and Recreational Services and Government Services.

4. Ageing nation: UK faces into a 'greyer' future

In 2025, around 14m people will be aged 65 or over in the UK, equivalent to one-fifth of the nation's population and perhaps more importantly, around a third of the working-age population. In 2000, just 16% were aged 65 or over. Regional pressures will vary with six in ten over 65s living in either London, the South East or the South West. There will be more old people in the North West than Scotland and Northern Ireland combined.

Share of the population aged 65 or above, by UK region, 2000 vs 2025p

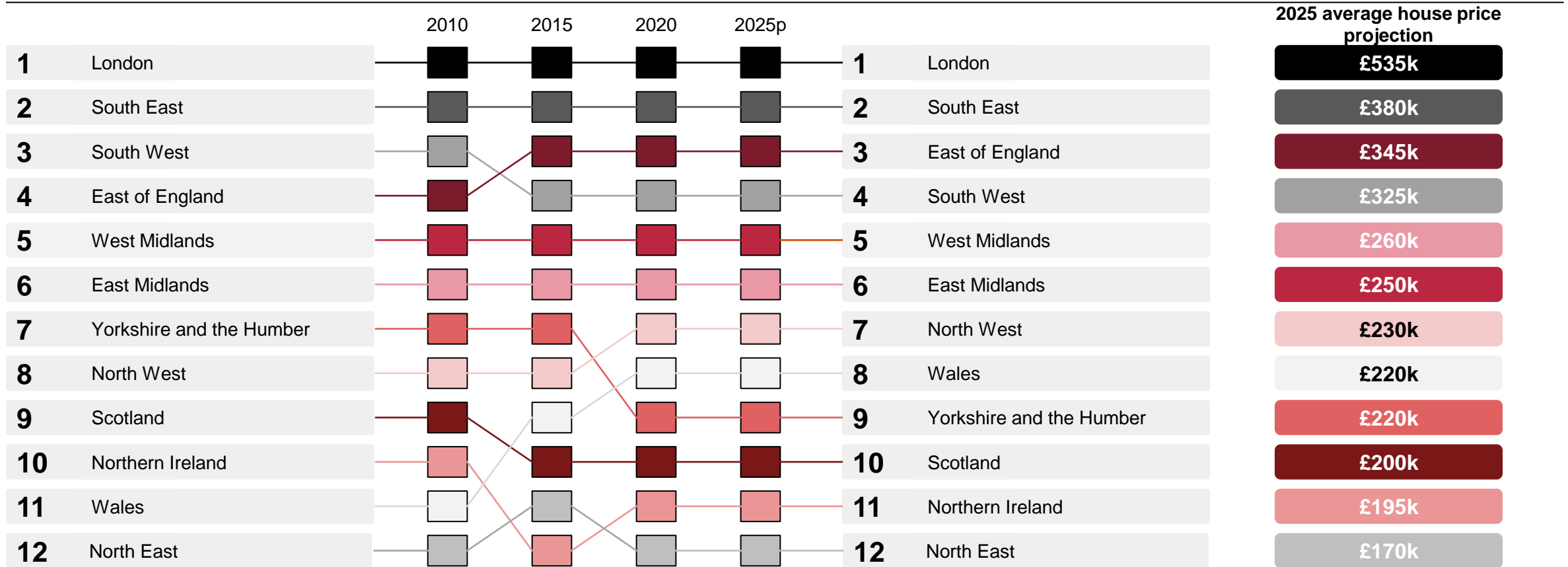


Sources: PwC analysis, ONS, Eurostat. Notes: We use ONS population projections to project the UK's population and number of people 65 years or older for regions in England. We use the historic growth rate between 2000 and 2023 to produce projections for Northern Ireland, Scotland, and Wales.

5. Priced out? House prices in six UK regions to break the £250k barrier

The UK's average house prices are projected to grow modestly probably by less than 6% on a national basis. London's average house price is expected to reach around £535k, while half of the UK regions will surpass £250k on an annual average basis. Only Northern Ireland and the North East typical house prices will remain below £200k.

Average house price (rounded to nearest £5k), by UK region, 2010 to 2025p (PwC main scenario projections)

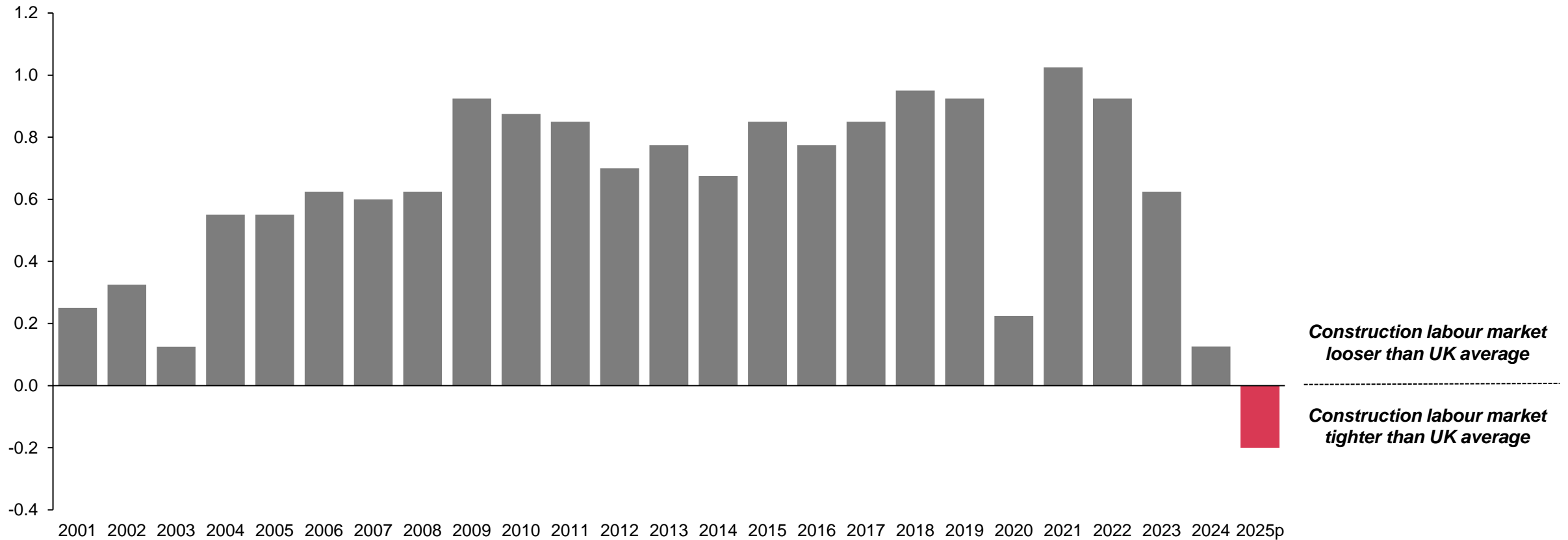


Sources: PwC analysis, ONS, HM Land Registry. Note: we use the ONS House Price Index for our main scenario projections.

6. Bricks without builders: Construction to face labour squeeze

For the first time this century, construction vacancies per 100 employee jobs are set to overtake the UK average. This highlights the supply side and skills constraints employers face to drive a residential and wider construction revolution, and the challenge associated with the pickup in demand for construction workers to achieve the government's target to build 1.5m new homes by the end of the parliament.

Difference between UK average vacancies and construction sector vacancies, vacancies per 100 employee jobs, Q1 2001 to Q4 2025p

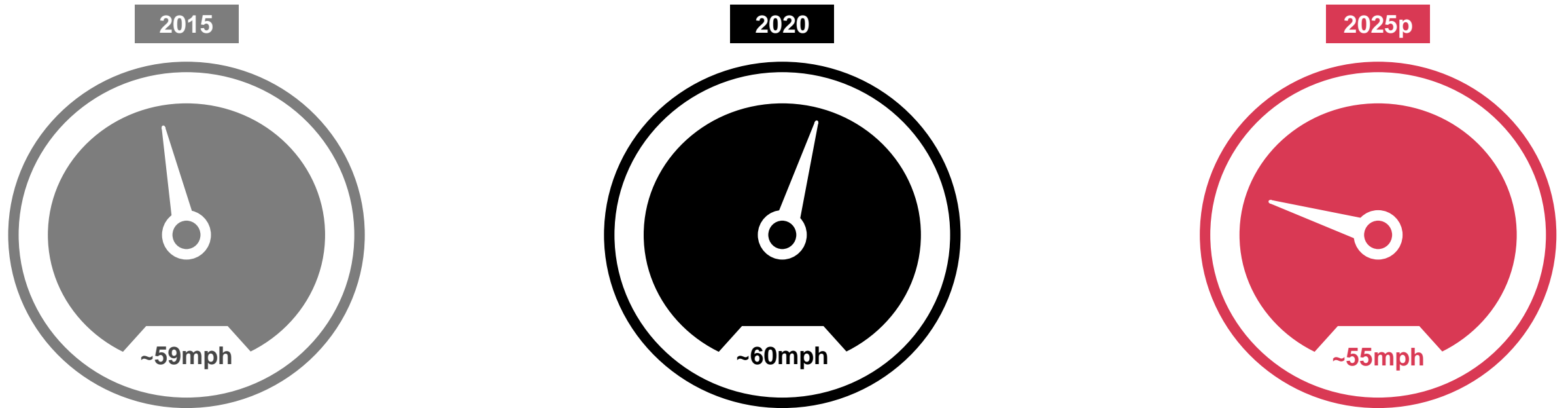


Sources: PwC analysis, ONS. Notes: We use the 'post-pandemic' historic quarterly growth rate (Q1 2022 to Q2 2024) in vacancies to project future levels.

7. Speeding to standstill: Traffic crawls to 55mph

Our road network is becoming more congested, as the number of vehicles on our Strategic Road Network (SRN) road has hit an all-time high. This highlights the need for greater investment in transport infrastructure.

Average speed on the Strategic Road Network (mph) in England, 2015, 2020 & 2025p



Between 2015 and 2019, the average road speed on the Strategic Road Network (SRN) was just under 59mph and fell by 1.3%.

During the pandemic, less traffic on the roads increased the average road speed to above 60mph.

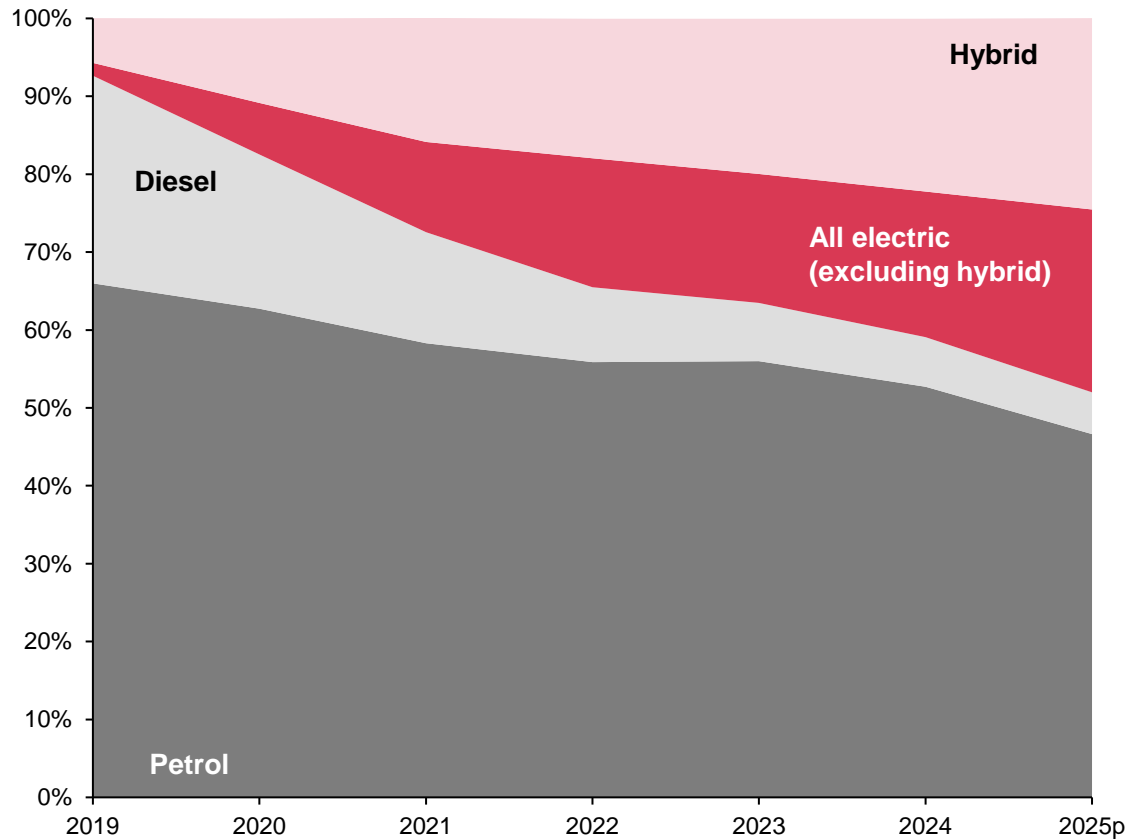
Road speeds have been falling since 2020. The average road speed is forecast to fall further in 2025 to around 55mph.

Sources: PwC analysis, ONS. Notes: We use congestion statistics on the Strategic Road Network ([SRN](#)) as this aligns with the data used predominantly by National Highways. The SRN accounts for less than 3% of the road network but carries around a third of all traffic. A definition and methodology for how average speed is calculated can be found on the [ONS website](#). We use the historic monthly growth rate from May-2015 to Sept-2024 (-0.1%) to project each month from Oct 2024 - Dec 2025, assuming a linear decrease.

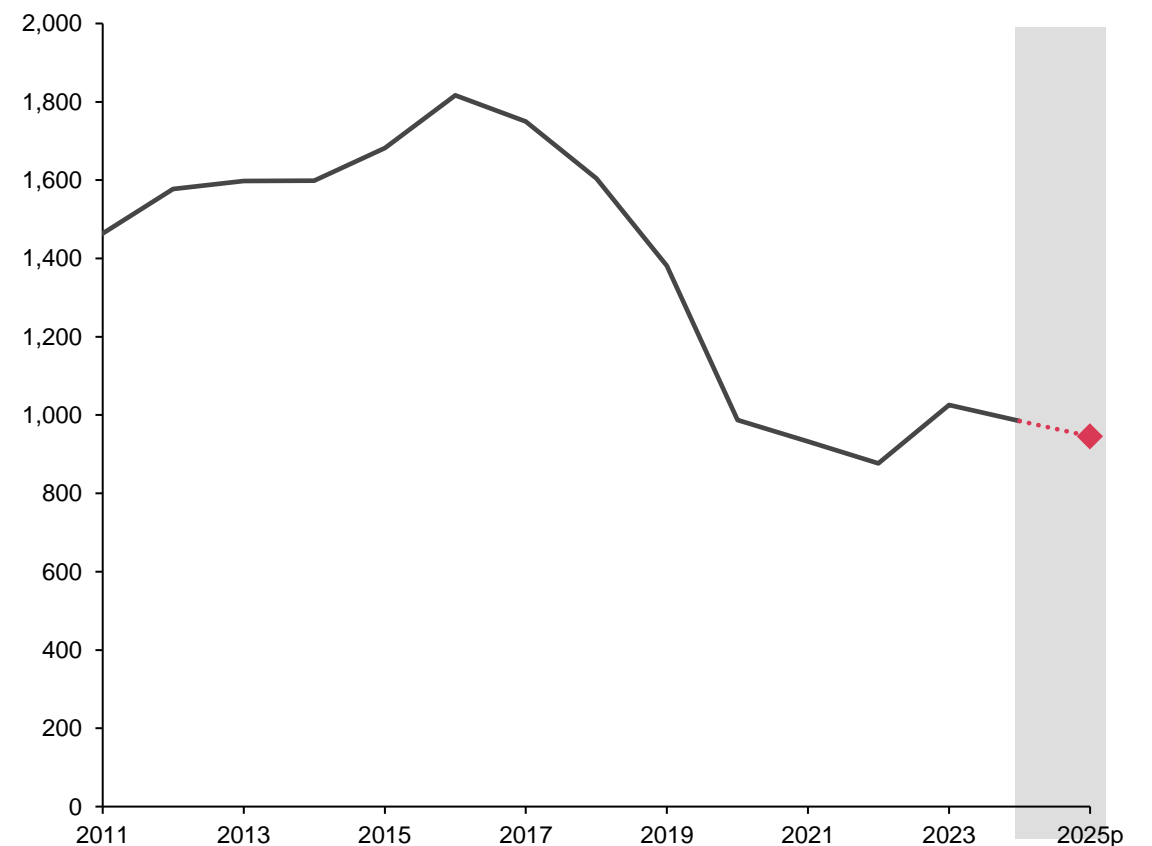
8. Driving the future: Green cars to hit 50% of new registrations

New car registrations for hybrid and electric cars will make up almost half (48%) of new car registrations in 2025. However, the UK's domestic vehicle production will remain just shy of one million vehicles, a significant reduction compared to the 2016 high of 1.8 million.

New registered cars by type, %, 2019 to 2025p



UK vehicle production, thousands, 2011 to 2025p

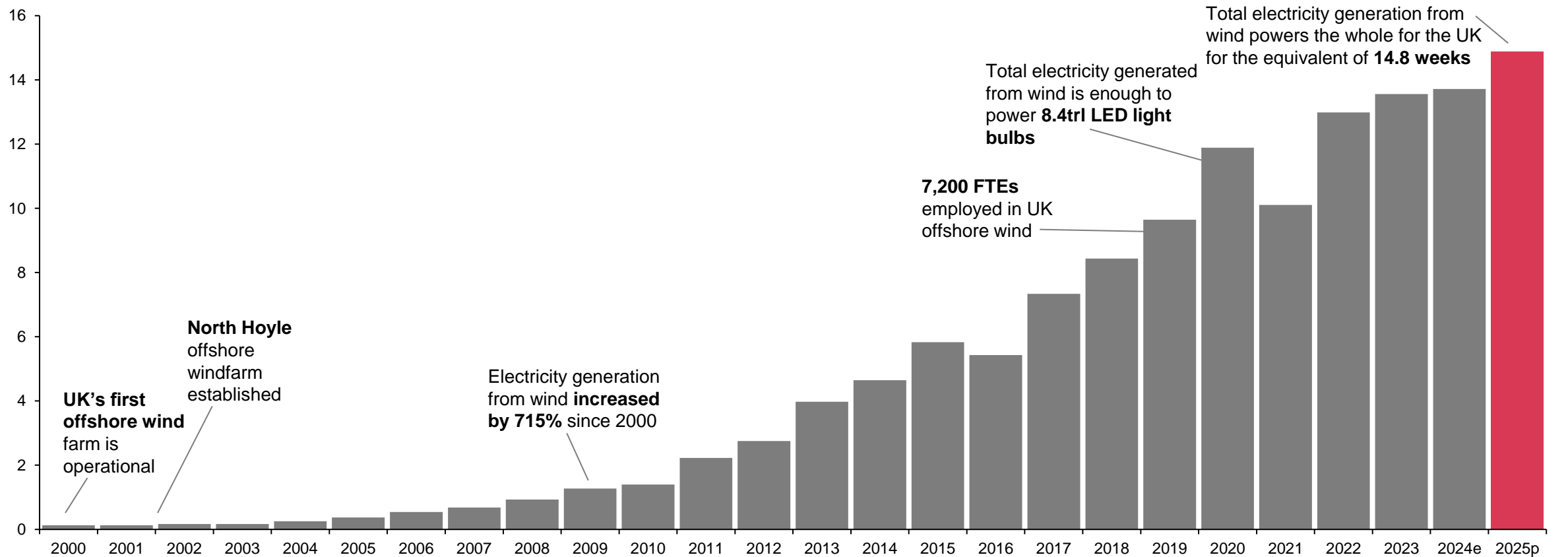


Sources: PwC analysis, OICA, SMMT. Notes: We use OICA data for historic car production and the annual average growth rate from 2011 to 2023 to forecast for 2024 to 2025 (prediction). We use SMMT historic and forecast data.

9. A breath of fresh air: UK wind generation to hit 95 TWh

If this was all used domestically, this would be enough to power the whole of the UK for around three months of the year. However, in the periods when electricity generated from wind exceeds demand, the excess production will be exported through interconnectors. Therefore, to maximise the power of wind, battery storage will need to increase to ensure that the electricity generated from wind is available throughout the year.

Cumulative weeks of electricity generated solely by wind power in the UK, 2000 to 2025p

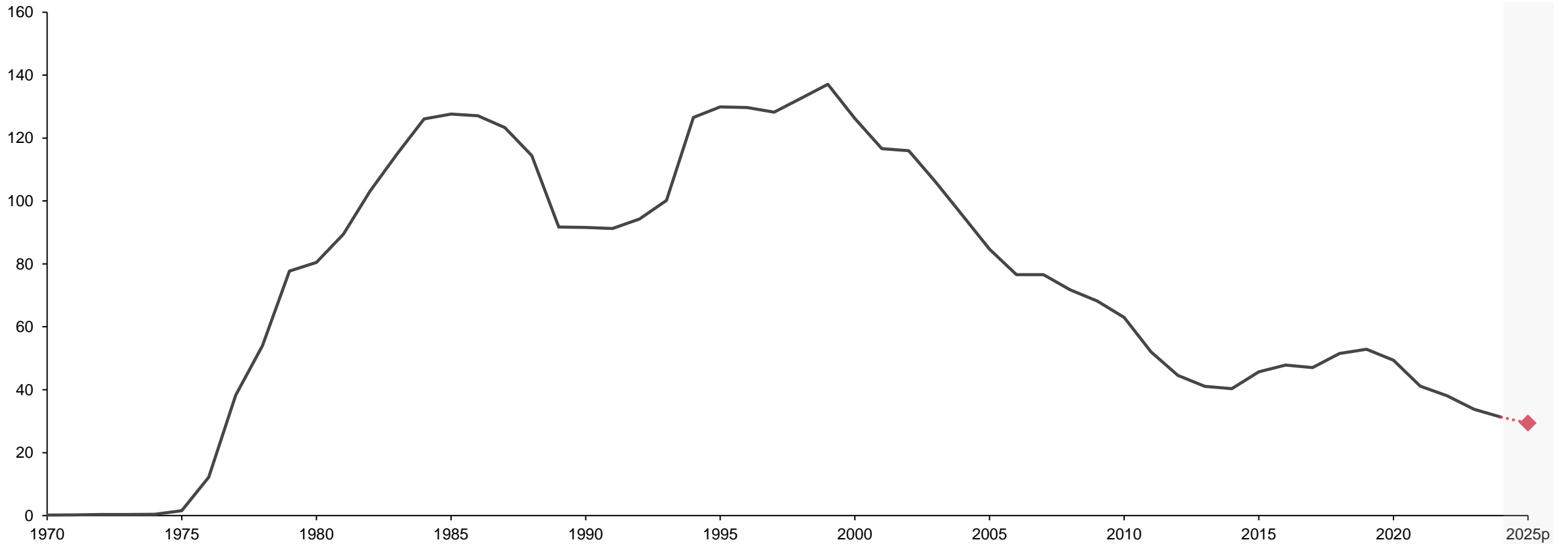


Sources: PwC analysis, Our World in Data, Ember. Notes: We use share of wind power as a percentage of total electricity generation in TWh and multiply by 52 to calculate the number of weeks of electricity generated by wind. We use the average growth rate of electricity generated from each energy source from 2013 to 2024 to project the respective growth rate for 2025.

10. Crude reality: UK oil production to drop to historic low

UK annual indigenous crude oil production will drop to less than 30 million tonnes – this is the lowest recorded level since 1977 which is shortly after North Sea oil production began. This is down considerably from the peak of 137m tonnes in 1999 and means that revenues from the oil and gas will be less than 0.2% of UK GDP.

UK annual indigenous crude oil production, in millions of tonnes, 1970 to 2025p



Sources: PwC analysis, ONS. Notes: We use forecasts provided by The North Sea Transition Authority, which are consistent with the April 2022 Net Zero delivery pathway.

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