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Economic Review October 2026

Healey makes Budget pledge of *"breathing space"* for households

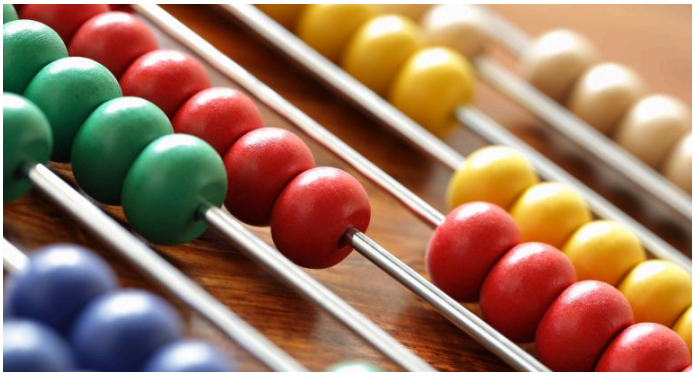
Chancellor John Healey used his first Budget to provide short-term support for households while acknowledging a weaker economic outlook and reduced room in the public finances.

Banks will make what Healey described as a *"temporary additional contribution to help fund household support."* The Bank Corporation Tax Surcharge will rise from 3% to 6% for 15 months from January 2027, raising an estimated £1.5bn before ending in March 2028.

The Office for Budget Responsibility (OBR) increased its 2026 UK growth forecast from 1.1% to 1.2%. However, its 2027 projection was cut from 1.6% to 1.0%, reflecting higher energy prices, borrowing costs and pressure on household incomes. Inflation is now expected to average 3.1% in 2026 and increase to 3.4% in 2027, remaining above the Bank of England's 2% target. In March, the OBR had forecast rates of 2.3% and 2.0%, respectively.

Borrowing has also exceeded earlier expectations. The OBR raised its forecast by £8bn for 2026/27, £4bn for 2027/28 and £400m for 2028/29. The government's fiscal headroom is expected to fall from £23.6bn to £15bn by 2029/30. Borrowing is nevertheless forecast to decline from 4.2% of gross domestic product (£133bn) in 2026/27 to 1.8% (£67bn) by 2031/32. Healey cited the International Monetary Fund's (IMF's) assessment that Britain had achieved the G20's largest borrowing reduction this year and could record the G7's lowest borrowing from 2029.

The OBR warned the outlook remained highly dependent on energy prices. At its post-Budget briefing, fiscal economist Tom Josephs warned that repeated crises had pushed debt higher, limiting the government's ability to respond to future shocks. Healey said the measures would provide *"breathing space for today"* while maintaining fiscal discipline, but the forecasts underline the pressure on growth, inflation and public spending.





IMF warns global growth faces mounting pressure

The global economy is expected to slow this year as conflict, higher commodity prices and financial pressures weigh on activity, according to the IMF.

In its October 2026 World Economic Outlook, the IMF forecast global growth of 3.1% in 2026, followed by a recovery to 3.4% in 2027. It described the world economy as *'resilient'* but said the outlook remained exposed to risks.

Global headline inflation is projected to rise to 4.7% this year before easing to 4.1% in 2027. The IMF said geopolitical conflict had pushed up energy and food prices, creating pressure on households and businesses.

The report identified trade tensions, high public debt and increased borrowing costs as threats to growth. Energy-importing countries outside the AI technology supply chain were said to face the most difficult conditions.

AI featured prominently in the outlook as both a source of growth and a risk. The IMF said investment and productivity improvements could support activity, but warned overvalued expectations or a reversal in AI spending could unsettle financial markets. Managing Director Kristalina Georgieva said, *"Love it, hate it, or fear it, AI is here, rapidly becoming a key driver of countries' relative fortunes in the world economy."*

The UK economy performed better than expected, despite disruption from geopolitical conflict and higher energy costs. The IMF pointed to the country's economic resilience and progress towards stabilising public debt. However, it said higher energy prices and longer-term interest rates could place pressure on household consumption and business investment.

The IMF called on governments to rebuild their financial reserves, safeguard economic stability, strengthen productive capacity and improve international cooperation.

Markets (Data compiled by TOMD)

On the last trading day of October, US stocks retreated as the latest earnings from some of the big tech firms raised concerns over the sustainability of the AI boom. Investors are assessing whether the sums poured into AI infrastructure will deliver returns quickly enough to justify the spending. The tech-focused NASDAQ fell as the sell-off intensified.

Market sentiment was further affected by reports of a heist involving the Binance exchange, triggering losses among cryptocurrency-related stocks. Meanwhile, as some investors moved away from technology shares, defensive sectors attracted increased interest, with several large-cap consumer, oil and pharmaceutical companies seeing buying activity.

In the US, the NASDAQ registered a monthly loss of 5.30% to close on 25,437.00. The Dow Jones gained 1.69% in October to close on 51,770.31. On home shores, the FTSE 100 index closed the month up 1.17% on 10,729.78, while the FTSE 250 lost 0.35% to close on 24,453.36. The FTSE AIM Index fell 4.36% to close on 753.08. In Japan, the Nikkei 225 registered a 5.19% loss in October, closing at 63,290.11. On the continent, the Euro Stoxx 50 fell 2.20% in the month to close on 6,131.31.

On foreign exchanges, the euro closed the month at €1.19 against sterling. The US dollar closed at $1.33 against sterling and at $1.11 against the euro.

Index	Value (30/10/26)		% Movement (since 30/09/26)
FTSE 100	10,729.78	▲	+1.17%
FTSE 250	24,453.36	▼	-0.35%
FTSE AIM	753.08	▼	-4.36%
DOW JONES	51,770.31	▲	+1.69%
NASDAQ COMPOSITE	25,437.00	▼	-5.30%
EURO STOXX 50	6,131.31	▼	-2.20%
NIKKEI 225	63,290.11	▼	-5.19%

Gold closed October trading around $3,891 a troy ounce, a loss of over 7% in the month, driven lower by concerns over inflation and AI expenditure trends. Brent crude oil closed the month up over 13% at $112.55 a barrel. The price rose as conflicting signals over shipping security in the Strait of Hormuz kept market concerns elevated.

UK jobs market sends mixed signals

The UK labour market was mixed in October, with employment improving as vacancies and payroll numbers weakened.

Office for National Statistics (ONS) figures showed the employment rate rose to 75.3% in the three months to August, while unemployment fell to 4.7%. Economic inactivity declined. However, the number of payrolled employees was 111,000 lower than a year earlier in August.

Recruitment demand weakened. Vacancies fell by 21,000 during July to September to 691,000, their lowest level outside the pandemic since 2014. Feedback suggested smaller companies were holding back from recruitment because of higher labour costs. Pay growth remained positive but offered limited improvement in purchasing power. Regular and total earnings both increased by 3.7% annually. After CPIH inflation, regular pay rose by 0.6% and total pay by 0.7%.

Research from The Institute of Chartered Accountants in England and Wales found employment growth among businesses had slowed to its weakest rate since early 2021. Labour costs were identified as a challenge by 53% of firms, alongside geopolitical and economic uncertainty.

Ahead of the Budget, business groups had called for measures addressing the cost and risk of hiring.

UK business growth reaches eight-month high

UK private-sector activity expanded at its fastest pace for eight months in October, supported by stronger demand across services and manufacturing.

The preliminary S&P Global Flash UK Composite Purchasing Managers' Index rose to 53.1 from 52.0 in September. A reading above 50 indicates growth. The result exceeded economists' expectations and marked four consecutive months of expansion.

New business increased at its quickest rate for 25 months, reflecting stronger demand at home and abroad. Companies reported that AI investment and demand for technology services had supported sales.

Both sectors recorded faster output growth. Services activity reached an eight-month high, while manufacturing output posted its strongest rise for more than two years. Private-sector employment also increased, ending a two-year period of declining workforce numbers, although manufacturers cut staffing.

Cost pressures remained elevated. Input-price inflation reached its highest level since June, driven by energy, transport and raw-material costs. Business expectations improved but remained below their long-term average amid geopolitical tensions, weak consumer confidence and uncertainty ahead of the Budget.

All details are correct at the time of writing (2 November 2026)

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