



HARDMAN & CO.

UK ECONOMIC GROWTH

THE LIST OF EIGHT

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Executive summary – The List of Eight

- ▶ Generating growth is the overriding *mantra* of the current Labour Government, and was also central to its predecessor's economic policy. However, generating sufficient growth to finance rapidly expanding public expenditure programmes, especially in relation to post-COVID-19 welfare payments, has proven to be very difficult. The near inevitable result has been a sharp rise in net public debt, which is now close to £3tr.
- ▶ The Office for Budget Responsibility (OBR) published its Economic and Fiscal Outlook in March 2026, projecting an overall real growth figure of just 1.1% for the current year. The 2027/30 medium-term growth figure, in real terms, is a modest 1.6% per year, which is broadly similar to the average since 2010. Compared with most other developed economies outside the EU, these figures seem distinctly pedestrian.
- ▶ Nevertheless, UK growth expectations did receive a boost of a sort when the International Monetary Fund (IMF) upgraded its UK growth projections from 0.8% to 1.0% in respect of the 2026 calendar year.
- ▶ With respect to long-term UK economic growth generation, the Government's 2025 Green Paper identified eight sectors, which it believes offer real prospects for growth. Some comparisons with the much-criticised 1960s strategy of "picking winners" are inevitable.
- ▶ Of the favoured sectors in the List of Eight, the prevalence of AI opportunities is self-evident. Not surprisingly, Technology is highlighted. Digital expansion over the past decade has been transformational. Quantum technologies, including computing, sensing, imaging and connectivity are highlighted. Inevitably, the US experience with the Magnificent Seven comes to mind – the seven stocks concerned, with Nvidia to the fore, are now valued at a staggering £17.4tr (\$23.5tr).
- ▶ With heightened fears on international security, notwithstanding ongoing wars in Ukraine and Iran, defence has become a top priority – not only for governments but also for investors. The rise in the share price of Rolls Royce, a major aviation defence contractor, has been staggering – a tenfold increase over the past five years. BAE Systems, too, is prospering with a current order book of more than £80bn.
- ▶ Not surprisingly, life sciences (encompassing pharmaceuticals, biotech, medtech, healthcare and diagnostics) is also identified as a growth sector – to the UK's benefit. Over the years, GSK, AstraZeneca, Smith & Nephew, and Convatec, among others, have proved their long-term staying power: longer lifespans and higher population levels should underpin their prospects. More specifically, genomics and medical technologies are identified as having pivotal roles to play.
- ▶ Interestingly, the oil and gas sectors – despite high oil prices currently – are both omitted from the List of Eight. The lack of new operating licences – illustrated by the ongoing debate over the Rosebank oil-field and Jackdaw gas-field – are key: the drive to Net Zero is being given precedence, for the time being at least.

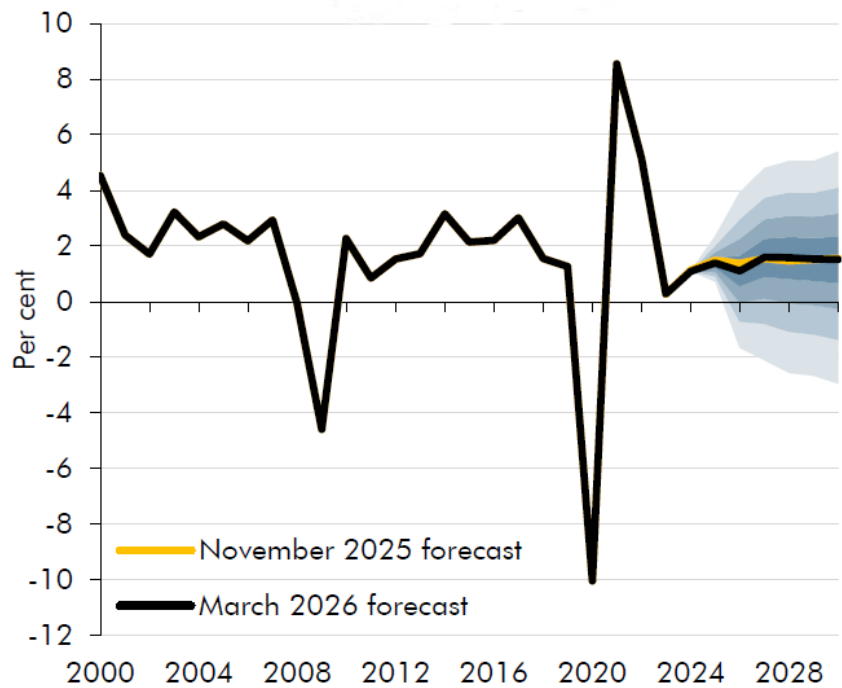
Background

Chasing growth has long been politically popular

Generating economic growth has long been an aim for UK politicians – dating right back to the 1960s and even before. The era of the “white heat of technology”, the establishment of the short-lived Department of Economic Affairs and the “picking winners” initiative are tangible examples of this policy during the years of the Labour governments in the 1960s. The succeeding Conservative administration, in the 1970s, believed that membership of the then European Economic Community (EEC) was the panacea in terms of boosting the UK’s lacklustre growth.

UK growth figures became particularly anaemic from 2010 onwards following the banking crisis. The OBR’s graph of recent growth trends is reproduced below – it does not make for impressive reading.

Recent trends in real GDP growth

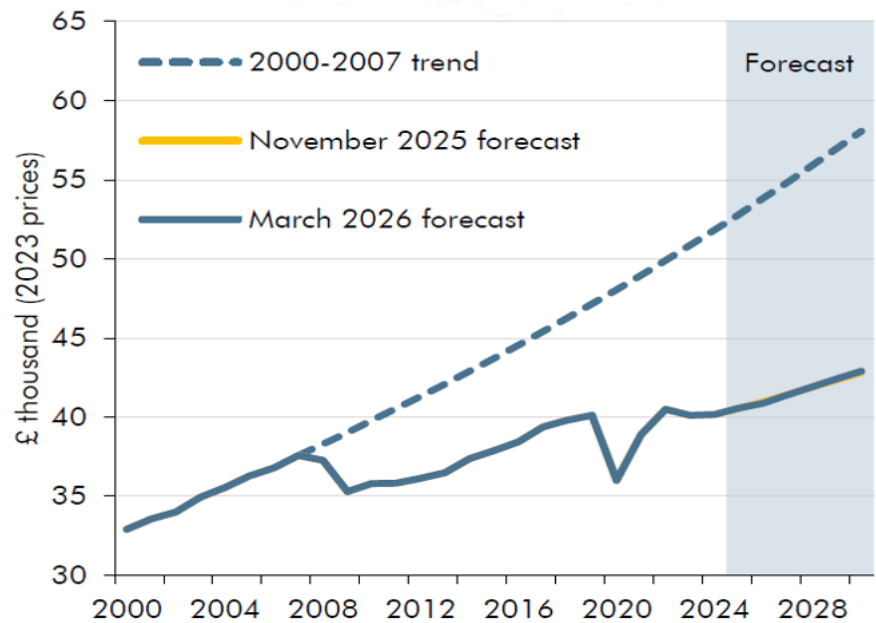


Source: <https://obr.uk/>

The net immigration impact

It is also the case that higher net immigration levels dilute the benefits of overall GDP growth. As such, the OBR has also published a recent graph showing how real economic growth in the UK has been achieved on a *per capita* basis.

Development of real GDP per capita



Source: <https://obr.uk/>

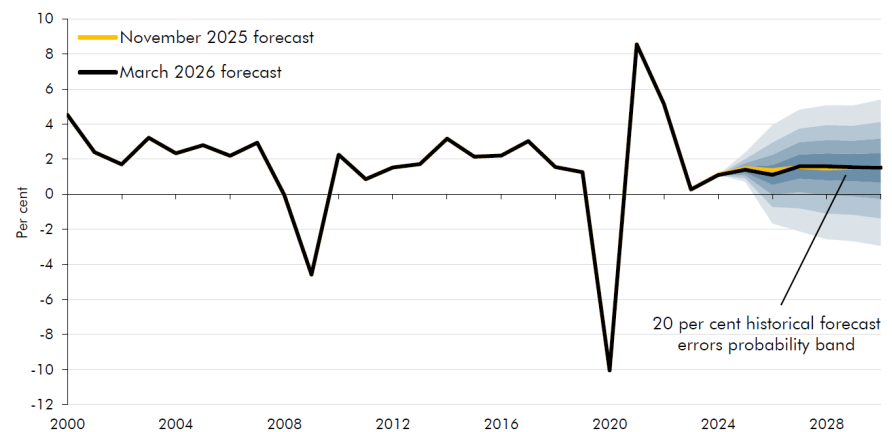
Given the fact that the UK has an increasingly ageing population, it is no surprise that generating economic growth is seen as being pivotal for long-term economic stability.

OBR's pedestrian growth projections

Indeed, looking forward, the OBR has published its growth projections until 2030. In the medium term, between 2027 and 2030, a figure of 1.6% in real terms per year is forecast, which broadly equates to the growth rate achieved since 2010 – hardly, the UK's most distinguished period of economic performance.

The OBR projections for growth until 2030 are set out below: for comparative purposes, the historical data has been retained.

Forecast for real GDP growth to 2030



Source: <https://obr.uk/>

Of course, the above graph is merely a forecast that may be outperformed or underperformed. With the current political instability, and surging borrowing levels, there must be concern that achieving a decent level of growth will be challenging.

OBR's economic growth rationale

In its Economic and Fiscal Outlook, the OBR explains the key assumptions in its growth forecasts until 2030:

"The latter [growth figure] is 0.3 percentage points lower than our November forecast, reflecting weaker-than-expected GDP outturns in late 2025, further evidence of a loosening labour market and subdued business surveys. It then picks up to average 1.6 per cent between 2027 and 2030 as potential productivity gradually rises and the negative output gap closes. Compared to our November forecast, average annual real GDP growth between 2026 and 2030 is broadly unchanged, as the lower growth in potential output is offset by a larger starting output gap which allows for additional growth above the economy's underlying potential. In our central forecast, real GDP per person grows at an average rate of 1.1 per cent a year between 2026 and 2030. This is marginally higher than in November, reflecting slightly higher capital deepening over the forecast from a higher level of investment.

In our central forecast, real GDP growth slows from 1.4 per cent in 2025 to 1.1 per cent in 2026."

The List of Eight

Identifying economic growth as a priority is fine, but it does raise the question as to where that growth will be generated. Picking winners is one solution, but it was not conspicuously successful in the 1960s and the 1970s. This time round, new thinking has produced a revised strategy.

In its 2025 Green Paper, the Government identified eight sectors, which it believes will be pivotal in delivering a sustained period of decent economic growth. These eight sectors are discussed briefly below:

- ▶ **Advanced manufacturing:** Considerable analysis has taken place in respect of how manufacturing can benefit from technical developments, on a similar basis to the growth in the 18th century textile industry in the north-west. AI developments will be the central platform of any such changes, with fears – justifiable or not – of many consequential job losses, as will further development of robotics in major manufacturing plants. Efforts to improve supplier resilience – especially given the current impediments to international trade – and to develop regional manufacturing bases are also highlighted.
- ▶ **Clean energy:** Central to the Government's energy policy is its unbridled commitment to achieving next to Net Zero. The policy is controversial on several grounds, most notably the refusal – for the moment at least – to grant operating licences to key North Sea oil and gas projects, along with the formidable cost of implementing the Net Zero policy. After all, UK wholesale power prices are way above our EU competitors. Furthermore, both Shell and BP have rowed back on their previous plans to embrace renewable energy investment.
- ▶ **Creative industries:** Despite US dominance, especially in film production, the UK has a proud record in many genres of the sector: arguably, it has not built sufficiently upon these successes. The arts are a particular growth area, with theatre and music – exemplified by the Beatles' global triumphs in the 1960s – both being to the fore. Design has also been cited within this segment, alongside – more surprisingly and despite certain ethical considerations – gaming. Indeed, some UK companies have taken advantage of recent US state legislation changes to expand their gaming operations.
- ▶ **Defence:** With ongoing wars in Ukraine and Iran, the defence sector is benefiting from a boom in orders. In Rolls Royce's case, its shares have risen tenfold since May 2021. Other defence stocks, such as BAE Systems, have delivered major growth in recent years: its order book currently exceeds £80bn. Some smaller UK high tech stocks in the defence sector, such as QinetiQ, are also well-placed. Given the current European political environment and rising defence budgets of most EU members, the sector seems set to grow in coming years.
- ▶ **Digital and Technologies:** Once again, AI lies at the core of this priority, as digital technology becomes ever more widespread via the Internet and mobile communication. A particular focus is accorded to quantum technologies, which covers four distinct elements, including computing, sensing/imaging and connectivity. Also included in this segment are engineering developments in the fields of biology and cybersecurity.
- ▶ **Financial services:** While the UK has benefited enormously from the activities of the banking sector in recent decades – the former Royal Bank of Scotland and its infamous £45.5bn emergency "investment" excepted – the scope for the fintech sector to expand further remains considerable. In the US, several such businesses have grown very strongly, not least PayPal. Furthermore, the

provision of back-office services for the financial sector is one area where UK companies are highly experienced and well-positioned.

- ▶ **Life sciences:** In recent years, the life sciences sector has faced challenges. Whereas strategy proved to be very important for the major players, funding has been decisive for smaller players that often offer new technologies. The UK has been at the forefront of genomics research, significantly unlocking major technical advances in understanding the human genome, as well as new medical technologies. Much greater investment is needed, and should be a priority, if the next generation of life sciences companies are to be identified, developed and commercialised in order to mimic the historical success of GSK and AstraZeneca.
- ▶ **Professional and business services:** For decades, invisible earnings have been a key contributor to the UK's balance of payments. Despite setbacks in other areas, several major UK legal, consultancy and accounting businesses have thrived – in the UK and, to a lesser extent, overseas. Securing greater access to the EU market – post Brexit, this has become more of a challenge – to sell such services is key.

Some exclusions from the List of Eight are noteworthy – retailing, house-building and oil/gas being obvious omissions.

To be sure, the UK high street currently faces challenging times, with online sales growing strongly and many major outlets under pressure, especially on the cost front.

Boosting house-building has stalled

House-building – with the Labour Government's 1.5m new-build pledge over a five-year period now looking illusionary – has been beset by weak share prices of late. As always, planning constraints remain a major barrier.

Oil and gas on the Net Zero back-burner

Excluding oil and gas development reflects the over-riding priority accorded to Net Zero, a policy that boosts clean energy investment. But oil, despite high prices, and gas, where the UK reserve stocks are low, are apparently not regarded as being central to the UK's growth potential. There remain, however, substantial untapped reserves of oil and gas in the North Sea.

Barriers to growth

Many hurdles – some have been self-inflicted

While the Government's growth policy may look sound, there have to be serious questions as to whether real – and sustained – economic growth of more than 1.6% per year is achievable.

Aside from normal business risks, the following factors are particularly relevant:

- ▶ **Inflation:** Recurring inflation remains an issue. Although the latest figures saw a short-term fall in CPI to 2.8%, this figure seems set to rise in coming months and to remain way above the Bank of England's target figure of 2% per year.
- ▶ **Energy prices:** Even before the Iran war, UK wholesale energy prices were well above those of most EU countries, with a detrimental impact on competitiveness and growth.
- ▶ **Interest rates:** Despite expectations of further cuts in interest rates, following the 0.25% cut to 3.75% in December 2025, these have recently been superseded by doubts that they can be cut again in the relatively near term.
- ▶ **Tax:** As a percentage of GDP, UK tax levels are now almost 40%; this compares with ca.33% some 15 years or so ago. Generating economic growth against such a background is difficult, as other advanced EU economies have found.
- ▶ **Impositions on employers:** Since the Labour Government entered office in 2024, employers have faced higher National Insurance Contributions, sharp increases in the Minimum Wage and more constraining employment obligations – none is conducive to generating growth.
- ▶ **Investment uncertainties:** Within the private sector, investment levels remain reasonably robust, underpinned by heavy investment by privatised utilities. However, public sector investment remains overshadowed by massive cost and time overruns – the financially illiterate High Speed 2, which could give rise to a £100bn cost for a new railway line between London and Birmingham, and the Hinkley Point C new nuclear power plant with a cost (in current prices) of close to £50bn, are egregious examples of serious mismanagement of key public sector projects.
- ▶ **Increased regulation:** In recent decades, increased regulation, especially on the planning front, has been a major impediment to growth. The ongoing debate about building a third runway at Heathrow Airport is a case in point.

Conclusion

Few economists doubt the benefits of generating economic growth over a sustained period. Over decades, the Singapore economy has dramatically illustrated how such growth can occur, albeit in a very different environment from the UK.

For the latter, the accumulation of net debt of ca.£3tr will assuredly concentrate minds, especially if the political environment – as it seems to do at present – prevents sharp cuts to public expenditure programmes, in particular with respect to the surging welfare budget.

The bond vigilantes are watching

The infamous bond market vigilantes may respond – though not favourably.

About the author

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Nigel specialises in the energy sector, with a particular focus on the expanding renewable generation market, both in the UK and overseas, about which he has written several reports assessing the sector's finances. He has been involved in analysing the utilities sector since the 1980s. He covered the privatisation of the water and electricity companies for Hoare Govett between 1989 and 1995. Subsequently, he researched the UK and EU telecoms sector for Williams de Broe.

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