Llywodraeth Cymru
Welsh Government

Wales Economic and Fiscal Report 2026

November 2026

OGL © Crown copyright 2026, Welsh Government, WG55576, Digital ISBN 978-1-80853-755-4
Mae'r ddogfen hon ar gael yn Gymraeg hefyd / This document is also available in Welsh
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg / We welcome correspondence and telephone calls in Welsh

Foreword

This is the third Wales Economic and Fiscal Report (WEFR) by the Welsh Government, published alongside the Welsh Government Draft Budget. It follows the first and second editions published in 2024 and 2025. WEFR replaces the previous Chief Economist's Reports.

WEFR aims to offer insights into the factors influencing and shaping the economic landscape in Wales. This includes looking at the latest trends in economic output, productivity, demographics living standards, inflation, the labour market, trade and the fiscal outlook.

We hope you continue to find the report interesting and useful. We welcome any feedback on the content or format of the report.

Dr Thomas Nicholls
Chief Economist
Welsh Government

Executive Summary

What is this report?

- This report assesses the Welsh economy, living standards and the fiscal situation at the time of the Draft Budget 2027-28, using data available as of 28th October 2026.
- **Economic output in Wales and the UK continues to grow, but growth remains weak by historical standards.** GDP per person has increased only slowly since the financial crisis, reflecting a broader slowdown seen across advanced economies. Wales continues to have one of the lowest levels of economic output per person in the UK and near-term prospects remain uncertain due to higher energy prices and geopolitical tensions.
- **Improving productivity remains central to raising living standards in Wales.** New ONS estimates suggest UK productivity growth has been stronger than previously measured, but Wales continues to experience one of the largest productivity gaps in the UK. Closing this gap remains one of the most important long-term economic challenges facing Wales.
- **Demographic change is likely to become an increasing constraint on economic growth.** Wales's population is projected to age significantly over coming decades, with population growth slowing and eventually turning negative. A shrinking working-age population is expected to increase pressure on the tax base and public services, placing greater importance on productivity improvements.
- **Living standards have improved from the recent cost-of-living crisis but remain below UK averages.** Household incomes in Wales continue to lag behind most UK regions and poverty rates remain persistently high. Future improvements in living standards are likely to be constrained by weak productivity growth and a challenging fiscal environment.
- **Health outcomes remain closely linked to economic outcomes.** Healthy life expectancy has fallen in recent years and substantial inequalities persist across Wales. Areas with lower incomes typically experience poorer health outcomes, highlighting the close relationship between health, labour market participation and economic prosperity.
- **Wales has made substantial progress in reducing greenhouse gas emissions.** The transition to net zero is expected to generate long-term economic and social benefits, although significant investment will be required. Alongside mitigation, adapting to the impacts of climate change is becoming increasingly important for households, businesses and public services.

- **The labour market remains relatively resilient despite weaker economic conditions.** Employment remains historically high and unemployment comparatively low. However, private sector employment has weakened, youth labour market outcomes have deteriorated and long-term sickness continues to present a major challenge.
- **Business dynamism in Wales has continued to weaken.** Measures of business entry, exit, expansion and contraction remain below pre-financial crisis levels. Reduced labour and capital reallocation may be limiting productivity growth and economic renewal.
- **Inflation remains above target and continues to affect household budgets.** While inflation is well below the peaks experienced in 2022, energy prices remain elevated and recent geopolitical developments present risks to the outlook. Inflationary pressures are expected to remain a challenge over the near term.
- **Housing affordability remains a significant issue despite recent improvements.** Real house prices have fallen from recent peaks, but housing remains less affordable than at the start of devolution. Affordability pressures vary considerably across Wales.
- **International trade continues to play an important role in the Welsh economy.** Wales remains one of the most trade-intensive parts of the UK and exporters are typically more productive than non-exporters. However, businesses continue to face uncertainty arising from geopolitical developments and the longer-term effects of changes in trading relationships.
- **Long-term fiscal challenges are likely to be driven by demographics and economic performance.** Wales continues to receive higher public expenditure per person than the UK average while raising less revenue per person. Future fiscal pressures will depend heavily on how population change, productivity and the Welsh tax base evolve relative to the rest of the UK.
- **Economic statistics continue to evolve and improve.** Developments in labour market statistics, trade data and Welsh analytical datasets are expected to strengthen understanding of economic conditions and support better policymaking in future years.

Contents

Foreword 1
Executive Summary 2
Contents 4
List of figures and tables 5
Introduction 8
Economic Output 9
Productivity 15
Demographics 23
Health and living standards 33
Living Standards 39
Climate Change 51
Labour Market 57
Churn 68
Inflation 70
House Prices 76
International Trade 79
Fiscal Prospects 85
Annexe: Developments in economic data 102

List of figures and tables

Figure 1 - Contributions to UK GDP Growth, 2025 9
Figure 2 - Changes in real GDP per person in UK and G7, 1997 to 2025 11
Figure 3 - Changes in GDP per person within the UK, 1998 to 2024 12
Figure 4 – Growth in Wales and UK real GDP per person, 1998 to 2024 13
Figure 5 - UK GDP forecasts for 2026 and 2027 14
Figure 6 - UK output per hour index, current vs new (component) method, 1997 to 2024 16
Figure 7 - Changes in labour productivity within the UK, 1998 to 2023 18
Figure 8 - Projected population in Wales to 2050 23
Figure 9 - Projected annual changes in population components in Wales to 2050 24
Figure 10 - Projected age profile of Wales' population in selected years, 2025 to 2050 25
Figure 11 - Projected Wales share of the combined Wales and England population by age group, in 2025 to 2050 26
Figure 12 - Life expectancy at birth for females and for males, 1980-1982 to 2022-2024 in the UK and Wales 27
Figure 13 - Healthy Life Expectancy at birth by sex, Wales, between 2011 to 2013 and 2022 to 2024 29
Figure 14 - Healthy Life Expectancy (HLE) at birth by sex and UK Nation, 2011-13 to 2022-24 30
Figure 15 - Healthy life expectancy at age 65 by sex, Wales, 2011 to 2013 to 2022 to 2024 32
Figure 16 – Healthy life expectancy (HLE) at birth by GDHI in Wales, comparing 2012-14 and 2022-24 34
Figure 17*[A-C]* - Healthy Life Expectancy (HLE) by GDHI for Northern Ireland, Scotland and England, 2012-14 (Northern Ireland 2014-16) and 2022-24 36
Figure 18 - Real Disposable Household Income (RHDI) per head (UK =100) by UK countries and English region, 2024 41
Figure 19 - Median weekly equivalised household income for all individuals by UK country and English region, after housing costs (UK=100%) 44
Figure 20 - Percentage of all individuals living in relative income poverty by UK country and English region, FYE 2023 to 2025 46
Figure 21 - Percentage of children in each UK country living in relative income poverty, AHC, three-financial-year averages 47
Figure 22 - Household income (GDHI), economic output (GDP), and household expenditure (HHFCE) all per person, in Wales index (UK=100), 2009-2023 49
Figure 23 - Differences in expenditure between households in Wales and the UK by expenditure type, 2023 50

Figure 24 – Greenhouse gas emissions outturn and forecasts by sector in Wales, 2000 to 2050 52
Figure 25 - Discounted costs and benefits to the UK from emission mitigation, 2025 to 2050 54
Figure 26 - Index of PAYE employees in Wales (2016=100), 2016 to 2026 58
Figure 27 - Change in PAYE employment in Wales by selected sector May-July 2025 to May-July 2026 & sector size 59
Figure 28 - UK youth unemployment rate, 2016 to 2026 60
Figure 29 - Wales economic inactivity rate 16 to 64, 2004 to 2025 63
Figure 30 - Main reason for economic inactivity (excluding students) in Wales, years ending June, 2016 to 2026 64
Figure 31 - Median pay in Wales by pay relative to UK (=100) by sector, 2025 . 66
Figure 32 - Total job churn in Wales as a percentage of active jobs, by type of creation/destruction, 2002-03 to 2024-25 69
Figure 33 - Percentage price changes of selected goods groups and CPI, September 2021 to September 2026 71
Figure 34 - Consumer Prices Index and Household Costs Index annual inflation rates (%) for all households UK, January 2016 to June 2026 73
Figure 35 - Household Costs Indices (HCIs) annual inflation rates by income decile (%), UK, January 2016 to June 2026 74
Figure 36 - Real house price index in England and Wales since devolution, 1999 to 2026 (May 1999 = 100) 76
Figure 37 - Housing purchase affordability ratios across Welsh local authorities, 1998-99 to 2023-24 78
Figure 38 - UK Nations Goods Export share of GDP, 2016-2023 80
Figure 39 - Welsh goods trade performance index by Value and Volume, 2014-2015 to 2025-26 (Q2 2019=100) 82
Figure 40 - Goods Exports performance by UK nation Q2, 2015 to Q2, 2026 (Index: Q2, 2019=100) 83
Figure 41 - UK primary spending as a share of GDP, 1900-01 to 2024-25 86
Figure 42 - Changes to UK primary spending as a share of GDP, 1999-00 to 2024-25 (1999-00=100) 87
Figure 43 - Changes in borrowing (PSNB) and the current budget deficit since March 2026 90
Figure 44 - UK debt interest spending and Public Sector Net Debt as shares of GDP, 1975-76 to 2031-32 91
Figure 45 - Revenue, expenditure & net fiscal balance per person, 2024-25 94
Figure 46 – Financing of the Welsh Government Draft Budget 2027-28 95
Figure 47 – Welsh Government Resource Budget in real terms, £m 96
Figure 48 – Welsh Government General Capital Budget in real terms, £m 97
Figure 49 – Net position between devolved tax forecasts and block grant 98

Figure 50 - Long-term projections for Welsh Government day-to-day spending 100

Introduction

This third Wales Economic and Fiscal Report continues the series of Chief Economist reports published alongside each Draft Budget since 2017.

Wales's close integration with the UK economy means UK developments provide important context. Fiscal, macroeconomic, and monetary policy are reserved matters, while devolved levers including transport, health, education, and planning can shape longer-term outcomes.

The data presented in this report are drawn from a range of official sources and are the most up to date available as of 28th October 2026. However, official statistics are subject to revision as information and methods improve. The report highlights known revisions and uncertainties; Annex A describes developments in economic data.

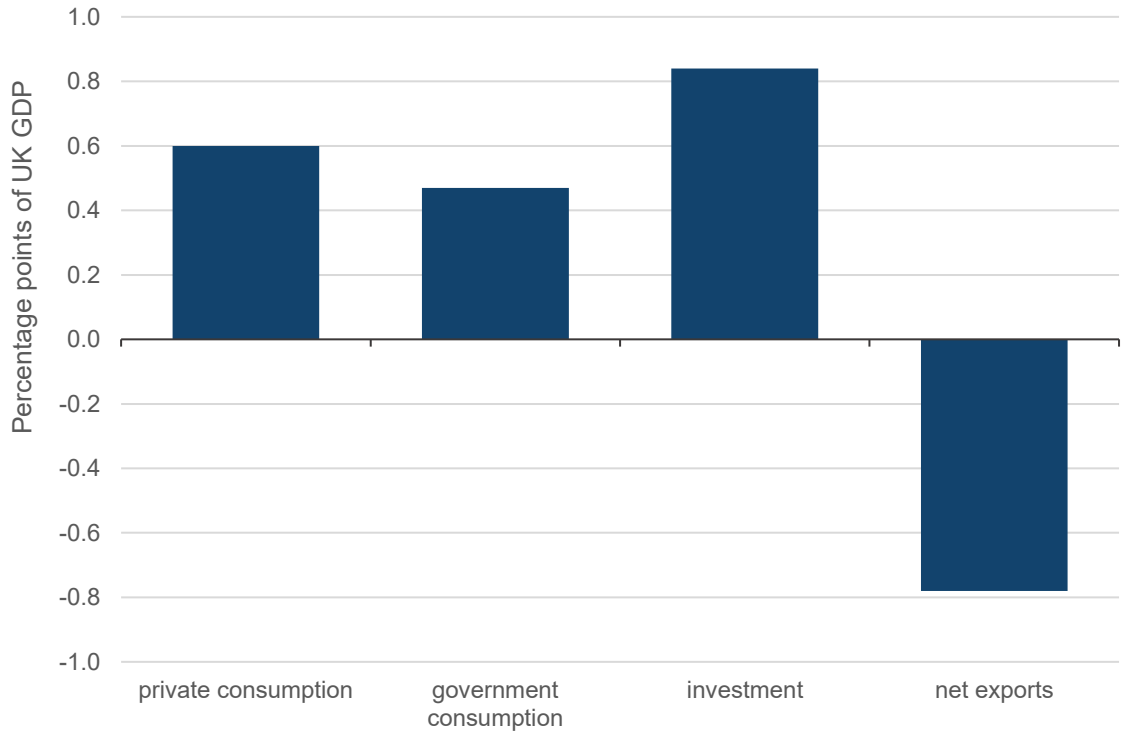
Economic Output

The total value or level of UK economic output, as measured by Gross Domestic Product (GDP), is estimated at £3.04 trillion in 2025. The latest equivalent GDP data for Wales, published by the Office for National Statistics (ONS), lags the UK data; being available up to 2024. In 2024, GDP in Wales was £100.3 billion accounting for 3.5% of UK GDP.

UK GDP growth adjusted for inflation increased by 1.2% in 2025. **Figure 1** shows investment spending – mostly private-sector – was the largest contributor to last year's increase when analysed by main expenditure component. Private consumption (mainly consumer spending) and government spending on day-to-day public services (excluding transfers) also made positive contributions to GDP growth. In contrast, net trade (exports less imports) subtracted from GDP as import growth outstripped export growth.

Figure 1 - Contributions to UK GDP Growth, 2025

Alt text: Bar chart showing contributions to UK GDP growth in 2025. Investment was the main contributing element, with net exports reducing growth.



Source: Office for National Statistics

Output growth in 2025 was consistent with the pattern of poor UK economic performance that has characterised much of the past two decades. The average annual rate of growth since the pandemic was 0.9%, roughly half the annual rate recorded in the decade before the pandemic and a little less than one third of the

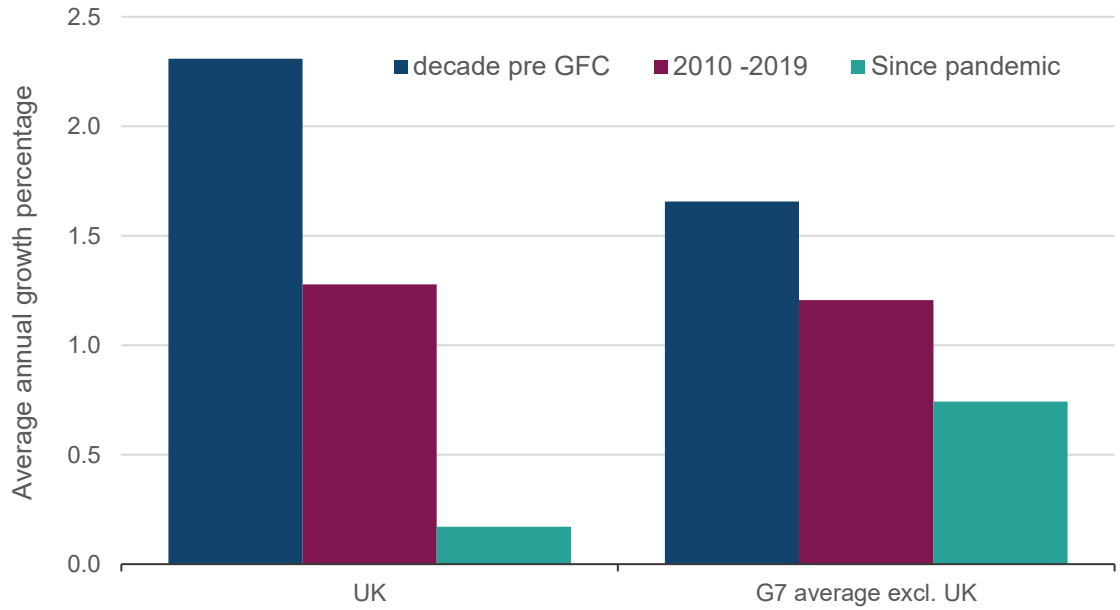
rate recorded in the decade before the financial crisis. Aggregate annual GDP growth in Wales from 1998 to 2007 was 2.5% (UK: 2.8%). Since the financial crisis (2010 to 2024) average annual GDP growth in Wales was 1.4% (UK: 1.5%).

GDP per person adjusts aggregate GDP for population size. Changes in GDP per person provide a better indicator of economic performance and changes in living standards than aggregate GDP. GDP per person in the UK has increased at an average annual rate of 0.2% since the pandemic compared with 1.4% in the decade before the pandemic and 2.3% in the decade before the financial crisis.

The UK has not been alone in experiencing weak growth in GDP per person since the financial crisis. ***Figure 2****,* shows that growth has tailed off sharpy in G7 economies since the Global Financial Crisis (GFC). The UK had the fastest growing economy in the G7 in the decade before the GFC, then matched the G7 performance in the decade before the pandemic but has under-performed since.

Figure 2 - Changes in real GDP per person in UK and G7, 1997 to 2025

Alt text: Bar chart showing UK and G7 excluding the UK across three periods: decade pre-GFC, 2010-2019 and 2019 to 2025. It shows how growth has reduced in every subsequent period in the G7 and UK, but UK average growth being lower in the latest period.



Source: Organisation for Economic and Co-operation Development (OECD)
Note: Changes calculated from US $s, constant PPPs. Decade pre GFC period is 1997 to 2007 and since pandemic is 2019 to 2025

Wales and sub-UK economic output

Latest data shows Wales' aggregate GDP (in current prices) at £100.3bn in 2024, up 0.5% on 2023, with the UK growing by 1.1%.

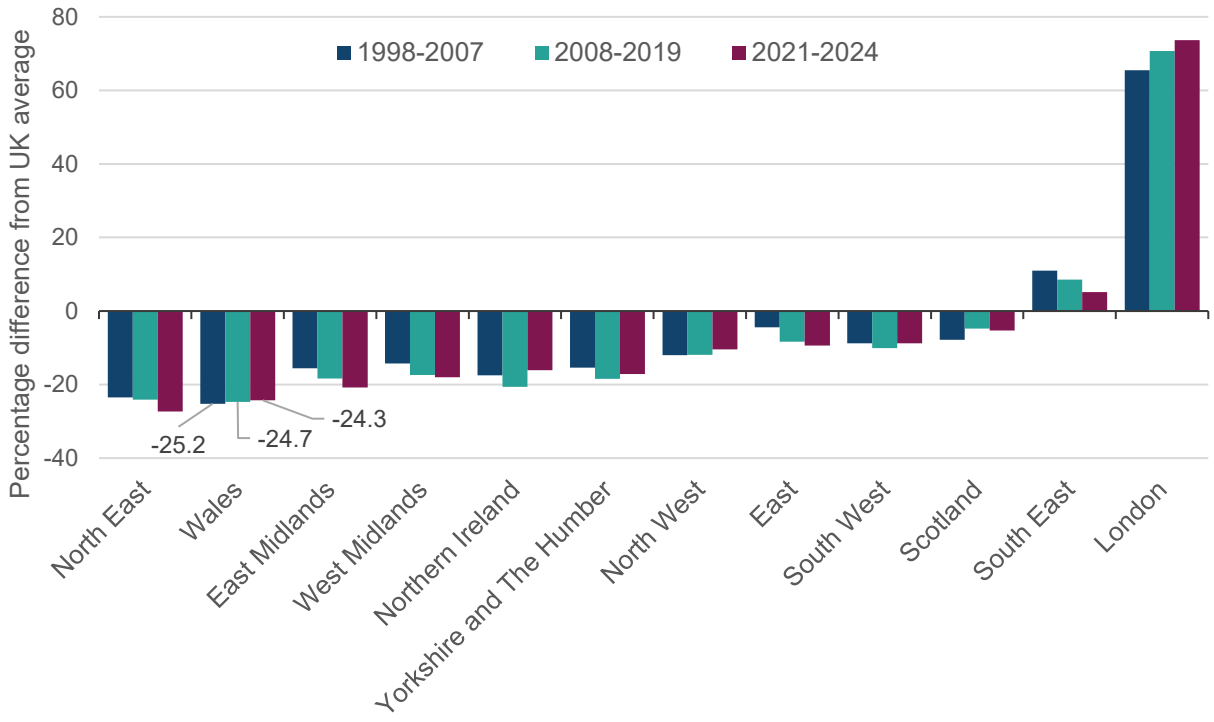
The level of economic output (GDP) per person in UK countries and regions in England from the UK average is shown in ***Figure 3***. It shows the differences between 1998 to 2007, 2008 to 2019; and 2021 to 2024. GDP per person in Wales was consistently around 24% below the UK average in each of the three periods.

London and the North West were the only places where their positions improved across each of the three periods. London has an out-sized impact on the UK average, like with many sub-UK economic statistics. Excluding London, regional variations are much less pronounced. Nevertheless, GDP per person in Wales is consistently close to the lowest in the UK. Compared with the UK, Wales has a lower employment rate, a less favourable skills profile, a relatively old population with a higher incidence of illness, and fewer agglomeration benefits owing to both a lack of

large cities and under-developed transport links. Most of these factors help explain Wales' relatively weak productivity.[1] Productivity is discussed in the next section.

Figure 3 - Changes in GDP per person within the UK, 1998 to 2024

Alt text: Bar chart comparing 1998 to 2007, 2008 to 2019 and 2021 to 2024 across UK countries and English regions difference from UK GDP per head. North East and Wales are lowest in both periods, with London highest in both periods. Only London and the South East have GDP per head above the UK average.



Source: Calculated from ONS data
Note: figure does not include 2020 due to the large, pandemic-induced one-off reduction

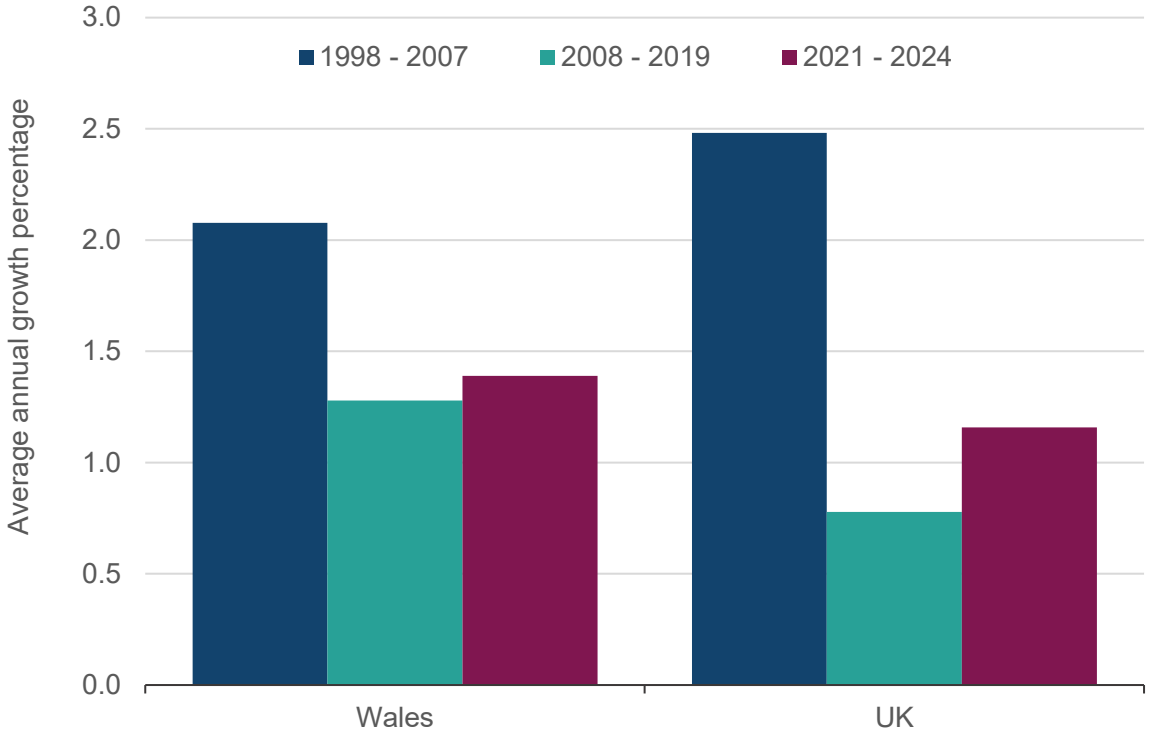
Growth of economic output per head

Average annual performance of economic activity in UK and Wales across different key economic periods is shown in **Figure *4***. In both countries, economic output (GDP per head) grew by less in the subsequent period. GDP per person also grew less in Wales than the UK average between 1998 and 2007, it then outperformed the UK between 2008 and 2019 and again between 2021 and 2024. Since 2008, the economy has been affected by several economic shocks and other adverse economic events including the financial crisis, fiscal austerity, the UK leaving the EU, the pandemic and energy crises.

[1] The reasons for the lower level of GDP per person in Wales have been discussed in previous Wales Economic and Fiscal Reports, see 2024 and 2025.

Figure 4 – Growth in Wales and UK real GDP per person, 1998 to 2024

Alt text: Bar chart showing Wales and UK average annual growth in three periods: 1998 to 2007, 2008 to 2019 and 2021 to 2024. In both countries, growth is lower in the latter two periods compared with the earliest period.



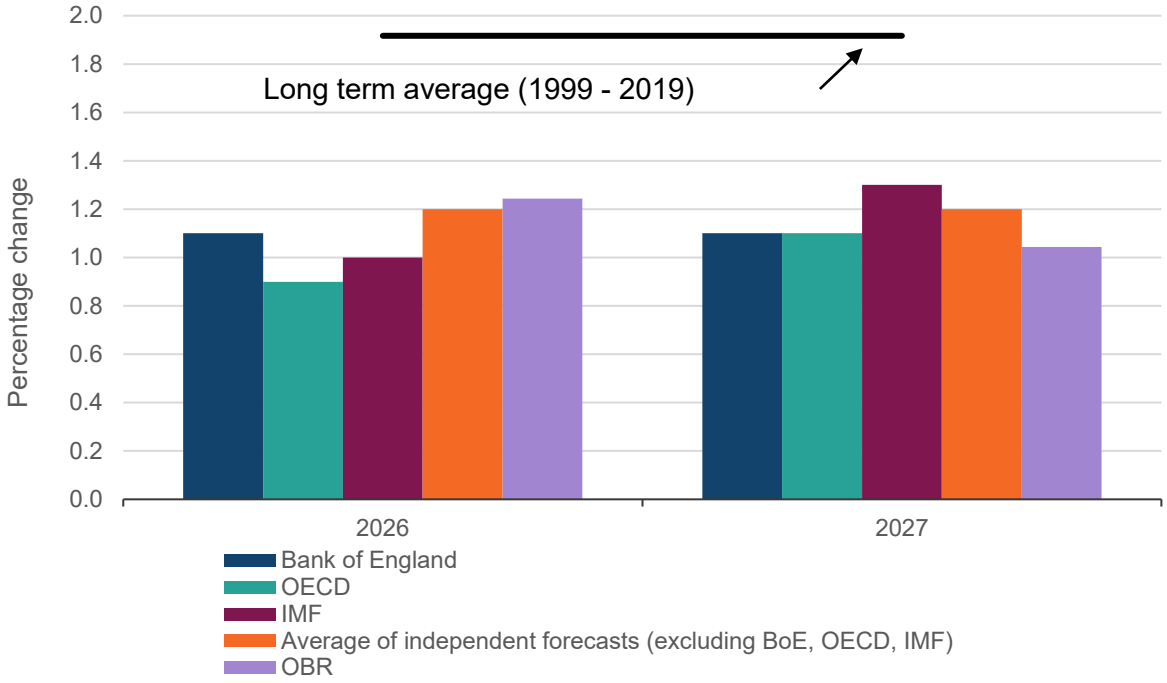
Source: Calculated from ONS data

The near-term outlook for output growth in Wales is highly uncertain because of an on-going conflict in the Middle East. The conflict started on 28 February 2026. It has disrupted oil and gas shipments notably those that transit the Strait of Hormuz, a crucial trade route for a large share of the world's energy supply. Consequently, energy prices are volatile and higher than at the start of the year. As the UK is a net importer of oil and gas, fewer supplies coupled with no material change in demand have meant higher costs for these commodities, affecting households and businesses by bearing down on consumer spending and investment, and with the revenues leaving the UK through higher import prices. In the first seven months of 2026, UK GDP was up 1.1% on the same period in 2025.

HM Treasury gathers and publishes an average of forecasts from several investment banks and think tanks each month. The latest average forecast for GDP growth in 2026 is 1.3% and 1.2% in 2027 (see **Figure *5***). The latest OBR forecasts are for 1.2% this year and 1.0% in 2027. The forecasts can be taken to be most likely broadly representative of the near-term outlook for the Welsh economy.

Figure 5 - UK GDP forecasts for 2026 and 2027

Alt text: Bar chart showing forecasts of UK GDP for 2026 and 2027. All are around 1% for both years, all well below the 1999 to 2019 UK average growth rate of 1.9%.



Source: Bank of England, OECD, IMF, OBR[2] and HM Treasury

[2] The OBR forecast was prepared before the conflict in the Middle East started.

Productivity

Why is productivity important?

Productivity measures how an economy converts inputs like labour and capital into outputs. Productivity gains are achieved when a given level of output can be produced using fewer inputs - owing to technological advances, for example. Such efficiency gains may be reflected in higher earnings for workers, increased profits for businesses and higher tax revenue for governments, while the general public may benefit through the delivery of more and better public services and reduced taxes.

Strengthening productivity is a key source of sustainable growth in output as measured by gross value added (GVA) or gross domestic product (GDP) in aggregate terms and in per capita terms. In part this is because it is widely accepted that the scope to increase employment/hours worked, which is the other main source of economic growth, is limited.

There are a number of different measures of productivity. In this section, the focus is on labour productivity, mainly GVA or GDP per hour worked. Labour productivity in Wales is below the UK average and is consistently among the lowest of the UK countries and regions. The Plaid Cymru Welsh Government which assumed office in May 2026 has an economic mission which includes an aspiration to halve Wales' productivity gap with the rest of the UK within 10 years.[3]

Recent developments in productivity and its measurement

In September 2026, the ONS set out a new "component" approach to labour productivity, combining household surveys, business surveys, and administrative data. It estimates hours from employer-reported paid hours, adjusted for leave, sickness, overtime, and other non-working time, producing lower estimates of total hours worked than the current approach.

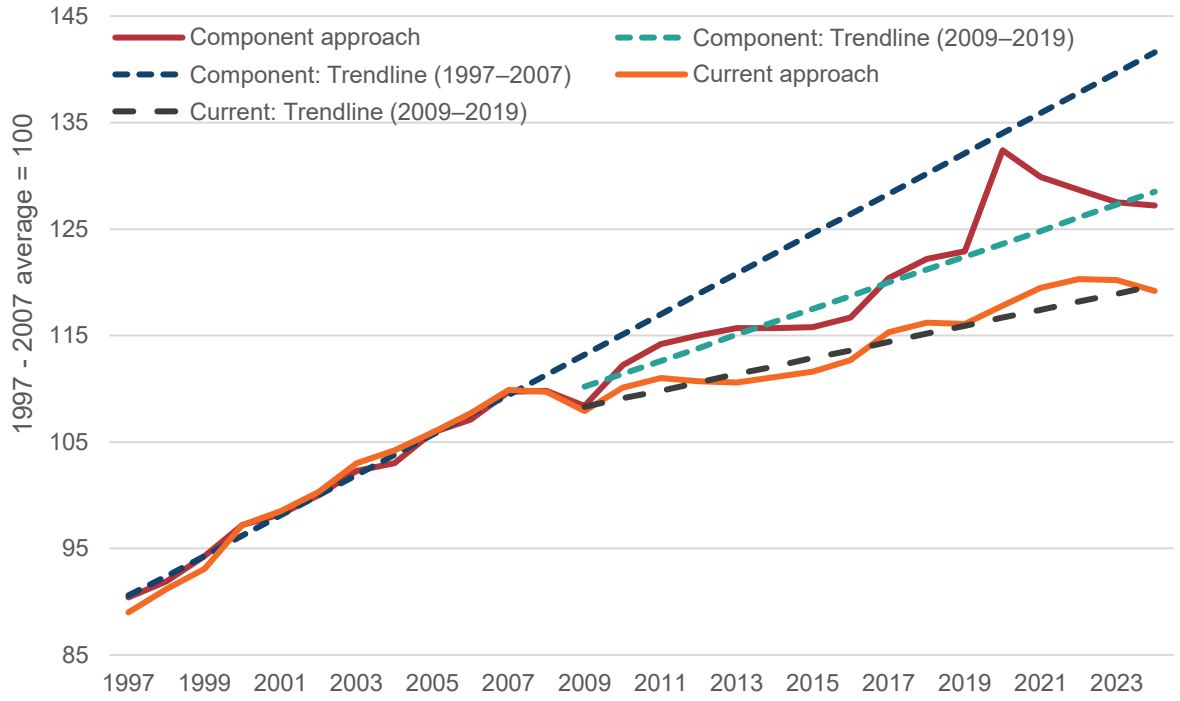
Under the component approach, average annual UK output per hour growth between 1997 and 2024 is 1.3%, compared with 1.1% under the current approach. Growth between 2009 and 2019 is 1.3%, compared with 0.7%. The revision reduces, but does not remove, the post-financial-crisis slowdown.[4]

Figure 6 shows how productivity has evolved over the last 2 decades as measured by the component approach. Trend productivity lines for 1997 to 2007 and for 2009 to 2019 are shown too. In 2024, the level of component derived productivity is approximately 10% below the level implied by the earlier trend and approximately on the 2009 to 2019 trend.

[3] New economic mission to close Wales' productivity gap with UK and boost pay | GOV.WALES.
[4] Changes to output per job and output per worker are more modest. Growth in output per job follows a very similar pattern under both methodologies, while the revised output-per-worker measure aligns more closely with administrative PAYE Real Time Information data in recent years.

Figure 6 - UK output per hour index, current vs new (component) method, 1997 to 2024

Alt text: Line chart showing trend UK productivity growth per hour 1997 to 2007 with the new component approach 2009 to 2019 and its trend line, which is lower than the earlier period's trend. However, the component approach provides higher productivity growth since 2008 and a higher trend line.



Source: Office for National Statistics

The ONS plans to publish labour productivity estimates for Wales or other UK countries and English regions using the component approach in February 2027. So, it is not yet clear if the new measure has altered the productivity performance of Wales relative to the UK compared with the current approach. That said, it has been highlighted in this and previous Wales Economic and Fiscal Reports[5], economic activity in Wales tends to track UK developments quite closely. Therefore, the changes in UK component measured labour productivity estimates between 1997 and 2004 likely provide a broad indication of *changes* in productivity in Wales.

The component approach to measuring productivity will, from November 2026, replace existing UK labour productivity statistics. At the same time, the ONS will publish component-based productivity estimates by quarter up to and including Quarter 2 2026. Data published so far are annual data and extend to 2024. Other measures of labour productivity, specifically quarterly GVA per worker available up to Quarter 2 2026, suggest UK productivity has been quite robust since 2023.

[5] See 2025

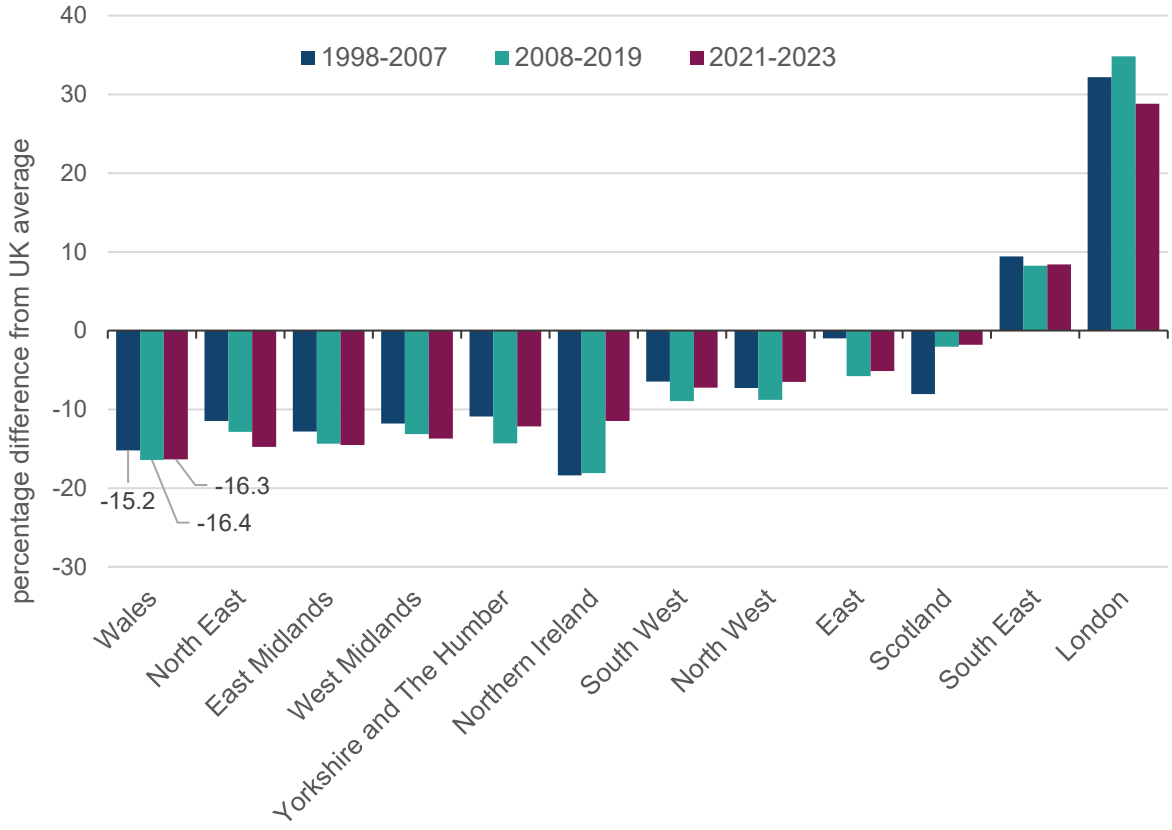
Productivity in Wales

For now, the only official labour productivity estimates available for Wales are calculated using the current method with the labour input, i.e. hours worked, based on the Labour Force Survey (LFS). LFS data have deteriorated in quality since the turn of the decade. Moreover, the Wales productivity data extend only to 2023. The available data show that the *level* of productivity in Wales has been consistently low by UK average standards.

Figure 7 shows the difference in the level of output per hour worked in UK countries and regions in England from the UK average between 1998 to 2007, 2008 to 2019; and 2021 to 2023 (three-year averages are used to smooth out aberrations in single years). The *level* of labour productivity in Wales relative to the UK did not change much over the three periods, being consistently close to the lowest (if not the lowest) of any UK country or region. Comparing the latest period with the earliest period, sharp relative declines were recorded in the East of England, London and the North East of England. Scotland and Northern Ireland recorded large relative gains. Despite London's relative decline since 1998, the capital's productivity was 29% above the UK average in 2021 to 2023 and 45% higher than in Wales.

Figure 7 - Changes in labour productivity within the UK, 1998 to 2023

Alt text: Bar chart comparing 1998 to 2007, 2008 to 2019 and 2021 to 2023 across UK countries and English regions difference from UK output per hour. In the latest period Wales and the North East had the lowest productivity levels. London and the South East the highest.



Source: calculated from Office for National Statistics data

The Plaid Cymru Welsh Government, which came to power in May 2026, aims to halve the productivity gap with the UK within 10 years. For context, should UK productivity growth average approximately 1.0% a year over the next decade as expected by the Office for Budget Responsibility, then productivity in Wales would have to increase at an average annual rate of around 1.9% to halve the gap.

The reasons for relatively low productivity *levels* in Wales have been explored in previous Welsh Economic and Fiscal Reports and their predecessor publication, as well as some academic literature. Overall Wales's productivity gap is best understood as the interaction of several factors. These include:

- high prevalence of small and dispersed urban areas[6]
- low business investment and R&D[7]

[6] PIP007-Wales-Productivity-Challenge-FINAL-011221.pdf.
[7] Local Growth Fund: Socio-economic Analysis of Wales

- too few high-growth firms [8,9]
- weak workforce skills and qualifications[10]
- poor health and high economic inactivity[11]
- lower innovation intensity[12], and
- weak connective infrastructure.[13]

Importantly, as highlighted in the 2025 Wales Economic and Fiscal report, evidence also suggests that Wales' productivity gap cannot be explained solely by its industrial structure, with productivity differences also evident within industries.[14] The 2024 Wales Economic and Fiscal Report explored ways to improve productivity in Wales.[15]

Health (NHS) productivity in Wales

In April 2025, the then Minister's Advisory Group on Productivity and Performance published a report with 29 recommendations for NHS Wales and Welsh Government to deliver improvements in performance and productivity, one of which was to develop a measure of productivity for NHS Wales (recommendation 22). In response, a task & finish group was established to provide oversight and leadership to the development and implementation of a productivity model.

The task & finish group, (chaired by the Director of Finance for Health, Care and Prevention (HCP) Welsh Government & NHS Wales), is a collaboration with colleagues from NHS Wales Performance & Improvement, the Welsh Treasury, Welsh Government's Science Research & Evidence Division, NHS Wales Health Board Directors and Deputy Directors of Finance, and Welsh Government's Health, Care, and Prevention Finance. This group is responsible for agreeing the methodology and model.

The methodology to develop the NHS Wales productivity measure is aligned with the productivity work by NHS England. The productivity measure has initially been considered on an annual basis and aggregated at an all-Wales level and for each of the seven health boards. It compares growth in NHS Wales secondary care activity in health boards, and the resources utilised to deliver the activity between financial periods. The methodology can be summarised as follows:

Measuring outputs (activity growth): Collecting line level secondary care activity. Weighting this activity based on all Wales Healthcare Resource Group (HRG) reference costs and relevant standard unit costing, obtained from the Welsh Costing Returns 1 & 2.

[8] Local Growth Fund: Socio-economic Analysis of Wales
[9] Economic mission: SME productivity review [HTML] | GOV.WALES
[10] Wales' Productivity Challenge: A Focus on the Future
[11] Wellbeing of Wales 2025: a prosperous Wales [HTML] | GOV.WALES
[12] Economic mission: SME productivity review [HTML] | GOV.WALES
[13] Wales Infrastructure Assessment 2026 – The National Infrastructure Commission for Wales
[14] Wales Economic and Fiscal Report October 2025
[15] Wales Economic and Fiscal report 2024

Measuring inputs (expenditure growth): Collecting expenditure (resources utilised) reported by health boards through monthly returns. Adjusting these resources for inflation.

Measuring productivity growth: Comparing activity growth with expenditure growth between two periods.

Growth is compared between two periods on a year-to-date (YTD) basis within financial years using the following formula:

$$\text{Productivity Growth (\%)} = \left(\frac{(1 + \text{Activity Growth \%})}{(1 + \text{Cost Growth \%})} - 1\right) \times 100$$

The model measures **productivity growth rather than absolute productivity levels**.

Interpretation and limitations

Due to the complexity of the model, the estimates are going through a series of refinements which have varying impacts on the results. As the development is still at its relatively early stage, these can be relatively large, but are expected to settle over time. There are also known issues relating to the quality of data reporting.

The model currently excludes quality adjustment, outcomes and activity outside secondary care, such as primary and community care. The estimates therefore do not provide a comprehensive assessment of NHS Wales performance, do not consider service movement between care settings such as from acute into the community, or changes in the quality and outcomes of care.

Current status and next steps

- An initial model is still in development which will have preliminary estimates of relative productivity for NHS Wales.
- The model has been initially developed for the seven health boards in Wales with the intention to revise on an annual basis.
- The model utilises management information, sourced from NHS Wales data, it is not an official statistic. The model is displayed through an interactive user dashboard accessible to members of NHS Wales only via the VAULT[16].
- The approach will continue to develop over time in terms of breadth and depth, dependant on availability of data, resources, and relative priorities.
- Work is currently on-going to produce estimates for 2025-26 back through to 2019-20 (the baseline year). These estimates will be published at the Final Budget.

[16] The Value, Allocation, Utilisation and Learning Toolkit – known as the VAULT, is an intelligence repository of NHS management information, which is designed to provide insight into the opportunities available to improve the use of resources.

Prospects for productivity

The latest OBR **central medium-term** forecast published in October 2026 broadly maintains the November 2025 assumption that productivity growth will be around 1.0% a year in the medium term.[17] The latest OBR forecast shows UK trend labour productivity growth increasing by 0.9% in 2026. Growth slows in 2027 to 0.7% largely because of higher energy prices. Productivity growth picks up to 1.0% in 2028 and settles a little above that rate over the following few years.

The long-term trend forecast for productivity growth[18] was produced by the OBR in July 2026. The trend is forecast at 1.4% over the next 50 years and is comprised of 1.0% annual average potential or trend growth in the first decade or so and then 1.5% annual average trend growth in subsequent decades. The forecast is a little stronger than the 1.3% average annual gain achieved in component measured productivity in the decade before the pandemic. It is substantially stronger than the 0.7% average annual gain recorded since 2019. The OBR emphasises that other outcomes, better and worse, have high probabilities associated with them too.

Artificial Intelligence – potential impact on productivity

An extensive literature shows that technological innovation is a key driver of growth in productivity. This is especially true of general-purpose technologies (GPTs) such as the steam engine, electricity and the internet. If AI transitions into a GPT, it could have a substantial, possibly even a transformative, impact on productivity growth.[19] The potential for AI to materially boost productivity growth depends on how easily and productively it is integrated by businesses in production processes, by governments in the delivery of public services and the willingness of the public to embrace AI in everyday activities such as using digital assistants for example.[20]

As AI is, to all intents and purposes, a new technology, any forecast quantifying its impact on future productivity growth is highly uncertain. The OBR has noted that research studies suggest a wide range of potential impacts: ‘External estimates suggest AI may increase annual productivity growth by between 0.1 and 3.4 percentage points in the long-term’.[21]

To establish how AI could contribute to future growth in productivity, the OBR developed a task-based model of the UK labour market and estimated task or occupation exposure to AI automation. It found that 40% of tasks are likely to be significantly exposed to AI automation over the next 10 years. Crucially and reassuringly from a future aggregate employment perspective, the OBR concluded

[17] Economic and fiscal outlook – October 2026 - Office for Budget Responsibility

[18] Fiscal risks and sustainability 2026.

[19] See, for example this McKinsey blog: The new productivity paradox: When will AI boost UK productivity?

[20] This OECD paper provides a good overview of the potential impact of AI on productivity: The effects of generative AI on productivity, innovation and entrepreneurship (EN)

[21] Briefing_paper_No.9_Forecasting_productivity.pdf

that the majority of exposed occupations should be **complemented** rather than **substituted** by AI.[22] The OBR estimates that integrating AI into exposed occupations would reduce the cost or boost the productivity of exposed tasks by around 30%.

The OBR's central forecast for annual productivity growth of approximately 1.0% includes this contribution from AI. The contribution is very limited in the near term as businesses and governments learn to apply AI in ways that boost productivity. As early teething problems are resolved leading to further creation and diffusion of AI, the OBR believes its contribution to productivity growth may increase. By the end of this decade, the OBR assumes that AI will contribute 0.2 percentage points to growth in trend productivity. By the middle of the 2030s, AI could contribute around 0.4 percentage points to trend productivity growth.

The OBR's judgement that productivity should improve compared with the post-pandemic performance is underpinned in part by an assumption that trade intensity will pick up as the impact from the UK's exit from the European Union fades. The OBR also assumes that efficiency gains will be realised from development and exploitation of AI. Additionally, there is an expectation that productivity enhancing private and public sector investment will increase. This increase in capital per worker, known as capital deepening, is a key factor underpinning labour productivity gains in general.

Factors that could generate **weaker** productivity growth compared with the OBR's central forecast include the potential for greater permanent scarring from the economic shocks of the last 15 years, weaker trade intensity, greater costs associated with climate change and fewer benefits accruing from AI. Increased frequency and longer duration of negative shocks such as the war in Ukraine, now in its fifth year, and the current conflict in the Middle East, may also damage productivity prospects over the medium to long-term.

[22] In its March 2026 Economic and fiscal outlook, the OBR explores a scenario where AI displaces workers such that the UK unemployment rate settles at 5.5% rather than 4.1%.

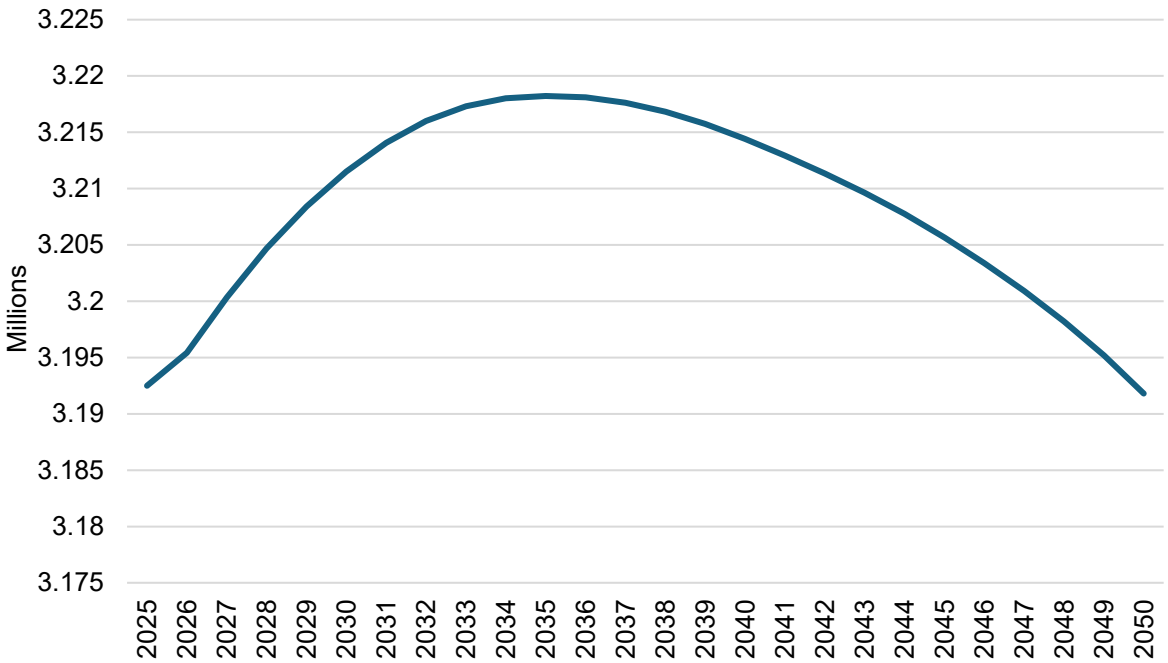
Demographics

Demographic trends are a fundamental driver of economic performance and its capacity. They influence the size of the workforce, patterns of consumer demand, productivity, and pressures on public services and public finances. As a result, demographic change can have important implications for economic growth and, ultimately, for future living standards. Understanding Wales' demographic trends is therefore essential to assessing Wales's long-term prosperity and wellbeing.

The latest ONS (2024-based) projections suggest Wales's population will rise from 3.19 million in 2025 to a peak in 3.22 million by 2035, an increase of about 0.8%, before declining thereafter, as shown in **Figure *8***.[23]

Figure 8 - Projected population in Wales to 2050

Alt text: Line chart showing Wales' projected population to rise from about 3.19m in 2025 to just over 3.218m in the mid 2030s. The population line then declines gradually out to 2050.



Source: National Population Projections, Office for National Statistics
Note: Vertical axis does not begin at 0.

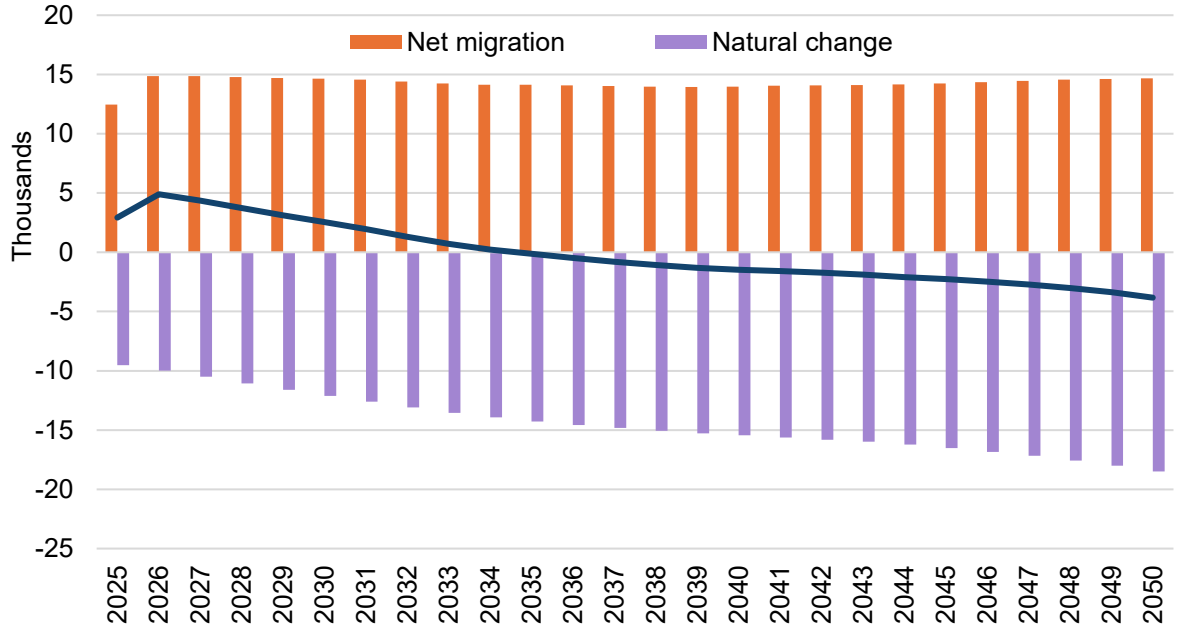
Natural change is projected to reduce Wales's population with more deaths than births, as shown in **Figure *9***, while net (international and intranational) migration is expected

[23] Population projections are highly sensitive to assumptions about factors such as birth rates and migration, which themselves can be a function of economic conditions or government policy. While, in forecasting terms, errors may appear small, even modest changes in these assumptions can have a significant impact on long-term population outcomes.

to offset this, resulting in modest population growth until around 2035. From 2035, Wales' population is projected to start falling at an increasing rate.

Figure 9 - Projected annual changes in population components in Wales to 2050

Alt text: Column and line chart combo showing net migration adding just under 15,000 people annually to Wales' population between 2026 to 2050. Natural change reduces the population, initially by approximately 10,000 a year but rising to over 20,000 by 2050. Together, these changes would result in Wales' total population increase becoming smaller, until 2035, when the population is expected to begin declining.

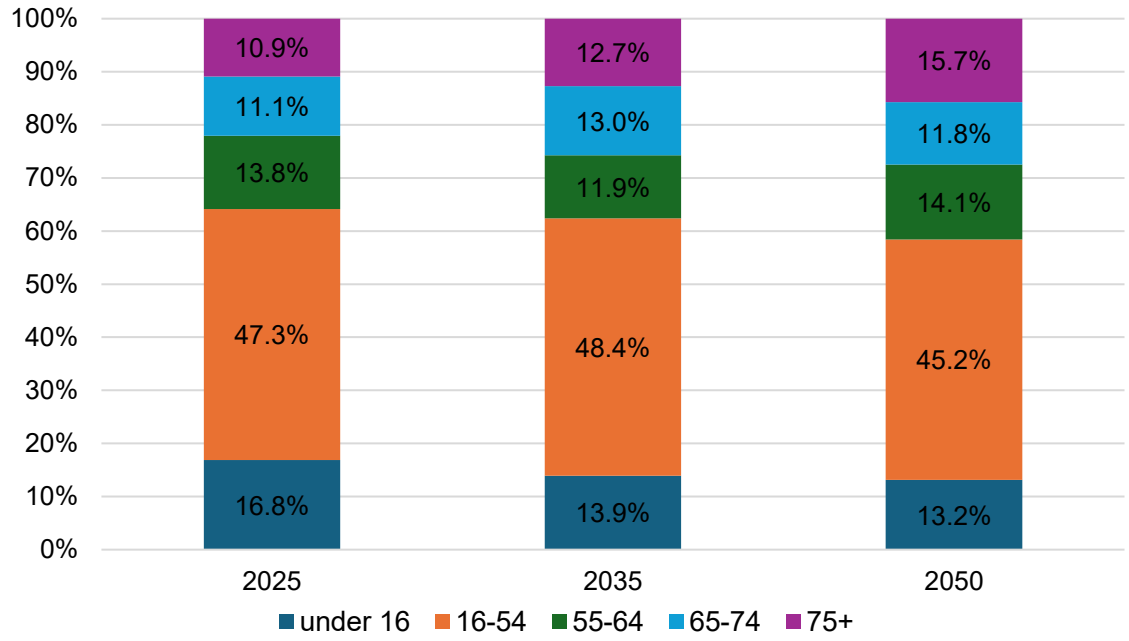


Source: National Population Projections, Office for National Statistics

Wales's age profile is also projected to change significantly, **see Figure *10***. The proportion of children and working-age adults are projected to fall whereas the proportion of people aged 65 and over is projected to rise from 22.1% in 2025 to 27.5% by 2050.

Figure 10 - Projected age profile of Wales' population in selected years, 2025 to 2050

Alt text: Stacked bar chart showing how the age composition of Wales is projected to change from 2025 to 2050.The ONS projects there will be growing share of older age-persons and declining proportions for those younger and working age-group.



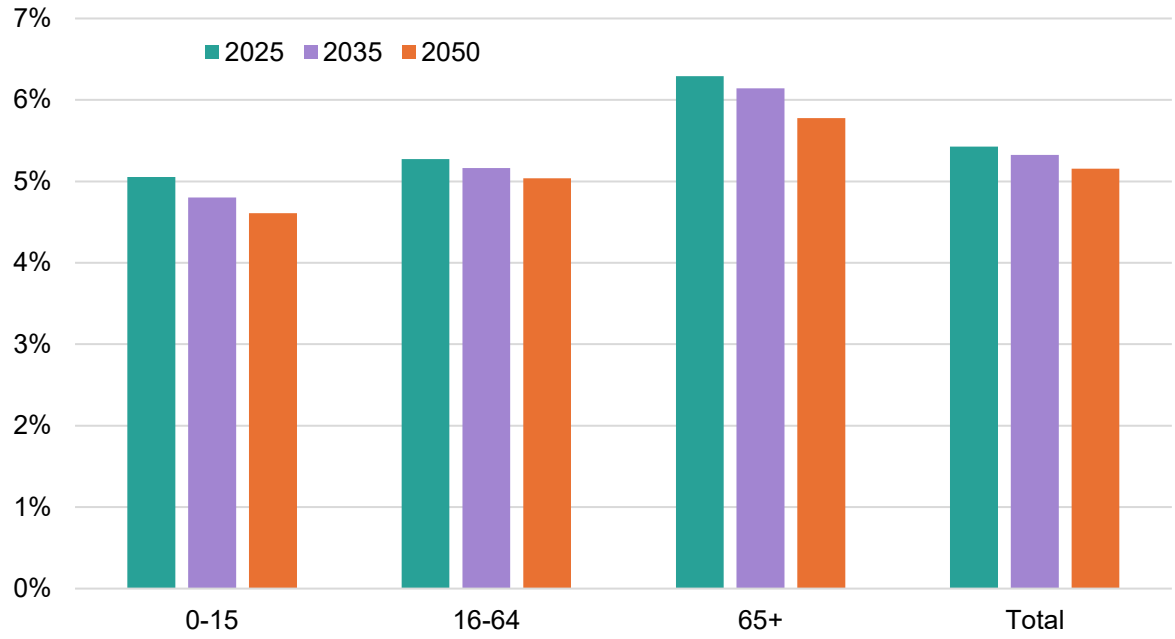
Source: National Population Projections, Office for National Statistics

Wales's working-age population (16 to 64) is projected to shrink by around 3% by 2050 compared with its 2025 level. As currently average working hours and participation rates tend to peak in midlife and decline after 40, such population trends – if they were to materialise – could slow economic growth unless offset by productivity gains or policy measures.

Wales's share of the combined Wales and England population is projected to fall across major age groups, **see *Figure 11***. This is because England is projected to see larger rises in elderly and working-age populations than Wales, while pre-school and school-age groups decline more sharply in Wales. These trends may affect devolved tax receipts and spending needs over time.

Figure 11 - Projected Wales share of the combined Wales and England population by age group, in 2025 to 2050

Alt text: Bar chart showing Wales' projected share of the England and Wales population by age group: 0 to 15, 16 to 64 and 65 plus, in 2025, 2035 and 2050. Wales' population share falls across all age groups for 2025, 2035 and 2050. Between 2025 and 2050, Wales population share of 65+, which is higher than Wales' total population share, falls more than the total population share Wales' younger age cohorts also fall as a share of the English population.



Source: National Population Projections, Office for National Statistics

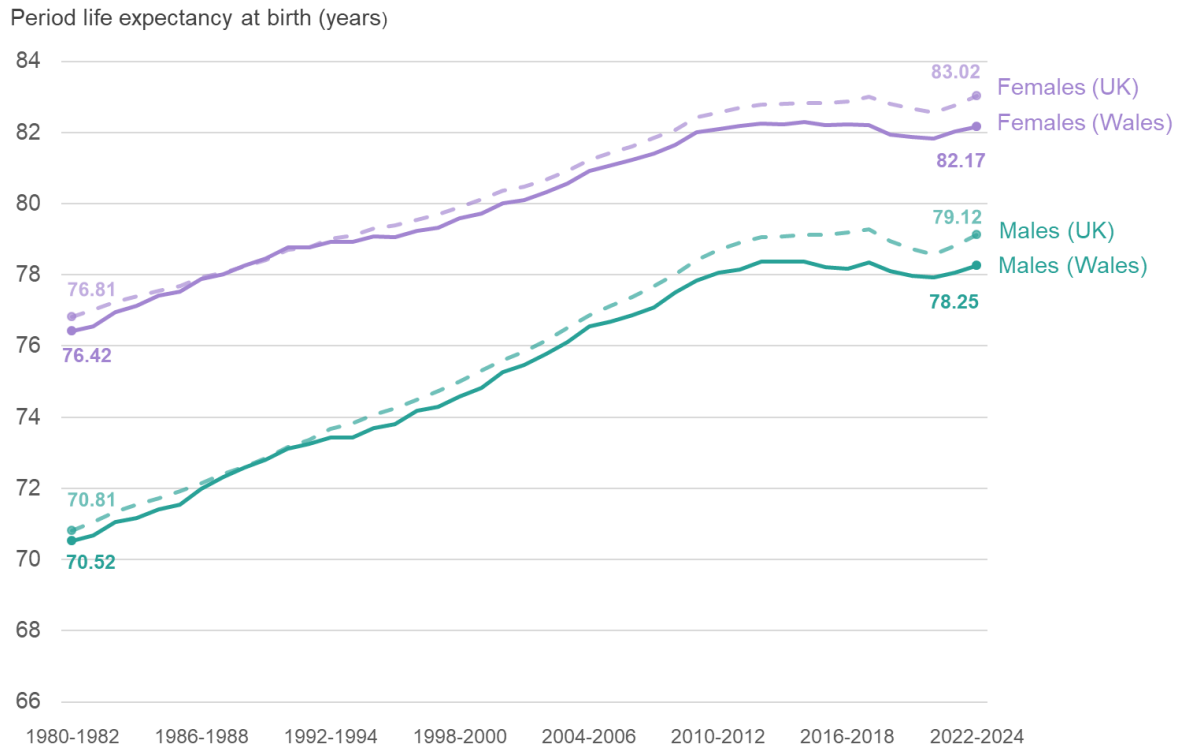
Overall, based on these demographic trends, Wales may not face as much additional pressure on public services than England, but changes in age structure are likely to shift spending needs across age groups. However, population size is only one factor shaping future demand for public services, and does not account for Wales starts from a less favourable position in terms of population needs when it comes to public service demand.

Life Expectancy

Life expectancy at birth in Wales for the period 2022 to 2024 was 82.2 years for females and 78.3 years for males, lower than for the UK as a whole (see **Figure *12***). Compared with the other UK nations, Wales had the third lowest life expectancy at birth for both females and males; England had the highest (83.3 females, 79.4 males), Northern Ireland second (82.6 females, 78.8 males) and Scotland fourth (81.1 females, 77.1 males).

Figure 12 - Life expectancy at birth for females and for males, 1980-1982 to 2022-2024 in the UK and Wales

Alt text: Line chart showing life expectancy at birth of females and males in the UK and Wales from 1980 to 2024. It shows females have a higher life expectancy than males, and those in UK have slightly higher life expectancy than those in Wales. Over the years there has been a positive trend, so life expectancy has been rising until around the 2010s.



Note: Vertical axis does not start at zero
Source: Life expectancy in the UK: 2022 to 2024, Office for National Statistics (ONS)

Within Wales, Monmouthshire had the highest life expectancy at birth for females (84.6 years), and Monmouthshire, Vale of Glamorgan and Powys jointly had the highest life expectancy at birth for males (80.3 years). For males, life expectancy was lowest in Merthyr Tydfil (at 75.0 years), which was low enough for it to place within bottom ten for life expectancy across the UK on a local authority basis. Life expectancy at birth for females was lowest in Blaenau Gwent (79.2 years), again low enough to be placed within the bottom 10 UK local authorities (also in that group was Merthyr Tydfil, at 79.7 years).

Compared with the last complete period unaffected by the coronavirus pandemic (2017 to 2019), the most recent life expectancy figures for Wales (for 2022 to 2024) are marginally lower. Estimates for males were around 4.6 weeks lower and for females 1.6 weeks lower in 2022-24. Broadly speaking, life expectancy in Wales has returned to pre-pandemic levels. In the most recent figures for 2022 to 2024, life expectancy at age 65 in Wales saw a slight increase of around 4 weeks for females

(from 20.56 years to 20.64 years) and around 9 weeks for males (from 18.2 years to 18.4 years), compared with 2017 to 2019.

As well as varying by UK nation, life expectancy at birth is also affected by levels of deprivation, with life expectancy for 2022-24 higher in the least deprived areas of Wales than the most deprived areas. For example, those in the most deprived areas of Wales had a life expectancy at birth of 73.6 years for males and 78.4 years for females in 2022-24; in the least deprived area it was 81.9 years for males and 85.1 years for females. In the latest data (2022-24), the gap in life expectancy at birth between the most and least deprived areas in Wales was 8.3 years for males and 6.7 years for females.

Healthy Life Expectancy

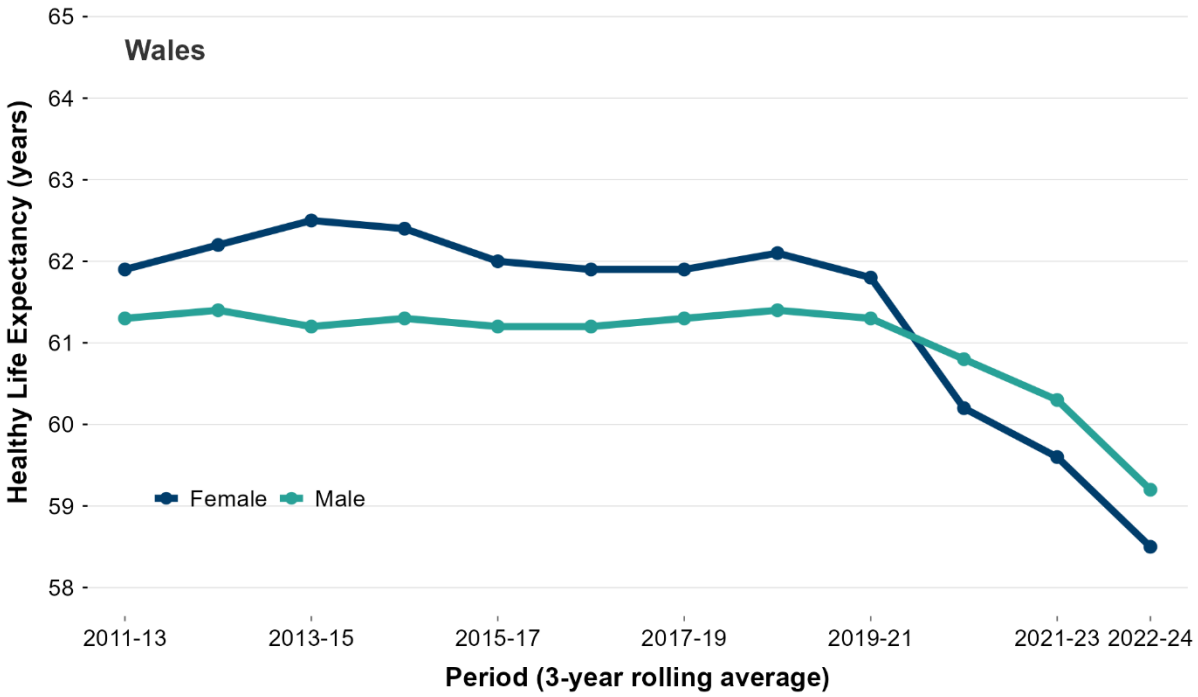
Healthy life expectancy (HLE) measures years lived in good health. It affects workforce participation and productivity, demand for health and social care, and tax revenues. Wales's health inequalities therefore matter for both wellbeing and long-term prosperity.

ONS healthy life expectancy estimates use responses to the Annual Population Survey and modelling to address declining sample sizes. They remain official statistics in development.

In the most recent data for 2022 to 2024, see **Figure *13***, healthy life expectancy at birth for both females and males declined for the fourth year in a row to the lowest on record. HLE at birth in Wales was 58.5 years for females (71.2% of life) and 59.2 years for males (75.6% of life) in 2022 to 2024 – significantly lower than England for both males and females, and the lowest in the UK for females. Females aged 65 in Wales had a healthy life expectancy of 10.3 years in 2022 to 2024, and males 9.6 years.

Figure 13 - Healthy Life Expectancy at birth by sex, Wales, between 2011 to 2013 and 2022 to 2024

Alt text: Line chart showing males and female healthy life expectancy at birth since 2011. It shows females had higher healthy life expectancy than males, but then females' life expectancy started to decline since early 2010s, to fall below males from 2020. Since then, Healthy life expectancy has been falling for both males and females.



Note: Vertical axis does not start at zero.
Source: Healthy life expectancy, UK: between 2011 to 2013 and 2022 to 2024, ONS

Females in Wales continued to experience a large decrease in healthy life expectancy; in 2022 to 2024 there was a decrease of 5.3% (3.3 years) compared with 2019 to 2021. Males experienced a 3.4% decrease (2.1 years) in healthy life expectancy in 2022 to 2024 compared with 2019 to 2021. Latest data shows females in Wales continued to have lower HLE than their male counterparts – a change from the past, and different to all other UK nations (see **Figure *14***). Wales records the lowest female HLE (58.5 years) of all UK nations in 2022-24, and the second lowest male HLE (59.2 years), behind only Scotland. Female HLE has reduced by approximately four years since its peak in 2013-15.

Figure 14 - Healthy Life Expectancy (HLE) at birth by sex and UK Nation, 2011-13 to 2022-24

Alt text: Four line charts showing female and male healthy life expectancy for each of the UK nations from 2011-13 to 2022-24.



Note: Vertical axis does not start at zero.
Source: Welsh Government analysis of ONS data on HLE

Females in England, Scotland, and Northern Ireland[24] all continue to have a higher HLE than their male counterparts, though the size of that gap had narrowed compared with earlier periods. Conversely, Wales has reversed this pattern. It also shows Scotland appears to have the closest trajectory to Wales, a steep and sustained decline from 2014-16 onwards, but has not crossed into female disadvantage. Though differences between nations are relatively modest in terms of the absolute number of years

Healthy Life Expectancy (HLE) Within Wales

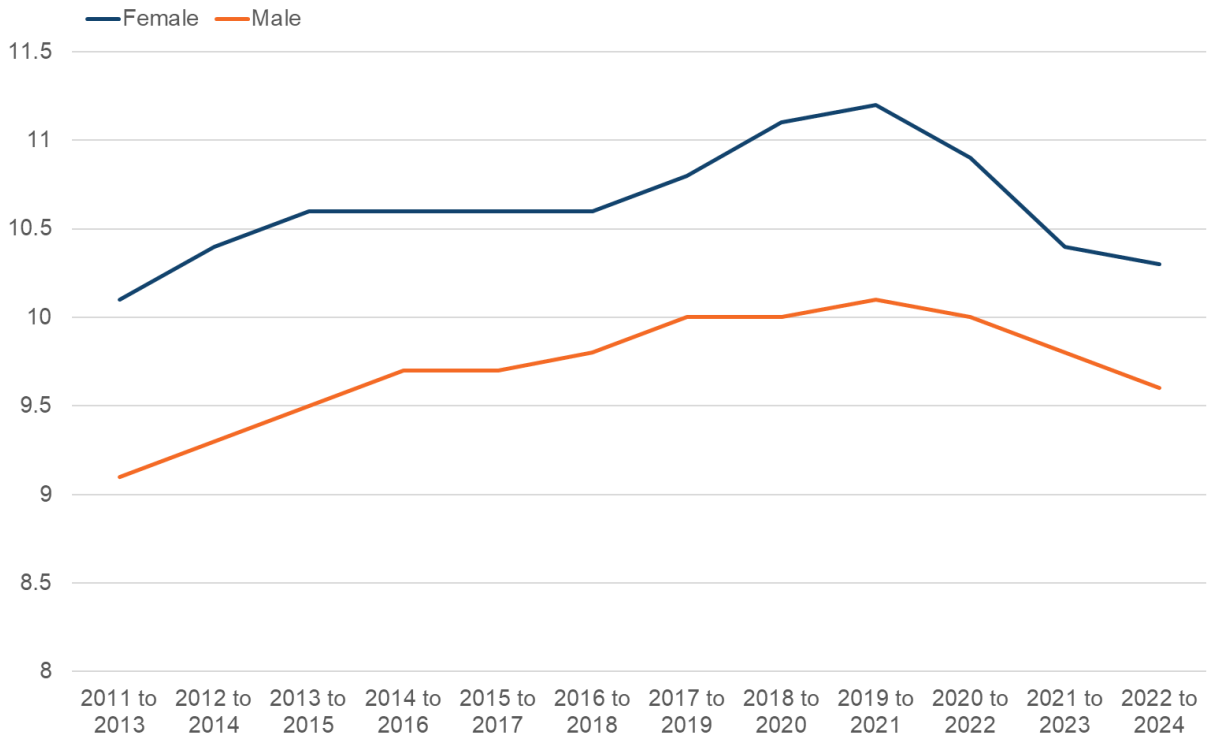
Within Wales, the local authority with the lowest healthy life expectancy was Merthyr Tydfil for both females (50.1 years) and males (51.7 years); Powys had the highest HLE for both females (63.8 years) and males (64.2 years). Merthyr Tydfil had the lowest female healthy life expectancy across the entire UK. Compared with 2019-21, Merthyr Tydfil had the largest decreases in HLE in Wales (of 5.2 years for males and 6.7 years for females). Caerphilly and Vale of Glamorgan were the only local authorities to have experienced increases in male HLE since 2019-21 (of 1.1 and 0.5 years, respectively). For females, Caerphilly was the only local authority to observe an increase in HLE (0.1 years).

The continued decrease in HLE, particularly in females, is likely driven by decreases in the proportion of people reporting to be in good or very good health. The Department of Health and Social Care published work on the drivers of healthy life expectancy in England. They reported that self-reported health has a greater influence on healthy life expectancy than mortality rates, confirming this notion. At age 65, decreases in HLE were less pronounced than at birth, and females continued to have longer healthy life expectancy than their male counterparts (see **Figure *15***).

[24] Northern Ireland displays higher volatility than other nations, reflecting the smaller number of local authorities. Female HLE shows a brief recovery in 2022-24. Northern Ireland's apparent convergence of female and male HLE around 2021-23 should be interpreted cautiously given the small national sample size and the COVID-period survey mode change; the Northern Ireland Department of Health (2025) notes that the male HLE decline of 0.8 years between 2018-20 and 2022-24 is not statistically significant.

Figure 15 - Healthy life expectancy at age 65 by sex, Wales, 2011 to 2013 to 2022 to 2024

Alt text: Line chart showing healthy life expectancy at 65 in Wales for females and males by three-year rolling periods, from 2011-13 to 2022-24. Both females and males have seen HLE trend upwards over time, though female HLE started from a higher point (10.1 vs 9.1 years respectively) and remains higher (at 10.3, vs 9.6 years for males). Male and female HLE at 65 has fallen since 2019-21.



Note: Vertical axis does not start at zero.
Source: Healthy life expectancy, UK: between 2011 to 2013 and 2022 to 2024, ONS

As noted previously, deprivation levels can affect both life expectancy at birth and HLE. In the latest data available - for 2022 to 2024 - in the most deprived areas of Wales, at birth males could expect to live 49.7 years in good health, 67.5% of their life expectancy, and for females healthy life expectancy was 47.3 years, 60.3% of their life expectancy. In the least deprived areas of Wales, healthy life expectancy was 76.8 years for males (83.7% of life expectancy) and 66.3 years for females (77.9% of life expectancy). The gap in HLE between the least and most deprived areas was higher than for life expectancy at birth, at 18.1 years for males and 19.0 years for females, a non-statistically significant rise compared with 2017-19.

Health and living standards

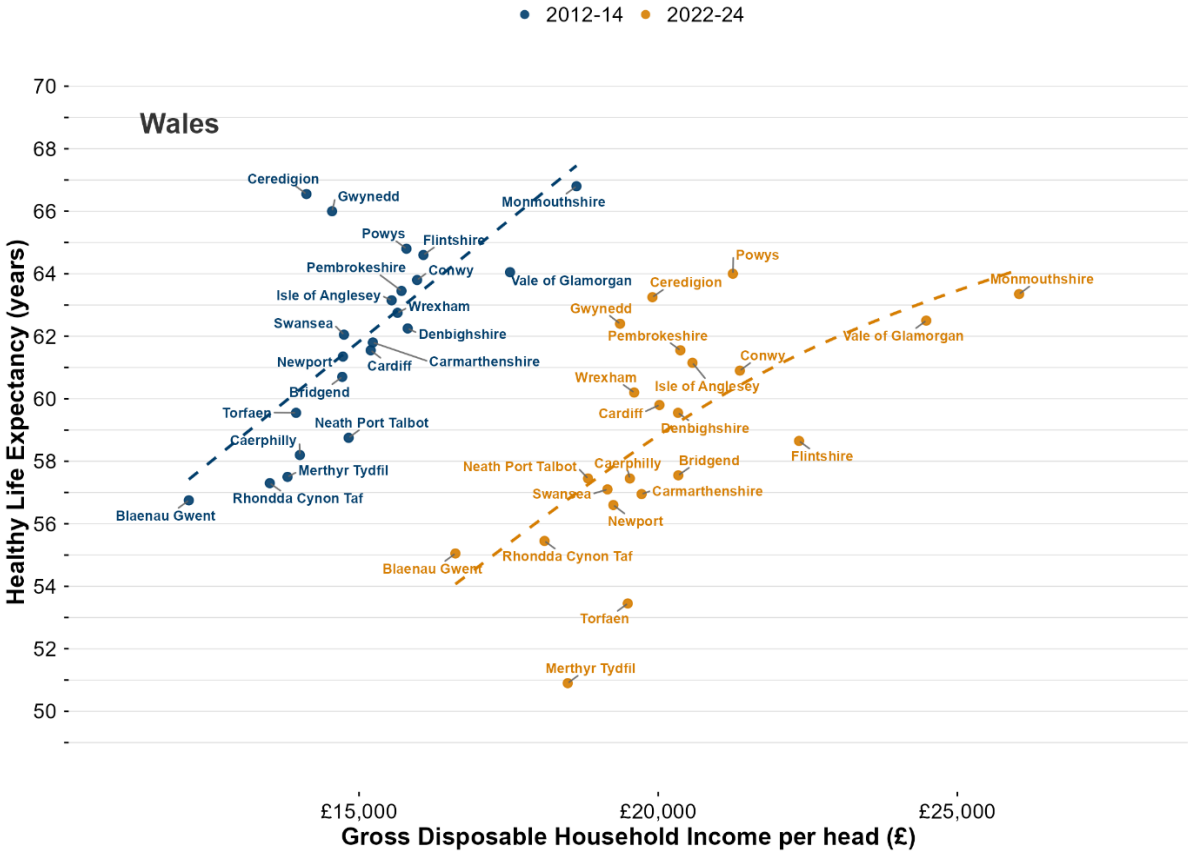
Looking at healthy life expectancy (HLE) alongside household income levels provides valuable insight into the relationship between economic prosperity and wellbeing. Household income is strongly associated with health outcomes, with people in higher-income households typically experiencing longer periods of good health than those on lower incomes.

A positive household income-HLE association in Wales is clearly visible among those born in the periods 2012-14 and 2022-24, see **Figure *16***. Local authorities with higher Gross Disposable Household Income (GDHI) consistently record higher HLE, while those with lower household incomes tend to record fewer years lived in good health. Monmouthshire ranked highly for both GDHI and HLE in both periods (behind Powys for HLE in 2022-24, otherwise top spot for all), whilst Blaenau Gwent was lowest in 2012-14, and Merthyr Tydfil was lowest in 2022-24. The relationship appears to have gotten stronger, with the 2022-24 trend line (orange dashed).[25]

[25] That the change in GDHI is greater than the change in HLE between periods is in part to be expected due to inflation; household incomes of the same cash value will be worth less in real terms in the later period.

Figure 16 – Healthy life expectancy (HLE) at birth by GDHI in Wales, comparing 2012-14 and 2022-24

Alt text: Scatterplot of GDHI against HLE at birth for each LA in Wales between the two periods, 2012-14 and 2022-24. A positive relationship appears to hold, with the association appearing stronger in 2022-24.



Source: Welsh Government analysis of ONS data on HLE and GDHI
Note: Each point represents a Welsh local authority. Dashed lines are Generalised Additive Model (GAM) trend fits.

Figure 17 plots the same relationship for Northern Ireland, Scotland and England, and again shows a positive association between household income and healthy life expectancy (HLE). In Scotland and England, the 2022-24 distributions generally lie below those observed in 2012-14, indicating lower HLE at most income levels in the more recent period. In Northern Ireland, however, this pattern is less clear, with the 2022-24 distribution appearing broadly similar to, or slightly above, that observed in 2014-16. (but not accounting for inflation).

Wales has the lowest GDHI per head of any UK nation (£20,066 in 2023), approximately 20% below England (£24,986)[26]. This structural income disadvantage is directly linked to Wales's lower HLE position and limits the pace at which population health can improve without parallel economic development.

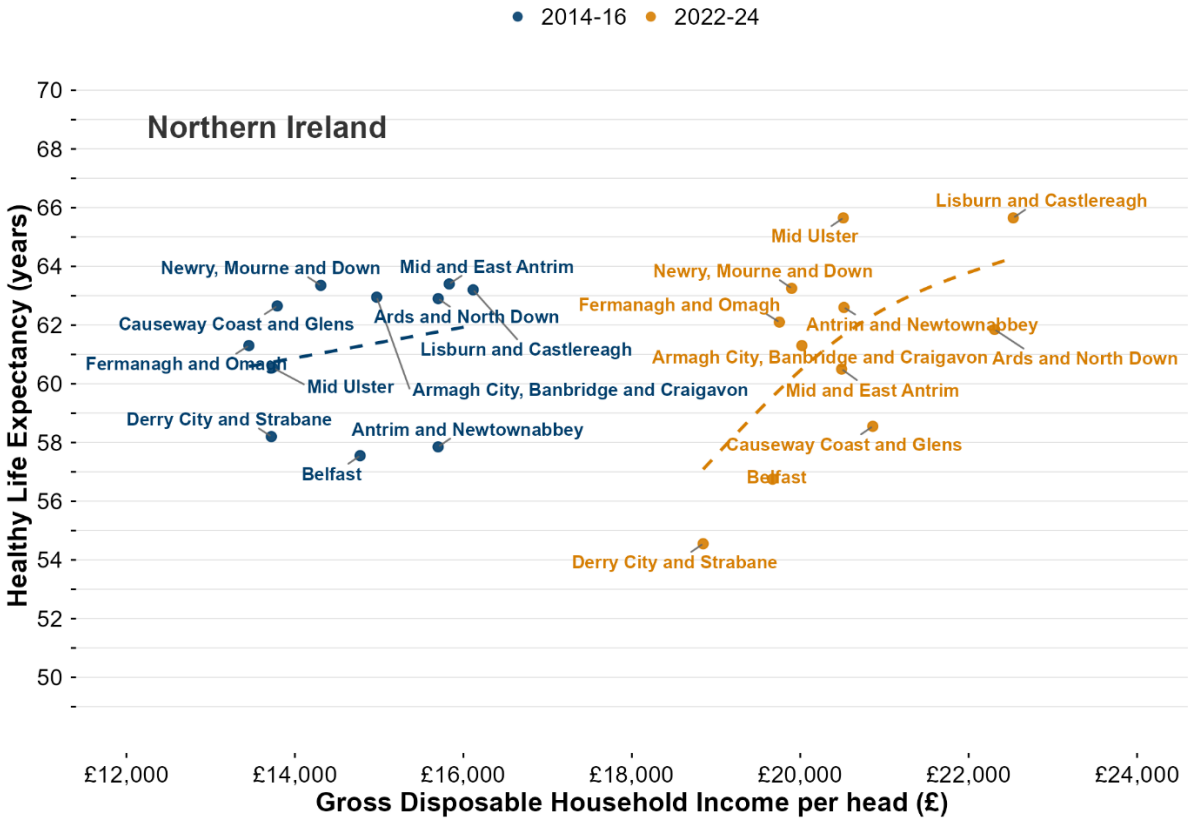
[26] Gross Disposable Household Income by area and measure | StatsWales

The positive association between Household income and healthy life expectancy is evident in both periods. Visually, the relationship appears somewhat steeper in 2012-14 than in 2022-24, suggesting a stronger income gradient in HLE in the earlier period, although the non-linear GAM fits do not permit a single slope comparison across the full income range. These findings support the case for place-based and deprivation-targeted interventions alongside universal approaches to improving population health rather than universal approaches alone.

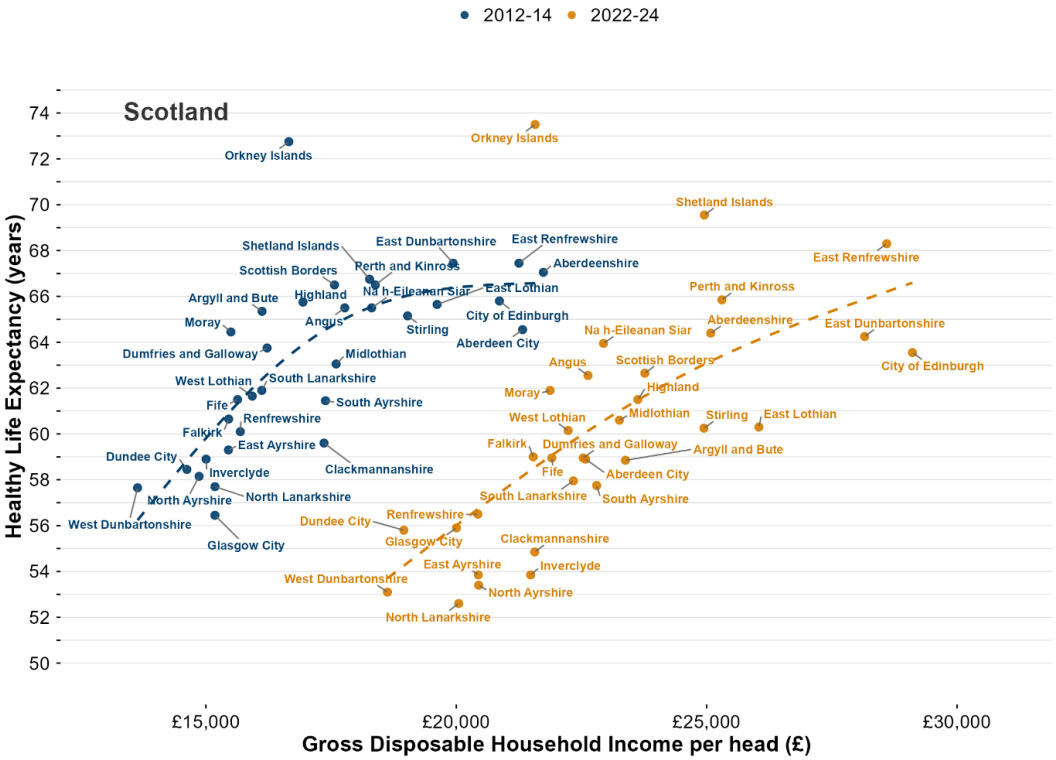
Figure 17*[A-C]* - Healthy Life Expectancy (HLE) by GDHI for Northern Ireland, Scotland and England, 2012-14 (Northern Ireland 2014-16) and 2022-24

Alt text: Scatter-plot of GDHI and healthy life expectancy for each UK nation in 2012-14 (Northern Ireland 2014-16) and 2022-24. A positive relationship is evident in all four nations, with a steeper association in 2022-24 than in the earlier period.

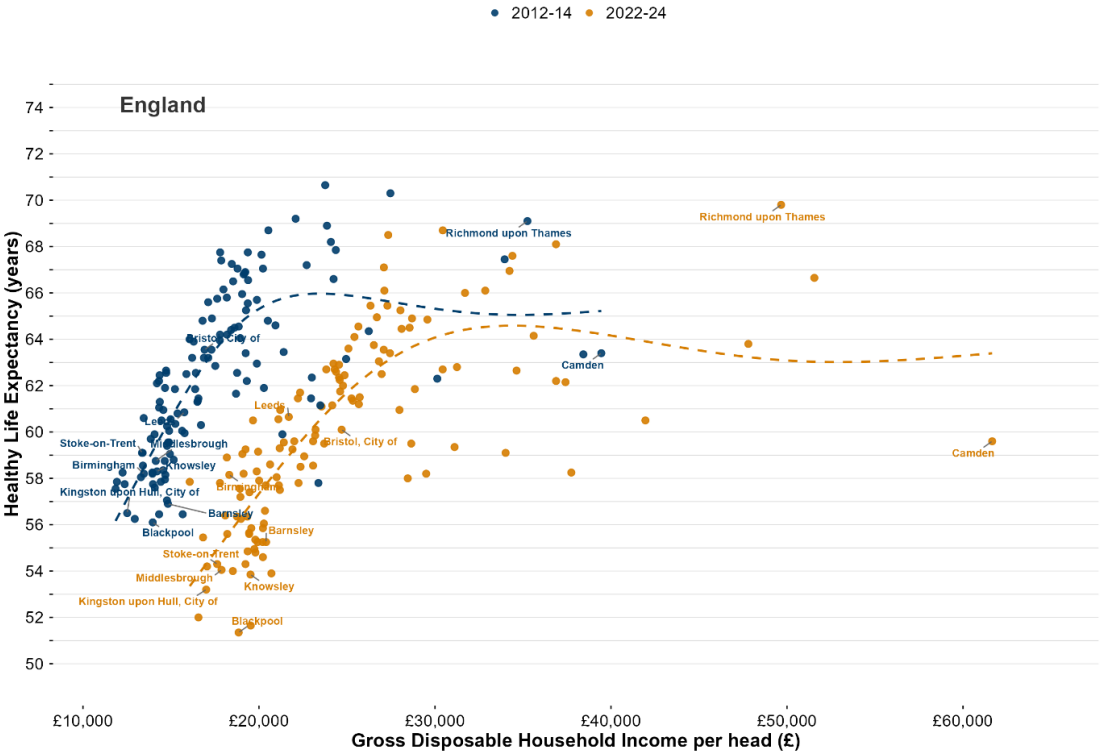
A.



B



C



Note: charts do not start at zero. Both axis for GDHI and HLE vary by country.
Source: Welsh Government analysis of ONS data on HLE and GDHI

Brain drain?

A two-way relationship in the movement of students and graduates exists between Wales and England, as shown with the Longitudinal Education Outcomes (LEO) data. Of Welsh domiciled graduates who studied in Wales, 95% were living in Wales one year after graduation, falling to 83% ten years after graduation.

For those who studied in England, around 67% had returned to Wales after one year, but this fell to 49% at ten years after graduation. The likelihood of leaving Wales rises at the same time as earnings potential increases, consistent with graduates responding to stronger labour demand and higher pay elsewhere.

These findings can be compared with HMRC data on the migration behaviour of income taxpayers. This is not limited to graduates but shows movements of all taxpayers by age and tax band. Consistent with the LEO data, there is a net outflow of taxpayers from Wales for those under the age of 35. However, over the age of 35 the position reverses and there is a net inflow of taxpayers to Wales[27].

Economic considerations are not only impacted by the inflows and outflows, but also by the quality of jobs, level of earnings, and skills. At 10 years after graduation, median earnings were £35,500 for Welsh domiciled graduates, compared with £38,800 for English domiciled graduates and £39,500 for Scottish domiciled graduates.

At the aggregate level, the HMRC migration data shows Wales' taxable income (effectively the sum of taxable income across tax payers) has grown every year since 2016-17 as a result of the net movement within the UK. That is because the amount of taxable income earned by individuals moving from Wales to the rest of the UK has been lower than the income earned by individuals moving from the rest of the UK to Wales.

In most years since 2015-16, Wales has seen a net inflow of basic, higher and additional rate taxpayers (the only net outflow was for additional rate taxpayers in 2018-19). By contrast, there was a net outflow of those on the HMRC systems with incomes below the personal allowance.

Taken together, the evidence suggests that Wales is not losing working people overall. However, there may be issues with retaining and attracting certain types of workers and skills most associated with productivity growth and fiscal sustainability – particularly those in younger age groups. The key policy challenge is therefore less about stemming aggregate out-migration and more about understanding the composition of movers and ensuring that Wales is attracting, retaining and developing the skills that drive long-term economic growth.

[27] Information on older graduates is not available in the LEO data.

Living Standards

Inflation, economic output and productivity provide important insights into the health of the economy. However, what ultimately matters is the impact these factors have on people's living standards. Economic progress is only meaningful if it translates into better outcomes for households and communities.

Household income data provide an important measure of living standards, or the material welfare of individuals and families. Disposable household income per head shows the average amount available for spending or saving per person after taxes, social contributions and benefits are taken into account.

However, this measure has limitations. It does not account for differences in age or household composition, excludes wider costs such as housing, and does not reflect the value of public service provision. It also shows only the average (mean) income, without capturing income distribution. Some of these limitations can be addressed through complementary indicators.

As discussed earlier and in previous iterations of this report, the subdued growth of GDP per head since around the time of the financial crisis compared to previous periods means UK household income growth has been slower than in previous periods.

The OBR forecasts UK household income to falls slightly in the near term in part due to higher prices. In the medium term, as energy prices are assumed to fall, household incomes are assumed to recover slightly. Growth in the last few years to 2031-32 averages around 0.75% a year. This is similar to average growth since 2010. However, the relatively low growth rate and the impact of higher prices than expected in March 2026, mean that household incomes are more than 0.75% below the March 2026 forecast for 2030-31.[28] Looking at the outlook more in the longer term, the IFS summarises: ‘This decade looks set to be the worst decade for growth in household incomes on record.’.[29]

Overall, as with productivity, UK living standards are forecast to grow well below the long-term trend before the financial crisis of around 2.5% per year. Over the medium-term, Wales’ household income and living standards are expected to follow similar trends to those in the UK. However, in the near term, events in the Middle East represent a profound risk to this outlook. Wales is likely to be even more vulnerable than the UK average because of lower household incomes, existing cost-of-living pressures, higher household fuel poverty and a higher share of energy intensive industries.

[28] Economic and fiscal outlook – October 2026 - Office for Budget Responsibility
[29] Autumn Budget 2026 | Institute for Fiscal Studies

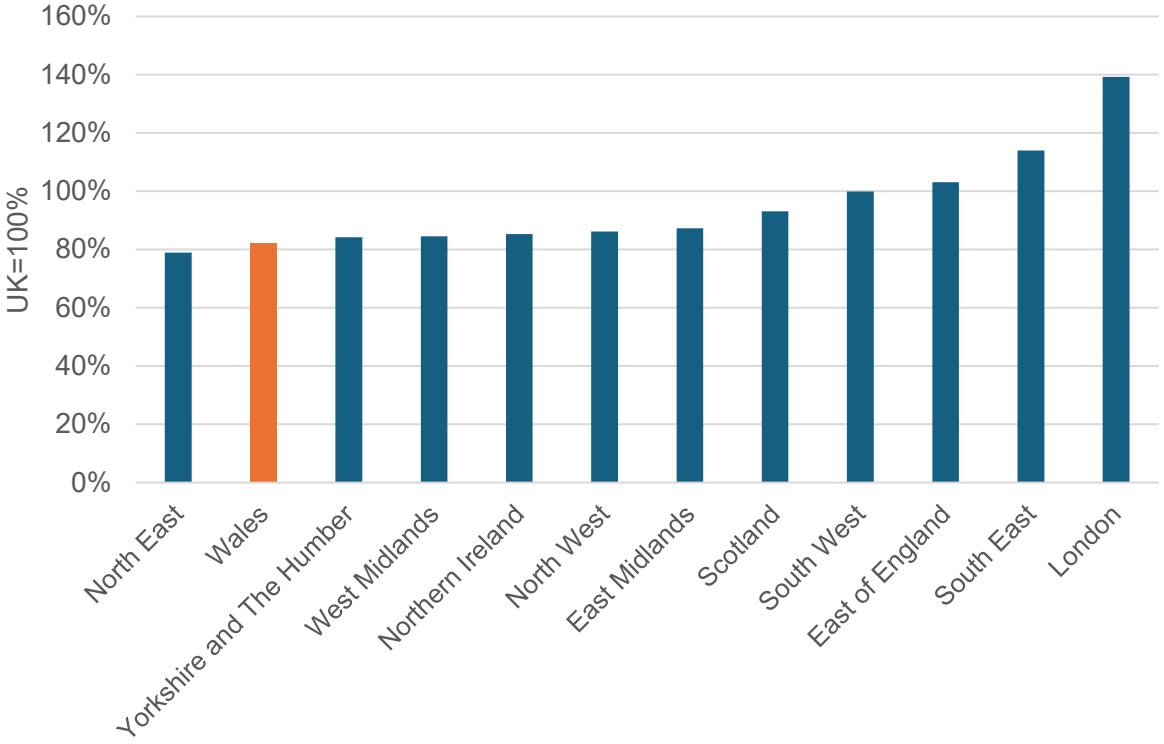
Living standards in Wales and elsewhere within the UK

As noted above, productivity is a key determinant of living standards over the long term. It increases wages in a sustainable way, which in turn increases household incomes. Given productivity in Wales is lower than the UK average, this is likely to be reflected in living standards.

Living standards by country and English region compared to the UK as measured by ONS' Real Household Disposable income (RHDI) per head is shown below, ***Figure* 18**. London is in excess of the UK average, at 139.3%. For the most recent available period, 2024, RHDI per head in Wales (82.2% of the UK) was the second lowest amongst UK countries and regions, higher than the North-east of England (79.0%), though not dissimilar to Yorkshire and the Humber, West Midlands and Northern Ireland.

Figure 18 - Real Disposable Household Income (RHDI) per head (UK =100) by UK countries and English region, 2024

Alt text: Bar chart showing RHDI per head by UK country and English regions for 2024, from lowest to highest. It shows Wales towards the lower end, at 82.2% of the UK figure, just above the North East. London and the South East have the highest values.



Source: ONS

As reported in Wales Economic and Fiscal Report 2025, the gap between Wales and the UK on GDHI per head has slightly widened over the longer term. Comparable regions to Wales have performed similarly. However, between 2023 and 2024, GDHI per head after accounting for inflation (RHDI) in Wales increased by 3.4% higher than England (2.7%) and every ITL1 region in it. Northern Ireland (4.1%) and Scotland (3.7%) also grew more than England.

The measure GDHI at the Wales level is also a national indicator: (10) Gross Disposable Household Income per head and also reported in the Well-being of Wales report, A Prosperous Wales chapter, and is used as one of the national indicators (to improve GDHI per head by 2035).

Alternative measures of household income

The Family Resources Survey (FRS) is an alternative source of information on household incomes in Wales and the UK.[30] The survey allows the calculation of a median household income (AHC) measure. AHC includes all sources of income from all household members, including dependents, and is adjusted ('equivalised') to allow for household composition. It therefore reflects the experience of a typical household and is widely seen as the most representative single measure of material living standards.

As explained in a previous Welsh Government release (in the quality and methodology information section), DWP is changing how FRS statistics are produced to improve household income and poverty statistics.

The main change this year is that information on the major state benefits and tax credits is now based on administrative data rather than survey responses, to reduce missing or under reported income. The improved approach is sometimes referred to as administrative-linked (or admin-linked) data; with data which has not had the change applied being referred to as unlinked data.

This change applies from 2021-22 onwards. As a result, the first 3-year average produced on the new basis covers 2020-21 to 2022-23 (due to issues affecting 2020-21).

Key low-income measures after this point have changed, creating a break in the data series at 2021-22. Users should not make direct comparisons of the low-income measures across this break.

Using the median instead of the mean provides a clearer comparison of income levels between Wales and the UK, as it better reflects the typical level and is less affected by extreme values.[31] In the most recent period, 2022-23 to 2024-25, the median weekly equivalised household income (before housing costs) in Wales stood at £662.[32] This is 94% of the equivalent figure for the UK as a whole (£701) and is the joint fifth lowest (with East Midlands) for all UK countries and English regions, with the North West (£656), Yorkshire and the Humber (£648), North East (£647) and West Midlands (£646) being lower.[33] London had the highest median weekly equivalised household income at £789.

Over the same period and after deducting housing costs the West Midlands still had the lowest median weekly income 93% of UK figure (£563), while the South East had the highest at 110% of the UK figure (£669). The high cost of housing in London

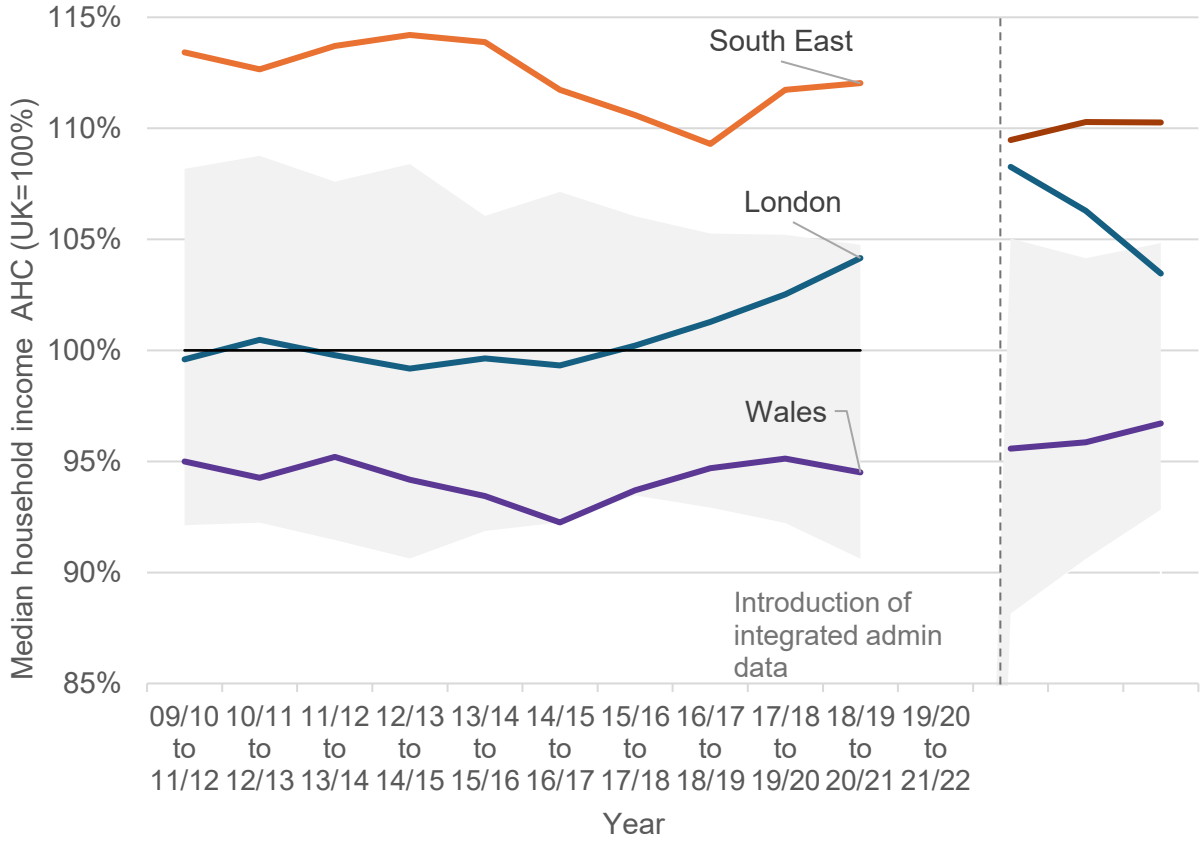
[30] Family Resources Survey: background information and methodology - GOV.UK
[31] Reasons for the difference between the mean measure of income from the Family Resources Survey and Gross Disposable Household Income are explored in WEFR 2024 p. 27. The Resolution Foundation has also published a useful explanation on the differences between these two measures used to track household incomes.
[32] The most recent data is for the three-year period 2022-23 to 2024-25.
[33] Adjusting for the lower cost of living in Wales would reduce this gap.

means incomes are lower than in the South East once these have been considered. Median weekly equivalised household income (after housing costs) in Wales stood at 97% (£586) of the level for the UK as a whole (£606). Therefore, the after-housing costs measure reduces the gap between Wales and the UK as a whole as Wales has lower housing costs[34].

[34] As mentioned in Labour market, living standards and poverty trends in Wales, this is largely due to lower house purchase prices (including price per square foot) and private rents in Wales compared to the rest of the UK (Zoopla, 2024; Office for National Statistics, 2026).

Figure 19 - Median weekly equivalised household income for all individuals by UK country and English region, after housing costs (UK=100%)

Alt text: Line chart showing median household income for Wales, London and South East coupled with a shaded area denoting the range for all other UK countries and English regions. Wales is around 95% of the UK median, around middle of all other areas, with the South East highest and above the UK.



Note: Chart axis does not start at zero. Shaded area shows the maximum and minimum of the UK countries and English regions excluding London and the South East. From 2021/22, survey data has been integrated with DWP and HMRC administrative records. This improved approach results in a break in the series between 2020/21 and 2021/22 and income data before and after the break are not comparable.
Source: Households Below Average Income (HBAI) statistics, Department for Work and Pensions (DWP)

Over the last 15 years, AHC income in Wales has been consistently lower than that for the UK as a whole and many other English regions and UK countries, as shown by **Figure *19***. However, the gap between Wales and the UK as a whole has reduced from around 7-8% in 2013-14 to 2016-17 to 3% in the latest data (2022-23 – 2024-25). Other UK countries and English regions also with a median household income consistently lower than the UK's and around the same as Wales over the same time are the North East, North West, Yorkshire and the Humber, and the West Midlands. As mentioned by IFS (2026), Wales has seen weak income growth since the late

2000s (as has the rest of the UK), with average real terms increases of just 0.7% a year since the early 2010s and little growth since the pandemic.[35]

Income-based measures of living standards, such as those above, tend to exclude wider non-cash benefits provided by public services, often referred to as 'benefits in kind'. WEFR 2025 used data to show these are likely to add to incomes in Wales relative to most other regions and UK countries, reducing the gap, perhaps by around two percentage points between Wales and the UK average.[36] The inclusion of benefits in kind is material but its impact on the Wales-UK differential is smaller than that of the tax and benefits system.

Relative income poverty

To examine how the distribution of household income compares in Wales, particularly those towards the lower end, it's insightful to consider data on the percentage of people who are in poverty.

Data for relative income poverty comes from the Households Below Average Income (HBAI) report published by the Department for Work and Pensions (DWP)[37]. HBAI data defines a person to be living in relative income poverty if they live in a household where the total household income from all sources is less than 60% of the average (median) UK household income.

Between the financial year ending (FYE) 2023 and FYE 2025, 22% of all people in Wales were living in relative income poverty (after housing costs [AHC])[38] – see **Figure *20***. The percentage of people living in relative income poverty has been relatively stable in Wales for the last two decades.

[35] Labour market, living standards and poverty trends in Wales
[36] See Effects of taxes and benefits on household income - Office for National Statistics
[37] Department for Work & Pensions (2025). Households Below Average Income: An analysis of the UK income distribution: FYE 1995 to FYE 2025 - GOV.UK
[38] Other data breakdowns are available, for example: children/working-age adults/pensioners in relative income poverty; and, relative income poverty by age group, housing tenure, economic status and type of employment, family characteristics, ethnicity, disability, sexual orientation, migrant status, and household food security status.

Figure 20 - Percentage of all individuals living in relative income poverty by UK country and English region, FYE 2023 to 2025

Alt text: Bar chart showing the percentage of individuals living in relative income poverty before and after housing costs, for all UK countries and English regions, plus the UK as a whole. Housing costs increases the share in poverty for all areas bar Northern Ireland (the same as BHC). Wales' position is towards the higher-end for both measures.



Source: Households Below Average Income (HBAI) statistics, Department for Work and Pensions (DWP)

In England, the percentage of people living in relative income poverty (after housing costs) was slightly lower than in Wales at 20% between FYE 2023 and FYE 2025. In Scotland and Northern Ireland, the figures were 17% and 14% respectively. Of all the English regions, relative income poverty rate (AHC) in Wales was only lower than London. On a BHC measure, the percentage of people living in relative income poverty in Wales (19%) was the same as Yorkshire and the Humber (all other English regions and UK countries had lower rates).[39]

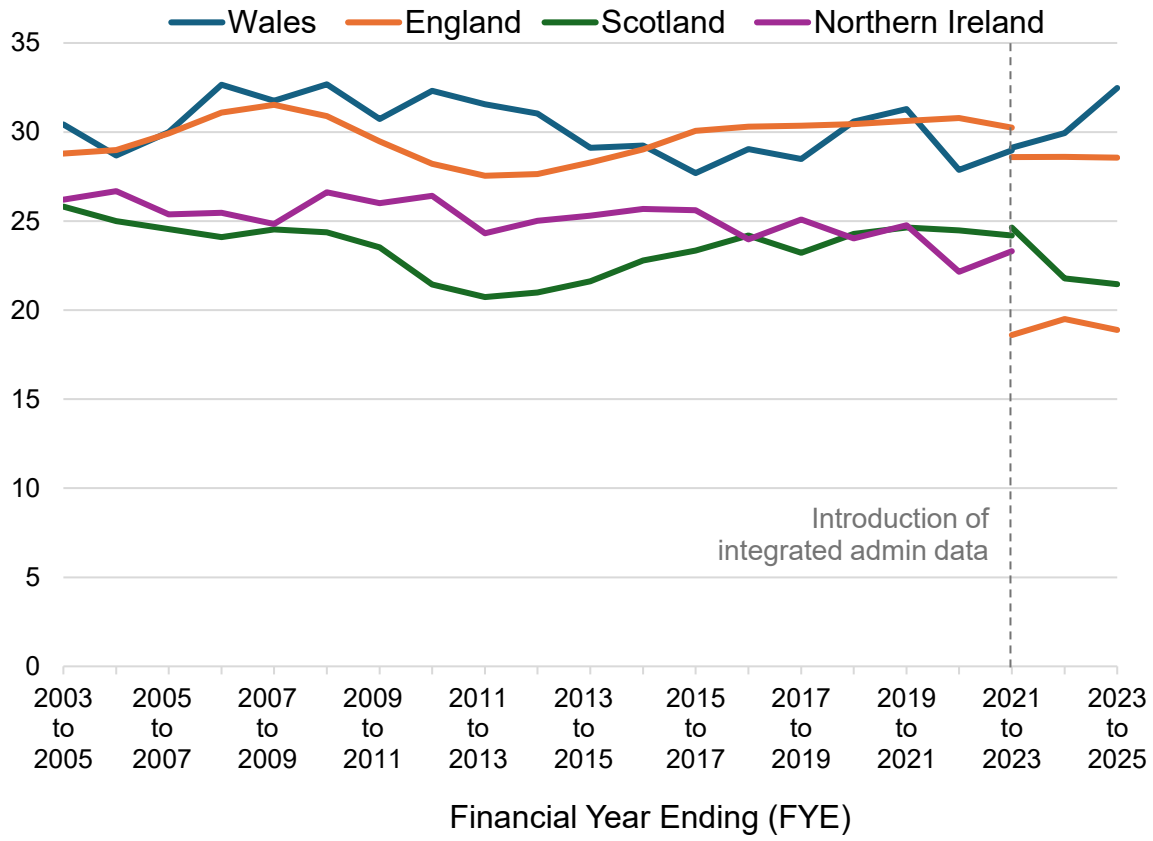
In Wales, 32% of children were living in relative income poverty (AHC) in 2022-23 to 2024-25 (see **Figure *21***). This has increased slightly from 30% in the previous period (revised figure for 2021-22 to 2023-24). However, this data is taken from a survey, so care needs to be taken when interpreting change over the short term as trends can be volatile due to small sample sizes. This two percentage point increase

[39] HBAI (2026) Relative income poverty: April 2024 to March 2025 | GOV.WALES

is within the range of typical short term variation seen for this measure, and is not statistically significant. In England, the percentage of children living in relative income poverty was slightly lower than in Wales at 29% between 2022-23 and 2024-25 (but again likely to be within the region of statistical significance). In Northern Ireland and Scotland, the figures were 21% and 19% respectively.

Figure 21 - Percentage of children in each UK country living in relative income poverty, AHC, three-financial-year averages

Alt text: Line chart showing percentage of children in relative poverty for UK countries. Scotland and Northern Ireland have the lowest shares, in the region of 20%, whilst England and Wales are both closer to 30%.



Note: Data from the period FYE 2021 to 2023 are not comparable with previous periods due to the introduction of integrated administrative data on benefits not used previously.
Source: Welsh Government analysis of the DWP's Households below average income dataset, based on the Family Resource Survey (DWP).

The impact of using linked administrative data has in general been to decrease relative income poverty rates for different groups by one or two percentages points compared to the previous method, however this varies from a very slight increase for some child poverty figures, to a four-percentage point decrease for pensioner poverty in one period. Patterns of variation in relative income poverty between different groups (such as age, economic status and family type) are broadly similar to those seen in previous years.

A new measure for deep material poverty has been introduced to capture children experiencing a deeper level of poverty than those identified in the relative income poverty statistics. The deep material poverty measure is based on material deprivation, specifically whether families are lacking at least four out of 13 essential material deprivation items[40]. In Wales, 10% of children were in deep material poverty for the period between FYE 2024 and FYE 2025[41]. This corresponds to 67,000 children of the 650,000 children living in Wales. This compares with 14% of children in England, 11% of children in Scotland and 7% of children in Northern Ireland.

Income inequality is lower in Wales than in the rest of the UK according to IFS (2026), but this is because the gap in incomes between Wales and the rest of the UK is particularly large at the top of the distribution, and not because poorer and middle-income households are better off. Incomes in Wales are also lower at every point in the distribution: compared with the rest of the UK, they are roughly 4% lower at the 10th percentile, but 13% lower at the 90th percentile, though there is no fully up-to-date data on income inequality within Wales.

Wales's household disposable income per person is around 81% of the UK average, placing it alongside lower-middle-income regions in advanced economies.[42] Comparisons with similarly placed European regions are more informative than those with the richest cities or poorest areas. These figures provide only a partial picture of living standards, as they do not fully reflect local costs, wealth, inequality, or public services.

Living standards on a consumption basis

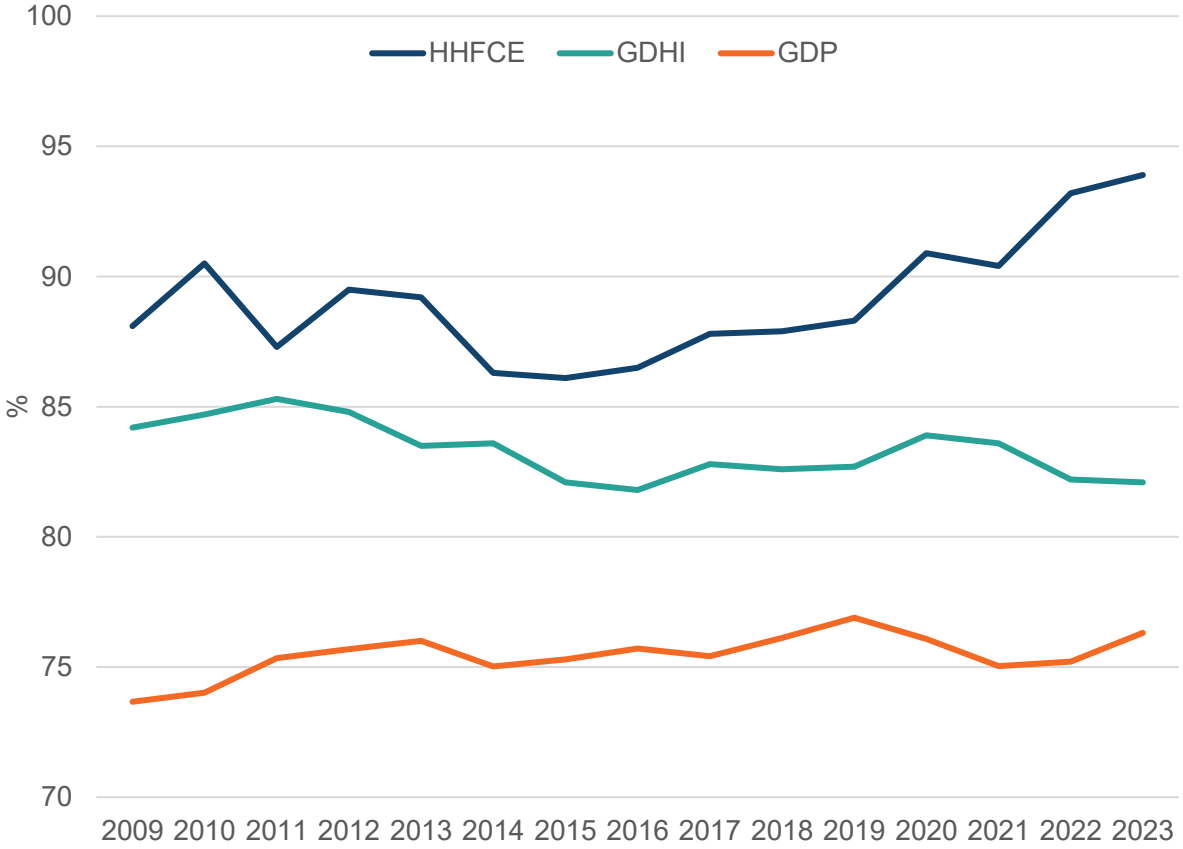
Consumption data can provide complementary insights into poverty and living standards. Regional expenditure data is published by the ONS, it includes all spending on goods and services by the residents of a region or UK country, regardless of where that spending takes place.

Regional economic data on economic output (GDP), household incomes (GDHI) and household final consumption expenditure (HHFCE) per person all relative to the UK shows Wales is consistently stronger on relative household income and spending than economic output.

[40] The full list of these items can be found in the Deep material poverty: Financial year ending 2024 (DWP) report.
[41] It will take until spring 2027 before we have the three-year averages usually used to produce robust estimates for detailed breakdowns such as for countries. However, given the importance of this new metric, DWP have published the first estimates of deep material poverty for UK countries and regions in this year's report, as two-year averages covering FYE 2024 to FYE 2025.
[42] OECD Regional Well-Being Indicators

Figure 22 - Household income (GDHI), economic output (GDP), and household expenditure (HHFCE) all per person, in Wales index (UK=100), 2009-2023

Alt text: Line chart showing household income, household expenditure and economic output all relative to their UK average. It shows expenditure it much closer to the UK level (of 100) than household income and especially compared to economic activity.

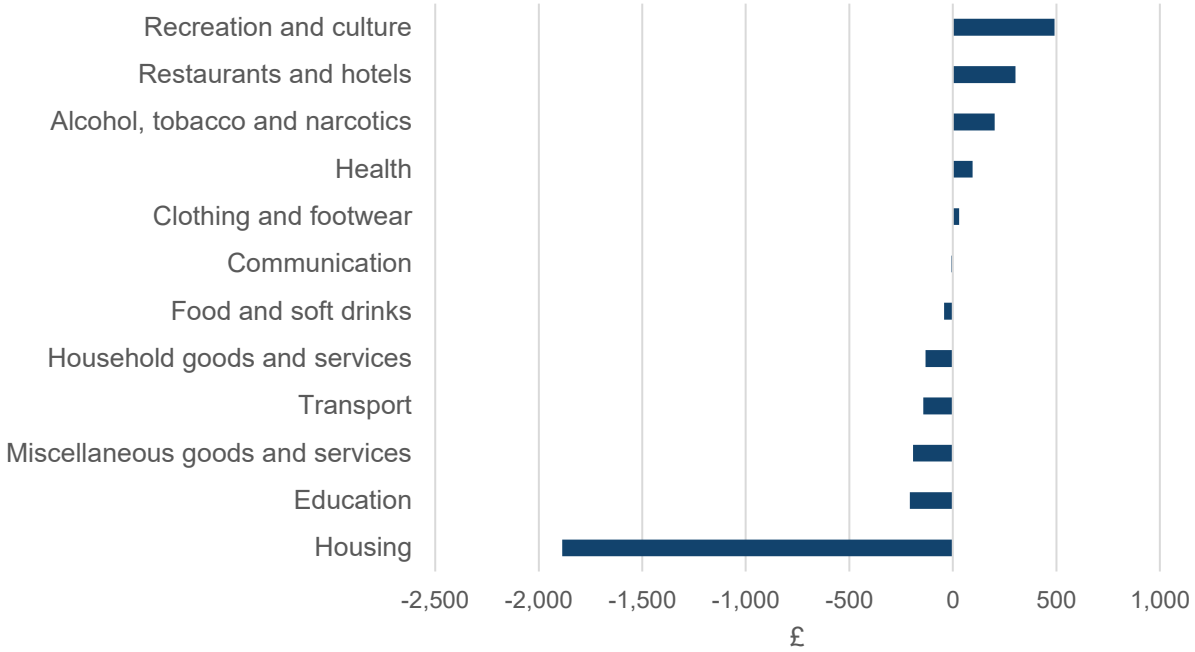


Note: axes do not start at zero
Sources: Gross Disposable Household Income by area and measure | StatsWales, Regional economic activity by gross domestic product, UK - Office for National Statistics, Regional household final consumption expenditure, UK - Office for National Statistics

Spending can be broken down by Classification of Individual Consumption by Purpose (COICOP), as done in **Figure *23*.** It includes housing, food, transport and recreation. Analysing these can help to explain where expenditure differences occur between Wales and the UK. Lower housing costs explain a large share of the difference in expenditure between Wales and the UK. Wales spends relatively more on Recreation and culture; Restaurants and Hotels; Alcohol, tobacco and narcotics; and Health. However, when housing is removed, the composition of spend is very similar for Wales and the UK, only up to one percentage point difference from UK shares, apart from Recreation and culture, which is two percentage higher in Wales as a share of non-housing spend.

Figure 23 - Differences in expenditure between households in Wales and the UK by expenditure type, 2023

Alt text: Bar chart showing how households' expenditure in Wales differs from the UK, in pounds spent by different types of expenditure. It shows less is spent in Wales on housing, nearly £1900 per year on average, with more spent on recreation and culture (around £500 more), and restaurants and hotels (around £300 more).



Source: Regional household final consumption expenditure, UK - Office for National Statistics

Climate Change

Climate change is one of the largest issues facing the Welsh, UK and global economies, with long term implications. It will do this through three main channels: emission mitigation, adaptation and damage. This section covers mitigation and adaptation only.[43]

Emission mitigation

Wales continues to make progress to decarbonise in line with net zero commitments – as shown in **Figure *24***. The latest data on emissions in Wales, for 2024, shows a 44% fall since the base year of 1990 (not shown), though the degree to which this is true varies by sector.

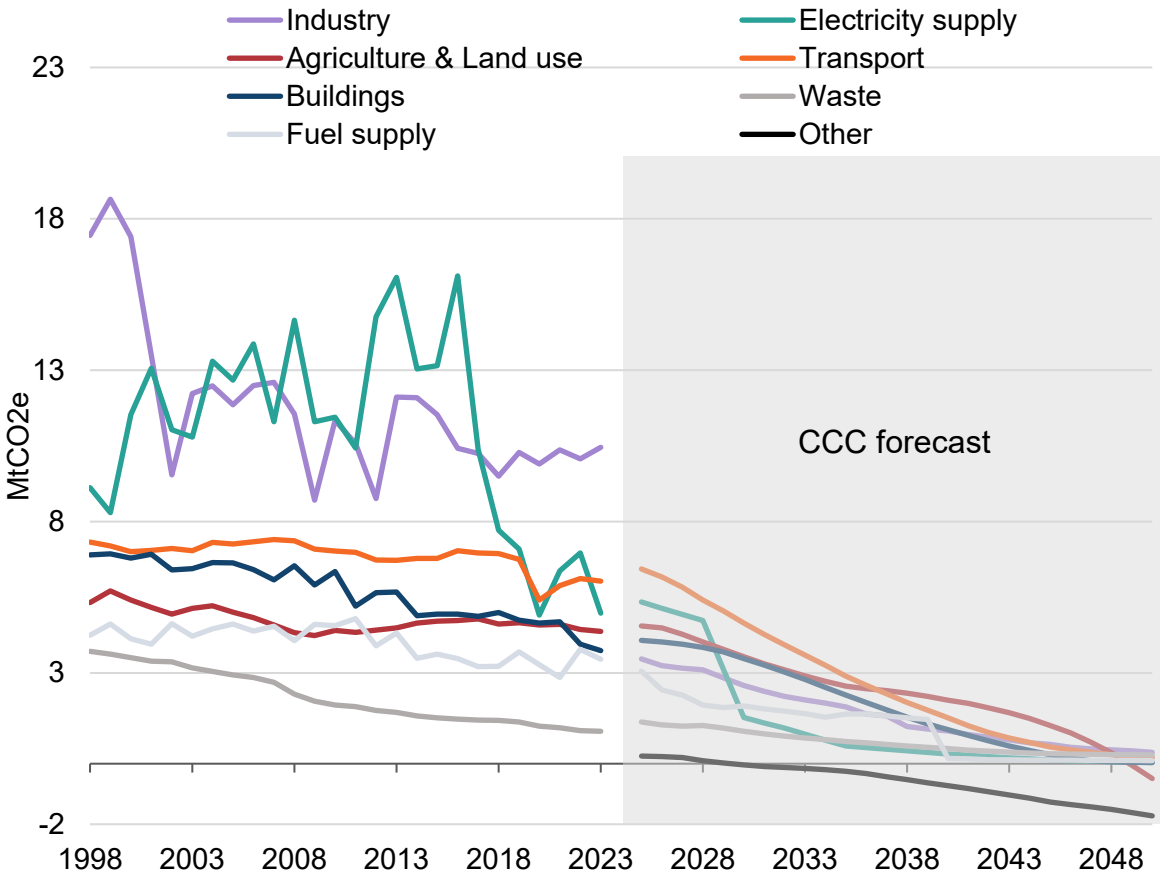
The largest drivers for this reduction in the long run are the industry and electricity supply sectors. In industry, this has been driven by falls in the emissions from iron and steel production. In the latest year, specifically the closure of Port Talbot had a large impact in this sub-sector. In electricity supply, this has been driven by the shift away from coal to gas and, increasingly, renewable sources of generation. Renewable sources contributed 37% to total Welsh electricity generation in 2024.[44]

To get to net zero emissions, further reductions are required across all sectors, especially industry, industry, electricity supply and transport in Wales. The Climate Change Committee provides a forecast on how that may be achieved. The fall in electricity supply emissions in the late 2020s is due to a rapid reduction in electricity generation from unabated gas. The fall in fuel supply emissions in 2040 is driven by economy-wide fuel switching leading to a fall in production output from oil refineries.

[43] Greenhouse Gas Inventories for England, Scotland, Wales & Northern Ireland: 1990-2024 | National Atmospheric Emissions Inventory
[44] Energy Generation & Use in Wales, Welsh Government

Figure 24 – Greenhouse gas emissions outturn and forecasts by sector in Wales, 2000 to 2050

Alt text: Line chart of greenhouse gas emissions by sector between 2000 and 2050 in Wales. It shows falling emissions in all sectors, especially the two largest emission sectors of electricity supply and Industry. In 2024, transport emissions had overtaken electricity supply to become the second highest emission sector.



Source: National Atmospheric Emissions Inventory (2026) Greenhouse Gas Inventories for England, Scotland, Wales & Northern Ireland: 1990-2024 and Climate Change Committee: 2025-2050
Notes: Other includes F-gases and engineered removals

There will be costs and benefits to society from the transition to net zero. The Climate Change Committee (CCC) has published supplementary analysis for the Seventh Carbon Budget with a cost benefit analysis of transitioning at the UK level, from 2025 through to 2050 (the target year for achieving net zero emissions and that is legally binding for Welsh and UK Governments respectively. Their central Benefit Cost Ratio (BCR) estimate of 3.3 means the value of benefits are expected to outweigh costs by more than three-to-one. The supplementary analysis considers a

wider range of costs and benefits to society and, whilst conducted on a UK level, is considered broadly representative for Wales.[45]

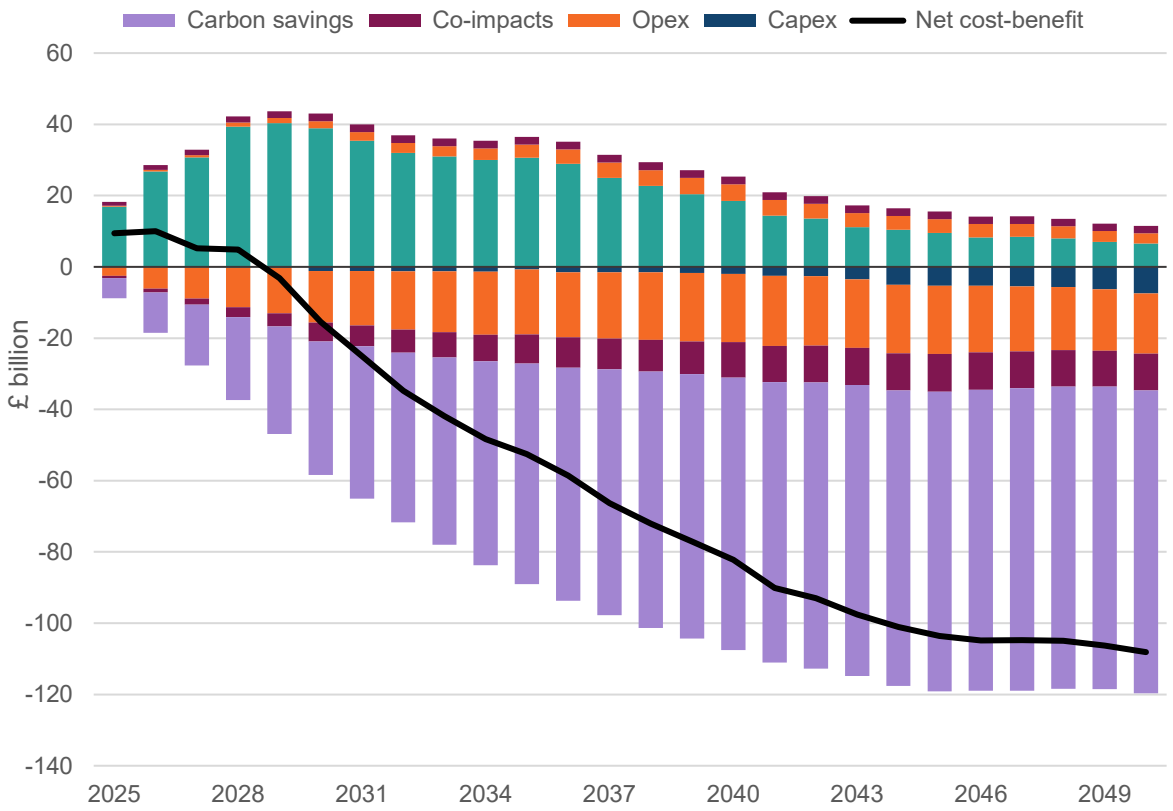
On the costs side, capital expenditure is the largest component, though this diminishes with time. There are also other smaller costs from operating expenditure and co-impact costs (the idea travel time will rise due to an assumed switch to greater active travel), though these are considerably smaller. In line with their original analysis accompanying the Seventh Carbon Budget Advice, which only considers financial costs and benefits, the pathway becomes net cost saving from 2041.

On the benefits side, social benefits are included. Co-impacts including improved air quality, insulation, road safety and quality, and diets are quantified, along with the value of avoided damages from reducing carbon emissions.[46] The ever-shrinking costs are increasingly offset by the growing value of these benefits in the longer term and by the savings made in operating expenditure. By considering this fuller range of benefits from the transition, the pathway provides a net benefit much sooner, from 2029, see **Figure *25***.

[45] Wales has a different economic structure from the UK average greater rural land use and agriculture, a longer coastline relative to population, higher exposure to some flood and coastal erosion risks, lower emissions per capita than some regions but significant industrial emissions in specific locations.
[46] Even removing these would generate a net positive position by 2040.

Figure 25 - Discounted costs and benefits to the UK from emission mitigation, 2025 to 2050

Alt text: Stacked column and line chart combination showing the net benefit-cost savings to the UK on an annual basis from emission mitigation, from 2025 to 2050. Capital expenditure (capex) is shown to be the main cost which, alongside other and much smaller costs, is more than offset come 2029 when benefits, mainly from carbon savings and lower operating costs, surpass its value.



Source: Climate Change Committee (2026) Supplementary analysis of the Seventh Carbon Budget
Note: Costs are presented as positive values, and benefits as negative values, to demonstrate potential savings over time.

The CCC's sensitivity analysis varies the appraisal period, discount rate, fossil fuel prices, technology costs, and carbon values. Benefits exceed costs by 2050 in every scenario considered; longer appraisal periods and lower discount rates increase the benefit-cost ratio. A fossil fuel price shock also strengthens the case for transition.[47]

Beyond mitigation, Wales is already experiencing the impacts of climate change with damage and costs occurring. In the summer of 2026, the heatwave impacts provided an example of how climate change may increasingly affect Wales in the future,

[47] This analysis was produced before the changes to the discount rate were announced, including its reduction, so this sensitivity is even more applicable now.

perhaps even contributing to this event.[48] Across the UK, insurance claims that are weather related continue to increase every year.[49]

Adaptation

In May 2026, the CCC published an updated report identifying climate risks and recommended actions to adapt to these.[50] The report highlights multiple risks to the economy from climate change, with GDP, productivity, financial systems, supply chains, public and household finances, and business assets all vulnerable. All these risks are categorised as “critical action” or “critical investigation” needed in Wales. The CCC estimate that without further adaptation action, by 2050, climate change damages could cost between 1% and 5% of UK GDP per year.

The CCC find that adaptation measures tend to have good BCRs in the existing literature, largely ranging between 2 and 10 in the UK, including measures such as retrofitting existing infrastructure, nature-based solutions, providing information on climate risks and extreme weather events, and encouraging behaviour change. Like the transition to net zero, these measures are not costless, but they can also bring co-benefits beyond dealing with climate risk, such as improved health, biodiversity, carbon sequestration, and recreation value.

Furthermore, the CCC highlight the opportunity businesses could have to deliver adaptation goods and services. There are multiple industries where they expect demand for adaptation to grow, including agriculture, energy supply, manufacturing and construction, where Wales could have a particular opportunity as they already make up a greater proportion of employment and GVA compared to the UK. The Government Office for Science estimate that the UK’s market opportunity for adaptation between 2026 and 2035 could be between £154bn and £355bn, including the domestic market and export demand; on average around 0.5% to 1.3% of GDP a year.[51]

However, fully taking advantage of these potential opportunities depends on Welsh businesses having the specialised labour and capital required. According to the ONS, employment in the entire low carbon and renewable economy in Wales is around 14,000 (on a full time equivalent basis); an increase in absolute terms, but proportionally this is still a very low share of the total in Wales.[52] Most of these jobs continue to be in the energy efficient products and low carbon electricity sub-sectors, as identified in the Wales Economic and Fiscal Report 2024.

---

[48] Summer 2026 provisionally hottest on record for the UK - Met Office

[49] Adverse weather pushes property insurance payouts to £6.1 billion in 2025 | ABI & Home insurers pay out £846 million to support households | ABI

[50] A Well-Adapted UK - Climate Change Committee

[51] Economic Opportunities of Climate Adaptation for the UK - Government Office for Science

[52] Low carbon and renewable energy economy, UK - Office for National Statistics. It is important to note these are green economy jobs in general, **not** specifically adaptation related employment.

The CCC estimate that required investment in adaptation to manage the projected risks of 2°C warming by 2050 across the UK would be £11 billion a year.[53] These costs include capital, operating and replacement expenditure. However, this is a highly uncertain estimate. Not all sectors had robust evidence available for quantifying investment, so this number is likely an underestimate. Furthermore, the level and cost of adaptation will vary greatly by location depending on place specific factors, the exact path climate change will take (including the possibility of tipping points that could increase costs dramatically), and the development of new technology or solutions.

There is also uncertainty around who exactly will bear this cost. At least 36% of this investment is estimated to come from the public sector, based on the historical record of funding. Again, this percentage could be an underestimate as a further 23% is currently classed as having an “undetermined” funding source, because the historical evidence is lacking. Even using the lower estimate, this would have implications for the future public finances of Wales. The remaining funding is expected to come from private sources. However, around 10% of Welsh businesses have cited costs as a reason for not taking action to address the climate change risks they face.[54]

[53] A Well-Adapted UK Adaptation Investment Analysis - Climate Change Committee
[54] Business insights and impact on the UK economy, Wave 159 - Office for National Statistics

Labour Market

The following analysis of the labour market focuses in the first instance on the latest developments in employment in Wales in some detail. Unemployment and economic inactivity are then discussed briefly. Analyses of the rising number of young people who are not in education, employment or training (NEETs) and labour market flows or 'churn' are included in boxes. The section closes with a discussion of prospects for the labour market, highlighting potential impacts from the adoption of AI.

The labour market, and especially employment, has been an economic success story for the UK and Wales over the last 20 years or so, notwithstanding some deterioration in the last couple of years. The Annual Population Survey (APS) shows that the **employment** rate in Wales increased from 69.3% (UK 72.5%), in the year to December 2004 to 73.3% (UK: 75.5%) in the year to June 2026.[55] Between 2004 and to June 2026, the rate of **economic inactivity** in Wales decreased from 27.3% (UK: 23.9%) to 23.7% (UK: 20.9%). The latest APS **unemployment** rate in Wales is 3.9% (UK: 4.4%), down from 4.7% (UK: 4.8%) in 2004.

Recent developments in employment in Wales

Similar to the quality issues that have affected the Labour Force Survey (LFS) mentioned in the section on productivity, the APS has seen a fall in sample sizes since the turn of the decade. Given this and the fact that the survey has not been reweighted to latest population estimates, APS estimates are now designated as Official Statistics, having previously had a status equivalent to Accredited Official Statistics.

In light of concerns about the quality of APS and LFS data, it is helpful that since 2021, the ONS have published HMRC Pay As You Earn (PAYE) Real Time Information (RTI) data on employees. The PAYE data are Accredited Official Statistics. Self-employed people are not included in the PAYE data. This is not a major drawback because the majority of people in employment – around 87%– are employees. Accordingly, PAYE data are used here to describe the latest developments in employment in Wales.

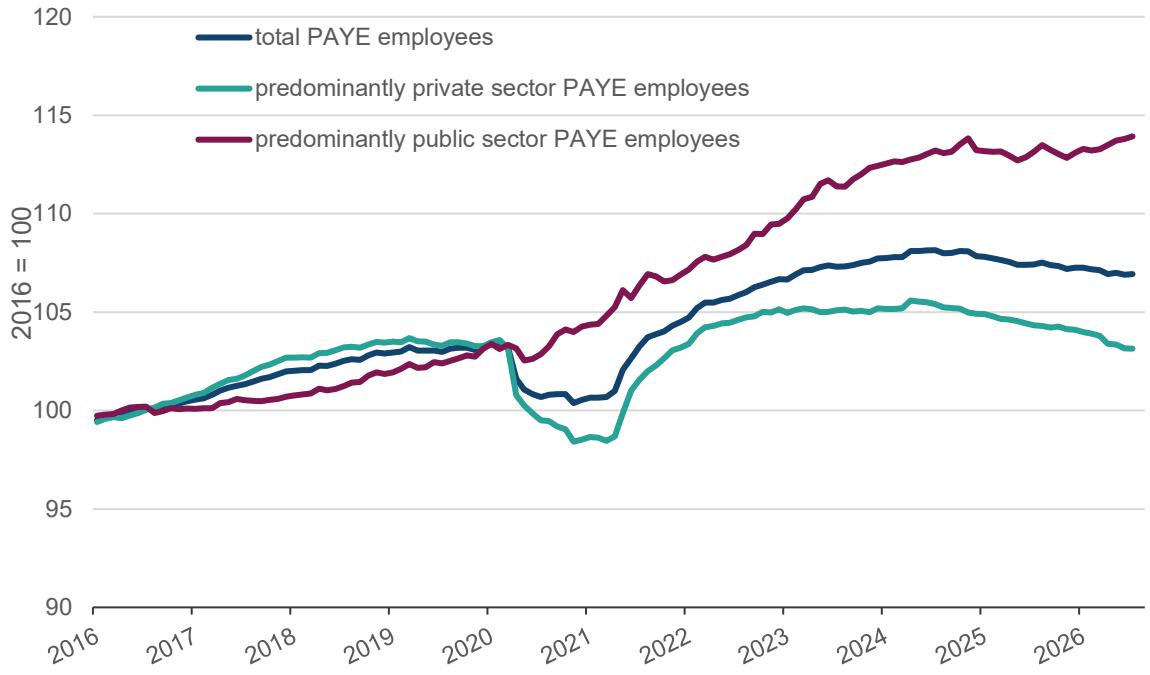
There were 1.31 million people in PAYE employment in Wales in the three months to September 2026, down 0.4% on a year earlier. The decline in total PAYE employment conceals divergent developments across the public and private sectors. PAYE employment in predominantly public sector activities is up 0.8% on the 12 months to July, having been on an upward trajectory for several years (the same pattern is occurring in the UK), whereas employment in predominantly private sector activities was down 1.2% (see **Figure *26***). Bank of England agents have reported

[55] The dates cited present the earliest and latest data points available in the series.

that heightened geopolitical uncertainty in the Middle East has contributed to weaker private sector demand for labour.[56]

Figure 26 - Index of PAYE employees in Wales (2016=100), 2016 to 2026

Alt text: Line chart showing total PAYE employee, and proxies for private and public PAYE employees in Wales 2016 to 2026. Chart shows total PAYE employees increasing through the period until 2024, when due to private sector employees falling, the total also gradually starts to fall.



Source: Office for National Statistics
Note: Vertical axis does not start at zero

Bank of England analysis suggests higher labour costs associated with increases in the National Living Wage (NLW) and increased employer National Insurance Contributions, effective since April 2025, may have also contributed to weakening employment outcomes especially for lower-paid workers in sectors with a high share of jobs near the NLW.[57] Hospitality is one such sector, with PAYE employment 3.6% lower than a year earlier, see **Figure *27***. Large declines have been recorded in manufacturing and ICT employment. The former can be viewed as part of a long-term trend, as the Welsh economy continues to shift towards service-sector activity, in similar fashion to other developed economies.

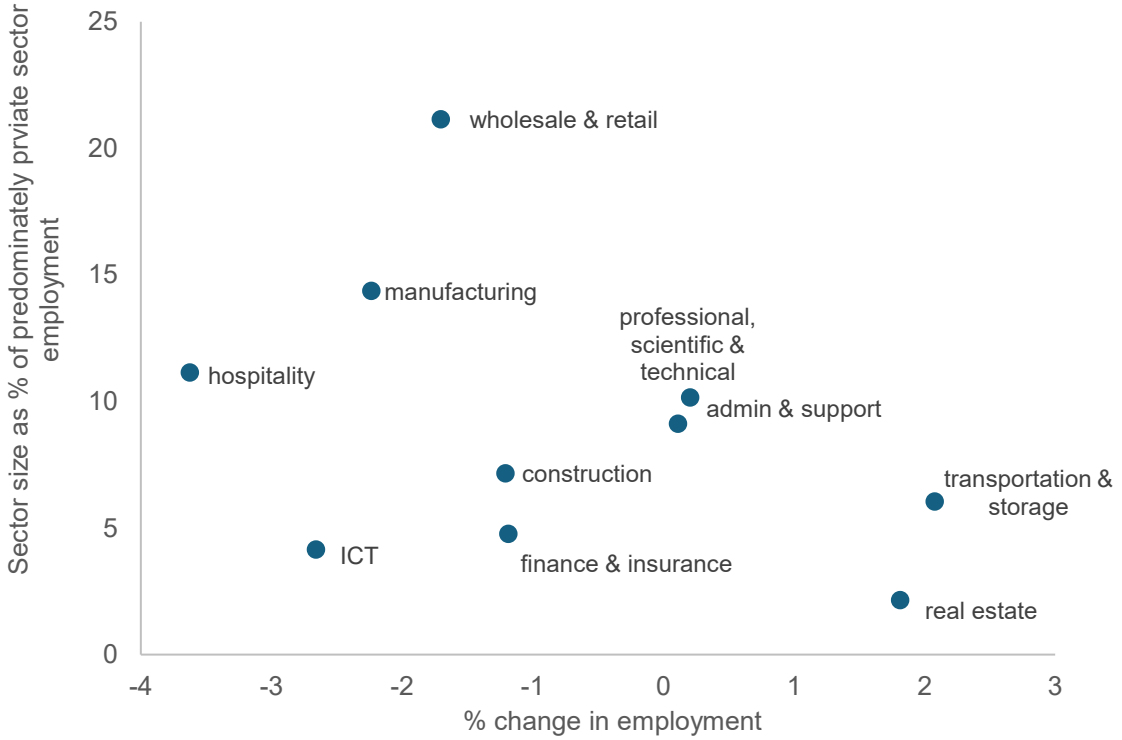
Adoption of Artificial Intelligence (AI) may be influencing employment trends notably for more highly automatable occupations. AI technology is especially adept in the

[56] Bank of England Monetary Policy Report July 2026.
[57] *Ibid*.

execution of programming and coding tasks. The evidence is not conclusive, but this could be a contributory factor explaining the reduction in ICT employment.

Figure 27 - Change in PAYE employment in Wales by selected sector May-July 2025 to May-July 2026 & sector size

Alt text: Scatter chart showing changes in PAYE employment in Wales by sector between May to July 2025 and May to July 2026. Most sectors saw employment fall, particularly hospitality, manufacturing, and wholesale and retail. Employment was broadly unchanged in professional services and admin and support. Transportation and storage and real estate were the only sectors to record notable employment growth. Larger sectors generally experienced declines.



Note: Vertical and horizontal axes are different in scale. Horizontal axis does not start at zero
Source: Office for National Statistics

Unemployment

The APS unemployment rate in Wales in the year to June 2026 was 3.9% (UK: 4.4%), a decrease of 0.2 percentage points compared with the previous year. The LFS unemployment rate in Wales in the three months to August 2026 was 3.4% (UK: 4.7%), a decrease of 1.3 percentage points compared with the previous year. The Department for Work and Pensions collects data on the number of people claiming benefits primarily for reasons of unemployment. The claimant count rate has been stable over the last few years.

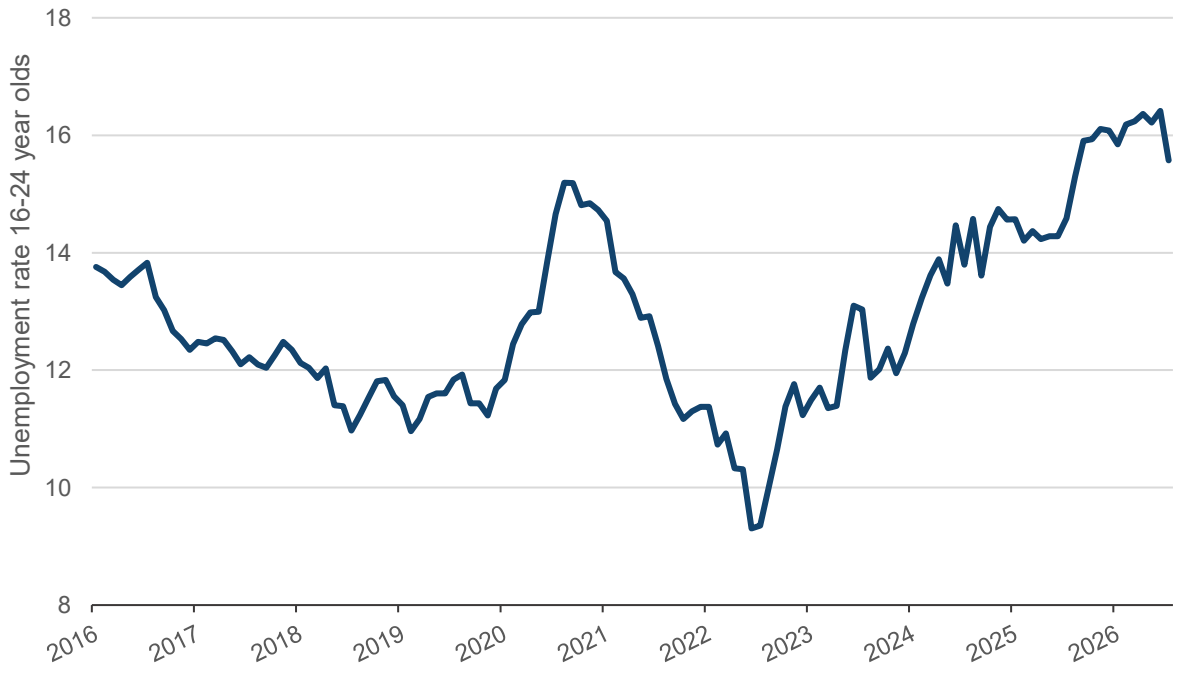
Despite the economic disruption caused by the UK's exit from the European Union, the COVID-19 pandemic and the energy price shocks of 2022 and 2026, which have

all contributed to anaemic output growth, the unemployment rate has not increased to the extent expected by many forecasters.

Beneath the relatively benign picture presented by the headline adult unemployment rate, there has been a concerning increase in youth unemployment. **Figure *28*** shows that in the three months to August 2026, the LFS unemployment rate for 16 to 24 year olds in the UK was 15.6 %. The youth unemployment rate has increased from 9.3% in mid-2022 and was last higher in 2014. HMRC PAYE data capturing changes in youth employment broadly corroborate the unemployment picture presented by the LFS data. LFS youth unemployment data for Wales are not available. It is likely that trends in Wales are similar to those seen across the UK. There is a fuller discussion of youth unemployment and the wider issue of NEETs below.

Figure 28 - UK youth unemployment rate, 2016 to 2026

Alt text: Line chart showing UK youth unemployment between 2016 and 2026. It shows a declining rate from 2016 at around 14% to around 11% in 2020. After 2020 the rate increased to around 15%, then falling in 2021 and 2022 to around 9%. Since then it has steadily risen and in the first 8 months of 2026 is just above 16%



Source: Office for National Statistics
Note: Vertical axis does not start at zero

Not in Education, Employment or Training (NEETs)

Latest UK data shows there are nearly one million young people classed as NEET.[58] The Welsh Government's official NEET measure estimated 47,100 16-24-year-olds (13.7%) were NEET in Wales in 2024 (provisional).[59] This is comparable, even a little below, the period between 2004 to 2024 where NEET numbers averaged a little over 55,000, and in some years exceeded 70,000. The 2024 level is the sixth lowest on record, with the rate the third lowest.

Concerns about NEET centre on two main issues: a changed NEET cohort, and an expectation the NEET cohort, without action, will enlarge. Around 7-in-10 Welsh NEET are classed as economically inactive (not actively seeking work). In 2012, the split between those and unemployed NEETs was virtually equal (who are actively seeking employment), but the share of NEET who were inactive rose steadily over the remainder of the decade, and since 2020 has been at or above 70%. More timely data also indicates NEET numbers for 2025 will be higher[60]. These point to entrenched labour market detachment.

The Young people and work: interim report 'Milburn Review' –also found increased detachment at a UK level. The report identifies risk factors associated with greater likelihood of becoming NEET – including low qualifications, disability status, and family circumstances, issues previously identified in Welsh Government's own research, which highlights the overlap and intersectionality between these factors.[61] It also provides detailed reviews into other areas of government policy and their significance to young people's participation in the labour market. It highlights the challenge of coordinating policy across these areas and argues that employment outcomes often fall between traditional policy responsibilities, potentially contributing to inaction.

Independent think tanks such as the Resolution Foundation and Institute for Fiscal Studies have also devoted time to researching NEETs. Both conclude that cyclical factors and policy changes alone cannot explain the recent rise in the UK NEET rate.[62] [63] This is with the backdrop of the UK having one of the highest NEET rates of all comparable advanced economies.

Limited official local-level NEET data makes it difficult to assess challenges below the all-Wales level, though alternative sources show significant variation between

[58] Young people Not in Education, Employment or Training - Office for National Statistics
[59] Understanding the different sources of statistics on young people not in education, employment or training (NEET) in Wales | GOV.WALES
[60] Young people not in education, employment or training (NEET): 2025 | GOV.WALES
[61] Rapid Evidence Review: Supporting young people who are not in employment, education or training (summary)
[62] Lost in transition • Resolution Foundation
[63] Why has the NEET rate risen? Understanding trends and drivers using administrative data | Institute for Fiscal Studies

areas[64], this is compounded by the presence of “hidden NEETs”, those not captured in any official statistics (often owing to their disengagement), although recent research suggests this group, on the whole, may be less disadvantaged compared to known NEETs.[65]

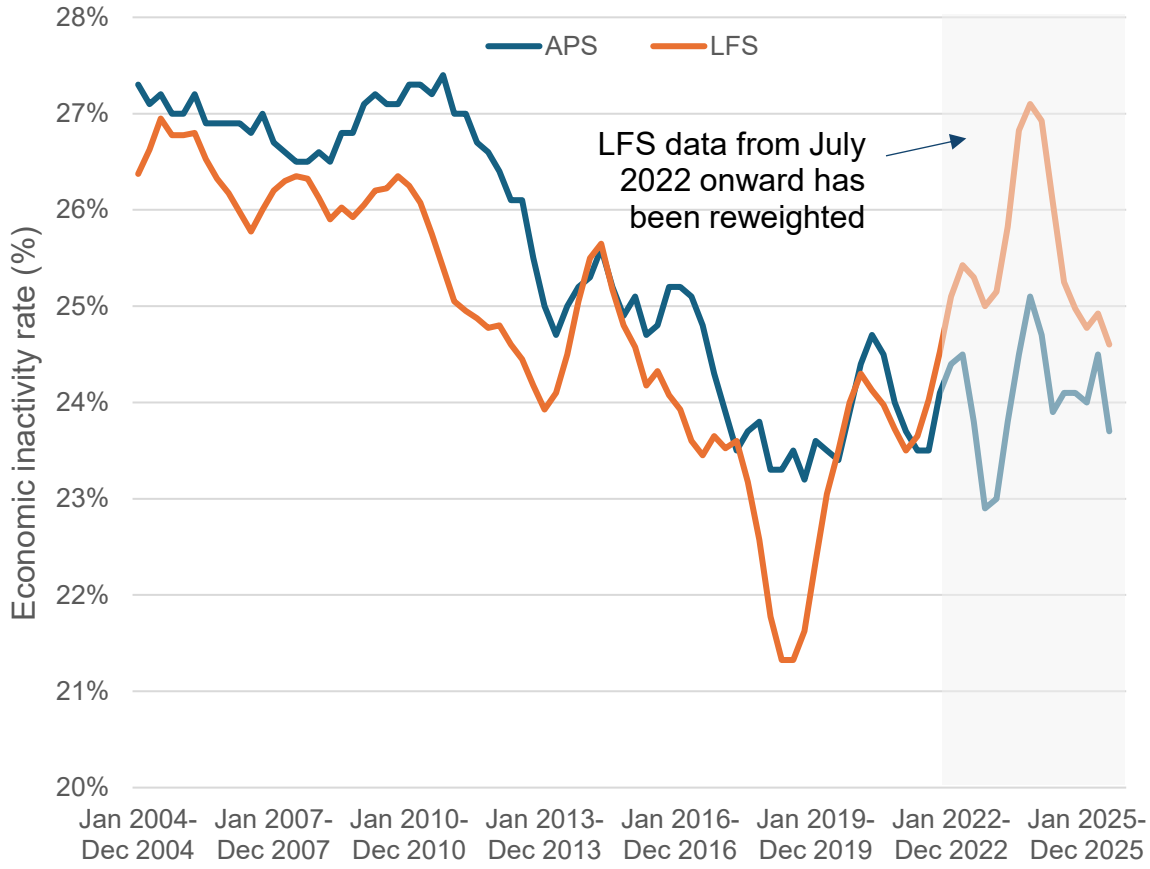
Economic inactivity

The economic inactivity rate is the proportion of the working-age population who are neither in work nor looking for work. In Wales, through the 2010s, and mirroring the improvement in the employment rate, the economic inactivity rate declined steadily. More recently, in the year to June 2026, the APS economic inactivity rate was 23.7% (UK: 20.9%), a decrease of 0.4 percentage points compared with the previous year. The LFS inactivity rate in Wales in the three months to August 2026 was 24.0% (UK: 20.9%), a reduction of 0.9 percentage points compared with the previous year.

[64] Data Dashboard
[65] Off the radar: who are NEETs not claiming benefits? | Institute for Fiscal Studies

Figure 29 - Wales economic inactivity rate 16 to 64, 2004 to 2025

Alt text: Line chart showing the APS and LFS economic inactivity rate in Wales 2004 to 2025. The two are highly correlated, generally falling between 2004 to 2020. Since 2020, the relationship between APS and LFS has weakened but show a general increase in the economic inactivity rate between 2021 and 2025.

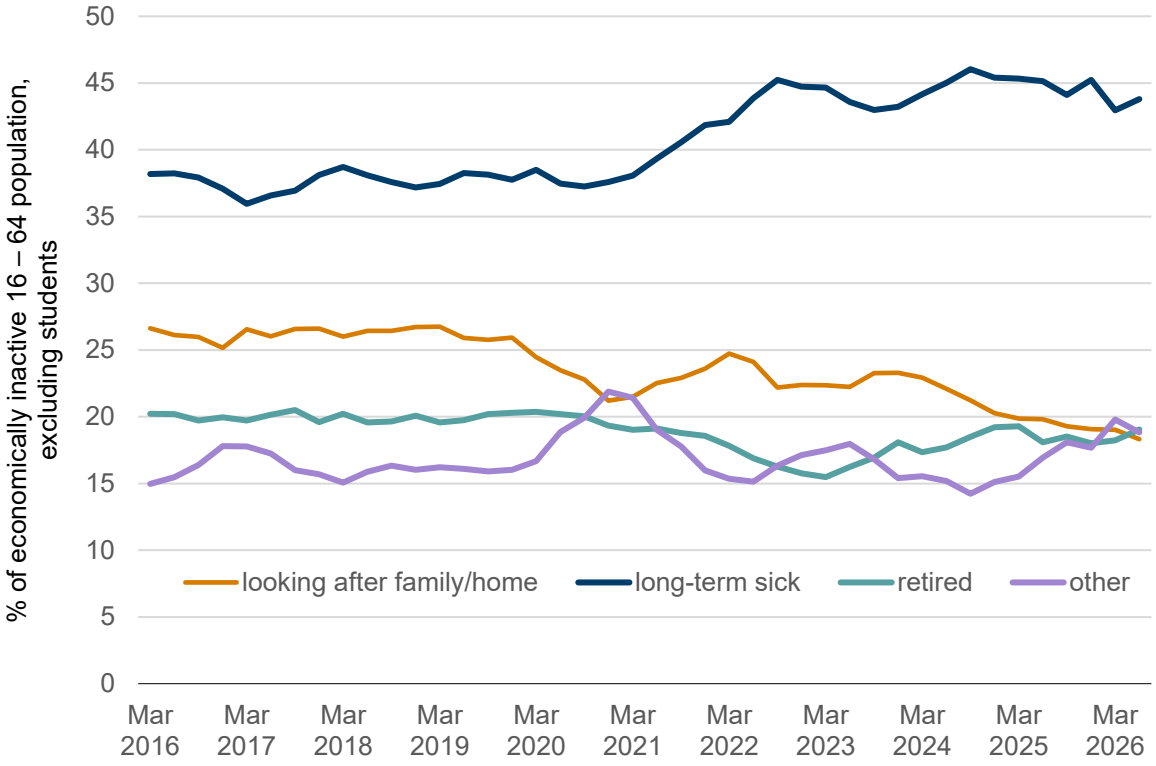


Source: Office for National Statistics
Note: LFS is a 4-quarter average to align periods with the APS. Vertical axis does not start at zero.

Long-term sickness is the biggest driver of economic inactivity and has become more prominent since 2020, see **Figure *30***. In contrast, looking after family/home as the reason for inactivity has trended down. The decline in caring-related inactivity is part of a longer-term trend associated with higher employment rates among women and a reduction in the birth rate.

Figure 30 - Main reason for economic inactivity (excluding students) in Wales, years ending June, 2016 to 2026

Alt text: Line chart showing share of economic inactivity in Wales by main reason (excluding students), between years ending March 2016 and June 2026. Looking after family home as a share has generally declined from just above 25% to just under 20%. Whereas long term sick has risen from around 38% to 43%.



Source: Office for National Statistics

Pay

This section uses HMRC Real Time Information (RTI), which provides timely monthly PAYE earnings data, including bonuses and overtime. The Annual Survey of Hours and Earnings (ASHE) provides more detailed annual evidence on pay levels, hours, and distributions. Differences in coverage, timing, and methods mean the measures are not directly comparable.

Since July 2014 (earliest RTI data point), median pay[66] in Wales has grown by 70.9% (in cash terms and so before accounting for inflation) compared to UK's 66.4%, the highest growth of all of the UK nations over that period. Towards the end of 2025 and to mid-2026, median pay in Wales has been growing at between 4% to

[66] Using median pay is often preferable to mean (average) pay because it provides a better indication of what a typical worker earns. Median pay identifies the midpoint of the earnings distribution, meaning half of workers earn more and half earn less. This makes it less affected by a small number of very high earners, which can significantly increase the mean and give a misleading impression of overall earnings.

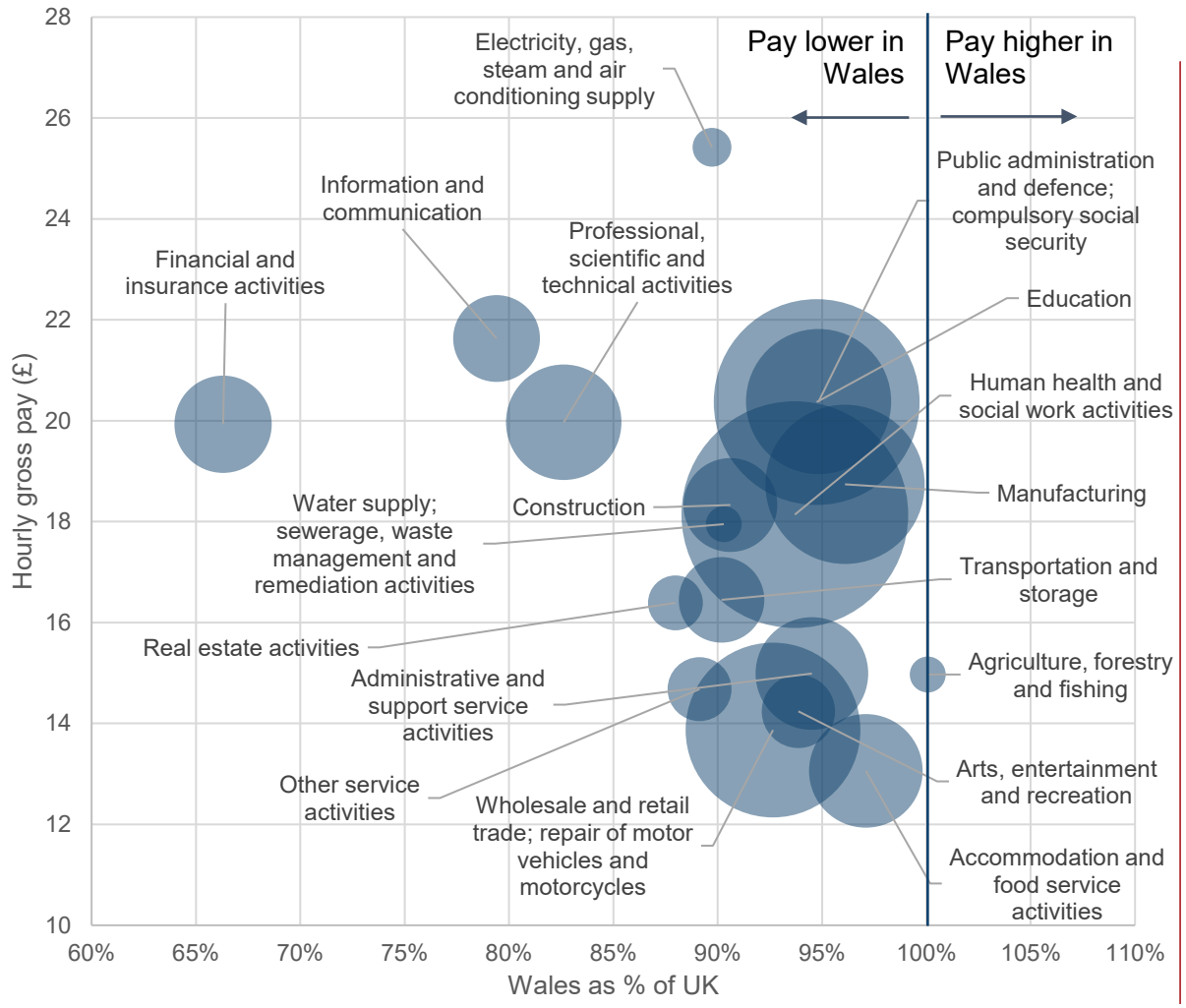
5% (so higher than inflation – see next section), however, there are signs that this may be starting to weaken across the UK.

To understand some of the difference of pay between Wales and the UK by sector, ASHE can be used. Although it not as timely as RTI, it includes a sample of all workers and has more detail, such as industry and occupation. Using information on sector and median wages, see **Figure *31***. The chart suggests that some sectoral pay differences are larger than Wales-UK pay differences within sectors. While Welsh median pay in many sectors is close to the UK sector average, lower relative pay is evident in some knowledge-intensive sectors such as finance, information and communication, and professional services. Public sector activities, manufacturing and construction generally exhibit pay levels closer to UK norms. The concentration of employment in lower-paying sectors, alongside weaker pay performance in some high-productivity industries, is likely to contribute to Wales' lower overall earnings relative to the UK.

Many sector, such as manufacturing, construction, public administration and education appear to cluster around the UK average (100%), whereas finance and professional services and Information and communication sit noticeably below their UK counterparts, suggesting Wales performs relatively better in traditional industries than in some high-value service sectors. This may have implications for how Wales may be able to close the productivity gap and pay gaps.

Figure 31 - Median pay in Wales by pay relative to UK (=100) by sector, 2025

Alt text: Scatter chart showing median weekly pay by sector in Wales in 2025, compared with UK sector averages. Higher-paying sectors include utilities, information and communication, while accommodation and food services had the lowest pay. Most sectors had pay levels below the UK average for their sector.



Source: Annual Survey of Hours and Earnings (ASHE)
Note: bubble size reflects relative size of sector by employees

Outlook

Before the outbreak of the conflict in the Middle East, the OBR and the Bank of England were forecasting a modest deterioration in labour market conditions in 2026, continuing the same trajectory that had then been evident for several months. The forecasts reflected forward looking information from business surveys regarding hiring intentions for example. It was also expected that higher labour costs associated with national living wage and employer national insurance contribution increases coupled with concerns regarding how the Employment Rights Bill would play out would dampen demand for labour. Also, both the OBR and the Bank judged that underlying weak momentum in the wider economy would continue owing to

lagged or delayed effects from previous hikes in interest rates as well as impacts from higher taxes and an expectation that wage growth would slow. Such conditions could reasonably be expected to undermine positive labour market outcomes.

So far, there is no evidence that would suggest that the surge in energy prices caused by the conflict in the Middle East has materially changed the near-term outlook for the labour market. The Bank of England's Decision Maker Panel survey shows that firms are more likely to respond to the energy price increase by accepting lower profits and raising prices with only limited impact on redundancies.[67] Official data suggest that rather than making redundancies, businesses have been cutting back on hiring.

The OBR's October 2026 Economic and Financial Outlook suggests the UK unemployment rate, currently (September 2026) 4.7%, will average around 5.0% in 2027 and 2028 and then ease back to around 4.0% by the end of the decade. Similar type changes could be expected in Wales. Unemployment prospects would be worse if energy prices were to increase further and remain elevated for a prolonged period. Conversely, should energy prices fall sustainably to pre-conflict levels, somewhat stronger labour market conditions could be expected. Though any bounce back may be limited, with other wider factors still at play.

Even if deterioration in the headline labour market indicators of employment, unemployment and economic inactivity proves limited in the short term, the prospects for some other indicators, notably the potential for more young people to be NEET and the potential for more erosion in the degree of churn, are worrying. At this time, it seems more likely that policies may be needed to address these concerns in the near-term rather than address marked deterioration in rates of headline employment, unemployment and economic inactivity.

AI could substantially change labour demand. The OBR estimates that 40% of tasks could be significantly exposed to automation over the next 10 years, with many occupations potentially complemented by AI. Employment effects remain highly uncertain, making transferable skills, continuous learning, and reskilling important.[68,69]

The near-term outlook for average pay is, according to the OBR, quite poor. Nominal weekly annual earnings growth is expected to average 2.7% through to 2031 but after inflation, the average annual growth rate is just 0.2%. Average annual growth in **real** hourly earnings is expected to be 0.3%. Such outturns for earnings would be very weak by long-term pre-financial crisis trends.

---

[67] Monthly Decision Maker Panel data - July 2026 | Bank of England – the UK's central bank.
[68] In its March 2026 Economic and fiscal outlook, the OBR explores a scenario where AI displaces workers such that the UK unemployment rate settles at 5.5% rather than 4.1%.
[69] For example, see: Building human capacity and preparing for labour market transformation (OECD AI Principle) - OECD.AI

Churn

Aggregate productivity growth may be categorised in one of two ways. The first, a within-firm effect, can occur when existing firms become more productive. This could materialise through frontier firms enhancing their existing productivity advantage, or below average firms catching-up – particularly relevant to the UK.[70]

An increasingly recognised process which helps to improve aggregate productivity is 'churn' or business dynamism. This is an across-firm effect, with firms entering and exiting the economy. This enables factors of production like labour and capital to be used and released. For newer firms to establish themselves and survive they find ways to be competitive with existing firms. To do this, they must innovate and find ways to maximise efficiency. When successful, incumbents typically follow, or otherwise risk becoming uncompetitive and unprofitable This can become reinforcing: those less productive firms contracting or ceasing to exist, factors of production reallocated to more innovative, more productive firms, who themselves must continue becoming more productive to compete with the next iteration of entrants. The result is higher economy-wide productivity. This process is better known as **creative destruction**.

Though UK evidence points to a slowdown in churn over the past few decades, and in particular since the Global Financial Crisis (GFC). The Wales data shows the same. Job churn in Wales has followed a clear long-term downward trend over the past two decades. Since 2022-23 average economy-wide job churn stands at 16.9% (so around one in every six of jobs were involved with businesses expanding, contracting, entering or exiting), well-below the 22.3% average observed in the years preceding the Financial Crisis, as shown in **Figure *32*.**

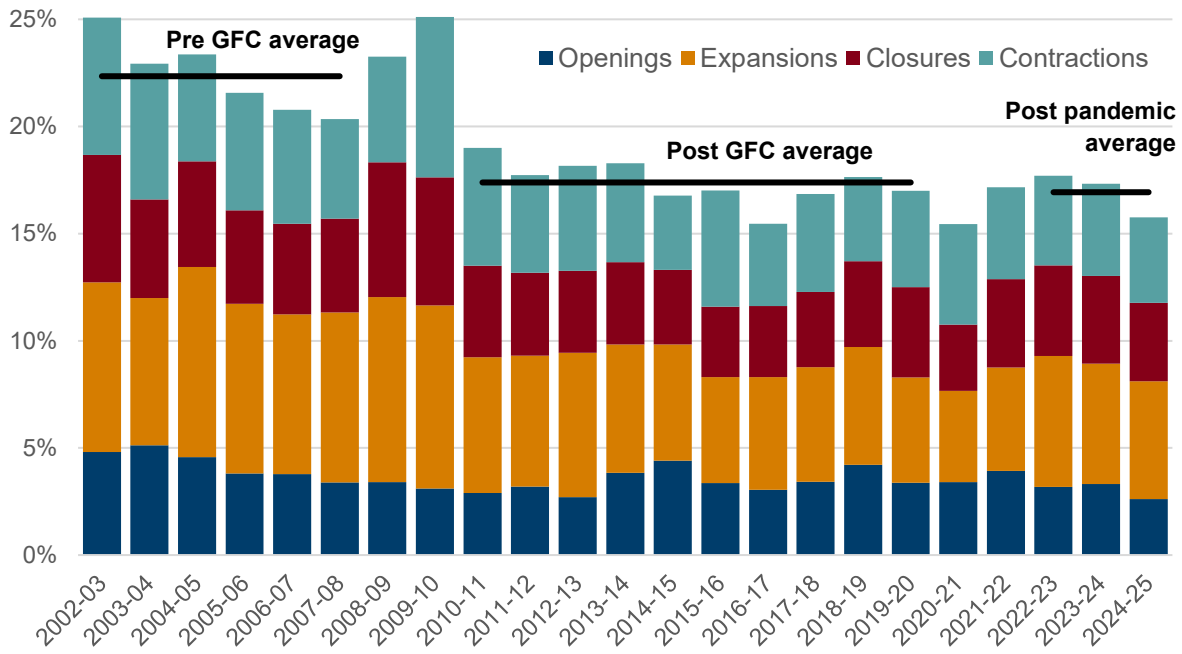
The subsequent slowdown in churn post-GFC appears to be concentrated in reduced contributions by incumbent firms, through lower expansion and contraction rates. Though openings and closures have also slowed (and, when compared with an equally high churn rate in 2002-03, the overall decline becomes broadly balanced across job creation and destruction, and between entrant/exit and incumbent firms). Even during COVID-19 pandemic, a period of significant economic disruption, churn remained relatively low. This likely reflects the large-scale Coronavirus Job Retention Scheme, which incentivised firms to retain workers.[71]

[70] What explains the UK's productivity problem? - Economics Observatory

[71] The data used here is the IDBR. This uses a snapshot from March each year (so 2020 is right at the very start of the pandemic) and therefore may be slow to update. Employment data in the IDBR also comes from BRES, but will be estimated or imputed for businesses where updated data is not available.

Figure 32 - Total job churn in Wales as a percentage of active jobs, by type of creation/destruction, 2002-03 to 2024-25

Alt text: Stacked column chart showing the composition of job creations and losses from 2002-03 to 2024-25 in Wales. It shows openings, expansions, closures and contractions have reduced since 2009-10, with most of the fall coming from a slowdown in incumbent firms' activity (expansions and contractions).



Source: Welsh Government analysis of the Inter-Departmental Business Register (IDBR)

The slowdown reflects weaker job creation and destruction, particularly within existing firms. Welsh business entry and exit rates remain broadly similar to earlier levels, while UK evidence from the Competition and Markets Authority shows declining rates.

The largest sectoral contribution to the fall in churn came from public services, health, and education, it contributed 6.2 percentage points to overall churn in 2008-9, but this fell to 2.7 percentage points in 2024-25. Wholesale, retail, transport, hotels, food, and communication, and finance and business services also contributed substantially. The decline in churn within industries appears more consequential than the shift towards lower-churn industries.

UK evidence suggests barriers to entry and the advantages of established firms may weaken business dynamism. The productivity benefits of reallocation also depend on workers finding new employment, supported by effective job matching, education, and training.

Inflation

Inflation, the rate at which the prices of goods and services *increase* over time,[72] has been one of the most significant and noticeable economic features in recent in the 2020s. Consumer Price Index (CPI) inflation, the representative inflation experienced by individuals and households, peaked at 11.1% in October 2022, the highest rate in the UK in over 40 years. Since then, inflation has gradually reduced in the UK. Whilst is rose slightly again in 2025 to 3.8% CPI inflation had been gradually tracking down towards the inflation target of 2%, despite the rising conflict in the Middle East causing hydrocarbon fuels prices to rise. Inflation started the 2026 at around 3% and then fell to 2.6% in June. However, since then is has started to rise, and is expected by the Bank of England (September 2026) to around 4% towards the end 2026 and into the start of 2027.[73] Despite tracking down for most of the year, inflation in 2026 has been around one and half and percentage points higher than was expected at the time of the Welsh Government's Draft Budget in 2025.

Even if prices were to rise by 4% to 5%, whilst still way above the 2% CPI target, this is still much lower than the early 2022 period, when gas and oil prices also rose considerably. Then, the general impact on energy ended up being much larger, in part due to the role gas prices have in the UK on electricity prices.[74]

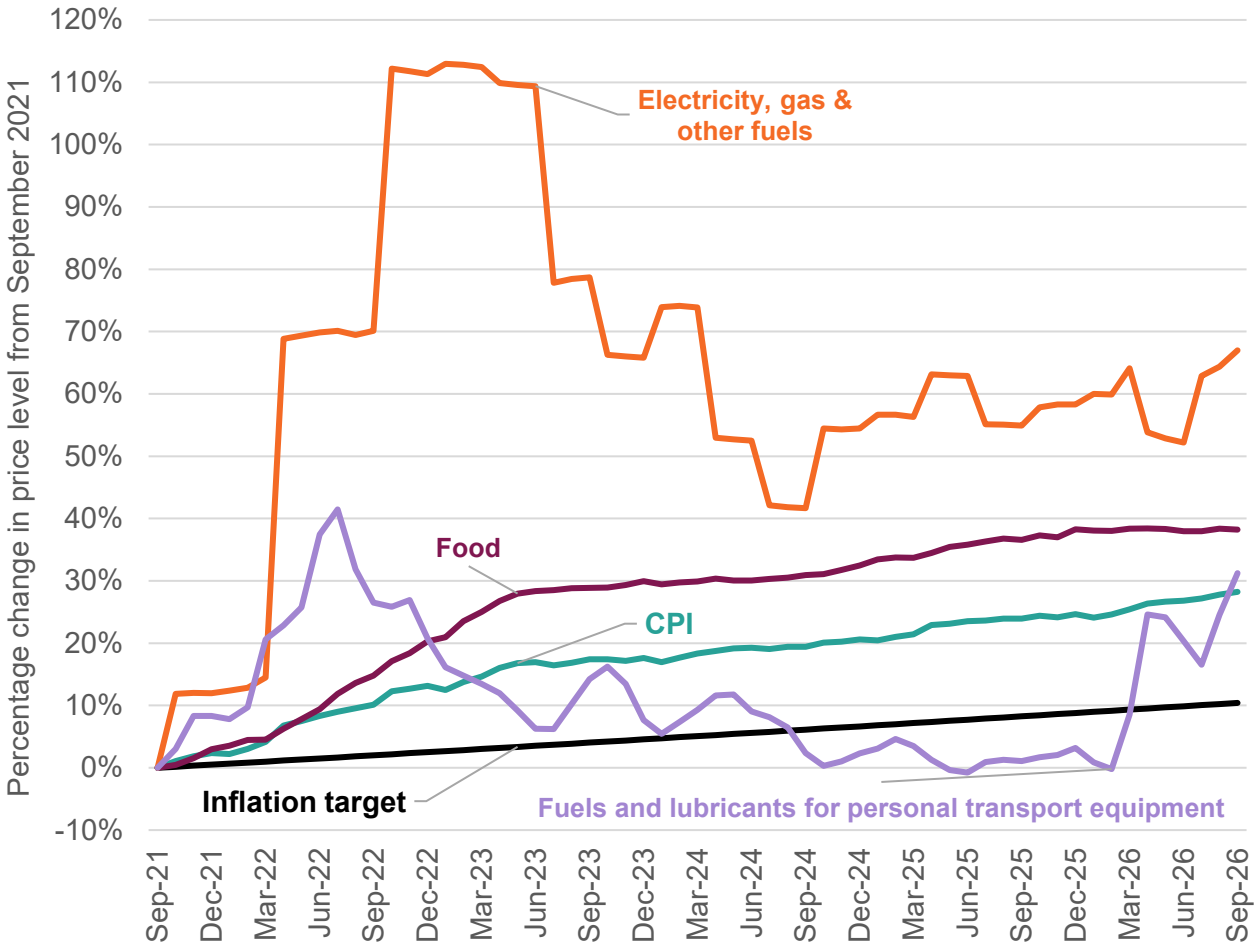
The 12-month inflation rate for food and non-alcoholic beverages was 1.3% in September 2026, unchanged since July. Whilst Food and non-alcoholic beverages have made relatively modest contributions to inflation since September 2021, the outlook for food inflation is for it to rise following the impact to some food production in the UK during the droughts and then the global impact of food yields from El Niño.

Looking at *price levels* between September 2021 and September 2026, electricity, gas and other fuels are around 50% to 60% higher than then but far lower than the 110% in 2022, see **Figure *33***. In contrast, the general price level growth had been 28% in that time. However, if all prices had grown at a constant 2% per year, then the general price level would have been only around 10% higher in September 2026 than in September 2021.

[72] If those prices fall, it is known as deflation.
[73] See Bank rate maintained at 3.75% - September 2026 Monetary Policy Summary and Minutes | Bank of England – the UK's central bank
[74] See Wholesale energy costs and your bills | Ofgem

Figure 33 - Percentage price changes of selected goods groups and CPI, September 2021 to September 2026

Alt: Line chart showing cumulative price changes since September 2021. Electricity, gas and other fuels rise most sharply, peaking at around 110% above 2021 levels in late 2022 before easing to about 50% to 60%. Food prices increase steadily to around 40%, while CPI rises to about 27%. Fuels and lubricants for personal transport are more volatile, peaking near 40% in 2022 before falling and ending around 30%, around the general inflation level.



Note: Vertical axis does not start at zero.
Source: Consumer price inflation, UK: September 2026 - Office for National Statistics

What about regional prices?

The experimental Northern Ireland CPI illustrates[75] the potential for regional inflation measures. The Northern Ireland data suggests (albeit over a short, but volatile period) that any differences from UK inflation could be quite modest, especially when inflation is more stable. A robust Welsh CPI would require further data and methodological work, as one would also need to be sure whether any differences in inflation would be real or as a result of the estimation which may provide some

[75] Developing a Northern Ireland Consumer Prices Index - Office for National Statistics

variance around the UK rate. For now, UK inflation remains the main benchmark for Wales, while household cost indices help show how pressures differ between household groups.[76]

Household cost indices

Consumer price inflation is measured by looking at the typical or average basket of goods bought by households. Whilst the basket gets updated periodically. households may have different baskets of goods and thereby face different rates of inflation. During the 2022 inflation peak, UK households with the lowest 10% of income faced inflation of 14.5%, as measured by the Office for National Statistics' Household Costs Indices, and shown in **Figure *34***. Whereas, CPI inflation was 11.1%, – over three percentage points lower – which also excludes owner-occupier housing costs (such as changes in mortgage interest rates, stamp duty and other costs related to the purchase of a dwelling).

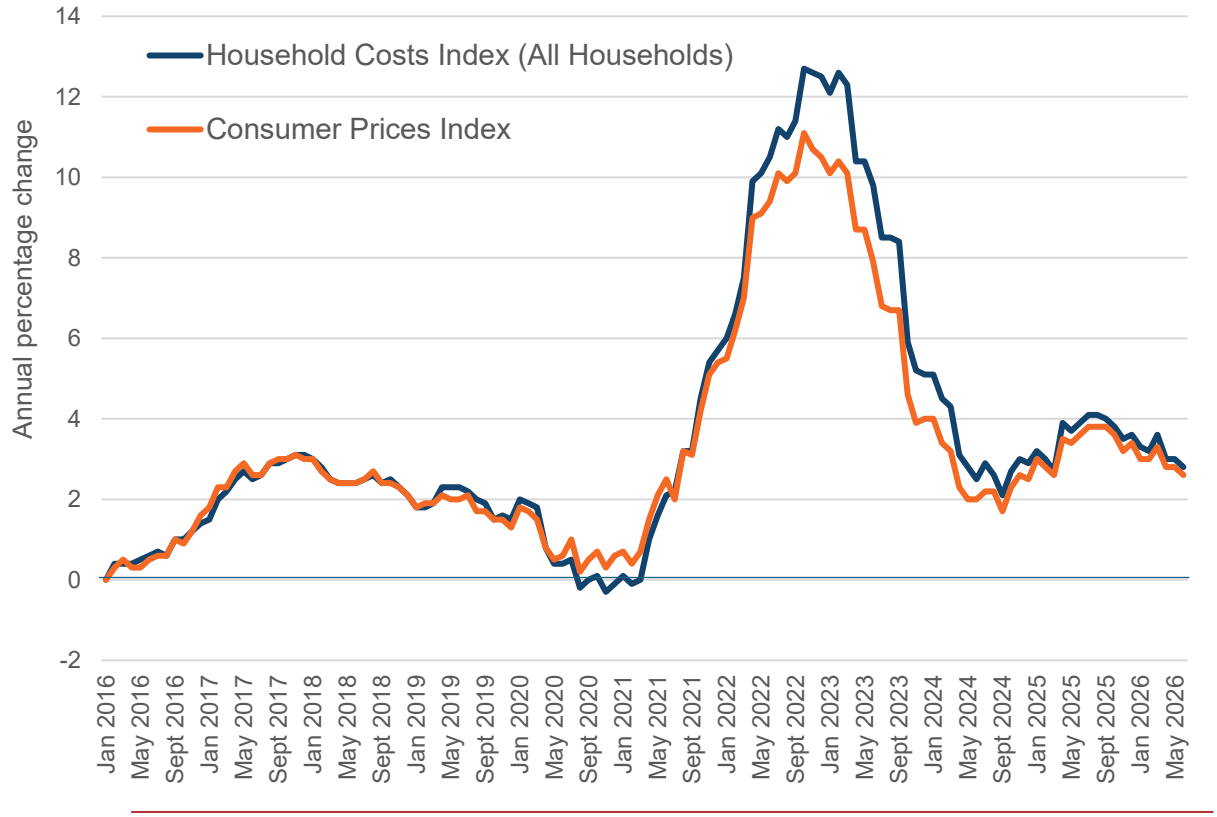
Analysis by different types of households suggests Wales, or at least certain households in Wales, may have faced relatively higher levels of inflation. This can be informed by Household Cost Indices.

UK household costs rose by 2.8% in the year to June 2026, as measured by the Household Costs Index (HCI). This is a decrease from 3.6% in the year to March 2026. This is also much lower than during the last energy cost crisis in 2022, although this only measures up to the end of June 2026.

[76] See Developing a Northern Ireland Consumer Prices Index - Office for National Statistics

Figure 34 - Consumer Prices Index and Household Costs Index annual inflation rates (%) for all households UK, January 2016 to June 2026

Alt text: Line chart showing annual inflation rates for the UK Consumer Prices Index (CPI) and Household Costs Index (HCI) from January 2016 to June 2026. Both measures follow similar trends, rising from around 0% in 2016 to a peak in 2022-23 before falling back. HCI peaks higher at around 13%, compared with about 11% for CPI. By June 2026, both measures are around 3%.

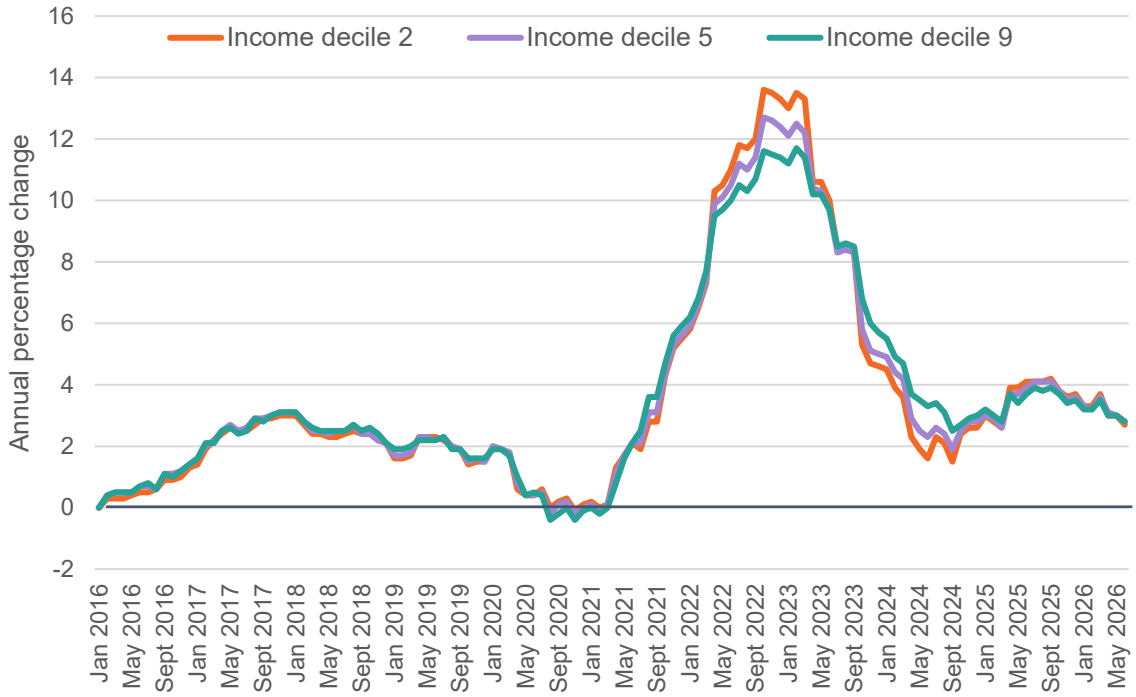


Note: Vertical axis does not start at zero
Source: Household Costs Indices for UK household groups - Office for National Statistics

Also, unlike 2022, the costs for low-income households (decile 2) and high-income households (decile 9) increased by similar rates, 2.7% and 2.8%, respectively, in the year to June 2026, see **Figure *35***.

Figure 35 - Household Costs Indices (HCIs) annual inflation rates by income decile (%), UK, January 2016 to June 2026

Alt text: Line chart showing annual Household Costs Index (HCI) inflation rates for UK households in income deciles 2, 5 and 9 from January 2016 to June 2026. All three groups follow similar trends, with inflation peaking in 2022-23 and then falling. Inflation is generally highest for lower-income households during the peak, reaching around 13.5% for income decile 2, compared with around 12.5% for decile 5 and 11.5% for decile 9. By June 2026, all three are around 3%.



Note: Vertical axis does not start at zero.
Source: Household Costs Indices for UK household groups - Office for National Statistics

The HCIs also include difference in cost changes by tenure type and owner occupiers, but these also showed very little difference (one to two percentage points difference) between the categories. Over the past five years (instead of on an annual basis), non-retired households and households with children had an inflation rate of 33.2%, which was higher than retired households (31.9%).

Outlook for inflation

The OBR expect the recent rise in energy prices is to keep inflation (CPI) above 2% (the Bank of England's target) in this year and into 2027. It is forecast to be around 3.1% in 2026, rising to 3.4% in 2027, peaking at 3.8% (on a quarterly basis) in early 2027. The OBR then expect inflation to fall back to the 2% target mid-2028. Temporary policy measures taken by the UK Government at the Autumn Budget 2026 reduce CPI inflation by 0.1 percentage points in 2027 and increase it by around the same amount in 2028. The OBR's inflation forecast is predicated on the

assumption that energy prices fall according to market pricing at the time of the OBR forecast process.

There is significant uncertainty around OBR's latest inflation forecast. Energy price changes for oil and gas are the main uncertainties.[77] Other risks to the CPI inflation forecast include the degree to which a particularly strong El Niño phenomenon disrupts global food production and puts upward pressure on food prices.

To illustrate the uncertainties around energy prices, the OBR provide scenarios where oil and gas prices peak near the highs observed following the 2022 Russian invasion of Ukraine. The pure energy shock leads to a peak in CPI inflation of around 6% in 2027; around 2.25% percentage points above the central forecast. The extent to which higher energy prices may result in what are known as "second-round effects"; such as through wages, is also highly uncertain.

Under the OBR's energy price recovery scenario, oil and gas prices fall back more quickly than assumed in their central forecast, and then are much closer to the OBR's March 2026 forecast.[78] The pure energy price fall results in inflation falling much more than in the OBR's central forecast, with CPI 1.25 percentage points lower than the central forecast.

[77] The OBR's central forecast uses market pricing for oil and gas from mid-August.
[78] The OBR's March 2026 forecast did not include any impacts from the Middle East which have happened since late February 2026.

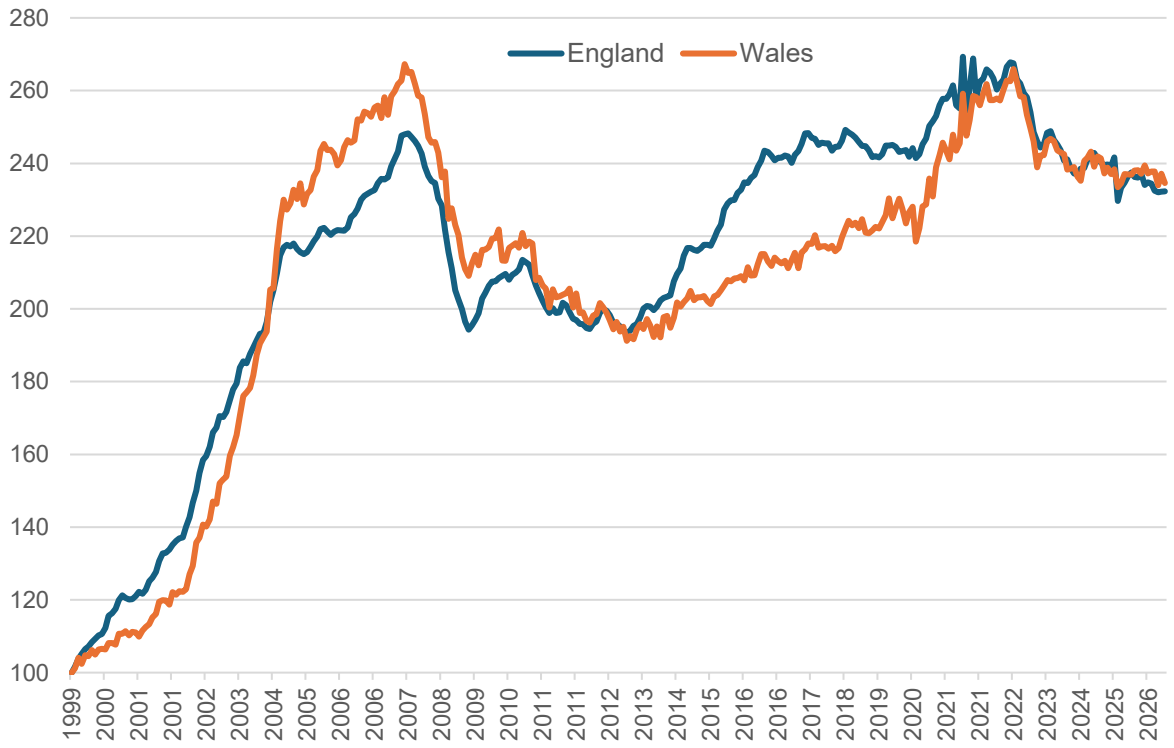
House Prices

House prices affect household wealth, borrowing, and spending. Regional differences also help explain affordability and pressures on living standards in Wales.

Average house prices adjusted for CPIH inflation and indexed to May 1999 is shown in **Figure *36***. A rising index means house prices have outpaced consumer prices.

Figure 36 - Real house price index in England and Wales since devolution, 1999 to 2026 (May 1999 = 100)

Alt text: Line chart showing real house prices in England and Wales indexed to May 1999 (=100). Real house prices rise strongly in both countries during the 2000s, fall after the 2008 financial crisis, recover during the 2010s, and peak again in 2021-22 before declining. England and Wales follow similar trends throughout the period, with real house prices ending at around 235 to 240 in 2026, more than double their 1999 level.



Note: Vertical axis does not start at zero.
Source: Welsh Government analysis of UK House Price Index and ONS CPIH data.

Real house prices rose rapidly before the Global Financial Crisis, then fell. Wales's August 2007 peak was nearly regained in September 2022; England's highest monthly observation was in June 2021, when the ONS noted unusually high transaction volumes and volatility.

Inflated-adjusted house prices have fallen in both England and Wales over the past three years. Although nominal house prices have remained relatively high, increases have generally been weaker than consumer price inflation, and so real prices are down from recent peaks.

Despite periods of divergence, the overall increase in real house prices since devolution has been broadly similar in England and Wales.

House price affordability

Inflation is just one benchmark against which house prices can be assessed. While real house prices provide an indication of how house prices have changed relative to the wider cost of living, affordability depends more directly on the relationship between house prices and household incomes.

The ONS publishes housing purchase affordability statistics which compare house prices with estimated household disposable incomes. This provides a broader measure of affordability and allows affordability trends to be examined across different housing markets within Wales.

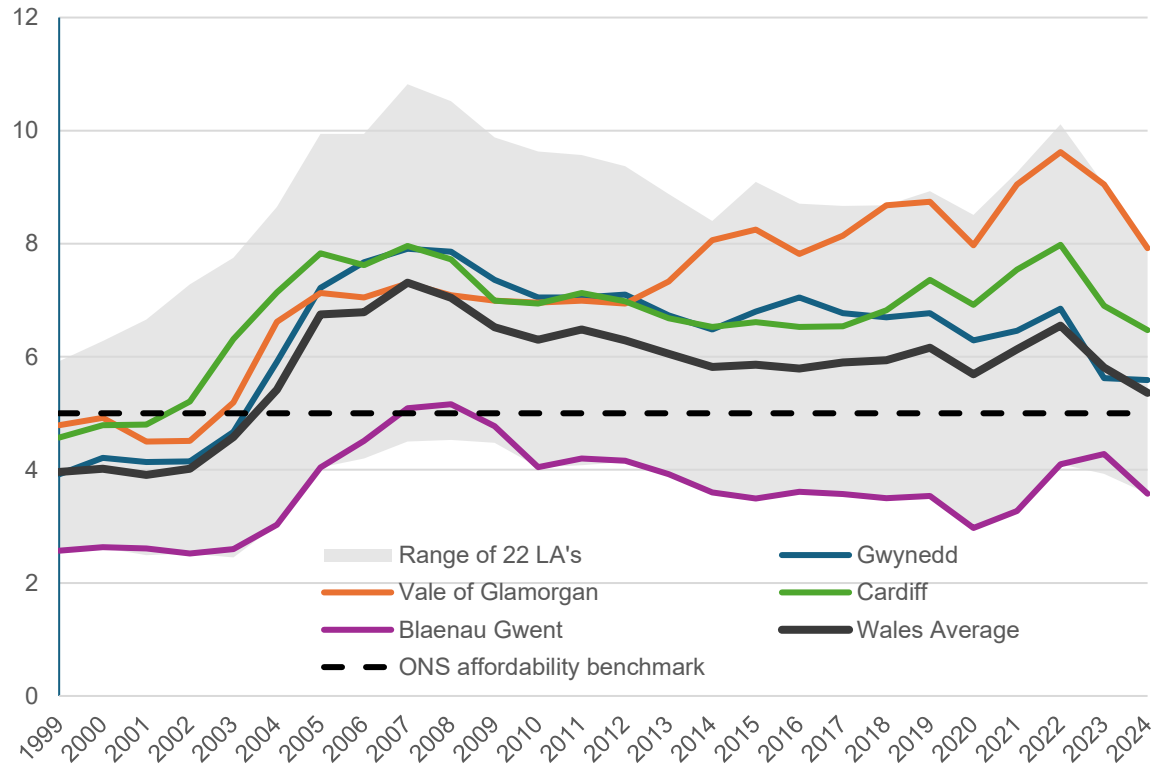
Figure *37* shows affordability pressures increased substantially during the 2000s as house price growth outpaced growth in household incomes. The Wales average affordability ratio rose from around four times household income at the point of devolution to over seven times household income by 2007. Although affordability improved following the GFC and has eased from recent pandemic-era peaks, affordability remains weaker than at the point of devolution.

The chart also highlights how affordability pressures have varied across Welsh local authorities over time. Differences in affordability (denoted by the wider grey-shaded area) widened during the housing market boom of the 2000s. The gap between the most and least affordable local authorities reached its widest point in the late 2000s before narrowing during the period of weaker house price growth that followed the GFC. The range widened again during the post-pandemic housing market boom but has fallen back in recent years to below its long-run average, indicating a reduction in the gap between the most and least affordable local housing markets in Wales.

Despite this recent narrowing, considerable variation remains across Wales. In FYE 2024, affordability ratios ranged from 7.9 in the Vale of Glamorgan to 3.6 in Blaenau Gwent, compared with a Wales average of 5.4. Affordability pressures were generally highest in parts of South East Wales, including the Vale of Glamorgan and Cardiff, while former industrial areas such as Blaenau Gwent remained relatively affordable.

Figure 37 - Housing purchase affordability ratios across Welsh local authorities, 1998-99 to 2023-24

Alt text: Line chart showing housing purchase affordability ratios across Welsh local authorities between financial year ending (FYE) 1999 and FYE 2024. The shaded area represents the range of affordability ratios observed across the 22 Welsh local authorities, while the highlighted series show the Wales average together with selected local authority examples. Higher ratios indicate lower affordability, as house prices represent a larger multiple of household disposable income. The red dashed line shows the ONS affordability benchmark of five times household income.



Source: ONS Housing Purchase Affordability Statistics

International Trade

International trade is a key driver for boosting productivity. ONS evidence indicates Welsh exporters were on average 32% more productive than non-exporters between 2011 and 2022[79]. For Welsh importers, the average productivity premium was closer to 28%.

Against the backdrop of strong global trade growth in the first half of 2026[80], with goods and services trade up 12.5% and 10.5% respectively compared to the same period in 2025, price pressures are likely playing a large role. Whilst global trade growth is expected to remain positive - largely driven by trade in Artificial Intelligence and electric vehicle-related sectors, growth is likely to be unequal with geopolitical tensions (details and forecasts of which are described in sections above) driving a reconfiguration of global supply chains.

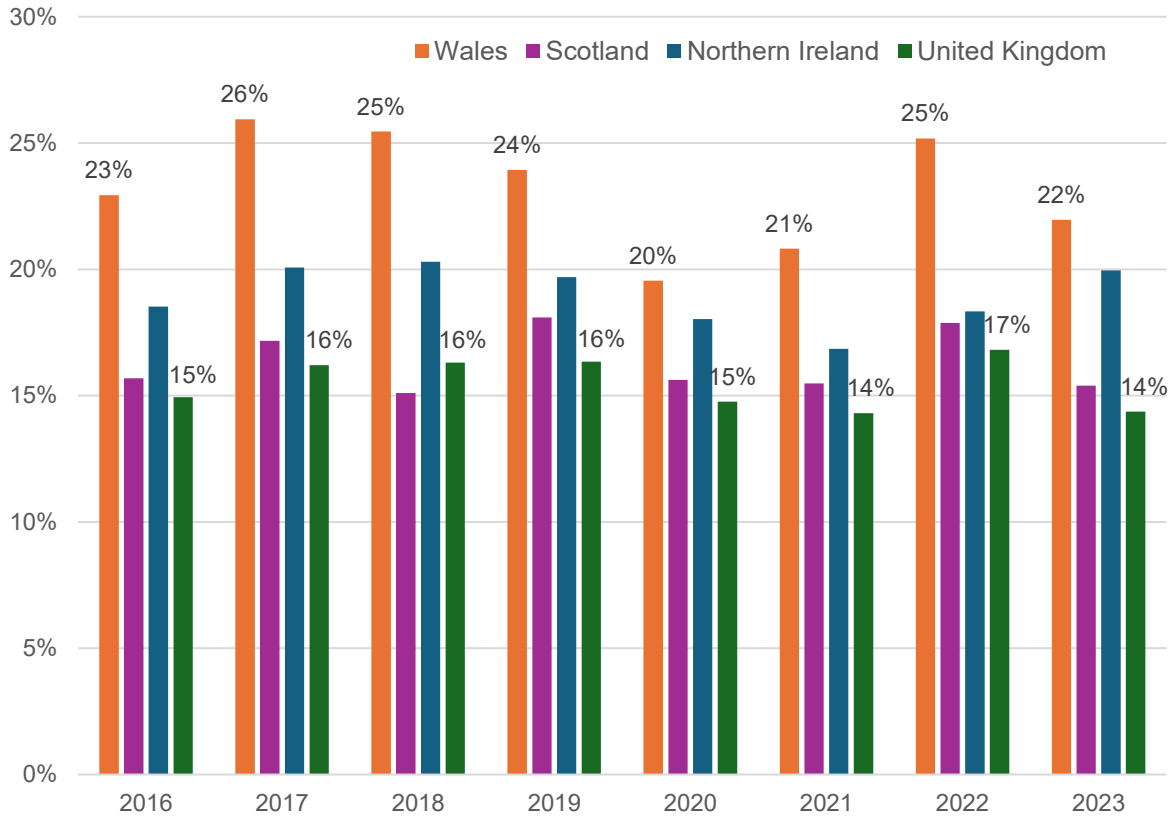
Wales is a relatively trade intensive nation with international goods exports having accounted for around 22% of output (GDP) in 2023.[81] This is consistently higher than any other UK country or English region, and well above the UK as a whole (14%). Widening access to markets beyond domestic ones has many economic advantages and has also meant Wales has perhaps been able to benefit during periods of when global trade was opening up. Though it has also brought risks, with Wales perhaps now more exposed to negative economic shocks of other economies, or from changes in goods trading relationships, and more so than elsewhere in the UK.

Overall, Wales' exports are dominated by goods, which accounted for around 67% of total Welsh exports in 2023, much higher than the 46% for the UK. Services exports accounted for around 11% of Wales' output (GDP), lower than the UK (17%), and also lower than Scotland at 17% and England at 18%, but slightly above Northern Ireland at 9%. Services tend to be less affected by tariffs than other forms of regulations, due to tariffs only being directly applied to goods.

[79] ONS Trade and Productivity in British firms 2005 to 2022
[80] UNCTAD Global Trade Update (July/August 2026)
[81] Sources: ONS Regional gross domestic product: all ITL regions (table 5) Subnational trade timeseries - Office for National Statistics

Figure 38 - UK Nations Goods Export share of GDP, 2016-2023

Alt text: Grouped column chart showing goods exports as a share of GDP for Wales, Scotland, Northern Ireland and the United Kingdom between 2016 and 2023. Wales has the highest export share in every year, ranging from around 20% to 26% of GDP. Scotland and Northern Ireland are generally between 15% and 20%, while the UK average remains lower at around 14% to 17%. In 2023, goods exports accounted for 22% of GDP in Wales, 15% in Scotland, 20% in Northern Ireland and 14% for the UK overall.



Source: ONS subnational GDP and ONS Subnational Trade Time Series (Trade in Goods)

Wales-US trade

The rapidly changing and stop-start nature of new policies introduced by the United States (US) has made meaningful analysis of the potential impacts challenging. Nonetheless, it's a key goods export market for Wales, the second largest, accounting for 14.3%[82] of total Welsh goods exports.

In addition, around two-thirds of Wales' exports to the US are goods, much higher than the one-third at the UK level.[83] This relatively higher share of goods exports suggests Wales may be disproportionately impacted by the tariffs imposed on imports into the US.

[82] Based on HMRC RTS as of YE Q2 2026
[83] ONS Subnational Trade (2023)

Recent analysis suggests that since the introduction of US tariffs in the first quarter of 2025, Welsh exports to the US have been volatile across sectors making assessment of impact difficult. Decreases in exports of mineral fuels (which are largely exempt from tariffs) and chemicals have been partially offset by increases in exports of machinery and transport equipment. This suggests that the observed changes cannot be wholly attributed to the introduction of US tariffs and likely reflects the influence of broader market factors, including the Middle East conflict. Despite this, UK exports of Road Vehicles to the US have fallen by £3.2bn (-35.0%) following the introduction of US tariffs, a much larger fall than observed for other export destinations within this sector. A recent report by Aston University[84], positions Wales' automotive sector as deeply embedded within wider UK supply chains and highlights that US tariff measures pose an indirect risk to Welsh firms through supply chain responses, even where Welsh firms do not export directly to the US.

Trade gravity theory finds geographical proximity a key factor in trading relationships and helps explain why Wales trades more with the rest of the UK and Europe, than the rest of the world. Wales remains deeply embedded in the UK economy, as first explained in the 2024 edition of this report. Latest data from the Trade Survey for Wales found that around a third of goods and services sales from Welsh businesses went to the rest of the UK, compared to 17% which went to international destinations. Whilst 42% of all businesses' purchases came from the rest of UK, highlighting the importance of intra-UK trade for Welsh businesses. This is further supported by evidence from ONS' Business Insights and Conditions Survey (BICS) [85] that reported 56.7% of Welsh businesses sold goods or services to customers in other UK nations in the last 12 months, the highest of all UK countries and English regions.

Internationally, the European Union (EU) also continues to be the largest market for Welsh goods exports[86], accounting for 58.3% of Wales' goods export value, compared to 49.4% at the UK level. This proportion has been increasingly volatile since the UK's EU exit, but is broadly driven by the value of non-EU exports growing at a faster rate than EU exports. This highlights the relatively poor trade performance of Wales since EU exit, but could also be partly attributed to the free trade agreements the UK has been signing with third countries including the recently concluded UK-Gulf Co-operation Council (GCC) agreement. Whilst the estimated impacts of these agreements are relatively low compared to the loss of full access to the EU market, they do offer substantial benefits to Welsh businesses that trade with those individual countries.

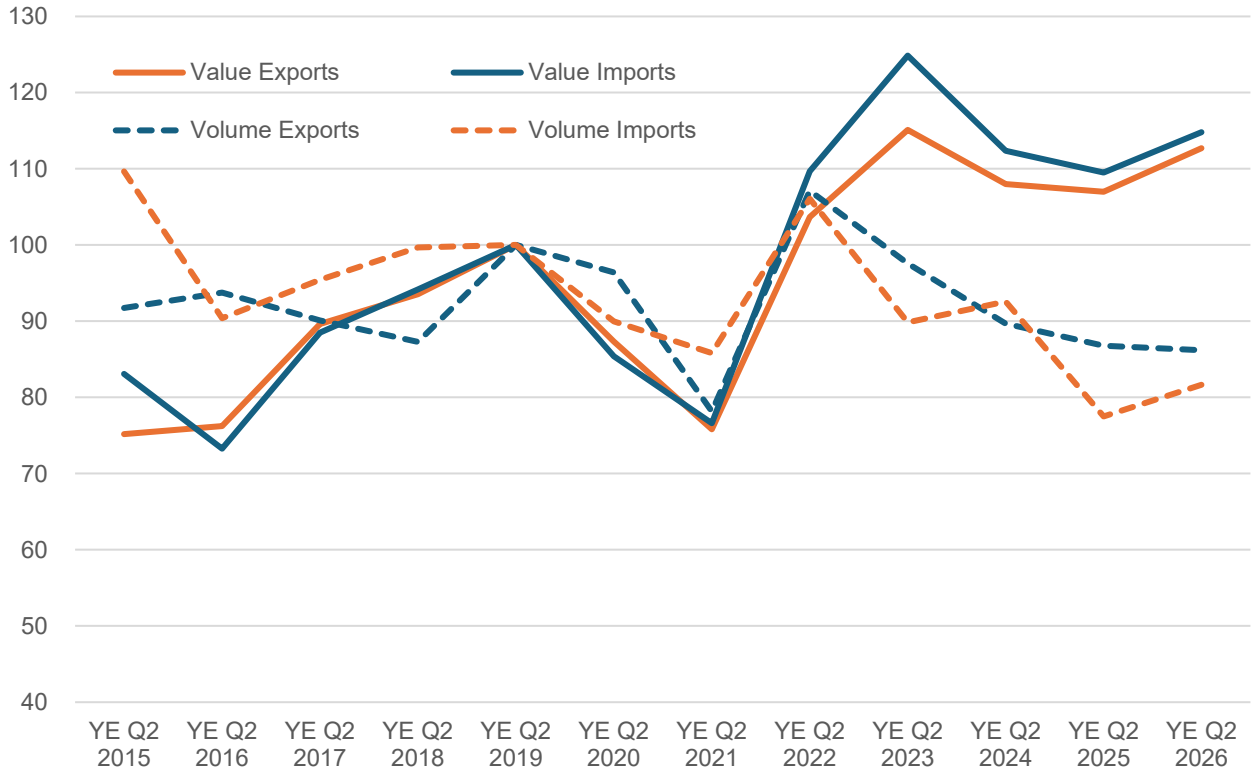
[84] This report is expected to be published in Autumn 2026
[85] ONS, Business insights and impact on the UK economy: 20 August 2026
[86] HMRC, Year ending March 2026

Wales' trade performance over time

Following revisions to HMRC regional trade statistics earlier this year[87], Wales's export performance over time now tracks a more positive trajectory than previously reported. The value of exports peaked in year ending Quarter 2 2023, believed to be largely driven by high global oil prices, however since then, the downwards trend has stabilised with the value of Welsh goods exports growing in the latest year. As seen in **Figure *39***, a disparity is observed between the metrics of recent Welsh goods trade performance. Trade value increased more quickly in 2022, potentially driven by price rises, and remain above pre-pandemic levels according to latest data. In contrast, Wales's trade volume recovered to pre-pandemic levels in 2022, but has followed a downward trajectory since and currently sits well below pre-pandemic levels.[88]

Figure 39 - Welsh goods trade performance index by Value and Volume, 2014-2015 to 2025-26 (Q2 2019=100)

Alt text: Line chart showing Welsh goods trade performance indices for exports and imports by value and volume, indexed to Q2 2019 (=100). Export and import values fell sharply in 2020-21 before recovering strongly and exceeding pre-pandemic levels by 2022. By 2026, export and import values remain above the 2019 baseline, while export and import volumes remain below it, indicating that trade values have grown faster than physical volumes.



Note: Vertical axis does not start at zero.
Source: HMRC Regional Trade in Goods Statistics

More broadly in the latest year[89], Wales has outperformed all other UK nations and the wider UK in goods export performance, with a growth of 5.3% compared to 1.6% growth for the UK as a whole, see **Figure *40***.

Figure 40 - Goods Exports performance by UK nation Q2, 2015 to Q2, 2026 (Index: Q2, 2019=100)

Alt text: Line chart showing the value of goods exports for Wales, Scotland, Northern Ireland and the UK, indexed to Q2 2019 = 100. All nations experienced a decline during 2020-21, followed by a strong recovery. By 2026, Northern Ireland records the strongest export growth relative to 2019, followed by Wales and the UK, while Scotland remains below its pre-pandemic peak.



Source: HMRC Regional Trade in Goods statistics

Ten years on from EU exit referendum

There is broad consensus amongst economists that EU exit has had a large negative economic impact on the UK economy, with impacts accumulating over time. Whilst there are no official estimates outlining the impact for Wales, UK level evidence can be used to infer the broad direction of impact for Wales.

Evidence from the Centre for European Reform, found that EU exit has substantially reduced the UK's trade with the EU, both in goods and services. They find that goods imports and exports are around 14% and 16% lower whilst for services the

[87] Driven by revisions to SITC33 and SITC34.
[88] Changes in the composition of goods can affect estimates of trade volumes. As a result, part of the decline could reflect shifts in the mix of goods exported rather than a genuine reduction the volume of trade, therefore caution is advised.
[89] Year ending Q2 2026 compared to Year ending Q2 2025.

gap is around 19% for imports and 7% for exports. In addition, they report a customs union with the EU would do little to recover those losses.

Alongside their finding of lower levels of overall UK trade with the EU (around 32% drop in imports and 27% drop in exports), Aston University also conclude a narrowing of trade with the EU, with a 33% decrease in the variety of products exported to the EU. Sectors including agri-food, textiles and clothing are found to be hardest hit. Overall, this suggests that the post-EU exit transition in UK-EU trade relations is unlikely to be a short-term disruption but reflects deeper structural changes that are likely to persist.

Fiscal Prospects

The latest OBR forecast from October 2026 suggests UK public finances remain under significant pressure. While borrowing is projected to fall, this depends on record tax revenues and tight spending plans. This is all occurring during a period of relatively weak productivity growth, population ageing and high sovereign debts.

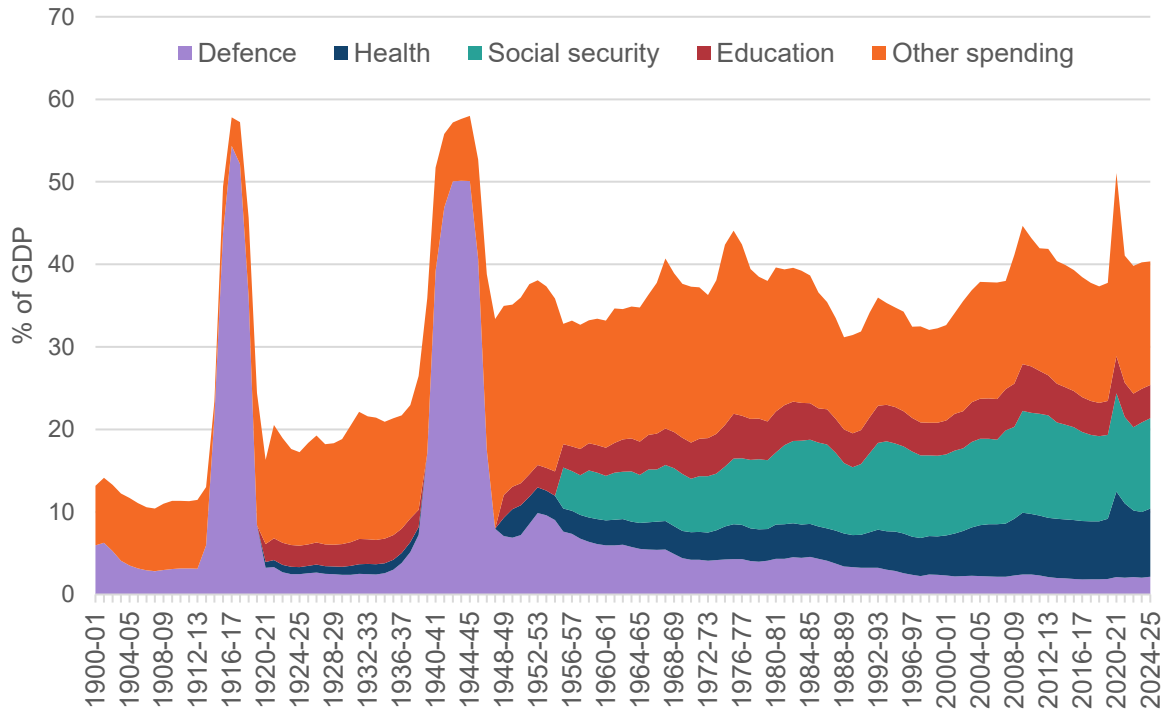
This is likely to result in continued pressure on devolved budgets, increasing importance of public sector productivity and prevention; as well as continuing the case for UK-wide growth-enhancing investments to expand the tax base and improve fiscal sustainability.

Public spending

UK public spending has changed dramatically since 1900, see **Figure *41***. It has risen from around 10% of GDP to around 40% in recent years. While there have been fluctuations associated with economic events, spending has generally remained much higher than at the start of the century. Over that period, the composition of spending has shifted markedly away from defence and towards health, pensions and welfare. Today, public spending is close to its highest level in peacetime outside major crises, at around **40 per cent of GDP**.

Figure 41 - UK primary spending as a share of GDP, 1900-01 to 2024-25

Alt text: Stacked area chart of UK primary spending as a share of GDP from 1900-01 to 2024-25, showing wartime spikes driven by defence spending and a long-term rise in health and social security spending, with total spending around 40% of GDP in 2024-25.



Source: OBR Fiscal risks and sustainability 2026
Note: Primary spending represents the cost of running public service before accounting for the costs of past borrowing. This means spending comparisons are not affected by the consequences of borrowing from the past.

Looking at how spending has changed in the UK since devolution (1999-00 to 2024-25), see **Figure *42***, shows where UK governments have chosen to spend, which in turn has impacts on WG's budget due to the way the Barnett formula works. Overall, UK primary spending is around 25% higher than at the beginning of the period as a share of GDP.

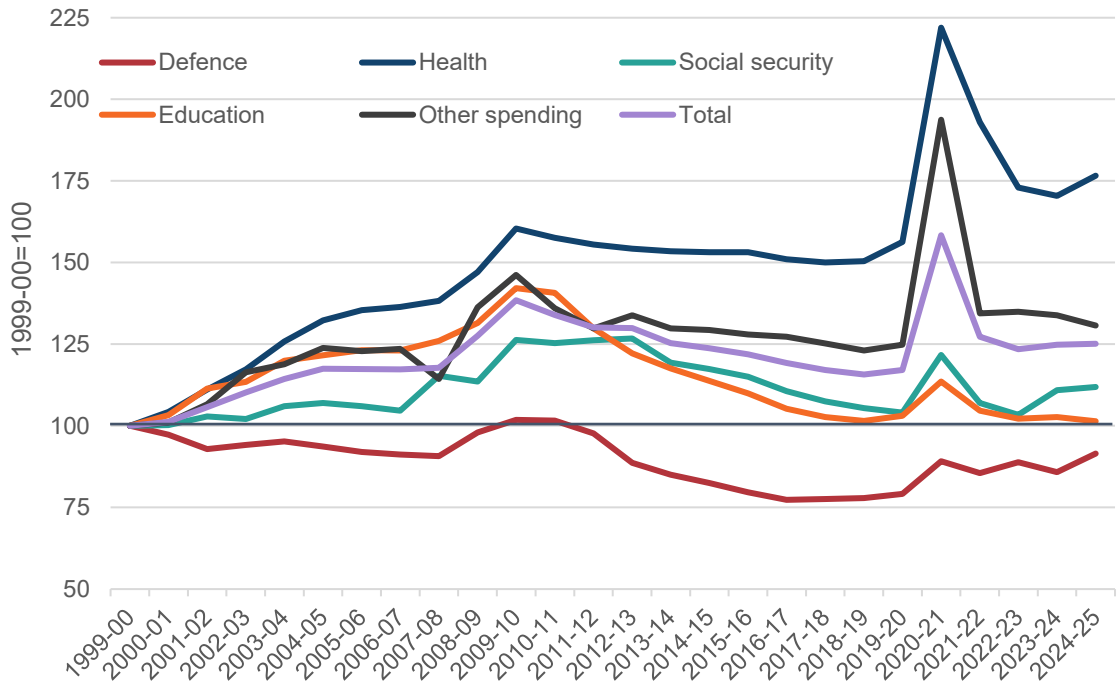
Like over the longer term, as shown above, defence spending has been reduced, ending the period around 10% lower (as a share of GDP) than at the start of the period. Health and education initially increased during the early period of devolution, and whilst health spending continued to increase, education spending then fell, ending the period at the same level as 1999-00, but with a lower change than total spending, so a lower share of spending overall. Whereas health spending ended 175% higher and outgrew total spending, showing how it has become an increased share of total spending and the economy over the devolution period.

Social security spending in the UK also increased during the beginning of the devolution period but then started falling from around 2010. It ends the period at

around 12% higher, but with a lower change that the total spending, so as a lower share of spending.

Figure 42 - Changes to UK primary spending as a share of GDP, 1999-00 to 2024-25 (1999-00=100)

Alt text: Line chart showing changes in UK primary spending by function since 1999-00. Health spending increased the most, particularly during the pandemic, while defence spending fell overall. Total spending rose by around a quarter between 1999-00 and 2024-25.



Source: OBR Fiscal risks and sustainability 2026
Note: Primary spending represents the cost of running public service before accounting for the costs of past borrowing. This means spending comparisons are not affected by the consequences of borrowing from the past.

Public spending is forecast to remain at historically elevated levels throughout the latest OBR forecast period, reflecting sustained pressures on welfare, health, debt interest and public services. Total UK public spending is forecast to rise from 44.5% of GDP in 2025-26 to 45.7% in 2027-28, before reducing slightly to 44.7% of GDP by 2031-32. Even by the end of the forecast, spending would remain around five percentage points of GDP higher than before the financial crisis and the pandemic

Departmental spending (DEL) is assumed to fall as a share of GDP over the forecast period. However, as highlighted by the OBR in its latest forecasts, pressures from higher inflation; public sector pay demands; delivery of efficiency targets; and existing UK Government policy commitments means there are increasing calls on budgets to do more. As certain budgets are protected and other forms of spending are less easy to constrain (such as elements of welfare and debt interest), there is

then growing pressure on the rest of public services. After accounting for commitments to areas such as the NHS, defence and schools, the OBR estimates that unprotected UK day-to-day spending would fall by around 2.6% a year in real terms over the final three years of the forecast. Spending would need to be £11 billion higher by 2031-32 to avoid those services experiencing real-terms reductions.

Taxation

The main way governments fund their spending is through taxation. The OBR forecasts tax receipts will remain relatively high as a share of GDP, with total public sector receipts projected to rise as a share of GDP from 40.1% of GDP (£1.2 trillion) in 2025-26 to 42.9% of GDP in 2031-32. When taxes are measured on a National Accounts basis[90] as a share of GDP, they reach a near record high in 2027-28 and then continue to rise gradually through the OBR's forecast period. Personal taxes (income tax and National Insurance contributions) increase by 1.6% of GDP, due to a mix of (nominal) earnings growth and policy measures, such as the frozen personal tax thresholds until April 2031. Capital taxes increase by 0.5% of GDP.

Borrowing

When tax revenues (and all other receipts) are less than the spending requirements of governments, then borrowing is required to fund the remainder. While UK borrowing is expected to fall over the latest forecast period, it remains elevated by historical standards, and while it remains positive it adds to UK debt (see below). Public sector net borrowing (PSNB) was at or above 10% of GDP during the GFC and COVID-19 pandemic. It fell after each of these events but has always been positive.

UK Government Fiscal Rules

The UK Government's fiscal rules require **public sector net financial liabilities** to be **falling** as a share of GDP **by 2029-30** and the **current budget** to be in **surplus** in the same year.

The current budget deficit is the difference between government's day-to-day spending and its revenues. The current budget deficit doesn't include investment spending, unlike the overall budget deficit. The current budget deficit is therefore considered to measure the difference between what taxpayers generate and the cost of paying for public services.

The OBR's latest forecasts show PSNB falling slightly from 4.4% of GDP (£134 billion) in 2025-26 to 4.2% (£133 billion) in 2026-27. It then declines steadily to reach

[90] National Accounts taxes include all taxes recognised in the ONS's National Accounts and National Insurance Contributions. Public sector current receipts further include public sector interest and dividend receipts (driven by the interest received from funded public sector pensions and the accrued interest on student loans), public sector gross operating surplus and a small amount of other non-tax receipts (OBR 2026).

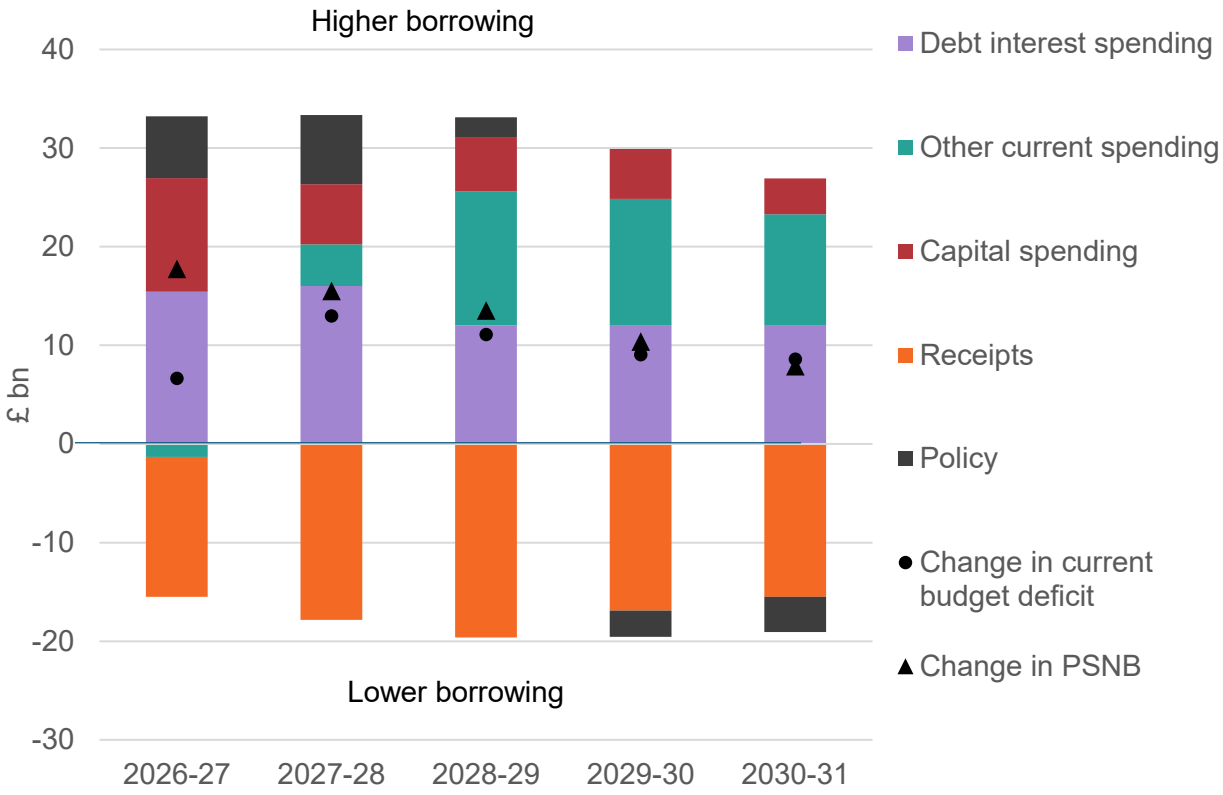
1.8% of GDP (£67 billion) in 2030-31 and remains flat as a share of GDP in 2031-32. The OBR's latest borrowing forecasts are higher in each year compared to the March forecast, by 0.5% of GDP in the near term and 0.2% of GDP in 2030-31 - see **Figure *43***. In cash terms, PSNB is now forecast to be higher in each year, by £18 billion in 2026-27, £16 billion in 2027-28, and an average of £11 billion each year thereafter.

The current budget deficit is also forecast to fall, from 1.5% of GDP in 2025-26 (£47 billion) to 1.3% (£41 billion) in 2026-27. It is then forecast to improve each year and to be in surplus of 0.4 per cent of GDP (£15 billion) in 2029-30 (meeting its fiscal rule).

The PSNB and current budget deficit have seen a moderate deterioration in each year compared to the March OBR forecast. This is caused by higher spending, particularly from debt interest, which is only partially offset by stronger tax revenues. Policy measures in the UK Autumn Budget 2026 also worsen borrowing in the near term but improve the position towards the end of the forecast period.

Figure 43 - Changes in borrowing (PSNB) and the current budget deficit since March 2026

Stacked bar chart showing changes in public sector net borrowing (PSNB) and the current budget deficit between 2026-27 and 2030-31 relative to the March 2026 forecast. Borrowing is higher in every year, driven mainly by increased debt interest and other current spending, partly offset by higher receipts. The increase in borrowing narrows over time, with PSNB rising by around £17 billion in 2026-27 and £8 billion by 2030-31.



Source: OBR

Debt

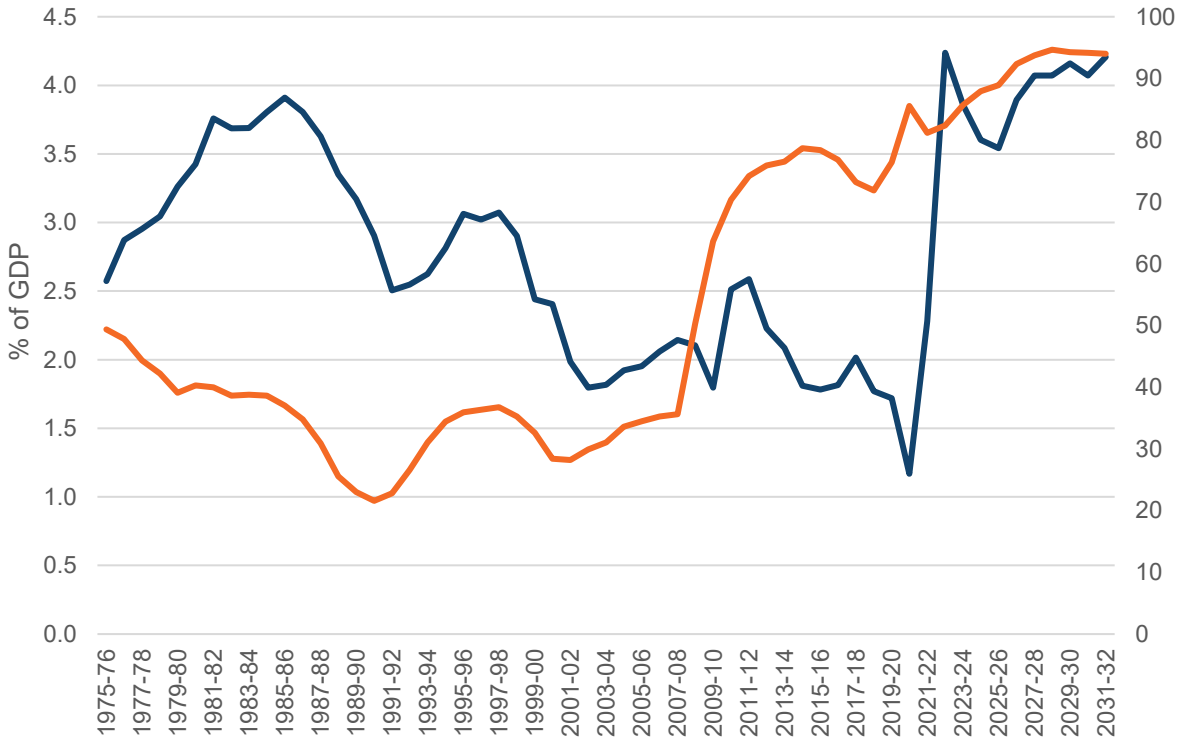
Public debt is primarily the accumulated stock of past government borrowing arising from budget deficits. UK public sector net debt is forecast to rise from 95.5 per cent of GDP in 2026-27 to 97.3 per cent of GDP in 2028-29, before declining to 95.6 per cent of GDP in the final year of the OBR's latest forecast, see **Figure 44**. This is 0.7 percentage points higher this year and on average 0.8 percentage points higher in every year throughout the forecast compared to OBR's March forecast.

Another measure of debt is public sector net financial liabilities (PSNFL). It is the balance sheet measure that is targeted in the Government's fiscal rules. It includes non-debt liabilities such as funded pensions, and additional illiquid financial assets such as loans (most notably student loans) and equity (including the assets of funded pension schemes). PSNFL as a share of GDP is forecast by the OBR to rise

to 83.2% in 2026-27 and peak at 83.8% in 2027-28, before falling to 83.1% in 2029-30 (thereby meeting its fiscal rule) and then to 81.7% by 2031-32. Compared to March 2026, PSNFL is forecast to be higher in each year of the OBR's forecast, by 0.5% of GDP in 2026-27, rising to 1.1% by 2030-31. It is important that the government reduces debt over the long term, so that there is fiscal capacity to potentially react when the next crisis occurs, so businesses and households may not be directly exposed to its full economic impact. Otherwise, the government risks not being able to react or if it does it may generate even higher borrowing costs than those faced now for future generations to pay.

Figure 44 - UK debt interest spending and Public Sector Net Debt as shares of GDP, 1975-76 to 2031-32

Line chart showing UK debt interest spending and public sector net debt as shares of GDP from 1975-76 to 2031-32. Public debt rises from around 25% of GDP in the early 1990s to almost 95% by 2031-32, while debt interest spending increases to just over 4% of GDP, its highest level since the 1980s.



Source: OBR

Debt interest

Debt interest is the cost of servicing the UK Government's debt. It is the interest the Government pays to investors who have lent it money, mainly by buying government bonds (often know as 'gilts'). A growing share of public spending is being absorbed by debt servicing costs (interest only payments), reducing the resources available for frontline services and investment.

Debt interest spending increased sharply with the COVID-19 crisis having followed a downward trend since the mid-1980s – see **Figure *44***. Debt fell from 50% of GDP in the mid-1970s to 20% of GDP in the late 1980s. It rose back to around 30% in the mid 2000s, before increasing sharply following the GFC and again after COVID-19. Debt interest did not spike after the GFC as interest rates at the time were very low.

UK debt interest spending has risen from £39 billion (1.7% of GDP) in 2019-20 to £109 billion (3.5% of GDP) in 2025-26 and is forecast by the OBR to reach £160 billion (4.2% of GDP) by 2031-32. This has a direct opportunity cost, it is more than the revenues from corporation tax and if it were a UK Government department, its budget would be comparable to that of one of the largest Whitehall departments. But unlike spending on those, debt interest does not directly deliver public services.

When growth exceeds borrowing costs, debt becomes easier to manage. However, we are now in a period when borrowing costs exceed growth. This results in fiscal choices becoming more constrained, especially when trying to reduce the debt. The UK, like many European countries, can be characterised as having: 'persistent fiscal deficits they have struggled to bring under control since the pandemic. There is little growth, tax burdens are high and most countries are locked into an expensive welfare state, which their citizens are unwilling to give up.'[91]

Fiscal balances within the UK

Sub-UK fiscal balances are provided by the ONS published Country and Regional Public Sector Finance (CRPSF) statistics covering years up to 2024-25. These are the only official statistics which draw together revenue and spending figures to provide information on the net fiscal balance across the UK countries and English regions.

It shows, for each UK country and English region **public sector revenue** raised in the area (taxes and other government revenues); **public sector expenditure** for the benefit of the area; and the **net fiscal balance** (revenue minus expenditure), indicating whether the area is estimated to run an implied fiscal surplus or deficit. The estimates provide a disaggregation of the public finances across the different parts of the UK under the current set of tax, welfare and other spending arrangements.

This is different to a measure of the finances of devolved governments (such as the Welsh Government), as UK-government revenues and expenditures are included. These estimates therefore represent the implied fiscal position of a territory within the UK, not the budget position of any devolved administration. There are both conceptual and methodological issues involved in the production of these statistics.

In 2024-25, £41.5 billion in revenue was raised in Wales. This is £13,019 per person, higher than in Northern Ireland and the North East, but lower than in Scotland and the other English regions see ***Figure 45***. 60% of revenue in Wales comes from

[91] Whose fiscal problems would you prefer? (Financial Times Published Aug 31 2026)

income tax, VAT, and national insurance contributions. This is similar to the UK as a whole, but with a greater share from VAT and a smaller share from income tax.

In 2024-25, public expenditure in Wales was £20,168 per person. This was 8% higher than the UK average (£18,628 per person). Expenditure includes both Welsh Government and UK Government spending and attributes programmes like defence and debt interest on a population basis. Wales had the fourth highest spending per person in the UK in 2024-25, behind Scotland (£21,127), London (£21,017) and Northern Ireland (£20,866).

Putting together the revenue and spending numbers, the statistics show that Wales has a persistent negative net fiscal balance - revenue raised in Wales is lower than public spending for the benefit of Wales. This is also the case for most English regions and other UK countries. In 2024-25, Wales had a Net Fiscal Deficit of £22.8 billion. This was up from £20.9 billion in 2023-24. Across the UK, all areas apart from London and the South East had fiscal deficits in 2024-25. Wales's Net Fiscal Deficit equates to £7,149 per person, which is the second highest deficit per person across UK countries and English regions, behind Northern Ireland.

Figure 45 - Revenue, expenditure & net fiscal balance per person, 2024-25

Alt text: Bar chart showing revenue, expenditure and net fiscal balance per person across UK countries and regions in 2024-25. All areas except London have a negative net fiscal balance, indicating expenditure exceeds revenue. London generates the highest revenue per person and is the only area with a positive fiscal balance. Wales has lower revenue per person than expenditure, resulting in a fiscal deficit larger than the UK average.



Source: Country and regional public sector finances, UK: financial year ending 2025 - Office for National Statistics

The ONS regional public finance statistics suggest that Wales' relatively large fiscal deficit is driven by both high expenditure and low revenues per head, with the revenue side affected by a relatively small tax base. Policies that increase productivity and earnings would be expected to strengthen the major tax revenues and, all else equal, reduce the fiscal deficit over time.

Welsh Government's Settlement and financing

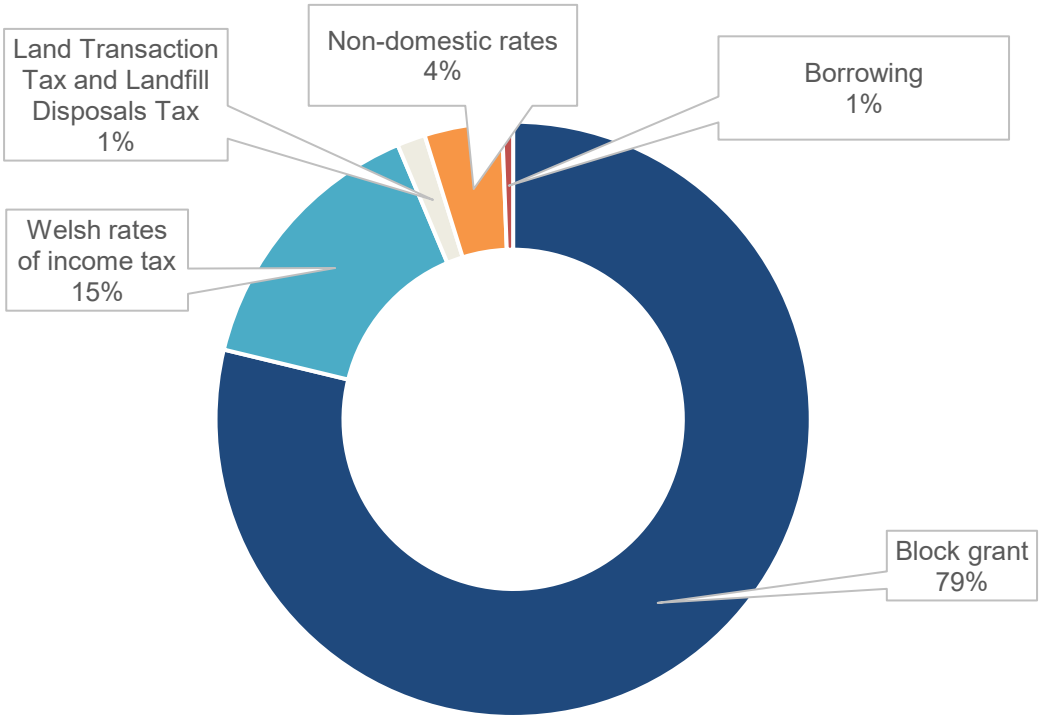
The Welsh Government's resource block grant settlement for 2027-28 and 2028-29 was first set at the Spending Review in June 2025, along with a capital settlement to 2029-30. There have been subsequent revisions to this settlement, most recently in the UK Government's Autumn 2026 Budget. These changes have been taken into account in the Welsh Government's Draft Budget, along with new forecasts for the devolved taxes publish in the OBR's latest Economic and Fiscal Outlook. Full details

of the devolved tax forecasts are included in the OBR's Welsh Taxes Outlook published alongside the Welsh Government Draft Budget.

The block grant funds 79% of the Welsh Government budget, with the devolved tax revenues and non-domestic rates accounting for 20% and capital borrowing 1% (**Figure *46***).

Figure 46 – Financing of the Welsh Government Draft Budget 2027-28

Alt text: Pie chart showing financing composition of the Welsh Government budget. The Block grant accounts for 79% of the total, with the Welsh rates of income tax, land transaction tax and landfill disposals tax, non-domestic rates, and borrowing accounting for 15%, 1%, 4%, and 1% respectively.



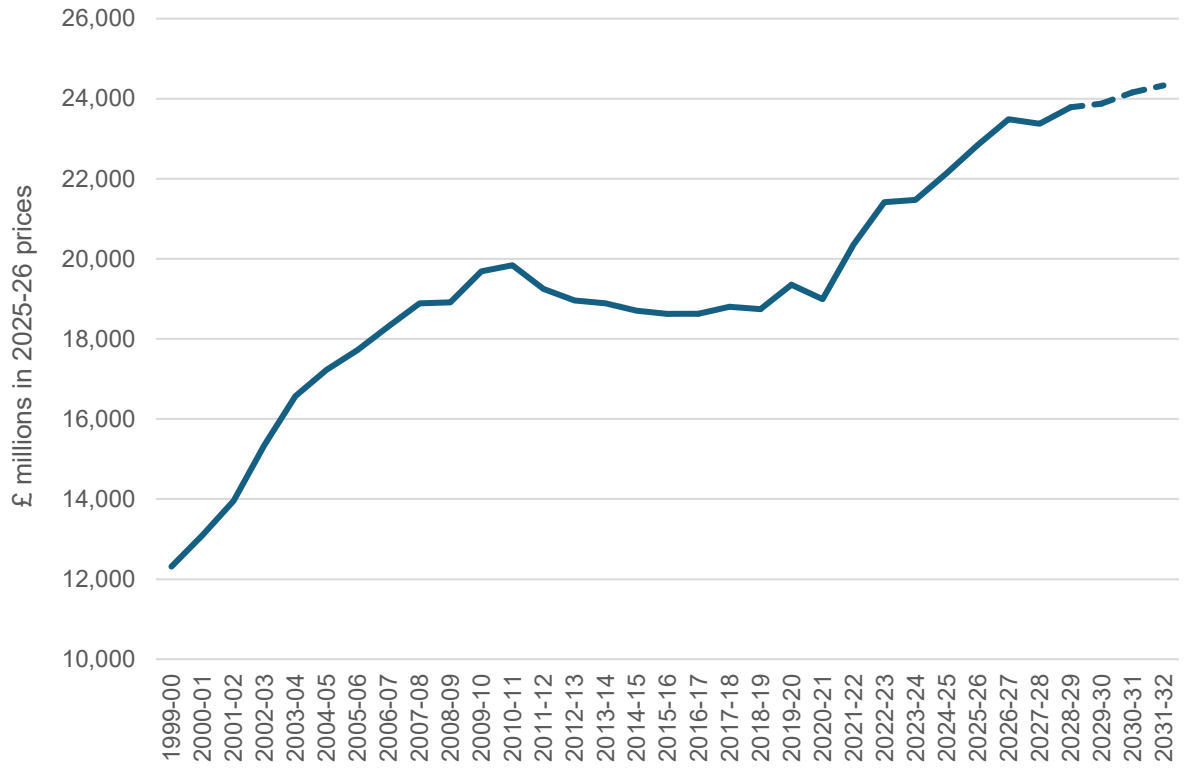
Source: Welsh Government

A separate distributional analysis showing the impact of Welsh Government resource spending programmes in 2027-28 across the income distribution is published separately alongside the Draft Budget.

The total resource budget for Welsh Government, including all elements listed above, is expected to fall by 0.5% in real terms in 2027-28 and then increase by 1.8% in 2028-29. Average real terms growth over the two years of 0.6% is around a quarter of that over the previous decade. If the Welsh Government's resource settlement grows in line with the UK Government's overall assumptions for Resource Departmental Expenditure Limits after 2028-29, then increases to the resource budget will continue to be muted over the medium term (**Figure *47***).

Figure 47 – Welsh Government Resource Budget in real terms, £m

Alt text: Line chart showing the Welsh Government resource budget from 1999-00 to 2028-29 and a projection to 2031-32 in real terms. There were periods of strong growth over the first 10 years and between 2019-20 and 2026-27. Future years' growth is lower than in recent years.

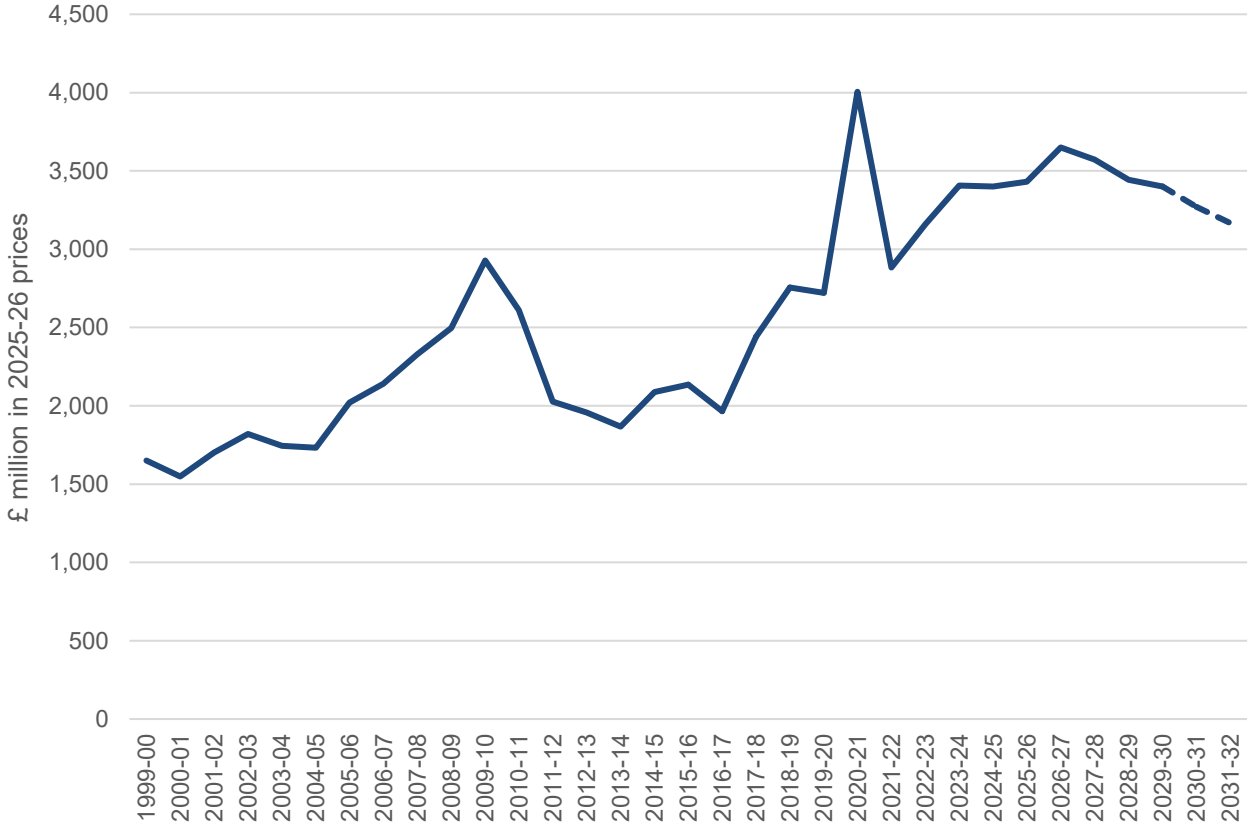


Note: Chart axis does not start at zero. Excluding COVID funding in 2020-21 and 2021-22.
Source: Welsh Government

The general capital budget is 2.8% lower in real terms in 2027-28 compared to the recent high in 2026-27. It will continue to fall in the remaining two years covered by the current spending review, so that the budget in 2029-30 is 9% lower in real terms than in the current year. There is no capital settlement beyond 2029-30 but, given the recent reductions and the continuing pressures on the UK Government to increase defence spending, **Figure *48*** shows the trajectory for the remainder of the OBR's forecast period if the Welsh Government capital settlement remains flat in cash terms. **Figure *48*** also assumes that the annual capital borrowing limit is fully utilised. This means the aggregate capital borrowing limit would restrict annual borrowing in the last two years shown. This also contributes to the downward trajectory shown, A different profile of capital borrowing would have some impact on the overall capital budget profile, but would not greatly affect the big picture.

Figure 48 – Welsh Government General Capital Budget in real terms, £m

Alt text: Line chart showing the Welsh Government general capital budget from 1999-00 to 2029-30 and a projection to 2031-32 in real terms. The pattern over time is volatile but with a general upward trend. However, there are reductions each year after 2026-27.



Source: Welsh Government

A data series for long run historical resource and capital budgets will be published alongside the Final Budget.

Devolved taxes

The projected resource budget figures above include the forecast net impact of the devolved tax revenues. This section provides more detail on those forecasts.

The OBR's October Economic and Fiscal Outlook included new forecasts for the devolved taxes and for the equivalent UK taxes which are used to derive the associated block grant adjustments. More detail on the forecasts is included in the OBR's Welsh Taxes Outlook published alongside the Welsh Government's draft budget.

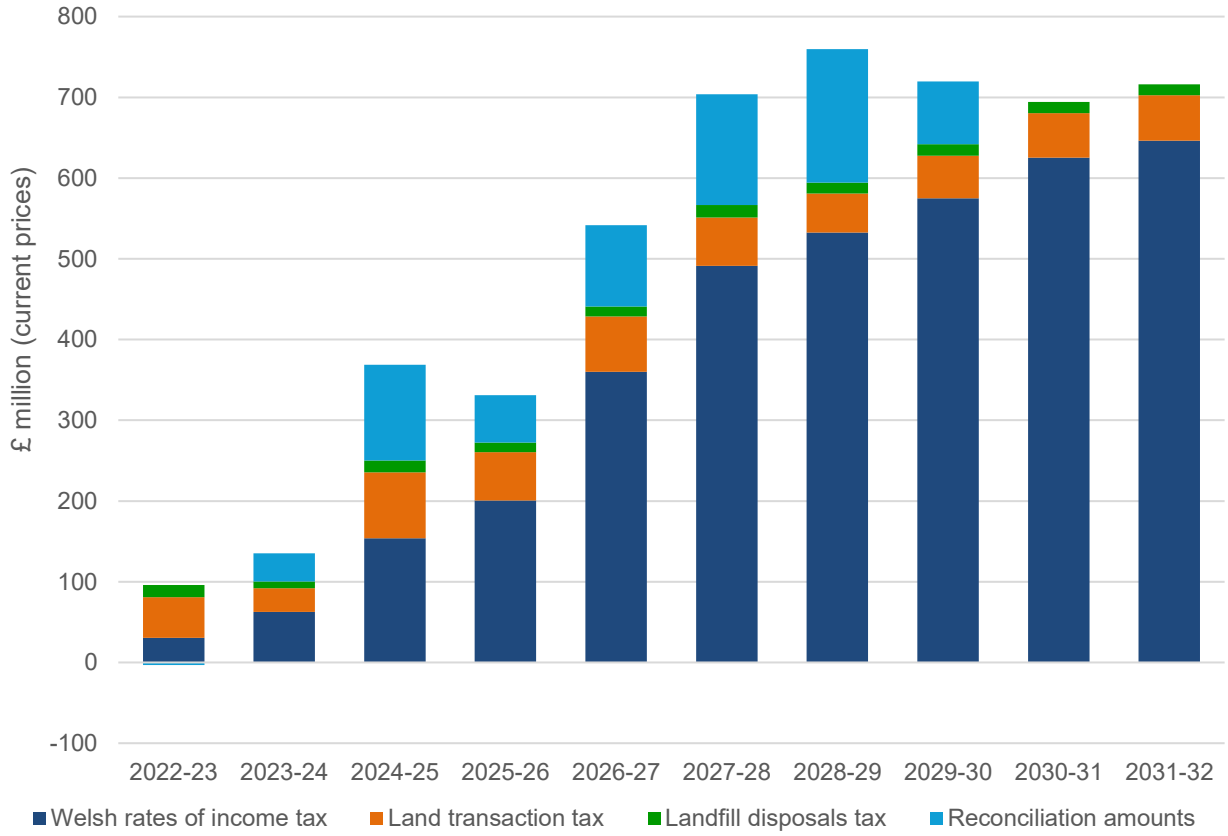
The OBR's forecasts for the UK equivalent taxes also affects the Welsh Government's budget via the block grant adjustments. The net budgetary impact of

devolved taxation, including block grant adjustments and the tax forecasts used in budgets is shown in **Figure *49***.

The net position also includes the impact of reconciliation amounts in respect of forecast errors in previous years. More detail is provided on these amounts in Annex A to the Draft Budget Report. Overall, all three devolved taxes are expected to continue making a positive contribution to the Welsh Government's budget, with an annual expected net position of around £700m from 2027-28 to the end of the forecast period.

Figure 49 – Net position between devolved tax forecasts and block grant adjustments

Alt text: Stacked bar chart showing the difference between devolved tax revenues and the associated block grant adjustments for the Welsh rates of income tax, land transaction tax, and landfill disposals tax from 2022-23 to 2031-32. It shows a growing positive net position over the period, from around £100m in 2022-23 to £700m in 2031-32.



Source: Welsh Government

Scenarios for future budgets

The longer-term projections in **Figure *50*** use the medium-term outlook illustrated in **Figure *47*** as a starting point. Three scenarios are then considered for the period from 2031-32 to 2037-38.

Scenario one: OBR spending projections

- Based on the OBR's baseline projections from its 2026 Fiscal Risks and Sustainability report, UK Government spending relevant to block grant funding grows faster than GDP throughout its projection period. Without mitigation, this scenario eventually shifts public sector debt onto an unsustainable trajectory.

Scenario two: Spending grows with GDP

- UK Government spending relevant to Welsh Government block grant funding for day-to-day spending grows at the same rate as the UK economy. This scenario reflects a situation where the UK Government is content to broadly maintain the fiscal situation at the end of the current medium term forecast period.

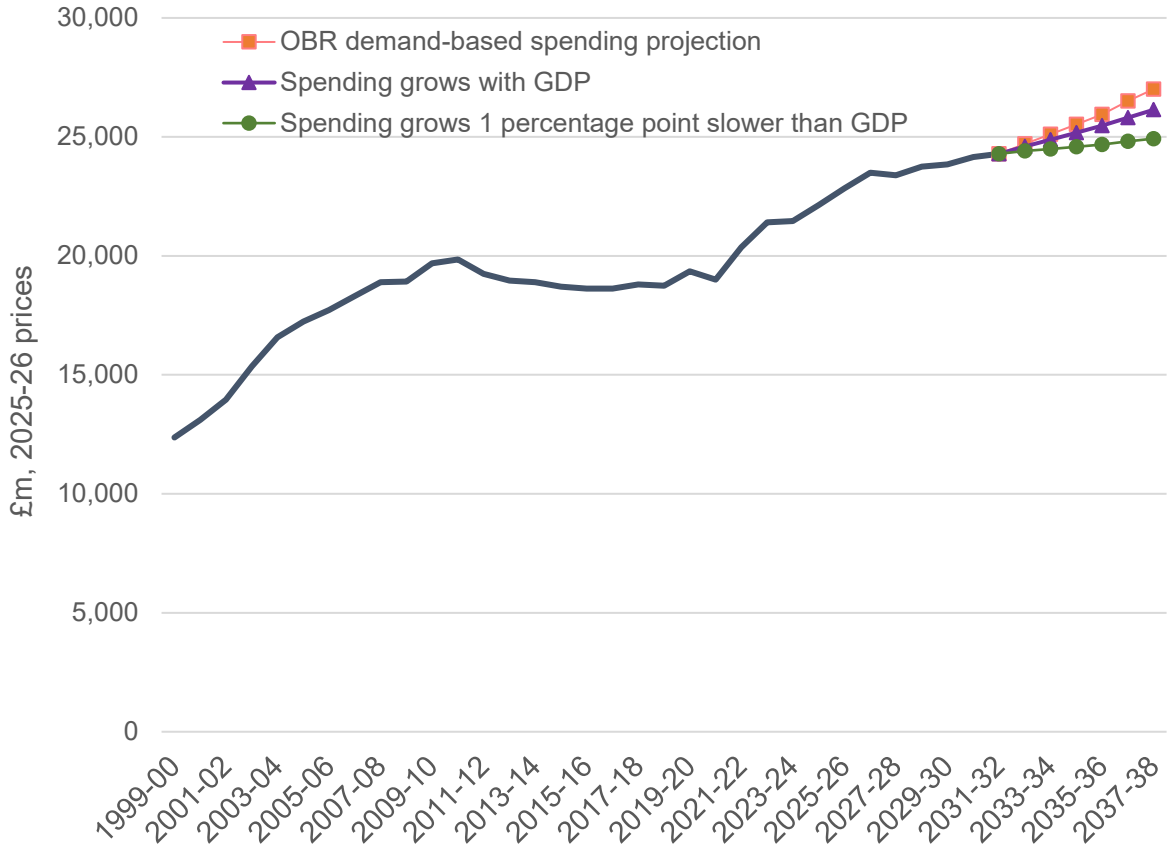
Scenario three: Growth of one percentage point less than GDP

- Relevant UK Government spending grows one percentage point slower than the UK economy. This reflects a scenario where there are demands to reduce debt more rapidly or other elements of UK spending – such as pensions, defence or debt interest – are growing more quickly.

The OBR spending scenario has the Welsh Government resource budget growing at a similar rate to that seen in the 2000s or the first half of the current decade. This scenario is most likely to provide resources necessary to meet future demand for public services but, given the OBR's conclusion that this eventually leads to unsustainable growth in net public sector debt, without tax increases, it may not be the most likely. The middle scenario suggests the resource budget will continue to grow at around the same rate as over the second half of the current decade, while the lower scenario sees slightly slower growth in the longer term.

Figure 50 - Long-term projections for Welsh Government day-to-day spending

Alt text: Line chart showing the Welsh Government resource budget from 1999-00 to 2031-32 (as shown in figure 47) along with 3 possible trajectories for future spending growth to 2037-38: OBR demand-based projection, spending growing with GDP, spending growing 1 percentage point slower than GDP.



Note: Excluding COVID funding in 2020-21 and 2021-22.
Source: Welsh Government

Long term fiscal sustainability

The Welsh Government's fiscal framework differs from that of the UK Government: most funding comes through the block grant, with limited tax-varying and borrowing powers. Long-term analysis for Wales should therefore focus on spending pressures, devolved revenues, and funding adequacy, while the OBR assesses UK debt sustainability.

Changes in age structure, health, disability, and deprivation can affect Wales's spending needs relative to the rest of the UK. If these pressures grow faster in Wales, maintaining comparable services may require a larger share of UK public expenditure over time.

Population, employment, earnings, productivity, and property values also influence devolved tax revenues and the fiscal framework. Assessing relative spending needs

alongside relative tax capacity can show whether future funding is likely to keep pace with pressures on Welsh public services.

Annexe: Developments in economic data

Labour market statistics

ONS published an update on their plans for improving Economic Statistics in July 2026 as part of their response to the Devereux Review of the Office for National Statistics. The update details the developments that ONS have made across a range of economic and labour market data sources in order to restore trust and improve the quality of these statistics, and the impact of these changes. These include improving achieved sample sizes in the LFS; continued assessment of the design changes made to the TLFS; and expanding electronic data collection of the Annual Survey of Hours and Earnings (ASHE).

ONS published an update in July 2026 on their program of work to improve the quality of estimates from the Labour Force Survey. This included information about the main interventions relating to the LFS made to address quality concerns. Whilst these interventions have resulted in improvements in response levels and rates, levels for certain waves still remain low by historical standards and coherence with other labour market data sources remain a challenge.

ONS's long-term strategy remains the replacement of the LFS with the Transformed Labour Force Survey (TLFS). In their latest update and accompanying blog post, ONS announced that following feedback from users the transition to the TLFS has been deferred until later in 2027, with November 2027 identified as the expected transition date.

ONS has confirmed that it will not seek to regain accredited official statistics status for the LFS and APS, instead focusing its efforts on ensuring that the TLFS meets the requirements for accreditation, with OSR agreeing to this approach.
It is still appropriate to use these statistics, however users should note the increased uncertainty around estimates derived from the APS. At a national level, estimates continue to provide a reasonable indication of trends for Wales, particularly if used as part of a basket of indicators with alternative sources such as HMRC real time information on paid employees, data on workforce jobs, and the claimant count. Estimates for smaller geographies or population sub-groups, however, are less reliable.

For further information on the interventions ONS have made to improve the quality of LFS and APS labour market estimates and our advice on using these statistics for Wales, please see our latest Chief Statistician's update: measuring the labour market in Wales.

Longitudinal Education Outcomes

Longitudinal Education Outcomes Wales (LEO Wales) is a linked administrative dataset that allows researchers and policymakers to follow learners from education into employment, earnings, further study, and benefit receipt over time. It is part of the wider UK Longitudinal Education Outcomes (LEO) programme, but Wales participates through agreements that link Welsh education records to UK labour market data.

We are exploring the analytical potential of how Welsh LEO data can be used to show outcomes and destinations following study.

Supply, use and input-output tables: 2022

The 2022 supply, use and input-output tables provide a detailed picture of the Welsh economy. They include estimates of:

- what goods and services are produced in Wales
- which industries produce them
- how businesses, households and government use them
- how much Wales trades with the rest of the UK and the rest of the world
- how different parts of the economy are connected to one another

They provide the most comprehensive framework currently available for understanding the flows of goods and services between different parts of the Welsh economy. The tables draw together information from business and household surveys, administrative data, trade statistics and sector-specific sources.

Input-output tables show how industries, households, government trade and interact within the Welsh economy. They can be used to assess the economic impacts of policies, infrastructure investments, and major events. They also provide the foundation for more complex modelling, including analyses of the relationships between the economy and wider systems such as society and the environment.

On 23 July 2026, Welsh Government published the second set of input-output tables. As well as being more timely, the 2022 tables incorporate significant methodological improvements and make greater use of Wales-specific data than the previous release, which covered 2019 and was published in March 2025. Alongside the tables, the Welsh Government publishes economic multipliers that estimate the effects of changes in demand for an industry's output on Welsh output, GVA and employment, including both direct and indirect supply-chain effects (subject to **important caveats**).

Similar tables are produced by the **Scottish Government (2022)** and the **Northern Ireland Statistics and Research Agency (2022)**. Supply and use tables also form a key component of the UK National Accounts and are produced annually by the **Office for National Statistics** for the UK as a whole. If you would like to more detail, please contact the Input-Output Tables Team (inputoutputtables@gov.wales).

Trade Survey for Wales

Preparations are underway for the next wave of the Trade Survey for Wales, with fieldwork collecting 2025 data due to begin in autumn 2026. The survey continues to be developed to improve the quality and usefulness of trade statistics for Wales, including enhancements to sampling and ongoing methodological improvements. The resulting data will support Welsh Government analysis of international and UK trade and contribute to wider economic evidence. Indicative results are expected to become available during 2027. For further information, please contact BusinessResearch@gov.wales.

Wales National Travel Survey preliminary results

The preliminary results from the Wales National Travel Survey, published by Transport for Wales in April 2026, provide the first Wales-specific national picture of travel attitudes and behaviour since 2012. The results are based on more than 3,000 responses and 9,000 recorded journeys between March and August 2025.

The Wales National Travel Survey is a large-scale, annual survey designed to gather evidence on how, why and when people in Wales travel. Launched in March 2025, the survey collects data from a representative sample of adults aged 16 and over, including both users and non-users of different transport modes. The survey combines questions on travel attitudes with a two-day travel diary, capturing detailed information on journey purpose, distance and mode choice.

The survey will be used as a key dataset to underpin policymaking and support evidence-based decision-making going forward. Twelve-month data will be published in autumn 2026[92], with data being published annually in the autumn thereafter.

For any questions or to learn more, please contact the Wales National Travel Survey team at travelsurvey@tfw.wales.

[92] Brief guide: Wales National Travel Survey | Transport for Wales