

# Unemployment to rise by a quarter of a million as Iran war hits UK economy

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The working class in Britain faces a surge in unemployment as the economic shockwaves from the war on Iran push an already stagnating economy towards recession.

New forecasts point to a sharp deterioration in labour market conditions, with up to 250,000 additional job losses forecast. This would see the official number of unemployed to increase from 1.87 million to over 2.1 million.

The EY Item Club, an economic forecasting group, warns that the UK economy will flatline across the second and third quarters of this year, placing it on the brink of a technical recession, defined as two consecutive quarters of contraction. Economic growth, already weak, is projected to collapse from 1.4 percent in 2025 to just 0.7 percent this year, cutting across earlier signs of modest recovery reflected in February's slight uptick in gross domestic product.

The consequences for the working class are severe. Unemployment is expected to rise to 5.8 percent by mid-2027, up from the current five-year high of 5.2 percent, as the crisis triggered by the Middle East conflict reverberates through the global economy.

Britain's real level of unemployment is far higher, due to the doctoring of figures implemented by successive governments for decades. According to the latest figures available, the number of people aged between 16 and 64 classed as "economically inactive" hit 22 percent in 2024. According to the *publicfinance* website, this "equates to 9.1 million Britons aged between 16 and 64, up from around 8.5 million before the pandemic in early 2020." This gives some indication of the grim onslaught on public health as the virus was allowed to "let rip," with around 2 million people suffering the debilitating consequences of Long COVID.

Britain's economy was already in a perilous position, with Chancellor Rachel Reeves having virtually no "headroom".

The International Monetary Fund's (IMF) half-yearly update states that a worst-case "severe scenario" involving prolonged war and sustained high energy prices will bring a global recession—the fifth since 1980—alongside rising unemployment.

The IMF forecasts the sharpest growth downgrade and the joint highest inflation rate in the G7 for the UK this year, even if energy costs stabilise by mid-2026. It cut the UK growth outlook for next year by 0.2 percentage points to 1.3 percent and warned unemployment could rise to 5.6 percent, the highest since early 2015 and above the 5.5 percent peak during the height of the COVID-19 pandemic.

For this year, it reduced growth forecasts by 0.5 percentage points to 0.8 percent, while warning inflation could approach 4 percent—double the government's 2 percent target.

Pre-war economic projections forecasting even a semblance of stability are already obliterated. At the start of March, the Office for Budget Responsibility (OBR) forecast that UK inflation would remain around the Bank of England's 2 percent target over the next five years. It projected price increases of 2.3 percent in 2026 and 2 percent from 2027.

The biggest surge in fuel prices in more than three years saw the latest inflation figures, published Wednesday, accelerate to 3.3 percent in March—up from 3 percent in February. This is the increase according to CPI – an official measure used to underestimate inflation as it excludes key household costs, especially housing expenses such as mortgage interest and council tax.

The inflation rise was mainly driven by transportation

costs, but this always push up prices across the economy, with the cost of food and drink, housing and recreation all rising.

The UK economy is highly exposed to energy price shocks, with imports accounting for nearly half of the UK's oil and gas needs. Almost 68 percent of the UK's gas supply was imported in 2025.

Rising energy prices are increasing household bills, delivering significant blows to incomes. Analysis by the Resolution Foundation published this month found that average median working-age households are expected to be nearly £500 worse off this year than they would have been without the Iran war.

Higher energy and petrol costs continue to hit household income. Filling a typical 55-litre family car now costs £27 more for diesel (breaching the £100 mark for the first time since December 2022) and £14 more for petrol than before the war.

Only limited protection for households exists for electricity and gas bills through the price cap in England, Wales and Scotland. However, it is temporary, with the latest cap set to expire on July 1. Energy consultancy Cornwall Insight's latest forecast predicts that under Ofgem's price cap for July to September, a typical dual-fuel household could pay £1,861 annually, up from £1,641.

Polling by Survation for the End Fuel Poverty Coalition found that 83 percent of the public are worried, with 44 percent saying they would be unable to afford an expected £228 annual increase in bills when the price cap rises in July. A quarter of respondents said they would be "completely unable to pay my energy bill" if costs rose to that level.

At the same time, energy companies are massively benefitting, with share prices rising sharply since the conflict began, adding over £233 billion to their market capitalisation.

The situation is even more precarious for households dependent on heating oil (kerosene) who are not connected to the national gas network. Around 1.5 million UK homes—primarily in rural areas—rely on oil, which the price cap does not cover. Older people are disproportionately affected.

Among those surveyed, 69 percent—8.3 million adults over 66—said they would rather turn off their heating than fall into debt. One in three (35 percent), or 4.2 million people, reported cutting back on heating

recently, while 19 percent—around 2.4 million—said their homes were colder than they would like.

The war is affecting mortgage markets. Before the conflict, expectations had grown that interest rates would fall, easing costs for borrowers. Instead, lenders now face higher funding costs and reduced expectations of rate cuts. According to Moneyfacts, the average two-year fixed mortgage rate has risen from 4.83 percent at the beginning of March to 5.9 percent, with the cheapest deals increasing most rapidly.

The last major surge in energy prices occurred in 2022 following Russia's invasion of Ukraine, forcing the Conservative government to introduce an emergency £40 billion cost-of-living support package. This included an energy bills cap, a universal £400 Energy Bills Discount, and targeting payments to the poorest.

Reeves has ruled out any universal support for household energy bills, and whatever spare change is to be offered to the poorest will only be reluctantly handed over by the Treasury at the end of the year. Far from relieving the economic pressure on millions of workers, the capitalist oligarchy and their mouthpieces are demanding that the Starmer government fulfil its mandate of militarism and austerity. This means funding the military budget by many tens of billions more through slashing social spending.



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