OXFORD ECONOMICS

THE CHALLENGES SHAPING OUR EUROPEAN CITY OUTLOOK

Liam Sides: Head of Global Cities Analysis

March 2026



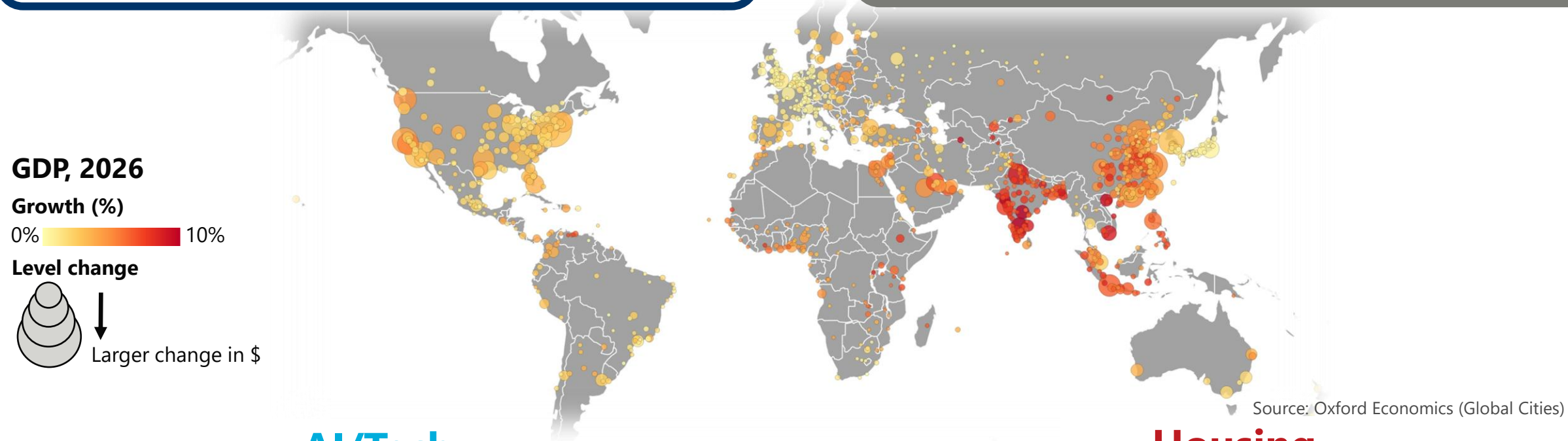
Europe at the centre of our key themes for 2026

Trade

Persistent tariffs and the uncertainty surrounding them will weigh on industrial hubs, widening the growth deficit to service-led cities.

China

The latest Five-Year Plan places advanced manufacturing at its core, which will further reshape trade patterns and continue to squeeze export-led regions in developed economies further.



Source: Oxford Economics (Global Cities)

AI/Tech

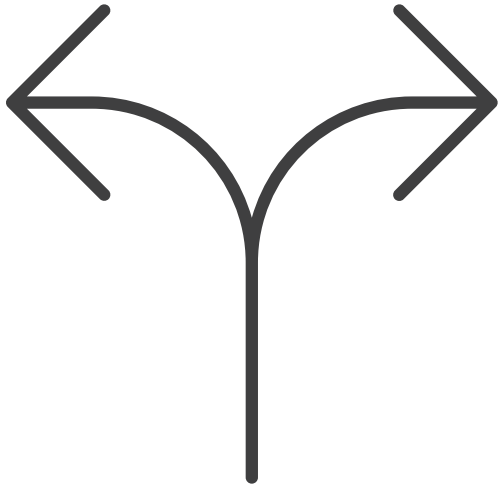
Investment and growth is narrow. Tech-heavy cities in the US and China exhibit strong productivity-led gains but broader spillovers, both spatially and in terms of employment, will remain muted.

Housing

China's house price slump continues to undermine the domestic economy; while the affordability crunch across many in major cities in North America and Europe drags on consumers.

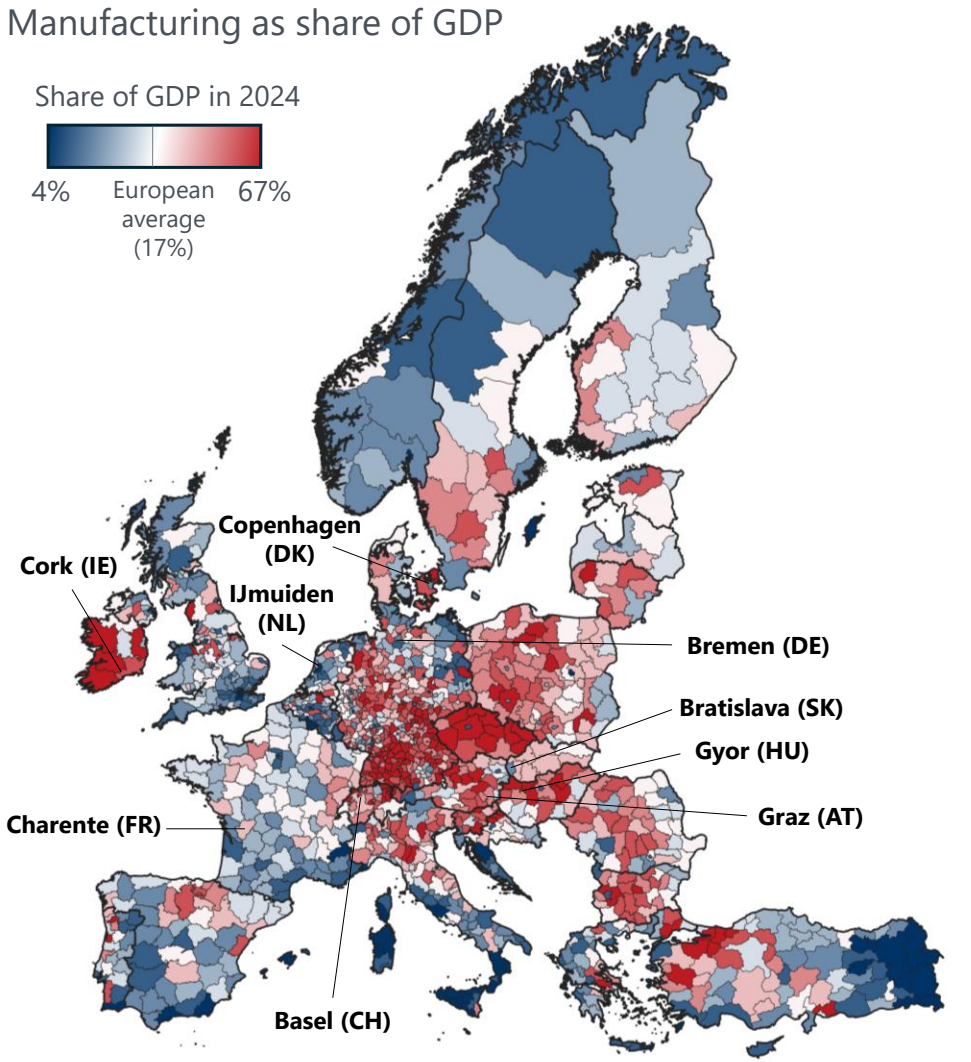
The central point is divergence



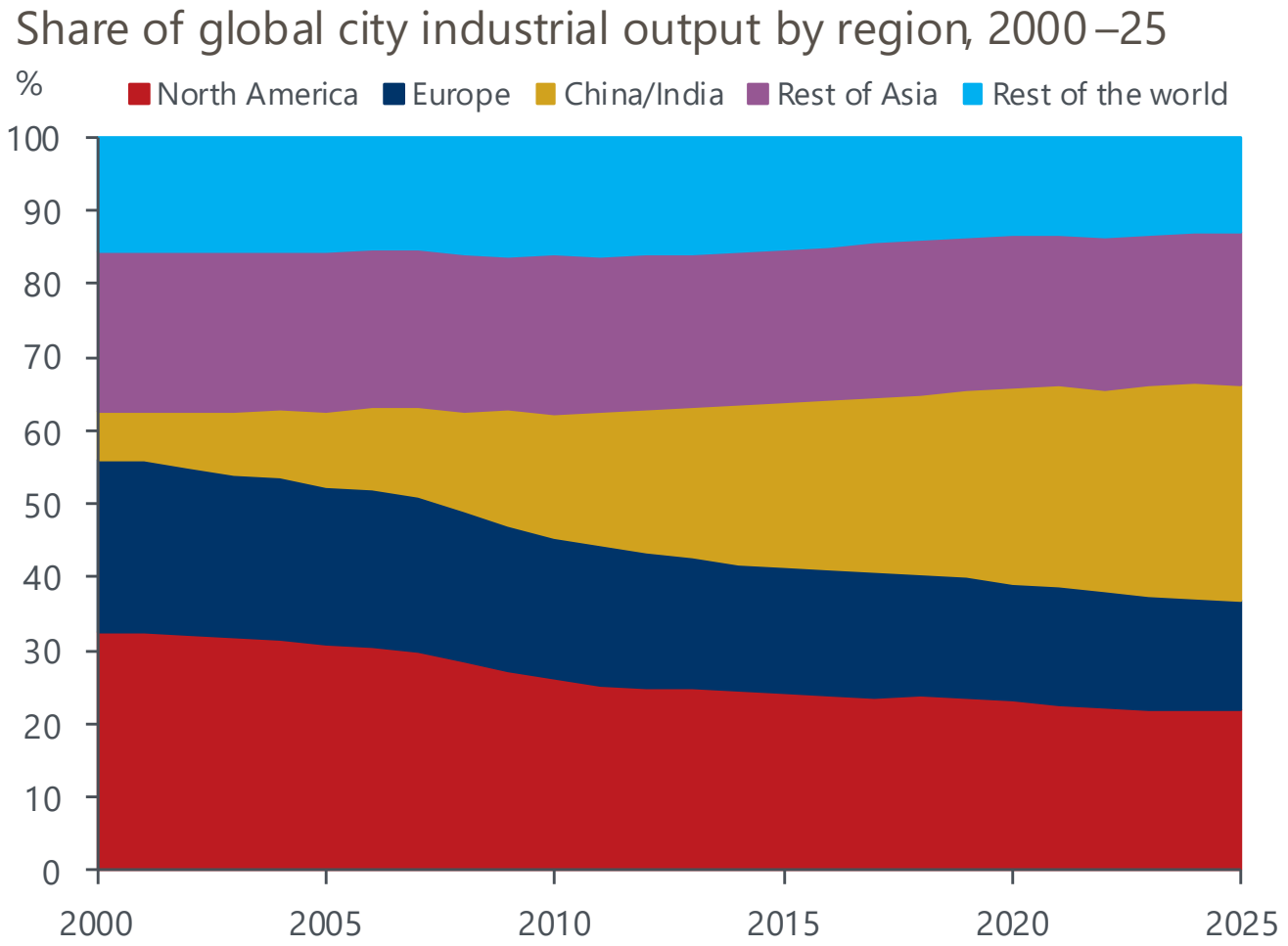




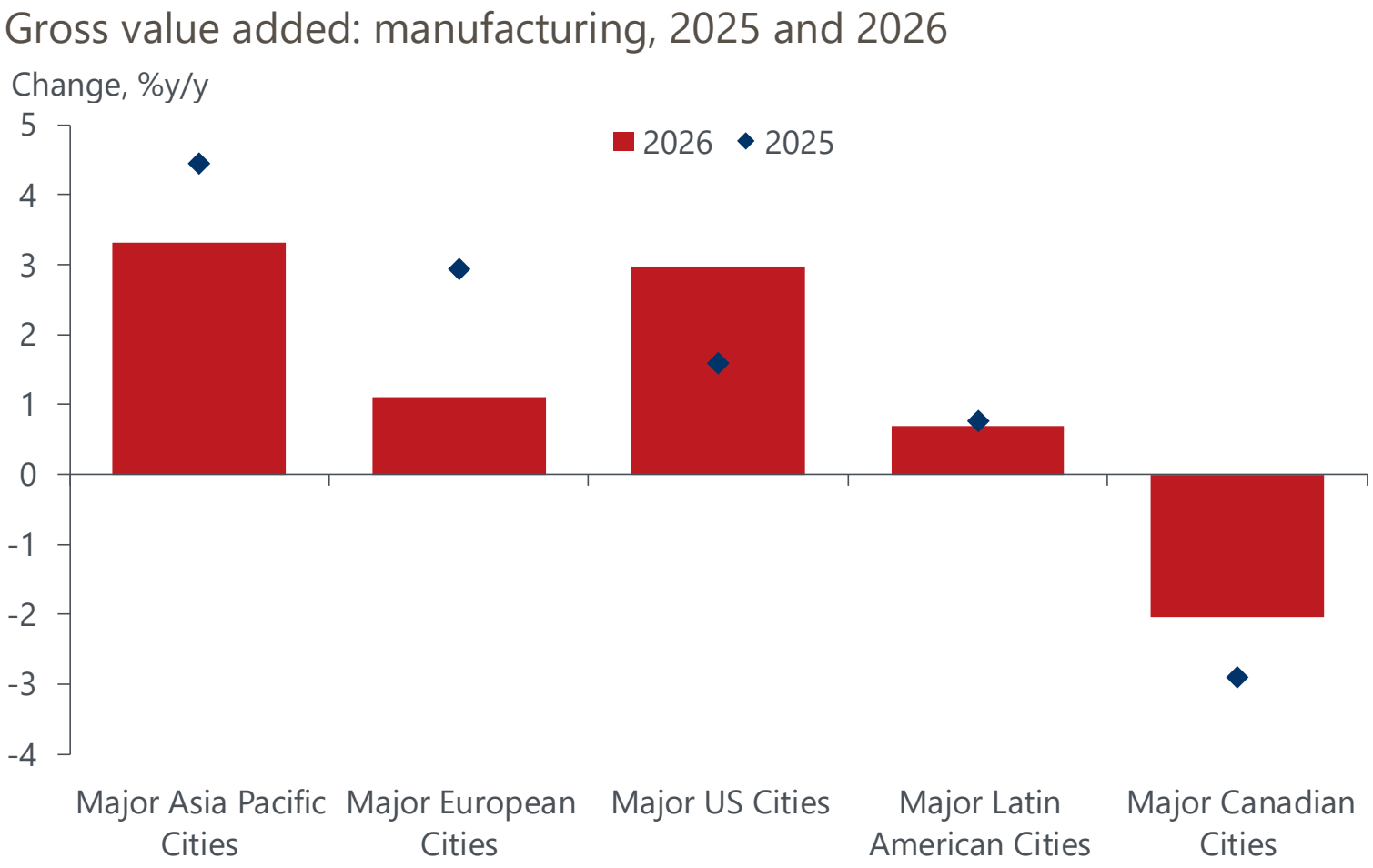
Manufacturing-heavy regions are highly exposed



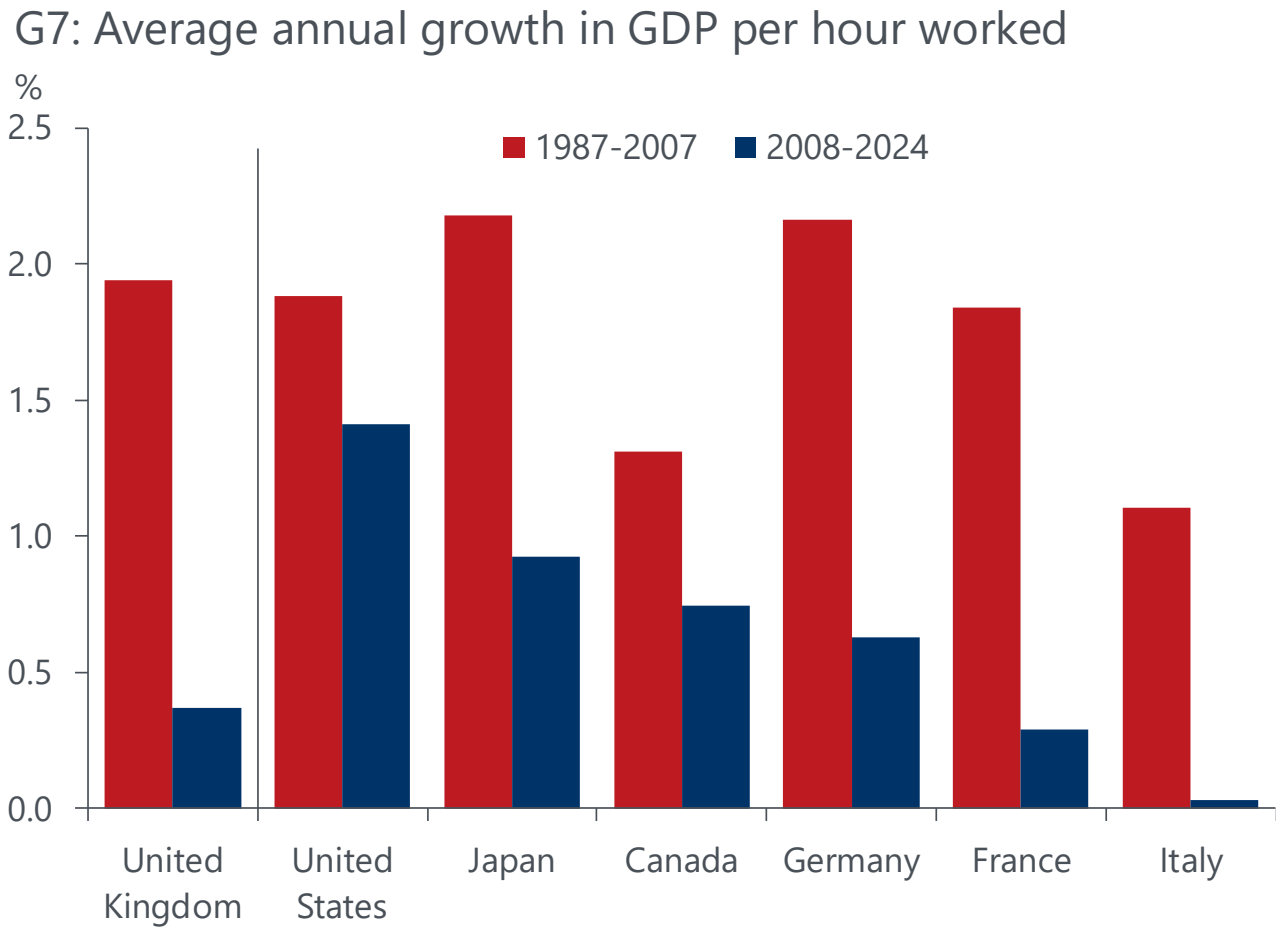
Squeezing European industry from the global economy



And we forecast things to get worse before they get better

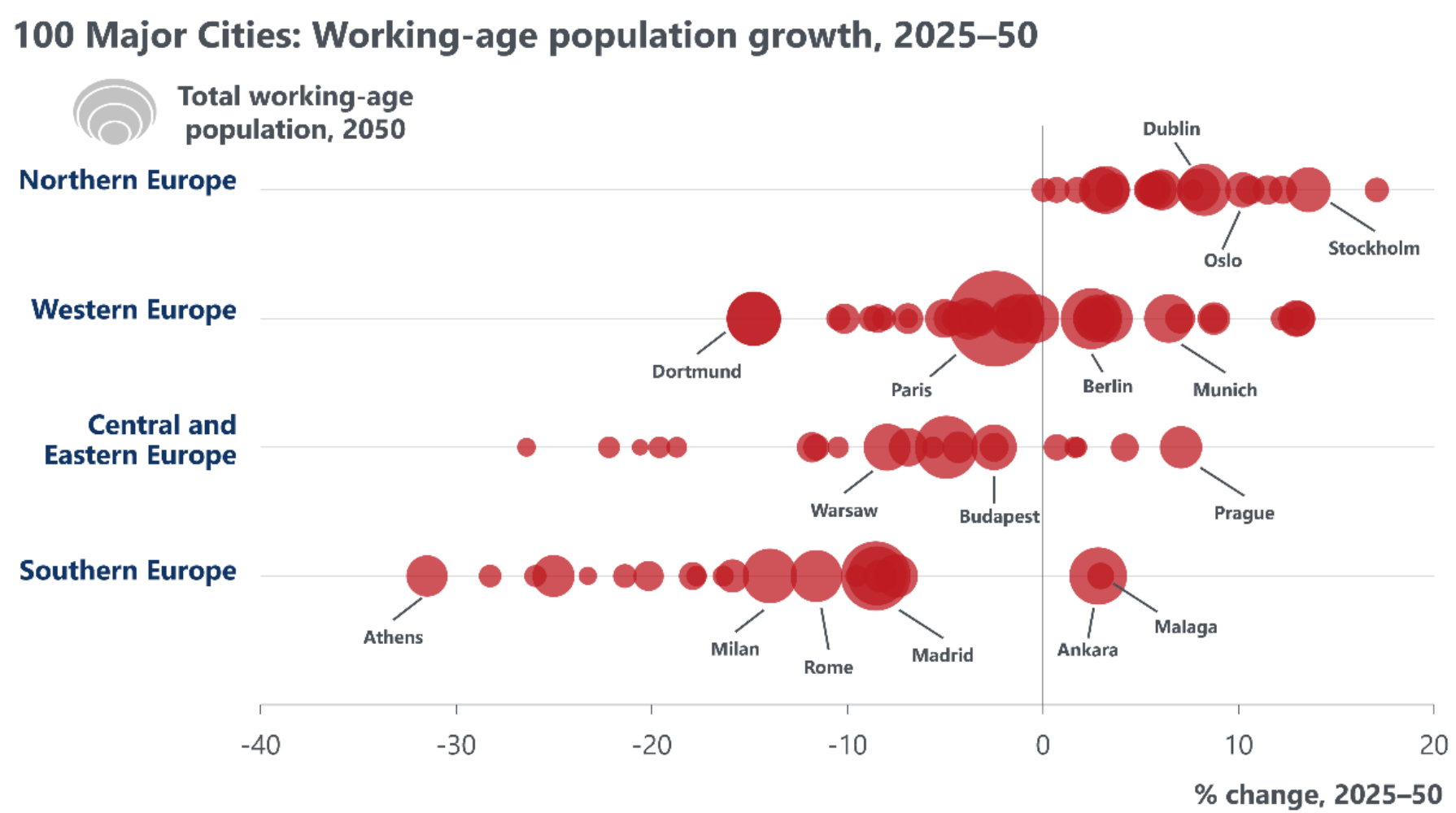


At a time when Europe's core has seen productivity flatline



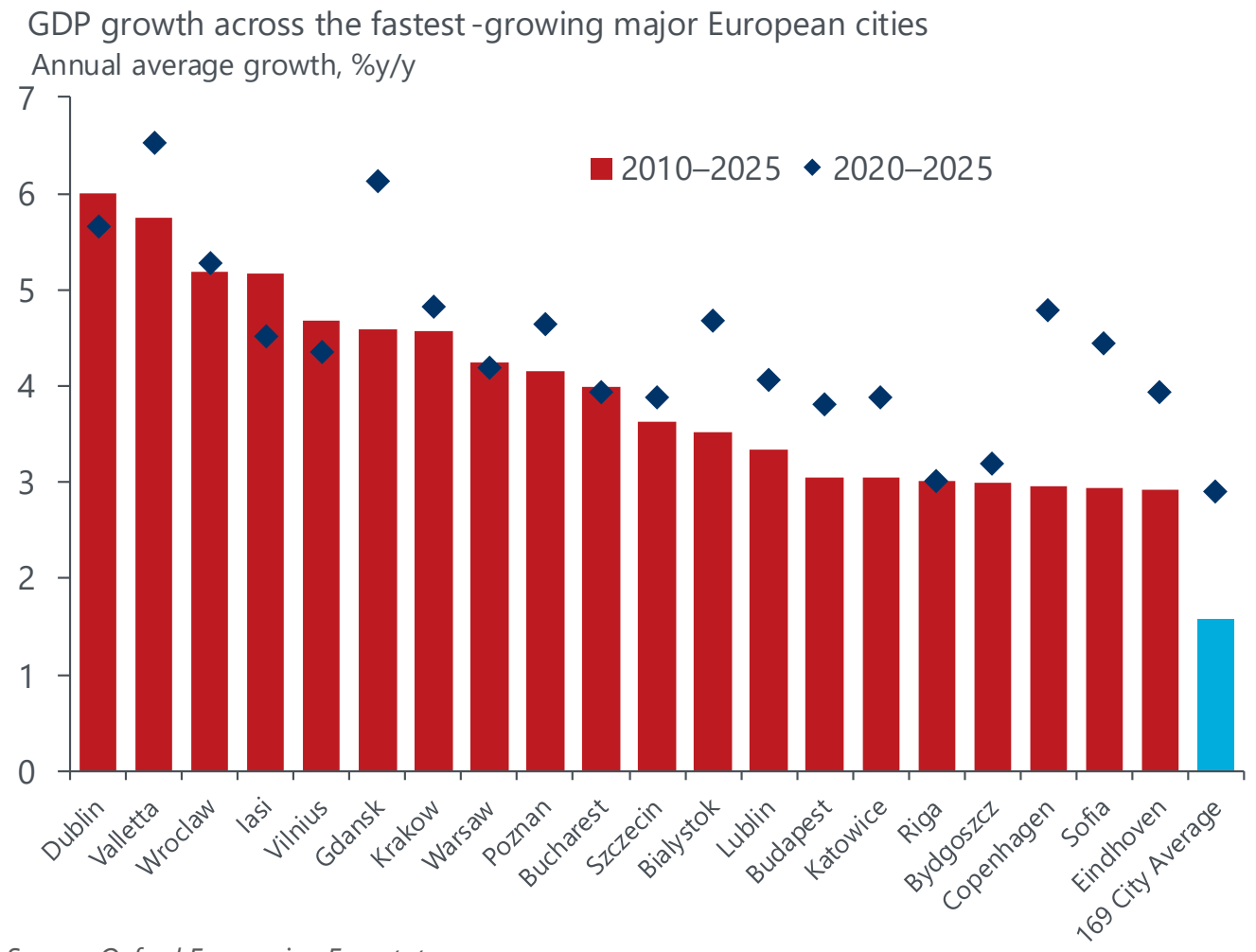
Source: Oxford Economics/Haver Analytics

While demographic challenges are squeezing growth rates and raising fiscal concerns



Source: Oxford Economics, Eurostat

It is not all doom and gloom



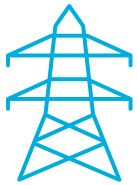
Source: Oxford Economics, Eurostat

01 | What is behind the industrial weakness?

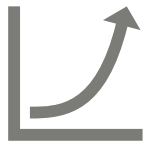
Industrial regions are seriously exposed



Tariffs and trade restrictions are reducing trade flows and export growth



Elevated energy prices are undermining competitiveness

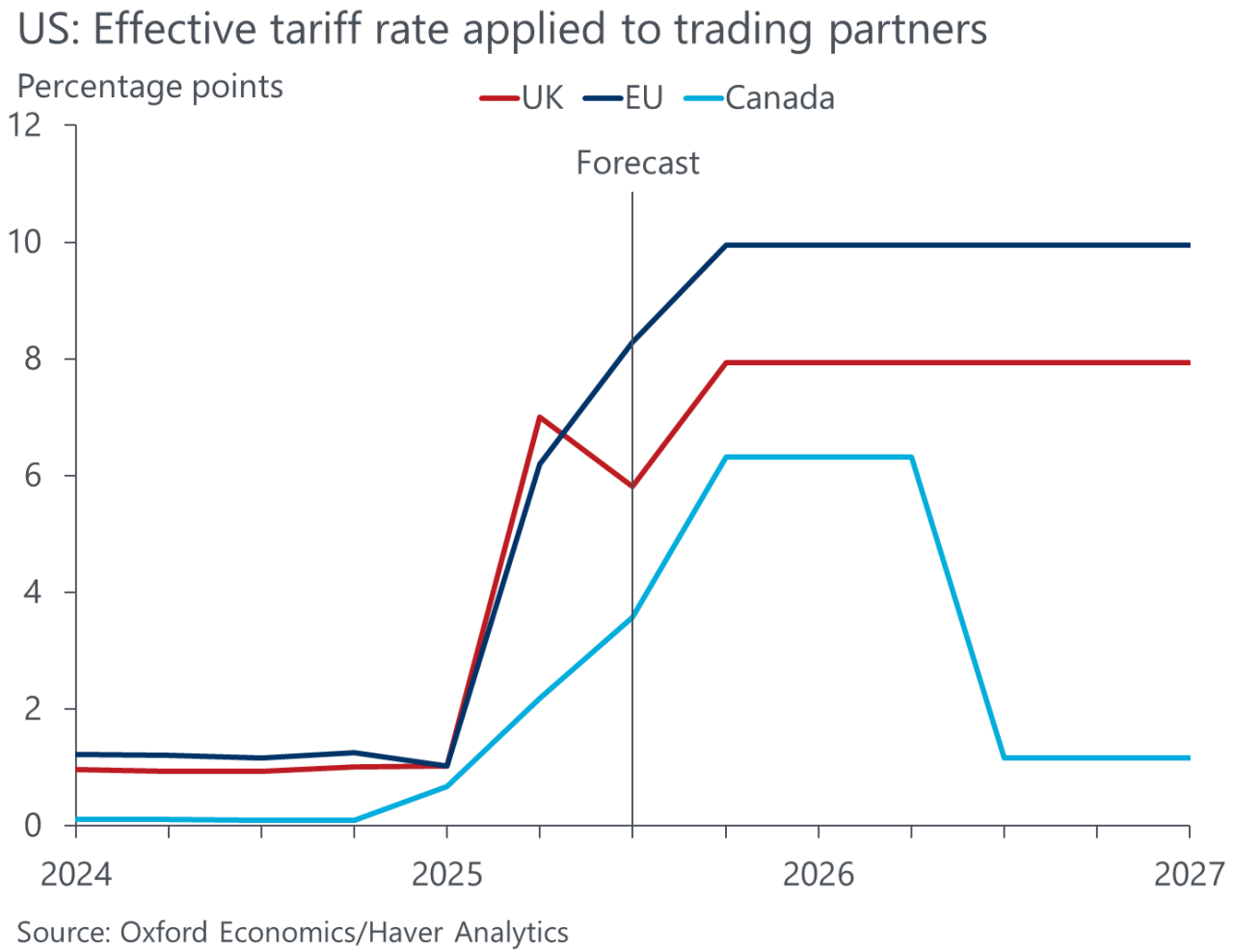


China’s move up value chains is squeezing the market



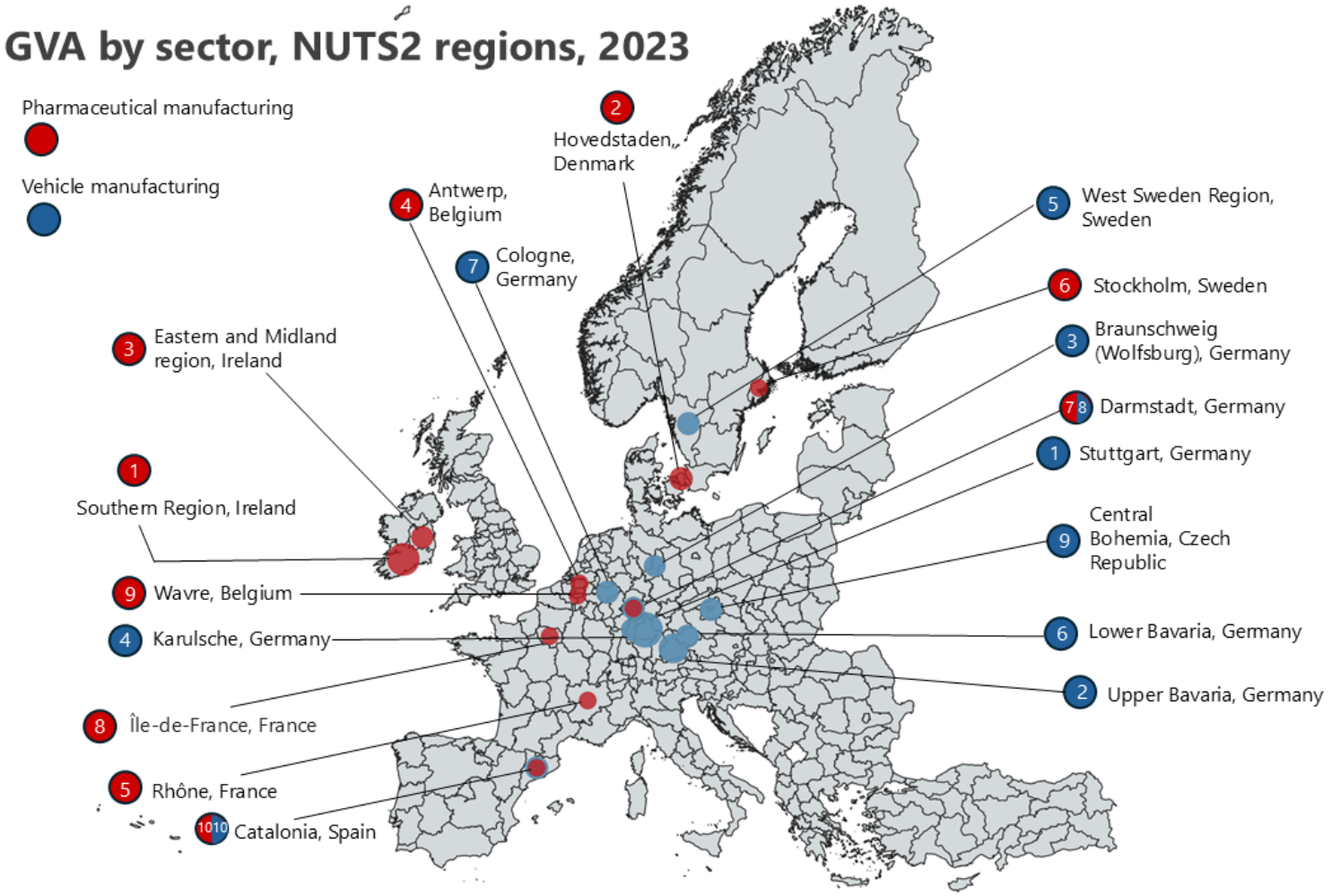
AI advances are more likely to benefit high-tech, service-based cities

(1) Tariffs have undermined competitiveness



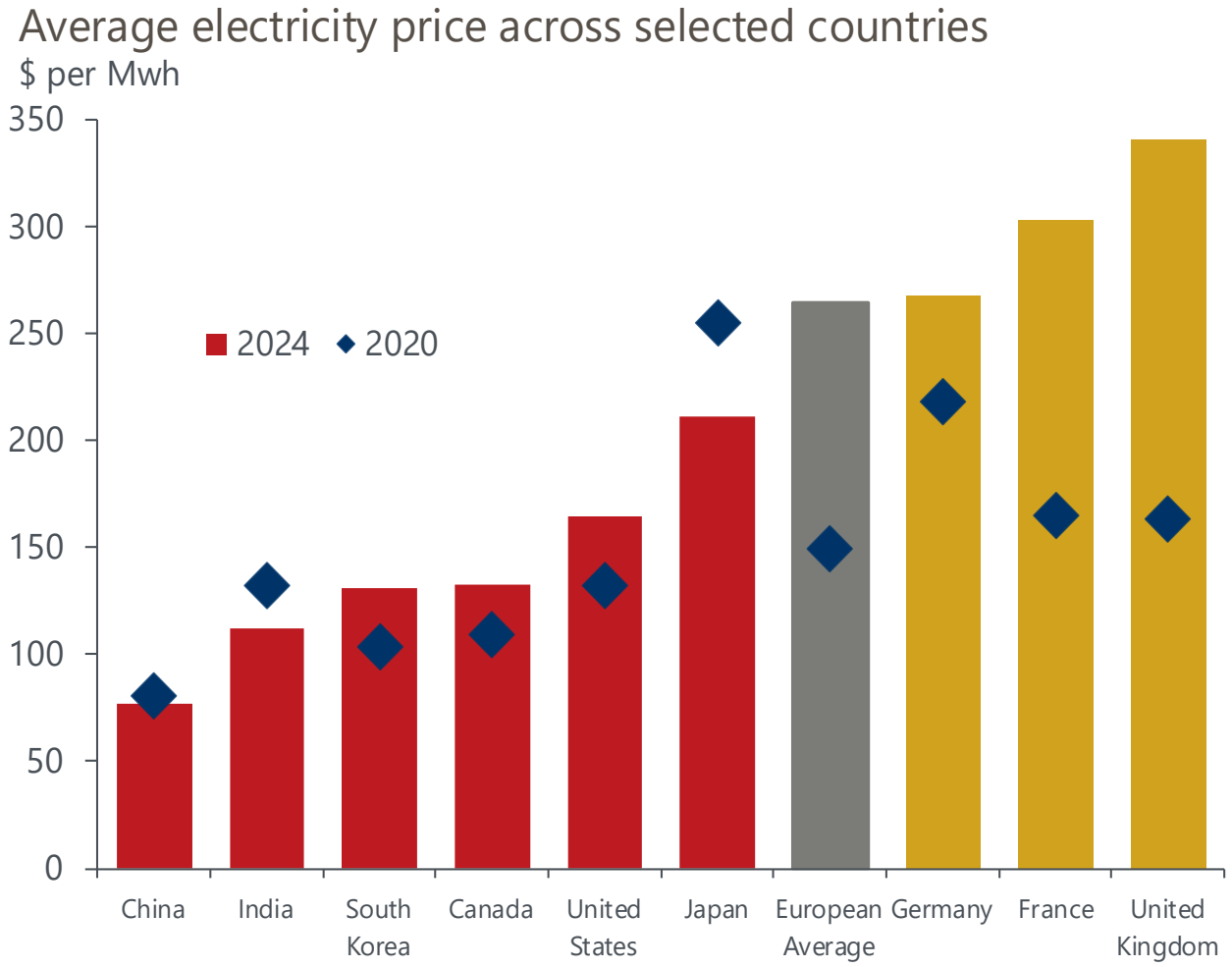
Source: Oxford Economics/Haver Analytics

And exposure is regionally concentrated



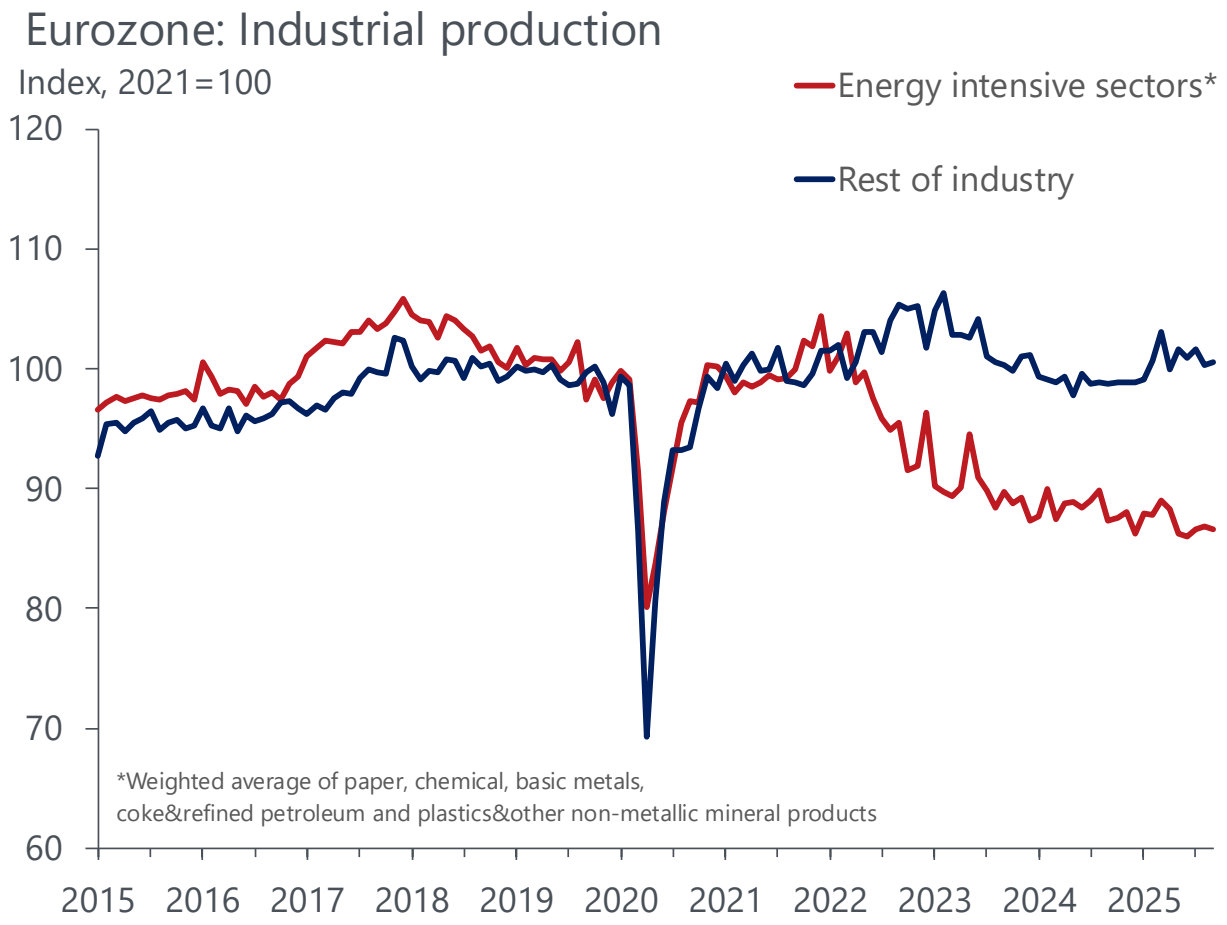
Source: Oxford Economics

(2) European energy prices have sky-rocketed



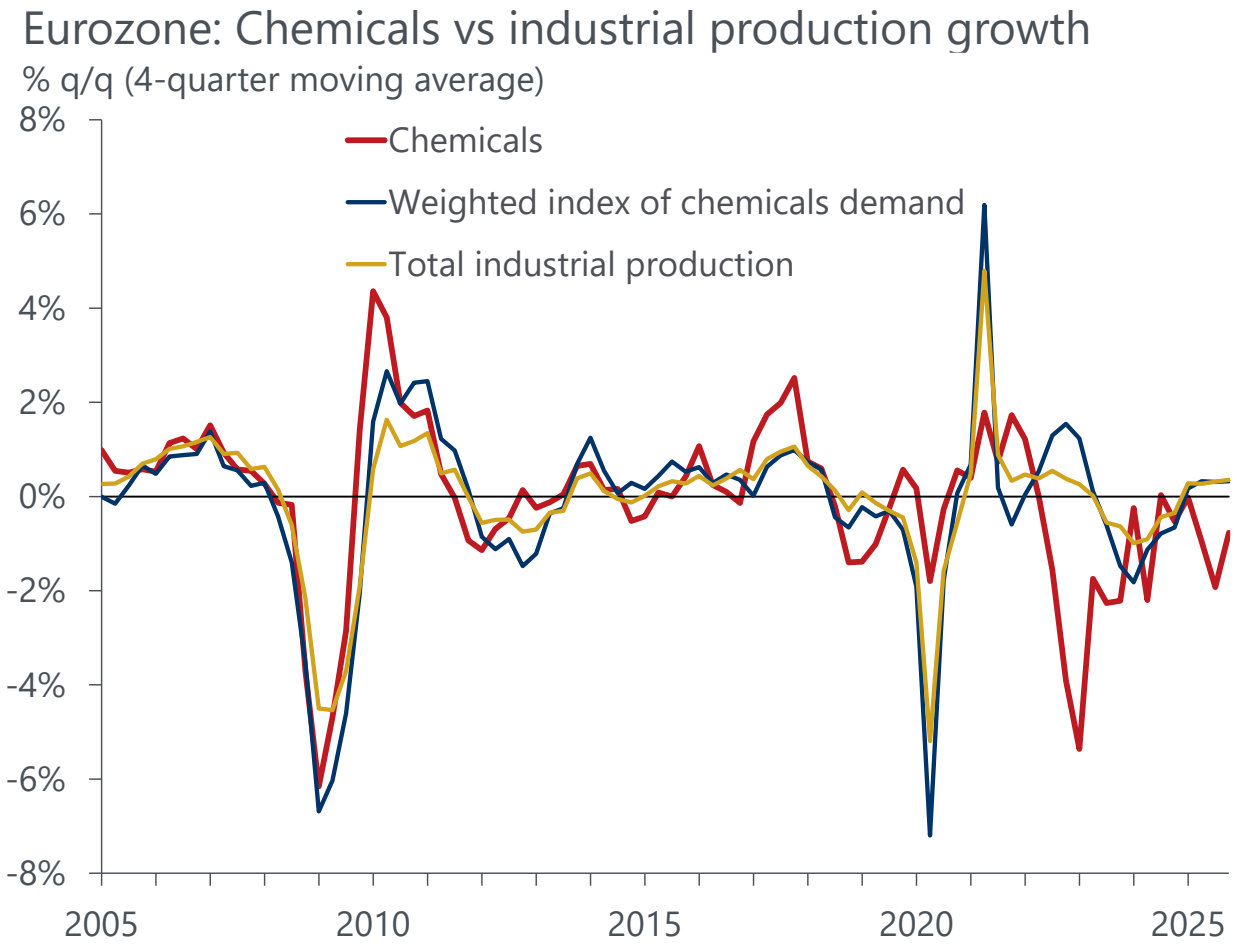
Source: Oxford Economics/International Energy Agency

Undermining key industrial sectors



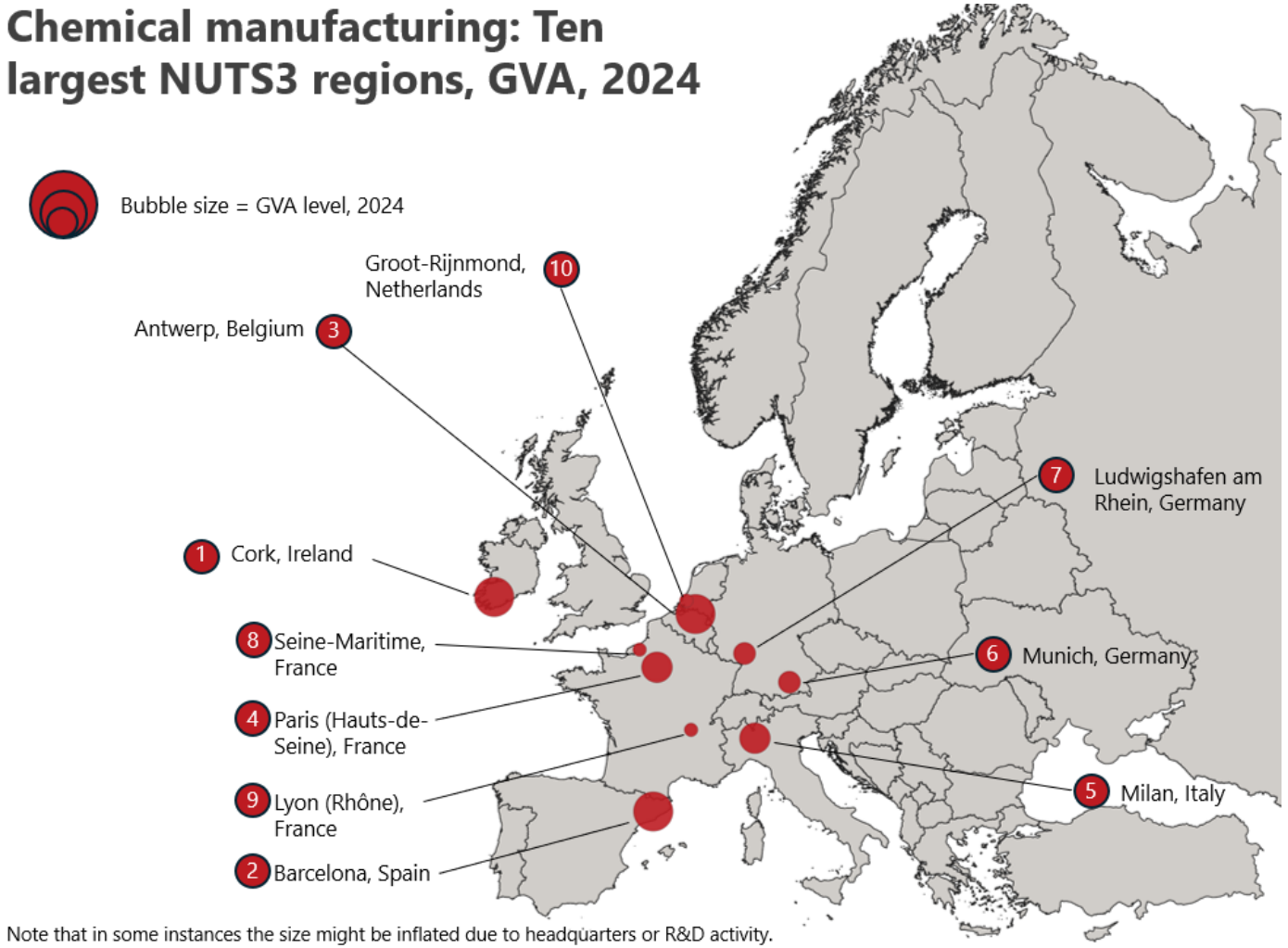
Sources: Oxford Economics, Haver Analytics

The chemicals sector has been particularly hard hit

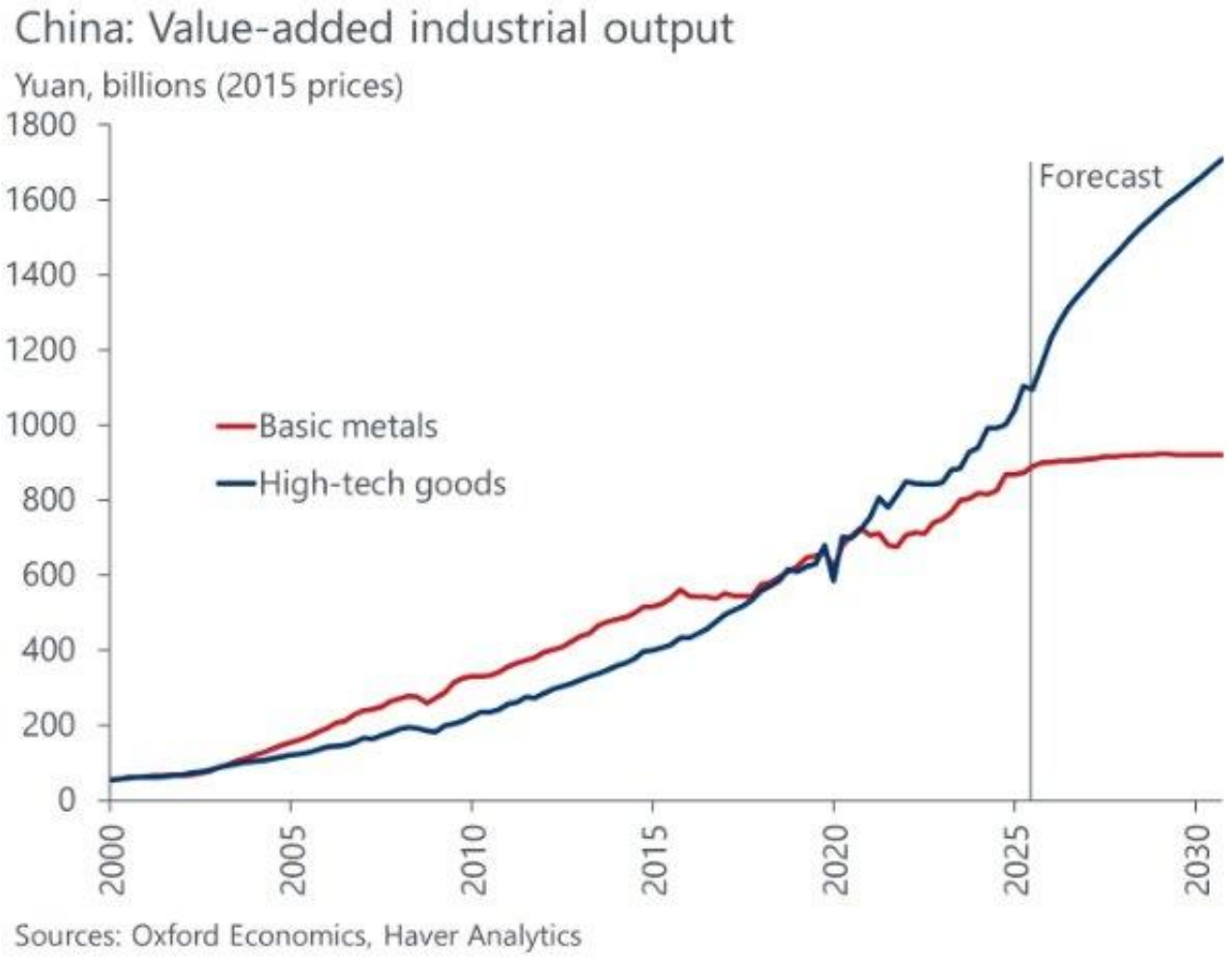


Sources: Oxford Economics, Haver Analytics

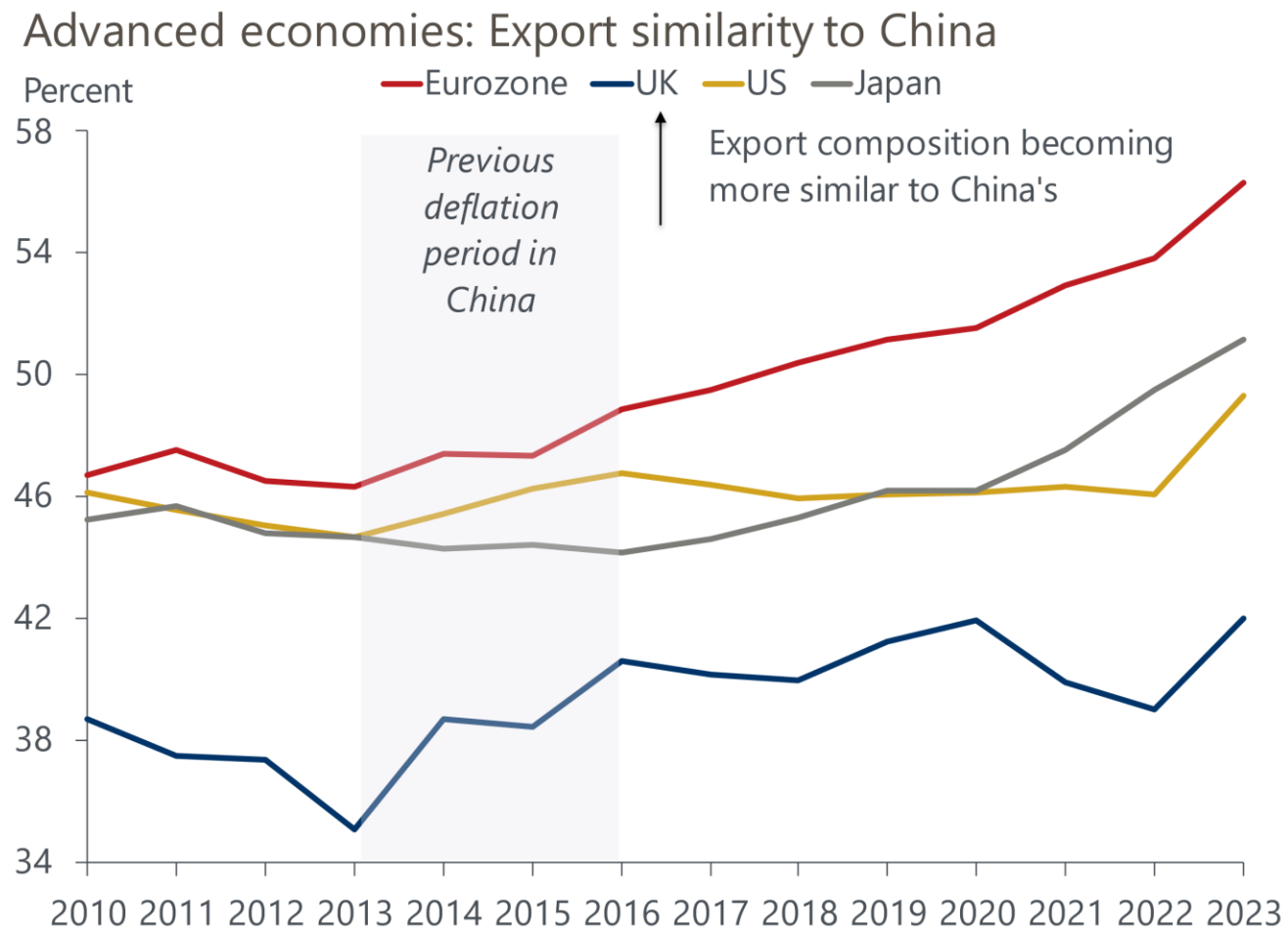
With serious impacts on local economies



(3) China's move up value chains has significantly raised competition

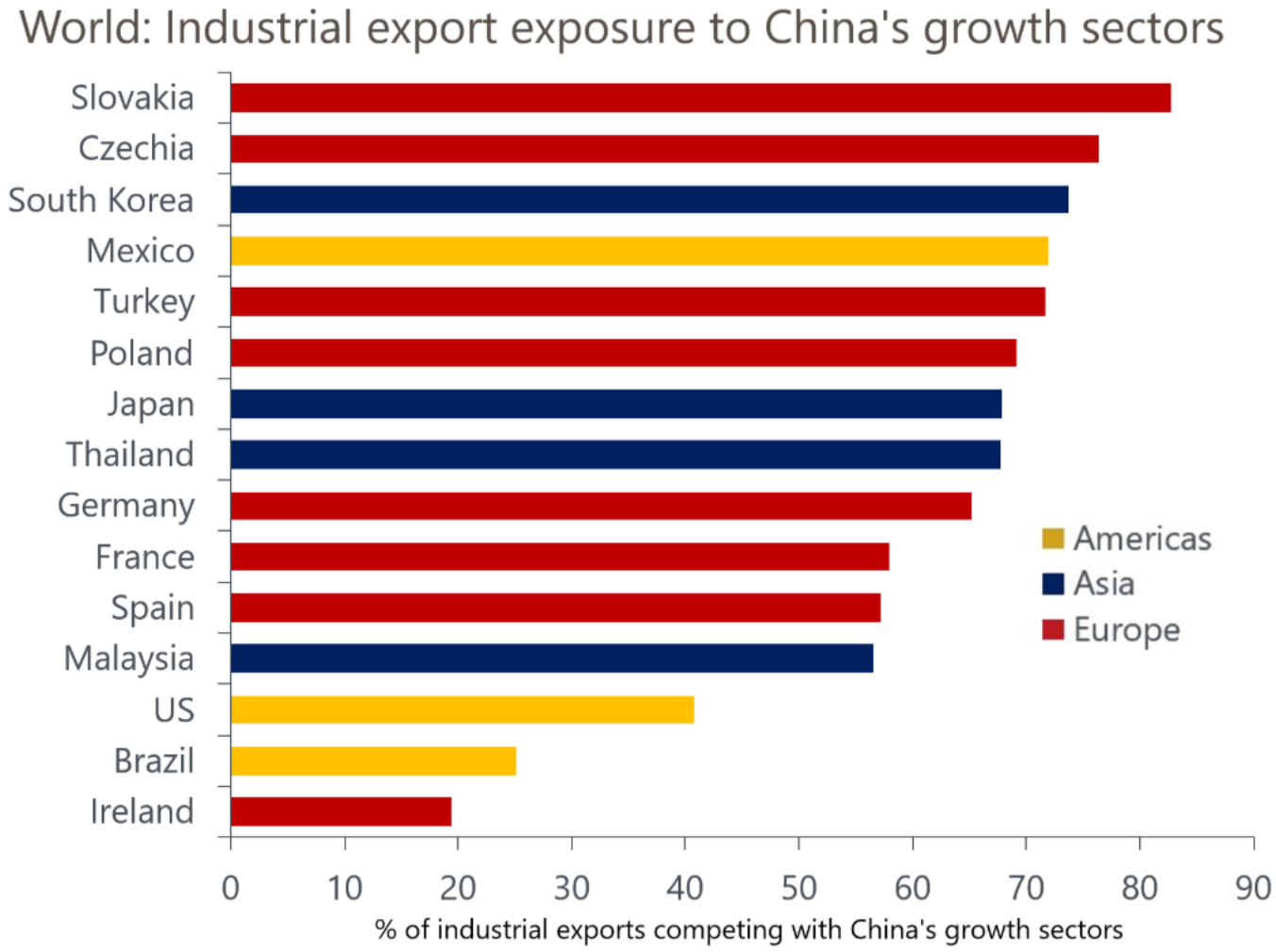


Eating into exports and domestic markets



Source: Oxford Economics, Haver Analytics

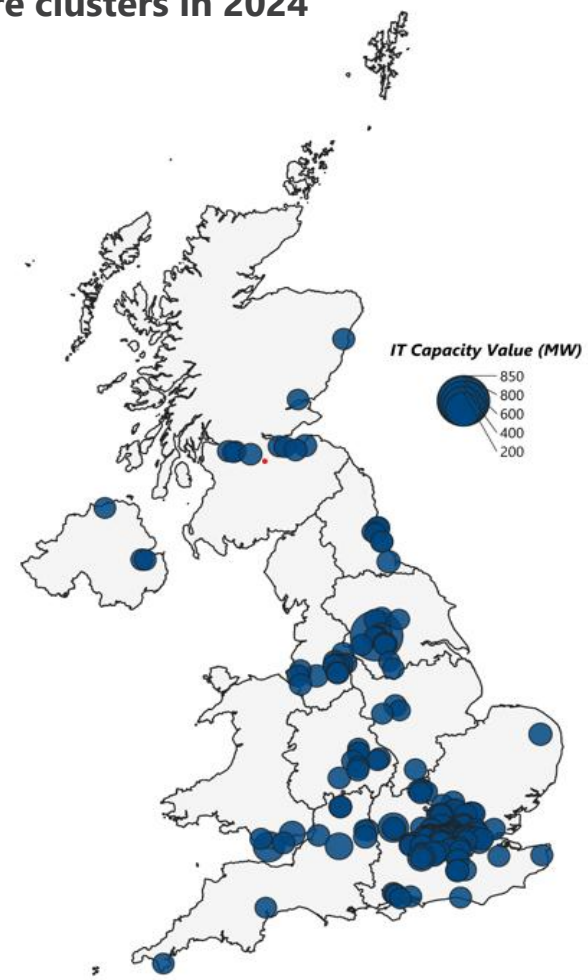
(3) Exposing specific European economies



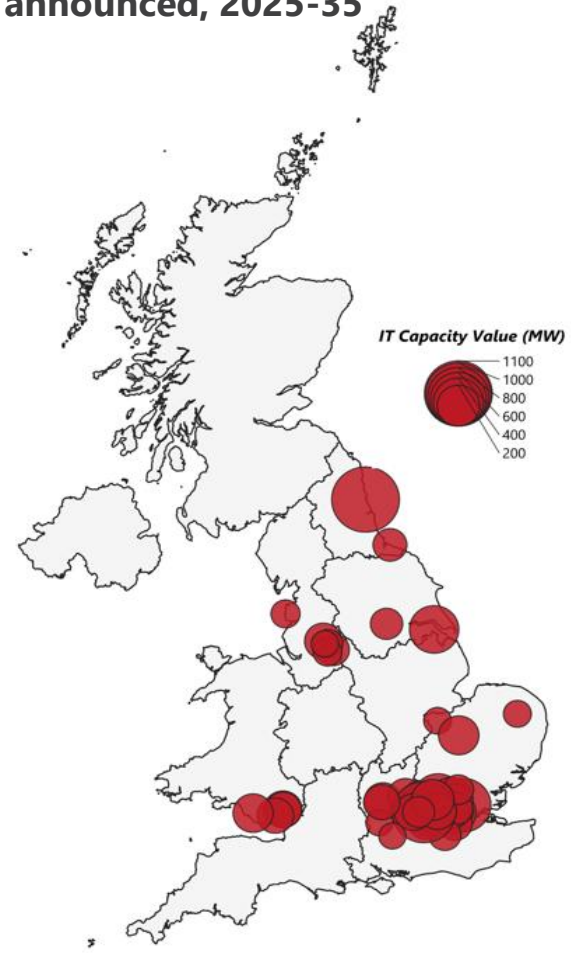
Source: Oxford Economics, Haver Analytics

(4) AI development is highly urban

Data centre clusters in 2024

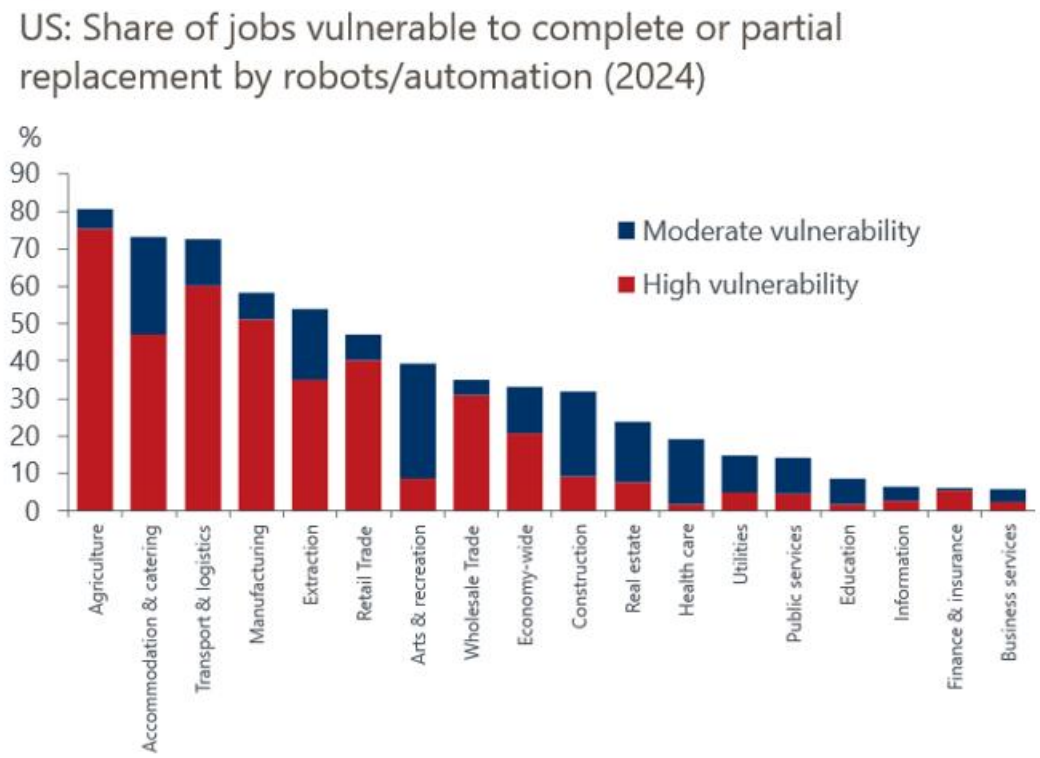


Data centres announced, 2025-35



Source: Oxford Economics

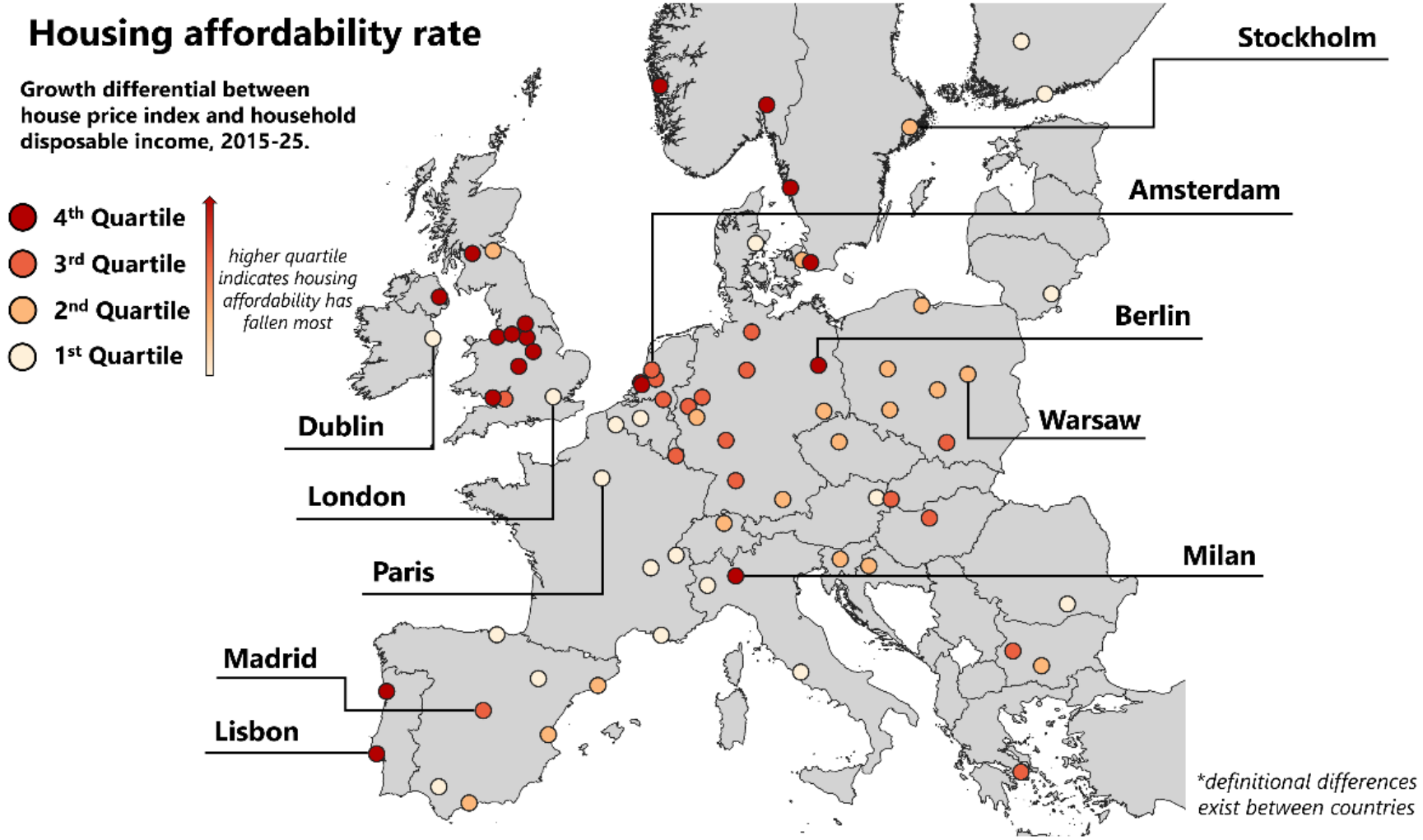
And employment risks are concentrated in industrial sectors



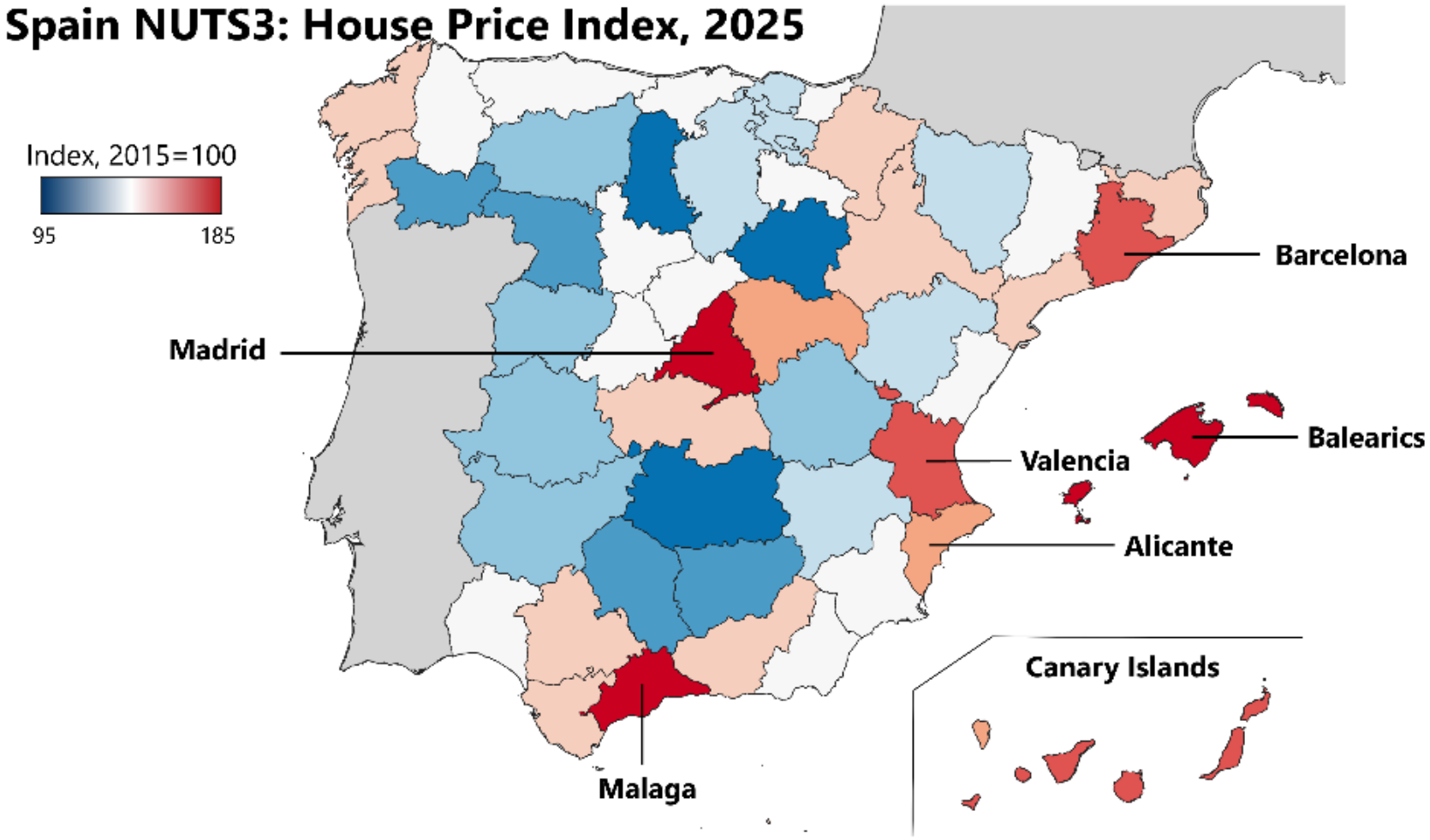
Source: Oxford Economics, BLS OEWS Survey

02 | Risks facing major cities and services

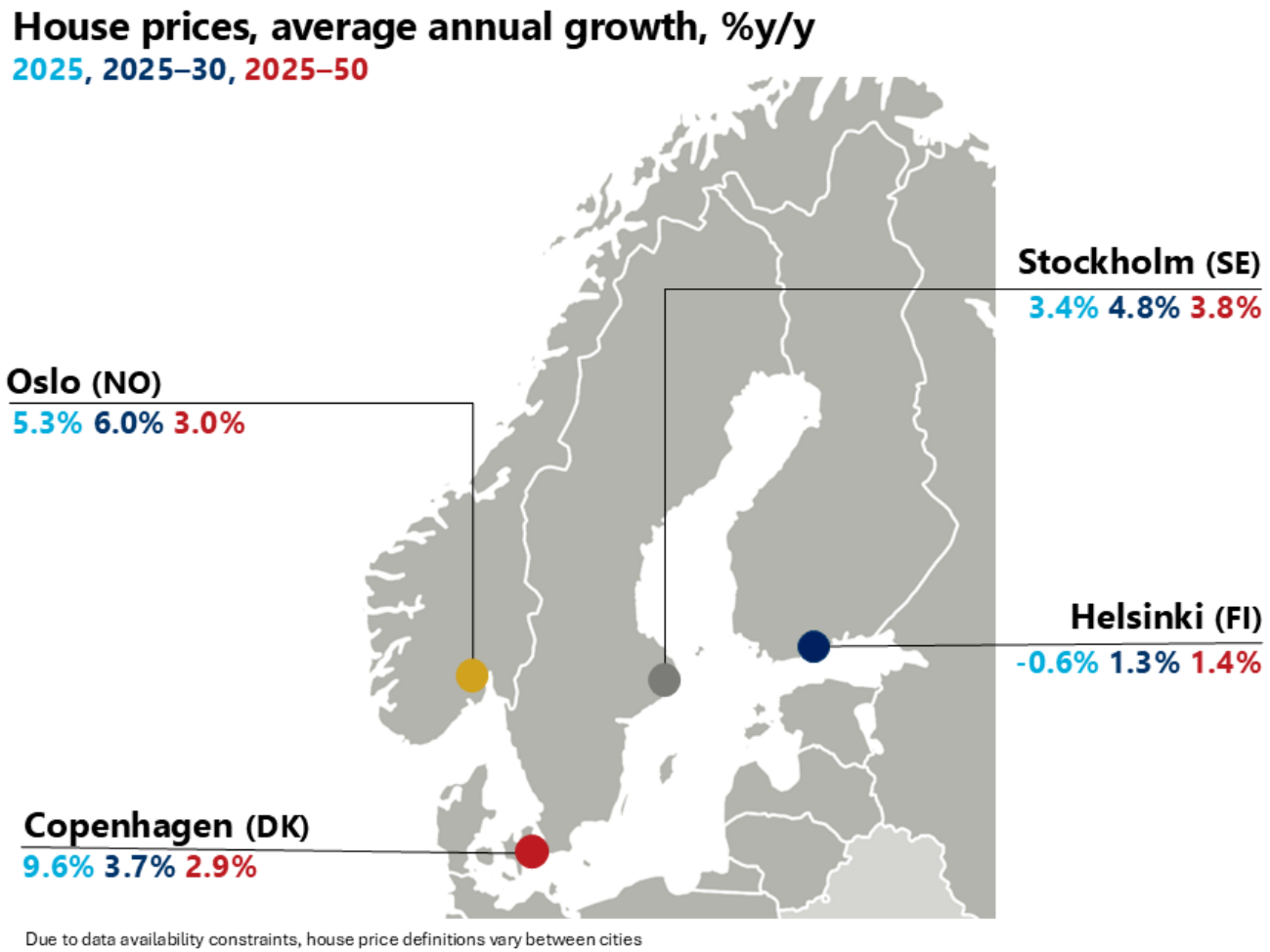
Housing affordability has declined significantly



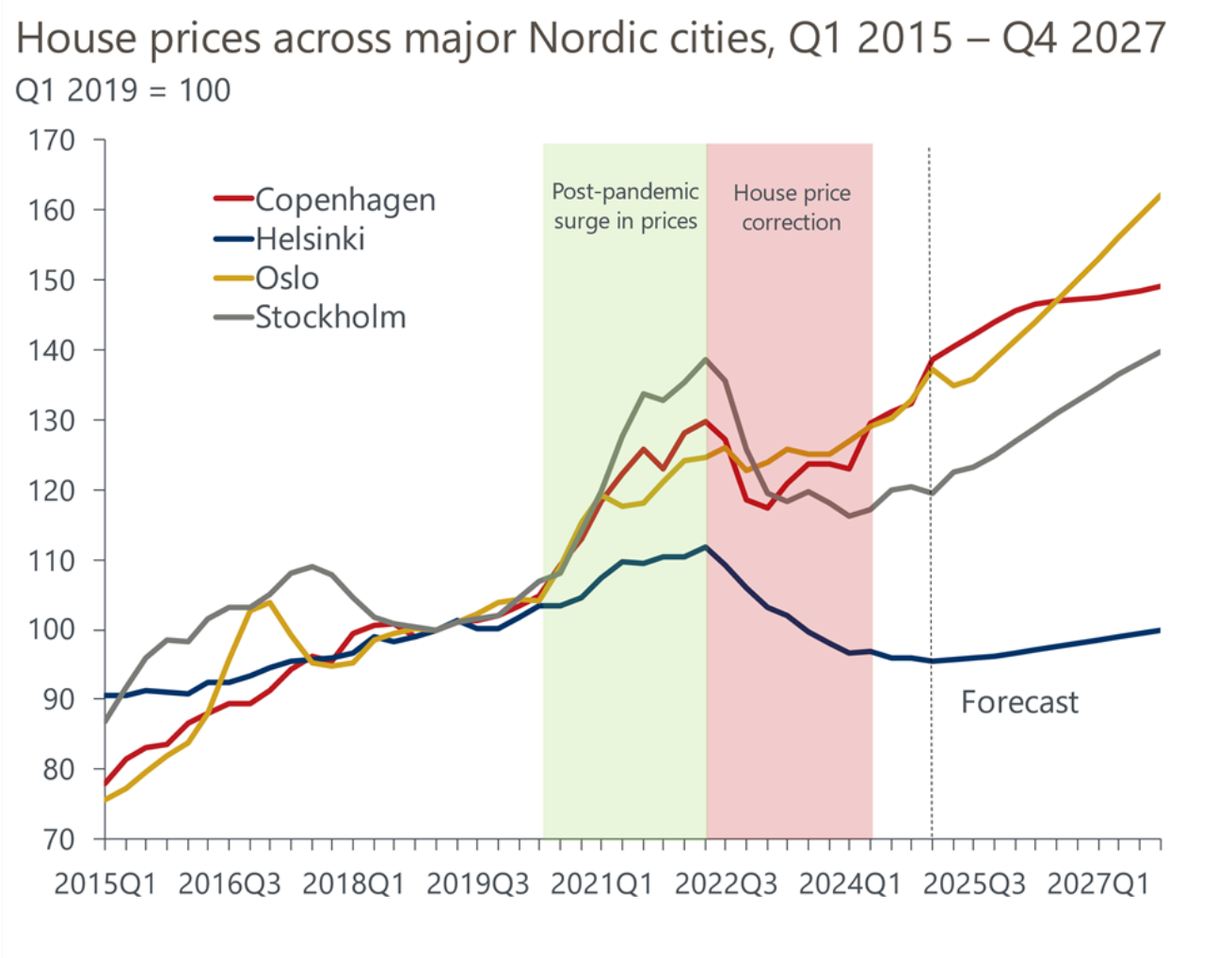
Major cities are where changes have been most significant



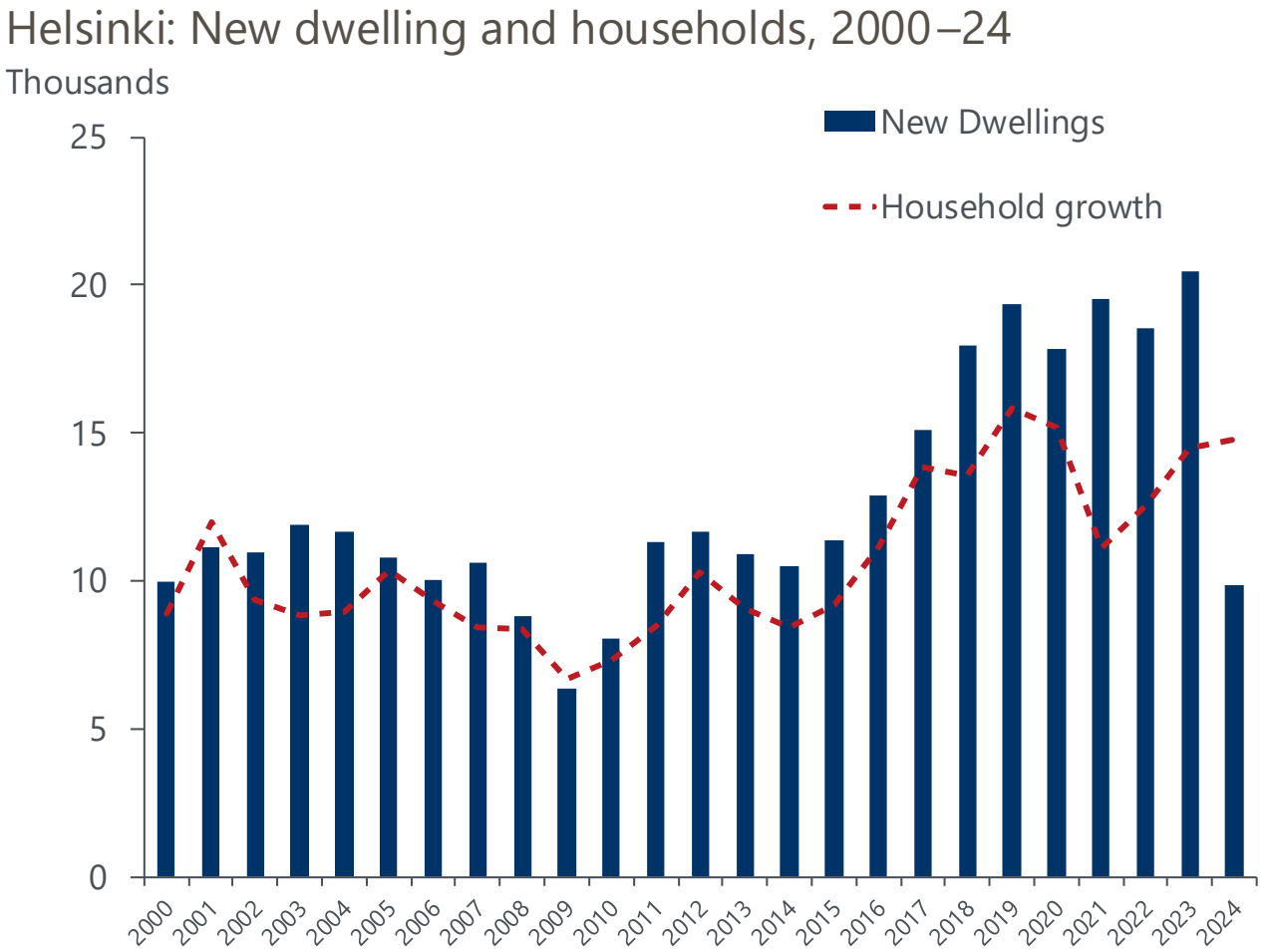
Cities in the Nordics are at the centre of these trends



Helsinki is an outlier



Because housing supply has remained elevated

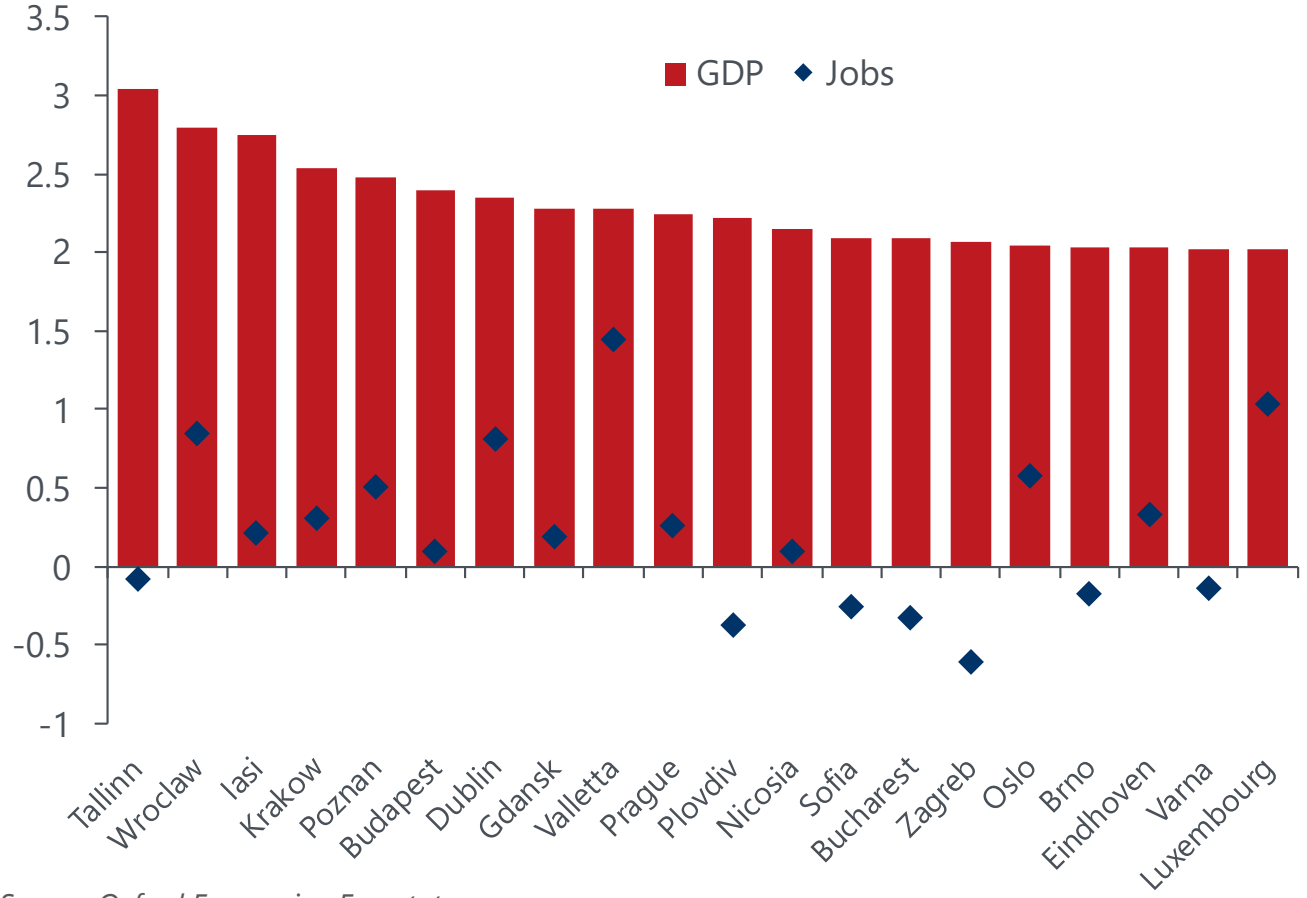


03 | Green shoots

Our outlook for many regions remains strong

Growth across the fastest-growing major European cities, 2025–2040

Annual average growth, %y/y

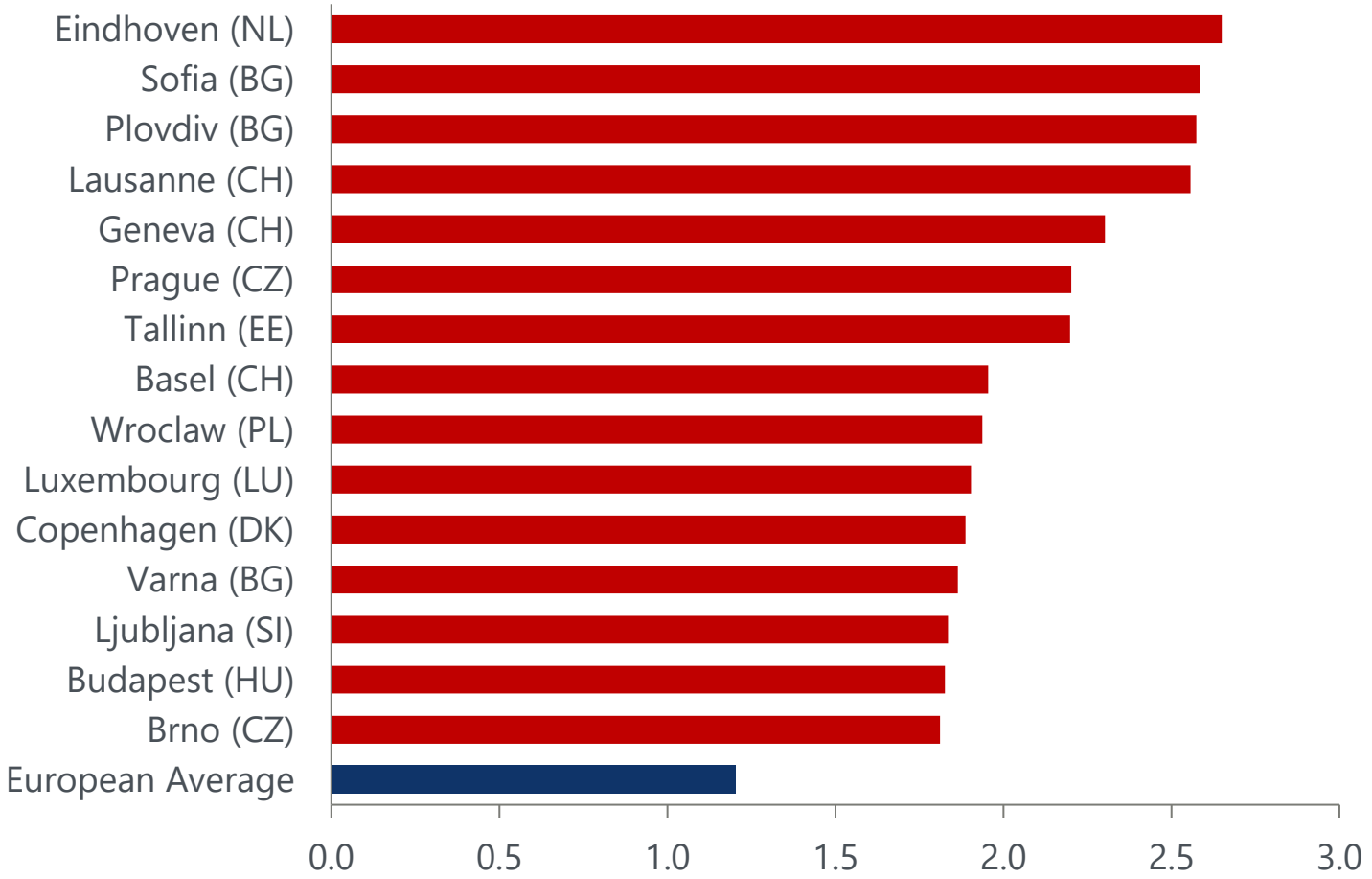


Source: Oxford Economics, Eurostat

Including in industrial activity

Industry GVA: Leading cities, 2026–50

Annual average growth rate, %

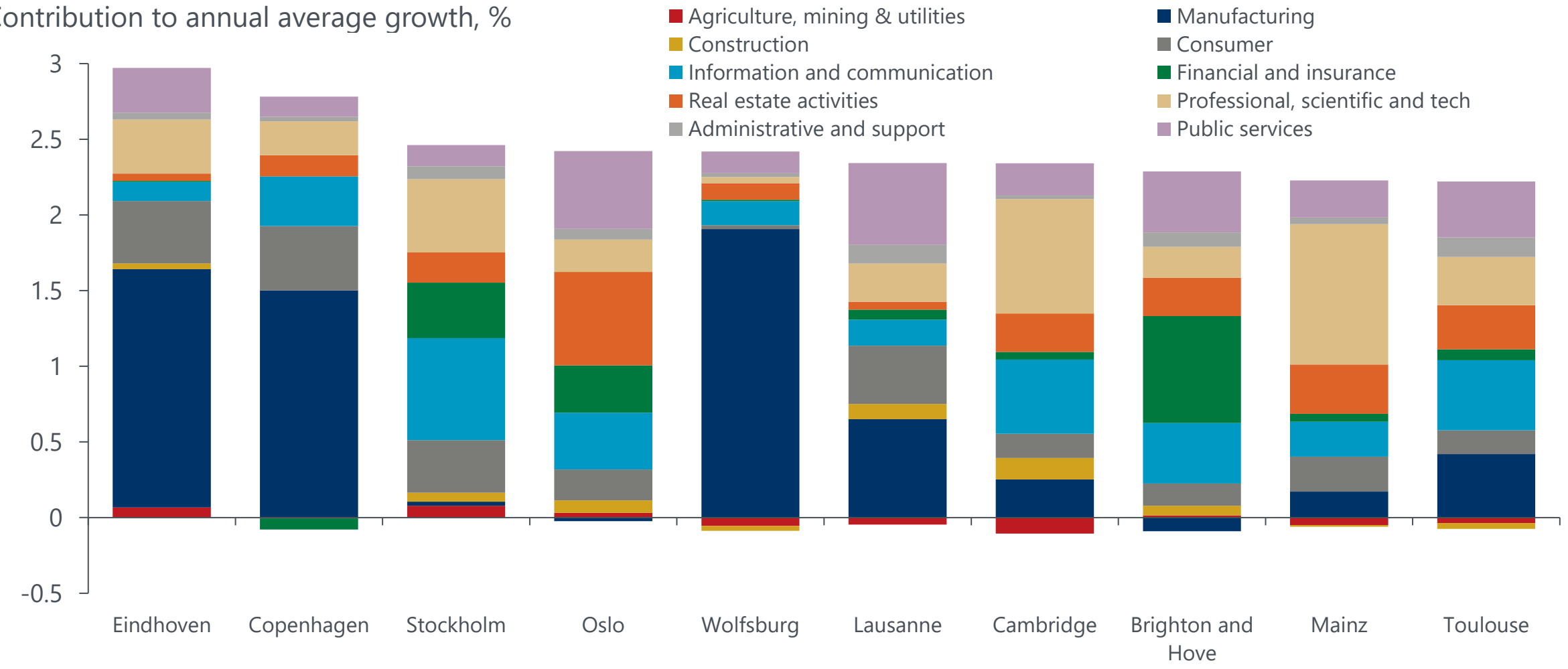


Source: Oxford Economics Global Cities, November 2025

Eindhoven's growth has been phenomenal

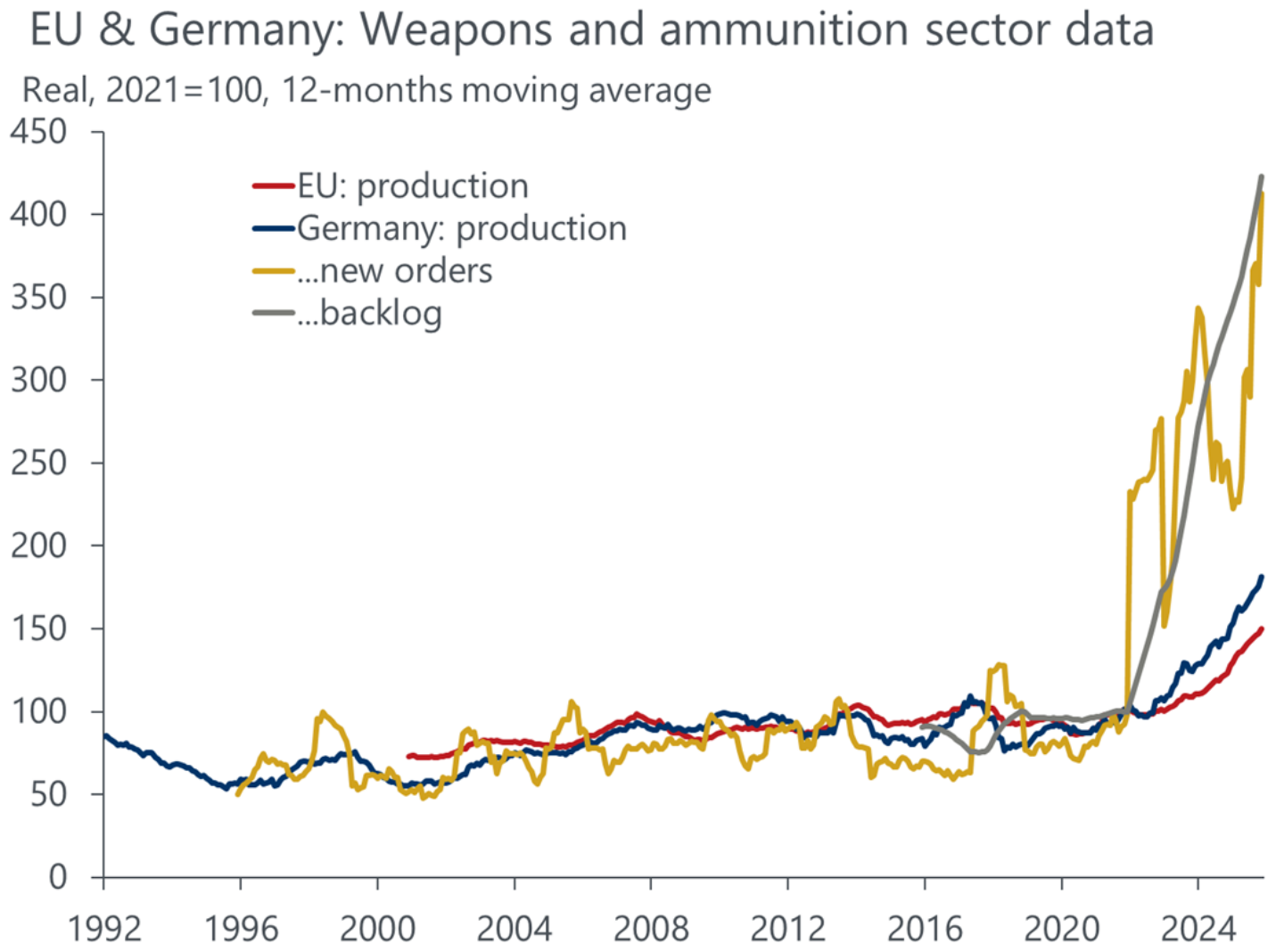
Leading Western European Cities: GVA growth breakdown by sector, 2009-2024

Contribution to annual average growth, %



Source: Oxford Economics

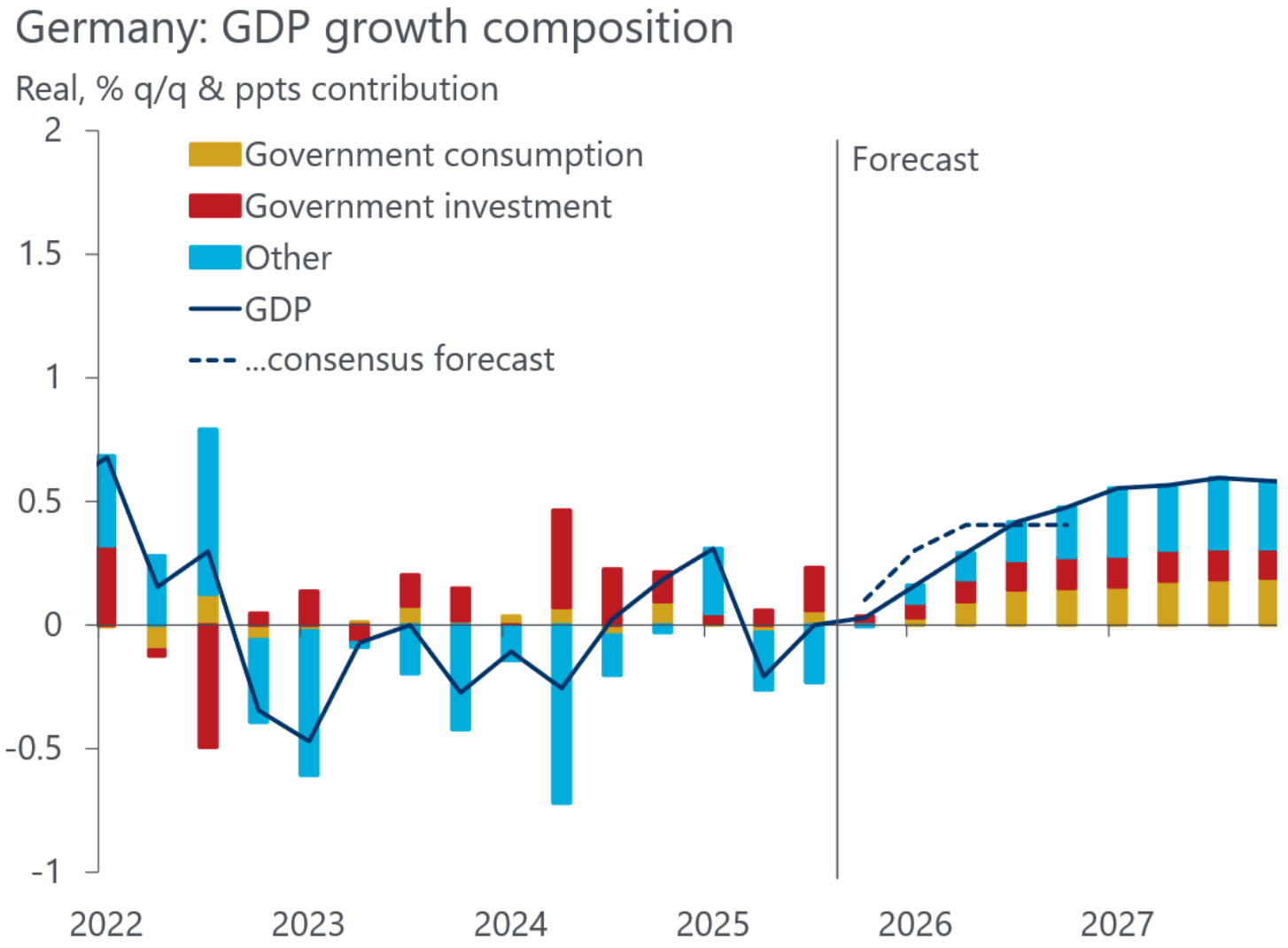
Defence spending is positive for growth…



Source: Oxford Economics/Haver Analytics

✅ Higher defence spending **lifts Eurozone GDP level in 2030 by 0.5ppts** in our forecast. Second round effects on European industry and supply chains could raise this further if sector can absorb demand.

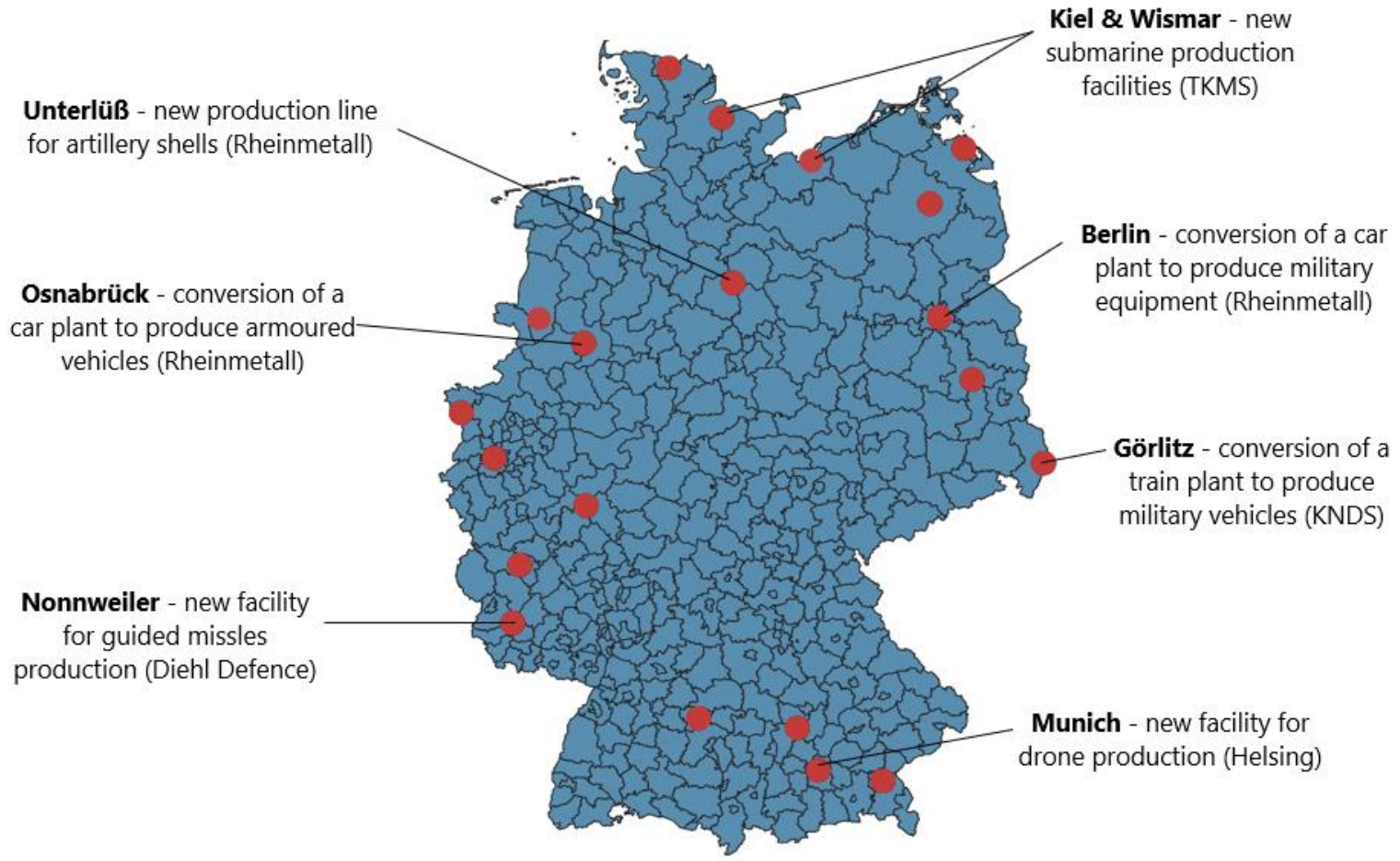
We assume a large boost to GDP, but later than consensus



Sources: Oxford Economics, Haver Analytics , Focus Economics

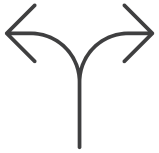
Particular regions will benefit

Germany: Planned military production facilities expansions

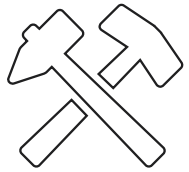


04 | Key points

Summary



Sectoral divergence is at the centre of our European regional forecasts
Growth in service-based cities will outpace the rest as industrial hubs are increasingly undermined by global trends and more rural locations face up to significant demographic challenges. This is likely to push cities onto different growth paths and reinforce the strength of major cities such as London, Paris, and Amsterdam.



Europe's industrial base is under significant pressure
Fierce international competition, rising tariffs, and high energy prices are each combining to depress industrial output, while service sector cities are both less exposed and more able to benefit from global tech and AI trends. This is likely to push cities onto different growth paths and reinforce the strength of major cities such as London.



Poor housing affordability is constraining growth and raising political pressure
High housing costs are creating an array of economic and political problems. Even in places we forecast to perform well economically, growth will not be sustainable or inclusive without policy to unlock housing delivery.



It is not all doom and gloom—there are pockets of substantial opportunity
Central and Eastern European cities are seeing substantial growth and increasingly converging with their western peers. And unlike the productivity stagnation of Western Europe, the growth is productivity-driven. Many industrial hubs are also seeing elevated growth, including Eindhoven.

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