



UK economic update

Chief Economist, Anna Leach

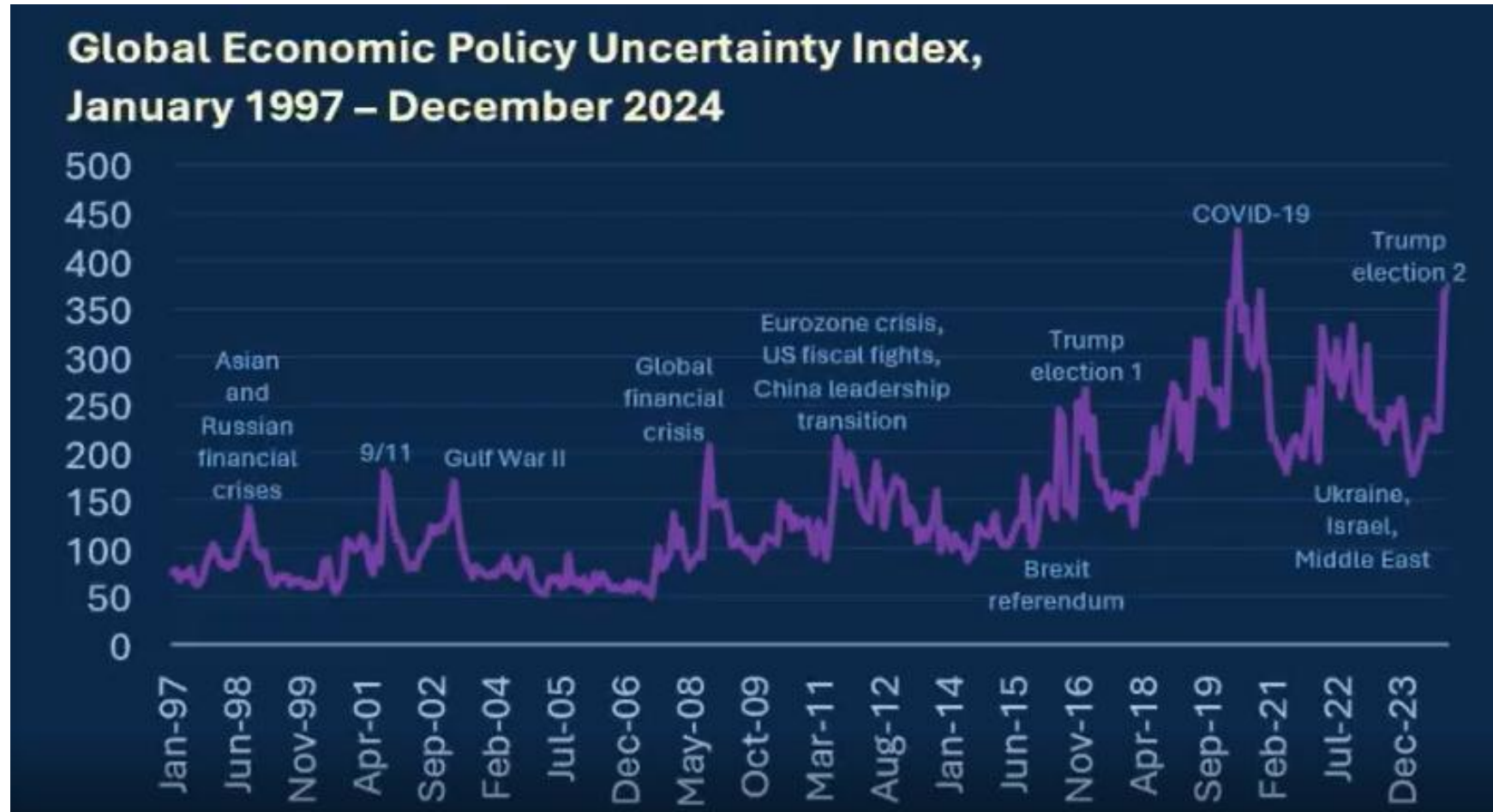
March 2025



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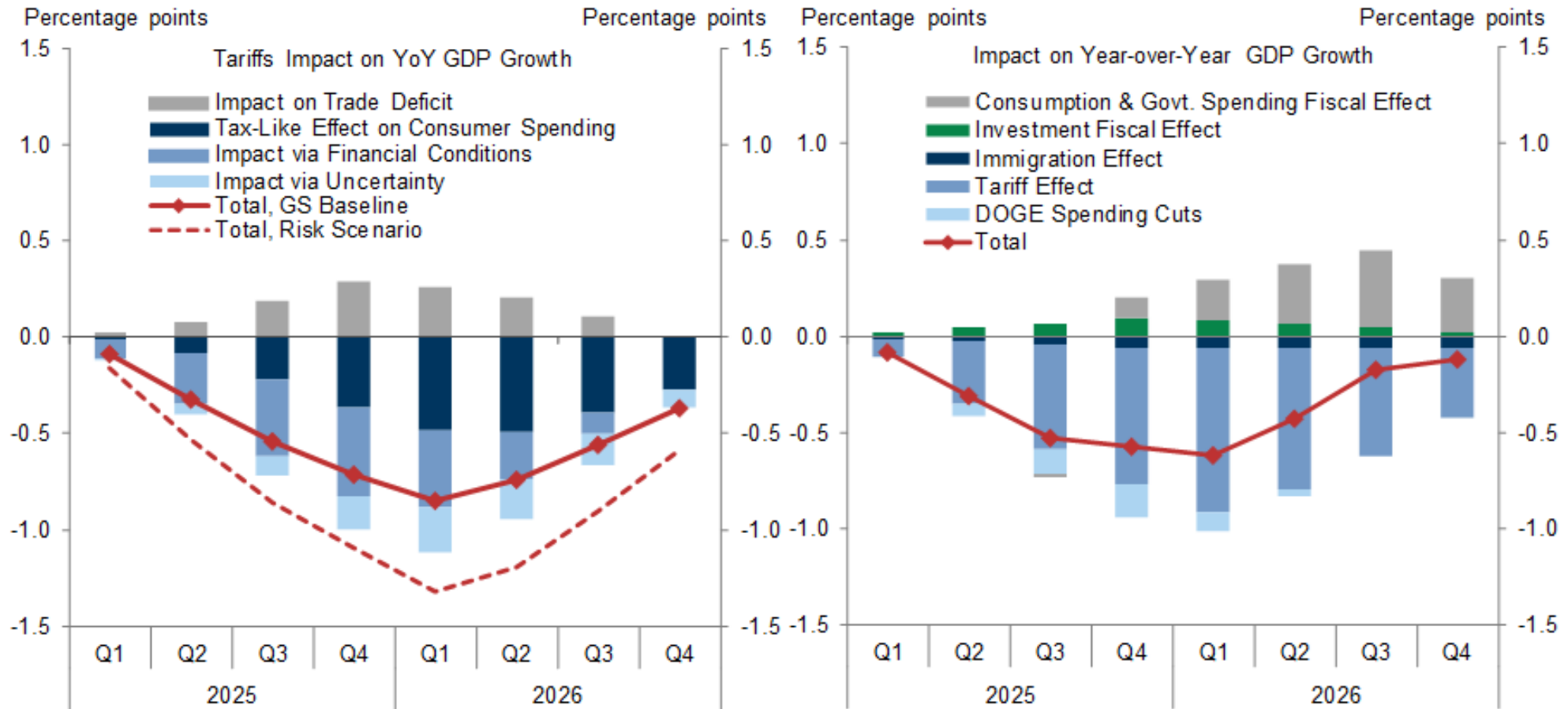
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Global uncertainty has shot up



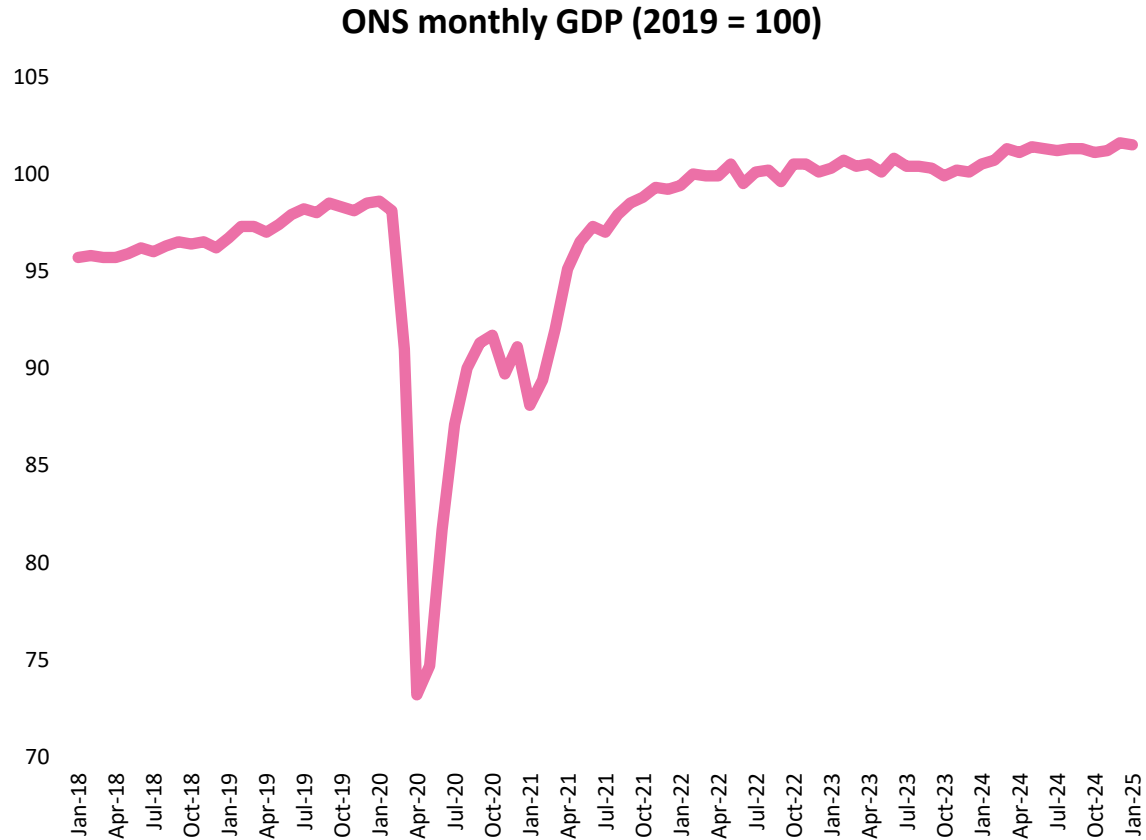
Concerns about the US economy spark stock market downturn

Exhibit 3: Tariffs Look Set to Dominate Tax Cuts and Regulatory Easing



Source: Goldman Sachs Global Investment Research

UK activity starts the year on a weak note



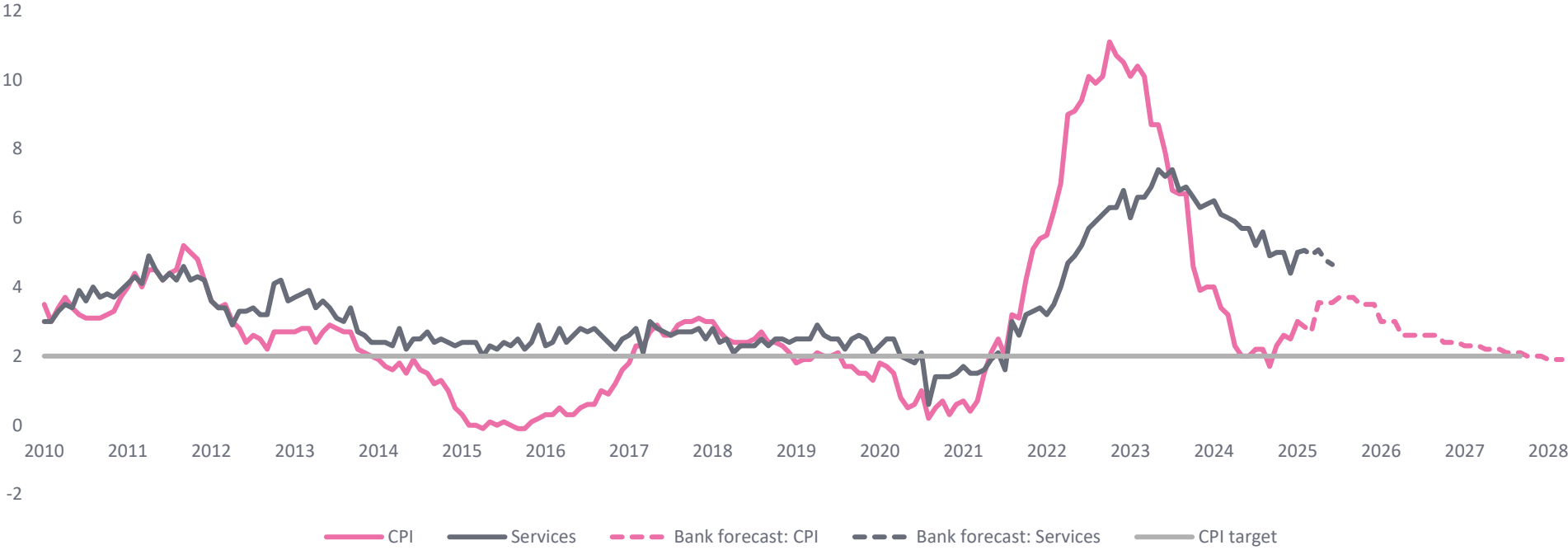
The latest independent forecasts for UK growth in 2025

	2025 GDP forecast (YoY, %)
Beacon Economic Forecasting	0.6
Capital Economics	0.7
JP Morgan	0.7
Liverpool Macro Research	0.8
Bank of England	0.8
Barclays Capital	0.9
Berenberg	0.9
HSBC	0.9
Natwest Markets	0.9
Heteronomics	0.9
Oxford Economics	1.0
KPMG	1.1
UBS	1.1
CEBR	1.1
British Chambers of Commerce	1.3
Experian Economics	1.3
NIESR	1.5
OBR (October)	2.0
Average of forecasts (ex OBR)	1.0

Sources ONS, Macrobond; : HM Treasury, "Comparison of Independent Forecast", February 2025

Renewed rise in inflation could limit support from interest rate cuts

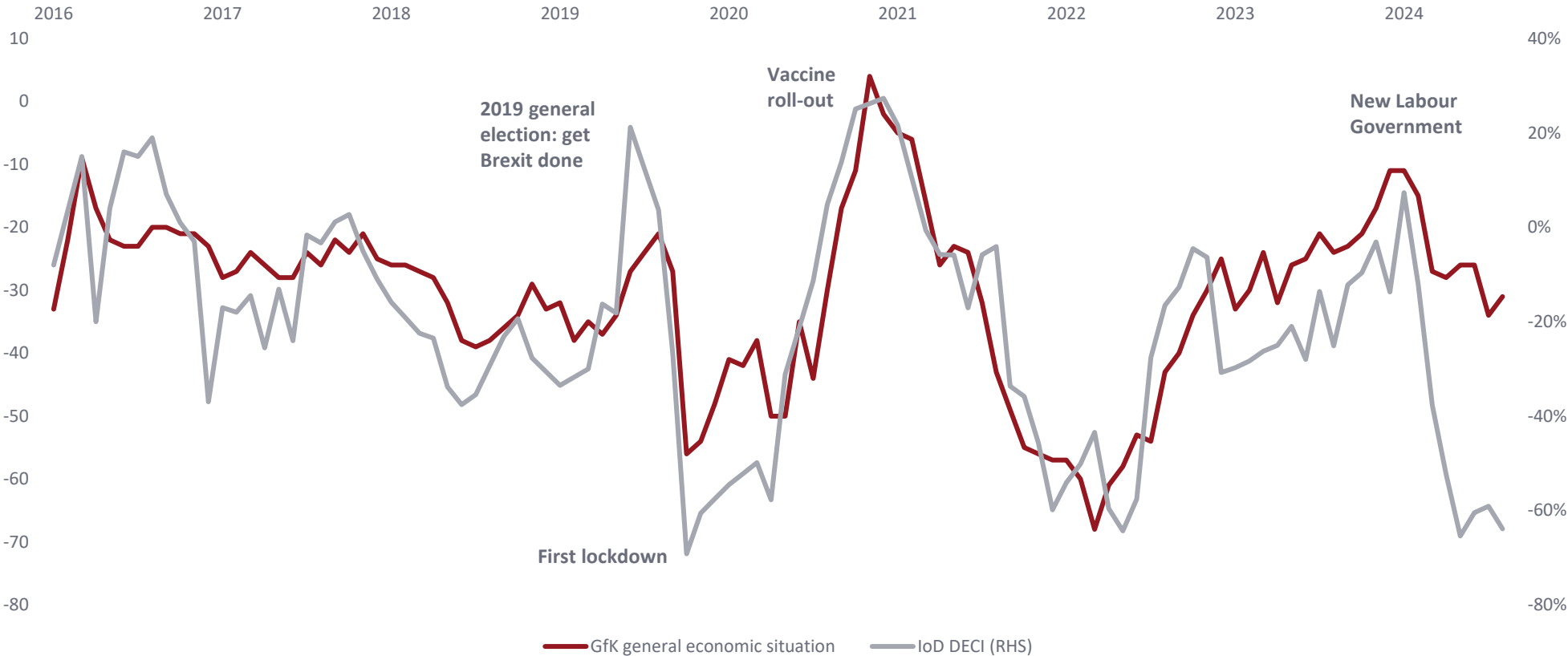
Consumer price inflation and services inflation (% year on year)



Sources: Bank of England, Macrobond

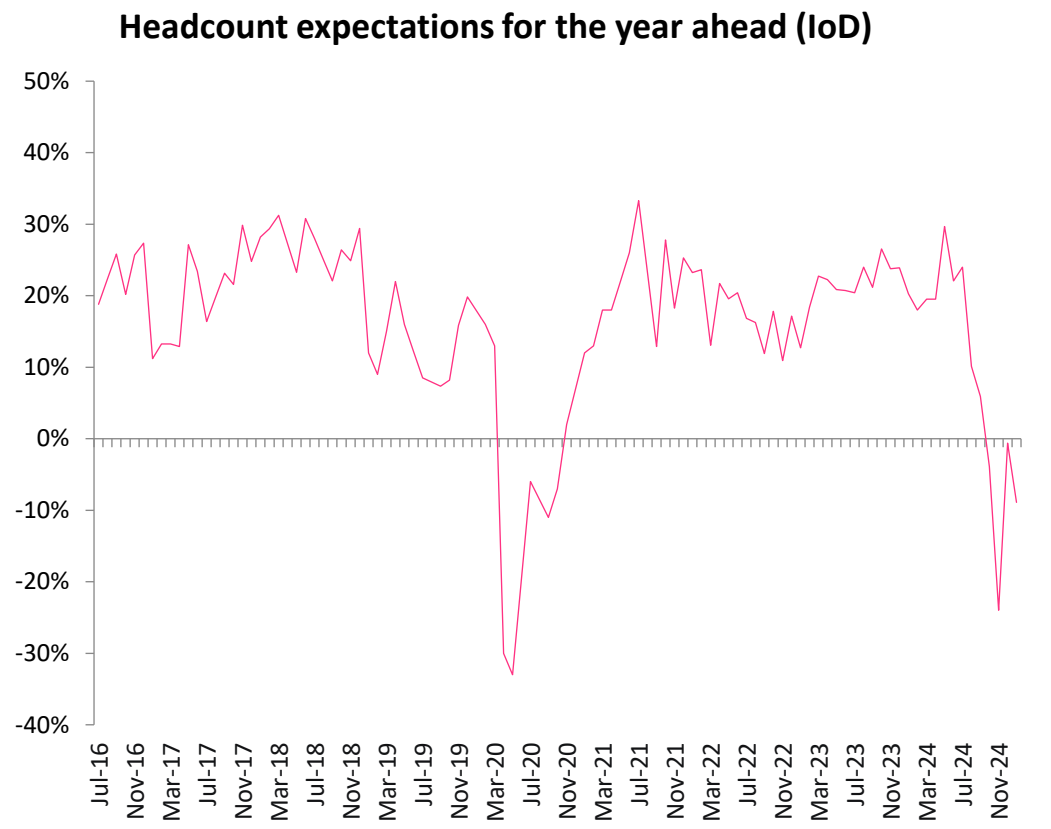
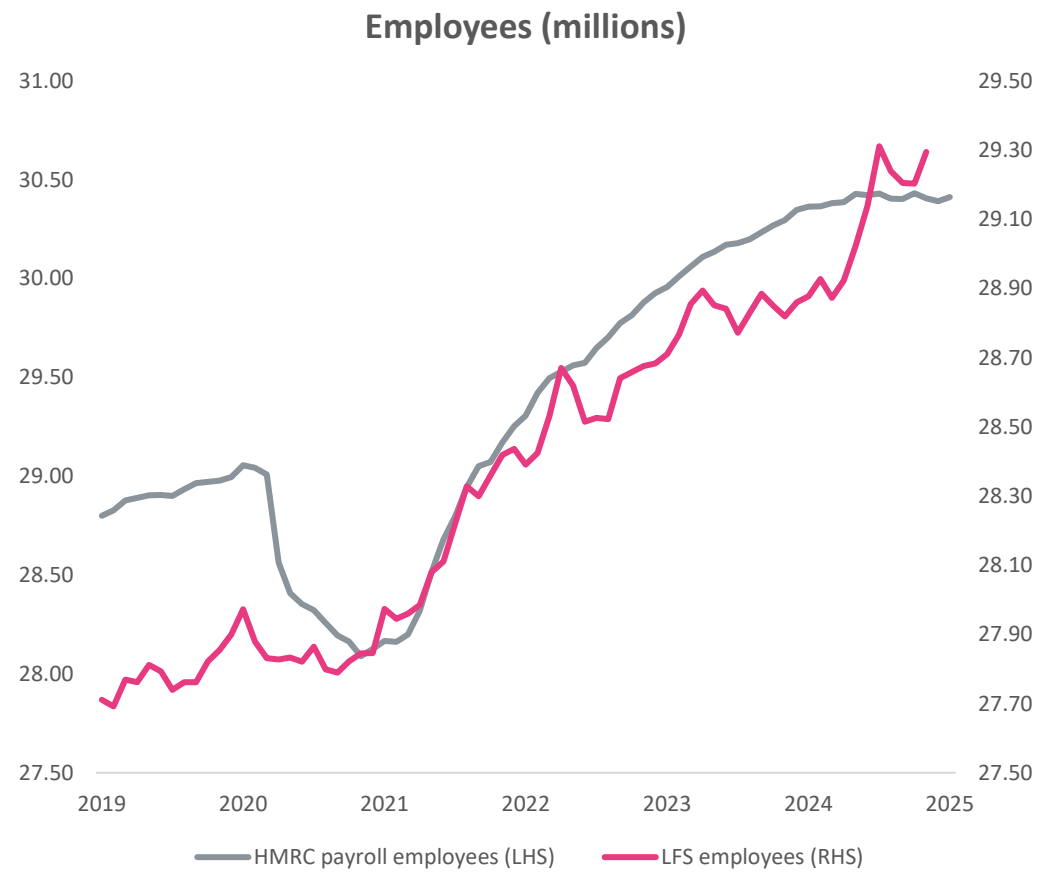
Confidence remains depressed

Consumer and business confidence in the economic outlook



Sources: IoD, GfK, Macrobond

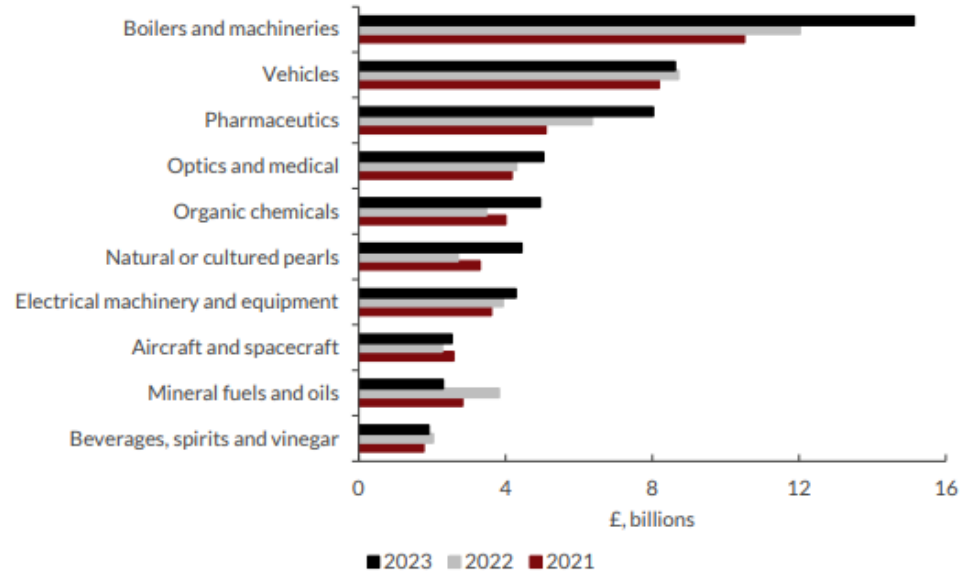
Labour market currently stable but outlook weak



Sources: HMRC, ONS, IoD, Macrobond

US tariffs on other countries will be negative for the UK

Figure 2: UK's top exports in goods to the United States



Source: TradeMap

Table 1: Potential effects of US tariffs on the UK

Channel	UK activity	UK inflation	Explanation
Expenditure switching	↓	↓	US demand for UK exports weakens.
Weaker global demand due to counter-tariffs	↓	↓	Additional trade distortions weigh on global demand, weakening demand for UK exports.
Supply chain disruptions	↓	↑	Supply chain disruptions due to missing components could lead to short-term price spikes.
Trade diversion	↔	↓	Other countries lower prices of exports previously destined for US.
Exchange rate movements	↑ ↓	↑ ↓	Sterling could appreciate or depreciate depending on other countries' trade policies and changes in global risk sentiment.
Long-term supply chain reconfiguration	↓	↑	Reorganisation temporarily reduces global supply capacity and increases price pressures.
Lower competition and knowledge transfers	↓	↔	Reduced trade openness weighs on global potential supply growth.

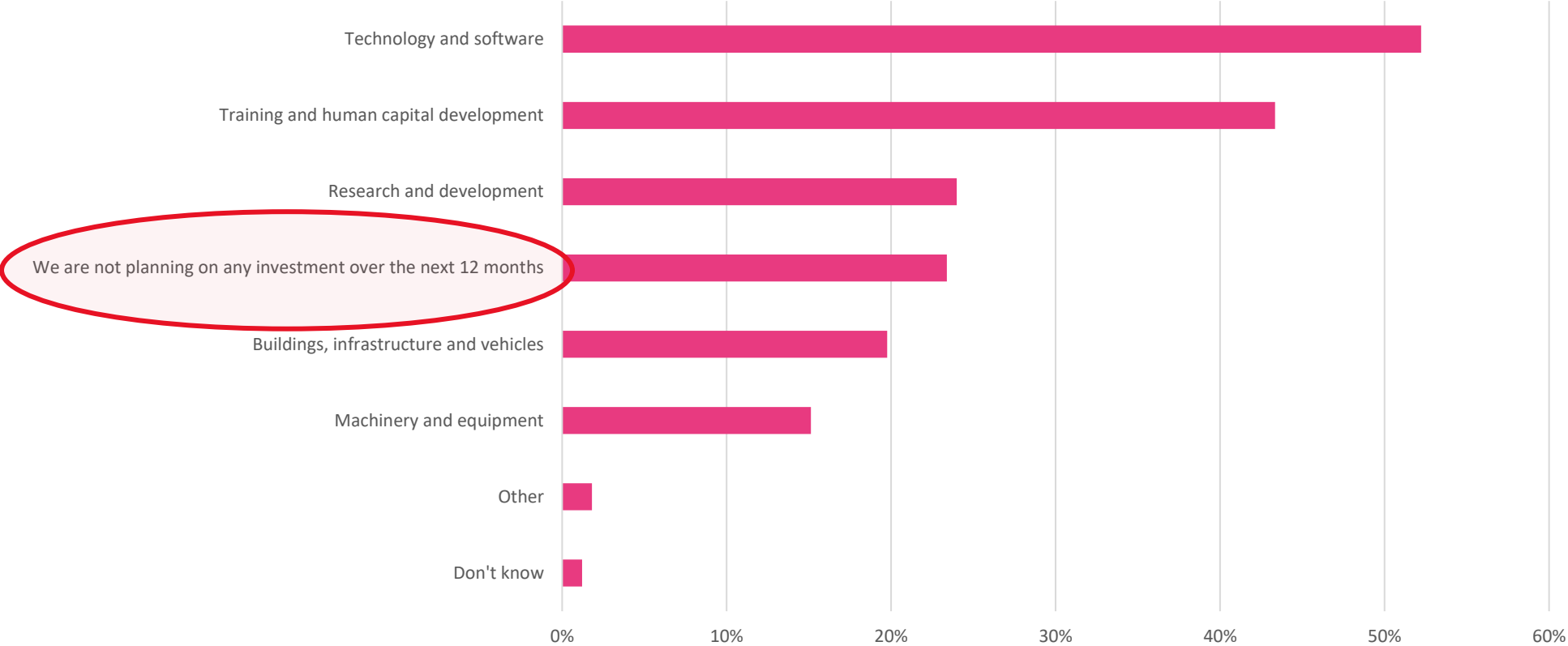
What could lift business confidence in 2025?

Which of the following would do most to boost business confidence in 2025? Please choose up to three.



Technology tops the list of investment priorities

What do you plan to invest in over the next 12 months? (Dec 2024)



Sources: Institute of Directors, Policy Voice December 2024

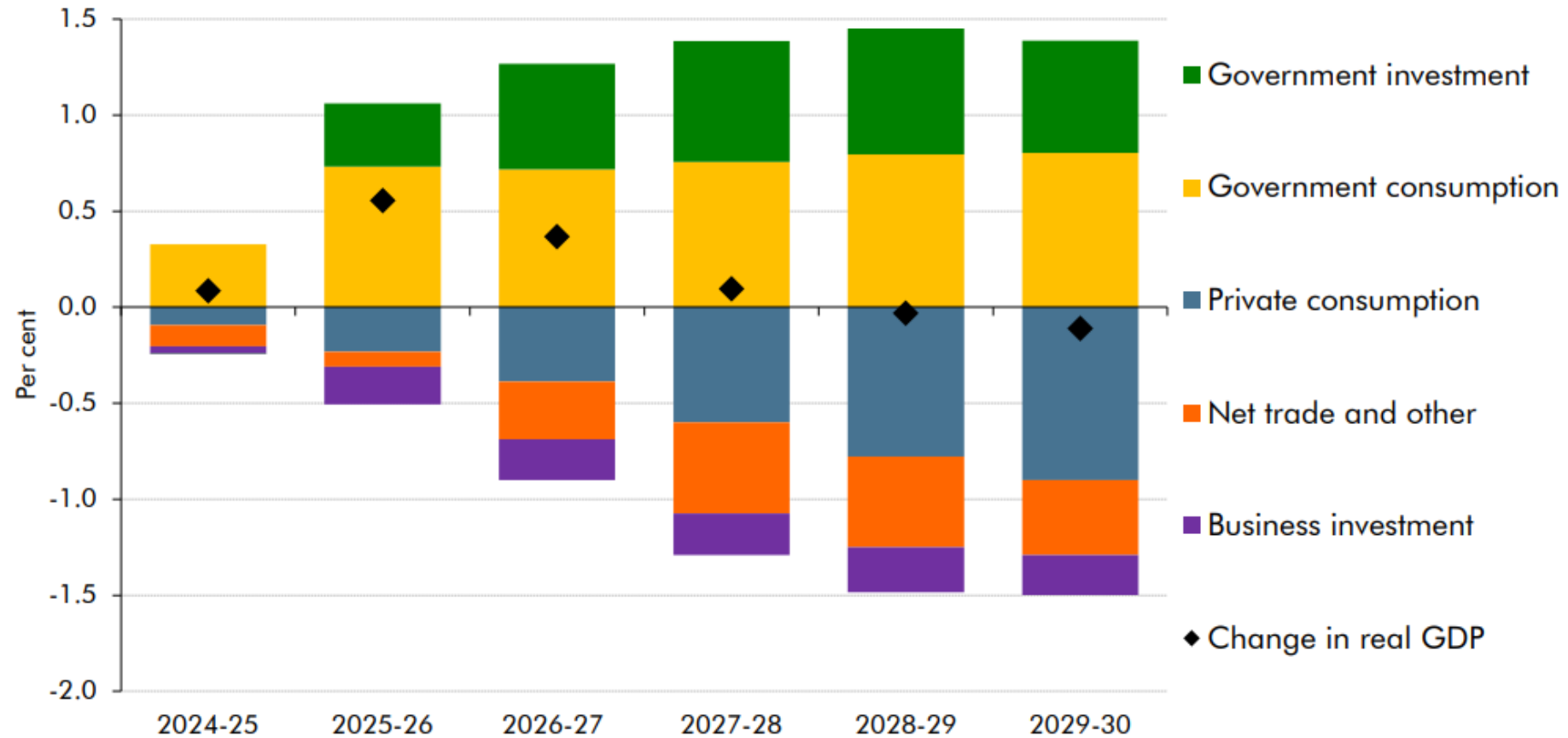
The UK government's priorities for growth



Source: HMT Autumn Budget 2024, p. 62

Public spending to the rescue?

Chart 1.3: Policy impacts on real GDP and its components



Source: OBR

Summary

- Momentum should pick up over the year, with the gap left by a weaker private sector filled by public spending
- Support for consumer spending from strong savings and further falls in interest rates, will be counterbalanced by higher inflation
- The outlook for business investment is weaker while the government seeks to alleviate some of the impacts on business from tax increases
- Interest rates are expected to come down at least 50bp this year
- Downside risks to growth have risen both from the UK and globally
- Opportunities should remain or increase in AI, and more growth-friendly policy developments in the UK



Thank you – questions?

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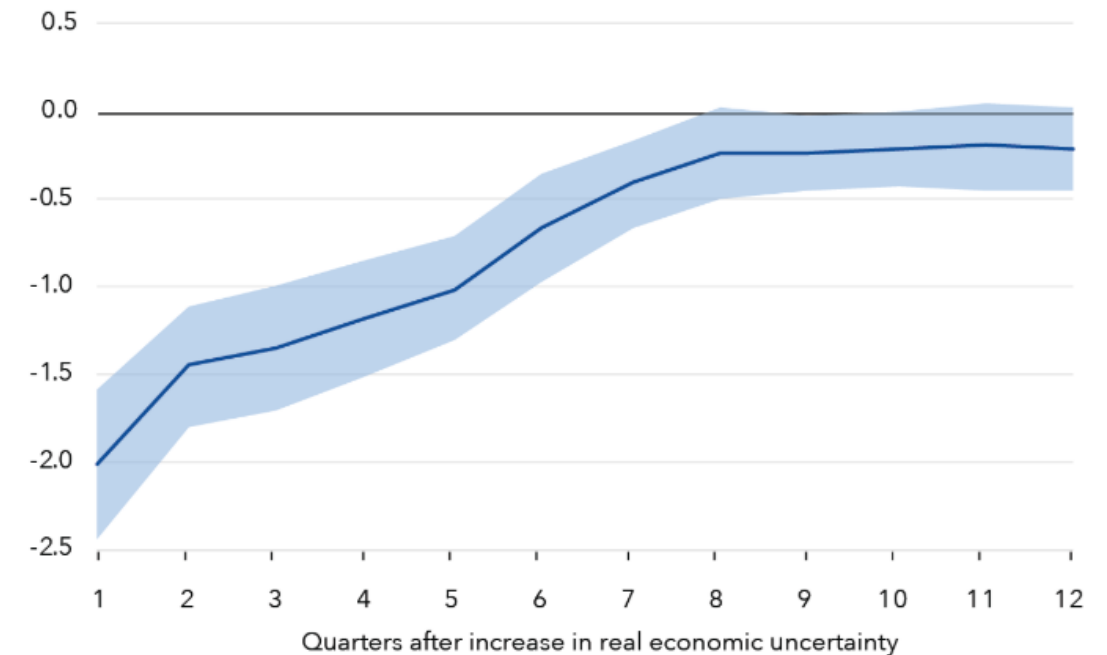


Uncertainty drives down US markets



Greater economic uncertainty raises risks to economic growth

Average effect of real economic uncertainty on GDP growth-at-risk at different horizons, percentage points



Sources: IMF, Global Data Source and International Financial Statistics databases; LSEG Datastream; Organisation for Economic Co-operation and Development, Main Economic Indicators database; and IMF staff calculations.

Note: GDP growth-at-risk is the expected growth in the lowest decile of the future GDP growth distribution. Average effects are computed across the forecasting horizons and annualized.

