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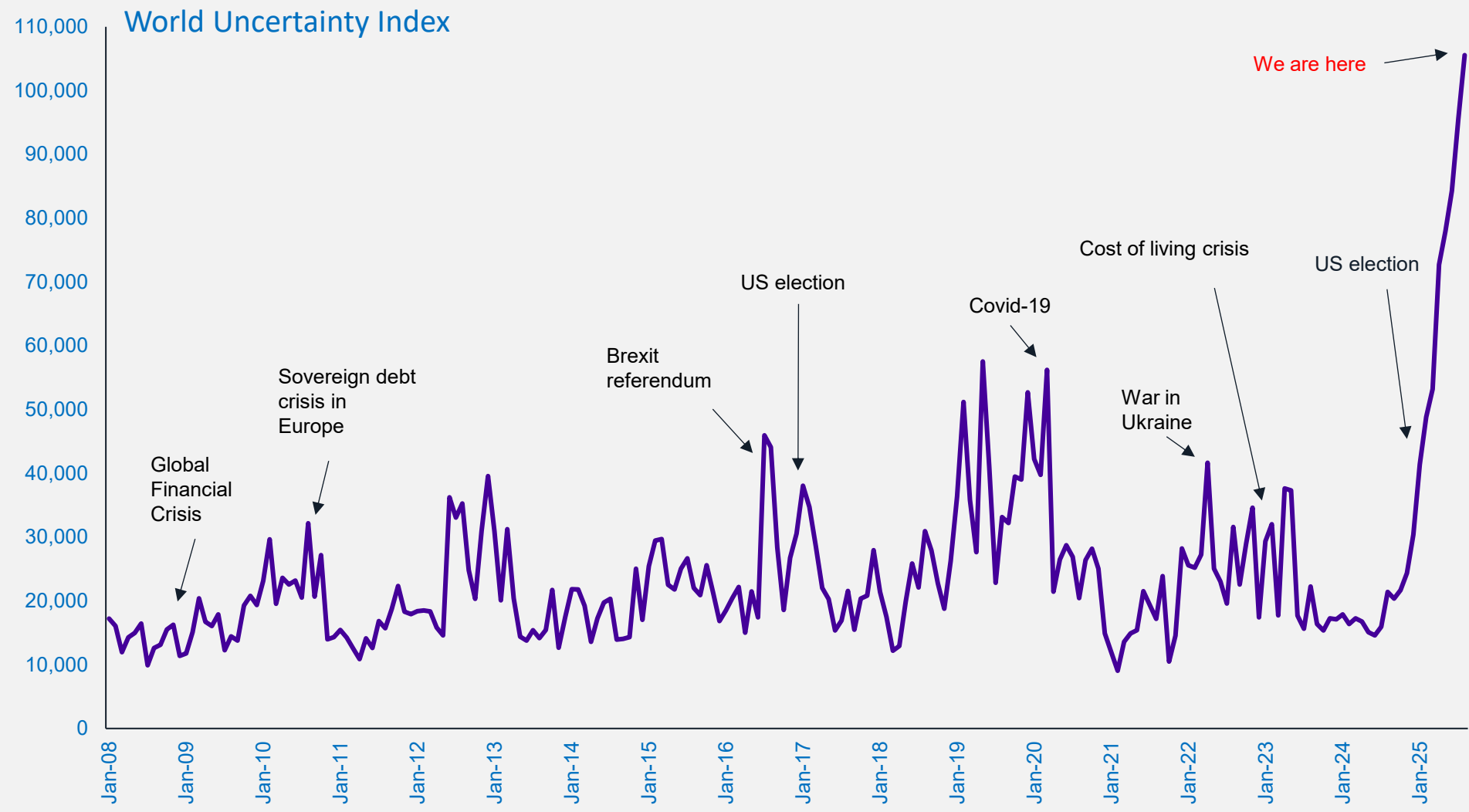
The Economic Outlook

Briefing Knowledge Leaders 2025

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9 October 2025

The Global Economic Picture: An Uncertain World



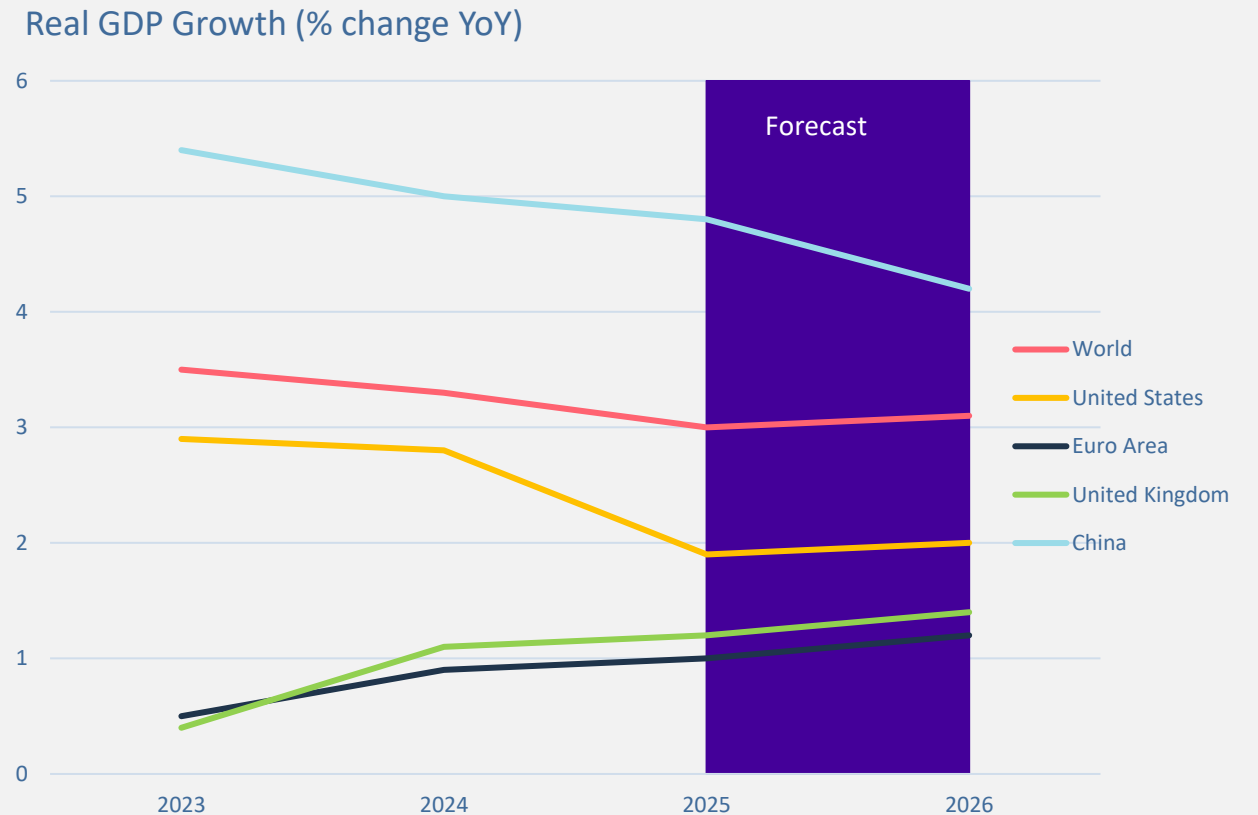
Data: WUI: Ahir, Bloom and Furceri (2022)

Global Growth

Global economy expected to grow modestly (3%) in 2025.

Some evidence of firms “front-loading” to get ahead of tariffs.

Consumer expenditure remains weak.



Data: IMF

Global Risks: Middle-East Conflict & Russia-Ukraine

Geopolitical uncertainty:

- Negative impact on consumer and business confidence.
- Businesses delay investment decisions.
- Consumers cut non-essential spending.

Energy prices:

- Disruptions to oil supply increase energy prices, with impact on inflation, interest rates and GDP growth.

Supply chain disruption:

- Rerouting commercial shipping.
- Increased shipping costs.

Global Risks: Trump's Tariffs

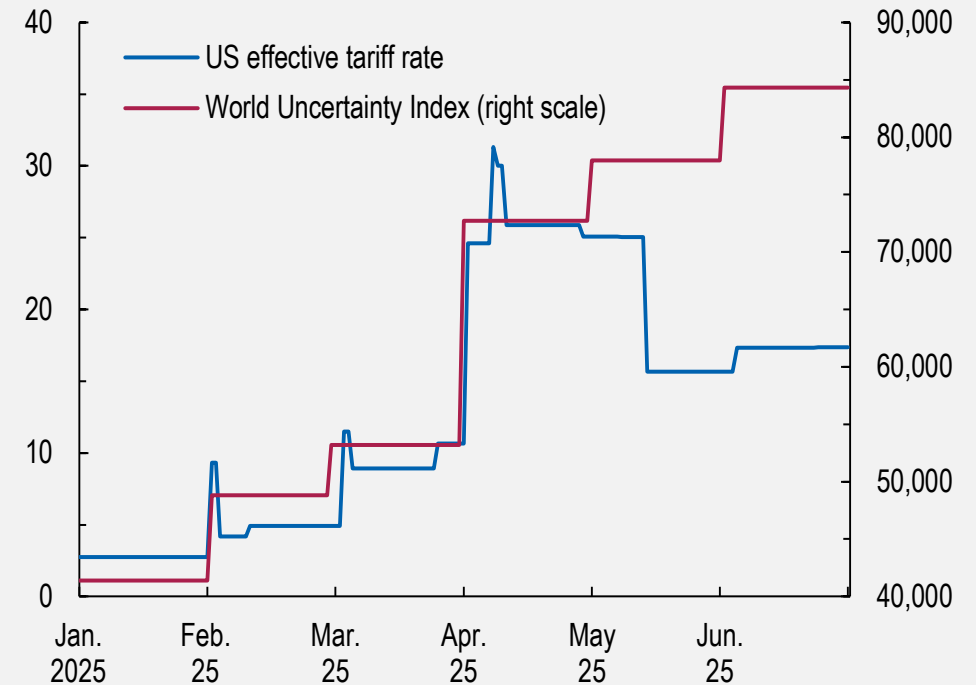
Trade tariffs raise costs for companies relying on global supply chains:

- Firms may pre-emptively stockpile,
- Consider relocating some parts of their operations,
- Delay investment decisions.

Whilst the US effective tariff rate has fallen from its highest level:

- Uncertainty remains high.
- Impact of tariffs not yet fully realised.

Tariffs (%) and global uncertainty (index)



Source: IMF World Economic Outlook; WTO; WUI

Winners and Losers?

United States:

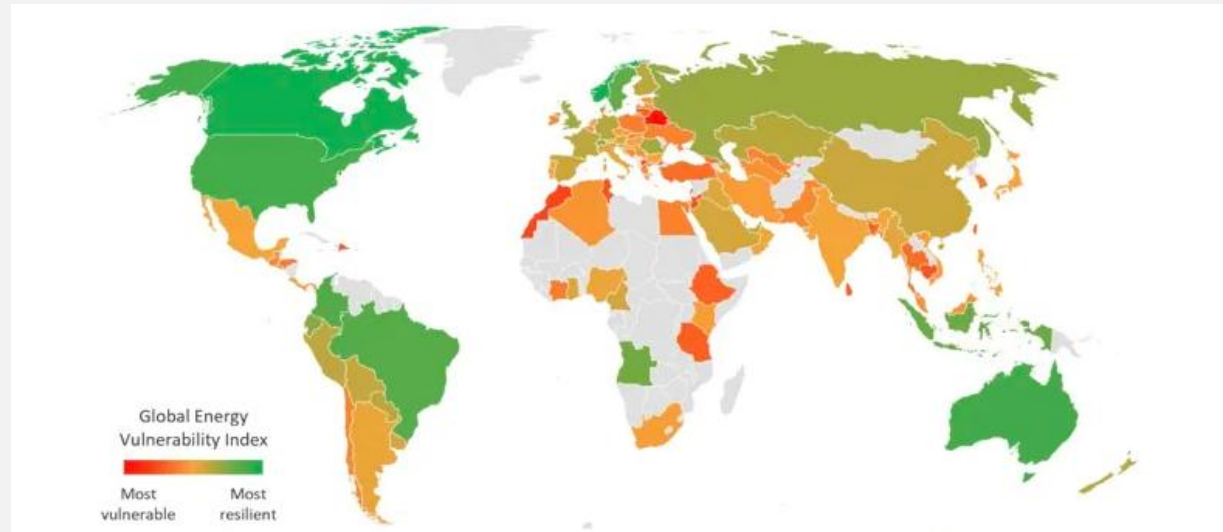
- Relatively high domestic demand
- More insulated from energy price shocks
- But inflation risks from imported goods, amplified by concerns over monetary policy independence.

European Union:

- Germany is highly export dependent, led by automotive industry.
- More vulnerable to energy shocks than US.

United Kingdom:

- Exposure to tariffs through automotive, aerospace, steel industries.
- These industries concentrated in less prosperous areas (West Midlands, Wales).
- Limited fiscal headroom.



Source: Euromonitor International, 2023

UK focus: Inflation

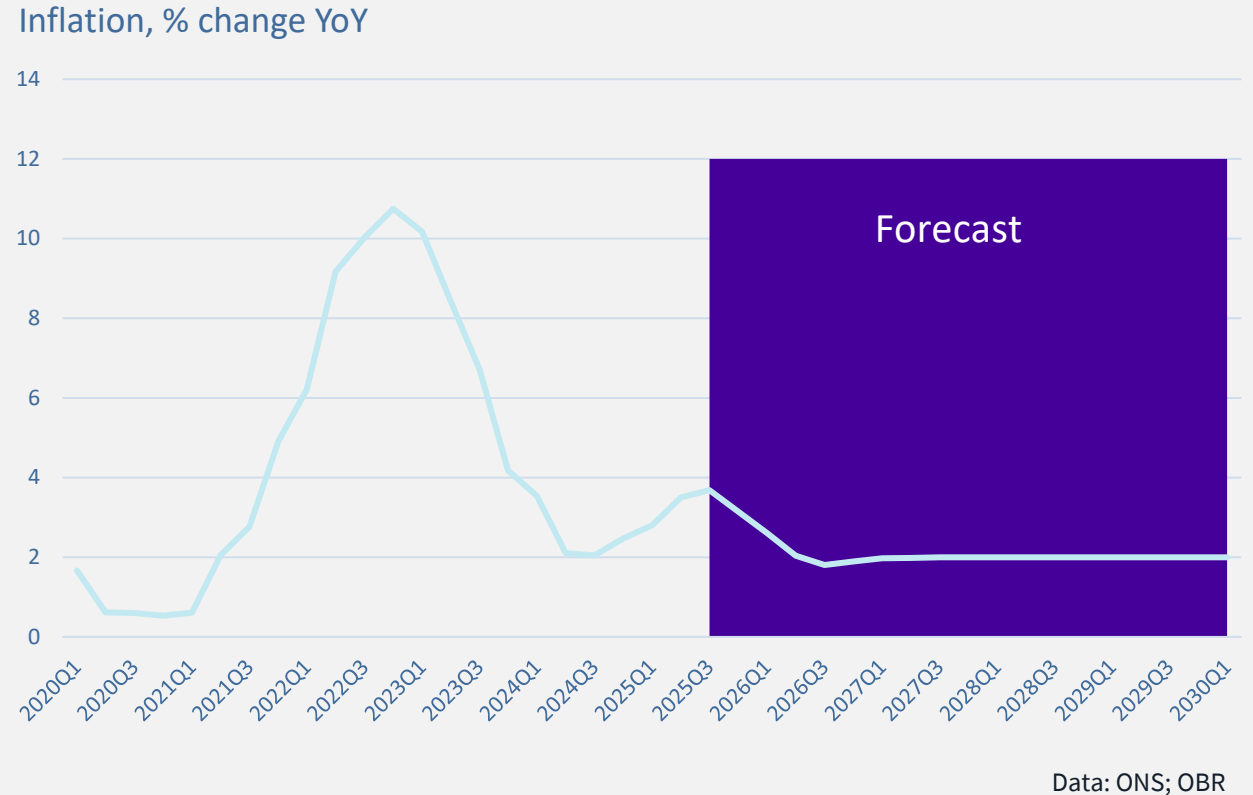
Inflation fell to 2% target in Sep 2024, but has been rising since.

Inflationary pressures:

- Increasing energy and water prices
- Public spending

Deflationary pressures:

- Fiscal drag
- Employer NI contributions

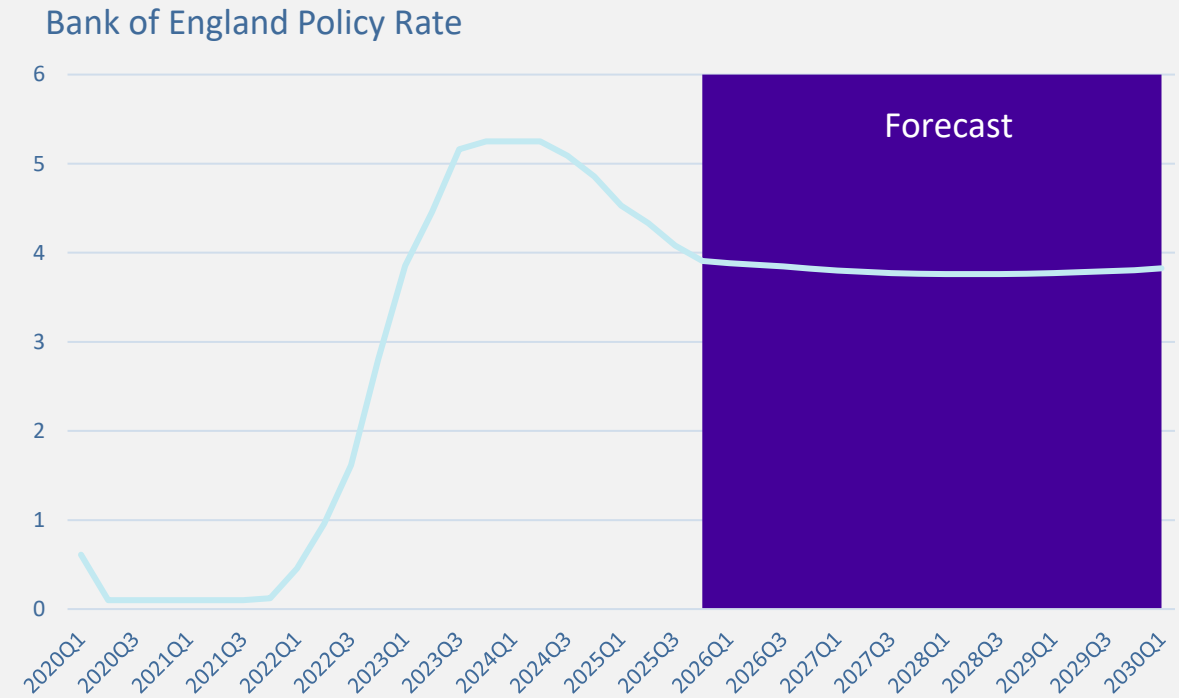


UK focus: Interest rate

Bank rate at 4% following a cut in August 2025.

In September, the MPC was split 7-2 in favour of holding rates.

Combination of public spending and increased cost pressures for business, plus volatile environment, gives the MPC a tricky task!



Data: OBR

UK focus: Property market

Residential housing market has proved reasonably resilient.

Commercial market shows more signs of weakness.

Shift to work from home may be permanent rather than temporary.

Office vacancy rates have not returned to pre-Covid levels.

Empty office spaces in city centres have knock on effect for retail property.

Office Vacancy Rates



Data: Cluttons Research

Key regional cities: Birmingham, Bristol, Leeds and Manchester

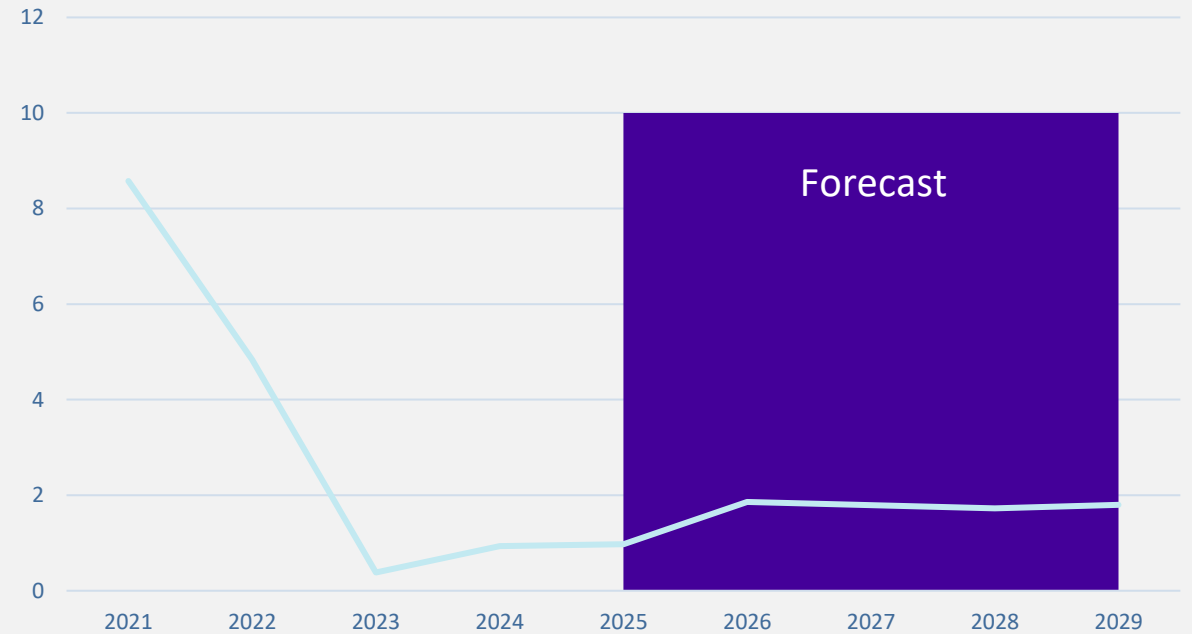
UK focus: GDP growth

GDP growth in 2025 has been modest.

The Government's autumn budget and spring statement make clear commitments to increase public spending.

Private sector investment expected to be weaker: rising business costs, lower household disposable income, global uncertainty.

Real GDP growth, annual % change



Data: OBR

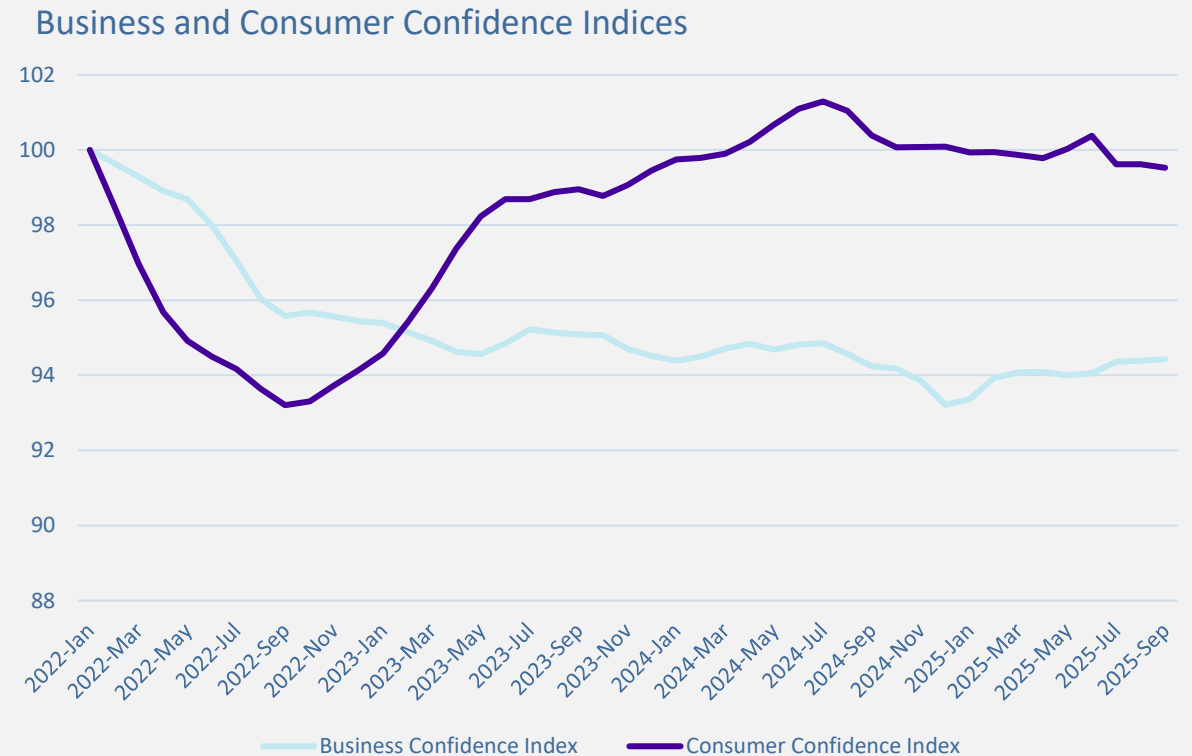
UK focus: A difficult time for business?

Business confidence, declining since 2022, hit its lowest level in Feb 2025.

Increase in national minimum wage and employer NIC: **Low-wage, labour intensive businesses will be hit hardest.**

Global uncertainty: businesses may delay investment, reduce hiring.

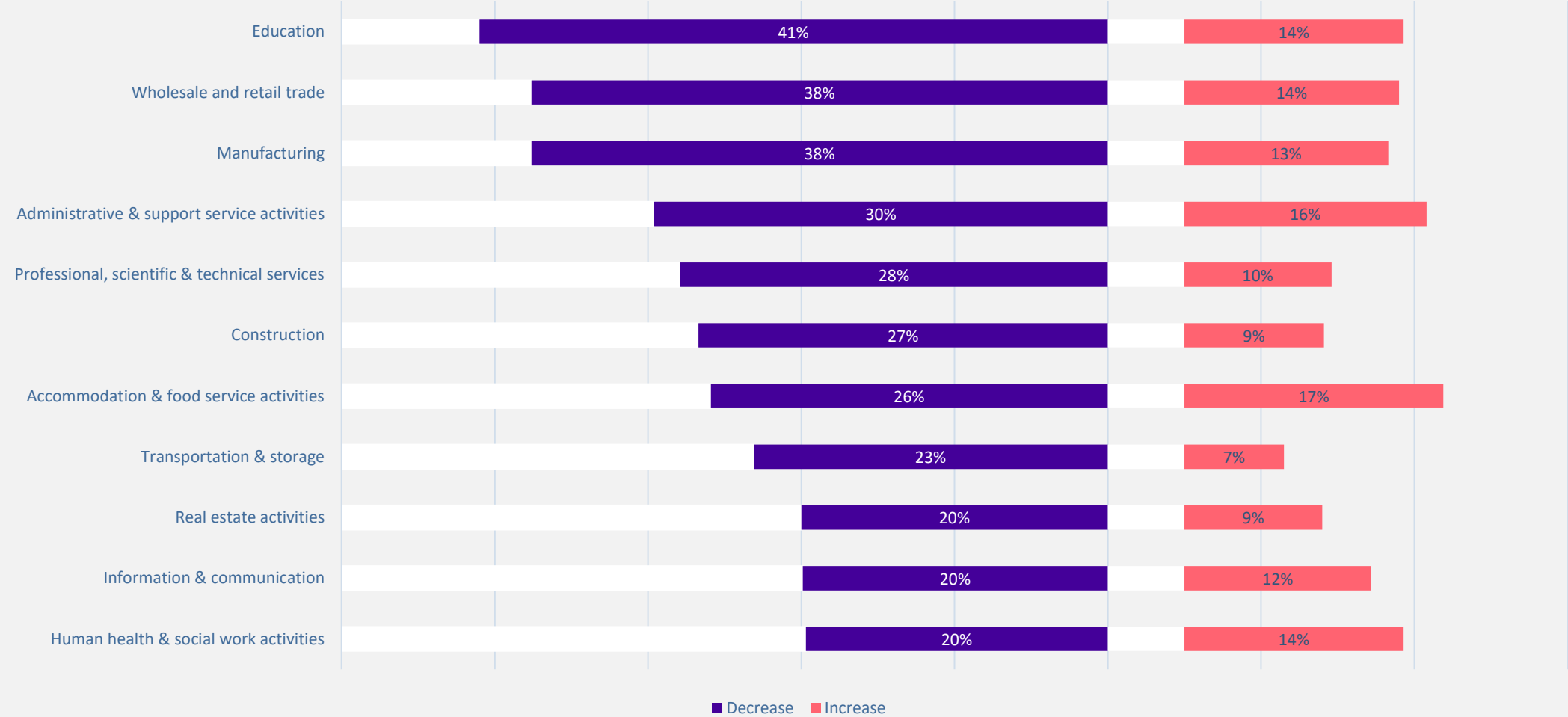
Fiscal drag: reduces consumer spending.



Data: OECD

UK focus: Industry sector performance

Proportion of firms whose turnover increase or decreased in August 2025 relative to July 2025



Data: ONS

UK focus: Opportunities

Defence

Defence spending to increase to 2.5% of GDP by 2027, with an additional £2.2bn payment to MoD this year.

Direct SME spending targets to encourage MoD to issue contracts to wider pool of suppliers.

Defence Innovation Fund may provide easier path for start-ups to scale up.

Green / Renewable Energy

Government to invest in capital spending over the next 5 years, to include:

- Low-carbon transport
- Business grants for 'green' projects
- Green SME hub

Construction

£600m Government package to train up to 60,000 new workers.

UK focus: Risks

Unreliable employment data

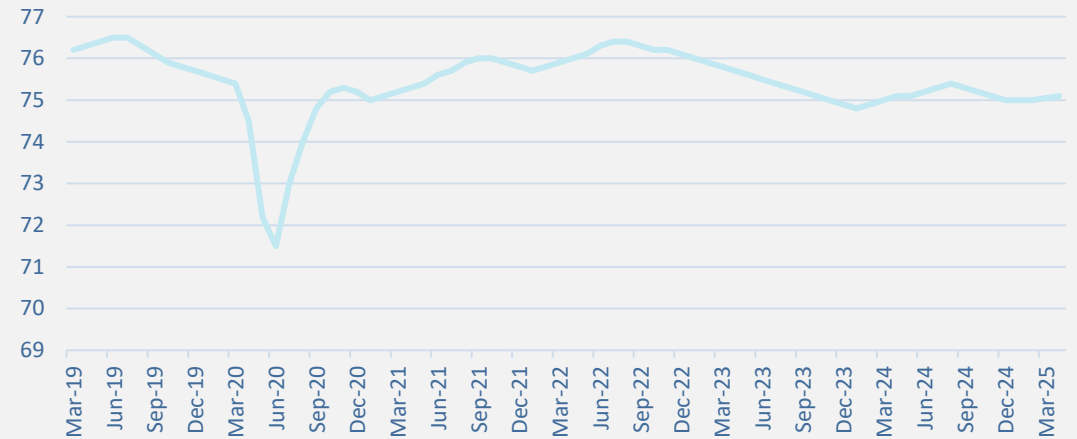
UK (un)employment data produced by ONS using the Labour Force Survey:

- Low response rates, exacerbated by Covid, make the data unreliable.
- Not clear if reported changes to unemployment are reflecting actual changes in the labour market or sampling variability.
- Especially the case for regional or age breakdowns.

Escalation in global tariff war

- Focus so far has been on US and reciprocal tariffs.
- Early warning signs that this could escalate to other trading partners.

Employment rate (age 16-64): ONS data



EU steel tariff hike threatens 'biggest ever crisis' for UK industry

