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Economic Review

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Survey points to modest second-quarter growth

Data released last month by the Office for National Statistics (ONS) showed that UK economic output slowed sharply in April, while more recent survey evidence suggests activity remained relatively lacklustre across the rest of the second quarter.

According to the latest gross domestic product (GDP) statistics, UK output fell by 0.3% in April, the largest recorded monthly decline since October 2023. This performance was worse than economists had been expecting, with the consensus forecast from a Reuters poll predicting a 0.1% contraction.

ONS said the services sector was the main contributor to this decline, with legal firms and property companies faring particularly badly following a strong March which saw homebuyers rush to complete house purchases ahead of an increase in Stamp Duty rates on 1 April. In addition, car manufacturing weakened significantly, largely due to the introduction of President Trump's initial tariffs on vehicle exports to the US.

Monthly GDP figures can be relatively volatile though and ONS did note that across the three months to April the economy actually grew by 0.7%. Survey evidence also points to a modest recovery in private sector business output since April's sharp fall.

The flash headline growth indicator from the closely-watched S&P Global/CIPS UK Purchasing Managers' Index (PMI), for instance, rose to 50.7 in June, up from 50.3 in May. In both months, the index was therefore just above the 50.0 threshold denoting growth in activity, leaving data spanning the whole of the April-June period consistent with a 0.1% quarterly rate of economic expansion.

Commenting on the preliminary PMI data, S&P Global Market Intelligence's Chief Business Economist Chris Williamson said the UK economy remained in a *"sluggish state"* at the end of the second quarter. However, he also noted that business conditions had improved since April's downturn and suggested this had quelled recession fears.

BoE keeps rates steady but hints at more cuts

While last month did see the Bank of England (BoE) maintain interest rates at their current level of 4.25%, the Bank's Governor again suggested they remain on a downward trajectory, with economists typically expecting the next cut to be announced in August.

At its latest meeting, which concluded on 18 June, the BoE's nine-member Monetary Policy Committee (MPC) voted to leave Bank Rate on hold by a 6–3 majority: all three of the dissenting voices, however, preferred to see an immediate quarter-point reduction. While the minutes to the meeting did stress that interest rates *'were not on a pre-set path,'* they also hinted at more cuts once risks to inflation have *'dissipated further.'*

On the same day that the MPC meeting ended, ONS published the latest official inflation statistics, which revealed that May's annual headline CPI rate was unchanged at 3.4%. This did, though, leave the CPI rate significantly above the Bank's 2% target at its highest level in more than a year.

In a speech delivered around a week after the release of the inflation data, BoE Governor Andrew Bailey stated that continued efforts were needed to push inflation lower. However, Mr Bailey also noted growing evidence that April's rise in employment costs was hitting pay and jobs, and that this should contribute to slowing inflation; and he once again reiterated his view that interest rates remain on *"a gradual downward path."*

Most economists now expect the Bank to sanction another rate reduction after the MPC's next meeting, which is scheduled for 7 August. A Reuters survey conducted last month, for instance, found that almost all of the 59 economists polled were forecasting a quarter-point cut in August, with a large majority predicting a further similar-sized reduction at some point during the final three months of the year.

Markets (Data compiled by TOMD)

As June drew to a close, US stocks lifted amid signs of progress in trade talks, closing out a volatile H1. Hopes rose at month end that the US and its trading partners are closing in on deals as 9 July deadline approaches. Investors are closely watching Senate negotiations over President Trump's proposed $4.5trn tax cut bill.

In the US, the Dow Jones closed the month up 4.32% on 44,094.77, while the tech-orientated NASDAQ closed June up 6.57% on 20,369.73.

In the UK, the FTSE 100 index closed June on 8,760.96, a small loss of 0.13%. The mid-cap focused FTSE 250 closed the month up 2.85% on 21,626.26, while the FTSE AIM closed on 770.65, a monthly gain of 3.21%. On the continent, the Euro Stoxx 50 closed the month 1.18% lower on 5,303.24. In Japan, the Nikkei 225 ended the month on 40,487.39, a monthly gain of 6.64%.

On the foreign exchanges, the euro closed the month at €1.16 against sterling. The US dollar closed at $1.37 against sterling and at $1.17 against the euro.

Gold closed the month trading around $3,306 a troy ounce, a small monthly gain of 0.45%. The price edged higher at month end, supported by dollar weakness, amid Senate negotiations over Trump's tax package. Brent Crude closed June trading at around $67 a barrel, a monthly gain of over 11%. The oil price has been impacted by geopolitical uncertainty. The conflict in the Middle East hasn't significantly disrupted supply to date.

Index	Value (30/06/25)	% Movement (since 30/05/25)
FTSE 100	8,760.96	-0.13%
FTSE 250	21,626.26	+2.85%
FTSE AIM	770.65	+3.21%
EURO STOXX 50	5,303.24	-1.18%
NASDAQ COMPOSITE	20,369.73	+6.57%
DOW JONES	44,094.77	+4.32%
NIKKEI 225	40,487.39	+6.64%

Welfare concessions create Budget challenge

Although recently released ONS data did reveal that the UK budget deficit is currently on track to meet official forecasts, government concessions regarding the Welfare Bill inevitably look set to make the Chancellor's Budget balancing act more challenging.

The latest public sector finance statistics showed government borrowing in May totalled £17.7bn; this was £700m higher than May last year and the second highest amount ever recorded for that particular month. It did, however, leave borrowing after two months of the current fiscal year, £2.9bn below the Office for Budget Responsibility's latest forecast, which was produced for the Spring Statement in March. ONS noted that revenue from Income Tax and National Insurance (NI) contributions rose, partly due to April's hike in employer NI rates.

While below forecast year-to-date borrowing figures would certainly have been welcome news for the Chancellor, the subsequent enforced U-turn on disability benefits has created a significant problem. Estimates suggest the concessions will reduce the potential savings from the Welfare Bill by around £3bn in 2029-30. This is therefore expected to make it more difficult for the Chancellor to meet her self-imposed fiscal rules without raising taxes as she makes preparations for the government's second Budget due to be delivered this Autumn.

Retail sales fall sharply

The latest official set of retail sales statistics revealed a significant drop in sales volumes during May, while more recent survey data points to a potentially disappointing performance in June and July too.

Figures released last month by ONS showed that retail sales volumes fell by 2.7% in May; this represents the sharpest monthly fall since December 2023. While analysts had been predicting weaker demand after consumers spent heavily during the previous month, May's decline was much larger than economists had been forecasting.

Commenting on May's weak performance, ONS said it was largely due to a *'dismal month'* for supermarkets, with feedback from food retailers talking of inflation and customer cutbacks, alongside reduced sales of alcohol and tobacco products. ONS also noted that both clothing and household goods stores had reported *'slow trading.'*

Evidence from the latest CBI Distributive Trades Survey also suggests retailers feel trading conditions remained tough entering the summer months, with its annual retail sales gauge dropping to -46 in June from -27 in May, while retailers' expectations for sales in the month ahead (July) fell to -49. The CBI also noted that *'many'* surveyed firms reported that *'consumer caution continues to hold back sales.'*

All details are correct at the time of writing (01 July 2025)

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