

United Kingdom

In Q1 2025, the UK economy grew significantly (+0.7%; ► [Figure 1](#)), marking its best quarterly performance in the past year. Investment surged (+2.9%), driven by corporate spending on transport equipment and machinery. These strong capital goods purchases drove a sharp rise in imports (+2.1%, with major aerospace deliveries in particular). Export growth was also vigorous (+3.5%), particularly exports to the United States (► [Figure 2](#)), as manufacturers anticipated the entry into force of the new tariff barriers announced by the US administration. Household consumption continued to grow modestly (+0.2%), as did household investment (+0.3%), while public spending contracted due to budget cuts in health and education. On the supply side, activity was boosted in particular by industrial production (+1.1%), reflecting the strength of foreign sales.

However, this upturn is apparently only temporary, as the economic indicators for Q2 have fallen sharply. In April, the PMIs dipped below the 50 threshold, particularly the services PMI (49.0 after 52.5 in March), and they recovered only mildly in May. The composite activity indicator based on CBI surveys plunged sharply in April and May (-30 in May on future activity), with manufacturers citing lower orders and pressure on costs.

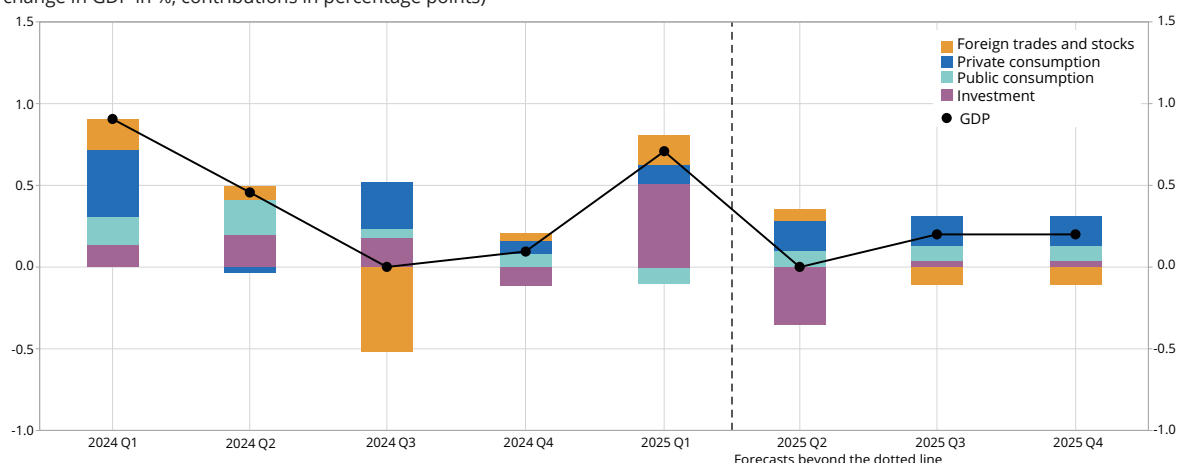
Inflation rose sharply in April (+3.5% after +2.6% in March), reflecting both further increases in the cap on electricity and gas prices (Ofgem), the price of water, and vehicle excise duty. Although core inflation is slowing slightly compared with last year, it remains high (+3.8%), reflecting continued strong wage growth (+5.9% year on year excluding bonuses in April); it is not expected to weaken, being further reinforced by the increase in employers' contributions implemented in the spring. In this context, the employment situation is likely to deteriorate and the unemployment rate, which rose at the start of 2025, should rise further.

In 2024, increases in wages (+4.7% after +7.6% in 2023) and welfare benefits, together with lower inflation (+2.5% after +7.3% in 2023), led to strong growth in household purchasing power (+3.7%), which had little influence on consumption (+0.6%). The household savings rate rose sharply (10.4% in 2024 after 7.5% in 2023), reaching a level not seen since 2010, except during the health crisis. Buoyed by exceptional bonus payments, the savings rate even peaked at 12.0% at the end of 2024.

In 2025, purchasing power is expected to slow sharply, as the catch-up effect due to the time lag in these increases fades out. The expected deterioration in the labour market should not encourage households to draw down savings, and growth in household consumption will probably remain modest (+0.3% per quarter). Public spending is unlikely to grow faster than economic activity, as the spring budget reduced the expected support. Residential investment is expected to

► 1. British growth surprises on the upside in Q1

(quarterly change in GDP in %, contributions in percentage points)



Last point: Q4 2025.

How to read it: in Q1 2025, GDP grew by 0.7% and investment contributed +0.5 points to this increase.

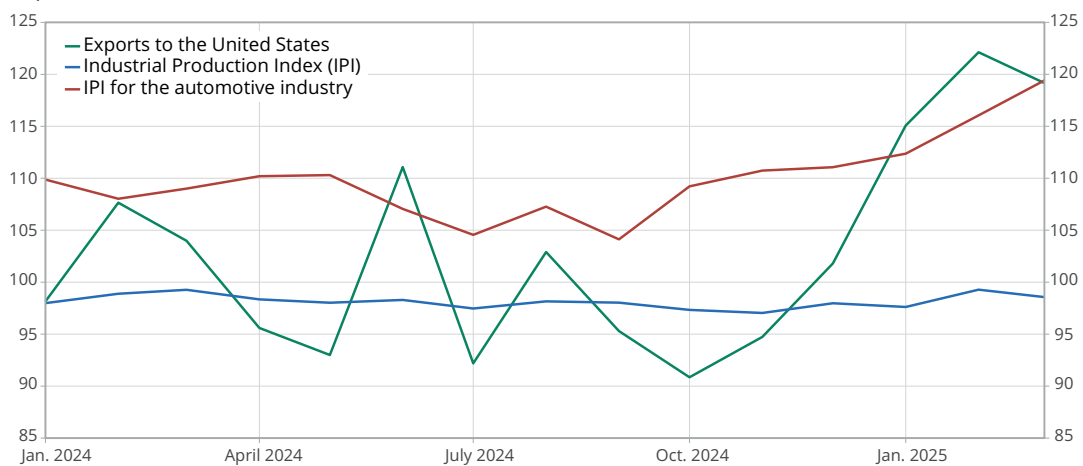
Source: ONS, INSEE calculations.

continue its mild recovery on the back of monetary easing. Conversely, in Q2 corporate investment will probably suffer the backlash from the sharp rise at the start of the year, before expanding moderately. Foreign trade is likely to weigh on growth in the spring as US tariffs come into force. Imports are expected to contract in Q2 (-1.0%), before picking up again (+0.5% per quarter) on the back of slightly more buoyant domestic demand. In spring, exports are likely to suffer a backlash from Q1 (-1.5%) before picking up again at a limited pace, hit by the expected fall in sales to the United States (+0.2%).

After its strong growth in the winter, economic activity is therefore expected to slow in Q2, before rising moderately over the rest of the year (+0.2% per quarter), bringing GDP growth to +1.0% for 2025 as a whole. ●

► 2. Exports to the United States rise in Q1, driving industrial activity

(in base 100 in 2022)



Last point: March 2025.

Note: the data presented is seasonally adjusted. The Industrial Production Index (IPI) measures monthly changes in the volume of production in key industrial sectors.

How to read it: in March 2025, total UK exports to the US were 19% above their average for 2022.

Source: ONS.