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ECONOMIC RESEARCH – MARCH 2025

INVESTMENT INSIGHT UK

- ✓ Leading indicators confirm GDP stagnation
- ✓ Labour market still adjusting
- ✓ Household confidence not improving
- ✓ Inflation not yet under control
- ✓ BoE hesitates but will probably cut rates in May

ATTRACTIVE BOND YIELDS

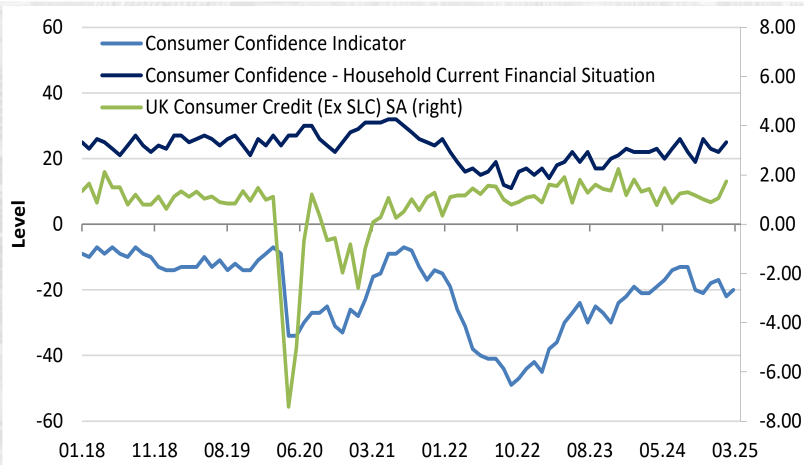
Fragile economic indicators

UK economic indicators continue to show persistent fragility. The manufacturing PMI remains on a downward trend at 44.6, signaling difficult times ahead. However, the services PMI has rebounded to 53.2, suggesting potential support for overall GDP. The absence of the public sector in these measurements raises concerns that ongoing budget cuts could further challenge growth prospects.

Labor market adjustment

The labor market shows signs of easing, with the unemployment rate rising significantly to 4.4%. While job creation measured over three-month periods remains positive, the pace has slowed considerably, dropping to 144,000 new jobs at the end of January from a peak of 373,000 in August. Concurrently, jobless claims have risen by 4.7% to 44,200, a level that remains within recent statistical norms. Real household income, however, is still growing due to falling inflation and nominal wage increases, which are averaging a healthy 5.9%. Our forecast suggests that unemployment will continue to tick up in 2025 while wage growth moderates, which should be viewed by the Bank of England (BoE) as a favorable development for its monetary policy decisions.

Household confidence



Sources : Bloomberg, BBGI Group

Cautious consumer sentiment

Despite rising real wages boosting purchasing power, consumer confidence remains low, with a negative reading of -19 in March. This persistent caution is likely due to labor market weakness and growing international risks, limiting a recovery in consumption. A sustained improvement hinges on further BoE rate cuts and a more stable global political climate.

Inflationary pressures persist

Inflation has plateaued, with the CPI rebounding in February and stabilizing around 2.8% year-over-year. While significantly down from its 2022 peak, it's struggling to reach the BoE's 2% target. Core inflation remains a concern at 3.5% annually. Although producer prices have stabilized, potential increases in energy and insurance costs could pose a short-term risk.

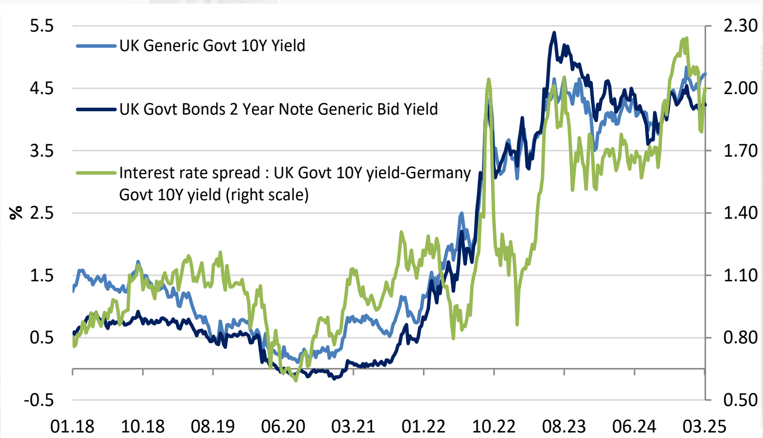
BoE's hesitation on rate cuts

The central bank held its key rates at 4.5% in March, entering an observational phase. The BoE is balancing a fragile economy with persistent inflation. Given current high interest rates and restrictive fiscal policy, the bank may be compelled to cut rates to offset negative growth impacts, especially with continued consumer caution signaling a lack of strong domestic recovery.

Monetary easing on the horizon

Despite its recent pause, the BoE remains on a path toward gradual monetary easing. The ongoing moderation in the labor market and the stabilization of inflation are providing the central bank with more flexibility. We anticipate that the BoE will resume its rate-cutting cycle in the near term, with a potential 0.25% cut expected in May to bring key rates down to 4.25%. This move would be a strategic effort to stimulate the economy, particularly in the face of persistent international risks, and to support a consumer base that remains hesitant to fully re-engage with the market.

Government rates (2y-10y)



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