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ECONOMIC RESEARCH – JUNE 2025

INVESTMENT INSIGHT UK

- ✓ Surprising rebound in Q1 GDP exceeds expectations
- ✓ International uncertainty weighs on the UK economy

FOCUS ON BONDS AND REAL ESTATE

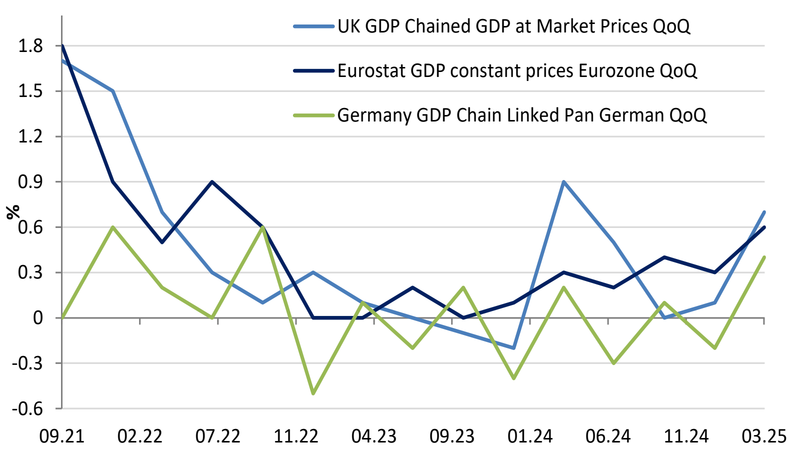
Unexpectedly strong Q1 GDP growth

The UK economy started 2025 with a surprisingly strong performance, with its GDP growing by +0.7% in the first quarter, the best among the G7. This growth was mainly driven by the services sector, exports, and fixed investment. This performance significantly outpaced other G7 economies, including the Eurozone's +0.3% and the US's -0.1%. This result positions the UK as an outlier among its peers, highlighting its early-year resilience.

Foreign trade as the main growth driver

The UK's strong first-quarter performance was largely propelled by a significant acceleration in foreign trade. Exports of goods surged by +5.6%, with services also increasing by +2%. This suggests a strong external demand that has been a crucial factor in the country's early-year economic resilience. However, this growth in exports and investment was not mirrored by domestic consumption, which could signal a potential slowdown in the second quarter.

Quarterly GDP growth - United Kingdom



Sources : Bloomberg, BBGI Group

Mixed signals for the second quarter

While Q1 was robust, initial data for April points to a more challenging Q2. Monthly GDP contracted by -0.3%, the first decline in six months, largely due to a slowdown in both the services and manufacturing sectors. This suggests that the strong Q1 momentum may be difficult to sustain and the economy could face headwinds in the coming months. This April contraction raises questions about the sustainability of the economic drivers seen in the first quarter.

Persistent inflation and BoE caution

Inflation remains a concern for the UK economy. The Consumer Price Index (CPI) rebounded to +3.5% in April and is expected to stay above 3% for most of 2025. This persistence, driven by factors like rising regulated prices and labor costs, is likely to make the Bank of England (BoE) hesitant to cut interest rates aggressively, limiting potential monetary easing. As a result, the central bank's stance is expected to remain cautious, prioritizing price stability over immediate economic stimulus.

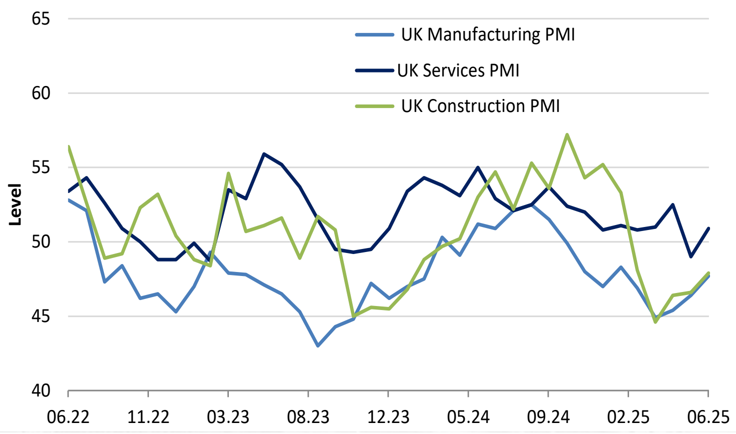
Impact of increased labor costs

The UK government's policy changes in April 2025, including a rise in the living wage and national insurance contributions, have significantly increased labor costs for businesses. This is particularly impactful on the hospitality and retail sectors, and it could lead to reduced business investment and employment as companies try to maintain margins. These measures are likely to create a challenging environment for companies already grappling with broader economic uncertainties.

Global uncertainty and a moderate growth forecast

The UK economy's outlook for the remainder of 2025 is more uncertain, tied closely to international rather than domestic factors. The global economic environment, especially the potential effects of U.S. trade policy, presents a significant risk. We forecast a moderate growth path of +1.1% for the full year, but this is tempered by the risk of contagion from a potential U.S. recession. This reliance on external conditions makes the UK's growth trajectory highly vulnerable to international geopolitical and trade developments.

PMI indicators (manufacturing, services, construction)



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