

August 2025

Monthly Economic Review

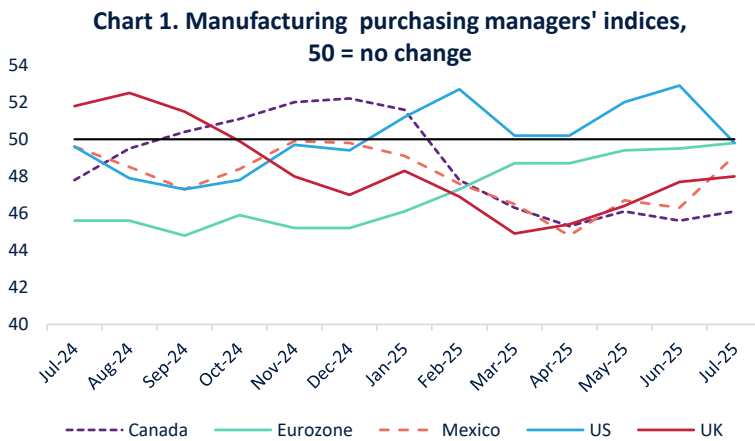


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We return, once again, to talk of trade policy. As the US pause on the introduction of tariffs expired at the start of August a slew of ‘deals’ were made. We take a look at what this means in practice, as well as an update on UK GDP and labour market indicators ahead of the next MPC meeting.

90 deals in 90 days?

Much of the past few months has been dominated by the on-again, off-again imposition



of tariffs on US imports. Following the market reaction to President Trumps’ April’s ‘liberation day’ announcement of tariffs, ranging from 10 per cent to 50 per cent on nearly sixty trade partners, the introduction of new tariff measures was paused for 90 days, allowing time for

deals to be struck.

Source: Trading Economics

Business sentiment, notably in global manufacturing, fell sharply on the announcement of tariffs in April, but in the EU and UK survey indicators have stabilised, while in the US manufacturing activity, as measured by the PMI strengthened as production was brought forward ahead of tariffs coming into effect (**chart 1**). The UK BICS survey produced by the ONS shows that around a third of businesses (with 10 or more employees) expects any impact from US tariffs, rising to 38 per cent of manufacturers. Passing on additional costs and supply chain disruptions were the most commonly cited impacts.

The exception to stabilisation in sentiment was industry activity in Canada and Mexico, both highly integrated into US supply chains and dependent on the US market to a much greater extent than any other advanced economy.

As the August 1st deadline approached agreements were reached with a number of the US's major trading partners. The UK was one of the first out of the blocks, agreeing to accept 10 per cent tariffs in May, including a reduced 10 per cent tariff quota on cars and the removal of tariffs on some aerospace exports.

Japan and the EU agreed to 15 per cent, with additional commitments from the Japanese on significant inward investment to the US, and from the EU on the purchase of US energy and defence equipment. The EU has also cut import tariffs on US automotive imports from 10 per cent to 2.5 per cent. Like the UK deal, US imports of aerospace goods from the EU will also be exempt from tariffs.

While the framework agreements have been cheered it is unclear that all the i's have been dotted, and t's crossed. Arrangements on imports of key products such as steel and pharmaceuticals remain unclear across all markets, and perhaps more significantly, a deal with the EU requires ratification by all member states. This will likely leave some businesses, on both sides of the Atlantic, with questions about the detail post-1st August.

This represents just a handful of deals, against the ambition of 90. For remaining countries new tariff rates were announced at the end of July, including 35 per cent tariffs on some goods imports from Canada (expected to cover around a tenth of exports to the US). Discussions with Mexico continue and China has until the middle of August to come to an agreement before tariffs of 145 per cent are reintroduced.

As producers, particularly in Mexico await news, uncertainty will continue to bear down on business activity and sentiment in those markets, there is also some disquiet across industry sectors, such as automotive, in the US. Cutting import tariffs on imports from the UK and EU while leaving components from plants and suppliers in Mexico subject to higher tariffs will put further pressures on US manufacturers, which have already seen profits take a hit in the first half of this year.

Nevertheless, following the initial announcements of the deals outlined with the UK and Europe, the market reaction was generally positive with stock markets posting gains and oil price futures rising on expectations that a sharp slowdown in global production activity will be avoided.

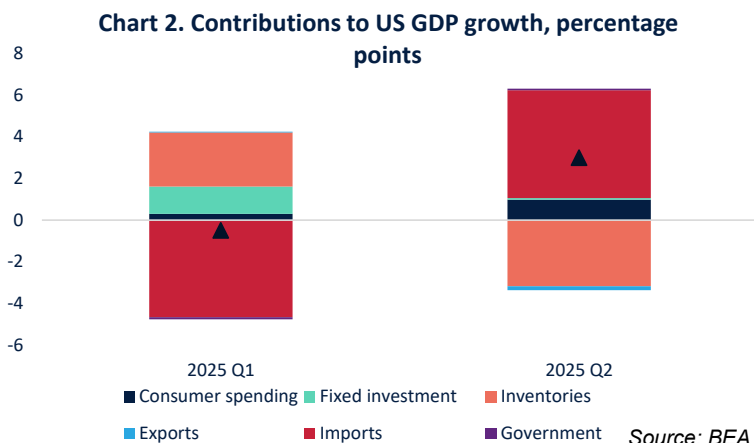
In addition, the IMF’s July forecast update included a modest upward revision to global GDP growth this year and next. The report notes that activity had been stronger than expected in the early part of this year as businesses front-loaded activity ahead of tariffs (as noted above), as well as average effective tariffs coming in lower than those announced in April.

This was somewhat borne out in recent GDP growth data in the eurozone, which showed a modest 0.1 per cent expansion, against expectations of no growth in 2025 Q2. And the US economy also rebounded by more than expected in the second quarter (see next section).

While there has been some resilience in the global economy, the IMF continues to see risks to growth tilted to the downside, with a fairly lengthy list of things that could derail growth, including: *“a rebound in effective tariff rates could lead to weaker growth. Elevated uncertainty could start weighing more heavily on activity, also as deadlines for additional tariffs expire without progress on substantial, permanent agreements. Geopolitical tensions could disrupt global supply chains and push commodity prices up. Larger fiscal deficits or increased risk aversion could raise long-term interest rates and tighten global financial conditions.”*

US GDP rebounds

Ahead of President Trump’s first pronouncement on trade tariffs, the US economy contracted at an annualised rate of 0.5 per cent at the start of 2025 as business rushed to get goods and components into US ports ahead of tariffs coming into effect. The surge in imports in the early months of this year (goods imports rose at an annualised rate of over 50 per cent in Q1) was the main drag on GDP growth (**chart 2**), partially



offset by growth in investment and inventories.

As expected, the effects of pulling imports forward unwound in the second quarter, providing a corresponding boost to growth. The advance estimate pointed to Q2 GDP growth of three per

cent (annualised), firmer than the consensus forecast of 2.4 per cent. In addition to the boost from falling imports, there was a pickup in growth in consumer spending and a further small increase in fixed investment.

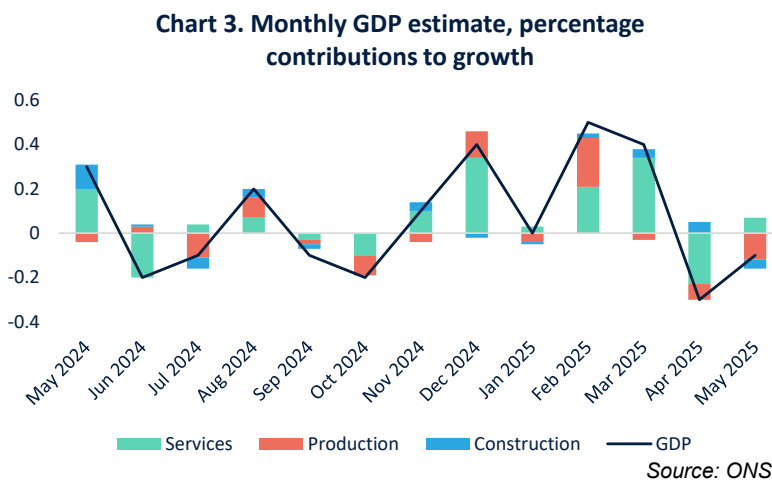
This would seem to support the view that the US economy remains resilient against the backdrop of elevated policy uncertainty. However, taking the first half of the year as a whole there does appear to have been a loss of momentum. Overall growth in the first six months of the year was less than half that recorded in 2024 H2 with notable weakening in consumer spending (0.5 per cent actual growth in 2025 H1 vs 1.9 per cent in 2024 H2). There was a similar slowdown in exports, with only growth in fixed investment bucking the trend.

Inflationary risks have also not entirely receded. Latest inflation data shows an acceleration in the past couple of months with the headline rate rising to a four-month high of 2.7 per cent in June. While some surveys report that producers have absorbed some of the initial cost increases from tariffs, this is unlikely to be sustainable in the long term and some pass through to consumers seems inevitable.

With overall growth losing some momentum, labour market indicators remaining firm and an uncertain outlook for US inflation, the Fed left interest rates unchanged at its July meeting. While President Trump called for interest rates to be cut following the release of the GDP data, the Fed noted that adjustments would be considered in light of *“incoming data, the evolving outlook, and the balance of risks”*.

UK GDP growth slows

GDP data released so far in Q2 is showing rather less resilience. Following a solid expansion in the first quarter, monthly estimates show a contraction in output in April and May (**chart 3**).



Both services and production activity contributed to the decline in April, with the former regaining some ground in May.

In April, professional & scientific services was one of the main drags on services output, which the

ONS notes was related to the fall in legal and conveyancing activity following changes to Stamp Duty Land tax (see more on the impact on the housing market in our [Household Finance Review](#)). This was temporary with output bouncing back in May.

Consumer-facing sectors appear to have had a more challenging quarter, with output rising a modest 0.1 per cent in April, followed by a sharp 1.2 per cent fall in May, primarily due to weakness in retail and travel.

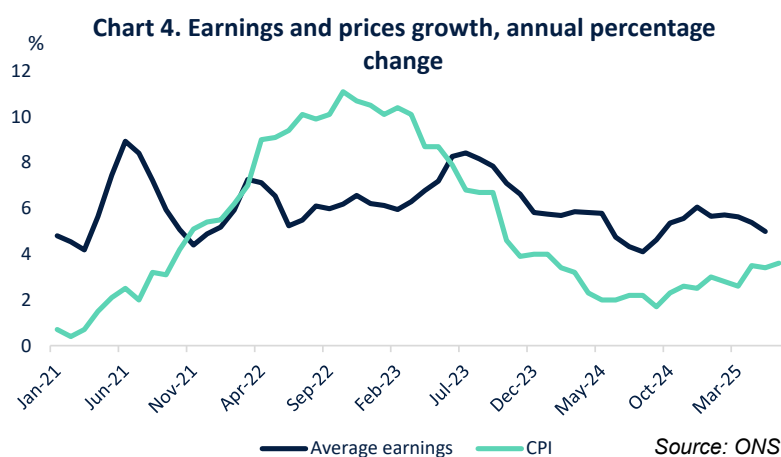
On the production side, manufacturing has continued to struggle, with a majority of sub-sectors seeing falls in April and May. Transport equipment manufacturers reported some hefty falls in output with some car manufacturers pausing production for model change overs, and a broader slowdown in export demand.

Survey indicators and other data indicate stronger activity in June – the services PMI hit a 10-month high, supported by a pickup in consumer spending. ONS also reported a recovery in retail sales, with good weather boosting food and clothing sales. Additionally, PMIs pointed to an easing in the pace of decline in manufacturing and construction in June.

Economists expect Q2 growth to come in around 0.2 per cent overall, underscoring the view that underlying growth remains tepid and the start of the year saw something of an artificial boost, with activity brought forward ahead of US trade announcements. We'll dig into the detail of the Q2 release in next month's review.

A look ahead to August's MPC meeting

The Monetary Policy Committee meets again in August, and alongside its rate



decision, it will publish updated forecasts for the UK economy in its Monetary Policy Report (MPR).

At its June meeting, the Committee highlighted the clearer evidence of labour market loosening, subdued growth and ongoing risks in the global

economy, from both trade policy uncertainty and geopolitical tensions. It reiterated its view that inflation is expected to remain above three per cent this year, as published in the May MPR and that the current stance of monetary policy remains restrictive.

On the immediate rate decision Committee members were again split. Three believed that there was sufficient evidence of easing inflationary pressures to justify a less restrictive path for interest rates. However, the majority saw the potential for further inflation persistence from high prices raising inflation expectations, impacting on wage and price setting.

Since June, inflation has remained elevated, but labour market data continue to confirm that wage growth is moderating (**chart 4**). The Committee will also have some greater certainty about US trade policy (though this perhaps came too late for the forecast round). Markets are expecting a further quarter point cut in Bank Rate this month, though deliberations are unlikely to be more clear cut than was the case in June.

ICYMI and coming up...

Last month we published our quarterly [buy-to-let mortgage dashboard](#) and our [annual largest mortgage lenders data](#).

The [card spending update](#) for April continued to show fairly muted spending activity, the next update will be published on 18th August.

In the month ahead we'll also be releasing quarterly arrears and possessions data for 2025 Q2 (14th August) and the later life lending dashboard (27th August). You can find all the August releases [here](#).

Key indicators

Indicator	Period	Value	Change	2025 Forecast
GDP	Q1 2025	0.7%	↑	1.1%
CPI inflation	Jun 2025	3.6%	↑	3.3%*
Unemployment rate	May 2025	4.7%	↑	4.8%*
Average earnings	May 2025	5.0%	↓	3.8%
Brent crude	Jun 2025	\$71.44	↑	-
\$ Exchange rate	Jul 2025	\$1.34	↑	-
Bank Rate	Jun 2025	4.25%	↔	3.9%*

Source: ONS, HM Treasury, Bank of England, EIA

*Q4 2025