

# UK in Focus

Economics  
United Kingdom

## Tariffs adding to an uncertain outlook

- ◆ UK hit with a 10% tariff from the US, but the impact will depend on how various governments react
- ◆ Economic activity has been weak, while labour markets have been resilient, at least for now
- ◆ Although fiscal headroom was restored, vulnerabilities remain

### Less ‘Liberation’ more ‘Amerexit’

The first quarter of 2025 has been tumultuous as financial markets and policymakers have sought to decipher between the noise and signals. That volatility looks set to continue with US tariff announcements on 2 April giving further impetus to an already uncertain outlook.

For the UK, its small goods trade deficit with the US meant it faces the baseline 10% tariff. A relatively better outturn compared to those applied to peers – the EU faces a 20% tariff – but a significant jump from the current 0.5% weighted average tariff. Moreover, the steel, aluminium, and automotive sectors are hit with 25%, while other industries, such as pharma, are yet to be the subject of focus. From here, the UK economic impact will depend on the outcome of any retaliatory measures, deal negotiations, their timing, and any support from the government.

If the UK opts for retaliation, that would deepen the economic impact and add to inflationary pressures. However, remarks from UK Business Secretary, Jonathan Reynolds, suggest the focus is on deal negotiation rather than retaliation. On that basis, we judge the risks are weighted towards weaker growth and disinflation. Indeed, financial markets have increased their expectations of Bank of England rate cuts this year and are now more in line with our view of a 3.75% base rate by end-2025 (Chart 1).

### Risks to the downside

All that said, the outcome is highly uncertain and the risk to that view is to the downside given that other countries have vowed to retaliate. An escalating trade war could see the UK caught in the economic crosshairs. Such an environment only adds to the picture of economic unease painted by surveys in recent months.

Now, official data has confirmed the weak start to the year, with the UK economy contracting 0.1% m-o-m in January. Of the three broad sectors, services was the only positive contributor, while output in both the construction and manufacturing sectors reported sharp declines. That divergence may continue, the PMI survey points to some signs of life in the services sector, but further weakness across production sectors will be a drag on overall growth. Global economic uncertainty, particularly pertaining to tariffs, has weighed on manufacturers. And while European peers appeared to have front loaded activity ahead of tariff announcements, manufacturers in the UK reported a sharp decline across output and new orders in March.



KEY UK DATA	
▲ 0.2%	GDP growth in 3m to January
▼ 2.8%	Consumer Price Inflation, February y-o-y
▶ 4.4%	Unemployment rate, January
▶ 4.50%	Bank of England Base Rate
Source: HSBC	

There was slightly better news on the inflation front. Headline CPI moderated to 2.8% from 3.0% in the month prior, largely driven by an unusually sharp fall in clothing prices. Retailers have noted softer demand – retail sales volumes rose 0.3% in the three months to February – and the need to offer discounts. Indeed, household consumption rose just 0.1% in 4Q24, while the savings rate rose to 12.0%, its highest on record, excluding the pandemic. It's possible that a shift in the price level for various non-discretionary items in April will further drag on activity and limit the ability of firms to pass higher unit labour costs on. In our view, the headline inflation rate will resume its acceleration and peak in September. However, wage growth should moderate sharply in the second half of the year, placing a lid on persistent price pressures and enable a gradual – one 0.25ppt cut per quarter – decline in interest rates.

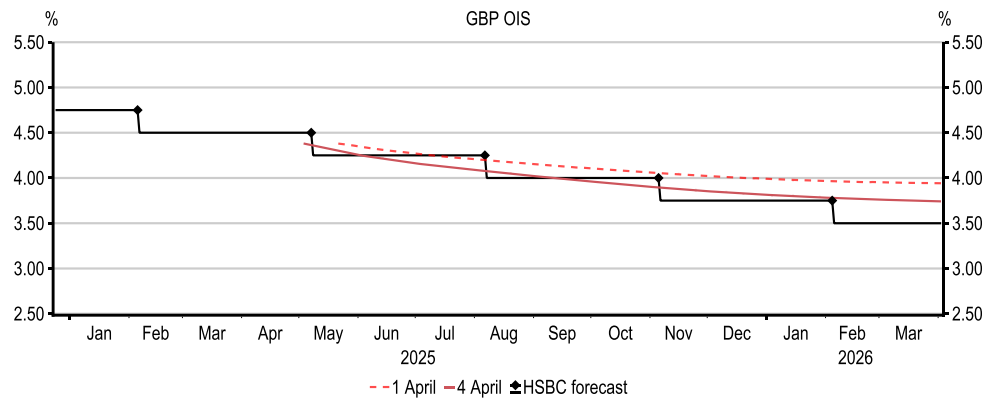
Labour market data remains an uncertainty. While the unemployment rate, for now, has remained stable, supported by still decent employment growth, survey measures point to a further weakening in the demand for workers. In our view, the flurry of headwinds facing employers that hit from April will see a continued loosening in the labour market and a rise in the rate of unemployment (Chart 2); although the UK may just avoid outright falls in overall employment. Nonetheless, concerns over job losses alongside still elevated interest rates and another jump in the cost of living will weigh on consumption and consequently GDP growth in 2025.

#### **Fiscal buffer restored, but at a cost (cutting)**

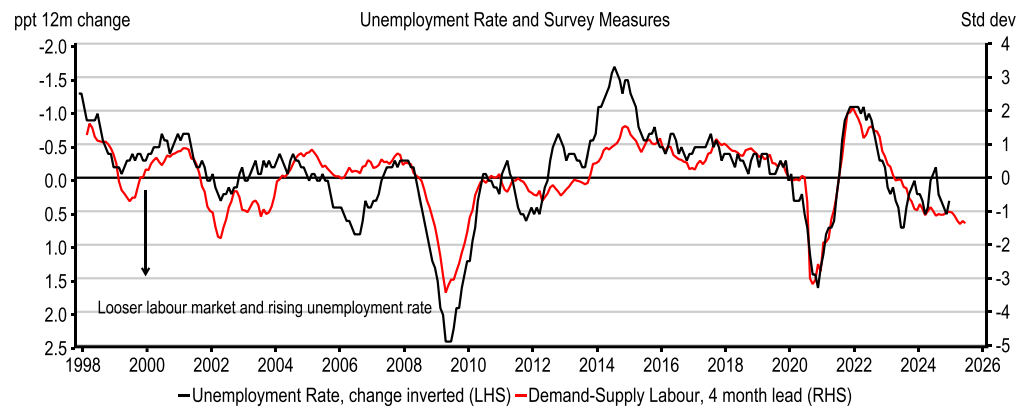
Lack of clarity in official data has worsened and in addition to labour market data issues, the Office for National Statistics has raised concerns about trade, producer prices, retail sales, and possible revision to average wage growth. That carries significant implications for the Bank of England in determining the risk of persistent inflationary pressures and for the government. In that, their low margin for error leaves the Chancellor exposed to small changes in the Office for Budget Responsibility's economic forecasts (Chart 3).

In fact, economic developments since the Autumn Budget did not go the Chancellor's way. And in the end, the public finances faced a GBP4.1bn shortfall against the fiscal target, Chancellor Reeves went a step further and opted to restore the fiscal margin to exactly where it was in October; a miracle, in our view. Despite its restoration, fiscal policy is in the same, if not a worse, position than a few months ago. Downside risks to growth and considerable uncertainty ahead mean the public finances are not on such a firm footing, and the Chancellor may find herself in the same position in a few months' time. But with less public spending fat to cut.

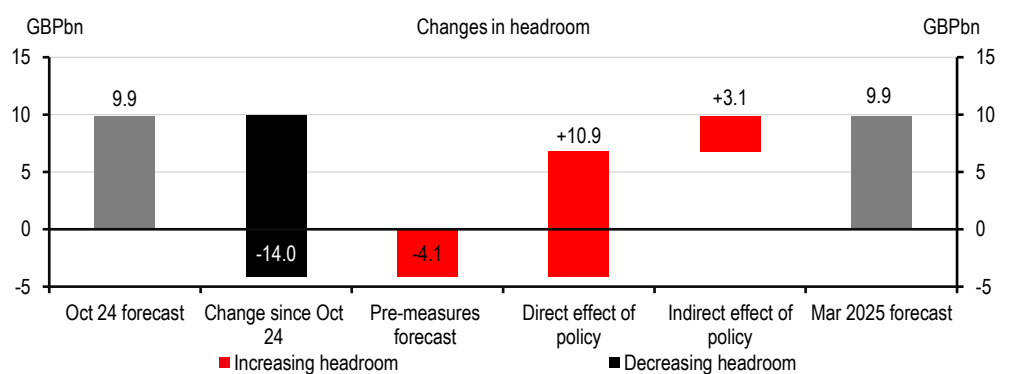
### 1. Downside risks to growth and inflation pulls market interest rate expectations lower



### 2. Surveys point to further loosening in official labour market data



### 3. Fiscal headroom restored but the UK government remains vulnerable to shocks



# Disclosure appendix

## Important disclosures

- 1 This report is dated as at 08 April 2025.
- 2 All market data included in this report are dated as at close 07 April 2025, unless a different date and/or a specific time of day is indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

# Disclaimer

This document is prepared by The Hongkong and Shanghai Banking Corporation Limited ('HBAP'), 1 Queen's Road Central, Hong Kong. HBAP is incorporated in Hong Kong and is part of the HSBC Group. This document is distributed by HSBC Continental Europe, HBAP, HSBC Bank (Singapore) Limited, HSBC Bank (Taiwan) Limited, HSBC Bank Malaysia Berhad (198401015221 (127776-V))/HSBC Amanah Malaysia Berhad (200801006421 (807705-X)), The Hongkong and Shanghai Banking Corporation Limited, India (HSBC India), HSBC Bank Middle East Limited, HSBC UK Bank plc, HSBC Bank plc, Jersey Branch, and HSBC Bank plc, Guernsey Branch, HSBC Private Bank (Suisse) SA, HSBC Private Bank (Suisse) SA DIFC Branch, HSBC Private Bank Suisse SA, South Africa Representative Office, HSBC Financial Services (Lebanon) SAL, HSBC Private banking (Luxembourg) SA and The Hongkong and Shanghai Banking Corporation Limited (collectively, the "Distributors") to their respective clients. This document is for general circulation and information purposes only. This document is not prepared with any particular customers or purposes in mind and does not take into account any investment objectives, financial situation or personal circumstances or needs of any particular customer. HBAP has prepared this document based on publicly available information at the time of preparation from sources it believes to be reliable but it has not independently verified such information. The contents of this document are subject to change without notice. HBAP and the Distributors are not responsible for any loss, damage or other consequences of any kind that you may incur or suffer as a result of, arising from or relating to your use of or reliance on this document. HBAP and the Distributors give no guarantee, representation or warranty as to the accuracy, timeliness or completeness of this document. This document is not investment advice or recommendation nor is it intended to sell investments or services or solicit purchases or subscriptions for them. You should not use or rely on this document in making any investment decision. HBAP and the Distributors are not responsible for such use or reliance by you. You should consult your professional advisor in your jurisdiction if you have any questions regarding the contents of this document. You should not reproduce or further distribute the contents of this document to any person or entity, whether in whole or in part, for any purpose. This document may not be distributed to any jurisdiction where its distribution is unlawful.

The following statement is only applicable to HSBC Bank (Taiwan) Limited with regard to how the publication is distributed to its customers: HSBC Bank (Taiwan) Limited ("the Bank") shall fulfill the fiduciary duty act as a reasonable person once in exercising offering/conducting ordinary care in offering trust services/business. However, the Bank disclaims any guaranty on the management or operation performance of the trust business.

The following statement is only applicable to by HSBC Bank Australia with regard to how the publication is distributed to its customers: This document is distributed by HSBC Bank Australia Limited ABN 48 006 434 162, AFSL/ACL 232595 (HBAU). HBAP has a Sydney Branch ARBN 117 925 970 AFSL 301737. The statements contained in this document are general in nature and do not constitute investment research or a recommendation, or a statement of opinion (financial product advice) to buy or sell investments. This document has not taken into account your personal objectives, financial situation and needs. Because of that, before acting on the document you should consider its appropriateness to you, with regard to your objectives, financial situation, and needs.

Important Information about the Hongkong and Shanghai Banking Corporation Limited, India ("HSBC India")

HSBC India is a branch of The Hongkong and Shanghai Banking Corporation Limited. HSBC India is a distributor of mutual funds and referrer of investment products from third party entities registered and regulated in India. HSBC India does not distribute investment products to those persons who are either the citizens or residents of United States of America (USA), Canada or New Zealand or any other jurisdiction where such distribution would be contrary to law or regulation.

Mainland China

In mainland China, this document is distributed by HSBC Bank (China) Company Limited ("HBCN") and HSBC FinTech Services (Shanghai) Company Limited to its customers for general reference only. This document is not, and is not intended to be, for the purpose of providing securities and futures investment advisory services or financial information services, or promoting or selling any wealth management product. This document provides all content and information solely on an "as-is/as-available" basis. You SHOULD consult your own professional adviser if you have any questions regarding this document.

The material contained in this document is for general information purposes only and does not constitute investment research or advice or a recommendation to buy or sell investments. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. HSBC India does not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. Investments are subject to market risk, read all investment related documents carefully.

© Copyright 2025. The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED.

No part of this document may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited.

Important information on sustainable investing

"Sustainable investments" include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors (collectively, "sustainability") to varying degrees. Certain instruments we include within this category may be in the process of changing to deliver sustainability outcomes.

There is no guarantee that sustainable investments will produce returns similar to those which don't consider these factors. Sustainable investments may diverge from traditional market benchmarks.

In addition, there is no standard definition of, or measurement criteria for sustainable investments, or the impact of sustainable investments ("sustainability impact"). Sustainable investment and sustainability impact measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

HSBC may rely on measurement criteria devised and/or reported by third party providers or issuers. HSBC does not always conduct its own specific due diligence in relation to measurement criteria. There is no guarantee: (a) that the nature of the sustainability impact or measurement criteria of an investment will be aligned with any particular investor's sustainability goals; or (b) that the stated level or target level of sustainability impact will be achieved.

Sustainable investing is an evolving area and new regulations may come into effect which may affect how an investment is categorised or labelled. An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future.

[1256062]