
UK in Focus

Economics
United Kingdom

Weak sentiment and tariff risks

- ◆ A lack of growth and upside risks to inflation have weighed on sentiment
- ◆ So far the UK has been spared from direct US tariffs threats...
- ◆ ...but the risk remains, most notably for a handful of sectors

Sentiment in the trenches at the start of 2025

An (un)healthy dose of the January blues has seen the UK economy mired in weak sentiment in recent weeks. Business and household surveys have fallen sharply while economic growth appears to have ground to a halt in 2H24. GDP data for November showed just a 0.1% m-o-m rise while price rises slowed to 2.5% y-o-y in December. But despite that moderation in inflation, fresh upward risks – a weaker GBP, and higher oil and gas prices – have emerged adding to fears of stagflation.

We judge, that despite the prospect of higher near-term inflation, that growth concerns and a softening labour market will enable the BoE to cut interest rates more meaningfully than the 80bp that the market currently expects. That could go some way to boosting sentiment as well as relieve some pressure on the government's fiscal position. However, UK inflation expectations and sentiment more broadly have fallen foul of global developments as markets have sought to understand what the new Trump presidency will mean for the US and global economies. While the UK has been spared direct tariffs threats, for now, an uncertain global backdrop could provide a persistent volatile undercurrent for the UK economy throughout 2025.

Dealing with an “America First” agenda

The new Trump administration has hit the ground running with a flurry of policy actions. The latest big development is the announcement of 25% import tariffs on Canada and Mexico, although implementation has been delayed for 30 days, and a 10% additional duty on Chinese imports, effective 4 February. This could have meaningful effects on the economies involved.

There's scope for further developments. Tariff threats on Colombia relating to deportation flights shows how trade policy is being used to exert leverage on non-trade issues. And it's also worth noting a memo signed by President Trump outlining various trade reviews by 1 April 2025 – including into persistent trade deficits, Chinese trade, the US-Mexico-Canada Agreement (USMCA), prospective new trade deals and more.

What could be store for the UK?

The UK has so far been spared from such direct tariff threats, partly because the US runs a small goods trade surplus with the UK. But it could be affected if the US implements a universal 10-20% tariff that targets imports from all markets (not our base case), or if more targeted duties are implemented that affect key British export sectors.

Disclosure appendix

Important disclosures

Additional disclosures

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