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# Economic Review

March 2025

## Chancellor trims spending plans

**Rachel Reeves delivered her Spring Statement on 26 March, unveiling welfare cuts and spending reductions in order to balance the government's books in the face of a worsening fiscal outlook.**

The new spending plans were required to ensure the Chancellor stays on track to meet her two self-imposed fiscal rules, which she confirmed remain *"non-negotiable."* An updated forecast produced by the Office for Budget Responsibility (OBR) had more than wiped out the Chancellor's previous £9.9bn fiscal buffer announced in last October's Budget due to a combination of higher debt interest costs and lower economic growth.

Several policy changes announced in the Spring Statement, including welfare reforms and day-to-day departmental spending reductions, restored the buffer back to its October level. The OBR did, however, note that its size remains historically low and that the buffer therefore provides only a small margin of error against the risk of future economic shocks.

Speaking after Ms Reeves delivered her statement, OBR Chair Richard Hughes also acknowledged the precarious nature of economic forecasting and admitted there were many factors that could once again *"wipe out"* the Chancellor's fiscal headroom; these include an escalating trade war, a small downgrade to growth forecasts or a rise in interest rates.

This vulnerability was vividly highlighted just hours after the Chancellor finished her speech, with President Trump's announcement of a new 25% tariff on cars and car parts coming into the US – a move which is widely expected to hit global growth prospects.

Analysis by the Institute for Fiscal Studies (IFS) also concluded that the Chancellor's headroom is *'very small.'* IFS Director Paul Johnson added there was a *"good chance"* economic forecasts would deteriorate significantly before the Autumn Budget which could leave the government facing months of damaging speculation about what taxes might need to be increased.


## Inflation dips but fresh climb predicted

**While the latest batch of inflation statistics did reveal a larger than expected monthly decline in the headline rate, economists continue to warn that price rises are likely to accelerate again soon.**

Figures published last month by the Office for National Statistics (ONS) showed the Consumer Prices Index (CPI) 12-month rate – which compares prices in the current month with the same period a year earlier – dropped to 2.8% in February from 3.0% the previous month. This rate was just below economists' expectations, with a Reuters poll predicting a reading of 2.9%.

ONS said February's decline was primarily driven by lower clothing and footwear prices which fell for the first time in over three years, partly due to an unusually high number of sales during the month. This unseasonal clothes discounting offset small price increases from a number of other categories, including alcoholic drinks.

Despite the monthly dip, economists still expect a fresh pick-up in the CPI rate over the coming months. Indeed, a number of near-term price rises, such as energy, Council Tax and water bill increases, are already baked in, while surveys suggest many businesses will look to raise prices in response to April's National Insurance and Living Wage increases.

Last month also saw interest rates remain on hold, following the latest meeting of the Bank of England's interest-rate setting committee. At its 19 March meeting, the Bank's nine-member Monetary Policy Committee (MPC) voted by an 8-1 majority to leave Bank Rate unchanged at 4.5%; the one dissenting voice preferred a 0.25 percentage point reduction.

Commenting after announcing the decision, Bank Governor Andrew Bailey said he still believed rates were on a *"gradually declining path"* but noted that increasing geopolitical and global trade uncertainties meant the Bank would have to be *"careful"* when considering future cuts. The next MPC announcement is scheduled for 8 May.

## Markets (Data compiled by TOMD)

**At the end of March, concerns weighed on financial markets, days before Donald Trump's tariff plans are due to take effect. Investors are braced for a broad set of tariffs, set to be unveiled on April 2 – described as *'Liberation Day'* by the President.**

In the UK, the FTSE 100 index closed the month on 8,582.81, a loss of 2.58%. The mid-cap focused FTSE 250 closed the month down 4.19% on 19,475.48, while the FTSE AIM closed on 681.99, a loss of 3.10%.

Across the pond, the Dow closed March down 4.20% on 42,001.76, while the tech-orientated NASDAQ closed the month down 8.21% on 17,299.29. On the continent, the Euro Stoxx 50 closed March 3.94% lower on 5,248.39. In Japan, the Nikkei 225 ended the month on 35,617.56, a monthly loss of 4.14%.

On the foreign exchanges, the euro closed the month at €1.19 against sterling. The US dollar closed at $1.29 against sterling and at $1.08 against the euro.

Brent Crude closed March trading at around $74 a barrel, a monthly gain of just over 7.0%. Oil moved higher after Donald Trump suggested that the US could impose secondary tariffs on Russia, a major exporter. The OPEC+ producer's crude exports hit a five-month high in March. Gold closed the month trading around $3,149 a troy ounce, a monthly gain of almost 10.00%. The gold price reached a trading high on 31 March as concerns intensified over an escalating trade war, prompting investors to flock to the safe-haven asset.

| Index | Value<br>Value (31/03/25) | % Movement<br>(since 28/02/25) |
|---|---|---|
| FTSE 100 | 8,582.81 | -2.58% |
| FTSE 250 | 19,475.48 | -4.19% |
| FTSE AIM | 681.99 | -3.10% |
| EURO STOXX 50 | 5,248.39 | -3.94% |
| NASDAQ COMPOSITE | 17,299.29 | -8.21% |
| DOW JONES | 42,001.76 | -4.20% |
| NIKKEI 225 | 35,617.56 | -4.14% |

## Survey reports uptick in business activity

**Although the latest monthly economic growth statistics did reveal an unexpected contraction at the start of the year, more recent survey evidence points to a *"modest expansion"* in March.**

Figures published last month by ONS showed the UK economy shrank by 0.1% in January, driven by a sharp decline in manufacturing output; in contrast, a Reuters poll had predicted a monthly growth rate of 0.1%, following December's 0.4% expansion. While ONS said the economy was still estimated to have grown by 0.2% across the three months to January, it also noted the overall picture was one of *'weak growth.'*

Data from the recently released S&P Global/CIPS UK Purchasing Managers' Index (PMI) does point to a subsequent pick-up in activity, with March's preliminary headline growth indicator hitting a six-month high of 52.0. This upturn, though, was driven by only small pockets of growth, most notably in financial services, with manufacturers continuing to struggle.

S&P Global Market Intelligence's Chief Business Economist Chris Williamson said, *"The signal from the flash PMI is an economy eking out a modest expansion in March, consistent with quarterly GDP growth of just 0.1%. However, just as one swallow does not a summer make, one good PMI doesn't signal a recovery."*

## Retail sales unexpectedly rise

**The latest official retail sales statistics showed that sales volumes defied analysts' expectations by rising in February, while survey evidence points to a continuing modest pick-up in consumer sentiment.**

Figures released last month by ONS revealed that retail sales volumes grew by 1.0% in February, with broad-based strength reported across all major categories except food stores sales. This loosening of consumer purse-strings came as a surprise to most analysts, with a Reuters poll of economists actually predicting a 0.4% monthly contraction.

Data from GfK's most recent consumer confidence survey also reported further modest improvement in the overall level of consumer sentiment. While March's headline figure remained below the survey's long-run average of -10, consumer morale was buoyed by greater optimism in economic prospects and ticked up to a three-month high of -19.

Evidence from the latest CBI Distributive Trades Survey, however, shows the retail environment remains challenging. According to the survey, annual sales volumes fell *'markedly'* in March with retailers predicting a further decline, albeit at a slower pace, in April too. Firms across the retail and wholesale sectors suggested *'global trade tensions,'* as well as last Autumn's Budget decisions, were weighing on confidence and leading to a reduction in demand.

All details are correct at the time of writing (01 April 2025)