CBI Economics

Economy in brief

For CEOs, FDs, and business leaders

Your monthly overview of the major trends impacting the UK's main business sectors

January 2025

Employment rate
(Aug – Oct '24)
74.9%

Unemployment rate
(Aug – Oct '24)
4.3%

Productivity growth
(Output per hour, Q3 2024 on a year ago, flash estimate)
-1.8%

Real wage growth
(Aug – Oct '24 on a year ago, excl. bonuses, CPI adjusted)
2.2%

Government bond yields have risen globally…

2025 has gotten off to an eventful start. The turn of the year saw notable rises in sovereign debt yields across many advanced economies, sparking concern over government borrowing costs in highly indebted countries. Our recent note unpacks the rise in yields (see also the "In focus" box below): despite the global synchronicity, concerns around a deteriorating growth outlook exacerbated the volatility in the UK.

UK yields have edged lower since mid-January, but markets remain sensitive to any signs of a weaker economic outlook. A further spike in yields could also have implications for the public finances: most analysts believe that the rise in borrowing costs so far has eroded the Chancellor's headroom against her fiscal rules.

…amid activity weakening at home…

Concerns over the outlook followed signs of softer activity over H2 2024. Revisions to official data showed that the economy has flat-lined since the summer of 2024 – the latest data for November showed that the economy only managed to eke out growth of 0.1% on the month. Business surveys have softened, with the CBI's own growth indicator pointing to a significant fall in output over the quarter ahead. Hiring intentions also deteriorated – now at their weakest since the COVID pandemic – and price expectations have ticked higher.

Some softening in activity was always expected in the second half of 2024, but appears to have occurred quicker than expected. At least some of this is in reaction to measures announced in October's Budget. In our latest forecast, we do expect some growth momentum over the year ahead. But the sluggishness in recent data suggests that the risks to the outlook have probably moved further to the downside.

…complicating the trade-off for monetary policy

There was some respite from inflation nudging down in December, to 2.5%, in line with the Bank of England's forecast. However, much of the decline was driven by lower air fares and hotel prices, two components which can be notoriously volatile. Indeed, most of the Monetary Policy Committee (MPC) are still placing emphasis on the stickiness in domestic price pressures, reinforcing our view of only a gradual pace of interest rate cuts over the year ahead.

Nonetheless, the weakening in near-term activity is widening the trade-off facing the MPC in setting interest rates. Indeed, after voting in the minority to cut rates in December, the newest MPC member Alan Taylor indicated that he was inclined to vote for a faster pace of monetary loosening going forward, for this very reason.

Alpesh Paleja
Interim Deputy Chief Economist, CBI

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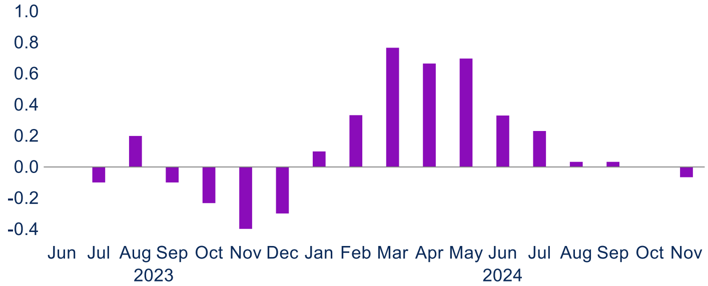
Round-up of CBI December surveys[1]

Growth expectations for the UK economy have turned firmly negative. According to the CBI's latest Growth Indicator, private sector activity is set to fall in the first quarter of 2025. Expectations were negative for the second month running and slipped to their weakest since November 2022. This disappointing outlook follows a sharp fall in reported private sector activity in the three months to December. Anecdotes from our surveys indicate that the Budget has dented business confidence and led to a widespread re-appraisal of hiring, investment and pricing plans. Our surveys found that headcount is set to be cut sharply in the quarter to March, with hiring intentions at their weakest since October 2020. ONS data show the labour market is cooling, with unemployment edging up and vacancies back at pre-pandemic levels, though wage growth remains robust. After easing through much of 2024, selling price expectations for the next three months picked up in all sub-sectors in our December surveys. CPI inflation has also ticked up recently, to stand at 2.5% in December.

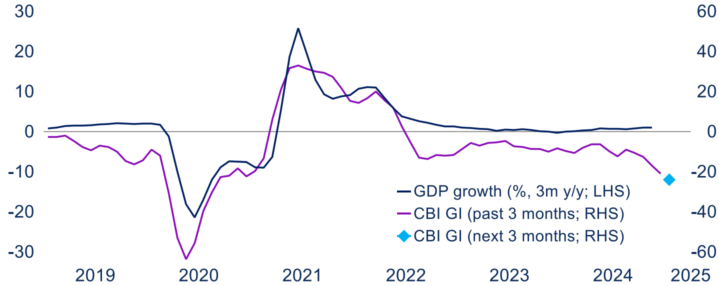
CBI composite indicators

	Output growth	Price expectations	Employment expectations
Past three months[2]			
Next three months[2]			

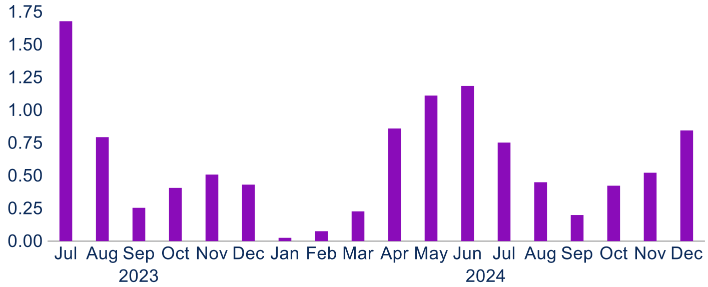
GDP Growth*
(% change, 3m/3m)



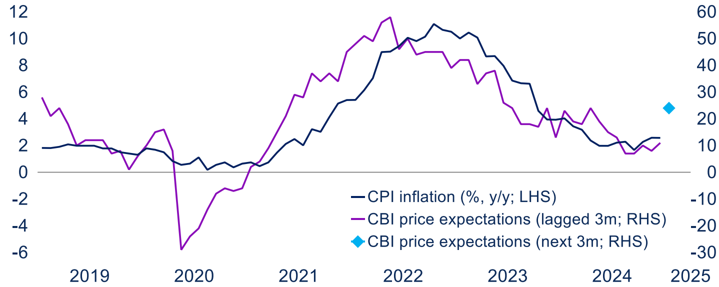
CBI Growth Indicator**
(% balance, unless otherwise stated)



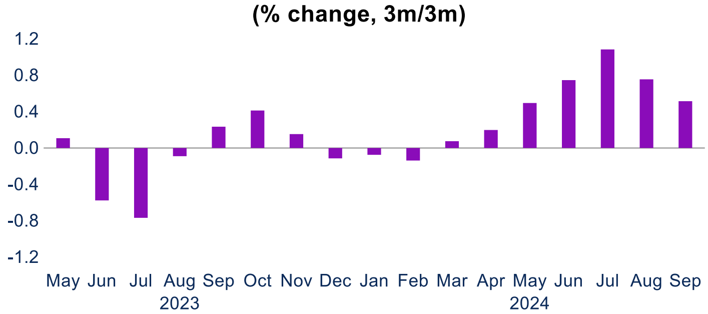
Consumer Prices Growth*
(% change, 3m/3m)



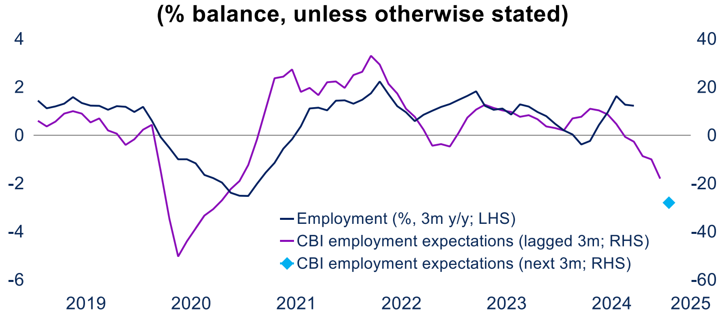
CBI Selling Prices Indicator**
(% balance, unless otherwise stated)



Employment Growth*
(% change, 3m/3m)



CBI Employment Indicator**
(% balance, unless otherwise stated)



1. December surveys were in field between 21 November and 12 December 2024.
2. Based on percentage balances — i.e. the difference between the % replying 'up' and the % replying 'down'. Colour indicators illustrate whether the reported balance/expectations balance is positive (green), negative (red), or broadly stable (amber). The arrows indicate whether expectations for the next three months are stronger, weaker or broadly the same as the balance for the past 3months (for output) or as the previous month's expectations (for prices and employment).
** Data source: Office for National Statistics (ONS). Employment is a rolling 3m average, dated according to the middle month. ** Data source: CBI and ONS.*

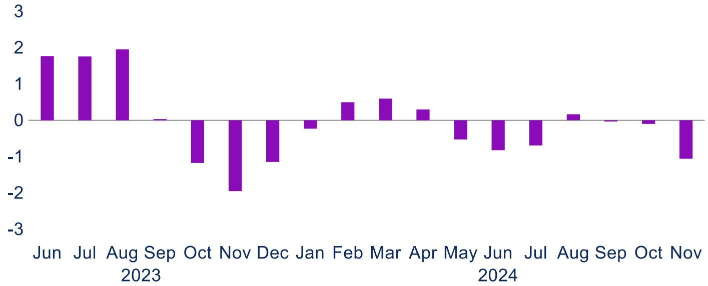
Growth indicator: sector detail

All three major sectors contributed to the fall in private sector activity over the three months to December, with the rate of decline accelerating compared to November in services, distribution and manufacturing. Looking ahead, private sector activity is expected to fall again in the three months to March 2025, reflecting another broad-based contraction. Within the services sector, business volumes in both business & professional and consumer services sub-sectors are expected to fall. Distribution sales and manufacturing output are also expected to decline sharply in the three months to March, with expectations in the latter at their weakest since May 2020. Meanwhile, our latest quarterly Financial Services Survey (which is not included in our growth composite), bucked the trend to a degree, showing a pick-up in business volumes in the quarter to December. Expectations for the quarter to March were similarly positive.

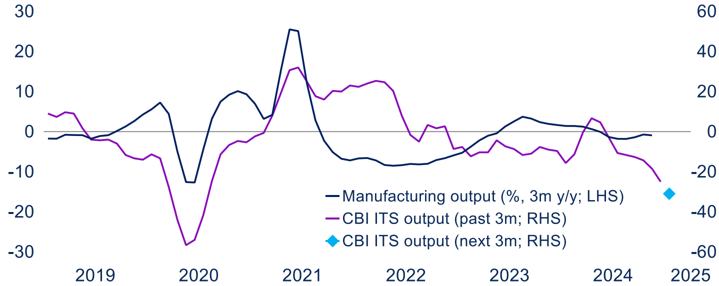
CBI sectoral indicators – output growth

	Manufacturing	Bus. & prof. services	Wholesale[2]	Retail[2]	Consumer services	Financial services[3]
Past three months[1]	●	●	●	●	●	●
Next three months[1]	↘	↘	↘	↗	→	→

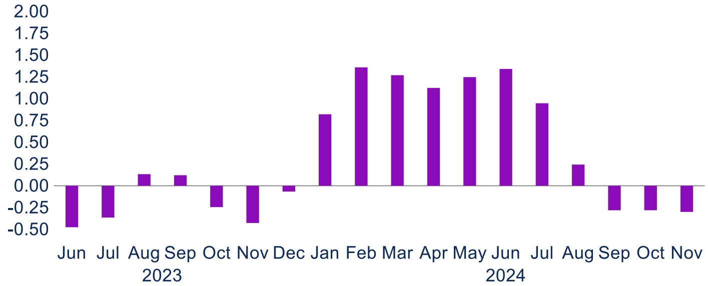
Manufacturing Output Growth*
(% change, 3m/3m)



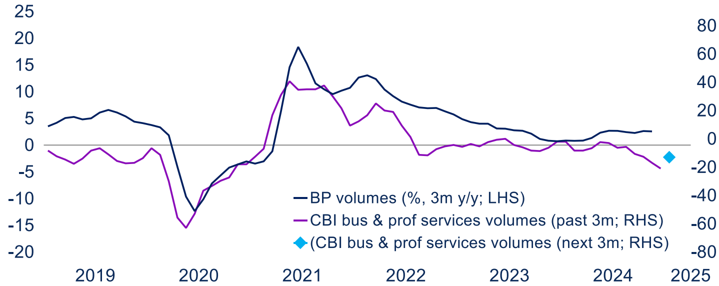
CBI Manufacturing Output Indicator**
(% balance, unless otherwise stated)



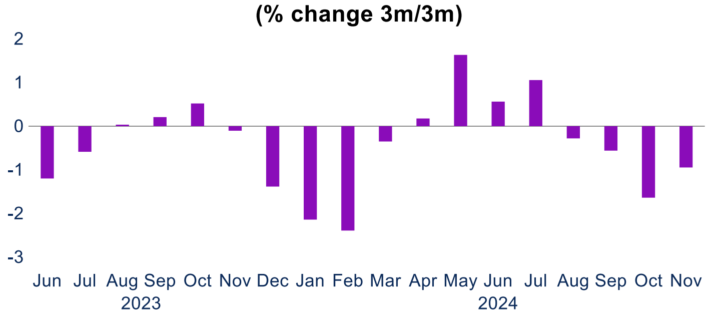
Business & Professional Services Volumes*
(% change, 3m/3m)



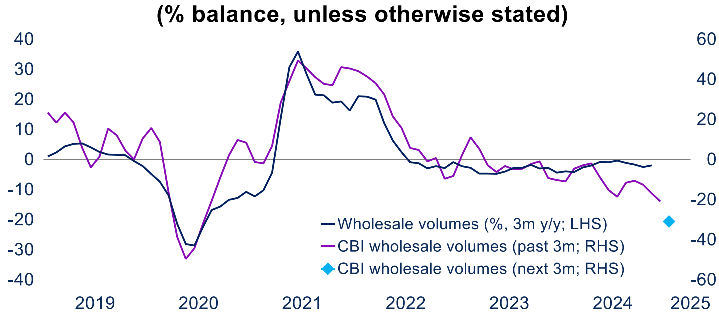
CBI Bus & Prof Services Volumes Indicator**
(% balance, unless otherwise stated)



Wholesale Volumes*
(% change 3m/3m)

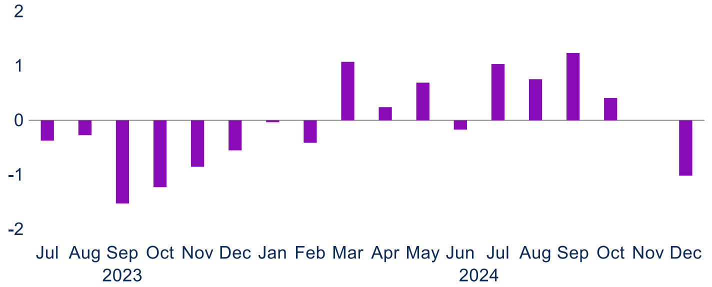


CBI DTS Wholesale Volumes Indicator** [2]
(% balance, unless otherwise stated)

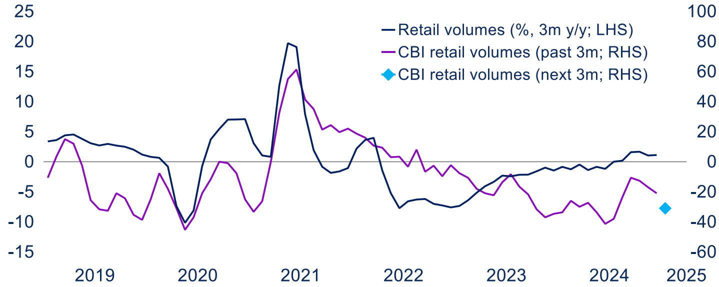


1. Based on percentage balances — i.e. the difference between the % replying 'up' and the % replying 'down'. Colour indicators illustrate whether the reported balance is positive (green), negative (red), or broadly stable (amber). The arrows indicate whether expectations for the next three months are stronger, weaker or broadly the same.
2. CBI Growth Indicator uses three-month-on-three-month growth, rather than year-on-year as used in the Distributive Trades Survey.
3. Financial services are not included in the growth indicator composite; the latest FSS was December 2024.
** Data source: Office for National Statistics (ONS). ** Data source: CBI and ONS.*

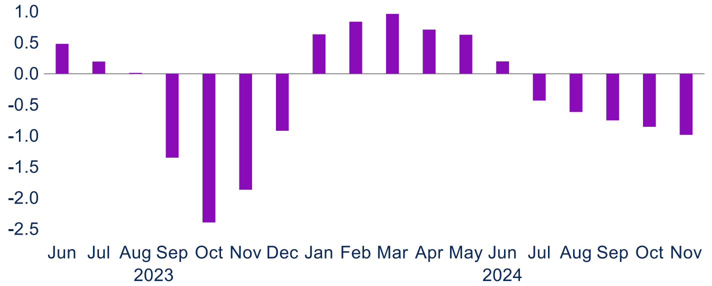
Retail Volumes*
(% change, 3m/3m)



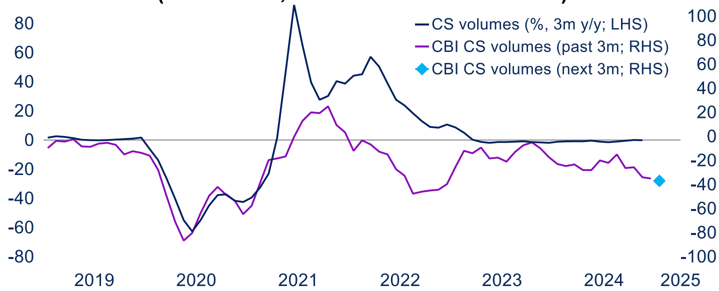
CBI DTS Retail Volumes Indicator[1]**
(% balance, unless otherwise stated)



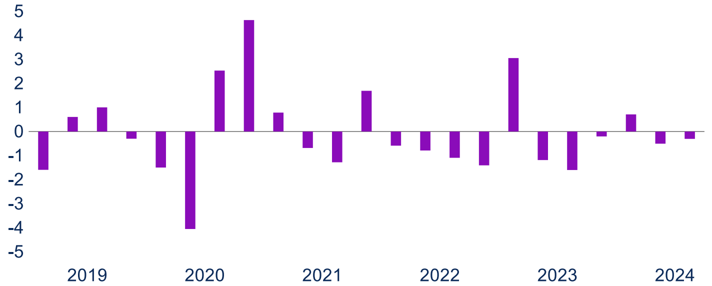
Consumer Services Volumes*
(% change, 3m/3m)



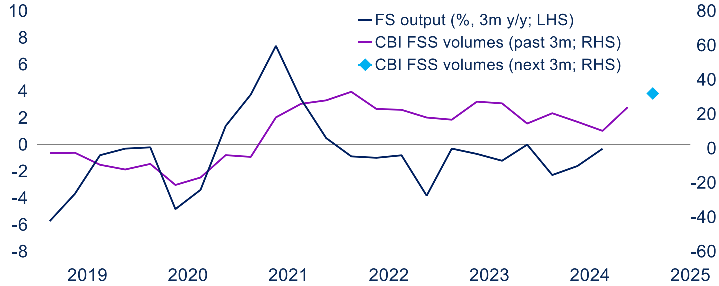
CBI Consumer Services Volumes Indicator**
(% balance, unless otherwise stated)



Financial Services Volume Growth*
(% change, 3m/3m)

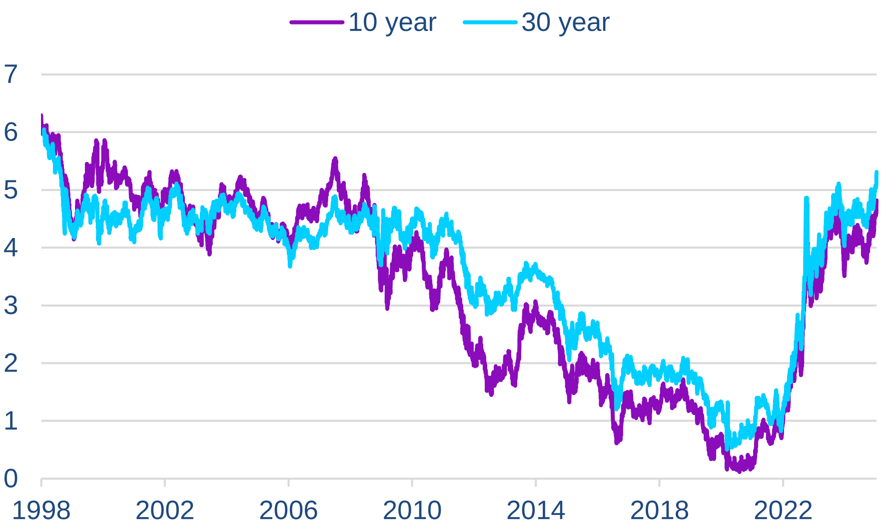


CBI Financial Services Volumes Indicator[2]**
(% balance, unless otherwise stated)



In focus: Rising UK Gilt yields

UK Gilt yields (%)



The turn of the year has seen a sharp increase in the cost of borrowing UK sovereign debt, as investors sought to offload government bonds (or "gilts"). At their peak,10 year-gilt yields stood at their highest since mid-2008 and the yield on 30-year debt rose to its highest since 1998.

The rise in yields reflects concerns around the fiscal loosening in the October 2024 Budget, but is also a reaction to a potentially weaker growth outlook, with a range of data disappointing on this front (including the CBI's own Growth Indicator).

However, it's important to note that the rise in gilt yields occurred as part of a broader rise in government bond yields across many advanced economies. Markets are increasingly concerned about the inflationary impact of policies by the incoming Trump administration in the US, through higher tariffs and more tax cuts – the latter exacerbating an already high public debt position. This is compounding jitters around persistence in inflation across advanced economies, and what this may mean for monetary policy.

UK gilt yields have been edging down since mid-January, prompted by some benign inflation data, and markets are likely to "self-correct" going forward. However, we cannot completely rule out a more sustained rise in bond yields, or further volatility in the coming months. In this case, contagion to the real economy would occur most immediately via higher borrowing costs for government and households.

1. CBI Growth Indicator uses three-month-on-three-month growth, rather than year-on-year as used in the Distributive Trades Survey.
2. Financial services are not included in the growth indicator composite; the latest FSS was December 2024.
** Data source: Office for National Statistics (ONS). ** Data source: CBI and Office for National Statistics (ONS).*