

Article

# Quarterly economic commentary: January to March 2025

Economic commentary for the latest quarterly national accounts, prices and labour market indicators.

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# 1 . Main points

- Real gross domestic product (GDP) increased by 0.7% in Quarter 1 (Jan to Mar) 2025, while real GDP per head increased by 0.6%.
- The UK current account deficit, excluding precious metals, was 2.5% of GDP in Quarter 1 2025, while the overall current account deficit was 3.2%.
- Several indicators suggest a loosening in the labour market since the start of 2025, while annual growth in regular pay was 5.2% in the period from February to April 2025.
- The annual rate of consumer price inflation (CPI) was 3.4% in May 2025, while core inflation was 3.5%, down from its peak of 7.1% in May 2023.

## 2 . National accounts

Gross domestic product (GDP) increased by 0.7% in Quarter 1 (Jan to Mar) 2025, following 0.1% growth in Quarter 4 (Oct to Dec) 2024. This leaves UK real GDP 1.3% higher compared with Quarter 1 2024. Output per hour worked increased but remained weak compared with medium-term trends.

The timelier monthly GDP figures showed a fall of 0.3% in April 2025, after growth of 0.2% in March 2025 and 0.5% in February 2025. Both services and production output decreased in April 2025, partly offset by the construction sector.

Real GDP per head is one proxy indicator for economic welfare. This rose by 0.6% in Quarter 1 2025, following 0.0% in Quarter 4 2024 (see Figure 1). UK real GDP per head was 0.6% higher, compared with a year ago.

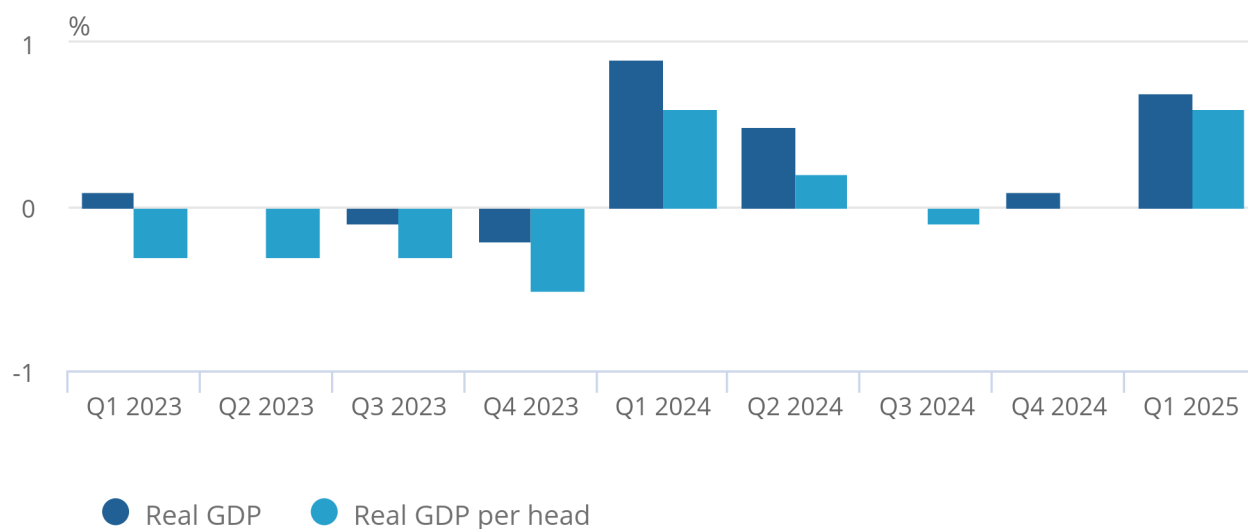
Our [Measures of National Well-being dashboard](#) and our [Measuring progress, well-being and beyond GDP in the UK bulletins](#) provide additional information about quality of life and holistic progress in the UK. There was not much short-term change in mean scores for indicators such as life satisfaction, happiness, anxiety, and things done in life that are worthwhile.

## Figure 1: Strong Q1 2025 growth in both real GDP and real GDP per head

Quarterly changes in real gross domestic product (GDP) and real GDP per head, 2023 to 2025

### Figure 1: Strong Q1 2025 growth in both real GDP and real GDP per head

Quarterly changes in real gross domestic product (GDP) and real GDP per head, 2023 to 2025



Source: Quarterly national accounts from the Office for National Statistics

#### Notes:

1. Percentage change on previous period.
2. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).
3. Population figures for 2023 onwards are consistent with the 2022-based population projections using the migration category variant as published on 28 January 2025.

The volume of household expenditure increased by 0.4% in Quarter 1 2025. Household disposable income growth outpaced inflation in 2024, but this was mostly used to increase savings. Real household disposable income (RHDI) decreased in Quarter 1 as nominal income slowed and prices increased.

The household saving ratio is the proportion of disposable income that households save, and it decreased to 10.9% in Quarter 1 2025, from 12.0% in the previous quarter, which was its highest level since the coronavirus (COVID-19) pandemic. The saving ratio is still high compared with its pre-pandemic level for both intertemporal and precautionary motives as consumer confidence is lower than a year ago, and there are continued signs of loosening in the labour market.

Monthly retail sales figures for May 2025 in our [Retail sales, Great Britain: May 2025 bulletin](#) showed monthly sales volumes had their largest fall since December 2023, down 2.7%. This was mainly because of reduced sales volumes in supermarkets, with some retailers attributing this to inflation and customer cutbacks, as well as reduced sales of alcohol and tobacco products. Sales volumes overall are up 0.8% compared with the previous three months.

Fixed investment increased in Quarter 1 2025 by 2.0% on the previous quarter, and it was 3.5% above its level a year ago. The increase in Quarter 1 was mainly led by business investment, which increased by 3.9% compared with the previous quarter, partly led by volatile components.

Exports increased faster than imports in Quarter 1, supporting the net trade contribution to real GDP growth. These improvements in investment and net trade in Quarter 1 may be related to trends in global economic activity in anticipation of trade tariffs. The underlying momentum is probably less firm as economic uncertainty remains the main challenge for UK businesses according to our [Business insights and impact on the UK economy: 19 June 2025 bulletin](#). Many forecasters expect GDP growth to be weak in Quarter 2 (Apr to June) (see [Forecasts for the UK economy: June 2025](#)).

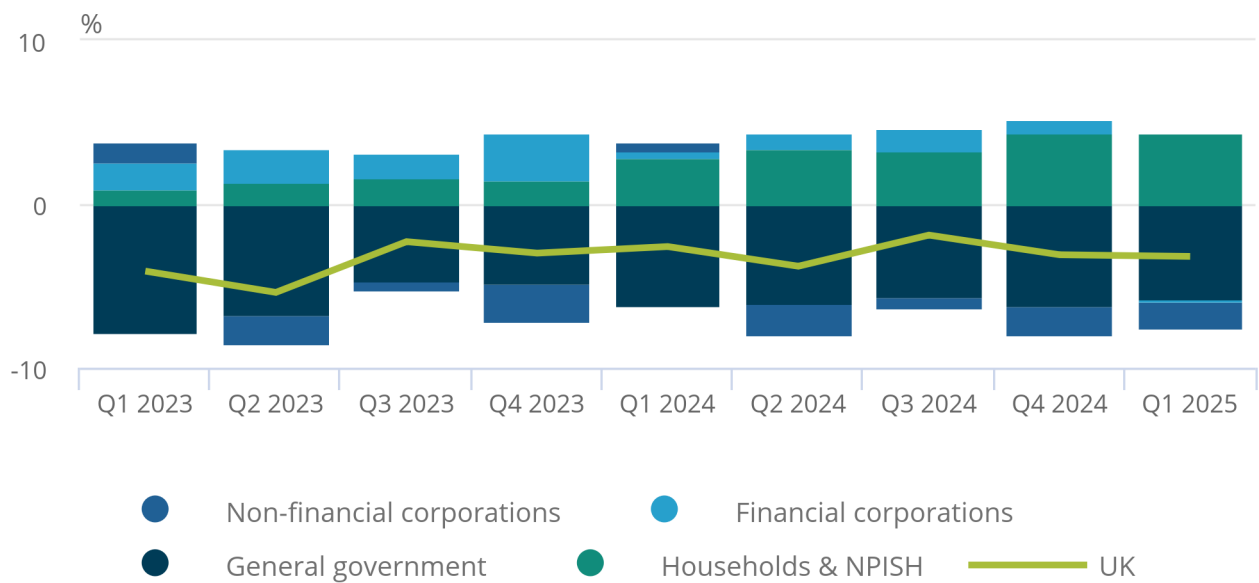
On sectoral balances, private non-financial corporations and the general government decreased their net borrowing in Quarter 1 as a percentage of GDP compared with the previous quarter (see Figure 2). This was offset by financial corporations moving to a net borrowing position from a net lending position in the previous quarter. This is the first time that financial corporations were a net borrower since Quarter 2 2022.

**Figure 2: The UK remains a net borrower from the rest of the world**

Net lending and borrowing by domestic sector in the UK as a percentage of gross domestic product (GDP), 2023 to 2025

Figure 2: The UK remains a net borrower from the rest of the world

Net lending and borrowing by domestic sector in the UK as a percentage of gross domestic product (GDP), 2023 to 2025



Source: Quarterly sector accounts from the Office for National Statistics

Notes:

1. NPISH stands for non-profit institutions serving households.
2. The bars show domestic sectors' net balances.
3. The line shows the UK's aggregate net balance with the rest of the world.

The more timely monthly data show that public sector net borrowing was £17.7 billion in May 2025. This was £0.7 billion more than in May 2024, and the second-highest May borrowing since monthly records began in 1993. Borrowing in the financial year to May 2025 was £37.7 billion. This was £1.6 billion more than in the same two-month period of 2024 and the third-highest April to May borrowing since monthly records began, after those of 2020 and 2021.

Public sector net debt excluding public sector banks was provisionally estimated at 96.4% of GDP at the end of May 2025. This is 0.5 percentage points more than at the end of May 2024, remaining at levels last seen in the early 1960s. Public sector net financial liabilities excluding public sector banks were provisionally estimated at 83.9% of GDP at the end of May 2025. This was 2.5 percentage points more than at the end of May 2024, but 12.5 percentage points less than for public sector net debt.

For more information, see our [Public sector finances. UK: May 2025 bulletin](#).

### 3 . Balance of payments

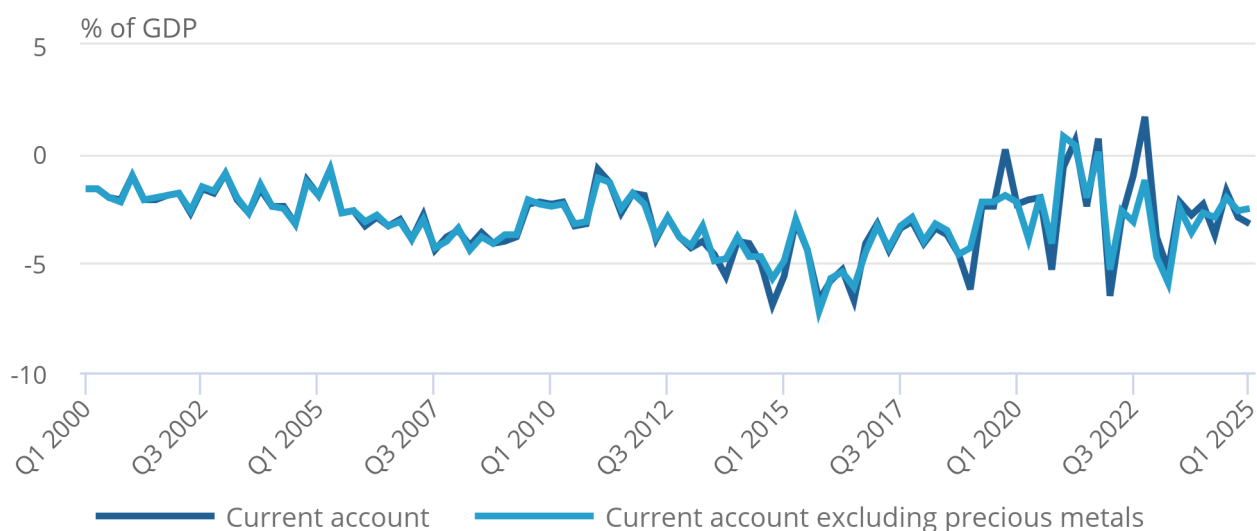
The UK was a net borrower from the rest of the world in Quarter 1 (Jan to March) 2025, with the UK current account deficit, including precious metals, widening to £23.5 billion, equating to 3.2% of gross domestic product (GDP). Excluding the volatile movements in precious metals, the underlying current account deficit narrowed to £18.6 billion or 2.5% of GDP in Quarter 1 (see Figure 3).

**Figure 3: The UK's underlying current account deficit, excluding precious metals, narrowed slightly in January to March 2025**

UK current account balance, percentage of gross domestic product (GDP), 2000 to 2025

Figure 3: The UK's underlying current account deficit, excluding precious metals, narrowed slightly in January to March 2025

UK current account balance, percentage of gross domestic product (GDP), 2000 to 2025



Source: Balance of payments from the Office for National Statistics

**Notes:**

1. The current account, excluding precious metals, is often used as an underlying measure. This is because movements in non-monetary gold, an important component of precious metals, can sometimes be large and highly volatile, distorting underlying trends in goods exports and imports.

The Organisation for Economic Co-operation and Development (OECD) identified the substantial increases in trade barriers and elevated trade policy uncertainty as considerable risks to growth in their [Economic Outlook, Volume 2025, Issue 1 report](#). The UK is less exposed to these risks, compared with many other economies, owing to its lower share of goods trade in total GDP. Despite economic uncertainty being cited by over 27% of UK businesses as the main turnover challenge, more firms are concerned about insufficient domestic demand (14.7%) than about low international demand (3.7%) as indicated in our [Business insights and impact on the UK economy: 19 June 2025 bulletin](#).

The deficit in primary income widened to £6.4 billion in Quarter 1, as income from UK investments abroad decreased by more than UK payments to foreign investors. This was partly offset by some narrowing of the deficit in secondary income in Quarter 1.

On the financial account, the UK saw net portfolio investment and reserve assets outflows, but this was more than offset by direct investment, financial derivatives and other investment inflows, leading to an overall net financial transactions inflow. In recent years, portfolio and other investments have experienced volatility. Such fluctuations are common during periods of changes in global financial conditions, especially for highly liquid forms of capital like debt and equity securities.

The UK's net international investment liabilities were £371.5 billion in Q1 2025. This was an increase from £280.1 billion in the previous quarter, owing to a combination of revaluation and other effects.



## 4 . Labour market

The labour market continues to cool according to Pay As You Earn real-time information (PAYE RTI) and survey-based data, such as the Purchasing Managers' Index (PMI). The number of payrolled employees (PAYE RTI) fell in May 2025 for seven consecutive months, and it is lower than a year ago. The PMI for employment continues to point to a contraction in private sector employment as it has been below the "no change" benchmark of 50 since October 2024.

A slowdown in the labour market is also recorded in the latest Bank of England's [Monthly Decision Maker Panel](#), with mean realised employment growth decreasing by 0.1 percentage points to 0.6% in May 2025. Internal factors such as higher labour costs, weaker outlook for the UK economy and external factors such as increased economic and geopolitical uncertainty are weighing on the employment outlook. The unemployment rate increased to 4.6% in the three months to April 2025, up from 4.4% in the same period a year ago.

Nevertheless, average weekly earnings (AWE) regular pay was 5.2% higher than the year before in the three months to April 2025, and wage growth remains stronger than suggested by fundamentals such as productivity, labour market slack, and inflation expectations. Real-time information (RTI) pay data showed similar annual growth rates compared with AWE total earnings including arrear payments. Pay settlements for 2025 continue to average 3.5% to 4% according to the Bank of England's latest [Agents' summary of business conditions](#). Higher national insurance contributions, a looser labour market, and lower inflation are the main reasons for lower pay awards compared with 2024.

The loosening of the labour market is now 7.4% below their pre-coronavirus (COVID-19) January to March 2020 level. Feedback from the Vacancy Survey suggests that some firms may not be replacing voluntary leavers or recruiting new workers.

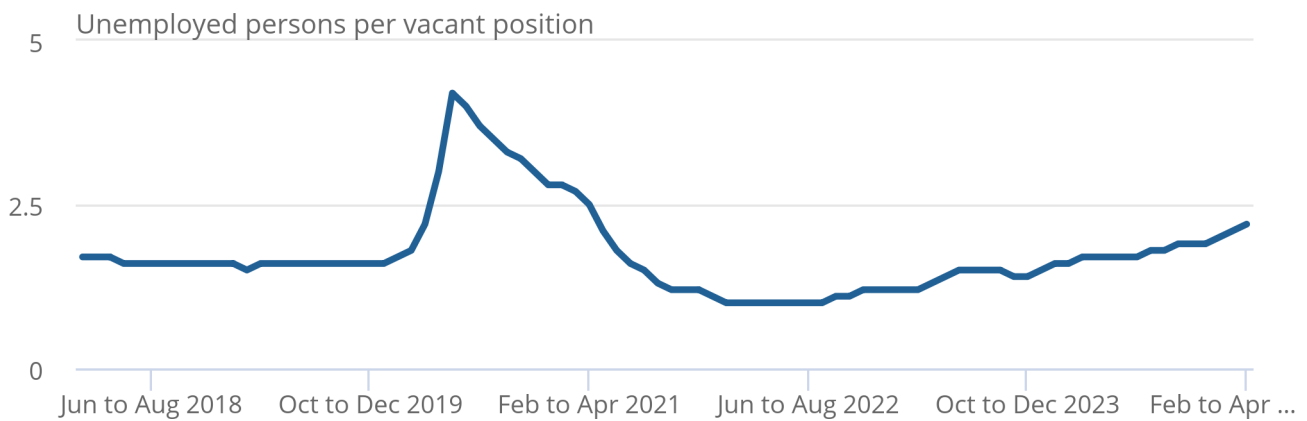
The slack in the labour market is also indicated by the increase in the number of unemployed people per vacancy. The ratio was 2.2 in February to April 2025, its highest since the coronavirus pandemic and above its pre-pandemic levels (see Figure 4). This weakening in labour market tightness suggests that some additional increase in the unemployment rate and the redundancies rate is possible in the coming months. A further loosening labour market may put additional downward pressure on wage inflation.

## Figure 4: The ratio of unemployed people to vacancies suggests a loosening labour market

Number of unemployed people per vacancy, 2018 to 2025, UK, seasonally adjusted

### Figure 4: The ratio of unemployed people to vacancies suggests a loosening labour market

Number of unemployed people per vacancy, 2018 to 2025, UK, seasonally adjusted



Source: Vacancy Survey and Labour Force Survey from the Office for National Statistics

## 5 . Prices

The annual rate of consumer price inflation (CPI) was 3.4% in the year to May 2025. Core CPI inflation (excluding volatile items such as food and energy) was 3.5% over the same period. This is a notable decline from peak inflation rates in recent years, but headline and core CPI inflation increased compared with their levels in the second half of last year. Compared with other advanced economies, the UK continues to have elevated core inflation (see Table 1).

Table 1: UK core inflation declined from its peak but remains among the highest in the G7  
Core inflation, G7, December 2024 to May 2025

	Canada	France	Germany	Italy	Japan	UK	US
<b>December</b>	1.9	1.6	3.0	1.6	1.6	3.2	3.2
<b>January</b>	1.6	1.8	2.8	1.7	1.7	3.7	3.3
<b>February</b>	2.6	1.6	2.6	1.5	1.6	3.5	3.1
<b>March</b>	2.4	1.6	2.5	1.6	1.7	3.4	2.8
<b>April</b>	2.8	1.6	2.7	2.0	1.7	3.8	2.8
<b>May</b>	2.6	1.4	2.5	1.7	1.8	3.5	2.8

Source: Organisation for Economic Co-operation and Development (OECD), US Bureau of Labour Statistics (BLS), and the Office for National Statistics (ONS)

### Notes

1. Core inflation in the UK is based on the CPI excluding energy, food, alcohol, and tobacco. Core inflation in the US is based on CPI excluding food and energy as reported by the U.S. Bureau of Labour Statistics (BLS).
2. Figures for other countries are based on the national measures of consumer price indices, excluding energy and food, as reported by the Organisation for Economic Cooperation and Development (OECD).
3. OECD data as of 27 June 2025.

Persistent UK core CPI inflation was primarily because of services prices, which rose by 4.7% in the year to May 2025. However, this was lower than the previous highs of 7.4% in May and July 2023. The more imports-led core goods price inflation, referring to CPI non-energy industrial goods, was 1.6% over the same period. This was up from around zero per cent last summer.

This wedge between core goods and service price inflation is reflected in our [Contributions to the 12-month rate of CPI\(H\) by import intensity dataset](#). The majority of the decline in the annual inflation rate from its post-coronavirus (COVID-19) pandemic peak was accounted for by CPI classes having a high import content. One indicator of domestic inflation is wage growth, which remains elevated. Outpacing productivity growth, this is adding to domestic inflationary pressures.

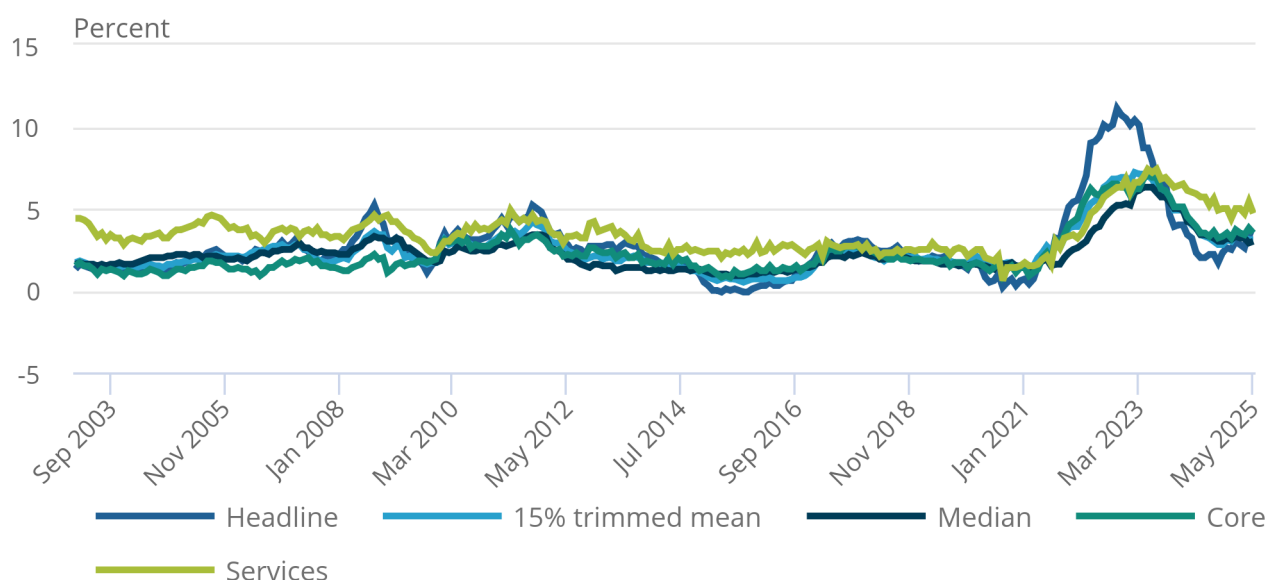
Our alternative indicators of core inflation, such as the median CPI and the 15% trimmed-mean CPI, did not increase much since the start of the year but they are no longer declining either. These alternative measures are discussed in our [New estimates of core inflation, UK: 2022 article](#).

**Figure 5: Alternative measures of core inflation decreased from its peak**

Annual rates of headline and core Consumer Price Index (CPI) inflation, 2003 to 2025

## Figure 5: Alternative measures of core inflation decreased from its peak

Annual rates of headline and core Consumer Price Index (CPI) inflation, 2003 to 2025



Source: Consumer price inflation from the Office for National Statistics

### Notes:

1. The official core CPI inflation measure excludes energy, food, alcoholic beverages, and tobacco.
2. The alternative trimmed mean core inflation measure removes the top 15% and bottom 15% of the distribution of CPI item price changes in every month.

The annual inflation rate for food and non-alcoholic beverages prices was 4.4% in the year to May 2025. This is up from 2.0% six months ago, but still markedly below its peak of close to 20% from early 2023. The recent increase in food price inflation was mainly because of increased prices for processed foods and non-alcoholic beverages, with an inflation rate of 5.3%. However, non-processed food price inflation also increased to 3.2%.

Energy prices are still lower than a year ago, by 1.7% in May 2025. The Ofgem price cap increased by 6.4% in April this year, compared with its 12.3% fall from April last year. This was offset by the decline in transport fuel prices over the three months to May 2025, but uncertainty about the oil price outlook has again increased following renewed geopolitical tensions in oil-producing regions.

Household inflation expectations were unchanged in May 2025, with one-year-ahead expectations at 3.2% and five-year-ahead expectations at 3.6%, according to the [Bank of England and Ipsos Inflation Attitudes Survey](#). The recent increase in food prices might put some upward pressure on household inflation expectations as many food products are considered as non-discretionary items that consumers purchase on a weekly basis.

## 6 . Related links

### [GDP quarterly national accounts, UK: January to March 2025](#)

Bulletin | Released 30 June 2025

Revised quarterly estimate of gross domestic product (GDP) for the UK. Uses additional data to provide a more precise indication of economic growth than the first estimate.

### [Balance of payments, UK: January to March 2025](#)

Bulletin | Released 30 June 2025

A measure of cross-border transactions between the UK and rest of the world. Includes trade, income, capital transfers and foreign assets and liabilities.

### [Public sector finances, UK: May 2025](#)

Bulletin | Released 20 June 2025

How the relationship between UK public sector monthly income and expenditure leads to changes in deficit and debt.

### [Labour market overview, UK: June 2025](#)

Bulletin | Released 10 June 2025

Estimates of employment, unemployment, economic inactivity, and other employment-related statistics for the UK.

### [Consumer price inflation, UK: May 2025](#)

Bulletin | Released 18 June 2025

Price indices, percentage changes and weights for the different measures of consumer price inflation.

## 7 . Cite this article

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