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UK Economy Shrinks Again in May, Intensifying Pressure on Chancellor Reeves

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The UK economy contracted by 0.1% in May 2025, following a steeper fall in April, raising fresh concerns about stagnation. Chancellor Rachel Reeves is facing mounting pressure to deliver economic stability amid shrinking output, persistent inflation, and global trade threats.

The Office for National Statistics (ONS) has confirmed that the United Kingdom's Gross Domestic Product (GDP) shrank by 0.1% in May 2025. This follows a 0.3% decline in April, placing further strain on Chancellor Rachel Reeves as the government seeks to balance growth with fiscal discipline.

The latest figures reveal a broad-based downturn. Industrial production declined by 0.9%, with notable weakness in the oil and gas sector, car manufacturing, and pharmaceuticals. Construction output also fell by 0.6%, reflecting a slowdown in commercial and residential projects. Although the services sector recorded a slight 0.1% increase, it was not enough to offset losses elsewhere.

With inflation holding at 3.4% and interest rates set at 4.25%, the economic backdrop remains challenging. Reeves has pledged to "get more money into people's pockets," but options are limited. High public debt interest payments and pre-committed spending leave little room for sweeping interventions.

Experts have warned that the recent back-to-back contractions increase the risk of stagflation, a toxic mix of stagnant growth and persistent inflation. Suren Thiru, of the Institute of Chartered Accountants in England and Wales (ICAEW), cautioned that the figures have "undoubtedly increased anxiety over the health of the UK economy."

International factors are compounding domestic challenges. There is growing concern over potential new tariffs on UK exports from the United States under President Donald Trump's administration. While some firms had advanced purchases earlier in the year to get ahead of possible trade barriers, this effect is expected to be short-lived.

From a centre-right perspective, the case for targeted tax relief and business incentives is clear. Measures that reduce burdens on small firms, encourage capital investment, and streamline regulation could help restart growth without abandoning fiscal restraint.

The Bank of England is now under pressure to consider a rate cut as early as August. However, with inflation still above the official 2% target, any monetary easing must be approached with caution.

As the second quarter comes to a close, Chancellor Reeves faces a pivotal moment. The Treasury must act decisively to safeguard growth while resisting unsustainable borrowing or tax hikes that could further weaken economic confidence.