UK Businesses Slash Jobs at Fastest Rate Since February Amid Economic Strain

July 25, 2025
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The UK private sector is cutting jobs at the fastest rate since February, driven by rising payroll taxes and concerns over Donald Trump's looming tariff threats, according to the latest S&P Global flash Purchasing Managers' Index (PMI) for July. The survey, a key barometer of economic health, revealed a slump in new orders, squeezing employment and stifling growth.

The PMI report noted: “Survey respondents frequently cited the need to scale back headcounts due to escalating payroll costs and weak customer demand.” This follows the Labour government’s recent Budget, which increased employment taxes—a move widely criticised for undermining business confidence. Compounding the gloom, global uncertainty stoked by Trump’s protectionist rhetoric has left firms bracing for tougher trading conditions.

The PMI, which covers both services and manufacturing, fell from 52 to 51 in July, remaining just above the 50 mark that indicates the services sector was hardest hit, falling from 52.8 to 51.2, while manufacturing output stagnated at 50. This slowdown aligns with official data showing the economy shrank in April and May, with unemployment creeping up to 4.7% in May, the highest in four years.

James Smith, an economist at ING, summed up the challenge: “The PMI captures the tightrope the Bank of England is walking.” Inflation, stubbornly stuck at 3.4% against the Bank’s 2% target, shows little sign of easing until 2026, per Threadneedle Street’s forecasts. Yet, with growth faltering, the Bank is tipped to trim interest rates from 4.25% to 4% at its next meeting in two weeks, aiming to jolt the economy back to life.

Smith added, “But these same policies are also fuelling price pressures, particularly in food and hospitality, where inflation has risen more than in the eurozone.” The survey reported a ninth straight month of declining export sales, with firms citing Trump’s tariff threats and intense competition from Chinese firms, displaced by US tariffs, as major factors.

Despite the dour mood, businesses remain cautiously hopeful. Many expect global tensions to ease and interest rates to decline, fostering a brighter outlook for the next year. They also anticipate that households, buoyed by recent savings, will loosen their purse strings, spurring demand.

Chris Williamson, chief business economist at S&P Global Market Intelligence, struck a sobering note: “The UK economy is barely treading water, with output growth slowing to a crawl at a 0.1% quarterly rate. The risks are skewed downwards as we head into the second half of 2025.”

The data presents a bleak outlook for an economy under pressure, with Labour’s tax measures and global headwinds threatening to derail recovery. As businesses tighten their belts, the Bank of England faces a daunting task to steer the UK through choppy waters.