

Weekly policy update from the London Chamber of Commerce and Industry

A round-up of key policy changes from the past seven days (8-15 May 2025)

UK-US Trade Agreement

On 9 May 2025, the UK Government announced a new trade agreement with the United States aimed at reducing tariffs and supporting key British industries. The deal eliminates US tariffs on UK steel and aluminium and lowers car export tariffs from 27.5% to 10% for up to 100,000 vehicles annually. It also grants UK farmers a quota for beef exports while maintaining domestic food standards. The agreement is expected to provide cost savings for manufacturers and exporters, particularly in the automotive and steel sectors, and follows a similar trade deal with India earlier in the week. The UK will also benefit from preferential treatment in future US tariff investigations and has agreed to pursue further cooperation on digital trade and advanced technology sectors. The government has positioned the deal as part of a broader strategy to enhance economic stability and support domestic employment.

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UK Economy Shows Signs of Improvement

According to the latest release from the Office for National Statistics on 15 May, UK gross domestic product (GDP) is estimated to have grown by 0.7% in the first quarter of the year. The services and production sectors led growth, while construction output remained flat. On the expenditure side, the expansion was supported by increased household consumption, gross fixed capital formation, and net trade. Real GDP per head rose following two consecutive quarters of decline, and nominal GDP was lifted by higher employee compensation.

These early estimates indicate a broad-based improvement in economic activity; however, they do not yet account for the potential effects of recent US tariffs or new trade agreements, which came into effect in the second quarter.

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Early May Indicators Show Mixed Sector Performance

In its 9 May 2025 release, the ONS presented the latest real-time economic indicators, offering a more granular view of recent activity ahead of the confirmed GDP growth figures. Retail footfall rose by 6% in the week to 4 May, with high streets seeing the most substantial gains, suggesting a modest rebound in consumer activity. However, cost-of-living pressures remained evident, with 72% of adults reporting increased expenses in April. Business sentiment showed signs of caution, with 17% of firms with 10 or more employees anticipating impacts from recently introduced US tariffs. Energy prices declined week-on-week but remained elevated compared to the same period in 2024. Other indicators, such as stable flight volumes, increased port activity, and Energy Performance Certificate issuances, point to sector-specific resilience.

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Labour Market Update

The Office for National Statistics reported a decline in UK payrolled employment, with 33,000 fewer employees in April compared to March, and a year-on-year decrease of 106,000. The unemployment rate rose to 4.5% in the first quarter of 2025, while economic inactivity fell slightly to 21.4%. Vacancies continued to decline for the 34th consecutive quarter, with notable reductions across most sectors. Despite these trends, average earnings grew by 5.6% excluding bonuses, and real wage growth remained positive when adjusted for inflation. The accommodation and food services sector saw the most significant annual increase in median pay, while employment gains were concentrated in health and social work.

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Government Tightens Immigration with Focus on Skills

On 9 May 2025, the Prime Minister presented the government's Immigration White Paper, outlining a new approach to immigration policy aimed at reducing overall numbers while aligning migration with economic priorities. The plan includes raising skills requirements for work visas to degree level, tightening eligibility across work, family, and study routes, and extending the settlement qualification period from five to ten years. The Prime Minister emphasised that businesses seeking to hire from abroad must demonstrate investment in domestic workforce development. The reforms aim to reduce reliance on low-cost foreign labour and encourage greater investment in training and apprenticeships, particularly in sectors such as engineering. The government also reaffirmed its commitment to attracting high-skilled talent in science, technology, engineering, and mathematics (STEM) to support economic growth.

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Department for Transport Backs Green Aviation Fuel

The UK government introduced new legislation to support the growth of sustainable aviation fuel (SAF) production, aiming to strengthen the domestic green energy sector and create jobs. The measures include a revenue certainty mechanism to stabilise costs for producers and consumers, funded through a levy on aviation fuel suppliers. An additional £400,000 has been allocated to accelerate new fuel testing and market entry, complementing the £63 million already committed through the Advanced Fuels Fund. These steps are designed to help the industry meet the SAF Mandate, which requires 10% of jet fuel used in UK flights to be sustainable by 2030. The government estimates that the SAF sector could contribute up to £5 billion to the UK economy by 2050, supporting long-term growth in aviation, engineering, and clean energy.

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LCCI has previously welcomed the government's SAF mandate and the introduction of a revenue certainty mechanism, which is considered essential to unlocking investment in the sector. In our Green Skies report and consultation responses, LCCI called for a guaranteed strike price model to provide investor confidence and prevent cost burdens from falling on passengers. The Chamber has also urged the government to accelerate implementation, warning that delays could hinder the development of domestic SAF plants and risk the UK falling behind international competitors.

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Mayor Proposes Strategic Green Belt Development

On 9 May 2025, the Mayor of London announced a shift in City Hall's planning policy, stating that parts of the capital's green belt will be actively considered for development to help meet London's growing housing needs. In a speech delivered in Greenwich, the Mayor outlined the scale of the housing crisis, citing a requirement for 88,000 new homes annually over the next decade. He argued that relying solely on brownfield land is insufficient and proposed a strategic release of low-quality or inaccessible green belt areas, particularly those near transport links, to enable the construction of affordable and energy-efficient homes. The proposal includes conditions to enhance biodiversity and public access to green spaces. This announcement coincides with the launch of a public consultation on the next London Plan, which will guide the city's development over the next 20 to 25 years.

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Outdoor Hospitality Backed by City Hall

The Mayor of London announced a new £300,000 Summer Streets Fund aimed at supporting al fresco dining and extended opening hours across the capital's hospitality sector. Developed in partnership with local councils, the initiative will enable restaurants, pubs, and small venues to create or expand outdoor service areas and streamline licensing processes. This move aligns with the forthcoming transfer of strategic licensing powers to the Mayor, intended to enhance the city's hospitality, culture, and nightlife. The fund complements the London Growth Plan, launched in February, focusing on revitalising high streets and supporting local economic development.

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