

Weekly policy update from the London Chamber of Commerce and Industry

A round-up of key policy changes from the past seven days (29 May - 5 June 2025)

Macroeconomic and Strategic Developments

Strategic Defence Review Unveiled

On 2 June 2025, the Prime Minister launched the Strategic Defence Review, which outlines a multi-billion-pound plan to enhance the UK's defence capabilities and industrial base. The review sets out three core objectives: achieving war-fighting readiness, reinforcing NATO commitments, and accelerating defence innovation. Key measures include the construction of six new munitions factories, the production of thousands of long-range weapons, and a £15 billion investment in the Sovereign Warhead Programme, which is expected to create over 10,000 jobs. The review also introduces a "hybrid" Royal Navy, expanded cyber and missile defence systems, and a new Digital Targeting Web.

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UK Economic Indicators update

On 30 May 2025, the House of Commons Library published updated economic indicators, which reveal that the UK's GDP grew by 0.7% in Q1 2025, surpassing the Eurozone's 0.3% growth. The Chancellor described the figures as a sign that the economy is "beginning to turn a corner." However, economists have expressed concerns about the sustainability of this growth, citing rising inflation, up to 3.5% in April, and global trade uncertainties. Employment rose to 75.0%, with 640,000 more people in work than the previous year, while productivity saw only a modest quarterly increase of 0.2%. Despite a decline in the trade deficit and a 6.4% increase in house prices, public borrowing and debt remain elevated, and consumer confidence, although improving, remains negative.

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M&A Activity Rises in Value Despite Fewer Deals

ONS reported that the total value of UK-related mergers and acquisitions (M&A) rose significantly in Q1 2025 despite a decline in the number of transactions. Inward M&A reached £19.2 billion, and outward M&A totalled £9.4 billion—both the highest since late 2022—driven by a few large deals. Domestic M&A fell to £2.9 billion, down from £6.4 billion in Q4 2024. The total number of M&A transactions dropped to 395 from 497 in the previous quarter. The Bank of England noted that while M&A activity showed signs of improvement, broader investment remained constrained by financial pressures and market uncertainty.

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Manufacturing Output Slows

On 3 June 2025, the House of Commons Library published updated economic indicators for the UK manufacturing sector. Output increased by 0.8% in the three months to March 2025 compared to the previous quarter but remained 0.4% lower than the same period the year before. Monthly data revealed a 0.8% decline in output between February and March, with seven of thirteen subsectors contracting. The UK manufacturing Purchasing Managers' Index (PMI) rose slightly to 46.4 in May, up from 45.4 in April, but still indicated contraction for the eighth consecutive month. Businesses mentioned cost pressures and tariff-related uncertainty as key concerns, although input price inflation eased and confidence improved.

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Retail and Spending Rise Over Bank Holiday as Staffing Costs Increase

On 5 June 2025, the Office for National Statistics published real-time indicators showing a 5% weekly rise in UK retail footfall and an 8% increase in Revolut debit card spending in the week to 1 June, coinciding with the late May bank holiday. Compared to the same week in 2024, foot traffic was down 1%, while spending increased by 11%. Business survey data showed that 77% of larger trading firms reported increased staffing costs over the past three months. Meanwhile, electricity and gas prices fell by 13% and 4%, respectively, and ship visits to UK ports rose by 2%. Daily flights and new dwelling energy certificates remained broadly stable.

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Policy and Regulatory Initiatives

Cyber and Defence Export Responsibilities Restructuring

On 3 June 2025, the Prime Minister announced changes to the allocation of government responsibilities. Effective immediately, responsibility for public sector cybersecurity has transferred from the Cabinet Office to the Department for Science, Innovation, and Technology. The move aims to enhance resilience and align cyber policy more closely with digital services. Additionally, from 31 July 2025, the promotion of most UK defence exports will shift from the Department for Business and Trade to the Ministry of Defence. This change is intended to streamline the defence export strategy, aligning it with procurement and international engagement under the Defence Industrial Strategy. Security and cyber exports will remain under the jurisdiction of the Department for Business and Trade.

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UK to Modernise Airspace

On 2 June 2025, the Department for Transport announced new legislation to modernise UK airspace, aiming to reduce flight delays, lower emissions, and support airport expansion. The initiative will establish the UK Airspace Design Service (UKADS), operated by NATS (En Route) plc (NERL), to deliver the most significant redesign of UK flight paths since the 1950s. The changes are expected to enhance flight efficiency, reduce noise pollution, and facilitate the integration of emerging technologies, such as drones and flying taxis. Initial efforts will focus on London's airspace, with the expansion of Heathrow alone projected to create over 100,000 jobs.

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Energy Efficiency Trial for Hospitality Sector Launch

On 3 June 2025, the UK Government announced a new emissions reduction trial aimed at supporting over 600 small and medium-sized hospitality businesses, including pubs, cafes, restaurants, and hotels. Delivered by Zero Carbon Services and funded with £350,000, the scheme will provide free energy and carbon reduction assessments to help businesses cut costs and emissions. The initiative, part of the government's broader Plan for Change, is expected to save the sector £3 million and reduce carbon emissions by 2,700 tonnes. The trial will run from May 2025 to March 2026 and forms part of the government's upcoming Industrial Strategy and renewed Industrial Decarbonisation Strategy.

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Overview of Support for Small Businesses Published

The House of Commons Library released a research briefing outlining the range of support available to small businesses in the UK. The government provides both financial and non-financial assistance, including advice services, access to finance through the British Business Bank, and tax incentives. Key financial schemes include Start Up Loans, the Growth Guarantee Scheme, and ENABLE programmes. Equity investment is also encouraged through tax reliefs and co-investment initiatives. Additionally, Innovate UK and UK Export Finance offer targeted support for innovation and international trade. Subsidies are regulated under the Subsidy Control Act 2022, with streamlined rules for smaller awards of less than £315,000.

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