

Weekly policy update from London Chamber of Commerce and Industry

A round-up of key policy changes from the past seven days (18-24 November 2024)

Business Activity Declines for the First Time in a Year Amid Concerns Over the Budget

UK business activity has fallen for the first time in 13 months, as shown by the composite PMI index dropping to 49.9 in November from 51.8 in October. The index, which tracks manufacturing and services activity, including new orders, business output, employment, costs, and prices, indicates worsening conditions in both sectors. Manufacturing PMI declined to 48.6, signalling deeper contraction, while services PMI dipped to 50, barely avoiding contraction. This decline reflects reduced demand, rising payroll expenses, and persistent cost pressures, leading to heightened fears over job cuts and inflation.

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UK Retail Sales Declined Ahead of Budget

UK retail sales fell by 0.7% in October, with clothing stores particularly struggling as shoppers held off on spending ahead of the Budget. Despite this, broader trends showed resilience, with sales volumes up 0.8% in August to October. Speculation over potential tax increases and milder weather contributed to weaker consumer spending. At the same time, major retailers have warned of job losses and price hikes in response to rising costs and tax pressures.

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Government borrowing higher than estimates in October

Government debt rose more than anticipated in October due to higher public sector pay and increasing debt interest costs. Official figures showed that public sector net borrowing reached £17.4 billion, significantly exceeding economists' estimates of £12.3 billion ahead of the Chancellor's Budget.

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Government May Mandate Pension Funds to Increase Investments

The Pensions Minister, Emma Reynolds, has indicated that the Government might compel pension schemes to prioritise domestic investments if planned "megafunds" fall short. Proposed reforms include consolidating local Government and defining contribution pension schemes into larger asset pools to enhance governance and lower costs. While Reynolds acknowledged the link with pensions tax relief, she emphasised that no immediate decisions are forthcoming.

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Business Secretary Highlights UK Vulnerability in Global Trade Conflicts

Business Secretary Jonathan Reynolds has cautioned that the UK is particularly vulnerable to the impacts of a global trade war. Speaking to the International Agreements Committee, Reynolds noted that the UK's economic exposure would be greater than that of larger economies like the US in the event of heightened trade tensions between China and the West.

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Prime Minister Announces Relaunch of UK-India Trade Talks

The UK-India trade negotiations will resume in early 2025 following discussions between Prime Ministers Keir Starmer and Narendra Modi at the G20 summit. The UK aims to secure a trade deal with India, currently its fifth-largest trading partner, to boost the £42 billion trading relationship. The talks will also strengthen collaboration in areas like security, education, technology, and climate change, supporting economic growth and job creation in both countries.

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Key Takeaways from Treasury Committee Session on Bank of England Monetary Policy

Senior Bank of England officials and external experts addressed key topics during a Treasury Select Committee session.

Quantitative Tightening: Governor Andrew Bailey criticised the idea of a tiered reserve system, warning it could undermine monetary policy and function as a tax on banks.

Inflation and Wages: Deputy Governor Clare Lombardelli highlighted persistent cost pressures in services and labour supply concerns as critical obstacles to quicker rate cuts, with clearer insights expected early next year.

Geopolitics and Trade: Bailey advocated for a pro-free trade stance with the EU, China, and the US, affirming that the UK-EU financial dialogue has mitigated some Brexit-related impacts.

Budget Impact: Professor Alan Taylor noted that inflationary effects from the Autumn Budget are balanced by easing cost pressures across the economy, aligning with the November MPC guidance.

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Government Seeks Feedback on Tackling Subscription Traps

The Department for Business and Trade has launched a consultation aimed at improving consumer protection against subscription traps. Proposals include more apparent contract cancellation methods, better refund policies, and renewal notifications, potentially saving consumers an average of £14 per month. Input is invited from businesses, consumer groups, and enforcement bodies, building on the Digital Market, Competition and Consumers Act enacted earlier this year.

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BTC Launches Business-Parliament Engagement Programme

The Business and Trade Committee (BTC) has launched an engagement programme to foster a stronger relationship between business and Parliament. The first step is an online survey seeking input from businesses, trade unions, and consumer groups on the Government's economic goals, including growth and global trade. This initiative will inform the BTC's recommendations to the Department for Business and Trade based on insights from businesses across the UK.

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The Great British Energy Bill: Second Reading in the House of Lords

The Great British Energy Bill had its Second Reading in the House of Lords, with Energy Minister Lord Hunt outlining the Government's commitment to making the UK a clean energy superpower. The Bill aims to establish Great British Energy (GBE) to accelerate clean energy projects, improve energy independence, and create jobs, with £25 million allocated in the Budget to start the initiative. Debate in the Lords included concerns over the Bill's lack of detail, funding for GBE, and its potential impact on existing energy sectors, while the Government emphasised that more policy details would be provided in future stages.

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Government Considering Subsidised Jobs Programme for Young People

The Government is exploring a subsidised jobs scheme to help young people enter the workforce, following concerns over high youth unemployment. ONS data shows that nearly 790,000 young people are neither working nor seeking work, with additional challenges stemming from mental health issues and insufficient skills training. While no final decision has been made, experts emphasise that any plan should be paired with a more significant investment in apprenticeships and skill development to address the root causes of youth unemployment.

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Home Secretary Pledges £500m Boost for Neighbourhood Policing

Home Secretary Yvette Cooper is set to announce an additional £500m to strengthen neighbourhood policing across the UK. The funding will support efforts to tackle critical issues, including knife crime and violence against women and girls. A new monitoring unit will also be established to oversee police performance in priority areas and drive nationwide improvements.

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UK Inflation Rises to 2.3% in October

UK inflation reached a six-month high in October, increasing to 2.3%, surpassing the Bank of England's 2% target. The rise was primarily driven by higher household energy costs, with typical gas and electricity bills increasing by nearly £149. Despite this, prices are rising slower than in previous years. The increase exceeded both expert predictions and the Bank's target, which has led to speculation that further interest rate cuts may be delayed.

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New Skills Hubs to Boost UK Homebuilding

The Government has launched 32 new Homebuilding Skills Hubs to provide fast-track training for 5,000 construction apprentices annually as part of a £140m investment to drive the UK's housebuilding sector. These hubs will offer specialised training in key construction trades, including bricklaying and carpentry. Apprentices will complete their courses in 12-18 months, half the time of traditional apprenticeships. The initiative is designed to address skills shortages and help meet the ambitious target of building 1.5 million homes across the UK by the end of this Parliament.

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Mayor Proposes Rent-Controlled Homes for Key Workers

Sadiq Khan, Mayor of London, has launched a consultation on a new initiative to create rent-controlled homes aimed at key workers, offering rents based on 40% of their average household income. This proposal could save key workers up to £600 a month, with rent increases potentially linked to wage growth. The Mayor plans to build at least 6,000 homes by 2030, targeting those in professions such as nurses, teachers, and bus drivers, and is seeking input from key workers, housing developers, and providers to refine the plan.

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