# London market dips as UK economy contracts and US tariffs rise



London’s stock market ended a volatile week on a subdued note, weighed down by disappointing UK economic data and renewed fears of escalating US trade tariffs. The FTSE 100 closed down 0.4%, retreating after earlier gains, as investors grappled with a shrinking economy and the prospect of additional tariffs targeting Canada and possibly the European Union.

Data released by the Office for National Statistics revealed that the UK economy contracted by 0.1% in May, marking the second consecutive month of decline following a 0.3% drop in April. This unexpected downturn was largely driven by a 0.6% fall in production output, with significant weakness in the supply of electricity, gas, steam, and air conditioning. Despite these monthly setbacks, the economy showed some resilience with 0.5% growth over the three months leading to May, supported by a revised upward figure for March’s GDP growth.

Economic analysts pointed to several factors weighing on activity in the second quarter, including higher employment taxes, increased minimum wages, and rising regulated prices for essentials such as energy and water. Additionally, a surge in pre-April home purchases and export activity to circumvent anticipated US tariffs had buoyed first quarter figures but these effects reversed in the following months. The softer May data introduced some downside risk to forecasts for modest GDP growth in the second quarter, with prominent banks maintaining cautious projections for just a 0.1% quarterly increase in growth overall.

The currency market reflected these economic jitters as sterling slipped against the US dollar, declining from approximately $1.356 to $1.350, while the euro edged higher. European shares followed London lower, with major indices in Paris and Frankfurt each losing around 1%, while US markets also closed in negative territory.

Compounding economic concerns were fresh threats of heightened trade tensions from the United States. President Donald Trump announced a substantial 35% tariff on Canadian imports, effective August 1, citing Canada’s trade barriers and its alleged role in the US fentanyl crisis as justification. This move marks a significant escalation in a series of reciprocal tariffs currently set at 10%, with warnings that other countries, including European Union nations, could face increases ranging from 15% to 20%. The decision has heightened fears of a broader trade war that could disrupt supply chains and further dampen global growth prospects.

Among notable market performers, oil giant BP advanced 3.3% after guiding an increase in upstream output for the second quarter, despite flagging headwinds from weaker commodity prices and impairments. The company attributed potential financial hits partly to production mix effects and price lags in key regions like the Gulf of America and the UAE. Higher Brent crude prices supported this optimistic outlook. Gold miners also benefited from a jump in gold prices, with Fresnillo and Endeavour Mining rising by around 3%, while one travel operator, SSP, saw its shares fall sharply following a downgrade from UBS amid concerns over weak volumes and near-term capacity constraints.

Looking ahead, the economic calendar remains busy with key US inflation data due early in the week, followed by UK inflation and labour market reports later on. These indicators will be closely watched for signs of whether the UK economy is stabilising after its recent contractions or if the challenges of inflation, living costs, and global trade frictions continue to weigh heavily.

### 📌 Reference Map:

* Paragraph 1 – [[1]](https://www.independent.co.uk/news/business/gdp-donald-trump-goldman-sachs-canada-office-for-national-statistics-b2787490.html), [[3]](https://www.standard.co.uk/business/business-news/office-for-national-statistics-bank-of-england-blow-b1237582.html), [[2]](https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/may2023)
* Paragraph 2 – [[2]](https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/may2023), [[3]](https://www.standard.co.uk/business/business-news/office-for-national-statistics-bank-of-england-blow-b1237582.html), [[1]](https://www.independent.co.uk/news/business/gdp-donald-trump-goldman-sachs-canada-office-for-national-statistics-b2787490.html)
* Paragraph 3 – [[1]](https://www.independent.co.uk/news/business/gdp-donald-trump-goldman-sachs-canada-office-for-national-statistics-b2787490.html), [[2]](https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/may2023), [[3]](https://www.standard.co.uk/business/business-news/office-for-national-statistics-bank-of-england-blow-b1237582.html)
* Paragraph 4 – [[1]](https://www.independent.co.uk/news/business/gdp-donald-trump-goldman-sachs-canada-office-for-national-statistics-b2787490.html), [[4]](https://www.cnbc.com/2025/07/11/trump-announces-35percent-tariffs-on-canada-starting-aug-1.html), [[5]](https://www.business-standard.com/world-news/trump-tariffs-canada-us-trade-imports-35-per-cent-fentanyl-125071100086_1.html), [[6]](https://www.ibtimes.com/trump-imposes-35-tariff-canadian-goods-citing-border-security-trade-imbalances-3778217)
* Paragraph 5 – [[1]](https://www.independent.co.uk/news/business/gdp-donald-trump-goldman-sachs-canada-office-for-national-statistics-b2787490.html)

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.independent.co.uk/news/business/gdp-donald-trump-goldman-sachs-canada-office-for-national-statistics-b2787490.html> - Please view link - unable to able to access data
2. <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/may2023> - The Office for National Statistics (ONS) reported that the UK economy contracted by 0.1% in May 2023, following a 0.3% decline in April. This unexpected downturn was primarily due to a 0.6% fall in production output, with the electricity, gas, steam, and air conditioning supply sector being the largest contributor to this decline. Despite the monthly contraction, the economy grew by 0.5% over the three months leading up to May, indicating resilience in other sectors.
3. <https://www.standard.co.uk/business/business-news/office-for-national-statistics-bank-of-england-blow-b1237582.html> - The UK's economy unexpectedly contracted by 0.1% in May 2023, marking the second consecutive month of decline. This followed a 0.3% drop in April, leading to concerns about a potential recession. The contraction was attributed to declines in production and construction sectors, partially offset by growth in services. Economists expressed concerns that the economy could be heading for an overall contraction in the second quarter of the year, posing challenges for Chancellor Rachel Reeves.
4. <https://www.cnbc.com/2025/07/11/trump-announces-35percent-tariffs-on-canada-starting-aug-1.html> - U.S. President Donald Trump announced a 35% tariff on Canadian imports, effective August 1, 2025. The decision was made in response to Canada's alleged trade barriers and its role in the U.S. fentanyl crisis. Trump stated that if Canada cooperates to stop the flow of fentanyl, the tariffs might be reconsidered. This move escalates trade tensions between the two nations and has significant implications for bilateral relations and the broader North American economy.
5. <https://www.business-standard.com/world-news/trump-tariffs-canada-us-trade-imports-35-per-cent-fentanyl-125071100086_1.html> - President Donald Trump imposed a 35% tariff on Canadian imports, effective August 1, 2025, citing Canada's alleged trade barriers and its role in the U.S. fentanyl crisis. In a letter to Canadian Prime Minister Mark Carney, Trump warned of further tariffs if Canada retaliates. This action is part of a broader strategy to address trade imbalances and border security concerns, marking a significant escalation in U.S.-Canada trade relations.
6. <https://www.ibtimes.com/trump-imposes-35-tariff-canadian-goods-citing-border-security-trade-imbalances-3778217> - President Donald Trump announced a 35% tariff on Canadian imports, effective August 1, 2025, attributing the decision to Canada's alleged trade barriers and its role in the U.S. fentanyl crisis. The move has raised concerns about potential retaliatory actions from Canada and the broader implications for North American trade relations. The announcement has also sparked discussions about the effectiveness of tariffs in addressing trade imbalances and border security issues.
7. <https://www.ft.com/content/f244e2af-c0aa-469e-a0c4-dab4da7a3ca7> - Official statistics confirmed that the UK economy entered a technical recession in the latter half of 2023, with GDP contracting by 0.1% in the third quarter and 0.3% in the fourth quarter. The downturn was attributed to the cost of living crisis and high borrowing costs. Despite this, there were signs of recovery in early 2024, with a 0.2% GDP growth in January and a decrease in inflation from over 11% to 3.4%.