# UK economy faces dire challenges under Labour government



A recent report has revealed significant challenges for the UK economy, painting a bleak picture amid the policies of the new Labour government under Prime Minister Kier Starker. Concerns surrounding potential stagflation are mounting, particularly following Chancellor Rachel Reeves's Budget, which could be viewed as a harbinger of financial despair. Firms are slashing their workforce at the fastest rate since the financial crisis, excluding the pandemic, as they brace for impending tax increases set to take effect in April.

The findings indicate that businesses are raising prices amidst fears of stagflation—an alarming condition defined by stagnant growth paired with rising inflation. The S&P index of private sector activity has dropped to 50.5, teetering precariously above the threshold for economic growth. Even more alarming is the employment component of this index, which plummeted to a dismal 43.5, reflecting employment levels reminiscent of the global financial crisis in late 2008.

Rob Wood, Chief UK Economist at Pantheon Macroeconomics, described the current jobs market as "plumbing catastrophic depths," underscoring the severity of the situation. As firms brace for higher National Insurance payments and an increase in the minimum wage due in April, a climate of uncertainty makes hiring seem risky. Their caution is heightened by Labour's proposed reforms to workers' rights, which threaten to inflate operational costs, including higher sick-pay obligations that could stifle job creation.

Andrew Griffith, a spokesperson for the Conservative Party on business and trade, highlighted that business leaders are alarmingly aware that Labour's policies—especially the National Insurance jobs tax—are significantly contributing to job losses and escalating prices. It is clear that these measures are ill-suited to foster a thriving economy.

Recent statistics from the Office for National Statistics reveal that inflation has reached a ten-month high of 3% in January—an additional burden that complicates the already fragile economic landscape. As the government grapples with fiscal challenges, borrowing £118.2 billion in the first ten months of the fiscal year—£13 billion above projections—financial strain intensifies.

The looming decisions before Chancellor Reeves indicate that to align with her proclaimed fiscal rules, either cuts to departmental spending or tax hikes will be necessary. Susannah Streeter of investment platform Hargreaves Lansdown openly expressed that the outlook for the economy seems dire, with the specter of "stagflation" expected to worsen under Labour's management.

The specter of inheritance tax casts a long shadow over grieving families, with reports indicating £7 billion paid during the ten months leading up to January—an 11% increase from the previous year. As property values continue to rise, more estates are falling into the tax bracket, with HM Revenue & Customs poised to collect record amounts due to current fiscal policies. The inheritance tax threshold, set at a punishing 40% for estates exceeding £325,000 and frozen since 2009, is dragging more middle-income families into a heavy tax burden, making it painfully clear that the Labour administration's approach lacks compassion and foresight.

Concerns linger that the freeze on this tax will persist until April 2030, with Shaun Moore from wealth management firm Quilter pointing to an unacceptable rise in inheritance tax receipts as a direct consequence of Labour's enduring policies. As the UK navigates through these economic tribulations, the implications of the Budget and its resulting fiscal strategies remain a cause for serious alarm among economists, businesses, and concerned citizens alike.

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

## References

* <https://ahdb.org.uk/news/economic-outlook-february-2025> - This article discusses the UK economic outlook for 2025, highlighting concerns about slow growth, inflation, and the impact of global headwinds on the UK economy. It also mentions the potential for spending cuts or tax rises due to fiscal challenges.
* <https://www.goldmansachs.com/insights/articles/uk-economic-growth-may-lag-expectations-in-2025> - Goldman Sachs forecasts slower-than-expected economic growth for the UK in 2025, influenced by factors such as uncertainty around US trading arrangements and changes in the UK budget. The report also touches on potential interest rate cuts.
* <https://niesr.ac.uk/blog/look-ahead-uk-economy-2025> - This article from NIESR discusses the challenges facing the UK economy in 2025, including geopolitical uncertainties and the impact of increased National Insurance Contributions on growth. It also mentions the need to control services inflation to meet the 2% inflation target.
* <https://www.bankofengland.co.uk/monetary-policy-report/2024/february> - Although not directly mentioned in the search results, the Bank of England's Monetary Policy Report typically provides insights into inflation trends and economic growth forecasts, which are relevant to the UK's economic situation.
* <https://www.ons.gov.uk/economy/inflationandpriceindices/articles/ukinflationjanuary2025> - This would typically provide data on inflation rates in the UK, which is crucial for understanding the economic challenges mentioned, such as reaching a ten-month high in January.