

News in Review

25 June 2025

"The world is highly unpredictable"



Last week, the Bank of England (BoE) retained Bank Rate at 4.25%. The BoE's Monetary Policy Committee (MPC) was split, with three members voting for a 0.25 percentage point cut to 4% and six members supporting no change.

Despite the decision, BoE Governor Andrew Bailey insisted rates are on a "gradual downward path" before adding, "The world is highly unpredictable. In the UK we are seeing signs of softening in the labour market. We will be looking carefully at the extent to which those signs feed through to consumer price inflation."

Tensions between Israel and key oil producer Iran, have sparked fears that energy prices could climb, fuelling inflation and influencing future interest rate decisions. BoE Deputy Governor Clare Lombardelli said ongoing "uncertainty facing the economy" was a key reason for holding interest rates steady this month. Calling developments in the Middle East "deeply worrying," she added, "As you'd expect, we are monitoring carefully those events and the impact." The next MPC Bank Rate decision is due on 7 August.

In fact, oil prices experienced a sharp decline on Tuesday following the announcement of a ceasefire between Israel and Iran, alleviating concerns over potential disruptions in the Middle East's oil supply.

Inflation "little changed"

New data from the Office for National Statistics (ONS) showed the Consumer Prices Index (CPI) rose by 3.4% in the 12 months to May 2025, compared with 3.5% in the 12 months to April. The rate

is expected to rise to 3.5% again later this year, before falling back to around 2.1% next year.

During May, food, furniture and household goods prices ticked up. Notably, food price inflation increased from 3.4% in April to 4.4%, with chocolate prices in particular rising at a record rate. Air fares fell 5.0% in the month, compared to a large increase of 14.9% between April and May in 2024.

And in the US...

As anticipated, the US Federal Open Market Committee announced no change in its monetary policy last week. The Federal funds borrowing rate remains in its current range of 4.25-4.50%, holding steady since President Trump took office in January. The Federal Reserve last cut rates in December 2024, reducing them by 0.25 percentage points. During the press conference, Fed Chairman Jerome Powell said the Reserve are "well positioned to wait and learn more about the likely course of the economy before considering any adjustments to our policies."

Interest-only mortgage stock reduces

According to new data from UK Finance, the number of interest-only homeowner mortgages in the UK fell by 17% last year, continuing a steady decline since 2012. The total number of these loans has dropped by 78% over the past 12 years, with their overall value falling by 61%.

By the end of last year, there were 541,000 pure interest-only mortgages outstanding – 18.5% less than in 2023. Partial interest-only loans totalled 174,000, marking a 13% annual decrease. High loan-to-value (LTV) loans (above

75%), declined by 25.7%, now making up just 5% of the total, compared to 36% in 2012. This suggests improved portfolio quality and stronger risk management.

The number of interest-only loans due to mature by 2027 fell significantly, down 35.8% to 120,000, driven by successful transitions and early repayments.

Director of Mortgages at UK Finance, Charles Roe, commented, "It is particularly encouraging that the number of interest-only loans at higher loan-to-value ratios has fallen sharply... with a similar movement in those loans set to mature over the next two years."

Consumer confidence

The GfK Consumer Confidence Index rose by 2 points to -18 in June 2025, supported by improvements in how consumers view the general economy, with this specific measure rising by five points in the month to -28, although 17 points lower than the June 2024 reading. Meanwhile, the major purchase index reading was unchanged at -16 this month, 7 points higher than this time last year.

Neil Bellamy, Consumer Insights Director at GfK, noted that due to the daily challenge of inflation, "confidence is still fragile" and is likely to be exacerbated by rising fuel prices due in part to an escalation of the Middle East conflict. Combined with "ongoing uncertainty as to the full impact of tariffs, there is still much that could negatively impact consumers."

Here to help

Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.