

News in Review

27 August 2025

“These figures underscore the intensifying financial squeeze on households and businesses”



Inflation was higher than expected in July, with prices rising by 3.8% year-on-year according to the Office for National Statistics (ONS). This is up from the 3.6% recorded in the 12 months to June and nearly double the Bank of England’s (BoE’s) target of 2%.

Earlier this month, the BoE made the decision to reduce Bank Rate, predicting that inflation would peak at 4% in September before returning to lower levels. Many experts believe the data from July will cause the Monetary Policy Committee to be more cautious about making cuts in the coming months.

A significant hike in air fares was a key driver of inflation in the period, with a 30.2% increase in July, the biggest monthly rise since records began in 2001. According to ONS Chief Economist, Grant Fitzner, this is *“likely due to the timing of this year’s school holidays,”* as the ONS data collection day overlapped with the start of the summer break. A rise in food and drink prices for the fourth consecutive month was also recorded. The cost of beef, chocolate and confectionery, instant coffee and fresh orange juice, were key contributors to the increase. In the last five years to July, the price of food and non-alcoholic drinks has risen by about 37%.

Responding to the figures, Chancellor Rachel Reeves said there was *“more to do to ease the cost of living.”* Meanwhile, Economics Director at ICAEW, Suren Thiru, commented, *“These figures underscore the intensifying financial squeeze on households and businesses.”* He added, *“Increasing*

services inflation suggests that rising National Insurance and National Living Wage costs are exacerbating underlying price pressures by more than offsetting the current downward squeeze from looser labour market conditions.”

Government borrows less in July

Inflation may have risen, but promisingly, government borrowing was lower than expected in July. ONS data shows that borrowing decreased to £1.1bn, £2.3bn less than last year and the lowest figure for July in three years. This is likely due to a rise in self-assessment Income Tax payments and an increase in National Insurance contributions.

Consider Confidence improves

The UK public seems to be feeling slightly more positive about its finances, as GfK’s Consumer Confidence Index increased by two points to -17 in August. This is the best sentiment since December last year and is probably due to the recent Bank Rate reduction.

Confidence in personal finances over the coming year increased by three points to +5. However, expectations for the general economic situation went down by one point to -30, which is 15 points lower than in August 2024.

Consumer Insights Director at GfK, Neil Bellamy, said, *“While August’s Overall Index Score of -17 is the best this year, consumer confidence continues to move in a very narrow band and there’s no sense that it is about to break out into fresher, more optimistic territory. The UK’s consumers*

are still in wait-and-see mode and any surprises could result in sudden and sharp changes in sentiment.”

Average mortgage rates dip below 5%

The average five-year fixed mortgage rate dropped to 4.99% last week, according to Moneyfacts. It is the first time this figure has been below 5% since May 2023. Meanwhile, the average rate on a two-year fixed mortgage fell further to 4.97%, the lowest since Liz Truss’ mini-Budget in September 2022.

There are also more mortgage products available, with 7,031 residential mortgages to choose from – up from 6,992 the previous working day. Data from UK Finance shows that 900,000 fixed rate deals are coming to an end in the second half of 2025. This means that many borrowers will benefit from lower rates and more deals when remortgaging.

Head of News at Moneyfacts, Adam French, commented, *“The slow and steady fall in the cost of borrowing over the last year combined with strong average earnings growth has helped to marginally boost affordability for many homeowners and homebuyers.”* However, considering July’s spike in inflation, French warns that *“a few modest mortgage rate reductions are the best borrowers can probably hope for in the short term as lenders adjust to prospect of higher rates for longer.”*

Here to help

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