

September 2025

# Monthly Economic Review

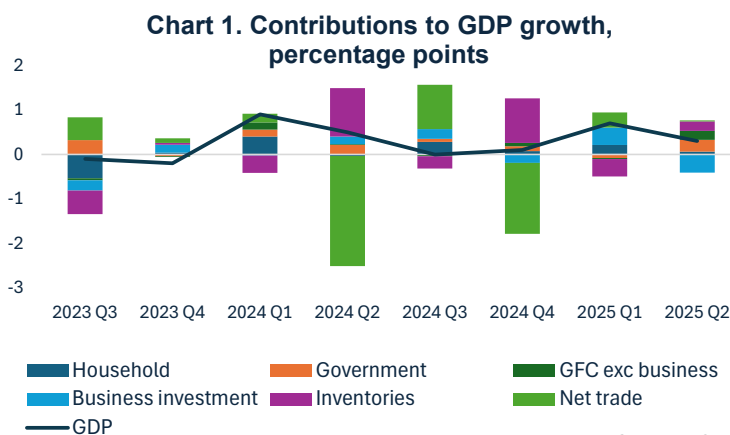


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This month we focus on developments at home, with a round up of the Q2 GDP numbers and a dive into consumer spending. We also take a look at inflation developments and the range of MPC member views at the last rate setting meeting. Finally, there’s an update on mortgage market developments.

## Q2 GDP growth better than expected

Forecasters had expected a slowdown in UK GDP growth in the second quarter, after a solid expansion of 0.7 per cent in the first three months of the year. Growth did indeed



Source: ONS

slow, but by less than had been widely expected, coming in at 0.3 per cent (consensus forecast was 0.1 per cent). Over the quarter, activity rebounded in June following falls in output across both April and May. This had been anticipated as activity had been brought

forward ahead of US tariff announcements.

From an output perspective, overall services expanded by 0.4 per cent in Q2, down from 0.7 per cent in Q1, and consumer facing services fared reasonably well with growth of 0.3 per cent. Other sectors contributing to growth were manufacturing, with a modest expansion in output, and construction, which had one of its best quarters for two and a half years.

**Chart 1** looks at expenditure contributions to growth. In Q2 we see a small positive contribution to growth from household spending, with government expenditure playing a more important role in driving growth over the quarter. The ONS release points to spending on health and defence as particularly important contributors this quarter.

The contribution from net trade was essentially flat after the surge in exports at the start of the year, but some post-tariff restocking drove increases in inventories. However, there was a notable drop in business investment, again reversing the growth seen in Q1. Similar growth dynamics were also seen across the eurozone – a slowdown from 0.6 per cent growth in Q1 to 0.1 per cent in Q2, again driven by the frontloading of activity at the beginning of 2025 – demonstrating the global impact of US trade policy.

The pattern of UK growth in Q2 is likely to be repeated in the coming quarter. The headwinds from global trade policy uncertainty will continue to drag on exports and business investment. Despite the outline of trade deals with the US being announced in July, flurries of new tariffs and conditions continue to emerge from the White House, and with that surveys continue to point to weakness in export orders and struggling confidence amongst businesses.

In addition to the external risks, businesses are also grappling with recent tax rises and costs increases. There is little let up in the fiscal pressure facing the Chancellor and firms will be hoping that the forthcoming budget in October doesn't further add to this.

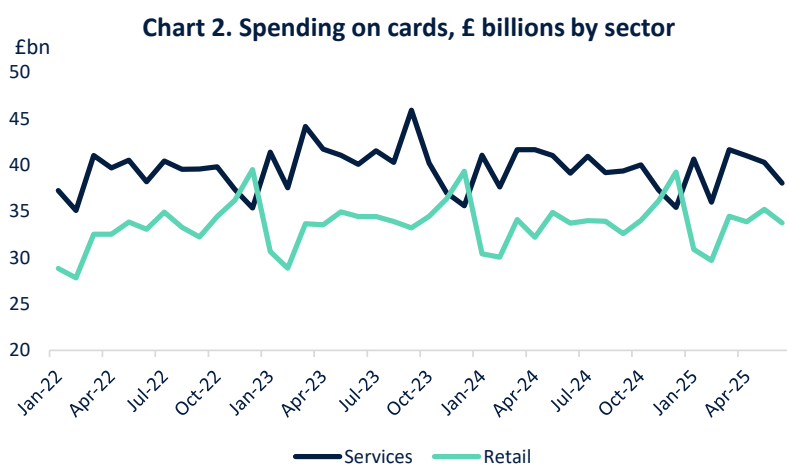
Near term, however, there will be some compensating support from higher government spending commitments made at last Autumn's budget. There has also been some gradual improvement in consumer confidence, and according to the GfK sentiment index, some recovery in households' appetite to make major purchases. An improving outlook for households would add a bit more momentum to consumer spending growth. The National Institute for Economic and Social Research expects a stronger Q3 with growth of 0.5 per cent forecast.

## Sluggish consumer spending

As seen in the Q2 GDP data, household spending growth slowed to a modest 0.1 per cent increase compared with the first three months of the year. This is consistent with weak quarterly growth in retail sales (ONS) – although that figure masks a fair bit of month-to-month volatility, with a sharp contraction in May followed by a good weather rebound in June.

Overall consumer confidence has been in the doldrums for some time, despite households' expectations that their own financial situation is on the up. But instead of getting the plastic out, consumers have continued to rebuild their savings (we'll look at this in more detail in our Q2 [Household Finance Review](#), on 3<sup>rd</sup> September).

In addition to the official data, UK Finance collects data on spending on debit and



credit cards in the UK (**chart 2**). It tells a similar story. Total card spending (current prices, not seasonally adjusted) in Q2 was fractionally lower (0.2 per cent) compared with the same period a year ago. There was some growth in sales in retail outlets, mainly food and drink,

but this was more than offset by declines in services sectors, which includes restaurants, travel and other personal services. This points to cautious discretionary spending.

While the value of spending was flat in Q2, the number of card transactions was three per cent higher than the same quarter a year ago. With inflation still elevated, particularly in sectors such as food and drink (more on this next), consumers are shopping around and making more, lower value transactions – a trend we've seen in our data since cost-of-living pressure first materialised in early 2022. The average value of transactions on credit and debit cards was three per cent lower than a year ago. You can find more detail on these trends in our new Card Expenditure Statistics dashboard, published later this month, [here](#) with all our data publications.

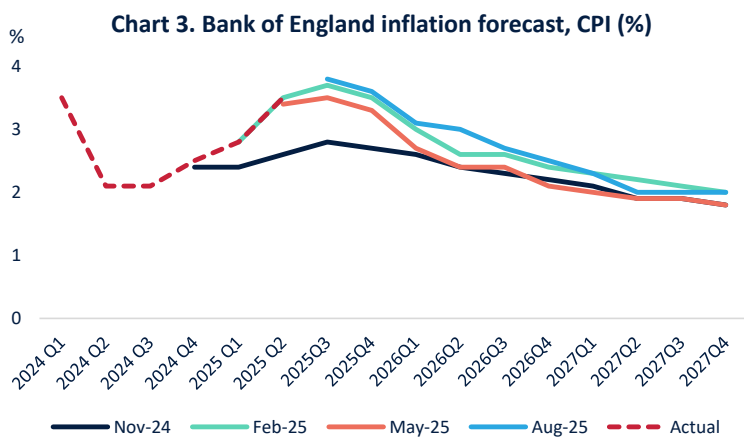
## Rate cut a close call in August

At August's Monetary Policy Committee (MPC) meeting, Bank Rate was cut by another 25 basis points to four per cent – the fifth cut in a year. The minutes indicate that the decision was far from clear cut with four members voting for the quarter point cut, four preferring to hold Bank Rate at 4.25 per cent and one member arguing for a larger 50 basis point reduction (who subsequently voted for a smaller cut).

Those making the case for a rate cut pointed to continued progress on domestic disinflation and building evidence of a cooling labour market, which will continue to exert downward pressure on pay growth. They also pointed to weak activity and a greater slowdown in domestic demand leading to a more rapid cooling in the labour market. They also, however, noted risks from higher food priced in particular raising inflation expectations.

On the other side, there was more emphasis on higher business and household inflation expectations and the potential for this to fuel second round pricing and wage effects. They argued that easing off on rate cuts '*would reduce the risk of inflation not meeting the target sustainably*'.

MPC members also had the benefit of updated forecasts in August and there were



Source: Bank of England

upward revisions to the near-term expectations for inflation (**chart 3**). CPI inflation is now expected to average 3.8 per cent in 2025 Q3, up from 3.5 per cent in the May forecast. Energy, food and services prices are expected to contribute to elevate inflation in the second half of this year.

However, these are expected to be temporary, with CPI resuming its downward path to hit the two per cent target in mid-2027. The Monetary Policy report does note that a high degree of uncertainty surrounding some underlying assumptions and upside risks to medium-term inflationary pressures have increased since the May forecast.

Looking at the latest inflation print for July, CPI rose to 3.8 per cent, the highest since January 2024. Goods, services and core inflation all accelerated in July, but increased transport costs were the main driver of the increase in the headline rate. This was primarily air fares, though this was partially a timing effect of school holidays. In

addition, hotels and restaurants, and food price inflation also added to the increase in July's CPI.

Markets are somewhat more cautious about further rate cuts this year, given the spread of views on the MPC. The pace and timing of further loosening will, as ever, be data-dependent but borrowers may not see another cut until 2026.

## Mortgage market forecast

In December 2024 we published our [mortgage market forecast](#) for 2025 and 2026. As interest rate and cost pressures were easing at the end of last year, we expected this to continue and for a gradual improvement in mortgage affordability supporting market growth through 2025, following a tough 2024. Our forecast assumed that interest rates would continue to tick down, and unemployment would remain low leading to arrears falling across the year.

We now have data on lending activity and arrears for the first half of 2025; so a timely check in on how the market is performing against expectations.

	2025 Forecast	Projected Y-on-Y change vs 2024	Year to date (Jun 25)
Lending for house purchase	£148 billion	+10 per cent	£83 bn
New buy to let purchase lending	£9 billion	-7 per cent	£6 bn
Internal product transfer	£254 billion	+13 per cent	£102 bn
External remortgaging	£76 billion	+ 30 per cent	£31 bn
Gross Lending	£260 billion	+11 per cent	£134 bn
Arrears	99,000	-5 per cent	98,720

Residential house purchase lending is expected to rise ten per cent, with improving affordability and rate cuts supporting demand. Residential lending was boosted early in the year by the rush to beat the Stamp Duty changes, but our underlying assumptions for modest growth through the remainder of the year remain.

Buy-to-let purchase lending is forecast to contract seven per cent in 2025 as continuing tax and regulatory pressures dampen landlord appetite. At the midpoint of

the year, lending is already three-quarters of the full year forecast, although this was artificially boosted by the rush to beat the Stamp Duty changes in April. The underlying outlook, however, remains challenging for landlords.

Internal product transfers are predicted to grow 13 per cent as many borrowers reach the end of fixed deals and opt to remain with their current lender. Activity was subdued in the first half of the year, but we expect growth in refinancing throughout the second half. External remortgaging is set to recover by 30 per cent as falling rates and fixed-rate expiries drive switches. As with Product Transfers, remortgaging activity was subdued in the first half of the year, but growth is expected in the second half.

Overall, total gross lending is projected to rise 11 per cent in 2025, driven by stronger purchase and remortgage activity. Year-to-date lending trends suggest our forecasts are on track.

Arrears are forecast to fall by five per cent in 2025, as borrower pressures ease and lender support remains strong. Year-to-date arrears have fallen more sharply than anticipated and are already below our forecast.

## ICYMI and coming up...

Last month saw the publication of our quarterly [Arrears and Possessions](#) data and our [Card Spending Update](#) for May 2025.

We have a busy month ahead. 3<sup>rd</sup> September sees publications of our Q2 Households Finance Review, with the Q2 Business Finance Review the following week (11<sup>th</sup> September). And on w/c 18<sup>th</sup> September we publish our annual UK Payment markets report. You can find all our insight publications [here](#).

## Key indicators

Indicator	Period	Value	Change	2025 Forecast
GDP	Q2 2025	0.3%	↓	1.2%
CPI inflation	Jul 2025	3.8%	↑	3.4%*
Unemployment rate	Jun 2025	4.7%	↑	4.9%*
Average earnings	Jun 2025	4.6%	↓	3.8%
Brent crude	Jul 2025	\$71.04	↓	-
\$ Exchange rate	Aug 2025	\$1.35	↑	-
Bank Rate	Aug 2025	4.0%	↓	3.8%*

Source: ONS, HM Treasury, Bank of England, EIA

\*Q4 2025