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MARKETBEAT

ECONOMY & HOUSING

AUGUST 2025

Better never settles

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UPSIDE/DOWNSIDE

While there continues to an evolution on tariff policy that is hard to keep up with, the two most relevant revelations for the UK economy were in all, to be expected, but came with a tinge of 'surprise' – if you can stretch that far.

The first point was a 25 basis point rate cut from the Bank of England, which was in line with expectations but much more hawkish in delivery than expected. The decision only passed after a second round of voting – at 5-4, with the MPC messaging very much managing expectations on further cuts during the rest of 2025, and highlighting the 'stickiness' of inflation.

The second point was after two monthly declines, UK GDP surprised on the upside. GDP increased 0.4% month-on-month during June, resulting in a quarterly uptick of 0.3%. This means that year-on-year, the economy has grown by 1.4%. The June growth was much higher than had been expected against a backdrop of sluggish business and consumer confidence, albeit there is likely some seasonality associated with the uptick.

THE LAST DAYS OF SUMMER?

Without wanting to wish the summer away, the release Public finances data for June remind us that Autumn is just around the corner. The latest release suggests that the current budget deficit is running hotter than the OBR's forecasts - £20.7 billion compared to 17.1 billion.

With the government setting aside £9.9 billion of headroom in the Spring Statement, this is likely already eroded by elevated gilts, the reversal on winter fuel payments, and increased defence spending targets. This all means that tax rises are likely to be needed come the Autumn Budget.

Additionally, the impact of – and the uncertainty – of tariffs will continue to have an impact, with the US Government announcing on 8th July that pharmaceutical tariffs could reach 200%, while on 8th August, there was an announcement of upcoming 100% tariffs on semiconductors.

Nevertheless, for now, let's focus on the positives. Enjoy the rest of the summer!

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KEY TAKEAWAYS

GDP grew by 0.4% in June, bringing Q2 growth to 0.3% and y-o-y growth to 1.4%.

Consumer confidence dipped slightly to -19, with a continued gloomy outlook on the economic situation.

The labour market continues to soften significantly, with wage growth now slowing as a result.

There has been a rebound in activity and house prices, after an initial lull post-SDLT changes.

On 7th August, the MPC decided to cut Interest Rates to 4%. The next MPC meeting is on 18th September.

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ECONOMIC INDICATORS

	YOY Change	Monthly Change
102.9 MONTHLY GDP	▲	▲
51.5 UK COMPOSITE PMI	▼	▼
-18 CONSUMER CONFIDENCE	▼	▲
4.7% UNEMPLOYMENT RATE	▲	▬
4.0% CPIH	▲	▼
3.7% 5 YEAR SONIA*	▼	▲
4.6% 10 YEAR GILTS*	▲	▼

** Notably volatile at present*

Source: ONS, Moody's, Bank of England, GfK, S&P, FTSE Russel

ECONOMIC OVERVIEW

The UK economy demonstrated greater resilience than anticipated in the second quarter of 2025. GDP grew by 0.3% in Q2, significantly outperforming both Bank of England and economist forecasts of just 0.1% growth. This followed the robust 0.7% expansion recorded in Q1 2025. This was driven by particularly strong June performance, with GDP expanding by 0.4% month-on-month, rebounding decisively from the 0.1% contractions experienced in both April and May.

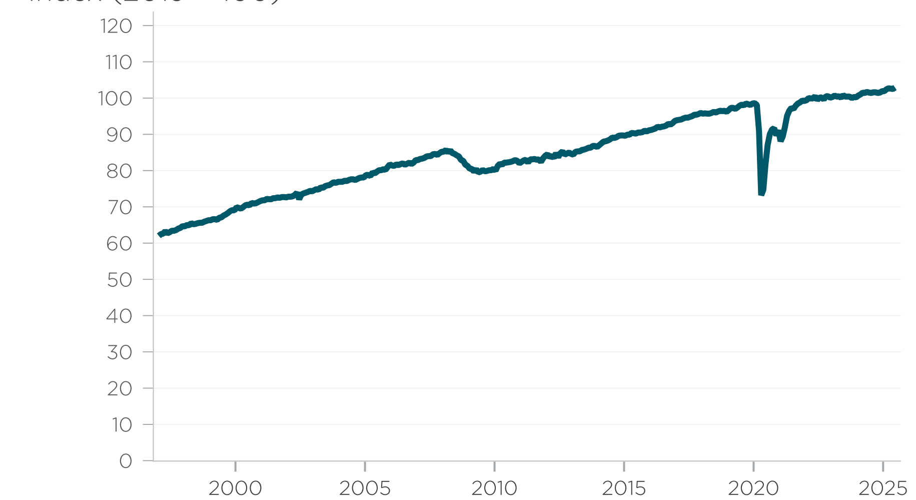
All three main sectors contributed to June's growth, with services output rising 0.3%, production increasing 0.7%, and construction growing 0.7%.

At the half year, it means that to June, GDP has expanded 1.4% year-on-year in June, the fastest pace since February and the joint second highest growth in the G7, tying for second place with France for Q2 growth.

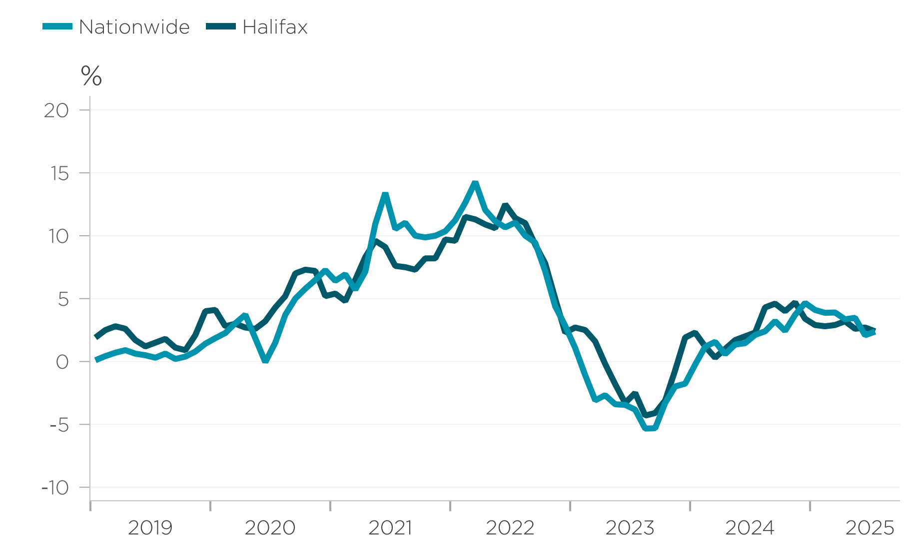
Business confidence remains relatively subdued, with Services PMI down slightly and manufacturing improving, if still in contraction territory.. Uncertainty around tariffs continue to affect business planning. Similarly, consumer confidence remains low – falling to -19 for the month, and the Savings Index jumping to its highest level since 2007.

While house prices rose 0.4% in July according to Halifax—the largest monthly increase of 2025—underlying market sentiment has weakened. The RICS survey shows new buyer enquiries fell to -6% in July from +4% in June, while agreed sales declined sharply to -16%.

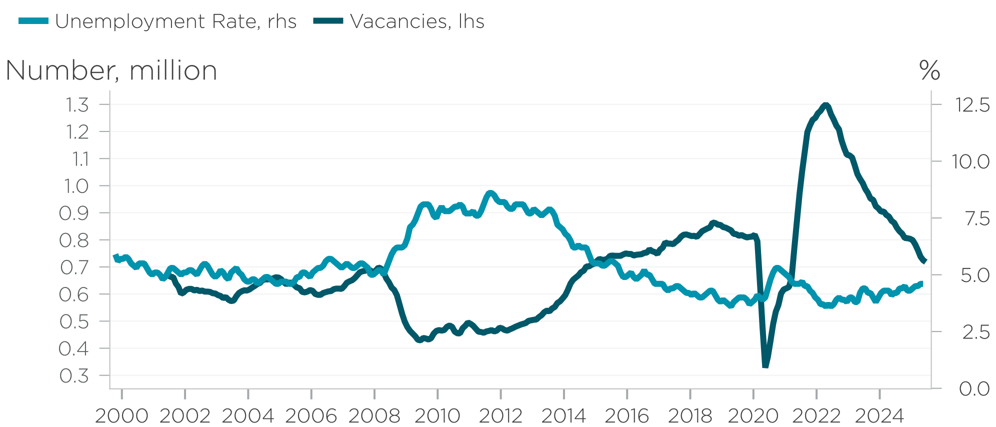
MONTHLY GDP



UK ANNUAL HOUSE PRICE INFLATION

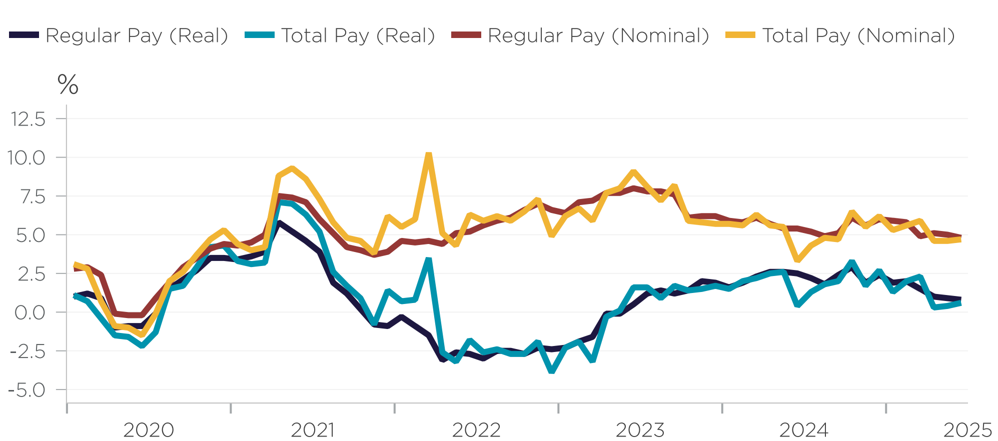


UNEMPLOYMENT & JOB VACANCIES



ILO REDUNDANCY RATE

PAY IN REAL & NOMINAL TERMS



EMPLOYMENT

A reminder that labour market data provided by the ONS remain subject to considerable uncertainty due to ongoing small sample sizes. While some improvements have been made to survey methodology, triangulating across multiple datasets remains necessary.

The headline is that the labour market continues to loosen, albeit not at an alarming rate, while pay is slowing gradually.

Payrolled employees fell by 26,000 between May and June 2025, extending the recent pattern of monthly declines. Early estimates suggest a further 8,000 decline in July 2025, bringing the total workforce to 30.3 million—149,000 fewer than a year previous (a 0.5% annual decline).

All this means that since the Chancellor announced the increase in National Insurance contributions and the minimum wage, payroll employment has fallen by 180,000.

The UK unemployment rate climbed to 4.7% in April to June 2025, the highest level since August 2021.

Furthermore, vacancies fell by 44,000 (5.8%) to 718,000 in the three months to July. This is the 37th consecutive quarterly decline, with the cooling most acute in retail, consumer services, and some manufacturing subsectors – albeit 16 of 18 industry sectors have decreased.

Due to the lagging nature of the data, information on redundancies is unlikely to give a true indication of the current health of the economy. Nevertheless, the data that runs to June saw the number of redundancies decrease from 3.9 to 3.6 per 1,000 employees.

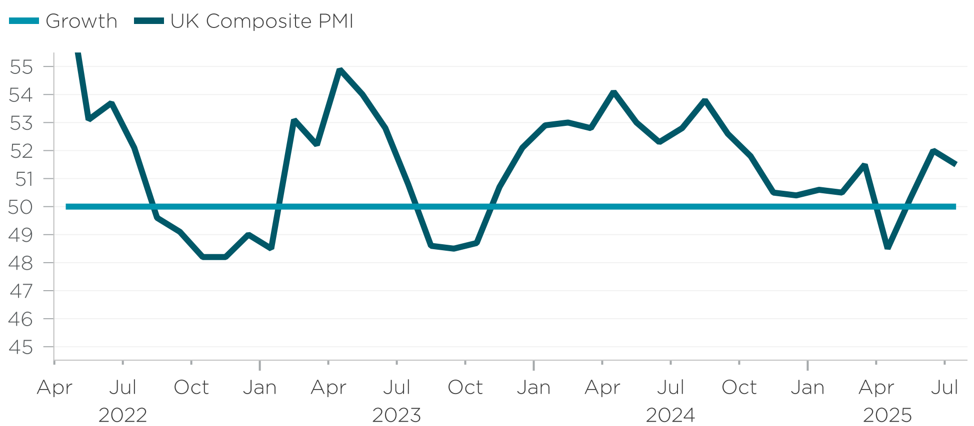
EARNINGS

Wage growth has slowed. For the three months to June, annual regular pay growth was 5%, with total pay (including bonus payments) recorded the same 4.6% growth over that period. Annual growth in real terms using CPIH grew 0.9% for regular pay, and 0.5% for total pay.

Public sector wage growth increased to 5.7% from 5.5%. However, private sector wage growth fell to 4.8%. For context, private sector pay remains well above any levels seen between the GFC and the Pandemic. The Wholesaling, retailing, hotels and restaurants sector continue to see the largest annual regular growth rates – albeit the rate has slowed as high as 7.8% in April to 6.8%. Construction wage growth also remains strong but has also come off from 6.5% to 4.8%.

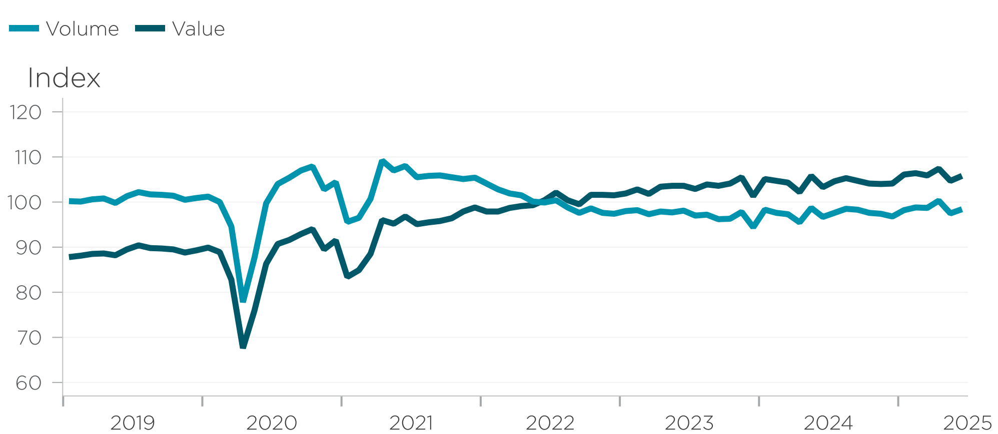
Source: ONS, Macrobond, Cushman & Wakefield

UK COMPOSITE PMI



CONSUMER CONFIDENCE

RETAIL SALES AND VOLUME INDICES



BUSINESS DEMAND

The UK Composite PMI fell to 51.5 in July 2025 from 52.0 in June, marking the third consecutive month above the 50.0 growth threshold. Manufacturing PMI improved to 48.0 in July from 47.7 in June, revised down from the flash estimate of 48.2, but still indicating the mildest contraction since January. While consumer and intermediate goods sectors returned to growth, investment goods contracted at a deeper pace.

Manufacturing output stabilised, ending an eight-month streak of declining production, though new orders fell for the tenth consecutive month driven by US tariff concerns and weak export demand. Services PMI declined to 51.8 in July from 52.8 in June. Despite remaining in growth territory, the sector experienced renewed pressure from declining new business orders—the sharpest fall since April—while private sector employment dropped at the fastest rate since February as firms cited higher payroll costs and subdued customer demand.

BUSINESS FAILURES

Company failures remain hostirically high. Nevertheless, with 2,043 company insolvencies in June, this was 8% less than May, and 16% lower than the same month in 2024. The improvement was driven by a reduction across the board - in CVLs which fell 8% to 1,585 in June – still accounting for 78% of insolvencies. The number of compulsory liquidations also decreased – 6% - while administrations fell 18% to 111.

The rolling 12-month insolvency rate has improved slightly to 52.4 per 10,000 companies in June, compared to 55.8 in the three months to May. However, despite the improvement, the underlying business environment remains challenging.

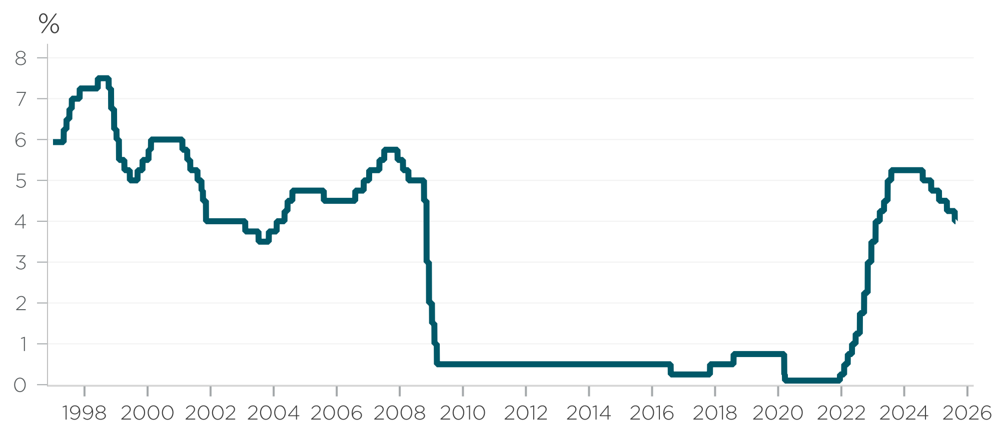
CONSUMER DEMAND

Consumer confidence in June dipped one point from -18 to -19 in July. This was driven by a more negative view on the overall economic situation, while views on personal financial situations remained stable. The savings index increased by seven points from 27 to 34. This suggests that theose who can, are putting money away for contingency.

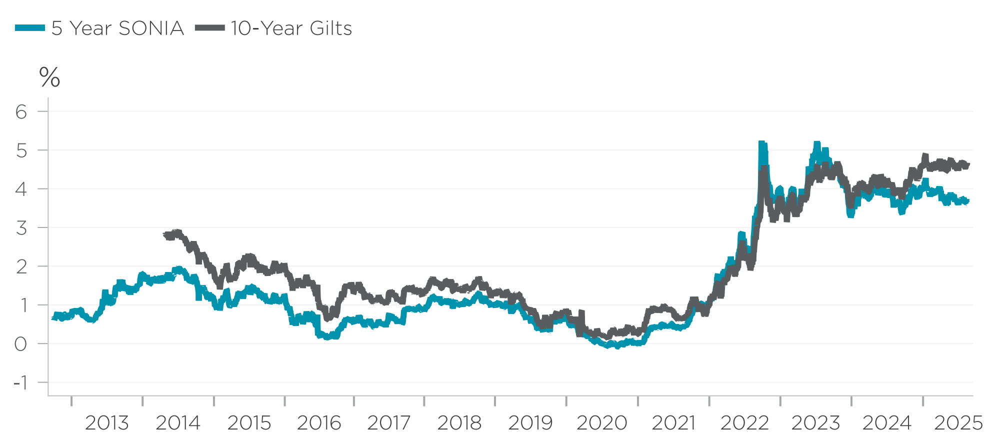
Retail sales volumes rebounded from a 2.8% fall in May to a 0.9% increase in June. Despite the growth, this was weaker than consensus forecasts. Sales volumes increased across most sectors, with the largest increases being fuel and department stores which saw a 2.8% and 2.1% increase respectively. Online spending values rose by 2.3% during June – and by 4.5% y-o-y. As a result, online sales increased from 27.4% of total sales in May to 27.8% in June.

Source: ONS, Gfk, S&P Global, Macrobond, Cushman & Wakefield

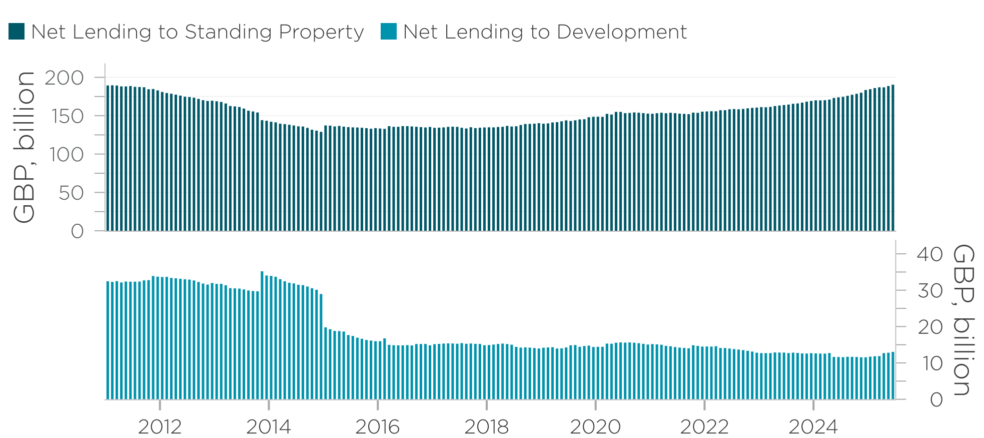
INTEREST RATES



5 YEAR SONIA & 10 YEAR GILTS



LENDING TO COMMERCIAL PROPERTY



INFLATION

CPI rose by 3.6% in the 12 months to June 2025, up from 3.4% in the 12 months to May. CPIH rose by 4.1%, up from 4% in the month previous. Core CPI rose marginally to 3.7% in June, with the largest upward contributions coming from food, non-alcoholic beverages and household goods, partly offset by transport and clothing. Fuel price inflation rose from -10.9% to -9%, while disappointingly for the Bank of England, services inflation rate remained stable at 4.7%. This was partly driven by airfares, but more notably stronger than expected hotels inflation.

MONETARY POLICY

Despite inflation rising to 3.6% in June, the MPC delivered the expected 25 basis point cut to 4.0% on 7 August, continuing the cut-hold-cut pattern established since the easing cycle began. The decision reflected growing concerns about labour market deterioration, with unemployment reaching 4.7% and employment falling consistently. However, the 5-4 vote split was closer than anticipated – and only reached after two rounds. Governor Andrew Bailey and four colleagues supporting the reduction while four other members preferred to maintain rates at 4.25%.

The close decision, and the minutes suggest that the MPC will be cautious on cutting in the short term, with Andrew Bailey pointing out the issue with cutting the bank rate "too quickly or by too much". The MPC kept its GDP forecasts, revised its forecasts that inflation would likely rise further to around 4% in coming months before declining towards the 2% target by Q2 2027 –slightly later than previously forecast. This all points to a cautious rate-cutting cycle, and with a question mark on whether rates will be cut again this year – albeit that may be determined by how the labour market holds up and the rate of price rises on fuel and food in particular.

We continue to be in a period of bond volatility, making pricing risk difficult. The gilt market has shown sensitivity to both domestic monetary policy signals and global risk sentiment. At present, 10-year gilts are running at ~4.6%, having edged up since the interest rate decision. The Bank of England has suggested that QT is having a 15-20 basis point impact on yields, and therefore is continuing with its plans to reshape its QT programme.

Five-year SONIA swap rates are running at~3.7%,

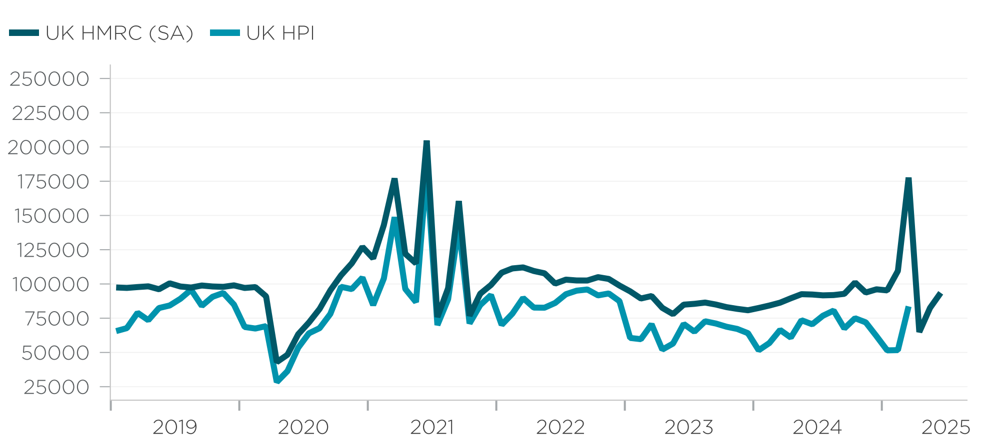
LENDING

Despite a narrow spread between property yields and five-year swaps, lending to commercial property continues to increase – now standing at £4.1 billion, a five year high, with even net lending to development now ticking marginally upwards. Furthermore, according to the Bank of England's Credit Conditions Survey, the balance of lenders improving availability over the next quarter, increased to 34.2%, the highest reading since 2007. This is likely driven by improved performance across the sector – see our *Investment Marketbeat* for further information – with 21.7% of banks reporting that performance has a positive impact on availability.

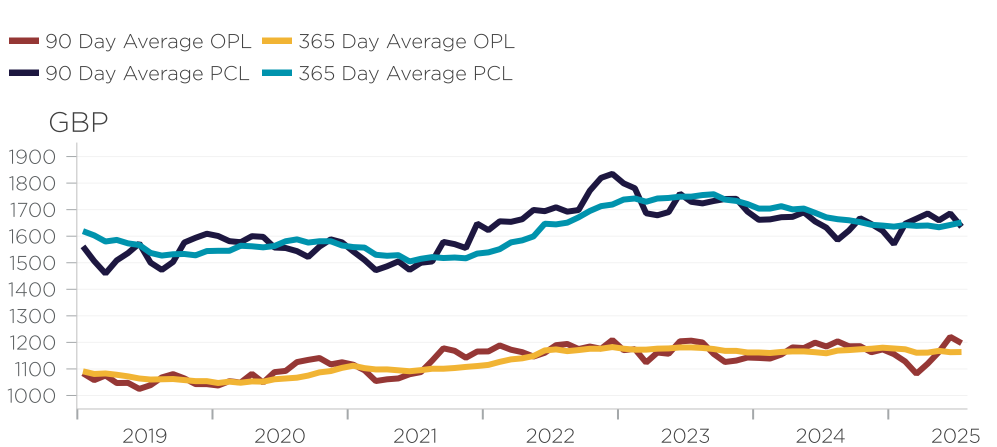
Source: Bank of England, FTSE Russel, , Macrobond, Cushman & Wakefield

UK MONTHLY MORTGAGE APPROVAL & LENDING

UK MONTHLY TRANSACTION VOLUMES



CENTRAL LONDON CAPITAL VALUES



MORTGAGE APPROVALS

After a brief pause following the spring stamp duty changes, the housing market is showing signs of recovery. In June, both the number of mortgage approvals and the total value of new mortgage lending increased, reversing the previous slowdown. This rebound has been supported by rising wages and lower mortgage rates. While affordability remains stretched, it is gradually improving. Two-year fixed mortgage rates have fallen between 30 and 60bps since the beginning of the year, supporting the recovery in mortgage approvals and sales volumes.

Mortgage approvals, an important gauge of housing demand, rose for the second consecutive month in June, reaching 64,167. This marks a 1.4% increase on the previous month and a 5.6% rise on the same time last year, bringing activity close to the five-year average.

SALES & PRICING

Residential transactions rose by 13% in June to 93,530, rebounding from an April dip likely driven by buyers accelerating purchases ahead of stamp duty changes. This brought activity broadly back in line with the same period last year. The housing market recovery has outpaced expectations, with Zoopla reporting stronger conditions than a year ago. Buyer demand is up 11%, agreed sales are 8% higher, and new listings have also increased.

House prices also edged higher. Nationwide recorded a 0.6% monthly increase in July, taking annual price growth to 2.4%, up from 2.1% in June. Earlier in the year, lenders eased mortgage stress tests, allowing buyers to borrow more, supporting both house price growth and the market rebound. However, the rising supply of homes on the market is helping to moderate upward pressure on prices. The outlook also remains sensitive to any renewed upward pressure on borrowing costs, unemployment, or inflation, which would likely temper demand and transaction volumes.

PRIME LONDON CAPITAL VALUES

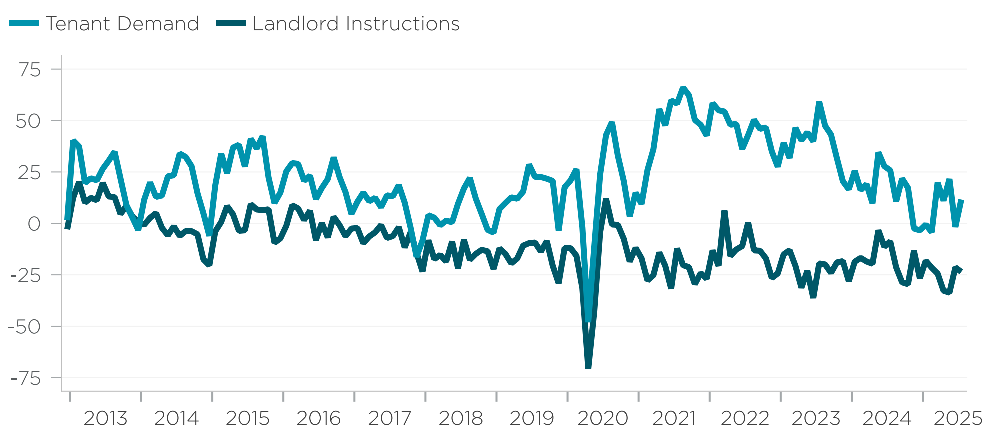
The Prime London market has recently seen declines in capital values due to broader economic and geopolitical uncertainties. Tax policies on non-doms, second homes, and private equity signal a tighter environment for wealth management and property ownership. As a result, London's property market may see shifts in buyer behaviour and continued price sensitivity at the prime end of the market.

As of July 2025, 365 day average values in PCL are £1,652 psf, 0.6% above last month but 1.2% below last year. 90 day average values in PCL for July 2025 were £1,635 psf, 3.0% below June 2025. Achieved discounts to asking prices (365 day average) in PCL for July 2025 was at -4.8%, above the previous month value of -4.9%.

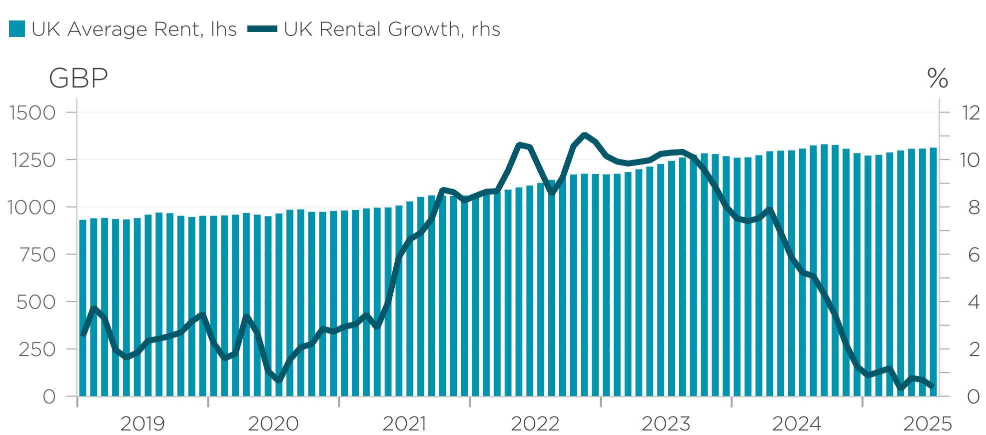
As of July 2025, 365 day average values in OPL are £1,164 psf, 0.1% above last month and 0.4% above last year. 90 day average values in OPL for July 2025 were £1,197 psf, 1.9% below June 2025. In OPL, discounts increased to -3.1%.

Source: HMRC, LonRes, Macrobond, Cushman & Wakefield

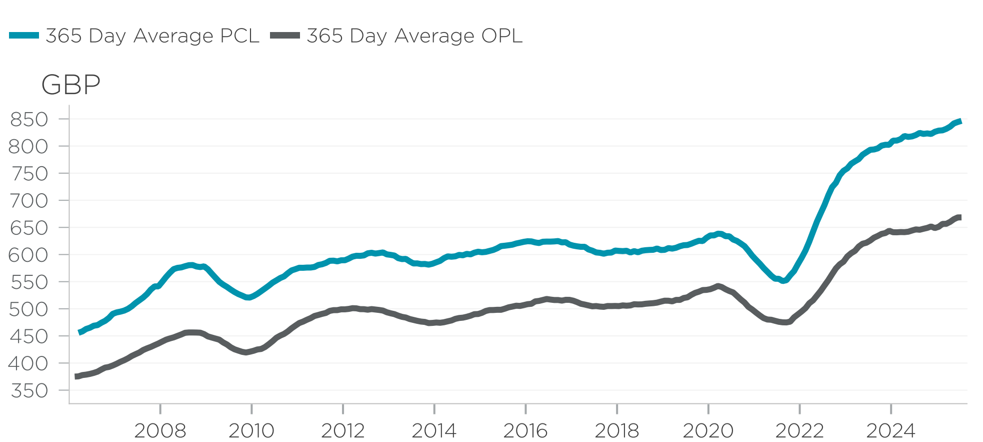
UK LANDLORD INSTRUCTIONS VS TENANT DEMAND



UK ANNUAL RENTS



UK LONDON RENTS



SUPPLY & DEMAND

The supply-demand imbalance, which has in part driven rent rises, is now becoming more balanced, with rental growth slowing to its lowest pace in four years. Looking ahead, we expect the market to settle into a more sustainable growth path, with rental increases averaging around 3% per annum over the medium term. While structural undersupply, particularly in London, will continue to support headline growth, affordability constraints are expected to act as a long-term ceiling on further rental uplift.

Regulation is also playing an increasingly influential role in shaping the market. Recent tax changes have already contributed to some landlords leaving the sector, and the forthcoming Renters' Rights Bill could accelerate this trend. The proposed legislation, which is likely to make it harder for landlords to regain possession, introduce tighter rules around rent increases, and increase uncertainty around tenancy duration, may further dampen investment appetite and reduce available supply. If realised, this would put additional upward pressure on rents, despite growing affordability challenges for tenants. Meanwhile, stricter energy performance standards and higher purchase taxes for private landlords are likely to constrain supply, reinforcing the critical role of BTR in meeting housing demand.

The RICS residential survey for July 2025 showed tenant demand was increasing over the month, posting a net balance of 12%. At the same time, landlord instructions remain in decline according to a net balance reading of -24%. The measure has been negative since August 2022 and has been at a double-digit negative for the past 11 months.

RENTAL VALUES

After the initial upswing in rental values at the start of the year, we have seen the rate of growth return to falling. UK annual rental growth in July 2025 was 0.4% down from 0.7% in June. In July 2025 the average UK rent was £1,313 pcm, 0.4% above the same time last year and 0.4% above last month.

In July 2025 annual rental growth varied across the UK, with the greatest rental growth being in Yorkshire & The Humberside (4.5%), followed by Wales (4.4%), and Northern Ireland (3.8%). Greater London (-0.9%), The North East (-0.1%) and Scotland (0.1%) experienced the lowest levels of annual rental growth, and were the only 2 regions to experience negative annual growth.

PRIME LONDON RENTAL VALUES

365 day average rental values in July 2025 show rents in PCL are 0.3% above the previous month and 3.2% above last year. Median monthly rental values are more volatile. One bed flats in July 2025 let for £700 pw, 4.6% above last month and 7.7% above the same time last year. Two bed flats let for £978 pw, 0.3% above the previous month and 0.3% above the previous year.

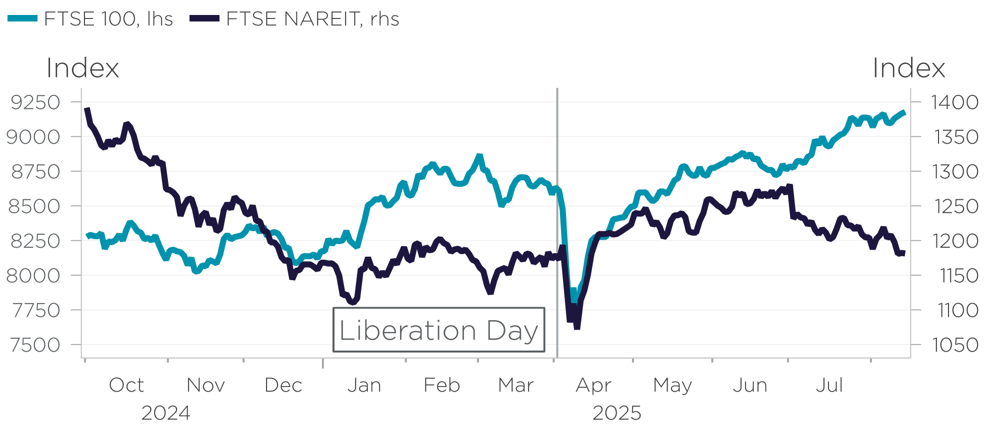
365 day average rental values in July 2025 show OPL rents are in line with last month and 3.4% above last year. In OPL median weekly rents for one bed flats let for £577 pw, 4.0% above last month and 0.3% above last year. Two bed flats let for £762 pw, 4.8% below last month and in line with last year.

Source: RICS, Homelet, LonRes, Macrobond, Cushman & Wakefield

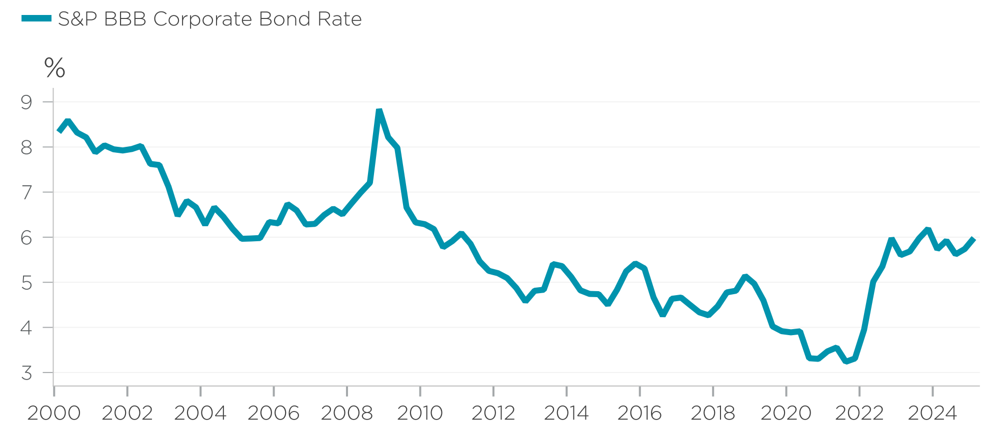
ADDITIONAL KEY CHARTS

Source: FTSE Russell, Federal Reserve, CBOE, ONS, Bank of England, LonRes, Economic Policy Uncertainty, Nationwide, Macrobond, Cushman & Wakefield

FTSE 100, FTSE NAREIT

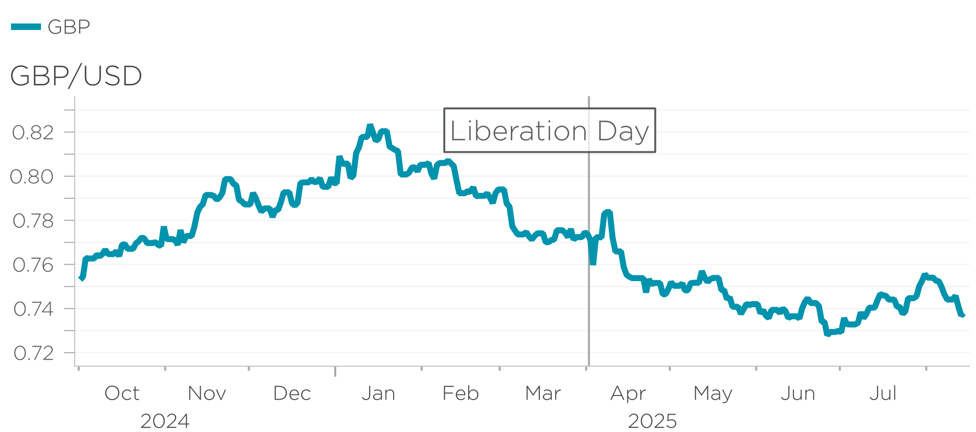


CORPORATE BBB BONDS



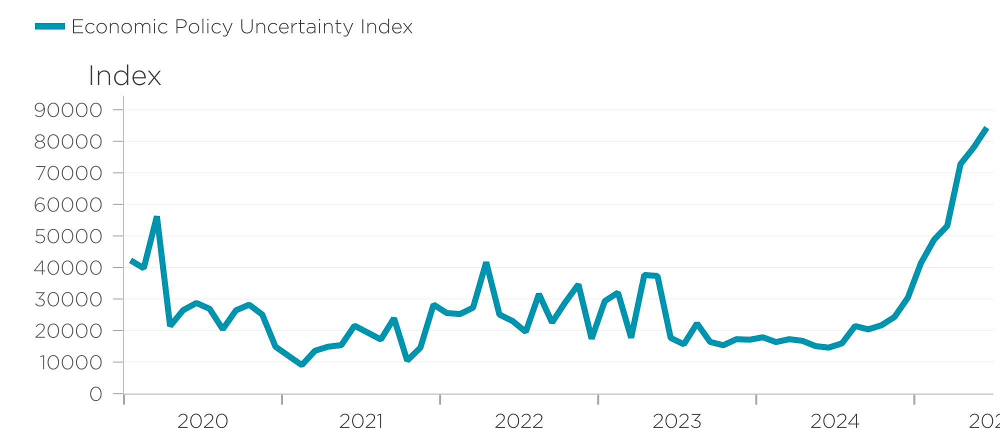
UK EARNINGS GROWTH

GBP USD SPOT RATES

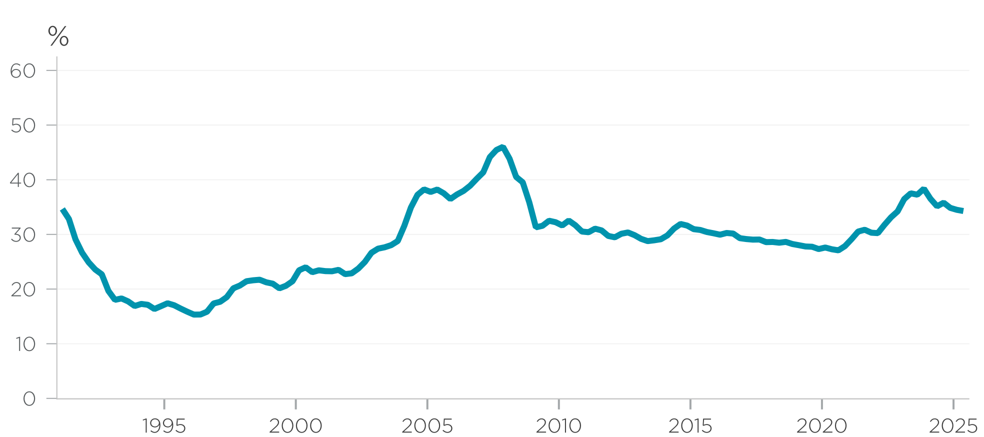


VIX INDEX

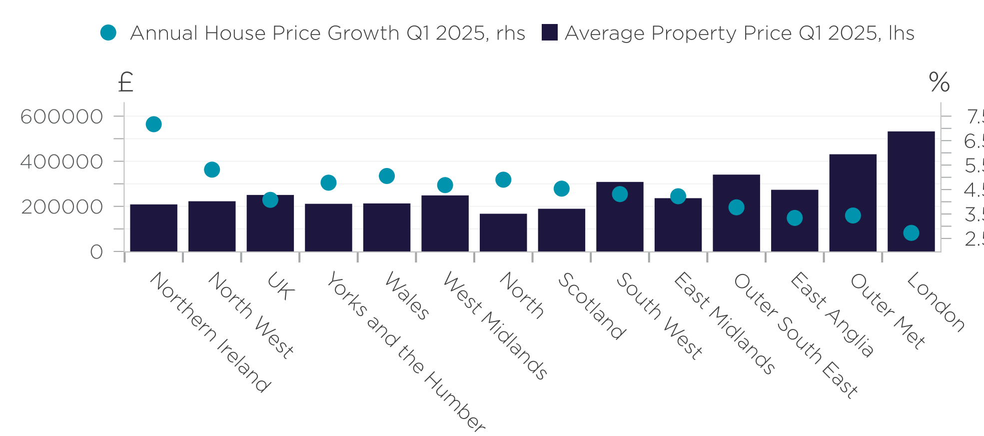
GLOBAL ECONOMIC POLICY UNCERTAINTY INDEX



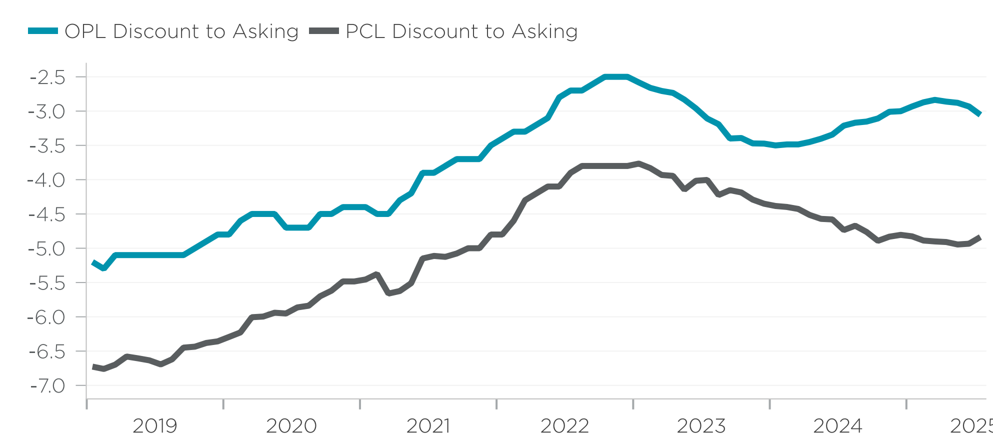
FTB MORTGAGE AS % OF TAKE HOME PAY



REGIONAL HOUSE PRICE GROWTH



CENTRAL LONDON RESI CAPITAL VALUE DISCOUNTS TO ASKING



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