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Tax Uncertainty Drives Sharp Rise in Household Savings

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UK households significantly increased their bank savings in June amid growing concerns over potential tax changes, according to the latest figures from the Bank of England. The data points to a cautious consumer environment, with rising deposits and a conservative approach to spending as the government considers adjustments to the tax treatment of savings.

Household deposits with banks and building societies grew by £7.8 billion between May and June, a substantial jump from the £4.3 billion recorded in the previous month. The six-month average for such deposits stood at £5.6 billion, highlighting the notable scale of June's increase. Analysts suggest this uptick was partly driven by higher contributions into Individual Savings Accounts (ISAs), amid speculation that the government might reduce the annual tax-free allowance for cash savings.

The Treasury faced pushback over these rumours, prompting Chancellor Rachel Reeves to clarify in her recent Mansion House speech that any reforms to the ISA system would involve consultation with the financial sector. Still, the uncertainty appears to have already influenced consumer behaviour, contributing to a shift toward saving rather than spending.

In addition to ISA inflows, the data also revealed a broader rise in other forms of bank deposits. Economists interpret this trend as an indication of ongoing public caution, possibly linked to fears over a softening labour market and potential tax hikes in the upcoming autumn Budget.

"This suggests households are in the mood to save rather than spend," said Ashley Webb, an economist at Capital Economics. He noted that the data aligns with projections of minimal economic growth, estimated at just 0.1 per cent for the second quarter of the year.

Matthew Swannell, Chief Economic Adviser at the EY ITEM (Independent Treasury Economic Model) Club, echoed this sentiment, stating that households remain under "considerable financial pressure" due to weaker real income growth, tighter fiscal policy, and the lingering effects of previous interest rate increases.

Despite the general caution, there were some signs of consumer resilience. Net consumer credit borrowing rose to £1.4 billion in June from £0.9 billion in May, largely driven by credit card usage. Mortgage activity also showed improvement, with approvals for house purchases rising by 900 to a total of 64,200 in June. Net mortgage borrowing more than doubled, increasing from £2.2 billion in May to £5.3 billion the following month.

These figures suggest that while many households are bracing for economic uncertainty, others remain in a stable financial position. Andrew Wishart, an economist at Berenberg, attributed this stability in part to the nature of the jobs most affected by the recent payroll tax rise. He argued that part-time and low-wage roles, often held by students or second earners, were less likely to be essential to household budgets, meaning job losses in these areas may not significantly curtail overall spending.

“We take the solid lending data as an encouraging sign,” Wishart added, highlighting the capacity of many households to maintain financial commitments despite broader pressures.