

Tax Rise Concerns Dent Consumer Confidence and Economic Outlook

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Consumer confidence in the United Kingdom declined again in July, as households prepared for potential tax rises ahead of the autumn Budget. The latest data indicates rising financial caution, with more people opting to save instead of spending, reflecting uncertainty about the wider economic climate.

According to the GfK Consumer Confidence Index, overall sentiment dropped to –19 this month, a slight decrease from June's 18. While the change is modest, it marks a reversal of the small gains made earlier in the year and underlines persistent concerns. Confidence in the general economic outlook remains notably weak, with long-term indicators hovering in negative territory.

In response to these worries, households are increasingly turning to saving. The GfK Savings Index jumped to +34, the highest level recorded since 2007. Analysts attribute this to ongoing cost-of-living pressures, inflationary uncertainty, and widespread speculation about possible tax hikes under the current government.

Business sentiment appears to be softening in tandem. The S&P Global Flash UK Purchasing Managers' Index (PMI) composite reading fell to 51.0 in July from 52.0 in June, indicating a slowdown in private sector activity. Service industries in particular have reported a decline, and employers are beginning to cut staff at the fastest pace seen since early 2024. National Insurance increases and weaker demand were cited as key reasons. The Institute of Chartered Accountants in England and Wales (ICAEW) reported a decline in its Business Confidence Monitor for the first quarter of 2025, falling to –3. This represents the lowest level in over two years, with tax and regulatory burdens high on the list of concerns.

Adding to the pressure, inflation rose unexpectedly to 3.6 per cent in June, while unemployment increased to 4.7 per cent, the highest rate since 2021. These developments have placed further strain on household finances and business forecasts alike.

From a centre-right perspective, the data signals the need for fiscal caution. While the Treasury may feel compelled to pursue higher taxes to meet budgetary targets, additional burdens on income and investment risk will weaken consumer activity and curb private sector growth. A more measured approach, favouring regulatory stability and controlled spending, may help restore confidence.

In short, the public is tightening its belt. As both consumer and business confidence wane, the government faces mounting pressure to restore economic momentum without stifling recovery through excessive taxation.