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UK Consumer Confidence Rises After Bank of England Rate Cut

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Consumer confidence in the United Kingdom has reached its highest level in nearly a year following the Bank of England's recent decision to cut interest rates, offering cautious optimism for households and businesses managing the cost of living.

According to new data from GfK, the widely recognised Consumer Confidence Index rose by three points in August, climbing to -17. Analysts had predicted the figure would remain flat, resulting in a surprise. It marks the strongest reading since December and reflects rising confidence in household budgets and economic recovery.

The uplift comes as households begin to feel the impact of lower borrowing costs. Mortgage rates, which soared during last year's spike in interest rates, are now falling, providing relief for both prospective buyers and existing homeowners.

The Bank of England began reducing rates last year after a period of 16-year highs, aiming to ease pressure on families and businesses. Analysts say the latest survey results show households are now recognising the benefits of cheaper credit.

"This is a sign that households are slowly adjusting and beginning to feel more positive about their finances," a GfK spokesperson said.

The improved consumer sentiment also coincides with a stronger business climate. An S&P Global survey earlier this week showed the private sector growing at its fastest pace in 12 months, signalling that the broader economy may be stabilising.

However, the boost in confidence comes against a backdrop of challenges. Neil Bellamy, director of consumer insights at GfK, warned that rising inflation and unemployment could quickly undermine the gains.

"While confidence has improved, inflation remains a major issue, especially for households already stretched by food and energy costs," Bellamy said.

UK inflation in July reportedly rose more sharply than expected, driven by higher food and transport costs. The British Retail Consortium reported that four in ten shoppers expect to spend more on groceries over the next three months, with poorer households hit hardest.

Lower-income families devote a larger share of their income to essential goods, leaving them less able to benefit from wage improvements or cheaper borrowing. As a result, they remain disproportionately affected by rising prices.

At the same time, GfK reported that savings intentions have dropped from last month's highs, suggesting that households are more willing to make significant purchases, such as cars and furniture. This shift indicates growing confidence but also highlights the risk that families could become more exposed if inflation pressures persist.

Data from the Boston Consulting Group (BCG) underscores a growing divide in consumer behaviour. Its analysis shows that higher earners are leading the recovery in demand, while those on lower incomes continue to struggle.

BCG's latest survey reportedly found that 28 per cent of respondents plan to increase their grocery spending, up from 20 per cent three months earlier. More consumers with disposable income are turning to premium brands, with demand at its highest level since May.

Raoul Ruparel, director of BCG's Centre for Growth, said wealthier households are providing much of the momentum in consumer spending.

"Looking ahead, this ongoing divide will significantly influence how quickly and in what way consumer recovery happens," Ruparel noted.

The data present a mixed picture for the UK economy. On one hand, consumer confidence and business growth are showing signs of resilience. On the other hand, inflation and joblessness continue to put pressure on vulnerable households.

Economists warn that if food and transport prices remain elevated, the modest recovery in sentiment could falter. For now, the Bank of England's rate cuts appear to be having an effect, but the benefits are unevenly spread across society.

The coming months will test whether optimism can be sustained as families weigh the relief of lower borrowing costs against the reality of persistently high living expenses.