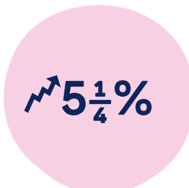
Economic snapshot

by David Fenton, TSB's Chief Economist

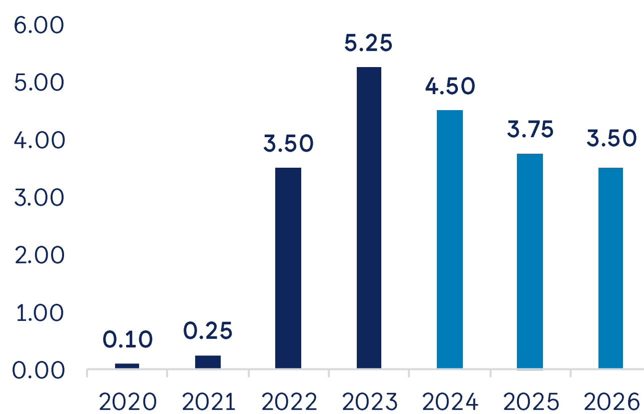
The BoE left the policy rate on hold at $5\frac{1}{4}$% in March. Governor Bailey noted that inflation has fallen, and cost pressures have eased, but said the central bank needs to be "sure" that it will return to the 2% target sustainably before starting to loosen monetary policy. Markets have a cut to 5.00% fully priced in for August, and ultimately expect Bank Rate to settle at around $3\frac{1}{2}$%.

Interest rates



- The BoE left the policy rate on hold at $5\frac{1}{4}$% in March, as expected. There was no press conference today, but the central bank appears to be preparing the ground for a future cut. It noted, in the minutes, that the stance of monetary policy would remain restrictive "even if" Bank Rate were to be cut. Markets have a cut to 5.00% fully priced in for August.
- The vote was a bit more clearcut than in February. The two members who had voted to raise rates at that meeting fell into line with the majority in March (Catherine Mann and Jonathan Haskel). Swati Dhingra again voted for a quarter-point rate cut.

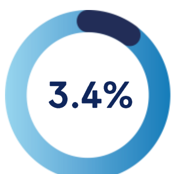
Market implied outlook for Bank Rate (year end)



Housing market

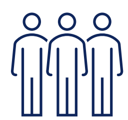
- House prices increased for the fifth month in a row, according to the Halifax index. This lifted the YoY growth rate to 1.7% and means that the average price is just £1.8k lower than the Jun-2022 peak. This is consistent with surveyor reports of a slightly more upbeat picture for sales market activity – both buyer enquiries and listings.
- The mortgage market is also picking up. For example, approvals for house purchase rose to a 15-month high of 55.2k in Jan-2024. Still, let's not get carried away: that's still a subdued level for the market, and the downward trend in mortgage rates appears to have stalled.

Prices and inflation



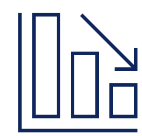
- Inflation fell to 3.4% in February, which was slightly below market/BoE expectations, and the lowest for $2\frac{1}{2}$ years. Food prices were the main driver of the fall, according to the ONS, while restaurant & café price rises also slowed. This is encouraging news for household finances. From a policy perspective, however, the BoE is more focussed on services inflation, which remains high.
- The BoE expects inflation to fall to the 2% target in Q2 2024, but only "temporarily", before it increases slightly in the second half of the year. It reiterated that geopolitical factors were an upside risk for 2024-25.

Jobs and earnings



- Wage growth fell to 5.6% in January. That's still "too high", however, according the BoE. And with this growth rate expected to decline "only slowly" the BoE remains worried about the upside risk this poses to its inflation forecast. This caution is consistent with the central bank's view that the labour market remains relatively tight by historical standards.
- The unemployment rate ticked up in January, to 3.9%, according to the re-introduced *Labour Force Survey*. That's still quite low, with this this series tending to fluctuate around the 4% mark over the past two years.

Economic activity



- There are encouraging signs that the UK will pull out of technical recession in Q1 2024. If that's correct, it will have been one of the mildest recessions in UK economic history. GDP grew by 0.2% in January, with the ONS saying that there had been strong growth in retail and wholesaling. Construction also performed well. Business surveys held up well February, and corporate sentiment seems solid enough.
- The BoE noted that the fiscal measures unveiled in the Spring Budget would boost GDP by around 0.25%, but was relaxed about the inflationary implications, because the measures would also boost the supply side of the economy.

TSB's economics snapshot summarises key data developments in the UK economy including growth, inflation, jobs, house prices and interest rates.
Data sources are BoE, ONS, Halifax, RICS and S&P Global. Interest rate outlook represents market forward rates as of 21st March 2024, inferred from SONIA via Bloomberg.