Economic snapshot

by David Fenton, TSB's Chief Economist

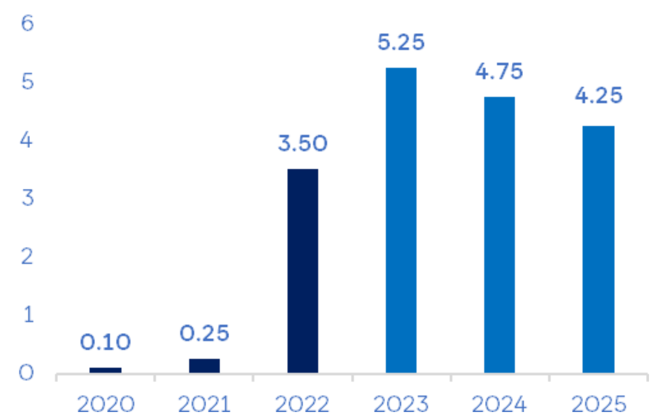
In the September snapshot, we asked whether 5¼% was the peak, or a pause. After today's decision to leave the policy rate on hold again, it seems likely that 5¼% is the peak for this tightening cycle. Even so, Governor Bailey said it was "much too early to be thinking about rate cuts". Indeed, the BoE emphasised that monetary policy is likely to remain restrictive for "an extended period of time".

Interest rates

- The BoE left the policy rate on hold at 5¼%, as expected. The central bank reiterated that monetary policy is "restrictive", which means that – over time – it can be expected to squeeze inflation out of the UK economy. The BoE said that policy will remain restrictive for "an extended period of time".
- Markets are confident that 5¼% will be the peak for this tightening cycle, with no more hikes priced in (see chart opposite). Markets expect a limited and gradual set of rate cuts, starting in the second half of next year.

5.25%

Market implied outlook for Bank Rate (year end)



Housing market

- House prices have had their ups and downs in 2023 but have essentially been treading water since March on the Nationwide index. This resilience is broadly consistent with the sales-to-stocks ratio from the Royal institution of Chartered Surveyors (RICS), which implies that the pricing environment is at the lower end of normal.
- Conditions in the mortgage market are more challenging. 2023 is on track to be the weakest year for net lending since the BoE data series began in 1993, as higher mortgage rates weigh on demand.

Prices and inflation

- Inflation was unchanged in September, at 6.7%. Food and non-alcoholic drinks prices eased again, as did household appliances and airfares, but these effects were offset by rising prices for motor fuels and hotels. However, another large drop is expected when the inflation data for October are released in two weeks, as last year's big increase in energy prices drops out of the equation.
- The BoE expects inflation to fall "sharply" over the next year or so but stressed that there are upside risks to inflation from energy prices given events in the Middle East.

6.7%

Jobs and earnings

- It's difficult to get a clear reading of labour market conditions at present. That's because the official data are based on survey evidence, and lower response rates have reduced the reliability of this key information source. The high-level message is that unemployment is rising but remains relatively low by historic standards, at around 4¼%.
- The picture for wage growth is a mirror image of the one for unemployment: edging down, but still high by historic standards, at 8.1% in August. Again, there may be data quality issues, with the BoE noting that other sources are less punchy.

Economic activity

- Economic activity remains subdued, with GDP growing by just 0.2% in August. A repeat performance in September, or anything weaker, would give us a negative outturn for Q3. There is little evidence of an improvement on the PMI survey in September – or October, for that matter. S&P Global, which provides this business survey, said the UK was "skirting with recession".
- The BoE's latest forecast implies that the economy will narrowly avoid a recession but that activity will remain subdued next year, and into 2025.

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, Nationwide, RICS and S&P Global. Interest rate outlook represents market forward rates as of 2nd Nov 2023, inferred from SONIA via Bloomberg.