

# Economic snapshot

by David Fenton, TSB's Chief Economist

As expected, the BoE left the UK policy rate on hold at 3.75% in February. The decision was finely balanced, however, with a 5-4 vote split for the third meeting in a row. Governor Bailey said Bank Rate was likely to be reduced further but stressed there was a balancing act between cutting too quickly, or by too much, and waiting too long. He added that the forward curve was in "a fairly reasonable place", which implies that market expectations for 1-2 rate cuts in 2026 are in the right ballpark.

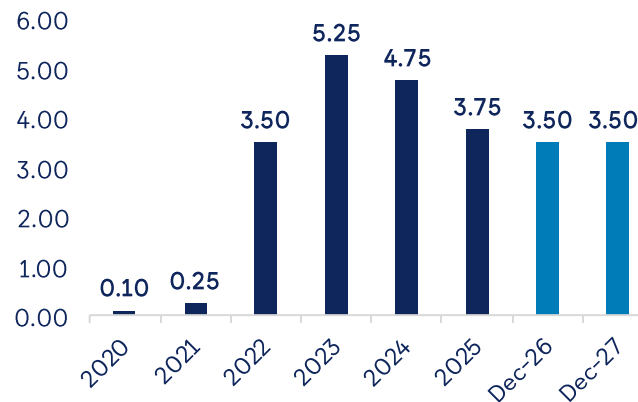


## Interest rates

- The BoE left the UK policy rate on hold at 3.75% in February. For the third meeting in a row, the decision was on a knife-edge, with a 5-4 vote split. Two members of that five-person majority intimated that it wouldn't take much for them to switch their vote, which has shortened the odds on a rate cut in March/April.
- Markets have one more rate reduction fully priced in for this cutting cycle (see chart), with roughly a 75-80% chance of a move to 3.25%.

→ 3.75%

## Market implied outlook for Bank Rate (year end)



## Housing market

- House prices rose by 0.3% in January on the Nationwide index. The national average was c.£271k, which is 1.0% higher than a year ago. The price-to-earnings ratio continues to decline gradually, and mortgage affordability has improved. Residential property transactions ticked up in H2 2025 and are in line with the pre-pandemic average of c.100k p/m.
- BoE data confirmed that gross lending came in at £291 bn for 2025 as a whole. That's a big increase on 2023-24 and close to 2021-22 levels.



## Prices and inflation

- CPI inflation rose to 3.4% in December, from 3.2%. The ONS said that tobacco and airfares made the largest upward contributions to this increase, though both were affected by timing differences. The BoE had already said that these factors would lead to a temporary increase in inflation in December, so the implications for monetary policy were limited.
- The BoE said that that near-term outlook for inflation was "notably lower", largely reflecting measures announced in Budget 2025. It expects inflation to fall back to c.2% from April.

3.4%

## Jobs and earnings

- UK payrolls continue to fall gradually (-184k YoY in Dec). There were declines in all regions/countries of the UK last year, most notably London. From a sectoral perspective, the decline was most pronounced in hospitality and retail. This is consistent with BoE evidence linking headcount reductions to (i) exposure to discretionary consumer spending and (ii) NLW and NICs increases.
- The BoE said labour market conditions would continue to loosen somewhat, leading to slower wage growth, with basic private sector pay settlements averaging 3.4% over 2026.



## Economic activity

- GDP surprised on the upside in November and is on track to have grown by around 0.2% in Q4. Surveys suggest the UK economy made a bright start to 2026, with the PMI pointing to faster output growth and improved business confidence. S&P, which provides the PMI survey, suggested that "post-Budget relief" may have temporarily boosted sentiment.
- The global backdrop is important for UK growth. The BoE said trade uncertainty had reduced, and that AI-related investment had boosted economic growth in some regions.



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, Datastream, S&P Global and Nationwide. Interest rate outlook represents market forward rates as of 5 February inferred from SONIA via Bloomberg.

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