Economic snapshot

by David Fenton, TSB's Chief Economist

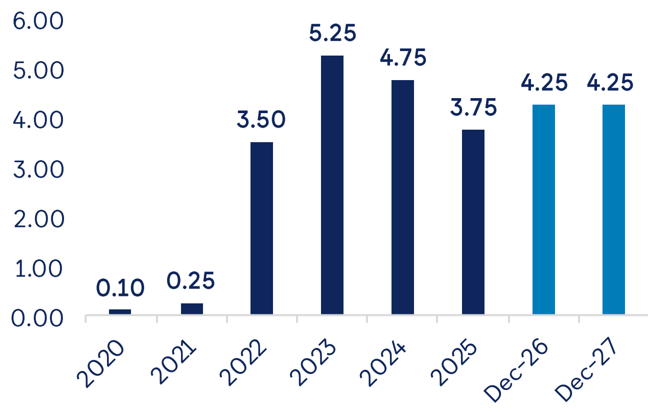
The BoE left the UK policy rate on hold at 3.75% in March. This was in line with expectations, though that phrase feels specious given how much expectations have shifted in recent weeks. The situation is fluid but, as of 19 March, markets are pricing in two hikes for 2026. The Minutes to today's decision certainly gave more prominence to inflationary concerns than to downside risks to economic growth, though Governor Bailey said he would "caution against reaching any strong conclusions about [the BoE] raising interest rates".

Interest rates

→ 3.75%

- The BoE left the UK policy rate on hold at 3.75% in March. The decision was unanimous, compared with market expectations for a 7-2 vote, and following three consecutive 5-4 decisions. Governor Bailey said the BoE would "assess how events unfold" and stressed that, whatever happens, the central bank's job is to make sure inflation gets back to its 2% target.
- Markets presently think that there will be two rate hikes in 2026 (see chart). However, market pricing has been highly volatile, and Governor Bailey has intimated that markets might be getting ahead of themselves.

Market implied outlook for Bank Rate (year end)



Housing market

- House prices edged up by 0.1% in February on the Halifax index. The national average was £301k, which is 1.3% higher than a year ago. This release, and others, had been pointing to a market that was regaining momentum after a sluggish end to 2025. But surveyors have cautioned that confidence is "fragile" and that "intensifying macro headwinds cloud the outlook".
- The sharp rise in swap rates has led to "a vanishing act" of sub-4% fixed-rate mortgages, according to Moneyfacts, with average mortgage rates rising above 5% as the market adjusts to the impact of higher energy prices.

Prices and inflation

3.0%

- CPI inflation fell to 3.0% in January, from 3.4%. The ONS attributed the decline to motor fuels, air fares and food prices. The RAC said petrol prices have increased by 9.8 pence since 28-Feb, while diesel prices have risen by 20.3 pence (as of 18-Mar). Market-implied inflation expectations have increased over the same period, which will amplify the BoE's fears about second-round effects on wages and prices.
- The BoE said CPI inflation is now likely to be "between 3 and 3½% over the next couple of quarters". This is a meaningful difference from the BoE's February forecast, when it expected inflation to fall back to 2% in Q2.

Jobs and earnings

- The labour market looked somewhat brighter in the early months of 2026, with small increases in the number of payrolled employees. Even if the high-level trend was one of stabilisation rather than recovery this was a welcome development, which chimed with the less downbeat tone of the KMPG/REC recruiter survey. The unemployment rate was unchanged at 5.2% in January, having been <4% for most of 2022, when the previous inflation shock hit.
- Wage inflation continued to moderate, with the headline growth rate falling to 3.9% in January. The BoE said basic private sector pay settlements were expected to average 3.6% over 2026.

Economic activity

- The UK economy started the energy crisis without much momentum, according to official data, with monthly GDP showing no growth in January. Survey data *had* been less downbeat, however, with the composite PMI showing continued signs of robust growth in February. Next week's "flash" PMI will reveal how corporate activity/sentiment has responded to higher costs, supply disruptions and demand concerns.
- The BoE acknowledged this disconnect between the official data and business surveys. It said that, overall, activity had remained "subdued" in Q1 2026, with expected GDP growth of 0.1 to 0.2% (QoQ).

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, Halifax, Moneyfacts. Interest rate outlook represents market forward rates as of 19 March inferred from SONIA via Bloomberg.