

Economic snapshot

by David Fenton, TSB's Chief Economist



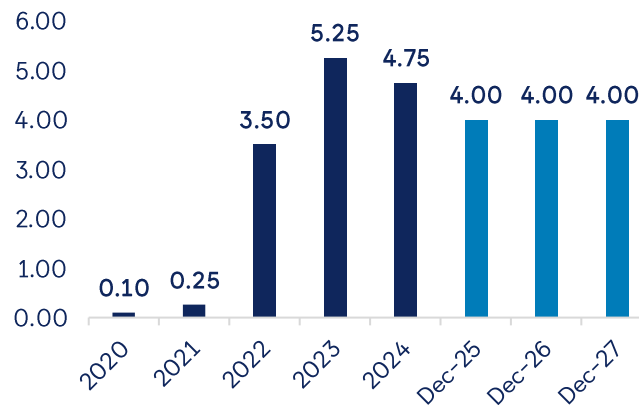
The BoE left rates unchanged at 4.5% in March. Governor Bailey noted that “there’s a lot of economic uncertainty at the moment” – with global trade policy in a state of flux, and a deterioration in UK companies’ employment intentions. Further rate cuts are likely, though the central bank reiterated that it would take a “gradual and careful” approach. Markets expect just two more cuts from the BoE, to an end-point of 4.00%.

Interest rates

- The BoE left the UK policy rate on hold at 4.5%. The 8-1 vote was a bit more emphatic than market had been expecting (7-2). The central bank said that inflation developments had been “mixed” but broadly in line with expectations. As a result, it reiterated that a “gradual and careful” approach to rate cuts was appropriate.
- Markets have two more rate cuts priced in for 2025, to 4.00%. Markets don’t expect the policy rate to go any lower in 2026 or beyond.

→4.5%

Market implied outlook for Bank Rate (year end)



Housing market

- House prices were broadly unchanged in February, at £299k on the Halifax index. In YoY terms, the UK average increased by 2.9%. This is around half the rate of wage growth over the same period. As a result, the price-to-earnings ratio has returned to its pre-pandemic equilibrium. Affordability remains stretched, with the BoE noting an increasing proportion of households were choosing to borrow over longer terms.
- The mortgage market made a solid start to 2025, according to BoE data for January. YoY growth rose to 1.8%, which is the fastest since May-2023.



Prices and inflation

- Inflation rose to 3.0% in January, with the largest upward contribution coming from transport, food and non-alcoholic beverages. The transport increase was driven by air fares and motor fuels. More than half (56%) of trading businesses cited labour costs as a reason for considering raising their prices next month, according to a separate survey by the ONS.
- The BoE noted that global energy prices have fallen back recently but still expects inflation to rise to around 3½% in Q3 2025.

3.0%

Jobs and earnings

- The unemployment rate was steady at 4.4% in January. However, business surveys paint a more downbeat picture. For example, the employment gauge in the PMI survey fell to its lowest level since Nov-2020. Wage growth fell in January, though this was due to bonus payments, which can be volatile. Growth in “regular pay”, which strips them out, was steady at an elevated 5.9%.
- The BoE’s network of regional agents reported that employment intentions have weakened, with more firms reporting hiring pauses or freezes.



Economic activity

- At the risk of repeating myself, the UK economy is struggling to generate any meaningful forward momentum. GDP fell by 0.1% in January and has now failed to grow in six out of the last ten months. Business surveys point to little or no improvement in February or March. 29% of businesses reported that economic uncertainty is having an impact on turnover. Consumers remain cautious.
- The BoE acknowledged that economic uncertainties have risen – both globally and domestically – with trade policy a key driver of this adverse development.



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, S&P Global and RICS. Interest rate outlook represents market forward rates as of 20th March inferred from SONIA via Bloomberg.

TSB's economic snapshot is provided as information for mortgage professionals and is not for onward transmission or publication. It should not be considered advice or used as a substitute for professional advice. TSB and the author are not responsible for any direct or indirect results arising from any reliance placed on its contents and all liability is excluded. Contents based on our assessment as at 20th March 2025.