

Economic snapshot

by David Fenton, TSB's Chief Economist



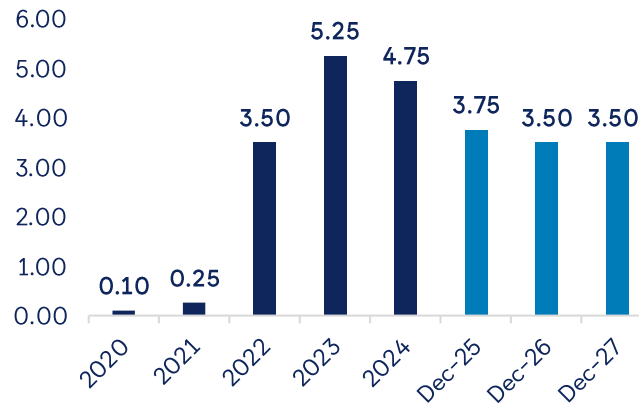
The BoE cut the UK policy rate to 4.25% in May, as expected. Governor Bailey noted that the global economic environment remains uncertain, and stressed that interest rates are “not on autopilot”. As a result, perhaps we shouldn't be entirely surprised by the three-way split in the vote. The BoE reiterated that it would maintain a “gradual and careful” approach to future rate cuts. Markets expect two more rate reductions in 2025, to 3.75% by year-end, followed by a final cut to 3.50% in 2026.

Interest rates

- The decision to cut Bank Rate to 4.25% was fully expected. But the breakdown of the vote underlines the “heightened unpredictability” of the economic outlook. There was a three-way split, with five members voting for a quarter-point cut, two members voting for a half-point cut and two members voting for no change at all. Even the five-person majority was split into two camps!
- Markets expect there will be another two cuts in 2025, to 3.75% by year-end, before rates ultimately settle at 3.50% in 2026-27.

↓ 4.25%

Market implied outlook for Bank Rate (year end)



Housing market

- House prices rose by 0.3% in April, to £298k on the Halifax index, which is 3.2% higher than a year ago. The lender said that Northern Ireland, Wales and Scotland had recorded the strongest annual growth in house prices in the UK, with all three nations outpacing English regions. In England, the North West registered the strongest growth, while the South West was the slowest. London was also subdued.
- The mortgage market made a buoyant start to 2025. Gross lending clocked in at £76 bn in Q1, according to BoE data, which is 50% higher than the same period last year.



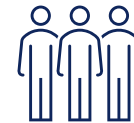
Prices and inflation

- Inflation fell to 2.6% in March, with the largest downward contributions coming from recreation & culture and motor fuels. For example, prices at the pump are around 5% lower than they were a year ago. These moves were partially offset by an upward contribution from clothing. Inflation was slightly lower than the BoE's forecast of 2.7%.
- The BoE expects inflation to rise to 3½% in the autumn, driven mostly by energy prices rather than underlying cost pressures. The BoE thinks this increase will be temporary.

2.6%

Jobs and earnings

- The official labour market data were relatively benign for February: employment increased, inactivity decreased, and the unemployment rate was unchanged at 4.4%. Headline wage growth was also unchanged, at 5.6%. However, other labour market releases are more downbeat. For example, HMRC data showed a sharp drop in the number of payrolled employees in March.
- Unemployment is projected to rise gradually in the BoE's new forecast, to around 5% by end-2026. This would be slightly above its assumed equilibrium rate of 4½%.



Economic activity

- In previous *Snapshots*, I've noted that the UK economy has been struggling to generate much forward momentum. And while business surveys continue to paint a downbeat picture for March and April, the GDP data for February were pretty punchy. Output increased by 0.8% MoM, which leaves the UK on track to have grown by around 0.6% in Q1 2025, after a sluggish end to 2024.
- The BoE said that the imposition of tariffs and heightened uncertainty about trade policies has introduced “a new source of risk for the global 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, S&P Global and RICS. Interest rate outlook represents market forward rates as of 8th May inferred from SONIA via Bloomberg.

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