

# Economic snapshot

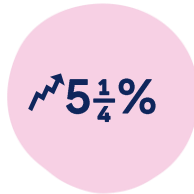
## by David Fenton, TSB's Chief Economist



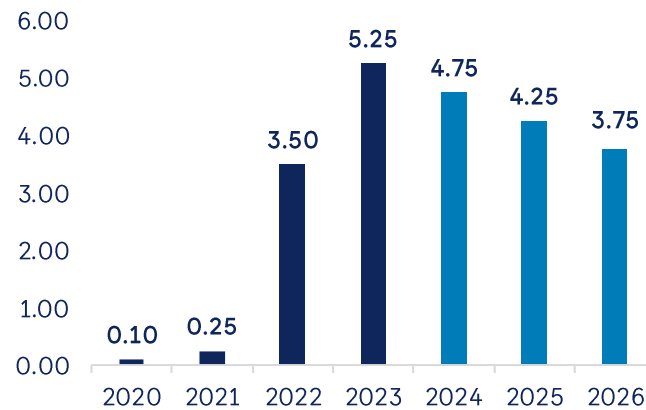
Yesterday's no-change decision was never really in doubt, but Andrew Bailey's comments in the press conference have been interpreted as preparing the ground for a summer rate cut. Markets continue to expect a first move in August, which would be 12 months since the final hike to 5¼%. However, the Governor went out of his way to flag the possibility of a cut at the BoE's next meeting, on 20<sup>th</sup> June, saying that it was "neither ruled out nor a *fait accompli*".

### Interest rates

- The BoE left the UK policy rate on hold at 5¼%, as expected. Governor Bailey noted that monetary policy was working to bring inflation back towards the 2% target, but said the central bank was "not yet at a point where [it] can cut Bank Rate". Two members disagreed, however, and voted for the policy rate to be reduced to 5.0%.
- Markets have two cuts fully priced in for 2024 (see chart opposite). Further out, markets think Bank Rate will fall to 3¾% by the end of 2026. Andrew Bailey intimated that it might fall somewhat further than market expectations.



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



### Housing market

- After a relatively confident start to the year, the housing market has been more subdued in recent months. Prices were flat in April, according to the Halifax index, having fallen slightly in March. None of this really changes the big-picture story: prices have effectively gone sideways over the past 1½ years, as the market adjusts to an environment of higher interest rates.
- This is consistent with what surveyors are saying about the balance of demand and supply in the market. Sales have picked up since summer 2023, but so have stocks, to leave prices treading water.



### Prices and inflation

- Inflation fell to 3.2% in March, which is the lowest since Sep-2021. Food prices were the main reason for the fall, with a partial offset from rising fuel prices. Services price inflation was slightly higher than expected, giving the BoE "pause for thought", though Governor Bailey also cautioned against over-interpreting this development, saying "there will always be ups and downs in the data".
- The BoE expects inflation to fall further in April, given the lower Ofgem cap on household energy prices – to a level "very close" to the 2% target in the next few months, before edging back up in the second half of 2024.



### Jobs and earnings

- The unemployment rate rose to 4.2% in February. The BoE pointed to this as evidence of labour market "loosening". Wage growth eased further, falling from a recent peak of 8.5% in Jul-2023 to 5.6%. That's still high by historic standards and means that wages are no longer falling once we take inflation into effect. In "real" terms, wages increased by 1.6% – the fastest for 2½ years.
- The BoE thinks that pay settlements will moderate further during the year, for two reasons. First, a "less tight" labour market. Second, the continued easing in CPI inflation.



### Economic activity

- The economy is recovering more quickly than had been expected. Today's Q1 GDP release showed an increase of 0.6% QoQ. This is faster than estimates of the UK's "trend" growth rate and confirms that the economy has already emerged from the technical recession it entered in 2023. Further, business surveys suggest the UK has made a solid start to Q2 2024, with the PMI showing solid levels of activity.
- The BoE expects an improvement in GDP growth as the headwind from past rate hikes starts to fade, and as prospective rate cuts boost activity further out. Higher population growth is also a factor, along with fiscal policy (2p cut to National Insurance).

