Economic snapshot

by David Fenton, TSB's Chief Economist

The BoE left the UK policy rate on hold at 4.25% in June, as expected. It reiterated that monetary policy is not on a pre-set path, and again noted that a "gradual and careful" approach to further rate cuts remains appropriate. The BoE said it was "sensitive" to heightened unpredictability in the economic and geopolitical environment, with recent developments in the Middle East clearly front of mind. On the home front, weakening conditions in the labour market were emphasised. Markets expect three more rate cuts, to a trough of 3.50%.

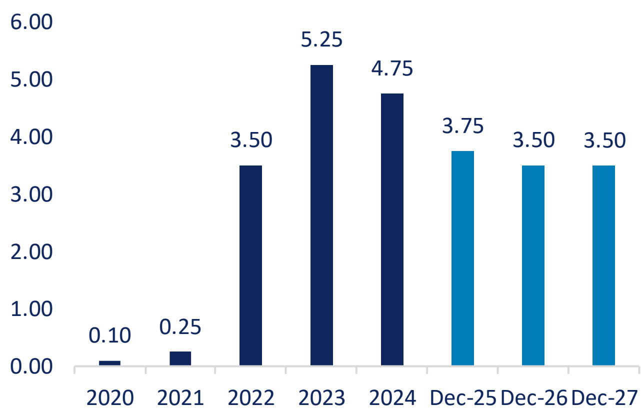
Interest rates

- The BoE voted 6-3 to leave Bank Rate on hold at 4.25%. For the majority, disinflationary progress had continued but there was no compelling case to pick up the pace on rate cuts. The minority cited "a material further loosening in labour market conditions" as grounds for delivering a quarter-point cut today.

→ 4.25%

- Markets expect there will be another three cuts over 2025-26 (see chart). Further out, markets imply Bank Rate will ultimately settle at 3.75%.

Market implied outlook for Bank Rate (year end)



Housing market

- House prices fell by 0.4% in May, to £297k on the Halifax index. That's 2.5% higher than a year ago. Most of that YoY increase came in H2 2024; prices have been broadly flat in 2025 YTD. As a result of this pause for breath, the price-to-earnings ratio continues to edge down. It fell to 6.17 in May, which is the lowest since Oct-2019, albeit by a narrow margin.
- The mortgage market eased back in April. Even so, gross lending clocked in at £91 bn for Jan-Apr, according to BoE data, which is 31% higher than the same period last year.

Prices and inflation

- Inflation fell to 3.4% in May, from an overstated 3.5% in April (the ONS said there had been an error in the Vehicle Excise Duty component last month). The BoE reiterated that the bulk of the rise since its previous meeting had been due to a range of regulated prices and previous increases in energy prices, and noted that the latest data point was in line with expectations.

3.4%

- The BoE expects inflation to remain just under 3½% for the rest of 2025, save a brief increase to 3.7% in September. This is broadly unchanged from its previous forecast.

Jobs and earnings

- The unemployment rate rose to 4.6% in April, which is the highest since 2021. This represents a continuation of the rising trend that has been in place for three years, in response to rate hikes over 2021-23. There was a sharp drop in payrolled employees in May, according to preliminary estimates, which some commentators have attributed to the NICs increase taking effect in April.
- The BoE said that underlying pay growth had eased further in recent months but stressed that it was still high by historic standards.

Economic activity

- UK GDP fell by 0.3% MoM in April. The BoE noted that the latest data appeared to have been affected by the front-loading of activity ahead of the increases in Stamp Duty Land Tax and in Vehicle Excise Duty in April. It also suggested that the temporary boost to trade ahead of the imposition of new US tariffs had unwound. Even so, the BoE upgraded its forecast for Q2 GDP growth somewhat.
- The BoE said its regional agents were reporting that business sentiment had "continued to wane", with contacts not expecting to see a material recovery in demand until 2026.

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, S&P and Halifax. Interest rate outlook represents market forward rates as of 19th June inferred from SONIA via Bloomberg.