Economic snapshot

by David Fenton, TSB’s Chief Economist.

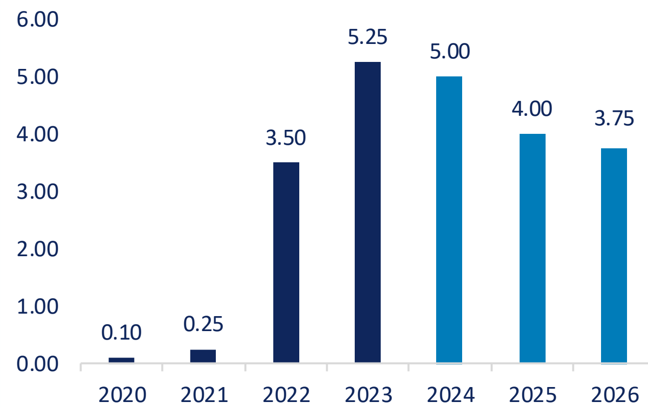
UK inflation has returned to the 2% target and, to make sure it stays there, the BoE has again left interest rates unchanged at 5¼%. But the central bank is clearly edging towards a rate cut. Governor Bailey said rates had been left on hold "for now" and the Monetary Policy Committee noted that, for some members, the decision not to cut rates had been "finely balanced". The BoE made no firm commitments but seems to be on track for a summer rate cut, with changes to its forward guidance hinting at a move on 1st August.

Interest rates

5¼%

- The BoE left the UK policy rate on hold at 5¼%, as expected. There was a small – but significant – change to BoE's forward guidance. A new reference to the forecast update in August suggests a pivot to a more forward-looking stance, which has been interpreted as pointing to a rate cut at the next meeting.
- Markets have one cut fully priced in for 2024 (see chart), though a second cut is a viewed as a distinct possibility. Markets envisage a relatively shallow cutting cycle, with Bank Rate falling to 3.75% at end-2026.

Market implied outlook for Bank Rate (year end)



Housing market

- House prices fell slightly in May, according to the Halifax index. The 0.1% MoM decline nudged the average price down to £288,688, which is 1.5% higher than a year ago. This is consistent with the sales-to-stocks ratio, published by the RICS, which indicates that demand and supply remain relatively well balanced.
- Gross secured lending ticked up in April, according to BoE data. Even so, the market is about 3% lower than the same period in 2023 (£70 bn year-to-date, versus £72 bn last year).

Prices and inflation

2.0%

- Inflation fell to 2.0% in May – the first time it has been in line with the BoE's target for almost three years. The largest downward contribution came from food, with prices falling this year but rising a year ago, while the largest upward contribution came from motor fuels. Services price inflation has again surprised on the upside, though the BoE downplayed this development.
- The BoE reiterated its expectation that inflation will rise in the second half of 2024, to around 2½%, as declines in energy prices drop out of the YoY comparison.

Jobs and earnings

- The unemployment rate rose again, to 4.4% in April. This is the highest level since Sep-2021 though the BoE maintains that the labour market remains "relatively tight by historical standards". It referenced the "considerable uncertainty" associated with the unemployment survey and suggested that the "underlying" trend might be flat rather than upwards. This would help to explain why wage growth remains stubbornly high, at 5.9% YoY.
- The BoE has identified wage growth as one of three key indicators of "persistent inflationary pressures" –so it remains firmly on the central bank's radar.

Economic activity

- Economic activity was flat in April, according to the latest GDP release. That may seem like a disappointment but, after stellar growth in March, it's encouraging not to have seen a small decline. Also, a key business survey points to further growth in May. All in all, the BoE said that economic growth had "strengthened" since the start of the year, reversing the fall in GDP that was estimated to have occurred in the second half of 2023
- The BoE expects a small downward revision to Q1 GDP growth, from 0.6% to 0.4%, followed by 0.2% in Q2.

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, RICS and S&P Global. Interest rate outlook represents market forward rates as of 21st June 2024, inferred from SONIA via Bloomberg.