

Economic snapshot

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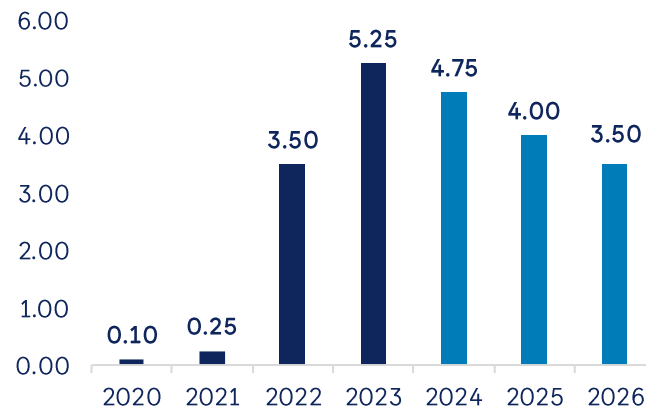
The BoE has voted to cut the UK policy rate for the first time since March 2020. Governor Bailey said it was a "finely balanced decision", as evidenced by the closeness of the vote (5-4). Further, he said the BoE "needs to be careful not to cut rates too much or too quickly". Markets expect one more cut in 2024, to 4.75%, followed by a gradual decline towards 3½% over 2025-26.

Interest rates

- The BoE voted 5-4 to cut bank Rate to 5.0%. The central banks said it was appropriate "to reduce slightly the degree of policy restrictiveness" but struck a relatively cautious tone, adding that Bank Rate will need to "remain restrictive for sufficiently long" until the risks of an inflationary flare-up have dissipated.
- Markets have one more cut fully priced in for 2024, to 4.75% (see chart). Markets then expect another three in 2025, before Bank Rate levels off at around 3½% in 2026.



Market implied outlook for Bank Rate (year end)



Housing market

- House prices rose slightly in July, according to the Nationwide index. The 0.3% MoM increase lifted the national average to £266k, which is 2.1% higher than a year ago. This relative stability is consistent with the RICS sales-to-stocks ratio, which shows a broadly even balance between demand and supply.
- The mortgage market was broadly unchanged in June. Approvals for house purchase edged down slightly, to a little under 60k, which is 10% lower than pre-pandemic levels.



Prices and inflation

- Inflation was steady at 2.0% in June. This is the first time it has been in line with the BoE's target for back-to-back months since 2019. Not for the first time, services price inflation came in higher than expected though the BoE downplayed this development somewhat, saying it was partly due to "volatile components of the series".
- The BoE continues to expect a small increase in inflation in H2 2024, to around 2½%, before falling below the 2% target in 2026.



Jobs and earnings

- The BoE is paying particularly close attention to two areas of the labour market release. The first is wage growth, which fell in May but remained uncomfortably high for the central bank, at 5.7%. The second is the "tightness" of labour market conditions, which also moderated in May and, to borrow a phrase from the US Federal Reserve's Chairman Powell, looks to be "back in balance".
- The BoE's forecast for unemployment remains relatively shallow, rising to a peak of 4.8% in 2026. It expects private-sector wage growth to fall to c.3%.



Economic activity

- The economy surged in May. GDP grew by 0.4% MoM, which means the UK is on track to have grown by 0.6-0.7% in Q2. Also, a leading business survey signalled an encouraging start to the second half of the year. Order books and employment both grew at faster rates in July, according to the Purchasing managers' Index.
- The Budget Statement will be held on 30th October. The BoE said any changes in the fiscal stance would be incorporated in its next forecast update (November).

