# Economic snapshot

## by David Fenton, TSB's Chief Economist

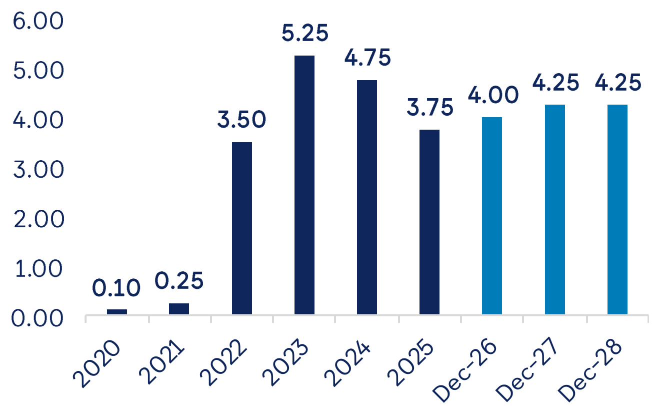
The BoE left the UK policy rate on hold at 3.75% in July. This was in line with expectations though the 6-3 vote was slightly closer than anticipated. Developments since the June meeting have been a mixed bag, with lower-than-expected inflation in June, but a flare-up in oil & gas prices following the re-escalation of tensions in the Middle East. Market pricing implies two rate hikes over the next 12 months, though Governor Bailey has pushed back against this interpretation. At the press conference, he said that he wouldn't want anyone thinking the BoE is "edging towards a hike".

### Interest rates

→ 3.75%

- Bank Rate was left unchanged at 3.75% in July. The 6-3 vote was somewhat closer than expected (consensus was for 7-2 again). The majority said that the "significant" tightening of financial conditions, which includes higher mortgage rates, was providing "sufficient insurance" against the upside risks to inflation stemming from energy price volatility.
- The re-escalation of tensions in the Middle East has pushed up forward rates. Two hikes are priced in (see chart), though Governor Bailey said this upward slope mainly reflects risk premia.

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




### Housing market

- House prices increased by 0.2% in June, according to the Lloyds index. The national average was £299k, which is 0.6% higher than a year ago. Surveyors had noted that some indicators were pointing to an easing of the recent downturn in activity, though this predated the recent increase in mortgage rates, which Moneyfacts said was threatening to undo recent progress in the UK mortgage market.
- The mortgage market in H1 2026 ran slightly ahead of H1 2025, with gross lending of £145bn (£134bn last year). Mortgage approvals rebounded in June but remain somewhat subdued.

### Prices and inflation

2.6%

- Inflation fell to 2.6% in June but is forecast to rise in H2 as the higher energy price cap takes effect: from £1,477 in Q2 to £1,663 in Q3, and c.£1,680 in Q4. The BoE said the expected increase in Q4 is c.£45 lower than it might otherwise have been, due to the temporary removal of VAT on household electricity bills. The indirect effects of the energy shock are expected to grow in H2, via items such as food, clothing & footwear and household goods.
- In the BoE's central forecast, CPI inflation is expected to average 3.2% in Q4 2026, before falling to 2.1% by Q4 2027. In the BoE's adverse scenario, however, inflation rises as high as 4.5%.

### Jobs and earnings

- There are tentative signs of stabilisation in the labour market. The number of payrolled employees was broadly flat in June as was the level of vacancies, while the unemployment rate remained steady at 4.9%. Wage growth fell to 4.3% but remains somewhat elevated due to bonus payments and public sector pay settlements. Wages increased by 1.1% in real terms, so purchasing power is holding up relatively well.
- The BoE expects the unemployment rate to rise a little over the next year, to a peak of 5.3% next year. It said this would mainly reflect weakness in hiring rather than an increase in job losses.

### Economic activity

- The UK economy made a stronger than expected start to 2026. GDP grew by 0.6% QoQ in the first three months of the year and the BoE estimates that it grew by 0.3% in Q2. However, this positivity is at odds with the PMI survey, which implies a more challenging economic environment. The flash estimate for the composite PMI was 49.3 in June, which is below the neutral 50.0 threshold that separates contraction from expansion.
- The BoE expects a further deceleration in H2, with GDP growth of 0.1% in each of Q3 and Q4 – as lower confidence, greater uncertainty and tighter financial conditions weigh on demand and investment.

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, Datastream, S&P Global, Lloyds and RICS. Interest rate outlook represents market forward rates as of 30 July inferred from SONIA via Bloomberg.