Economic snapshot

by David Fenton, TSB's Chief Economist

The BoE cut the UK policy rate to 4.0% in August, as expected. Governor Bailey said that Bank Rate is likely to remain on a downward trajectory, though there seems to be a degree of caution creeping into the Monetary Policy Committee's deliberations. For one thing, it was a very close vote (5-4 in favour of a cut). Also, the BoE highlighted the recent pickup in inflation and the risk it poses to inflation persistence. This caution is reflected in forward rates, where only one more cut is fully priced in by markets – and not until Feb-2026.

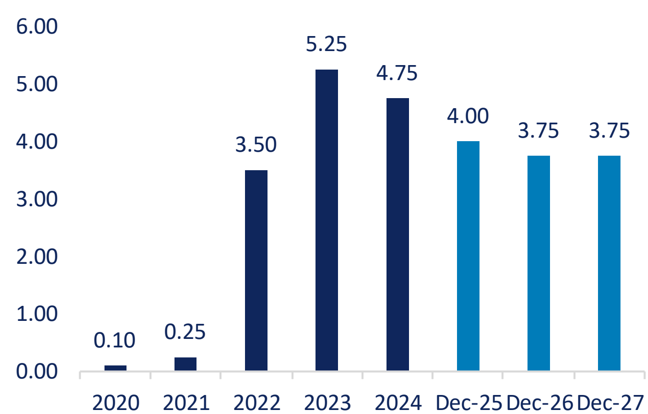
Interest rates

- In some respects, today's BoE decision was unremarkable: a 25 bps rate cut, in line with expectations, and sticking with the same quarterly rhythm. However, the vote was closer than expected: 5-4 rather than the 7-2 split predicted by markets. Also, this month's decision required an unprecedented second vote, after rate-setters initially failed to reach a majority verdict

↓ 4.00%

- Markets have just one more cut fully priced in, and not until next year (see chart). It should be noted, however, that markets regard a cut to 3.5% as a distinct possibility.

Market implied outlook for Bank Rate (year end)



Housing market

- House prices rose by 0.4% in July, to £298k on the Halifax index. That's 2.4% higher than a year ago. Prices remain broadly flat in 2025 YTD. Surveyors pointed to a "steadier picture" for sales market activity, with buyer demand moving out of negative territory for the first time in several months. In the lettings market, surveyors said tenant demand was largely steady.
- The mortgage market continued to rebound from the lull after the stamp duty change on 1st April. Mortgage approvals rose to 64.2k. Gross lending in H1 2025 was up 22% YoY.

Prices and inflation

- Inflation rose to 3.6% in June, and the BoE said it was likely to rise slightly further – to 4% by September. Inflation is then expected to fall back towards the 2% target. That forecast partly rests on an assumption that high inflation won't lead to additional second-round effects on wage and price setting in the UK economy. The BoE also expects a gradual reduction in food price inflation next year.

3.6%

- Looking beyond its central forecast, the BoE noted that the upside risks to medium-term inflationary pressures have moved slightly higher.

Jobs and earnings

- The unemployment rate rose to 4.7% in May, 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. Business surveys suggest the NICs increase in April has been a contributory factor in recent months. Separate releases point to a continuation of this labour market loosening in June and July.
- The BoE's take on pay growth remains unchanged: it remains elevated, but is still expected to slow significantly over the rest of the year.

Economic activity

- UK GDP fell by 0.1% MoM in May. Production and Construction were the largest contributors to this decline, which leaves the economy on track for negligible growth in Q2: the BoE expects +0.1%, down from +0.7% in Q1. An improvement is then expected in the second half of the year, which is consistent with the modest expansion indicated by business surveys.
- The BoE noted that while downside geopolitical risks remain, trade policy uncertainty has diminished somewhat. It identified the high savings ratio as a domestic downside risk.

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, RICS and Halifax. Interest rate outlook represents market forward rates as of 7 August inferred from SONIA via Bloomberg.