

Economic snapshot

by David Fenton, TSB's Chief Economist



The BoE voted to hold the UK policy rate at 5.00% in September, as expected. It said that wage and price-setting had continued to normalise but ultimately concluded that the current policy stance was "appropriate". More rate cuts are coming but the central bank appears minded to take its time, saying that "a gradual approach to removing policy restraint remains appropriate". Markets expect a cut to 4.75% at the next meeting, on 7th November.

<h3>Interest rates</h3> <ul style="list-style-type: none"> Bank Rate was unchanged in September. Governor Bailey said the BoE "should be able to reduce rates gradually over time" but reiterated that it would be careful not to do so "too fast or by too much". This represents a more cautious approach than the Federal Reserve, which cut the US policy rate by 50 bps yesterday. Markets expect a cut to 4.75% at the BoE's November meeting. Forward rates imply that the central bank will largely stick to a quarterly cutting cycle in 2025, with a neutral rate of 3½%. 	<h3>Market implied outlook for Bank Rate (year end)</h3> <table border="1"> <thead> <tr> <th>Year</th> <th>Bank Rate (%)</th> </tr> </thead> <tbody> <tr> <td>2020</td> <td>0.10</td> </tr> <tr> <td>2021</td> <td>0.25</td> </tr> <tr> <td>2022</td> <td>3.50</td> </tr> <tr> <td>2023</td> <td>5.25</td> </tr> <tr> <td>2024</td> <td>4.75</td> </tr> <tr> <td>2025</td> <td>3.50</td> </tr> <tr> <td>2026</td> <td>3.50</td> </tr> </tbody> </table>	Year	Bank Rate (%)	2020	0.10	2021	0.25	2022	3.50	2023	5.25	2024	4.75	2025	3.50	2026	3.50	<h3>Housing market</h3> <ul style="list-style-type: none"> House prices rose by 0.3% in August, according to the Halifax index. This lifted the average house price to £293k, which is 4.3% higher than a year ago, and just 0.3% lower than the 2022 peak. This chimes with reports from surveyors, that the sales-to-stocks ratio is edging back up. Mortgage approvals increased in July, rising to a two-year high of 62k. This is still lower than pre-pandemic levels but the gap has narrowed considerably.
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<h3>Prices and inflation</h3> <ul style="list-style-type: none"> Inflation was unchanged in August, at 2.2%. This was in line with market expectations but somewhat lower than the BoE's forecast (2.4%). The ONS said that the largest upward contribution came from air fares, while the largest downward contributions came from motor fuels and hotels & restaurants. The BoE still expects inflation to increase in the second half of 2024, as declines in energy prices last year drop out of the YoY comparison, but to a lesser extent (2%½ rather than 2¾%). 	<h3>Jobs and earnings</h3> <ul style="list-style-type: none"> The unemployment rate fell to 4.1% in July, though the underlying trend is broadly flat over the past year or so. The unemployed-per-vacancy ratio, which is an indicator of labour market slack, appears to be settling at a level that is close to the pre-pandemic era. Headline wage growth fell to 4.0% in July – the lowest since November 2020. The BoE introduced a trio of inflationary scenarios in the Minutes to the meeting. In one of them, structural changes in wage and price-setting necessitates a "tighter for longer" approach to monetary policy. 	<h3>Economic activity</h3> <ul style="list-style-type: none"> The economy stagnated in July, for the second month in a row, as modest growth in the service sector was offset by declines in production and construction. However, the 3m-on-3m growth rate is still a respectable 0.5%. Also, the PMI business survey pointed to a solid increase in activity in August. Governor Bailey said economic developments had played out "broadly as we expected". However, the BoE now expects a slightly slower growth pace in Q3: +0.3% QoQ, rather than +0.4%. 																

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 19th September 2024 inferred from SONIA via Bloomberg.

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