Economic snapshot

by David Fenton, TSB's Chief Economist

The BoE left the UK policy rate on hold at 4.0% in September, as expected. Attention immediately shifts to the November meeting when, if the central bank sticks with its quarterly rhythm of rate cuts, we would expect to see another move down. However, the central bank is keeping its options open. The BoE still thinks that further rate cuts remain "appropriate", but references to the prominence of upside inflation risks suggest it isn't in a hurry. Markets have cut to 3.75% fully priced in for Q2 2026.

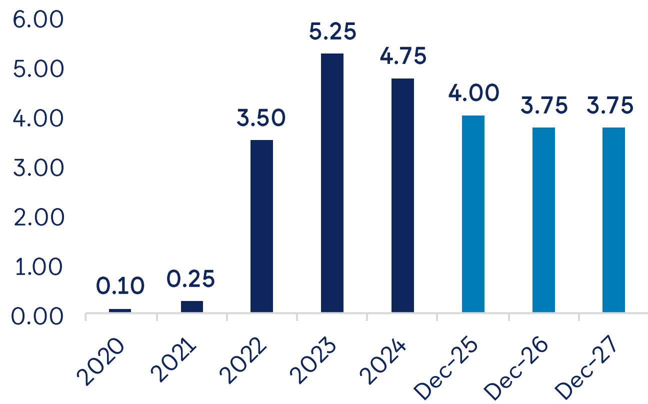
Interest rates

- The BoE voted 7-2 to leave Bank Rate on hold at 4.0%, which was in line with market expectations. The BoE said that the key question for monetary policy was whether upside risks to inflation would be outweighed by downside risks to demand. It seems that, as with the September meeting, the vote in November will be on a knife-edge.

➜ 4.00%

- Markets have just one more cut fully priced in, and not until next year (see chart). Markets continue to regard a cut to 3.5% as a distinct possibility.

Market implied outlook for Bank Rate (year end)



Housing market

- House prices rose by 0.3% in August, to £299k on the Halifax index. That's 2.2% higher than a year ago, which is consistent with a market where surveyors are reporting that supply and demand remain evenly balanced. Most house price indicators are at/near their pre-pandemic equilibrium – for example, the price-to-earnings ratio, real house prices and mortgage approvals for house purchase.
- Gross secured lending remains relatively buoyant, at £162 bn YTD, according to July data from the BoE. This was 22% higher than the same period of 2024.

Prices and inflation

- Inflation was steady at 3.8% in August. The BoE's view of the outlook remains unchanged: it still expects inflation to rise to 4.0% in September; it still thinks inflation will fall back towards the 2% target; and it's still worried that this temporary increase in inflation could lead to renewed second-round effects – given the possible impact on expectations of prominent items like food prices.

3.8%

- The BoE said that households' inflation expectations remained elevated but noted that businesses' inflation expectations were somewhat lower.

Jobs and earnings

- Recruitment intentions remain weak, according to business surveys, though there are tentative signs that the decline in the number of payrolled employees started to level off over the summer months. Encouragingly, the BoE noted that there appeared to be "less of an immediate risk" that the labour market would loosen very rapidly.
- Wage growth has fallen but remains elevated. The BoE expects it to slow significantly but remains alert to the risk that high inflation might hinder this adjustment.

Special focus: BoE bond holdings

- The BoE also announced the envelope for *quantitative tightening* over the next 12 months. This is the process whereby the central bank sells some of the bonds it bought when the economy was struggling, and lets others expire without replacing them. This drains money from the financial system, which pushes up government bond yields – though the BoE says the effect has been "modest".
- The BoE will slow the pace of quantitative tightening from £100 bn over the 12 months to Sep-2025, to £70 bn over the 12 months to Sep-2026 – in line with market expectations.

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, KPMG/REC, S&P, RICS and Halifax. Interest rate outlook represents market forward rates as of 18th September inferred from SONIA via Bloomberg.