Economic snapshot

by David Fenton



The BoE raised the UK policy rate to 4.0% in November. The central bank said the outlook for headline inflation had risen "materially", with an expected peak of around 5% in mid-2027. An increase of this magnitude raises the risk that meaningful second-round effects could start to emerge, prompting this first hike for three years. Governor Bailey said the decision "shouldn't be seen as the first in an inevitable long sequence of hikes". But he added that, unless the conflict is resolved, it was unlikely to be the last increase.

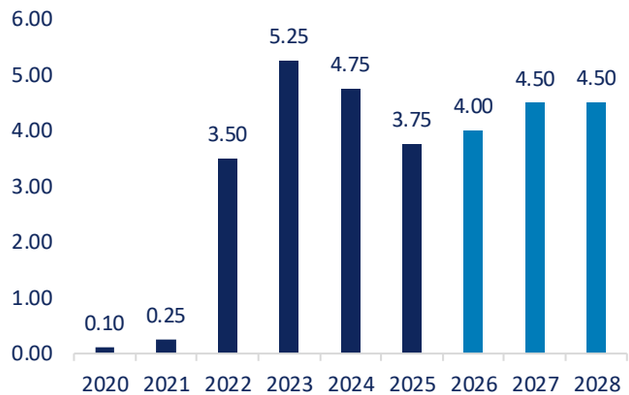
Interest rates

- The BoE's Monetary Policy Committee voted 8-1 to raise the UK policy rate to 4.0% in November. The decision was more emphatic than expected: all members agreed that rates needed to rise. The only dissenting vote was for a larger, half-point hike by Catherine Mann from a "from a risk management and credibility perspective". The consensus had been for a 7-2 vote.

↑4.00%

- Forward rates need to be interpreted with caution: they imply another 100 bps of tightening, but the Governor reiterated that some of that increase reflects risk premia rather than expected rate hikes.).

Market implied outlook for Bank Rate (year end)



Housing market

- House prices fell by 0.6% in October, according to Lloyds. This pulled the YoY rate down to -1.2%, the largest drop since Oct-2023. Transactions have been on a downward trend since March, falling to 94.8k in September. Higher interest rates have squeezed mortgage affordability, while consumer confidence has weakened. Budget-related uncertainty may also have weighed on transactions.



- The number of mortgage approvals for house purchase fell to 53.4k in September, the lowest since Dec-2023. This points to weaker gross lending around the turn of the year, though 2026 is still on track to have outpaced 2025.

Prices and inflation

- UK inflation rose to 3.5% in September, up from 3.1%. This was the highest since Oct-2025 and above the BoE's July forecast. The increase was driven by energy-related prices, such fuel and heating oil. However, there are some signs that price pressures are *starting* to broaden out, with core inflation edging up to 2.8% from 2.6% in August. Similarly, services inflation rose to 3.7%.



- The BoE expects headline inflation to rise "materially", peaking at around 5% in the middle of next year. It is not projected to return to the 2% target until the second half of 2028.

Jobs and earnings

- There are welcome signs of stabilisation in the labour market. The number of payrolled employees increased by 12k in September. The unemployment rate fell to 4.7% in August, the lowest since Jul-2025. Vacancies also fell, however, so there was no meaningful change in the degree of labour market slack. Headline wage growth fell to 3.7%, with a sharp divergence between the private (3.1%) and public (6.3%) sectors.



- The BoE said there was likely to be a "small increase" in the unemployment rate: up to 5.1% in its central projection, though it noted that "there is no widespread labour market shakeout" in this forecast.

Economic activity

- GDP growth has been stronger than expected in 2026, with the BoE attributing this to AI-related business investment and relatively robust consumer spending. However, it warned that three headwinds to growth would weigh on activity from Q4 onwards: higher inflation, tighter financial conditions and ongoing fiscal consolidation.



- The BoE said the tax & spending plans unveiled in Budget 2026 implied "a broadly similar pace of expected fiscal consolidation", and that the combined effects of the new measures on demand would likely be small.

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, RICS and Lloyds. Interest rate outlook represents market forward rates as of 5 November inferred from SONIA via Bloomberg.

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