

# Economic snapshot

by David Fenton, TSB's Chief Economist



The BoE has cut to the UK policy rate again, to 4.75%. The quarter-point reduction was in line with market expectations. The central bank said that there has been continued progress in disinflation but stressed that a "gradual approach" to rate cuts remained appropriate. Markets have 2-3 cuts priced in for 2025 and presently envisage Bank Rate settling at 3 $\frac{3}{4}$ -4% in the long run.

<h3>Interest rates</h3> <ul style="list-style-type: none"> <li>The BoE's Monetary Policy Committee voted 8-1 to cut the UK policy rate to 4.75%. Governor Bailey said that interest rates will continue to fall gradually – if the economy evolves as the BoE expects. Part of that evolution will include the way the recent Budget policies play out across the economy.</li> <li>Market expectations for future rate cuts have receded in recent weeks. On 19th September, the day of the BoE's previous rate decision, 4-5 rate cuts were expected in 2025. Now, just 2-3 are priced in.</li> </ul>	<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>4.25</td></tr> <tr><td>2026</td><td>4.25</td></tr> <tr><td>2027</td><td>4.00</td></tr> </tbody> </table>	Year	Bank Rate (%)	2020	0.10	2021	0.25	2022	3.50	2023	5.25	2024	4.75	2025	4.25	2026	4.25	2027	4.00	<h3>Housing market</h3> <ul style="list-style-type: none"> <li>House prices increased by 0.2% in October, according to the Halifax index. This lifted the UK average to £293,999, which is 3.9% higher than a year ago. This is a key milestone for the market, as it takes prices beyond the Jun-2022 peak, though the decline was relatively shallow (-4<math>\frac{1}{2}</math>% peak-to-trough).</li> <li>The mortgage market picked up in September, according to BoE data. The number of approvals for house purchase rose to 65.6k, which is broadly in line with the pre-pandemic equilibrium.</li> </ul>
Year	Bank Rate (%)																			
2020	0.10																			
2021	0.25																			
2022	3.50																			
2023	5.25																			
2024	4.75																			
2025	4.25																			
2026	4.25																			
2027	4.00																			
<h3>Prices and inflation</h3> <ul style="list-style-type: none"> <li>Inflation fell to 1.7% in September, which was below expectations and the lowest reading since Apr-2021. The ONS said that main downward contribution came from transport – with a drop in both air fares and fuel prices. The energy price cap will be 10% higher in Q4 than Q3 for the typical user.</li> <li>The BoE still thinks that inflation will rise to around 2<math>\frac{1}{2}</math>% by the end of the year, and said that Budget measures would add about half a percentage point to inflation at the peak.</li> </ul>	<h3>Jobs and earnings</h3> <ul style="list-style-type: none"> <li>The unemployment rate has fallen again, to 4.0% in August, though any trend needs to be interpreted with caution given ongoing sampling issues with the Labour Force Survey. The BoE's forecast implies that unemployment will rise slightly in 2026-27, to an equilibrium rate of around 4<math>\frac{1}{2}</math>%.</li> <li>Wage growth fell to 3.8%, though the ex-bonuses measure remains elevated (4.9%). The BoE intimated that that wage settlements could continue to come down, perhaps to "around 2-4% in 2025".</li> </ul>	<h3>Economic activity</h3> <ul style="list-style-type: none"> <li>GDP grew by 0.2% in August 2024, having stagnated over June-July. Leading indicators point to reasonably firm growth in Sep-Oct, though surveys suggested that speculation about Budget 2024 had been weighing on sentiment – both for consumers and for companies.</li> <li>The BoE said that Budget 2024 represented "material news to the economic outlook". It said the policies would boost GDP by around <math>\frac{3}{4}</math>% at their peak</li> </ul>																		

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, S&P Global, GfK and the British Chambers of Commerce. Interest rate outlook represents market forward rates as of 7th November 2024 inferred from SONIA via Bloomberg.

TSB's economic snapshot is provided as information for mortgage professionals and is not for onward transmission or publication. It should not be considered advice or used as a substitute for professional advice. TSB and the author are not responsible for any direct or indirect results arising from any reliance placed on its contents and all liability is excluded. Contents based on our assessment as at 7th November 2024.