Economic snapshot

by David Fenton, TSB's Chief Economist

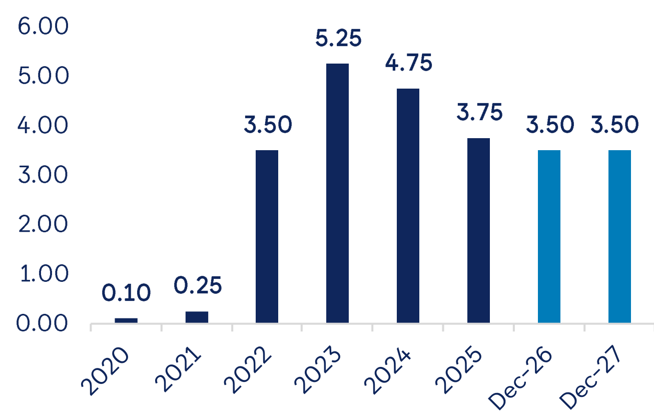
The BoE has delivered a pre-Christmas rate cut for the first time since 2008. The central bank said further rate cuts were likely but added that future decisions would be a "closer call". This is to be expected as the policy rate closes in on a more neutral setting. We can't get any closer than today's 5-4 vote, so this comment *might* indicate a slower pace of future policy easing. Forward markets have one more cut fully priced in for next year, in June, with a 50-50 chance of another cut by end-2026.

Interest rates

↓ 3.75%

- The BoE cut the UK policy rate to 3.75% in December. The 5-4 vote was in line with expectations, with Governor Bailey's decision proving decisive. The closeness of the decision was underlined by the fact that three of the majority expressed concerns that upside inflation risks remained a threat.
- Markets have one more rate reduction fully priced in for this cutting cycle (see chart), with a 50-50 chance of a move to 3.25% in the second half of 2026.

Market implied outlook for Bank Rate (year end)



Housing market

- House prices were broadly unchanged in November, according to the Halifax index. The same can be said for 2025 as a whole, with prices growing by just 0.7% over the year to November. This stability is consistent with the sales-to-stocks ratio in the RICS residential survey, which suggests that housing demand and supply remain evenly balanced.
- UK Finance has published a new forecast for the mortgage market in 2026. Gross lending is projected to rise to £300 bn and product transfers to £261 bn.

Prices and inflation

3.2%

- CPI inflation fell to 3.2% in November, which was lower than the BoE's forecast (3.4%). It said this was largely due to downside news on food price inflation. The BoE noted that cost-of-living policies in the Budget would reduce inflation by around 0.5 percentage points in 2026 (for example, energy bills and changes to fuel duty).
- This Budget news, alongside downward moves in the outlook for oil & gas prices, prompted the BoE to lower its expectation for inflation in Q2 2026 to "closer to 2%" (previously 2.9%).

Jobs and earnings

- The unemployment rate rose to 5.1% in October. This is the highest level for almost five years and represents a continuation of the labour market loosening that has occurred over the past two-three years. The number of payrolled employees has fallen by 171k over the past year. The main contributors to this decrease were the retail & wholesale sector and hotels & restaurants.
- Headline wage growth edged down in October but remained elevated, at 4.7% YoY. The BoE said forward-looking wage indicators suggested that pay settlements were expected to be around 3½% in 2026.

Economic activity

- Economic activity fell by 0.1% in October, as it did in September. The auto sector made the largest contribution to this decrease, as cyber attacks hit production. The ONS also noted that pre-Budget uncertainty had been a factor. The BoE has trimmed its GDP forecast for Q4 and now expects zero growth (previously +0.3% QoQ).
- The UK's independent fiscal watchdog said net additions to the housing stock would fall to 211k in 2026, from 217k in 2025. The Office for Budget Responsibility then expects a rise to 240k in 2027.

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, RICS, UK Finance, OBR, Datastream and Halifax. Interest rate outlook represents market forward rates as of 18 December inferred from SONIA via Bloomberg.

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