

Economic snapshot

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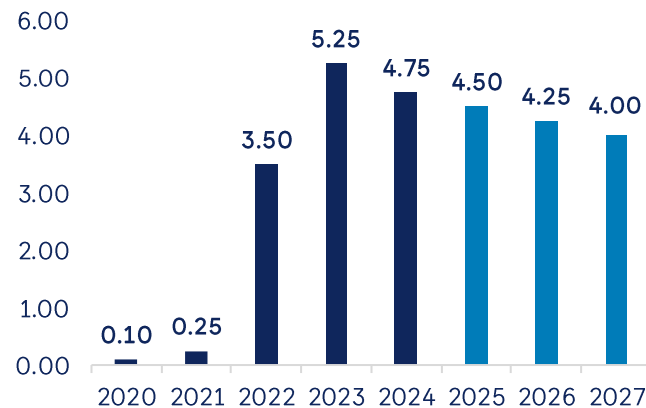
The Bank of England (BoE) left the UK policy rate unchanged at 4.75% in December, though the 6-3 vote was much closer than expected. Looking ahead to 2025, Governor Bailey offered the following guidance: "We think a gradual approach to future interest rate cuts remains right, but with the heightened uncertainty in the economy we can't commit to when or by how much we will cut rates in the coming year." Markets retain a cautious stance: just one cut is fully priced in for 2025, as of today, though a second is considered highly likely.

Interest rates

- The BoE left the UK policy rate unchanged at 4.75% in December, but this will go down as a "dovish hold". The result was much less emphatic than expected, with three members voting for a cut to 4.50%. It also sounds like the other six members are becoming somewhat more worried about the downside risks to growth than the upside risks to inflation.
- Market expectations for 2025 are hawkish. Just one cut is fully priced in for next year, to 4.50%, though a second cut is considered highly likely. Three months ago, markets were expecting Bank Rate to be 3.50% at end-2025.

→ 4.75%

Market implied outlook for Bank Rate (year end)



Housing market

- The housing market is having a relatively strong end to the year. Prices rose by 1.3% in November, according to the Halifax index, which lifted the national average to £298k – 4.8% higher than a year ago. There was a sharp increase in the number of residential property transactions in October, ahead of the Budget Statement.
- The mortgage market continues to recover. UK Finance expects gross lending of £235 bn in 2024, which is 4% higher than 2023. It then projects growth of 11% increase in 2025, to £260 bn.



Prices and inflation

- Inflation rose to 2.6% in November. A mini-flare up had been expected in Q4, as the negative contribution from energy prices starts to reverse. Even so, it's worth noting that inflation is running slightly ahead of the BoE's 2.4% forecast for November. The BoE said that inflation was expected to continue to rise "slightly" in the near term.
- The BoE also noted that households' short-term inflation expectations had crept up. It said this might reflect "greater attentiveness" to cost-of-living increases due to factors like the reduction in winter fuel payments and higher bus fares.

2.6%

Jobs and earnings

- The labour market update for October was surprisingly strong. Most notably, the headline rate of wage growth increased to 5.2%. This was mainly due to a surge in bonus payments, which can be volatile. However, there was also a sharp increase in regular pay in the private sector, which is an important bellwether for the BoE.
- The BoE suggested that the announced increases in the National Living Wage and employer National Insurance contributions would ultimately contribute to slower growth in private sector wages "over the policy-relevant horizon".



Economic activity

- GDP fell by 0.1% in October and has now failed to grow in four out of the past five months. This chimes with business surveys, such as the *purchasing managers' index*, which points to a clear slowdown in Q3-Q4. After rapid growth in Q1-Q2, led by the public sector, 2024 was a year of two halves for UK economic activity.
- The BoE now expects zero GDP growth in Q4 2024, which is weaker than the 0.3% that had been assumed in its November forecast. It acknowledged that the Budget, geopolitical tensions and trade uncertainty had generated "additional uncertainties" around the outlook.

