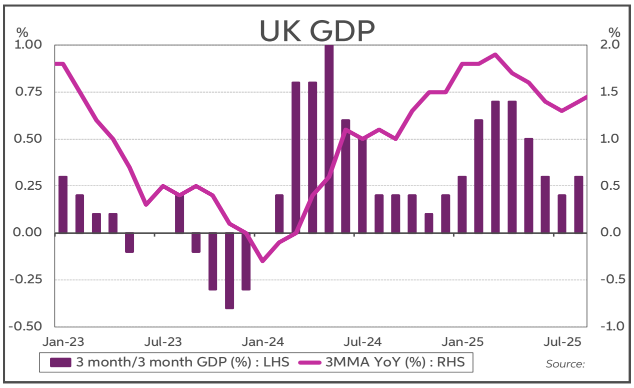
BoE Watch

AIB Treasury Economic Research Unit

6th November 2025

BoE holds again at 4%, but a December cut is on the cards

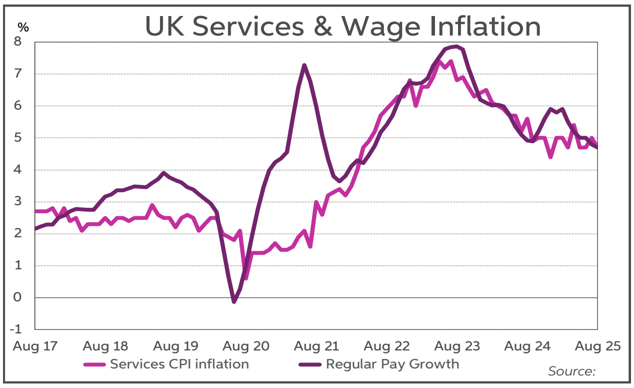


The November meeting of the Bank of England's Monetary Policy Committee (MPC) saw the central bank maintain the Bank Rate at 4.00%. This was the second consecutive meeting that the BoE kept rates unchanged and was in line with market expectations. It also brings an end to its recent practice of lowering rates at meetings that correspond to the publication of its quarterly Monetary Policy Report (MPR). The most recent rate cut from the BoE occurred in August when it lowered the official rate by 25bps. This was the third 25bps rate reduction in 2025, following earlier cuts in February and May. So far in its current easing cycle, which began in August last year, the BoE has lowered rates by a total of 125bps.

Once again, there was no unanimity within the MPC on its policy decision for no rate change. The voting breakdown showed a 5:4 split among the MPC, with four members in favour of a 25bps rate cut. Within the majority of five, four members "placed greater emphasis on risks" of persistence in inflation. Meanwhile, Governor Bailey judged that medium term inflation risks had become more "balanced" but there was "value in waiting for further evidence". For the other four in the minority, their general assessment was that the disinflation process had "become better established", hence their willingness/preference to cut the Bank Rate by 25bps.

The meeting statement was very short. It noted that the progress on "underlying disinflation continues" aided by the "still restrictive" level of interest rates. The MPC also stated that the risk of persistent inflation has "become less pronounced" while weaker demand was having a dampening impact on the risk to medium term inflation. It came to the conclusion that the risks have now become "more balanced". However, the MPC was of the view that "more evidence" is needed. The statement also showed that the BoE retains a bias to ease policy further but the extent of further rate reductions will continue to "depend on the evolution" of the inflation outlook.

As referenced above, today also saw the release of the MPR for November, which provides the BoE's detailed assessment of the UK economic outlook. In terms of its growth outlook, the November MPR forecasts showed only minimal changes compared to the August edition. There was a modest upward revision to its 2025 GDP growth forecast to 1.50% (from 1.25%). Meanwhile, for 2026, its GDP projection was unaltered at 1.3%. Further out, its projection is for GDP growth to average 1.6% (from 1.5%) in 2027 and 1.8% in 2028 (no previous forecast). On the inflation front, the BoE is forecasting inflation to be at 3.5% (from 3.75%) by the end of this year. The end-26 and end-27 inflation forecasts were left unchanged at 2.5% and 2.0%, respectively.



Examining the text of the meeting statement, minutes and Governor Bailey's remarks during the press conference, the prospect of a rate cut at its final meeting of the year on December 17th/18th has increased. There are already four members voting for it, so it only takes one more vote to swing it in favour of a rate cut. In this regard, of the five voting for no change this month, the minutes showed that Governor Bailey was of the view that the upside risk to inflation had become "less pressing" and he sees "further policy easing to come if disinflation becomes more clearly established". He stated that "rather than cutting now" he would prefer to wait for more data/evidence of the disinflation trend. He repeated this view during the press conference and also explicitly stated that, by the time of the December MPC meeting, more data will be available as well as the fact that the November Budget will have occurred.

Overall, barring any major surprises to incoming inflation data between now and the December MPC meeting, we think the BoE will cut rates by 25bps next month, with the Bank rate ending the year at 3.75%. Futures contracts indicate that the market envisages official UK rates levelling out at 3.5% by mid-2026. Interestingly, Governor Bailey commented today that the path implied by market pricing seemed "reasonable" and "sensible".

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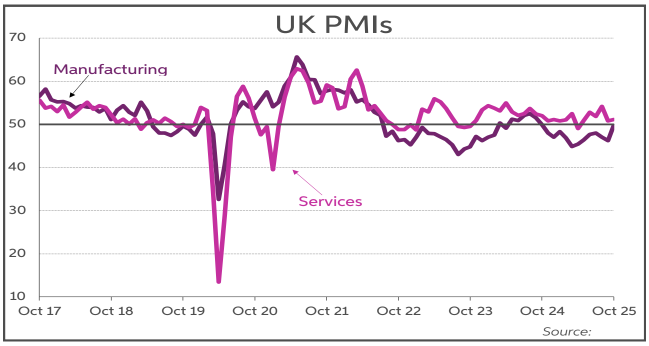
UK economy slows after strong start to 2025

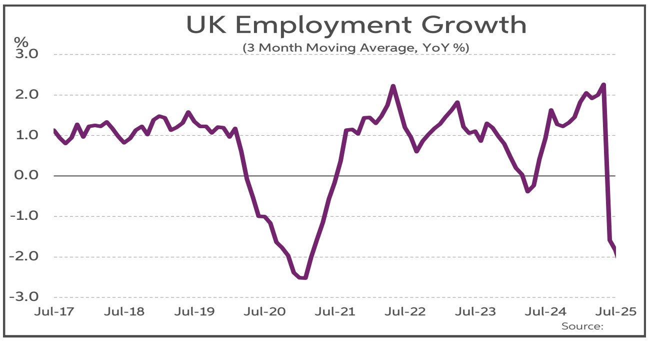


The UK economy had a better than anticipated start to 2025, with GDP expanding by 0.7% q/q in Q1 and by 0.3% q/q in Q2. The underlying breakdown for Q2 showed that household consumption inched 0.1% higher in the quarter, while government expenditure rose by 1.2%. Together, they contributed 0.3 percentage points (p.p.) to growth. Meantime, fixed investment expanded by 0.5% in Q2, adding 0.1 p.p. to the total. In terms of external trade, exports fell while imports were flat, albeit the overall impact on GDP was negligible. At the same time, a slight rundown of inventories clipped 0.2 p.p. from output.

Meanwhile, the available hard data for Q3 have been mixed. The monthly reading of GDP contracted by 0.1% m/m in July, as sharp falls in manufacturing and mining weighed on growth. However, the economy grew by 0.1% m/m in August. Similarly, industrial production remained volatile, declining sharply by 0.4% m/m in July, only to rebound by 0.4% m/m in August. Elsewhere, retail sales increased by 1.3% in Q3. They were 1.5% higher in year-on-year terms in September.

Similarly, survey data also paint a contrasting view of the UK economy. The manufacturing PMI remained firmly in contraction mode throughout Q3, averaging just 47.1. In October, the index stayed in contraction territory but rose to 49.7, its highest level in a year. In contrast, the services PMI averaged 52.3 in Q3, up from 50.9 during Q2, consistent with an increase in activity levels in the sector. It printed at 51.1 in October also. Meanwhile, having dropped to −23.0 in April, consumer confidence rose to −17.0 in August, its highest level since the end of 2024. It fell to −19.0 in September, before improving to −17.0 once again in October.

In terms of the labour market, conditions have softened this year. The unemployment rate has increased steadily, from 4.4% at the start of the year to 4.8% in August. It should be noted that this is the highest jobless rate since May 2021. Worryingly, payrolls have contracted in eleven of the past fourteen months to September, albeit the rate of contraction has eased recently. Against this backdrop, wage inflation has cooled, but it remains elevated. Average earnings growth fell to +4.7% y/y in the three months to August. Other measures of wage inflation point to lower earnings growth also. Indeed, the BoE Agent's Summary Survey for Q3 suggests that pay settlements are likely to average 3.7% in 2025, and there are early indications that they may be lower again next year as well.



Meanwhile inflation remains elevated, albeit it has likely peaked. Both headline and core inflation jumped higher in April, owing to a number of one-off factors, and rose further during Q2 and the early part of Q3. However, having reached 3.8% in July, the headline rate has stayed at that level throughout the remainder of the quarter. Meantime, the core rate has inched lower to 3.5% in September down from 3.7% in July. Services inflation has also decelerated, although it remains at a very high level, printing at 4.7% in August and September. The BoE still expects inflation to fall back to its 2% target in the medium-term. Its forecasts the headline rate to be 3.5% by year end and to decline to 2.5% by the end of 2026, before slowing to 2.0% by end-2027.

In summary, due to a solid H1, the UK economy has performed better than anticipated so far in 2025. However, survey data were mixed at best in Q3, the labour market has continued to weaken, and inflation remains high. Continuous concerns surrounding the cost of borrowing and attempts to narrow the budget deficit to satisfy the Chancellor's fiscal rules, ahead of the Budget later this month, remain prominent also. Speculation is rife following the Chancellor's recent remarks, that she will be forced to break a campaign promise and raise income, VAT or corporate taxes, which would weigh on economic growth. However, there are some potential tailwinds for the UK economy. If inflation eases once more, there should be scope for additional BoE rate cuts, providing support to the economy. The UK was also quick to agree a new trade deal with the US, and less uncertainty in this regard is a positive for UK exporters. Overall, the IMF sees UK GDP rising by 1.3% this year and next, up from 1.1% in 2024 and just 0.4% in 2023.

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