Bank of England

Monetary Policy Report Nov-25

VRA

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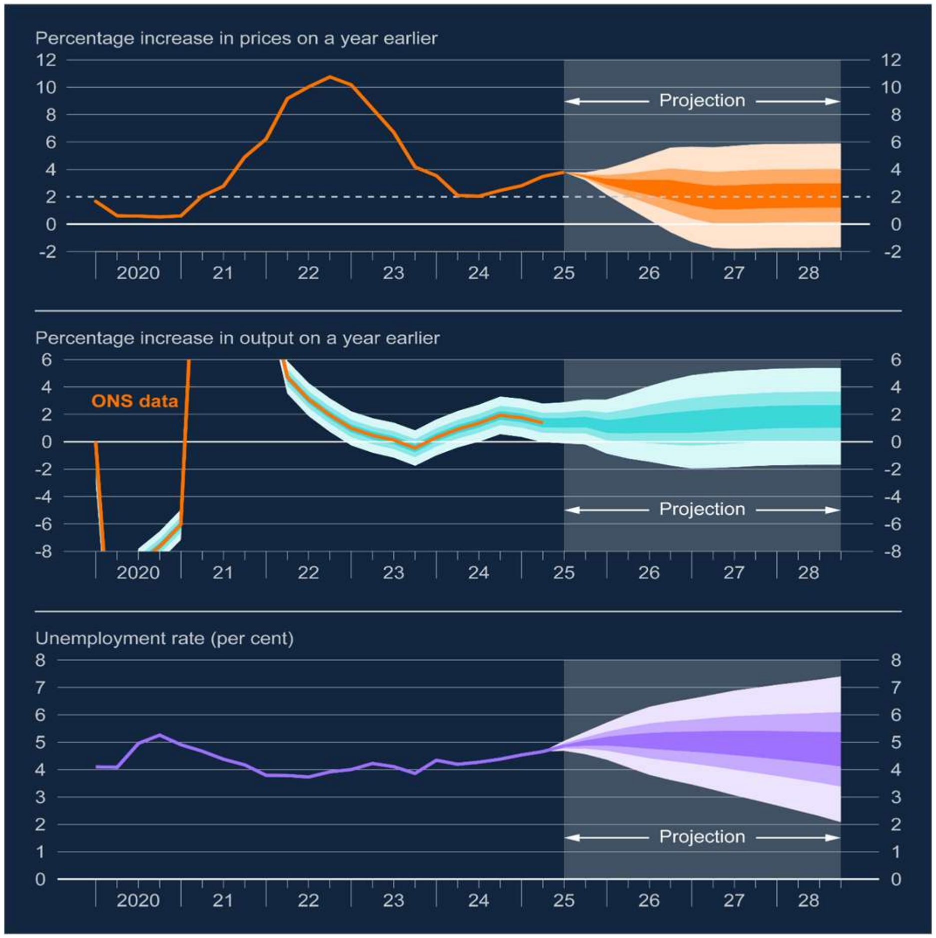
The risk of greater inflation persistence has reduced; but risk to MT inflation from weaker demand more apparent…. *no decisive news but risks more balanced*

- Underlying price / wage pressures easing
- Inflation likely to fall close to 3% early in 2026, returning gradually to 2% over 2027
- Underlying disinflation underpinned by i) subdued economic growth and ii) building slack in the labour market.

- If disinflation continues, BR likely to remain on gradual downward path ..
- Risks are more balanced, but more evidence is required before cutting again
- **How monetary policy evolves from here depends on how risks evolve** ….



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UK Inflation

Key policy judgement 1

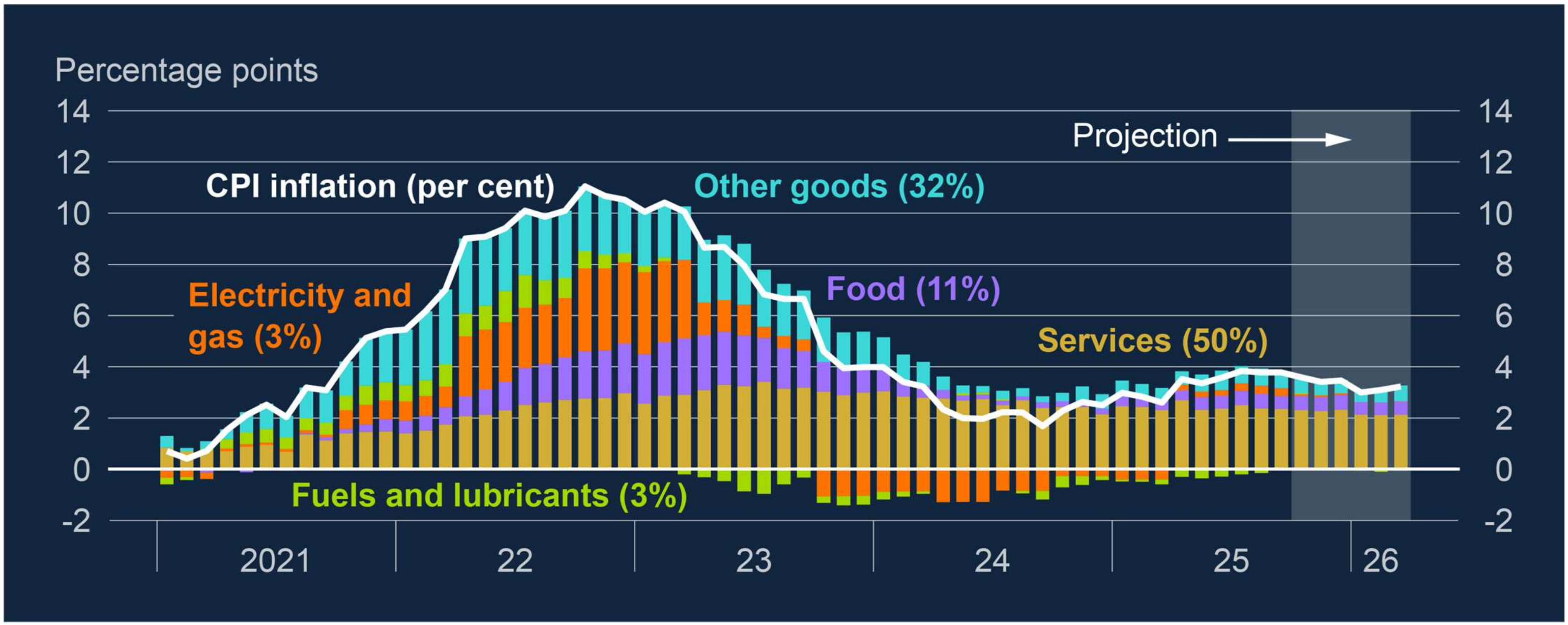
Underlying domestic wage and price pressures are continuing to ease.

Recent data suggest that the risk from greater inflation persistence has become less pronounced recently.

CPI inflation was 3.8% in September, lower than expected ..

..and expected to fall to c3% in Jan and 2% over the subsequent year

Contributions to CPI inflation

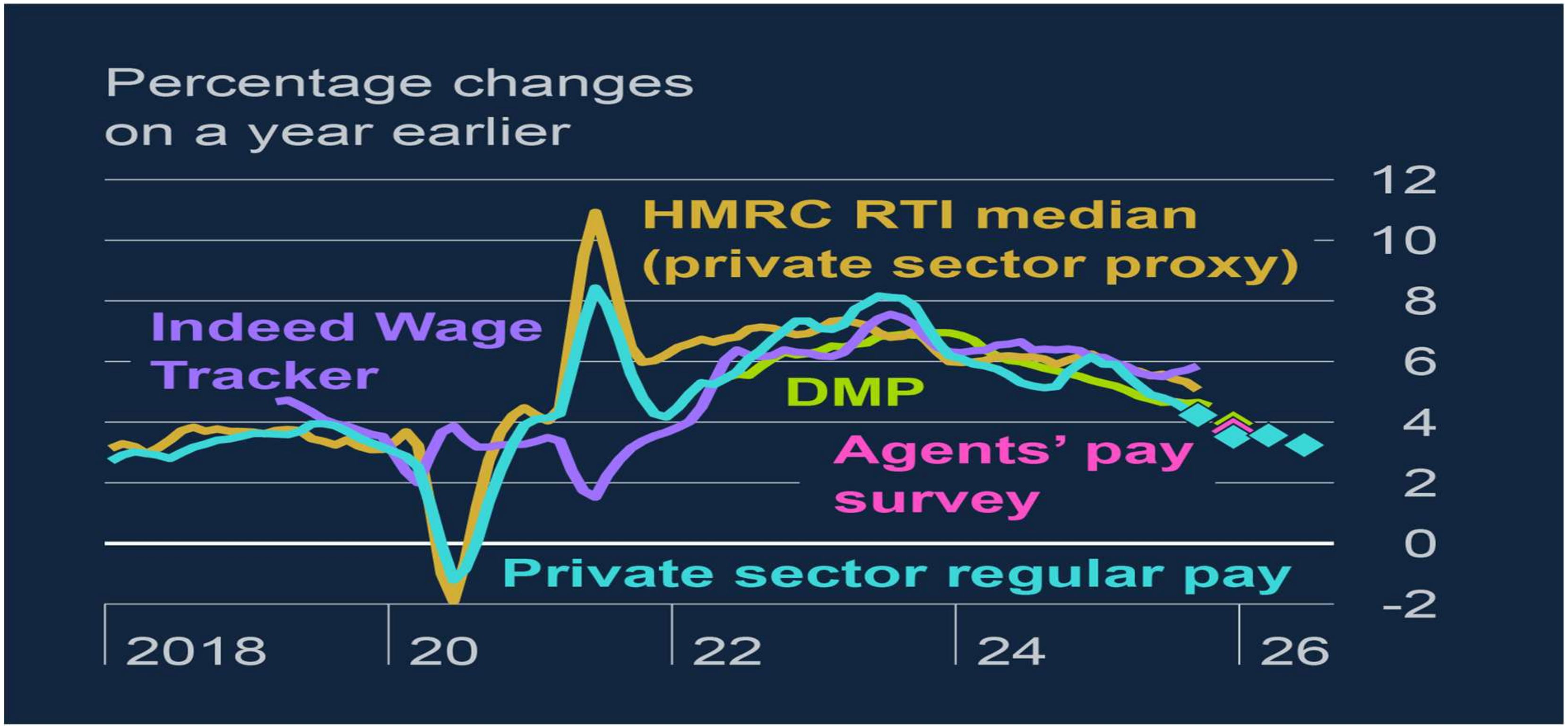


Notes: Administered prices (largely in services) account for 0.4pp of the current overshoot, food 0.4pp and much of the rest is the indirect effects of labour costs growth.

Indicators of wage growth have declined over 2025

And expected to reduce further in Q4-25

Measures of private sector wage growth and higher-frequency wage growth with estimated trend

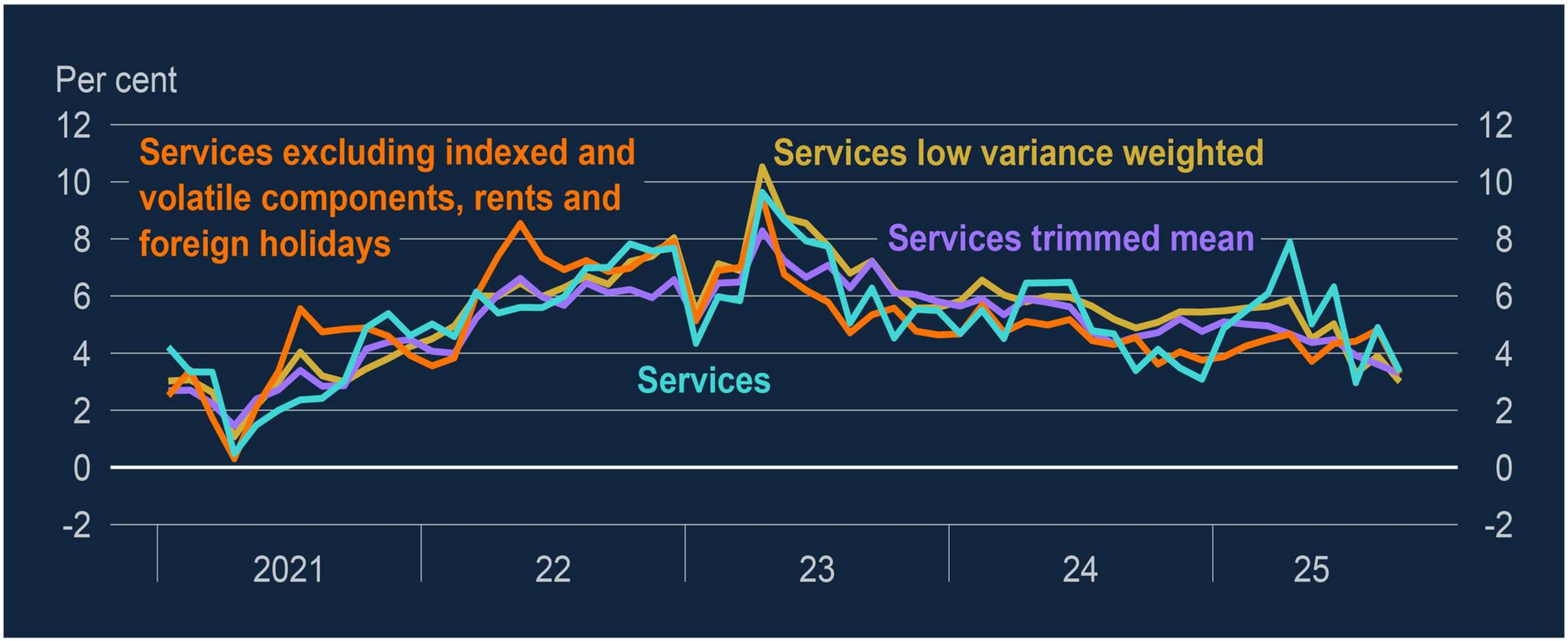


Wage growth cont. to decline (to 4.4%) for AWE regular pay. Surveys suggest that wage growth will edge down further over coming months. Recent LMS Sept-25 indicate private sector regular AWE growth eased to 4.2% in the three months to September, in line with the N25 MPR forecast

Underlying services disinflation has largely continued

This should lead services price inflation to fall back further, continuing recent progress

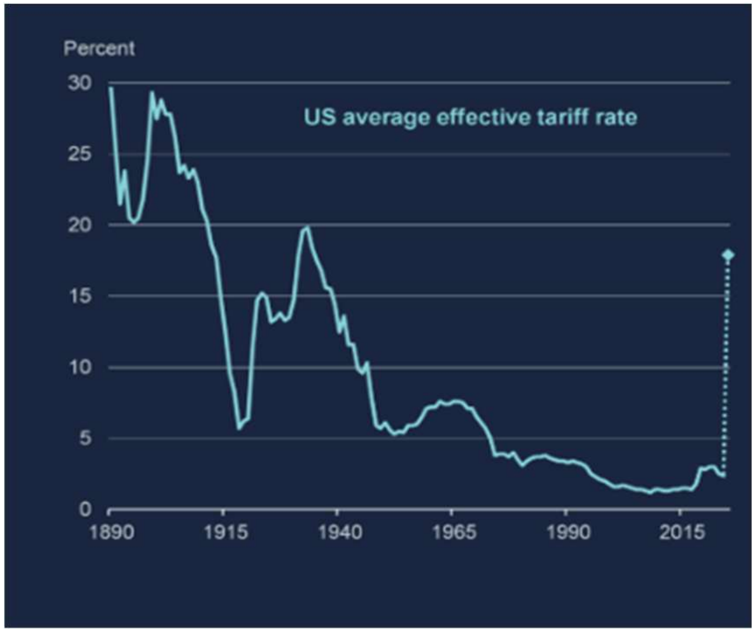
Measures of three-month average monthly annualised services price inflation [(a)]



UK import price inflation has been subdued

Higher global tariffs appear to be weighing a little on UK non-energy import prices...
…..and global wholesale energy prices have also softened

US average effective tariff rates
Percent of value of imports



There has been tentative evidence of trade diversion; Chinese exports to the UK and EA have increased, while those to the US have declined.

UK import prices

Sources: ONS and Bank calculations. Diamonds show Bank staff projections for UK import prices for the periods 2025 Q3–26 Q1.
Notes: In the 15 days to 28 Oct, the sterling effective exchange rate was around ½% lower than in lead up to Aug Report. And £ had depreciated by nearly 1% against the US$

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UK Demand & Supply

Key policy judgement 1……

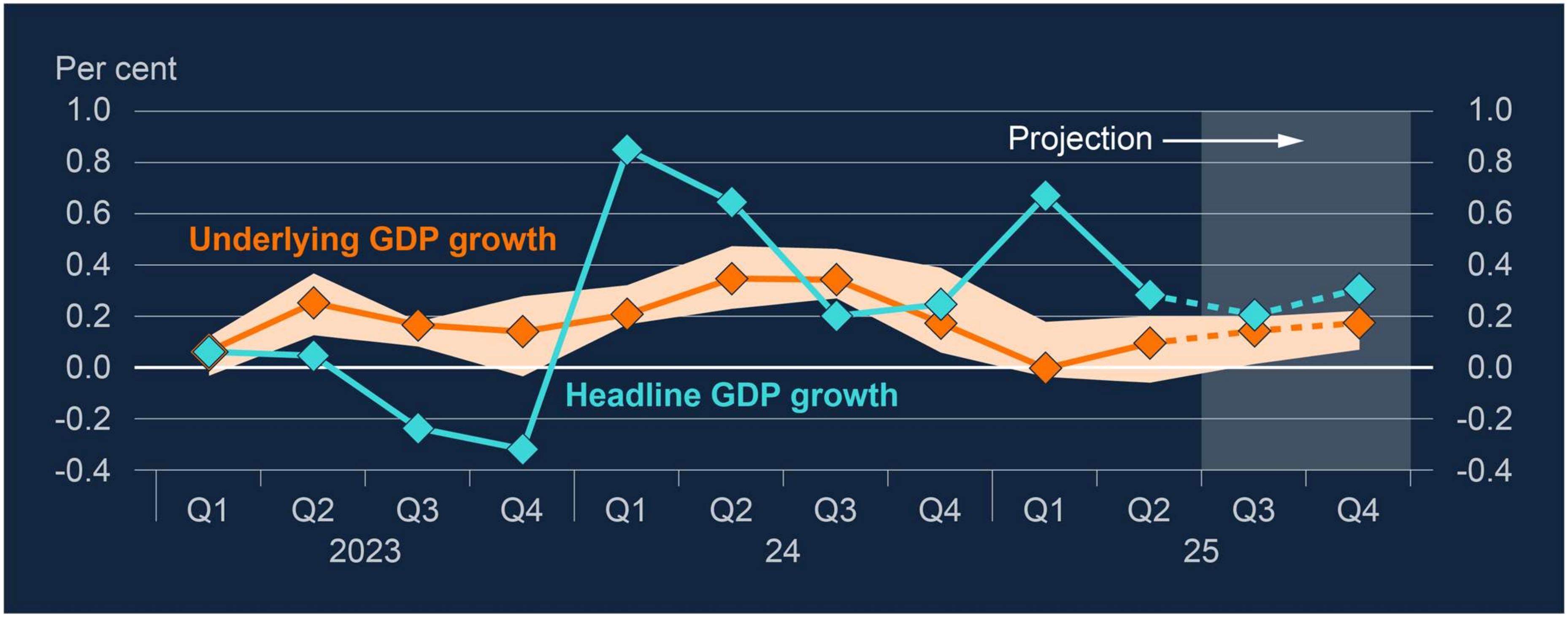
…. The risk to medium-term inflation from weaker demand has become more apparent.

Underlying domestic wage (and price) pressures are continuing to ease..

Underlying GDP growth subdued pick ups slightly in Q4-25

But remained weak; survey indicators point to only a slight recovery

Quarterly growth in headline GDP and underlying growth implied by business surveys

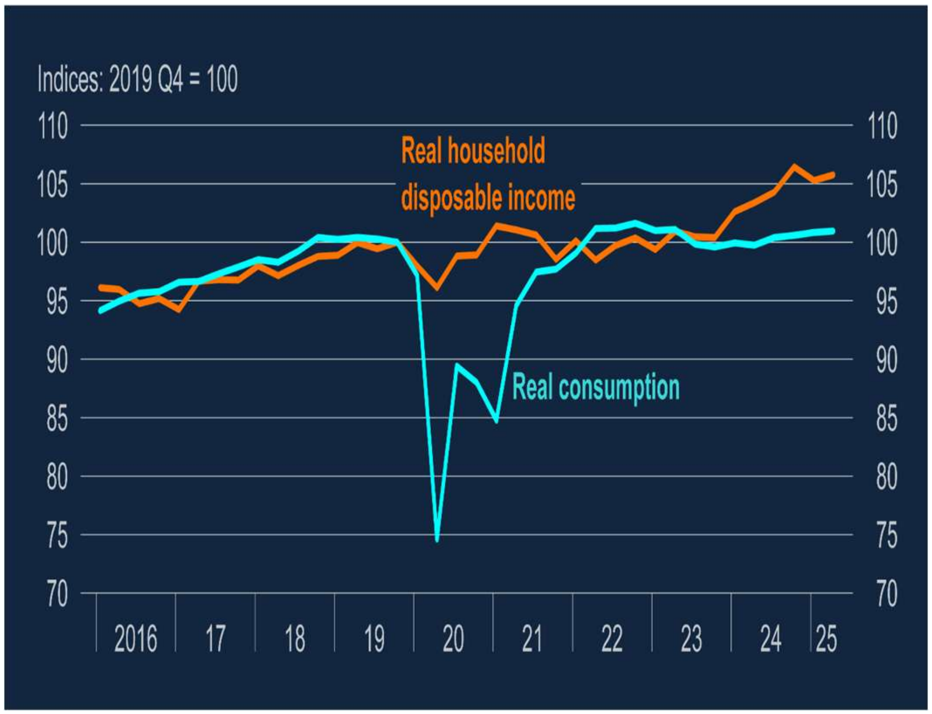


Underlying GDP is estimated to have grown by 0.1% in Q3-25. Part of this softness may reflect uncertainty ahead of the upcoming Autumn Budget. Underlying growth is projected to pick up slightly in Q4 to around 0.2%, consistent with modest improvements in some survey indicators of activity, including the October S&P Global Composite PMI.

Real consumption growth has/is forecast to remain weak

The household saving ratio has risen in recent years, partly due to higher BR

Real household consumption and disposable income



The outlook for household spending is a particular concern. The current level of consumption is only a little higher than in 2019 Q4 and growth was subdued in Q2, at 0.1%.

Household saving ratio

The household savings rate increased considerably during the pandemic and has not yet normalised. Might suggest a more persistent shift towards higher saving.

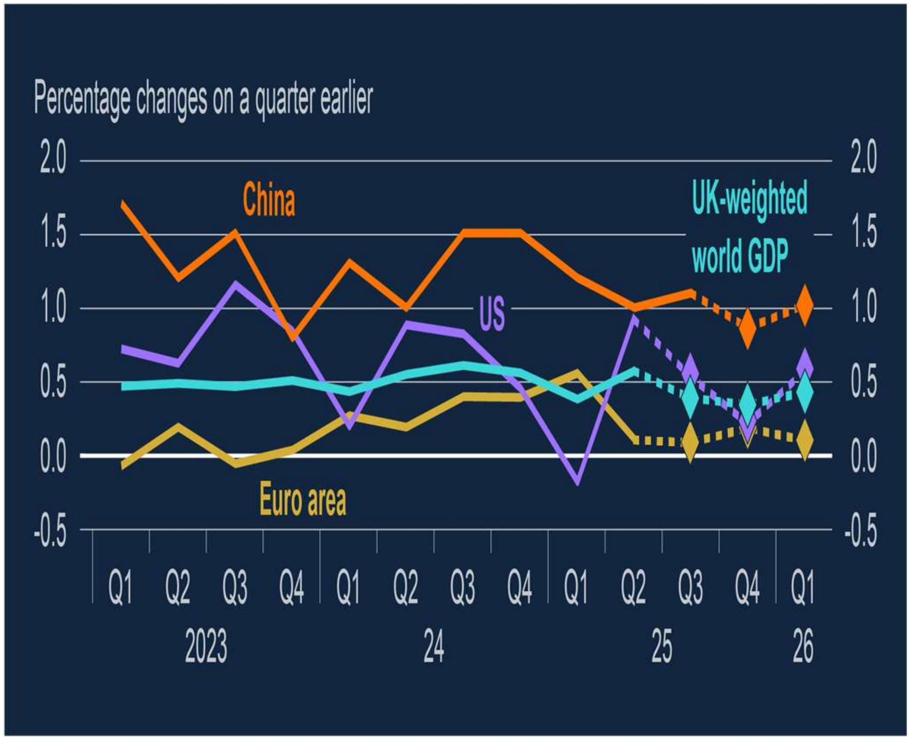
Business investment intentions are weak…

… and global activity growth is projected to have fallen slightly in 2025 Q3

Range of survey indicators of investment intentions

Sources: Bank of England Agents, BCC, CBI and Bank calculations.

UK-weighted world GDP growth and GDP growth in selected countries



Sources: LSEG Workspace and Bank calculations.

Underlying employment growth remains close to zero

While the unemployment rate is projected to rise a little further in the near term

Estimate of underlying employment growth

Unemployment rate and near-term projection

There is also clearer evidence that the labour market is softening. Underlying employment growth has stalled and the unemployment rate has risen to 4.8%

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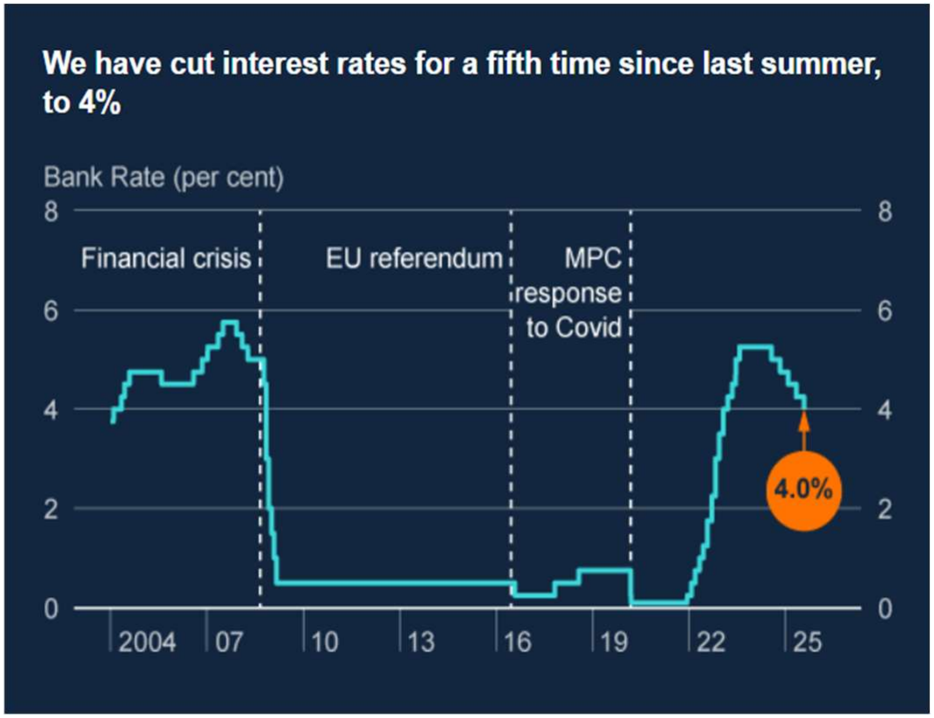
Summary

Key policy judgement 2

If progress on disinflation continues, Bank Rate is likely to continue on a gradual downward path

Summary – key messages

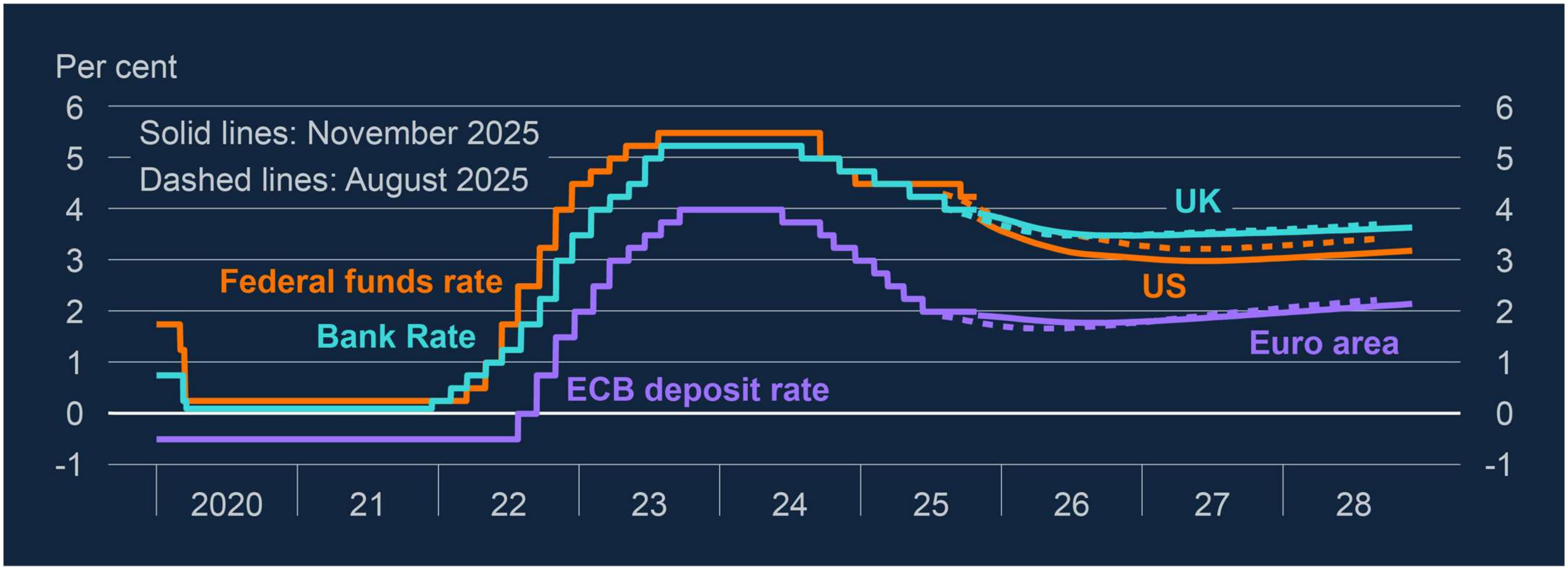
- Monetary policy is being set to balance the risks around meeting the 2% inflation target
- The risk from greater inflation persistence has become less pronounced….
- …. while the risk to medium-term inflation from weaker demand has increased
- Overall the risks are now more balanced, but more evidence is needed on both
- Policy restrictiveness has fallen
- The extent of further reductions will depend on the evolution of the outlook for inflation
- If further progress on disinflation continues, BR likely to continue on a gradual downward path.



The market-implied path for policy rates little changed in the UK

…and 'does give a reasonable view of a sensible path'

Policy rates and instantaneous forward curves for the UK, US and euro area



Sources: Bloomberg Finance L.P. and Bank calculations.

Table 3.A: Forecast summary [a] [b]

	2025 Q4	2026 Q4	2027 Q4	2028 Q4
GDP [c]	1.4 (1.5)	1.4 (1.3)	1.7 (1.6)	1.8
CPI inflation [d]	3.5 (3.6)	2.5 (2.5)	2 (2)	2.1
Unemployment rate [e]	5 (4.9)	5 (4.9)	4.9 (4.8)	4.7
Excess supply/**Excess demand** [f]	-0.8 (-0.6)	-0.7 (-0.6)	-0.4 (-0.3)	0
Bank Rate [g]	3.9 (3.8)	3.5 (3.5)	3.5 (3.6)	3.6

- CPI inflation is projected to fall to close to 3% early next year and then declines gradually towards the 2% target over the subsequent year.