10 November 2025

UK in Focus

Economics
United Kingdom

Some better news, from a low base

- UK economic data points to a more stable environment…
- …while inflation reported a lower-than-expected peak
- The BoE leaves interest rates unchanged but signals further cuts are likely, though the timing is more uncertain

The bar is low for good news on the UK economy and while the uncertainty around the upcoming Autumn Budget persists, the latest UK data appeared, at least, to show some stabilisation in the economy. The PMIs surprised on the upside in October, consumer confidence held at its 2025 average, and despite stagnant GDP growth in August and July, we expect the economy to have grown over 3Q as a whole. Albeit at a slower pace than in the first two quarters of 2025.

On the inflation side, the expected jump in the inflation rate for September did not materialise. The headline CPI rate was unchanged at 3.8% y-o-y, the downside surprise relative to expectations was helped by broad based disinflation across the basket of goods and services. However, a lack of disinflation in restaurants and hotels, and a still elevated services inflation rate of 4.7% y-o-y in September, is a concern and may point to a more prolonged pass-through of higher labour costs. More positively, private sector pay growth has slowed and labour market data signals a further moderation. So while the outright decline in payrolled employees appears to no longer be gathering pace, various surveys continue to point to weak labour demand.

A Bank of England divided

The soft demand backdrop and still elevated inflation continue to put the Monetary Policy Committee (MPC) at odds on policy decisions. Bank Rate was unchanged at 4.00% in the November meeting, however, a vote split of 5-4 alongside individual commentary on each MPC member's decisions only highlighted the uncertainty over the path of rate cuts. Such a divided committee likely leaves the Governor, with the deciding vote, given his more balanced views on the risks and outlook.

The committee's central view is that inflation peaked at 3.8% in September, and a subdued demand environment and soft labour market should see a gradual normalisation in pay growth; private sector pay grew 4.4% 3m/year to August. On the upside, inflation expectations remain elevated (Figure 3) and there is uncertainty as to their role coupled with structural changes in the labour market in future pay growth, that could prevent inflation returning to target sustainably.

On the downside, interest rates remain restrictive, consumer confidence is low, and weakness in household consumption may persist. The BoE noted that such a scenario could see inflation fall quicker than expected. Then there is the looming Autumn Budget and expected fiscal tightening, a risk yet to be accounted for by the BoE.

KEY UK DATA

▲ **0.3%**
GDP growth in 3M to August

► **3.8%**
Consumer Price Inflation, September y-o-y

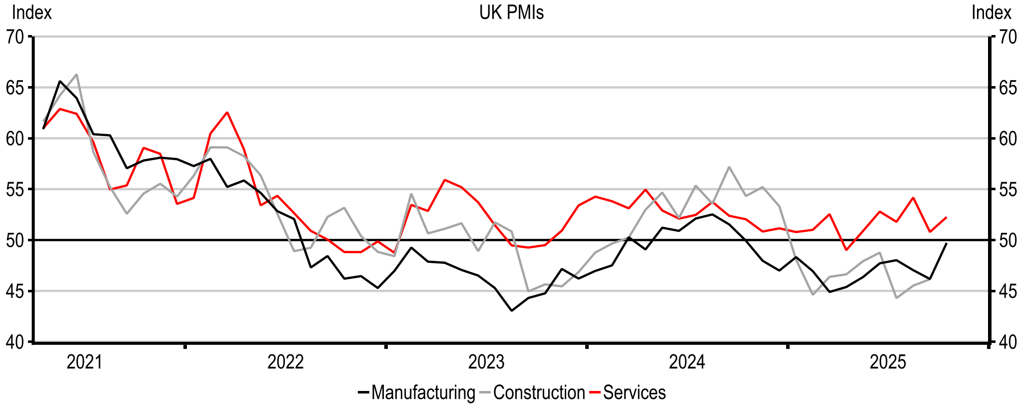
▲ **4.8%**
Unemployment rate, August

► **4.00%**
Bank of England Base Rate

Source: HSBC

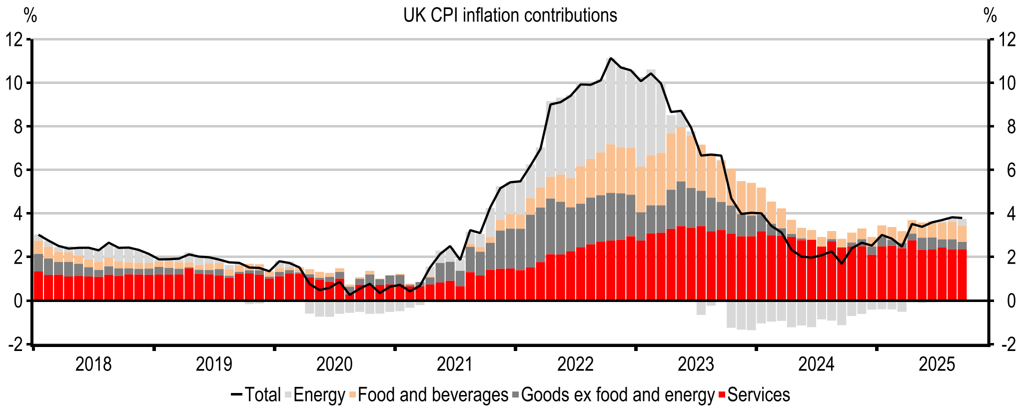
HSBC

1. Improved activity momentum in October, but from a low base, and continues to suggest 'barely there' growth in the UK economy



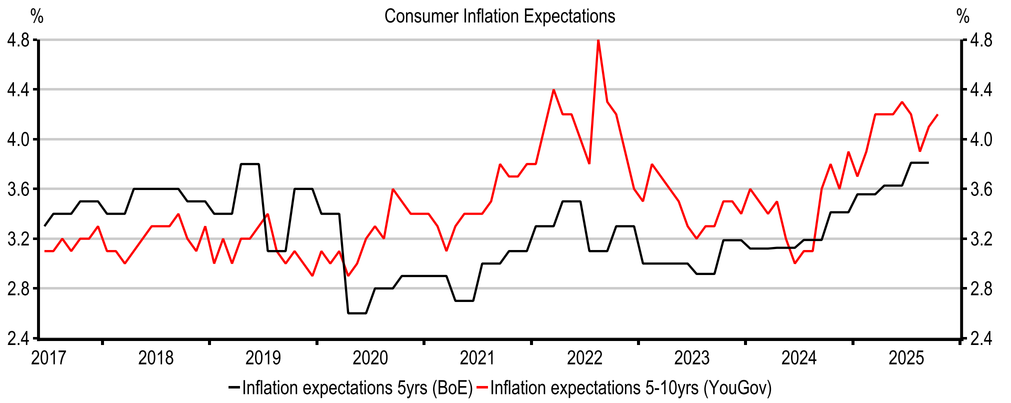
Source: Macrobond, S&P Global, HSBC calculations

2. Inflation offered some goods news but…



Source: Macrobond, ONS, HSBC

3. …persistently above target (2%) inflation has seen households' medium-term inflation expectations rise sharply over the past year



Source: Macrobond, BoE, YouGov, HSBC

Disclosure appendix

Important disclosures

Additional disclosures

1 This report is dated as at 10 November 2025.

2 All market data included in this report are dated as at close 06 November 2025, unless a different date and/or a specific time of day is indicated in the report.

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