Bank of England

Monetary Policy Report

Monetary Policy Committee
November 2025

This edition of the Monetary Policy Report is dedicated to the memory of our colleague Pavandeep Dhami. Pav's insight and commitment shaped both this document and, over more than a decade, the Bank's wider work to support monetary policy. His quiet wisdom and gentle humour left a lasting mark on all who worked with him, and his loss is deeply felt.

Monetary policy at the Bank of England

The objectives of monetary policy

The Monetary Policy Committee (MPC) sets monetary policy to keep inflation low and stable, which supports growth and jobs. Subject to maintaining price stability, the MPC is also required to support the Government's economic policy.

The Government has set the MPC a target for the 12-month increase in the Consumer Prices Index of 2%. The 2% inflation target is symmetric and applies at all times. The MPC's **remit** recognises, however, that the actual inflation rate will depart from its target as a result of shocks and disturbances, and that attempts to keep inflation at target in these circumstances may cause undesirable volatility in output.

The Monetary Policy Report

The MPC is committed to clear, transparent communication. The Monetary Policy Report is a key part of that.

We have made some changes to the structure and content of the Report so that it reflects better the wide range of inputs that are informing monetary policy, as explained in this **Quarterly Bulletin article**. The purpose of the document is to set out the analysis that informed policy discussions.

The Report is produced quarterly by Bank staff under the guidance of the members of the MPC. It has been prepared and published by the Bank of England in accordance with section 18 of the Bank of England Act 1998.

The Monetary Policy Committee

- Andrew Bailey, Chair
- Sarah Breeden
- Swati Dhingra
- Megan Greene
- Clare Lombardelli
- Catherine L Mann
- Huw Pill
- Dave Ramsden
- Alan Taylor

PowerPoint™ versions of the Monetary Policy Report charts and Excel spreadsheets of the data underlying most of them are available at **http://www.bankofengland.co.uk/monetary-policy-report/2025/november-2025.** The 'Projections Databank' is an additional Excel spreadsheet containing a wide range of information relating to the central projection, as well as projections for the scenarios.

ISSN 2633-7819

Contents

Monetary Policy Summary

At its meeting ending on 5 November 2025, the Monetary Policy Committee voted by a majority of 5–4 to maintain Bank Rate at 4%. Four members voted to reduce Bank Rate by 0.25 percentage points, to 3.75%.

CPI inflation is judged to have peaked. Progress on underlying disinflation continues, supported by the still restrictive stance of monetary policy. This is reflected in an easing of pay growth and services price inflation. Underlying disinflation is being underpinned by subdued economic growth and building slack in the labour market.

Monetary policy is being set to balance the risks around meeting the 2% inflation target sustainably. The risk from greater inflation persistence has become less pronounced recently, and the risk to medium-term inflation from weaker demand more apparent, such that overall the risks are now more balanced. But more evidence is needed on both.

The restrictiveness of monetary policy has fallen as Bank Rate has been reduced. The extent of further reductions will therefore depend on the evolution of the outlook for inflation. If progress on disinflation continues, Bank Rate is likely to continue on a gradual downward path.

Monetary Policy Overview

The Monetary Policy Committee's (MPC's) job is to ensure that inflation falls all the way back to the 2% target and stays there. Monetary policy has helped reduce inflationary pressures over the past three years. That has allowed the MPC to make monetary policy less restrictive by cutting Bank Rate five times since August 2024.

CPI inflation was 3.8% in August and September, partly reflecting developments in food and administered prices. That is likely to be the peak. Beneath the headline numbers, underlying price and wage pressures have continued to ease. Inflation is likely to fall to close to 3% early next year before gradually returning towards to the 2% target over the subsequent year.

But that is not yet assured. The MPC needs to see more evidence that inflation is on track to fall back all the way to the 2% target before it can cut Bank Rate again.

Where monetary policy goes from here depends on how two big forces play out.

On the one hand, inflation is still well above the 2% target. It might remain persistently high, for example if increases in administered prices were repeated, cost pressures were to remain strong or firms were to increase profit margins. It is also possible that the period of high inflation has affected the way wages and prices are determined in the economy, adding to inflationary pressures.

On the other hand, activity in the economy is below its potential. This is clear in the labour market, where the number of job vacancies has fallen and employment growth has stalled. There is a risk that households and businesses remain cautious about spending and investment, holding back demand and weighing on job prospects further. That could lead to inflation falling below the MPC's target.

The current approach to setting interest rates, including today's decision, is based on two key judgements.

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 and the risk to medium-term inflation from weaker demand more apparent, such that overall the risks are now more balanced.

The latest evidence provides some comfort that underlying inflationary pressures are still easing and that the risk from greater inflation persistence is not materialising (Section 1.1). At 3.8% in September, CPI inflation was lower than forecast in the August Monetary Policy Report. Wage growth has continued to decline and there have been further falls in underlying services price inflation. Business surveys suggest that wage growth will continue to edge down over coming months. Alongside a fading effect from higher employer National Insurance contributions, that should lead services price inflation to fall back further. New analysis indicates that firms have passed through most of their recent cost increases to prices already, which would imply little inflationary pressure from past cost rises is left to come through (Box A: Developments in firms' costs and margins).

Nevertheless, while the recent signs are promising, it is still too early to say that the upside risk to inflation has passed. Current rates of wage growth and services price inflation need to fall further for the MPC to be confident that inflation will fall back to the 2% target. And staff analysis finds that economic shocks tend to have a bigger impact on inflation when inflation is already above 3% to 4% (Box C: Prospects for CPI inflation when inflation is high). Long-lasting changes in labour supply might also result in higher inflation (Box F: Structural changes in the labour market). Moreover, there is a chance that expectations of future inflation could become self-fulfilling by pushing up wage bargaining and price-setting today (Box B: Inflation expectations and their role in wage and price-setting).

Whereas the risks from greater inflation persistence seem to have become less pronounced recently, the risks of too low inflation from weakening demand and the labour market have become more apparent. Underlying GDP growth remained weak in 2025 Q2 and survey indicators point to only a slight recovery in the remainder of the year (Section 1.2).

The outlook for household spending is a particular concern (Box D: Risks around the outlook for household consumption). The saving rate increased considerably during the pandemic and has so far not fallen back to historically more normal levels. That might indicate that there has been a more persistent shift towards higher saving, perhaps reflecting greater caution in light of the significant shocks that have hit household finances in recent years. It is also possible that households who are able to would want to continue to rebuild wealth after the recent period of high inflation.

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%. Surveys suggest that businesses do not intend to take on many new staff, and the number of job vacancies has fallen. Any further weakening in labour demand could result in more pronounced increases in unemployment, as factors like weaker cash positions of small and medium-sized enterprises and higher employment costs make it harder for some companies to maintain current employment levels (Box E: The risks of a sharper rise in unemployment).

Key policy judgement 2

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

Inflation is still above the 2% target. While the MPC has been able to cut Bank Rate from 5.25% to 4% since August 2024, interest rates need to remain high enough to be confident that inflation will fall all the way to target and stay there. If inflationary pressures continue to ease, Bank Rate is likely to continue on a gradual downward path.

The extent of any further rate cuts will depend on how the evidence on the potential sources of inflation persistence, and on the weakening in demand and the labour market, plays out. A gradual approach allows the MPC to assess carefully the balance of risks to inflation as the evidence evolves. As Bank Rate falls, how much further to lower it will inevitably become a closer call.

The central projection described in Section 3.1 provides a reasonable baseline for how the MPC judges the economy is likely to evolve if neither of the risks around inflation persistence and demand weakness materialise to a meaningful degree. In that projection, demand growth recovers as the impact of past increases in Bank Rate fades and as the impact of subsequent rate cuts, including future ones implied by market expectations, takes hold. Growth is also boosted by more supportive financial conditions and an improvement in global demand. On that basis, 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.

Section 3.3 sets out two scenarios illustrating how the economy might turn out differently if either of the two main risks set out in Key policy judgement 1 materialise. It gives an indication of how Bank Rate might need to respond if monetary policy were to follow simple policy rules derived from the economic literature. These alternative interest rate paths are illustrations, not promises or interest rate forecasts from the MPC.

In the inflation persistence scenario, households' and businesses' experience of high inflation over the past few years makes them more inclined to push up wages and prices in the future. This makes inflation stickier and slows the rate at which inflation declines. If that happens, the illustrative policy rules indicate that the path of Bank Rate would need to be higher than otherwise, and growth weaker, to ensure that inflation returns to the 2% target sustainably.

The weaker demand scenario explores the possibility that some of the strength in household saving in recent years was driven by greater caution and that continues. In the scenario, growth weakens, the output gap widens and inflationary pressures fade more quickly than in the central projection. According to the same illustrative policy rules, this would require lower interest rates than otherwise in order to return inflation sustainably to target.

At this meeting, the MPC voted to maintain Bank Rate at 4%. The risk from greater inflation persistence has become less pronounced recently and the risk to medium-term inflation from weaker demand more apparent. But more evidence is needed on both before cutting Bank Rate further. The MPC will reassess the inflation outlook and balance of risks at its December meeting.

1: Current economic conditions

1.1: Inflation

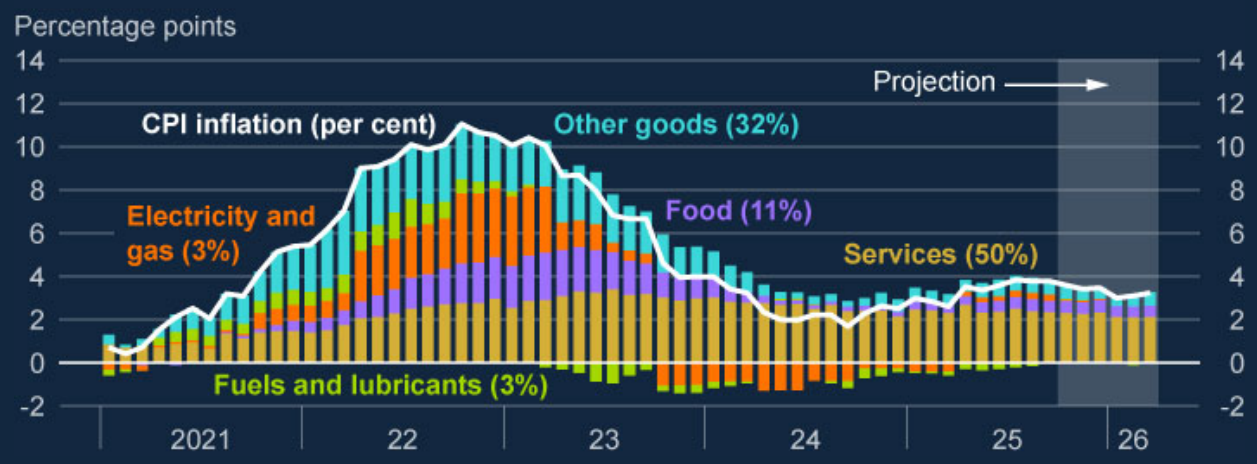
Headline CPI inflation was 3.8% in September.

CPI inflation was 3.8% in September, up from 3.6% in June and 0.2 percentage points below expectations in the August Report. Services price inflation accounted for most of the downside news relative to August, with much of that news expected to persist in the near term. Food price inflation was also somewhat lower than expected, while fuel prices were slightly higher. Energy price components accounted for most of the rise in headline CPI inflation since June.

Unusually large increases in administered prices, such as Vehicle Excise Duty and sewerage charges, are currently estimated to account for 0.4 percentage points of the overshoot in CPI inflation from target. Food, beverage and tobacco prices are estimated to be contributing a further 0.4 percentage points. Much of the remaining 1 percentage point of the overshoot is judged to reflect elevated labour cost growth, due to past strength in wage growth as well as higher employer National Insurance contributions (NICs), which in turn has pushed up services, and to a lesser extent, goods inflation.

Chart 1.1: CPI inflation was 3.8% in September

Contributions to CPI inflation (a)



Sources: Bloomberg Finance L.P., Department for Energy Security and Net Zero, ONS and Bank calculations.

(a) Figures in parentheses are CPI basket weights in 2025, which do not sum to 100% due to rounding. Data are shown to September 2025. Component-level Bank staff projections are shown from October 2025 to March 2026. The food component is defined as food and non-alcoholic beverages. Fuels and lubricants estimates use Department for Energy Security and Net Zero petrol price data for October 2025 and are then projected based on the sterling oil futures curve.

CPI inflation is projected to slow to 3.2% by March 2026.

Over half of the expected decline in CPI inflation over the next six months reflects a fall in the contribution of household fuel and energy bills. Although the Ofgem price cap increased slightly in October, to £1,755 from £1,720, the effects of increases in energy prices a year ago will drop out of the annual comparison and reduce the contribution to headline inflation by 0.2–0.3 percentage points over 2025 Q4 and 2026 Q1 relative to September. Food inflation and, to a lesser extent, core goods inflation, are expected to remain elevated.

An expected slowing in services inflation accounts for most of the remaining fall in CPI inflation to 3.2% in March. Services inflation is expected to fall to 4.3% in March, from 4.7% in September, as the effects of higher employer NICs begin to fade and lower wage growth continues to drag. The contribution from higher administered prices is expected to be little changed over the coming six months, but, to the extent that the large rises in administered prices in 2025 are not repeated next year, it is likely to reduce in 2026 Q2.

External inflationary pressures

Energy prices are lower than ahead of the August Report.

Spot oil prices were around $64 a barrel in the 15 working days to 28 October, lower than the $71 per barrel in the period leading up to the August Report. The oil futures curve has also moved lower across the coming three years. And the gas futures curve has fallen by around 6% on average over the same period.

Higher global tariffs appear to be weighing a little on UK non-energy import prices.

Non-energy import prices have been broadly flat over the past year (Chart 1.2). While it remains too early to assess fully the impact of higher global tariffs on UK inflation, they are judged to have weighed a little on UK-weighted global export prices. There has been tentative evidence of trade diversion, whereby exporters facing higher US tariffs, particularly in China, may have redirected goods to alternative markets. Chinese exports to the UK and euro area have increased, while those to the US have declined, and UK import prices from non-EU countries have edged down over 2025. Together with a small appreciation in sterling, lower global export prices have contributed to subdued inflation in UK import prices since the start of the year. UK import price inflation is expected to remain subdued in coming quarters.

Chart 1.2: UK import price inflation has been subdued

UK import prices (a)

Sources: ONS and Bank calculations.

(a) The final data point is 2025 Q2. Diamonds show Bank staff projections for UK import prices for the periods 2025 Q3–26 Q1.

Food price inflation is expected to remain elevated this year before slowing in 2026.

Food price inflation was 4.5% in September, much lower than the double-digit rates seen in 2022 and 2023 but well above its pre-Covid pandemic average of around 1½%. Higher global agricultural prices have been a key driver of the recent increase in food price inflation. In the three months to October, the S&P GSCI global agricultural price index in sterling terms

increased by over 5% relative to a year earlier. And inflation among four components – butter, beef and veal, chocolate and coffee – which make up only 10% of the food CPI basket, is currently contributing nearly 2 percentage points to overall food inflation.

Nevertheless, as discussed in Box E of the **August 2025 Monetary Policy Report**, domestic factors – which are likely to affect most food components – have also contributed to recent increases in food price inflation. Annual wage growth in the food manufacturing sector (7%) and retail sector (6½%) remains above aggregate wage growth, in part due to a high proportion of staff in these sectors being paid the National Living Wage (NLW). Recent changes to the threshold at which employers start paying NICs are also likely to have disproportionately affected supermarkets. In addition to labour cost increases, contacts of the Bank's Agents suggest the introduction of Extended Producer Responsibility regulations will continue to push up food prices in coming months.

Continuing pass-through of global and domestic cost increases means that food price inflation is expected to remain elevated over the remainder of 2025, before falling somewhat as these pressures fade.

Domestic inflationary pressures

Wage growth has declined across various measures…

Annual private sector regular AWE growth slowed to 4.4% in the three months to August, down from 4.9% in the three months to May (Chart 1.3, left panel, aqua line), below the projection in the August Report. Higher-frequency measures of AWE growth also point to waning momentum. Bank staff estimates abstracting from volatile movements in AWE indicate a three-month annualised growth rate of around 3.9% (Chart 1.3, right panel, orange line).

This recent slowdown is consistent with the signals from a range of other pay indicators shown in the left panel of Chart 1.3. The DMP Survey, Indeed Wage Tracker, and a proxy based on HMRC Real-Time Information (RTI) data all suggest that annual pay growth has eased modestly since the start of the year. Nonetheless, wage inflation remains elevated, primarily reflecting past labour market tightness and rises in inflation expectations.

Aggregate wage growth continues to be influenced by the NLW and the increase in employer NICs. Bank staff estimate that the increase in the NLW has boosted aggregate wage growth by around 0.2 percentage points this year. Meanwhile, evidence from the DMP Survey suggests that firms that report adjusting their pay in response to higher employer NICs have wage growth that is around 1 percentage point lower than those that do not, with the gap expected to narrow somewhat in coming quarters.

Chart 1.3: Indicators of wage growth have declined over 2025

Measures of private sector wage growth (a) and higher-frequency wage growth with the estimated trend (b)

Sources: Bank of England Agents, DMP Survey, HMRC, Indeed, ONS and Bank calculations.

(a) Private sector regular pay growth shows the ONS measure of private sector regular AWE growth (three-month average on same three-month average a year ago). DMP shows three-month average realised pay growth from the DMP Survey (three-month average on same three-month average a year ago). HMRC RTI shows median of private sector employee pay growth (three-month average on same three-month average a year ago). Indeed Wage Tracker shows annual average job title matched pay growth for UK job vacancies. Latest data points are for the three months to August 2025 for private sector regular pay, September 2025 for Indeed and HMRC RTI, and October 2025 for the DMP Survey. The Agents' pay survey diamond shows respondents' expectations for average pay settlements in 2025 taken from the January 2025 pay survey, weighted by employment and sector. The DMP diamond shows average expected pay growth one year ahead from the December 2024 DMP Survey. Private sector regular pay growth projection diamonds are for 2025 Q3 to 2026 Q2.
(b) The measure of trend pay growth is constructed using an unobserved component-stochastic volatility model following the approach of **Stock and Watson (2007)**. The model extracts trend and idiosyncratic components from monthly ONS private sector AWE, allowing for the volatility in both components to vary over time. Shaded areas represent the 68% and 90% confidence intervals. The ONS private sector AWE series has also been adjusted for furlough impacts over the 2020–21 period.

…and is expected to decline further in the remainder of 2025.

Annual private sector regular AWE growth is projected to slow to 3.5% in 2025 Q4, partly due to unusually strong wage growth at the end of 2024 dropping out of the annual comparison. Measures of private sector pay settlements for 2025, including the Bank's pay settlements database, remain in the 3%–4% range, although the Agent's contacts report that average pay settlements so far in 2025 are at the upper end of this range (**Agents' Summary of Business Conditions – November 2025** (ASBC)).

AWE growth is expected to be 3.6% in the first quarter of 2026 and then to ease a little further as spare capacity in the labour market continues to grow (Section 3.1). Early indications from the Agents' contacts suggest that settlements could average around 3½% in 2026 (**ASBC – November 2025**). Firms responding to the most recent DMP Survey expected wage growth of 3.7% over the next year on average, suggesting some risk around the extent to which wage growth will slow.

> **Total labour costs have slowed by much less than wage growth, reflecting higher employer NICs.**

Although wage growth has slowed, total labour cost growth, which comprises both wage and non-wage components, appears to have been more stable in recent months. The Bank's Agents' company visit scores suggest that a wedge has opened up between growth in firms' reported pay and total labour costs, most likely reflecting higher employer NICs (Chart 1.4). That wedge is expected to narrow in coming months, however.

Some firms may attempt to absorb higher labour costs within their profit margins. Recent DMP Survey evidence points to reduced profit margins as the most common margin of adjustment to higher employer NICs, reported by 64% of firms surveyed in August to October. More broadly, margins appear somewhat compressed relative to 2019 levels and firms may seek to recover margins by raising prices, depending on the strength in demand (Box A).

Chart 1.4: A wedge appears to have opened between increases in total labour costs and increases in pay based on Agents' company visit scores, but the gap is expected to narrow in 2026

Agents' scores for pay and total labour costs (a)

Source: Bank of England Agents.

(a) After visiting companies, Agents assign company visit scores based on information gathered during the meeting. A score of +5 indicates a rapidly rising level, 0 indicates an unchanged level and -5 a rapidly falling level. Details on the scores can be found in **Relleen et al (2013)**. The latest data points are for September 2025 and diamonds show expectations for a year ahead from July–September.

Underlying services disinflation has largely continued.

Although progress had slowed over recent months, higher-frequency measures of underlying services inflation generally moved lower in September, to around 3¼% on an annualised basis (Chart 1.5). Part of the slowing in these measures since the August Report reflects a slowing in annual private rental inflation, which declined from 6.7% to 5.5% between June and September. Consistent with that, underlying measures including rents, such as the low-variance and trimmed-mean measures, have fallen the most. Continuing pass-through of non-wage labour costs may limit how much services price inflation falls in the near term. But it is likely to fall more markedly next year, once these costs are passed through and reflecting past declines in wage growth.

Chart 1.5: Underlying services disinflation has largely continued

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

Sources: ONS and Bank calculations.

(a) Measures shown are three-month averages of seasonally adjusted monthly annualised inflation. The low-variance measure is calculated by weighting each component of services inflation by the inverse variance of the change in 12-month inflation of that component from 12 months previously. The maximum adjusted weight is capped at twice its original value. Details on the components which have been included/excluded from the Services excluding indexed and volatile components, rents and foreign holidays measure are included in the accompanying spreadsheet published online. The trimmed-mean measure excludes the 10% largest and 10% smallest price changes. The latest data points shown refer to September 2025.

Inflation expectations

Households' and firms' inflation expectations have risen over the past year.

Short-term household inflation expectations have remained elevated at around 4% for the past six months (Chart 1.6, left panel), and currently stand around 1 percentage point higher than a year prior. Medium-term household expectations are also elevated.

Household inflation expectations appear to have risen by somewhat more than would have been predicted over the past year, based on the past relationship between expectations and other movements in the economy including inflation outturns (Box B). That could suggest that households have become more responsive to current CPI inflation, consistent with evidence that households pay closer attention to inflation during periods of high inflation and uncertainty (**Weber et al (2025)**). Recent Bank staff analysis extending **Anesti et al (2025)** also shows that household inflation expectations have become more sensitive to food and petrol prices, but remain relatively less sensitive to overall core inflation (Box E of the **August 2025 Monetary Policy Report**). As such, higher food price inflation is likely to have been one cause of the recent rise in household inflation expectations.

Firms' inflation expectations have also increased over the past year, although by a little less than those of households. In the October 2025 DMP Survey, the three-month average of firms' one-year and three-year CPI expectations were 0.8 and 0.3 percentage points higher than a year prior.

The median respondent to the latest Market Participants Survey expected CPI inflation one year ahead to be 2.3%, lower than the 2.5% reported in the September Survey. The median expectation for CPI inflation at the two-year horizon had fallen to 2.1%, from 2.2% previously, and had remained at the 2% target at the three-year horizon. Medium-term inflation expectations derived from financial markets, such as the RPI-reform adjusted measure of five-year, five-year forward inflation compensation, have drifted a little lower since the August Report and remain a little above pre-pandemic averages.

Chart 1.6: Households' and firms' inflation expectations have risen over the past year

Survey-based measures of household (a) and business inflation expectations (b)

Sources: Citigroup, DMP Survey, YouGov and Bank calculations.

(a) Data shown are from the Citi/YouGov survey and are based on responses to the questions: 'How do you expect consumer prices of goods and services will develop in the next 12 months?', and 'And what do you think will happen to the prices of goods and services, on average, over the longer term - say five to ten years?'. Dashed lines represent the series averages over 2010–19. The latest data points are for October 2025.
(b) Data shown are from the DMP Survey and are based on three-month averages of responses to the question: 'What do you think the annual CPI inflation rate will be in the UK, one year from now and three years from now?'. The latest data points are for October 2025. The DMP Survey data have a short back-run, so no historical averages are shown.

1.2: Activity

Domestic demand

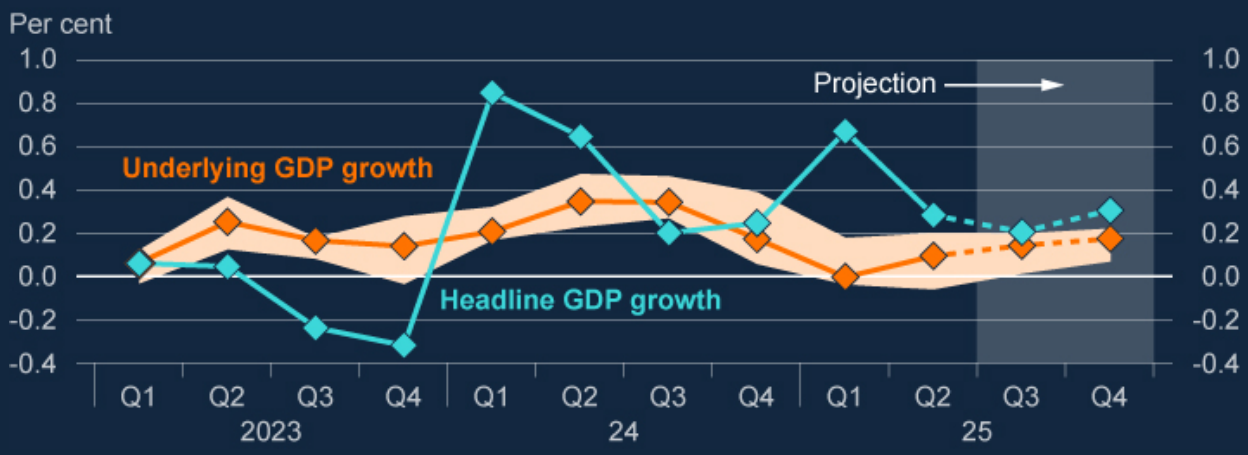
Underlying GDP growth remains subdued but is expected to pick up slightly in the near term.

Bank staff judge that underlying momentum in GDP, as measured by the collective steer from business survey indicators, has been subdued over recent quarters. Underlying GDP is estimated to have grown by 0.1% in 2025 Q3 (Chart 1.7). Part of this softness may reflect uncertainty ahead of the upcoming Autumn Budget, which appears to have weighed on some survey indicators. 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.

Headline GDP growth has remained slightly higher than estimates of underlying growth over recent quarters (Chart 1.7). Headline GDP is projected to have grown by 0.2% in Q3, a little less than expected in the August Report. That reflects weaker-than-expected growth in exports to the US, as well as disruption linked to the Jaguar Land Rover cyberattack. Headline GDP growth is expected to pick up to 0.3% in Q4.

Chart 1.7: Underlying GDP growth remains subdued but is projected to pick up slightly in 2025 Q4

Quarterly growth in headline GDP and underlying growth implied by business surveys (a)



Sources: Bank of England Agents, BCC, CBI, Lloyds Business Barometer, ONS, S&P Global and Bank calculations.

(a) The final data point for quarterly headline GDP growth is for 2025 Q2, with diamonds for 2025 Q3 and Q4 showing Bank staff projections. Underlying GDP growth estimates are from a survey indicator model based on a Staggered Combination MIDAS approach (**Moreira (2025)**). The orange diamonds to 2025 Q2 show in-sample fitted values of the survey indicator model, and diamonds for 2025 Q3 and Q4 show out of sample projections. The orange swathe shows the interquartile range of estimates from individual survey indicators in the model.

Household consumption growth has been weak, with a limited recovery expected in the near term.

Downward revisions to household consumption growth in every quarter between 2022 Q3 and 2024 Q2 in Blue Book 2025 have left the current level of consumption only a little higher than in 2019 Q4. But nominal household income growth was revised down by a little more than consumption growth, leading to a slightly lower, albeit still elevated, household saving ratio over 2022–23. Box D explores a range of possible explanations for the recent weakness in consumption growth.

Consistent with the recent picture of weak underlying demand, household consumption growth was subdued in 2025 Q2, at 0.1%. Real household income growth was slightly stronger, such that the household saving ratio rose to 10.8% in Q2, having fallen back a little in Q1.

Consumer spending indicators point to consumption growth remaining relatively weak in the near term. Retail sales volumes in September rose to their highest level since 2022 but remain around 2% below their 2019 Q4 level. The headline index in the GfK consumer

confidence survey remains below its historical average. And contacts of the Bank's Agents do not expect a material improvement in consumer sentiment in the near term (**ASBC – November 2025**).

Expected falls in interest rates are nevertheless expected to support a gradual pickup in consumption growth over coming quarters, as households face reduced borrowing rates and lower incentives to save. But there are risks that this recovery could be weaker than expected, explored in Box D and Section 3.3.

Business confidence and investment intentions remain subdued.

Measures of business confidence have recovered a little over recent months but many remain weak, and contacts of the Bank's Agents note that investment intentions are subdued (**ASBC – November 2025** and Chart 1.8). Contacts report that weak demand and elevated uncertainty, including ahead of the Autumn Budget, may be causing firms to delay investment. Consistent with that, the proportion of respondents to recent DMP Surveys reporting that the overall level of uncertainty facing their businesses is high or very high has been around its highest level since end-2022.

The Bank's Agents report that higher labour costs due to rises in the NLW and employer NICs have become a less prominent driver of investment intentions since the August Report. And concerns around international trade policy uncertainty have also eased.

Business investment fell by 1.1% on the quarter in 2025 Q2 but was 3% higher than its level a year ago. These data are volatile and can be subject to large revisions.

Chart 1.8: Business investment intentions are weak

Range of survey indicators of investment intentions (a)

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

(a) Survey measures are scaled to match the mean and variance of four-quarter business investment growth since 2000. Measures for the Bank's Agents (split by manufacturing and services), the BCC (non-services and services) and the CBI (manufacturing, distribution, financial services and business/consumer/professional services) are weighted together using shares in real business investment. The Agents' measure shows companies' intended changes in investment over the next 12 months, with the last available observation for each quarter shown. The BCC measure is the net percentage balance of respondents reporting that they have increased planned investment in plant and machinery and the data are not seasonally adjusted. The CBI measure is the net percentage balance of respondents reporting that they have increased planned investment in plant and machinery for the next 12 months. The final data are for 2025 Q2.

Labour market

Underlying employment growth remains close to zero.

A range of indicators suggests that underlying employment growth remains close to zero (Chart 1.9, left panel). That partly reflects subdued growth in underlying demand. Consistent with that, an estimate of employment growth implied by Bank staff's estimate of underlying GDP growth fell a little over 2025 H1.

Evidence from business surveys suggests that increases in employer NICs and the NLW have also weighed on employment growth over recent quarters. Consistent with that, nearly half of the firms responding to the latest DMP Survey indicated that, in response to changes in employer NICs, they had already lowered employment by more than they would otherwise have done.

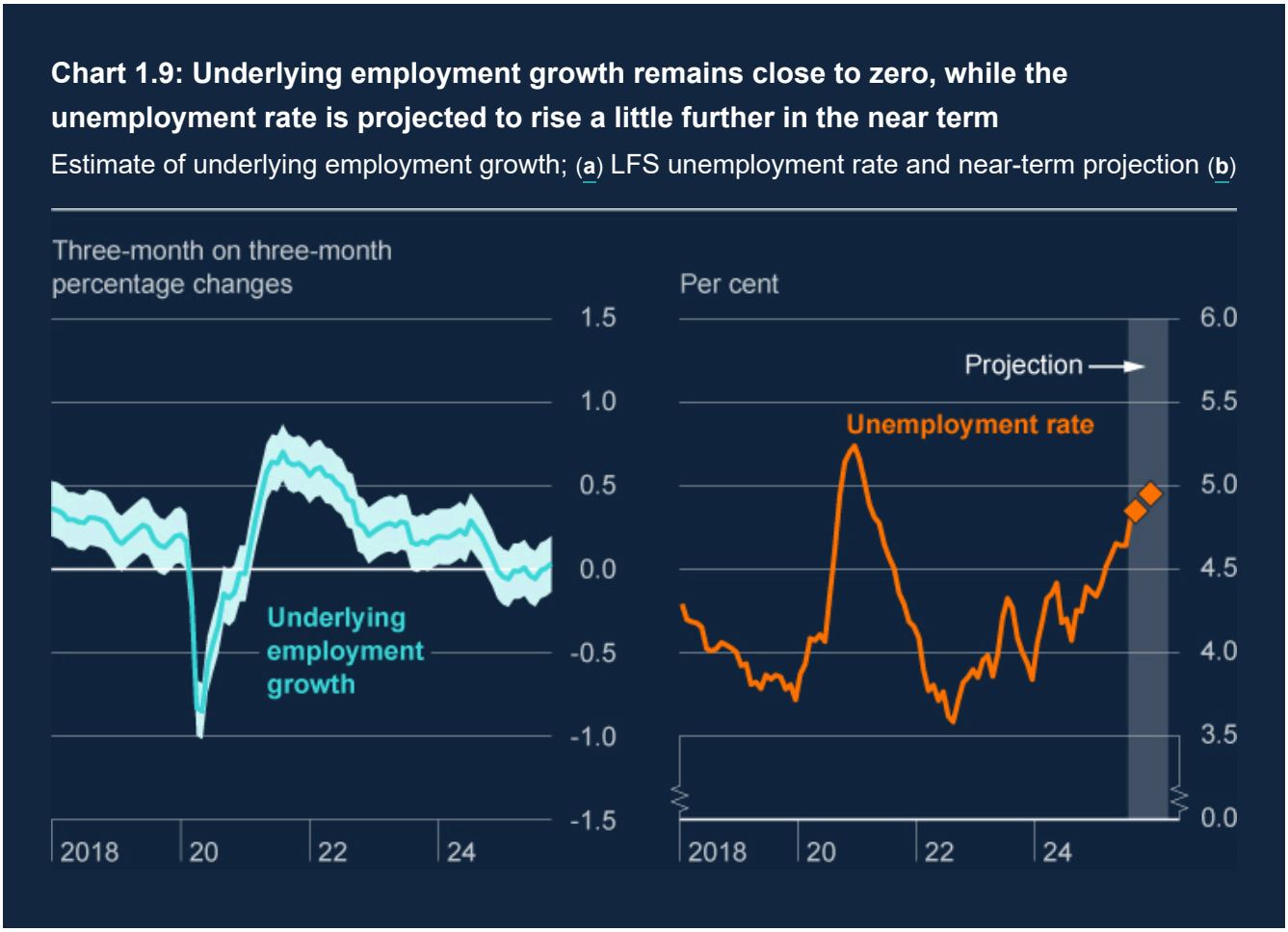
Contacts of the Bank's Agents have noted that much of the adjustment in employment to increases in employer NICs and the NLW has now taken place (**ASBC – November 2025**). That said, some contacts indicated the potential for further adjustment in 2026, for example if there are lags in employment contracts being renewed or pay deals being bargained.

LFS data continue to suggest stronger employment growth than other measures, at 0.3% in the three months to August. But, although the quality of LFS estimates has steadily improved as sample sizes have increased, the **ONS still flags** difficulties in interpreting measures of change. As a result, the MPC continues to place less weight on LFS employment data compared with other employment indicators.

Indicators of employment intentions suggest that employment growth will remain subdued in the near term. The Bank's Agents' employment intentions score remains weak, albeit a little higher than in previous months, while the KPMG/REC survey hiring indices remain significantly below their historical averages.

Chart 1.9: 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; (a) LFS unemployment rate and near-term projection (b)



Sources: Bank of England Agents, DMP Survey, HMRC, KPMG/REC UK Report on Jobs, Lloyds Business Barometer, ONS, S&P Global and Bank calculations.

(a) Bank staff's indicator-based measure of underlying employment growth is constructed using a dynamic factor model, following the approach of **Doz et al (2011)**. The model extracts a common component from monthly survey indicators, capturing comovements across series. The common component is scaled to align with LFS employment growth between 2000–19. The shaded area represents the 95% confidence interval. The latest data are for October 2025.
(b) The projection for the unemployment rate is for 2025 Q3 and 2025 Q4. The projection is based on official data to August 2025. Although LFS unemployment data have been reinstated by the ONS, they are badged as official statistics in development and the LFS continues to suffer from low response rates, which can introduce volatility and potentially non-response bias (Box D of the **May 2024 Monetary Policy Report**).

Labour market conditions have continued to ease.

The latest LFS data indicate that the unemployment rate rose to 4.8% in the three months to August (Chart 1.9, right panel). That evidence of continued loosening in the labour market is broadly consistent with the Bank's Agents' scores for recruitment difficulties having largely normalised, following a period when recruitment difficulties were tight.

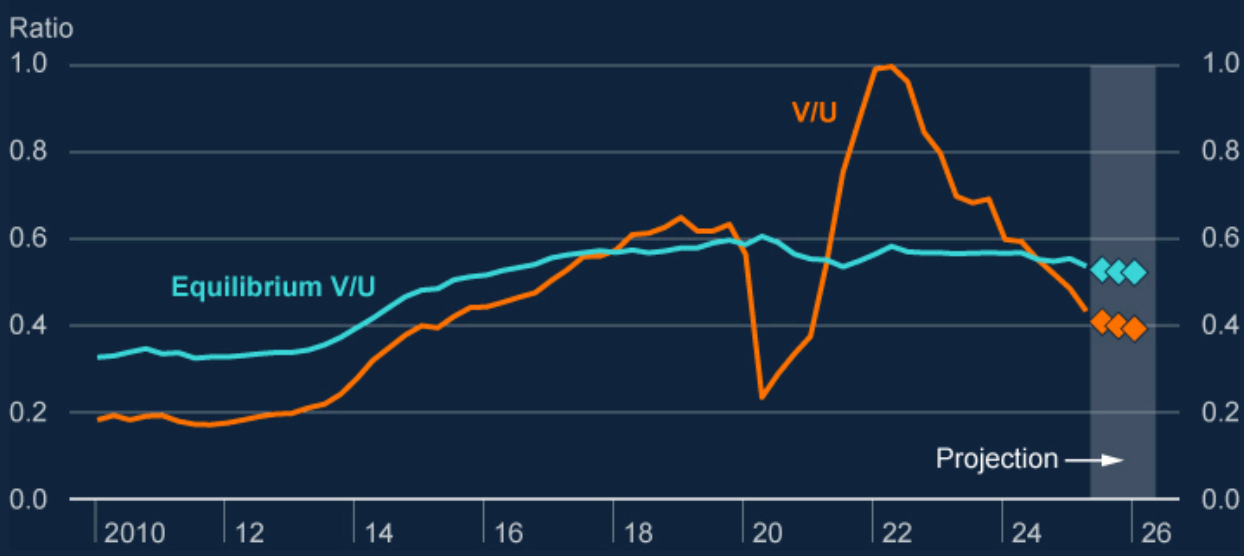
Job vacancies have fallen further since the August Report, with the reduction relatively broad-based across sectors. Together with the increase in unemployment, this has pushed the V/U ratio further below its estimated equilibrium level (Chart 1.10). The pace of decline in

vacancies has started to flatten off over recent months, however. And the index of demand for staff has stabilised in recent KPMG/REC surveys, although it remains weak relative to its historical average. Net additional hours desired by workers as a proportion of their average hours worked, another indicator of labour market slack, are elevated compared with their historical average.

Bank staff judge that recent data are consistent with a small further loosening in the labour market in the near term. Although the outlook for employment is subdued, LFS redundancy rates remain relatively stable, and forward-looking HR1 notifications of potential redundancies among larger firms are only a little higher than their average since 2021. The unemployment rate is projected to continue to rise gradually, reaching 5% in 2025 Q4. Consistent with that, the V/U ratio is expected to fall slightly further below its estimated equilibrium level over coming quarters (Chart 1.10). Box E discusses risks around the near-term outlook for unemployment.

Chart 1.10: Labour market conditions have continued to ease, with the V/U ratio falling further since the August Report

V/U ratio and its estimated equilibrium level (a)



Sources: Advertising association/World Advertising Research Centre Expenditure Report, ONS and Bank calculations.

(a) The equilibrium V/U ratio is estimated using an error-correction model over the period 1982–2024. The real cost of vacancy posting and hourly labour productivity are included as long-run determinants for the level of vacancies. The model also includes controls for short-term movements in these variables (**Stelmach et al (2025)**). The final data points for the V/U ratio and the equilibrium V/U ratio are for 2025 Q2. The diamonds represent Bank staff projections for the V/U ratio and the equilibrium V/U ratio, respectively, for 2025 Q3 to 2026 Q1.

Spare capacity

The margin of spare capacity in the economy has continued to build gradually.

There remains a high degree of uncertainty around the current level of the output gap. But further loosening in the labour market, together with continuing weakness in demand, is consistent with the margin of spare capacity in the economy having continued to build gradually. That is corroborated by surveys of capacity utilisation, which suggest growing spare capacity within firms. And contacts of the Bank's Agents continue to report that a modest degree of spare capacity has opened, reflecting subdued demand (**ASBC – November 2025**). Section 3.2 discusses risks around the current degree of spare capacity.

1.3: Global and financial conditions

Global economic activity

The world economy has been slightly more resilient than expected to trade developments, but global activity growth has nonetheless fallen a little.

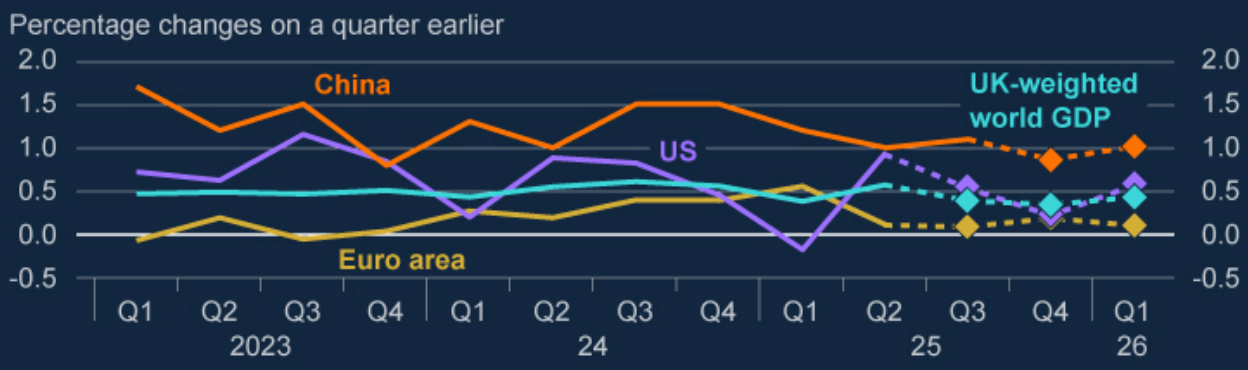
As of 28 October, Bank staff estimate that the effective tariff rate on imports into the US was around 18%, 4 percentage points higher than at the time of the August Report. Meanwhile, the estimated effective US tariff rate on imports from the UK remained around 9%. Global trade policy uncertainty remains elevated, albeit below its peak in April 2025, as trade negotiations continue between the US and some of its major trading partners.

The global economy appears to have so far been a little more resilient to trade developments than expected. Temporary factors, such as front-loading of exports to the US, supported global trade earlier in 2025. And having fallen back a little in 2025 Q2 after tariffs started to come into effect, world trade is projected to have recovered over Q3. That is consistent with tentative evidence of trade rerouting from China through some south-east Asian economies, along with some trade diversion away from US markets.

Despite recent resilience to trade developments, as well as strong artificial intelligence-related investment, particularly in the US, UK-weighted world GDP growth is projected to have fallen slightly in 2025 Q3 (Chart 1.11). And global GDP growth is expected to remain below its historical average over the coming quarters, as the effects of tariffs and trade policy uncertainty build.

Chart 1.11: Global activity growth is projected to have fallen slightly in 2025 Q3

UK-weighted world GDP growth and GDP growth in selected countries (a)



Sources: LSEG Workspace and Bank calculations.

(a) The diamonds show Bank staff projections for UK-weighted world quarterly GDP growth, and for quarterly GDP growth in China, the US and the euro area. The projections are for 2025 Q4 to 2026 Q1 for Chinese GDP growth and for 2025 Q3 to 2026 Q1 for all other areas. The preliminary flash estimate for 2025 Q3 euro-area GDP growth was published after the cut-off for incorporation into the forecast so the data point for that quarter is a projection. UK-weighted world GDP growth is constructed using real GDP growth rates of 188 countries weighted according to their shares in UK exports.

Financial conditions

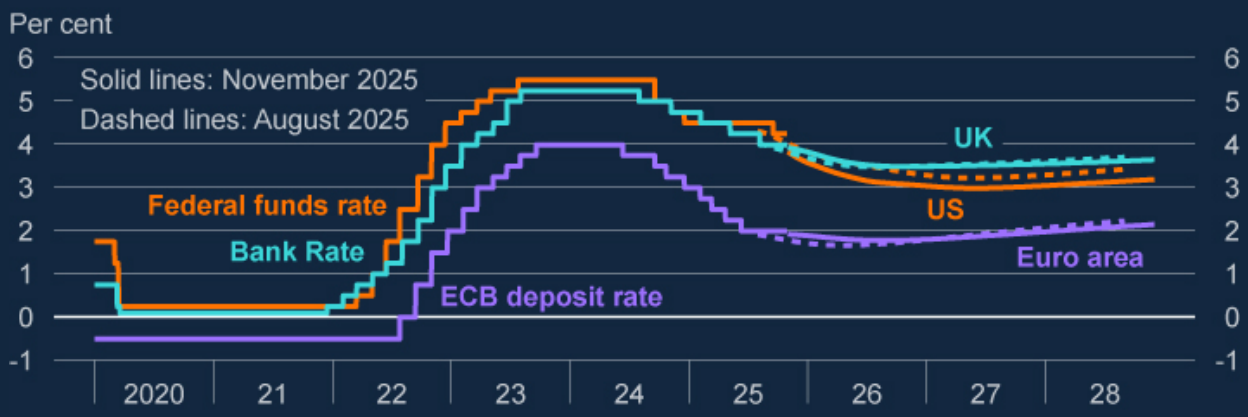
The market-implied path for Bank Rate was little changed relative to in the lead up to the August Report.

Based on the 15-day average of forward interest rates to 28 October, the market curve implied that Bank Rate would fall to 3.5% in 2026 H2, before rising a little by end-2028 (Chart 1.12).

The market-implied path for US policy rates was around 25 basis points lower, on average, over the next three years than in the period leading up to the August Report. The equivalent market-implied path for euro-area policy rates remained much lower than in the UK and US.

Chart 1.12: The market-implied path for policy rates was, on average, little changed in the UK, and had fallen back in the US

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



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

(a) All data are as of 28 October 2025. The November 2025 curves are estimated based on the 15 UK working days to 28 October 2025. The August 2025 curves are estimated based on the 15 UK working days to 29 July 2025. The federal funds rate is the upper bound of the announced target range. The market-implied path for US policy rates is the expected effective federal funds rate. The ECB deposit rate is based on the date from which changes in policy rates are effective. The final data points are forward rates for December 2028.

Overall financial conditions are judged to have loosened a little since the August Report.

In the 15 days to 28 October, the sterling effective exchange rate was around ½% lower than in the lead up to the August Report, and sterling had depreciated by nearly 1% against the US dollar. Equity prices had continued to rise across advanced economies, with the S&P 500 index 6½% higher than its 15-day average in the August Report, while the FTSE All-Share index was up 5%. Equity valuations are judged to remain stretched in a historical context (**October 2025 FPC Record**). Corporate bond spreads have tightened in the UK but are little changed in other advanced economies. Taken together with movements in the yield curve, overall UK financial conditions are judged to be a little looser than at the time of the August Report.

Domestic credit conditions

Reductions in reference rates have passed through to lending rates, supporting a recovery in borrowing.

Reductions in Bank Rate and term OIS rates from their peaks over 2023–24 have passed through to household and corporate interest rates (Chart 1.13). Lending rates have generally adjusted in line with historical patterns over that period. But pass-through to sight deposits has been lower, as it was when Bank Rate was increasing. Term OIS rates increased a little after the August Report, leading to a slight pick-up in some fixed mortgage rates, but have since fallen back. Quoted rates on consumer credit lending, which typically respond with much longer lags, have fallen slightly for personal loans and are unchanged for credit card lending since the August Report.

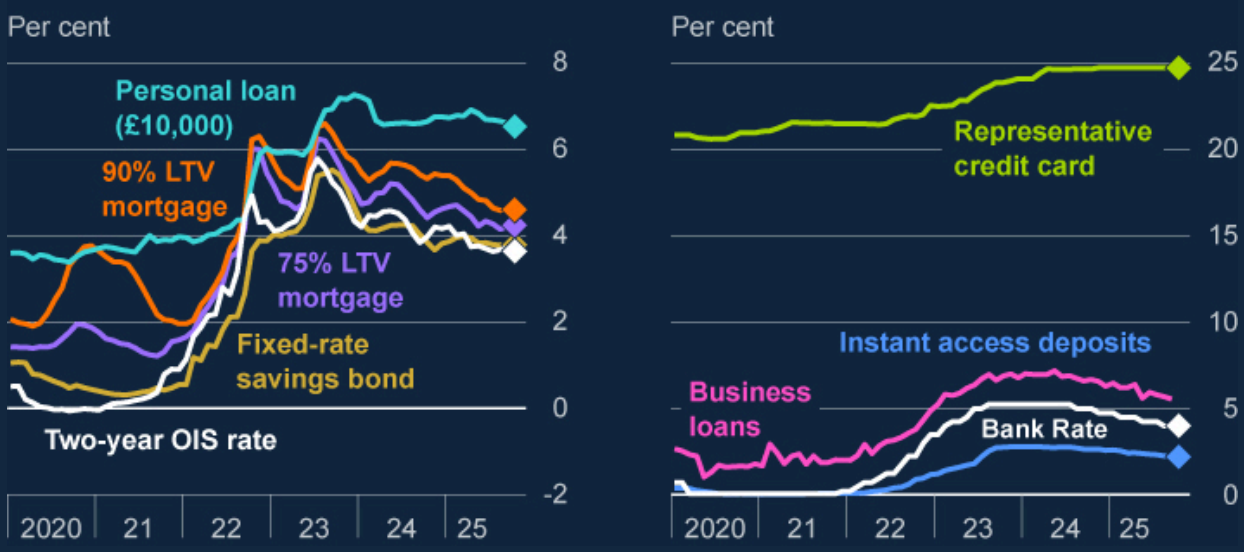
The falls in lending rates from their peaks have supported a pickup in borrowing. Growth in household net borrowing has risen notably from its trough in early 2024, while growth in bank lending to corporates has also increased significantly over that period. As the main driver of money creation, that recovery in net lending has contributed towards stronger broad money growth over recent quarters. However, the ratios of aggregate and household broad money to nominal GDP and gross disposable income, respectively, remain below levels implied by their pre-pandemic linear trends. That could be consistent with a subdued outlook for activity and inflation (Box D of the **May 2025 Monetary Policy Report**).

An easing in credit supply conditions has also played a role.

Respondents to the Bank's Credit Conditions Survey (CCS) have generally indicated increasing availability of credit to households and corporates since late 2023. Lenders responding to the **2025 Q3 CCS** mainly attributed the most recent increase in secured credit availability to increased risk appetite, consistent with changes in their behaviour following the FCA's statement on mortgage stress rates in March. And some lenders have recently taken up the PRA's option to modify their LTI flow limit, following the FPC's updated Recommendation in 2025 Q2 (**October 2025 FPC Record**). The spread between high and low LTV mortgage rates has narrowed since late 2024.

Chart 1.13: Most household and corporate interest rates have fallen over 2025

Household and corporate interest rates and their corresponding reference rates (a)



Sources: Bank of England, Bloomberg Finance L.P. and Bank calculations.

(a) Household loan and deposit rates are based on average quoted rates and business loan rates are based on average effective rates on new lending. The Bank's quoted rates series are weighted monthly average rates advertised by all UK banks and building societies with products meeting the specific criteria. **Introduction of new Quoted Rates data** provides more information. The 75% and 90% LTV mortgage rates are for two-year fixed-rate products. The reference rate for these and fixed-rate savings bonds is the two-year OIS rate. The reference rate for £10,000 personal loan rates is the five-year OIS rate but this is not shown. The two-year OIS rate shows monthly averages, while Bank Rate shows month-end numbers. The provisional October 2025 data are shown in diamonds. For quoted rate series and the two-year OIS rate, these are based on average values to 28 October 2025. The provisional data point for Bank Rate is the rate as of 28 October 2025. The final business loan rate data are for September 2025.

2: Topical policy issues

The boxes in this section highlight some of the key pieces of analysis that informed the MPC's discussions.

Box A: Developments in firms' costs and margins

In assessing inflationary pressures in the economy, a key issue is whether profit margins have been squeezed, and if so, whether firms will be able to rebuild them. Industry-level estimates of the growth in firms' costs and output prices suggest that firms have mostly passed through recent cost increases to their prices in full, although margins appear to have fallen somewhat. Firms may attempt to rebuild their margins, which, all else equal, would put upward pressure on inflation. However, relatively weak demand in the economy may reduce firms' ability to increase margins.

How do costs affect the prices that firms charge?

Firms set their prices with a view to maximising their profits and tend to pass-through changes in costs to their customers. This pass-through is not always one-for-one, however, and margins, the share of profits in total revenue, can change over time. Margins can vary for a range of reasons, including levels of competition, market structures, the balance between fixed and marginal costs in production, and technological change. However, these more structural factors tend not to change quickly over time, and shorter-term variation in margins is more likely to be related to the economic cycle.

To what extent have firms passed through higher costs to their prices?

The UK economy has faced a series of shocks over recent years that have affected the costs facing firms. Understanding developments in firms' costs helps to understand what has affected firms' pricing in the past and how inflation might develop in the future.

There is no single data source capturing how costs change over time for firms across the economy. Bank staff have drawn together a wide range of ONS datasets to create consistent industry-level estimates of changes in firms' input costs and output prices. This takes a similar conceptual approach to **Dhingra (2023)** and **Dhingra (2025)**,

although data sources differ. In these estimates, firms' non-labour costs are measured by combining the share of firms' domestic and imported goods and services inputs by industry with applicable price estimates. Industry output deflators are used for domestic costs and import costs are derived from international trade data. Industry-level labour costs are calculated using the average of the ONS's average labour compensation per hour and AWE data. Taking an average of these measures helps smooth through data volatility. Labour costs are then adjusted for productivity, measured as gross value added per hour worked. These estimates of non-labour and labour costs growth are combined to estimate total input costs growth for detailed industries. Differences between changes in input costs and industry output prices are a measure of firms' average margins.

Higher non-labour costs accounted for the peak in inflation in 2022, as post pandemic supply constraints raised global costs and the Russian invasion of Ukraine led to higher energy costs (Chart A.1). Since then, domestic labour costs have been the most important contributor to firms' cost growth. Unit labour costs are estimated to have increased CPI-weighted input cost growth for firms by around 2.5 percentage points per year since early 2024. Taking the past five years together, firms have largely passed through their cost increases to prices one-for-one, although the timing of cost and price changes has varied somewhat.

Chart A.1: Firms' output prices are driven primarily by their input costs

Decomposition of annual CPI-weighted output price growth, and CPI inflation (a)

Sources: ONS and Bank calculations.

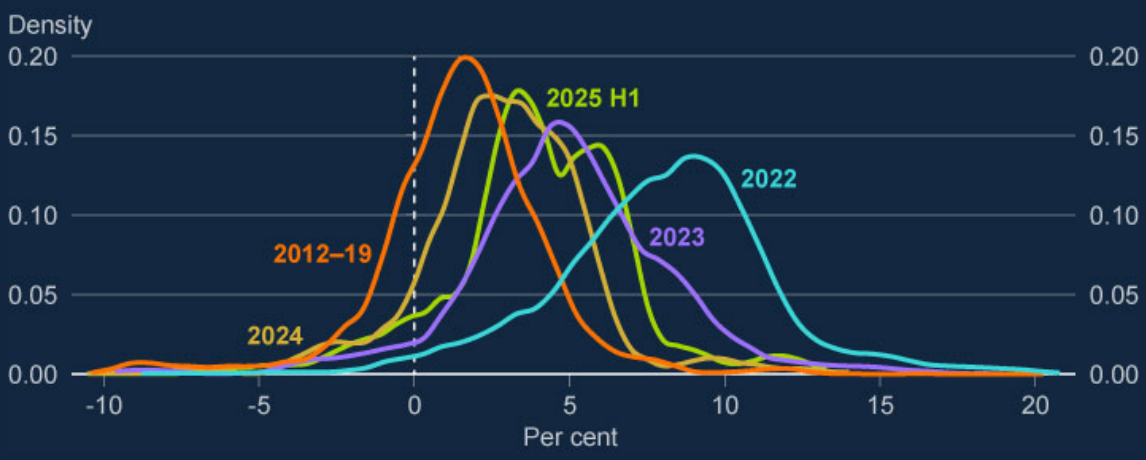
(a) Average industry cost and output price growth are weighted by an estimate of each industry's contribution to the CPI basket, as developed in **Martin (2024)**. The estimates are produced using: a combination of ONS supply and use tables and input-output tables for cost shares; published industry deflators that are also complemented by implied deflators calculated from low level GDP aggregates and UK trade in goods and UK trade in services data to create pricing series; the average of labour compensation per hour worked and AWE for labour costs; and output per hour worked for the productivity estimate. Margins are calculated by residual from cost change and price change. The ONS published updated supply and use tables as part of Blue Book 2025 after the data cut-off date used in this Report and so these have not been incorporated here or in the subsequent charts in this box. Firms' output prices differ to the prices paid by consumers as measured by the CPI, for example as they include products for export, and so, while the series largely move together when using equivalent weights, they can diverge over time. This analysis assumes measured changes in input prices are reflected that period in changes in industry costs. The transmission of costs through supply chains to CPI inflation is unlikely to be immediate and varies by industry (**Mrabet and Page (2023)**). Different assumptions around the transmission of costs could affect estimated inflation dynamics. Latest data are to 2025 Q2.

What is the outlook for firms' pricing?

Firms tend to pass-through cost increases with a lag. Therefore, measures of cost changes can inform the inflation outlook. In the first half of 2025, annual cost growth accelerated compared with 2024 (Chart A.2). This will have contributed to the rise in inflation during 2025 and is consistent with continued elevated near-term inflationary pressure as increases in firms' output prices continue to be passed through to consumer prices via supply chains.

Chart A.2: The distribution of cross-industry cost growth has yet to normalise to the average patterns seen between 2012–19

Distribution of annual cost growth across industries (a)



Sources: ONS and Bank calculations.

(a) Cost distributions across industries are constructed using weights from industries' gross value added. Distributions are smoothed using kernel density estimation.

Output prices will also depend on the margin between the price charged and costs of production. Chart A.3 shows that the estimated level of average margins across industries is somewhat lower than in 2019 Q4.

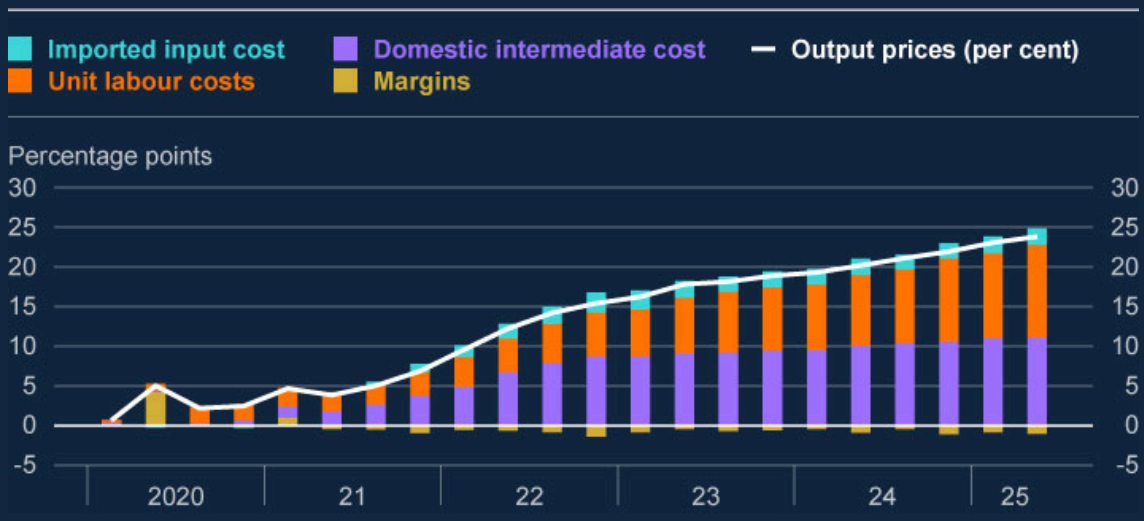
Changes in businesses' cost of capital are not captured in this measure of margins, but these can be important for the prices firms charge. Updated Bank staff analysis from **Manuel et al (2024)** provides a measure (a 'pure' profit share) that also accounts for changes in capital costs. This analysis finds that, as of 2025 Q2, the aggregate business sector 'pure' profit share had fallen by more than the measure of margins shown in Chart A.3. This is because capital costs and the capital to labour ratio have risen.

As cost growth is expected to normalise over time, as wage growth continues to slow, firms may try to rebuild margins. Indeed, when the aggregate profit share has fallen in the past it has tended to recover to its historical norm. If any recovery in margins occurred without an associated fall in capital costs, that could result in higher inflation than would otherwise be the case.

While firms may find it easier to raise margins as the labour market loosens and workers have less power in the wage-setting process, an environment with weaker demand for firms' outputs may limit their ability to increase prices. Intelligence from the Bank's Agents suggests that firms have lower margins than in the past, on average, but rebuilding margins may take some time given subdued demand and is likely to be done more via cost control than price increases (**ASBC – November 2025**).

Chart A.3: Margins have fallen slightly since 2019 Q4

Contribution to percentage change in output prices since 2019 Q4 (a)



Sources: ONS and Bank calculations.

(a) Industry-level costs and prices are weighted together using industry gross value added, which differs to the weighting used in Chart A.1. Margins are calculated by residual from cost and price changes, so may also capture measurement error, especially during the pandemic. The rise in energy costs following the 2022 Russian invasion of Ukraine directly raised both imported and domestic intermediate input costs. Latest data are 2025 Q2.

Box B: Inflation expectations and their role in wage and price-setting

Household inflation expectations have risen over the past year, and by more than their usual relationship with CPI inflation would have suggested. Business inflation expectations have risen a little too. There is a risk that this rise in inflation expectations leads inflation to remain high for longer, requiring tighter monetary policy. More spare capacity in the economy may help to limit the effect on inflation. And new evidence suggests that when household inflation expectations are driven by higher food prices, as they appear to be currently, they have tended to have a small impact on future inflation. But there is also some evidence to suggest that the relationship between inflation expectations and wage and price-setting has strengthened. Results from models that allow for a non-linear impact of inflation expectations on inflation over time suggest that the most recent increase in inflation expectations could push up inflation by more compared with when inflation is lower.

Will the rise in inflation expectations lead to elevated inflation remaining persistent?

Indicators of household inflation expectations have risen over the past year, at short and medium-term horizons and across different surveys. Businesses' inflation expectations have also risen a little over that period. Household expectations have risen by somewhat more than would have been expected, based on their past relationship with inflation outturns (Section 1.1).

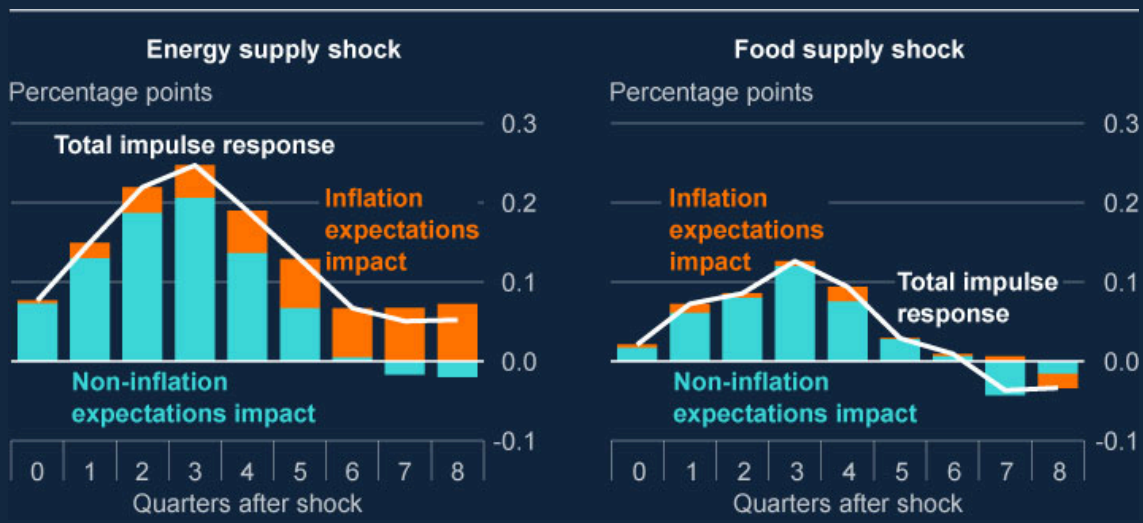
The rise in household and business inflation expectations could cause high inflation to remain more persistent through their influence on wage and price-setting. Analysis by Bank staff finds mixed evidence on the extent to which this is a risk.

One reason why inflation expectations may not currently pose a risk to inflation persistence is the margin of slack in the economy. When there is excess demand, the scope for higher household and firm inflation expectations to push up inflation tends to be larger. For example, greater competition for workers may mean that wage-setting becomes more sensitive to household inflation expectations. And higher demand for businesses' output means that firms can set prices more easily to match expected rises in their future costs. These appear to have been important factors following the 2022 inflation peak. In contrast, the current margin of spare capacity in the economy may help to reduce the impact of higher inflation expectations on inflation.

The source of an increase in inflation can also affect the extent to which higher inflation expectations impact inflation. Bank staff analysis suggests that when food price inflation drives increases in household inflation expectations, as it appears to have done in recent months (Section 1.1), second-round effects on wages and prices have historically been relatively small. The analysis compares the results of impulse responses from an oil supply shock and a food supply shock, estimated using a structural vector autoregression model. Inflation expectations are included for both shocks and modelled such that they can lead to second-round effects on overall inflation. Supply shocks raise prices and, in both estimates, lead to a rise in inflation expectations following the shock. The subsequent impact of higher inflation expectations following a one standard deviation oil supply shock on CPI inflation is material and persistent, raising CPI inflation by a little under 0.1 percentage points after two years (Chart B.1, left panel). In contrast, the impact of a food supply shock on CPI inflation through inflation expectations is minimal (Chart B.1, right panel).

Chart B.1: There are estimated to be material effects on CPI inflation from an oil supply shock via inflation expectations unlike for a food supply shock

Estimated four-quarter CPI inflation impact of a one standard deviation oil supply and food supply shock (a)



Sources: Barclays, Citigroup, Kanzig (2021), ONS, Peersman (2022), YouGov and Bank calculations.

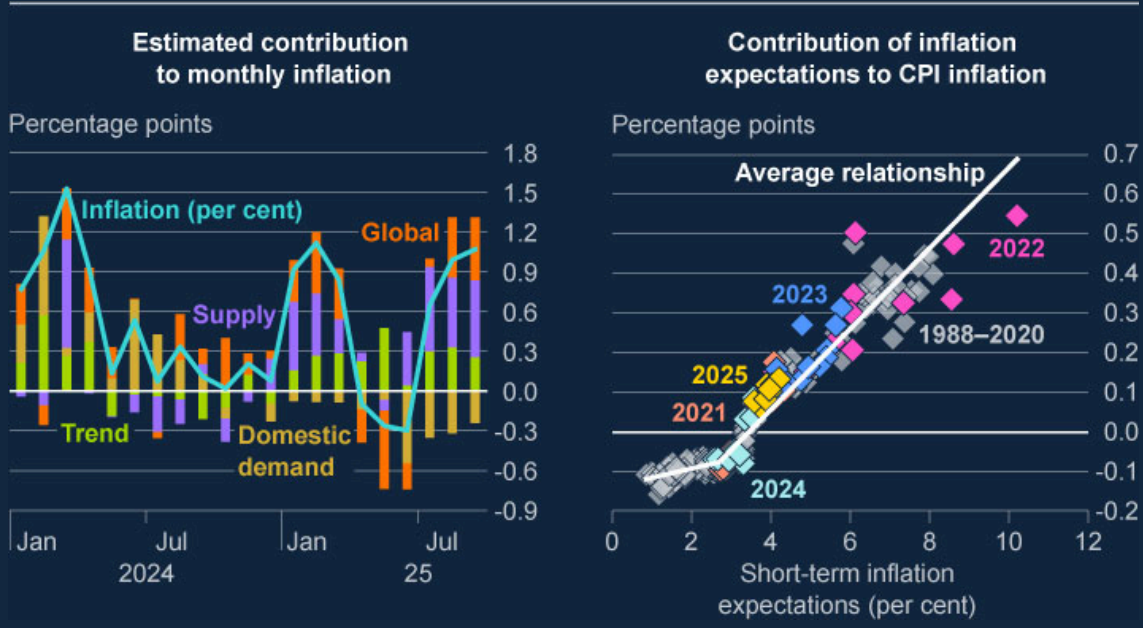
(a) The estimation uses the transmission channel analysis framework outlined by Wegner et al (2024). The estimates only include data up to 2019. Any change in the relationships since then will not be captured in these results.

Other analytical approaches suggest that the relationship between inflation expectations and wage and price-setting may have strengthened, however, such that the recent rise in expectations could pose an upside risk to inflation. A non-linear machine learning approach, which does not impose structural relationships between explanatory variables and inflation (**Buckmann et al (2025)**), finds that a domestic trend component has been one of the major upward contributors to inflation in 2025 (Chart B.2, left panel). This trend component captures the estimated impact of past inflation outturns, household inflation expectations, wage growth and services price inflation on current CPI inflation. It is difficult to disentangle contributions from the individual series used in the model, but estimates suggest that household inflation expectations have been a material factor behind the increase in the trend component.

Results from the model also suggest that the relationship between inflation expectations and CPI inflation is non-linear. When short-term household expectations rise above 2¾%, as they have throughout 2025, the impact on CPI inflation strengthens (Chart B.2, right panel). These findings are consistent with separate modelling that investigates the impact of inflation expectations under different inflation environments, which finds that high inflation expectations have a larger and more persistent upward impact on inflation when inflation is already high (Box C). Overall, these results suggest that linear macroeconomic models estimated over a longer historical period may underestimate the current effect of elevated inflation expectations.

Chart B.2: A non-linear model suggests that the recent rise in household inflation expectations may be contributing to higher inflation

Estimated contributions to annualised monthly CPI inflation using a blockwise boosted inflation model and the estimated contribution of short-term household inflation expectations within the model, relative to the 2% inflation target (a)



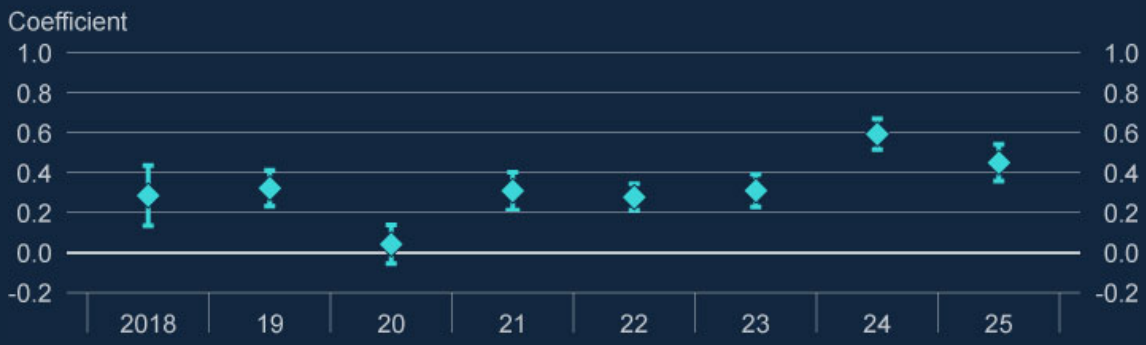
Sources: Barclays, **Baumeister and Hamilton (2019)**, Bloomberg Finance L.P., **Braun et al (2023)**, Citigroup, **Känzig (2021)**, OECD, ONS, World Bank, YouGov and Bank calculations.

(a) The methodology is from **Buckmann et al (2025)**. The results in the left panel are annualised month on month changes and are shown relative to the 2% inflation target. The inflation measure is the fitted model prediction for seasonally adjusted CPI inflation in that month. The right panel uses the Citi/YouGov one year ahead household inflation expectations, seasonally adjusted. The contributions are based on inflation expectations lagged by one month compared to the Shapley value contribution to fitted inflation. Shapley values are centred around the sample mean which is slightly higher than the 2% inflation target. Latest data in the left panel are to September 2025 and in the right panel to August 2025.

Businesses' expectations may also pose a risk to the continuing disinflation process. Bank staff analysis of the DMP Survey suggests that growth in firms' own prices has become more sensitive to expectations of the growth in their own prices one year ahead (Chart B.3). That may mean that the recent increase in firms' inflation expectations could lead to higher inflation in the future than it would have done in the past.

Chart B.3: Businesses' price-setting has become more sensitive to their expectations for their future prices

Relationship between own-price growth and expected year-ahead own-price growth (a)



Sources: DMP Survey and Bank calculations.

(a) This chart is based on a firm-level regression of annual own-price growth on expected year-ahead own-price growth. Additional controls include annual real sales growth, lagged own-price growth, as well as firm and time fixed effects. Standard errors are clustered at the firm level, and 90% confidence intervals are displayed. The sample period is January 2018 to October 2025.

Box C: Prospects for CPI inflation when inflation is high

As set out in Box B, there is some evidence to suggest that the relationship between inflation expectations and wage and price setting has strengthened. This box describes a particular non-linear time series model which finds that when CPI inflation is above 3%–4%, economic shocks that raise firms' costs tend to be amplified by rising inflation expectations, relative to when inflation is lower. These results could mean that CPI inflation remains persistently higher and, all else equal, that monetary policy may need to be tighter.

Why might inflation dynamics depend on the level of inflation?

Households and firms may change how they behave in different economic environments. For example, they may pay more attention to renewed increases in inflation when they have recently experienced high inflation, and this could affect their expectations for future price increases and their behaviour when bargaining for wages or setting prices (**Anesti et al (2024)**). This implies that a certain economic shock, such as a global supply shock that raises oil prices, could have different implications for inflation if inflation is already high when it occurs. Accurately assessing risks to the inflation outlook requires understanding how changes in behaviour can affect how past and future shocks propagate through the economy.

How high might inflation need to be for inflation dynamics to change?

To understand when and how inflation dynamics might shift, Bank staff have constructed a non-linear version of a self-exciting threshold Bayesian vector autoregressive (SET-BVAR) statistical model. This model helps to evaluate how inflation in the UK, including some of its components (energy, food and services inflation), households' expectations about inflation, and global shocks, move together over time. Crucially, it allows for the possibility of changes in these relationships depending on the level of inflation. This is done by statistical identification of a threshold between a regime when inflation is low and one when inflation is higher, as proposed in **Gargiulo et al (2025**). The model estimates the most likely level of inflation at which shifts in inflation behaviour become more probable using past observed historical associations between inflation, expectations, and global shocks.

Results from the model suggest that UK inflation tends to behave differently once CPI inflation rises above 3%–4%. Estimating an exact threshold is challenging and depends on the exact model specification. To reflect this uncertainty, Bank staff estimated many versions of the model using different economic data and historical

periods. Across specifications, most estimates fall towards the lower end of the 3%–4% range, as shown by the 50th percentile diamond at the bottom of the leftmost range in Chart C.1. These models rely on identifying specific numerical thresholds, but the true economic relationship may be non-linear and change over a wider range of inflation levels.

These results suggest that CPI inflation may currently be above the threshold at which inflation behaves differently (shown by the leftmost orange bar in Chart C.1, which is within the aqua range). These results are based on the prevailing rate of CPI inflation being the key determinant of which inflation regime the economy is operating under. However, it might be the case that other variables capture different aspects of the switch between regimes. Estimating alternative versions of the model using food inflation, services inflation and wage growth as the relevant variable for the threshold also suggest that the economy is currently around the threshold (shown by the remaining ranges in Chart C.1). These models are focused on a state contingency that depends on inflation and wage growth, but other economic variables, such as spare capacity in the labour market, could also be important in determining how inflation responds.

Chart C.1: Estimated inflation thresholds suggest that current inflation could be high enough for inflation dynamics to change

Estimated thresholds for regimes for CPI inflation and other nominal indicators, and current level of these indicators (a)

Sources: Bank of England, Batchelor and Orr (1988), Baumeister and Hamilton (2019), Bloomberg Finance L.P., Citigroup, Federal Reserve Bank of St. Louis, GfK, Kaenzig (2021), LSEG, OECD, ONS and Bank calculations.

(a) Indicators and threshold estimates are presented as 12-month growth rates. The threshold range shows the median and 95th percentiles over the estimated thresholds from a range of SET-BVAR specifications which incorporate different variable combinations over the sample period 1989–2024. The CPI estimates are based on 60 specifications with CPI inflation as the state variable; the others include, separately, 36 specifications each with the respective other metric as state variable. Any estimated threshold only approximates complex shifts in the behaviour of economic agents. For instance, different households may react at different levels and may do so gradually rather than changing behaviour at a specific threshold. It is likely that economic agents respond to a wide range of economic factors, rather than a single one as in these estimates. Threshold estimates tend to be slightly higher when the sample period is extended to include the 1970s, with the median around 3.5%. The estimates in this chart are based on specifications from 1989 onwards, as structural changes and data breaks make earlier periods harder to compare. The range from the 50th percentile upwards is reported across threshold estimations to account for the possibility that the prolonged period of low and stable inflation within the sample may lead to underestimation of thresholds.

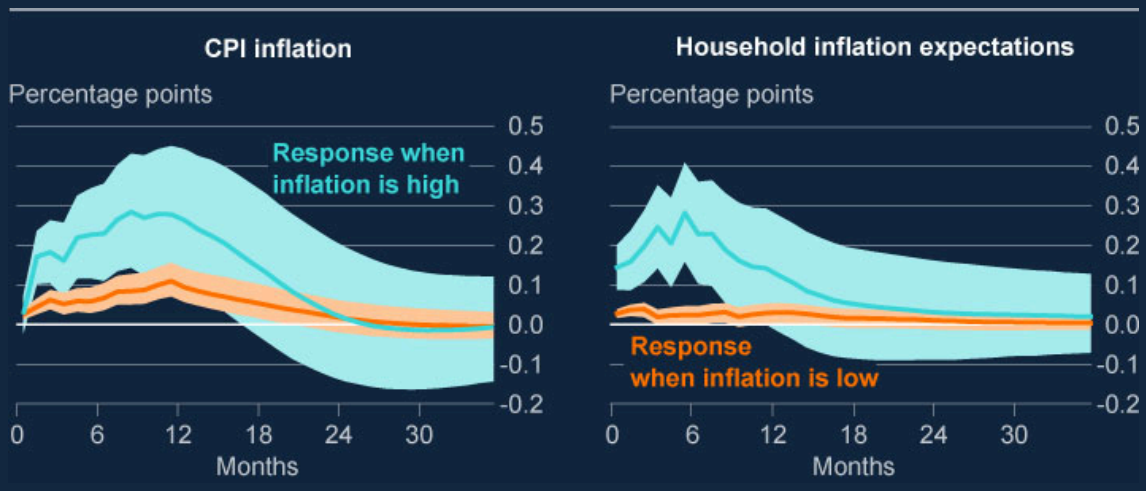
How do inflation dynamics differ when inflation is high?

Evidence suggests that the economy responds differently to global shocks across the identified inflation regimes. The SET-BVAR models can be used to estimate the economic consequences of identified exogenous fluctuations in oil supply (Känzig (2021)), while accounting for changes in the inflation regime following the shock. The left panel of Chart C.2 shows that when inflation is above the threshold, an oil supply shock causes UK inflation to increase by around twice as much compared with periods of low inflation. The stronger inflationary effects when inflation is already high, relative to when inflation is low, last for more than 1½ years.

The additional increase in inflation expectations appears to be an important driver of the larger and more persistent rise in headline inflation during the high inflation regime. Using the same SET-BVAR model, households' inflation expectations are estimated to be considerably more sensitive to shocks during periods of high inflation compared with periods of low inflation (Chart C.2, right panel). And counterfactual results, in which inflation expectations are held fixed, suggest that the sensitivity of inflation expectations is the key channel accounting for the more persistent rise in CPI inflation. Although the modelling cannot identify the specific mechanism behind these results, this could imply that firms and people are more attentive to price increases when making their pricing and consumption decisions in a high inflation regime, in line with the evidence presented in Section 1.1.

Chart C.2: Inflation and inflation expectations rise by more and for longer in response to an adverse supply shock when inflation is already high

Estimated impulse response functions of CPI inflation and inflation expectations to an adverse oil supply shock (a)



Sources: Bank of England, Bloomberg Finance L.P., Citigroup, Federal Reserve Bank of St. Louis, GfK, **Känzig (2021)**, LSEG, ONS and Bank calculations.

(a) The sample period is January 1989–December 2024. The generalised impulse response functions (GIRFs) are to a one standard deviation oil supply news shock by Känzig (2021) which equates to a roughly 6% rise in oil prices. The GIRFs are constructed from non-linear coefficients from a SET-BVAR with two regimes, accounting for regime changes over the propagation horizon. The lines represent the median estimate, and shaded areas show the 68% credibility interval. The estimated threshold for this specification is 3.1%.

As CPI inflation is now judged to have peaked at 3.8%, it may be the case that inflation dynamics return quickly to more normal patterns as inflation falls below the identified threshold. However, near-term projections for inflation suggest that the economy is

likely to remain close to the threshold over the coming months (Section 1.1). And indicators of household inflation expectations have risen alongside inflation in 2025, partly due to rising food prices, consistent with households being more attentive to cost changes when inflation is already high.

Box D: Risks around the outlook for household consumption

Household consumption accounts for around 60% of GDP and has been broadly flat in recent years. Understanding the reasons for stagnant consumption growth is essential for assessing whether weakness is likely to persist. High interest rates have accounted for a large part of the weakness, although looser monetary policy is expected to boost consumption growth in the coming quarters. But consumption may have been weak for other reasons, such as an increased desire among households to save for precautionary purposes, or because wealth has been eroded in real terms. This could continue to weigh on consumption growth and result in weaker inflationary pressures, potentially requiring looser monetary policy.

Real household consumption growth has been stagnant in recent years. Consumption has risen by just under 1% since 2019 Q4 (Chart D.1), well below its pre-pandemic trend. Cumulative consumption growth over this period has been revised down from 2.3% following the **ONS's annual Blue Book revisions** (Section 1.2). Until the end of 2023, the shortfall in consumption relative to its pre-pandemic trend was matched by a similar shortfall in real disposable income. Real household incomes have since recovered, however, meaning that the household saving ratio has risen, peaking at 11.7% in 2024 Q4.

Chart D.1: Real consumption growth has been very weak

Real household consumption and disposable income (a)

Sources: ONS and Bank calculations.

(a) The latest data are to 2025 Q2. The data are chained-volume measures and include non-profit institutions serving households (NPISH). Real household disposable income is deflated using the household and NPISH consumption deflator.

In addition to weak growth in real household incomes between 2021 and 2023, Bank staff judge that much of the recent weakness in consumption growth has reflected the tightening in the stance of monetary policy. As discussed in Box A of the **August 2025 Monetary Policy Report**, past increases in interest rates are estimated to be weighing materially on the level of GDP.

The impact of past increases in interest rates on consumption is judged to be close to its peak, however. This means that, all else equal, consumption growth would be expected to pick up in coming quarters. Consistent with that, secured lending volumes to households have started to recover (Section 1.3). And only a fifth of respondents to the latest Bank of England/NMG survey who report having saved more than usual, state that higher savings interest is one of the main reasons for this (Chart D.2), down from 40% in March 2024. Higher mortgage rates are expected to weigh a little further on consumption growth via the cash-flow channel of monetary policy, however, as rises in reference rates continue to feed through to effective rates on household mortgages (Box A of the August Report).

Chart D.2: Survey evidence suggests that many households are seeking to rebuild savings

Households' stated main reasons for saving more than usual over the past year (a)

Sources: Bank of England/NMG survey and Bank calculations.

(a) The data are from the March 2025 and September 2025 NMG surveys. The results are based on responses to the question: 'You said that you have saved more than usual over the last 12 months. What would you say are the main reasons for this increase?'. The respondents were able to select up to three reasons. In the September 2025 survey, responses around rebuilding savings and greater worry about emergencies were separated. 23% of respondents that were saving more cited greater worry about emergencies and 17% noted that they were rebuilding savings after having drawn on them. To aid comparison with the previous survey, the light aqua bar shows the combined responses. Some of these respondents selected both reasons.

Other factors could also be weighing on consumption growth. Recent high inflation, for example, may have caused a structural shift in households' savings preferences by leading consumers to become more worried about their finances (**Mann (2025)**). Research has shown that households' experiences of significant economic events can have persistent effects on savings behaviour (**Aizenman and Noy (2015)**). And **Malmendier and Nagel (2011)** provide evidence that such economic events can affect the extent of household risk taking.

There is some evidence to suggest that households are currently saving more as a result of greater uncertainty, consistent with this channel. 23% of households in the Bank of England/NMG survey that reported saving more than usual attributed this to a greater worry about emergencies, consistent with precautionary behaviour. And measures of uncertainty have, on average, been much higher over the past five years than in the previous decade. Section 3.3 explores a scenario in which a persistent increase in household risk aversion causes households to save more for precautionary reasons.

Another explanation for the recent weakness in consumption may be that savings and wealth have been eroded by inflation. Since 2022, real household financial wealth has fallen, although much of that fall reflects lower pension wealth which tends to be less visible to households. Real housing wealth has also fallen over this period. If households seek to rebuild their wealth, that could keep the saving ratio high and consumption weak. A simple error-correction model that estimates consumption as a function of income and wealth, alongside other components, suggests that the fall in the household wealth-to-income ratio could weigh on consumption growth over coming years.

Households might also be spending relatively little because they are concerned about the outlook for real incomes, for example because they are worried about becoming unemployed. There is limited evidence to suggest that this channel is driving consumption or saving decisions at present, however. While household expectations for economy-wide unemployment in the Bank of England/NMG survey have been increasing since their trough in 2021 and are now at their highest level since the pandemic, few households report that it is likely that they will lose their job over the next year. And just 10% report that they are saving more than usual due to concerns about job loss.

Box E: The risks of a sharper rise in unemployment

Following a period of exceptional tightness, conditions in the labour market began to ease from mid-2023 and a margin of slack has opened up. Based on one measure of labour market slack, the vacancy to unemployment ratio (V/U), the most recent loosening has increasingly been concentrated in employment reductions rather than in unfilled job vacancies. An important influence on the outlook for inflation is the extent of further employment reductions and how much labour market slack that generates. Analysis using models that take greater account of job leaving and finding patterns points to risks of the unemployment rate picking up to around 5½% in 2026. Weaker SME cash positions and higher employment costs may also mean that employment becomes more sensitive to near-term demand weakness. All else equal, a larger-than-expected rise in unemployment, which generates more slack, could push inflation below target and require a looser monetary policy stance.

How has labour demand evolved since 2022?

The labour market was exceptionally tight over 2022–24. This tightness contributed towards persistently high wage and price inflation over that period, and was one factor behind the MPC's judgement (Section 1 of the **May 2023 Monetary Policy Report**) that second-round effects in wages and domestic prices would take longer to unwind than they did to emerge. As monetary policy became more restrictive, the degree of tightness in the labour market unwound. The V/U ratio is currently below an estimate of its equilibrium level (Section 1.2).

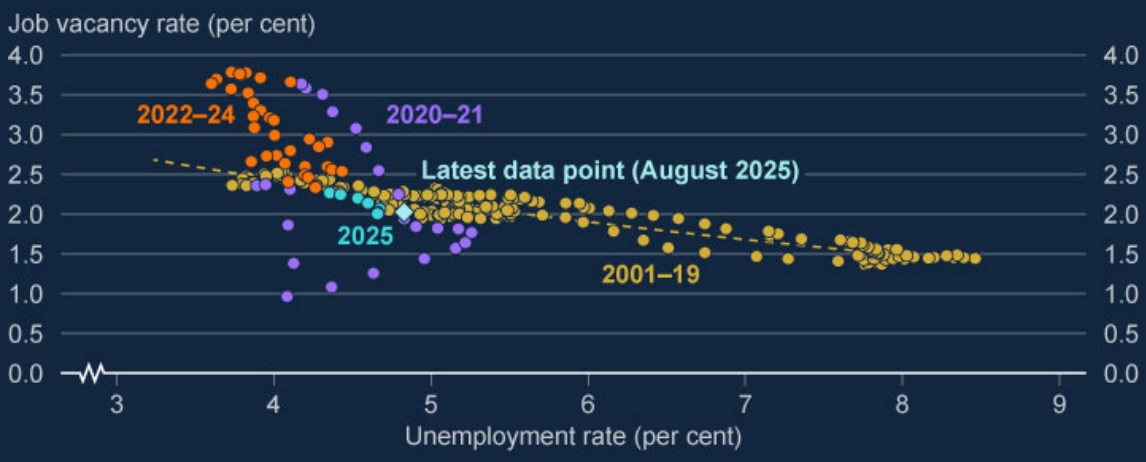
The initial fall in the V/U ratio mainly came about through a reduction in vacancies rather than a rise in unemployment. That pattern is illustrated by the orange dots in Chart E.1, which plots the relationship between the vacancy rate and the unemployment rate, known as the Beveridge curve. Those dots are mainly on the steeper portion of the Beveridge curve, in which there is scope for firms to reduce desired headcount by reducing the numbers of vacancies they advertise, rather than cutting existing workers from the payroll.

More recently, the economy has begun to operate on a 'flatter' part of the Beveridge curve, and the latest data (aqua dots in Chart E.1) are closer to their pre-Covid pandemic range (in gold). When the economy is operating on this point of the curve, there are fewer vacancies and workers are less scarce, so firms tend to find it easier to

fill vacancies from the available pool of workers. Consistent with that, the most recent labour market loosening has increasingly been concentrated in employment reductions rather than lower vacancies.

Chart E.1: The vacancy rate is now broadly in line with its historical relationship with the unemployment rate

Job vacancy and unemployment rates (a)



Sources: ONS and Bank calculations.

(a) The latest data are for the three months to August 2025 and denoted by the light aqua diamond. The unemployment rate is based on the ONS code MGSX and the vacancy rate measures job vacancies as a share of the active labour force. The dashed line is a simple exponential trend based on the 2001−19 data.

To what extent will further falls in labour demand lead to higher unemployment?

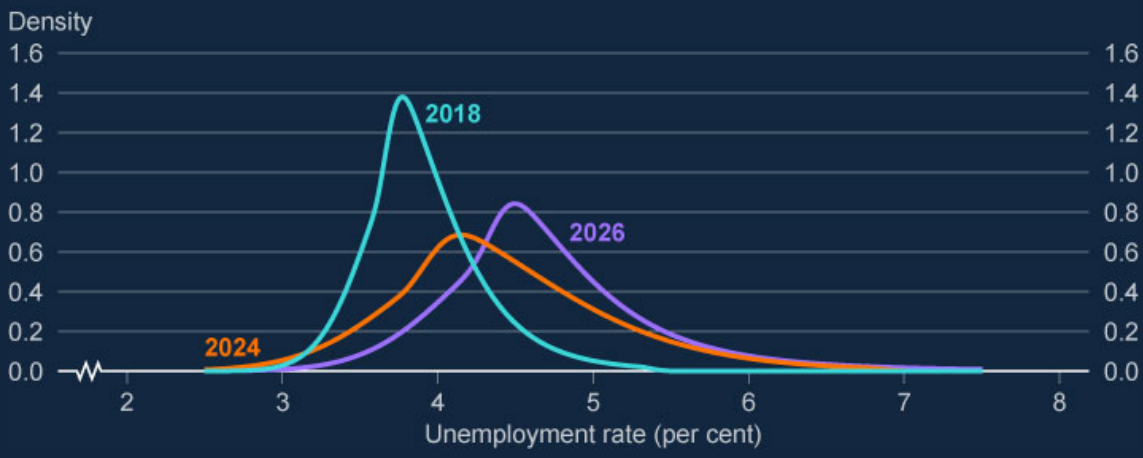
A vector autoregression model estimated by Bank staff, which augments typical leading indicators of unemployment with labour market flows data, suggests that, in the absence of additional shocks, the unemployment rate could rise to around 5½% in 2026. **Barnichon and Garda (2015)** show that incorporating flows data improves forecast performance, particularly during recessions and turning points.

A separate quantile regression approach, which models the risk of unemployment changes by estimating the relationship between a range of indicators and the full distribution of unemployment outcomes, continues to suggest that the distribution of risks to the near-term outlook for unemployment is to the upside, despite recent increases in the unemployment rate (Chart E.2). This model, adapted from **Kiley**

(2022), is informed by variables such as inflation, credit conditions, the level of unemployment and the V/U ratio in the medium term, recognising that, historically, these variables have been significant predictors of future unemployment changes.

Chart E.2: A quantile regression model suggests that the distribution of risks to the outlook for the unemployment rate remains to the upside

Fitted skew t-distribution (a)



Sources: ONS and Bank calculations.

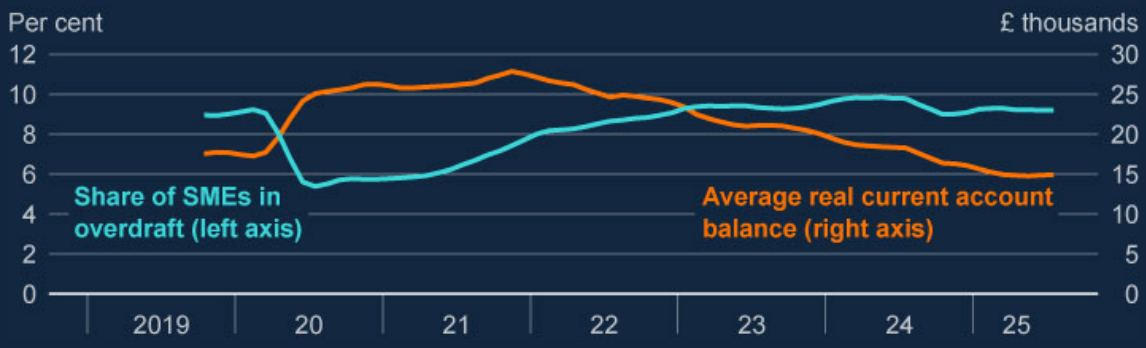
(a) This chart plots the out-of-sample skew t-distributions fitted to quantile-regression estimates based on Kiley (2022). This quantile regression approach models the relationship between a range of indicators and quantiles of unemployment outcomes. It takes a signal from inflation, credit conditions, the level of unemployment and the V/U ratio in the medium term. The latest data are a one-year out-of-sample forecast which has been smoothed over the calendar year 2026. The 2018 and 2024 lines are also one year ahead out-of-sample forecasts.

Weaker SME cash-flow positions may also mean that firms' employment decisions become more sensitive to changes in consumer demand, increasing the risk of a sharper rise in unemployment, especially if demand remains weak. SME cash-flow positions, measured by SME real current account balances and the proportion of SMEs using their overdraft facilities, were particularly robust during the substantial increases in costs in 2021 and 2022 (Chart E.3), which helped firms to absorb cost increases over that period. The proportion of SMEs in overdraft has broadly eased back to pre-pandemic levels since then and average real current account balances are a little below pre-pandemic levels. Weaker cash-flow positions than in recent years may mean that firms are less able to hold on to workers in the face of continued near-term demand weakness (Section 1.2), raising the risk of a greater increase in unemployment and a rise in labour market slack.

Furthermore, the marginal cost of employing workers has increased. Real private sector wages have risen by around 7% since the pandemic, while private sector productivity has been broadly flat. Higher employer NICs and the NLW have also raised the cost of employing workers. If demand conditions prove to be weaker than firms expect, they may start to reassess headcount levels in light of those increases in labour costs. As long as that reassessment is not permanent, that could result in a further widening in labour market slack.

Chart E.3: SME cash-flow positions are broadly back at pre-pandemic levels following a period of strength

Average real SME current account balances and share of SMEs in overdraft (a)



Sources: Experian and Bank calculations.

(a) The latest data are for July 2025. The data are three-month rolling averages and are not seasonally adjusted.

Box F: Structural changes in the labour market

There have been significant structural developments in the labour market since the pandemic, including a fall in labour force participation (**Bailey (2025)** and **Greene (2025)**) and a rise in the non-accelerating inflation rate of unemployment (NAIRU) (**Pill (2025)**). Analysis suggests that negative labour supply shocks tend to have persistent inflationary impacts, so past developments may still be adding to pressures in wage and price inflation. The recent recovery in participation and stability in most indicators of the NAIRU could suggest that those pressures will fade. But post-pandemic weakness in participation has persisted in certain groups and there are large uncertainties around the outlook for both participation and the NAIRU. As such, it is possible that structural changes in the labour market will continue to push up on wage and price inflation.

How do changes in labour supply impact wage growth and inflation?

Uncertainty around the trends in labour supply has risen over recent years, following a series of large shocks to the UK economy (**Pill (2025)**). This box discusses two key elements of labour supply: the labour force participation rate, the proportion of the working age population that are either employed or are actively looking for employment; and the NAIRU, the medium-term equilibrium unemployment rate.

Changes in labour supply can have persistent effects on wage growth and inflation. A fall in participation or a rise in the NAIRU, all else equal, tends to result in greater wage pressures, as a smaller number of available workers leads to greater wage bargaining power. Given that wages make up a large share of costs for firms, particularly those in the services sector, elevated wage growth can be passed on to consumers through higher prices. Inflationary pressures could then rise further if workers seek additional wage increases to restore their real incomes. Bank staff analysis, which estimates the responses of wage growth and inflation to different types of supply shock (**Bobeica et al (2019)** and **Foroni et al (2018)**), suggests that negative labour supply shocks tend to have the most persistent impacts on inflation (**Greene (2025)**). This may imply that slack is required to squeeze out inflationary pressures resulting from structural changes in the labour market.

How has labour force participation evolved since the pandemic and how might it change from here?

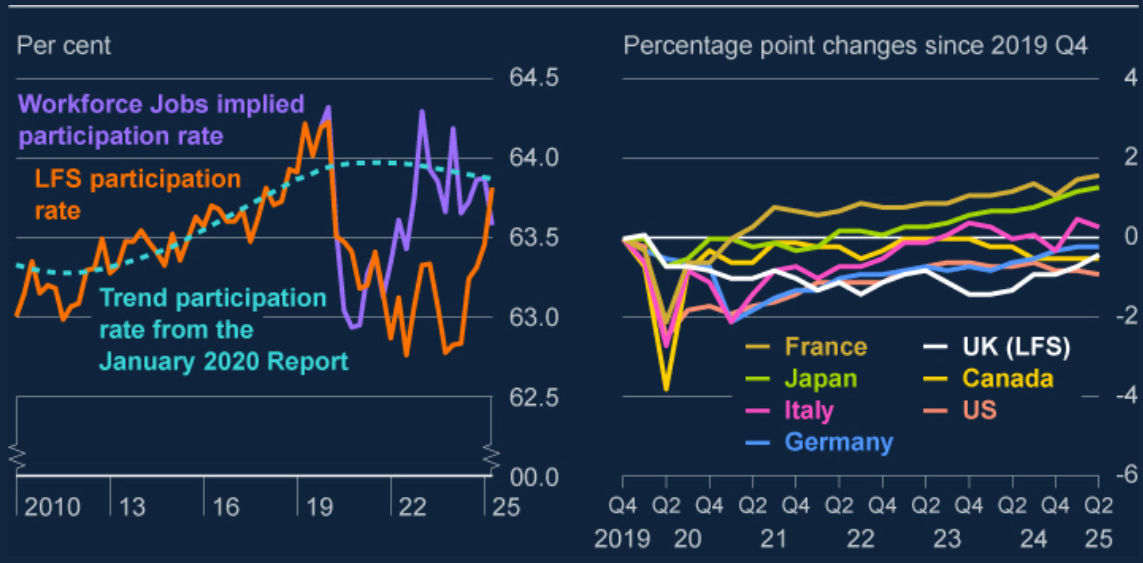
The labour force participation rate fell sharply in the period after the pandemic (Chart F.1, left panel). That followed a strong pickup over 2010–19, partly supported by increases to the state pension age. A key driver of lower participation after the pandemic was a significant increase in long-term sickness among the working age population. **A rise in adults taking early retirement** also weighed on participation over this period, albeit to a lesser extent.

LFS data point towards a recent recovery in the participation rate, to a little below its 2019 level (Chart F.1, left panel). But Bank staff judge that the recent path of the LFS participation rate should be treated with caution, given that it may reflect both genuine labour market developments and continuing challenges associated with LFS data (Box D of the **May 2024 Monetary Policy Report**). Other data sources, such as Workforce Jobs, point towards a much earlier recovery, which could suggest that inflationary pressures from past falls in participation have already eased.

The current participation rate is now broadly in line with the MPC's pre-pandemic projections, which included an expected drag from demographic trends. And while the timing of the recovery is uncertain, the implied participation rate from Workforce Jobs data is close to the current LFS participation rate (Chart F.1, left panel). The extent of the recovery in UK participation now appears to be broadly in line with that of other advanced economies (Chart F.1, right panel), with LFS data having previously suggested a much weaker picture (**Bailey (2025)**).

Chart F.1: The official participation rate has recovered to close to its pre-pandemic level, in line with the experience of several other advanced economies

LFS and Workforce Jobs implied participation rates (a) and changes in the aggregate participation rates in G7 countries (b)



Sources: OECD, ONS, Workforce Jobs and Bank calculations.

(a) The Workforce Jobs implied participation rate is estimated by applying growth rates from Workforce Jobs to the LFS level of employment from 2020 Q1 onwards. This is then combined with LFS unemployment estimates and overall population totals to derive an implied participation rate. The trend participation rate from the January 2020 Report (aqua line) is the projection for trend participation from the **January 2020 Monetary Policy Report**, extrapolated beyond the MPC's three-year forecast period. All participation rates shown are for those aged 16 and over. The final data points are for 2025 Q2.
(b) For comparability, the data for all countries show changes in participation rates for those aged 15 and over. The final data points are for 2025 Q2.

While the participation rate is judged to have recovered to around its pre-pandemic level, the underlying drivers of changes in participation have shifted. An increase in the average age of the UK native population has continued to weigh on the participation rate since the pandemic (orange bars in Chart F.2, left panel). But strong migration over recent years has partly offset this impact, since the average age of new migrants is younger than that of the overall population.

The biggest driver of the recovery in the participation rate since 2022 has been increased participation of workers aged 50 and over (Chart F.2, right panel). That may partly reflect **strong uptake in remote working**, particularly in older workers, and a reversal of the post-pandemic increase in early retirement.

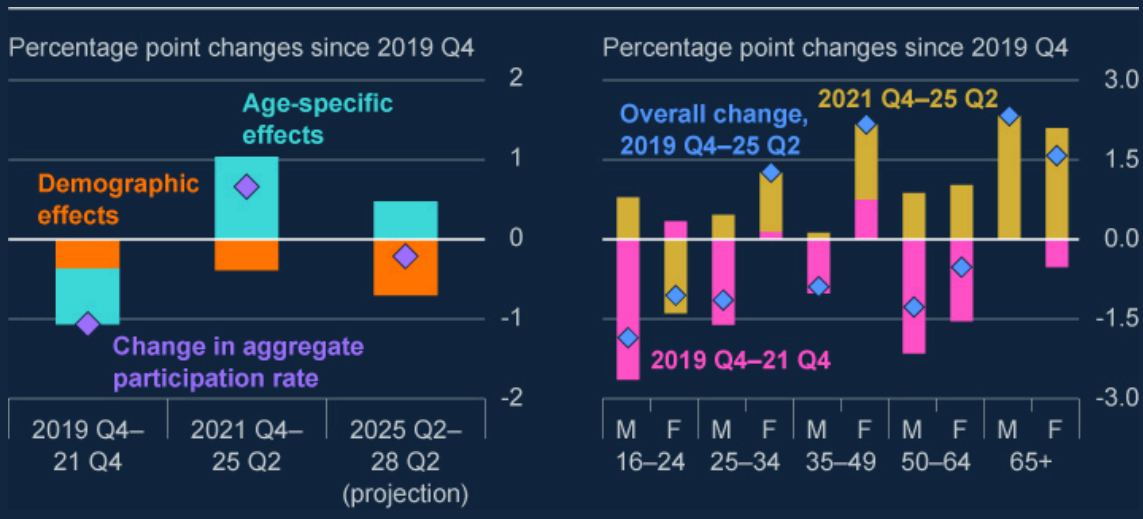
Post-pandemic weakness in participation has persisted in certain groups, however. Long-term sickness continues to weigh significantly on male participation, consistent with Bank staff analysis indicating a stronger relationship between health and participation for men than women. And the recovery in participation rates for those aged 16–24 has been much weaker than for other age groups (Chart F.2, right panel). That could also reflect the continued impact of ill health, although a cyclical reduction in demand for workers with less experience may also be playing a role.

Bank staff expect the participation rate to remain broadly flat over coming years (Chart F.2, left panel). The impact of population ageing, in line with the latest ONS migrant-variant population projections, is projected to drag on the aggregate participation rate. But that is expected to be mostly offset by continued improvements in age-specific participation rates.

There are two-sided risks around the outlook for participation. Declining long-term sickness rates could support a pickup in participation over coming years. But rates of remote working have started to fall back, which could act in the opposite direction. And participation rates for younger workers may remain weak, continuing the trend over recent years.

Chart F.2: Increases in participation among women and older workers have contributed towards the recovery in the aggregate participation rate

Estimated drivers of changes in the aggregate participation rate (a) and changes in participation rates across age and gender groups (b)



Sources: ONS and Bank calculations.

(a) Demographic effects (orange bars) reflect the impact of shifts in the age composition of the overall population on the proportion of the population that are of a working age. Age-specific and demographic effects include the combined impacts of changes in LFS participation resulting from new migration and trends in the native population.
(b) The changes in each age-gender group include both the native and new migrant populations. Males and females are represented by M and F, respectively, for each age group. The data are from the LFS.

Have structural changes led to an increase in the NAIRU since the pandemic?

The NAIRU is the medium-term unemployment rate consistent with stable inflation. It is a key element of labour supply, but it is unobservable and hence needs to be estimated. The NAIRU is anchored around the long-run natural rate of unemployment and deviates from this level due to cyclical factors, such as hysteresis effects, whereby prolonged periods of unemployment can lead to longer-term scarring, for example from a loss of skills. Bank staff use a range of models to identify trends in the NAIRU. Those include Kalman filter-based models that estimate the NAIRU from the Phillips curve (**Gordon (2013)**, **Laubach (2001)** and **Bok et al (2023)**), and a Bayesian filter model that also incorporates broader labour market information to infer signals about the NAIRU from flows in and out of unemployment (**Crump et al (2024)**).

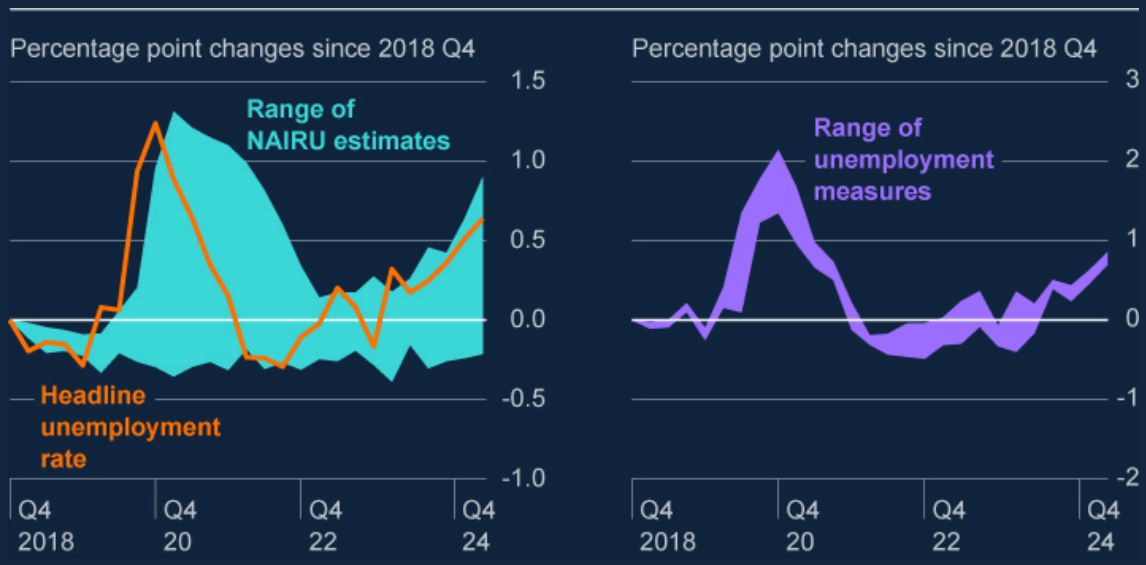
Estimates from the range of models monitored by Bank staff suggest that the NAIRU may have risen after the pandemic. Some of that will have reflected the simultaneous rise in unemployment (Chart F.3, left panel). But reductions in the efficiency with which

the unemployed are matched with vacancies may also have contributed to the rise in the NAIRU over 2021–22. That could be consistent with some evidence indicating a pickup in job switching across industries after the pandemic. Other structural changes in price and wage setting behaviour may also have pushed up the NAIRU by causing greater real wage resistance (**Pill (2025)**).

More recently, while most indicators have been broadly stable, some model estimates are consistent with the NAIRU having picked up again (Chart F.3, left panel). That could be linked to increases in employer NICs and the NLW. These changes are likely to have weighed on labour demand for a given labour supply, which may have led to a rise in the equilibrium unemployment rate.

Chart F.3: The NAIRU is estimated to have risen after the pandemic, while a broad range of unemployment measures have picked up over recent quarters

Changes in the headline unemployment rate and a range of measures of the NAIRU; (a) changes in a range of measures of unemployment (b)



Sources: ONS and Bank calculations.

(a) The aqua swathe shows the range of NAIRU estimates using price and wage variants of the models in **Gordon (2013)** and **Laubach (2001)**, together with estimates from the model in **Crump et al (2024)**. The final data points are for 2025 Q2.
(b) The purple swathe includes changes in four measures of unemployment: the headline unemployment rate; the rate of unemployed and discouraged workers; the rate of unemployed and marginally attached workers; and the rate of unemployed, marginally attached and involuntary part-time workers. The final data are for 2025 Q2.

Have structural changes in the labour market generated persistence in wage growth and inflation?

The fall in the participation rate and the rise in the NAIRU may have contributed to the tightness in the labour market over 2021–22, and hence the rise in wage growth and inflation over that period. Lower participation, for example, is likely to have been associated with a lower level of unemployment, all else equal, and consequently greater wage pressures facing firms. Given negative labour supply shocks tend to have particularly persistent inflationary impacts, these past changes may still be putting upward pressure on inflation.

However, the participation rate has now recovered, and most indicators suggest that the NAIRU has stabilised. A degree of slack is judged to have opened in the labour market as labour demand has weakened (Section 1.2). That assessment is robust to developments across a broad range of unemployment measures (Chart F.3, right panel). For example, the proportion of inactive workers that report that they would like a job has risen over recent quarters, alongside increases in the headline unemployment rate. Intelligence from the Bank's Agents points to a similar picture of emerging slack.

Nevertheless, there remain risks around the outlook for labour supply and subsequently for inflation. If labour participation falls back, or if the NAIRU has risen by more than expected, that could contribute to continued tightness in the labour market even as labour demand falls. Structural changes in the composition of participation over recent years could also have implications for trend productivity growth, to the extent that workers currently participating in the labour market are more, or less, productive than the average over the past.

3: Outlook and risks

3.1: Central projection

The central projection is based on a staff proposal, which the majority of the MPC agrees is a reasonable baseline. It provides an important input into the MPC's discussions and policy decision. This projection is, as always, uncertain. The key risks are set out in Section 3.2, with two specific scenarios in Section 3.3.

Conditioning assumptions

The November central projection, summarised in Table 3.A, is conditioned on a range of assumptions (detailed in the Report's **Projections Databank**). That includes a market-implied path for Bank Rate which falls to 3.5% by the second half of next year, before rising a little towards the end of the forecast period, and the Government's fiscal plans as set out in Spring Statement 2025.

Inflation

CPI inflation has risen over the past year, reaching 3.8% in September, and is projected to fall to close to 3% in coming quarters (Section 1.1). The fall is accounted for by a lower projected contribution of energy and food prices alongside an expected reduction in services inflation, as the effects of higher employer NICs and administered prices begin to fade and wage growth continues to ease. The central projection assumes the recent pickup in inflation will not lead to additional second-round effects on domestic inflationary pressures.

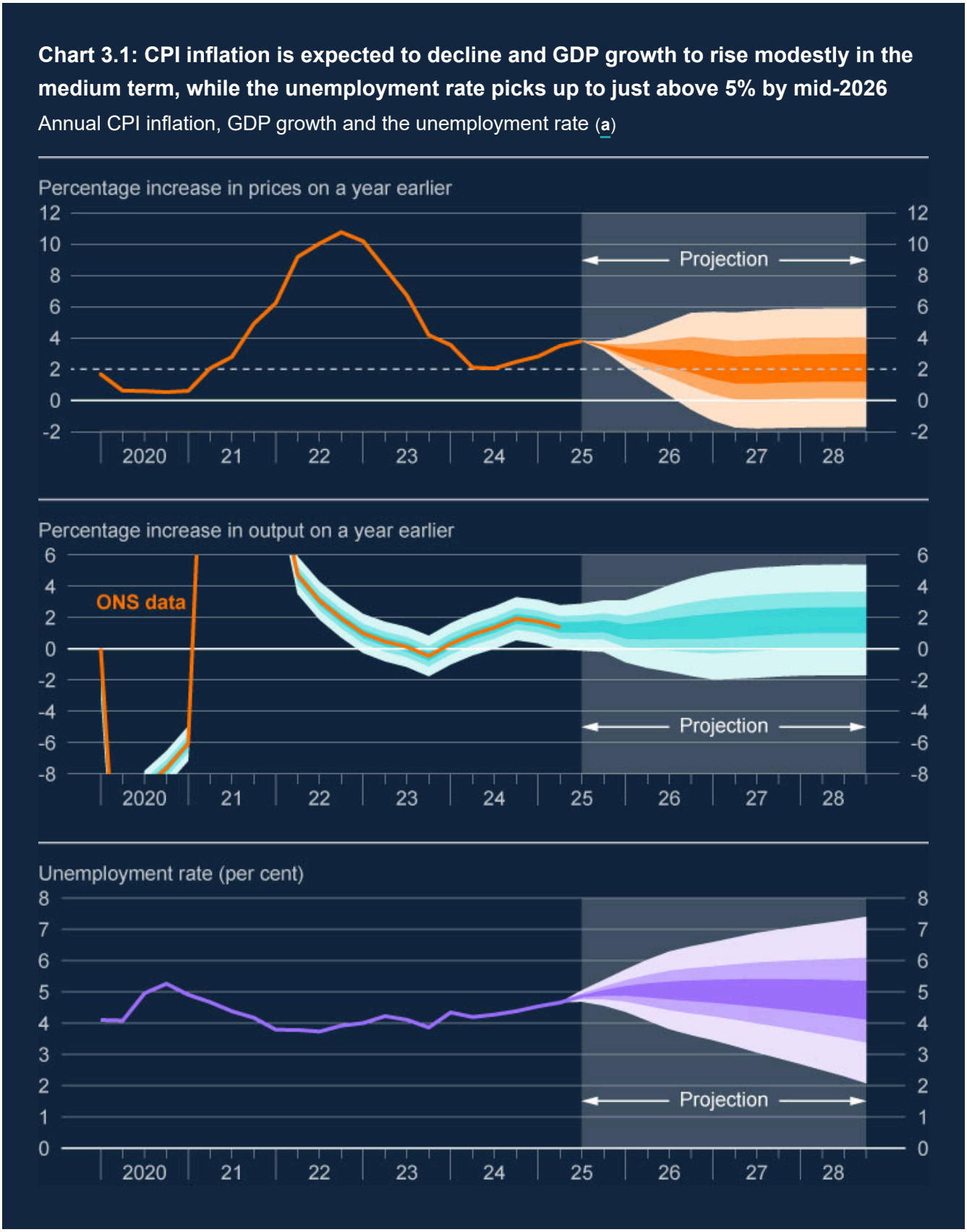
CPI inflation is projected to fall back further to around the 2% target in the medium term (Chart 3.1) as a margin of economic slack, partly reflecting the restrictive stance of monetary policy both now and in the past, pushes down inflation. The margin of slack acts against some continuing second-round effects in domestic prices and wages resulting from the 2022 peak in inflation. These second-round effects stop pushing inflation up by end-2027 as price and wage-setting normalises, but there are risks around that.

Annual growth in private sector regular AWE is expected to fall from 4.4% in the three months to August to 3.0% in 2027 Q2 where it broadly stays over the rest of the forecast period. The deceleration in wage growth occurs as looser labour market conditions restrain pay growth and as inflation expectations fall back alongside CPI inflation.

Higher global tariffs appear to have been only modestly disinflationary so far (Section 1.1), and their effects in the central projection are small.

Chart 3.1: CPI inflation is expected to decline and GDP growth to rise modestly in the medium term, while the unemployment rate picks up to just above 5% by mid-2026

Annual CPI inflation, GDP growth and the unemployment rate (a)



(a) The fan charts depict the probability of various outcomes for GDP growth, the International Labour Organization (ILO) definition of unemployment, and CPI inflation. The uncertainty parameters determining the width of the fan charts have been calibrated to match the historical forecast errors since 2004 and now up to 2025 Q2 for each variable at different horizons but exclude errors during the pandemic given its exceptional nature. The fan charts are constructed so that outturns are expected to lie within each pair of lighter areas on 30 occasions, with outturns expected to lie within the fan on 90 out of 100 occasions. On the remaining 10 out of 100 occasions, outturns can fall outside the respective aqua, orange or purple areas of the fan

chart, depicted by the grey background. For GDP growth, the distribution reflects uncertainty around past data revisions and future evolution, so that the mature estimate would lie within the darkest central band on only 30 out of 100 occasions. The Committee no longer uses the calibration of the fan chart skew to reflect judgements on the balance of risks to the central projection.

Activity

Four-quarter UK GDP growth is projected to fall a little in the near term, below its current level of 1.4%, before picking up (Chart 3.1). The pickup is driven by the lagged effect of recent interest rate cuts, the gradual loosening in monetary policy embodied in the market-implied path of interest rates, improvements in wider financial conditions, and higher global demand. Consumer spending, and an associated fall in the household saving ratio, more than accounts for the pickup in GDP growth.

As implied by the plans laid out in the Spring Statement 2025, the overall stance of fiscal policy continues to tighten. This weighs on GDP growth over the forecast period, particularly over the next year.

Although the global economy has so far been a little more resilient to trade developments than previously expected (Section 1.3), higher global tariffs and trade policy uncertainty are projected to weigh slightly on the level of global activity, resulting in lower growth over the coming year. Four-quarter UK-weighted world GDP growth declines from over 2% to 1.6% in early 2026, before picking up. The expected slowing in global growth pushes down slightly on the level of UK GDP.

A margin of spare capacity is judged to have opened up in the UK economy (Section 1.2). This is projected to widen a little further over the next year, as GDP growth is below estimated potential supply growth of around 1.4% a year, before starting to narrow. The margin of spare capacity is eroded fully by the end of the forecast period.

The labour market is continuing to loosen gradually, as subdued growth in output feeds through to labour demand. The unemployment rate is projected to peak at just over 5% in 2026 Q2. It is then projected to fall back over the second half of the forecast period, bringing it broadly in line with its estimated medium-term equilibrium rate of around 4¾%.

Comparison to the August 2025 central projection

The November projections are conditioned on a path for Bank Rate that is similar on average to August (Chart 1.12).

The central projections are little changed from August. CPI inflation is marginally lower in the near term reflecting lower-than-expected data outturns, while the projection in the medium term is little changed. There is a slightly higher projection for unemployment, which

contributes to a wider margin of spare capacity than in August.

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

(a) Figures in parentheses show the corresponding projections in the August 2025 Monetary Policy Report.
(b) The numbers shown in this table are conditioned on the assumptions described in the Report's **Projections Databank**.
(c) Four-quarter growth in real GDP.
(d) Four-quarter inflation rate.
(e) ILO definition of unemployment. Although LFS unemployment data have been reinstated by the ONS, they are badged as official statistics in development and the LFS continues to suffer from very low response rates, which can introduce volatility and potentially non-response bias (Box D of the **May 2024 Monetary Policy Report**).
(f) Per cent of potential GDP. A negative figure implies output is below potential and a positive that it is above.
(g) Per cent. The path for Bank Rate implied by forward market interest rates. The curves are based on OIS rates.

3.2: Risks

Monetary policy makers take into account a range of risks and uncertainties about the economic outlook when setting policy (**Dhami et al (2025)** and **Haberis et al (2025)**). The risks that have been most relevant to the MPC's recent policy discussions are set out here.

Risks from inflation expectations

Several pieces of analysis summarised in this Report suggest that elevated inflation expectations pose a risk of greater inflation persistence than in the central projection (Section 3.1). A non-linear time series model finds that when inflation is above 3%–4%, it responds more strongly and persistently to economic shocks than when it is lower, driven by a stronger response of household inflation expectations to inflation (Box C). A machine learning approach indicates that household inflation expectations have made upward contributions to inflation in 2025 (Box B), although the loosening in the labour market may reduce the extent to which elevated household inflation expectations translate into higher wage growth going forward. Responses to the DMP Survey suggest that firms' price-setting has become more sensitive to their own price expectations, which in turn have become more sensitive to news in inflation outturns.

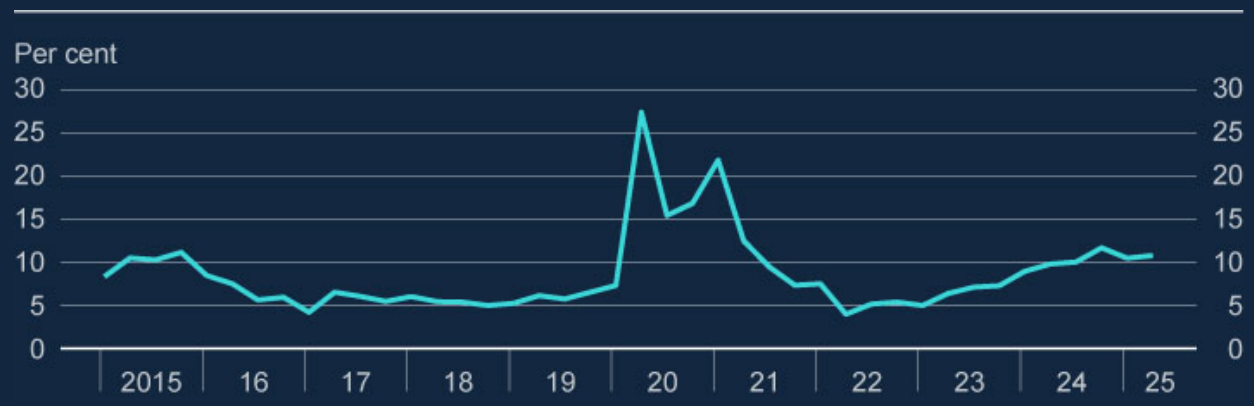
Section 3.3 sets out a scenario in which persistently elevated inflation expectations affect wage and price-setting. This poses a risk to inflation that would be likely to require tighter monetary policy than otherwise.

Risks from consumption and labour demand

Some features of recent economic data indicate risks to demand. The household saving rate, which has picked up over the past few years (Chart 3.2), remains elevated. The pickup in consumption in the central projection remains dependent on a sustained fall in the household saving ratio. But there remains considerable uncertainty over this projection.

Chart 3.2: The household saving ratio has risen in recent years

Household saving ratio (a)



Sources: ONS and Bank calculations.

(a) The ratio is calculated as saving as a percentage of total available household resources. The ONS series is NRJS. The final data point shown is for 2025 Q2.

Various pieces of evidence suggest that the weakness in consumption could continue over coming years. Households may want to continue to rebuild wealth, which has fallen in real terms in recent years (Box D). The experience of the cost-of-living crisis may have persistently increased households' desire to hold precautionary savings, which could be reinforced if households become more concerned about their employment prospects. And unemployment could rise by more than expected in response to lower demand (Box E).

Some of these risks are captured in the lower demand scenario set out in Section 3.3. The scenario explores the possibility that there has been a persistent shift in household behaviour to save more. This poses a risk to inflation which would be likely to require looser monetary policy than otherwise.

Risks surrounding structural shifts in supply capacity

There remains uncertainty around estimates of the current degree of slack in the economy. Models that put weight on recent price changes suggest that the economy currently has a margin of excess demand, whereas models based on developments in the labour market and in capacity utilisation suggest a margin of excess supply (Chart 3.3). If there is less slack than captured in the central projection, this could compound risks of inflation persistence.

Chart 3.3: There is uncertainty around the level of the output gap

Model-based estimates of the output gap (a)

Sources: Bank of England Agents, BCC, CBI, HMRC, KPMG/REC UK Report on Jobs, ONS, S&P Global and Bank calculations.

(a) The model is estimated over 2000–25 Q3 using the two-step estimator from **Doz et al (2011)**, obtained from running the data through a Kalman filter and smoother once. The first factor of the dynamic factor model is interpreted as a measure of slack. The factor is then mean-variance adjusted to the MPC's central output gap estimate over 2000–25 Q3. The labour market block is estimated using survey indicators of slack and the vacancy gap. The capacity utilisation block includes a range of surveys of capacity utilisation. The nominal block contains measures of pay and underlying inflation. The data are shown to 2025 Q3.

Uncertainty about slack also reflects risks related to labour market participation. The labour force participation rate has recovered, but recent data have to be treated with caution given continuing challenges associated with the LFS. And there is a risk that participation could fall again. Rates of remote working appear to have peaked, which could weigh on participation particularly among older workers, and participation rates of younger workers could remain weak (Box F).

Uncertainty about the NAIRU, the medium-term unemployment rate consistent with stable inflation, also contributes to uncertainty about slack. The NAIRU is estimated to have risen after the Covid pandemic. This could reflect lasting changes in wage and price-setting behaviour, resulting in increased real income resistance, following the major supply shocks

experienced over recent years. Some models suggest that the NAIRU may have picked up further over recent quarters, which could be linked to increases in employer NICs and the NLW (Box F).

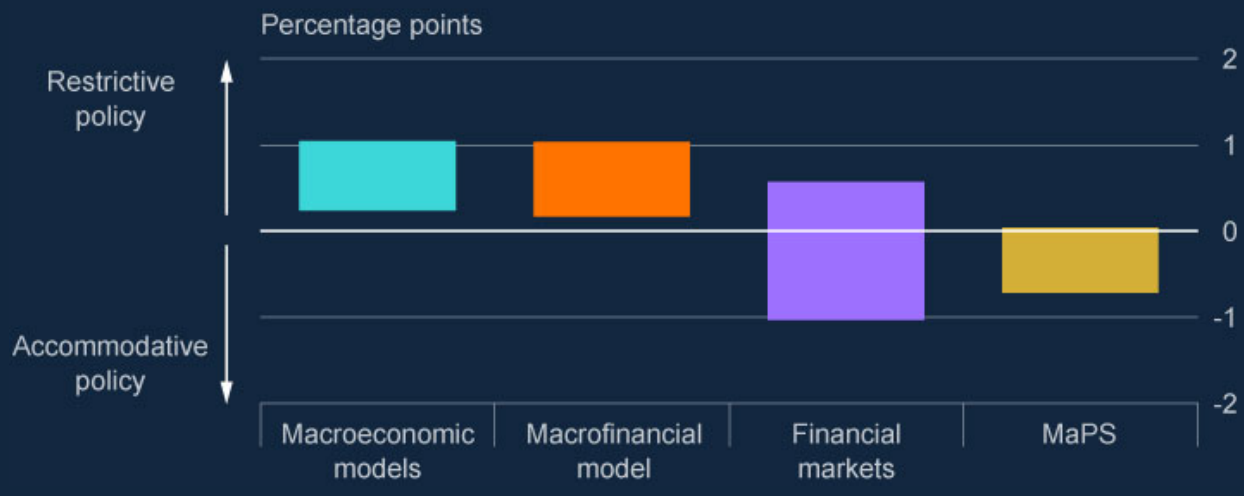
If labour market participation falls back, or if the NAIRU has risen by more than assumed in the central projection, the labour market could remain tighter even as labour demand falls. Negative labour supply shocks tend to have persistent impacts on inflation, and hence monetary policy may need to generate a degree of slack to squeeze out inflationary pressures resulting from structural changes in the labour market.

Risks around the restrictiveness of the monetary policy stance

The MPC uses a range of measures to assess the restrictiveness of monetary policy (Box A in the **August 2025 Monetary Policy Report**.) The degree of restrictiveness has fallen since its peak in early 2024, but recent evidence on balance suggests that the current monetary policy stance remains restrictive. However, there is significant uncertainty, and some models now suggest that the policy stance may have become neutral or slightly accommodative (Chart 3.4). All else equal, a less restrictive stance would imply that slack does not increase as much, which could allow domestic inflationary pressures to persist for longer.

Chart 3.4: There is uncertainty about the degree of monetary policy restrictiveness

Average real-rate gaps in November 2025 (a)



Sources: Bank of England, Bank of England/Ipsos Inflation Attitudes Survey, Bank of England Market Participants Survey (MaPS), Bloomberg Finance L.P., Consensus Economics, **Davis et al (2024)**, ONS, TradeWeb FTSE Gilt Closing Data and Bank calculations.

(a) All measures of the real-rate gap presented in this chart show the implied degree of monetary policy restrictiveness over a three-year horizon. The macroeconomic models range is produced using estimates from a dynamic semi-structural IS curve model and one of the main models underlying the central projection in this Report (**Albuquerque et al (2025)**). The macrofinancial model range is estimated using the state-space model from **Davis et al (2024)**, with a 95% confidence interval applied around the central estimates of r*. The financial market range uses estimates of the nominal neutral rate derived from three term premia models: the benchmark models in **Malik and Meldrum (2016)**, **Vlieghe (2016)** and **Meldrum and Roberts-Sklar (2015)**. The ranges for the MaPS show the 10th–90th percentile of perceptions of the average implied real-rate gaps over a three-year horizon. For more detail on the approach, refer to Box A in the **August 2025 Monetary Policy Report**.

Global risks

The UK is an open economy that is often heavily affected by global shocks. A key global development this year has been the US government announcing a range of new tariffs. Early evidence suggests that these are having a relatively limited effect on global growth and a slightly disinflationary impact on the UK, driven mainly by trade diversion (Section 1.1). But it is too early to judge whether this reflects diminished or merely delayed effects of trade policy changes. Front-loading is likely to have boosted US imports in recent months, but this should fade if tariffs remain in place. Strong investment in artificial intelligence-related goods and services, particularly in the US, may also have supported recent global activity and masked an underlying drag from trade policy.

The geopolitical environment remains volatile, and future shocks could plausibly push up or down on UK inflation. Geopolitical tensions could result in new commodity price spikes or supply chain disruptions, which may require a relatively forceful monetary policy response in the context of still elevated domestic inflationary pressures. Meanwhile, global sovereign yield curves have steepened this year, with concerns over fiscal sustainability pushing up the compensation investors require to hold longer maturity bonds. Market concerns about sovereign debt in some countries could intensify further and lead governments to implement fiscal consolidation measures, which could weigh on global demand.

The economic impacts of any future shocks could be amplified by limited fiscal space in many countries, as well as by a possible correction in risky asset prices. Equity valuations appear to be stretched in an historical context, particularly for technology companies focused on artificial intelligence, leaving equity markets exposed to a correction should expectations around the impact of AI become less optimistic (**October 2025 Financial Policy Committee Record**). A resulting reduction in global demand could reduce inflationary pressures in the UK.

3.3: Scenarios

To explore some of the risks around the economic outlook in more depth, this section sets out two alternative scenarios informed by the analysis in the Report. These scenarios are designed to provide an illustrative quantification of how alternative economic mechanisms could result in plausible different paths for the UK economy. They are neither all-encompassing nor mutually exclusive. The scenarios were not chosen based on their perceived likelihood but for their relevance to current policy discussions, although their role in individual MPC members' policy judgements will differ as set out in the MPC's **November minutes**.

> **Several mechanisms could lead to higher inflation persistence. The inflation persistence scenario set out in the Report explores how past inflation outturns could continue to affect wage and price-setting in the medium term.**

In the central projection, second-round effects in wage and price-setting are judged to dissipate over the first half of the forecast period. But there are several mechanisms that could generate additional inflation and wage persistence, including possible structural changes to price-setting and the wage bargaining process. The mechanism explored in this scenario builds on the observation that the large inflationary shocks in recent years have resulted in some movement of households', and to a lesser extent firms', longer-term inflation expectations. It could take some time for these expectations to normalise, and they could generate additional inflation persistence beyond the first half of the forecast period.

For a higher inflation persistence scenario, Bank staff have adjusted **COMPASS**, a macroeconomic model used as a key input to produce the central projection, to allow past outturns of inflation to influence temporarily households' and firms' inflation expectations. These expectations then feed into price and wage-setting through the domestic price and wage Phillips curves in the model. This adjustment process was informed by a range of inflation expectations measures and their relationship with trend inflation. The mechanism allows households' and firms' experience of inflation over the past few years to affect their current and future wage and price-setting behaviour. This allows for more persistent medium-term impacts of inflation expectations on inflation dynamics than the second-round effects scenario in the **May 2025 Monetary Policy Report**.

In this scenario, the disinflation process is materially slower than in the central projection. Should the economic mechanisms explored in this scenario unfold, a greater margin of slack would be required to ensure that inflation returns to the 2% target in the medium term. This would need to be achieved by a tighter monetary policy stance.

The weight a policymaker might place on this scenario is likely to interact with judgements about the outlook for the labour market – a loosening in the labour market may reduce the influence of households in the wage bargaining process for example – as well as potential structural changes to the wage bargaining process explored in Section 3.2.

> **In a weaker demand scenario, domestic inflationary pressures fade more quickly than in the central projection, driven by more persistent consumption weakness.**

In the central projection, household consumption picks up and the saving ratio falls back. But several mechanisms could give rise to a weaker path for consumption. Households may want to save more to rebuild wealth, or because of higher expected uncertainty about future income. Savings intentions could also increase if households become concerned about their employment prospects as the labour market weakens. And there may have been a persistent increase in household risk aversion, leading them to save more for precautionary reasons.

The weaker demand scenario in this Report explores the latter mechanism. Recent experiences of large adverse macroeconomic shocks to real incomes and wealth could have persistently raised households' risk aversion, resulting in a desire to build up greater precautionary savings. This would be in line with several studies which find that consumption and saving behaviour can be shaped by households' prior lifetime experiences (**Aizenman and Noy (2015)**, **Guiso et al (2018)**, **Malmendier and Shen (2024)**). The scenario explores the possibility that some of the strength in savings in recent years was driven by higher household risk aversion, rather than by other demand shocks or the impact of higher interest rates. And because higher risk aversion is assumed to persist, consumption remains weaker than in the central projection even as interest rates are reduced.

Bank staff have used a Heterogeneous Agent New Keynesian (HANK) model calibrated to the UK economy to run the scenario simulations. This model explores households' consumption and savings decisions in detail by allowing for household-specific income shocks, borrowing constraints and housing choices. For this scenario, household risk aversion is assumed to be higher to an extent that can account for around one third of the rise in the household saving ratio since 2022. This requires an increase in the risk aversion parameter that nevertheless remains well within the range of standard values in the literature. As higher risk aversion persists, the saving ratio in this scenario remains broadly flat over the forecast period, rather than declining as in the central projection.

Consumption growth in this scenario is materially weaker than in the central projection. Firms' labour demand declines in response to households' reduced desire to consume, leading to a fall in real wages and therefore firms' production costs. This in turn reduces domestic inflationary pressures. The disinflationary effects of greater slack in this scenario are amplified by the fact that households' desire to save more also increases their labour supply, which puts additional downward pressure on wages. Overall, the output gap widens and inflationary pressures fade more quickly than in the central projection, requiring a looser monetary policy stance all else equal.

> **Monetary policy would be required to respond if either scenario were to materialise, to ensure that inflation returns to the 2% target in the medium term.**

In the construction of these scenarios, Bank Rate follows a path implied by a set of mechanical policy rules (detailed in **Annex 1**). Rules-based simulations of policy rates are not a prescription for how policy would evolve were a particular scenario to unfold, but they can provide a useful benchmark against which to assess how monetary policy might change in that scenario relative to the central projection. To enable that comparison, the central projection is shown under comparable mechanical policy rules.

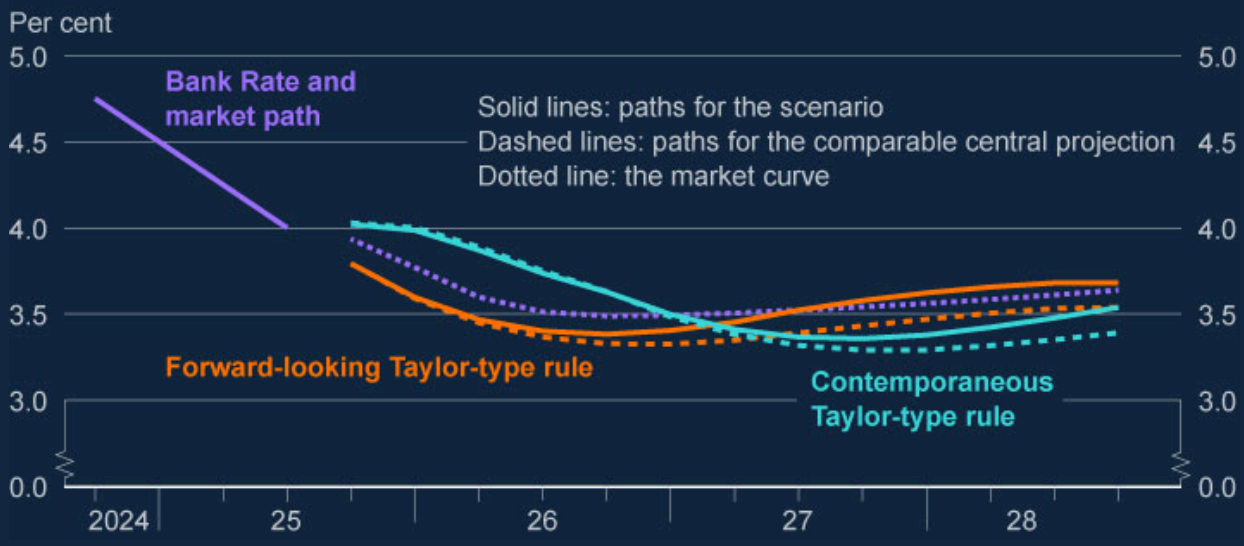
Charts 3.5 to 3.8 below show Bank Rate, CPI inflation and the output gap under two rules, for each scenario and the central projection. Both are Taylor-type rules, in which the interest rate is a function of the deviation of inflation from target and the deviation of output from potential. In the contemporaneous Taylor-type rule, policy responds to current inflation and the output gap, whereas in the forward-looking rule it responds to the expected values of these variables five quarters ahead. The forward-looking Taylor-type rule based on the central projection (the dashed orange line in Chart 3.5) delivers a path for Bank Rate that is slightly below the market curve (the dotted purple line in Chart 3.5). Across both scenarios and the central projection, the contemporaneous Taylor-type rule calls for higher Bank Rate than the market curve or the forward-looking Taylor-type rule in the near term, as it leans strongly against currently elevated inflation. But the contemporaneous rule then falls below the forward-looking rule in the medium term, such that the overall monetary policy stance implied by both rules is similar.

In the inflation persistence scenario, there is a trade-off between above-target inflation and a negative output gap. Based on the policy rule paths shown in Chart 3.5, Bank Rate is somewhat higher in this scenario than under the central projection by the end of the forecast period (the difference between the solid and dashed lines in the chart).

In contrast to the comparable central projections, where inflation returns to just above its 2% target under either rule, in this scenario inflation remains materially above target, at around 2.5%, in three years' time (Chart 3.6, left-hand panel). In reality, the Committee would need to consider pursuing a more forceful monetary policy response than suggested by either of these rules to prevent such an extended period of above-target inflation.

Chart 3.5: In an inflation persistence scenario, illustrative Taylor-type rules imply that policy would be somewhat tighter than under a comparable central projection

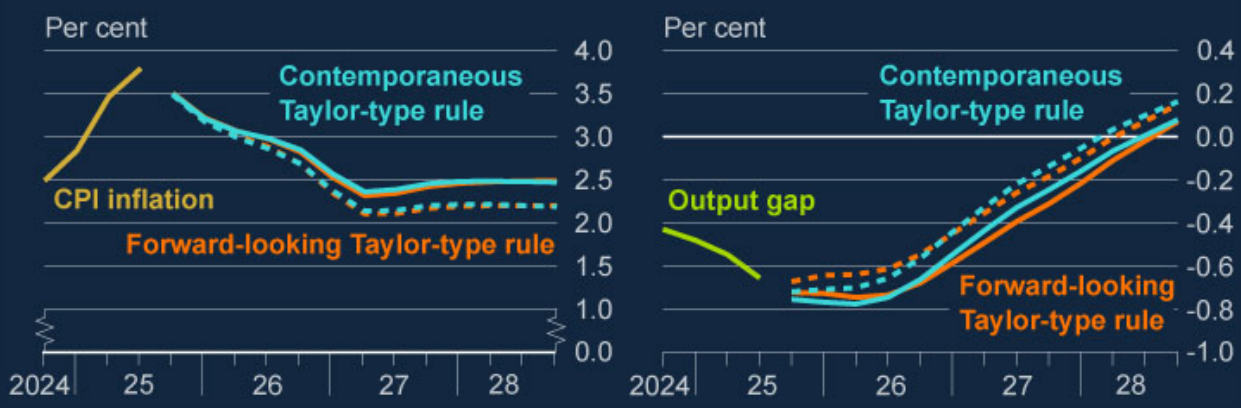
Evolution of Bank Rate in an inflation persistence scenario (a)



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

(a) To enable meaningful comparison between a scenario and the central projection, they need to be shown on a comparable basis. While the central projection is conditioned on the market path for interest rates, Charts 3.5 to 3.8 and Annex 1 show versions of the central projection conditioned on alternative paths for interest rates using several policy rules. These should not be interpreted as a prescription for how policy is likely to evolve.

Chart 3.6: CPI inflation and the output gap in an inflation persistence scenario (a)



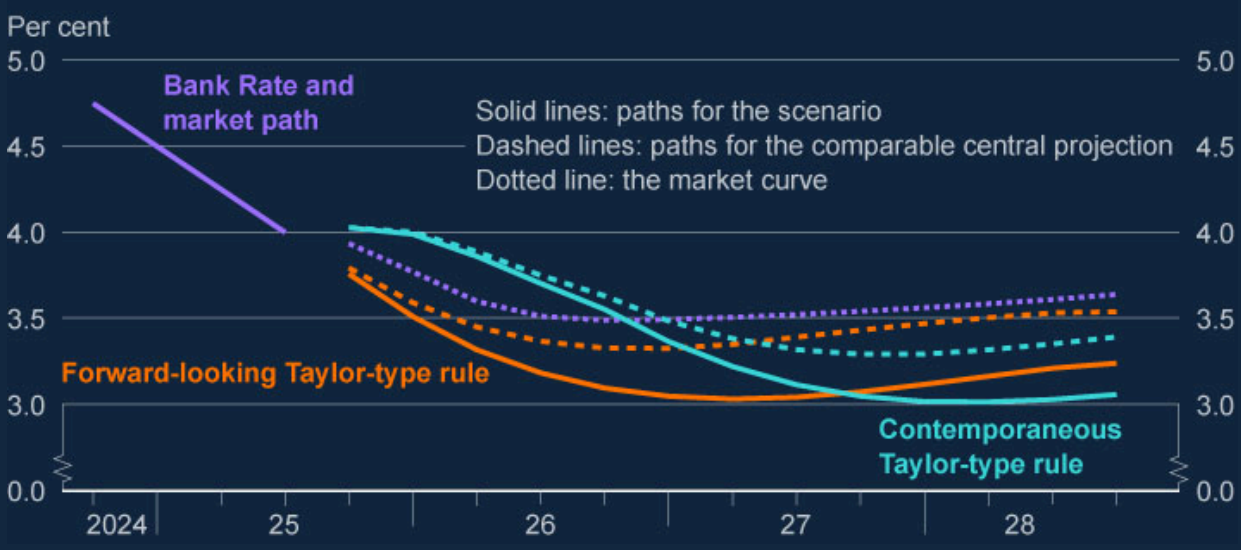
Sources: ONS and Bank calculations.

(a) Refer to Chart 3.5. Solid lines show paths for the scenario and dashed lines show paths for the central projection.

In the weaker demand scenario, based on the policy rules shown in Chart 3.7, Bank Rate is somewhat lower at the end of the forecast period than under the central projection (the difference between the solid and dashed lines in the chart). This lower path for Bank Rate would serve to support demand, although demand remains somewhat weaker overall than in the comparable central projection (Chart 3.8, right panel). Inflation is also lower in the medium term than in the comparable central projection (Chart 3.8, left panel). The forward-looking rule front-loads rate cuts in the early part of the forecast period, whereas the contemporaneous rule postpones them until the latter half.

Chart 3.7: In a weaker demand scenario, illustrative Taylor-type rules imply that policy would be materially looser than under a comparable central projection

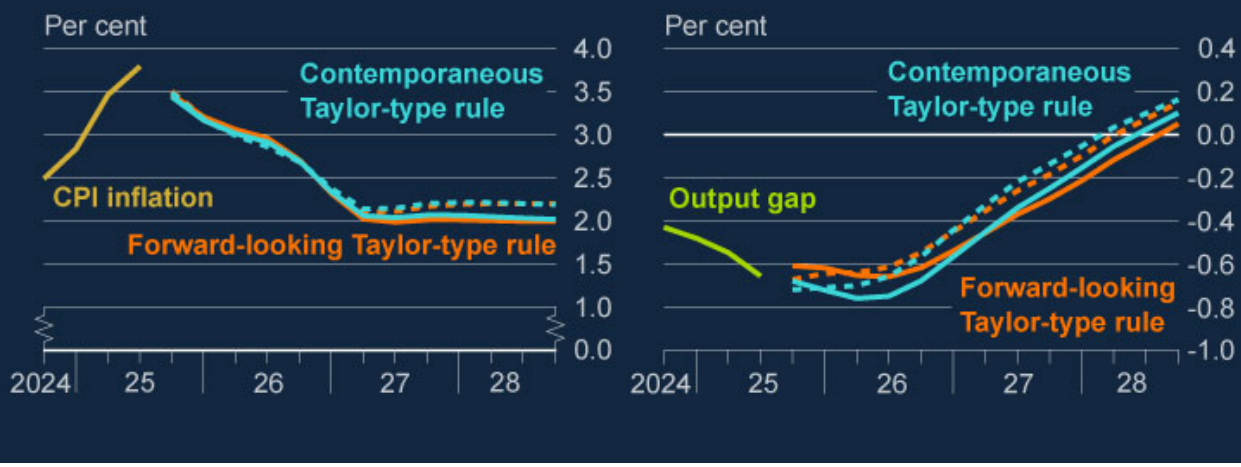
Evolution of Bank Rate in a weaker demand scenario (a)



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

(a) Refer to Chart 3.5.

Chart 3.8: CPI inflation and the output gap in a weaker demand scenario (a)



Sources: ONS and Bank calculations.

(a) Refer to Chart 3.5. Solid lines show paths for the scenario and dashed lines show paths for the central projection.

Annexes

Annex 1: Model-based policy simulations

Annex 1: Model-based policy simulations.

Annex 2: Monetary policy since the August 2025 Report

At its meeting ending on 17 September 2025, the MPC voted by a majority of 7–2 to maintain Bank Rate at 4%. Two members voted to reduce Bank Rate by 0.25 percentage points, to 3.75%. The Committee voted by a majority of 7–2 to reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £70 billion over the next 12 months, to a total of £488 billion.

There had been substantial disinflation over the past two and a half years, following previous external shocks, supported by the restrictive stance of monetary policy. That progress had allowed for reductions in Bank Rate over the past year. The Committee remained focused on squeezing out any existing or emerging persistent inflationary pressures, to return inflation sustainably to its 2% target in the medium term.

Underlying disinflation had generally continued, although with greater progress in easing wage pressures than prices. Twelve-month CPI inflation had been 3.8% in August, and had been expected to increase slightly in September, before falling towards the 2% target thereafter. The Committee remained alert to the risk that the temporary increase in inflation could put additional upward pressure on the wage and price-setting process. Pay growth remained elevated, but had fallen and was expected to slow significantly over the rest of the year. Services consumer price inflation had been broadly flat over recent months. Upside risks around medium-term inflationary pressures remained prominent in the Committee's assessment of the outlook.

Underlying UK GDP growth had remained subdued, consistent with a continued, gradual loosening in the labour market, as well as a margin of slack in the economy. Downside domestic and geopolitical risks around economic activity remained.

Glossary and other information

Glossary of selected data and instruments

ASBC – Agents' summary of business conditions.

AWE – average weekly earnings.

CCS – Credit Conditions Survey.

COMPASS – Central Organising Model for Projection Analysis and Scenario Simulation.

CPI – consumer prices index.

CPI inflation – inflation measured by the consumer prices index.

DMP – Decision Maker Panel.

GDP – gross domestic product.

GSCI – Goldman Sachs Commodity Index.

LFS – Labour Force Survey.

MaPS – Market Participants Survey.

OIS – overnight index swap.

RPI – retail prices index.

SET-BVAR – Bayesian vector autoregressive.

Abbreviations

AI – artificial intelligence.

BCC – British Chambers of Commerce.

CBI – Confederation of British Industry.

DGSE – dynamic stochastic general equilibrium.

ECB – European Central Bank.

EU – European Union.

FCA – Financial Conduct Authority.

FPC – Financial Policy Committee.

FTSE – Financial Times Stock Exchange.

G7 – Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

GfK – Gesellschaft für Konsumforschung, Great Britain Ltd.

HANK – Heterogeneous Agent New Keynesian.

HMRC – His Majesty's Revenue and Customs.

ILO – International Labour Organization.

LSEG – London Stock Exchange Group.

LTI – loan to income.

LTV – loan to value.

MIDAS – mixed-data sampling.

MPC – Monetary Policy Committee.

NAIRU – non-accelerating inflation rate of unemployment.

NICs – National Insurance contributions.

NLW – National Living Wage.

NPISH – non-profit institutions serving households.

OECD – Organisation for Economic Co-operation and Development.

Ofgem – Office of Gas and Electricity Markets.

ONS – Office for National Statistics.

OPP – optimal policy projection.

REC – Recruitment and Employment Confederation.

RPI – retail prices index.

RTI – Real-Time Information.

S&P – Standard & Poor’s.

SME – small and medium-sized enterprise.

V/U – vacancies to unemployment.

Symbols and conventions

Except where otherwise stated, the source of the data used in charts and tables is the Bank of England or the Office for National Statistics (ONS) and all data, apart from financial markets data and results from the Decision Maker Panel (DMP) Survey, are seasonally adjusted.

n.a. = not available.

Because of rounding, the sum of the separate items may sometimes differ from the total shown.

On the horizontal axes of graphs, larger ticks denote the first observation within the relevant period, eg data for the first quarter of the year.