Annex 2

Arlingclose’s Economic Outlook for the remainder of 2024/25 (based on 23 September 2024 interest rate forecast)

	Current	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.00	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Downside risk	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

Per Arlingclose expectations, the MPC held Bank Rate at 5.0% in September. This is in-line with their long-held view that Bank Rate will reduce gradually before a more rapid decline in 2025 as services inflation eases.

It is expected that the MPC will continue to cut rates to stimulate the UK economy but will initially be cautious given lingering domestic inflationary pressure. We expect to see another rate cut in 2024(Q4), but more significant monetary easing in 2025, with Bank Rate falling to a low of around 3%.

CPI inflation is expected to increase to around 2¾% in the second half of this year as declines in energy prices last year fall out of the annual comparison and revealing more clearly the prevailing persistence of domestic inflationary pressures. The Committee expects second-round effects in domestic prices and wages to take longer to unwind than they did to emerge. There is arrange of views on the MPC about the extent to which persistent pressures prove more enduring or continue to unwind as external cost pressures and inflation expectations normalise. 10

Long-term gilt yields have fallen alongside US monetary policy expectations. The central case is for yields to be volatile around a relatively narrow range, reflecting the likelihood for monetary policy loosening in the Eurozone, UK and US.

UK GDP growth has been relatively strong in H1 2024, although this partly reflects a rebound from the H2 2023 technical recession. Underlying growth is weaker, but risks around domestic demand lie to the upside due to recovering consumer demand (although the announcement of higher taxes in the upcoming Budget could damage confidence). Stronger economic activity amid a continued tight, albeit easing, labour market could leave wage growth and inflation persistently higher.

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