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ECONOMIC RESEARCH – SEPTEMBER 2025

INVESTMENT INSIGHT UK

- ✓ Leading indicators point to a divided economy
- ✓ The labor market appears to be easing
- ✓ Household confidence is eroding
- ✓ Inflation is not showing sufficient signs of slowing
- ✓ The BoE remains cautious but is reducing its QT program

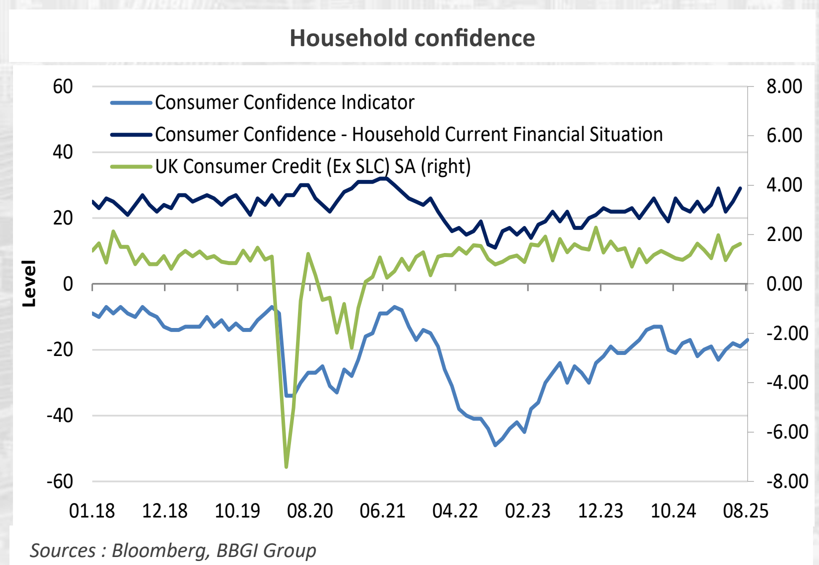
BRITISH BONDS AND REAL ESTATE ARE IN DEMAND

A sectoral divide in economic indicators

The latest purchasing managers' index (PMI) surveys for September continue to paint a picture of a divided economy. In contrast, the manufacturing sector remains mired in contraction, with its PMI at 47.0, its lowest level in several months. This pronounced sectoral divergence suggests an unbalanced and potentially unsustainable growth path, with the weakness of the manufacturing sector likely to weigh on employment and broader investment, acting as a crucial headwind for the economy.

Easing tensions in the labor market

The labor market, which has shown remarkable resilience, is beginning to show signs of easing, a process the Bank of England considers necessary to control inflation. The unemployment rate rose slightly to 4.7% for the three months ending in July 2025. At the same time, the number of job vacancies, although still high from a historical perspective, continues to decline, indicating easing market tension. Wage growth, a key indicator for the central bank, has also begun to moderate. Annual average wage growth (excluding bonuses) stood at +4.8% for the period from May to July, down from the peaks seen earlier in the year.



Sources : Bloomberg, BBGI Group

Eroding household confidence

Household confidence eroded in September, reflecting growing concerns about the cost of living and the economic future. The consumer confidence index fell to -19, remaining at the low levels recorded since the beginning of the year. This gloomy mood is already translating into greater caution in spending, with the latest retail sales figures for August showing stagnation. Households are facing a “scissor effect”: real wages are rising modestly on the one hand, while fixed costs, such as mortgages and energy, remain high. We believe this will weigh on private consumption and GDP prospects in the coming months.

Insufficient slowdown in inflation

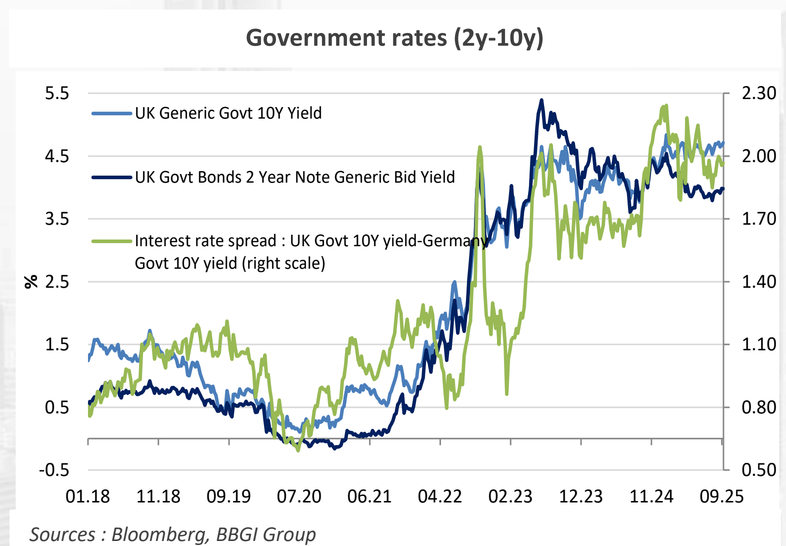
Inflation remains a thorn in the side of the British economy. The consumer price index (CPI) remained at +3.8% year-on-year in August 2025, stable compared to July and nearly double the Bank of England’s +2% target. While core inflation has fallen slightly to +3.6%, inflation in the services sector has only slowed marginally to +4.7%. This latter figure is directly fueled by wage growth and strong domestic demand, making it more persistent and difficult to curb. The path to the 2% target is still long and subject to upside risks.

The bank of England’s nuanced stance

Against this backdrop of stubbornly high inflation, the Bank of England’s Monetary Policy Committee (MPC) logically decided, by a 7-2 vote, to keep its key interest rate at 4.0% at its September meeting. The majority felt it was premature to lower its guard in an uncertain international environment, though the two dissenting members voted for a cut. While this pause does not necessarily mean the end of the monetary tightening cycle, the central bank’s message is nuanced, keeping the door open for both further increases or easing.

A strategic shift in quantitative tightening

The Bank of England also announced a strategic adjustment to its quantitative tightening (QT) program, reducing its pace from £100 billion to £70 billion for the coming year. This technical decision is not an overall easing of monetary policy but rather an effort to reduce disruption in the bond market by focusing on short maturities. It signals a move towards a more careful and deliberate approach to balance sheet reduction. The markets have interpreted this as a sign of continued caution, with a first rate cut now only being anticipated in the second quarter of 2026.



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