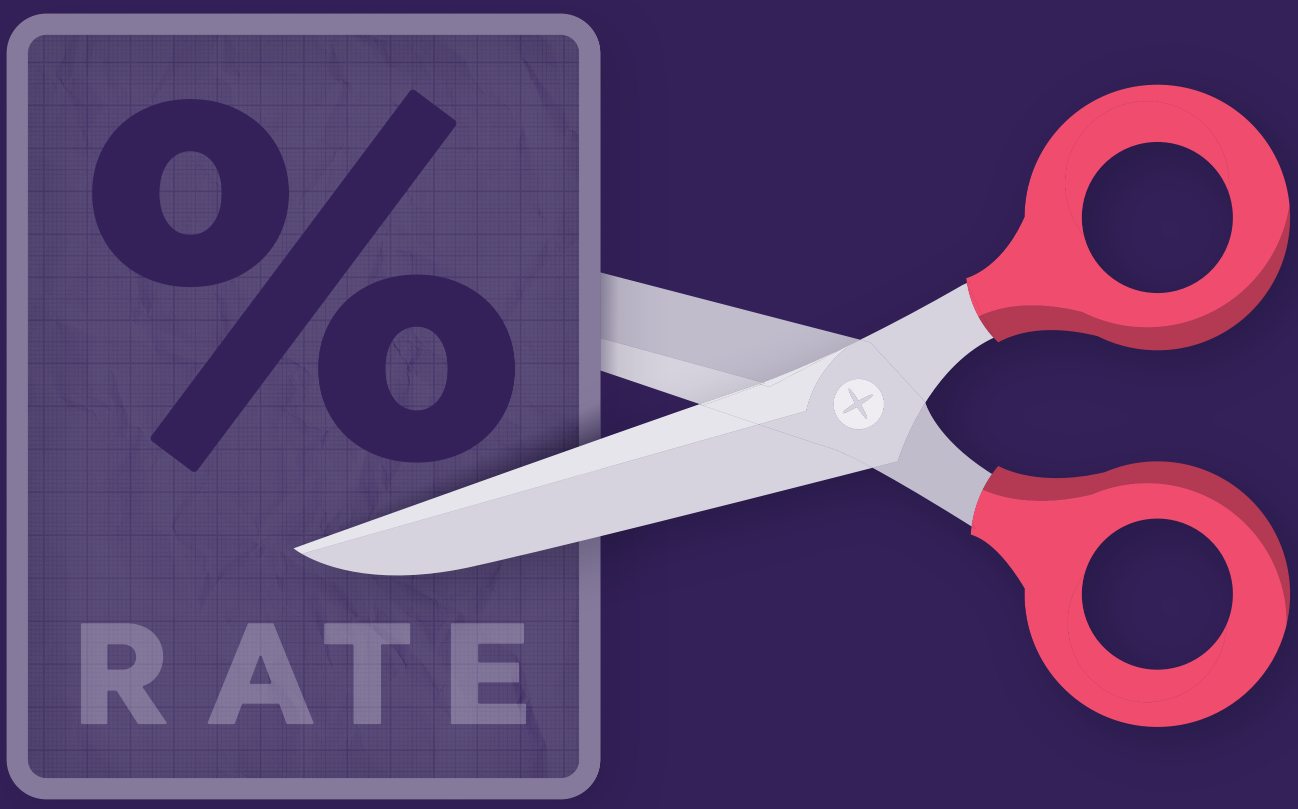
Yorkshire Housing

Cut to the chase

The Bank of England must reduce interest rates



Cut to the chase...

The evidence is clear. The Bank of England's timid and risk averse approach has left the UK economy stuck in neutral. They must now move quickly to reduce interest rates.

It's time to abandon outdated thinking on the drivers of inflation and act decisively. Only substantial reductions to interest rates can revive growth, unlock investment, and put the UK economy back on track.

The warning signs are continuing to flash red across the UK's economic dashboard. Despite a slight reduction to 3.6% in October, inflation remains high and is not expected to fall to the 2% target until 2027. The UK's long-standing productivity problem is getting worse, down another 0.6% in the second quarter. The labour market is also showing clear signs of contracting.

After improved year on year GDP growth in the UK in 2021 and 2022, growth levels returned to below the 2019 pre-pandemic level of 1.6% in 2023 and 2024. The IMF forecasts growth to be just 1.3% in 2025[1].

While there are many factors contributing to the current sluggish growth - including Government policy decisions around minimum wages and National Insurance, global tensions and energy costs – the Bank of England can alleviate some economic pressures and stimulate growth by reducing interest rates more quickly.

[1] *Gross Domestic Product: Year on Year growth: CVM SA % - Office for National Statistics*

Cut to the chase...

Around the world, interest rates are being reduced amid persistent inflationary pressures, reflecting growing concern about slowing growth.

Despite inflation in the US increasing from 2.3% to 3% between April and September this year as import tariffs start to increase prices, the Federal Reserve has recently reduced interest rates by 0.5%[2].

Over the same period in the UK, CPI inflation has varied by only 0.4% and has been stable at 3.8% since July. Despite this, interest rates have been only modestly adjusted by 0.5%[3]. This highlights the opportunity for the Bank of England to take bolder action, as has been seen by the reductions in interest rates in other countries while inflation has increased.

High interest rates are holding back investment, squeezing business, and making life tougher for households. With every month the Bank of England resists reducing interest rates, the economy continues to stagnate. This is resulting in the UK heading for a lost decade of decline, as well as undermining the Government's plans, all of which rely on UK economic growth.

[2] *United States Inflation Rate*

United States Fed Funds Interest Rate

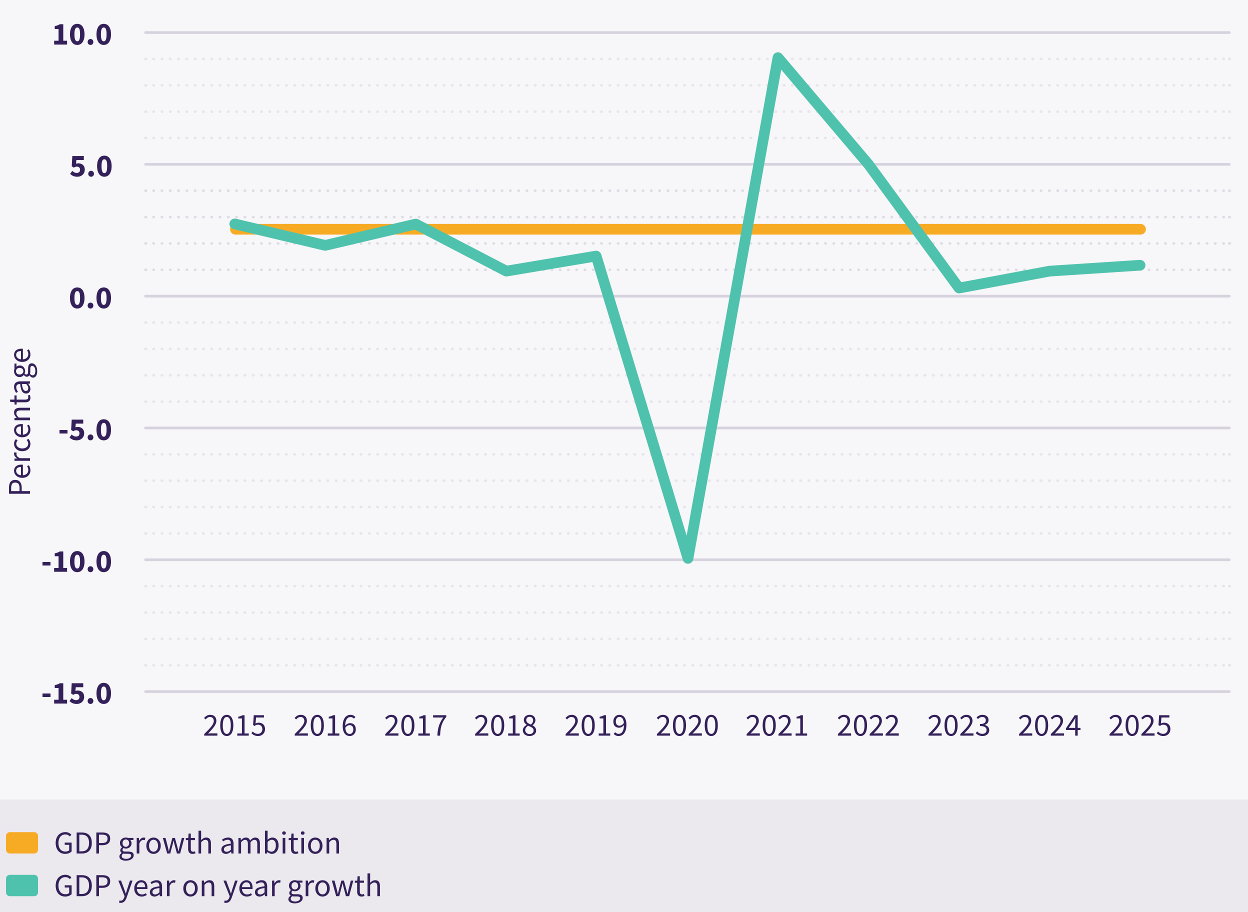
[3] *CPI ANNUAL RATE 00: ALL ITEMS 2015=100 - Office for National Statistics*

Interest rates and Bank Rate | Bank of England

What's the UK Economic Picture?

The evidence is clear - high interest rates are stifling growth...

Year on year GDP growth[4]:



Real GDP growth remains at levels woefully below the 2.5% GDP growth ambition set out by Labour in the lead up to the election[5]. The absence of a current growth target from the Government could be a further indication of the stagnation of the UK economy.

[4] *Gross Domestic Product: Year on Year growth: CVM SA % - Office for National Statistics*

[5] *The Labour government's plans for growth: explained – Full Fact*

What's the UK Economic Picture?

Despite some recent flickering signs of recovery, retail sales remain below pre-pandemic levels[6].

The hospitality sector is on its knees with over half of all the UK job losses being in this sector since the Autumn 2024 budget[7]. While some of this is attributable to National Insurance contributions and wage increases, the stubbornly high interest levels are contributing to a lack of investment and job creation.

24% of businesses reported a decrease in turnover in June. Approximately one in six businesses reported that they had no cash reserves in late September, which, although is broadly stable since June 2025, is the largest proportion since the ONS included this question in its Business Insights and Conditions Survey in June 2020[8]. Persistently high interest rates are eroding the stability of the UK business sector.

Members of the Monetary Policy Committee have recently highlighted that a lack of household spending is a drag on GDP growth. The lack of disposable income, and incentives to save through high interest rates, combined with inflation and wage uncertainty, has created a precautionary approach to spending. UK households have experienced 12 years of inflation in a little over 2 years, therefore even with reductions to inflation forecast in 2026 and beyond, the scarring effect on spending habits may continue to hold back economic growth if interest rates remain high[9].

[6] *Savills | Retail rebuild*

[7] *Hospitality suffers more than half of all job losses since Budget - UK Hospitality*

[8] *Business insights and impact on the UK economy statistical bulletins - Office for National Statistics*

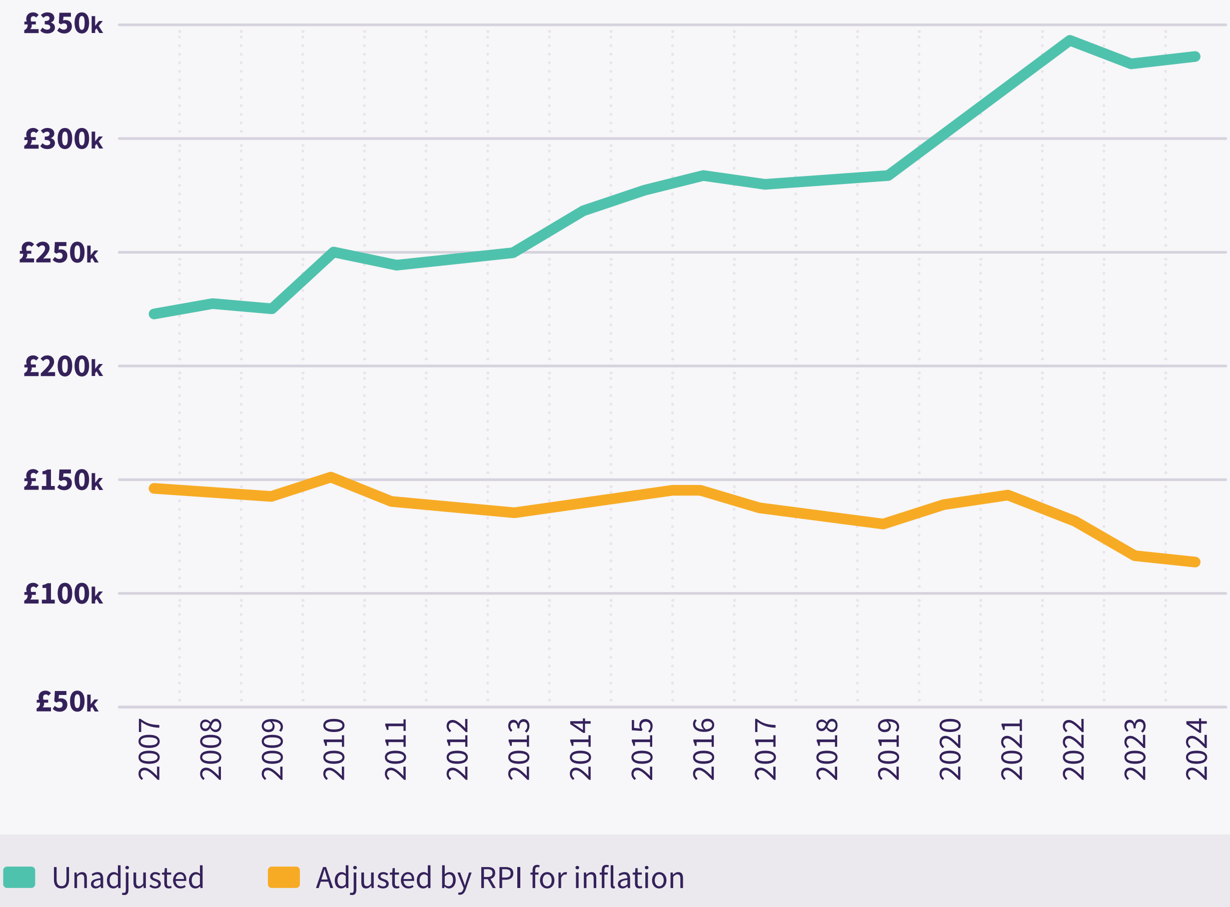
[9] *Explaining the consumption gap - speech by Catherine L Mann | Bank of England*

What's the UK Economic Picture?

A buoyant housing market is a driver of growth and a feature of a vibrant economy.

But we know that across the country the housing market has stagnated. While nominal house prices have increased, adjusting the figures for inflation shows that in real terms house prices are lower than they were following the 2008 global financial crisis.

Average uk house prices[10]:



[10] *House price data: annual tables - Office for National Statistics*

What's driving this?

In a normal economic cycle, when inflation is high, the primary aim of interest rate setting is to bring inflation down to the Bank of England's Government-imposed target of 2%[11].

However, focussing solely on inflation rates without careful consideration of the wider impacts is driving decisions which are hindering economic growth and damaging the country.

Interest rates are increased or kept at higher levels on the assumption there is too much money in the economy, resulting in high inflation due to increased levels of spending driving up demand and therefore increasing prices. Increasing interest rates attempts to reduce disposable income as well as increasing saving levels, therefore curtailing inflation.

It isn't UK economic factors that are driving the current inflationary pressures. Consumer prices are high, not because of excessive spending or high demand, but due to global events. The conflicts in Ukraine and the Middle East, extreme weather affecting crops, global financial uncertainty and tariffs in the USA are contributing to a lack of stability which is driving up costs and creating inflationary pressure. Changes to National Insurance contributions are squeezing businesses and increasing costs, which has also, and may continue to, increase consumer prices.

Annual increases to other domestic prices in late Winter/early Spring such as transport costs, council tax, phone contracts and vehicle licensing are likely to be transitory unless they are reflected in wage increases. However, wage growth is slowing and hiring intentions are weakening.

The UK does have some unique challenges such as the impact of Brexit, estimated by the Office of Budget Responsibility to have impact roughly equivalent to £100 billion in the UK's current financial terms, and greater exposure to global energy fluctuations[12]. However, these factors will not be addressed through high interest rates.

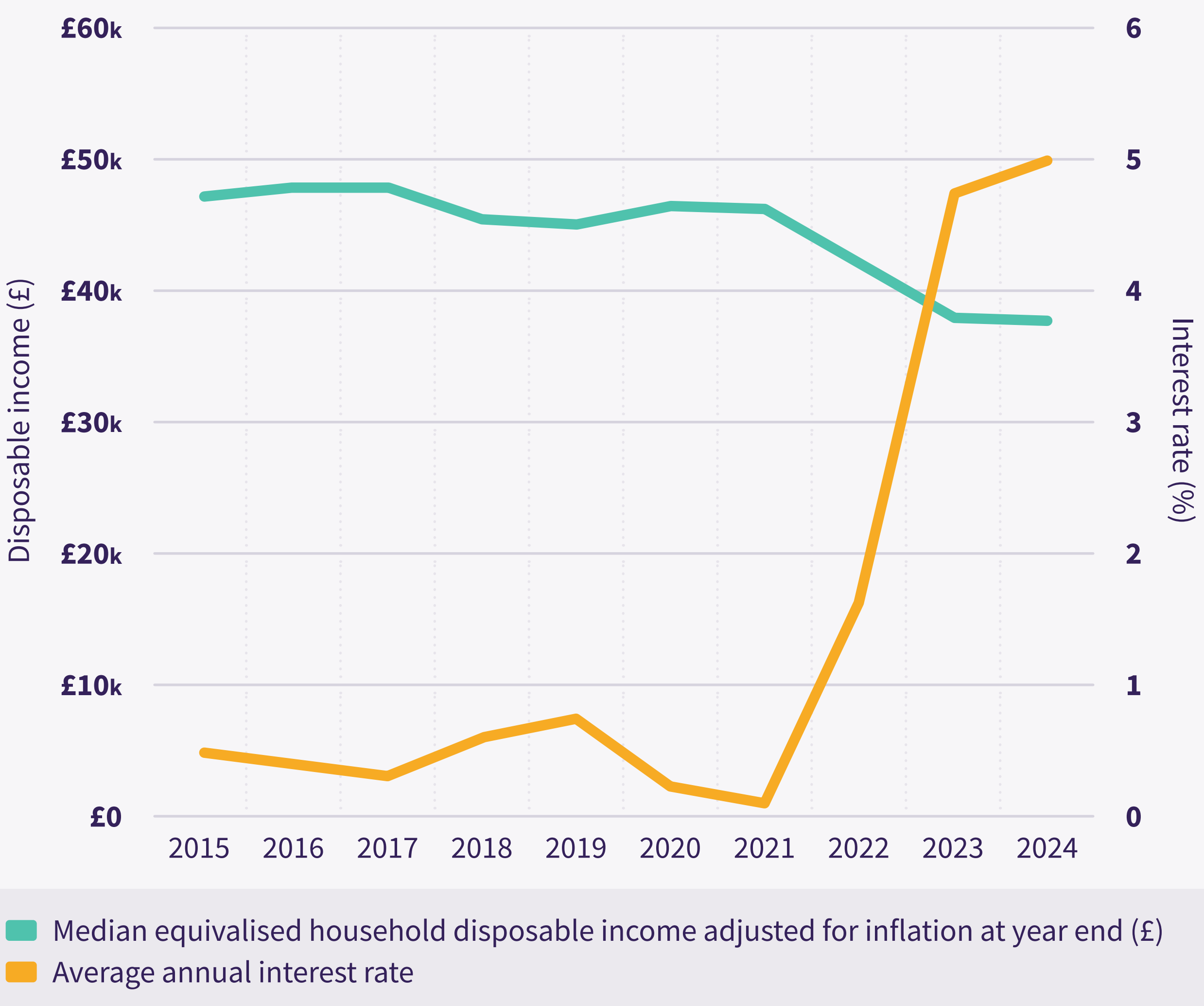
[11] *Inflation and the 2% target | Bank of England*

[12] *Five key impacts of Brexit five years on - BBC News*

What's driving this?

Household disposable income, adjusted for inflation, has decreased and therefore there is not a surplus of cash in the economy. Despite this, interest rates have continued to increase, as shown below:

Relationship between interest rates and disposable income[13]:



[13] *Average household income, UK - Office for National Statistics*

Inflation calculator - Bank of England

Bank Rate history and data - Bank of England Database

What's the impact?

High interest rates are widening the gulf between the richest and poorest.

Those who can afford to save are benefitting from high interest rates, with the household savings ratio having more than doubled over the last 3 years[14]. But for those households on lower incomes the negative impact of high interest rates is disproportionately devastating.

Research carried out by the Centre for Economics and Business Research on behalf of Asda shows that the average weekly discretionary income for the lowest quintile in the UK fell by 11.6% year on year in August 2025[15]. Joseph Rowntree Foundation's Cost of Living tracker highlighted that 60% of low-income households are going without essentials, the most common of which is food[16].

Reductions in disposable income result in households having less ability to save. It also means unexpected costs are often met through borrowing, which is a double whammy when considering interest rates.

Private landlords have continued to increase rents both in reflection of the high demand for homes and their own increased costs due to tax changes, mortgage rate increases and forthcoming additional regulation. This puts further financial pressure on renters.

The picture is bleak for homeowners too. The rate for 5-year fixed term mortgages has increased sharply from 1.69% in June 2020 to 4.3% in June 2025. For a 75% LTV mortgage on a property in the lower quartile this is an additional cost of around £3,000 per year[17].

One of the ways to mitigate some of these impacts is to build more affordable housing, which, as reaffirmed in the Spring Statement, is a primary Government ambition. Yet resistance to reducing interest rates more quickly is putting the Government's housebuilding targets at risk.

[14] *Households (S.14): Households' saving ratio (per cent): Current price: £m: SA - Office for National Statistics*

[15] *Family budgets under pressure as living costs soar*

[16] *A year of Labour but no progress: JRF's cost of living tracker, summer 2025 | Joseph Rowntree Foundation*

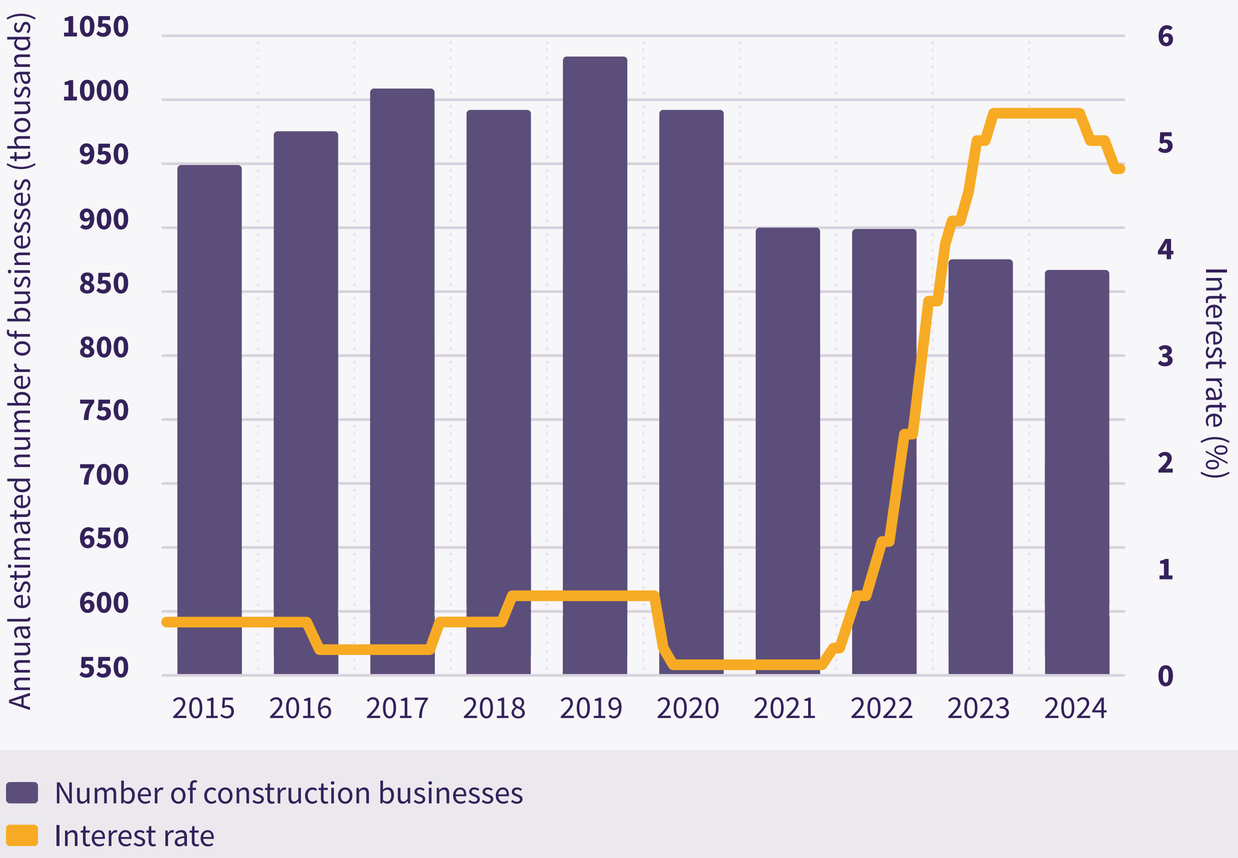
[17] *IUMBV42 | Bank of England | Database*

Lower quartile house prices for administrative geographies: HPSSA dataset 15 - Office for National Statistics

What's the impact?

A resilient construction sector is vital to increasing the supply of new homes, and building new homes creates jobs and supports local communities. But the number of construction firms in the UK has been decreasing as interest rates have increased and remained high.

Annual construction business estimates and interest rates[18]:



[18] *Business population estimates - GOV.UK*
Bank Rate history and data | Bank of England Database

What needs to change?

All the evidence highlights how high interest rates are inhibiting business growth and the employment market.

This runs contrary to the Bank of England's secondary objective to support the delivery of growth. It's also created a significant barrier to the Government's ambitions to grow the economy.

We are not alone in calling for quick and decisive action by the Bank of England. **This article** in the Financial Times highlights how Britain is in a 'whatever it takes' moment.

The high interest rates imposed have had little impact on inflation. Inflation is at 3.6% and forecast to remain at 3.5% for Q4 2025[19].

When reductions have finally been made to interest rates it has been at levels that are far too slow and conservative.

During every minute that the Bank of England sits on its hands, the UK economy is deteriorating, and interest rates continue to throttle growth. Despite recent GDP growth being higher than expected, this is all relative when you consider we are celebrating increases of well below 1% and long-term performance is weak.

GDP per capita has increased by just 0.7% over the last 12 months, compared to an average of 1.3% in the 2010s[20]. Furthermore, the OBR reduced real GDP growth forecasts in its latest update[21].

The impact of changes to interest rates on the economy typically has a lag period of 12-24 months[22]. Failure to reduce interest rates more quickly will hold back changes which would make a real difference, such as reducing borrowing uncertainty, boosting affordable lending and business growth.

19 *UK inflation: What is the rate and why are prices still rising? - BBC News*

20 *UK economy is slowing not shrinking, with GDP per person increasing by 0.7 per cent since the election - Resolution Foundation*

21 *OBR economic and fiscal outlook - November 2025*

22 *Monetary policy - Bank of England*

What needs to change?

There are risks to recklessly cutting interest rates, and that's why we're calling for a considered change in approach. What is clear is that the current policy isn't working.

The current levels and the pace of interest rate reductions are insufficient to prevent harm to the UK economy.

The current interest rate of 4% is well above the Bank of England's "nominal neutral rate"[23]. This is the rate which neither stimulates nor depresses inflation and is currently estimated[24] at 2.75% - 3%. This is further evidence of the scope to reduce interest rates more quickly without putting inflation targets at significant risk.

In summary, clinging to outdated economic theories that don't reflect the current drivers of inflation in the UK economy only prolongs the pain and deepens the damage to businesses and households. The Bank of England needs to have the courage to accept that inflation figures are impacted by circumstances that can't be controlled by UK interest rates. Without this, the appetite for investment will continue to be eroded.

A clear strategy, focussed on reducing interest rates more quickly, would address this growing lack of confidence and kick-start the UK economy.

23 *The neutral rate of interest and its relevance for monetary policy - slides by Catherine L Mann*

24 *The Neutral Rate Conundrum: How the Bank of England's New Communication Strategy is Reshaping UK Monetary Policy*

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