Market Briefing: December 2025

Key developments in the economy, housing and mortgage markets

Rob Thomas, Principal Researcher,
Intermediary Mortgage Lenders Association (IMLA)

Executive summary

- After a strong first half of the year, GDP growth has stalled. GDP was only 0.1% higher in Q3 and it fell by 0.1% in both September and October. Production, which includes manufacturing and extraction, has been particularly weak, falling 0.5% in the three months to October, in part due to the cyberattack that halted production at Jaguar Land Rover.

- While job vacancies and total employment data paint a picture of a stable labour market, showing small gains over the past four months, unemployment and payroll employee data point to continued weakness. The unemployment rate reached 5.1% in September while payroll numbers fell 0.3% in the three months to November (a headcount reduction of 88,000).

- CPI inflation fell more quickly than expected in November to 3.2%. Core CPI was also down to 3.2% but producer input price inflation rose to 1.1%, having been negative as recently as July.

- The Bank of England cut Bank Rate by 0.25% for the fourth time this year in December, taking it to 3.75%, the lowest level since January 2023. The market expects only a single cut to 3.5% next year.

- There is so far little evidence that the housing market slowed in the run-up to the budget on 26 November. Transactions were 16% above their monthly average of 2025 in October, lending for house purchase was 17% up and even house purchase approvals, which are more forward looking, were 7% ahead.

- Product transfers surged in the second half of the year. In the four months to October, they were 54% above the level of the first half by number and 69% by value. The value of remortgages was also 42% up over the same period.

- Improving affordability is fuelling growth in buy-to-let lending, which was 22% up on its 2024 monthly average in the year to October. House purchase buy-to-let was a little less buoyant than remortgages but still ahead by 14% over the same period.

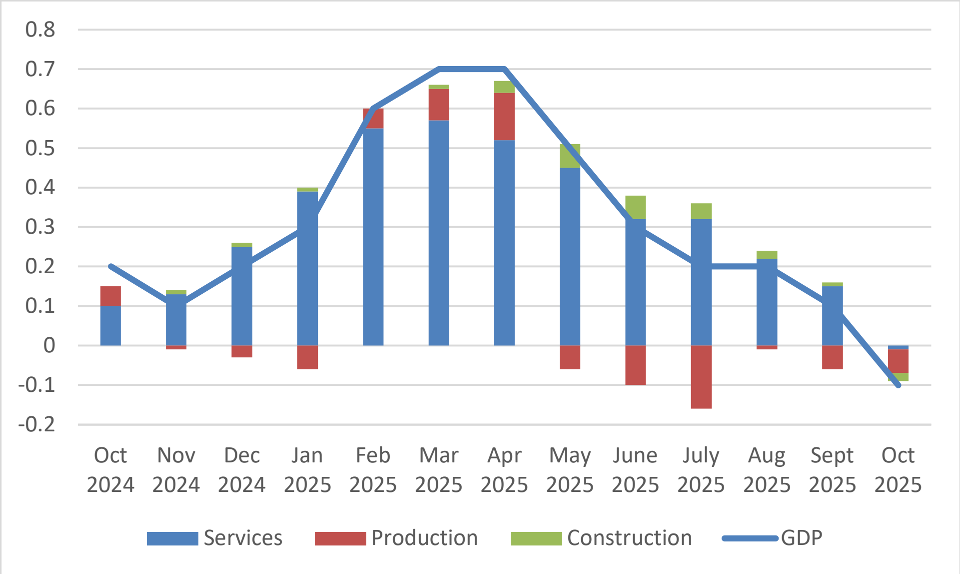
- Rachel Reeves' Budget on 26 November included some £26 billion of tax rises by 2029-30, including a 2% addition to income tax rates for landlords from April 2027 and a tax of at least £2,500 for properties over £2 million from April 2028.

The economy

Output

As Chart 1 shows, after a strong first half of the year, growth has stalled in recent months. GDP growth was 0.1% in Q3 and after no growth in August. Monthly estimates showed a contraction of 0.1% in both September and October, leaving GDP down 0.1% in the three months to October.

Chart 1 – Sources of GDP growth (three month rolling average %)



Source: Office for National Statistics

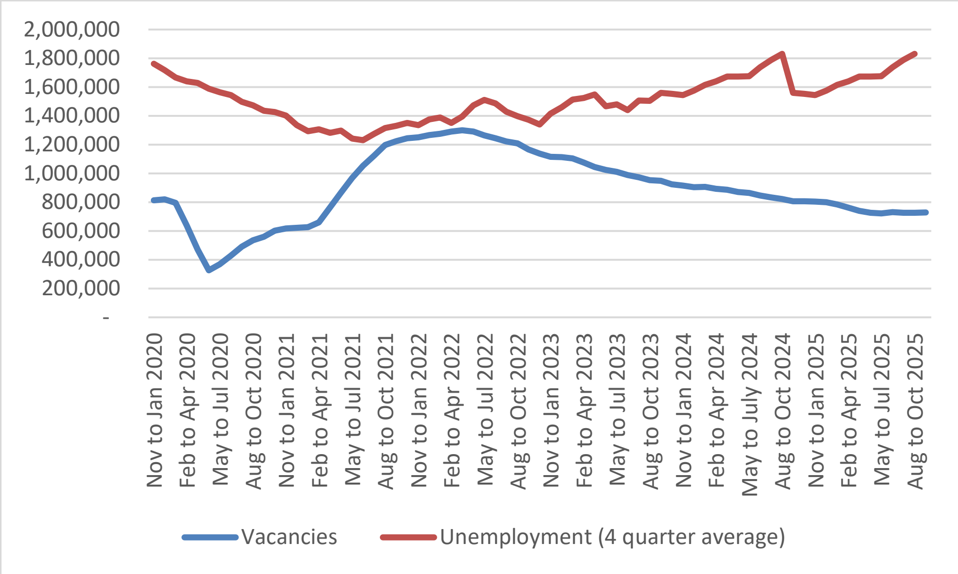
Production has been particularly weak, falling 0.5% in the three months to October, and within this manufacturing was down 0.7%, with transport equipment down 8.7%, in part due to the cyberattack that brought production to a halt at Jaguar Land Rover. But slowing growth in the services sector has also been a major contributor to the weaker picture, with no growth in the three months to October. Concerns about possible measures in the Budget were likely a factor weighing on the services sector.

Labour market

Despite weaker growth, the number of job vacancies has stabilised in recent months but this has not prevented a rise in unemployment. Because of concerns about the quality of its data, the Office for National Statistics (ONS) is now publishing unemployment figures based on the average of the last four quarters. But, as Chart 2 shows, this has still shown a steady increase in recent months, taking unemployment to 1.83 million in September, a rate of 5.1%, the highest since December 2020.

Overall employment (which includes the self-employed), has been flat at 34.2 million since May, but the number of payroll employees fell by 88,000 between August and November (0.3% of the total), a faster rate of decline than after the 2024 budget, which raised employers' national insurance contributions.

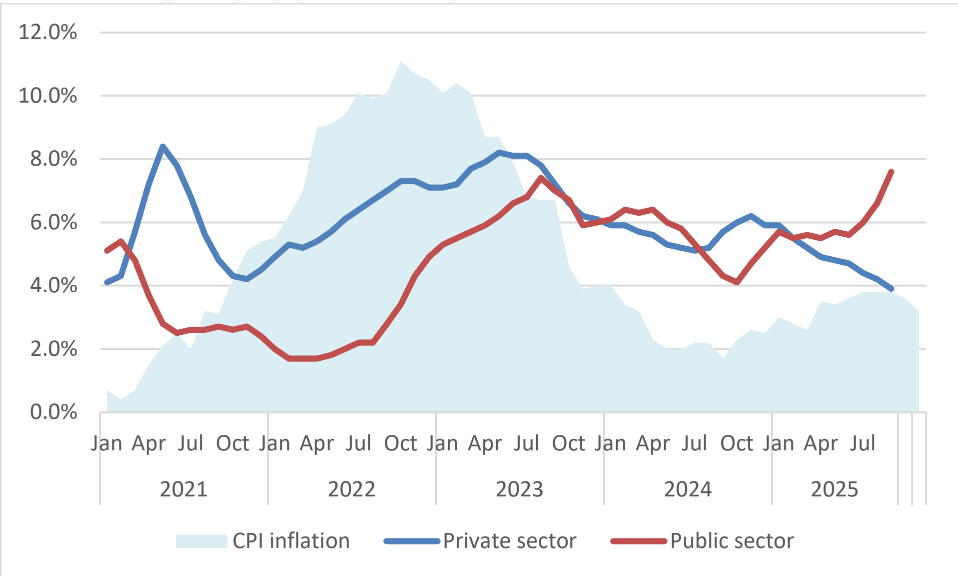
Chart 2 – Job vacancies and unemployment



Source: Office for National Statistics

Regular pay growth moderated to 4.6% in September, driven by a slowdown in private sector earnings growth. From a peak of 6.2% in November 2024, the rate in the private sector fell to 3.9% in September. However, public sector pay has shown the opposite trend, rising from 4.7% to 7.6% over the same period (see Chart 3). The positive gap between public and private sector pay is now at its highest level since July 2020.

Chart 3 – Regular pay growth compared to CPI inflation



Source: Office for National Statistics

Inflation and interest rates

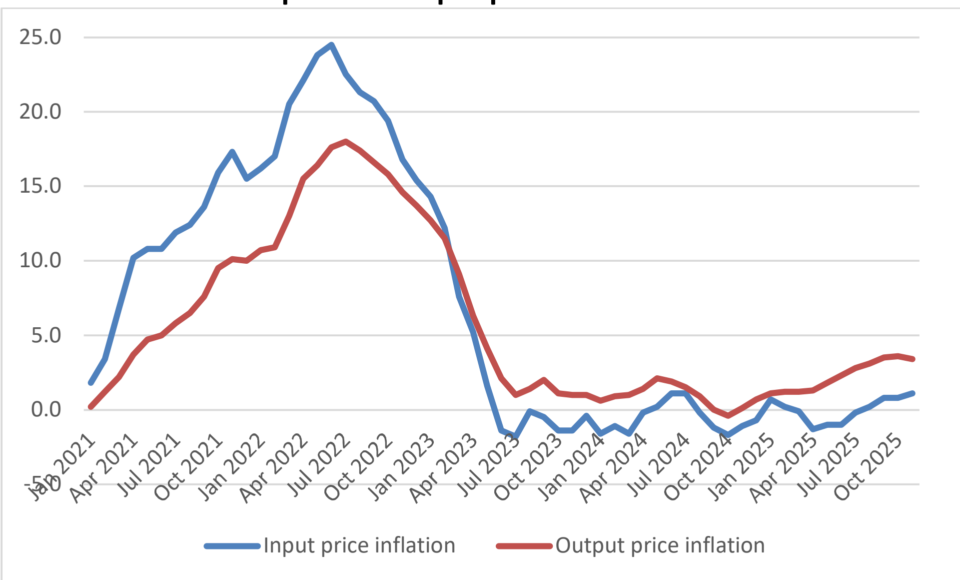
As Chart 4 shows, global commodity prices have been subdued over the past few months. According to the S&P global commodities price index, prices in late December were 5% below those of a year earlier but little changed over the previous three months.

Chart 4 – S&P GSCI Global Commodities Price Index in Sterling

Source: S&P

Subdued commodity prices are reflected in UK producer input prices, which were up only 1.1% in the year to November, although input prices were falling until July (see Chart 5). Output prices have shown a more consistent upward trend, reflecting domestic cost pressures, including higher wages and taxes. In the year to November, output prices increased by 3.4%, although this was slightly down on the previous month's figure of 3.6%.

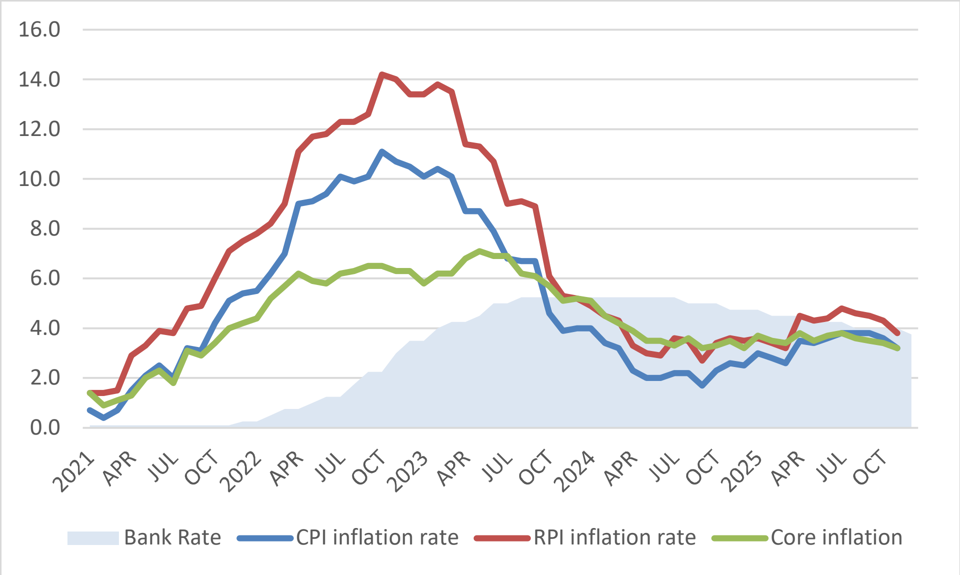
Chart 5 – Producer input and output prices



Source: Office for National Statistics

As Chart 6 illustrates, consumer price inflation is heading in the opposite direction. After a small fall in CPI inflation in October from 3.8% to 3.6%, there was a larger than expected decline to 3.2% in November. RPI inflation fell to 3.8% and core inflation to 3.2% in November. Food and catering price inflation, which has driven a lot of the rise in these indices, also fell back to 5.1% from 5.6% in October.

Chart 6 – CPI, RPI and core % annual inflation and Bank Rate



Source: Office for National Statistics

Following these better than expected inflation figures, the Bank of England cut Bank Rate by 0.25% to 3.75% on 18 December, the fourth cut of 2025. The November Monetary Policy Report forecasts that CPI inflation will return to target by the end of 2027. This is based on the market assumption that Bank Rate will fall to 3.5% in 2026 and remain there during 2027.

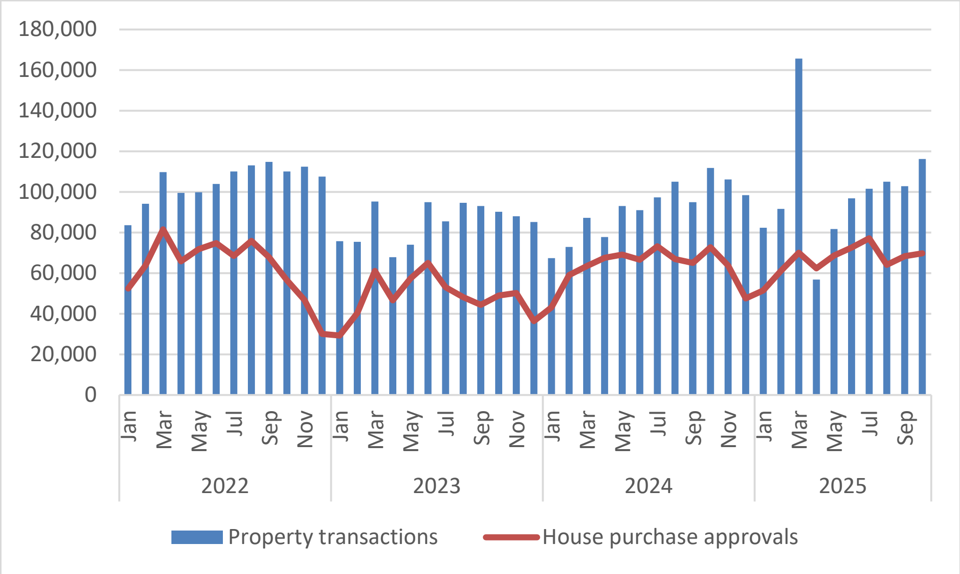
Housing and mortgage markets

Activity

The pre-budget housing market slowdown reported by some estate agents and housebuilders does not appear in the data up to October, which recorded a healthy 116,000 transactions. Indeed, some buyers may have brought forward purchases to avoid the risk of higher stamp duty.

But even the more forward looking house purchase mortgage approvals data remained above its monthly average of 2025 in September and October (see Chart 7), suggesting that the impact of the Budget may have been marginal.

Chart 7 – Housing transactions and mortgage approvals (monthly)

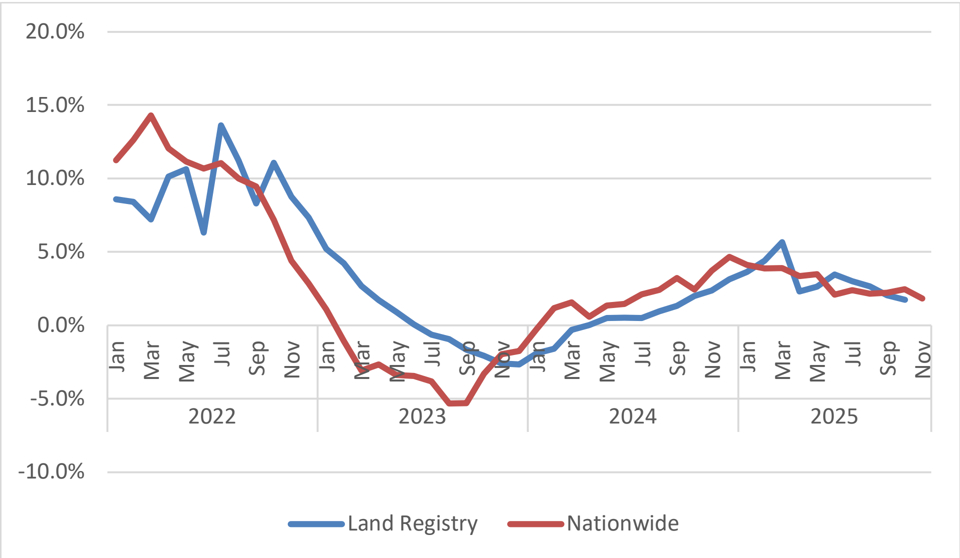


Source: HMRC, Bank of England

House prices and rents

Annual rates of house price inflation have been easing across the main indices in recent months, as can be seen from Chart 8. The Land Registry index was up 1.7% in the year to October and Nationwide up 1.8% in the year to November while the Rightmove index of asking prices was 0.5% lower than in November 2024. The RICS residential survey has also been showing some weakness in recent months and pre-Budget concerns have been cited as a possible explanation.

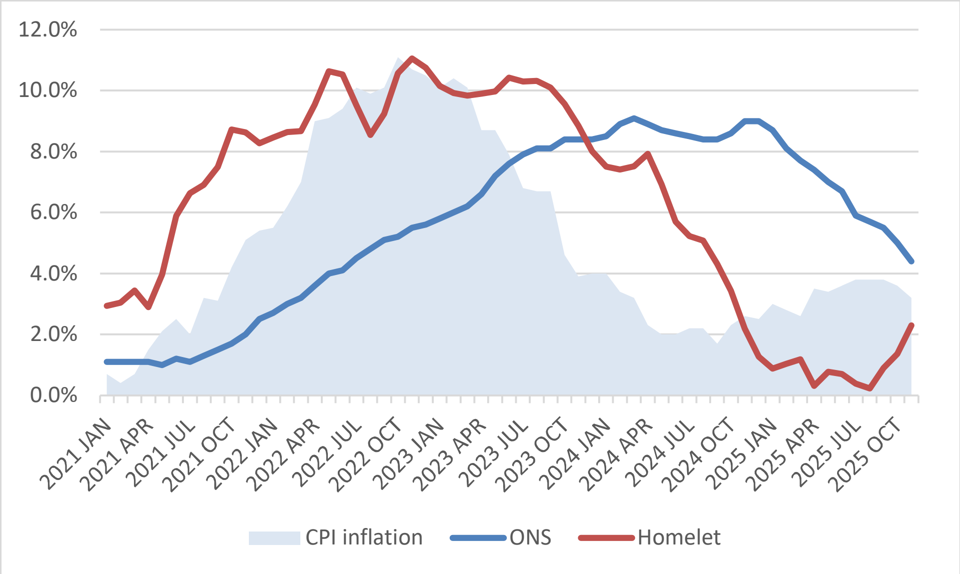
Chart 8 – House prices (annual growth rate)



Source: HM Land Registry, Nationwide Building Society

After two years of slowing rental price inflation, the last three months have seen a marked increase in the annual rate of growth in new contracts as tracked by Homelet (see Chart 9), taking the rate to 2.3% in November. In contrast, the ONS rental series is still slowing, falling to 4.4% in November, but this reflects the lagging nature of this series as it includes existing contracts that tend not to adjust to changes in the market price straightaway.

Chart 9 – Private rents (annual % growth)

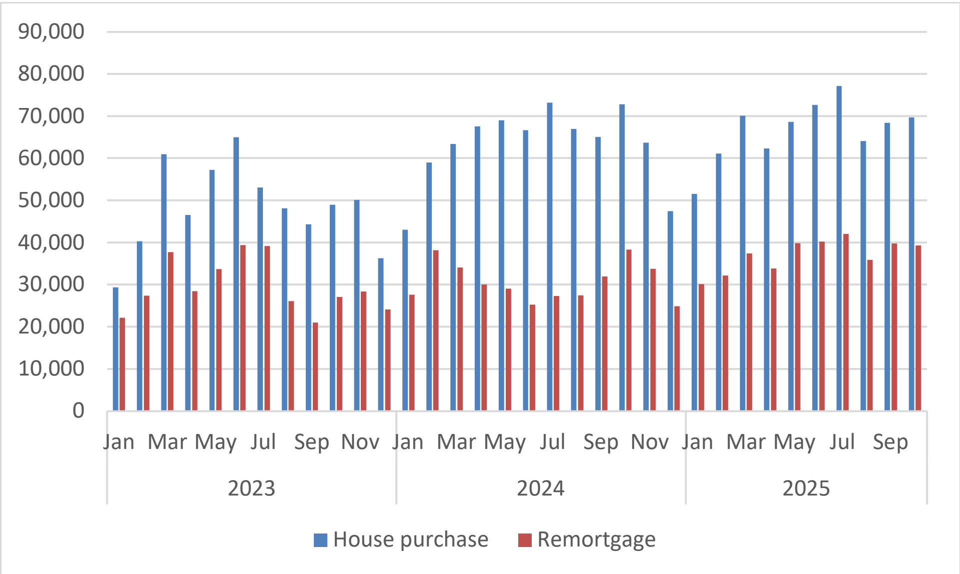


Source: Office for National Statistics, Homelet

Mortgage lending

House purchase approvals data up to October do not show much sign of a pre-Budget slowdown (see Chart 10). These reached 70,000 and £17.6 billion in October, 7% above the monthly average for 2025 so far. Remortgage approvals were also above their monthly average in October, by 5% by value.

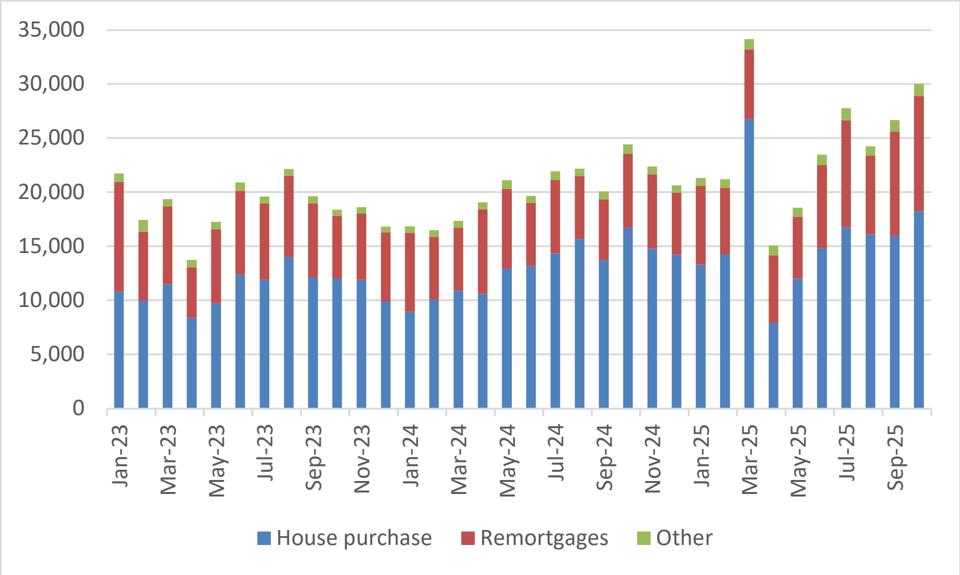
Chart 10 – Number of mortgage approvals (monthly)



Source: Bank of England

The strength of lending data reflects the surge in approvals over the summer. October's house purchase lending of £18.2 billion was the highest since August 2022 if the rush to beat the end of the stamp duty concession earlier this year (see Chart 11) is excluded. But the growth has not been restricted to house purchase lending, with remortgaging in October reaching £10.6 billion, the highest monthly total in three years. Other lending has been even stronger, rising 32% in the year to October compared to the monthly average of 2024.

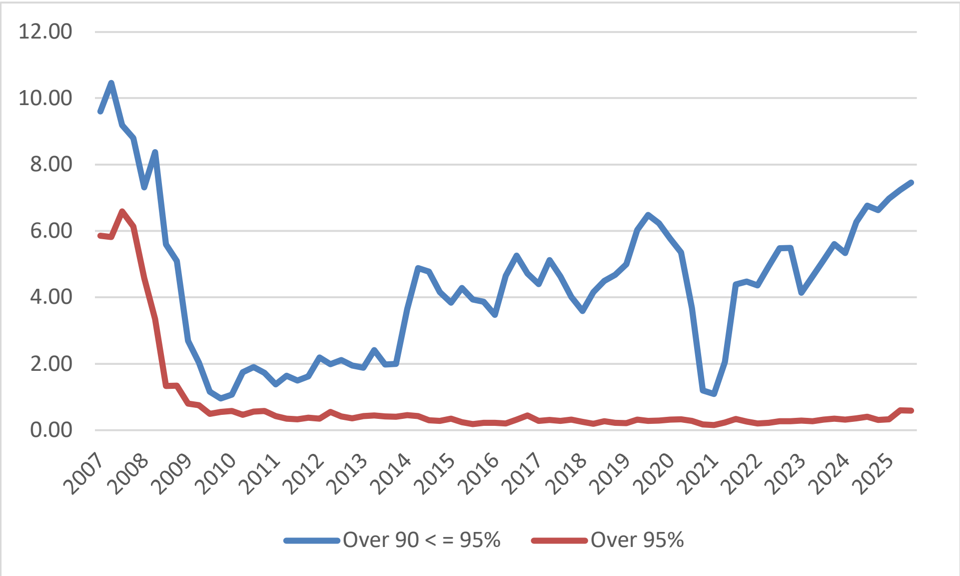
Chart 11 – Monthly mortgage lending (£ million)



Source: Bank of England

Lender risk appetite has been increasing moderately, as seen in Chart 12, which shows the share of regulated lending with an LTV of more than 90%. This surpassed 8% in Q3 for the first time since the financial crisis of 2008-9 but lending over 95%, at less than 1%, remains far below pre-crisis levels.

Chart 12 – % share of regulated mortgage lending over 90% LTV

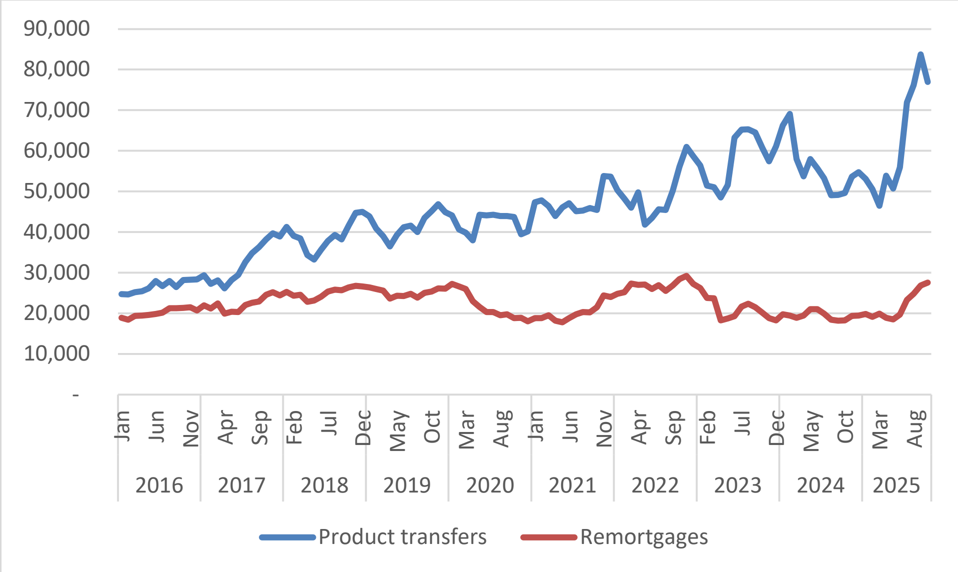


Source: Financial Conduct Authority

Product transfers

There has been a surge in product transfers since July, with a monthly average 54% above that of the first half of 2025 by number and 69% by value (see Chart 13). Remortgages by value have also been strong, up 42% over the same period.

Chart 13 – Value of product transfers and remortgages (£m 3 month rolling average)

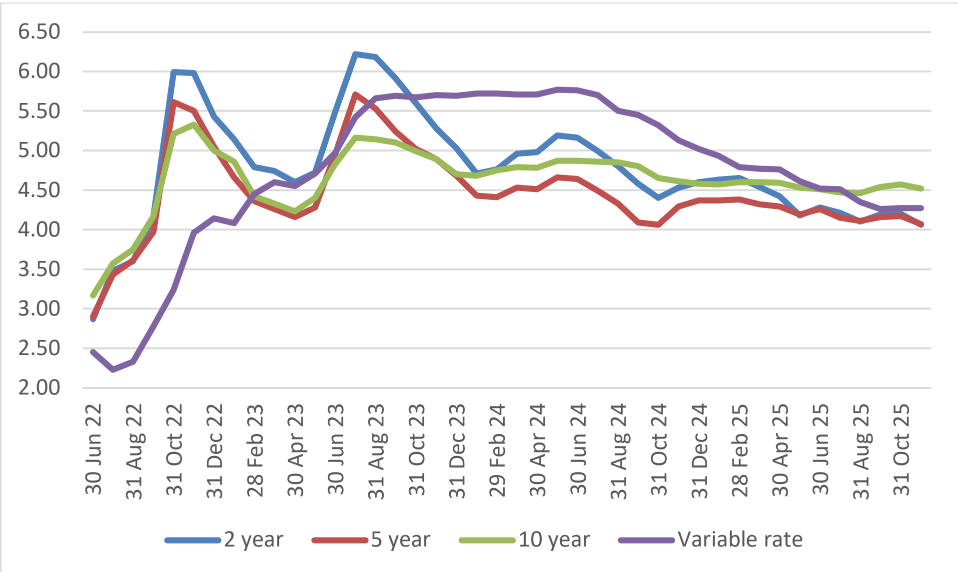


Source: UK Finance, Bank of England

Mortgage pricing and products

As Chart 14 shows, the Bank Rate cuts of 2025 have helped to push variable rate mortgage pricing down to the point where it is quite competitive with shorter-term fixed rates, although average 2-year fixed-rate pricing remained the cheapest option in November at 4.06%.

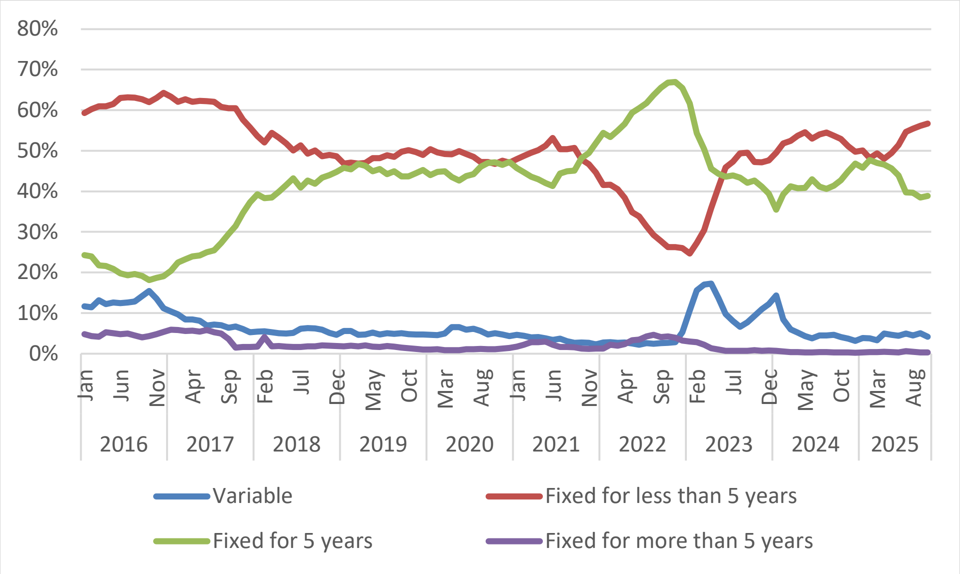
Chart 14 – Mortgage pricing for 75% LTV loans



Source: Bank of England

For most of 2025, average 5-year fixed-rate prices have been slightly lower than that of 2-year products but in November 2-year products were fractionally cheaper. The market share data shown in Chart 15, which goes up to October, shows 5-year fixes gaining at the expense of 2-year products, reaching their highest share since 2017 despite the relative competitiveness of 2-year products.

Chart 15 – Fixed and variable rate share of new lending



Source: UK Finance

November budget highlights

In her Budget of 26 November, to meet her fiscal rules, Rachel Reeves increased projected taxes by £26 billion by 2029-30, more than doubling the projected headroom she has to meet her stability rule, of revenues covering day-to-day spending, to £22 billion.

The main measures included:

Freezing personal allowances and income tax bands for a further three years to 2030-31, alone raising £7.9 billion by 2029-30.

Introducing a cap on the national insurance savings available under the salary sacrifice scheme, raising £4.8 billion by 2029-30.

Introducing a mileage charge for electric vehicles from April 2028, raising an estimated £1.4 billion.

Increasing the income tax rate on dividends and interest and reducing the cash ISA allowance from £20,000 to £12,000 for under 65 year-olds.

Cap on households on universal or child tax credit from receiving payments for more than two children will be scrapped from April at a cost of £3.1 billion by 2029-30.

Property specific measures included:

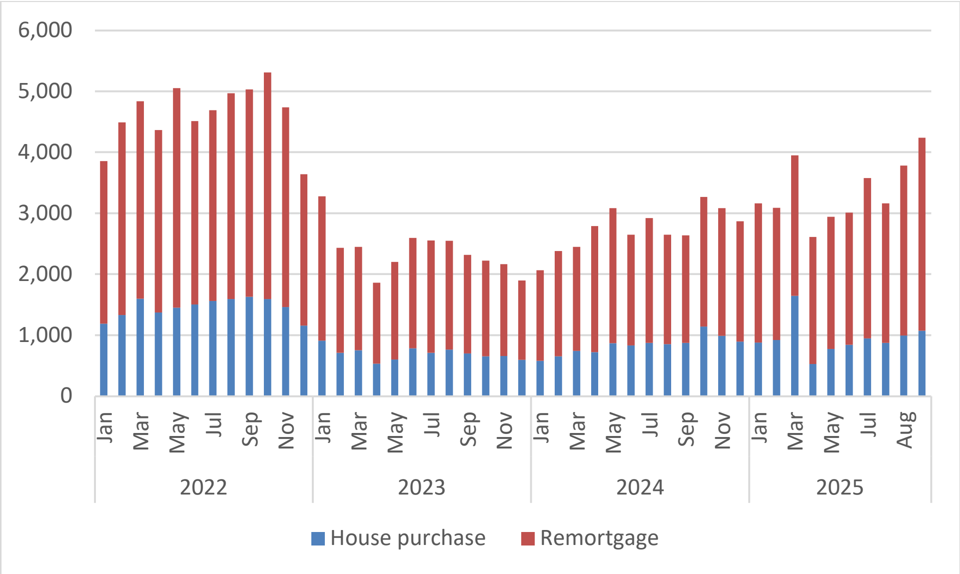
An increase in the income tax rate on rental income to 22% for basic rate tax payers, 42% for higher rate payers and 47% for additional rate payers from April 2027, which is expected to raise £0.4 billion by 2029-30.

From April 2028, introducing a tax of £2,500 on properties valued between £2 million and £2.5 million, rising to £7,500 on those over £5 million. This is expected to raise £0.4 billion in 2029-30.

Incorporation relief, which was previously automatic, will require a claim to be made. This follows controversy over schemes promoted to allow husband and wife buy-to-let partnerships to incorporate without paying capital gains tax and stamp duty.

Buy-to-let market

Chart 16 – Buy-to-let lending (monthly £million)



Source: UK Finance

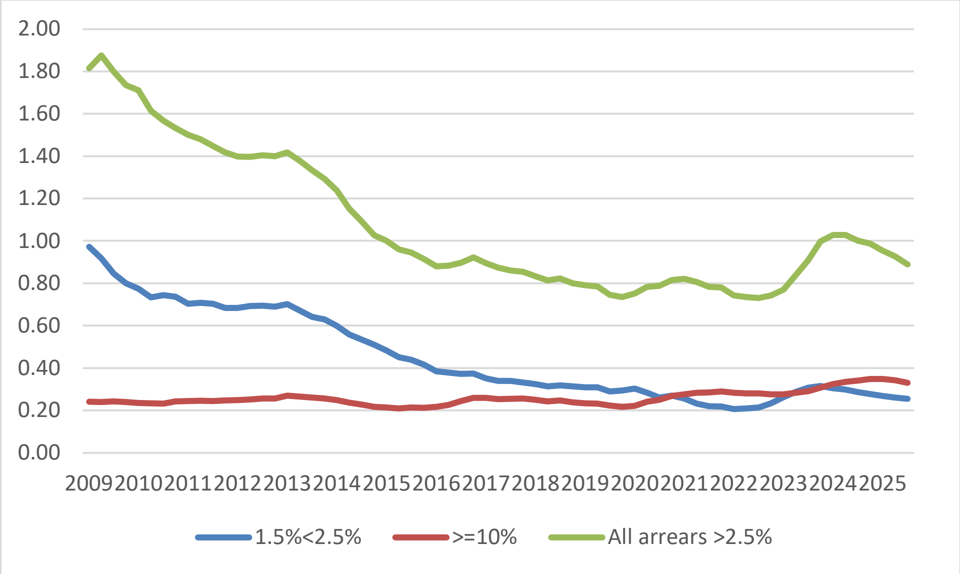
Buy-to-let borrowers have been enjoying the same improvements in affordability as homeowners. Indeed, the reduction in average buy-to-let rates has been more substantial, leading to lower rates than in the owner-occupied market, with 2-year fixed rates falling 0.75% between the start of the year and the end of November, to 3.53%, more than 0.5% lower than in the owner-occupied market.

This has helped to spur higher lending, as can be seen from Chart 16. Despite concerns about the possible contents of the Budget and the impact of the incoming Renters' Rights Act, October was a particularly strong month with house purchase lending of £1.1 billion (13% up on the 2025 average) and £3.2 billion of remortgages, the highest monthly figure since 2022.

Arrears and possessions

The improving picture of mortgage arrears of the last year or so continued in Q3 2025, with arrears of 2.5% of the loan balance or more falling to 0.89% of all borrowers from 0.93%. Arrears of 10% or more were also slightly lower, down from 0.34% to 0.33% (see Chart 17).

Chart 17 – % of mortgages in arrears of 2.5%+ of loan balance



Source: UK Finance

Prospects

Chancellor Rachel Reeves' 26 November Budget was reasonably well received by the markets, paving the way for another Bank Rate cut to 3.75% and keeping UK government bond (gilt) yields close to their lows of 2025. These are much better conditions for lending markets than those prevailing during the recent period when Bank Rate was 5.25% for a year between August 2023 and August 2024 and when 10-year gilt yields peaked at 4.8% early in 2025.

But concerns remain around the ability of the government to contain public spending, exemplified by U-turns on decisions on winter fuel payments, disability benefits and the two-child benefit cap. More broadly, the rapid increase in pay in the public sector seems to point to a reluctance to take the tough decisions needed to control public spending. This matters for lending markets because the gilt market is sensitive to bad news on government borrowing. But the budget at least shows that the government accepts that higher spending must mean higher taxes rather than additional borrowing, suggesting that gilt yields could be more stable going forward.

The improved affordability that lower mortgage rates has brought, coupled with modest lending deregulation, has made the housing and mortgage markets a bright spot in 2025 and, barring any unexpected economic shocks, this looks set to continue into 2026 and perhaps beyond.