Market Briefing: September 2026

Key developments in the economy, housing and mortgage markets

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Executive summary

- Renewed hostilities in the Middle East have fuelled a sharp rebound in oil and other commodity prices. This and growing investor concern about the size of fiscal deficits has triggered a jump in long-term government bond yields across a number of western countries. The UK 10-year gilt yield has risen from 4.8% at the end of June to 5.4% now, the highest level since the financial crisis, pushing up swap rates and fixed rate mortgage pricing.

- GDP increased by 0.4% in the three months to July after increasing by 0.5% in the second quarter. At 0.6% growth was also strong in Q1. The services sector has driven the growth with both production and construction showing falls in the three months to July.

- Job vacancies fell 8,000 in the June-August period compared to March-May and the number of payroll staff fell by 26,000 in August and by a cumulative 240,000 since employers' National Insurance was increased in the October 2024 Budget. But the unemployment rate has been steady since March at 4.9% and total employment (which includes self-employment) is up 166,000 since December.

- Consumer Price Inflation (CPI) rose to 3.1% in August, its highest reading since December, driven by higher energy costs. However, core CPI (which excludes food and energy prices) has remained unchanged at 2.6% since May.

- The fall in earnings growth has come to a halt with economy-wide regular wages up 3.5% in the year to June, compared to 3.4% in April. The public sector continues to experience much higher wage growth at 6.3% against 2.9% in the private sector, which is hardly keeping pace with inflation.

- The housing market has remained resilient despite the uncertain global outlook. House prices are slightly up on a year earlier according to the Land Registry and Nationwide Building Society, while transactions rose in June and July.

- The mortgage market has also performed well given the difficulties created by the conflict in the Middle East and consequent higher and more volatile fixed rate mortgage pricing. Total lending is 7% up in the year to August against the same period in 2025, with remortgaging particularly strong.

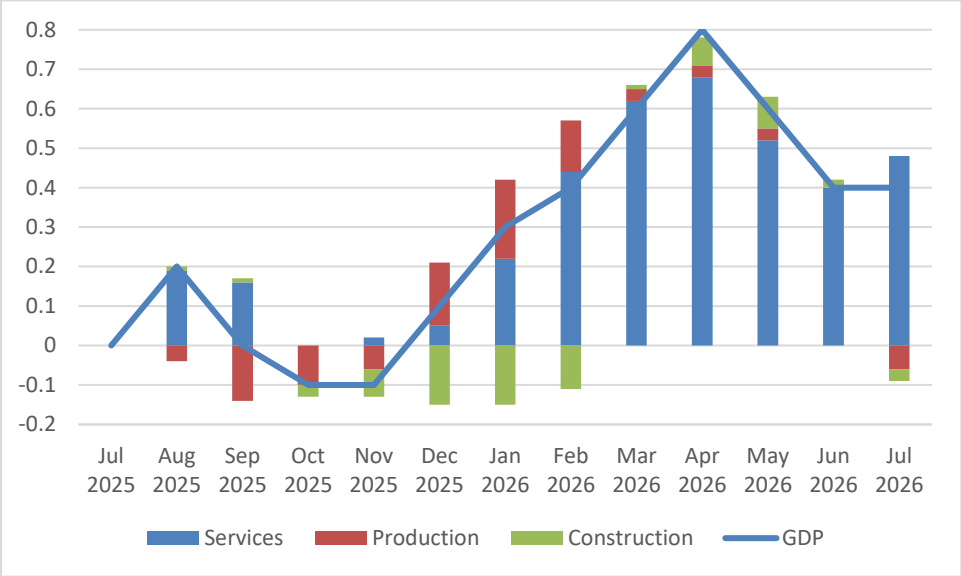
- The buy-to-let lending market remains robust. So far this year, the value of remortgages is up 16% compared to the same period in 2025 while house purchase lending is up 1%.

The economy

Output

As Chart 1 shows, growth has picked up sharply this year after the weakness at the end of 2025, repeating the pattern of the previous two years, even against the background of the conflict in the Middle East and consequent rise in energy prices. It is unclear why this pattern has emerged and difficult to predict if a similar slowdown will occur this year.

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



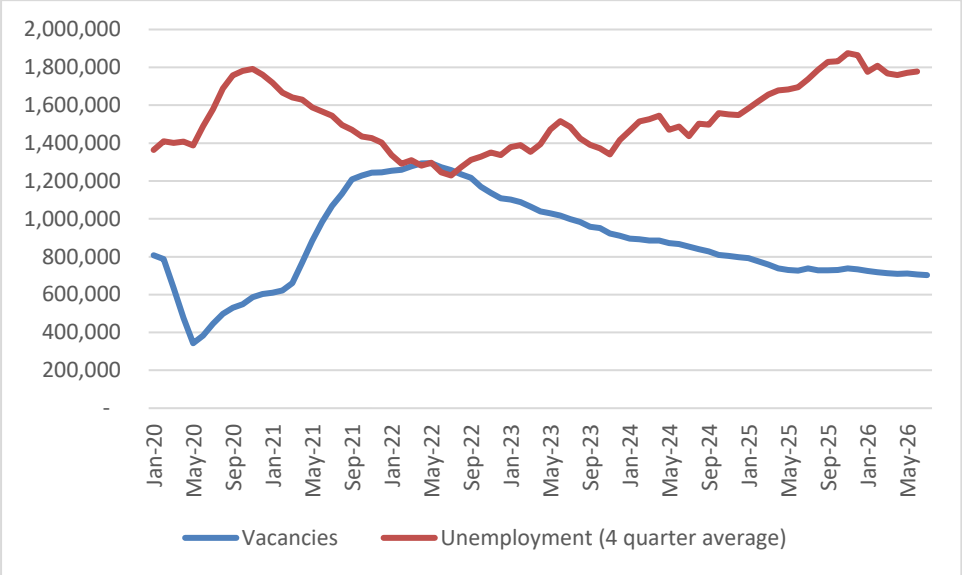
Source: Office for National Statistics

Growth has been dominated by the services sector. In contrast, both production and construction have struggled. Production output fell 0.5% in the three months to July, although within this manufacturing continued to grow, while the construction sector also contracted by 0.5%.

Labour market

The labour market continues to show mixed signals. As Chart 2 illustrates, job vacancies have been on a downward trend since mid-2022. In the June-August period, they were down a further 8,000 compared to March-May. But unemployment has been broadly flat since the start of the year and is down 97,000 on its late 2025 peak while the unemployment rate has been steady since March at 4.9%.

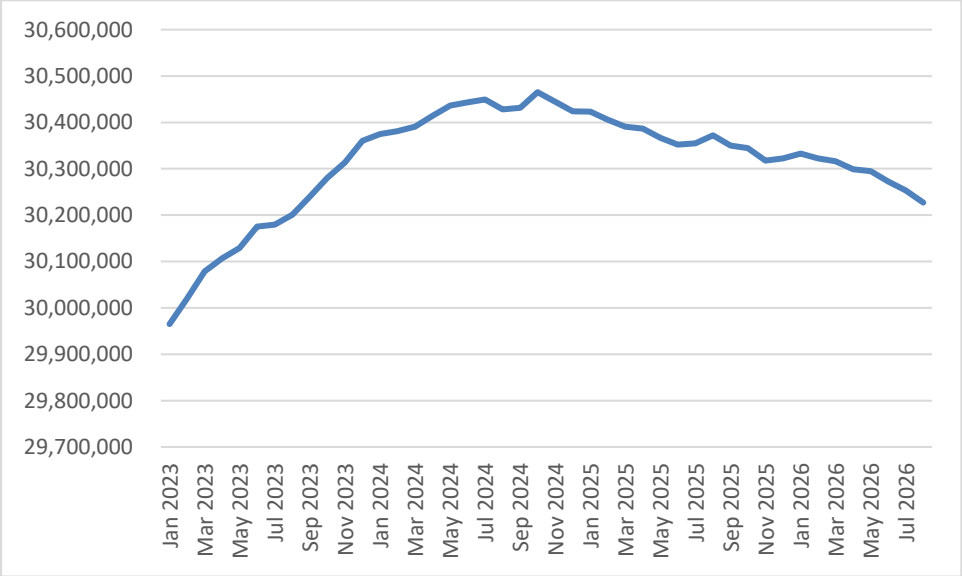
Chart 2 – Job vacancies and unemployment



Source: Office for National Statistics

Data on employment shows a similarly mixed picture. Total employment, which includes the self-employed, rose by 166,000 in the first half of 2026 but, as Chart 3 shows, the number of payroll employees fell by 26,000 in August and has fallen by 95,000 since the end of 2025 and 240,000 since employers' National Insurance was increased in the October 2024 budget.

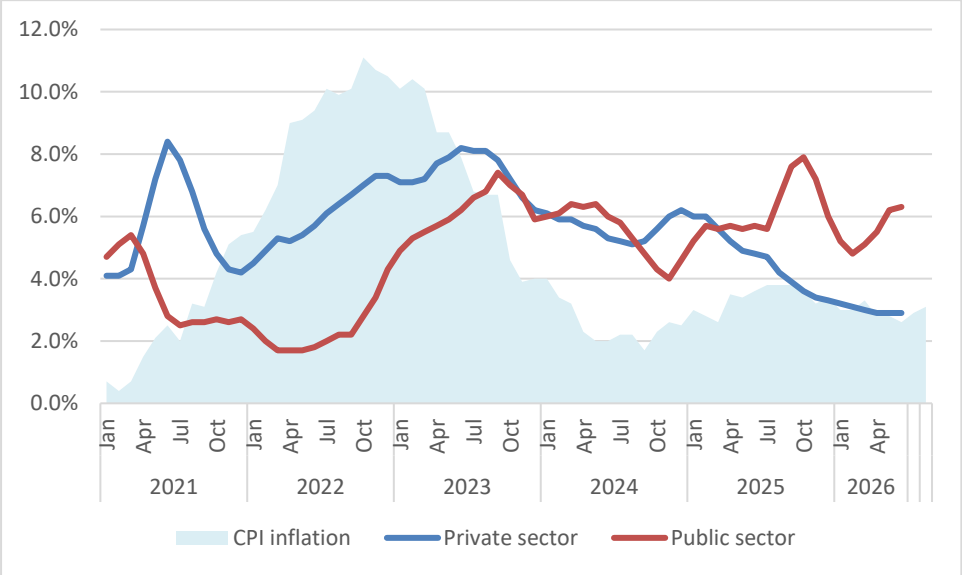
Chart 3 – Payroll employees



Source: Office for National Statistics

Regular earnings growth has stabilised in recent months at 3.5% but within this, public sector wage growth continues to significantly outpace that of the private sector. In the May-July period, public sector earnings rose 6.3% against 2.9% in the private sector (see Chart 4), meaning that earnings are broadly in line with inflation in the private sector.

Chart 4 – Regular pay growth compared to CPI inflation

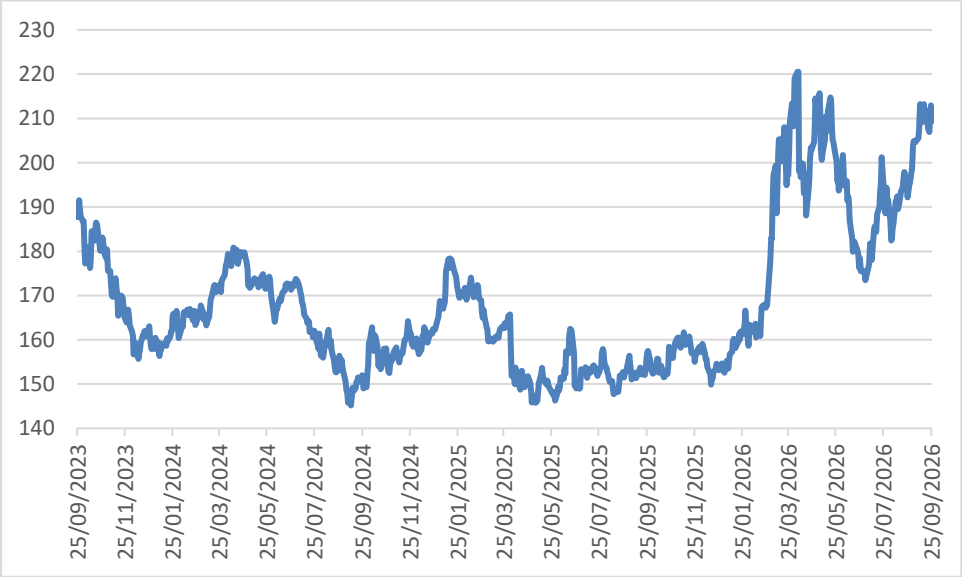


Source: Office for National Statistics

Inflation and interest rates

When the last *IMLA Market Briefing* was published, at the end of the second quarter, global commodity prices had eased back in the wake of a ceasefire agreement between the US and Iran. But the ceasefire has subsequently ended without a broader agreement, and shipping through the Strait of Hormuz is again severely restricted. This has driven oil prices back up above $100 a barrel and pushed the S&P GSCI Global Commodities Price Index up 19% in 3 months (see Chart 5).

Chart 5 – S&P GSCI Global Commodities Price Index in Sterling

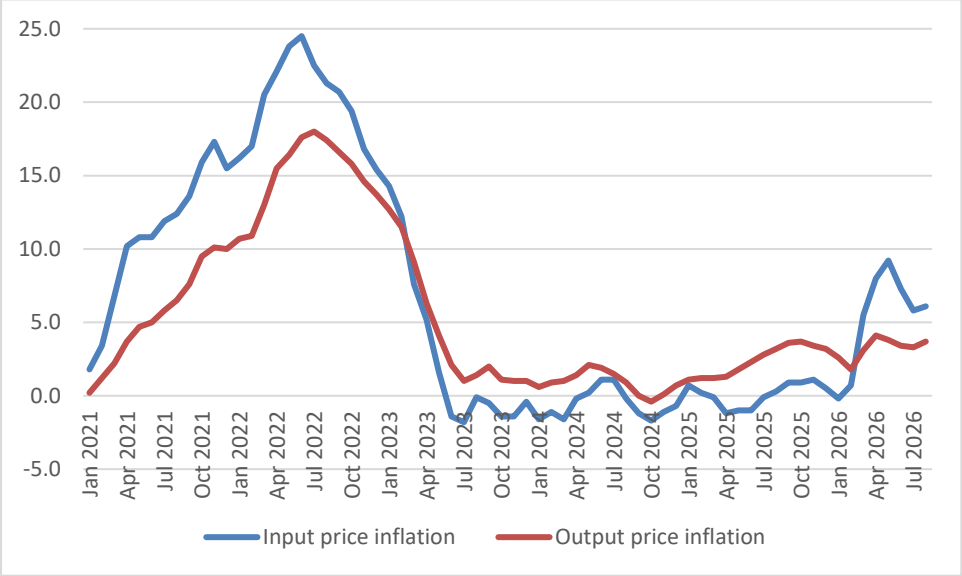


Source: S&P

Higher commodity prices fed rapidly into UK producer input prices after the war in the Middle East started in late February, with input price inflation peaking in May at 9.2%. By July, this was down to 5.8% but rose again in August to 6.1%, reflecting renewed

hostilities (see Chart 6). Producer output prices have been more stable but have also started to show the impact of higher raw material costs, rising from 3.3% in July to 3.7% in August.

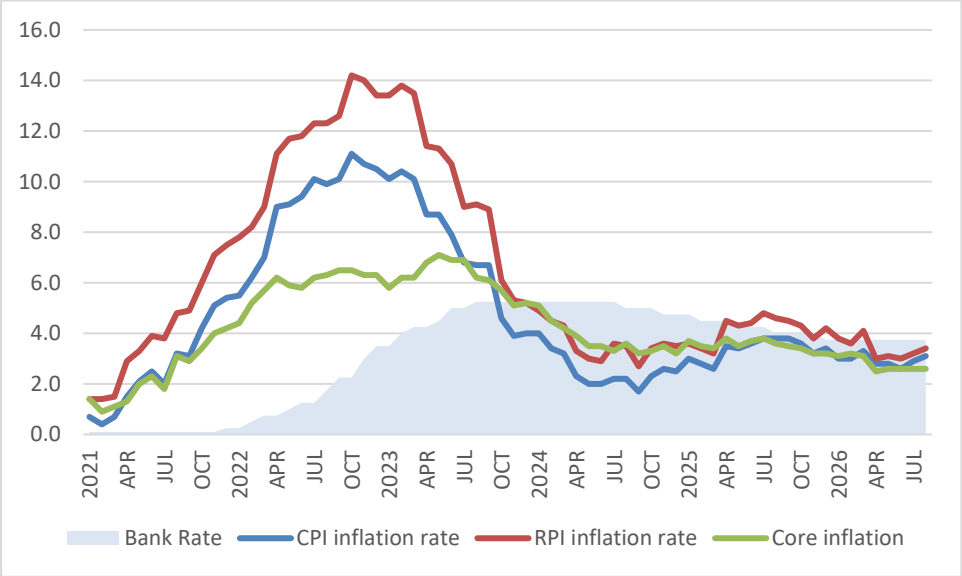
Chart 6 – Producer input and output annual rate of inflation



Source: Office for National Statistics

Consumer price inflation rose to 3.1% in August, from 2.9% in July, with rising petrol and other fuel costs unsurprisingly a major contributor. However, core CPI inflation (which excludes food and energy prices) remains well anchored, being unchanged between May and August at 2.6%, as shown in Chart 7.

Chart 7 – CPI, RPI and core % annual inflation and Bank Rate



Source: Office for National Statistics

Contrary to market expectations earlier in the year, the Bank of England has not increased Bank Rate at all this year. This decision reflects uncertainty about how events in the Middle East might play out and a more muted expected impact on UK

inflation from these events than from previous international crises such as the war in Ukraine.

However, investors have sold government bonds, pushing yields up significantly over the past three months. The 10-year gilt yield has risen from 4.8% at the end of June to 5.4% now, the highest level since the financial crisis. Government borrowing costs have risen even more sharply in the US, Germany and France, reflecting not just concerns about higher inflation stemming from the conflict in the Middle East but also investor concern about the level of deficits. This trend will restrict John Healey's room for manoeuvre in his first budget on 28 October. Higher bond yields are also reflected in higher interest rate swap pricing. The 5-year swap rate increased from 4.3% at the end of June to 5.0% now, pushing fixed rate mortgage pricing up.

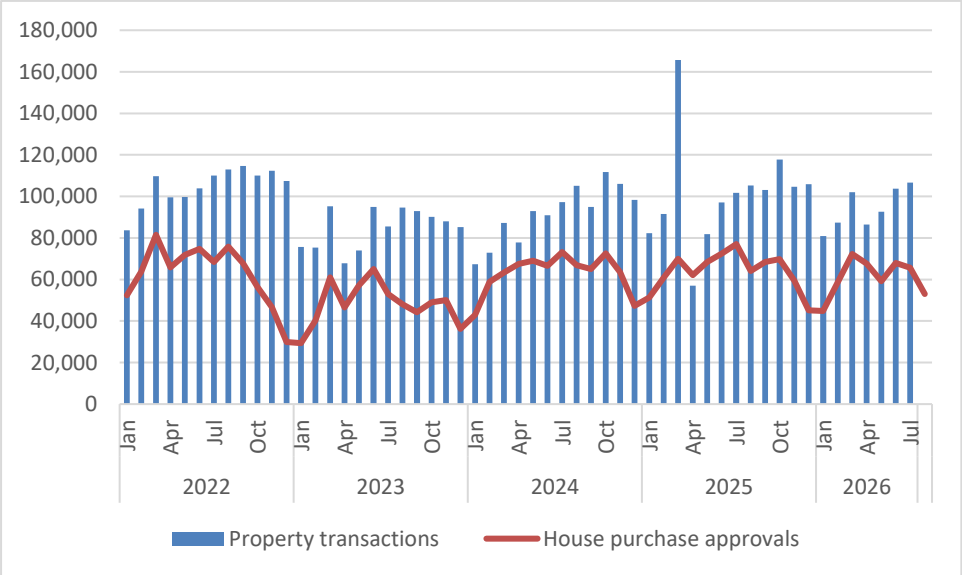
Housing and mortgage markets

Activity

Housing transactions have held up well in recent months. July saw 107,000 completions, 5% above the monthly average for 2025 and the highest total so far in 2026 (see Chart 8). But mortgage approvals for house purchase, which provides an indication of housing activity in the coming months, has softened with only 53,000 approvals recorded in August.

The RICS Residential Market Survey for August also reflects the more uncertain climate, with both prices and transaction levels expected to be lower in the next three months, although both have improved since their recent lows. However, respondents are more positive about the outlook on a 12-month basis, with prices and transactions expected to rise slightly on this timescale.

Chart 8 – Housing transactions and mortgage approvals (monthly)



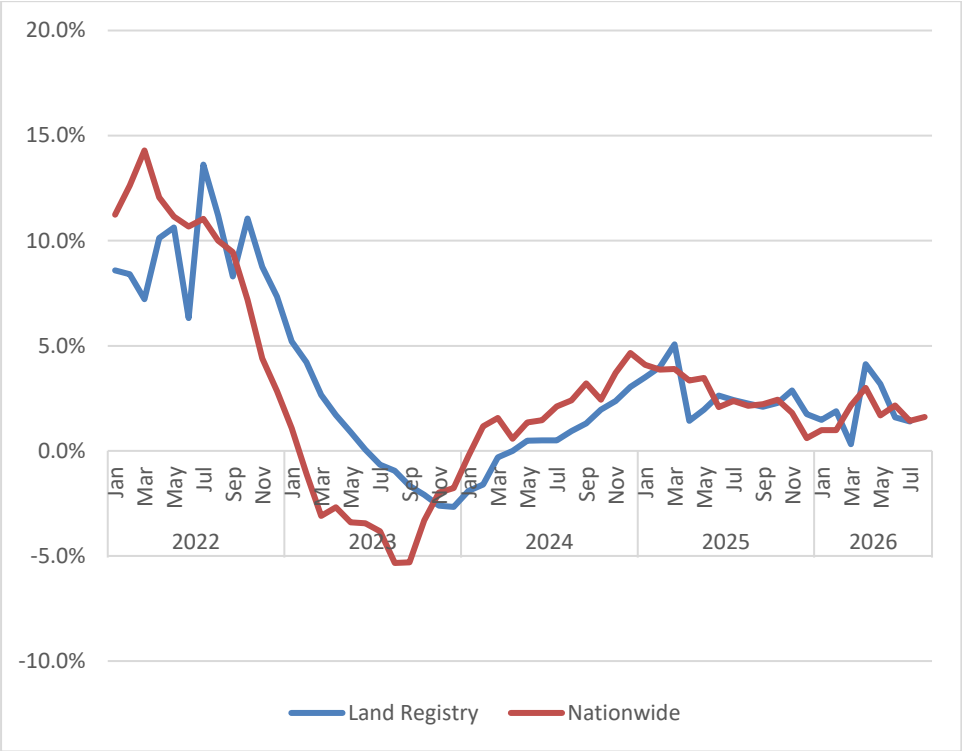
Source: HMRC, Bank of England

House prices and rents

Both the Land Registry and Nationwide house price indices continue to show modest gains on an annual basis, as illustrated by Chart 9. The Land Registry says that prices nationally were up 1.4% in the year to July while the Nationwide index was ahead 1.6% in the 12 months to August, although it has shown some modest weakness in recent months, falling 1.2% between April and August.

The August RICS Residential Market Survey showed prices down on the previous three months while the Lloyds house price index was down 0.1% on the quarter and 0.4% on the year. Taken in the round, the data points to house prices being broadly flat to slightly up.

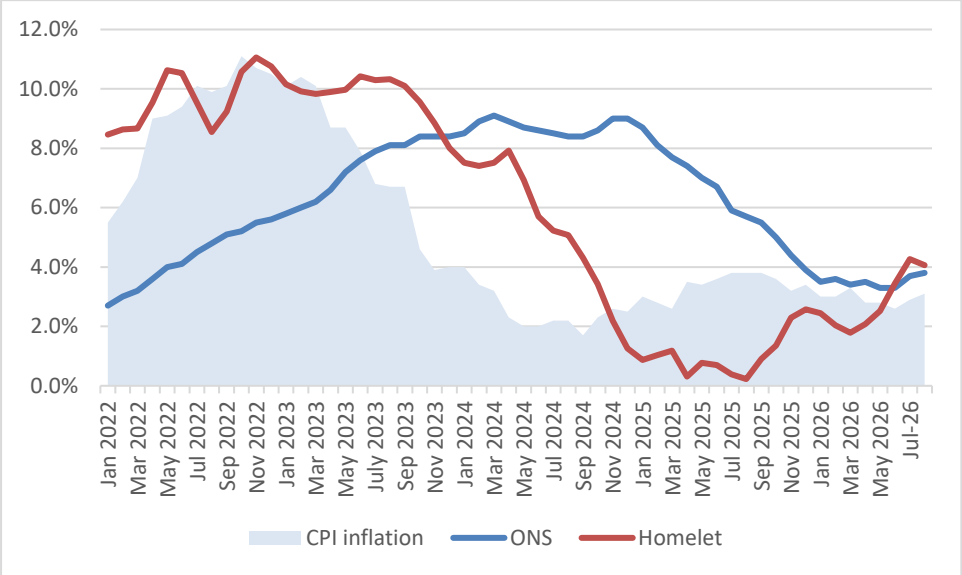
Chart 9 – House prices (annual growth rate)



Source: HM Land Registry, Nationwide Building Society

As Chart 10 shows, rents are once again rising faster than inflation. The Homelet rental index, which records new rental contracts, rose by 4.1% in the year to August and is now broadly in line with the official government index, which rose 3.8% over the same period. Higher tenant demand and lower landlord instructions are both contributing to the supply squeeze according to the August RICS Residential Market Survey.

Chart 10 – Private rents (annual % growth)

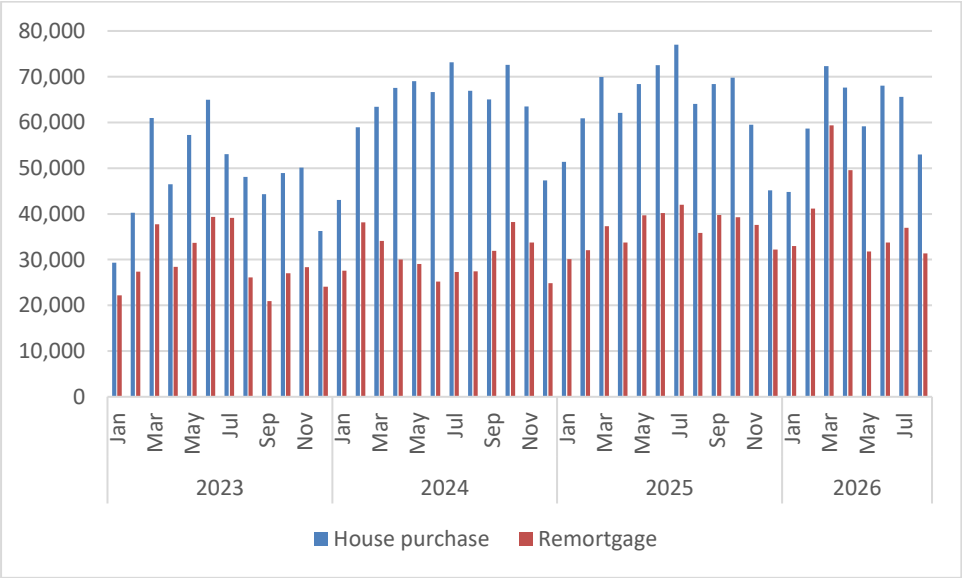


Source: Office for National Statistics, HomeLet

Mortgage lending

Remortgage approvals have been holding up better this year than house purchase (see Chart 11). Over the first 8 months of 2026, the number of remortgage approvals was 9% ahead of the same period in 2025 but house purchase approvals were 7% below. This may reflect some borrowers switching because of concerns that rates could go higher. However, August was a weak month for both, with the number of remortgage and house purchase approvals down 15% and 19% respectively on the previous month.

Chart 11 – Number of mortgage approvals (monthly)

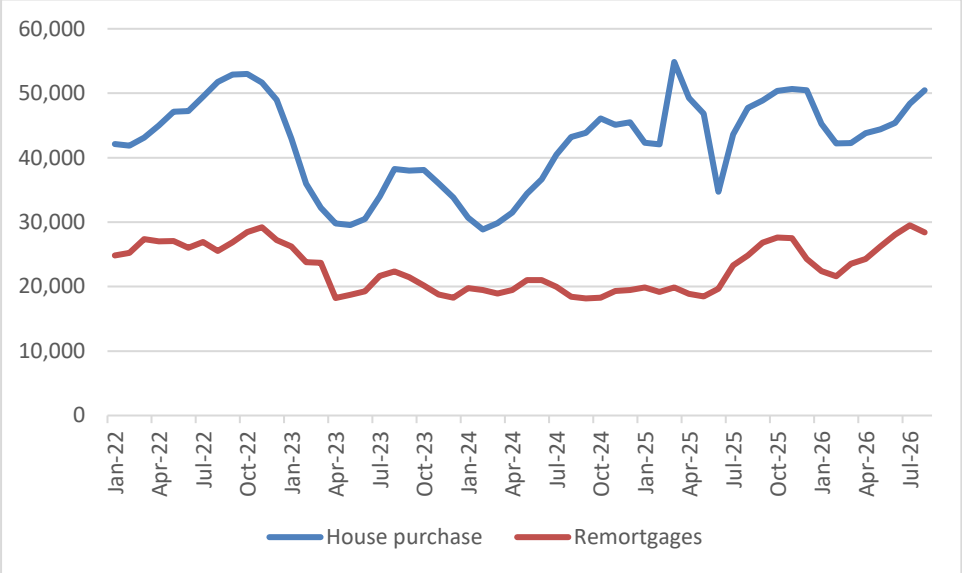


Source: Bank of England

A similar pattern is observable in the lending data. Remortgages have been performing better, up 23% in the year to August compared to the same period of 2025 (see Chart

12). But house purchase lending is 1% down over this period. So although there may be some weakness in the lending data over the next few months, 2026 can still record a reasonably strong performance despite the ongoing war in the Middle East.

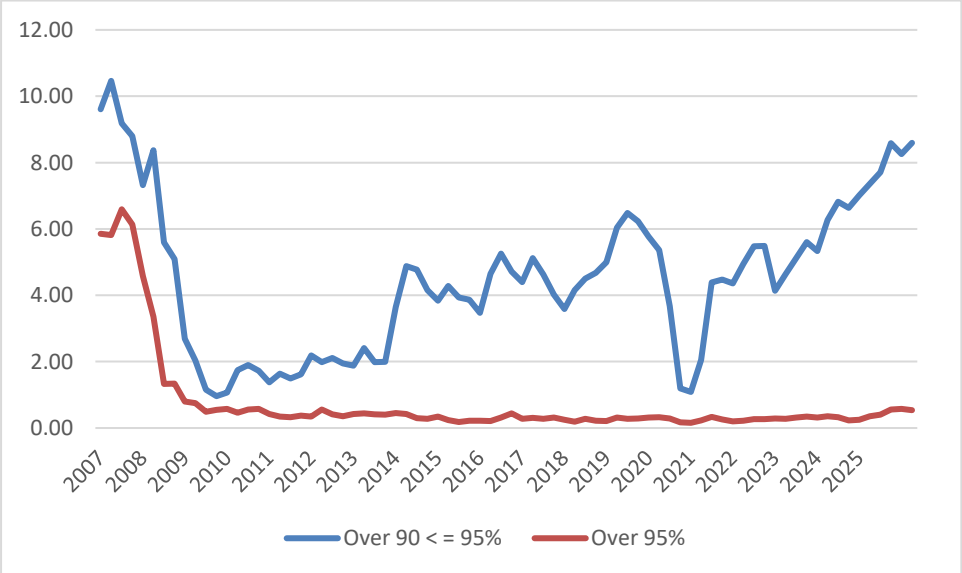
Chart 12 – 3-month mortgage lending (£ million)



Source: Bank of England

Higher LTV lending continues to enjoy a revival with 8.6% of regulated lending in Q2 being over 90% LTV and up to 95%, the highest proportion since 2007 (see Chart 13). Even loans above an LTV of 95% have seen a modest comeback in 2026 with 0.6% of all regulated lending falling into this category in Q1 2026 and 0.5% in Q2.

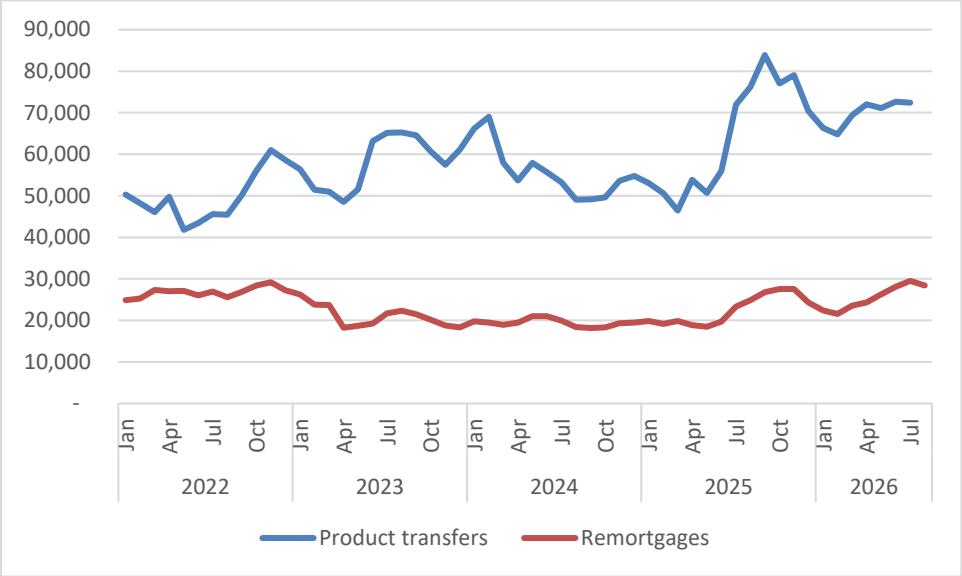
Chart 13 – % share of regulated mortgage lending over 90% LTV



Source: Financial Conduct Authority

Product transfers

Chart 14 – Value of product transfers and remortgages (£m 3 month rolling average)

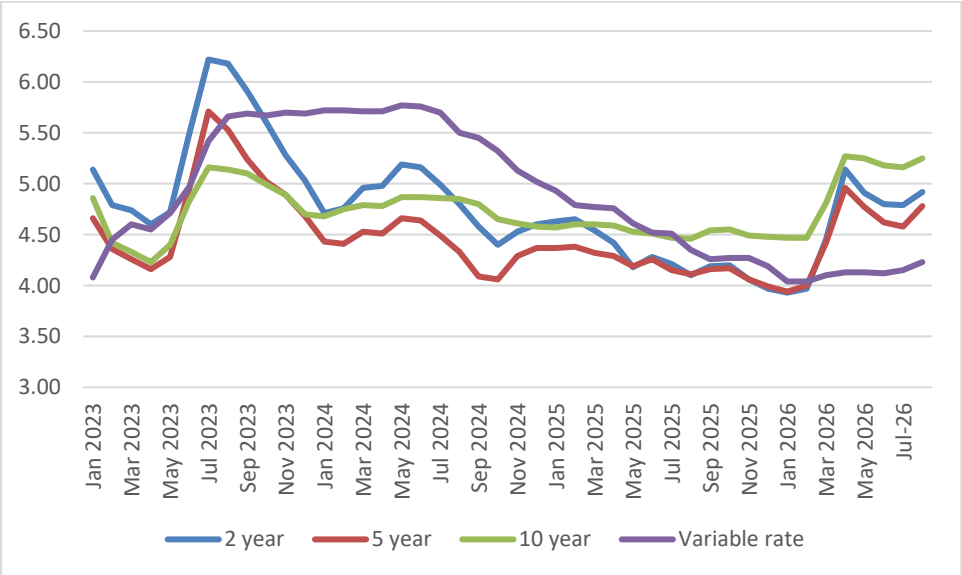


Source: UK Finance, Bank of England

The period since the start of the war in the Middle East has demonstrated the benefits to consumers of both product transfers and the remortgage option. For some borrowers, the ability to check the whole market when coming to the end of a fixed rate deal has allowed them to keep costs down while for others, product transfers have allowed them to avoid the remortgage process. Both have risen by 15% so far this year compared to the average of 2025 (see Chart 14).

Mortgage pricing and products

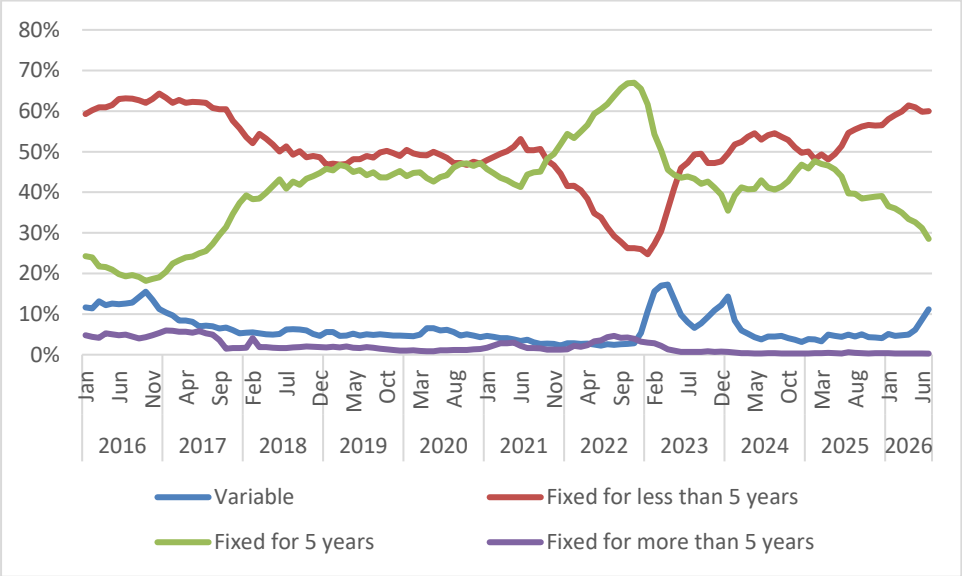
Chart 15 – Mortgage pricing for 75% LTV loans



Source: Bank of England

After falling between April and July, fixed rate mortgage pricing rose again in August (see Chart 15). 5-year average fixed rate mortgage pricing rose by 0.2% between July and August and 2-year fixes by 0.13%, widening the gap with variable rate loans, which have benefitted from the Bank of England decision not to raise Bank Rate.

Chart 16 – Fixed and variable rate share of new lending

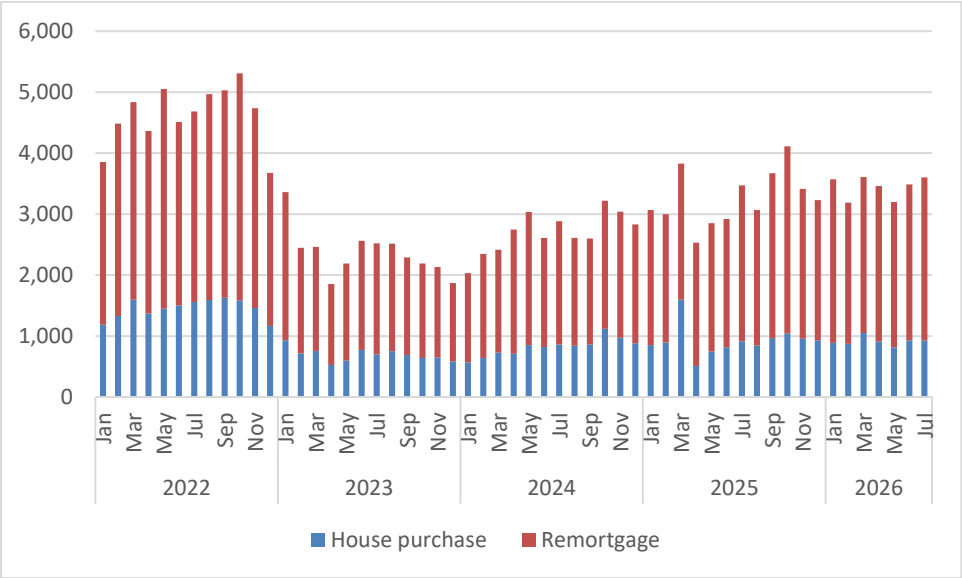


Source: UK Finance

The shifting pattern of pricing is having a noticeable effect on consumers' decisions as to the interest structure they choose. More borrowers are taking variable or track rate loans and significantly fewer are locking in for 5 years, despite these loans being on average cheaper than 2-year fixes (see Chart 16). This suggests that consumers expect mortgage rates to ease back over the next few years.

Buy-to-let market

Chart 17 – Buy-to-let lending (monthly £million)



Source: UK Finance

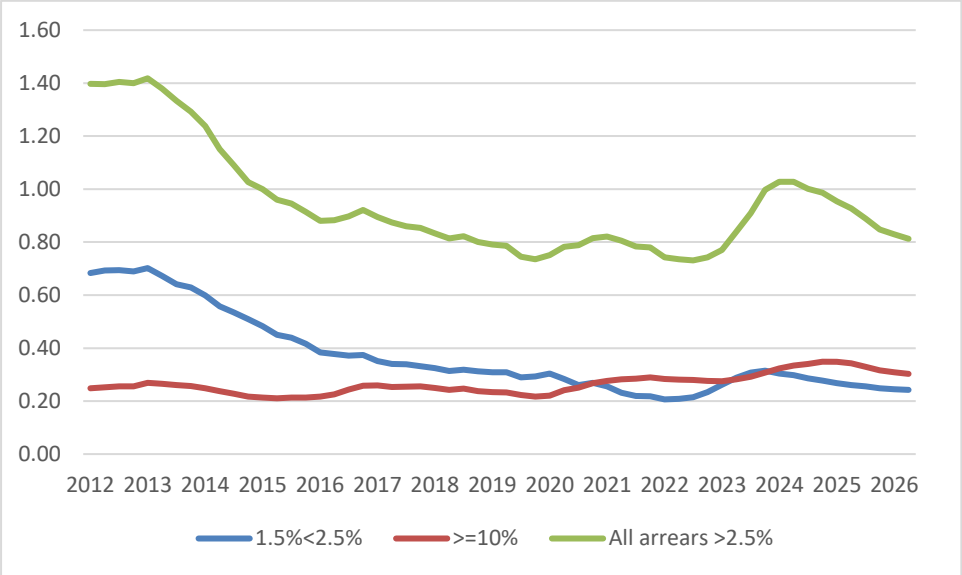
The gap in mortgage pricing between the mainstream and buy-to-let markets has never been more favourable to buy to let. Two-year fixed rate deals in the buy-to-let market were, on average, 73 basis points cheaper than those available to owner-occupiers at the end of August, but this reflected significantly higher arrangement fees in the buy-to-let market, which in turn reflected the difficulties some landlords are having meeting affordability criteria in the higher interest rate environment being experienced this year.

Despite higher mortgage rates, buy-to-let lending has held up well this year, with remortgage activity up 16% in the year to July and house purchase lending ahead by 1% compared to the same period of 2025. July itself was a particularly strong month, with the highest overall lending so far this year (see Chart 17).

Arrears and possessions

Mortgage arrears continued to fall in the second quarter, although the pace of the fall is moderating as can be seen in Chart 18. Both the mainstream and buy-to-let sectors are benefitting from lower arrears and overall arrears over 2.5% of the mortgage balance fell from 0.83% in Q1 to 0.81% in Q2.

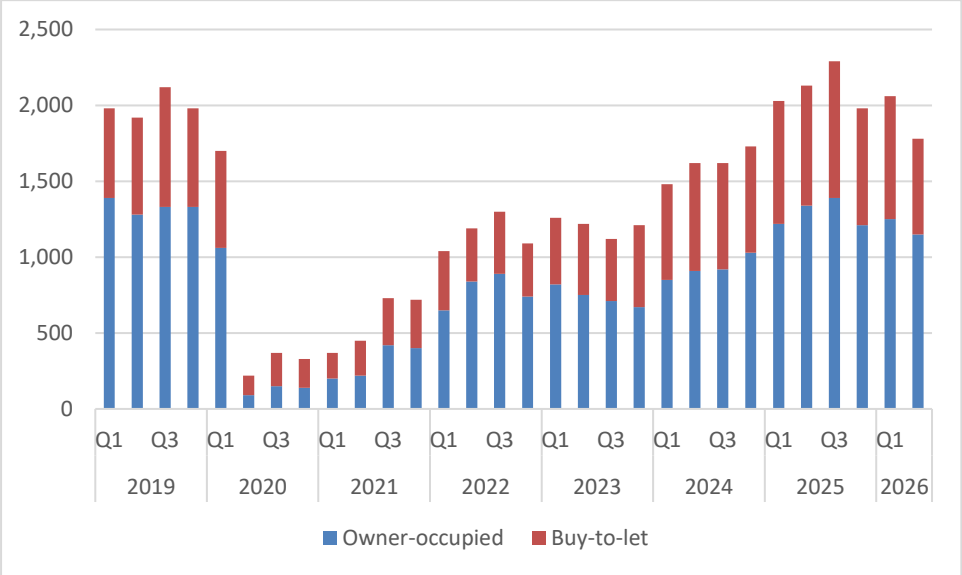
Chart 18 – Mortgages in arrears as % of loan balance



Source: UK Finance

Despite the exceptionally low level that possessions fell to in the post-Covid period, they are again on a downward trend, as can be seen in Chart 19. There were 1,150 owner-occupied properties taken into possession in Q2 and 630 buy-to-lets. This compares to a quarterly average of 1,290 and 820 respectively in 2025. This tends to support the view that, since the introduction of mortgage regulation in 2014, lending standards have tightened to the extent that lending has become overly cautious, keeping too many aspiring borrowers out of the market.

Chart 19 – Number of possessions quarterly



Source: UK Finance

Prospects

The recent setbacks to a resolution of the conflict between the US and Iran have pushed oil and other commodity prices back up over the past three months, worsening the outlook both for inflation and growth in the UK and other advanced economies. The government bond market has been particularly sharply impacted by these developments but there is also growing concern about the sustainability of fiscal deficits in many of these countries, putting further upward pressure on longer term interest rates.

Given the sensitivity of the housing and mortgage markets to changes in interest rates, these developments are likely to have a dampening effect. However, these markets have shown remarkable resilience in the period since interest rates rose from the ultra-low levels we had all grown accustomed to until 2022. 2026 has been no different. Despite yet another external shock sparking a surge in global commodity prices, the housing market has seen neither a significant dip in transactions nor prices.

The Bank of England's measured response to international events has no doubt helped to calm the market and reassure consumers that higher energy prices could unwind and that even if they do not, we do not face a rerun of the inflation spike of 2022-23. Attention will now increasingly turn to the forthcoming Budget, John Healey's first. He faces intense pressure to keep borrowing under control, avoid harmful tax increases and fund fraying public services. This Budget is likely to set the tone for the remainder of this parliament and if he can satisfy the bond market that fiscal discipline will be maintained despite the other pressures he faces, we may be able to reach a calmer period for longer term interest rates, something mortgage lenders and brokers would certainly be relieved to see.