

# UK Inflation and Labour Market

## Insight: August 2025 Release

July UK CPI versus Forecasts

|                      | Headline | Core  | Services | Core goods<br>(NEIG) | Energy | Food, alcohol,<br>tobacco | Food and<br>Non-alc bevs | Alc bevs and<br>tobacco |
|----------------------|----------|-------|----------|----------------------|--------|---------------------------|--------------------------|-------------------------|
| Actual July          | 3.83     | 3.76  | 4.98     | 1.63                 | 1.45   | 5.14                      | 4.95                     | 5.69                    |
| BOE Aug MPR forecast | 3.76     | 3.71* | 4.88     | 1.68                 | 1.39*  | 4.96*                     | 4.74                     | 5.6                     |
| Surprise for BOE     | 0.07     | 0.06* | 0.10     | -0.05                | 0.06*  | 0.18*                     | 0.21                     | 0.09                    |
| MNI Median           | 3.70     | 3.70  | 4.80     | 1.66                 | 0.70   | 5.1                       |                          |                         |
| MNI Mean             | 3.71     | 3.69  | 4.81     | 1.66                 | 0.77   | 5.10                      |                          |                         |
| Bloomberg Consensus  | 3.7      | 3.7   | 4.8      |                      |        |                           |                          |                         |
| June                 | 3.58     | 3.66* | 4.73     | 1.81                 | -0.66* | 5.01*                     | 4.55                     | 6.37                    |

Source: MNI, ONS, BOE

Note: BOE forecasts for Core, Energy and food, alcohol, tobacco calculated by MNI

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## Contents

Page 1: Summary  
 Page 1: Implications for the BOE  
 Page 2: CPI Review Details  
 Page 2: Labour Market Details

25 August, by Tim Davis and Emil Lundh

Headline CPI came in line with the BOE's rounded forecast at 3.8%Y/Y and 7 hundredths above the BOE's unrounded forecast at 3.83%Y/Y. We think the marginal upside surprise to the Bank's forecast was partly driven by food prices (which are still concerning) and partly by air fares (which are not). Consensus was also surprised to the upside to a larger extent by not fully taking into account the ONS' methodology for energy bills. The big picture is that this data does not change the likely peak for CPI meaningfully. Labour market data were also a little on the stronger side with the employment level increasing by 238k (190k expected), payrolls coming in a little higher than expected (with upward revisions) and wage growth in line with consensus expectations.

### Implications for the BOE

What will the MPC make of the data? We had already argued following the August meeting that the 4 hawkish dissenters were unlikely to change their vote until December at the earliest.

The peak unlikely to be changing is likely to be the key for the remaining members so we don't think this month's releases change things too much. But Ramsden is very focused on the labour market (which wasn't quite as soft as expected last week) so his vote for November already had a small question mark against it. And given that the surprise in headline inflation was partly caused by food price inflation that will factor into the thinking of Bailey and Breeden, who we think are the true swing voters here.

The market is only pricing in 5bp for November as of last week's close, however, and cumulatively 10bp by December. We still think both meetings are in play albeit far from certain. And we will have the Budget before the December meeting, more detail on whether the inflation peak is likely to influence 2026 pay settlements and know the level of the peak of CPI by then too.

Labour Market Summary

|                               | Latest Apr-<br>Jun | MNI Median | MNI Mean               | Bloomberg<br>Consensus | Prior (Mar-<br>May) | Unrevised<br>(Mar-May) |
|-------------------------------|--------------------|------------|------------------------|------------------------|---------------------|------------------------|
| Total AWE                     | 4.62               | 4.7        | 4.66                   | 4.7                    | 5.02                | 4.99                   |
| AWE ex bonus                  | 4.97               | 5.0        | 4.98                   | 5.0                    | 5.02                | 5.00                   |
| Private sector AWE            | 4.66               |            |                        |                        | 4.99                | 4.94                   |
| Private AWE ex bonus          | 4.79               | 4.8        | 4.80                   | 4.8                    | 4.90                | 4.88                   |
| Public sector AWE             | 5.26               |            |                        |                        | 5.30                | 5.32                   |
| Public AWE ex bonus           | 5.69               |            |                        |                        | 5.49                | 5.51                   |
| Unemployment rate             | 4.66               | 4.8        | 4.76                   | 4.7                    | 4.67                | 4.67                   |
| Economic activity rate        | 79.03              |            |                        |                        | 78.99               | 78.99                  |
| Employment rate               | 75.27              |            |                        |                        | 75.24               | 75.24                  |
| Employment change (3m/3m)     | 238                | 190        | 179                    | 185                    | 134                 | 134                    |
|                               | May-Jul            | Apr-Jun    | Apr-Jun<br>(unrevised) |                        | Mar-May             | Unrevised<br>(Mar-May) |
| Vacancies (000s)              | 718                | 725        | 727                    |                        | 738                 | 738                    |
| V-U Ratio                     | 0.43               | 0.43       | 0.43                   |                        | 0.44                | 0.44                   |
|                               | July (flash)       | June       | June<br>(Unrevised)    | May                    | May<br>(Unrevised)  | April                  |
| Payrolled employees (000s) SA | 30,286             | 30,294     | 30,266                 | 30,321                 | 30,307              | 30,342                 |
| Net revisions                 |                    | 29         |                        | 14                     |                     | 10                     |
| M/M Change SA                 | -8.4               | -26.4      | -41.4                  | -21.6                  | -25.5               | -17.4                  |
| M/M Change SA (MNI Median)    | -22.5              | -15        |                        |                        |                     |                        |
| M/M Change SA (MNI Mean)      | -24                | -17        |                        |                        |                     |                        |
| 3M Change SA                  | -56.3              | -65.4      | -89.7                  | -64.1                  | -75.1               | -67.5                  |
| Payrolled employees (Y/Y) NSA | -164.7             | -149.9     | -179.7                 | -119.9                 | -133.2              | -77.3                  |
| PAYE median pay (Y/Y) SA      | 5.67%              | 5.78%      | 5.57%                  | 5.67%                  | 5.71%               | 6.12%                  |

Source: MNI, ONS

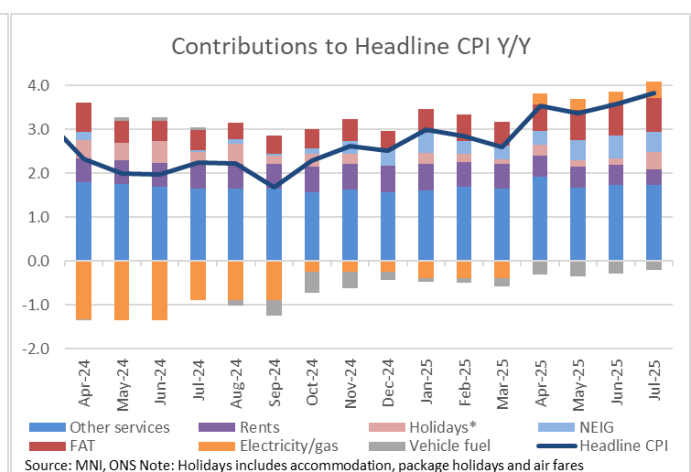
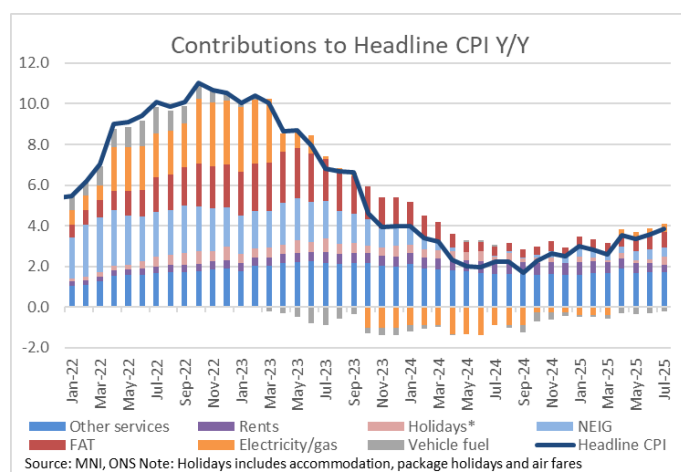
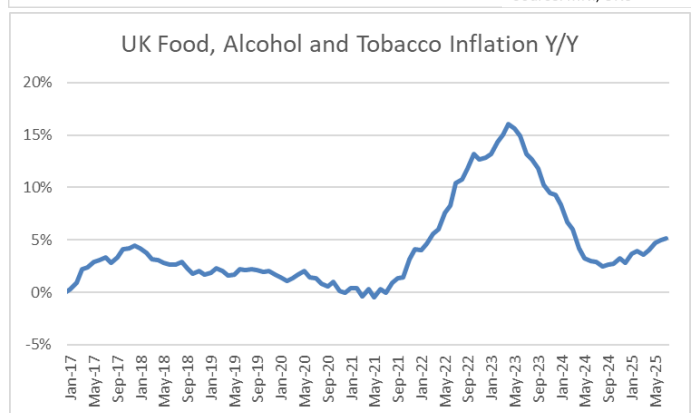
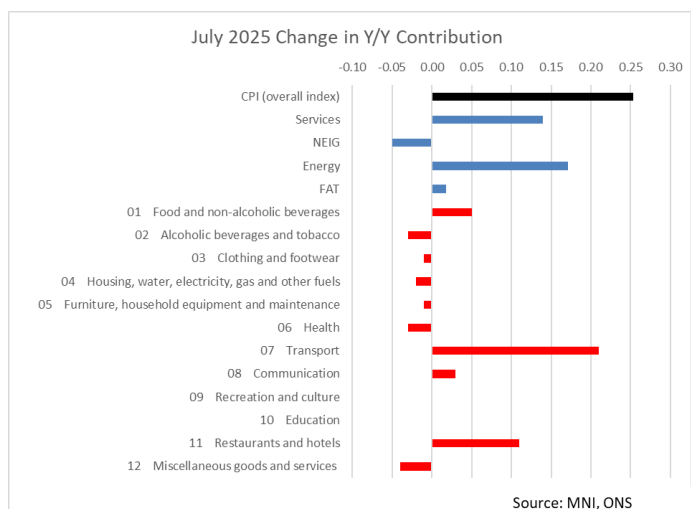
## CPI Review Details

Air fares alone added 11 hundredths to headline CPI while cultural services added 5 hundredths. These were likely not fully anticipated. However, accommodation that also contributed an extra 9 hundredths to headline CPI was largely a reversal of base effects from last month (and possibly partially higher due to the proximity of Oasis' Manchester concert).

The majority of the surprise to the BOE's services forecast is therefore likely to have been temporary factors and there is even a chance that other services components were lower than expected. Looking ahead for next month, there is a chance that we see another high month for accommodation and cultural services given the Oasis concert in Edinburgh and the Fringe coinciding with the likely index date. These should revert to a more "normal" level in the September data, however which is likely to still represent the expected peak. On the positive side rents fell to 4.54%Y/Y which took 10 tenths off of headline CPI (a fall was expected but that seems a little larger than expected to us).

Food and non-alcoholic beverages were 21 hundredths above the BOE's forecast, increasing to 4.95%Y/Y from 4.55% (BOE 4.74%). This contributed 5 hundredths to headline CPI (2 hundredths more than the BOE expected). Based on our calculations we also expect alcoholic beverages and tobacco surprised by just under a tenth to the upside despite falling from 6.37% to 5.69%Y/Y and contributing negative 3 hundredths to the change in Y/Y headline CPI.

The higher-than-expected food price inflation will be a cause of at least some concern for MPC members given they have continually emphasised that food price inflation has an outsized impact on inflation expectations and there was an entire box dedicated to this in the August MPR. Note that the BOE's forecasts for the next 2-3 months



## Labour market details

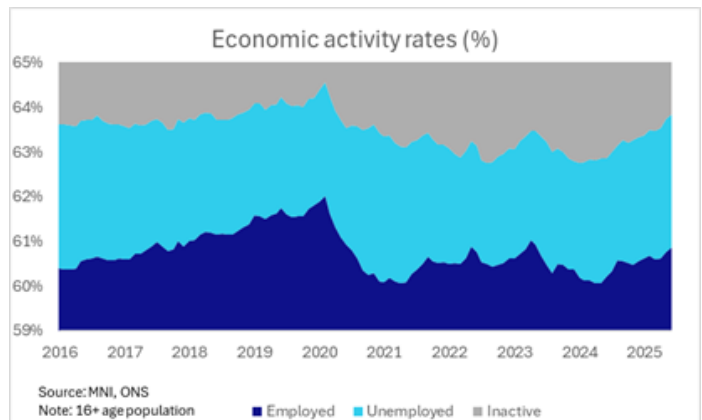
Private sector regular pay growth was 4.79% Y/Y in the three months to June, in line with the 4.8% consensus and versus 4.90% prior (only revised marginally from 4.88%). This represents an undershoot of 41bp from the BOE's May MPR forecast of 5.20%Y/Y. The August MPR did not include an updated projection for this number but the downward revision to its Q3 projection was only 9bp (from 4.71% to 4.62%) and for Q4 a downward revision of 18bp to 3.66%Y/Y.

The single month reading for June was 4.52% Y/Y compared to a March 2025 Y/Y reading of 4.86% - almost a four tenth moderation in wage growth for the same cohort. A reminder that the April and May single month Y/Y readings saw more notable decelerations of 0.9pp based on the same cohort. Relative to the July release, there was an upward revision of 8bps to the single-month measure for May 2025 (now 4.91% Y/Y). Meanwhile, April 2024 was revised down 1bp, May 2024 was revised down 5bps and June 2024 was revised down 1bp.

### Stronger LFS Employment Growth Keeps Unemployment Rate Steady

The unemployment rate was 4.66% in the three months to June (vs 4.67% prior). The BOE's August MPR forecast was for 4.71% so is broadly in line, while it was in line with Bloomberg consensus on a rounded basis (4.7%). However, it's still somewhat notable given seven of the sellside previews we had seen looked for an increase to a rounded 4.8% and the data is 10bp below the MNI mean of 4.76%.

Whereas recent increases in the unemployment rate have been largely driven by rising participation rates (and not falling employment rates), the three months to June saw marginal increases in both participation and employment rates. Note that Governor Bailey in Jackson Hole said that the Bank is now more focused on participation. The bulk of the initial market reaction was likely driven by 3m/3m employment growth, which surprised significantly to the upside at 238k (vs 185k MNI median, 134k prior). The LFS employment growth reading presents some tension with other indicators.





The bulk of the surveys/metrics we track (including RTI-PAYE payrolls, more on that below) continue to point to slowing employment growth in contrast to the LFS.

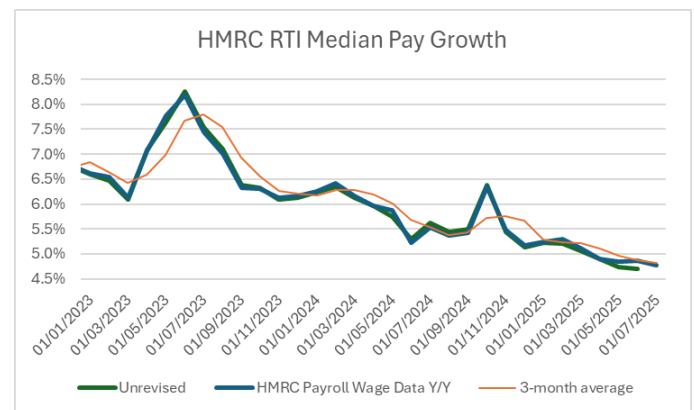
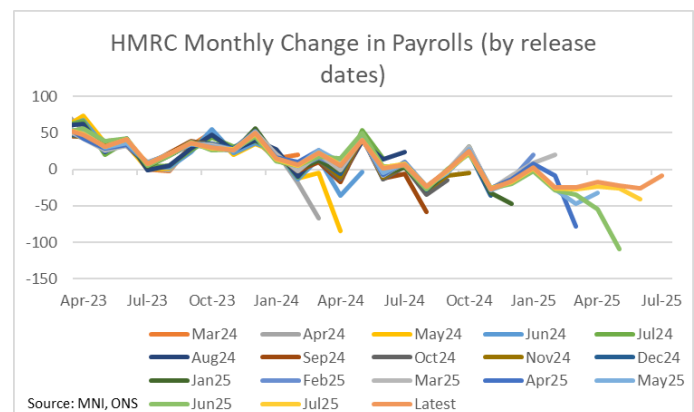
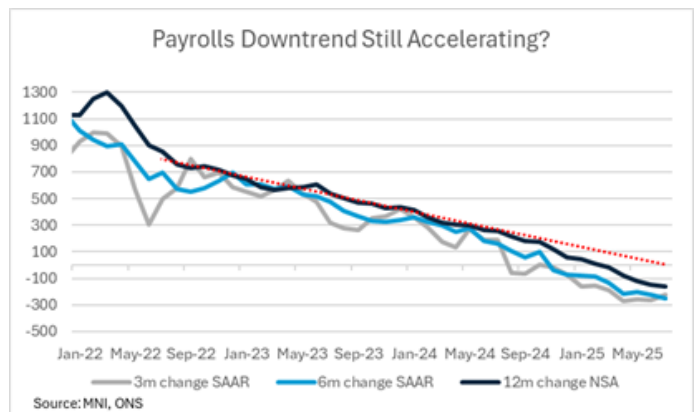
There was a 44k Q/Q fall in vacancies in the three months to July according to preliminary data. This was the 37th consecutive negative sequential reading, and represented a 5.8% fall compared to the three months to April 2025. Assuming the number of unemployed persons is constant in the three months to July compared to June, this implies another marginal fall in the V/U ratio on a third decimal. The ratio was 0.43 in the three months to June, in line with the BOE's Q2 forecast. The BOE also estimates that equilibrium is at 0.54 – showing that there is slack in the labour market.

#### *Less Evidence Of An Accelerating Payrolls Downtrend*

PAYE-RTI flash payrolls data for July was not as bad as feared, falling 8k compared to a median of around -20k. Meanwhile, the revision for June was broadly in line with the range of expectations we had seen. The flash reading of -41k was revised up to -26k in the current vintage. There were also smaller upward revisions going back to December 2024, so while sequential payrolls growth is still negative, there doesn't seem to be as much evidence that the payrolls downtrend is still accelerating.

Briefly taking a look at the PAYE-RTI median pay series (which should be taken with plenty of salt, like the payrolls reading, due to revisions), the July flash reading implied growth of 5.67% Y/Y. However, June was revised up to 5.78% Y/Y from 5.57% Y/Y initial.

Looking instead at median pay growth (rather than growth calculated from median nominal pay), the single month print for July eased to 4.76% Y/Y (vs 4.86% prior). This implied a 3m Y/Y average of 4.82% (vs 4.87% prior). However, note that there were upward revisions of 10bp and 15bp to the May and June single month readings respectively, with smaller upward revisions seen back to November 2024.



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