UK Inflation and Labour Market Insight: September 2025 Release

August UK CPI versus Forecasts

	Headline	Core	Services	Core goods (NEIG)	Energy	Food, alcohol, tobacco	Food and Non-alc bevs	Alc bevs and tobacco
Actual August	3.79	3.59	4.72	1.61	2.47	5.33	5.12	5.92
BOE Aug MPR forecast	3.79	3.62*	4.80	1.57	2.03*	5.32*	5.22	5.6
Surprise for BOE	0.00	-0.03*	-0.08	0.04	0.44*	0.01*	-0.09	0.28
MNI Median	3.8	3.6	4.8	1.62	2.50	5.4	5.0	
MNI Mean	3.81	3.62	4.78	1.60	2.48	5.40	5.07	
Bloomberg Consensus	3.8	3.6	4.8					
July	3.83	3.76*	4.98	1.63	1.45*	5.14*	4.95	5.69
Jul BOE Surprise	0.07	0.06*	0.10	-0.05	0.06*	0.18*	0.21	0.09

Source: MNI, ONS, BOE

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

Contents

18 September, by Tim Davis

Both of this week's major releases were broadly in line with expectations and therefore don't really move the needle with regards to the probability of a cut in Q4. We also think they will have no implication on the communication from today's MPC meeting (or for the vote split today).

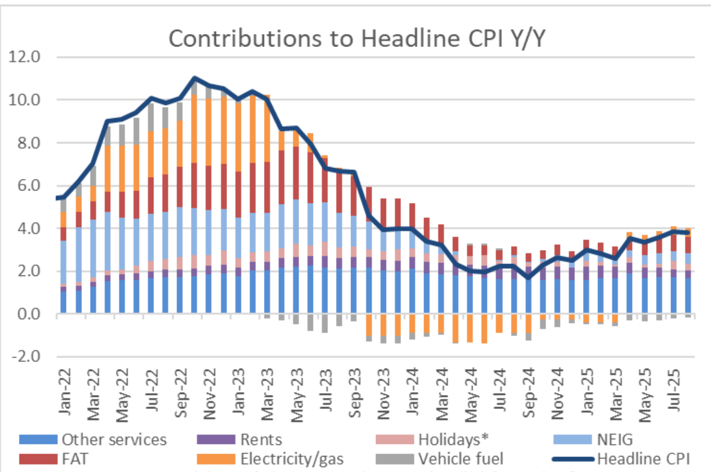
Labour Market Summary

	Latest May-Jul	MNI Median	MNI Mean	Bloomberg Consensus	Prior (Apr-Jun)	Unrevised (Apr-Jun)
Total AWE	4.71	4.7	4.72	4.7	4.65	4.62
AWE ex bonus	4.83	4.8	4.80	4.8	4.98	4.97
Private sector AWE	4.63				4.68	4.66
Private AWE ex bonus	4.66	4.7	4.65	4.7	4.80	4.79
Public sector AWE	5.08				5.29	5.26
Public AWE ex bonus	5.56				5.71	5.69
Unemployment rate	4.66	4.7	4.72	4.7	4.66	4.66
Economic activity rate	78.93				79.03	79.03
Employment rate	75.17				75.27	75.27
Employment change (3m/3m)	232	220	214	220	238	238
	May-Jul	May-Jul	May-Jul (unrevised)		Apr-Jun	Unrevised (Apr-Jun)
Vacancies (000s)	728	720	718		726	725
V-U Ratio	0.43	0.43	0.43		0.43	0.43
	August (flash)	July	Jul (Unrevised)	June	Jun (Unrevised)	May
Payrolled employees (000s) SA	30,300	30,308	30,286	30,313	30,294	30,338
Net revisions		22		19		17
M/M Change SA	-7.7	-5.7	-8.4	-24.6	-26.4	-19.8
M/M Change SA (MNI Median)	-22.5	-15				
M/M Change SA (MNI Mean)	-24	-17				
3M Change SA	-38.0	-50.1	-56.3	-53.0	-65.4	-50.2
Payrolled employees (Y/Y) NSA	-129.3	-142.5	-164.7	-131.0	-149.9	-102.7
PAYE median pay (Y/Y) SA	6.56%	6.00%	5.67%	5.73%	5.78%	5.67%

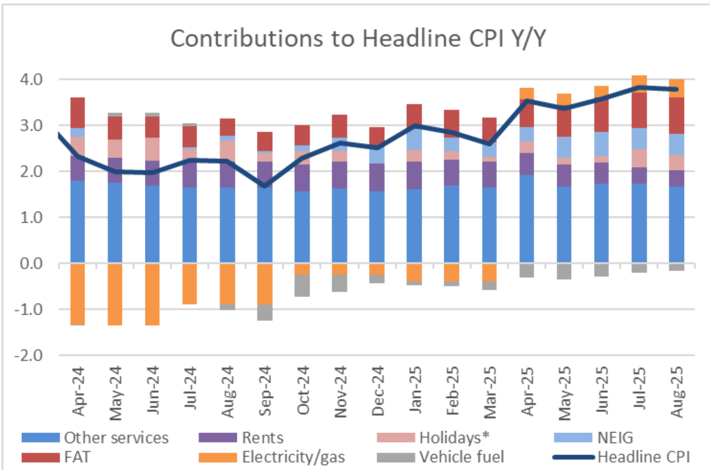
Source: MNI, ONS

Headline CPI in line with BOE Forecast

CPI was the more straightforward print with August headline CPI coming in at 3.79%Y/Y, exactly in line with the BOE's forecast (July hadn't been a huge surprise either at 3.83%Y/Y vs BOE's 3.76% forecast) and in line with the 3.8% consensus projection. However, the component breakdown was a little different



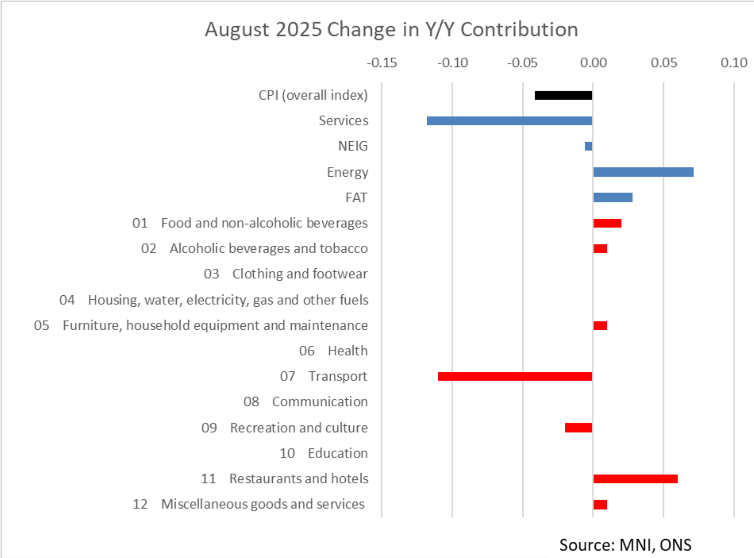
Source: MNI, ONS Note: Holidays includes accommodation, package holidays and air fares



Source: MNI, ONS Note: Holidays includes accommodation, package holidays and air fares to in July and arguably we would say may be very, very marginally favourable given the Bank's recent communications.

Services CPI Mainly Pulled Lower by Air Fares, largely reversing July's survey date issue, but the move lower in air fares cannot be fully explained by that and may partially reverse some weakness next month

Services CPI fell back to 4.72%Y/Y (8 hundredths below the BOE forecast). On a rounded basis this was also a tenth softer than the consensus. The print marked a deceleration from July's 4.98%Y/Y (which was 10 hundredths above the BOE forecast). However, much of this deceleration was due to the unwind of air fares (which contributed -0.17ppt to the change in headline CPI and broadly double that to the change in services CPI) and package holidays (which contributed -0.03ppt to headline CPI). Together these two components would have contributed a 4 tenths fall to services CPI on their own but at least two thirds of the fall is due to the base effects from the late survey date in July which was much closer to the summer holidays than usual. We see scope for maybe 5-8 hundredths to be added back to headline CPI in the September data, however from air fares.



Hotels pushed services CPI higher; unclear how much is an "Oasis effect"

Offsetting this to some extent on the services side, was accommodation services which contributed 6 tenths positively to headline CPI (and again roughly double that for services CPI). The overnight hotels index saw a smaller fall this year than last year – although some of this may have been driven by the Oasis concert in Scotland. This appears to show up in some of the price quote data for the Scottish hotels, but it's unclear how much this moved the entire category. The hotels category itself is only printing at 2.0%Y/Y – and will have been one of the sectors impacted most by the increase of the employer NICs and increase in the National Living Wage (NLW) in April.

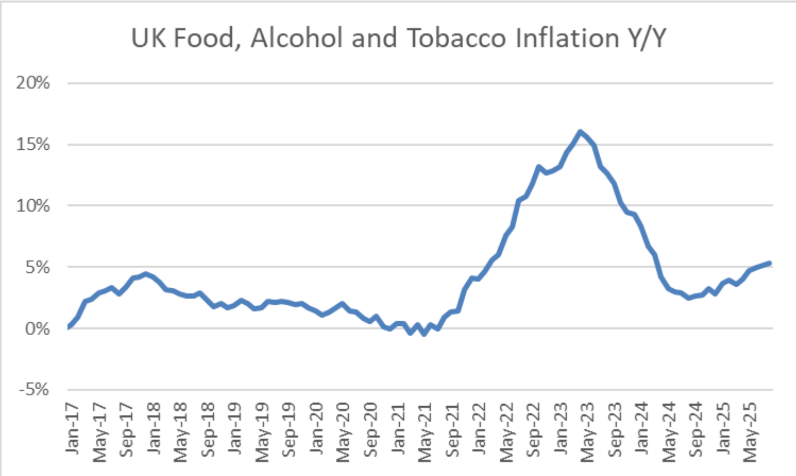
Canteens seeing food price increases passed on, restaurants and cafes still showing little impact yet

Ahead of the release there had also been concerns that catering could surprise to the upside given the wholesale increase in food prices and large proportion of low paid workers impacted by employer NICs and NLW. However, the 4.18%Y/Y increase (despite being the highest for 11 months) was only a little higher than the 4.12Y/Y increase seen last month and still smaller than the 4.50%Y/Y seen in August 2024. Looking at the breakdown, however, restaurants, cafes and takeaways have seen their Y/Y price growth remain fairly stable since around February (in rounded terms printing between 3.9-4.2%Y/Y consistently). It has been canteens that have shown an increase in costs with prices 5.3%Y/Y in August from 2.2%Y/Y in July (which had been the first positive print since August 2023). Given that canteens tends to work on low margins the passthrough from wholesale food costs would be very likely to be seen here. The lack of passthrough to restaurants, cafes and takeaways suggests that despite the increase in costs these businesses have thus far have decided to take lower profit margins – which may suggest that they are concerned that consumers would not stomach further price increases.

Food inflation above 5% but slightly below BOE forecast

The other big focus for the MPC has been food prices – which are seen to have a larger impact on co nsumer inflation expectations than their weight in the CPI basket would suggest. The food and non-alcoholic beverages category did breach 5% for the first time since February 2024 (which is likely to garner headlines) but the 5.12%Y/Y increase was 9 hundredths lower than the BOE's 5.22%Y/Y forecast. This is in contract to a 21 hundredth upside surprise in the July data.

Alcohol and tobacco increases leave FAT inflation close to our estimate of the BOE's projection



However, alcohol and tobacco prices came in on the relatively strong side, increasing to 5.92%Y/Y in August from 5.69%Y/Y in July. The BOE doesn't publish a forecast for this category explicitly but from their published datasets we have backed out a 5.6%Y/Y projection for August. Pulling this together with the food and non-alcoholic beverages category, the broader "food, alcohol and tobacco" category rose 5.33%Y/Y in August, up from 5.14%Y/Y in July. We estimate the BOE's August projection broadly in line at 5.32%Y/Y (whereas in July we estimate the BOE was surprised to the upside by 18 hundredths).

Petrol /diesel the biggest upside surprise to the BOE's projections – but in line with recent sellside views

The biggest upside surprise to the Bank of England's forecast was for fuels and lubricants which contributed 6 hundredths to the increase in headline CPI with the Y/Y rate rising to -4.86%Y/Y to -6.67%Y/Y. The BOE had pencilled in a 4 hundredth contribution increase between July and August but the category also surprised them to the upside last month. The BOE's forecast was for -5.61%Y/Y. There was no real notable change in the "electricity and gas" category this month (following the increase in the price cap the prior month).

No real impact from core goods inflation

Core goods rose 1.61%Y/Y – broadly in line with both BOE and consensus estimates. There were no real notable moves within this category.

Labour market data: Decelerating Pay growth, but less clarity from quantities data

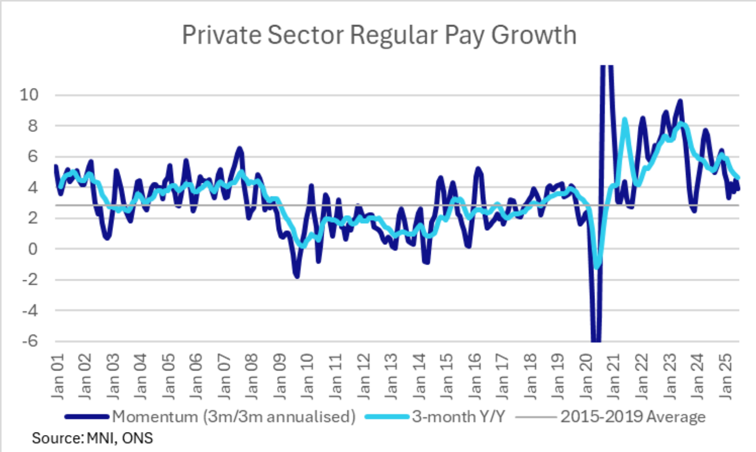
Turning to the labour market data, wage data was broadly in line with consensus expectations (but we think that equates to tracking at a softer rate than the BOE forecast) while vacancies data seems to have stabilised somewhat and employment quantities data saw a minorly better outturn than consensus pencilled in.

Private regular pay appears to be on track to undershoot BOE's Q3 forecast, but by less than in Q2

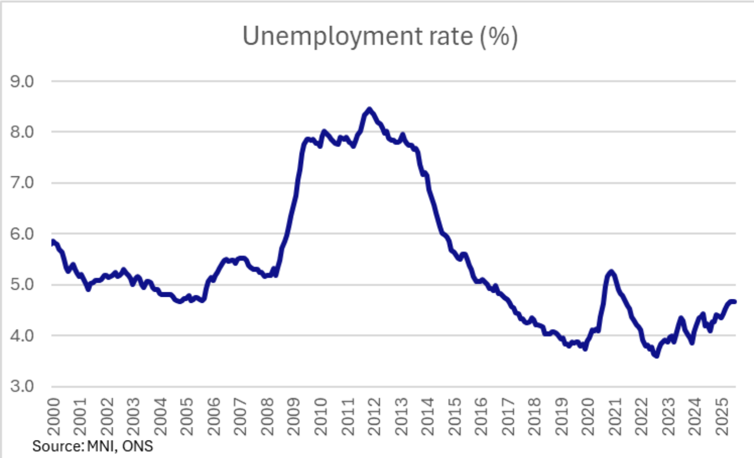
Private regular pay came in at 4.66% Y/Y on a 3-month basis to July (almost exactly in line with the mean of 4.65% we had seen from sell side estimates). The entire series only saw minor revisions. The single month print for July came in at 4.51%Y/Y with only a minor 0.03ppt upward revision to the June single month print to 4.55%Y/Y.

These two single month prints of 4.51% and 4.55% followed three single month prints between 4.86-4.91%Y/Y. So if the August single month reading follows the same pattern as the most recent two cohorts, we will be on course for the headline 3-month figure to be in the 4.5-4.6%Y/Y range in the 3-months to August. Recall that the headline series for private regular AWE is the simple average of the 3 single months. The BOE only forecasts this on a quarterly basis but its Q3 forecast from its August MPR looks for 4.62%Y/Y (i.e. the 3-months to September).

So there appears to be plenty of scope for the BOE's private regular AWE forecast to be undershot a month early, even if we do see some upside revisions to the single month data (as we have done in recent months). We would describe this data as soft, but at present it doesn't appear to be tracking as much of an undershoot as the 0.41ppt undershoot we saw in Q2 (which was one of the factors mentioned by Governor Bailey as factoring into his decision to vote for an August cut).

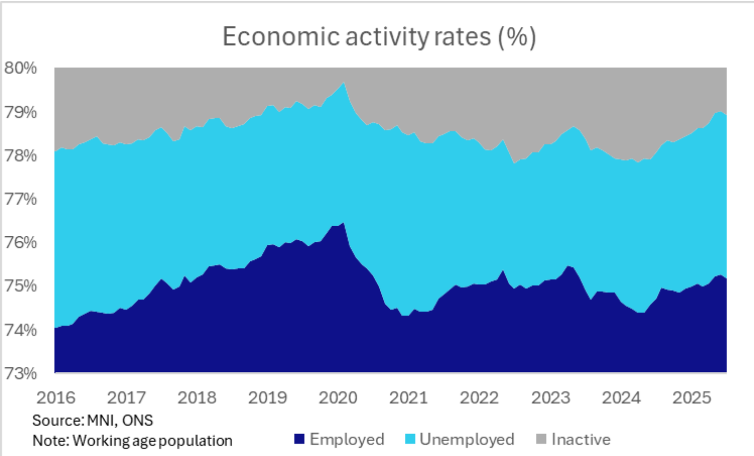


Public sector 3-month Y/Y ex-bonus AWE saw a similar 0.15ppt deceleration to 5.56%Y/Y, leading to the whole economy number falling from 4.98% to 4.83%Y/Y in the 3-months to July. Neither of these numbers are forecast by the BOE, but the latter was in line with the previews that we had read.



The unemployment rate remained at 4.66%

The 16+ headline unemployment rate remained at 4.66% in the 3-months to July (with the rounded 4.7% print expected by the vast majority of previews that we read). The BOE's forecast for Q3 is for a slight increase to 4.76%.



Working-age economic activity rate didn't increase, but 65+ rate continues to push higher

The headline 16-64 economic activity rate fell a little to 78.93% from 79.03%, the first time we haven't seen an unrounded increase since October 2024. However, the economically active 65+ level increased once more to 13.46% - this is the highest level this has ever been after breaching 13% for the first time in the 3-months to June. Note that this rate has increased by around 1.5ppt over the past year. In aggregate this means that the 16+ economic activity rate has remained at 63.84%.

LFS employment, vacancies and PAYE payrolls sound no huge alarm bells on the quantities side

The LFS employment level increased by 232k in the 3-months to July, broadly in line with both consensus (220k) and the 3-monts to June (238k).

Vacancies picked marginally increased in the 3-months to August relative to the 3-months to July (728k versus 720k). Looking at the V/U ratio this has now remained at 0.43 for 3 consecutive months – although we have seen similar pauses in the downward trend already in this cycle. So it's hard to read too much into that at present.

PAYE payrolls were also marginally better than expected with the flash print for August at -7.7k vs -15k expected. Overall PAYE payrolls revisions are much smaller than seen in recent months. The July change was revised up to -5.7k from -8.4k while the number of employees in July was revised up to 30.31mln (22k higher than the previous estimate). The flash August estimate is 30.30mln. This shows a gradual decline from a peak of 30.45mln in October 2024. Recall the big downside surprise in the flash May data (that has since been severely revised); to put that into context it estimated that the PAYE employment level had fallen to 30.17mln.