

UK Inflation and Labour Market

Insight: October 2025 Release

14 October, by Tim Davis

All in all a disappointing UK labour market report - likely increasing the probability that Governor Bailey wants to keep optionality for voting for a Q4 cut and hence eliciting a negative GBP FX reaction and seeing SONIA futures move to price in around a 35% probability of a Q4 cut (up from around 23% as of yesterday's close). The key surprise for us is the soft private regular AWE data as we note that Governor Bailey cited in explaining his decision to vote for an August cut the softer-than-forecast data on this front in Q2 (which undershot the BOE's forecast by 0.4ppt). Assuming the Y/Y single month rate for September remains in line with that seen in today's August print and no further revisions, we are on track to undershoot by 0.3ppt in Q3 (a forecast that had already been downgraded in the August MPR).

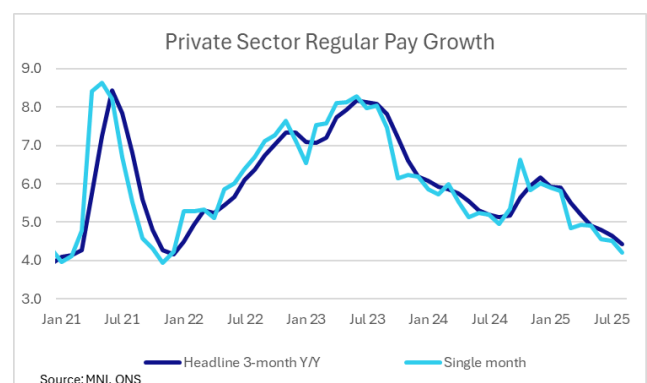
Aside from the poor private sector wage numbers: the unemployment rate was higher than expected (and higher than the BOE's Q3 forecast), there was a smaller 3-month LFS employment growth number than consensus expected and vacancies fall. The brighter points were that public sector bonuses were higher than expected (bringing up the total whole economy pay number) while there were some upward revisions to payroll growth so the 3-month fall in payrolls is only 0.2k (from a 38k fall to the 3-months of Aug that was revised to -12.6k).

The details of the private regular AWE disappointment

The headline 3-month average private regular AWE number of 4.42%Y/Y in the 3-months to August (4.5% expected) was underpinned by big downward surprise to the single month number for August which came in at 4.21%Y/Y in September. That follows 4.51% in July and 4.55% in June (neither of which were revised). That is the lowest M/M rise (0.11%) since March.

Labour Market Summary						
	Latest Jun-Aug	MNI Median	MNI Mean	Bloomberg Consensus	Prior (May-Jul)	Unrevised (May-Jul)
Total AWE	4.98	4.75	4.75	4.7	4.79	4.71
AWE ex bonus	4.73	4.8	4.77	4.8	4.84	4.83
Private sector AWE	4.76				4.71	4.63
Private AWE ex bonus	4.42	4.5	4.50	4.5	4.66	4.66
Public sector AWE	5.80				5.13	5.08
Public AWE ex bonus	5.98				5.59	5.56
Unemployment rate	4.83	4.7	4.67	4.7	4.66	4.66
Economic activity rate	78.96				78.93	78.93
Employment rate	75.06				75.17	75.17
Employment change (3m/3m)	91	125	136	125	232	232
	Jul-Sep (flash)	Jun-Aug	Jun-Aug (unrevised)		May-Jul	Unrevised (May-Jul)
Vacancies (000s)	717	728	728		720	720
V-U Ratio	0.41	0.42	0.43		0.43	0.43
	September (flash)	August	August (Unrevised)	July	July (Unrevised)	June
Payrolled employees (000s) SA	30,324	30,334	30,300	30,324	30,308	30,324
Net revisions		34		17		11
M/M Change SA	-9.8	9.6	-7.7	0.0	-5.7	-22.3
M/M Change SA (MNI Median)	-22.5	-15				
M/M Change SA (MNI Mean)	-24	-17				
3M Change SA	-0.2	-12.6	-38.0	-36.2	-50.1	-43.1
6M Change SA	-43.3	-54.1	-105.0	-82.5	-94.0	-83.9
Payrolled employees (Y/Y) NSA	-100.0	-93.3	-127.0	-128.3	-141.9	-122.7
PAYE median pay (Y/Y) SA	5.51%	6.51%	6.56%	5.96%	6.00%	5.69%

Source: MNI, ONS



Recall that the BOE's forecast is for 4.62%Y/Y in the 3-months to September. If we assumed we saw another single month Y/Y print in September the same as today's that would lead to a 0.3ppt downward surprise to the BOE's forecast.

Looking at momentum (3m/3m annualised) it's also possible to see that pay growth is heading back towards the 2015-19 average levels.

We will look further into the sectoral breakdown in future Insights, but for now it appears as though there may be some base effects in wholesaling, retailing and hospitality and there appear to be notable M/M weakness in the "finance and business services" category.

PAYE median monthly pay also saw a decent downside move, falling 1ppt to 5.51%Y/Y, but this series remains elevated.

Unemployment rate moves above BOE's Q3 Forecast

We have also saw the unemployment rate increase to 4.83% from 4.66% despite only marginal changes to the economic activity rate. This now puts the unemployment rate above the BOE's Q3 forecast of 4.76% (with a month of the quarter left to go). This was largely due to a smaller than expected employment change of 91k in the 3-months to August (125k expected). This is sharply down from 232k in the May-July period.

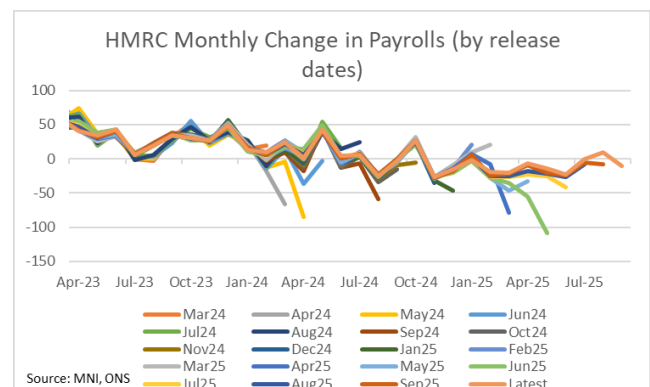
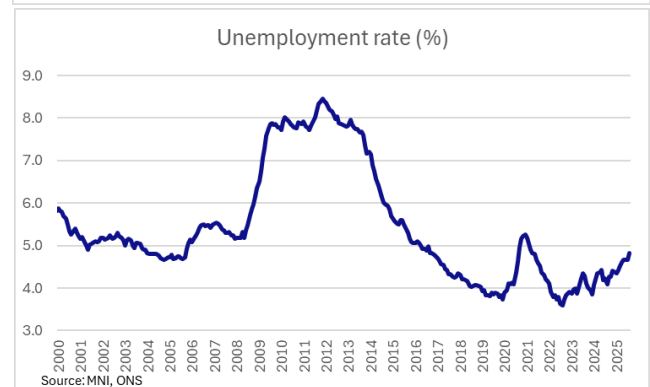
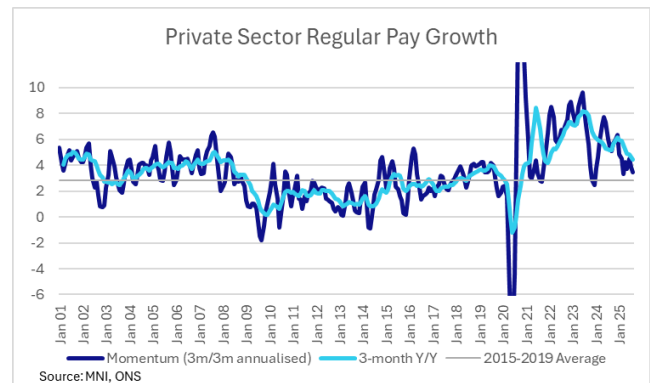
Vacancies fell to a cycle low

Vacancies fell to their cycle low of 717k in the 3-months to September (marginally below the 3-months to July's 720k and the unexpected move higher to 728k seen in the 3-months to August). The V/U ratio has fallen further to 0.41 (from 0.42 last month which was revised down from 0.43).

The claimant count rate was 4.4% and showed a decent rise in September, but the rise in August was revised away.

Payrolls revised higher – now looking almost flat over 3-months

As noted above, the main bright spot in the report is payrolls revisions. September M/M was broadly in line falling 9.8k (-11k exp) but there was an upward revision to August from -7.7k to +9.6k and July was also revised to a flat print (rather than a -5.7k fall. This means that payrolls look to have stabilised rather than fall over the past 3-months now and only fallen 0.2k



The trend looking a bit longer term is still down (-43.3k over 6-months – but this was -105k unrevised in the 6-months to August) and -100.0k over 12-months (-127k unrevised to July). But this may be enough for some of the more hawkish members to point to potential stabilisation of the labour market. At the very least, the points made by both Mann and Greene over the past week that the labour market no longer looks like it is falling off a cliff can be illustrated by this chart. And the quantities data in LFS show a slow and gradual pick up in unemployment too.

Something for everyone in the labour report

There was really something for everyone in that labour market report.

We think of it more as disappointing given the wage growth, vacancies and LFS disappointments. And we think that the doves on the MPC will be emboldened to vote for Q4 cuts on the back of this (Dhingra, Taylor, Breeden, Ramsden). The latter two we don't think are set in stone yet, however.

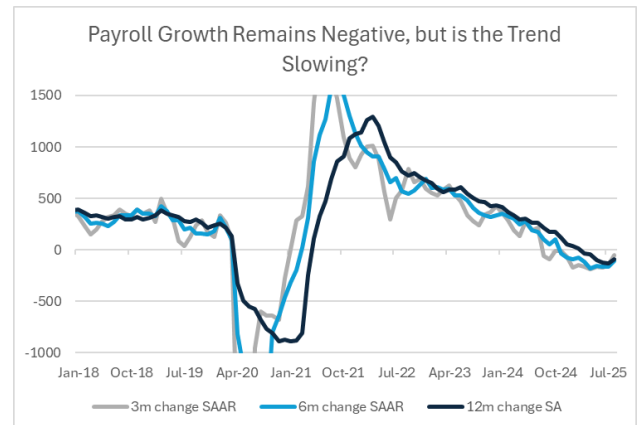
However, the more hawkish members (Mann, Greene, Pill, Lombardelli) may focus on the payroll revisions showing that quantities data in the labour market hasn't fallen as fast as previously thought.

Where does this leave Governor Bailey? Still as the swing voter in our view. He pointed to a downside surprise to wage growth being one of his motivations for voting for an August cut. But we aren't sure this data set will convince him either way.

Next week we will receive the final CPI report ahead of the November MPC meeting and that is likely to be of huge importance to Bailey.

We will also hear from the Governor tonight. He is due to have a fireside chat with Tim Adams, at the Institute of International Finance's 2025 annual membership meeting, kicking off at 18:00BST. We will be watching closely for any hints of his Q4 voting intentions.

Despite markets now pricing in 2.6bp of cuts by year-end than previously, we still think that the market is underpricing the probability of Q4 cuts (with around a 1/3 probability priced).



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