

UK Inflation and Labour Market Insight: December 2025 Release

23 December, by Tim Davis

The big picture view is that labour market quantities data are surprisingly soft (and the full extent of that is maybe a little too early to get overexcited about). Wage data is broadly in line to a bit softer than BOE forecasts. There are also some warning signs in the redundancy data – but too early to draw any conclusions on. While inflation data surprised to the downside in November it was impacted by air fares, Black Friday sales and a timing change for tobacco duty. The December print could be closer to the BOE's forecast.

Overall, we think that the bar to the timing of the next BOE rate cut depends as much upon inflation expectations data, DMP data and the Agents' Pay Survey as it does on official labour / inflation data.

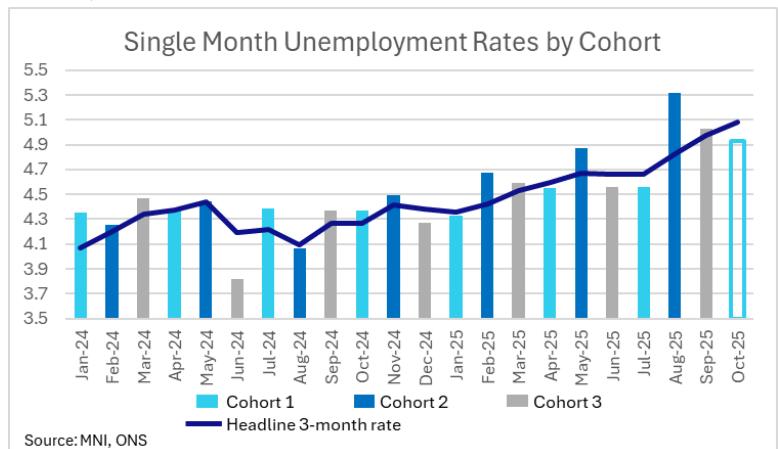
Labour Market Data

Unemployment Picked up to 5.1%

The unemployment rate rounded to 5.1% (as expected by the MNI median) at 5.08%. The single month rate picked up to 4.93%. That is a 0.37ppt increase relative to July (broadly in line but marginally below the single month increases for the other 2 cohorts recently: 0.44ppt increase May-Aug and 0.47ppt increase Jun-Sep). Despite this the 3-month employment change was a bit higher than expected at -16k (MNI median -60k). The question mark is whether the deceleration in the quantities side of the labour market that was most prevalent in the summer or has this pace of deterioration continued – it broadly seems too early to tell for that so far.

	Labour Market Summary					
	Latest Aug-Oct	MNI Median	MNI Mean	Bloomberg Consensus	Prior (Jul-Sep)	Unrevised (Jul-Sep)
Total AWE	4.72	4.40	4.42	4.4	4.87	4.82
AWE ex bonus	4.60	4.5	4.50	4.5	4.68	4.64
Private sector AWE	4.00				4.40	4.36
Private AWE ex bonus	3.87	3.8	3.80	3.8	4.21	4.17
Public sector AWE	7.73				6.81	6.76
Public AWE ex bonus	7.63				6.61	6.56
Unemployment rate	5.08	5.1	5.08	5.1	4.97	4.97
Economic activity rate	79.02				79.05	79.05
Employment rate	74.92				75.04	75.04
Employment change (3m/3m)	-16	-60	-64	-75	-22	-22
	Sep-Nov (flash)	Aug-Oct	Aug-Oct (unrevised)		Jul-Sep	Unrevised
Vacancies (000s)	729	725	723		725	722
V-U Ratio	0.40	0.40	0.40		0.41	0.40
	November (flash)	October	October (Unrevised)	September	Sep (Unrevised)	August
Payrolled employees (000s) SA	30,256	30,294	30,273	30,316	30,305	30,344
Net revisions		21		11		7
M/M Change SA	-38.0	-21.9	-32.0	-27.8	-32.1	9.0
M/M Change SA (MNI Median)	-20.0					
M/M Change SA (MNI Mean)	-20.0					
3M Change SA	-87.7	-40.7	-53.8	-18.9	-22.5	-13.0
6M Change SA	-100.7	-76.8	-94.7	-54.6	-64.1	-44.3
Payrolled employees (Y/Y) NSA	-170.7	-149.1	-179.6	-108.1	-116.6	-80.7
PAYE median pay (Y/Y) SA	2.71%	3.66%	3.13%	5.82%	5.86%	6.43%

Source: MNI, ONS



Payrolls data appears soft – but we've heard this warning bell before

Payrolls were a bit softer than expected falling - 38k in the flash November print (-20k expected). There were some upward revisions to past data partially offsetting this which saw the total level of payrolls in October revised up by 21k and the October M/M change revised up to -21.9k from -32.0k. In terms of the 6-month annualised and Y/Y changes in payrolls, these were both broadly in line with the unrevised changes seen in the prior month's report. The 3-month annualised pace has picked up again, however.

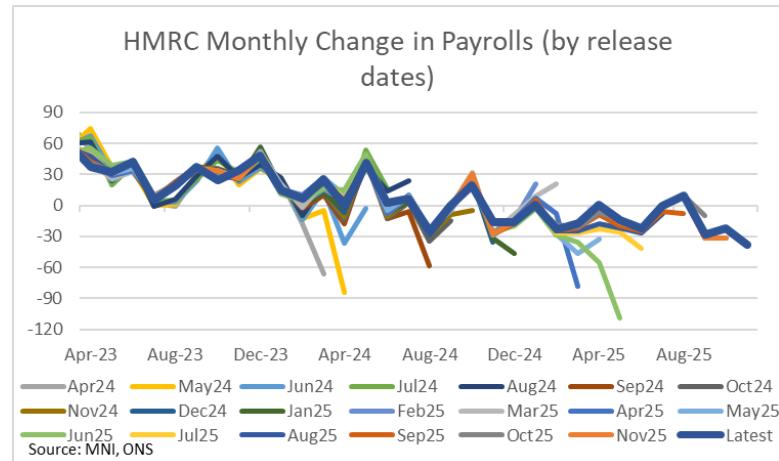
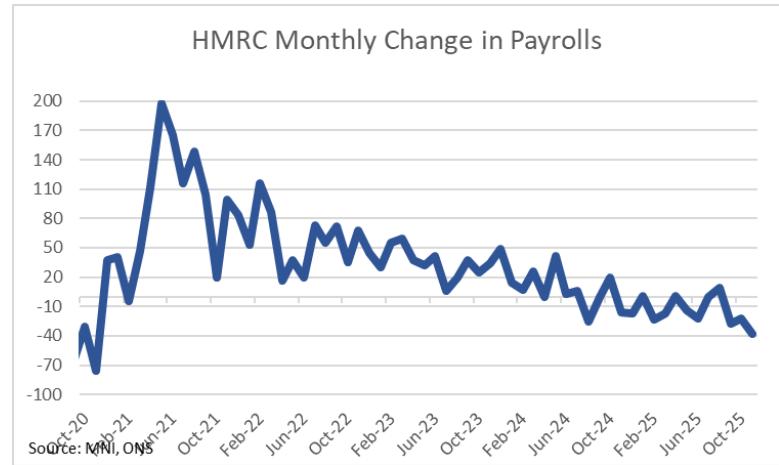
Indeed, we always take the payrolls flash data with a huge pinch of salt given the scale of the revisions. But if this flash data is not revised, it would be the largest M/M drop since November 2020. However, compared to some of the flash prints released over the past couple of years there have been over half a dozen times that we have seen flash data indicate weaker prints than that seen in November 2025.

Vacancies have stabilised

Looking elsewhere, vacancies have stabilised somewhat in recent months (albeit at a much lower level than previously and with the V-U rate of 0.40 below the BOE's estimate of neutral at 0.52).

Redundancies picking up – but how significant is this signal?

Redundancy numbers also increased to 5.3 per thousand in the 3-months to October. This is the highest since the 3-months to March 2021. It also represents an increase from 4.5 in the 3-months to September after bouncing around 3.5-3.9 for the prior six months. Interestingly the experimental weekly HR1 data only started to pick up in November and looking at the more detailed monthly HR1 industry breakdown it appears that this increase is almost entirely due to "public admin, education and health". We think this is largely due to the Treasury signing off a deal to allow the NHS to overspend its yearly budget in order to reduce the number of admin and managerial jobs within NHS England ([see here](#)). The ONS official redundancy data from the LFS does show a pickup in health and social work and also information and communication. We think it's hard to really get too much of a signal from these data given the potential scale of healthcare position changes.



Private wage growth still on track to come in line or a little below BOE forecasts

Private regular AWE was a little higher than expected at 3.87%Y/Y in the 3-months to October. The single month rate there is 3.48%Y/Y (3.4% would have been consistent with rounding to the 3.8% 3-month rate as the MNI median expected). Looking into the details of the private regular AWE data. There was an upward revision to the September single month Y/Y rate (from 3.79%Y/Y to 3.89%Y/Y). This revised the Q3 print up to 4.21%Y/Y (from the 4.17% estimate last month). This is now just two hundredths below the BOE's Q3 forecast of 4.23%Y/Y - so very much in line with the Bank's forecast. The single month data for October also we think came in around a tenth higher than consensus expectations (although this is harder to gauge as most of the forecasts we had seen don't break it down into details that are this granular). This came in at 3.48%Y/Y. The Bank's forecast for Q4 is 3.51%Y/Y, so the first month of the quarter is broadly in line with that and further progress is likely expected – but it's probably too early to state that Q4 would be on track to undershoot.

Looking at momentum (3m/3m annualised) we have now seen a couple of readings that are broadly in line with the average seen from 2015-19 (see the chart below). This will be a comfort for at least the doves on the MPC.

Public sector pay was a little higher (particularly on bonuses – but that won't impact monetary policy really).

Inflation Review

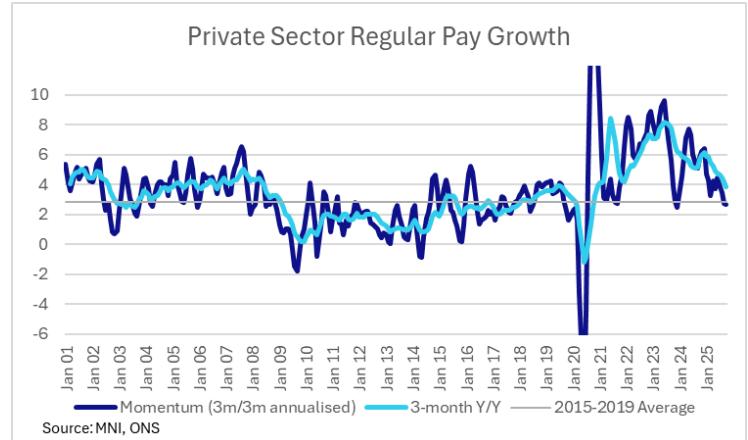
November UK CPI versus Forecasts

	Headline	Core	Services	Core goods (NEIG)	Energy	Food, alcohol, tobacco	Food and Non-alc bevs	Alc bevs and tobacco
Actual November	3.25	3.18	4.39	1.08	1.85	4.16	4.23	3.97
BOE Aug MPR forecast	3.41		4.5		1.3*		5.0	
Surprise for BOE	-0.16		-0.1		0.5*		-0.8	
MNI Median	3.5	3.4	4.53	1.4	1.8	4.60	4.73	
MNI Mean	3.49	3.41	4.53	1.39	1.77	4.58	4.72	
Bloomberg Consensus	3.5	3.4	4.6					
October	3.56	3.38*	4.49	1.47	1.84*	5.16*	4.91	5.88
Oct BOE Surprise	-0.04	-0.05*	-0.11	0.07	0.09*	0.08*	-0.09	0.23

Source: MNI, ONS, BOE

Note: BOE forecast for Energy calculated by MNI

The November UK CPI print came in at a rounded 3.2% versus expectations of 3.5%Y/Y. On an unrounded basis it was a very "high" 3.2% print (3.25%). But that still put headline CPI 16 hundredths below the BOE's forecast. It decelerated 0.31ppt since October. However, it is unclear how much of the surprise will be a permanent adjustment that is not reversed next month.

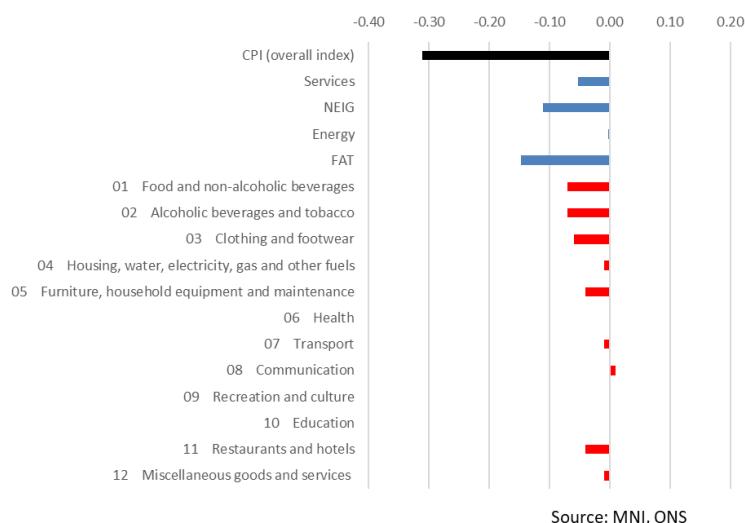


Services CPI was a tenth lower than both consensus and the BOE and fell 0.11ppt. In terms of contributions to headline CPI (broadly double these for services contributions): Accommodation contributed -0.05ppt, cultural services contributed -0.03ppt and rents contributed -0.02ppt. Transport services contributed 0.02ppt (of which air fares 0.01ppt) - this is a bit softer than expected. Indeed, the MPC Minutes noted that air fares would likely be a factor behind an acceleration of headline CPI in December. There were also some small positive offsetting factors including restaurants and cafes which picked up a little more to 4.55%Y/Y (highest since September 2024).

Food and non-alcoholic beverages contributed -0.07ppt to headline CPI. The biggest contributor here was bread and cereals (-0.04ppt to headline CPI) which fell to 2.04%Y/Y from 4.31%Y/Y. This will be a relief to the MPC given the focus on food inflation. Note the BOE's Agents' Survey suggests that the full impact of the EPR packaging regulations have now been passed through. It does therefore appear likely that food price inflation has peaked and this is not expected to reaccelerate to a large extent. However, note that the BOE forecasts did originally have it increasing to 5.3%Y/Y from 5.0%Y/Y in December – so without this acceleration there is scope for a further food undershoot in January.

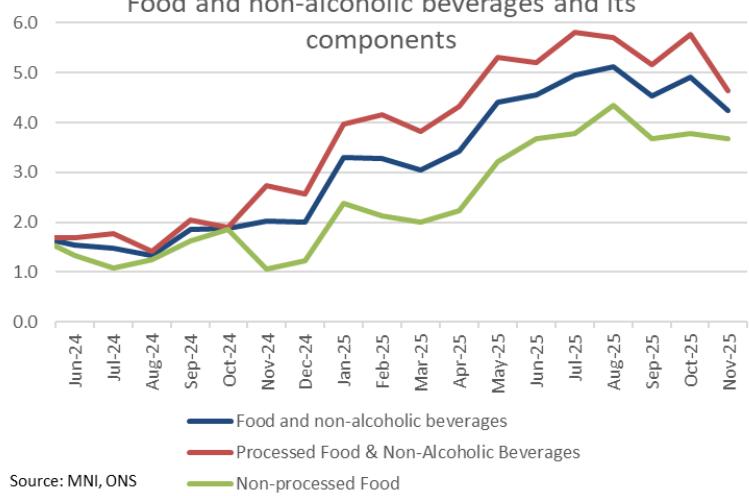
Alcohol and tobacco also fell back and contributed -0.07ppt to headline CPI. -0.06ppt of this was from tobacco (duty-related). Note that this is a timing issue due to when the Budget was held. Tobacco duty increased on 30

November 2025 Change in Y/Y Contribution



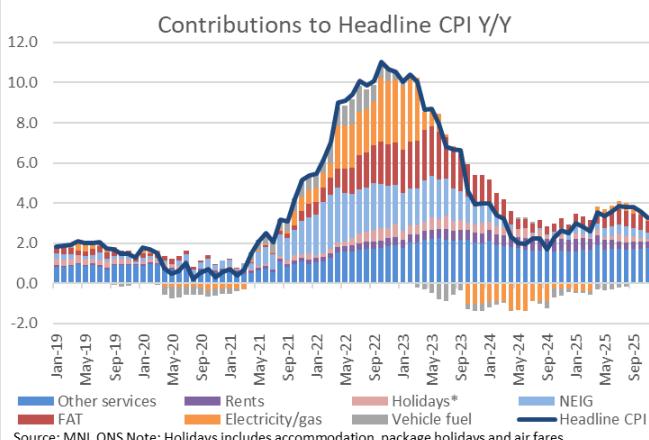
Source: MNI, ONS

Food and non-alcoholic beverages and its components



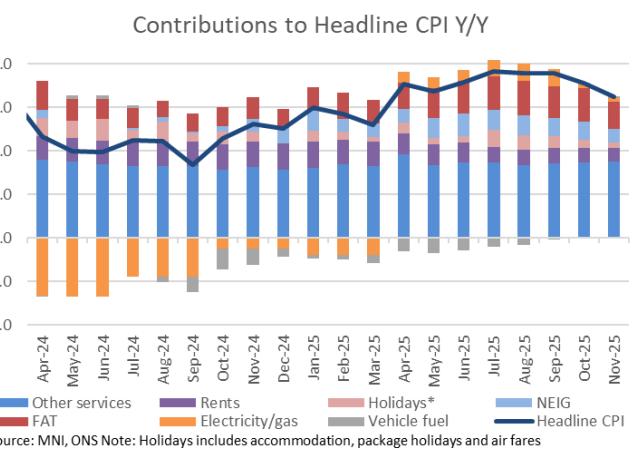
Source: MNI, ONS

Contributions to Headline CPI Y/Y



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

Contributions to Headline CPI Y/Y



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

October last year but on 26 November this year. Therefore there was no Y/Y increase in duty on the November collection date.

We estimate that core goods (NEIG) contributed -0.11ppt to headline CPI: -0.06ppt from clothing and footwear, -0.05ppt from recreation items, -0.04ppt from furniture and household equipment and -0.02ppt from vehicle purchases but offset by 0.07ppt from equipment for recording, data processing and photography. It does appear that quite a bit of this could be attributed to early Black Friday sales.

All in all, across air fares, core goods and tobacco duty, it would be a huge surprise if we did not see headline CPI increase from the 3.25%Y/Y rate in the December print.

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