

UK Inflation and Labour Market Insight: January 2026 Release

26 January, by Tim Davis

The big picture view is that labour market quantities data are still mixed with wage growth not a million miles away from the BOE's forecast. CPI data saw an upside surprise to food for consensus but this wasn't broad-based and food inflation remains 0.8ppt below the BOE's forecast (the same as last month's data). Headline CPI is 0.09ppt below the BOE's forecast – which will likely be described as largely in line in the upcoming MPR.

The market did react to the release of both of these data points, but there was a slightly bigger reaction to the PMI data on Friday which pointed to notable upside surprises on both output and prices. As a result, pricing for a June cut went from 26 bp at the same of last week to 24bp by the end of the week. And pricing by year-end went from 41bp to 35bp. These will be the last public data releases ahead of the February MPC meeting – although note that the MPC will have access to both the Agents' Annual Pay Survey and the January DMP survey, both of which could influence the tone of the meeting.

Labour Market Data

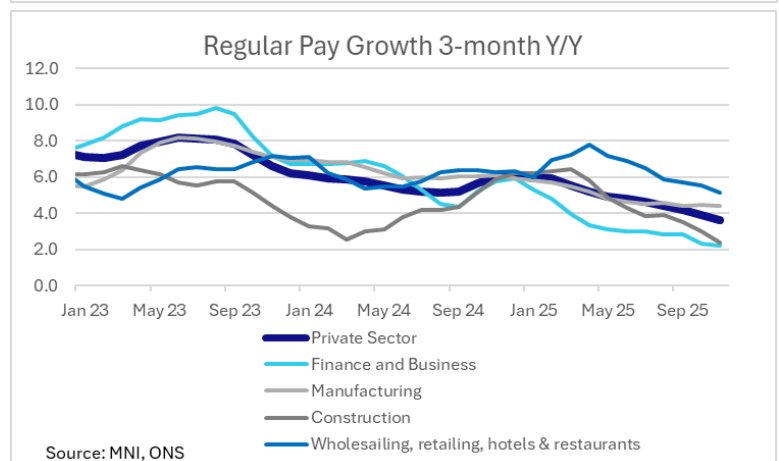
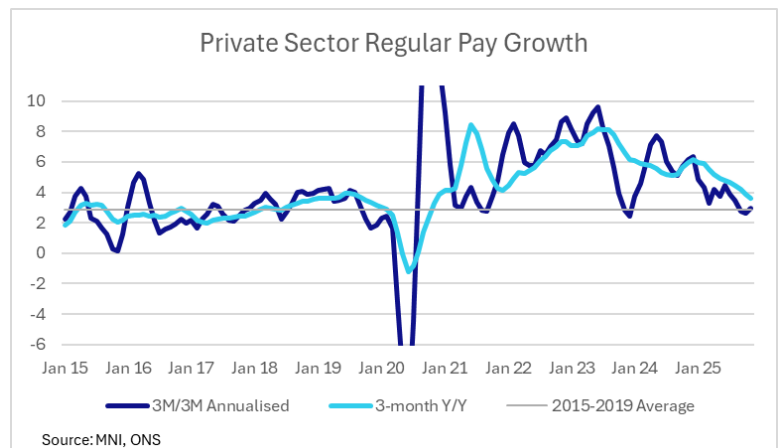
Private regular AWE came in a tenth below consensus at 3.63%Y/Y in the 3-months to November (prior 3.87%Y/Y revised to 3.88%Y/Y). Looking at the single month data, it came in at 3.47%Y/Y with the single month for October revised up to 3.53%Y/Y from 3.48%Y/Y. The two months released for Q4 therefore average to almost exactly in line with the BOE's quarterly forecast of 3.51% (averaging to 3.50%Y/Y). There is nothing that really stands out particularly with any one cohort being an outlier versus others – so as

Labour Market Summary							mni
	Latest Sep-			Bloomberg	Prior (Aug-Oct)	Unrevised (Aug-Oct)	
	Nov	MNI Median	MNI Mean	Consensus			
Total AWE	4.68	4.6	4.57	4.6	4.83	4.72	
AWE ex bonus	4.46	4.5	4.49	4.5	4.62	4.60	
Private sector AWE	3.94				4.14	4.00	
Private AWE ex bonus	3.63	3.7	3.67	3.7	3.88	3.87	
Public sector AWE	7.76				7.73	7.73	
Public AWE ex bonus	7.93				7.64	7.63	
Unemployment rate	5.09	5.1	5.06	5.1	5.08	5.08	
Economic activity rate	79.21				79.02	79.02	
Employment rate	75.09				74.92	74.92	
Employment change (3m/3m)	82	32	29	31	-16	-16	

	Oct-Dec (flash)	Sep-Nov	Sep-Nov (unrevised)	Aug-Oct	Unrevised
Vacancies (000s)	734	728	729	726	725
V-U Ratio	0.40	0.40	0.40	0.40	0.40

	December (flash)	November	November (Unrevised)	October	October (Unrevised)	September
Payrolled employees (000s) SA	30,227	30,270	30,256	30,303	30,294	30,319
Net revisions		13		9		3
M/M Change SA	-42.6	-33.4	-38.0	-16.3	-21.9	-28.9
M/M Change SA (MNI Median)						
M/M Change SA (MNI Mean)						
3M Change SA	-92.2	-78.6	-87.7	-34.5	-40.7	-17.0
6M Change SA	-109.2	-87.4	-100.7	-69.4	-76.8	-51.7
Payrolled employees (Y/Y) NSA	-184.1	-155.0	-170.7	-144.0	-149.1	-105.9
PAYE median pay (Y/Y) SA	4.03%	2.74%	2.71%	3.66%	3.66%	5.82%

Source: MNI, ONS



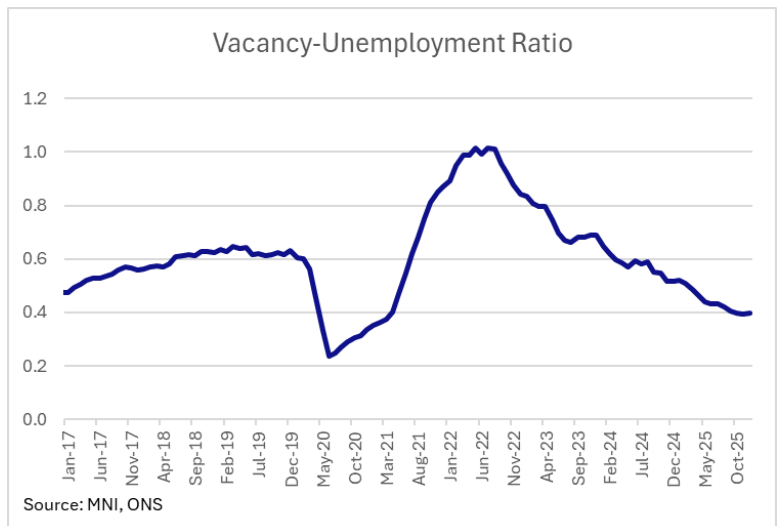
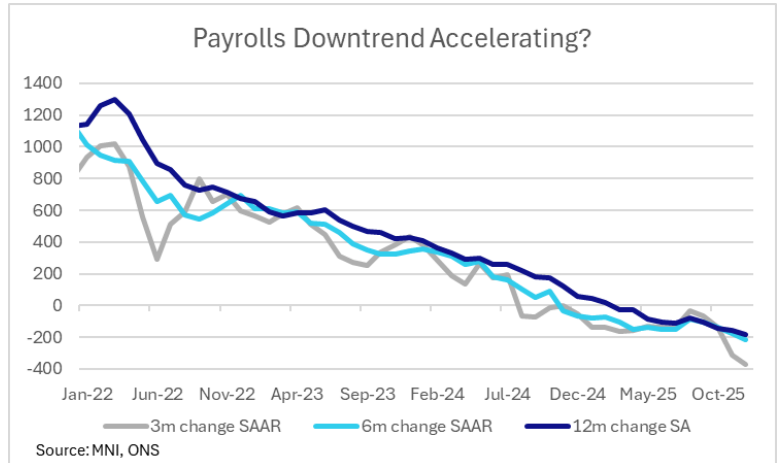
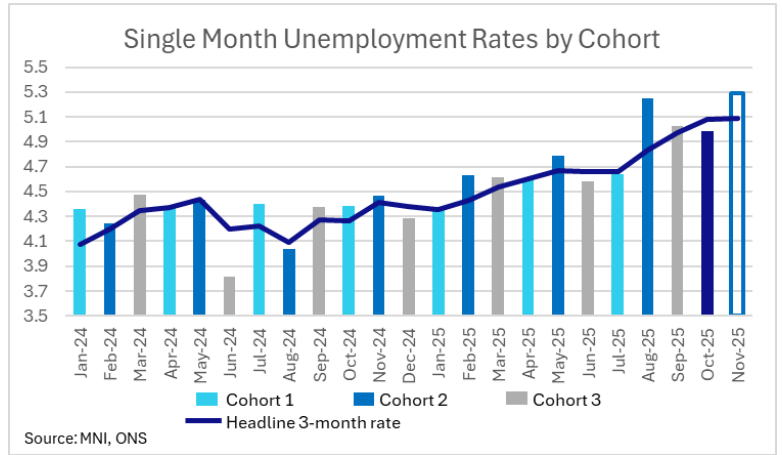
long as we get data broadly steady in December (published in February), the BOE's print Q4 forecast will be realised. If there is a continued downward trend, there are risks of another quarterly undershoot.

The quantities side of the data was more mixed. The unemployment rate came in at 5.09% (broadly in line with the MNI median but analysts had been generally split between 5.0% and 5.1%) but the 3m/3m employment but the employment 3m/3m change was higher than expected at 82k.

Looking in more details at the single month unemployment rate, it came in at 5.29% for November. As a reminder the same cohort is surveyed every three months and the last time this same cohort was surveyed (in August) the single month unemployment rate was 5.25%. So there has been almost no increase in the unemployment rate for this cohort between August and November. This cohort does stand out as it has had a higher unemployment rate than the other two cohorts being surveyed. But this points to a little bit of stability on the quantities side (which is in contrast to the payrolls data - which is of course very volatile and prone to revision).

Payrolls (which are of course volatile) saw the flash print for December come in lower than expected at -43k (-20k consensus). There was also a relatively small upward revision to November data of only 4.6k to -33k (a smaller revision than expected by those who had flagged its potential). These revisions saw payrolled employees at 30.23m in December following 30.27m in November (revised from 30.26m). Looking at the trends in payrolls, the 12-month rate of change in payrolls has continued to deteriorate at a fairly consistent pace, but the annualised 3-month change is running at about double this pace in December. Looking at the numbers, the 12-month seasonally adjusted change is -184k while the 3-month SAAR is -369k.

Turning to vacancies, there has been a broad stabilisation over the past size months with the past eight releases all ranging from 722-739k.



Inflation Review

December UK CPI versus Forecasts		mni						
	Headline	Core	Services	Core goods (NEIG)	Energy	Food, alcohol, tobacco	Food and Non-alc bevs	Alc bevs and tobacco
Actual December	3.37	3.25	4.53	1.02	1.75	4.70	4.54	5.18
BOE Nov MPR forecast	3.46		4.6		0.6*		5.3	
Surprise for BOE	-0.09		-0.1		1.1*		-0.8	
MNI Median	3.3	3.3	4.6	1.1	1.6	4.6	4.2	
MNI Mean	3.33	3.28	4.57	1.10	1.57	4.48	4.21	
Bloomberg Consensus	3.3	3.3	4.6					
November	3.25	3.18*	4.39	1.08	1.85*	4.16*	4.23	3.97
Nov BOE Surprise	-0.16		-0.1		0.5*		-0.8	

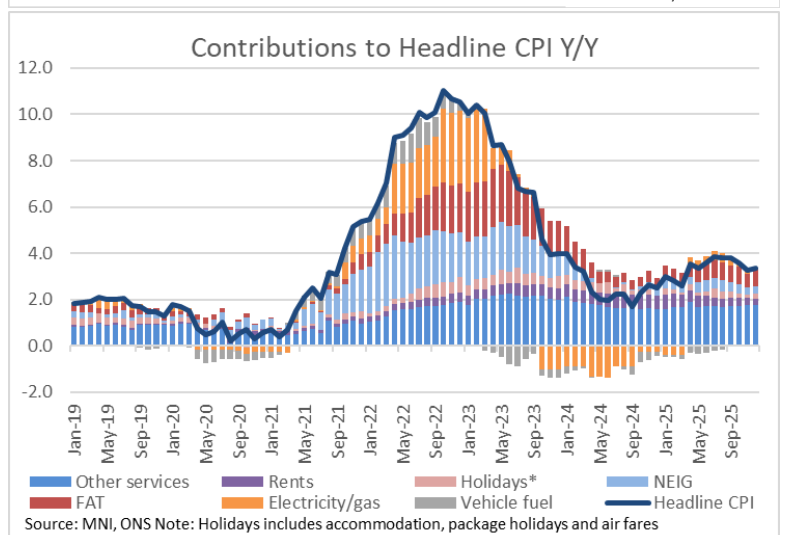
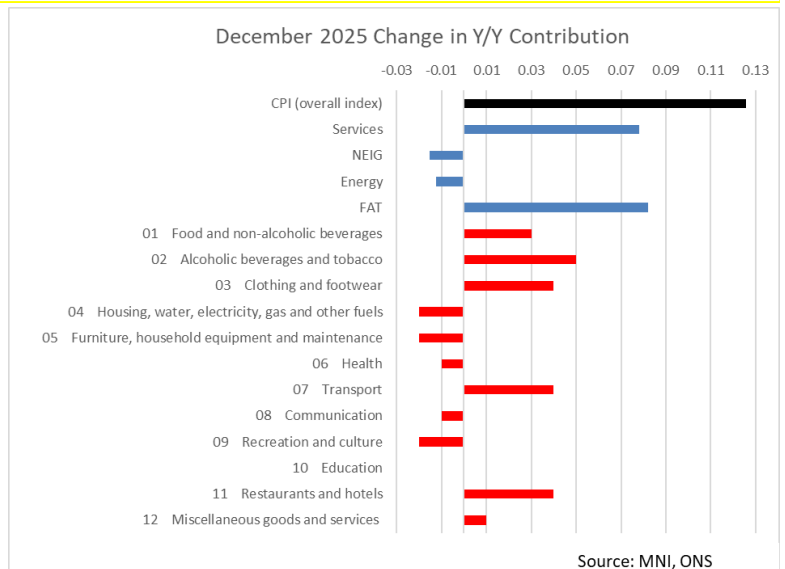
Source: MNI, ONS, BOE
Note: BOE forecast for Energy calculated by MNI

December CPI was a little higher than consensus expectations coming in at 3.37%Y/Y (3.3%Y/Y MNI median / 3.33% MNI mean, 3.25% November). The small upside surprise for analysts was entirely due to non-core surprises with food and non-alcoholic beverages and vehicle fuel both higher than expected. Core CPI (and both services and core goods) was actually marginally lower than expected. We had focused on air fares ahead of the release but these came in very close to median expectations (although given the wide range of forecasts there were some big surprises for individual analysts here).

The food and non-alcoholic beverages division came in at 4.54%Y/Y in December (4.23%Y/Y November). Note that this maintained a 0.8ppt downside surprise to the BOE’s November MPR forecast (the surprise was the same size with the November data). It is also worth noting that the upward contribution was pretty narrowly focused to “other bakery products”, breakfast cereals and “sauces, condiments, salt, spices and culinary herbs”. And that all of these were curiously soft in November.

Air fares were 28.6%M/M (11.0%Y/Y - very close to consensus expectations). This meant that they contributed 0.06ppt to headline CPI (again in line with the consensus expectation).

However, the survey date chosen was the earlier date of 9 December 2025 – so the increase was close to the high end of expectations for this particular date. However, road, railway and sea fares were all a bit softer than expected. So transport services only contributed 0.03ppt to headline CPI – less than expected.



Restaurants and cafes and accommodation services both contributed very marginally to the increase in CPI - but were in line to a little softer versus analyst expectations. Restaurants and cafes had been a category we had been particularly focused on recently as it had been between 3.91-4.17%Y/Y between February and September indicating little pricing power despite the rising wage and food input costs. The category has now seen Y/Y increases of 4.45% in October, 4.55% in November and 4.71% in December. The latter is the highest since August 2024. We do find this trend

Clothing and footwear contributed 0.04ppt to headline inflation, despite core goods (NEIG) overall coming in at 1.02%Y/Y (a little below the 1.1% MNI median).

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