

# UK Inflation and Labour Market Insight: February 2026 Release

19 February, by Tim Davis

Labour market data showed wage growth exactly in line with BOE and consensus forecasts while the unemployment rate came in higher than expected (albeit against a backdrop of some revisions to make payrolls see a more moderate fall over the past few months). Inflation data was in line with market expectations (but 0.11ppt above BOE staff forecasts) while services CPI was higher than both the MNI median and BOE staff forecasts. Overall, we think the big picture is that the labour market data was close enough to expectations that the probability of a March cut increased but we don't think the January inflation data should have impacted expectations so much. We think the market moves seen yesterday were more on the back of the data not being a notable adverse surprise and hence keeping a March cut very much in play. We will of course receive flash PMI data tomorrow and another labour market print ahead of the March MPC decision, but this was the last CPI release.

Labour Market Summary						
	Latest Oct-Dec	MNI Median	MNI Mean	Bloomberg Consensus	Prior (Sep-Nov)	Unrevised (Sep-Nov)
Total AWE	4.16	4.6	4.62	4.6	4.60	4.68
AWE ex bonus	4.17	4.2	4.20	4.2	4.41	4.46
Private sector AWE	3.50				3.82	3.94
Private AWE ex bonus	3.43	3.4	3.41	3.4	3.56	3.63
Public sector AWE	7.00				7.75	7.76
Public AWE ex bonus	7.20				7.92	7.93
Unemployment rate	5.21	5.1	5.15	5.1	5.09	5.09
Economic activity rate	79.17				79.21	79.21
Employment rate	74.96				75.09	75.09
Employment change (3m/3m)	52	90	86	108	82	82

	Nov-Jan (flash)	Oct-Dec	Oct-Dec (unrevised)	Sep-Nov	Unrevised
Vacancies (000s)	726	736	734	726	728
V-U Ratio	0.39	0.39	0.40	0.39	0.40

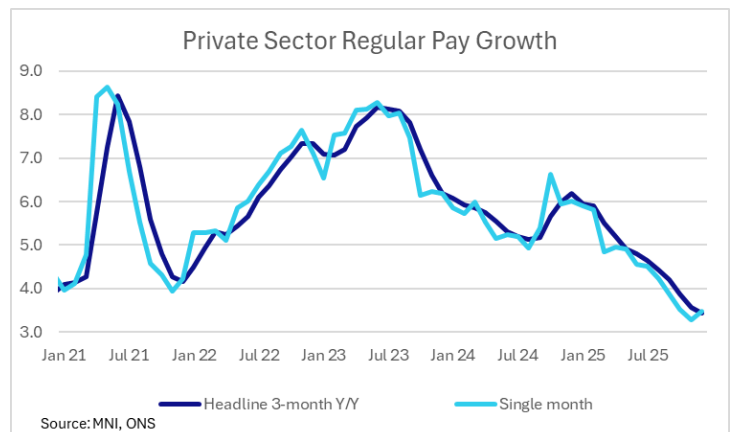
	January (flash)	December	Dec (Unrevised)	November	Nov (Unrevised)	October
Payrolled employees (000s) SA	30,279	30,289	30,227	30,295	30,270	30,321
Net revisions		62		25		18
M/M Change SA	-10.6	-5.7	-42.6	-25.7	-33.4	-13.8
M/M Change SA (MNI Median)						
M/M Change SA (MNI Mean)						
3M Change SA	-41.9	-45.2	-92.2	-65.9	-78.6	-27.0
6M Change SA	-68.9	-54.5	-109.2	-69.0	-87.4	-55.6
Payrolled employees (Y/Y) NSA	-134.1	-120.9	-184.1	-137.2	-155.0	-131.5
PAYE median pay (Y/Y) SA	4.57%	4.40%	4.03%	2.70%	2.74%	3.62%

Source: MNI, ONS

## Labour Market Review

Private regular average earnings growth was exactly in line with BOE staff forecasts and consensus expectations at 3.43%Y/Y in the 3-months to December. The data was due more to a revision to the single month November 2025 and November 2024 numbers (which saw the single month November growth rate revised down by 0.06ppt from 3.47%Y/Y to 3.28%Y/Y) than it was to the single month 3.48%Y/Y print for December data.

Looking at the wider pay releases (which we don't think matter so much for the MPC), whole economy regular AWE that was also in line with expectations at 4.17%Y/Y in the 3-months to December (from 4.41%Y/Y in the 3-months to November which had been revised down from 4.46%Y/Y). There was a bigger surprise to whole economy AWE including bonus which came in lower than expected at 4.16%Y/Y in the 3-months to December (from 4.60%Y/Y revised down from 4.68%).

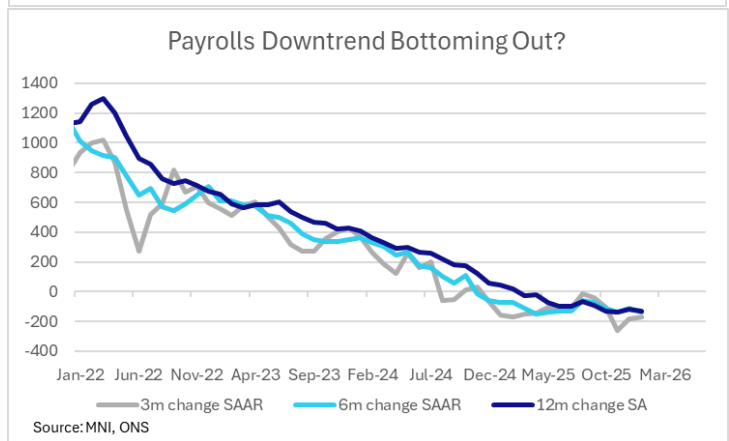
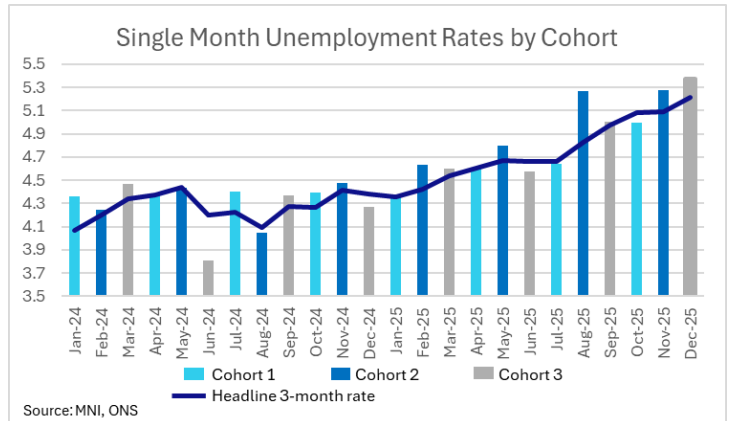


Turning to quantities data, the unemployment rate came in at 5.21%, a tenth higher than the BOE forecast and the MNI median (although the MNI mean was 5.15% pointing to these upside risks). Looking at the individual single month cohorts there was a 0.37ppt increase in the single month rate from 5.00% in September to 5.37% in December. This follows a similar 0.35ppt increase in the October cohort but there was only a marginal 0.01ppt increase in the November cohort (albeit this cohort had a notably higher unemployment rate previously).

Given the single month prints, it doesn't seem a stretch to get to a 5.3% 3-month print in January. A 5.11% single month print would be all that would be needed, a 0.12ppt increase for the cohort from October's 4.99%.

Payrolls data came showed a reduction in the workforce again with a -10.6k flash print for January (versus expectations for -20k). However, the bigger picture saw some sizeable revisions with the December print revised up from -45.2k to -5.7k and more broadly the 2025 payrolls estimate was revised up from -184k to -121k. This is still negative, but of course not as negative as previously thought. The payrolls numbers are prone to revision and the ONS does note that towards the end of the fiscal year the numbers are prone to larger revisions. Next month there is potential for bigger revisions, too, with the seasonal adjustment model due to be re-estimated.

Vacancies data fell back to similar levels seen through H2 in the Nov-Jan period after moving a little higher in the 3-months to December. The V-U ratio has remained at 0.39x.



## January UK CPI versus Forecasts



	Headline	Core	Services	Core goods (NEIG)	Energy	Food, alcohol, tobacco	Food and Non-alc bevs	Alc bevs and tobacco
Actual January	3.01	3.09	4.38	0.80	0.15	3.83	3.56	4.64
BOE Feb MPR forecast	2.90	2.91	4.14	0.75	-0.30*	4.20*	3.70	5.7*
Surprise for BOE	0.11	0.18	0.24	0.05	0.46	-0.37	-0.14	-1.1
MNI Median	3.0	3.0	4.2	0.9	-0.2	4.1	4.1	
MNI Mean	3.00	3.04	4.24	0.89	-0.22	4.15	4.04	
Bloomberg Consensus	3.0	3.0	4.3					
December	3.37	3.25	4.53	1.02	1.75	4.70	4.54	5.18
Dec BOE Surprise	-0.09		-0.1		1.1*		-0.8	

Source: MNI, ONS, BOE

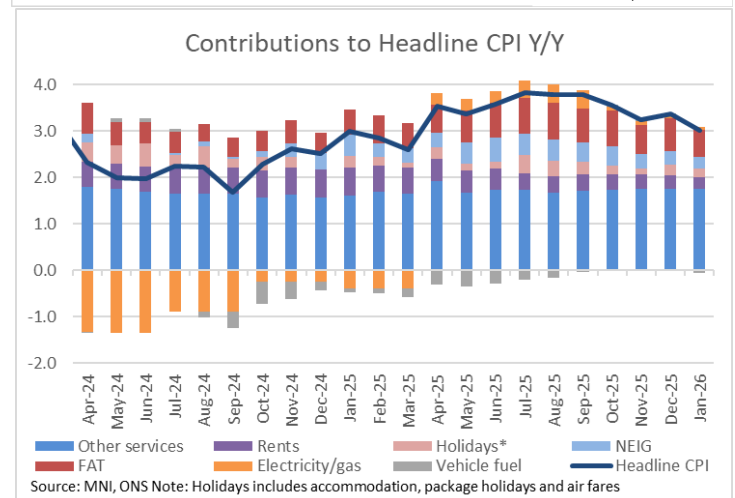
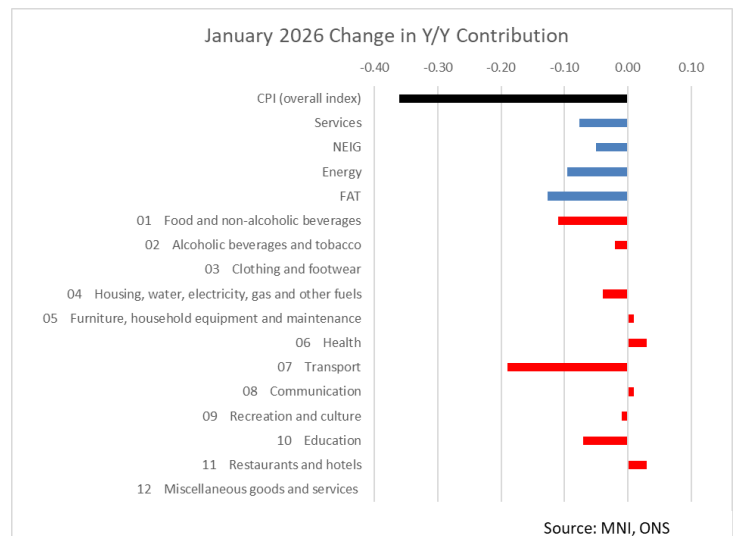
Note: BOE forecast for Energy and alcohol/tobacco calculated by MNI

## Inflation Review

Headline CPI was broadly in line with expectations at 3.01%Y/Y but came in a tenth higher than the BOE staff forecast but was still a deceleration from the 3.37%Y/Y seen in December. Core CPI was a slightly bigger upside surprise at 3.09%Y/Y (BOE 2.91%Y/Y, MNI median 3.0%Y/Y). Services CPI surprised further to the upside at 4.38%Y/Y (BOE 4.14%Y/Y, MNI median 4.2%, Bloomberg consensus 4.3%). With a notable downside surprise for food, alcohol and tobacco at 3.83%Y/Y (BOE 4.20%, MNI median 4.1%) and food and non-alcoholic beverages at 3.56%Y/Y (BOE 3.70%Y/Y, MNI median 4.1%).

In terms of services, air fares came in slightly above expectations (again). They fell 19.0%M/M against expectations of -26%M/M to -20%M/M, and as noted below the weight of air fares increased, too. Education was in line with expectations (with the VAT increase in private school fees dropping out of the Y/Y comparison and contributing -0.07ppt to headline CPI and around 0.14ppt to services CPI). Cultural services contributed +0.07ppt to the change in headline CPI, with this largely driven by “cinemas, theatres, concerts” which increased 10.2%Y/Y (up from 3.7%Y/Y in December). Health and motor insurance also contributed positively while accommodation services also added 0.03ppt to headline CPI.

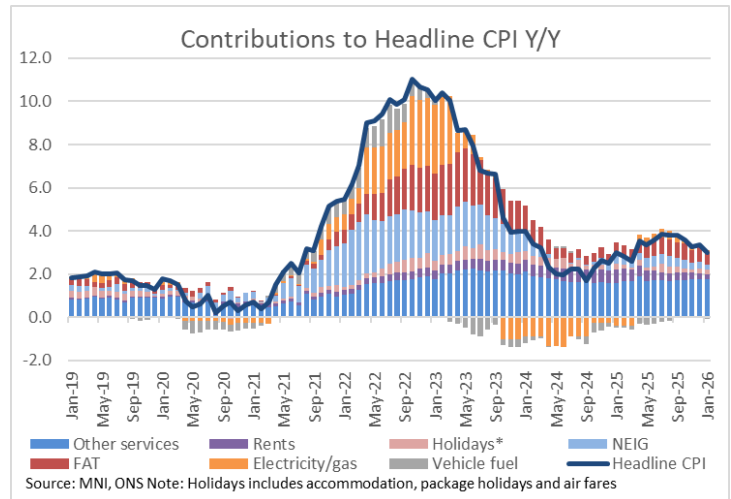
Energy was also higher than expected at 0.15%Y/Y (BOE -0.30%Y/Y, MNI median -0.2%Y/Y). The surprise for the BOE staff forecast was actually from the electricity and gas side where the BOE had forecast a 1.28%Y/Y rate but the outturn was 2.13%Y/Y. This contributed 0.03ppt to the headline CPI surprise. Fuels and lubricants were actually very close to expectations.



Food and non-alcoholic beverages came in at 3.56%Y/Y and was softer than the BOE's forecast of 3.70%Y/Y. Consensus expectations hadn't expected as much of a slowdown, with the MNI median at 4.1%Y/Y. There was softness in the "bread and cereals" category which fell to 1.5%Y/Y from 4.0%Y/Y and has been a bit volatile recently and was 2.0%Y/Y in November. Meat and non-alcoholic beverages also fell back this month.

Core goods were broadly in line with the BOE's forecast at 0.80%Y/Y.

In terms of a March cut, this is a difficult print to interpret. Catherine Mann said in a podcast on Thursday that she was encouraged by goods inflation falling (but noted that services was a bit higher). There is also quite a narrow (and potentially volatile) impact from cultural services, accommodation and health and motor insurances which might be at least partially reversed next month. Between them these categories contributed 0.14ppt to headline CPI. This more than accounts for the entire surprise to the BOE's staff forecast.



Volatile items see increased weights in 2026

Volatile items (air fares, recreation and culture and accommodation services) which were strong upside contributors today also saw their weights increased in the 2026A weights published this morning.

Services CPI has increased in weight by 1.68ppt in the 2026A weights from 50.08% of the overall CPI index to 51.77% (we think this was broadly expected although we had seen very few firm numbers on expectations).

Core goods (NEIG) has seen its weight reduced by 0.80ppt to 27.83% with food, alcohol and tobacco reducing by 0.55ppt to 14.57% and energy reducing by 0.33ppt to 5.83%.

Looking at the COICOP divisions, transport has seen the biggest increase of 1.05ppt to 14.28%. And within this air fares has increased by 0.20ppt to 0.71% from 0.51%. This will make the series a lot more susceptible to swings in air fare prices - which may have contributed to the upside surprise to both headline and services CPI today.

Recreation and cultural services also saw a notable increase of 0.44ppt to 4.24% from 3.79%. Accommodation services also increased 0.16ppt to 2.92%. Again these were strong upside contributors today.

These weights are just used for the January 2026 print with the 2026B weights being used for Feb-Dec 2026 prints, but the 2026A weights will give us a good indication of where 2026B rates will land.

New 2026 CPI Weightings

	2025 B Weights (%)	2026 A Weights (%)	Change (ppt)
Services	50.08	51.77	1.68
NEIG	28.64	27.83	-0.80
Energy	6.17	5.83	-0.33
Food, alcohol, tobacco	15.11	14.57	-0.55
01 Food and non-alcoholic beverages	11.26	10.92	-0.34
02 Alcoholic beverages and tobacco	3.86	3.65	-0.21
03 Clothing and footwear	6.01	5.84	-0.17
04 Housing, water, electricity, gas and other fuels	12.78	13.00	0.22
05 Furniture, household equipment and maintenanc	5.85	5.48	-0.37
06 Health	2.84	2.56	-0.28
07 Transport	13.23	14.28	1.05
08 Communication	2.44	2.42	-0.03
09 Recreation and culture	14.87	15.11	0.23
10 Education	3.18	3.41	0.23
11 Restaurants and hotels	13.67	13.90	0.23
12 Miscellaneous goods and services	10.01	9.45	-0.56
Select additional Categories			
04.1 Actual rentals for housing	8.15	8.36	0.22
09.4 Recreational and cultural services	3.79	4.24	0.44
12.4 Social Protection	1.57	1.50	-0.08
12.1.2/3 Appliances and products for personal care	2.35	2.08	-0.27
05.1.1 Furniture and furnishings	1.74	1.45	-0.29
05.1.2 Carpets and other floor coverings	0.36	0.41	0.05
04.5.1 Electricity	1.91	1.98	0.06
04.5.2 Gas	1.31	1.06	-0.25
07.2.2 Fuels and lubricants	2.80	2.68	-0.11
07.3.3 Passenger transport by air	0.51	0.71	0.20
09.6 Package Holidays	3.74	3.69	-0.06
11.2 Accommodation services	2.76	2.92	0.16
11.1.1 Restaurants & cafes	10.62	10.65	0.02

---

Unauthorized disclosure, publication, redistribution or further dissemination of this information may result in criminal prosecution or other severe penalties. Any such authorization requires the prior written consent of Market News International. Redistribution of this information, even at the instruction of your employer, may result in personal liability or criminal action unless such redistribution is expressly authorized in writing by Market News International. Violators will be prosecuted. This information has been obtained or derived from sources believed to be reliable, but we make no representation or warranty as to its accuracy or completeness. This is not an offer or solicitation of an offer to buy/sell. Copyright © 2026 Market News International, Inc. All rights reserved.