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All Signal, No Noise

MARKET ANALYSIS

MNI UK Labour Market Preview: October 2025 Release

13 October, Tim Davis and Jonathan Nazar

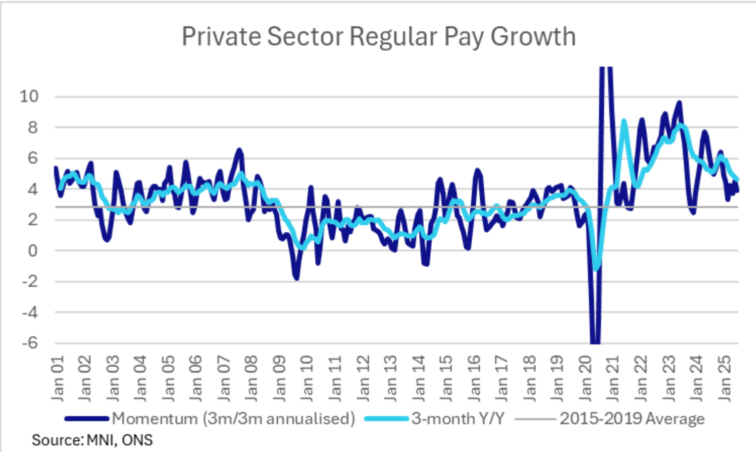
Contents

Looking at the big picture of the UK labour market quantities data continues to point to growing slack, but at a much less alarming rate that thought earlier in the year. The unemployment rate continues to tick up, payrolls continue in negative territory and vacancies (and the V-U ratio) continue to trend lower. Private sector survey data continues to back up this narrative, with the LFS employment data the only real conundrum as it continues at a strong pace. However, wage growth continues to moderate faster than the Bank forecast, and this month's print should give us more clarity on that.

For the MPC it seems as though we would need to see a decisive shift to see any of the four members who dissented in favour of keeping rates on hold in August to move away from voting for a skip in Q4 or for the two members who voted for cuts in September to vote for anything other than a cut in November. This leaves Ramsden and Breeden – who both seemed open to voting for Q4 cuts – and Governor Bailey who we think is the swing voter and given his lack of direct discussion of monetary policy recently we are unsure whether he has made up his mind regarding his November or December votes.

The October labour market release (containing data for August and September) could therefore be hugely consequential. A larger than expected softening in wage growth (something that Bailey said influenced his decision to vote for an August cut) could increase the probability of a cut here but an upside surprise could see a Q4 skip increasingly likely. On the quantities side, we think that there is a higher bar to surprise in a major way either way. We also note that markets only price in around a 5% probability of a November cut and a 20% probability of a cut this year (cumulatively).

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



Private regular pay is forecast to come in at 4.5%Y/Y in the 3-months to August, down from the 4.66%Y/Y seen in the 3-months to July. Assuming there are no revisions to back data a 4.5% 3-month print can be achieved through a single month print for August in the range of 4.29%Y/Y to 4.59%Y/Y. An upside surprise to the 4.5%Y/Y rounded print would require August data to be higher than that seen in either June (4.55%Y/Y) or July (4.51%Y/Y). A downside surprise would need to see the M/M print of 0.09% - which would be the softest since March. So absent any revisions to the data, a surprise to the rounded 4.5%Y/Y 3-month print appears relatively unlikely here.

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). The Q2 forecast was undershot by around 0.4ppt – and at present we are not on course for an undershoot of that magnitude without likely downward revisions to the July single month data and the August data, too.

Whole economy AWE Expected Move Sideways

Looking outside of private regular AWE, whole economy regular AWE is forecast by consensus to remain steady at 4.8%Y/Y in the 3-months to August while analysts are split between whether the whole economy total (inc-bonus) print will come in at 4.7%Y/Y or 4.8%Y/Y in the 3-months to August.

LFS employment growth expected to moderate

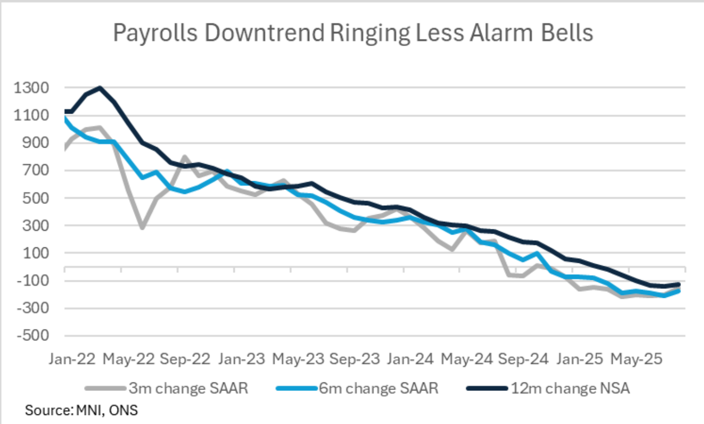
Turning to quantities data, the LFS employment level is expected to increase by125k in the 3-months to August, down from 232k in the 3-months to July. The 16+ headline unemployment rate is expected to continue to round to 4.7% after printing 4.66% in the 3-months to July. The BOE's forecast for Q3 is for a slight increase to 4.76%.

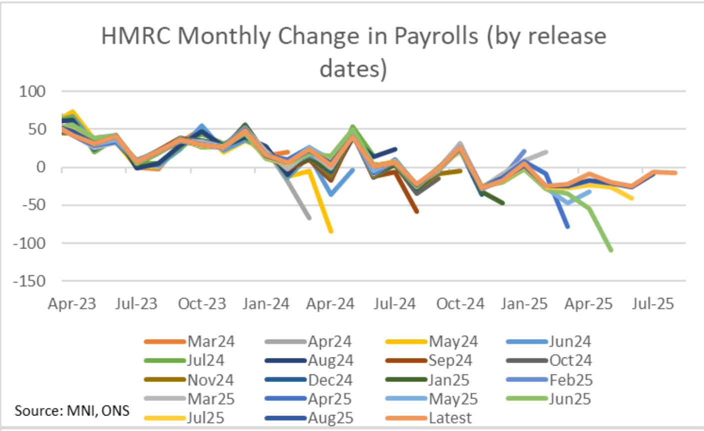
PAYE payrolls modest decline expected

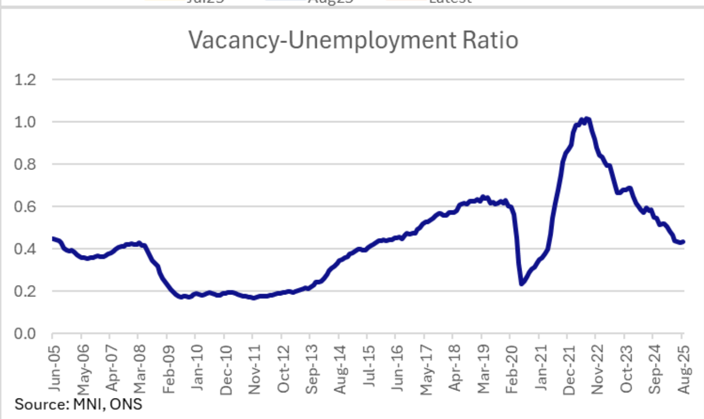
PAYE payrolls are expected to have fallen again in the flash September data by 11k from the previews we have read (-10k Bloomberg consensus). This would be broadly in line with the modest falls we have seen in the past couple of months and revisions have been little more limited in the past 3 months. The flash August estimate is for the total number of payrolls to be 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

Vacancies: Steadying V/U or Pause in Downtrend?

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. We will be watched for the evolution of these numbers, but there is little concrete expectation here







Summary of Analyst UK Labour Market Expectations (October Release)

	AWE ex bonus	Total AWE	Private AWE ex bonus	Unemployment	Employment (3m change)	HMRC Payrolls M/M
May-Jul	4.83	4.71	4.66	4.66	232	-8 (Aug)
Jun-Aug (median)	4.8	4.75	4.5	4.7	125	-11 (Sep)
Jun-Aug (mean)	4.77	4.75	4.50	4.67	136	-12 (Sep)
BOE Q3 forecast			4.62	4.76		
BOE Q4 forecast			3.66			
Bbg consensus	4.8	4.7	4.5	4.7	125	-10 (Sep)
Bank of America	4.7		4.5	4.7	200	-10
Barclays	4.8	4.8	4.5	4.7		
Daiwa	4.8	4.7	4.5	4.7		
Deutsche Bank	4.7	4.8	4.5	4.7		-9
Goldman Sachs	4.8	4.8	4.51	4.65		-20
ING	4.7	4.8	4.5	4.6	130	
JP Morgan	4.8	4.7	4.5	4.7		0
Lloyds	4.8	4.7		4.6	120	
Morgan Stanley	4.78	4.81	4.53	4.8	110	-13
NatWest Markets	4.7	4.7	4.5	4.7	160	-12
Nomura	4.8	4.7		4.7	125	-25
RBC			4.5	4.6		
Santander	4.8	4.8	4.5	4.6		-5
TD Securities	4.8	4.7	4.5	4.6	110	

*AWE: Average weekly earnings

Source: Analyst previews, Bloomberg (consensus), MNI