Market Insights Economics

20 October 2026

UK Labour Market: Stronger figures, but too early to call a turnaround

- Employment rose by 102k (3m/3m), far ahead of expectations, while unemployment unexpectedly fell to 4.7%, its lowest since the three months to July 2025
- The more timely payroll data strengthened too, with employment rising 13k in September and August's initially reported 26k fall subsequently revised to a 1k increase
- But measures of labour demand remain soft, with vacancies falling sharply again and wider survey evidence providing only tentative signs of an improvement in hiring

Labour market data surprise to the upside

The latest UK labour market report provided a much stronger read on conditions than expected. In the three months to August, the unemployment rate fell to its lowest in more than a year, while employment growth was considerably stronger than anticipated. More timely payroll data also improved and some measures of pay growth surprised on the upside. However, we would be cautious about interpreting this as evidence of a decisive turnaround. Vacancies continue to fall and alternative indicators provide only tentative evidence that labour demand is strengthening. Taken together, the latest figures suggest the labour market has proved considerably more resilient than anticipated, but it is too early to conclude that the underlying trend has changed.

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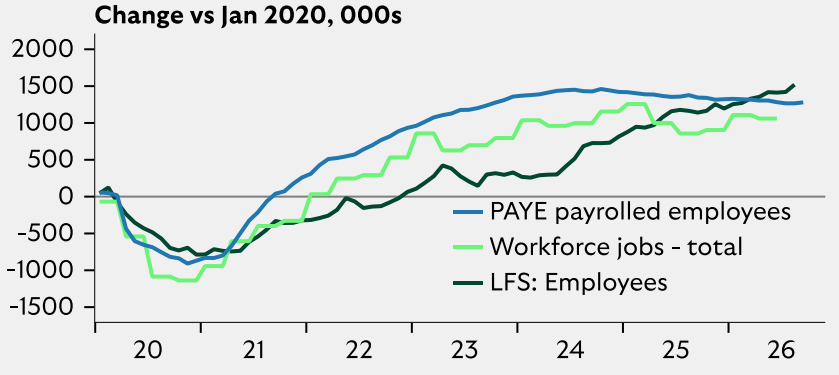
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Employment proves considerably stronger than expected

Employment rose by 102k in the three months to August, significantly stronger than the Bloomberg consensus of +5k and our forecast for a 40k decline. The employment rate consequently increased by 0.2 percentage points to 75.3%.The unemployment rate also fell to 4.7% from 4.9%, against both the market expectation for it to remain unchanged and our forecast for an increase to 5.0%. That takes the unemployment rate to its lowest since the three months to July 2025 and, for now at least, reverses the gradual upward trend that had been evident since 2024.

The composition of employment growth was encouraging too. Compared with the previous three-month period (March – May), employee employment rose by 177k and full-time employment increased by 170k. By contrast, self-employment fell by 86k and part-time employment declined by 68k. As such, the latest improvement was concentrated in employee and full-time roles rather than being driven by another increase in self-employment. Nevertheless, some caution remains warranted when interpreting the strength of the LFS figures. The ONS continues to recommend that the survey estimates are considered alongside other labour market indicators, with HMRC PAYE data providing an important alternative signal on employee numbers. The latest LFS figures therefore provide encouraging evidence that employment has held up better than anticipated, but one strong release is not yet sufficient to establish a change in trend.

Chart 1: The various employment measures paint divergent trends



Source: ONS, Macrobond, Lloyds Bank Market Insights

PAYE data improve, but labour demand remains soft

Importantly, the stronger LFS signal is not entirely isolated. More timely HMRC data showed payrolled employment rising by 13k in September, against expectations for an 8k fall and our forecast of -15k. August's initially reported 26k decline has also been revised to a 1k increase, suggesting employee numbers have held up better than previously thought. However, the broader context remains important. Payroll employment has still fallen in five of the first nine months of 2026 and remains around 48k lower than at the end of 2025. The recent improvement therefore lends some support to the stronger LFS figures, but is not yet sufficient to establish a clear change in trend.

Measures of labour demand provide further reason for caution. Vacancies fell by 21k to 691k in the three months to September, their lowest since 2014 outside of the pandemic period. Alternative indicators are also mixed. The KPMG/REC survey reported modest increases in permanent placements and temporary billings in September, but overall demand for staff continued to fall, while the PMIs point to an uneven employment picture across sectors. Taken together, there are signs that the earlier deterioration is moderating, but still limited evidence of a meaningful revival in labour demand.

Underlying pay pressures remain contained

The earnings data were also somewhat stronger than expected. Regular pay growth rose to 3.7% in the three months to August, above both the Bloomberg consensus and our forecast of 3.6%. Total pay growth was also 3.7%, slightly below the 3.8% consensus and down from 3.9% previously.

More importantly for the Bank of England, private sector regular pay growth edged up to 3.0%, matching our forecast and slightly above the previous reading of 2.9%. The earlier easing in private sector pay therefore appears to have levelled off somewhat over recent months. Whole-economy regular earnings growth has also now been relatively stable for several consecutive three-month periods following a prolonged period of moderation.

Even so, there remains limited evidence of a renewed build-up in wage pressures. Private sector pay growth remains well below the rates seen in recent years, while falling vacancies and still-subdued hiring demand should continue to limit upward pressure on wages.

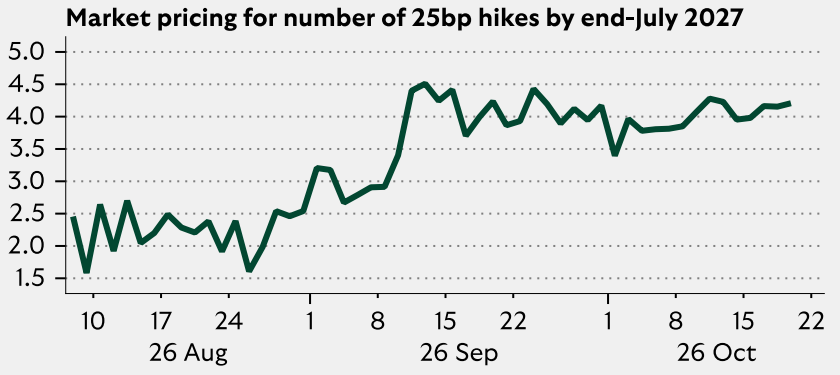
Implications for the Bank of England

The latest figures are unlikely to do much to alter market expectations that the Bank of England will raise Bank Rate at its November meeting. The market-implied probability of a hike is around 90%, with ~23bp of tightening priced in, meaning today's stronger labour market data are more likely to reinforce than fundamentally change that expectation.

However, labour market developments remain secondary to the wider monetary policy narrative. The outlook for Bank Rate continues to hinge primarily on developments in the Middle East, their implications for energy prices and whether higher costs generate second-round effects in domestic wages and prices. The Bank has similarly emphasised that the policy response will depend on the scale and duration of the energy shock and how it feeds through to the economy.

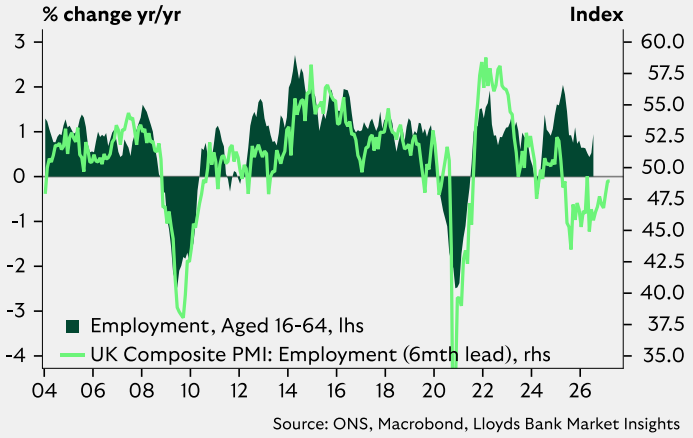
Today's figures provide somewhat less reassurance on domestic inflation pressures, given lower unemployment and firmer pay growth. However, falling vacancies and subdued labour demand provide little evidence of overheating. As such, the release reinforces expectations of a November hike, rather than making a compelling case in itself for a more aggressive path thereafter.

Chart 2: Financial markets price in significant tightening over the coming year



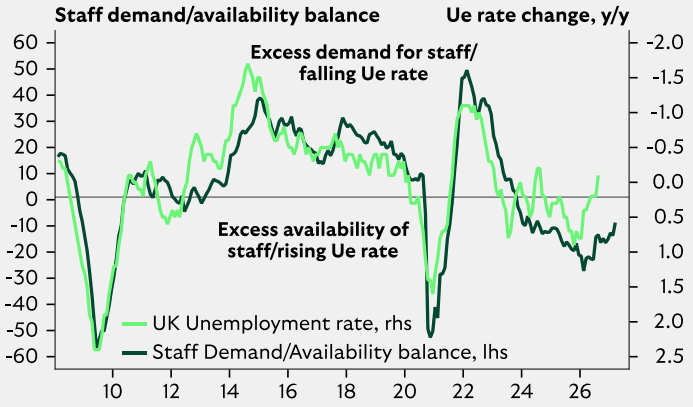
Source: Bloomberg, Macrobond, Lloyds Bank Market Insights

Chart 3: Surveys point to subdued hiring activity



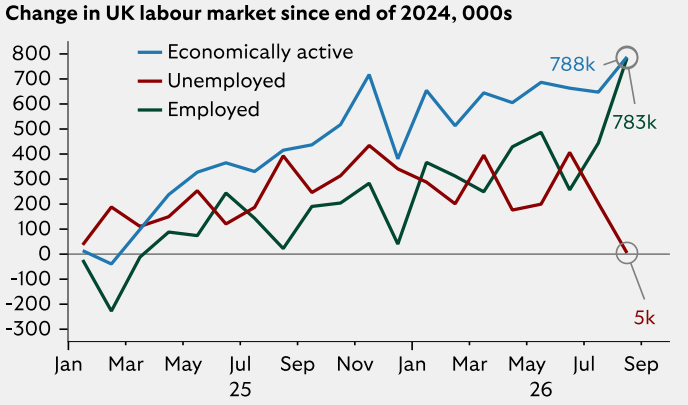
Source: ONS, Macrobond, Lloyds Bank Market Insights

Chart 4: REC survey suggests availability of staff continues to exceed demand for labour



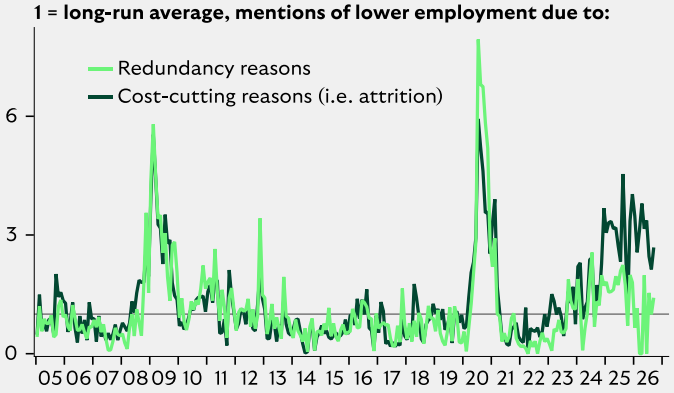
Source: REC/KPMG, ONS, Macrobond, Lloyds Bank Market Insights

Chart 5: LFS data suggests only a small rise in unemployment since end-2024



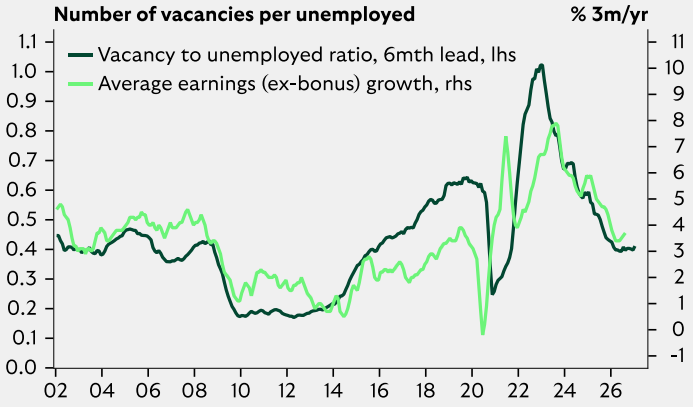
Source: ONS, Macrobond, Lloyds Bank Market Insights

Chart 6: Our UK Sector Tracker suggests that firms remain focused on cost-cutting



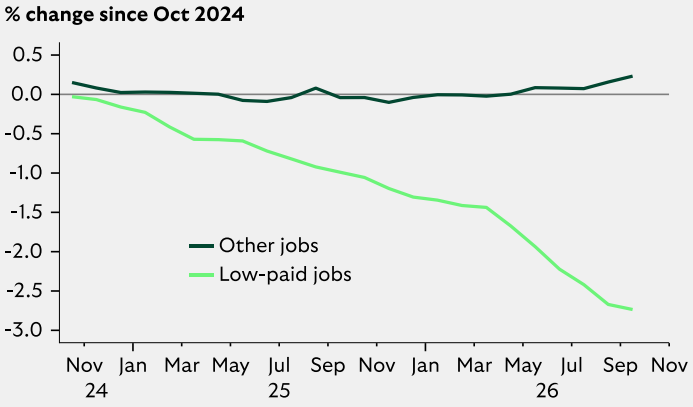
Source: Lloyds UK Sector Tracker, Macrobond, Lloyds Bank Market Insights

Chart 7: Labour market dynamics currently still point to softer rates of pay growth



Source: ONS, Macrobond, Lloyds Bank Market Insights

Chart 8: HMRC data shows that lower-paid jobs have fallen sharply since Q4 2024



Source: ONS, Macrobond, Lloyds Bank Market Insights

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20 October 2026

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