prospect

Pay bulletin

The latest news on salaries, settlements and more

August 2026

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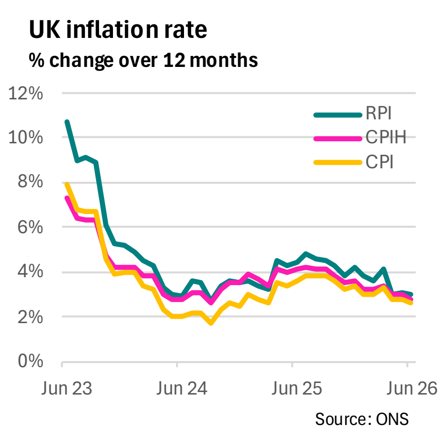
Welcome to August's pay bulletin. Read on for the latest data on inflation, pay and labour market trends.

This month:

- CPI falls to 2.6%
- Median pay settlements remain at to 3.5%
- In the period from March to May average weekly earnings are rising by 3.4%
- A detailed look at the CPI index

1. Headline inflation rates continue to fall



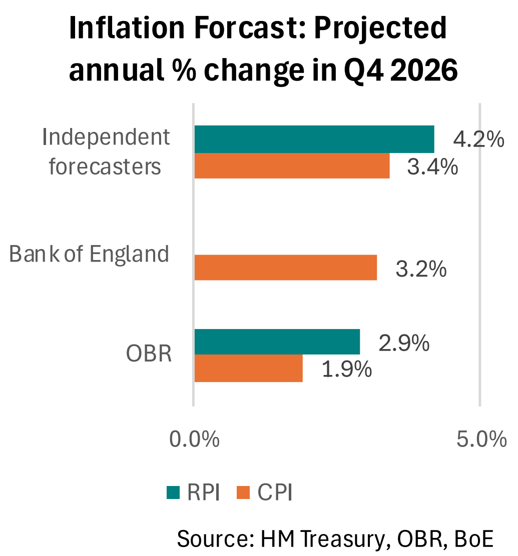
The [latest figures] from the Office for National Statistics (ONS) show that:

- **CPI was 2.6%** in the 12 months to June, down from 2.8% last month
- **CPIH was 2.8%** in the 12 months to June, down from 3% last month
- **RPI was 3%**, in the 12 months to June, down from 3.1% last month

Transport, and food and non-alcoholic beverages made the largest downward contributions to the monthly change in both CPIH and CPI annual rates.

Core CPI (CPI excluding energy, food, alcohol and tobacco) rose by 2.6% in the 12 months to June 2026, unchanged from the 12 months to May; the CPI goods annual rate slowed from 2.0% to 1.7%, while the CPI services annual rate eased from 3.7% to 3.6%.

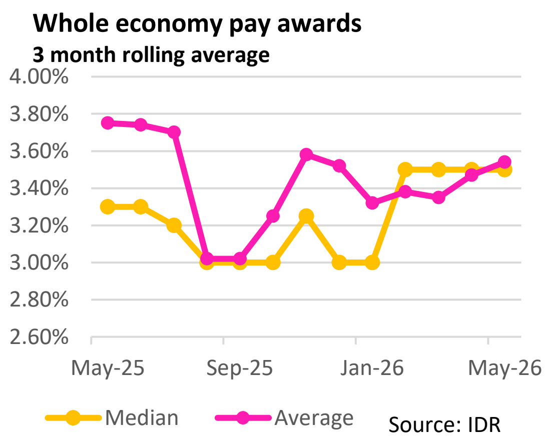
2. Inflation forecasts



HM Treasury's average of most recent inflation forecasts expects CPI to be 3.4% and RPI at 4.2% by Q4 2026.

On 30 July 2026, the Bank of England's MPC voted to keep the Bank Rate unchanged at 3.75%. CPI inflation stood at 2.6% in June, above the 2% Bank of England target. The MPC expects inflation to rise in the second half of year peaking at 3.2% in Q4 2026. While inflation risks are judged to be skewed on the upside, the economic outlook remains volatile because of the continued conflict in the Middle East.

3. Average pay settlements remain flat

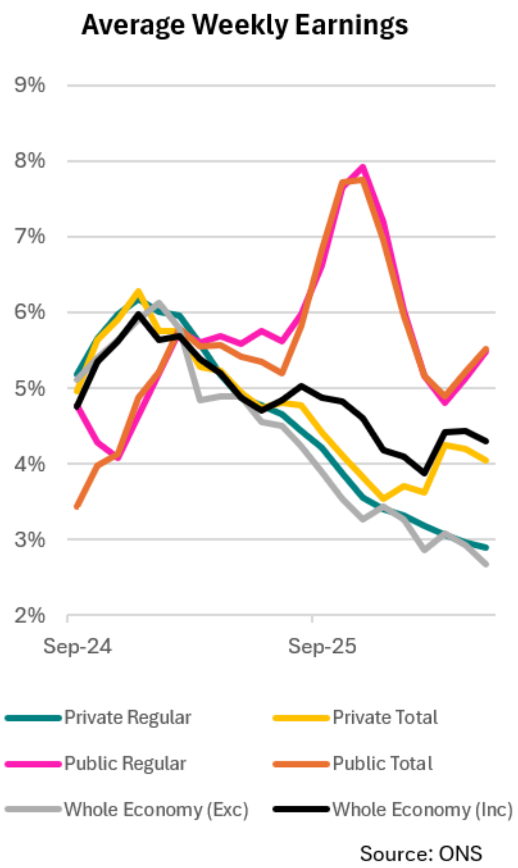


Median pay awards were at 3.5% in the three months to June, according to Income Data Research, remaining at the same level from last month. Brightmine has found that pay awards have remained consistent at 3.3% for the three months to the end of June 2026, significantly lower than last year Deals logged in the LRD's Payline database showed pay settlements averaging 3.5% in the three months to June.

Recent pay deals negotiated by Prospect & Bectu:

Settlement Date	Bargaining Unit	Headline Figure	Duration
1st July, 2026	Centre for Ecology & Hydrology	4.20%	1 Year
1st April, 2026	National Museums Liverpool	3%	1 year
1st August, 2006	S4C	3.20%	1 Year

4. Public sector pay continues to grow faster



Between March and May 2026, UK wage growth remained positive. Average regular earnings (excluding bonuses) increased by 3.4% over the year, while total earnings (including bonuses) rose by 4.3%. After accounting for inflation, real earnings growth was more subdued, with regular pay increasing by 0.3% to 0.4% and total pay rising by 1.1% to 1.3%, depending on the inflation measure used. Pay growth was notably stronger in the public sector, where regular earnings increased by 5.5%, compared with 2.9% in the private sector, although public sector figures were influenced by the timing of pay awards. Outside the public sector, the wholesale, retail, hospitality and restaurant sector recorded the strongest annual growth in regular pay, at 3.6%, indicating continued resilience in consumer-facing industries.

5. In Focus: CPI Components

The Consumer Prices Index (CPI) is the UK's primary measure of inflation. It tracks the average change over time in the prices paid by households for a representative basket of goods and services,

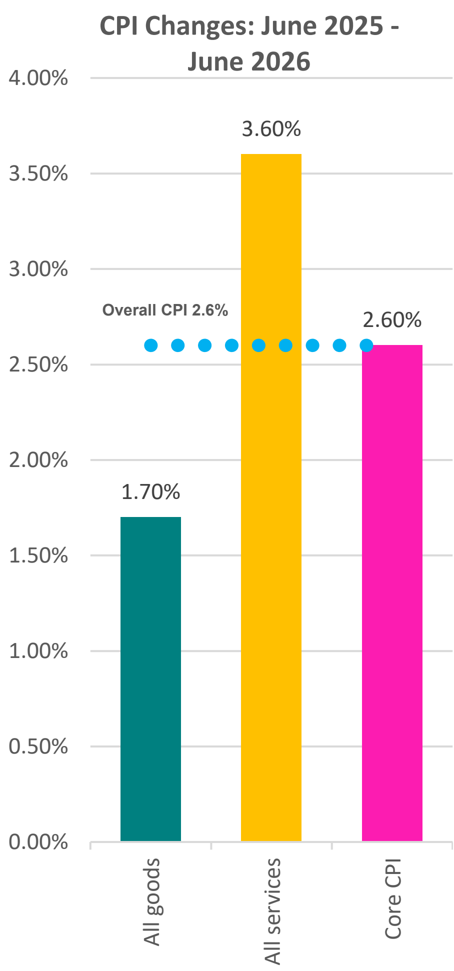
In general economists tend to use 4 main components of the CPI, these are:

- **Headline CPI**: The overall inflation rate across all categories.
- **Core CPI**: Excludes food, energy, alcohol and tobacco to provide a measure of underlying inflation trends that are less affected by volatile prices.
- **Goods Inflation**: Measures price changes for physical products such as food, clothing and household goods.
- **Services Inflation**: Measures price changes for services such as hospitality, transport, education and communications. This is often closely watched by the Bank of England as it can reflect domestic wage and cost pressures.

Headline CPI inflation stood at 2.6%, indicating that consumer prices continued to rise at a rate above the Bank of England's 2% target. While inflation has moderated significantly from the highs seen in recent years, price pressures remain present across the economy.

The data highlights a clear difference between goods inflation (1.7%) and services inflation (3.6%). Goods price growth was relatively subdued, reflecting easing supply chain pressures and more moderate increases in the cost of consumer products. In contrast, services inflation remained elevated, suggesting that domestic factors such as wage growth and operating costs continue to support higher prices in service-based industries.

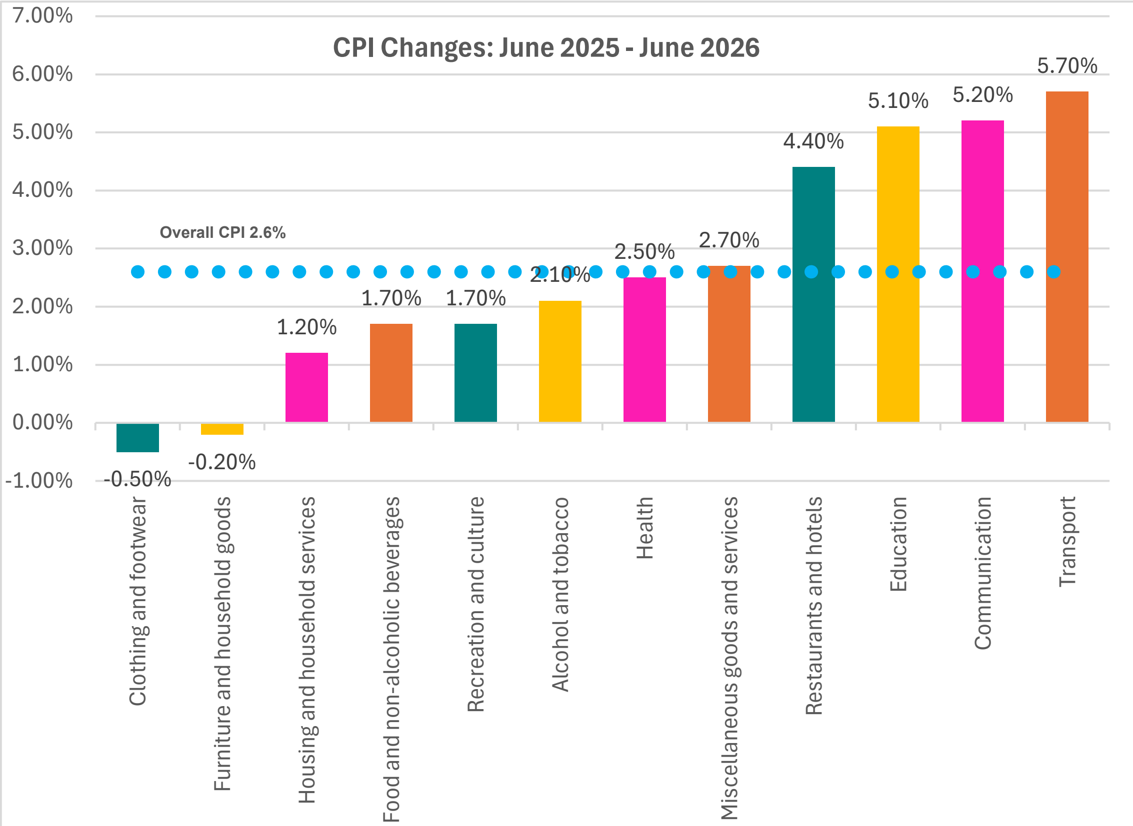
Core CPI, which excludes volatile items such as food, energy, alcohol and tobacco, also stood at 2.6%, matching the headline rate. This indicates that underlying inflationary pressures remain relatively broad-based rather than being driven solely by fluctuations in specific categories. Overall, the figures suggest that although inflation is becoming more stable, persistent services inflation continues to be a key factor influencing the UK's inflation outlook.



In addition to these components CPI is divided into several broad expenditure categories:

- Food and non-alcoholic beverages: groceries, fresh produce, snacks and soft drinks.
- Alcohol and tobacco: alcoholic drinks and tobacco products.
- Clothing and footwear: clothing, shoes and related accessories.
- Housing and household services: utility bills, maintenance costs and household services (although owner-occupiers' housing costs are excluded from CPI and included in CPIH).
- Furniture and household goods: furniture, appliances and household equipment.
- Health: medical products, dental services and other healthcare costs.
- Transport: fuel, vehicle purchases, public transport and related travel costs.
- Communication: telephone, mobile and internet services.
- Recreation and culture: holidays, entertainment, cultural activities and leisure goods.
- Education: school, college and university fees.
- Restaurants and hotels: meals out, accommodation and catering services.
- Miscellaneous goods and services: personal care, insurance and financial services.

The chart below details the change in each component of the CPI over the past year



The strongest inflationary pressures were seen in transport (5.7%), communication (5.2%), education (5.1%), and restaurants and hotels (4.4%), reflecting continued cost pressures within service-based sectors. More moderate inflation was recorded in miscellaneous goods and services (2.7%), health (2.5%), alcohol and tobacco (2.1%), and food and non-alcoholic beverages (1.7%), suggesting that food price pressures have eased compared with recent years.

Housing and household services inflation remained relatively low at 1.2%, indicating a smaller contribution to overall inflation than many service categories. In contrast, clothing and footwear (-0.5%) and furniture and household goods (-0.2%) experienced price declines, helping to offset stronger inflation elsewhere in the economy. Overall, the data suggests that services continue to be the main driver of inflation, while goods price inflation remains subdued.

What does this mean in practice?

The main drivers of the cost-of-living crisis continue to be higher fuel, energy and transport costs. While transport costs remain elevated, potentially reflecting ongoing instability in the Middle East, other key non-discretionary spending categories, such as housing and household services, along with food prices, have eased somewhat, helping to alleviate some cost-of-living pressures. However, food prices remain highly sensitive to weather conditions and could increase in the future, while the UK continues to be exposed to the risk of higher energy costs. As a result, although inflation has fallen, cost-of-living pressures have not disappeared. Members are therefore likely to continue seeking pay settlements that ensure wages keep pace with the cost of meeting essential living expenses.