

# Pay bulletin

The latest news on salaries, settlements and more

May 2026

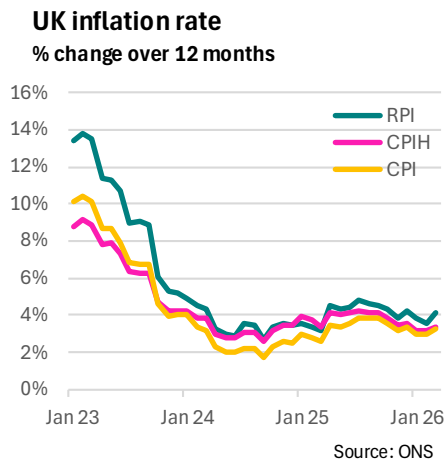
@prospectunion • prospect.org.uk

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

## This month:

- CPI jumps to 3.3%
- The continued Middle East Crisis continues to make future inflation unpredictable
- Median pay settlements remain at 3.3%
- In the three months to January average weekly earnings are rising by 3.6%
- An in-depth look at different inflation indices

## 1. Inflation starts to climb



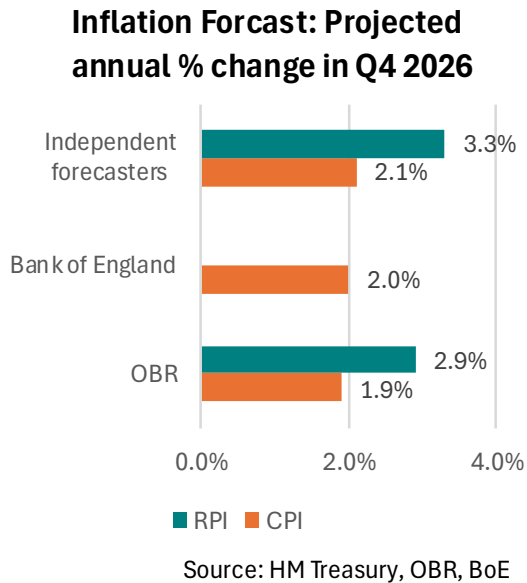
The [latest figures](#) from the Office for National Statistics (ONS) show that:

- **CPI was 3.3%** in the 12 months to March, up from 3% last month
- **CPIH was 3.4%** in the 12 months to March, up from 3.2% from last month
- **RPI was 4.1**, in the 12 months to March, up from 3.6% last month

Motor fuels made the largest upward contribution to the monthly change in both CPIH and CPI annual rates; clothing made the largest, partially offsetting, downward contribution.

Core CPI (CPI excluding energy, food, alcohol and tobacco) rose by 3.1% in the 12 months to March 2026, down from 3.2% in the 12 months to February; the CPI goods annual rate rose from 1.6% to 2.1%, while the CPI services annual rate rose from 4.3% to 4.5%

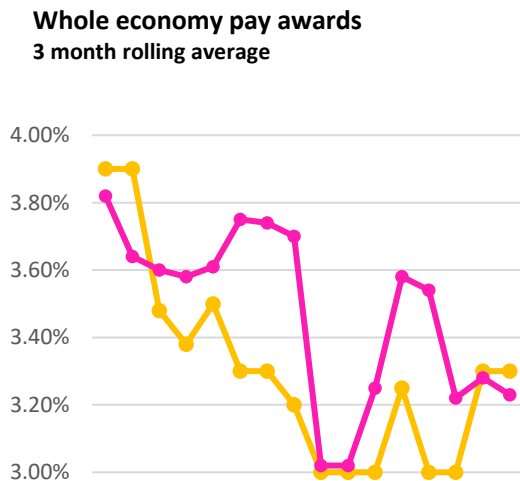
## 2. Headline rates of inflation for Q4 2026



[HM Treasury's average of most recent inflation forecasts](#) expects CPI to be 2.1% and RPI at 3.3% by Q4 2026, whilst the OBR is forecasting 1.9% for CPI and 2.9% for RPI. At its meeting ending on 29 April 2026, Bank of England's the [Monetary Policy Committee \(MPC\)](#) voted by a majority of 8 to 1 to maintain Bank Rate at 3.75%.

The conflict in the Middle East means that prospects for global energy prices are highly uncertain. Monetary policy cannot influence energy prices but will be set to ensure that the economic adjustment to them occurs in a way that achieves the 2% inflation target sustainably.

## 3. Average pay settlements remain flat

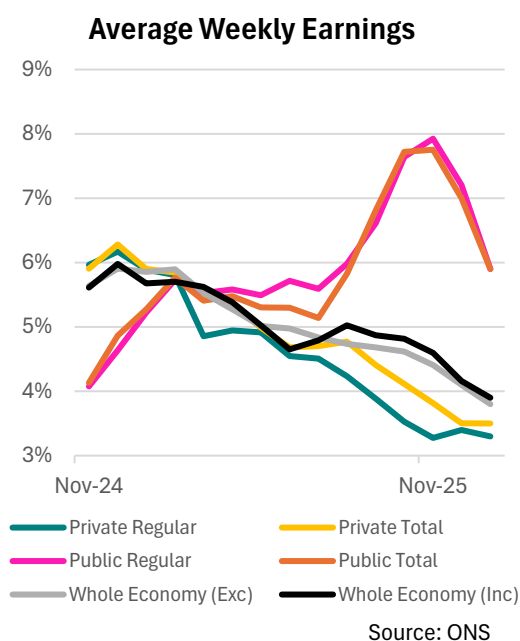


Median pay awards were at 3.3% in the three months to March, according to [Income Data Research](#), remaining stable from February. [Brightmine](#) reported that pay awards increased to 3.5% in March, although felt that this increase would be short lived. Deals logged in the LRD's [Payline](#) database showed a further rise, with pay settlements averaging 3.8% in the three months to March, although they lost their brief lead over RPI inflation.

### Recent Prospect pay settlements include:

- ITN, headline increase: 3.75%, 1-year deal, effective 1<sup>st</sup> April 2026
- BRE, headline increase: 3.5%, 1-year deal, effective 1<sup>st</sup> April 2026
- Oxford Playhouse, headline increase: 4%, 1-year deal, effective 1<sup>st</sup> April 2026

## 4. Public sector pay continues to grow faster



[Annual earnings growth](#) remains moderate, with regular earnings rising by 3.6% and total earnings (including bonuses) by 3.8%. After adjusting for inflation, real pay growth is modest, ranging from 0.2–0.4% using CPIH and 0.4–0.7% using CPI, indicating only small improvements in purchasing power. Public sector regular pay grew faster at 5.2% compared with 3.2% in the private sector, although this has been influenced by a temporary base effect from earlier pay settlements in 2025 that is now largely fading. Excluding the public sector, the wholesale, retail, hotels and restaurants sector recorded the strongest growth in regular earnings.

## 5. In Focus: Inflation Indices

Inflation is frequently quoted in pay bulletin, typically with the Consumer Price Index (CPI) & Retail Price Index (RPI), quoted, however there is a 3<sup>rd</sup> measure, the Producer Price Index (PPI), which due to the current global economic climate is a very important measure at present. The following details these 3 indices, how they work, what they mean and how they interact

### The Consumer Price Index (CPI)

CPI measures changes over time in the prices that households pay for a representative “basket” of goods and services. This basket includes items such as food, clothing, transport, utilities, holidays, and a wide range of services.

CPI is designed to reflect the cost of living faced by the average household, and it includes indirect taxes such as VAT. However, it excludes most owner-occupier housing costs, such as mortgage interest payments and house prices.

CPI is the UK’s headline inflation measure and is the index targeted by the Bank of England in its monetary policy framework. The current inflation target is 2% CPI inflation, making CPI central to interest rate decisions, fiscal planning, and economic commentary.

Methodologically, CPI uses a geometric average to combine price changes. This approach allows for consumer substitution — for example, switching to cheaper products when prices rise — and typically results in a lower measured inflation rate than RPI.

## **Consumer Prices Index including owner-occupiers' housing costs (CPIH)**

The CPIH is in essence identical to CPI, with the notable addition of owner-occupiers' housing costs, measured using a *rental equivalence* approach (what it would cost to rent a similar home), and Council Tax. Because it captures these additional housing costs, CPIH is intended to better reflect the overall cost of living faced by households in the UK.

## **The Retail Price Index (RPI)**

The RPI is an older measure of consumer inflation that also tracks changes in the prices of a basket of goods and services. While the basket is broadly similar to CPI's, there are several key differences.

Most importantly, RPI includes housing-related costs such as:

- Mortgage interest payments
- Council tax
- Buildings insurance
- Housing depreciation

These inclusions mean RPI is especially sensitive to changes in interest rates, unlike CPI.

RPI also uses an arithmetic average, which does not account for substitution effects. As a result, RPI tends to systematically overstate inflation compared with CPI. Due to these methodological weaknesses, RPI is no longer classified as a "National Statistic" and is not used for monetary policy.

Despite this, RPI remains economically significant because it is still widely used for:

- Indexing private pensions
- Student loan interest rates
- Rail fare increases
- Some wage agreements and index-linked government bonds

## **The Producer Price Index (PPI)**

The PPI measures changes in prices at an earlier stage of the economy — the prices charged and paid by producers rather than consumers.

PPI is typically split into two main components:

- Input prices: the cost of materials, energy, fuel, and components purchased by manufacturers
- Output prices: the prices manufacturers charge for goods sold at the "factory gate"

PPI excludes retail margins, most taxes, and consumer-facing distribution costs, meaning it reflects inflation pressures before goods reach shops or consumers.

Because of this, PPI is often viewed as a leading indicator of inflation. Rising producer costs can signal future increases in consumer prices if firms pass these costs on.

## How the Indices Relate to Each Other

The three indices can be understood as measuring inflation at different points along the supply chain:

1. PPI (upstream) - Inflation begins when producers face higher input costs or raise factory-gate prices.
2. Cost pass-through - Firms may absorb these costs through lower profit margins or pass them on to retailers and consumers.
3. CPI and RPI (downstream) - If costs are passed on, households face higher prices, which show up in CPI and RPI.

Because of this sequence, movements in PPI often precede movements in CPI and RPI, though the timing and size of the pass-through vary depending on demand conditions, competition, and government policy

The chart below shows CPI, CPIH, RPI and PPI (Output) since the start of 2022, clearly illustrating the differences and trends between the indices.

