Looming National Insurance changes prompt widespread plans to cut hiring and increase redundancies, new CIPD research finds

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A survey of more than 2,000 UK employers by the CIPD shows a significant fall in hiring confidence and a sharp increase in redundancy intentions over the last quarter, with redundancy intentions rising to their highest levels in the last ten years, outside of the of the pandemic.

As employer confidence falls, the CIPD is urging the Government to accelerate its plans around business support and skills policy so firms can confidently plan for the long-term and make the investments they need to boost productivity and growth.

The survey found that the significant fall in firms' employment intentions is linked to the impending increases to employer National Insurance contributions (NICs) and the National Minimum Wage, announced in the Budget in October 2024.

Among businesses that expect their employment costs to increase:

- Almost a third (32%) plan to reduce their headcount through redundancies or recruiting fewer workers.
- Two in five (42%) plan to raise prices in response to the increased employment costs.
- A quarter (24%) report they are cancelling or scaling down plans for investing in or expanding their business.

Employer concerns are also reflected in the survey's net employment balance – which measures the difference between employers expecting an increase in staff levels and those expecting a decrease in the next three months. It fell significantly overall, from +21 last quarter to +13 this quarter, and from +24 to +16 in the private sector.

Peter Cheese, chief executive at the CIPD, the professional body for HR and people development, said: "These are the most significant downward changes in employer sentiment we've seen in the last ten years, outside of the pandemic. Employer confidence has been impacted by planned changes to employment costs, and employment indicators are heading in the wrong direction. Businesses have had time to digest these impending changes, with many now planning to reduce headcount, raise prices and cut investment in workforce training.

"If the Government's plans are to succeed, it's vital they set out how they will help businesses to support growth and investment. And it's important this support is felt across the economy. Our data shows it's the everyday economy sectors, such as retail and hospitality, which employ large numbers of people, that will be particularly affected by impending increases to employment costs."

Further key findings from the report include:

- Some sectors saw a marked drop in confidence through their Net Employment Balance, notably: Retail from +23 to +1; transport and storage from +28 to +11; hotels, catering and restaurants (hospitality) from +18 to +7 and construction from +43 to +27, which is particularly notable given largescale infrastructure plans for the UK.
- Last quarter 11% of employers expected there to be a decrease in staff levels in the next three months, but this figure has now risen to 16%.
- Overall, one in four (25%) employers plan to make redundancies in the three months to March 2025. This is a significant increase from 21% last quarter and the highest number seen in the last ten years outside of the pandemic. It rose sharply in the private sector from 22% last quarter to 27% this quarter.
- Nine in ten organisations expect employment costs to increase due to NICs changes. 43% of employers believe the increase in the rate of NICs will increase their employment costs 'to a large extent'. 40% of employers believe the reduction in the "secondary threshold" will increase their employment costs 'to a large extent'.
- One in four (24%) employers believe their employment costs will increase 'to a large extent' due to the rise in the National Living Wage to £12.21.
- When asked how they plan to respond to increased employment costs, 42% of employers said they plan to raise prices, rising to 68% of retailers. Over a third (37%) plan to improve efficiency and raise productivity, 32% plan to reduce the number of employees through redundancies and/or recruiting fewer workers. And some (21%) plan to respond by increasing automation (21%).
- One in five (19%) plan to cut back on training expenditure, something which is evidenced to have to have positive productivity effects, particularly important in a time of skills shortages and to achieve the government's plans for growth.

Cheese continues:

“There are worrying signs some employers are shelving plans to hire new staff or train their people, or they expect to scale back plans to expand their businesses. However, the introduction of additional employment costs is also focusing some employers to look at introducing automation or raising productivity in other ways; activity the Government should look to support.

“The Government needs to set out more clearly how it is going to work with employers to support greater business investment in the workforce skills, management capability and technology adoption across all sectors of the economy that can help boost productivity.

“This means fast-tracking consultation with employers on the design of the new Growth and Skills Levy and other changes to skills policy to help organisations upskill their workforces and to tackle technical skills shortages holding back the economy. It also means reviewing and improving support services available to smaller businesses in particular.”

Other key points from this latest Labour Market Outlook include:

- The reason for the increase in taxation was to enable the Government to invest in public services. On a positive note, looking forward to the next three years, 58% of public sector employers believe this additional funding will help improve recruitment difficulties, with a similar proportion (56%) reporting it will help retention difficulties.
- A third of all employers (33%) have hard to fill vacancies. This rises to half (49%) of employers in compulsory education and 46% of employers in construction – a key sector for fulfilling the Government’s large-scale infrastructure plans.
- The median expected basic pay increase for the next 12 months remains at 3% overall, and in the private sector, for the third consecutive quarter.
- Expected pay awards in the public sector, for the year ahead, have fallen to 2.5% this quarter after rising to 4% last quarter. This was following the Chancellor’s announced pay increases for many public sector workers back in July 2024.