

United Kingdom

UK companies expect significant impacts on prices and employment over next 12 months from NI and minimum wage policy changes

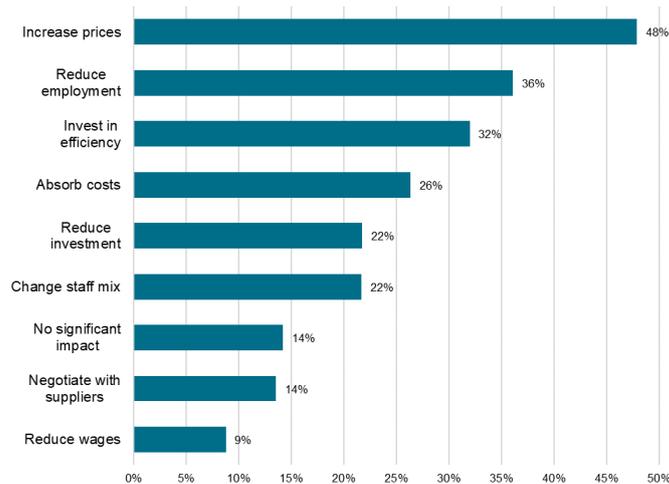
In June, firms were invited in the latest UK Business Outlook survey to detail the expected impact of the changes to employer national insurance (NI) contributions and minimum/living wages on their business operations. Nearly half of all survey respondents said they are likely to further raise their selling prices over the next 12 months as a direct response to the increase in salary costs, while more than a third of firms plan to make cuts to their employment.

These results came amid a relatively subdued outlook for UK private sector activity, according to the June Business Outlook survey, although expectations did improve compared to the prior survey in February. Companies frequently noted rising staff costs as a key concern for their business, with inflation expectations for input and output prices remaining higher than seen 12 months ago.

Businesses widely anticipate price hikes over next year

The UK Business Outlook is a tri-annual survey that assesses the expectations of domestic firms for a variety of metrics over the next 12 months, including activity, employment, input and output prices, profits, capital expenditure and research & development. In June, businesses were also asked about the impact they expect to see from the changes to employer National Insurance (NI) contributions and national minimum/living wages in April 2025, listing any measures they plan to take in the coming year (i.e. by June 2026) over and above what they had already implemented.

What are UK businesses planning to do in response to NI and minimum/living wage rises over next 12 months?



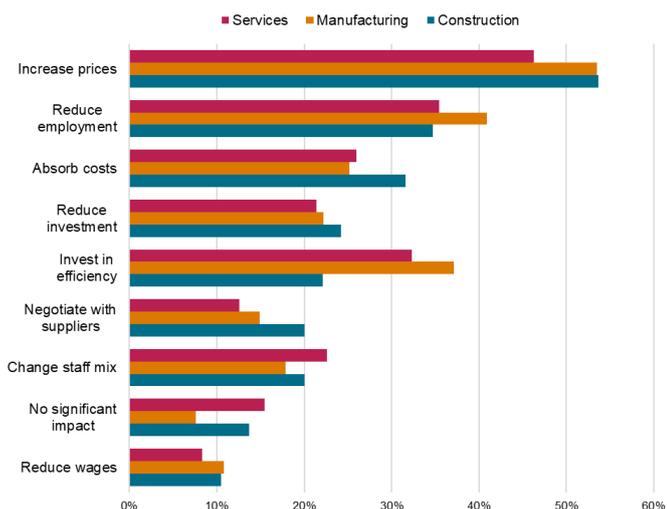
Data compiled in UK Business Outlook survey in June 2025. Question asks UK companies how they expect April's rise in National Insurance contributions and changes to the national living/minimum wage to affect their business over the coming 12 months beyond any measures they have already taken.

Source: S&P Global PMI
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By far the most likely impact that UK businesses expect is an increase in their selling prices. Around half (48%) of monitored firms projected a rise in output charges as part of their efforts to pass on higher payroll expenses to customers. Firms were much more willing to raise their charges than to absorb the impact of higher costs, with approximately 26% of firms stating this was a likely response, suggesting perhaps the limited ability of domestic companies to accept slimmer margins.

Broken down by sector, the survey results indicated that construction and manufacturing firms were more likely to plan price hikes due to the recent policy changes than services companies. Construction firms meanwhile appeared more willing to absorb these extra costs than service providers or manufacturers. That said, "increase prices" was still the most commonly reported impact of the policy changes across all three sectors.

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A large number of firms (36%) also expect to lower their staffing levels over the next year, especially manufacturers. This suggests that weakness in labour markets is expected to continue, something which has been picked up in the UK PMI since these payroll measures were announced in the Autumn Budget in October 2024. Cuts to investment were also anticipated, albeit at fewer firms, with 22% noting this as a likely response. According to further qualitative responses, some goods producers also plan to cut their factory hours, such as by moving to four-day weeks.

In addition to these measures, businesses plan to make cost savings due to the policies introduced in April through efficiency improvements. Just under a third of respondents (32%) said they expect to invest into productivity initiatives, tying in with other survey comments signalling increased efforts to adopt artificial intelligence and other technology advancements. By contrast, only 14% of monitored firms said they would look to lower costs by negotiating with suppliers, while just 9% stated they would achieve cost savings through wage cuts.

Overall, the survey results indicated that the rises in NI contributions and living/minimum wage rates will have a widespread effect on business operations, as only 14% of firms reported no significant impact anticipated. This response was lowest in the manufacturing sector, at just 8% of panellists.

UK activity and investment expectations remain weak, as inflation concerns persist

The survey findings on the Budget policy changes were accompanied by the June Business Outlook survey signalling a modest improvement in UK firms' expectations for business activity (output) over the next 12 months. This compared with a muted outlook in the previous survey conducted in February, when confidence in future activity levels dropped to the weakest in over two years. However, despite improving, the net balance of domestic companies that expect their output to rise over the next 12 months (+32%) remained much lower than the average seen since the survey began in 2010 (+43%).

According to the reasons supplied by survey respondents, UK businesses are hopeful that they can expand into new markets, introduce advanced technologies such as AI into their workflows, capitalize on new product development and marketing initiatives, and benefit from government policy. However, these opportunities came against the backdrop of heightened business uncertainty and low consumer confidence, which firms highlighted as key challenges to navigate.

Similar to activity, business expectations regarding future employment levels improved in June from a multi-year low in February. That said, the net balance stood at just +5%, which was lower than at any point between 2021 and 2024. This partly reflected the ongoing concerns about salary pressures, and the subsequent expectation that firms will look to minimize hiring to avoid any large impact on their balance sheets.

UK Business Outlook: Activity and Employment

% net balance



Data as of June 2025. >0 signals positive outlook for respective metric.

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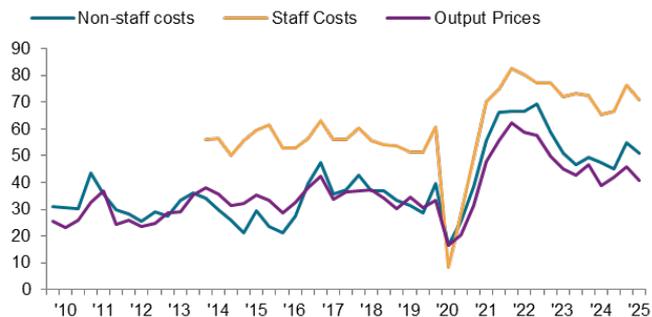
These worries about staff costs were further indicated by our survey metric on Staff Cost Expectations. In June, a net balance of +71% of UK businesses expects labour costs to rise over the next 12 months, which was down from February but elevated compared to the average seen over the series 11-year history. In many cases, survey participants mentioned increasing staff costs as one of the

key threats to activity growth. Non-staff input costs were also anticipated to rise sharply over the coming year, which firms partly attributed to upside inflation risks from US tariffs and global material prices.

Consequently, businesses are widely expecting to raise their selling prices over the next 12 months, linking with our initial findings showing the keenness of firms to pass on the NI and minimum wage rises. Notably, the net balance for Output Prices Expectations was higher than 12 months ago (as was also the case for staff and non-staff input costs).

UK Business Outlook: Input Costs and Output Prices

% net balance



Data as of June 2025. >0 signals firms generally anticipate prices to rise over next year.

Source: S&P Global PMI.

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With inflation concerns persisting, and firms continuing to see high levels of economic uncertainty in the domestic and global landscape, the latest Business Outlook survey signalled weak expectations for UK investment spending. Our two measures tracking capital expenditure and research and development intentions remained negative in June, indicating that firms on balance expect to reduce their spending in these areas, although capex intentions were considerably less pessimistic than seen in February. This suggests that domestic firms are finding it hard to look beyond the current unpredictability of future economic conditions, with comments highlighting that domestic fiscal policy, US tariffs and geopolitical tensions are the key factors behind this uncertainty.

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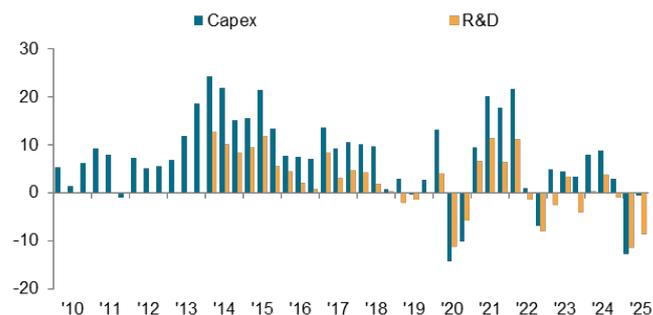
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UK Business Outlook: Capex and R&D investment

% net balance



Data as of June 2025. >0 signals positive outlook for respective metric.

Source: S&P Global PMI.

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