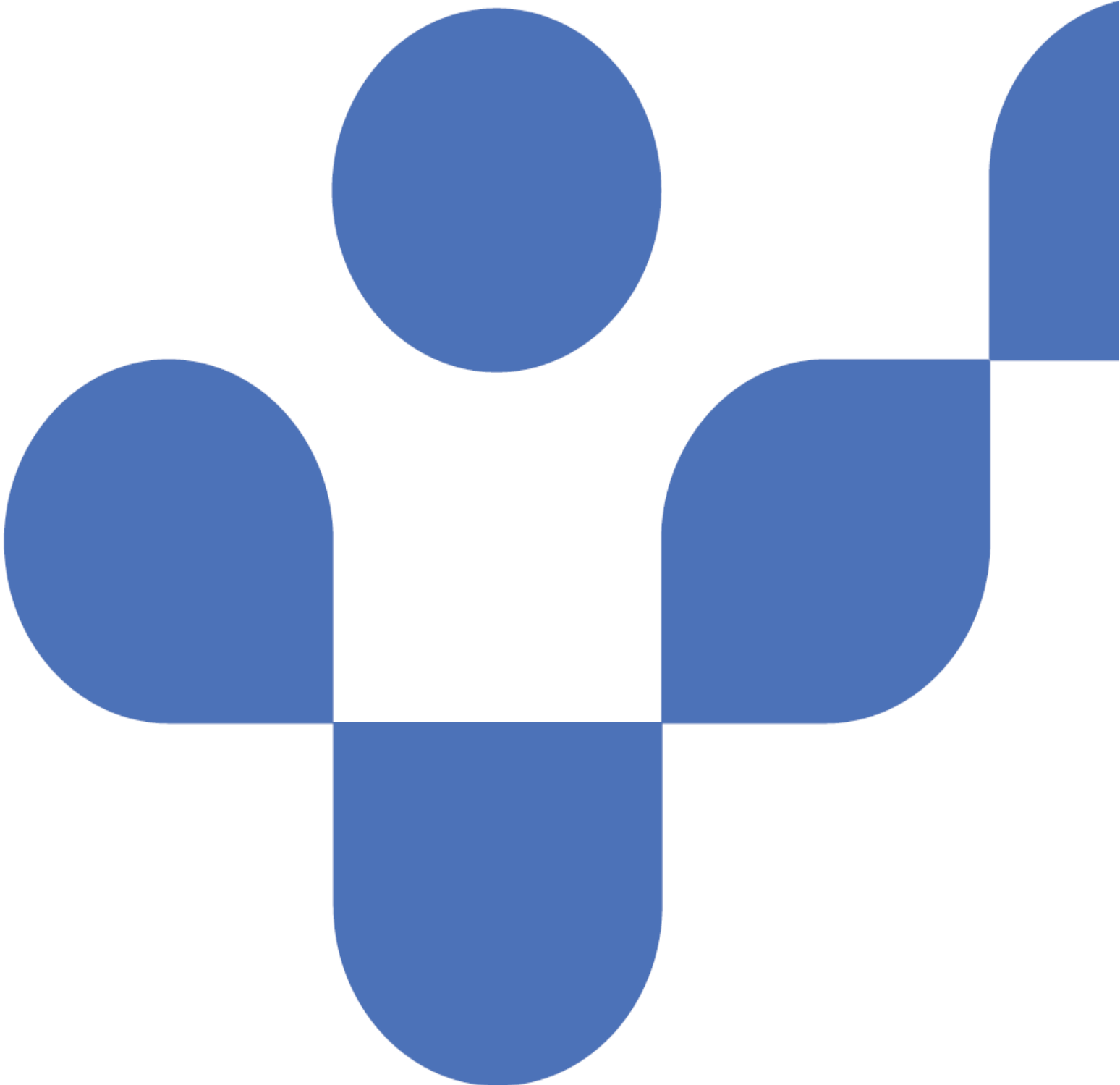


Low Pay Commission consultation

A response by the Recruitment Employment
Confederation

June 2026



REC Submission to the Low Pay Commission on the National Living Wage 2026

Executive Summary

REC key asks of the Low Pay Commission

1. **Adopt a more cautious trajectory for NLW increases** - Reflect weakening labour demand and rising employer cost pressures, including consideration of sub-inflationary increases where appropriate.
2. **Explicitly account for youth labour market impacts when considering the NMW** - Ensure decisions do not further reduce entry-level opportunities or exacerbate the NEET (*young people not in education, employment or training*) crisis.
3. **Maintain meaningful differentiation in youth wage rates** - Now is not the time to abolish youth rates. Listen to government signals and avoid further alignment with the NLW and take a more moderate approach to increases to protect employment opportunities for younger, less experienced workers.
4. **Allow time for businesses to adjust to cumulative cost increases and AI driven labour market transformation** - Recognise the combined impact of National Insurance changes and forthcoming Employment Rights reforms such as Guaranteed Hours.
5. **Take a broader view of labour market conditions** - Incorporate indicators such as vacancies, hiring demand, recruitment activity, and employer investment in training alongside earnings data.
6. **Prioritise effective enforcement through the Fair Work Agency** - Strengthen compliance, protect responsible employers, and maintain a level playing field.

The Recruitment and Employment Confederation (REC) support the principle of fair pay and recognises the important role the National Living Wage (NLW) has played in improving earnings for lower-paid workers.

However, evidence from REC member surveys, alongside labour market data from the Office for National Statistics (ONS) and analysis by the Low Pay Commission (LPC), indicates that the cumulative scale and pace of recent NLW increases are now generating material impacts across the labour market.

The LPC's own analysis, alongside REC and ONS indicators, points to a clear softening in labour market conditions. This is reflected in declining vacancies, a sustained contraction in permanent placements over more than two and a half years, weakening employer hiring intentions, and rising unemployment. Youth outcomes are particularly concerning. The latest ONS data show youth unemployment has risen to 16.2%, affecting over 700,000 young people, while the number of those not in education, employment or training (NEET) has exceeded 1 million, accounting for around 13.5% of all 16- to 24-year-olds. These trends highlight a growing disconnect between young people and both the labour market and the education system.

At the same time, employers are facing significant and cumulative cost pressures. REC data show that a clear majority of businesses report increased costs as a direct result of NMW rises. These pressures are being compounded by increases in employer National Insurance

Contributions and wider regulatory changes, creating a cumulative burden that is becoming increasingly difficult for businesses to absorb.

As a result, employer behaviour is shifting. An REC poll indicates that around 27% of businesses are reducing recruitment or overall headcount, while just over one in five reports cutting training investment or holding back broader pay increases. A similar share are scaling back benefits and bonuses. In addition, around a quarter of employers say they would further reduce hiring investment if the National Living Wage were to reach £13.18.

The LPC has also identified persistent behavioural shifts, including reduced investment in training and a growing reluctance to hire less experienced or unskilled workers. Employers are increasingly prioritising candidates who can be immediately productive as a way of managing rising cost pressures and mitigating risk.

These dynamics are having tangible labour market consequences. Entry level opportunities are being constrained, working hours are being reduced in some sectors, and the impacts are falling disproportionately on young people and labour market entrants, particularly those already at risk of becoming or remaining not in education, employment or training.

Following a period of strongly expansionary increases, the balance of evidence now suggests that a more cautious and balanced approach to future NLW uprating is a must to keep the labour market from taking a further downward turn. LPC rates decisions have to consider weakening labour demand, rising cumulative employer costs and bureaucracy, and the need to protect entry level opportunities.

Introduction

Employer behaviour has changed. The scale of employer challenge is unique for recent times give no rising business costs and additional regulatory pressures, including increases in employer National Insurance contributions and forthcoming Employment Rights reforms such as guaranteed hours provisions. Together, these pressures are creating a cumulative cost burden that is increasingly difficult for businesses to absorb.

There is growing evidence that employers are adjusting in response to rising costs. Businesses are reducing hiring activity, limiting hours in some sectors, and scaling back investment in training and workforce development. The Low Pay Commission has previously identified similar responses to increases in wage floors, including reduced training provision, a greater reluctance to hire inexperienced workers, and a shift towards more experienced hires. Current evidence suggests these trends are becoming more pronounced.

This is reflected in REC Jobs Outlook survey data from May 2026, which shows employers confirming a marked rise in cost pressures from the NMW in 2026. Around 71% of businesses now report higher costs, compared with just over half in 2025, while the share reporting no impact has fallen sharply from 42.1% to 21.4%.

These developments are particularly concerning in the context of rising youth unemployment and persistently high levels of NEETs. As employers become more risk-averse, entry-level opportunities are being constrained, increasing the risk of labour market detachment among young people and limiting pathways into work, skills development, and progression.

At the same time, effective enforcement of existing rates through the Fair Work Agency will be essential to ensure compliance, protect responsible employers, and maintain a level playing field.

The evidence presented in this submission draws on multiple REC data sources, including:

- REC JobsOutlook, the REC's monthly survey of employers, conducted by Whitestone Insights
- KPMG and REC Report on Jobs (June 2026), the REC's monthly survey of recruiters, conducted by S&P Global

Labour Market Context

How employers are hiring: behaviour and demand trends

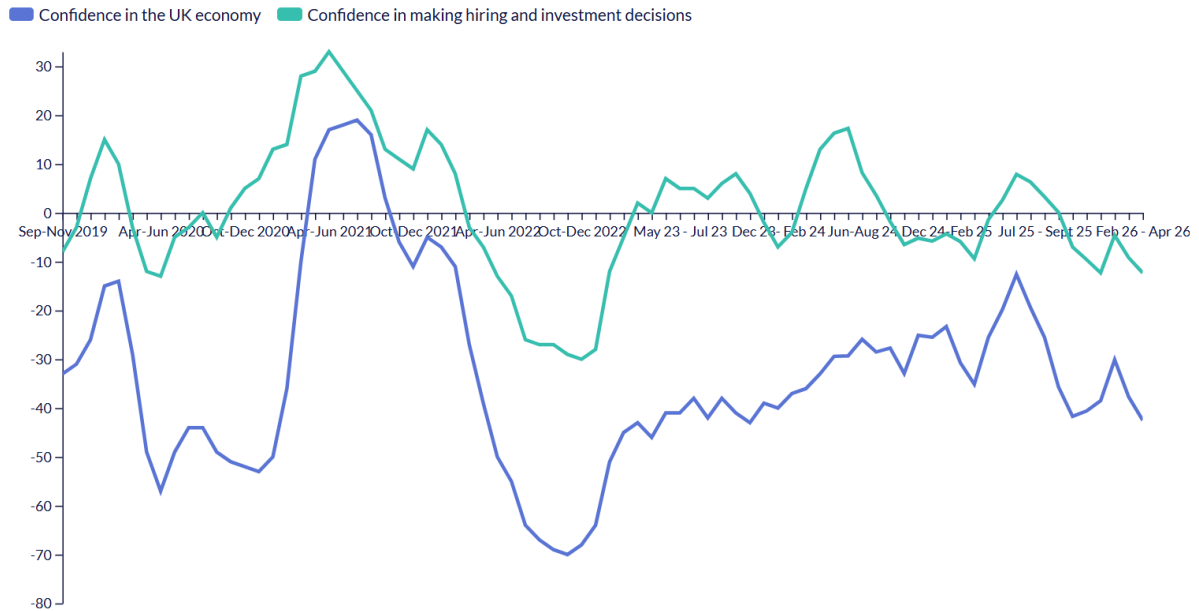
JobsOutlook data points to a clear shift in employer hiring sentiment over the past year. During 2025, conditions showed some signs of improvement, with short-term hiring sentiment stabilising and, at points, returning to modestly positive territory, particularly among mid-sized firms. Confidence in hiring and investment decisions also held up better than wider economic sentiment, though remained uneven.

However, this improvement has not been sustained. Through late 2025 and into early 2026, momentum has weakened, with hiring sentiment softening and both permanent and temporary outlooks remaining subdued. At the same time, confidence in the UK economic outlook has remained deeply negative and has deteriorated further, while confidence in hiring and investment decisions has also fallen back into negative territory.

Taken together, these trends point to a clear and growing sense of caution among employers, with fragile confidence increasingly weighing on hiring and investment decisions.

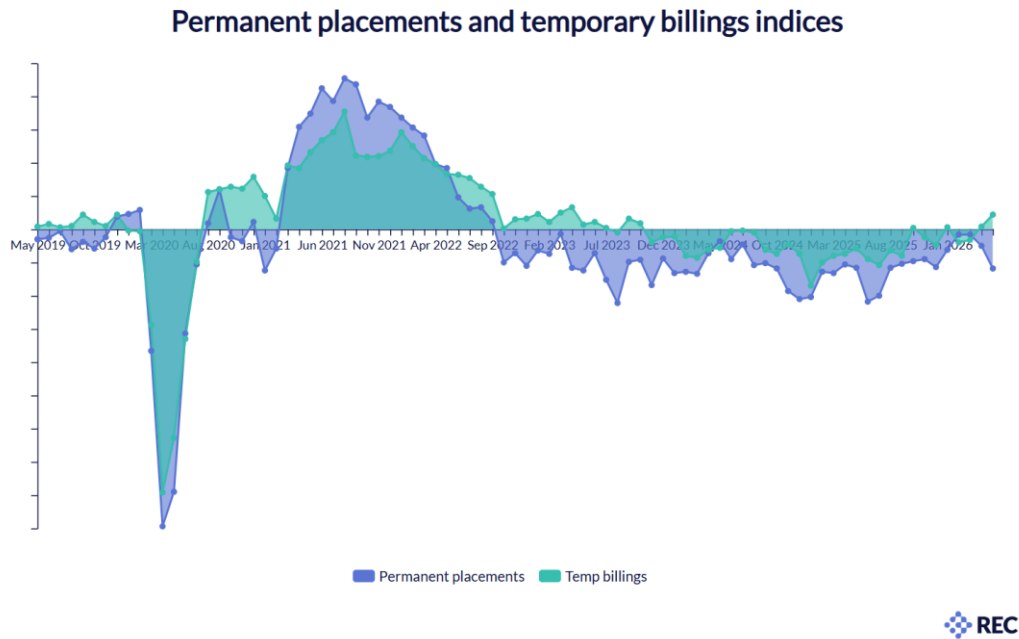
Figure 1: Employers' confidence in the prospects for the UK economy and in making hiring and investment decisions, JobsOutlook June 2026

Employer confidence trends



This is reflected in wider labour demand indicators. Permanent placements have now been declining for over two and a half years and remain weak and volatile through 2025 and into 2026. Temporary hiring has proven slightly more resilient, with some modest stabilisation, but remains subdued overall. Rather than signalling expansion, temporary roles are increasingly being used as a risk management tool, pointing to a continued shift away from growth-oriented hiring towards greater caution and flexibility. Rising labour costs, including NLW increases, are a key factor contributing to this more hesitant approach to hiring.

Figure 2: Permanent placements and temporary placements index, Report on Jobs (June 2026)



Permanent Placements Index

sa, >50 = growth since previous month

	UK	London	South	Midlands	North
Dec '25	44.3	40.2	44.4	51.0	38.5
Jan '26	46.9	42.1	44.9	50.5	45.8
Feb '26	49.2	46.6	46.0	48.7	51.6
Mar '26	49.2	52.0	43.4	45.4	51.5
Apr '26	47.5	54.9	39.0	39.9	53.3
May '26	44.1	47.2	42.0	40.0	51.1

Temporary Billings Index

sa, >50 = growth since previous month

	UK	London	South	Midlands	North
Dec '25	47.6	45.5	44.0	58.3	43.5
Jan '26	50.3	47.1	51.9	54.6	43.1
Feb '26	48.0	44.9	46.1	51.6	48.0
Mar '26	48.4	41.9	49.3	57.8	45.5
Apr '26	50.4	47.1	52.4	54.5	46.6
May '26	52.2	50.5	55.1	53.8	50.8

While headline employment remains broadly stable at around 34 million, underlying indicators point to a softening labour market. Economic inactivity remains elevated at over 9 million people, and challenges are particularly acute for young people. Youth unemployment is around 16%, and the number of NEETs remains persistently high.

On the demand side, vacancy levels have fallen from pandemic peaks, employer confidence has moderated, and recruitment activity has slowed. Taken together, this suggests a shift away from the tight labour market conditions seen in the immediate post-pandemic period towards a more subdued and cautious environment that is the new 'normal'.

In this context, it is important that the Low Pay Commission considers a broader range of labour market indicators when forming its recommendations. Alongside employment and earnings data, measures such as vacancies, hiring intentions, recruitment activity, and employer investment in training provide a more complete picture of labour market health.

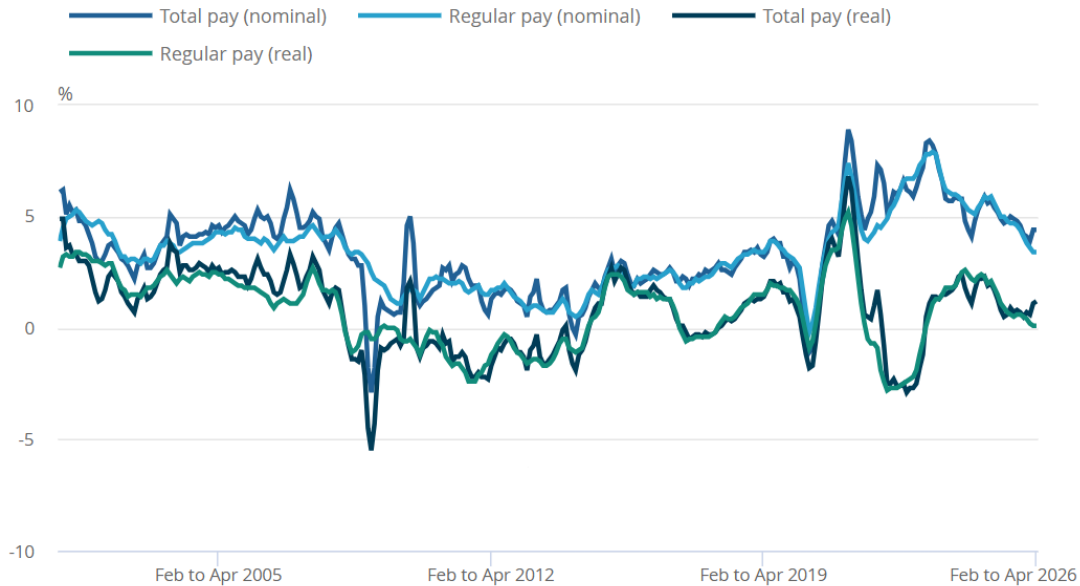
Increases in wage rates are reducing hiring

Scale of recent increases and cost pressures

The pace of recent increases in the National Living Wage (NLW) has been historically significant in recent years. The NLW rose from £9.50 in 2022 to £12.21 in 2025, an increase of over 28% in three years. This represents a substantial uplift in statutory wage floors, with direct implications for employer cost bases (and therefore their ability to hire), particularly in labour-intensive sectors.

Figure 3: Real wage growth (Office for National Statistics)

Average weekly earnings annual growth rates in Great Britain, seasonally adjusted, January to March 2001 to February to April 2026



For many employers, labour costs are now rising faster than demand and productivity, compressing margins and reducing capacity to recruit, invest, and deliver training.

The impact of minimum wage increases on business costs has become both more widespread and more deeply embedded. In 2026, 71.4% of businesses report increased costs as a result of National Minimum Wage (NMW) changes, up from 52.4% in 2025. This reflects a shift towards sustained and cumulative cost pressures rather than isolated increases.

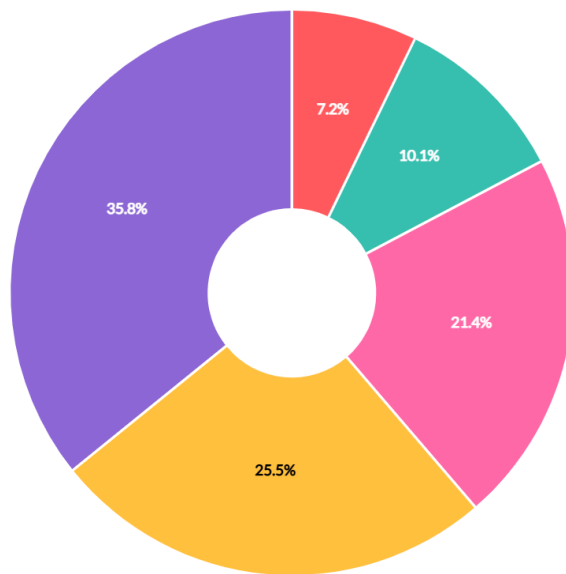
More acute pressures have also risen, with the share of firms reporting significant cost increases increasing from 8.6% to 10.1%, while the proportion reporting no impact has fallen sharply from 42.1% to 21.4%. Across the business population, over 70% of firms report increased costs over the past three years, highlighting the broad and persistent nature of these pressures.

While impacts are often moderate at the firm level, their cumulative effect is substantial. Medium-sized firms, public sector employers, and businesses outside London appear particularly exposed, reflecting differences in wage structures and baseline pay levels.

Figure 4: REC’s employer survey results on impact of NMW rates

To what extent, if at all, have increases to the National Minimum Wage over the past three years impacted your business costs? (N=237)

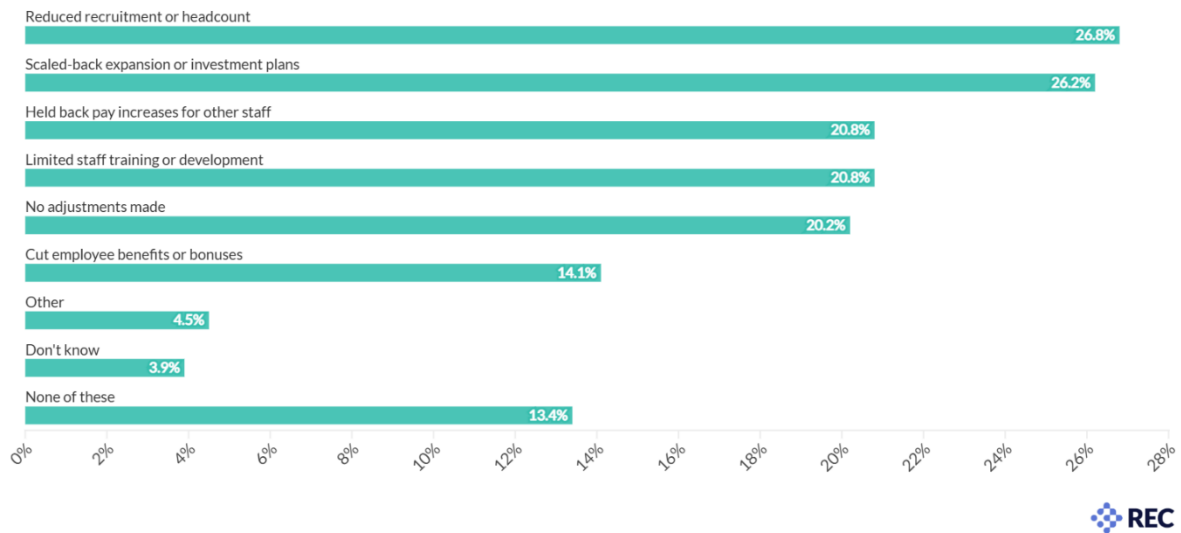
Significantly increased costs Moderately increased costs Slightly increased costs No increase in costs Not applicable / don't know



Impact of increase NMW on business cost	2026	2025
Significantly increased costs	10.1%	8.60%
Moderately increased costs	35.8%	27.90%
Slightly increased costs	25.5%	15.90%
No increase in costs	21.4%	42.10%
Not applicable / don't know	7.2%	5.50%

Figure 5: Adjustments made by businesses due to cost increases

Have you had to make any of the following adjustments in response to these cost increases? (N=183, only those who reported impact on business cost)



Employers' reduce hiring in response to rising costs

Our employer survey data shows businesses are already adjusting in response to these pressures. Among firms experiencing cost increases, the most common responses are reducing recruitment or headcount (27%) and scaling back investment (26%), indicating that rising labour costs are affecting both employment decisions and future growth capacity.

Around one in five businesses report limiting training or holding back wider pay increases, with implications for skills development and organic pay progression. Some employers are also reducing working hours. While a proportion of firms report no immediate changes, this suggests that costs are being absorbed in the short term, which is unlikely to be sustainable.

Adjustment strategies vary across regions and sectors. Firms in the Midlands and North are more likely to reduce recruitment, while London-based firms are more likely to scale back investment, reflecting a more capital-focused response. Public sector organisations tend to reduce training and investment, while private sector firms rely more on pay restraint and tighter control of hiring. Medium and large firms show a greater propensity to reduce recruitment, while small firms take a more mixed and flexible approach.

Overall, rising NMW-related costs are shaping levels of hiring and workforce development, with implications for employment levels, skills development, and longer-term productivity and economic growth. In this context, effective enforcement is essential to ensure that compliant employers are not undercut as cost pressures intensify.

Rising cost pressures risk tipping hiring into decline

Evidence suggests that many employers are already adjusting their behaviour, and a significant share expect to take further action in response to future increases. REC data indicates that at a projected NMW rate of £13.18, around one quarter of employers would

scale back investment in hiring new staff, pointing to a potential tipping point for employment decisions.

Expected responses reinforce this pattern. Around 24.9% of employers say they would reduce hiring, 20.7% would cut employee benefits or bonuses, and 18.2% would scale back temporary or agency staffing. This suggests that the impact is likely to be broad-based, affecting both permanent roles and more flexible forms of work.

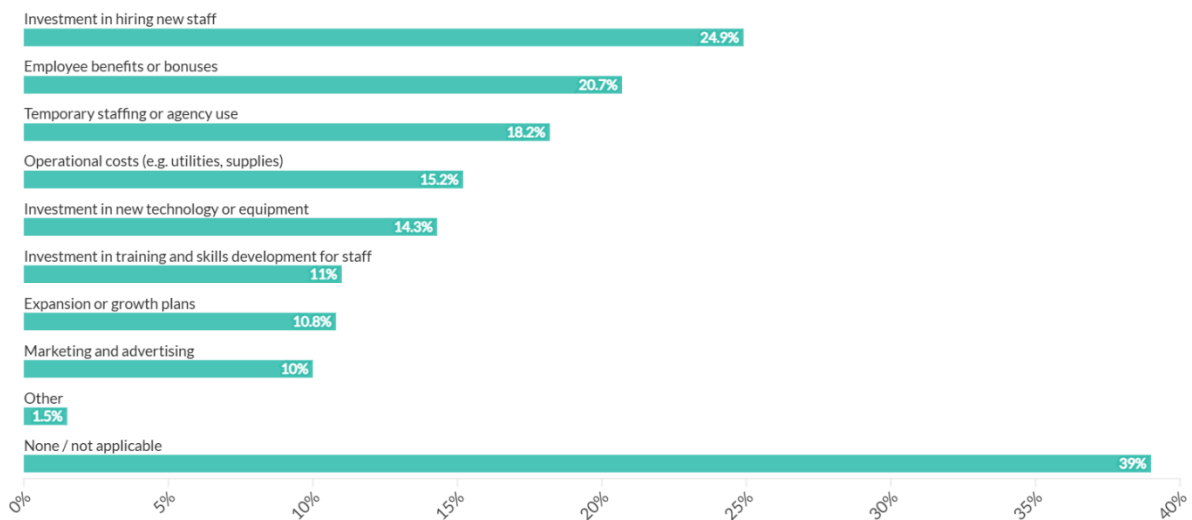
The effects extend beyond immediate workforce decisions. Around 15.2% of businesses would reduce operational spending and 14.3% would cut investment in technology or equipment, indicating possible longer-term consequences for productivity and growth. Around 11% expect to reduce spending on training and skills, while a similar proportion anticipate scaling back expansion or marketing activity.

Taken together, the evidence points in a clear direction. Recent increases in the NMW, alongside wider cost pressures, are having a significant and cumulative impact on employer behaviour and labour market outcomes. As costs continue to rise, businesses are becoming more cautious, pulling back on hiring and investment.

This suggests that rising wage floors are not only affecting employment decisions in the short term, but are also shaping wider business investment and growth strategies, with implications for longer-term economic performance, job creation, and tax receipts.

Figure 6: Impact of rise of National Minimum Wage to £13.18

In the event of a rise in the National Minimum Wage to £13.18, which of the following areas, if any, might you cut back on? (N=237)



Fewer job opportunities for young people as pressures grow

Opportunities for young people in the labour market remain a serious concern and need to be fully considered when setting wage rates.

Youth unemployment stands at 16.2%, affecting around 729,000 young people, while close to 957,000 NEETs. This reflects a growing challenge, highlighted in the DWP-commissioned Milburn Review.

Rising labour costs are having a disproportionate impact on young people and those entering the workforce. Employers are increasingly favouring candidates with existing skills and experience, showing a reduced ability or willingness to take on and train new entrants. This pattern is also reflected in LPC evidence.

As a result, entry-level opportunities are being squeezed. This makes it harder for young people to access the labour market in the first place, increasing the risk of longer periods out of work and a cycle of inactivity that government is already spending significant resources trying to address.

Scrapping youth wage rates could worsen the NEETs crisis

While the government is moving towards aligning the NMW for younger workers with the higher NLW, recent decisions show a deliberate effort to slow the pace of this change. This reflects an understanding that moving too quickly risks placing additional pressure on businesses and further damaging youth employment in an already challenging labour market.

In this context, differentiated youth wage rates remain an important tool for supporting entry into work. They help employers manage the higher costs and risks associated with hiring less experienced workers, while enabling investment in training and development. However, this role is being eroded as rates move closer to the NLW. Maintaining clear differences between youth rates and the NLW is essential to preserve incentives for employers to hire younger workers. Therefore, now is not the time to abolish the youth rates.

A more balanced approach should ensure that:

- youth wage rates remain clearly and meaningfully below the NLW
- increases to the NLW are moderated, with specific consideration given to the impact on employment opportunities for young people

This would help ensure that wage policy supports both fair pay and access to jobs and progression for those at the start of their working lives.

Unsustainable wage increases add to skills shortages

Despite weakening overall labour demand, structural skills shortages persist across key sectors, including healthcare, engineering, logistics, and construction. This creates a dual challenge: reduced hiring activity alongside ongoing shortages in critical roles.

At the same time, there are growing signs that employers are prioritising risk management over workforce development. Rising cost pressures are contributing to a more cautious approach to hiring, with reduced willingness to invest in training and upskilling, particularly for new entrants and lower-skilled workers.

This dynamic risks reinforcing existing challenges, as reduced hiring and training in the short term may lead to deeper skills shortages over the longer term.

Analysis from Skills England highlights the scale of this issue, with around 150 occupations identified as critical to delivering the Industrial Strategy. While the skills system is supporting entry into these roles, this pipeline depends on sustained employer demand. If recruitment and training investment weaken, the effectiveness of these pathways will also be reduced.

In this context, focusing solely on wage floors risks overlooking key indicators of labour market health. A broader assessment, incorporating trends in vacancies, hiring demand, recruitment activity, and employer investment in training, is essential to support balanced and sustainable wage setting.

This integrated approach will help ensure that minimum wage decisions support both immediate employment outcomes and long-term labour market resilience.

Figure 7: Skills in short supply, Report on Jobs (June 2026)

6 Demand for skills

Recruitment consultancies are invited to specify any areas in which they have encountered skill shortages during the latest month.

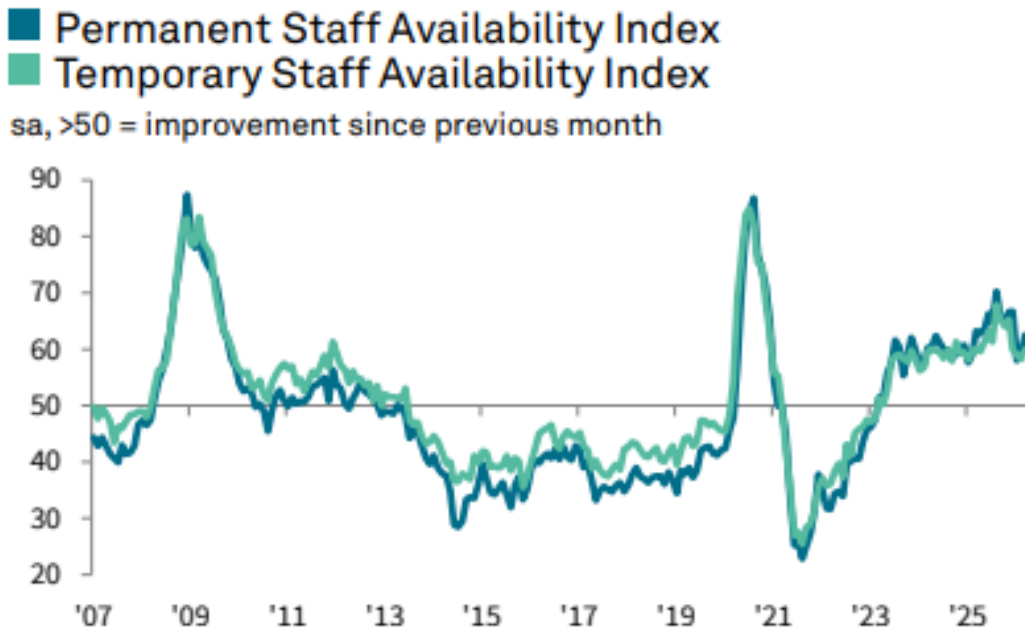
Skills in short supply: Permanent staff

Accounting/Financial	Engineers Maintenance Engineers Nuclear Energy Project Engineers Senior Engineers Technicians Water Engineer	Medical Nurses Occupational Therapist Paediatric Nurses Paramedics Physiotherapist Social Workers
Accountants Credit Controllers Enterprise Accounting Systems Estimators Finance Finance Business Partner Finance Managers Financial Adviser Financial Services Management Accountants Part Qualified Accountants Practice Accountant Tax & Audit Tax Accountant Technical Finance Professionals Transactional Finance	Executive/Professional Business Development C-Suite Digital Marketing Employee Relations Energy & Renewables Human Resources Legal Legal Secretarial Legal Support Marketing Paralegals Procurement Professional Roles	Secretarial/Clerical Administration Office Roles
Blue Collar	Hotel/Catering Hospitality	Other Account Managers Buyers Demand Planners European Languages Field Sales Insurance Specialists Logistics New Home Sales Quality Control Sales Sales Manager Sales Negotiators Security Cleared STEM Supply Chain Teachers Teaching Assistant
Assembly Technicians Blue Collar CNC Setter Drivers Electricians HGV Mechanic HVAC LGV 2 Drivers LGV Drivers Production Planners Security Guards Welders	IT/Computing AI/ML Engineers Cloud Engineers CNC Cyber Security Data Engineers IT IT & Software Sales IT Infrastructure IT Procurement Specialists Senior IT Developers SMT Engineers Software Software Architects Software Developers Technical Roles Technology	
Construction	Nursing/Medical/Care Allied Health Professionals Care Assistants Children's Home Manager Commercial Life Sciences Consultant Doctors	
Building Surveyors Civil & Structural Engineers Construction Construction Professionals Construction Project Directors Maintenance Roles Quantity Surveyors		
Engineering		
B1 Licensed Engineers Commissioning Engineers Design Engineers Design Engineers M&E Electrical Engineers		

Skills in short supply: Temporary staff

Accounting/Financial	IT Infrastructure Senior IT Developers Software Software Developers Software Engineers Technical Roles Technology
Finance Technical Finance Professionals	Nursing/Medical/Care Care Assistants Midwife Nurses Paediatric Nurses Psychiatric Nurses Social Workers
Blue Collar	Secretarial/Clerical Administration Junior Administration Office Roles
Blue Collar Carpenters CNC Machinist Drivers Electricians FLT Operators Forklift Drivers HGV Drivers Labour LGV Drivers Machine Operators Mechanical Assemblers Welders	Other Environmental Health Health & Safety Security Cleared STEM Teachers Teaching Assistant
Construction	
Bricklayers CE&I Civil & Structural Engineers Construction Pipefitters Skilled Trades	
Engineering	
Design Engineers M&E Electrical Control Engineer Electrical Engineers Engineers Instrumentation Engineers Maintenance Engineers	
Executive/Professional	
Employee Relations Quality Assurance	
Hotel & Catering	
Catering Hospitality Kitchen Porters	
IT/Computing	
AI/ML Developers AI/ML Engineers Cyber Security Domain Specialists IT	

Figure 8: Staff availability index, Report on Jobs (June 2026)



Permanent Staff Availability Index
sa, >50 = improvement since previous month

	UK	London	South	Midlands	North
Dec '25	66.7	69.5	69.8	60.9	63.8
Jan '26	58.1	61.0	57.4	57.6	57.6
Feb '26	59.2	58.6	59.0	59.2	61.4
Mar '26	62.5	68.2	59.6	60.7	63.3
Apr '26	61.1	62.8	59.3	56.2	66.6
May '26	62.4	64.0	63.9	55.0	67.4

Temporary Staff Availability Index
sa, >50 = improvement since previous month

	UK	London	South	Midlands	North
Dec '25	60.0	64.8	60.6	57.6	61.1
Jan '26	59.0	62.3	57.5	55.4	60.2
Feb '26	58.2	60.8	56.3	49.0	66.8
Mar '26	59.9	68.9	57.3	54.6	58.2
Apr '26	59.8	62.9	61.5	53.5	59.3
May '26	61.8	66.6	59.5	54.3	64.9

Narrowing pay differentials can harm career progression

Rising National Living Wage (NLW) levels are narrowing pay differentials across the labour market, reducing the gap between entry-level and more skilled roles. This places upward

pressure on employers to adjust pay across broader pay bands, increasing overall wage costs beyond the immediate impact of NLW increases.

As a result, employers face higher wage bills alongside weaker incentives for progression and upskilling. As pay differentials narrow, there is evidence of increased movement between roles with differing levels of responsibility, as well as emerging recruitment challenges in sectors such as health and social care where progression pathways are essential.

Over time, these risks undermine incentives for skills development and career progression, with potential implications for workforce quality and productivity.

Allowing time for businesses to adjust to recent NLW increases will be critical. A more measured approach will help employers manage wage structures sustainably, preserve meaningful pay progression, and continue to invest in skills and workforce development.

Figure 9: Total vacancies index (Report on Jobs, June 2026)

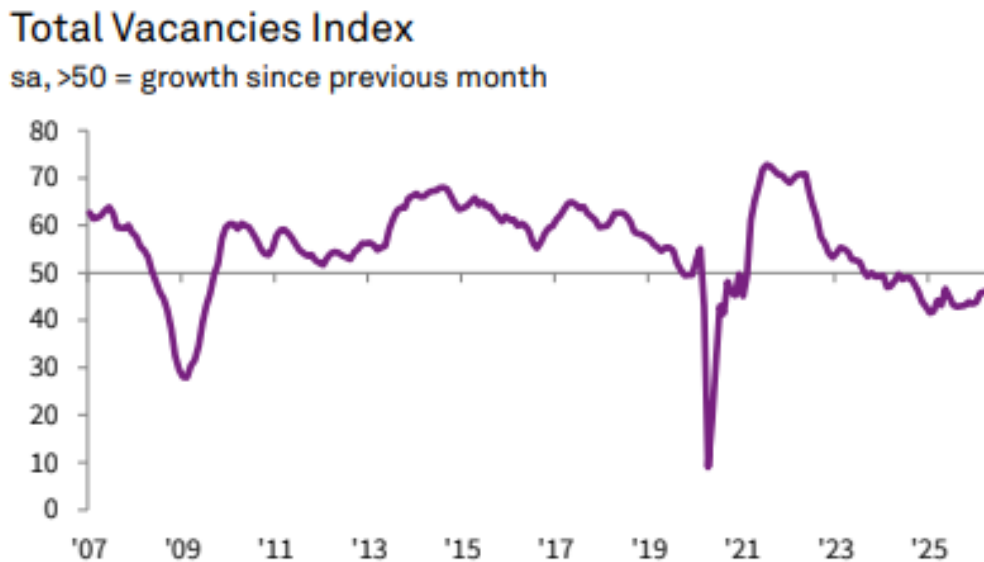


Figure 10: Vacancies index summary (Report on Jobs, June 2026)

Vacancy Index summary

sa, >50 = growth since previous month. *Not seasonally adjusted.

	Permanent				Temporary		
	Total	Total	Private*	Public*	Total	Private*	Public*
Dec '25	43.4	43.3	43.7	41.3	46.4	46.9	44.3
Jan '26	43.8	43.7	45.5	35.4	45.7	45.5	46.4
Feb '26	45.8	45.8	47.0	40.4	45.5	45.4	45.9
Mar '26	46.0	46.0	47.6	38.5	45.6	46.4	42.1
Apr '26	46.2	46.1	47.1	41.1	47.9	48.2	46.8
May '26	45.9	45.6	45.5	46.5	49.6	49.7	49.1

Enforcement and Fair Competition

Effective enforcement is essential to ensuring that minimum wage policy operates as intended. Robust enforcement not only protects workers from underpayment but also ensures fair competition between employers, particularly in a high-cost environment where some might be more tempted to cut corners on pay and legal checks.

The establishment of the Fair Work Agency presents a significant opportunity to strengthen enforcement. To be effective, it must retain specialist expertise, be adequately resourced, and be implemented efficiently.

Prioritising enforcement will help safeguard compliant employers from being undercut while reinforcing confidence in the minimum wage framework. This will be particularly important as cost pressures intensify, ensuring that rising labour standards are supported by a level and fair operating environment.

For more information on this submission, please contact:

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About the Recruitment & Employment Confederation

The [Recruitment & Employment Confederation](#) (REC) is the professional body for the recruitment industry. We represent over 3,000 recruitment businesses and 11,500 individual recruiters. The UK recruitment sector places almost one million people into permanent roles each year in normal economic conditions and supports a further one million people working flexibly through temporary assignments at any given time.

This sector of the UK economy is bigger in scale than either law or accountancy. Our members work as advisors, planners and partners with business across all sectors in recruitment retention and productivity.

REC members supply workers to all sectors of the UK economy including predominately National Minimum Wage (NMW) sectors such as logistics, industrial, retail, and hospitality. As well as running specific sector groups for these specialisms we also conduct our own research surveys. We therefore have access to some of the most up-to-date, robust data and insight about what is happening in the jobs and employment market.

Find out more about the Recruitment & Employment Confederation at www.rec.uk.com.