



A rising floor: the latest evidence on the National Living Wage and youth rates of the minimum wage

Low Pay Commission

April 2017

About this report



All the rates of the minimum wage including the National Living Wage (NLW), the rate for workers aged 25 and over, will increase on 1 April 2017.

This report describes the impact – including the latest evidence on the gains and the risks arising from a higher pay floor. It looks in particular at geographical variation.

Minimum Wage Rates	Current Until 31 March 2017	New From 1 April 2017
National Living Wage (25+)	£7.20	£7.50
21-24	£6.95	£7.05
18-20	£5.55	£5.60
16-17	£4.00	£4.05
Apprentice Rate*	£3.40	£3.50
Accommodation Offset**	£6.00/day	£6.40/day

*Applicable to apprentices in their first year or aged 16-18

**Deductible where accommodation is provided

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Website: www.lowpay.gov.uk

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How the LPC works

The Low Pay Commission is the independent body tasked with advising the Government each year on the rates of the minimum wage – including the NLW. The increases in the minimum taking effect from 1 April 2017 are based on our recommendations.

For the NLW, we are required each year to recommend the pace of increases to a 2020 target of 60% of median earnings 'subject to sustained economic growth'. For younger workers and apprentices, we recommend increases to help as many low-paid workers as possible 'without damaging their employment prospects'.

We are currently gathering evidence from employers, workers and researchers to inform our next recommendations for the rates applying from April 2018. We want to hear from you on the benefits and the challenges. Our consultation will run from 1 April to 7 July 2017. We are also visiting areas across the UK to hear first-hand about the effects on the ground.



Want to submit evidence or meet us? Please contact:

joseph.cooper@lowpay.gov.uk

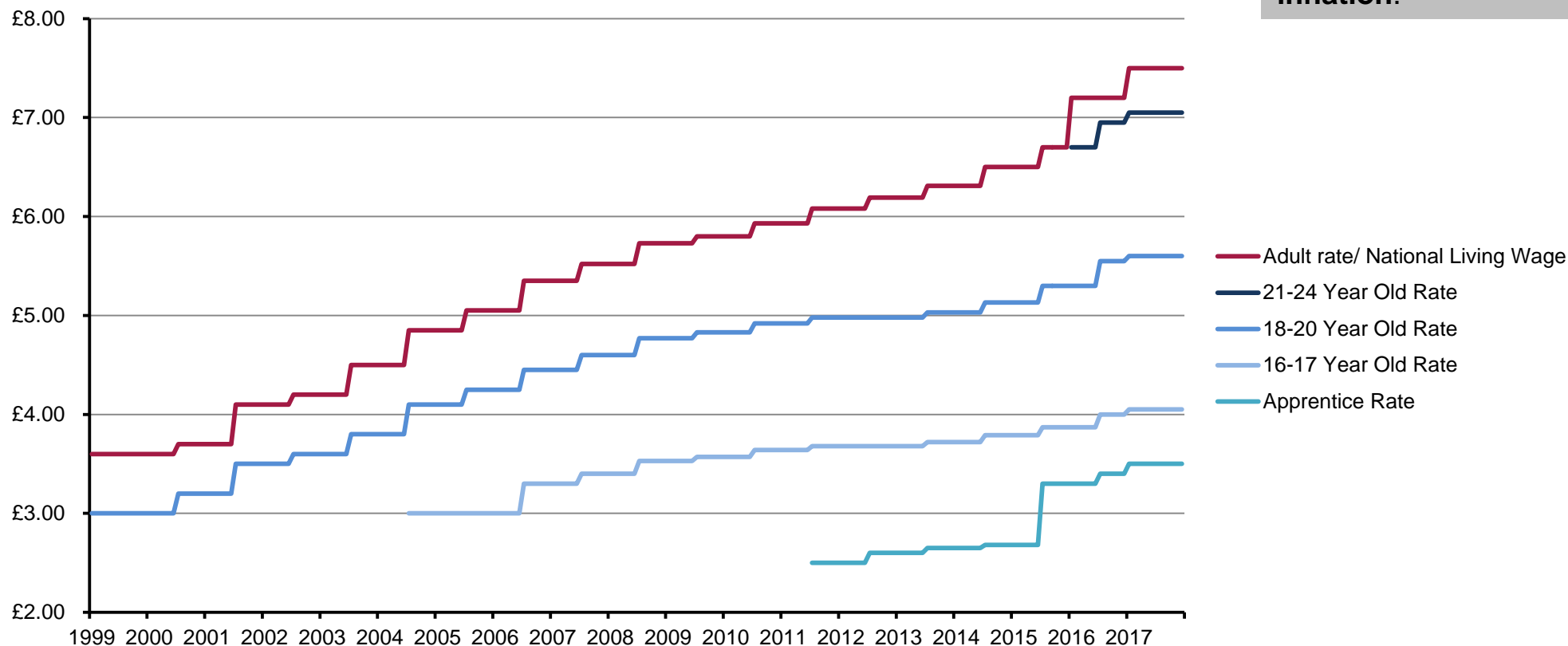


The NLW is increasing by 4.2% in April 2017

The NLW is increasing by 4.2% in April 2017. Apart from the introduction of the NLW last year (a 10.8% annual increase), this is the largest cash and percentage increase in the main rate of the minimum wage since 2006.

The youth rates are increasing for the second time in 6 months as they move from October to April to synchronise with the NLW. The 21-24 Year Old Rate has increased by 3.2% on an annual basis; the 18-20 Year Old Rate by 3.1%; the 16-17 Year Old Rate by 2.8%, and the Apprentice Rate by 4.5%.

Rates of the National Minimum Wage and National Living Wage, April 1999-March 2018



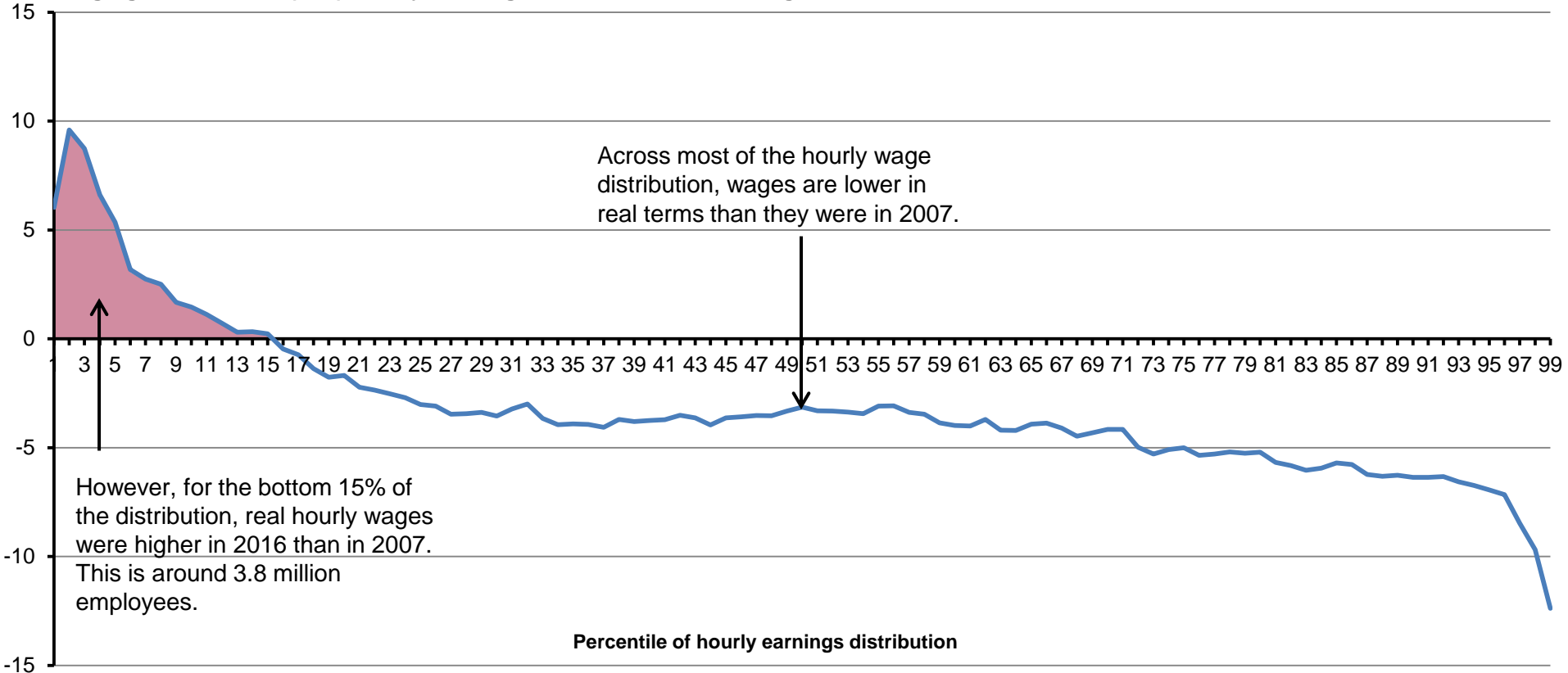
The increase to £7.50 means a **£400 increase a year in cash earnings** for a typical NLW employee (working 26 hours a week). This equates to **£180 adjusted for inflation.**

Over the last 10 years the minimum wage has helped secure real pay growth for workers at the bottom – at a time when pay for other workers has stagnated

The growth in the minimum wage has helped ensure that the lowest paid have seen their real hourly earnings increase. Accounting for inflation, the main rate of the minimum wage is at its **highest ever value**. By contrast, hourly pay for other workers is not forecast to surpass pre-recession peaks until the end of 2019.

Average pay growth is currently around 2.2%, around half the rate of increase of the NLW.

Percentage growth in real (CPI) hourly earnings 2007-2016 for those aged over 25



Source: LPC analysis of ONS data – ASHE 2007-2016 and Consumer Prices Index time series

A higher rate means a record number of workers will be earning the minimum wage

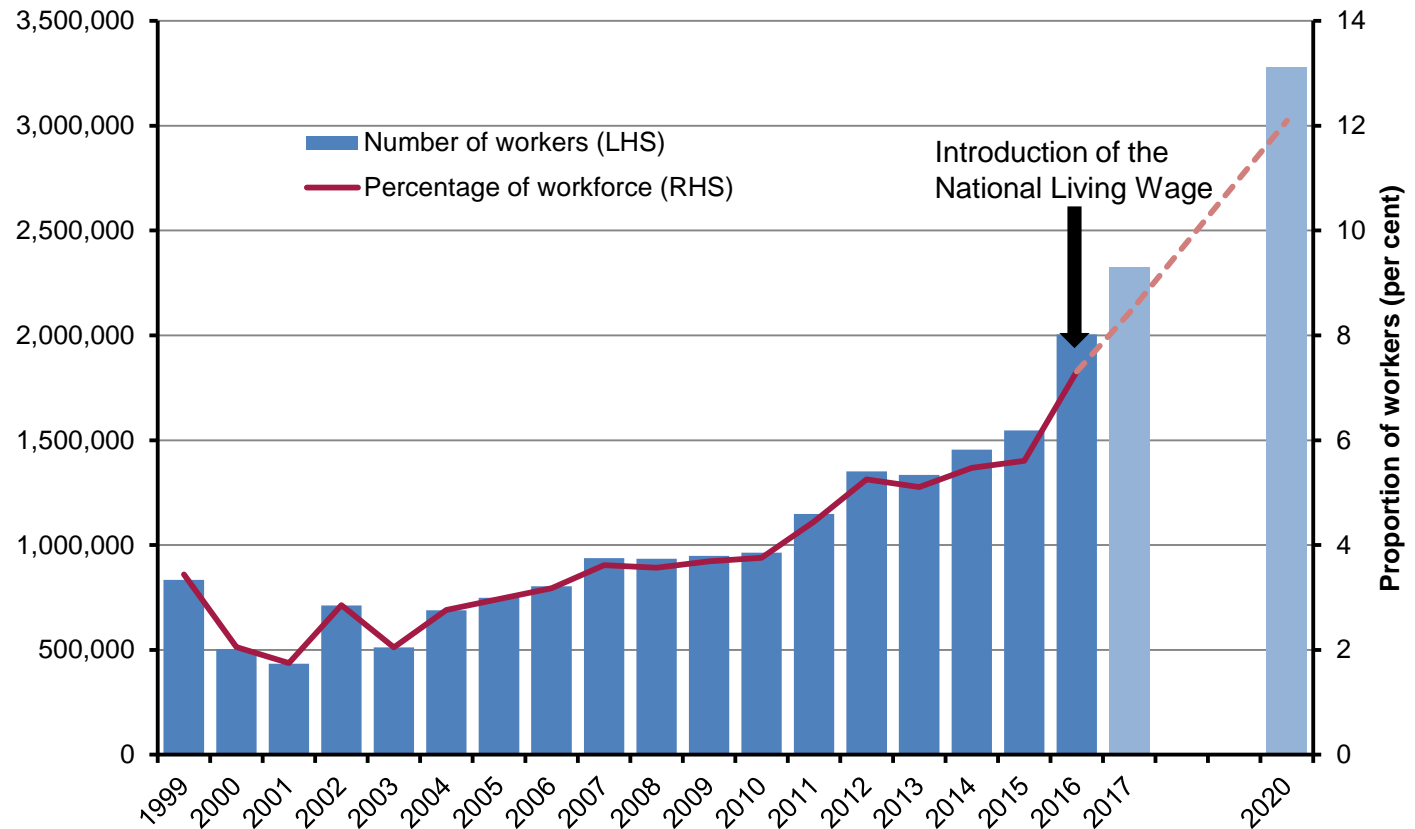


We estimate that 8.5% of workers will be on one of the minimum wage rates from April 2017. This means up to 2.3m workers will be covered, up from 2.0m (7.3%) last year.

Since its introduction in 1999, minimum wage coverage – those paid within 5p of, or below, the rate – has steadily risen. The introduction of the NLW last year caused a step change in numbers and proportion.

This trend is set to continue as the NLW increases in value towards 2020 – we estimate that 3.3 million workers will be covered (12.1%).

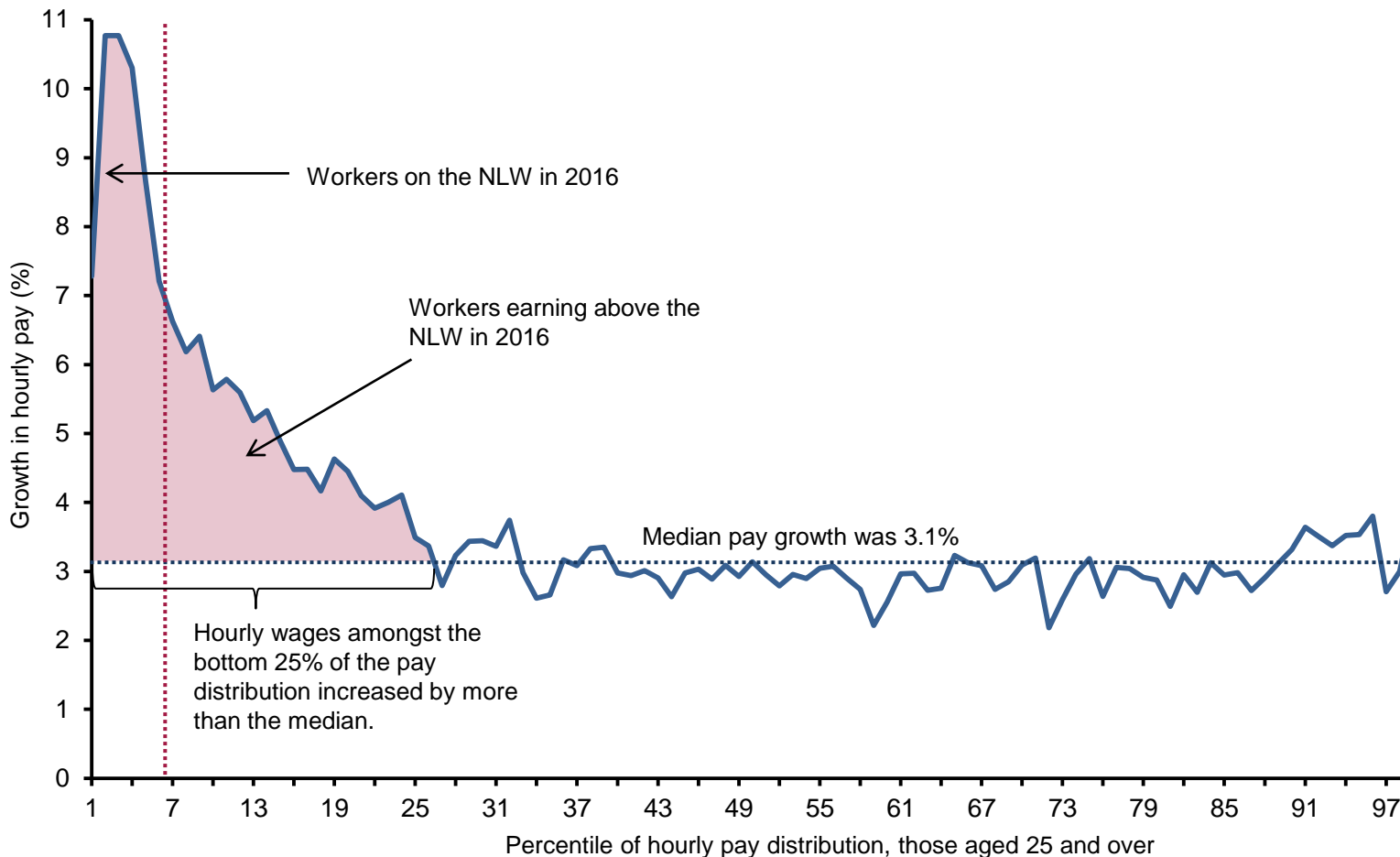
Coverage (actual and forecast) of the National Living Wage and National Minimum Wage, number and percentage



Source: ASHE and OBR forecasts (Nov 2016). Data includes all apprentices as they cannot be identified prior to 2013.

And more workers may benefit from ripple effects up the pay distribution

Percentage growth in the hourly wage distribution 2015-16, for workers aged 25 and over



Source: ASHE 2015-16.

The introduction of the NLW last year was accompanied by a ripple effect up the earnings distribution.

Pay growth above the average was seen for the entire bottom quarter of the distribution – or workers earning up to £9 per hour. Many workers received larger increases than strictly required to keep their pay compliant.

This means that more employees have benefited from a uplift in pay than just for those directly covered by the minimum wage rates. A similar spillover effect was seen with previous increases in the National Minimum Wage.

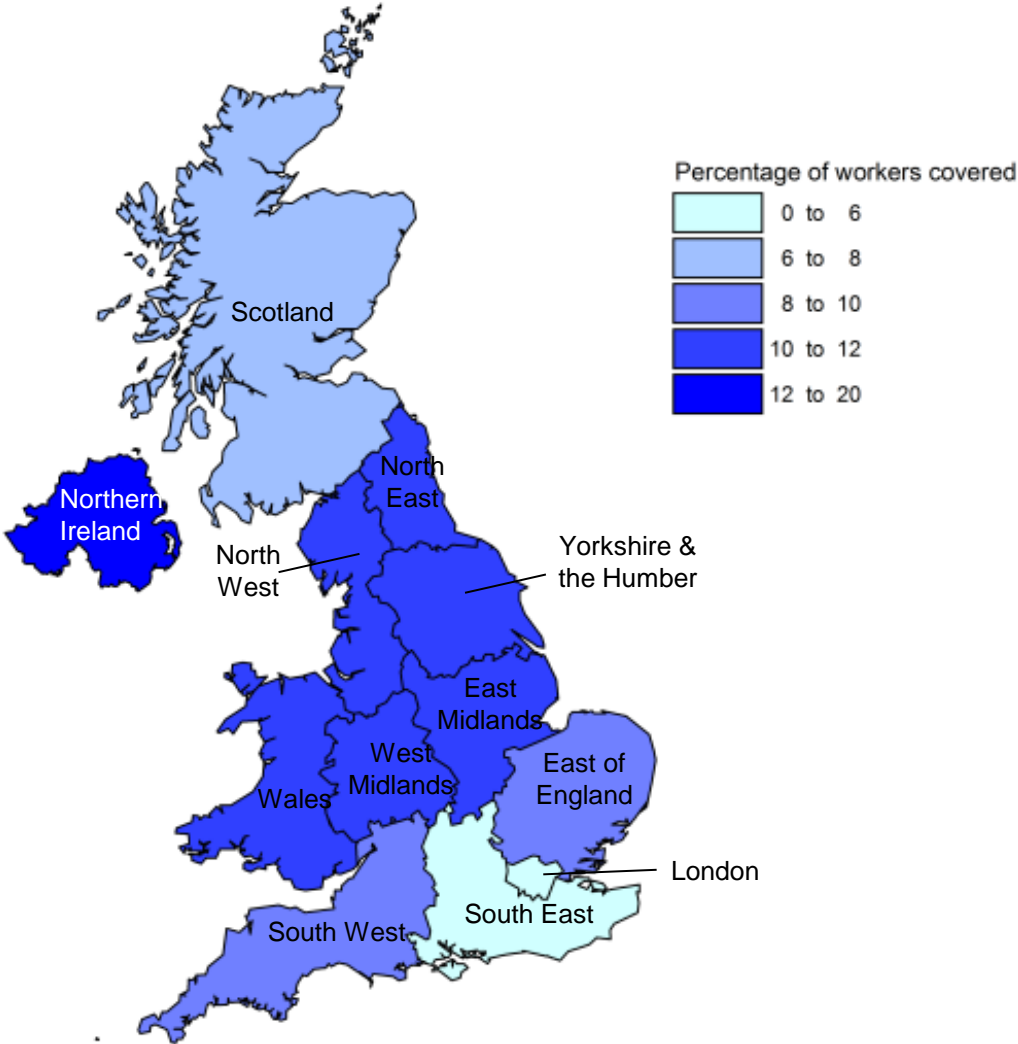
Whether future increases – including those taking place in April 2017 – also ripple up the distribution will depend on how employers set pay for those workers earning above the minimum wage.

Gains and pressures are set to vary sharply by nation and region

We have forecast coverage of the minimum wage for 2017 by geography. Some nations and regions are set to have much higher levels than others

Most parts of the country are projected to have coverage in the 10-11% range, against a UK average of 8.5%.

London and the South East are set to have significantly lower coverage than the other regions. Northern Ireland's coverage is set to be significantly higher than any other nation or region.



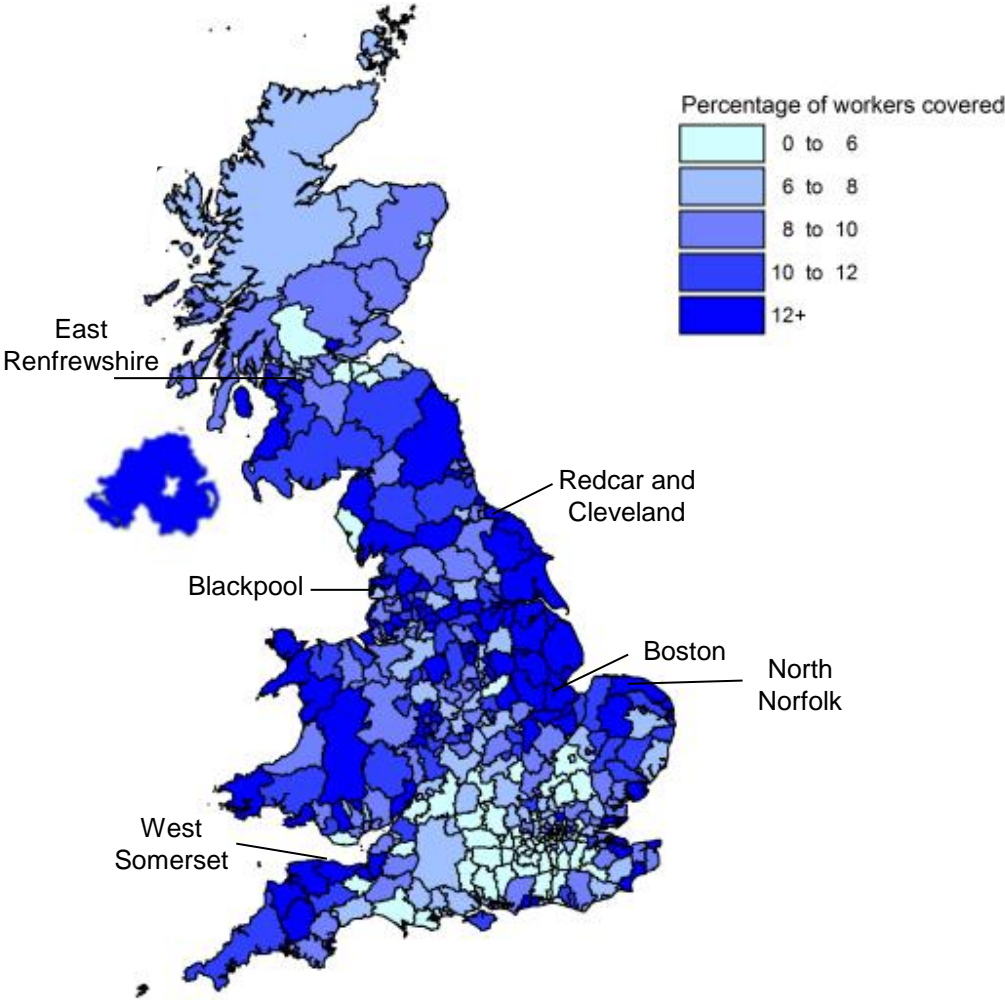
Region/ Nation	Percentage of workforce covered
Northern Ireland	12.9
North East	10.8
East Midlands	10.7
Yorkshire & the Humber	10.7
West Midlands	10.4
North West	10.2
Wales	10.1
Eastern	8.6
UK average	8.5
South West	8.4
Scotland	7.7
South East	6.0
London	4.8

Source: ASHE 2016 and OBR earnings forecasts (Nov 2016). Based on location of workplace.

Some local authorities are set to have much higher coverage than others

The most affected local authority areas tend to be outside the South East. Seven of the ten local authorities with the lowest forecast coverage are in London and the South East.

Local Authority	Region	Coverage percentage
West Somerset	South West	22
Torridge	South West	21
West Devon	South West	20
Rossendale	North West	18
Boston	East Midlands	18
Castle Point	Eastern	18
Lincoln	East Midlands	17
Wyre Forest	West Midlands	17
Redcar and Cleveland	North East	17
East Renfrewshire	Scotland	17
Scarborough	Yorkshire and the Humber	17
North East Lincolnshire	Yorkshire and the Humber	17
North Norfolk	Eastern	17
Melton	East Midlands	16
Blaenau Gwent	Wales	16
Mansfield	East Midlands	16
East Lindsey	East Midlands	16
Blackpool	North West	16
Gedling	East Midlands	15
Richmondshire	Yorkshire and the Humber	15

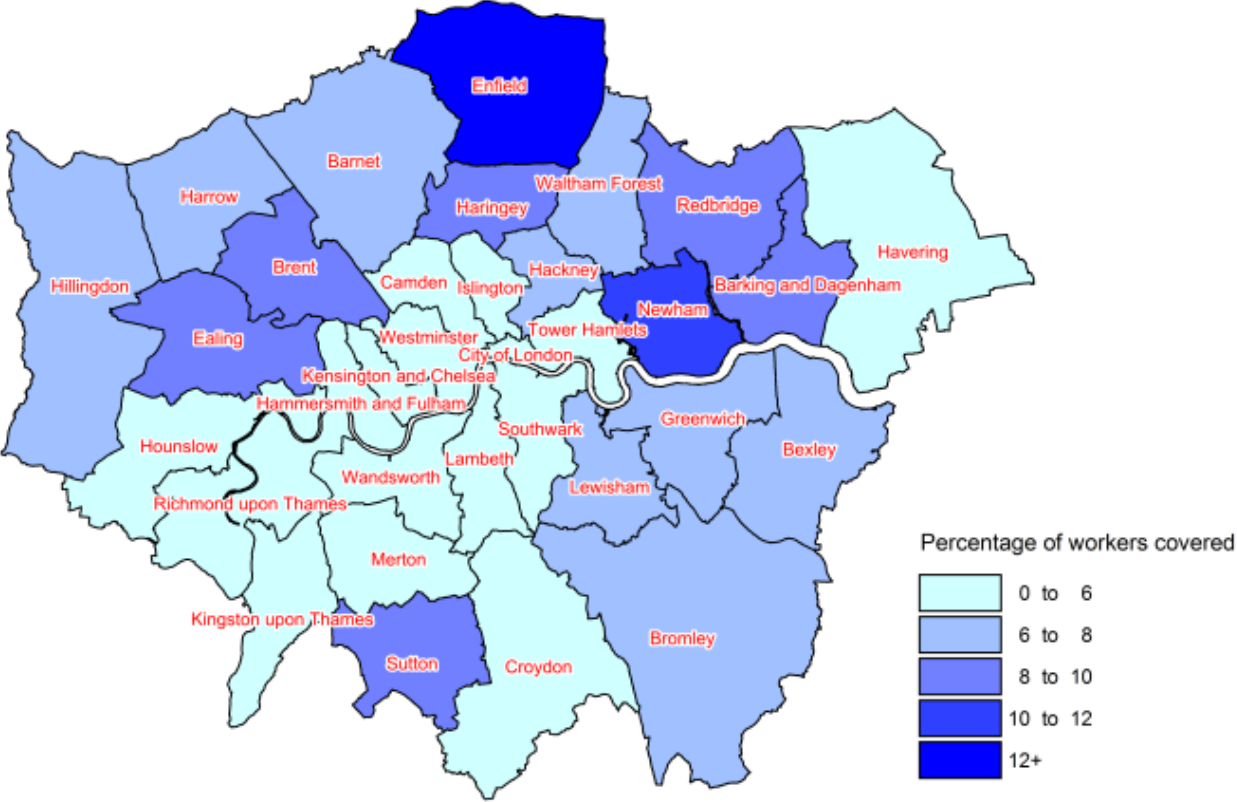


Source: ASHE 2016 and OBR earnings forecasts (Nov 2016).
Based on location of workplace.

Differences in estimated coverage are often as significant within regions, as between them

Although London has the lowest forecast coverage of any region, there is still significant variation between local authorities.

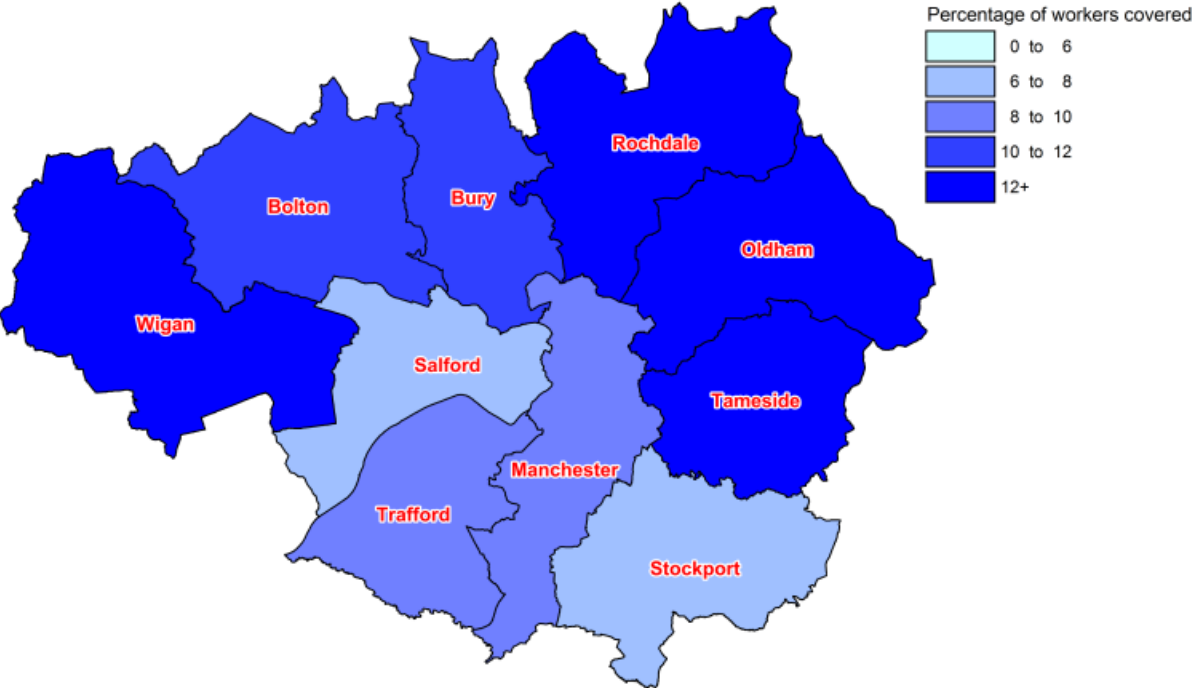
Eight local authorities have forecast coverage of the minimum wage above the UK average, with Enfield the highest at 14%. This compares to under 6% for most areas of Greater London.



Local Authority		Coverage percentage
Highest coverage	Enfield	14
	Newham	12
	Redbridge	10
	Haringey	10
	Barking and Dagenham	10
Lowest coverage	City of London	1
	Islington	2
	Tower Hamlets	2
	Richmond upon Thames	3
	Westminster	3

Source: ASHE 2016 and OBR earnings forecasts (Nov 2016).
Based on location of workplace.

Forecast coverage varies across Greater Manchester – but is higher than London overall



Forecast coverage in Greater Manchester is generally higher than in London.

However, there remains a large range of coverage levels across the metropolitan area, from 15% in Wigan to under 7% in neighbouring Salford.

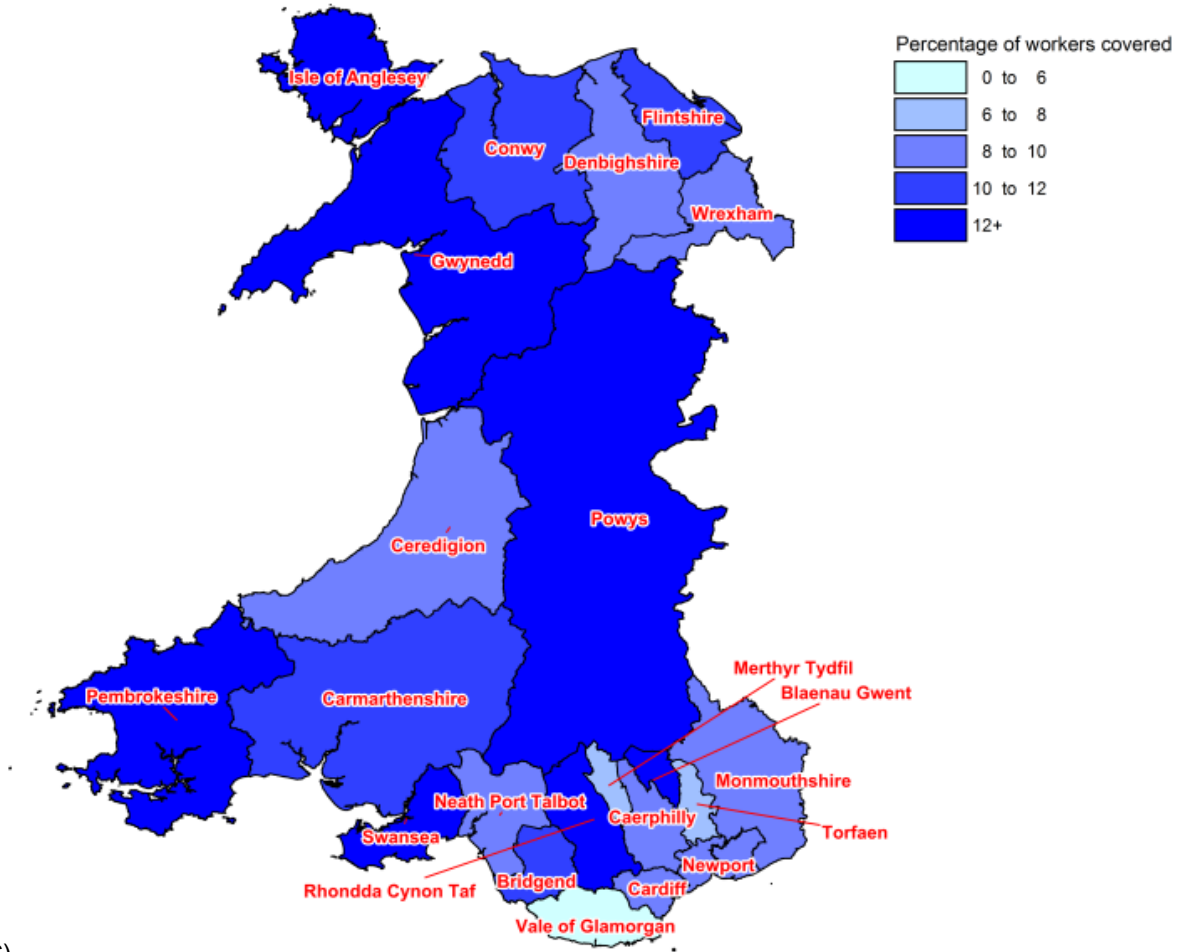
Local Authority	Coverage percentage
Wigan	15
Rochdale	13
Oldham	13
Tameside	12
Bury	11
Bolton	10
Trafford	9
Manchester	8
Stockport	7
Salford	7

Source: ASHE 2016 and OBR earnings forecasts (Nov 2016). Based on location of workplace.

Forecast coverage higher in Wales than in Scotland

Top and bottom coverage areas, Wales

	Local Authority	Coverage percentages
Highest coverage	Blaenau Gwent	16
	Isle of Anglesey	15
	Powys	13
	Swansea	12
	Rhondda Cynon Taf	12
Lowest coverage	Vale of Glamorgan	6
	Torfaen	7
	Merthyr Tydfil	8
	Monmouthshire	8
	Cardiff	8

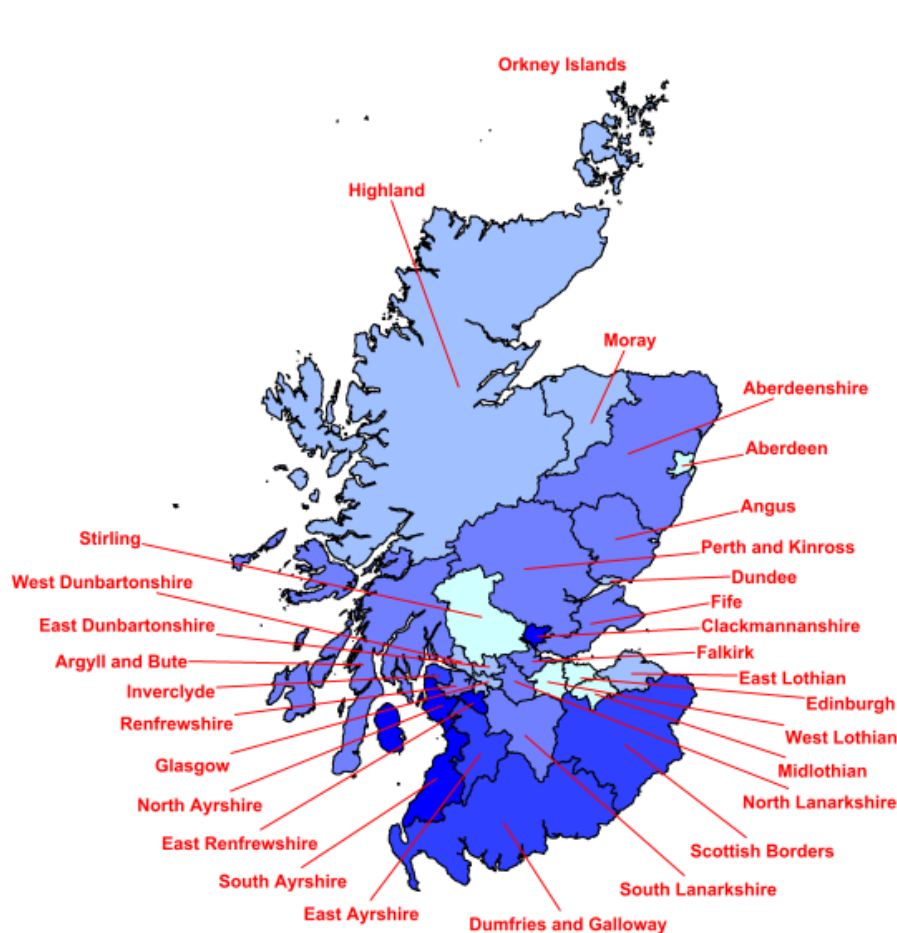


Forecast coverage in Wales overall is set to be 10.1%. Several local authorities will have a level over 12%, and there will be relatively few areas with coverage below the UK average.

Note: we are unable to produce comparable maps for Northern Ireland as the data are not available by local authority.

Source: ASHE 2016 and OBR earnings forecasts (Nov 2016).
Based on location of workplace.

Forecast coverage in Scotland is slightly below the UK average



Source: ASHE 2016 and OBR earnings forecasts (Nov 2016).
Based on location of workplace.

Top and bottom coverage areas, Scotland

	Local Authority	Coverage percentages
Highest coverage	East Renfrewshire	17
	South Ayrshire	13
	North Ayrshire	13
	Clackmannanshire	12
	East Ayrshire	12
Lowest coverage	City of Edinburgh	5
	West Lothian	5
	Stirling	5
	Midlothian	6
	Aberdeen City	6

Scotland has several areas with low forecast coverage, and overall coverage of 7.7% - below the UK average of 8.5%. There are areas where it is higher as well: East Renfrewshire is set to have the tenth highest coverage of all UK local authorities.

We are unable to produce coverage statistics for the Shetland Islands and Na h-Eileanan Siar as sample sizes are too small.

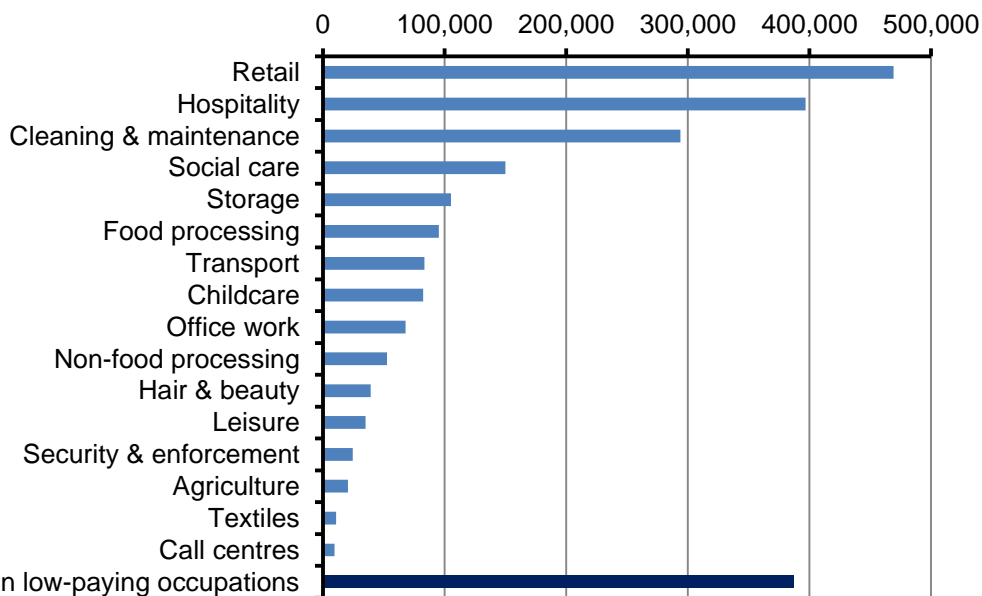
We are unable to produce maps for Northern Ireland as the data are not available by local authority.

Gains for workers and pressures for employers are concentrated in specific occupations

Half of all minimum wage workers work in just three occupations: retail, hospitality, cleaning & maintenance.

1 in 6 minimum wage workers work in 'non low-paying occupations'. These are areas of the economy which pay some workers the minimum wage, but these individuals constitute a small proportion of the workforce in their occupation.

Number of workers covered by NLW/NMW, by occupation, April 2017

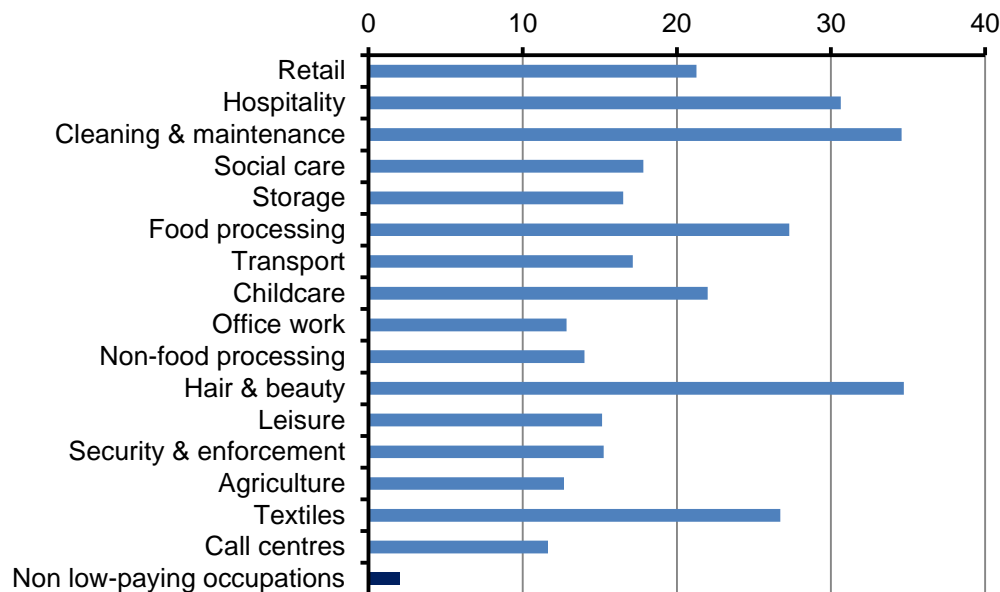


Large proportions of workers in some jobs are on the minimum wage – challenges for progression?

Over a third of jobs in hair & beauty, and cleaning & maintenance are paid the minimum wage.

Minimum wage workers are a small proportion of non low-paying occupations, although there are over 350,000 minimum wage workers in these jobs (and they constitute 17% of all minimum wage jobs).

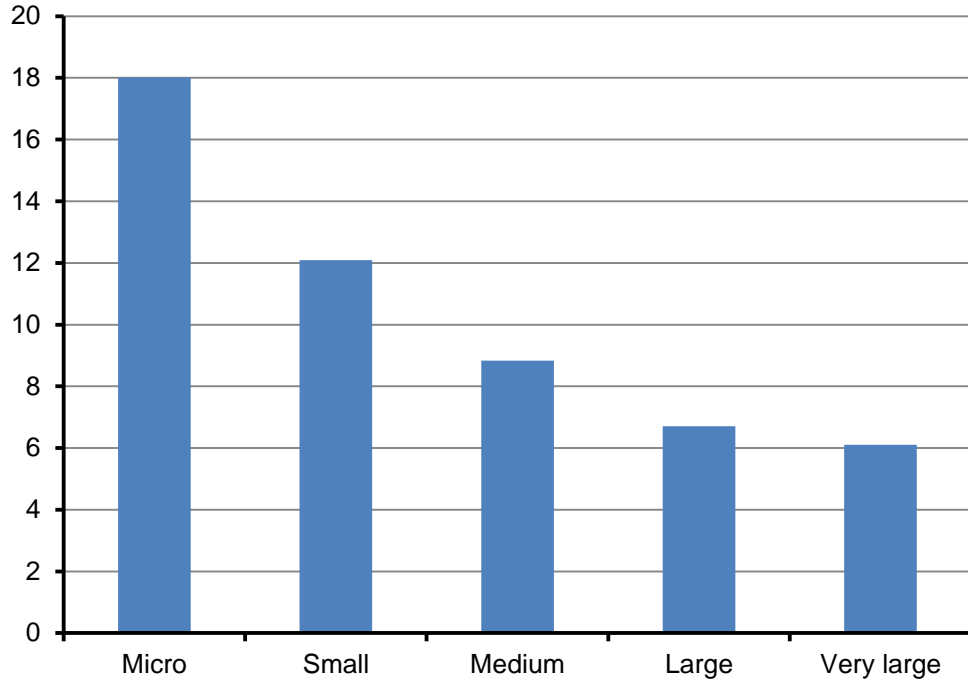
Percentage of workers covered by NLW/NMW, by occupation, April 2017 – ordered by the numbers covered



Source: ASHE 2016 and OBR earnings forecasts (Nov 2016).

Smaller firms are proportionately more affected by the minimum wage

Percentage of workers covered by the NLW/NMW, by firm size, April 2017

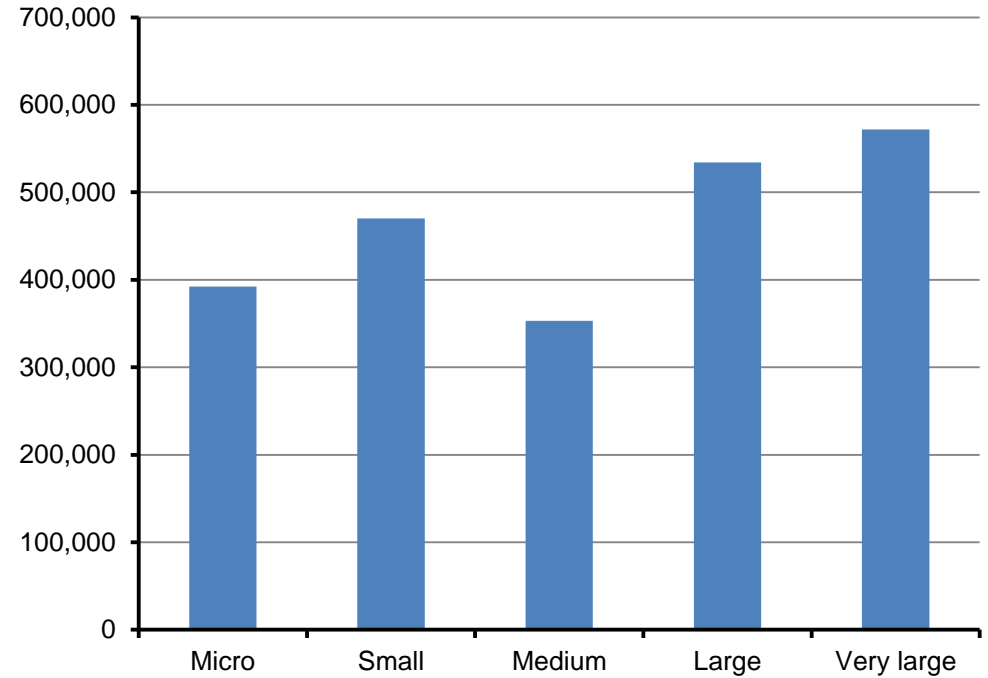


Workers in the smallest firms are more likely to be paid the minimum wage than those in larger firms.

Definition of firm size by number of employees: Micro: 1-9; Small: 10-49; Medium: 50-249; Large: 250-4999; Very large: 5000+.

Source: ASHE 2016 and OBR earnings forecasts (Nov 2016).

Number of workers covered by the NLW/NMW, by firm size, April 2017



In terms of numbers, more minimum wage workers are found in micro, small or medium firms (1.2 million) than larger firms (1.1 million).

How the Low Pay Commission assesses the effects of the National Living Wage and National Minimum Wage

The LPC's role is to monitor and advise on the rates, minimising risks to jobs

Rates	LPC role	Considerations under remit from Government
National Living Wage (workers aged 25 and over)	Advise on the best path to the 2020 target of 60% of median earnings.	Subject to 'sustained economic growth'. Some tolerance for job losses.
Other rates (workers aged 21-24, 18-20, 16-17, and apprentices)	Recommend rates as high as possible...	...'without harm to employment prospects'.

Commissioners consider a range of evidence and seek to reach unanimous recommendations. The LPC uses:

- ✓ In house economic analysis – evaluating effects on pay, employment and competitiveness overall, in low-paying sectors and for groups more likely to be paid the minimum wage like women, younger workers, part-timers, ethnic minorities, disabled and lower-skilled;
- ✓ Independent commissioned research from academics and research institutes - now amounting to more than 140 studies, to which we add each year;
- ✓ Front-line visits around the country to meet employers and workers;
- ✓ Formal written consultation and oral evidence sessions with employers, workers and experts.

The consensus of past research is that past increases (generally at moderate levels) have not harmed employment. Some of the additional wage costs may have been absorbed with:

- a small reduction in hours worked
- a small increase in prices to consumers
- a squeeze on profits, but not sufficiently large to lead to an increase in business failure
- an increase in productivity

However, it is too early to know about the effects of the higher rates of the National Living Wage. Evidence on the benefits of higher rates, such as increased pay, comes earlier and more visibly than any costs, like job losses, increased prices, or reduced profits.

Who pays for the minimum wage?

The employee?

- Fewer jobs: firms make redundancies or forego hiring
- Fewer hours, less secure contracts
- Squeezed benefits and wider reward

The employer/shareholder?

- Reduced profit

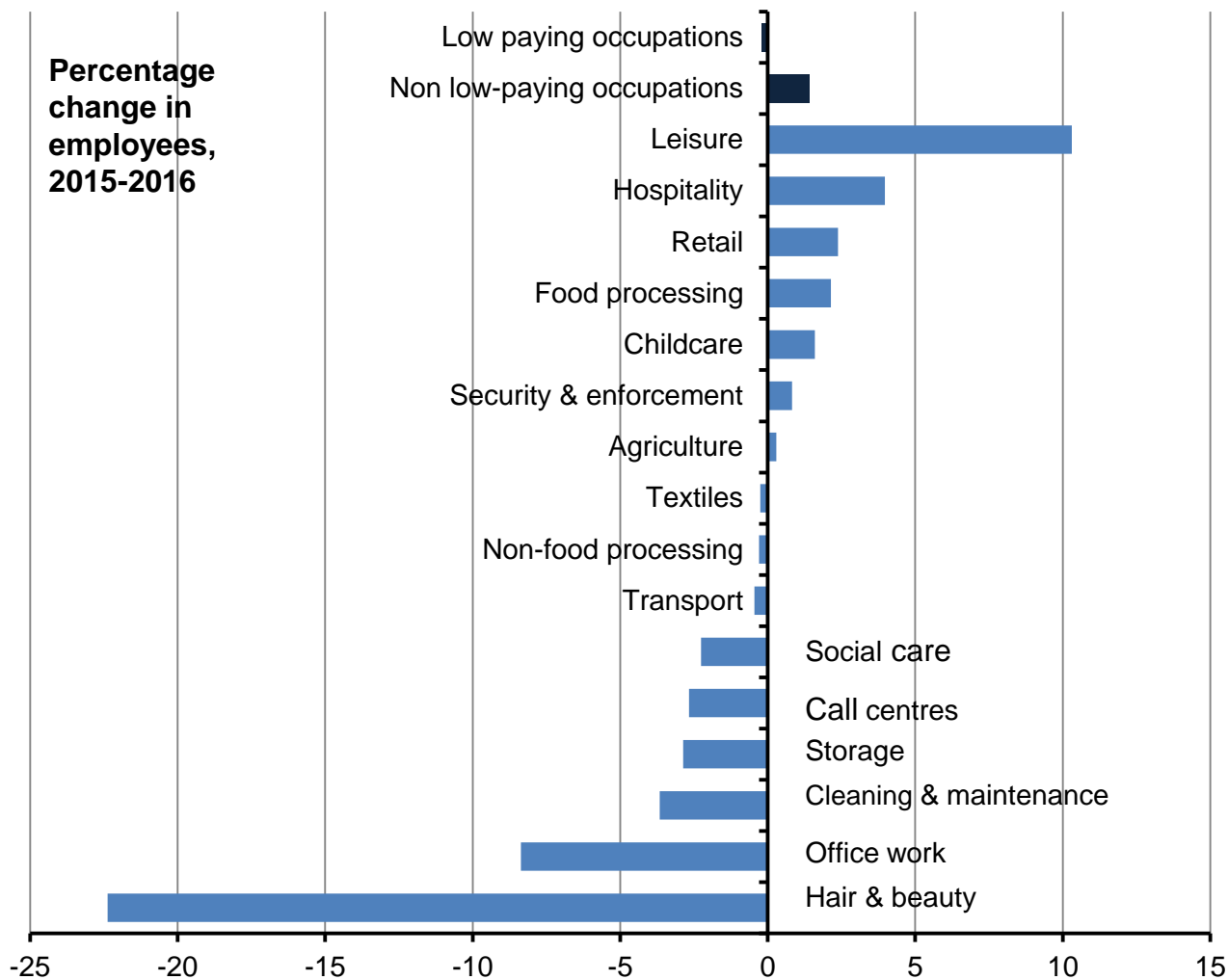
The consumer?

- Higher prices

It pays for itself?

- Higher productivity from training, investment or reorganisation

A free lunch? Unclear so far...there has been some weakening in employment growth across low-paying occupations since 2015



Source: LFS, 4 quarter average Q1-Q4 2016, compared to Q1-Q4 2015.

Comparing 2015 with 2016, there has been a small decrease in the number of employees across low-paying occupations.

Almost half of low-paying occupations have seen an increase in employment. The other half have seen a decrease in the number of employees over the year.

This may reflect early signs of an effect of the higher minimum wage, or broader changes to the labour market and economy. More evidence is needed to work out what effect the minimum wage has had, and how employment will respond across the economic cycle. The LPC is commissioning econometric research to find out more.

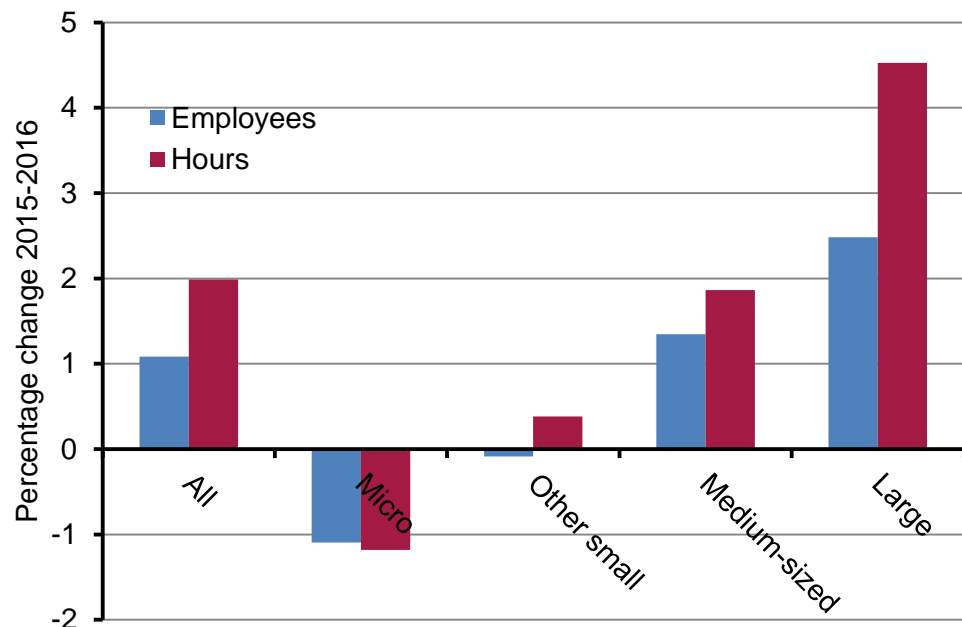


Employment and hours have increased in large workplaces but decreased in the smallest

Almost half of minimum wage workers work in large firms, whereas workers in micro firms are most likely to be earning the minimum wage.

Here we show the change in employment across different workplaces sizes. There has been a strong growth in the number of hours and employees in large workplaces. However, the number of hours and employees has decreased in micro workplaces over the last year.

Percentage change in employment by workplace size, Q4 2015-Q4 2016



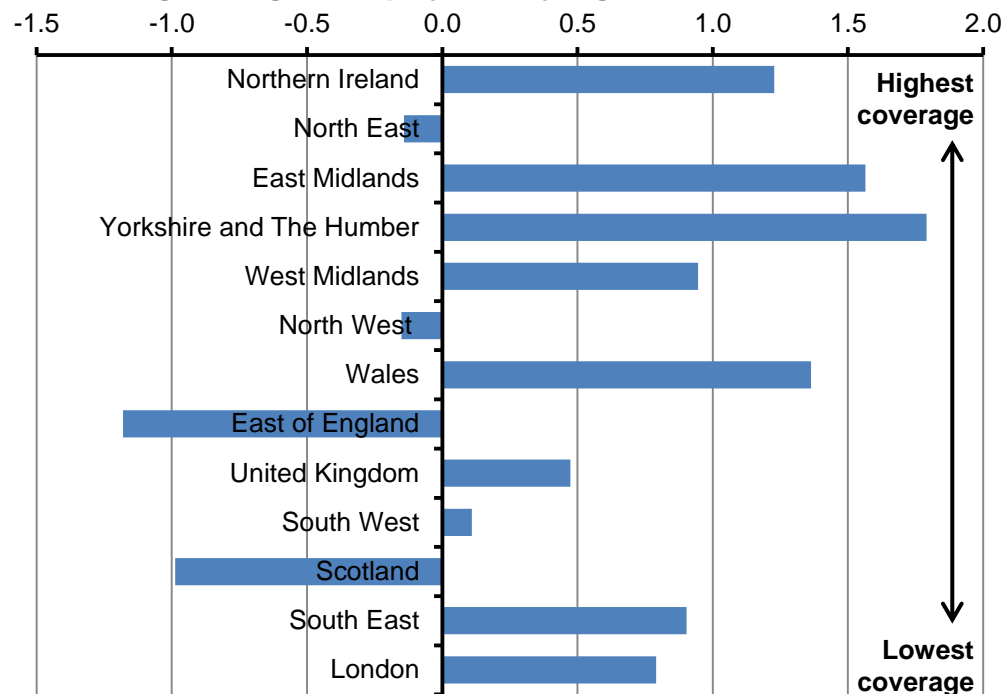
Source: LFS, 4 quarter average Q1-Q4 2016, compared to Q1-Q4 2015.

Employment has grown in most regions, while it has decreased in three

Employment has increased in most UK regions over the last year.

It has fallen in some regions (the North East, the East of England, and Scotland). At the moment, there does not seem to be a clear link between regional coverage of the minimum wage and changes in employment.

Percentage change in employment by region, Q4 2015-Q4 2016



Source: ONS Regional employment labour market release, Feb 2017.

The prices of some minimum wage goods have increased

Increase in prices 2015 Q4 - 2016 Q4 (%)

CPI	All items	1.2
	Restaurants & cafes	2.6
	Canteens	1.8
	Cleaning, repair and hire of clothing	2.6
	Domestic and household services	3.1
	Hairdressing	2.1
RPI	All items	2.2
	Restaurant meals	2.6
	Canteen meals	2.0
	Take-aways and snacks	2.3
	Beer on sales	2.4
	Wine & spirits on sales	3.5
	Domestic services	3.1
	Personal services	3.3

Source: ONS data, CPI and RPI item indices.

Since last year:



A £20 restaurants meal costs 50p more



A £25 hair cut is 52p more expensive



A £3.90 glass of wine costs 13p more



A £10/hr cleaner cost 31p more

As wages increase, firms may respond by increasing the prices of the goods they sell.

Here we have looked at the prices of goods produced by minimum wage workers. The evidence suggests that they have tended to increase at a quicker rate than prices across the economy.

This is consistent with anecdotal evidence from stakeholders that some employers have raised prices following the minimum wage increase.

However, there are many factors that influence the price of goods, the minimum wage just being one of them.

What does the future hold for the National Living Wage?

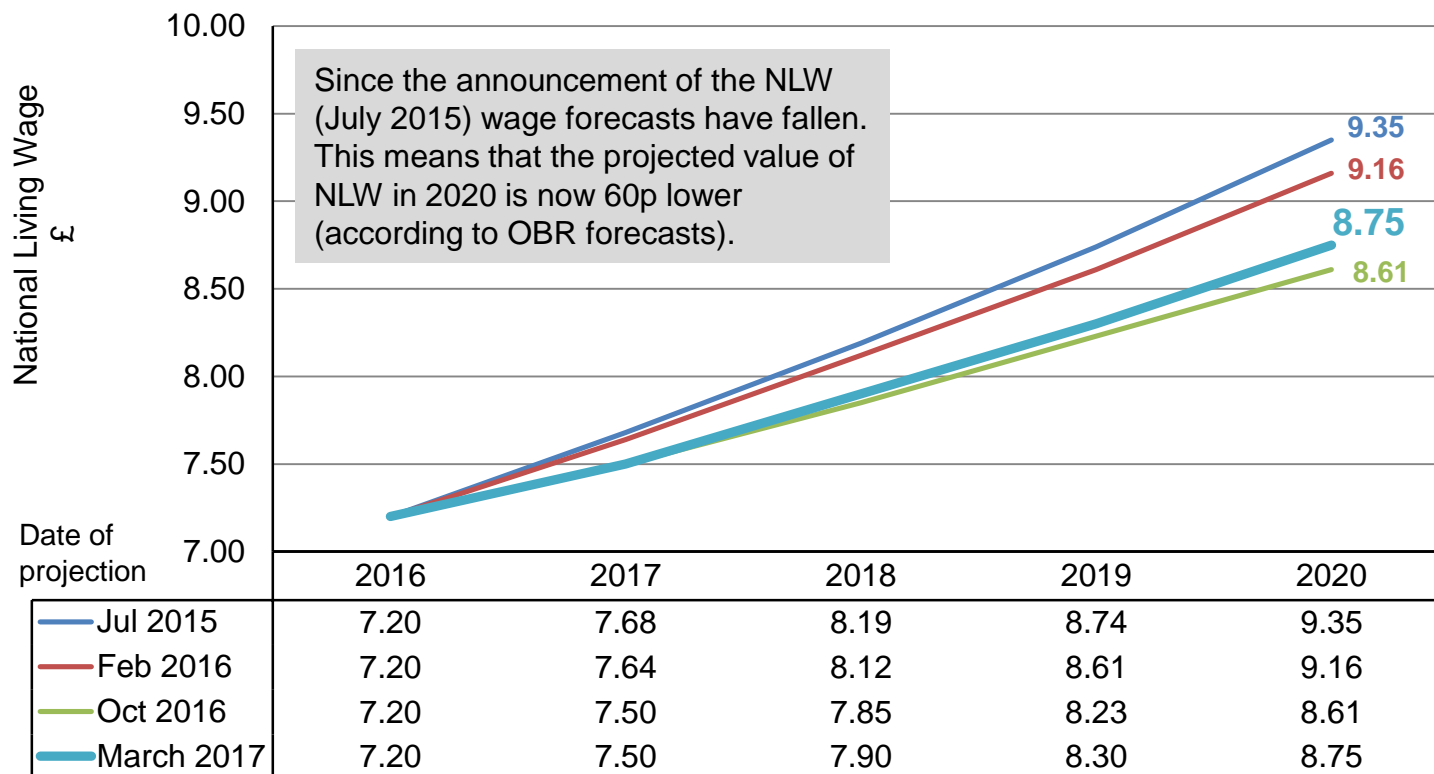
The Government objective for the NLW is to reach 60% of median hourly earnings in 2020. The LPC role is to recommend the pace of increases 'subject to sustained economic growth'.

The median hourly wage in 2020 is uncertain so we use wage forecasts to work out the likely rate and inform decisions on the path.

The latest OBR estimate is that an NLW set at 60 % of median earnings in 2020 **would be around £8.75**, with the April 2018 figure putting the NLW linearly on course at around **£7.90**.

Our recommendations each October use the most timely forecasts available at that point – independent forecasts and those of the Bank of England as the OBR's are not published till November. These forecasts tend to give slightly lower 2020 figures.

How projections for the straight-line path of the NLW have changed over time



	1 April 2017	1 April 2018
National Living Wage	£7.50 LPC to recommend in October. Current 'on course' projected rate: £7.90 (will change with pay forecasts)	Subject to 'sustained economic growth' & LPC view on profile of increases
Other rates	Various LPC to recommend in October.	As high as possible without harm to employment prospects.

Source: ASHE and OBR forecasts, Oct 2016 based on HMT panel of independent forecasts and BofE inflation report.

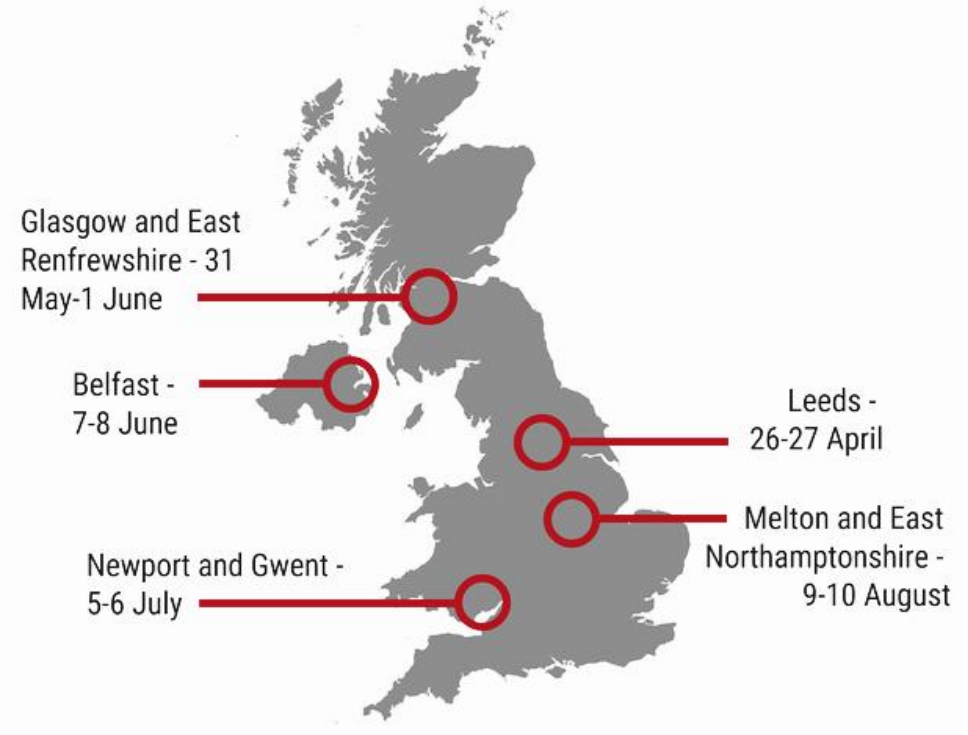
What next?

The LPC will recommend NLW and NMW rates to apply from April 2018 this autumn. For the NLW, we are required to recommend the pace of increases to a 2020 target of 60% of median earnings 'subject to sustained economic growth'. For younger workers and apprentices, we recommend increases to help as many low-paid workers as possible 'without damaging their employment prospects'.

To do this we use a range of evidence, including – analysis of key earnings and labour market data, academic research, evidence from employer and employee representatives, and our visits program.

We will launch our written consultation in April. We are also running a programme of visits to areas across the UK. See the map opposite for details of where we are visiting.

We want to hear from you about the benefits and challenges arising from the NLW and NMW. So please get in touch if you would be able to meet with us on one of our visits, or would like to speak to us about your experiences of the minimum wage.



Want to submit evidence or meet us? Please contact:

joseph.cooper@lowpay.gov.uk

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Website: www.lowpay.gov.uk

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If you are worried you aren't being paid the minimum wage, contact the Acas helpline on **0300 123 1100**

Methodology

Analysis of coverage of the minimum wage rates uses ONS data from the Annual Survey of Hours and Earnings (ASHE) 2016. This is a survey of employees, conducted by employers, based on a 1 per cent sample of employee jobs in Pay-As-You-Earn income tax schemes.

The latest ASHE data are from April 2016. To estimate the impact of the new rates in April 2017 we downrate the forthcoming minimum wage rates into April 2016 terms, using OBR average hourly earnings growth forecasts (Nov 2016).

To correct for measurement error and to capture those fractionally above a specific minimum wage rate, we define coverage as being paid within 5 pence of the rate or below. For the 16-17 year old rate we have used a 7p band in this analysis, to capture the spike of workers earning £4.00 an hour in 2016.

The analysis of the impact of the minimum wage by geography is based on small sample sizes for some individual local authorities. Alongside this report we have published an excel workbook containing estimates of coverage for all Local Authorities, including the 95% confidence intervals for each estimate.

Analysis of the labour market uses ONS data - LFS microdata, and published statistics.

For a full description of the main data sources we use to assess the impact of the minimum wage, see Appendix 3 of our [latest report](#).