



The minimum wage in 2018

Low Pay Commission analysis

The Low Pay Commission is the independent body that advises the Government on the rates of the minimum wage, including the National Living Wage.

This is our analysis of the effects we expect from the increases on 1 April 2018.

March 2018



[Read our 2017 report here](#)



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The minimum wage goes up on 1 April

All the rates of the National Minimum Wage (NMW) will increase on 1 April, including the National Living Wage (NLW).

The NLW will increase by 4.4%, to £7.83 per hour. The youth rates of the NMW will see the largest increases in a decade.

Our remit, set by the Government, is to recommend rates for the NLW such that it will reach 60% of median earnings by 2020, subject to sustained economic growth.

For the other rates, we are asked to recommend increases to help as many low-paid workers as possible, without damaging their employment prospects.

We are now gathering evidence in support of our recommendations for rates to apply from April 2019.

National Minimum Wage rates from 1 April 2018



Read more about our consultation process [on our website](#).



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

LPC 2017 Report rate recommendations

NLW remains on path to 60% of median earnings

We are asked to recommend rates for the NLW such that it will reach 60% of median earnings by 2020, subject to sustained economic growth.



The latest forecasts put the NLW at **£8.62** in 2020. See page 11 for full details.

We judged that conditions were suitable to continue on this path, with the labour market performing strongly and economy growth sustained, albeit sluggish.

At the time of our 2017 Report, employment was at record high levels, with 75.1% of people in work. Employment remains strong – this rate has since been surpassed. Employment in low-paying sectors also grew in 2017.



Unemployment was at **4.3%**, the lowest rate since 1975.

At the time that the NLW was announced (July 2015), the Office for Budget Responsibility forecast job creation of 1.1 million in the period 2015-2021. This was surpassed in 2017 – well ahead of the prediction.

We recommended the largest increases in a decade for the youth rates

For the other rates, we are asked to recommend increases to help as many low-paid workers as possible, without damaging their employment prospects.

In our reports from 2011 to 2014, we committed to restoring the relativities the youth rates lost in the aftermath of the financial crisis, when we recommended smaller increases to protect the employment prospects of younger workers.

This year we judged that there was sufficiently strong evidence to justify being more ambitious regarding these rates.



Hourly earnings growth at the median was strong for 18-24 year olds. This age range also saw strong labour market performance, with employment growth and lower unemployment.

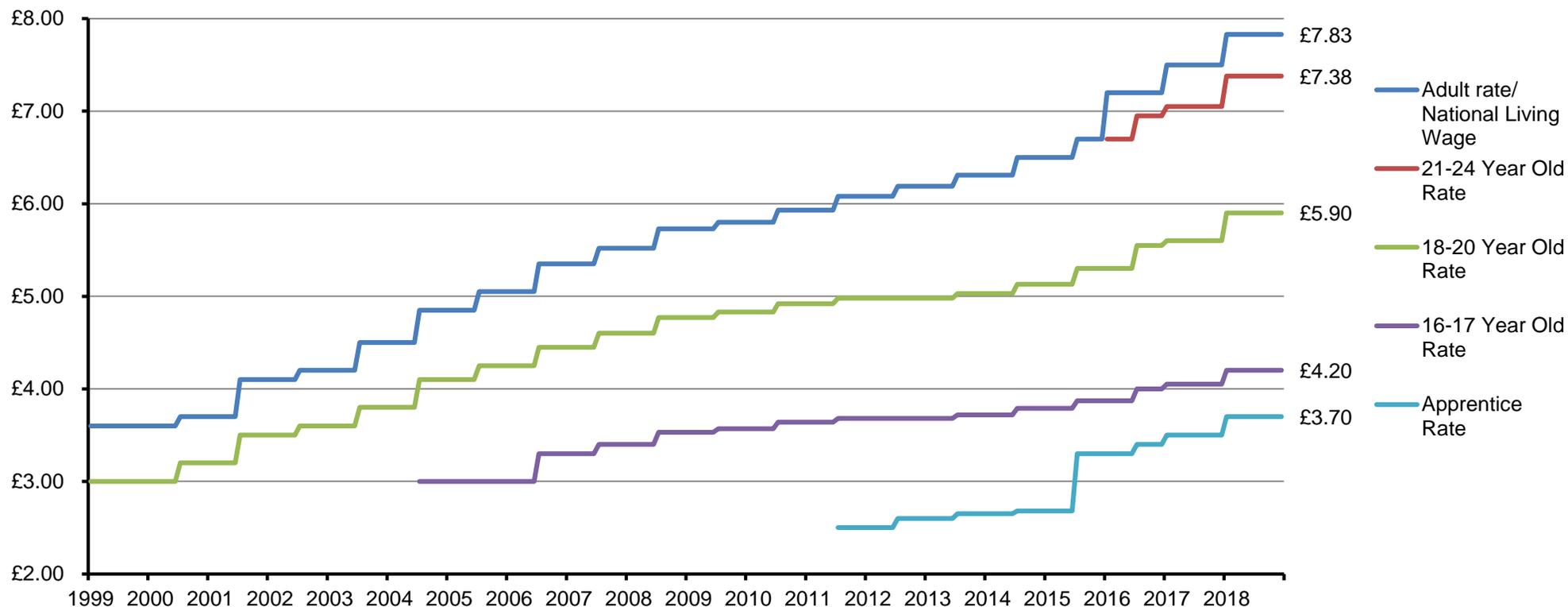
Employers and unions both raised the importance of fairness and employee relations between age groups in the workforce. Stakeholders also expressed little concern about previous large increases in the youth rates. Rather, analysis shows that use of the rates for younger workers has fallen as more employers choose to pay above these minimum rates.

The NLW continues to rise rapidly

In April 2018, the minimum wage for workers aged 25 and over will have risen by more than a pound per hour over just three years. All minimum wage workers will see real terms increases, as their pay is set to rise faster than inflation.

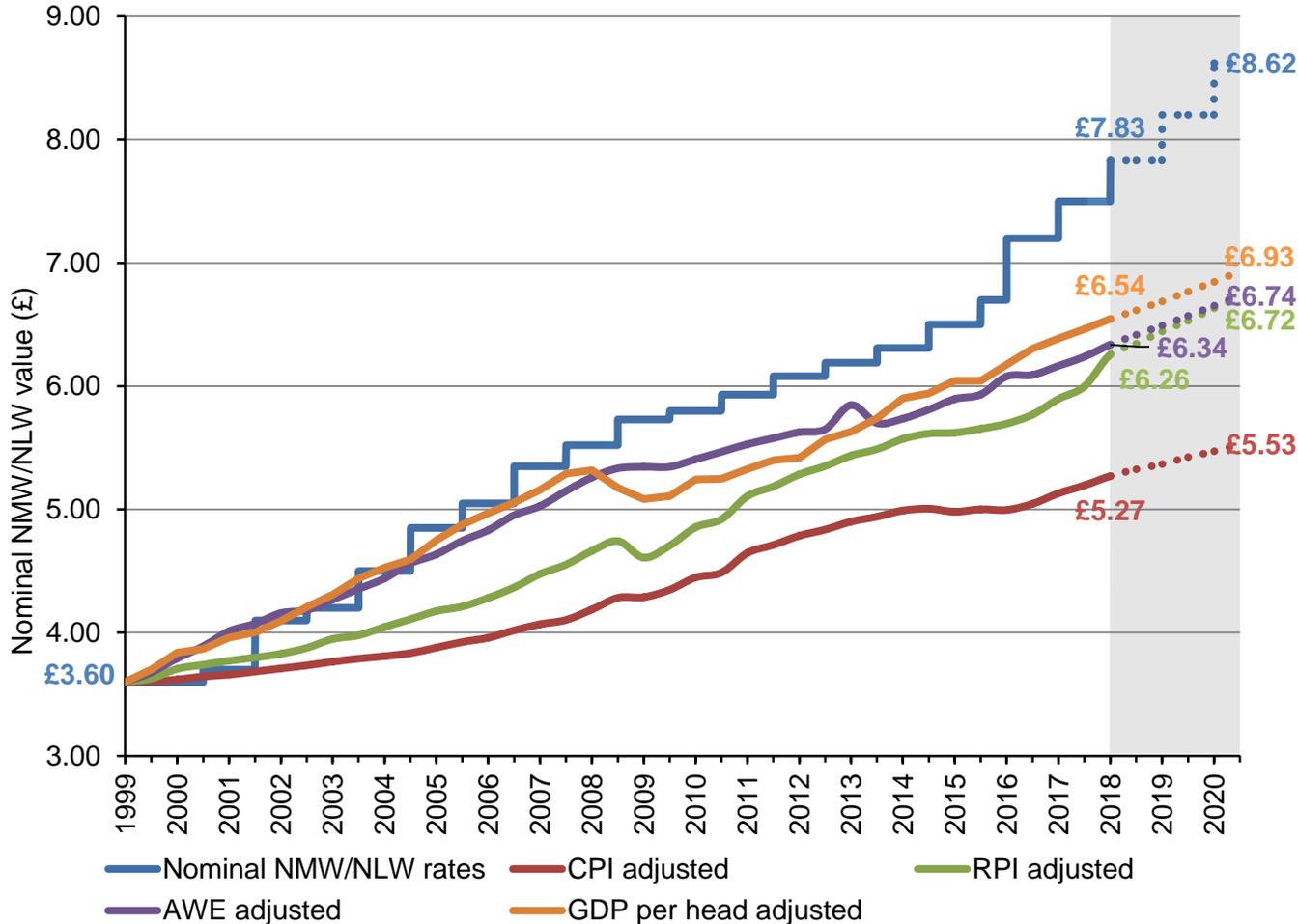
This year's uprating will mean an £460 increase in cash earnings for a typical NLW worker (working 27 hours a week) over the course of a year.

Rates of the National Minimum Wage and National Living Wage, April 1999-March 2019



NLW rises outpace other indicators

Nominal value of the main rate of the minimum wage compared to GDP, earnings and inflation, 1999-2020



If the main rate of the minimum wage (now the NLW) had risen in line with average earnings since its introduction in 1999, it would be worth £6.34 in 2018.

The faster growth of the minimum wage compared to other indicators predates the NLW, but has accelerated substantially since its introduction.

We expect the NLW to continue to grow faster than GDP, earnings and inflation (despite the latter having been high over the last year).

The latest projected 2020 rate for the NLW is £8.62 – full details of the NLW path are on page 11.

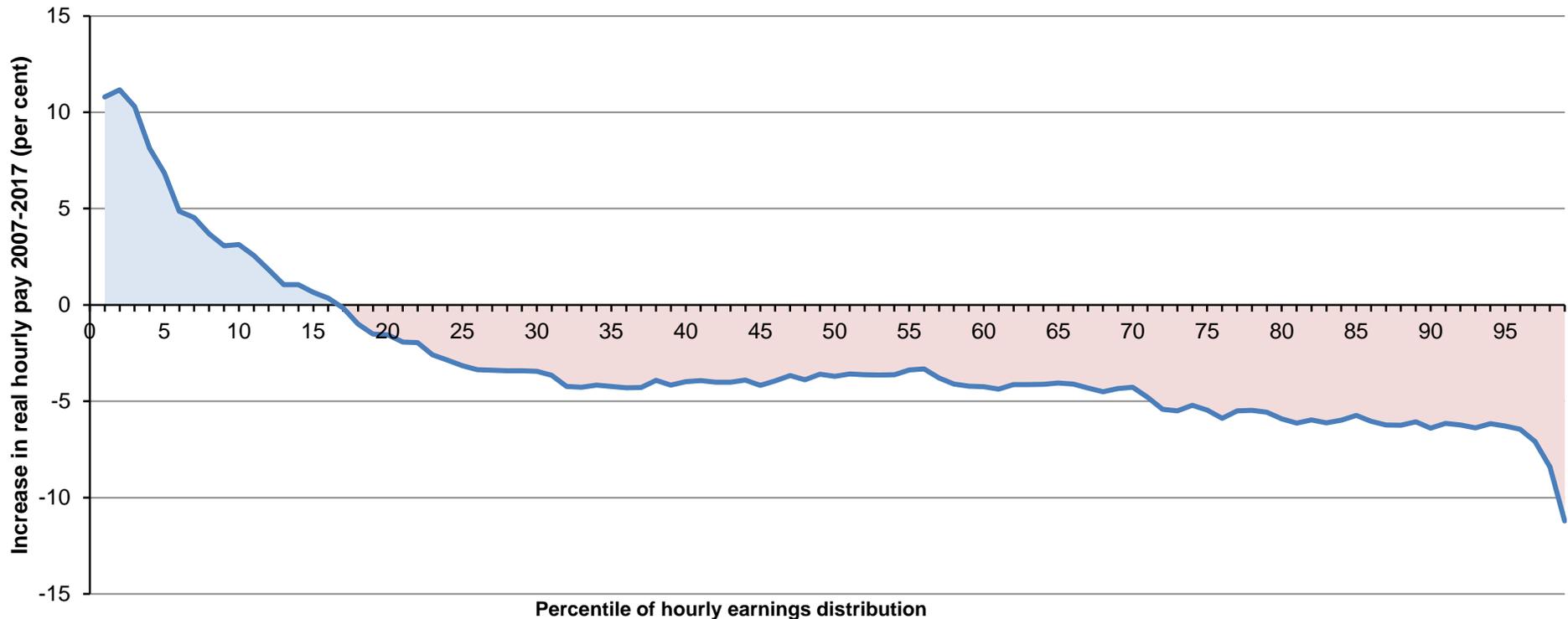
On the next page, you can see the positive effect the faster growth of the minimum wage, and particularly the NLW, has had on the hourly earnings of low-paid workers compared to the rest of the earnings distribution.

Minimum wage delivers real terms hourly pay increases

Higher inflation over the last year has worsened the fall in real earnings seen by workers across most of the earnings distribution since the financial crisis.

But increases in the minimum wage, particularly since the introduction of the NLW, have meant real terms hourly earnings have increased by as much as 11% for those paid at the minimum wage since 2007. This effect is larger than when we looked at it last year, because of the sustained growth of the NLW.

Percentage growth in real hourly earnings for workers aged 25 and over, 2007-2017



Young workers also set for another real-terms pay rise

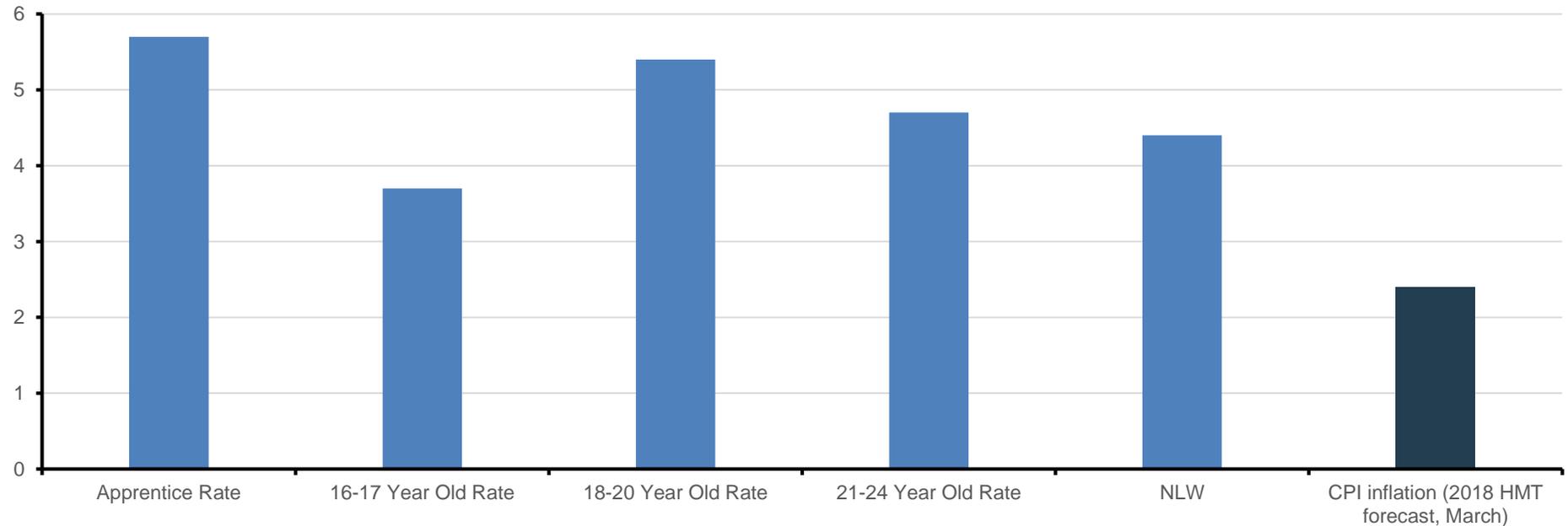
The largest increases in the youth rates of the minimum wage for a decade will mean above-inflation pay increases for young people on the rates.

These come after big increases in 2016-2017, when the rates rose twice in the space of 6 months.

During the financial crisis, we recommended smaller increases in the youth rates to protect youth employment.

We are reviewing the youth rates this year, with the intention of making recommendations on their future next spring.

Percentage increase in minimum wage rates, 2018



More workers than ever will be paid the minimum wage

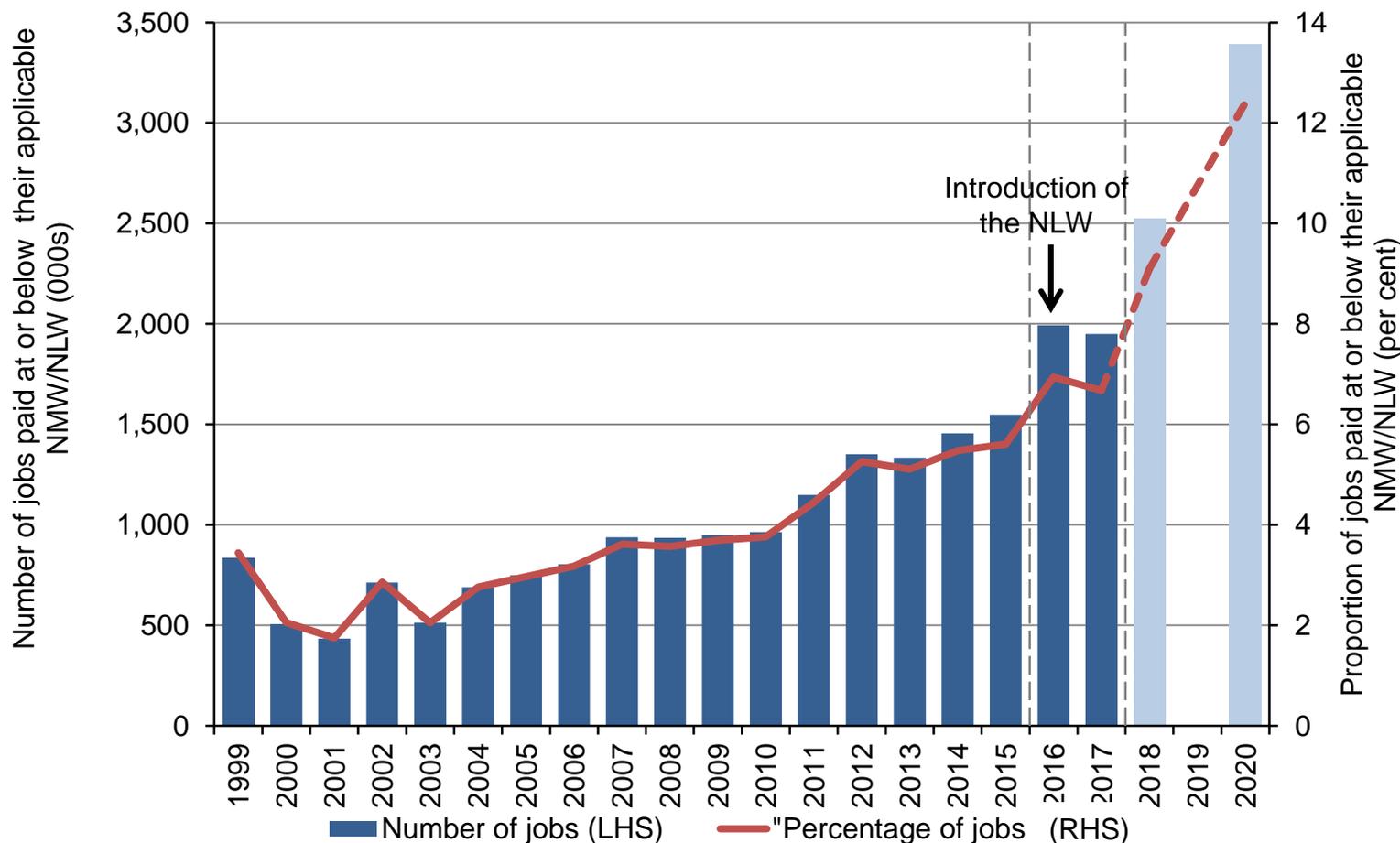
Minimum wage coverage is set to increase to up to 2.5 million workers on 1 April, up from 2 million a year ago. 9.1% of workers will be paid their applicable minimum wage.

We define coverage as those paid within 5p of, or below, the rates.

Of these workers, almost 2.1 million will be workers aged 25 and over who are paid the NLW.

This shows the step change in coverage caused by the NLW, which is set to continue as it keeps rising towards 60% of median earnings (the 2020 target). Total coverage of the NMW & NLW will be up to 3.4 million workers (or 12.4%) by 2020.

Actual and projected coverage of the National Minimum Wage and National Living Wage, 1999-2020



Coverage in some occupations set to double by 2020

The proportion of workers in some occupations, including retail and childcare, who are paid the NLW is set to double by 2020.

Hospitality, cleaning and maintenance, and hair and beauty will be the occupations with the highest percentage of workers paid the NLW in 2018. All will have between 30% and 40% of their workers aged 25 and over paid the statutory minimum wage.

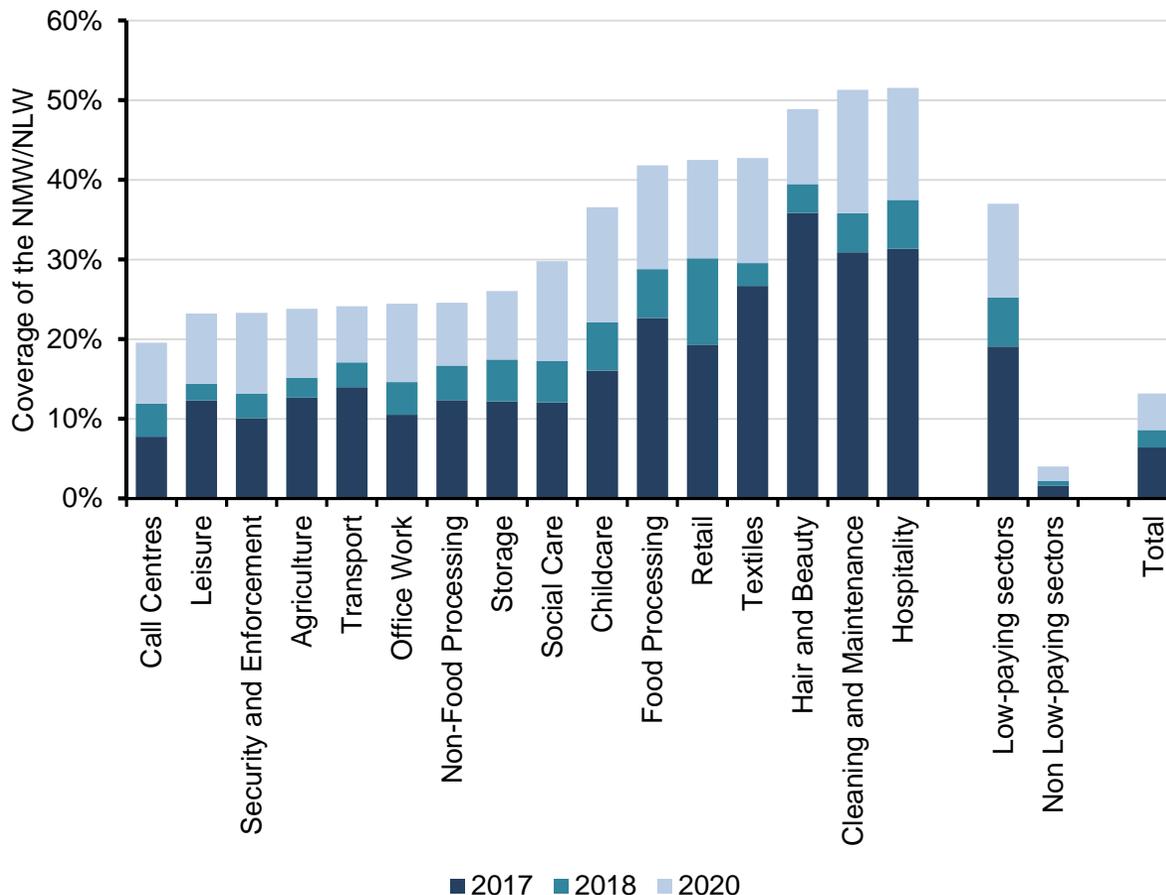
NLW coverage in retail is set to increase most significantly as a result of the 2018 uprating – from under 20% to around 30%.

Retail is the occupation with the largest number of NLW workers, with 475,000 in April 2018, followed by hospitality (290,000) and cleaning and maintenance (275,000).

There are also 385,000 NLW workers in non low-paying occupations.

In occupations that previously have not had a high share of minimum wage workers, such as security and call centres, we predict that around a fifth of workers will be on the NLW by 2020.

Coverage of the NLW for workers aged 25 and over, by occupation, 2017 (actual), 2018 and 2020 (forecast)



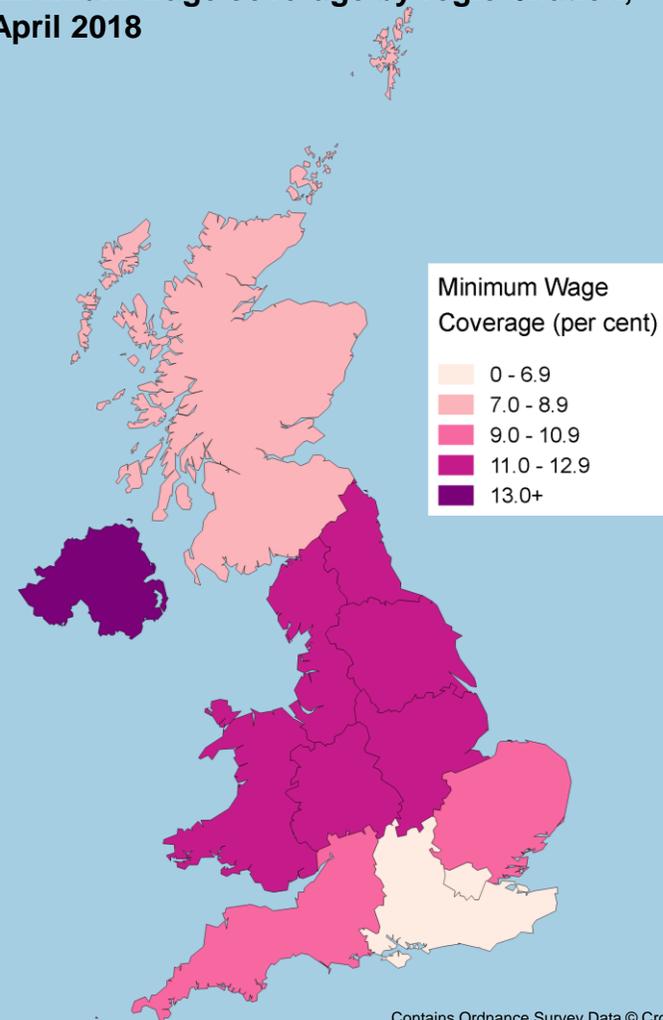
Coverage varies between regions and nations

With the 2018 upratings, coverage of the minimum wage will range from 5.2% in London to 14.2% in Northern Ireland. The South East and Scotland will have coverage well below the UK average, while in most English regions, and Wales, between 9% and 12% of workers will be paid a minimum wage rate (see table below right).

Coverage varies within regions too. London, with several of the Local Authorities with the lowest coverage in the UK, also contains Redbridge, the area with the fourth highest percentage of workers paid the minimum wage in Britain. Data are not available at a Local Authority level for Northern Ireland.

Full data at a region, nation, and local authority level are available [on our website](#).

Minimum wage coverage by region/nation, April 2018



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Highest and lowest coverage by LA, 2018

Local Authority	Region/Nation	Coverage (%)
West Somerset	South West	25.5
Weymouth and Portland	South West	25.3
North East Derbyshire	East Midlands	22.6
Redbridge	London	20.7
Newark and Sherwood	East Midlands	19.8
Melton	East Midlands	18.9
Islington	London	2.4
Kensington and Chelsea	London	2.4
Na h-Eileanan Siar	Scotland	2.3
Tower Hamlets	London	2.2
Bracknell Forest	South East	2.1
City of London	London	1.0

Coverage by region/nation, 2018

Region/Nation	Coverage	Coverage (%)
Northern Ireland	122,000	14.2
North East	123,000	11.7
East Midlands	218,000	11.7
West Midlands	266,000	11.5
Wales	134,000	11.3
North West	328,000	11.1
Yorkshire and the Humber	245,000	11.1
UK	2,520,000	9.1
South West	207,000	9.0
Eastern	223,000	9.0
Scotland	184,000	7.7
South East	255,000	6.5
London	219,000	5.2

Effects of the NLW on businesses and workers

It appears that most employers have successfully managed with the increased cost of the NLW since its introduction in 2016. We have heard that rates lower than those originally forecast have meant less serious consequences than we were initially warned of.

That does not mean that it has been easy for all firms though – many have had to take action, and there have been effects on differentials, prices and profits. This is not solely down to the NLW, though. Stakeholders told us of a ‘perfect storm’ of cost increases in some sectors.

In some sectors, including convenience retail, social care, and hair and beauty, we heard that businesses are at, or approaching, a tipping point at which rising costs may have effects on employment.

“The rising cost of employment on the path to 2020 will be a real challenge.”

CBI submission to the LPC, 2017.

Last year, a wider range of sectors told us that there will be concern over the affordability of the NLW by 2020.

The CBI estimates that over half of all businesses will be affected by the NLW by 2020, with ‘a real risk of more serious consequences for employment and hours’.

Employee representatives were optimistic, and thought it would have business benefits. Unions told us they thought the NLW would continue to be affordable for businesses.

“The UK economy, and especially the low-paid sectors, are robust enough to cope with a further significant increase in the minimum wage.”

TUC submission to the LPC, 2017.

Unions stressed the benefits a higher minimum wage will bring to workers, and thought increases would be good for the UK economy as a whole. Some unions argued that future increases would increase demand in the economy.

GMB and UNISON sounded a note of warning regarding the social care sector, telling us that while the NLW is a real positive for care workers, it is very important that it be properly funded in the sector.

Despite the differing views on the future effects of the NLW, there were few calls to depart from the intended path to 60% of median earnings.

The LPC will continue to monitor responses to the NLW closely through our analysis, consultations, and visits programme.

NLW now projected to reach £8.62 in 2020

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'.

In our 2017 Report, we predicted that the NLW would reach **£8.20** in 2019 and **£8.61** in 2020.

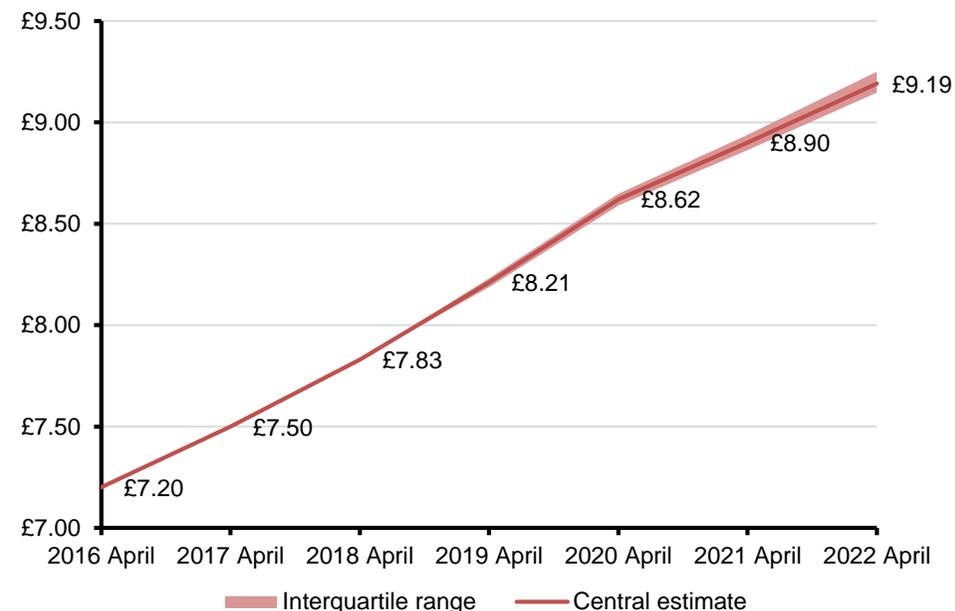
Current and previous NLW path projections

Date of projection	2018	2019	2020
NLW announcement, July 2015 (LPC using OBR July 15 forecasts)	£8.19	£8.74	£9.35
LPC Spring 2016 Report (March 2016, LPC using OBR Nov 15 forecasts)	£8.12	£8.61	£9.16
LPC Autumn 2016 Report (November 2016, LPC using HMT/BoE forecasts)	£7.85	£8.23	£8.61
LPC 2017 Report (November, LPC using HMT/BoE forecasts)	£7.83	£8.20	£8.61
March 2018 (LPC using OBR March 18 forecasts)	£7.83	£8.19	£8.57
March 2018 (LPC using HMT (Mar-18)/BoE (Feb-18) forecasts)	£7.83	£8.21	£8.62

Using the latest HM Treasury panel forecasts puts the NLW at **£8.21** in 2019 and **£8.62** in 2020, a penny more than when we last reported. Using the most recent Office for Budget Responsibility forecasts gives slightly lower projected values.

Nevertheless, wage growth forecasts have stabilised since the introduction of the NLW, when forecasts for higher wage growth put the projected 2020 value at well over £9. Projections for the value of the NLW up to 2020 have changed little since our Autumn 2016 report (see table below left).

Predicted path of the NLW and inter-quartile range of forecasts



LPC consultation 2018

Low Pay Commission visits 2018



We visit areas around the UK to speak to businesses and workers affected by the minimum wage.

If you want to meet us, email lpc@lowpay.gov.uk or call 020 7211 8772.

We recently launched our 2018 written consultation. We are gathering evidence to support our recommendations for rates to apply from April 2019. We want to hear from businesses, workers, and anyone else with an interest in the minimum wage about your views on the rates.

In addition to the rates, we are also consulting on two other strands of work:

- In its response to the Taylor Review of Modern Working Practices, the Government asked the LPC to consider the impact of a higher minimum wage for those hours that are not guaranteed as part of a contract. We have been asked to consider any other ideas that may lead to the same or better outcome as well. You can read more about this element of our consultation on our blog.
- We are also reviewing the youth rates of the National Minimum Wage, with the intention of reporting on our findings in Spring 2019.



To find out more about our consultation, and for a full list of questions we want evidence on, visit our [website](#).

To submit a response, email lpc@lowpay.gov.uk



NLW and NMW rates

National Minimum Wage rates from 1 April 2018



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