

**National
Minimum
Wage**



Low Pay Commission

Low Pay Commission 2018 Report launch event

27 November 2018

Running order

- Introduction and LPC remit
- Economic context for the LPC's recommendations
- Effects of the NLW in 2018
- Young people and apprentices
- Questions

**National
Minimum
Wage**



Low Pay Commission

Remit and 2019 rates

Bryan Sanderson (LPC Chair)

David Massey (Secretary)

Our remit this year

To monitor, evaluate and review the levels of each of the different National Minimum Wage rates and make recommendations to apply from April 2019:

- The National Living Wage
- 21-24 Year Old Rate
- 18-20 Year Old Rate
- 16-17 Year Old Rate
- Apprentice Rate
- The Accommodation Offset

One-sided flexibility and the Taylor Review
Review of youth rates

See page xxi of our 2018 Report for more.

One-sided flexibility

- *The Government asks the Low Pay Commission to assess the nature and extent of the issue [one-sided flexibility] identified in the Review;*
- *...and to assess the impact of introducing a higher minimum wage for non-guaranteed hours*
- *...This assessment should consider any alternative policies that they consider address the same issue, including relevant international comparisons and any evidence provided by stakeholders.*

We have submitted our advice and hope to publish the report shortly

Coming soon from the LPC

- One-sided flexibility
- Minimum wage compliance and enforcement report
- Review of the youth rates
- 2019 consultation
- Post-2020 remit

How we met our remit this year

- Written evidence consultation with responses from around 60 organisations
- 2.5 days of oral evidence sessions meeting with representatives of around 36 organisations
- 6 visits around the UK to Kendall and South Lakeland, Barnstaple and North Devon, Newry, Perth, Anglesey and Birmingham meeting more than 80 organisations including employers, employees and their representatives
- Commissioning a range of independent research projects
- Comprehensive analysis of a range of economic and labour market data

The remit varies across these rates

National Minimum Wage rates (for those aged 24 and below)

- Follows the traditional basis of the NMW since its inception: to raise pay and prevent exploitation.
- The aim is to “help as many low-paid workers as possible without damaging their employment prospects”
- Therefore the level is based on affordability not need

National Living Wage (for those aged 25 and above)

- **Target:** ‘ambition of 60 per cent of average earnings’. LPC role is to plot the path.
- **Some job loss tolerance:**
The OBR forecast a 20,000-110,000 increase in unemployment by 2020 (vs 1.1m employment gains 2015-2021)
- **Stricter test for increase not to happen:** ‘subject to sustained economic growth’

Key considerations this year

National Minimum Wage rates (for those aged 24 and below)

- Bearing in mind that last year we recommended the largest increases in a decade, what is the state of the youth labour market in terms of employment and earnings?

National Living Wage (for those aged 25 and above)

- Does the most recent economic evidence meet the condition of sustained economic growth to enable the NLW to be updated in line with the path to 60 per cent of median earnings?
- What has been the impact of the NLW so far? What is happening with pay and employment for those aged 25 and over, and those in low-paying sectors in particular

Rate recommendations

Rate	Apr-2018	Apr-2019	Annual Penny increase	Annual increase (per cent)
National Living Wage	£7.83	£8.21	38p	4.9
21-24 Year Old Rate	£7.38	£7.70	32p	4.3
18-20 Year Old Rate	£5.90	£6.15	25p	4.2
16-17 Year Old Rate	£4.20	£4.35	15p	3.6
Apprentice Rate	£3.70	£3.90	20p	5.4
Accommodation Offset	£7.00	£7.55	55p	7.9

**National
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Wage**



Low Pay Commission

Economic context

Tim Butcher

Overview

- Previous path of the NLW
- What the forecasters said about the economy?
- What happened?
- Prospects for next year
- Implications for the path of the NLW
- Considerations for the other rates

Previous path of NLW

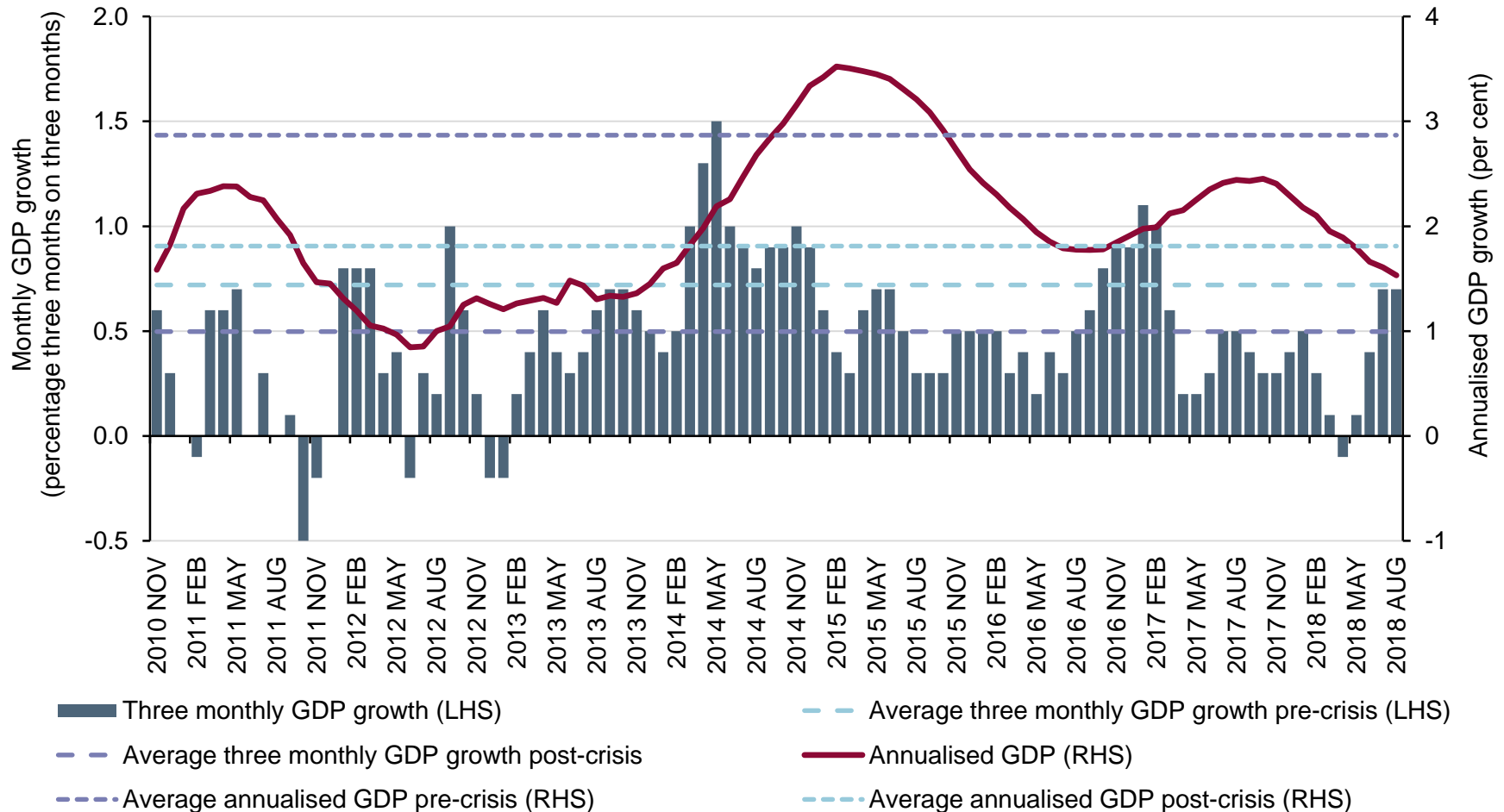
	July 2015 OBR		LPC Spring 2016		LPC Autumn 2016		LPC 2017 Report	
ASHE	2014		2015		2016		2017	
Earnings forecasts	OBR July 2015		OBR November 2015		HMT/BoE August/October 2016		HMT/BoE August/October 2017	
	Implied NLW path	Implied October bite	Implied NLW path	Implied October bite	Implied NLW path	Implied October bite	Implied NLW path	Implied October bite
2015	6.70	53.0	6.70	53.1	6.70	53.3	6.70	53.3
2016	7.20	54.8	7.20	55.1	7.20	55.8	7.20	55.8
2017	7.68	56.1	7.64	56.3	7.50	56.8	7.50	56.9
2018	8.19	57.4	8.12	57.5	7.85	57.9	7.83	58.0
2019	8.74	58.7	8.61	58.8	8.23	58.9	8.20	59.0
2020	9.35	60.0	9.16	60.0	8.61	60.0	8.61	60.0
2021							8.89	60.0

See page 2 and Table 1.1 of our 2018 Report for more.

Economic outcomes have generally turned out in line with the forecasts made last autumn

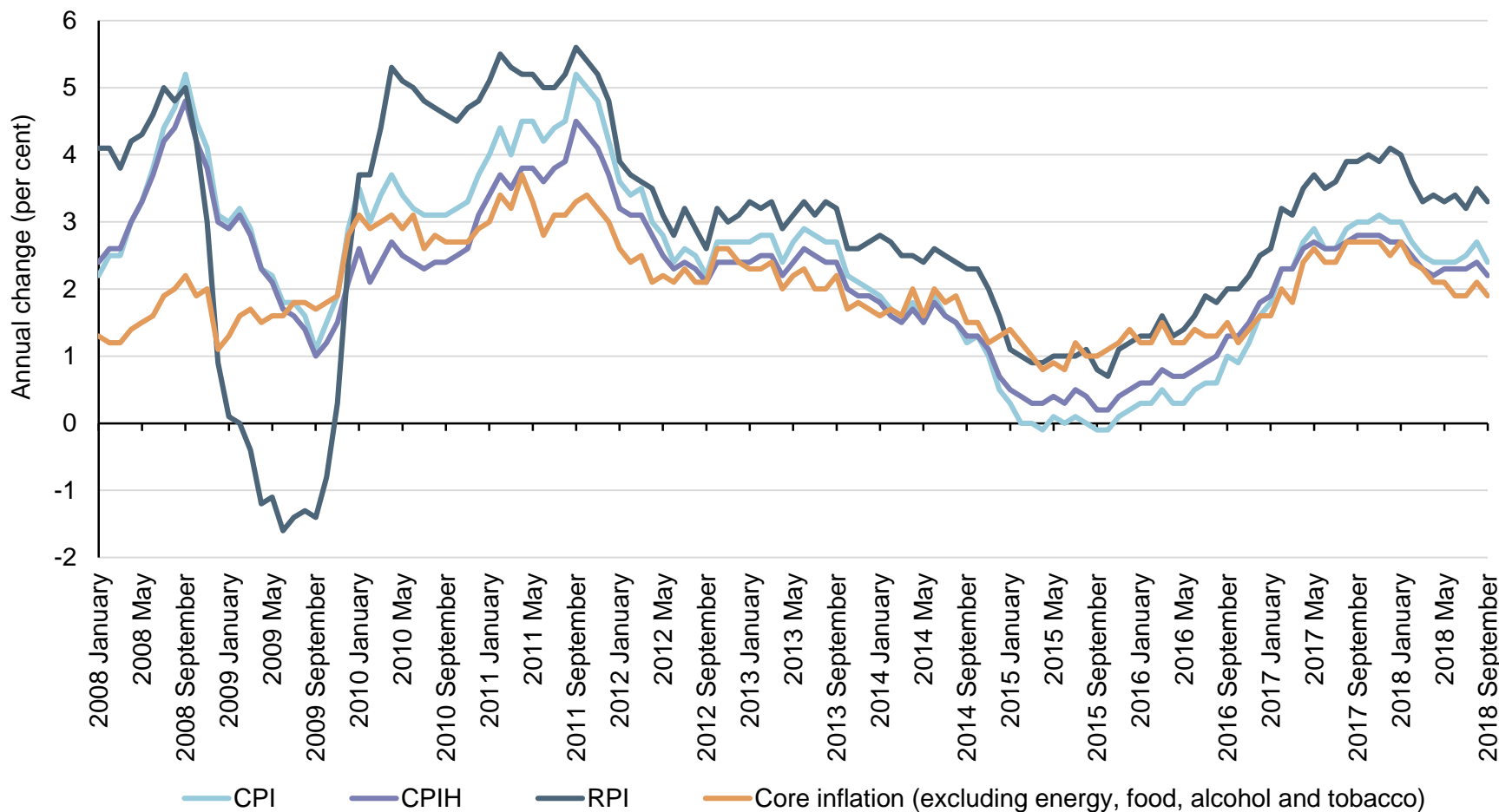
- GDP growth was expected to be sustained but modest over the coming two years (1.4-1.6% in 2018)
- Inflation was expected to fall back towards 2% (2.4-2.5% in Q4 2018)
- Employment growth was expected to slow with unemployment rising a little
- Wage growth was expected to pick up towards 3%
- Leading to some modest real wage growth

GDP has slowed but is growing around 1.4-1.6%



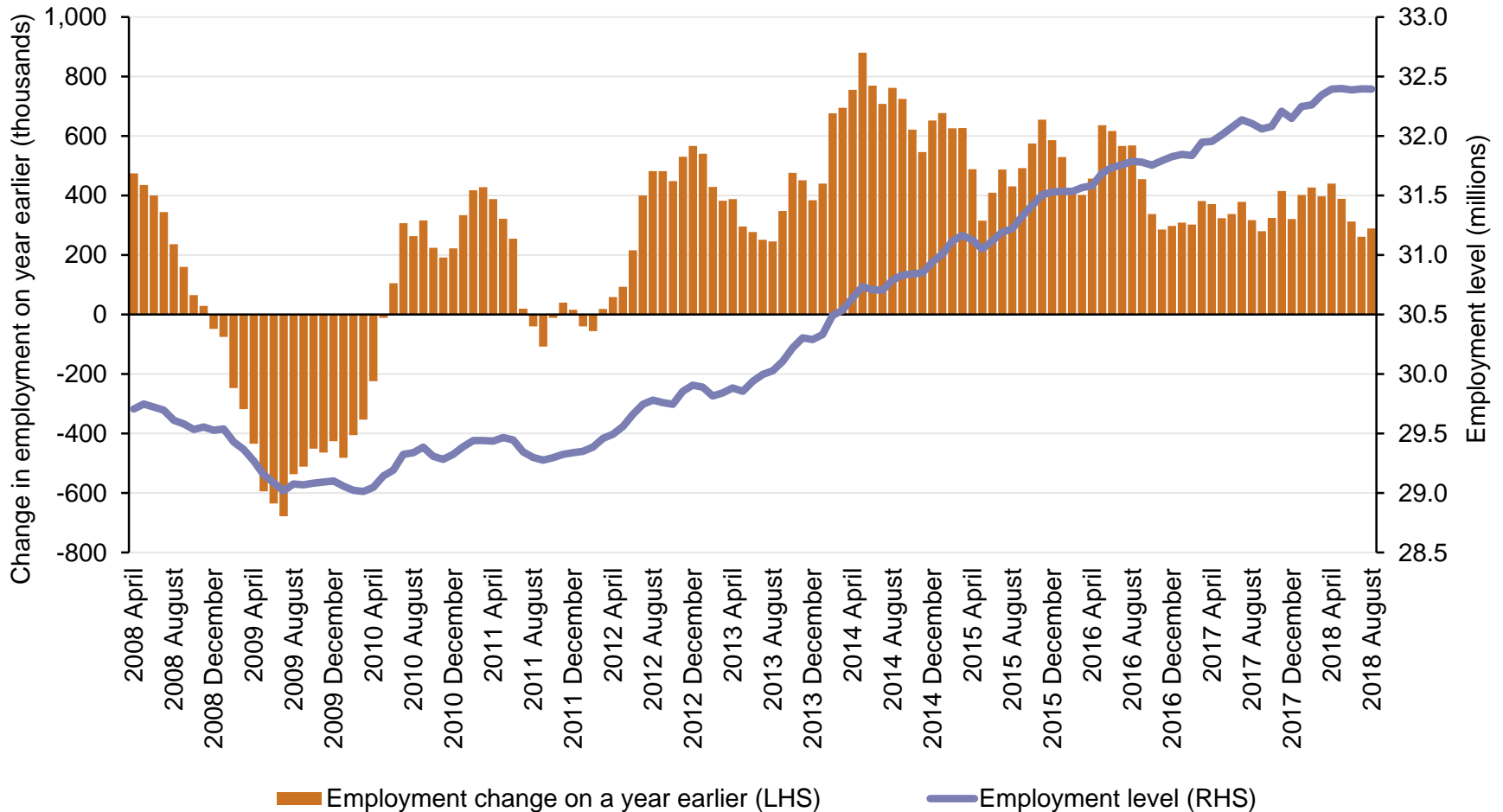
See page 5 and Figure 1.2 of our 2018 Report for more.

Inflation has fallen back after peaking at end of 2017



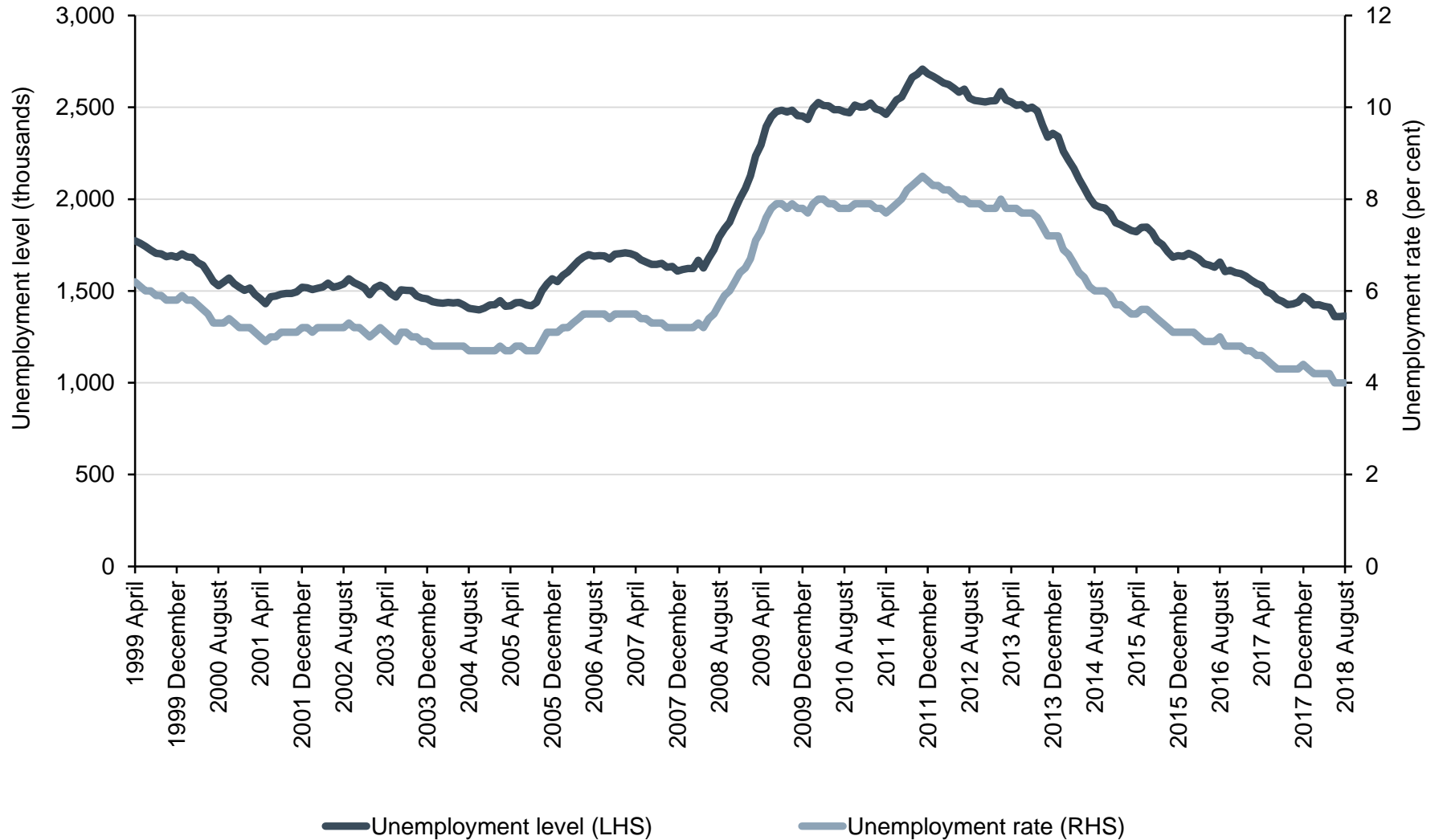
See page 17 and Figure 1.11 of our 2018 Report for more.

Employment growth has slowed but remains solid



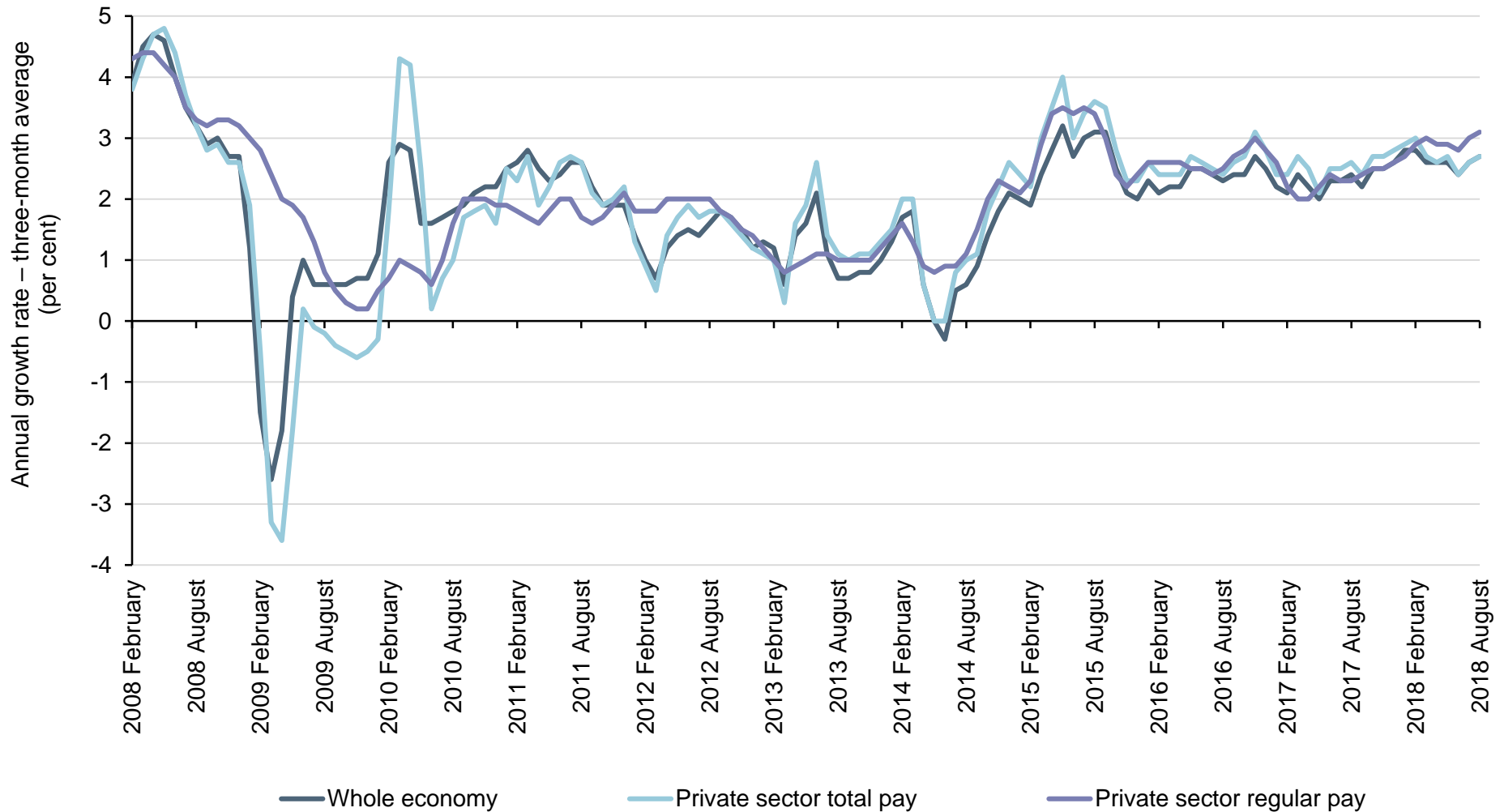
See page 21 and Figure 1.14 of our 2018 Report for more.

Unemployment, however, has continued to fall



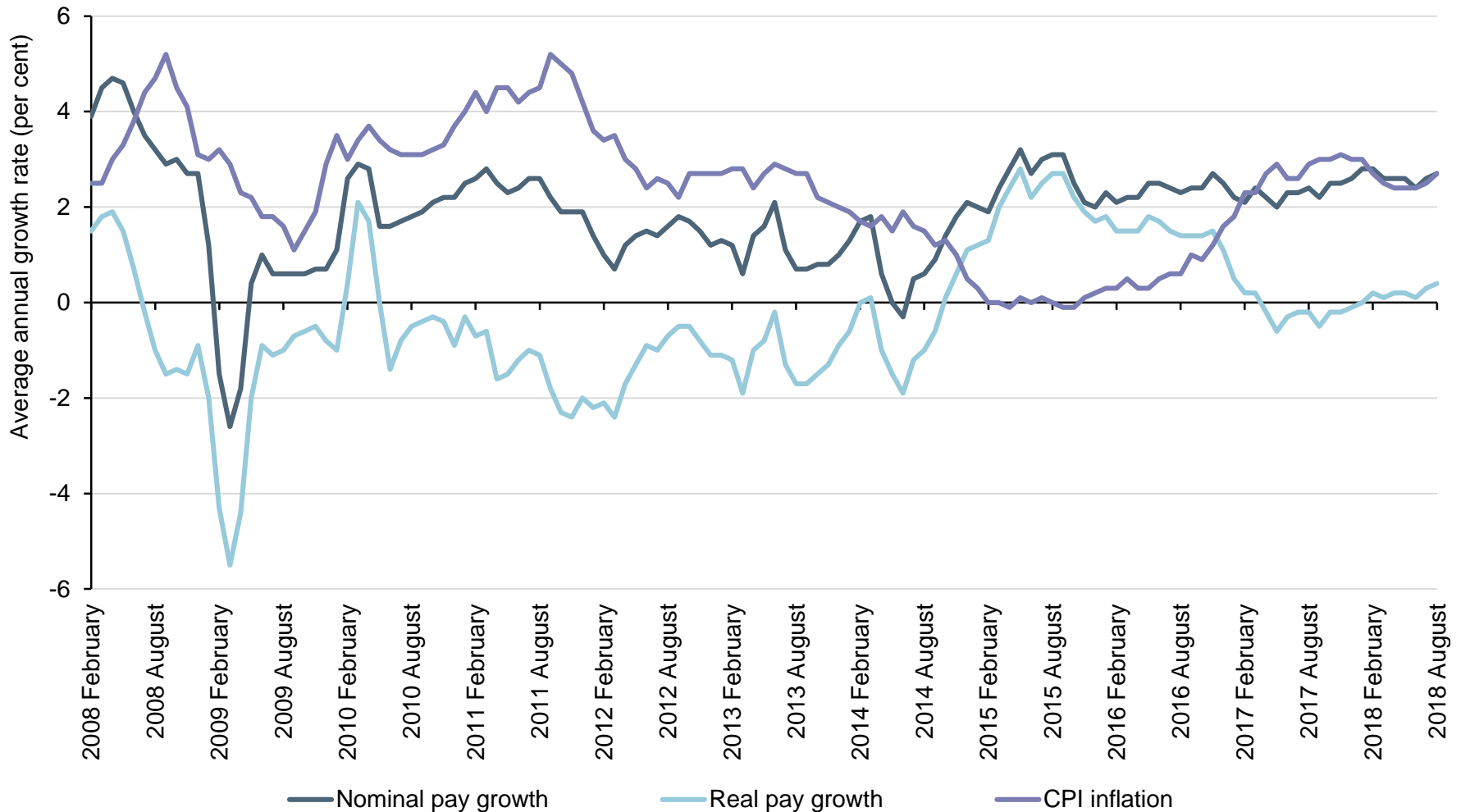
See page 26 and Figure 1.18 of our 2018 Report for more.

And average wage growth has picked up a little



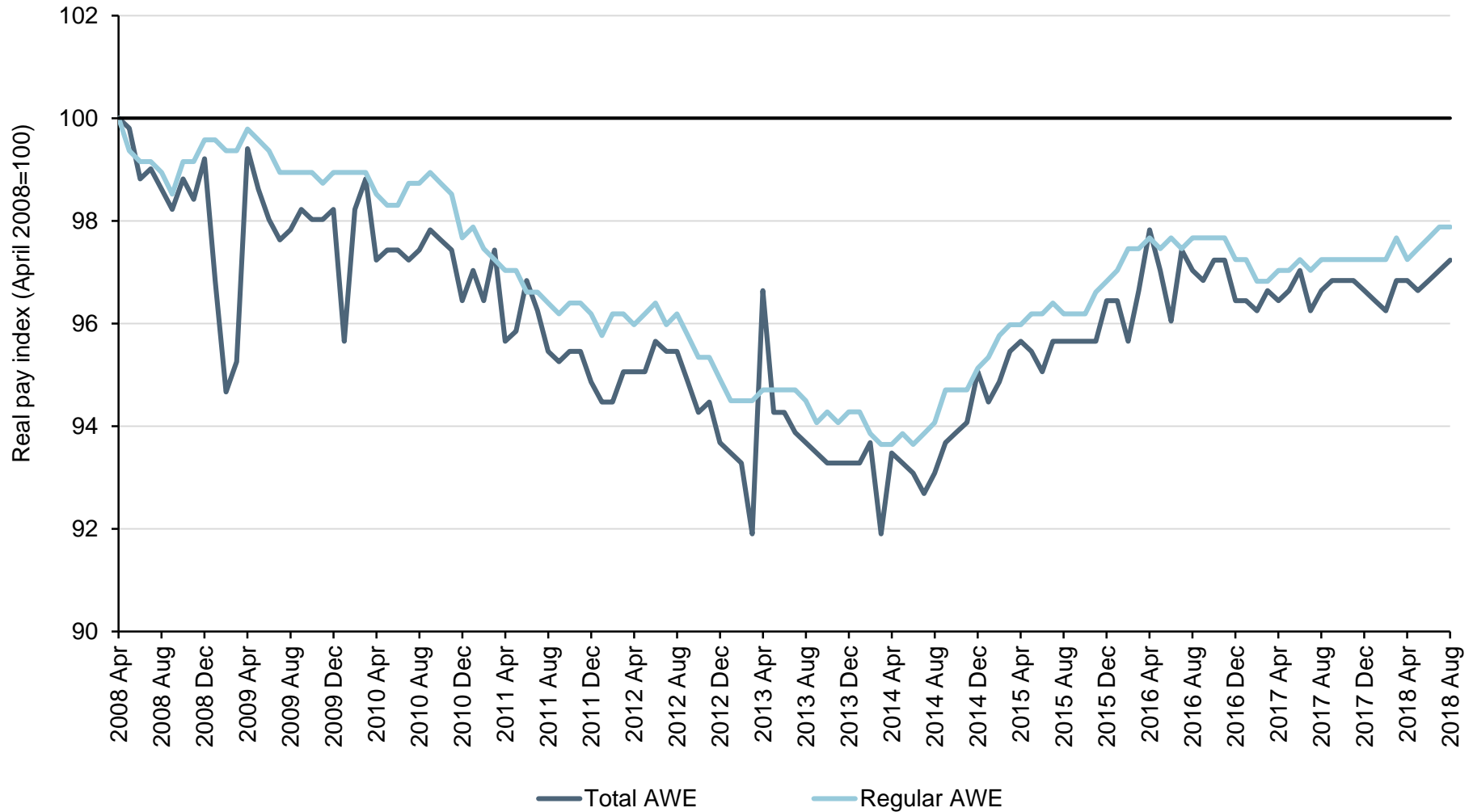
See page 37 and Figure 1.28 of our 2018 Report for more.

That has led to some real wage growth in 2018



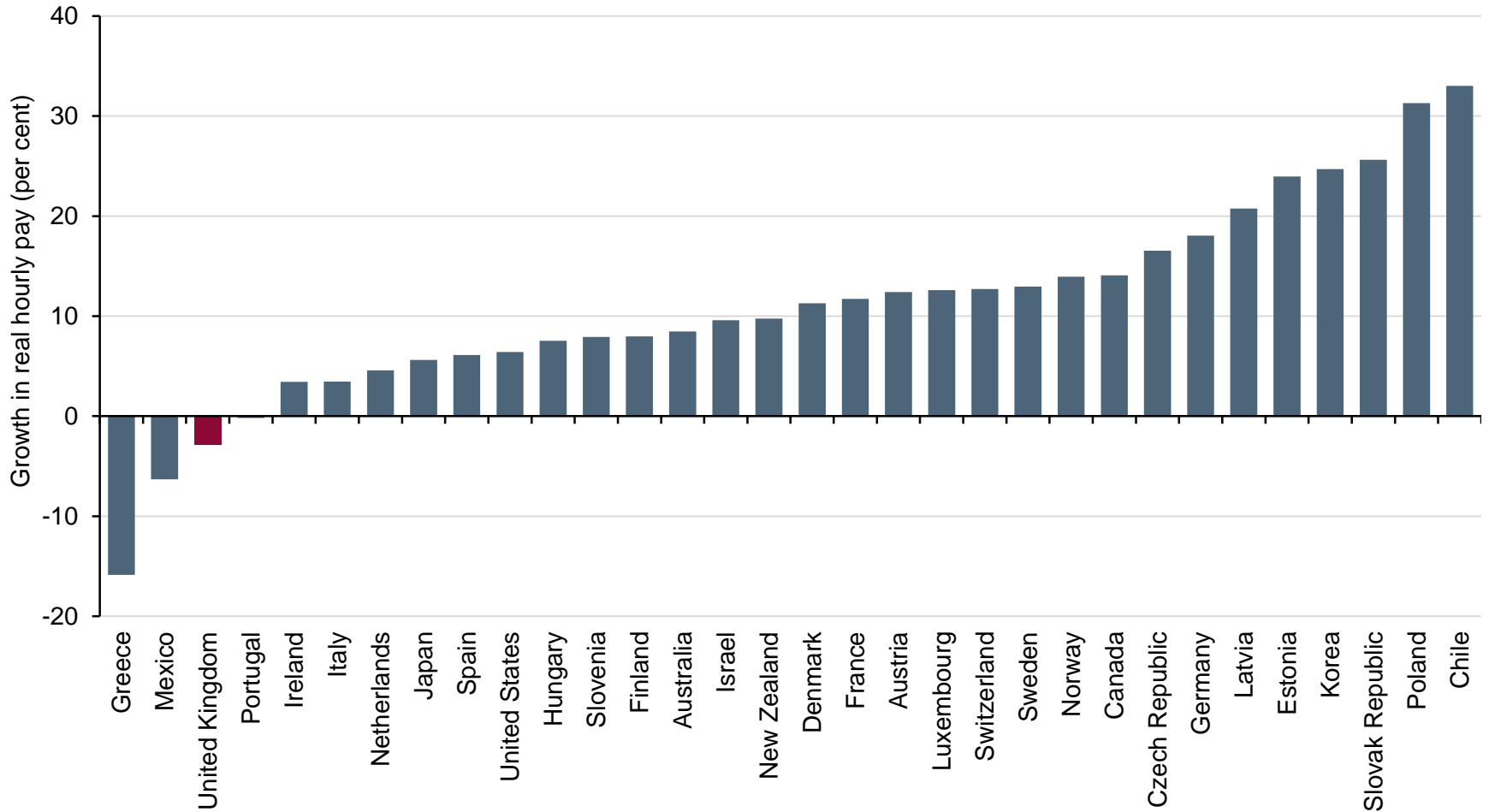
See page 40 and Figure 1.31 of our 2018 Report for more.

But real wages still below their level in 2008



See page 41 of our 2018 Report for more.

Only Greece and Mexico have performed worse



See page 42 and Figure 1.33 of our 2018 Report for more.

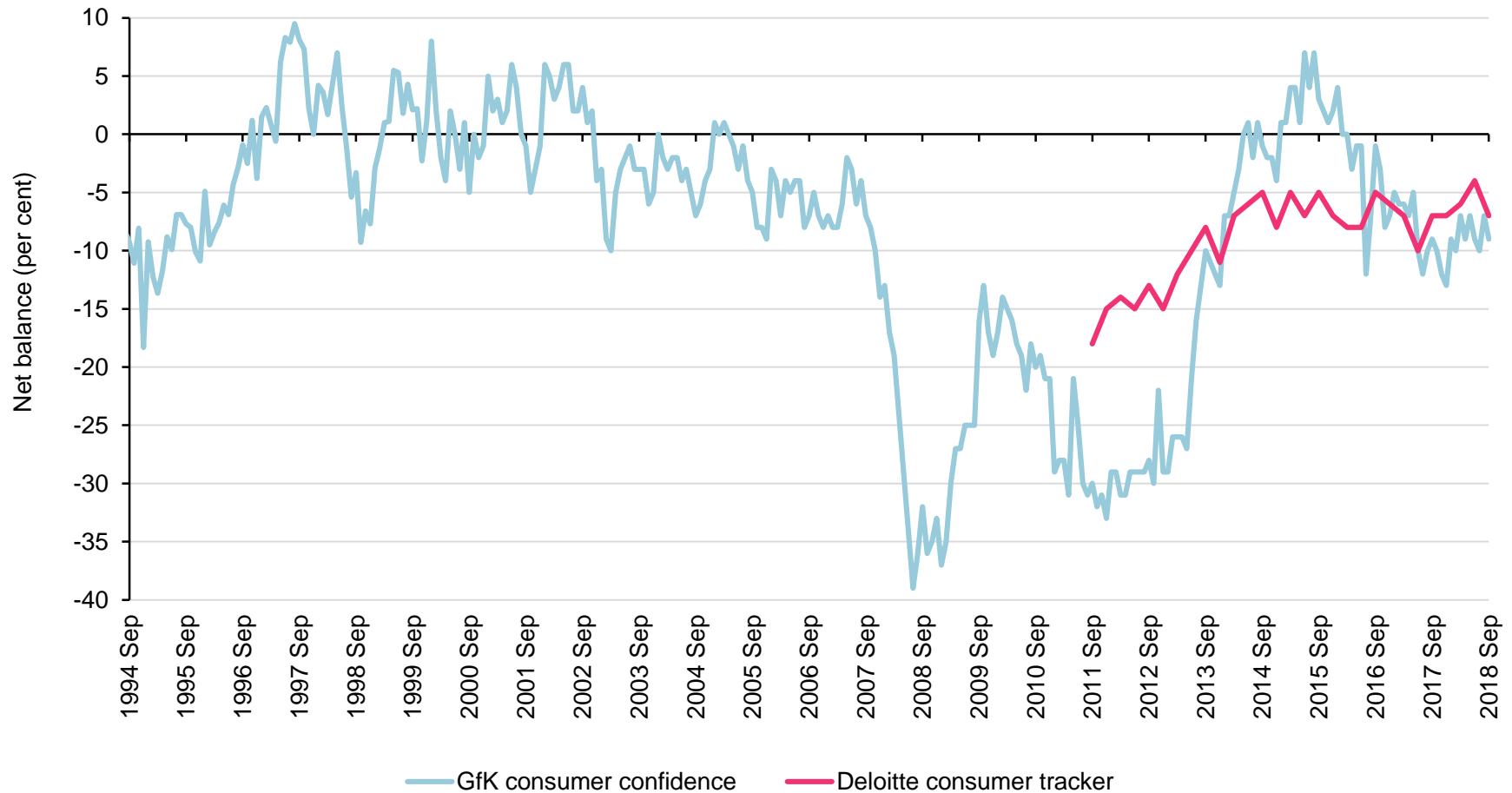
Looking forwards

- Sustained economic growth
- Stable and growing employment (especially in low-paying sectors and among vulnerable groups)
- Real wage growth
- Sustained productivity growth

Prospects

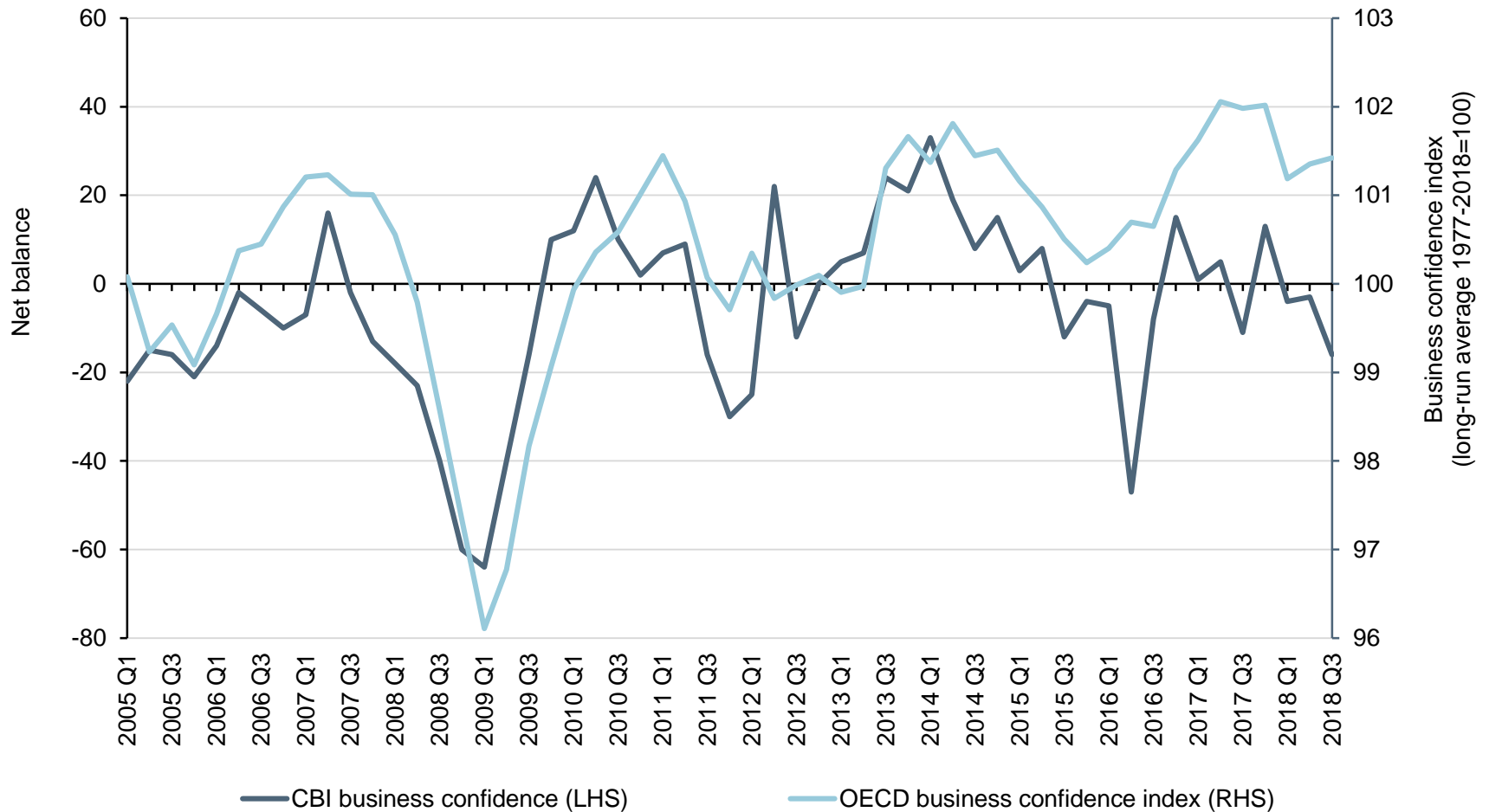
- Global economic growth remains robust but has weakened amid increased uncertainty and heightened trade tensions
- Brexit-related uncertainty is ongoing
- Investment was weak in the first half of 2018 and intentions had weakened a little
- Pound relatively stable over the last year
- Inflation expected to move back towards target
- Austerity still expected to act as a drag with larger effects on low-income households

Consumer confidence has remained subdued



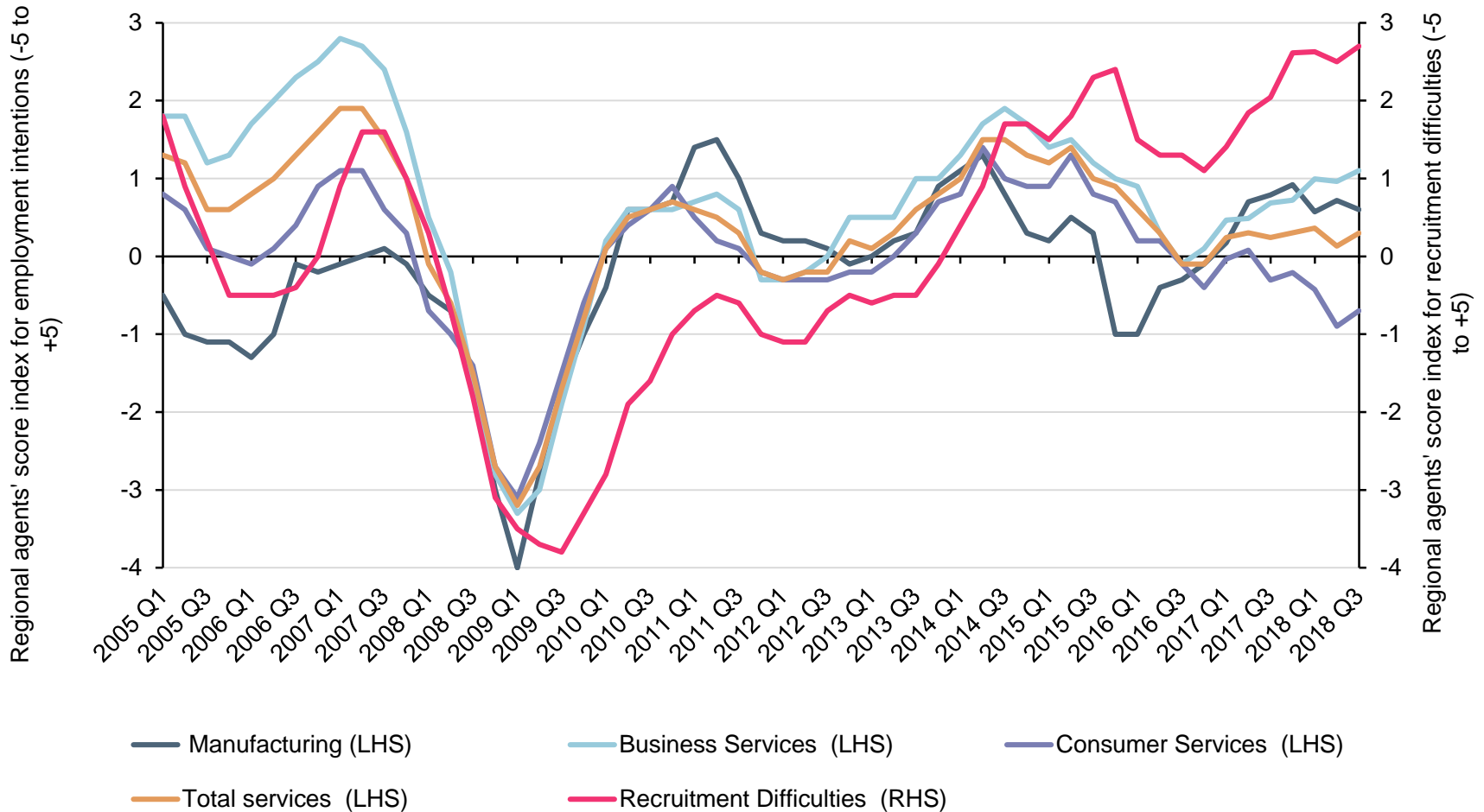
See page 156 and Figure 5.4 of our 2018 Report for more.

Business confidence has recently weakened



See page 158 and Figure 5.5 of our 2018 Report for more.

Hiring intentions remain robust except in consumer services but recruitment is becoming more difficult

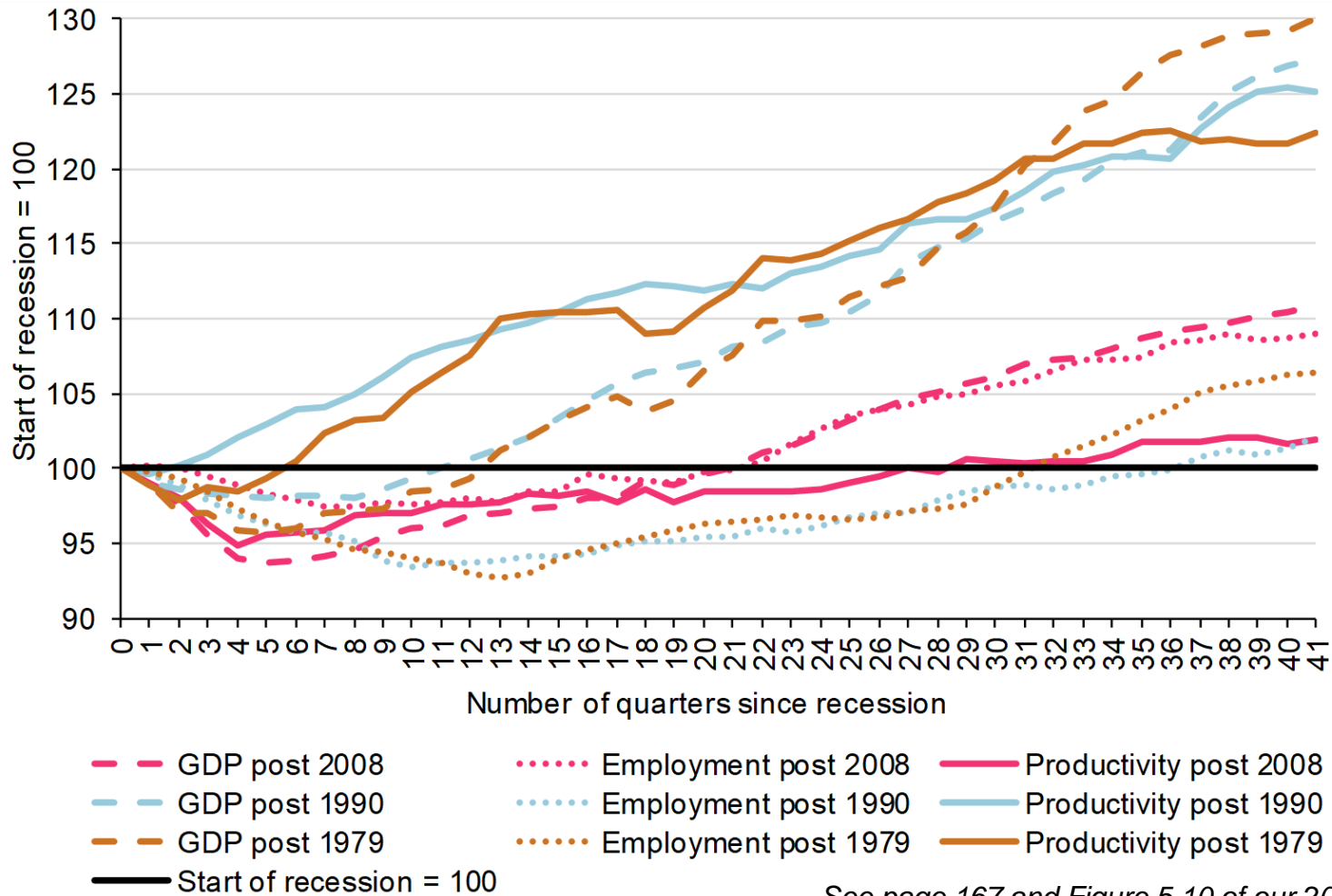


See page 161 and Figure 5.8 of our 2018 Report for more.

Labour market resilient but..

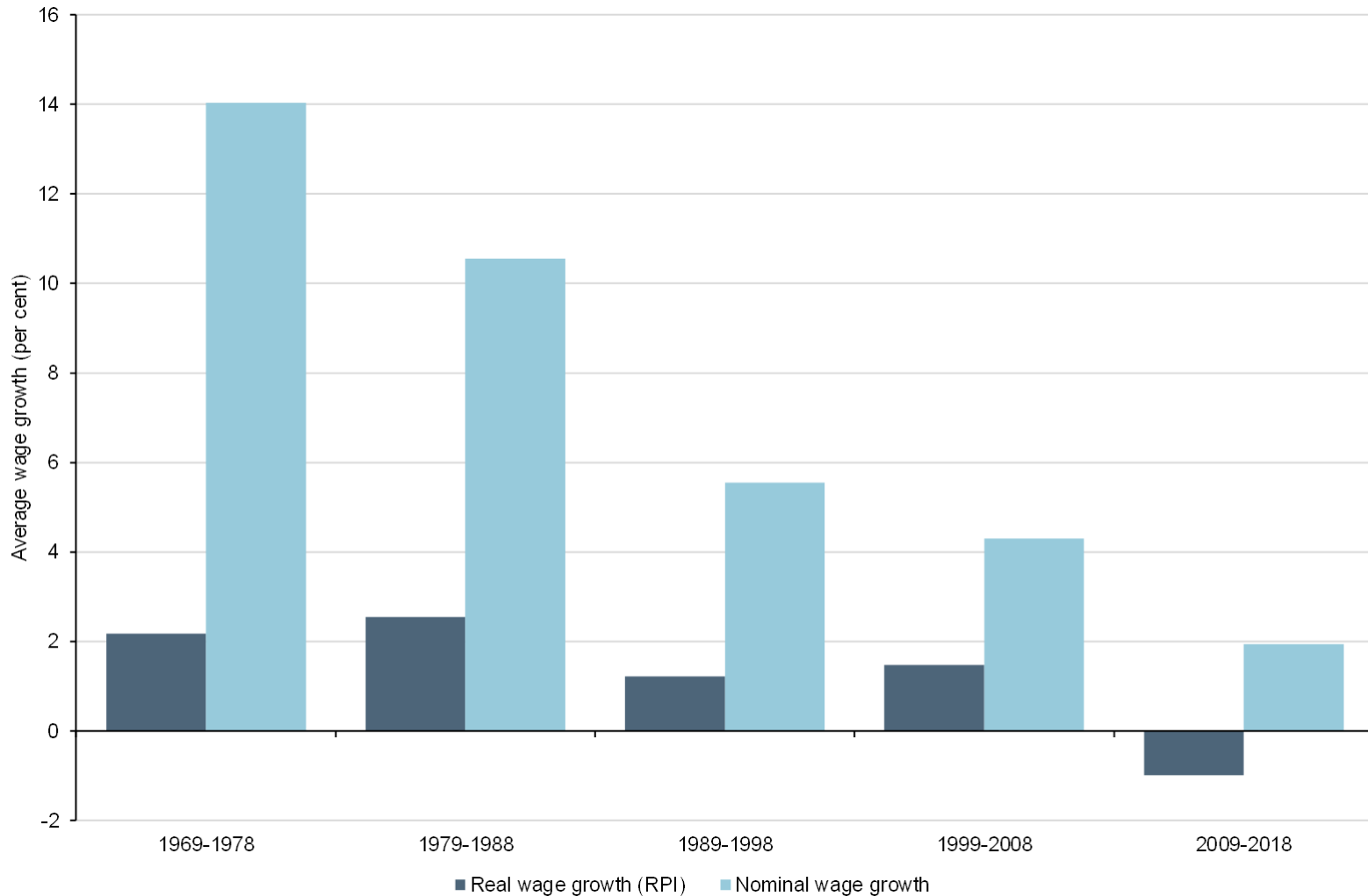
- Future labour supply is tightening
 - Migration has slowed
 - Labour market participation of older workers may have peaked
 - Labour market participation of women at record highs
- Despite record high vacancies and redundancies at record lows, labour market has slowed since the spring

Productivity growth remains historically weak ...



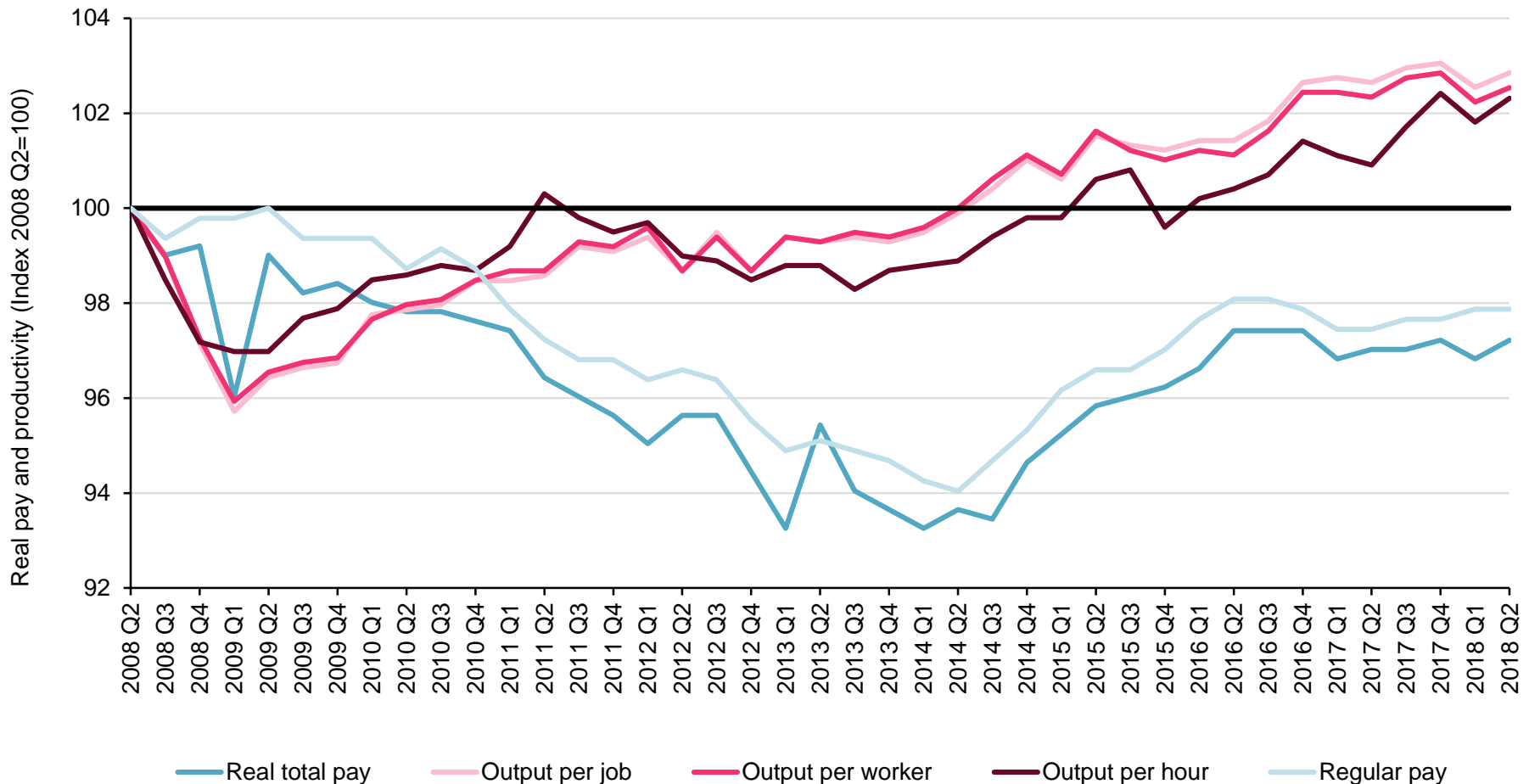
See page 167 and Figure 5.10 of our 2018 Report for more.

... as does pay growth ...



See page 171 and Figure 5.14 of our 2018 Report for more.

... and even with weak productivity growth, real wages have failed to keep pace



See page 173 and Figure 5.16 of our 2018 Report for more.

Looking forwards

	OBR forecasts (March 2018)					Bank of England forecasts (August 2018)			Median of HM Treasury Panel (August/October 2018)				
	2018	2019	2020	2021	2022	2018	2019	2020	2018	2019	2020	2021	2022
GDP Growth (whole year)	1.5	1.3	1.3	1.4	1.5	1.4	1.8	1.7	1.3	1.5	1.7	1.8	1.9
Average Earnings AWE (whole year)	2.7	2.4	2.5	2.8	3.0	2.5	3.3	3.5	2.7	3.0	2.9	3.0	3.0
Inflation RPI (Q4)	3.7	3.0	2.9	2.9	3.0				3.3	3.0	3.0	3.2	3.2
Inflation CPI (Q4)	2.4	1.8	1.9	2.0	2.0	2.3	2.2	2.0	2.4	2.0	2.1	2.0	2.1
Employment growth (whole year)³	0.6	0.4	0.4	0.3	0.3	1.3	0.5	0.5	1.0	0.4			
ILO unemployment rate (Q4)	4.4	4.5	4.6	4.6	4.6	4.1	4.0	4.0	4.1	4.2	4.4	4.5	4.5

See page 176 and Table 5.1 of our 2018 Report for more.

Variation in the wage forecasts but with consensus pointing to a pick-up

Average wage growth forecasts	2018	2019	2020	2021	2022
Median	2.7	3.0	3.0	3.2	3.2
Mean	2.6	2.9	2.9	3.0	3.0
Interquartile range	0.1	0.4	0.6	0.7	0.6
Lower quartile	2.6	2.8	2.7	2.6	2.8
Upper quartile	2.7	3.1	3.3	3.3	3.3
Range	0.7	1.5	1.8	1.3	1.2
Minimum	2.2	2.0	1.7	2.2	2.3
Maximum	2.9	3.5	3.5	3.5	3.5
Count	27	27	17	15	15

See page 177 and Table 5.2 of our 2018 Report for more.

However, that pick-up was already expected and the NLW path is virtually unchanged

2017 Report	2016	2017	2018	2019	2020
Lower quartile				£8.17	£8.55
Median	£7.20	£7.50	£7.83	£8.20	£8.61
Upper quartile				£8.23	£8.66
2018 Report	2016	2017	2018	2019	2020
Lower quartile					£8.58
Median	£7.20	£7.50	£7.83	£8.21	£8.62
Upper quartile					£8.65

See page 178 and Table 5.3 of our 2018 Report for more.

**National
Minimum
Wage**



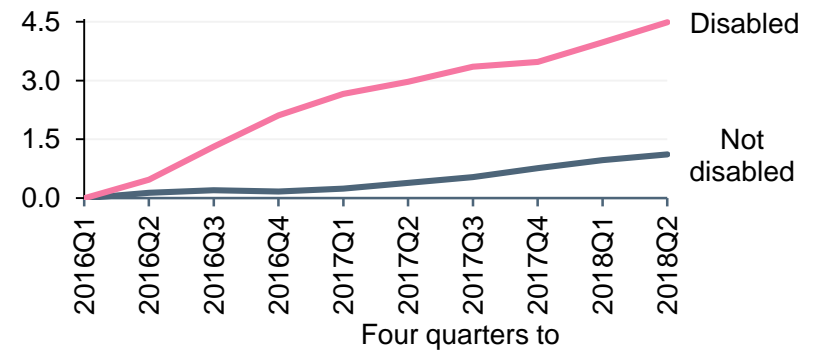
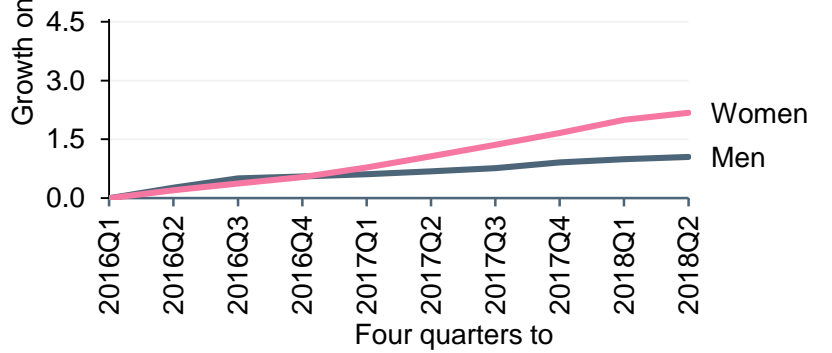
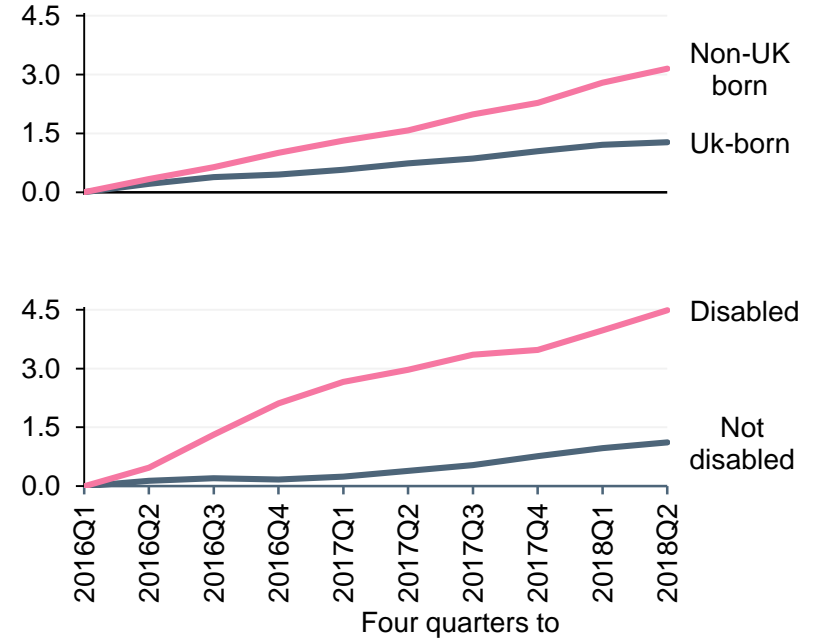
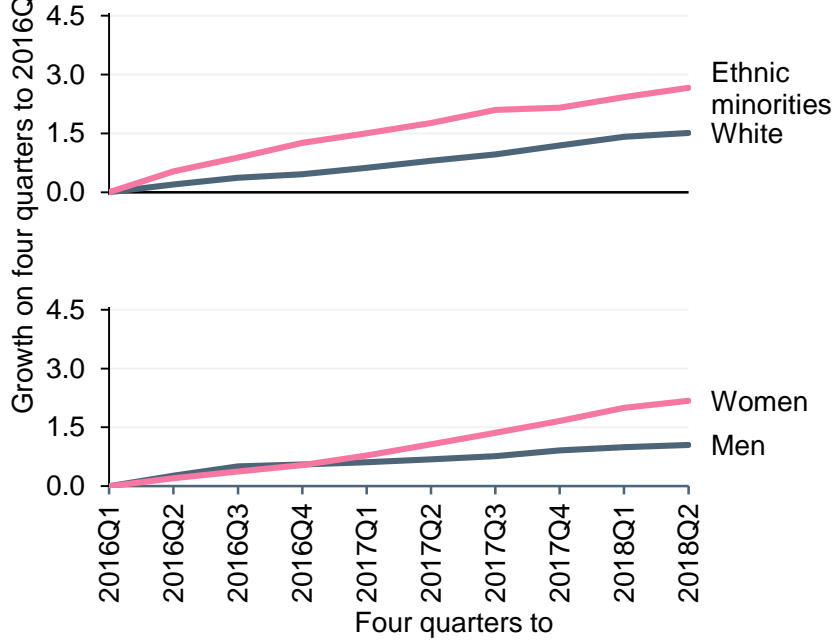
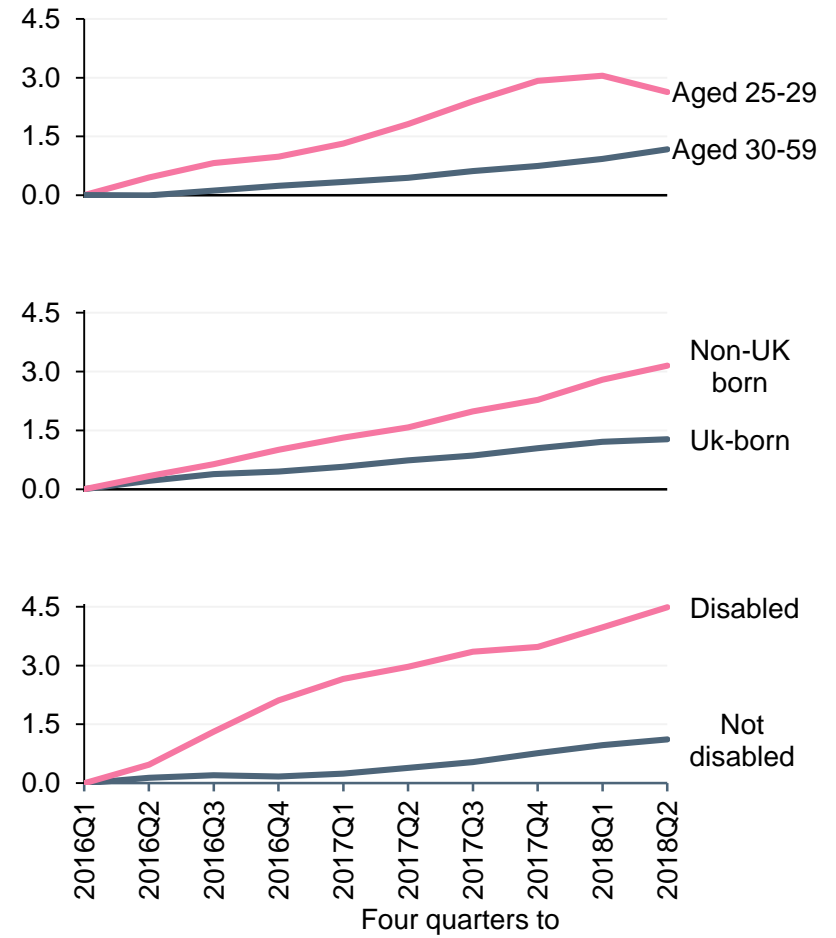
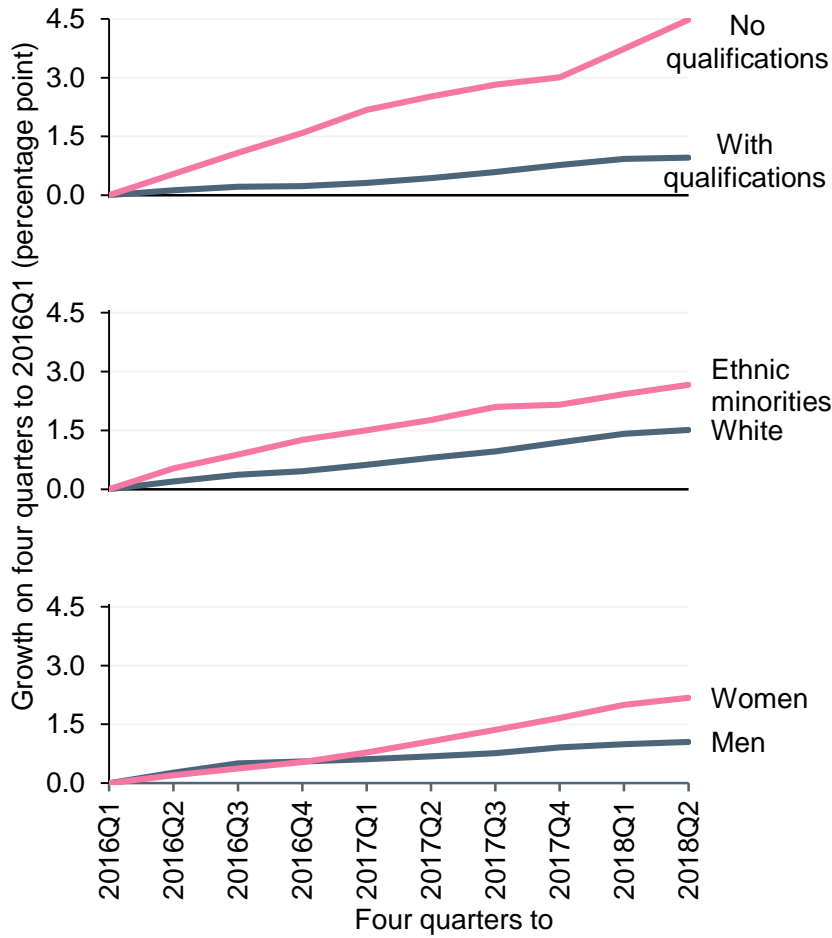
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Effects of the NLW in 2018

Anthony Lord

Joe Cooper

Employment



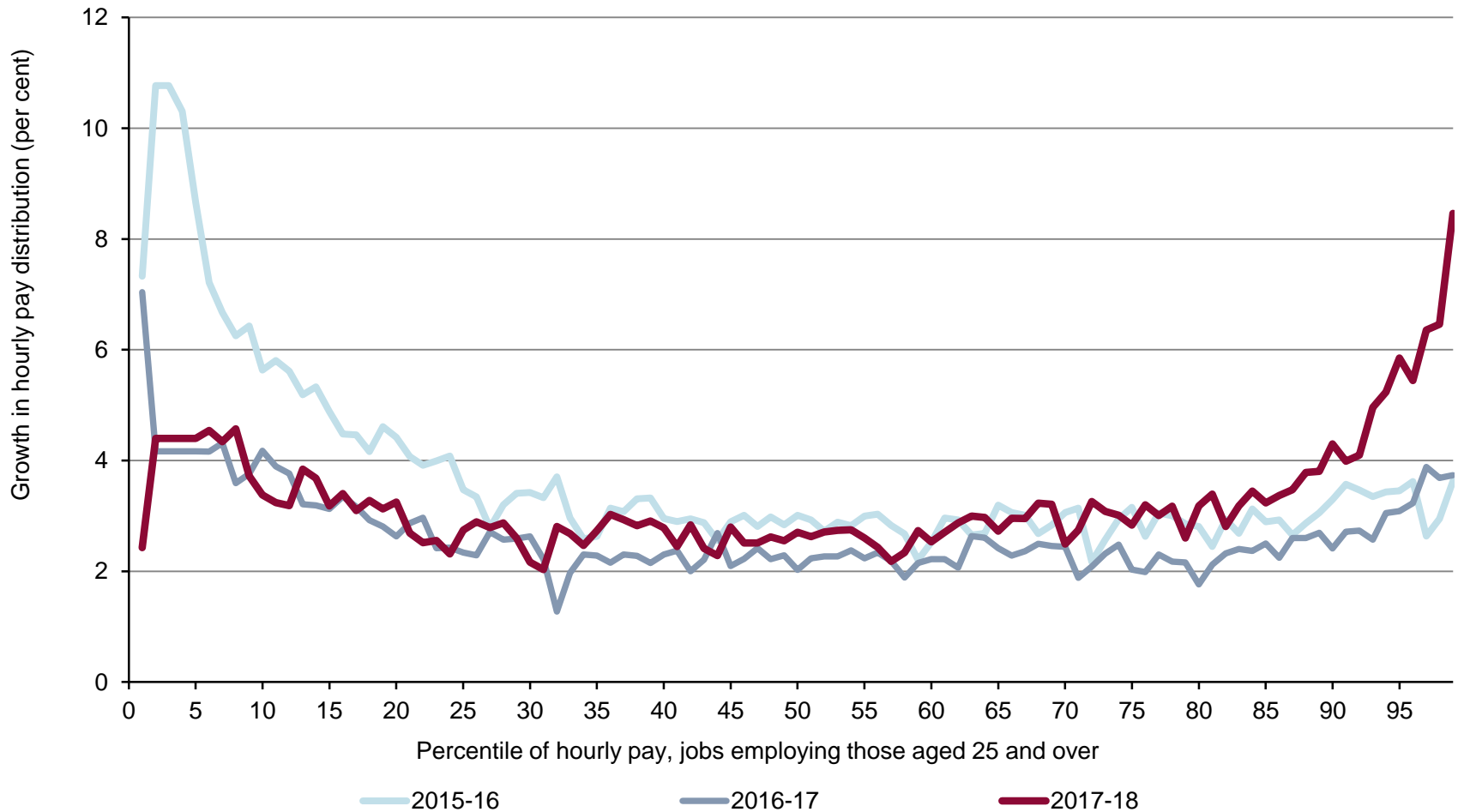
See page 77-89 of our 2018 Report for more.

Employment - Research

- Our commissioned econometric research concluded that
 1. The NLW led to significant increases in wages of the lowest paid
 2. The NLW had not led to any general negative effects on employment retention or hours.
 3. Some, not robust, small negative employment and hours effects for women who work part-time, and for some sectors and regions.
 4. Instead firms appear to have suffered lower profits and raised prices rather than increase productivity or reduce employment to cope with NLW

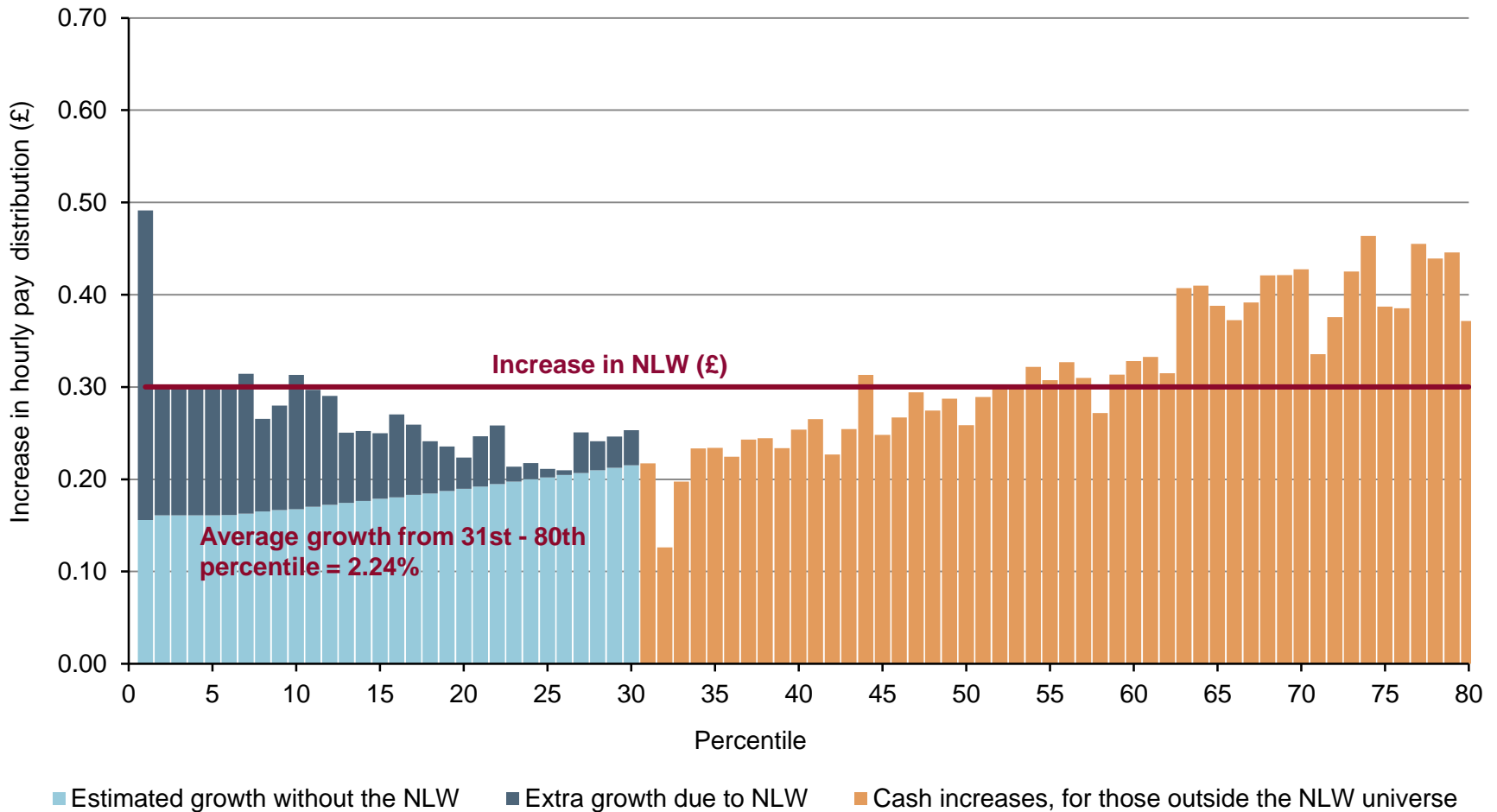
See page 77-89 of our 2018 Report for more.

Hourly earnings higher in the bottom fifth



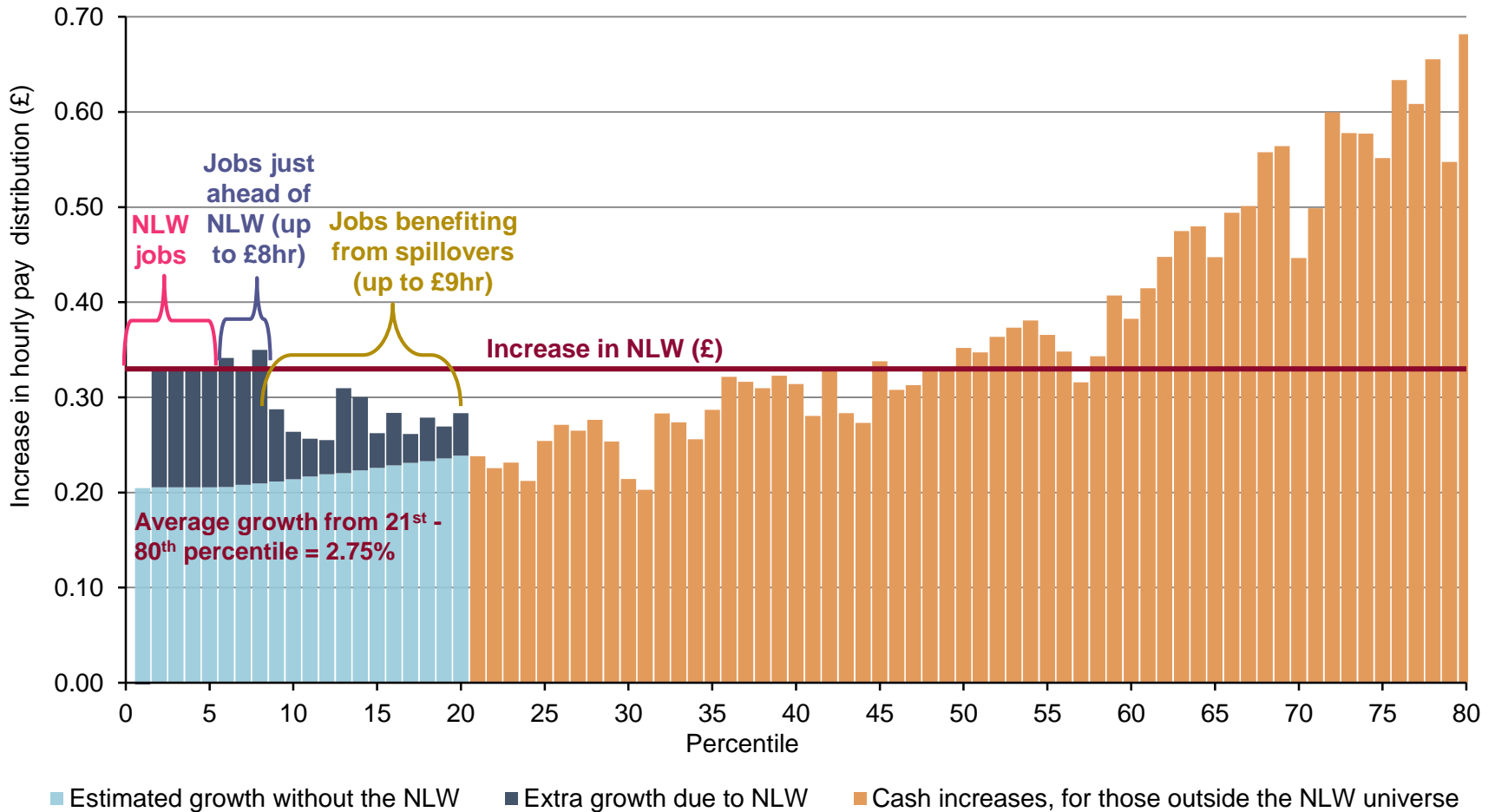
See page 47-52 and figure 2.2 of our 2018 Report for more.

Spillovers up to 30th percentile in 2017



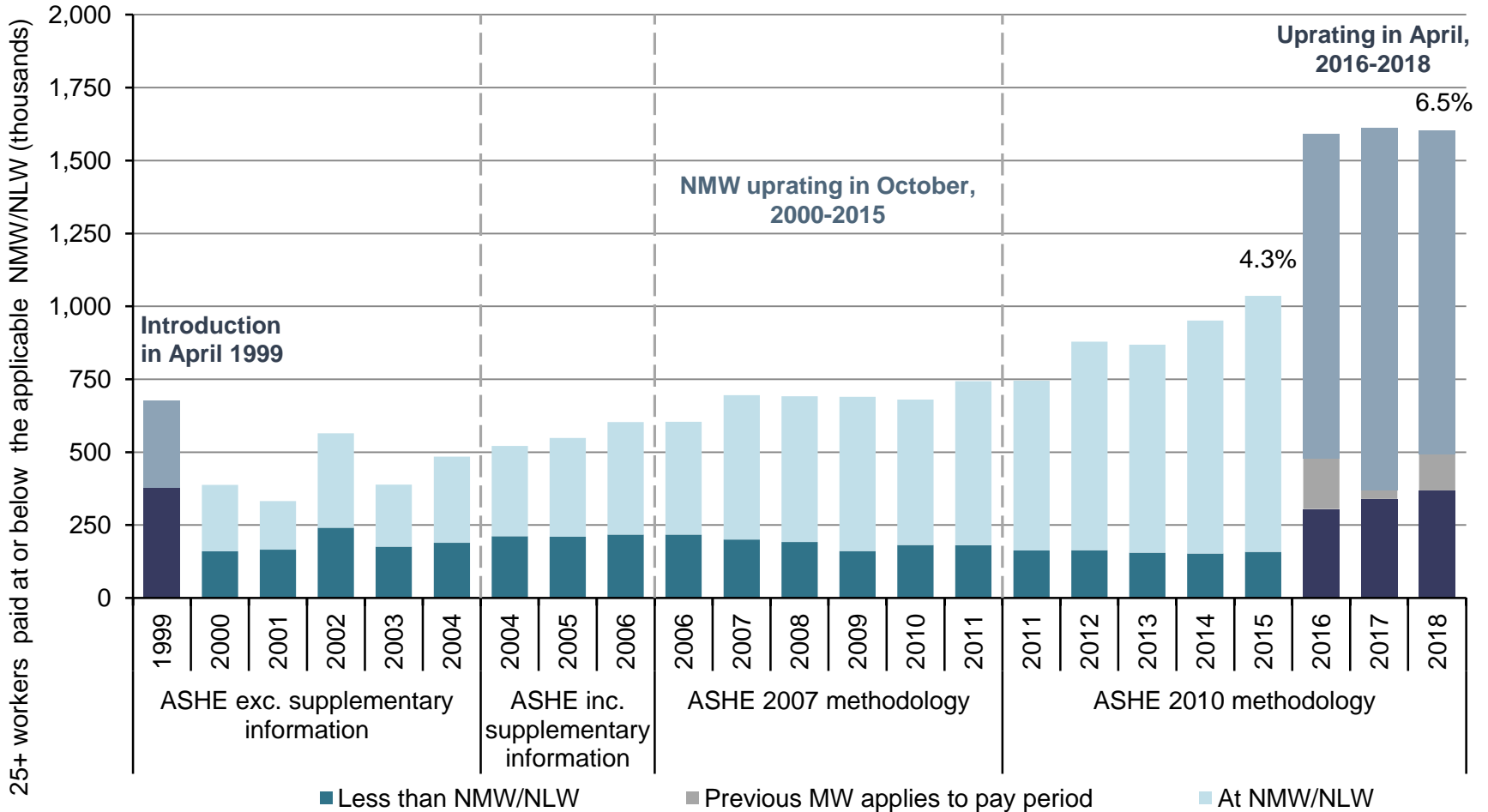
See page 67 and figure 2.16 of our 2018 Report for more.

But evidence of reduced differentials in 2018



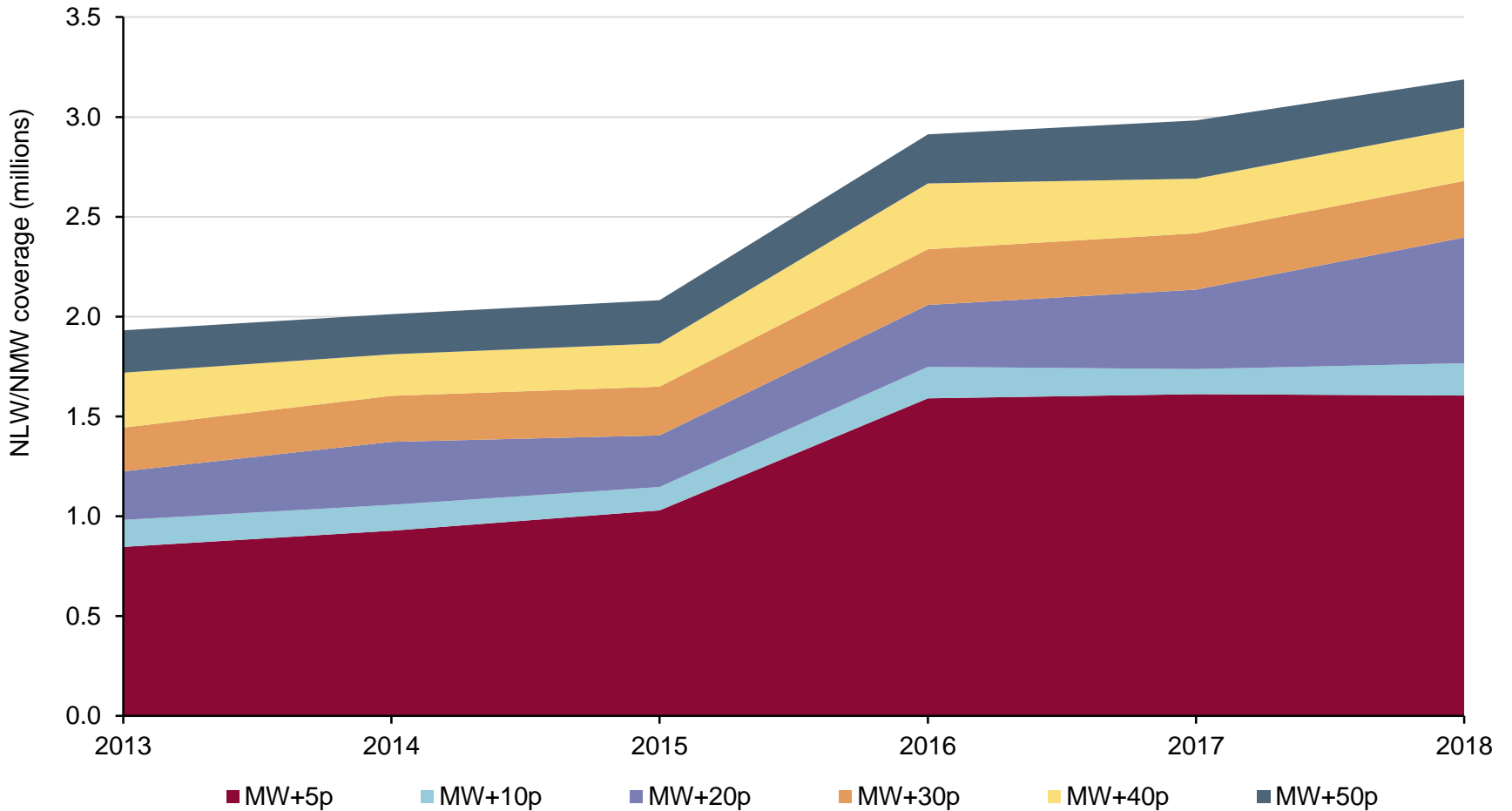
See page 66 and figure 2.15 of our 2018 Report for more.

No increase in coverage since 2016



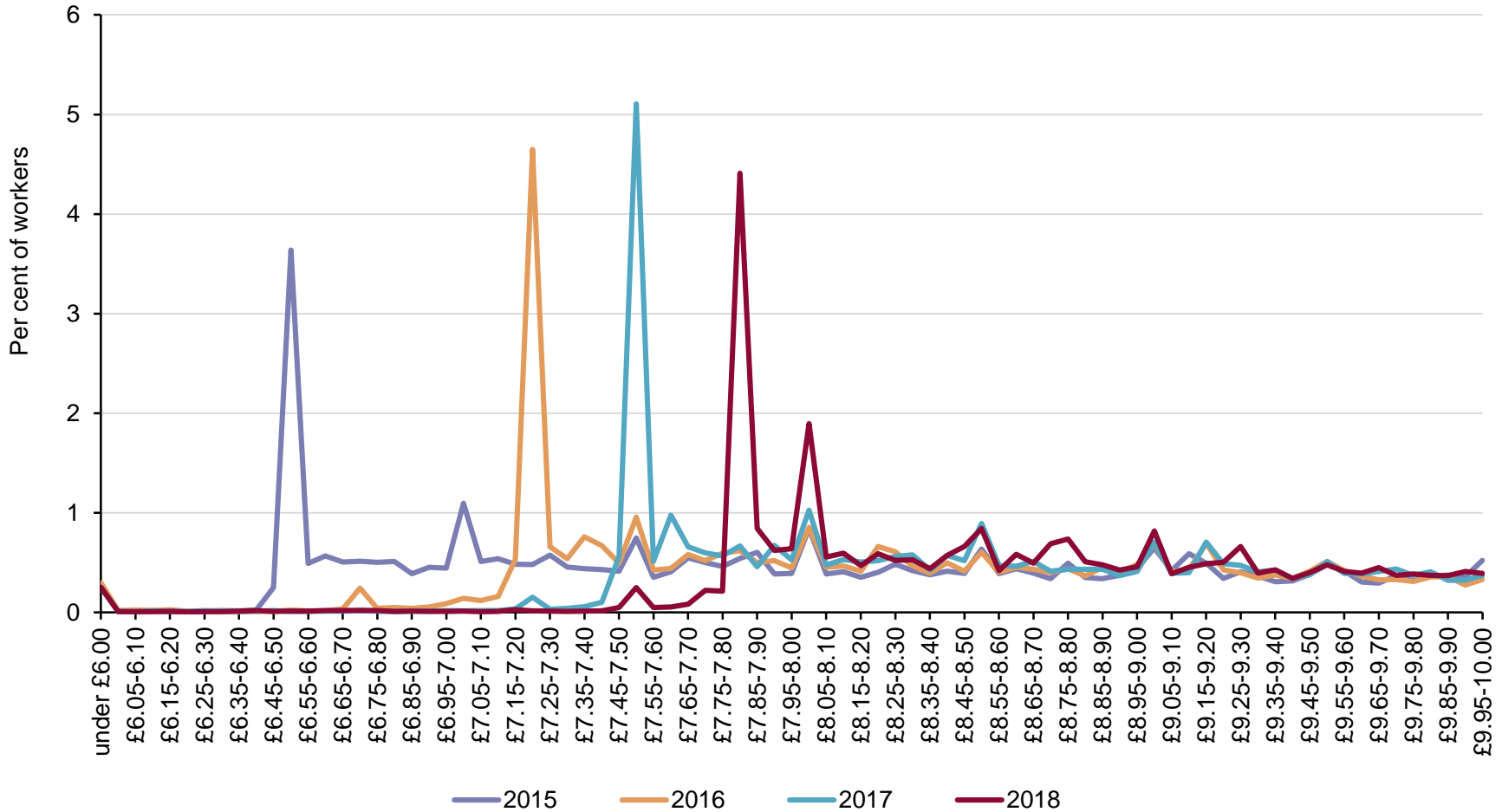
See page 58 and figure 2.9 of our 2018 Report for more.

But increasing concentration near the NLW



See page 65 and figure 2.14 of our 2018 Report for more.

Almost half a million at £8 per hour



See page 64 and figure 2.13 of our 2018 Report for more.

What does this mean in practice?

- Higher pay near the NLW.
- Reduced differentials affect workers and businesses.
- Workforce restructuring.
- Multi-skilling of workers.

See chapter 2 of our 2018 report for more.

Other stakeholder evidence

- Employers accepting reduced profits.
- Increased prices where possible.
- Some reports of employment effects.
- Some business failures/churn.
- Evidence on productivity mixed.
- Effects differ by firm size.

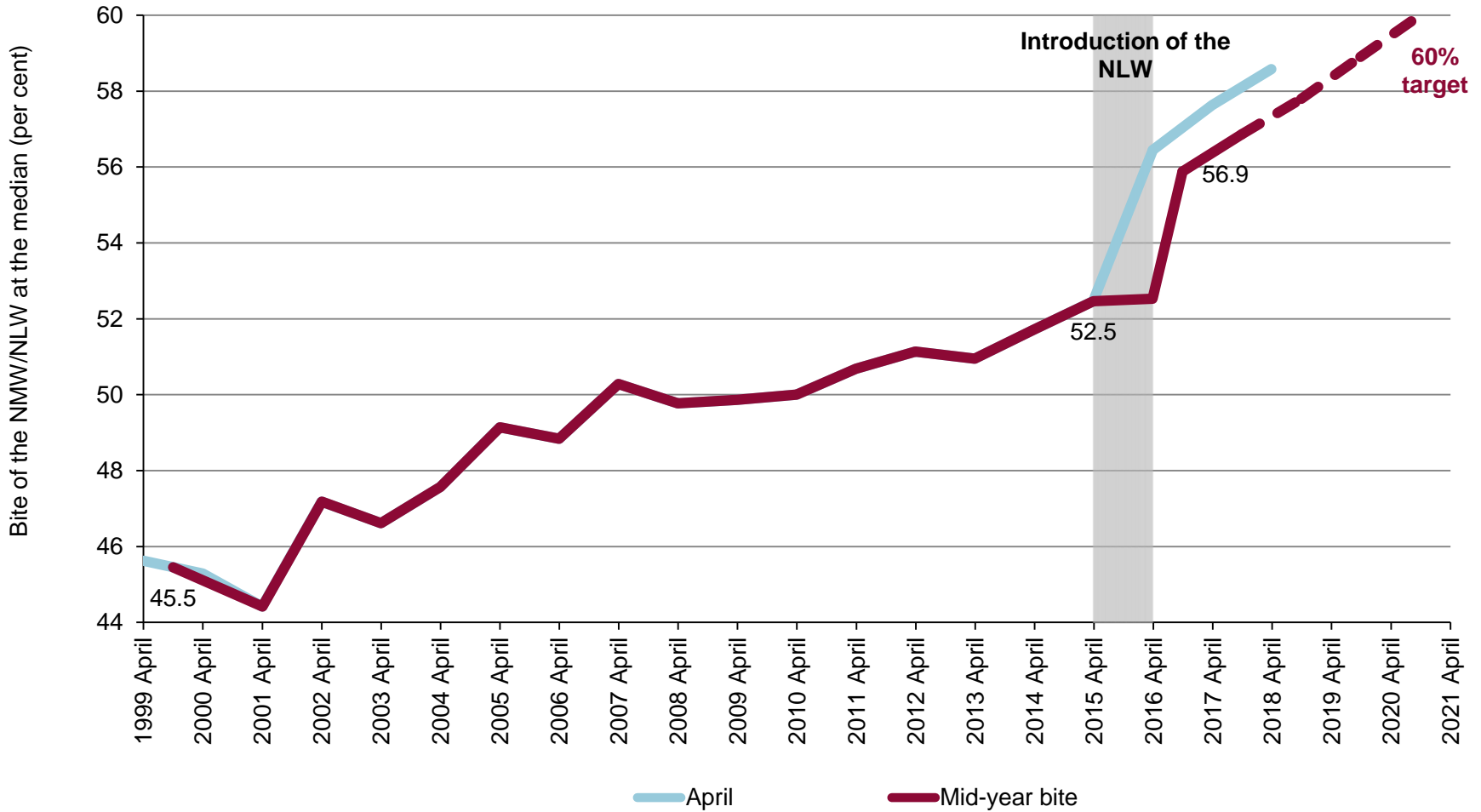
See chapter 2 of our 2018 report for more.

Future responses

- Productivity
- Workforce restructuring
- Prices

See chapter 5 of our 2018 report for more.

NLW bite



See page 52 and figure 2.5 of our 2018 Report for more.

Future focus

- Coverage: what happens to those paid £8 an hour?
- Differentials: what will employers do?
- Employment: will we see effects?
- Employer responses
- Progression and productivity

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Young people

Helen Connolly

Key considerations for the youth rates

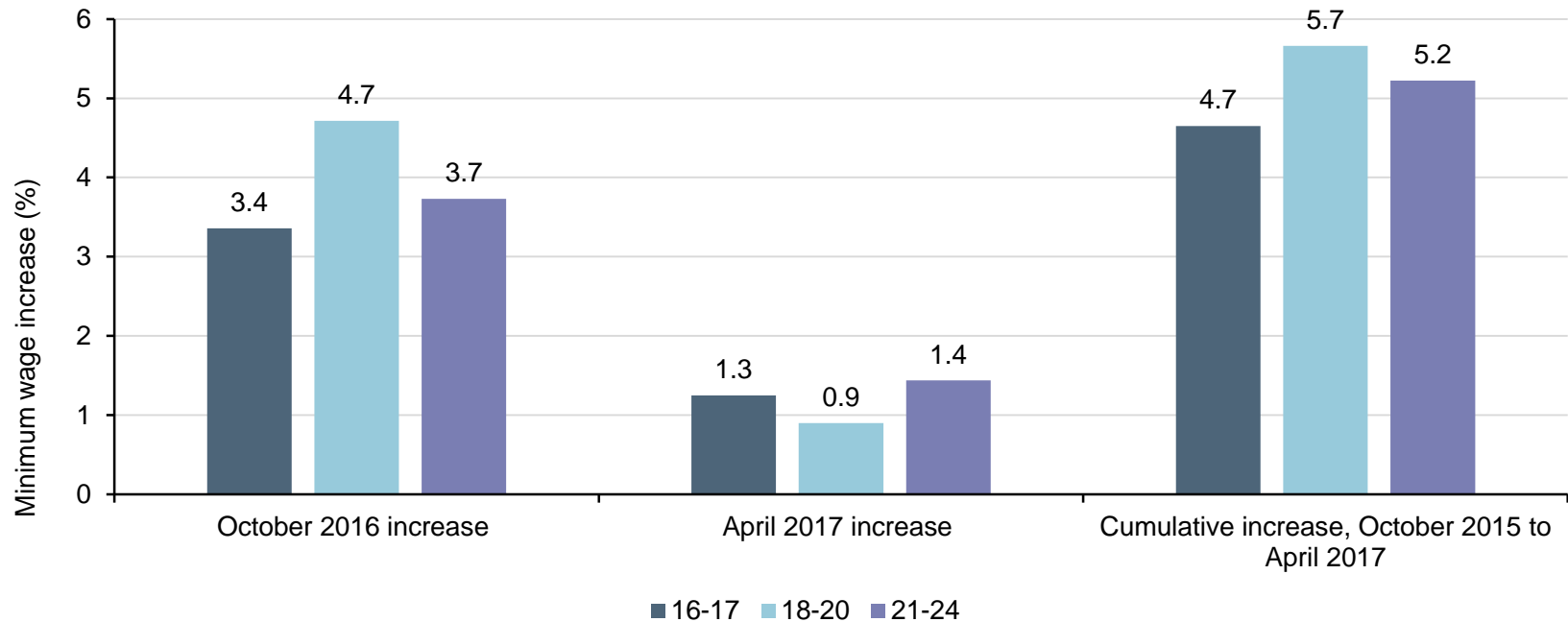
The youth labour market:

- The impact of past increases.
- Employment and unemployment over the last year.
- The population not in education, employment or training (NEET).
- Underemployment.

Pay:

- Pay growth
- The bite of the youth rates
- Employer's use of the rates

The move to an April uprating cycle necessitated two increases over 18 months.



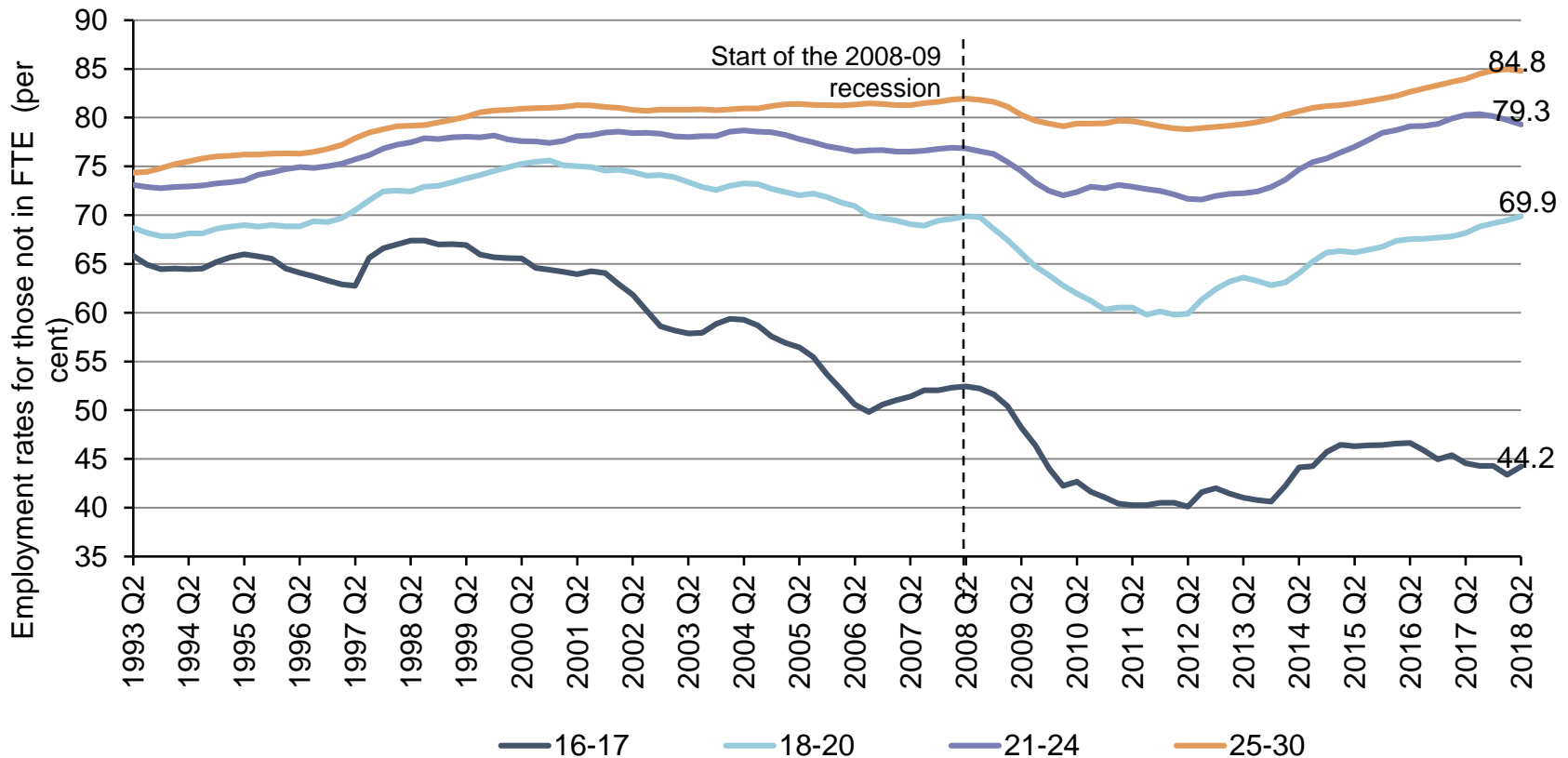
See page 102 and figure 3.1 of our 2018 report for more.

Labour market data give no clear evidence of negative employment effects.

Over the 18 months to March 2018.....

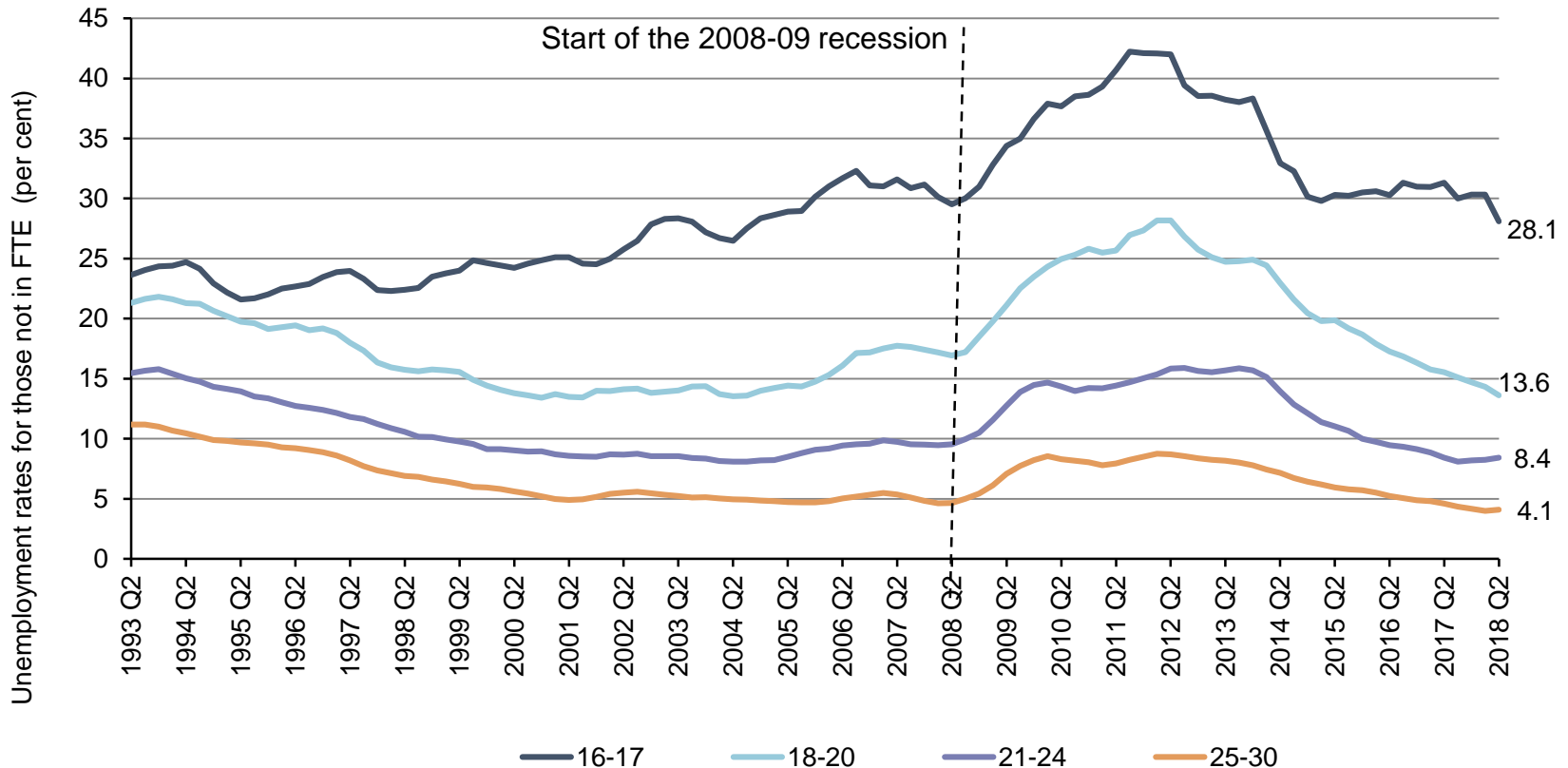
- **18-20 year olds** (not in FTE) saw **falling unemployment** and **rising employment**.
- **21-24 year olds** (not in FTE) saw **falling unemployment** and **stable employment**.
- **16-17 year olds** (not in FTE) saw **falling unemployment** and **falling employment** (but most are in full-time education).

Employment rates at pre-recession levels, or above, for 18-20 and 21-24 year olds.



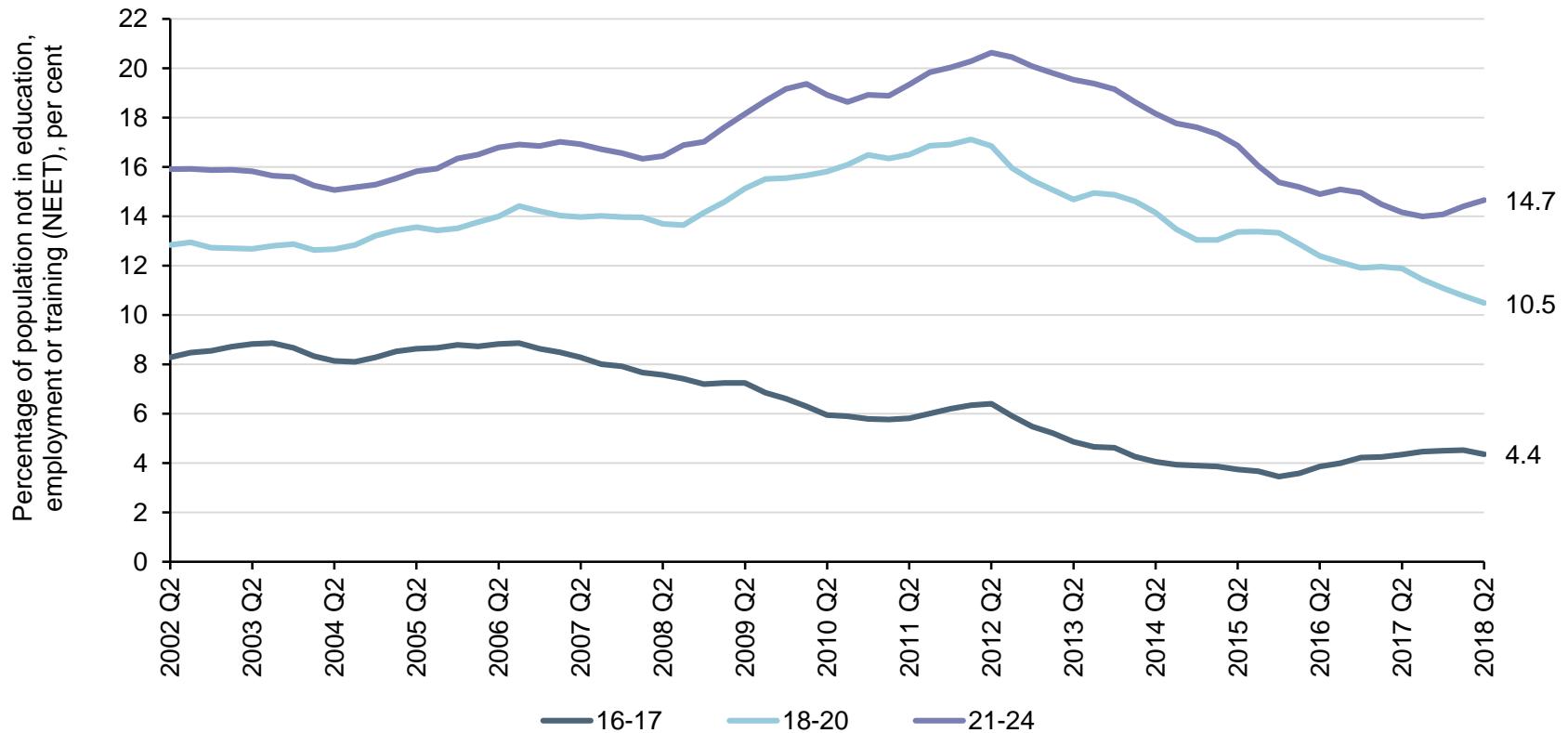
See page 109 and figure 3.8 of our 2018 report for more.

Unemployment rates at pre-recession levels, or lower, for all ages.



See page 110 and figure 3.9 of our 2018 report for more.

The population not in education, employment or training (NEET) is now at its lowest recorded level.



See page 111 and figure 3.10 of our 2018 report for more.

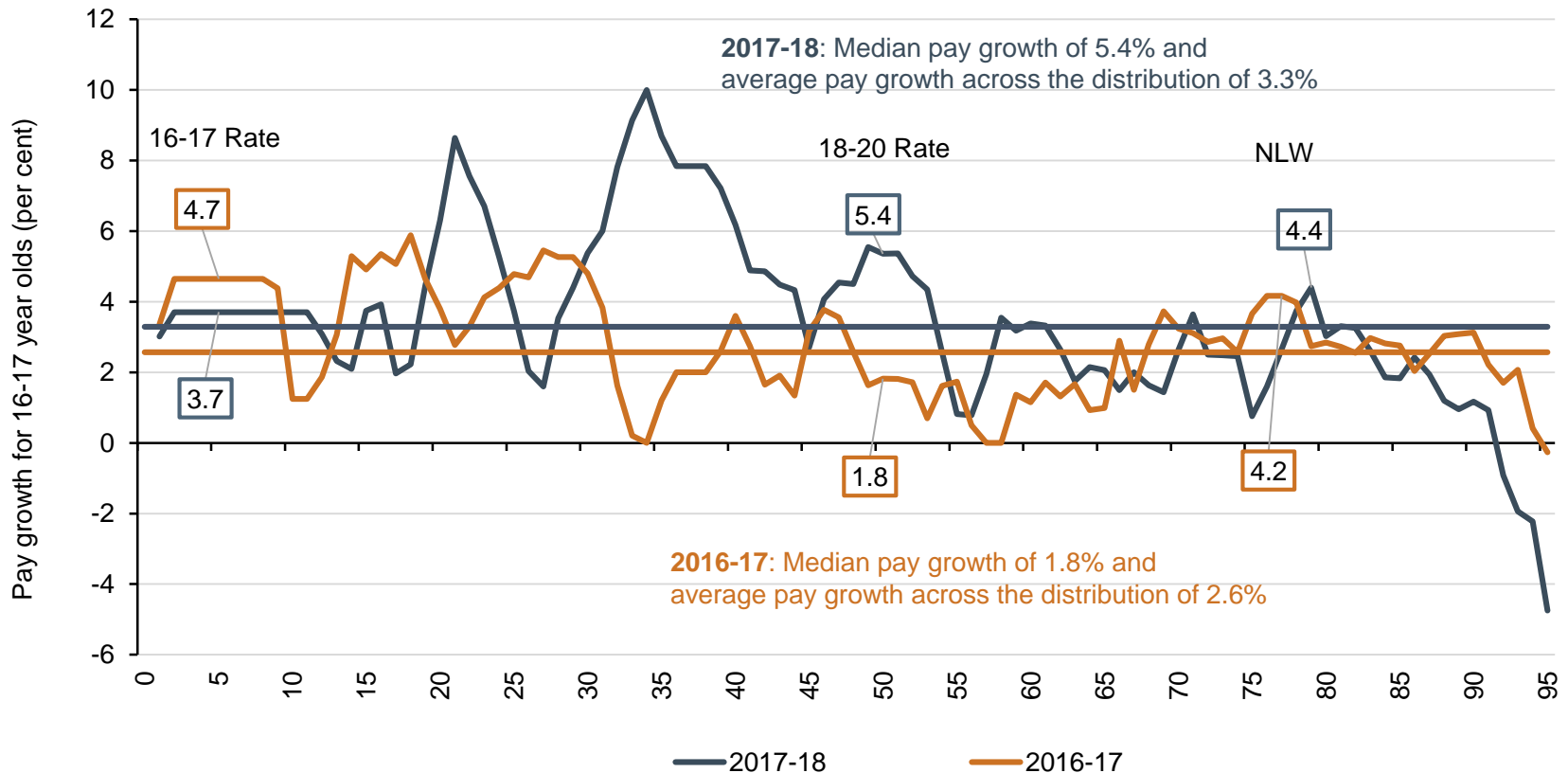
Underemployment rates fell over the year, and young people saw the greatest falls.

Age	Underemployment, 4-quarter rolling average					Annual change in underemployment Q2 2017- Q2 2018	
	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	pp	%
16-17	18.6	18.6	18.4	17.2	16.8	-1.8	-9.8
18-20	19.6	19.4	19.0	18.6	18.5	-1.1	-5.4
21-24	13.9	13.5	13.4	13.0	13.0	-0.9	-6.2
25-64	7.3	7.2	7.2	7.1	7.0	-0.3	-3.9

Source: LPC analysis of LFS microdata, 4-quarter rolling average, using ONS underemployment method

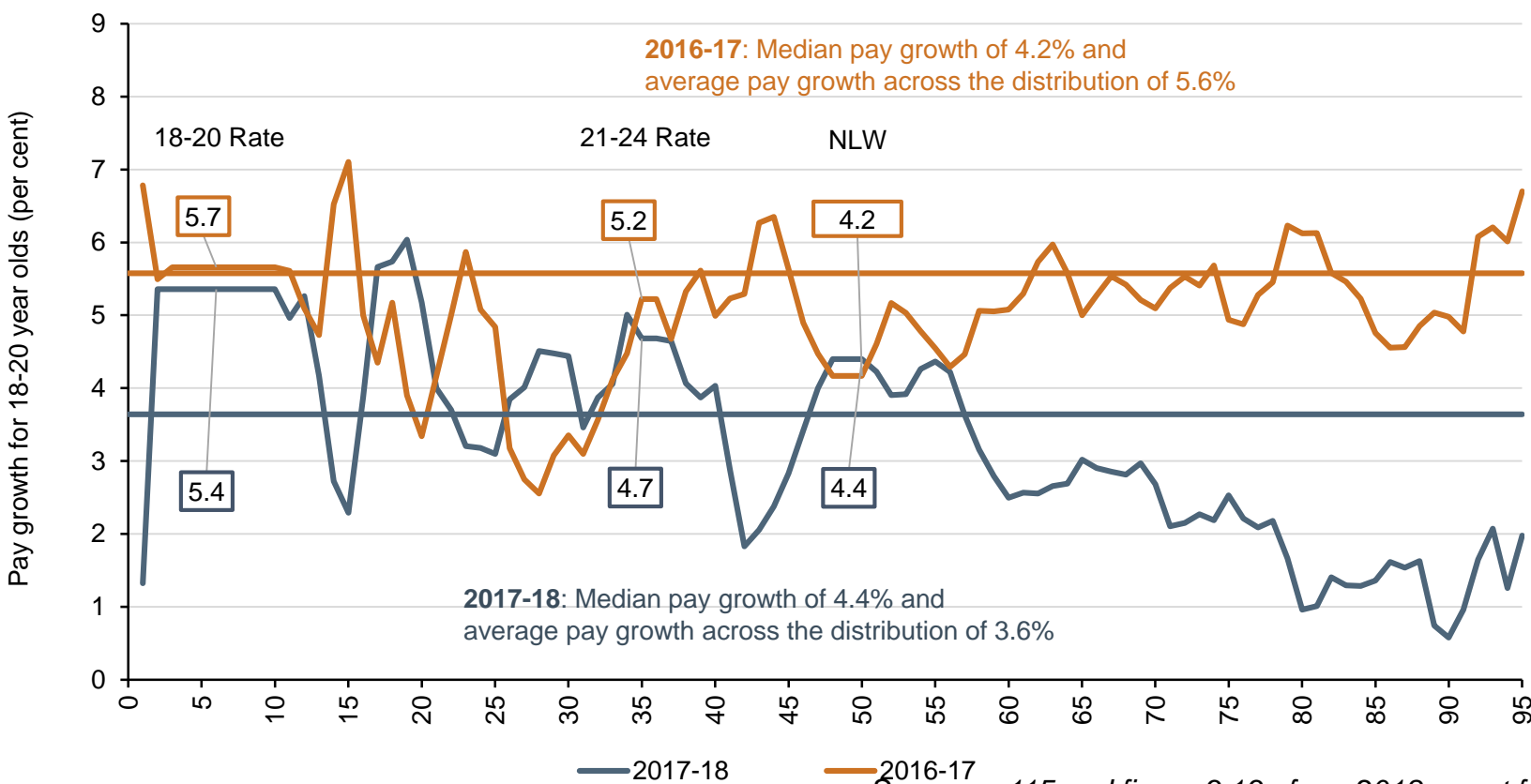
See page 111 of our 2018 report for more.

Strong pay growth for 16-17 year olds, at the median (and below). Average wage growth of 3.3 per cent. **Stronger than last year.**



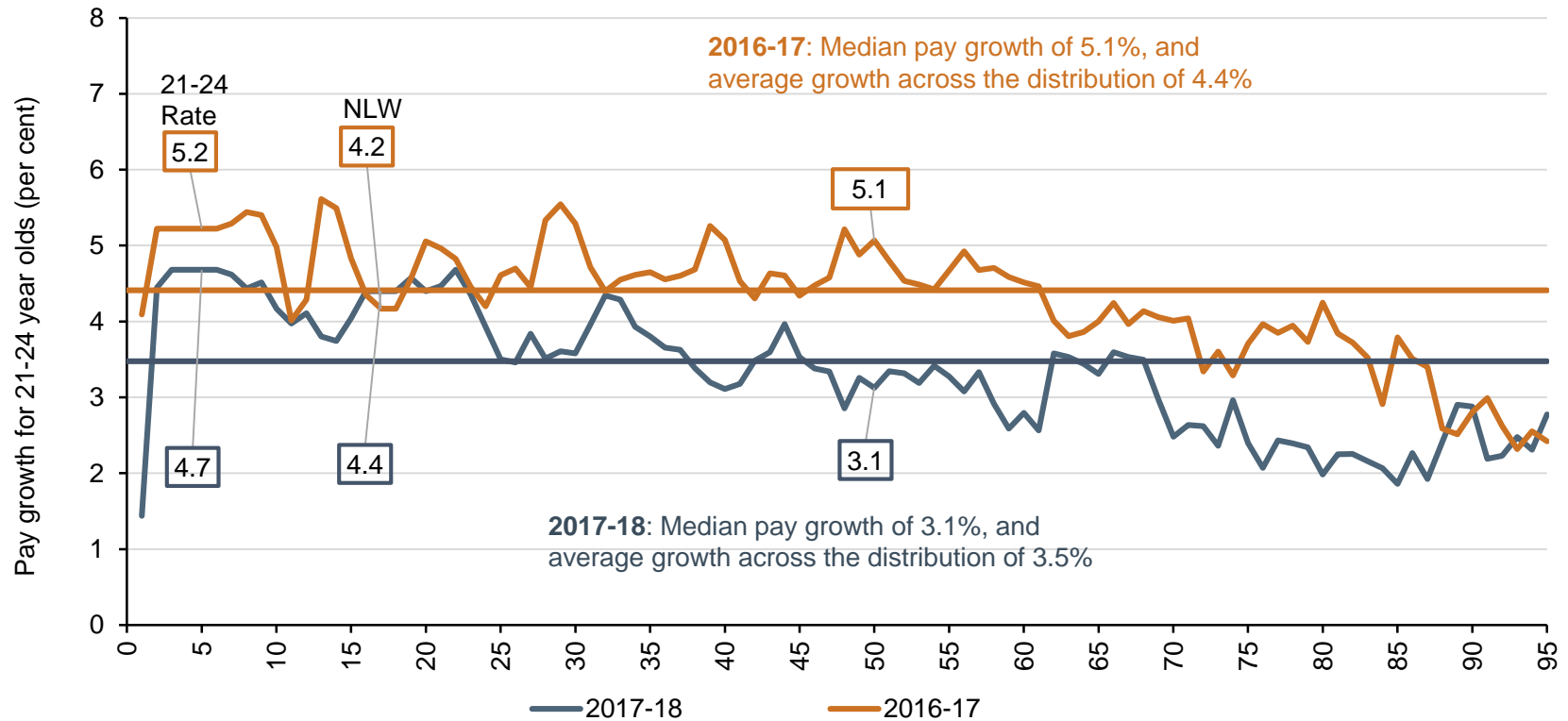
See page 114 and figure 3.12 of our 2018 report for more.

Strong pay growth for 18-20 year olds, at the median (and below). Average wage growth of 3.6 per cent. **Weaker than last year.**

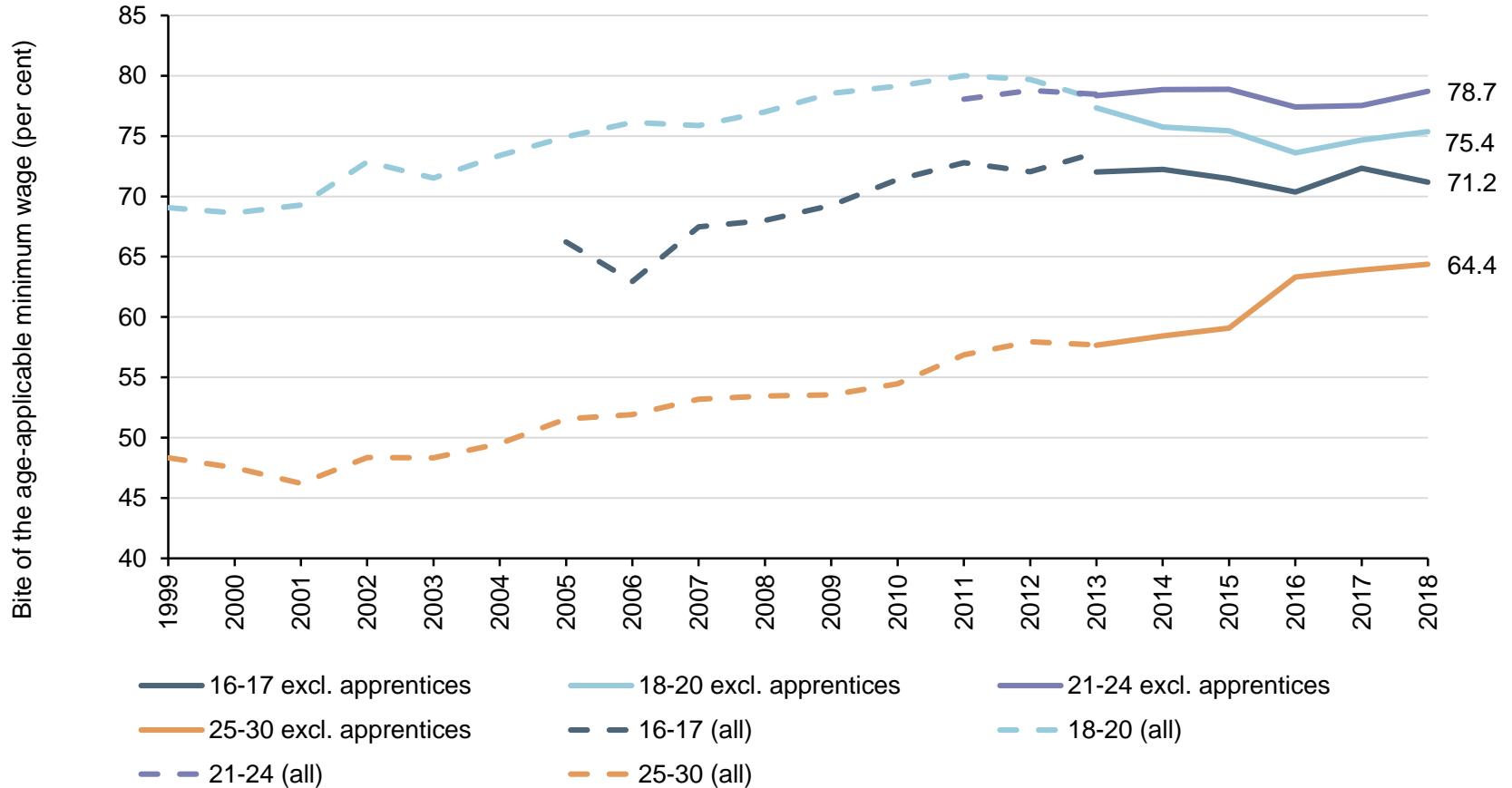


See page 115 and figure 3.13 of our 2018 report for more.

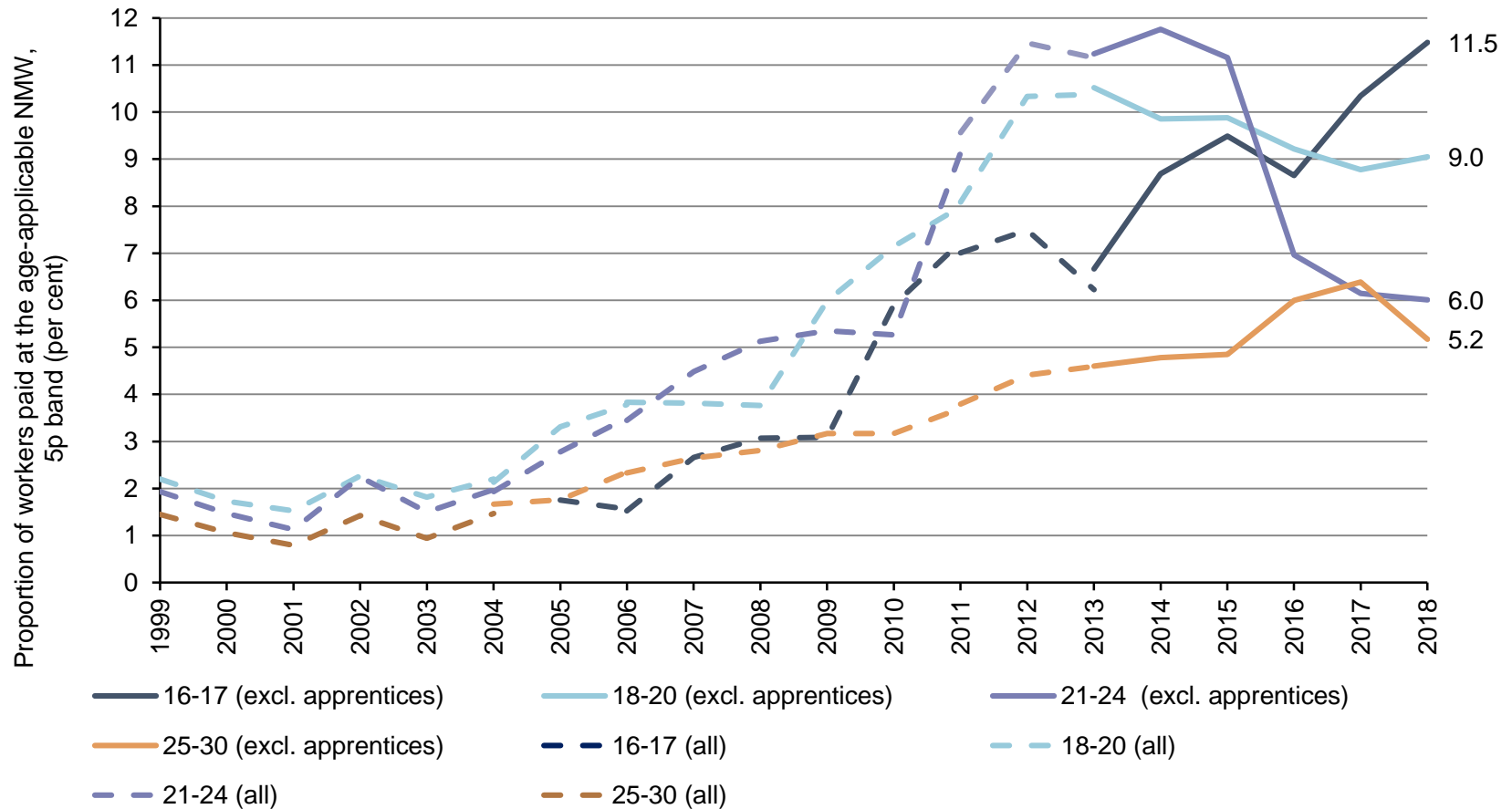
Modest pay growth for 21-24 year olds. Stronger below the median, where NMW was paid. Average growth of 3.5 per cent. **Weaker than last year.**



Stable bites for the youth rates since 2013, despite the changed uprating cycle.



Stable use of the youth rates, and below peak, except for the 16-17 Year Old Rate.



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Apprentices

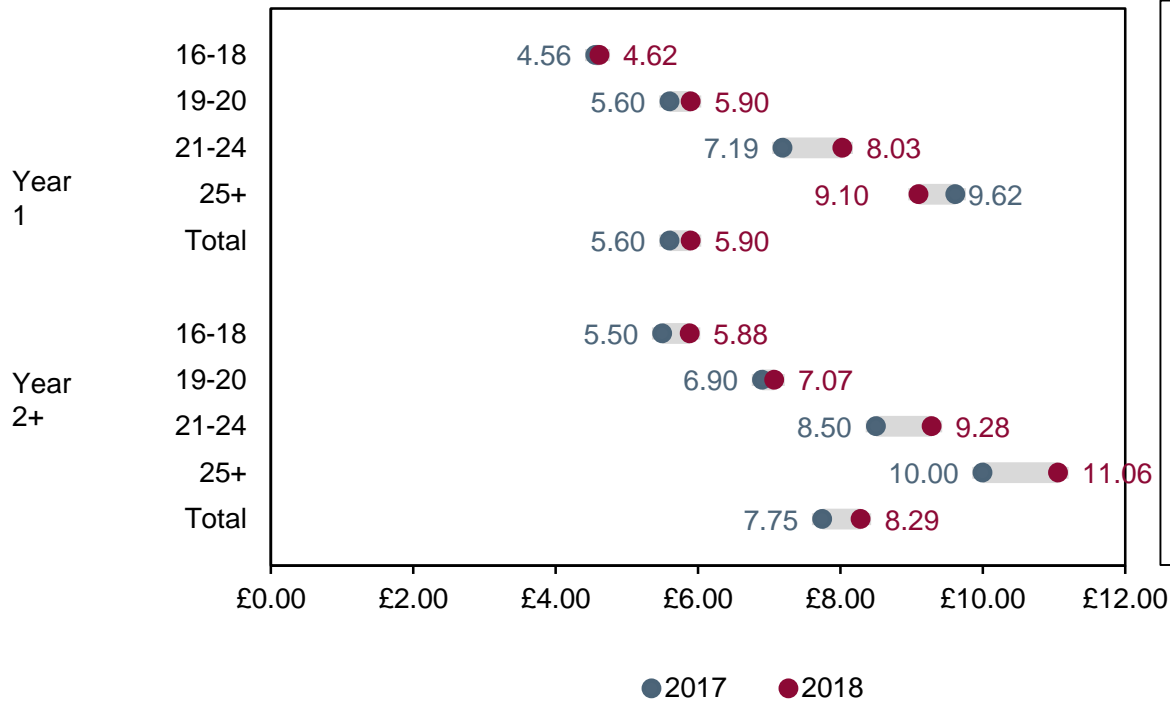
Joseph Wilkinson

The story on apprenticeship starts

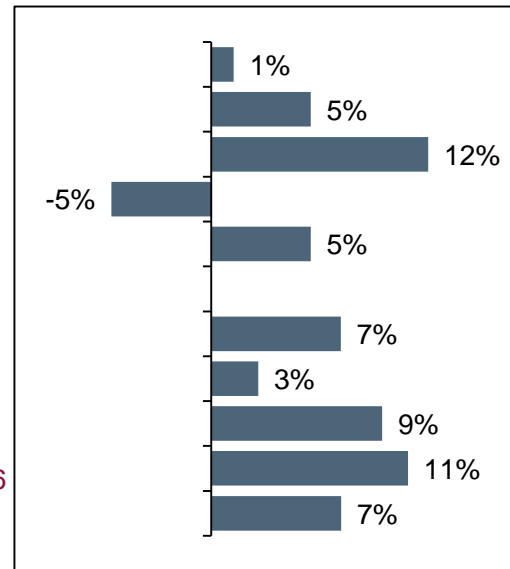
	Jul 15 – Jun 16	Jul 16 – Jun 17	Jul 17 – Jun 18	Percentage change over 12 months	Percentage change over 24 months
Level 2	292,300	274,600	157,900	-42%	-45%
Level 3	190,100	206,000	157,500	-23%	-17%
Level 4+	26,800	37,600	43,500	+16%	+62%
Under 19	131,900	124,800	105,400	-16%	-20%
19-24	154,200	148,200	108,500	-27%	-30%
25+	222,700	245,400	145,100	-41%	-35%
Total	509,100	518,100	359,200	-31%	-29%

The story on apprentice pay

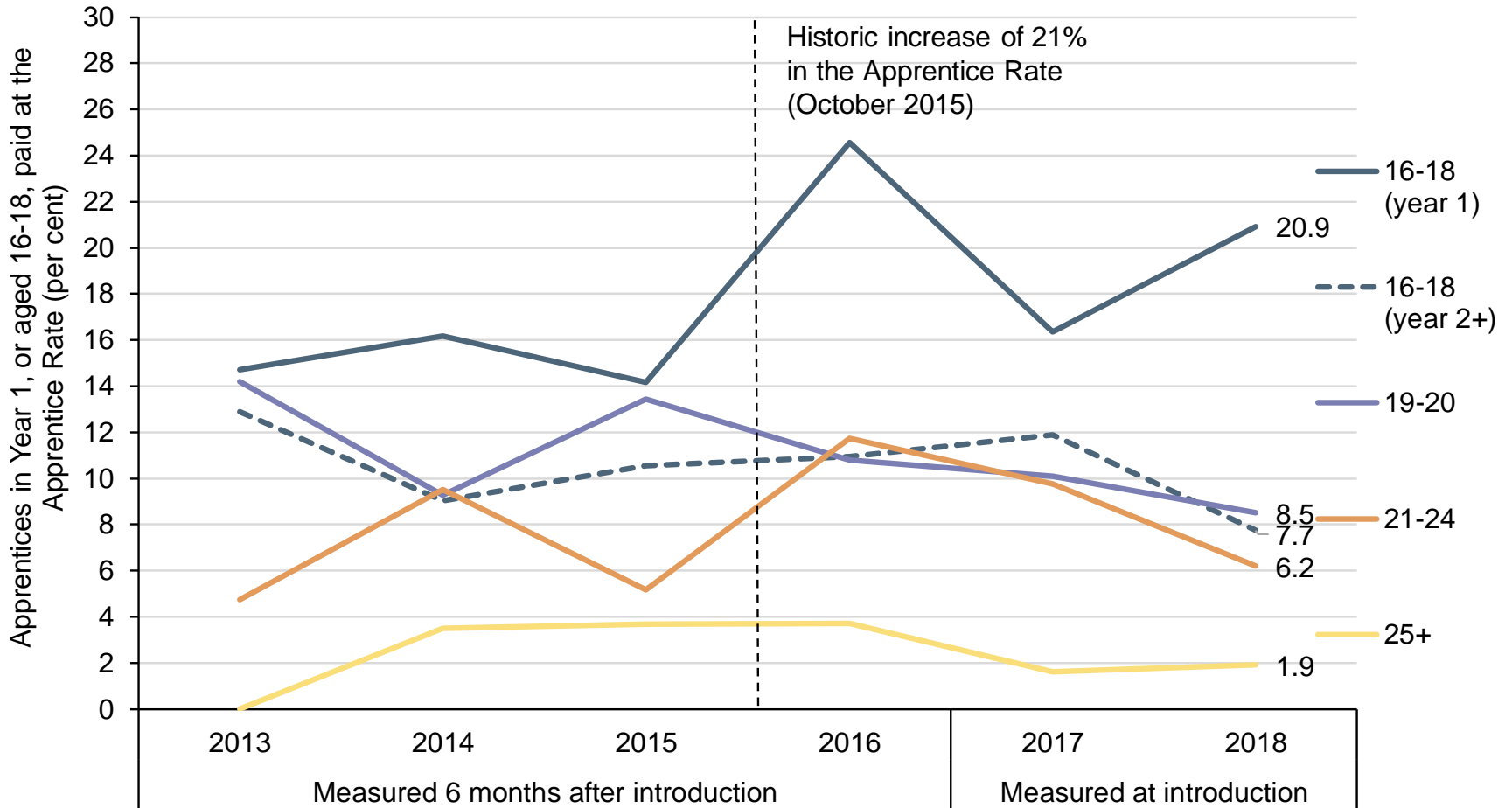
Median hourly earnings 2017 and 2018



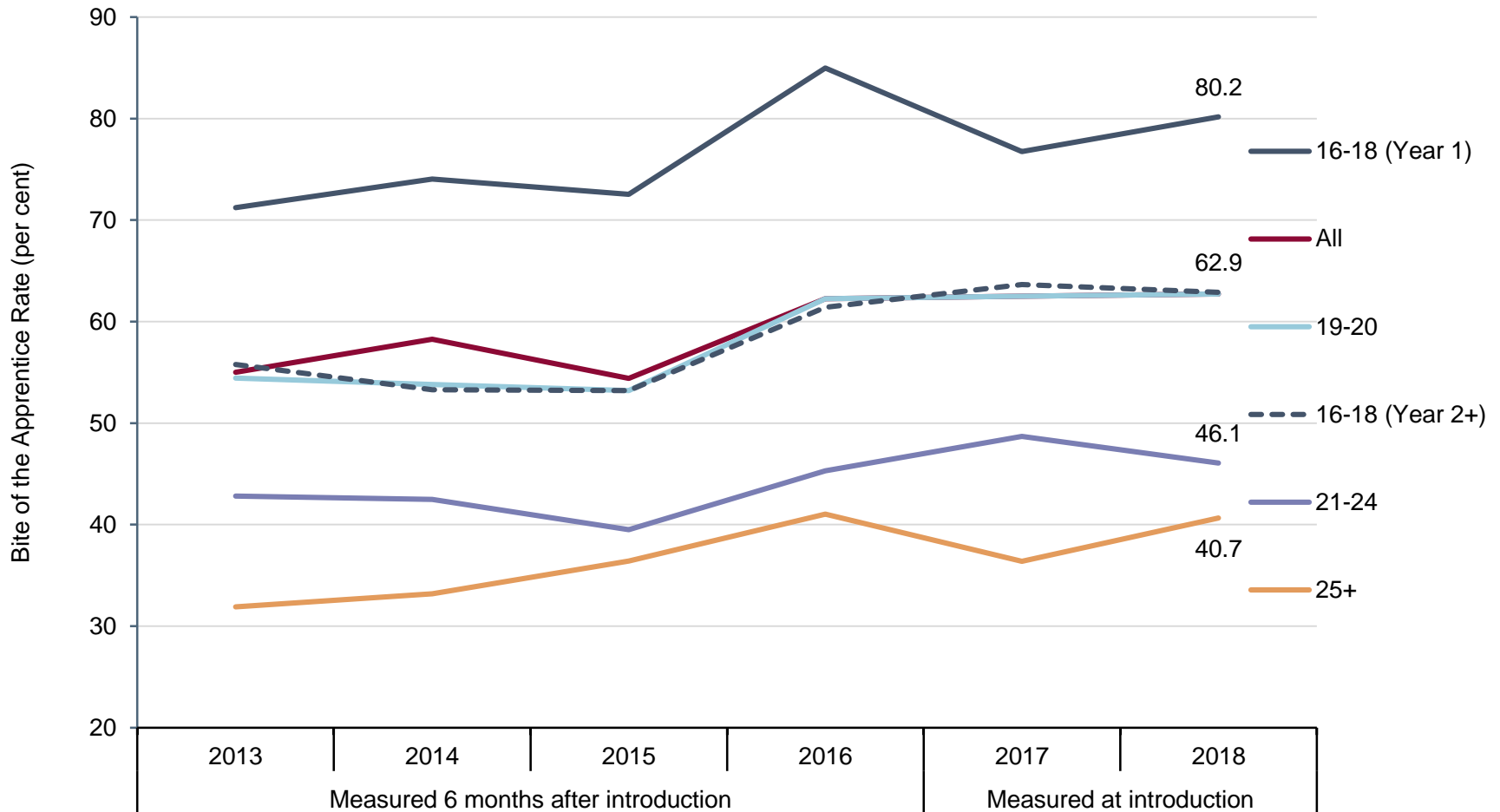
Percentage change



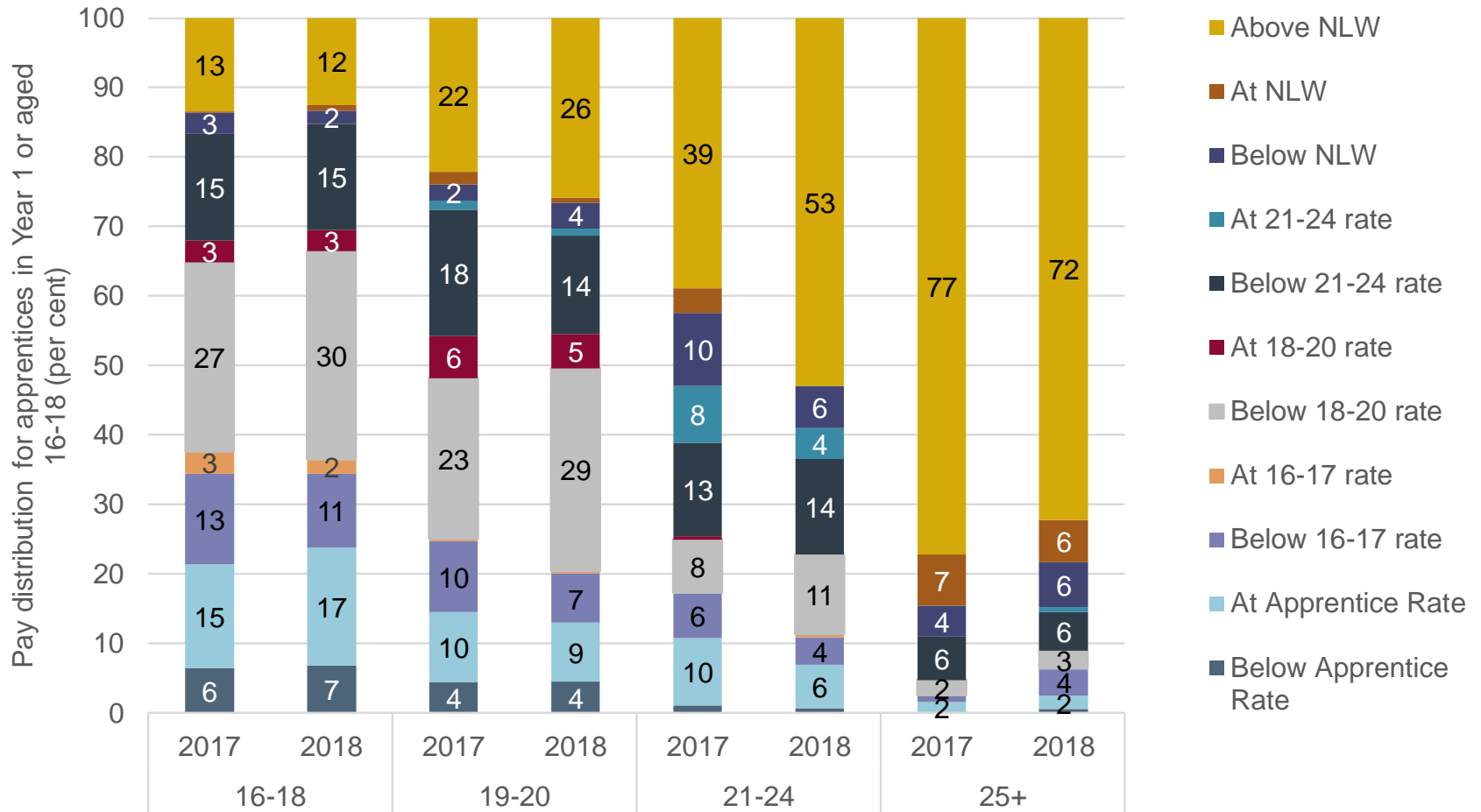
Use of the Apprentice Rate



Bite of the Apprentice Rate



Apprentice pay across the distribution



**National
Minimum
Wage**



Low Pay Commission

Questions

Rate recommendations

Rate	Apr-2018	Apr-2019	Annual Penny increase	Annual increase (per cent)
National Living Wage	£7.83	£8.21	38p	4.9
21-24 Year Old Rate	£7.38	£7.70	32p	4.3
18-20 Year Old Rate	£5.90	£6.15	25p	4.2
16-17 Year Old Rate	£4.20	£4.35	15p	3.6
Apprentice Rate	£3.70	£3.90	20p	5.4
Accommodation Offset	£7.00	£7.55	55p	7.9

[www.gov.uk/government/publications/
national-minimum-wage-low-pay-
commission-2018-report](https://www.gov.uk/government/publications/national-minimum-wage-low-pay-commission-2018-report)