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Department for Business, Energy and Industrial Strategy

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Dear Secretary of State,

NATIONAL MINIMUM WAGE RATES FOR 2020 INCLUDING THE NATIONAL LIVING WAGE

I write to you today with the Low Pay Commission's (LPC) recommendations for the rates of the National Minimum Wage (NMW) and National Living Wage (NLW) to apply from April 2020, as well as summarising the key evidence supporting the rationale for our recommendations. These recommendations are the agreed view of the whole Commission. We recommend that the following rates apply from 1 April 2020:

	2020 rate	Annual increase (£)	Annual increase (%)
National Living Wage	£8.72	0.51	6.2
21-24 Year Old Rate	£8.20	0.50	6.5
18-20 Year Old Rate	£6.45	0.30	4.9
16-17 Year Old Rate	£4.55	0.20	4.6
Apprentice Rate	£4.15	0.25	6.4
Accommodation Offset	£8.20	0.65	8.6

Our remit is to recommend the rate of the NLW consistent with reaching the target of 60 per cent of median earnings by October 2020, subject to sustained economic growth. For the other rates of the NMW our remit is to recommend as high a rate as possible without damaging employment. In making these recommendations we take account of the state of the economy, employment and unemployment levels and relevant policy changes. We also speak with a wide range of employers, workers and their representatives across the country, this is essential for understanding how employers are responding to the NLW and the impact it has on workers' lives.

The Commission concluded that the economic and employment picture, while less positive than for other recent rises in the NLW, was strong enough to justify moving to 60 per cent of median earnings in 2020. The bar of sustained economic growth was more narrowly reached than in previous years.

We met in particularly uncertain times. There remains a possibility of a no deal Brexit which forecasts suggest could damage the economy. In the event of a no deal Brexit, the Government has stated that "action to support the economy, businesses and households" may be required promptly. In this case, we would advise the Government appropriately on minimum wage policy.

As we set out in our advice to the Government for our remit beyond 2020, it is important that the LPC maintains the flexibility to respond to economic circumstances in an increasingly volatile global climate.

Our advice on all the rates and their rationale is summarised below, though our full report on this will be published shortly.

National Living Wage

For the NLW our remit is to make recommendations on the pace of increase towards a target. The Government's objective is for the NLW to reach 60 per cent of median earnings by 2020, subject to sustained economic growth.

Our core decision therefore is whether the sustained economic growth threshold has been met. This bar was more narrowly reached than in previous years. The latest Office for National Statistics data for GDP growth suggest that it has been reached, growing at a rolling four-quarter average of 1.6 per cent up to the second quarter of 2019, which is within the range of forecasts available last autumn (1.5-1.8 per cent).

As the year has progressed and we approach the 31 October deadline for leaving the EU, global growth has weakened and uncertainty about our future trading relationships has adversely affected investment. However, the latest forecasts available to us suggest that GDP will have grown by around 1.2 per cent in 2019 and will continue to grow by 1.0-1.2 per cent in 2020 as consumer spending and increased government spending offset the effects of weaker global growth and Brexit-related uncertainty. We judged that this met the condition of sustained growth. We should note that these forecasts are based on assumptions of a Brexit deal with a smooth transition over the period in which our recommendations will apply.

The labour market has continued its strong performance, reaching record high employment rates and record low unemployment rates during the year. Growth in employment in 2019 has easily surpassed forecasts, with the number of jobs growing at 1.8 per cent against expectations of 0.4-0.6 per cent.

While the labour market has performed well, there are some areas where conditions are softening. Underemployment, where workers want more hours in their current role than are currently available, has fallen continuously for several years. Yet it remains above its pre-crisis level and its decline appears to have stalled in recent months. Furthermore, jobs growth has slowed and the number of job vacancies in the economy appears to have begun to fall across a range of different-sized employers.

However, our analysis and econometric research show that the NLW has led to a large increase in the wages of the lowest-paid without significant negative effects on employment or hours. Instead, employers appear to have responded to the introduction and subsequent upratings of the NLW by increasing prices, accepting a squeeze on profits, and reducing differentials and non-wage benefits. In responses to our consultation, we heard that some businesses were finding the increased costs of the NLW particularly challenging and that small businesses in general may have less scope to manage these.

While employment levels have been a positive feature of the UK labour market for several years, earnings growth has not. So it is encouraging to see that over the last year or so there has been an increase in nominal pay growth so that it is now close to pre-financial crisis norms. According to the Annual Survey of Hours and Earnings (ASHE), hourly pay for those aged 25 and over grew by 3.5 per cent, which is very similar to the growth recorded by the ONS's Average Weekly Earnings measure of 3.6 per cent, and higher than last year's 2.5 per cent.

Growth in weekly pay, which is a better measure of living standards, also accelerated to 3.3 per cent. This was particularly the case for those at the lower end of the weekly pay spectrum. NLW workers saw their weekly pay increase by 6.2 per cent, which is higher than the increase in the NLW, suggesting that hours worked amongst this group also increased.

Over the last few years, pay has grown faster at the bottom of the pay distribution, driven by the higher (than average pay) increases in the NLW and their spillover effects to workers paid just above the NLW. However, this year the increase in pay has been much more broad-based, with less of a distinction between those at the bottom and those in the middle.

As forecast, the rate of inflation has fallen back as the effects of the depreciation of sterling in 2016 unwound. Indeed, the latest data suggest that it has fallen below target to 1.7 per cent. With nominal average earnings strengthening, real wage growth has increased to around 2 per cent. However, real wage levels still remain below their pre-crisis levels.

Taking all of this into account, we recommend an increase in the NLW of 51 pence, or 6.2 per cent, to reach the target of 60 per cent of median earnings in 2020. As the NLW follows a target based on median earnings, the improvement in earnings growth is the key driver behind the level of our recommendation for this rate.

National Minimum Wage

Young people continue to experience an improvement in their labour market position, with falling unemployment and rising employment rates since 2011. Their earnings have increased at the fastest rate for several years and, as with adult workers, this increase is seen across the earnings distribution. Overall, there is evidence of a shift, albeit slight, of young workers away from low-paying occupations into non-low paying jobs. However, there is well established evidence that young people are more vulnerable to economic downturns. In making our recommendations we have therefore balanced the positive indicators for young people we saw in the data available, with the weaker economic position we note above.

21-24 Year Olds

Earlier in the year we recommended that the age of eligibility for the NLW be reduced from 25 to 21 in two stages, moving first to 23 in 2021. We are pleased that the Government accepted this advice. The most recent evidence adds further weight to this recommendation. Growth in median hourly earnings for this group was strong at 5.9 per cent, well above that for the rest of the workforce, and with a further reduction in the share of 21-24 year old workers paid at the NMW rate for their age. The employment rate for those outside of education remains at 80 per cent, higher than the pre-crisis norm, and there have also been recent increases in the share combining work with full-time education. Unemployment amongst those outside of education remains at the same levels as the pre-crisis lows.

Given the policy decision to bring 21-24 year olds into the NLW fold over the next few years, Commissioners' view was that it made sense to maintain the relative gap between these two rates. **To that end we recommend an increase of 50 pence, or 6.5 per cent, to £8.20.** This is the final year in which we will recommend a rate for 21-24 year olds. Next year we will provide a recommendation for the new 21-22 Year Old Rate.

18-20 Year Olds

Similar to 21-24 year olds, this age group saw rapid growth in earnings of around 6 per cent, which was again found across the whole distribution. However, unlike 21-24 year olds, the employment position of this group has softened slightly. **Commissioners' recognise the relatively weaker position of this group in the labour market and so recommend a slightly lower percentage increase than for 21-24 year olds, at 4.9 per cent, or 30 pence, to £6.45**. This increase is larger than that recommended last year in recognition of the strong earnings growth we have seen.

16-17 Year Olds

The position of 16-17 year olds is similar to that of 18-20 year olds this year. They have seen weaker earnings growth at 4.2 per cent but their unemployment and employment position improved on last year. However, this group remains the most vulnerable of those covered by the NMW framework and our priority remains ensuring a successful transition from education into the world of work. **So, on this basis we recommend an increase of 4.6 per cent, or 20 pence, to £4.55.** Again, this increase exceeds the 3.6 per cent recommended last year.

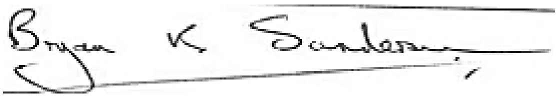
Apprentices

The message we have heard most consistently from our stakeholders is that there is room for the Apprentice Rate to increase. Some representatives of workers and employers advocate an equalisation of the rate with the 16-17 Year Old Rate. However, this view is not consistently held, and we are in the midst of a review of the structure of the Apprentice Rate. **To that end, Commissioners recommend an increase of 6.4 per cent, or 25 pence, to £4.15, which moves the rate part-way toward the 16-17 Year Old Rate.** We note that we will complete our review shortly and may make recommendations for further change.

Accommodation Offset

Since 2013 we have had the aim of bringing the Accommodation Offset in line with the 21-24 Year Old Rate as long as that rate is rising in real terms. Last year we said we would close this gap over two years, with 2020 being the final year. **To that end we recommend an increase of 8.6 per cent, or 65 pence, to £8.20.**

Yours sincerely,



Bryan Sanderson
Chair, Low Pay Commission

Letter copied to the Rt Hon Boris Johnson MP, Rt Hon Sajid Javid MP and Kelly Tolhurst MP