



Low Pay Commission

2020 Report Summary of findings

November 2020

Introduction

The Low Pay Commission

The Low Pay Commission (LPC) is an independent public body that advises the Government each year on the National Minimum Wage (NMW) and National Living Wage (NLW). The LPC is a social partnership body, made up of nine Commissioners; three from employer backgrounds, three from employee representative backgrounds, and three independents, including the Chair. Every year since its first report in 1998, Commissioners have unanimously agreed the LPC's recommendations to the Government.

We met in October 2020 to agree rate recommendations for April 2021 and submitted our advice to the Government on 30 October 2020 – one day before the announcement of a second national lockdown and the extension of the Coronavirus Job Retention Scheme (CJRS). This short report summarises the main evidence underpinning our advice, and should be read in conjunction with our letter to Government, which explains the rationale for each rate recommendation. Our full report, which sets out our evidence base in full, will be laid before Parliament and published later this year.

Our recommendations were accepted in full by the Government and will come into effect from 1 April 2021. The NMW and NLW rates effective from April 2021 are shown opposite.

[Read our letter to the Government here.](#)

National Minimum Wage rates effective from 1 April 2021

National Living Wage		£8.91
21-22 Year Old Rate		£8.36
18-20 Year Old Rate		£6.56
16-17 Year Old Rate		£4.62
Apprentice Rate		£4.30
Accommodation Offset		£8.36

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Our remit and approach in 2020

The National Living Wage

The NLW was introduced in April 2016, as the statutory minimum wage for workers aged 25 and over. For the first time, the NLW introduced a target for increases in the minimum wage. The LPC was asked to make recommendations to reach 60 per cent of median earnings by 2020, on the condition of sustained economic growth.

This year, the Government set a new target for the NLW, to reach two-thirds of median earnings by 2024. In addition, the age threshold for the rate will come down to 23 next year and to 21 by 2024. This follows recommendations we made last year in [our review of the NMW youth rates](#).

In setting our remit, the Government made clear we should take economic conditions into account and – if the evidence warranted it – could recommend that the Government reviewed its target or time-frame. This mechanism was referred to as an ‘emergency brake’.

Other National Minimum Wage Rates

For other rates, we were asked to recommend rates as high as possible without damaging the employment prospects of each group.

[Read the Government’s remit to us for 2020 here.](#)

Our evidence base and approach

As every year, our recommendations are based on a variety of sources of evidence, including:

- A written public consultation exercise, held from March to June.
- Two and a half days of oral evidence sessions with 26 organisations representing workers and employers.
- A range of independent research projects.
- Comprehensive analysis of a range of economic and labour market data.
- Regular meetings with interested stakeholders.

Inevitably, Covid-19 has disrupted our work this year. This has affected our usual work in two important ways:

- We have not been able to carry out our usual regional visits or meet stakeholders face to face. While we have mitigated this with virtual meetings, there has been less first-hand, local experience. In addition, groups who give us evidence have themselves been heavily occupied with the effects of the pandemic and the needs of their members.
- The data sources we rely on have been heavily affected by the pandemic – in particular, the Annual Survey of Hours and Earnings (ASHE), our key source for assessing the impact of the minimum wage. Large-scale furloughing of workers mean there is a significant group of workers whose hourly pay is unknown. This has changed the analysis we are able to carry out and prevented us assessing the effects of the NMW in the usual ways.

Economic context

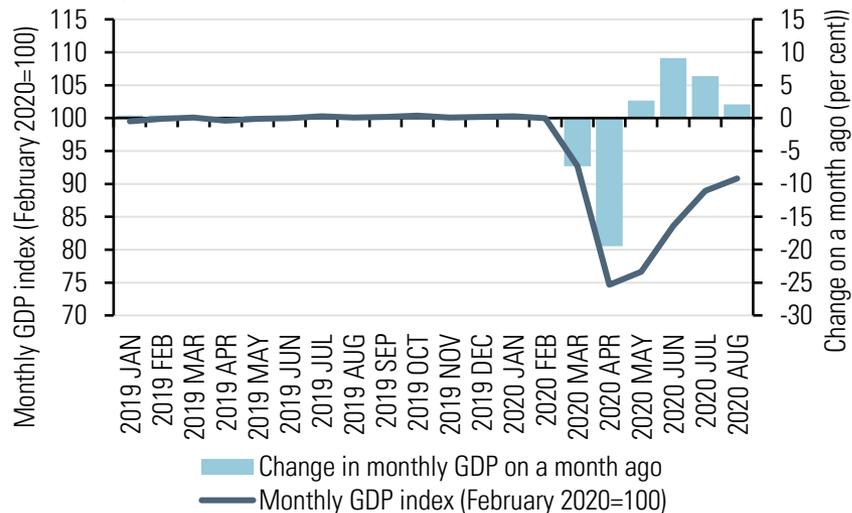
Our remit asks us to take economic conditions into account, and after a period of relative stability, this year has been extremely turbulent. The onset of Covid-19 saw the UK's GDP decline sharply by 25 per cent between February and April. While the pandemic affected every country, among OECD members the UK suffered one of the largest falls in GDP. Its death rate from the first wave of Covid-19 was also one of the highest in the world.

At the time of making our recommendations, we had GDP data up to August 2020. The initial easing of lockdown measures saw strong growth in June and July, with retail sales returning to their pre-pandemic levels. But GDP growth weakened to 2.1 per cent in August, and that growth was mainly driven by the hospitality sector and the temporary impact of the Eat Out to Help Out scheme. Although GDP had rebounded by 22 per cent by August, it was still 9.2 per cent lower than it had been in February, the same level of output as at the beginning of 2014.

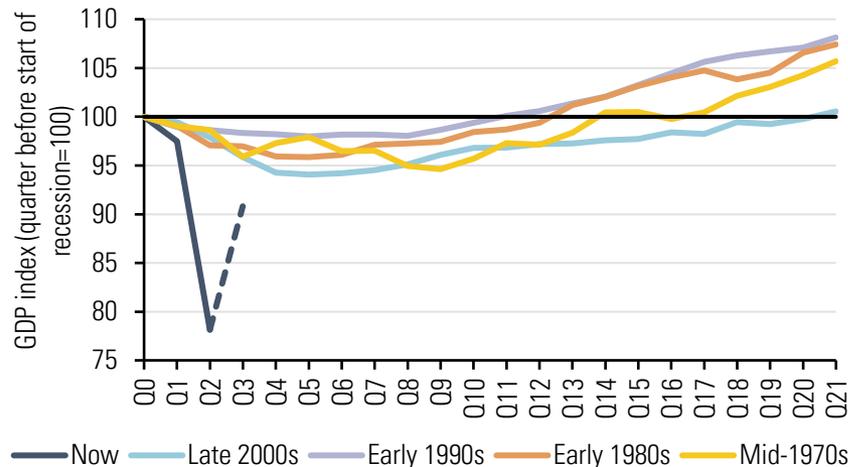
To put that in historical context, the largest previous fall in GDP in any recession since the Second World War was 5.9 per cent (during the financial crisis of 2008-9).

GDP growth since the financial crisis has been much weaker on average than before it but, as job creation has been much greater, the UK's productivity performance has been weak. Even before the onset of the pandemic, productivity on any measure (per job, per worker or per hour) was only 2-3 per cent higher than in 2008. There was a sharp decline in all three productivity measures in the second quarter of 2020 as the Government reacted to control the virus and supported jobs – output fell more deeply than hours, jobs or workers.

Monthly GDP, UK, 2019-20



Comparison of post-war UK recessions



Business conditions

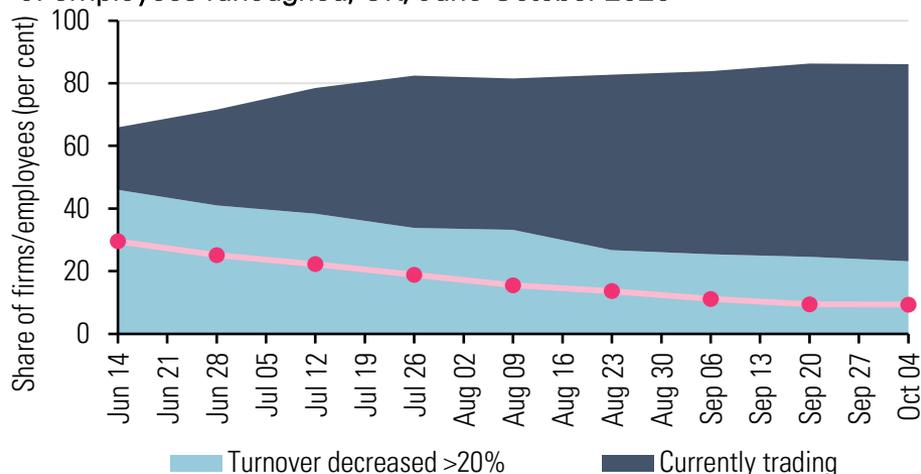
Economic activity picked up over the summer as businesses were able to reopen, but at the time of our recommendations there was still wide sectoral variation in business conditions, with low-paying sectors at particular risk of insolvency.

By the start of October, large numbers of businesses had reopened since the first national lockdown, with 86 per cent of firms trading, up from 66 per cent in mid-June. Just under a quarter of firms said turnover had decreased by over 20 per cent compared to normal for the time of year, compared to over 40 per cent of firms in June. The ability to reopen and bring in revenues varied greatly by sector. The leisure sector faced the greatest difficulties. Businesses in the arts and entertainment or hospitality industries were more likely to have lower turnover, or to still have workers furloughed.

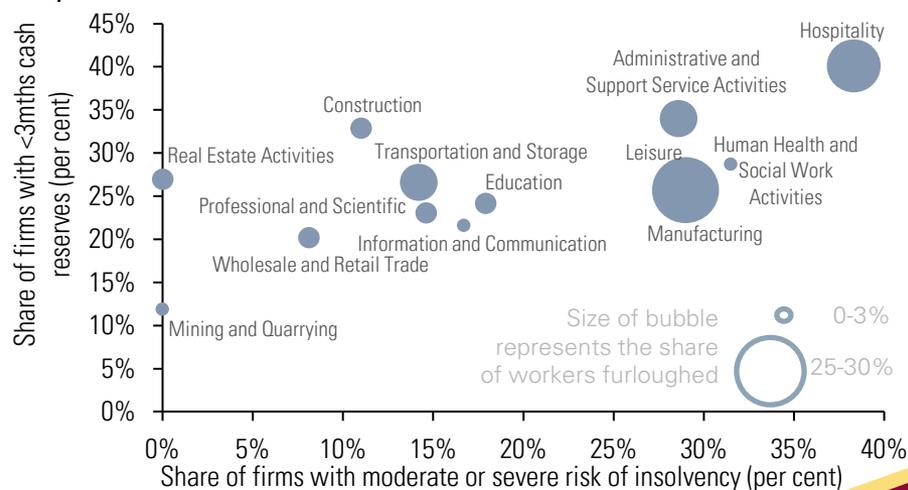
Businesses' cash reserves fell and risk of insolvency rose compared to the pre-pandemic period. The levels of debt taken on by SMEs rose significantly, as firms made use of Government-backed loan schemes.

The bottom chart on the right shows how low-paying sectors tend to have a high share of firms with low cash reserves and a higher risk of insolvency. Hospitality has the highest proportion of firms with less than three months of cash reserves (40 per cent) and the highest share with a moderate or severe risk of insolvency (38 per cent). Almost a quarter of workers in hospitality were furloughed at the start of October, according to the Business Impacts of Coronavirus Survey produced by the Office for National Statistics.

Share of firms currently trading, with decreased revenue and share of employees furloughed, UK, June-October 2020



Share of firms with low cash reserves and at risk of insolvency, UK, October 2020



The impact of the Coronavirus Job Retention Scheme

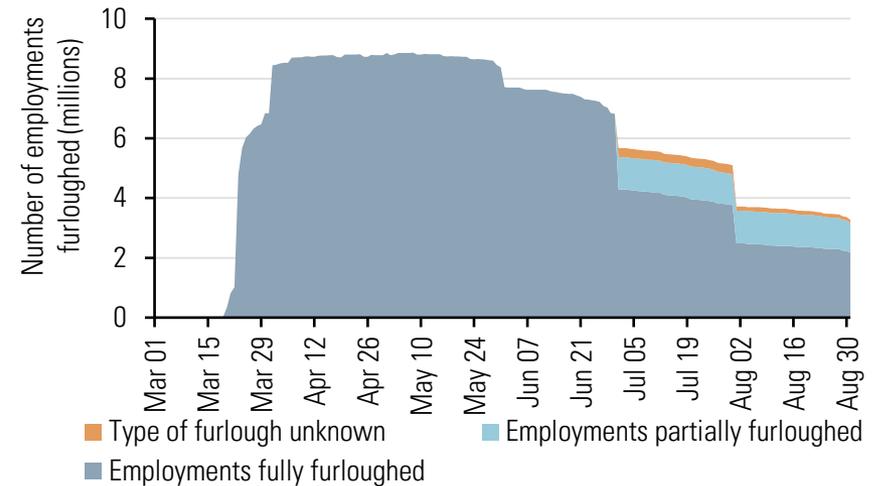
The extent of the economic shock led to large-scale intervention by the Government to protect jobs and incomes, via the Coronavirus Job Retention Scheme (CJRS). The CJRS enabled employers to furlough their workforce, with the Government paying 80 per cent of their usual pay. From July onwards, employers were able to bring furloughed workers back for reduced hours. From August onwards, employers were asked to make a contribution to the furloughed worker's wage costs, which increased month by month.

At its peak in May, almost 9 million workers were furloughed under the CJRS, with the Government paying the wages of over a quarter of the workforce. The scheme was still supporting around 3.3 million jobs by the end of August. This included around 1 million workers who had returned to work part-time.

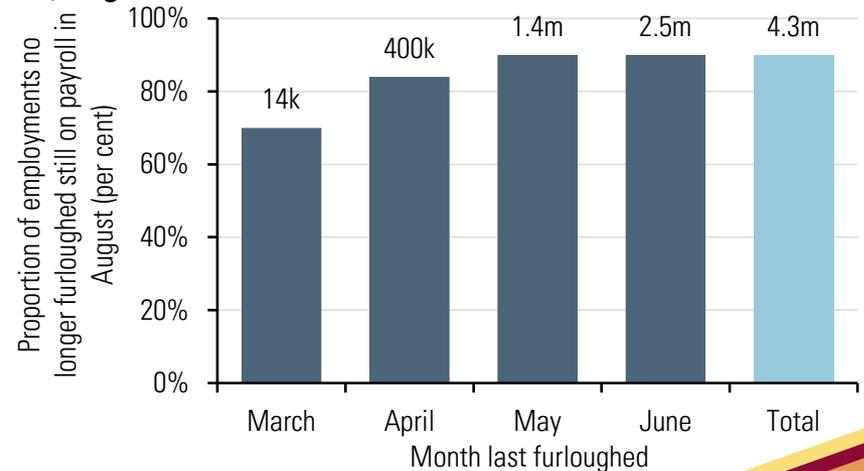
The evidence so far suggests that the scheme was successful in protecting workers from redundancy and keeping them with their original employer. As the lower chart on the right shows, in August, 90 per cent of workers who had returned from furlough between March and June – some 4.3 million individuals – were still employed by the same firm.

At the time we made our recommendations to the Government, the CJRS was expected to close at the end of October, to be replaced by a distinct Job Support Scheme. The announcement on 31st October of a second national lockdown (beginning on 5th November), however, led to an extension of the CJRS until the end of March.

Number of employments furloughed via the CJRS, UK, March-August 2020



Share of employments no longer furloughed and still on payroll, UK, August 2020



The Coronavirus Job Retention Scheme and employment – 1

In normal circumstances we would expect an economic shock of this magnitude to have a huge impact on employment. For example, Andy Haldane, chief economist at the Bank of England, estimates that a 25 per cent reduction in GDP could increase unemployment to around 5 million¹. The fact that we have not seen a fall of this magnitude shows the impact of the CJRS and other support measures in protecting jobs.

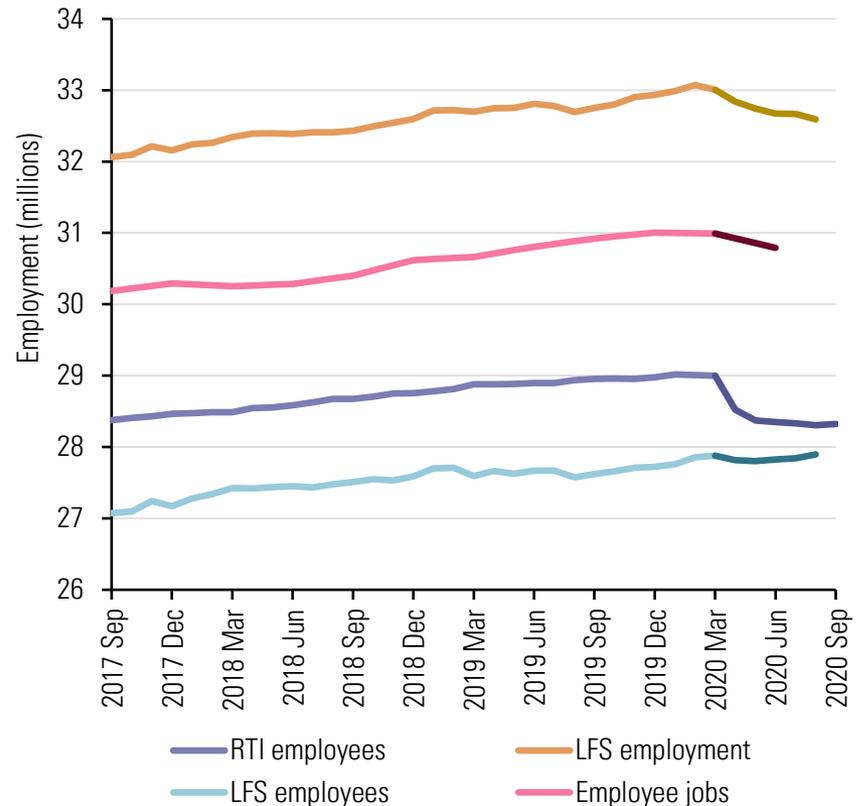
While different data sources give different pictures, most still tell us that employment has fallen since February, the month prior to lockdown. The chart on the right compares the main data sources on overall employment. The levels shown differ as they are counting slightly different things and come from different data sources.

Labour Force Survey (LFS) total employment counts the number of **individuals** either employed or self-employed. This fell by 480,000 (or 1.5 per cent) between February and August, driven by falls in self-employment (around 470,000 in total) and partly offset by rising employee numbers. The self-employed were not protected by the CJRS but could receive support via the Self Employment Income Support Scheme (SEISS).

Employee jobs counts the total number of employee **jobs** (individuals can have more than one job). These fell 200,000 between March and June.

HMRC's Real Time Information (RTI) shows the number of **individuals** with at least one PAYE job. In contrast to the LFS, this registered a sharp drop in April, and has fallen 685,000 since February. We explore why HMRC's count of payrolled workers may differ from the LFS's count of employees on the next page.

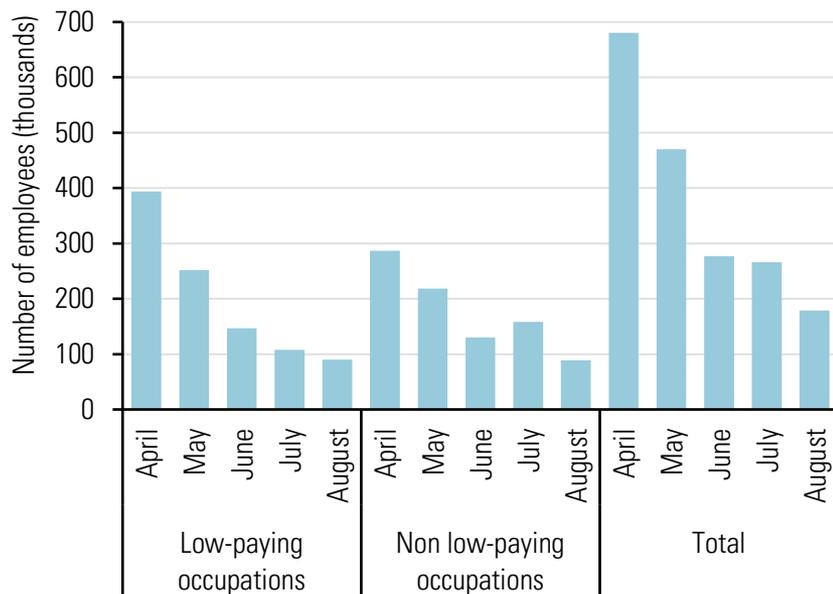
Employment levels, UK, September 2017-September 2020



Data source	Change since Feb 2020
LFS total employment	-480k (Feb-Aug)
Employee jobs	-200k (Mar-Jun)
RTI payrolled employees	-685k (Feb-Sep)
LFS employees	+40k (Feb-Aug)

The Coronavirus Job Retention Scheme and employment – 2

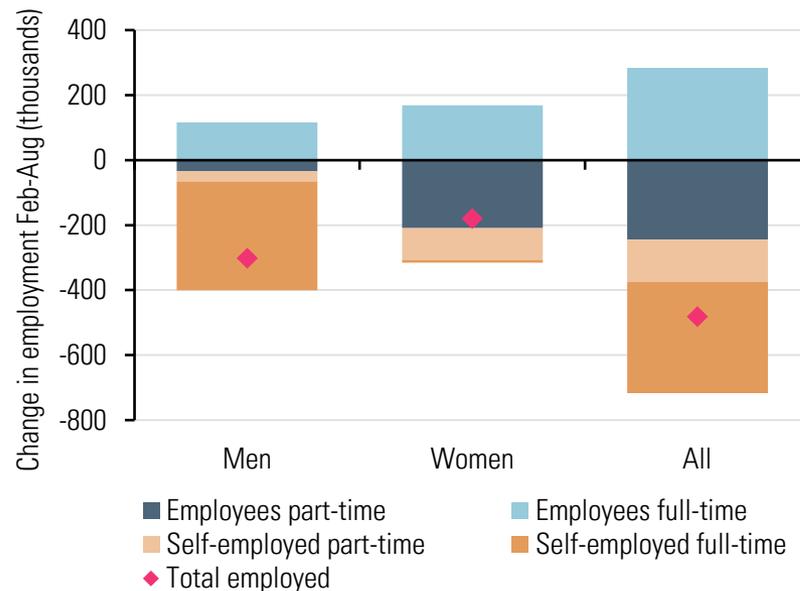
Number of employees whose job was 'on hold' without pay, LFS, UK, April-August 2020



The chart above shows the number of individuals who stated in the LFS that they were still employed but that their job was on hold due to Covid-19 and they were receiving no pay. This group could include, for example, informal bar staff, who were not furloughed but still believed they would have a job to return to once the lockdown period ended. Low-paying occupations made up a disproportionate share of these workers.

In April this 'loosely attached' group totalled 680,000. The size of the group helps explain why we did not see anything like the same drop in the number of LFS employees post-March as were observed in the RTI data.

Change in employment by gender and employment type, LFS, UK, February-August 2020



The chart above shows the distribution of the employment changes in the LFS from February to August. As set out on the previous page, the largest overall decline was from self-employed full-time workers which fell by 340,000. Among employees, losses were concentrated in part-time jobs which dropped by 240,000. However these were more than offset by growth in full-time employment which increased by 280,000 over the period.

There was a marked difference between the genders, with changes to self-employment concentrated among men and the loss of part-time employment affecting women much more.

Latest labour market developments

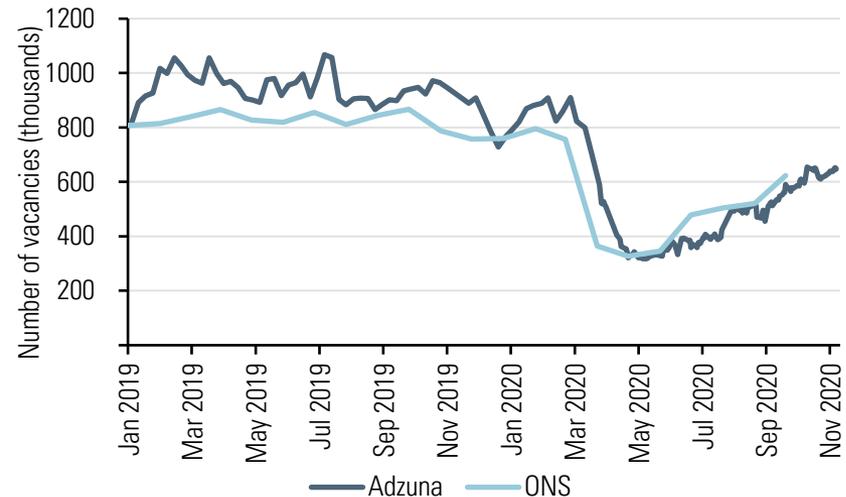
The labour market was in an uncertain place as we made our recommendations at the end of October, with some signs of rebound in the autumn but other indicators tending towards pessimism.

The number of vacancies advertised fell by more than half in the immediate lockdown period. As the economy reopened over the summer, vacancies grew and continued to do so as we moved into the autumn, but remained below pre-Covid levels. Whether this continues will be a key measure of the labour market's ability to recover.

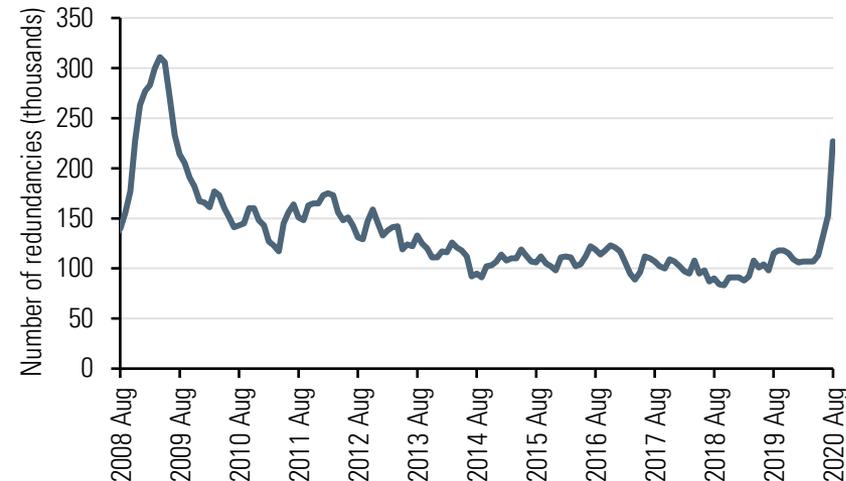
Another proxy for loss of work or pay is the claimant count of those claiming benefits. This jumped at the start of lockdown, reaching its highest level since 1994. Although the overall count remained high into the autumn, the numbers of new claimants of Universal Credit had fallen back to their pre-pandemic levels.

Against this, however, were signs of damage already done. Unemployment and inactivity rates were increasing for all groups, but especially for 18-24 year olds, where they reached their highest level for five years. Data tracking HR1 redundancy notices showed the largest quarterly rise on record up to May. Even if notices do not always feed into actual redundancies, a growing number of jobs were clearly at risk. Indeed, redundancy data in August 2020 showed the largest 3-month increase since records began in 1995 as numbers doubled to 227,000.

Job vacancies, UK, January-November 2020



Redundancies, UK, 2008-2020



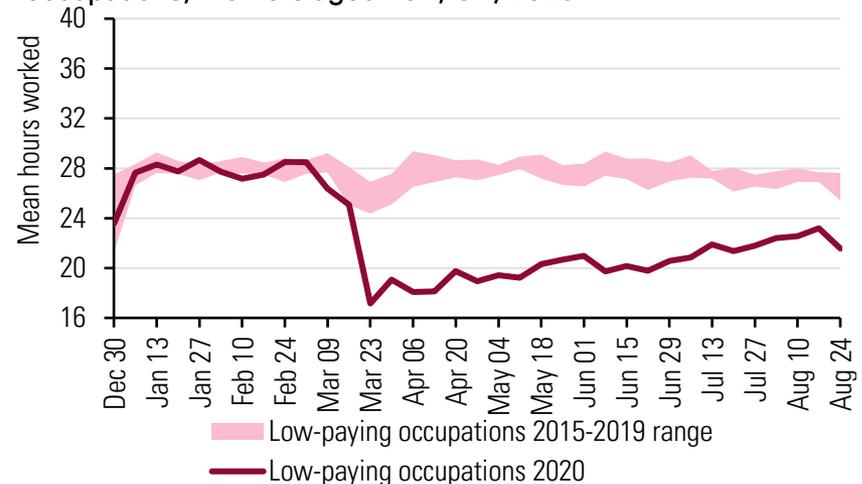
Working hours during the pandemic

Business closures and the furloughing of workers led to an unprecedented collapse in the number of hours worked across the economy, which persisted into the summer. This fall in hours – up to 20 per cent at its lowest – far exceeded the 2008 financial crisis, when total hours fell by a maximum of 4 per cent. The fall in hours was economy-wide, but the recovery since has been slower for low-paid workers.

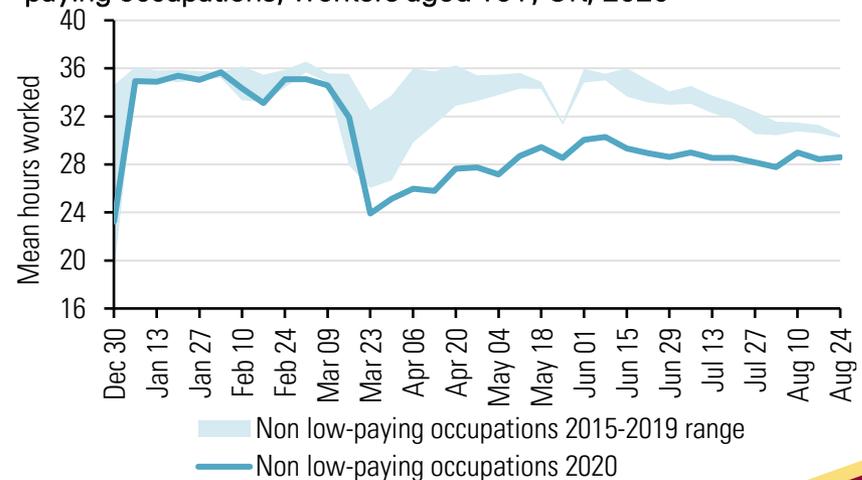
The charts on the right show how average hours worked changed for those aged 16 and over in low-paying and non low-paying occupations. In low-paying occupations, average weekly hours fell from 25 to 17 as the national lockdown was introduced. Hours recovered slowly through the spring and into summer, peaking at 23 hours in mid-August, still well below expected hours for this time of year. In non low-paying occupations, where hours worked tend to be higher on average, we saw a similar drop in the number of hours from 32 to 24. The recovery however was quicker, helped by the fact that workers in these occupations were more likely to be able to work from home. Hours worked appeared to return closer to average by the start of August.

In 'normal' times we would expect a fall in hours for non low-paid workers during the summer months due to holidays. That fall has not been apparent this year, which has resulted in a narrowing of the gap in hours. This could be because the increase in the number of hours worked has been offset by the typical increase in people taking leave. We see less of this effect for those working in low-paying occupations as their hours tend not to vary to the same extent during holiday periods.

Mean number of hours worked in reference week, low-paying occupations, workers aged 16+, UK, 2020



Mean number of hours worked in reference week, non low-paying occupations, workers aged 16+, UK, 2020



Pay during the pandemic

The lockdown restrictions and decline in hours worked affected pay packets. Pay growth, as measured by both the ONS's Average Weekly Earnings (AWE) and HMRC's Real Time Information (RTI), fell into reverse in the first few months of the pandemic. This fall was particularly steep in retail and hospitality, where weekly earnings declined by over 5 per cent from April to June.

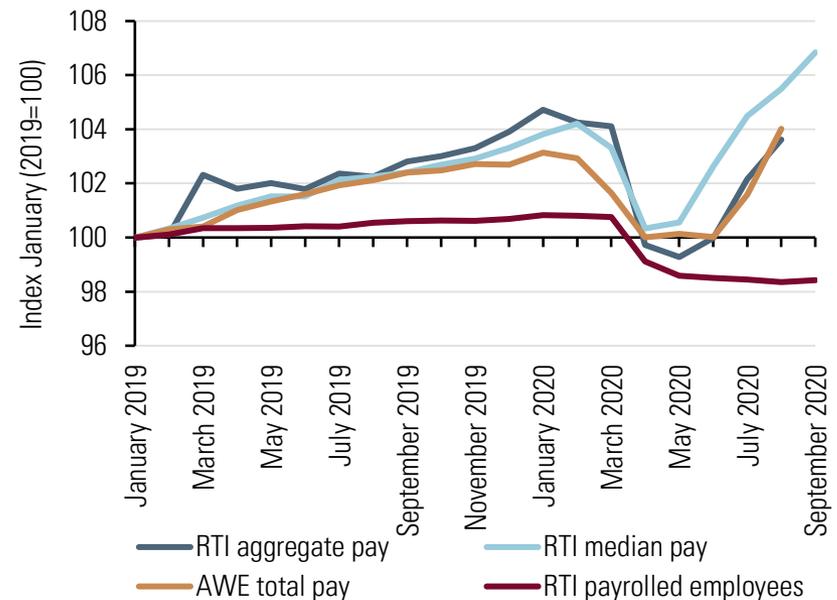
The more timely RTI data suggest that the growth in median monthly pay had returned to pre-Covid rates by September. However, compositional effects will have played a part – with the lowest-paid jobs most likely to have been lost – and the total RTI pay bill in August remaining below its level in February. RTI pay data also shows how the CJRS largely protected earnings. While both GDP and hours worked fell by over 20 per cent in the spring, the total pay bill fell by around 4 per cent. On the next page we explore this in more detail for low-paid workers.

Data tracking average pay settlements had already shown signs of softening through 2020. Although nearly half of pay deals were concluded between 2 and 3 per cent, there was a large increase in the proportion of pay freezes in 2020. This was expected to intensify in 2021.

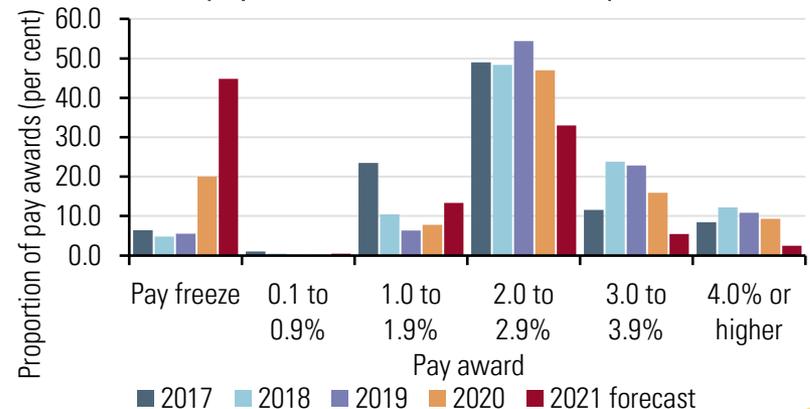
CPI has overtaken RPI as the most commonly used inflation indicator for pay setting. Inflation has slowed since the end of 2017 and was low in 2020 – CPI increased by 0.5 per cent in September – driven by falling fuel and energy prices, lower prices for clothing and footwear during lockdown, and affected by Covid-related factors such as the Eat Out to Help Out Scheme, reductions in VAT, and unavailable items.

Even with low and falling inflation, real wages fell as weekly pay fell in the spring. However, these real wage falls have started to unwind as pay growth picked up over the summer.

Average pay growth, UK, January 2019-September 2020



Distribution of pay awards, 2017-2020 and expected in 2021



Low-paid workers in the CJRS

Thanks to the ONS's work in matching their datasets with the Government's CJRS records, we are able to identify the majority of individuals in ASHE who were furloughed on the scheme. We can distinguish between furloughed workers on their full normal pay and those below their full normal pay.

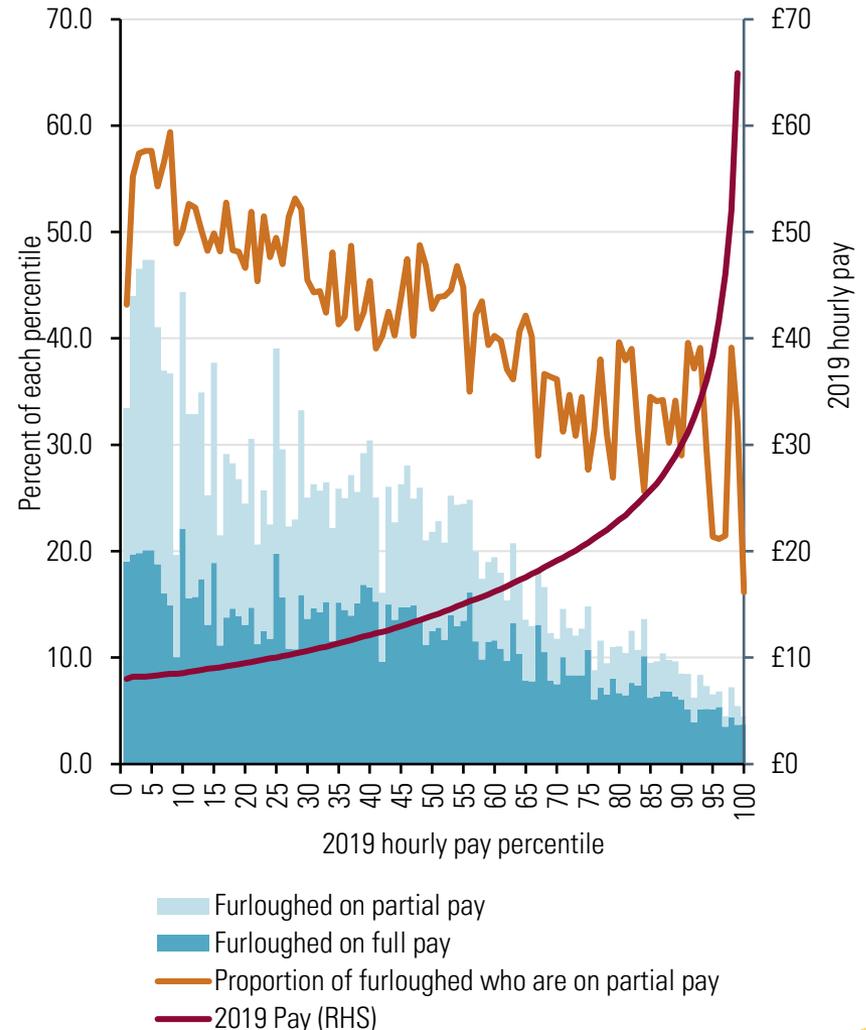
However, we do not have a good estimate of the hourly pay of furloughed workers. Although we can see their typical hours of work, their actual hours of work at the time of the survey were zero. Using their typical hours could bias any estimates of hourly pay in 2020 for workers who were furloughed. This includes estimates of minimum wage coverage and underpayment. In fact any worker who was furloughed will have no actual hourly pay. This is a problem as we rely on hourly pay estimates for much of our analysis, including the NLW path, discussed on page 18.

One way of getting around this problem is to link the ASHE data for 2019 to the data for 2020. This allows us to use an individual's pay in 2019 as a proxy for their pay in 2020 and to look at how use of CJRS differed across the pay distribution.

The chart shows use of furloughing for employees aged 25 and over, split between those whose employer has made up their pay to 100 per cent (full pay), and those paid less than full pay (part pay).

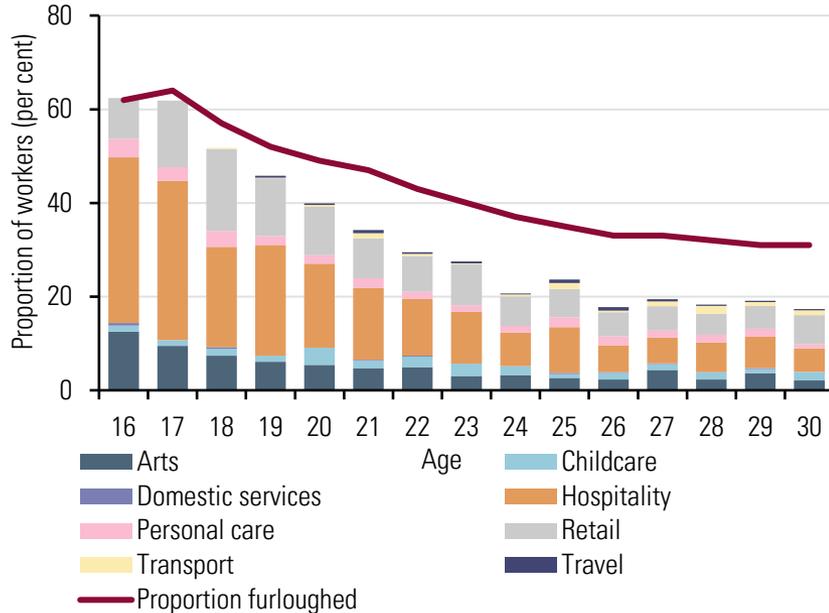
The data shows that the lower a worker's pay, the more likely they are to have been furloughed and to have lost pay in the process. At the bottom of the pay distribution over half of furloughed workers were on partial pay, compared to around 30 per cent at the top.

Furlough status in 2020, by 2019 pay, employees aged 25 and over, UK, April 2020



Young workers

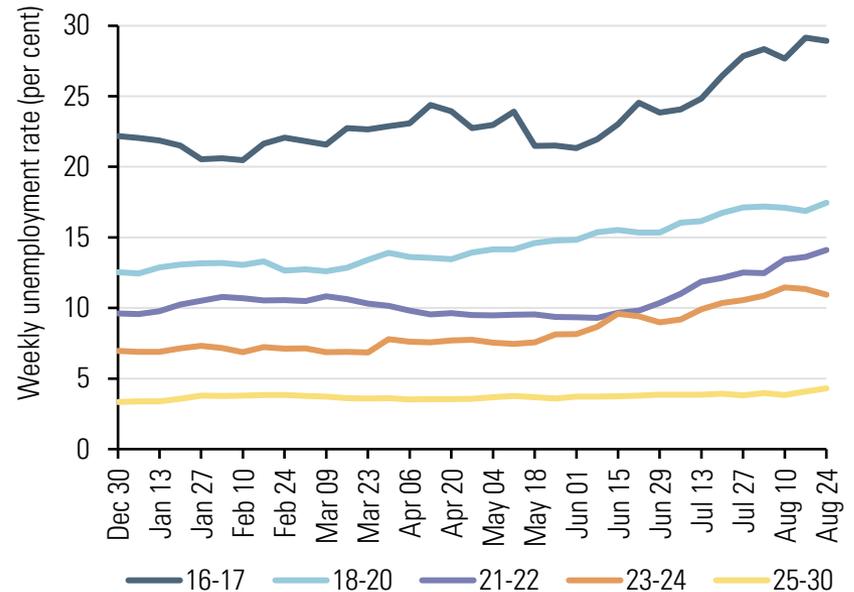
Proportion of young workers in sectors most affected by lockdown measures, UK, 2020



This has been a particularly challenging year for young people. They are more likely to work in the sectors that have been hit hardest by lockdown measures, including hospitality and non-essential retail. More than half of workers aged 16-18 work in these affected sectors.

Partly as a result of this, young people were more likely to have been furloughed. Around 18 per cent of all furloughed employments were for workers aged under 25, despite this age group making up just 11 per cent of all jobs. Many of those furloughed experienced changes to their pay.

Unemployment rate of young people by age, weekly data, UK, 2020



While the CJRS has enabled businesses to keep workers on their payrolls, these workers may still be at greater risk of unemployment.

By the end of August, unemployment rates had already started to rise to levels not seen since 2015 for all of the age groups eligible for the youth rates.

This is particularly concerning because young people are highly susceptible to scarring. They can have poorer labour market outcomes that can last for several years beyond any unemployment spell.

Moving the NLW age threshold

Our recommendation in 2019 to reduce the NLW age threshold from 25 to 23 (and then to 21) was based on seven arguments.

Firstly, that **use of the 21-24 Year Old Rate amongst that age group is low**. This continues to be the case; fewer than 100,000 workers aged 23-24 have a stated hourly rate below the NLW.

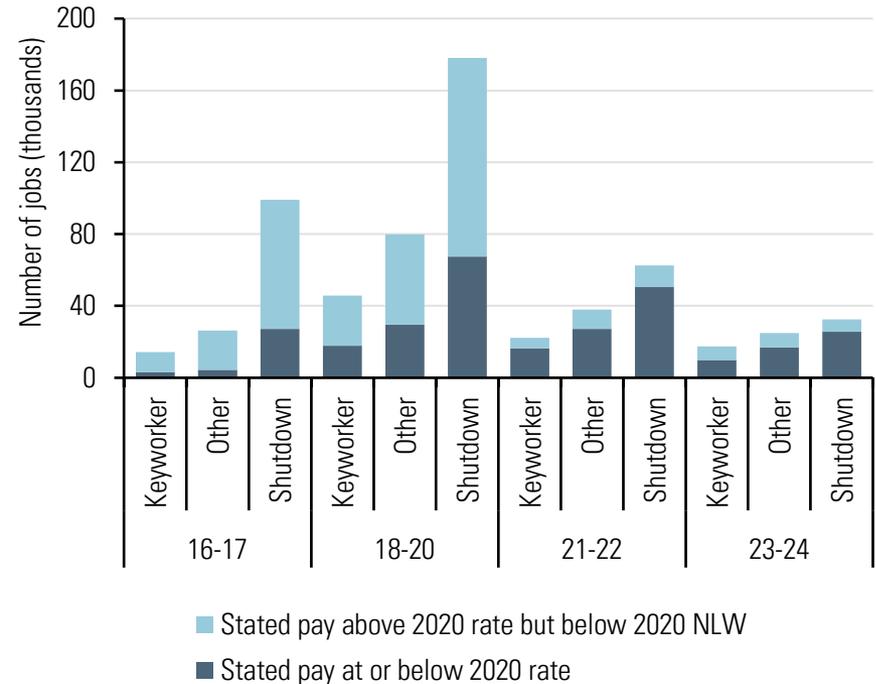
The second argument was that **moving this age group up to the NLW would result in reasonable bites** (defined as the ratio of the minimum wage to median hourly pay for that age group). This is hard to measure given limitations with the pay data, but we judge that the bite for this group is still likely to be below the bite for 21-22 year olds.

Third, that **23-24 year olds are similar to 25 year olds across a range of indicators**. This is true in terms of the ways they have been affected by the lockdown – including the proportion furloughed or working no hours, and the rates at which they are returning to work. However, their unemployment is increasing at a faster rate than older workers.

Fourth, that **stakeholders agreed the NLW age threshold should be lowered**. This year, stakeholder views were more mixed, with some business groups including the Federation of Small Businesses and British Chambers of Commerce calling for a delay. However, most business representatives continued to support the change, as well as all unions.

Research evidence supports the change. The last time the age threshold of the adult rate was lowered in 2010, econometric analysis found no significant negative employment effect. This is particularly relevant as the change took place in the aftermath of the financial crisis.

Coverage and usage of the NMW rates among hourly-paid workers, using stated hourly pay, UK, April 2020



Demographic changes over the next few years are also likely to reduce the risk. The size of the 21-24 year old age group will get smaller, which should help to protect them.

The final argument was that record high employment and a tightening labour market were likely to offer protections to young workers. Although this argument has not stood the test of this year, and the position of 23 and 24 year olds has weakened in the pandemic, we judge that on balance, the majority of arguments made in the youth review continue to support the change.

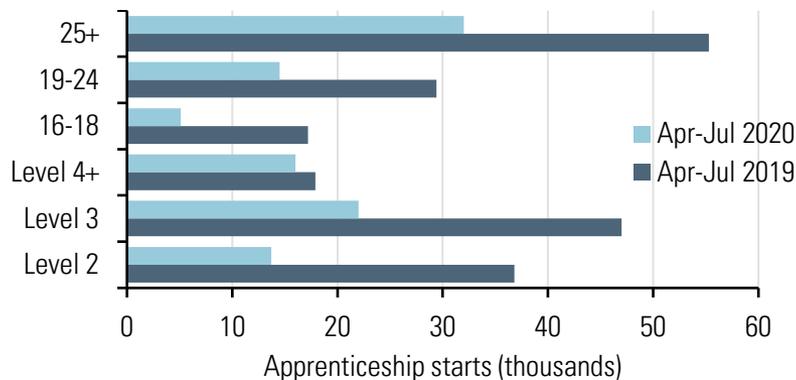
Apprentice Rate review

Like other parts of the labour market, recruitment of apprentices fell dramatically in the initial wave of the pandemic – compared with 2019, starts in England fell by more than 50 per cent and in Scotland by more than 80 per cent. The largest proportional falls were among the youngest apprentices and starts at level 2.

There were signs of some rebound over the summer, with an uptick in vacancies on the English Find an Apprenticeship service. But at the time of our decision, we did not have data for the key month of September, where starts for the new academic year tend to be clustered.

In England (although not in the rest of the UK), starts at level 2 and among those aged under 19 (the groups most exposed to the Apprentice Rate) have steadily declined for a number of years but we believe policy changes have driven this rather than the minimum wage.

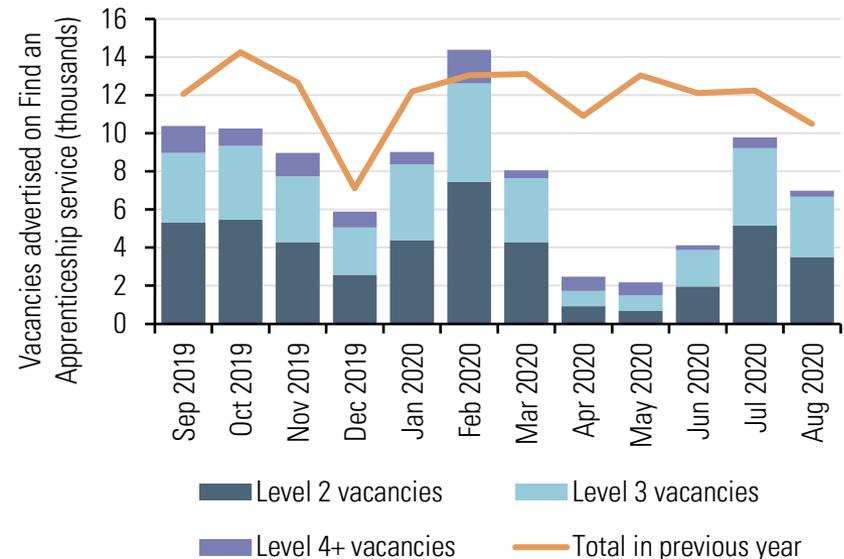
Apprenticeship starts by age and level, England, April-July 2019 and April-July 2020



We have concluded a review of the Apprentice Rate this year, and will present full conclusions in our main report.

In our consultation, we sought views on whether it would be appropriate to raise the Apprentice Rate to the same level as the 16-17 Year Old Rate. The majority of stakeholders from both the employer and worker sides supported this change in principle. However, there was caution in some quarters about the impact of a significant increase at a point when the labour market for apprentices is facing such uncertainty. Given this, we consider it is the right decision to align the rates, but that this should take place over two years, with a more cautious increase in 2021 and full alignment in 2022.

Apprenticeship vacancies on Find an Apprenticeship service, England, September 2019-August 2020



Stakeholder evidence

Our usual engagement with stakeholders was disrupted by Covid-19, meaning that we could not hold face-to-face meetings or carry out our planned programme of regional visits. Nevertheless, we heard evidence from employers and workers alike about the impact of the National Minimum Wage and the effects of the pandemic.

What we heard from employers

Employers were operating under huge uncertainty throughout the year – with little visibility over business conditions from week to week. Many in low-paying sectors felt they were on a knife-edge of survival.

- For many, adapting to Covid-19 meant high costs and reduced capacity – and squeezed the cash available for productivity-enhancing investments.
- Employers in many sectors were concerned about their ability to pass costs through to consumers via price increases.
- Managing pay differentials between low-paid staff and higher grades remained a major challenge, with narrow differentials leading to discontent.
- Publicly-funded sectors continued to struggle to afford increases – with severe pressure on the workforces in social care and childcare.

What we heard from workers

Although the CJRS protected jobs, low-paid workers faced considerable hardship, whether they were able to work during lockdown, were in furloughed jobs, or slipped through the cracks of Government support.

- Workers who were furloughed had to deal with lost income, reduced confidence and uncertainty over their return to work.
- Low-paid workers told us the pandemic exposed their insecurity – with some worried about being forced onto worse terms and conditions.
- Many low-paid key workers – in food retail and social care – continued to work in challenging conditions through the depths of the pandemic.
- The hit to workers' income exacerbated existing problems of in-work poverty and the uneven impacts of low pay by gender and ethnicity.

Views on the National Living Wage

There was a wide range of views on how the minimum wage should respond to the impacts of the pandemic.

- Stakeholders representing both workers and employers recognised it was desirable to recognise the contributions of low-paid key workers.
- Workers' representatives argued the minimum wage should be £10 per hour, and at a minimum should remain 'on course' to the 2024 NLW target, to protect and improve workers' living standards.
- Employers' representatives generally asked the LPC to be cautious in its increases, given existing economic damage and heavy uncertainty over the future.
- Relatively few groups argued for a freeze in the NLW. Those who did cited the need to protect employment.

Prospects for the economy

Our deliberations take into account the latest forecasts for the economy, although this year these were subject to a higher degree of uncertainty than usual.

At the time of our recommendations, forecasts indicated that GDP was likely to fall by around 10 per cent in 2020 with a rebound in 2021 of around 6-9 per cent. Although this would represent historically strong growth, GDP at the end of 2021 would still remain below its level at the end of 2019.

Employment was expected to fall as support from the CJRS unwound, with unemployment picking up as a result. The fall is now expected to be delayed as Government support for jobs and business has become more generous and prolonged since we met to agree recommendations.

Inflation was expected to rise towards its 2 per cent target but there seemed little pressure from wages, producer prices, and business-to-business prices although some costs had increased. Pay settlements were expected to maintain their bimodal distribution with peaks at a pay freeze and around 2 per cent. Earnings growth was expected to pick up as the economy recovered, with increasing hours reversing the falls in weekly and monthly wages observed as hours fell to zero for many workers at the start of the pandemic.

With businesses struggling to survive, indebtedness already high, heightened economic uncertainty and investment having stagnated since 2016, it is unlikely business investment will be much of a driver of growth in the next twelve months. The trading environment is also unlikely to offer much opportunity to boost trade.

Summary of economic forecasts

	OBR forecasts - central scenario			Bank of England forecasts			Median of HM Treasury Panel		
	July 2020			August 2020			August/October 2020		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
GDP Growth ¹	-12.4	8.7	4.5	-9.5	9.0	3.5	-10.1	6.1	3.3
Average Earnings AWE ¹	0.2	3.7	2.7	-1.3	3.0	3.8	0.3	2.4	2.7
Inflation CPI ²	0.7	1.3	1.9	0.3	1.8	2.0	0.5	2.0	1.9
Inflation RPI ²	1.3	1.1	3.0				1.1	2.6	3.0
Employment growth ¹	-4.5	-1.2	4.0	-3.8	2.5	2.0	-1.2	-2.1	
ILO unemployment rate ²	8.8	10.1	6.9	7.5	6.0	4.5	7.7	6.9	5.7

¹= Forecast for whole year. ² = Forecast for Quarter 4

The strength of the economy over the next 12 months or so is therefore likely to mainly depend on the consumer as well as Government spending. Real incomes fell in the spring (albeit supported by CJRS, support for the self-employed and increased generosity of Universal Credit) but consumer spending had fallen much further, leading to a record rise in savings. Future consumption will depend on the speed at which these savings are spent, concerns about job security, and consumer confidence.

In all these forecasts, however, two factors loom large: Covid-19 and Brexit. The outcome of the Brexit negotiations and the speed with which the virus is tackled will both have a major effect on economic performance over the next year.

The path of the National Living Wage

This year we have had to recommend rates that best balance the desire to increase pay with the need to protect employment, in the context of the Covid-19 economic shock.

As discussed on page 12 there are problems with measuring what happened to hourly pay through the crisis. We rely on ASHE to plot our position on the path to 2024, but this year, because of the effects of the crisis and CJRS on the data, we cannot tell where £8.72 was on the NLW path to 66.7 per cent of median pay with our usual precision. This complicates any attempt to work out the next step on the path to 2024.

Our approach this year is to recommend rates that minimise any 'significant risk' to employment prospects, as per our remit. This led us to recommend a 2021 NLW rate of £8.91. This is lower than our best estimate of the on-course rate of £9.06, but is modestly higher than the increase in prices, meaning low-paid workers' living standards should be protected. For a fuller account of the rationale for our rate recommendations, see our letter of advice to the Government.

We have produced an indicative path here, but this is subject to more uncertainty than usual. The fainter lines either side of the main trajectory show how the path would be affected if pay growth differs by 0.5 per cent from the current forecasts. This could move the path by more than 20 pence up or down by 2024.

Given uncertainty over the future, we do not recommend a change to the Government's target of two-thirds of median earnings by 2024. We remain committed to the goal of ending low pay. A fuller review of the path ahead – and greater clarity on a future rate path – will hopefully be possible in our 2021 Report.

Indicative NLW path forecasts



Indicative path forecasts

NLW	2019	2020	2021	2022	2023	2024
25+	£8.21	£8.72				
23+			£8.91	£9.40	£9.94	
21+					£9.85	£10.32

Chart sources

Page 4: LPC estimates using ONS data, monthly gross domestic product index (ECY2), monthly, seasonally adjusted, UK, January 2019-August 2020 and LPC estimates using ONS data, gross domestic product (ABMI), quarterly, seasonally adjusted, UK, 1973 Q2-2020 Q2.

Page 5: LPC estimates using ONS Business Impact of Covid-19 Survey (BICS) Wave 15 data.

Page 6: LPC estimates using HMRC CJRS data.

Page 7: LPC estimates using HMRC RTI data and ONS data, total employment (MGRZ), employees (MGRN) and employee jobs (JOBS03).

Page 8: LPC estimates using LFS microdata, quarterly population weights, not seasonally adjusted, UK, Q2 2020-June-August 2020 and ONS data YCBL, YCBM, YCBO, YCBP, YCBR, YCBS, YCBU, YCBV, MGSA and MGSB.

Page 9: ONS Single month vacancies estimates (X06); UK vacancy count from The Adzuna API, www.adzuna.co.uk and ONS redundancies (BEAO).

Page 10: LPC estimates using LFS Microdata, quarterly population weights, not seasonally adjusted, UK, Q1 2020-June-August 2020.

Page 11: LPC estimates using ONS data, average weekly earnings total pay (KAB9) and RTI estimates of median pay, aggregate pay and payrolled employees, January 2019-September 2020 and LPC estimates using XpertHR data, 2017-2020

Page 12: LPC estimates using ASHE 2010 methodology, standard weights, UK, 2019-2020. Note: Data exclude first year apprentices.

Page 13: LPC estimates using LFS, population weights, UK, 2020 Q1, HMRC CJRS statistics in August 2020 and IFS definition of lockdown sectors; LPC estimates using LFS, population weights, weekly data, UK.

Page 14: LPC estimates using ASHE 2010 methodology, standard weights, UK, 2020. Note: Data exclude first year apprentices.

Page 15: LPC estimates using Department for Education Apprenticeship and levy statistics (August 2020) and Vacancies and adverts posted on the Find An Apprenticeship website, by level (August 2020).

Page 17: LPC estimates using HM Treasury Forecasts for the UK economy (August and October 2020), Bank of England Monetary Policy Report (August 2020) and Office for Budget Responsibility Fiscal Sustainability Report (July 2020)

Page 18: LPC estimates using ASHE 2019, population weights AWE total and HM Treasury Forecasts for the UK economy (August and October 2020) and Bank of England Monetary Policy Report (August 2020)



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