National Minimum Wage
Low Pay Commission

Low Pay Commission 2018 Report

Summary of findings

December 2018

Introduction and contents

The Low Pay Commission

The LPC is an independent public body that advises the Government on the National Minimum Wage (NMW) and National Living Wage (NLW). Each year, we are given a remit to recommend rates for the following year.

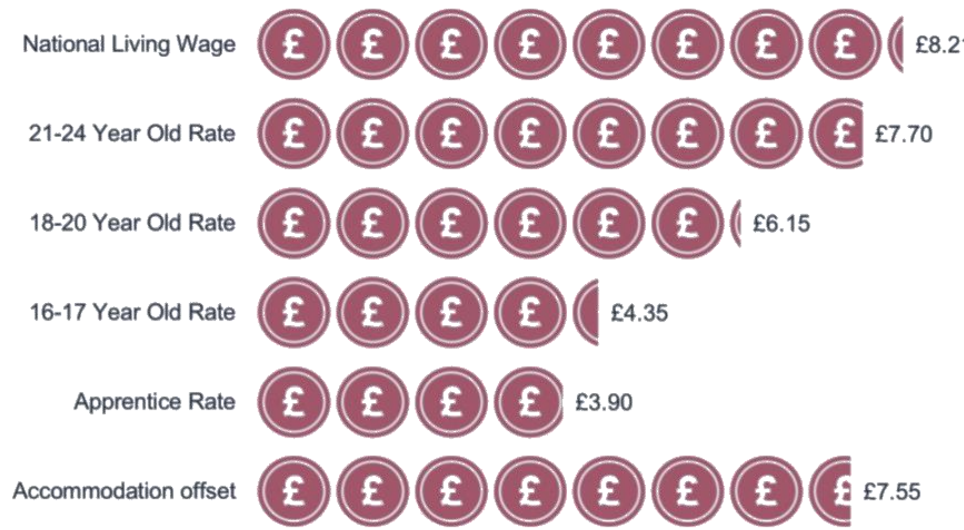
The LPC is a social partnership body; it is made up of 9 Commissioners, 3 from employer backgrounds, 3 from employee representative backgrounds, and 3 independents, including the chair. Every year since its first report in 1998, the LPC has made unanimous recommendations to the Government.

This report

This summary of the findings we presented in our 2018 Report contains an explanation of the rationale for the rate recommendations we made, which were accepted in full by the Government in the Autumn 2018 Budget. It also summarises our key findings on the NLW, the youth labour market and presents future rates.

[Read our full 2018 Report on our website.]

NLW and NMW rates, April 2019-March 2020



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Low Pay Commission Remit

The LPC and the NLW

The National Living Wage (NLW), the statutory minimum wage for workers aged 25 and over, was introduced at £7.20 per hour in April 2016. The LPC's remit is to advise on the path of the NLW, with the ambition that it will reach a target of 60% of median earnings by 2020. For the NLW, increases are 'subject to sustained economic growth', but there is a tolerance for some job loss. The Office for Budget Responsibility (OBR) estimated that the NLW's introduction would mean between 20,000 and 110,000 fewer jobs by 2020 than in its absence, though this was set against predicted employment gains across the economy of 1.1 million jobs between 2015 and 2021.

Other National Minimum Wage rates

The LPC's remit with regard to the rates for workers aged under 25, and apprentices, remains the same as before the NLW was introduced. In this regard, the LPC is tasked with helping as many low-paid workers as possible without damaging their employment prospects.

One-sided flexibility

We were also asked to look at the idea of a higher minimum wage for non-guaranteed hours. We have published a separate report on this, which is available on our website.

Our evidence base

The LPC makes recommendations based on a variety of evidence sources. This year our evidence-gathering consisted of:

- A written consultation with responses from around 60 organisations
- 2 and a half days of oral evidence sessions meeting with representatives of around 35 organisations
- 6 visits around the UK (see map below)
- Commissioning a range of independent research projects
- Comprehensive analysis of a range of economic and labour market data.
- Regular meetings with interested stakeholders.

LPC visits, 2018:

- Perth
- Newry
- Kendal and South Lakeland
- Anglesey
- Birmingham
- Barnstaple and North Devon

Past and future minimum wage rates

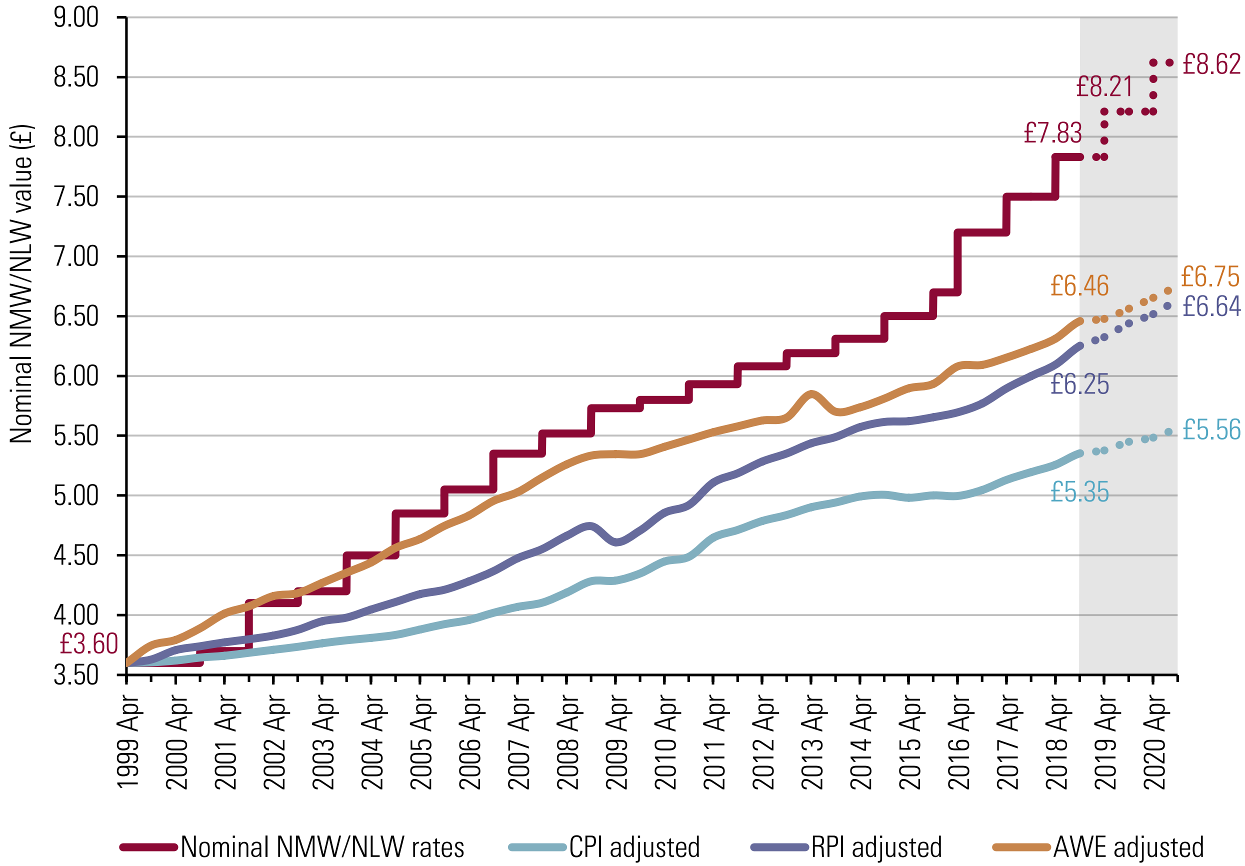
The National Minimum Wage was introduced in April 1999 at a rate of £3.60 per hour. In April 2018 the NLW rose to £7.83.

The chart opposite shows how the NLW has grown compared with Consumer Price Inflation, Retail Price Inflation and average weekly earnings. It has grown significantly faster than any of these measures. It has also risen faster than GDP per head.

This has ensured real-terms pay rises for the lowest-paid workers, including in the last two years, when inflation picked up.

The increase to £8.21 in April 2019 is forecast to mean that, 20 years on from the introduction of the minimum wage, the main rate will be 27% higher than if it had grown in line with average earnings.

NMW/NLW in comparison to other measures, 1999-2020



Economic context

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

GDP growth was expected to be sustained but modest. It has slowed but is at around 1.4-1.6% in 2018, as shown in the chart opposite.

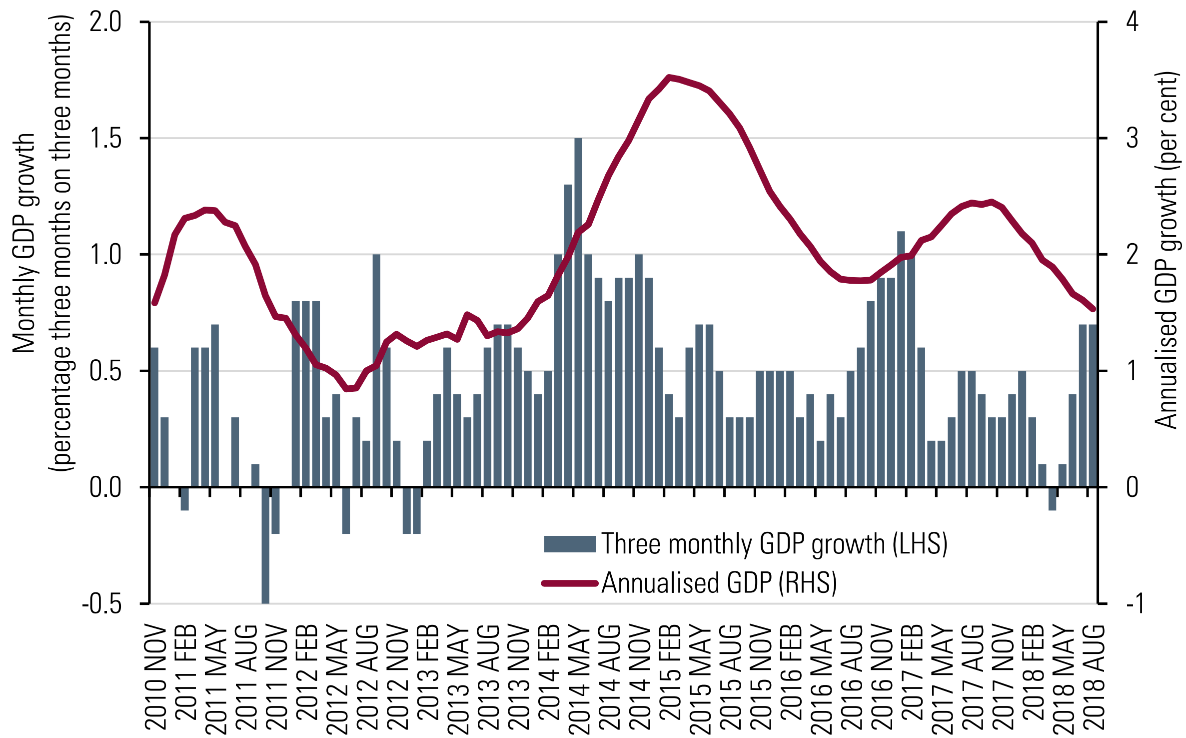
Recent growth has been more unbalanced than pre-crisis, with more dependence on consumer spending. Retail and hospitality – the two largest low-paying sectors in terms of employment – have been particularly important in driving recent growth.

Inflation was expected to fall back towards 2%, and has done so. Pay settlements and average earnings growth had picked up, again in line with forecasts.

Productivity growth remained weak and on all measures was only 2-3% higher than ten years previously.

Given the accuracy of recent forecasts, and the 'sustained economic growth' specified in our remit being present, we judged that the economy presented no reason to depart from the path of the NLW.

Monthly GDP growth, UK, 2010-2018



Employment and unemployment

Forecasts for employment have also proven to be accurate.

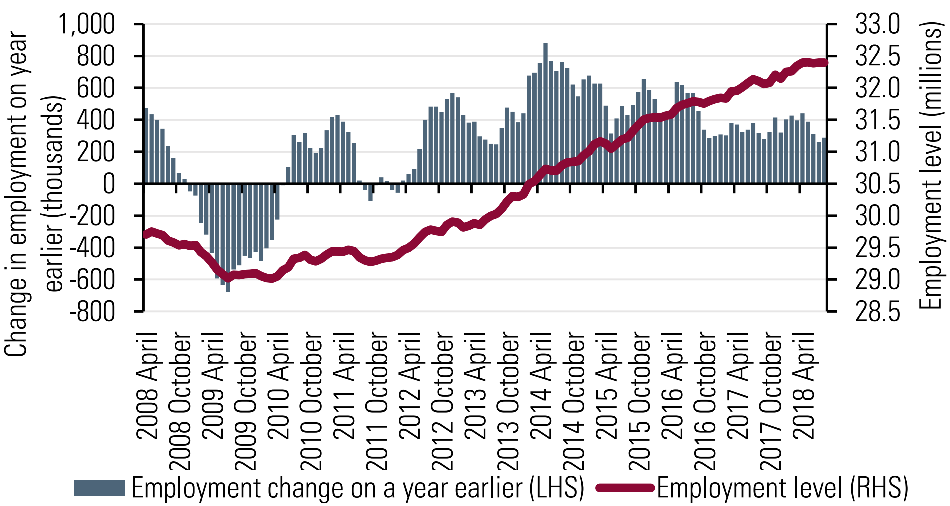
The labour market remains resilient. Although employment and job growth have slowed they remain robust. Employment (see below left) and hours are at record levels with the employment rate also at record highs. Vacancies are also at record highs with redundancies at record lows. Unemployment has fallen to its lowest rate for over 40 years (see below right).

Since the introduction of the NLW employment has grown fastest for the groups most likely to earn the NLW, including for those with no qualifications, non-UK born workers and workers with disabilities.

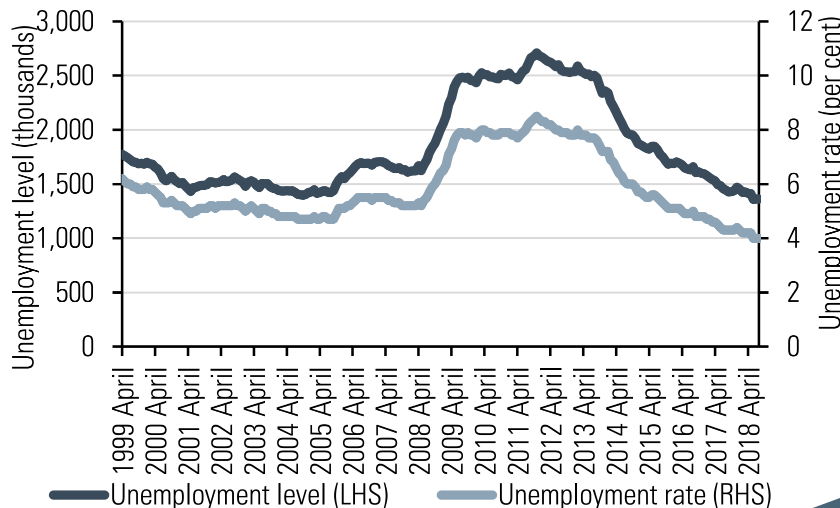
Employment and hours in low-paying sectors grew over the year, albeit at a slower rate than in non low-paying sectors.

The first quarter of data following the uprating to £7.83 this year appears to follow a similar pattern to the previous year, though it is too soon to draw any firm conclusions. Overall, the analytical evidence suggests that employment effects from the NLW have so far been minimal.

Employment in the UK, 2008-2018



Unemployment in the UK, 1999-2018



Pay and spillovers

Pay has grown fastest among the bottom decile, who benefit most from increases in the NLW, and among the top 20%. Those just above the NLW benefited from a 'spillover effect'.

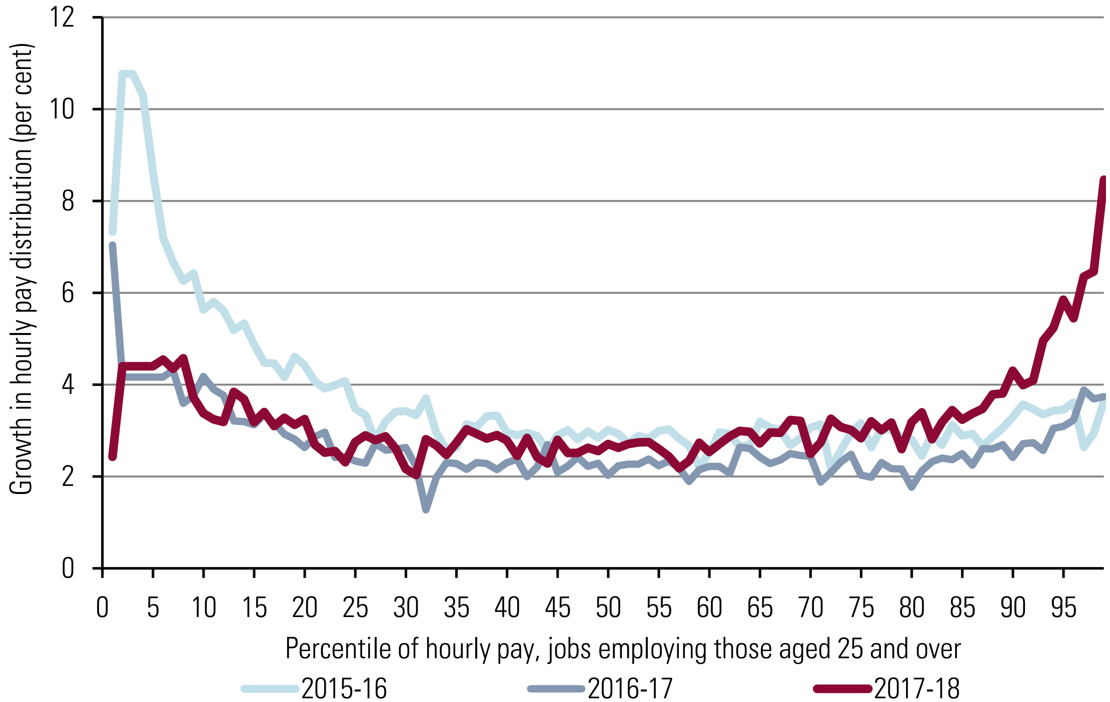
Firms increase pay to keep ahead of the NLW, either to attract workers through a premium over the wage floor, or to maintain differentials within their workforce structure.

At the same time, except for those just above the NLW, cash increases are smaller than the increase in the NLW, so overall there has been a squeeze on pay differentials.

We estimate that in total 5 million workers benefited from the 2018 NLW uprating once spillovers are accounted for.

The size of the spillovers and the proportion of the pay distribution affected has varied in the last three years, but workers paid just above the NLW have consistently had pay rises that match or exceed the increase in the NLW, and there have been some spillovers up to the 20th to 30th percentile of the hourly pay distribution.

Percentage growth in the hourly wage distribution for workers aged 25 and over, UK, 2015-2018



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NLW coverage

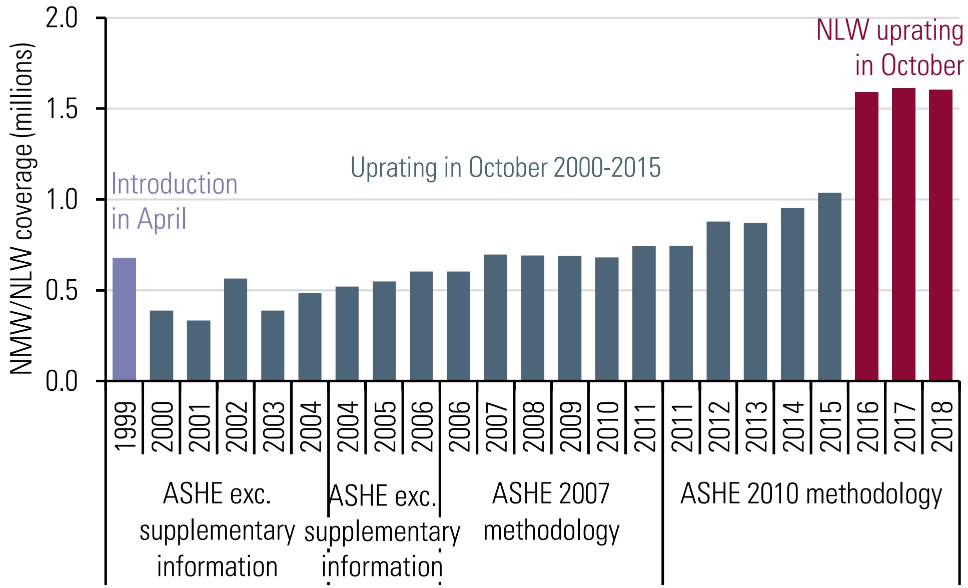
Coverage – the number of people paid at or below the NLW – has been steady at around 1.6 million since 2016. Before the NLW it was around 1 million, as shown in the chart below left. We had expected it to rise further, but the spillover effects we have described mean that it has not.

Those paid just above the NLW received at least the same cash increase as those paid at the rate in 2018, meaning that they stayed ahead of the NLW and did not add to our coverage figures.

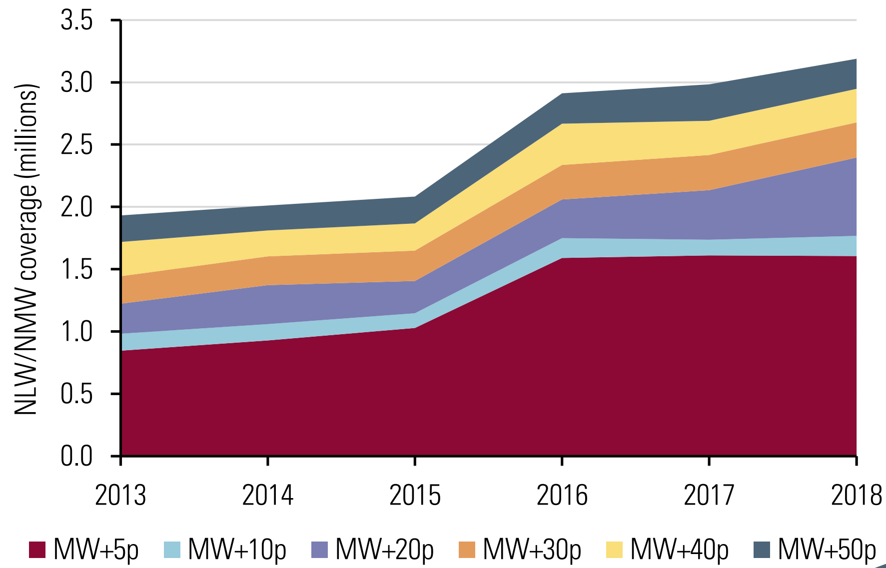
500,000 people were paid at £8 per hour in 2018. We do not know how many of these people will be paid the minimum wage next year and how many will stay ahead of it.

The chart below right shows the increasing concentration of workers paid close to the NLW. In addition to the 1.6 million covered by the NLW, there are the same number again paid within 50p per hour of the rate. This is indicative of pay compression near the bottom of the pay distribution.

Coverage of the NMW/NLW for workers aged 25 and over, UK, 1999-2018



Wages within different earning bands of the NMW/NLW, for workers aged 25 and over, UK, 2013-2018



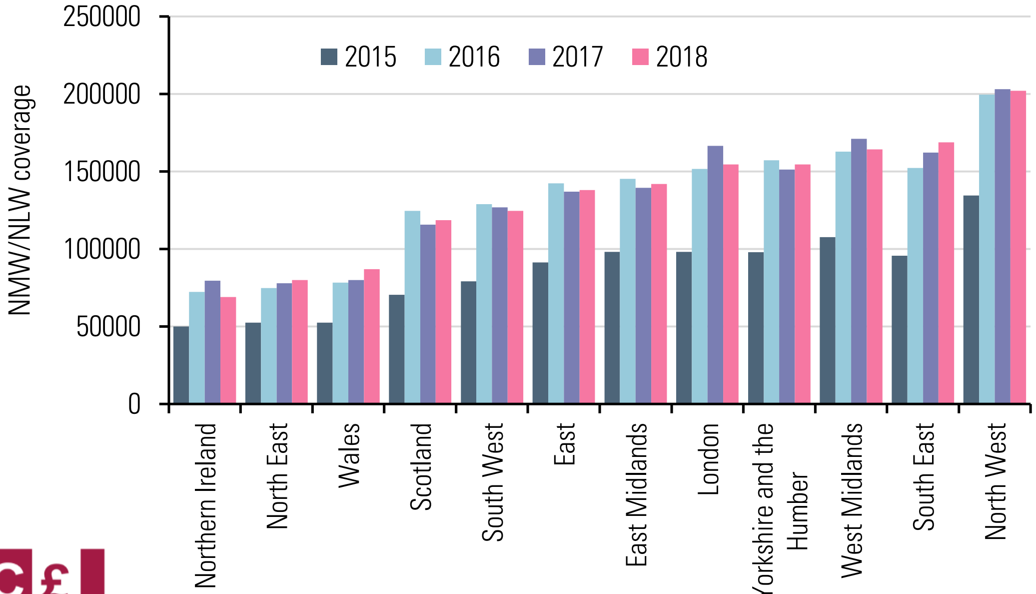
Regional and national differences

The map opposite shows that the percentage of eligible workers paid the NLW varies between UK regions and nations. Coverage is lowest in London (4%) and the South East (4.9%). It is also below the UK-wide coverage of 6.5% in the South West, East of England, and Scotland.

Coverage is highest in Northern Ireland, with 9.5% of eligible workers paid the NLW.

However, as the chart below shows. The number of NLW workers in Northern Ireland actually fell in 2018, as average wages there rose faster than the NLW. This is also true of other regions, but these falls in coverage have been offset by increases in the South East, Wales and the North East.

NMW/NLW coverage, 25+, by UK region and nation, 2015-2018



NLW coverage, by UK region and nation, 2018

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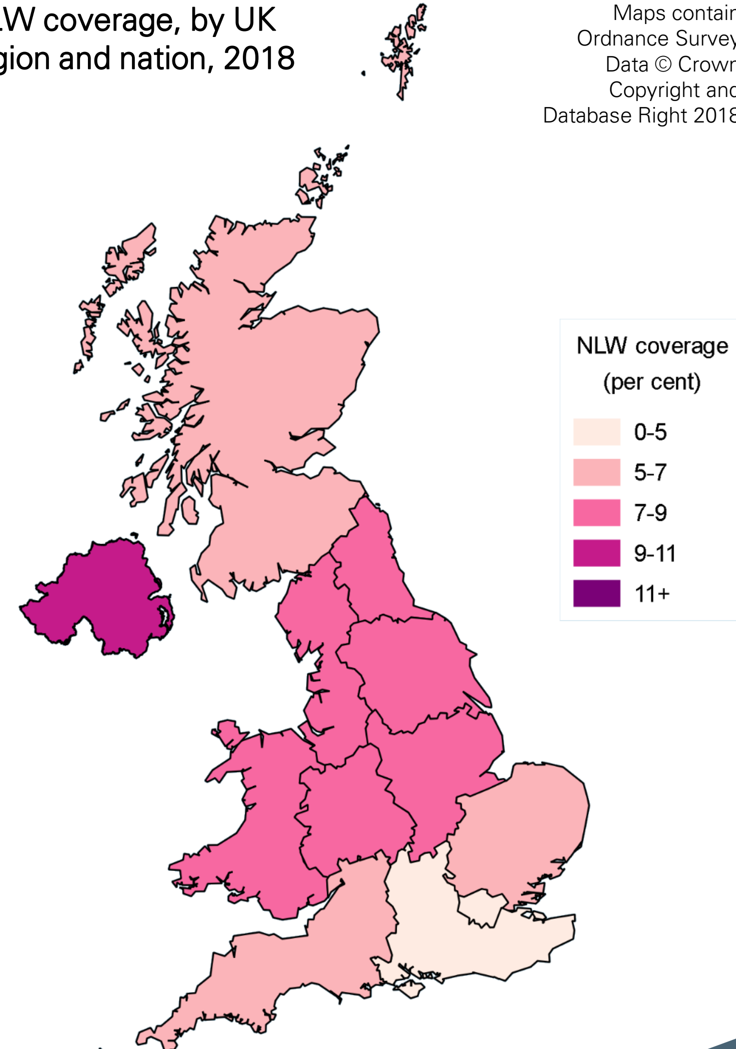

Local coverage

At a local authority level there are large differences in the percentage of workers aged 25 and over who are paid the NLW. In some places, close to a fifth of workers are on the NLW.

Many coastal areas have an above-average proportion of workers paid the NLW. In 2018 this prompted us to visit Anglesey and Barnstaple.

Looking at coverage at a local level also confirms that differences within regions are often larger than differences between them.

Local authorities with highest NLW coverage

Local Authority	Coverage (%)
West Somerset	19.8
Isles of Scilly	18.1
Richmondshire	17.4
Isle of Anglesey	17.3
Weymouth and Portland	17.3
South Tyneside	16.3
North East Lincolnshire	15.7
Newark and Sherwood	15.1
East Lindsey	14.9
Melton	14.9

Local authorities with lowest NLW coverage

Local Authority	Coverage (%)
City of London	0.8
Three Rivers	1.0
South Cambridgeshire	1.5
Christchurch	1.5
Westminster	1.6
Hammersmith and Fulham	1.8
Oxford	1.8
Surrey Heath	1.8
Cambridge	1.9
Islington	2.0

NLW coverage, by local authority, 2018*

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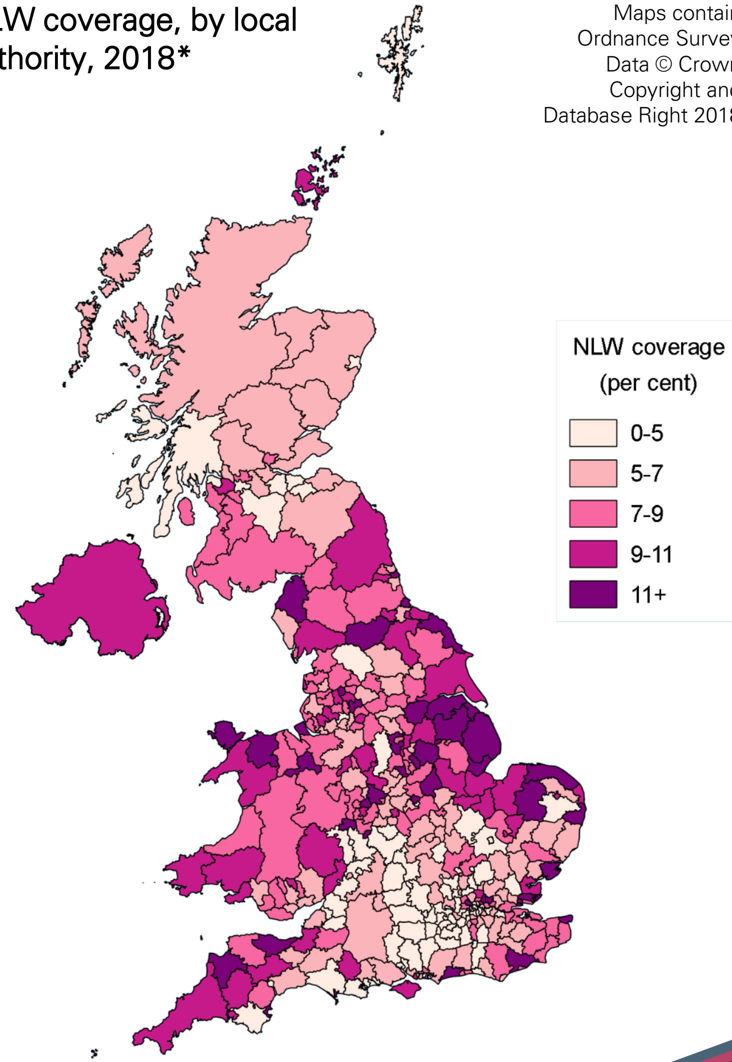


*Data at a local level for Northern Ireland are not available.
[Full data are available here](#)

Stakeholder evidence

We heard evidence on the effects of the NLW from a wide range of stakeholders, including employers and workers. Employers mainly reported having been able to manage NLW increases, but some stressed that they have had to make changes. Workers and unions we met welcomed the pay increase. They argued that employers have coped well so far, so future NLW rates could be more ambitious.

Profits: As in previous years, it was common for employers to report accepting a reduction in profits as part of their response to the NLW. They questioned whether this approach would be sustainable as the NLW continues to rise. Unions cited high levels of corporate profitability as evidence that the NLW has been affordable.

Prices: Passing on some of the cost of the NLW to customers was a prevalent response in employer surveys, though there does not seem to have been a large effect on inflation in low-paying sectors. Some employers in very competitive sectors or those that rely on government funding such as childcare and adult social care told us they had been unable to raise prices.

Pay and differentials: As our analysis shows, there were spillovers from the NLW, but at the same time there has been pay compression. At a firm level, this means cuts to the differentials between job grades. We also heard some examples of other aspects of pay and benefits being reduced.

Productivity: Since the NLW was introduced we have heard that employers recognise that increasing productivity will help manage increases. The UK's sluggish productivity growth suggests that they have not been successful in doing so. Indeed, we heard that efforts to raise productivity have centred on more intense worker effort.

Investment: Linked to productivity, we heard that spending on training and automation was more common in larger firms, and is predicted to become more so as the NLW continues to rise. Small businesses had found some investment opportunities too expensive or not worthwhile.

Sectors: Specific sectors, and small businesses more generally, reported more concern over their ability to pay for the NLW and other rising costs. Convenience retail, wholesale, hairdressing, textiles and sectors relying on government funding reported more problems with affording the NLW.

Employment: the sectors reporting most pressure were more likely to tell us that some employers had reduced employment levels. It was not clear that this had a net effect in these sectors, and any changes were more likely to be through slower hiring or adjustments to hours than redundancies.

Youth pay

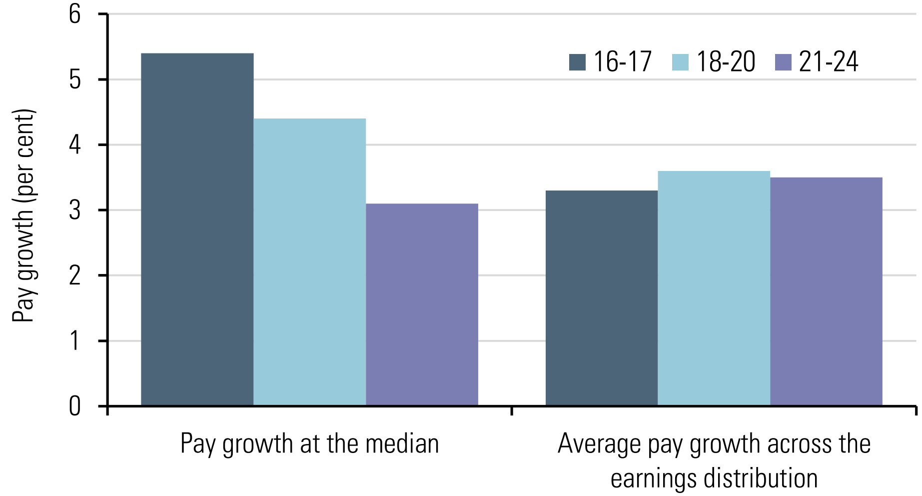
Young people continued to see strong pay growth between 2017 and 2018, though some of this was driven by the NLW and NMW upratings.

For 21-24 year olds, pay growth at the median was slower than last year but it was faster for both 16-17 year olds and 18-20 year olds. However, the strong median pay growth for the latter two groups was driven by increases in the minimum wage rates in April 2018, as at the median 16-17 year olds were paid the 18-20 NMW rate, and 18-20 year olds the NLW.

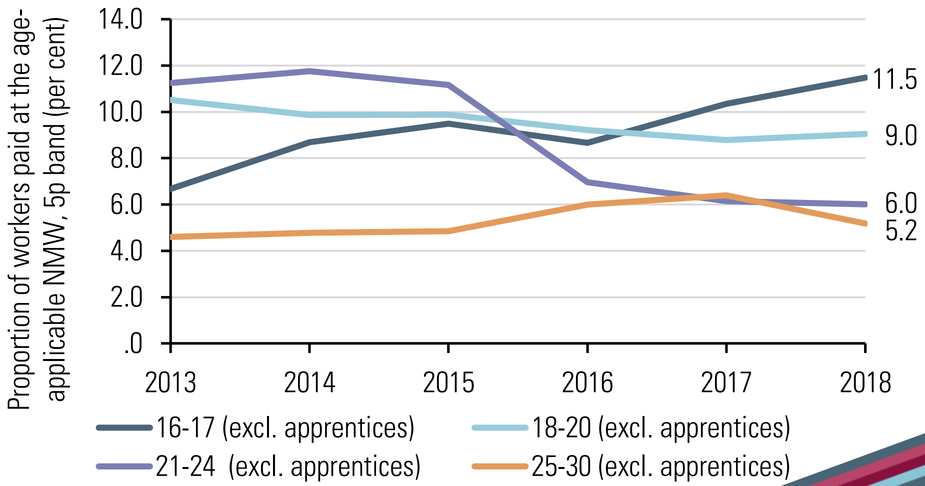
Nevertheless, averaging pay growth across the distribution for all groups still shows strong pay growth for younger workers – between 3.3% and 3.6%, see figure above right. This compares well with pay growth across the economy, which was 2.5% for workers aged 16 and over.

Strong pay growth is reflected in stable use of the applicable NMW rates for 18-20 year olds and 21-24 year olds as shown in in the chart below right. The chart also shows that the use of the 21-24 Year Old Rate, previously the main rate of the NMW, fell significantly when the NLW was introduced as many employers chose to pay the new, higher rate.

Pay growth at the median and across the distribution, 2017-2018



Percentage paid at their age-related minimum wage rate, by age, UK, 2013-2018



Youth employment

Over the year to June 2018, employment rates for young people not in full-time education fell for 21-24 year olds (driven mostly by a rise in inactivity), and fell very slightly for 16-17 year olds, while continuing to rise for 18-20 year olds.

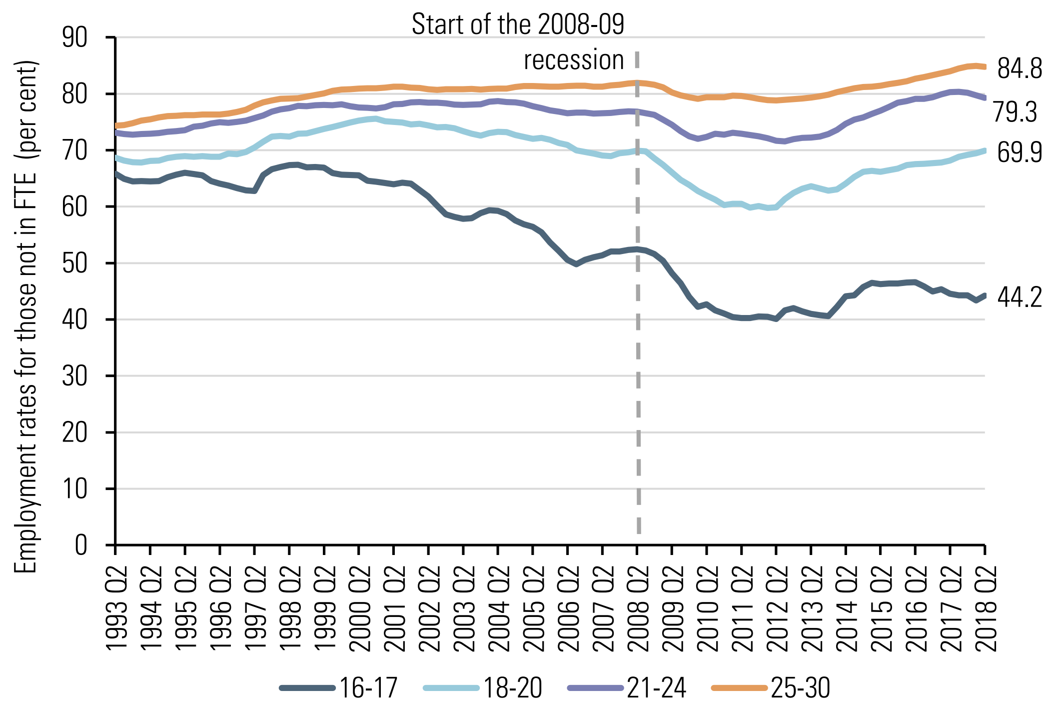
Unemployment has fallen across the economy, and the unemployment rate fell for both 18-20 and 16-17 year olds not in full-time education, but was unchanged over the year for 21-24 year olds. For all three age groups the unemployment rates for those not in full-time education were at historic lows.

Rates of underemployment were also promising, with falls for all three youth groups, and the fastest fall for the youngest workers.

The overall picture – of historically low youth unemployment, falling youth underemployment and above-average pay growth – suggested that there was scope to raise the youth rates of the minimum wage without harming young people's employment.

We therefore recommended further increases to the youth rates above the level of average earnings growth and above inflation.

Employment rates for young people not in FTE, by age, UK, 1993-2018



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Apprentices

Apprenticeship starts have not bounced back after a sharp fall in the last quarter of the 2016/17 academic year, but the evidence suggests that this shift was caused by the ongoing impact of the policy changes taking place in England rather than increases in the minimum wage.

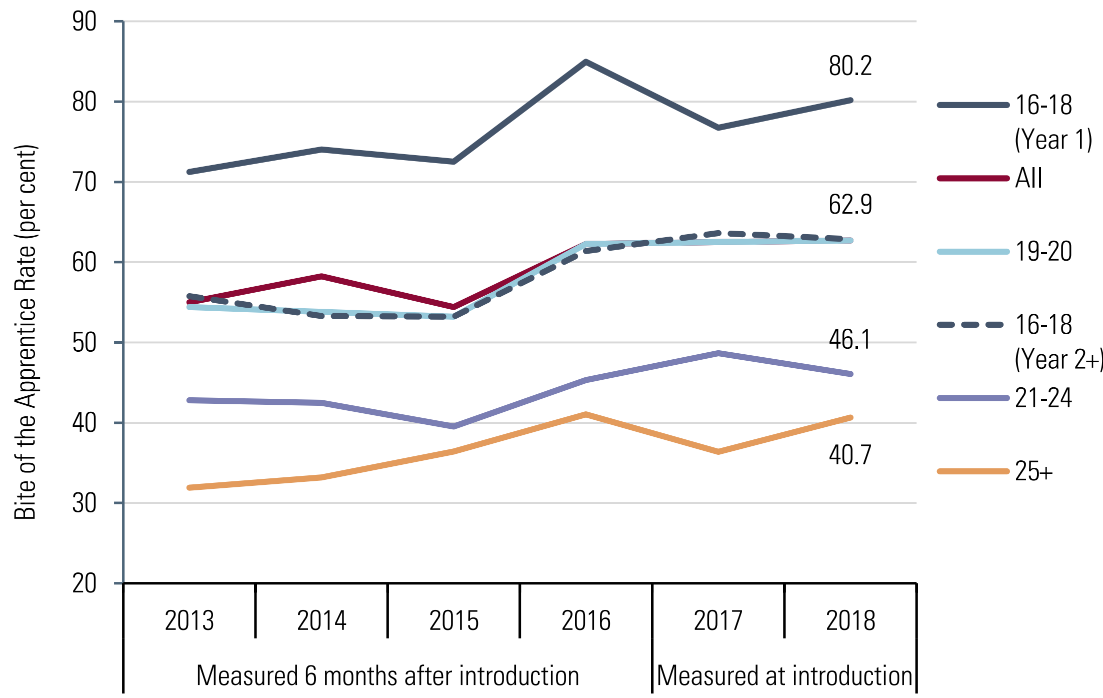
Apprentices saw reasonably strong pay growth overall (5% and 7% on average for first and second year apprentices respectively), with first year apprentices aged 16-18 and over 25 the exception.

The chart opposite demonstrates this strong pay growth: bite has remained relatively stable for apprentices of all ages, suggesting that recent increases in the Apprentice Rate are unlikely to have had negative effects.

On this basis we recommended an increase which is similar to last year's: by 5.4 per cent or 20p to £3.90.

We will look in detail at the operation and effectiveness of the Apprentice Rate as part of the youth rates review, and in light of the Apprentice Pay Survey due next year.

Bite of the Apprentice Rate, by age, 2013-2018



The path of the NLW

The forecast NLW rate for 2020 is very similar to last year. In fact, since our Autumn 2016 Report, pay growth forecasts have moved little. We have heard that this relative predictability of future NLW increases has helped employers to plan.

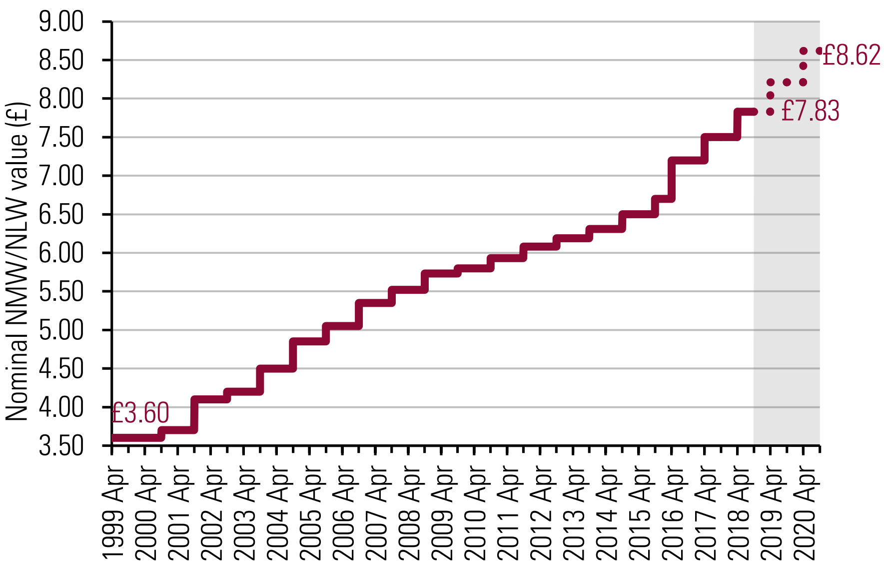
£8.62 is the forecast rate for the NLW in 2020, based on forecasts available in October 2018.

When the NLW was announced, it was predicted to reach £9.35 by 2020, but wage growth has been slower than predicted in July 2015.

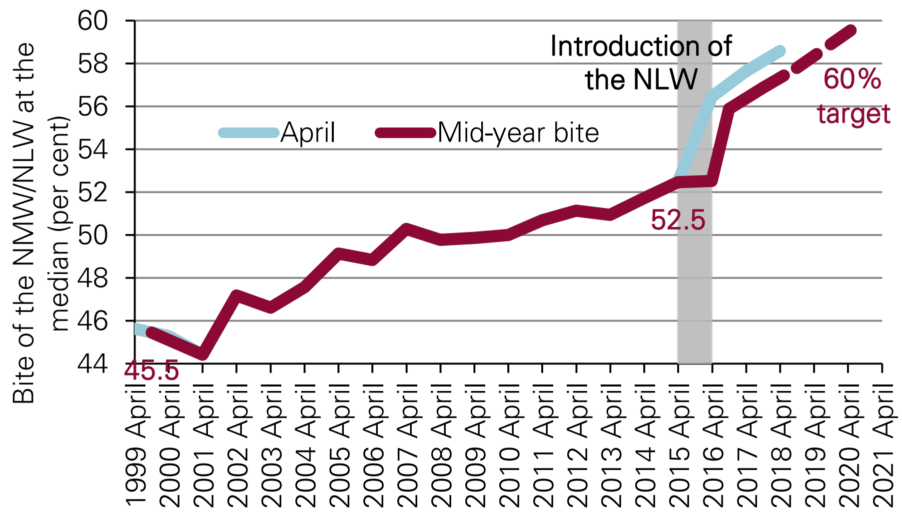
In 2020 we expect the NLW to reach its target of 60% of median earnings. The NMW was 45.5% of median earnings at its introduction in 1999 and 52.5% in 2016, before the NLW was introduced (see chart below right) This rapid growth in comparison with median earnings shows that the NLW has been a significant intervention in the labour market.

Future NLW increases are subject to sustained economic growth, as stipulated in the LPC's remit.

Nominal value of the NMW/NLW, 1999-2020



Bite of the NMW/NLW, 1999-2020



2019 rates and other LPC publications

We gave our rate recommendations to the Government in October 2018, as specified in our remit. The recommendations were unanimously agreed by the Commission, and were accepted in full by the Government. The rates to apply from 1 April 2019 were announced in the Autumn Budget on 29 October (see table for details).

We published our 2018 Report on 27 November.

Read the full report here.

In 2018 we had an additional request in our remit from the Government: to assess the scale and nature of one-sided flexibility; and to assess the impact of introducing a higher minimum wage for non-guaranteed hours. We published our recommendations and report on these issues in December 2018.

Read our report and recommendations on one-sided flexibility.

Future LPC publications and consultations:

- In the new year we will publish a further report on minimum wage compliance and enforcement.
- We will launch our 2019 consultation on future NLW and NMW rates in the spring.
- Throughout 2019, we will undertake visits to gather evidence on the effects of the NLW and NMW across the UK. We will publish visit locations and dates in January 2019.
- In the summer we will conclude our review of the youth minimum wage rates.

Current and future NLW and NMW rates

Rate	Current rate		Future rate (from April 2019)
NLW	£7.83	→ 4.9%	£8.21
21-24 Year Old Rate	£7.38	→ 4.3%	£7.70
18-20 Year Old Rate	£5.90	→ 4.2%	£6.15
16-17 Year Old Rate	£4.20	→ 3.6%	£4.35
Apprentice Rate	£3.70	→ 5.4%	£3.90
Accommod-ation Offset	£7.00	→ 7.9%	£7.55