National Minimum Wage

Low Pay Commission

Low Pay Commission
2020 Report launch event

9 December 2020

Practical points

- The session will be recorded.
- Please keep cameras off and microphones on mute.
- There will be time for questions at the end.
  - For comments / questions – either ‘raise hand’ or use chat function.
- Presentation will be available online after this session.
- Any questions after the event – contact us via lpc@lowpay.gov.uk.

Running order

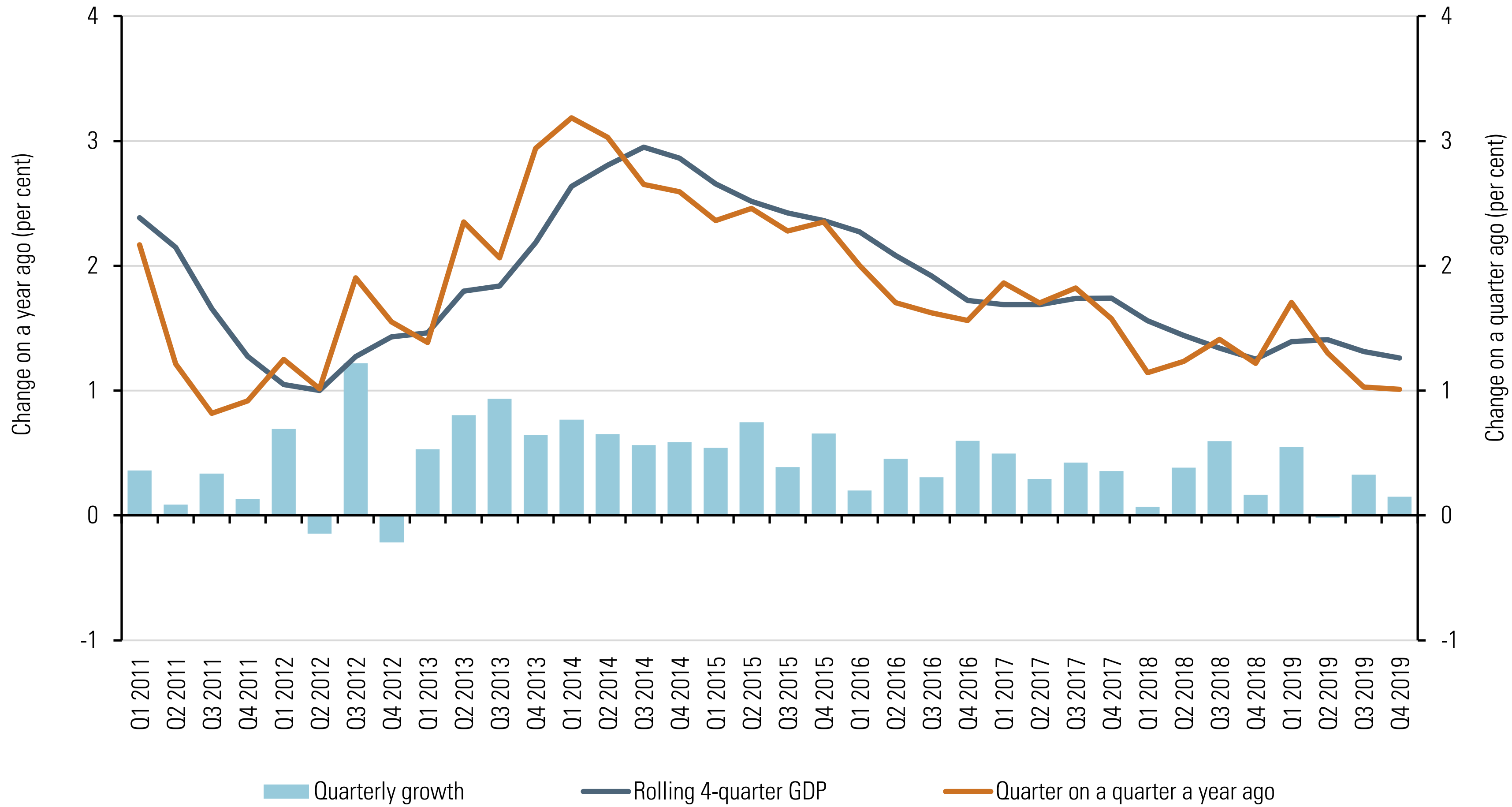
- Opening remarks (Bryan Sanderson, Chair of the LPC)
- Summary of findings
    - Economic context for the LPC's recommendations
    - The NLW
    - Young people
    - Apprentice Rate review
- Reflections on this year's recommendations (Neil Carberry and Simon Sapper)
- Questions from audience (chaired by Prof. Sarah Brown)

Economic context for this year's recommendations

Commissioners agreed their recommendations on 29 October

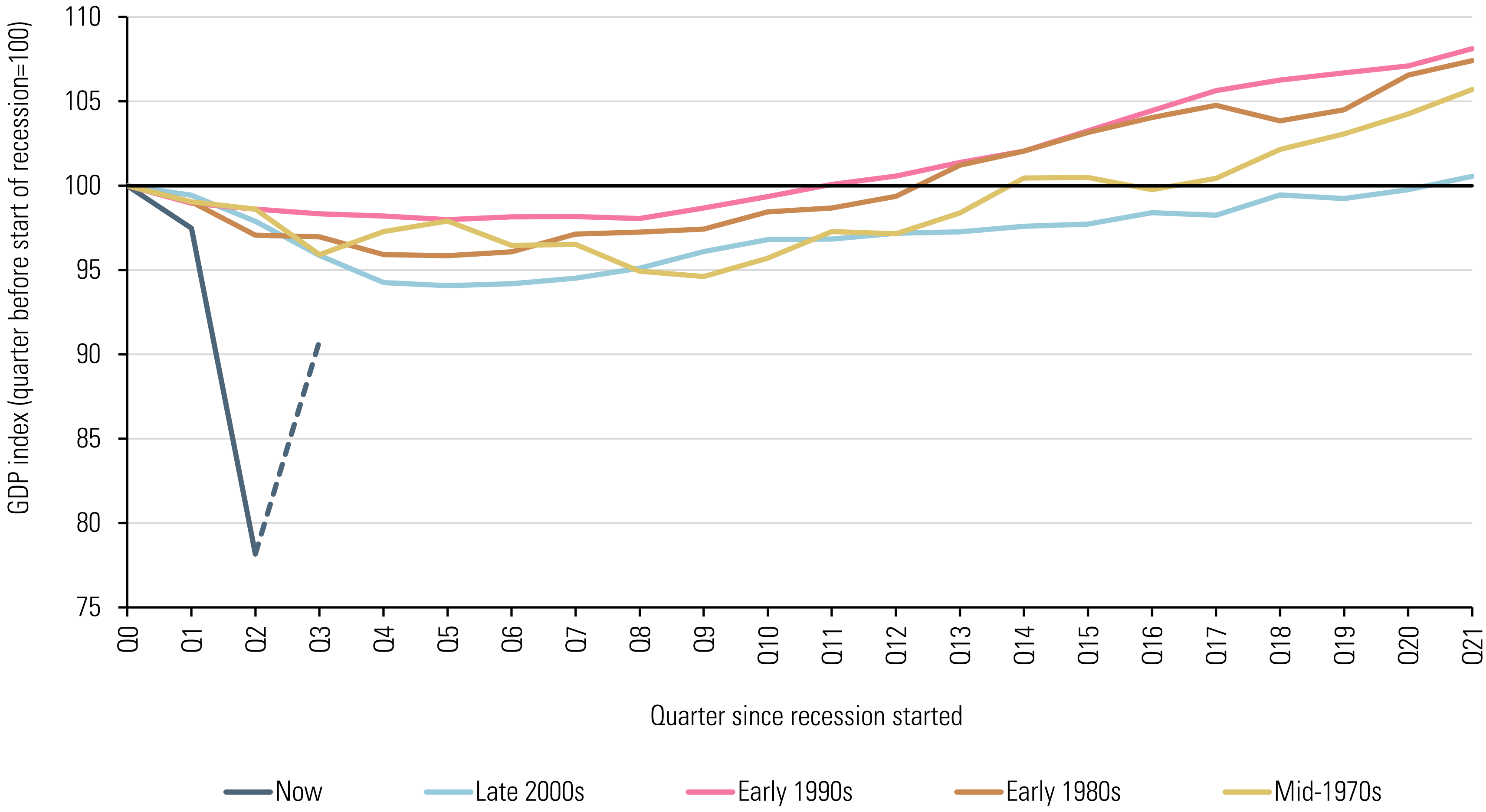
- The recommendations were based on data and information available up to 29 October
- The UK was under various forms of lockdown
  - Wales, Northern Ireland and the Central Belt of Scotland were under a form of ‘circuit break’
  - England was under a tier system
- We had access to a pre-release version of provisional ASHE 2020 data
- We used data and forecasts available up to 29 October – OBR (July), Bank of England (August) and HM Treasury panel (August and October).

The economy was already slowing even before the pandemic hit



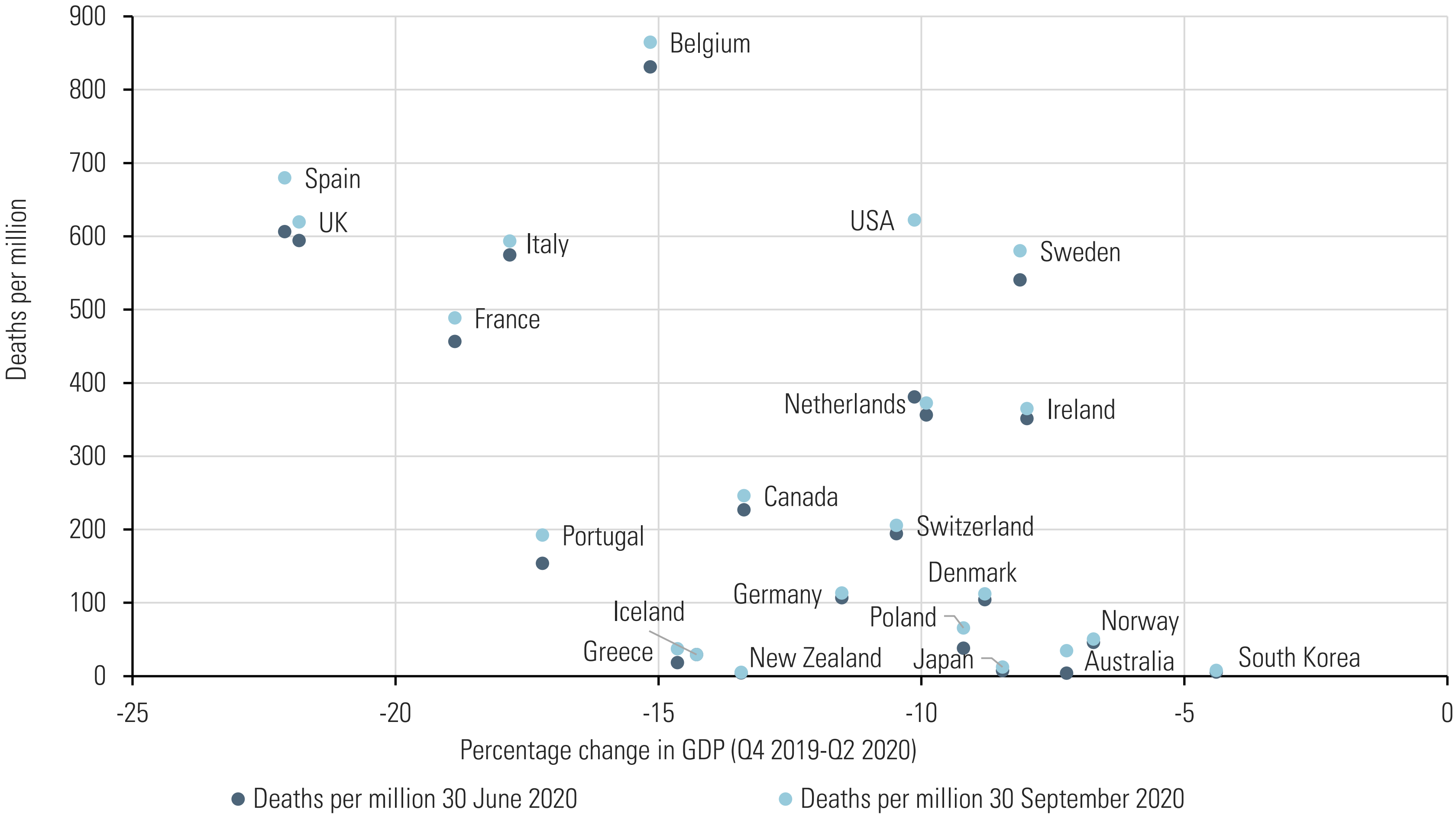
Source: LPC estimates using ONS data. GDP (ABMI), quarterly, seasonally adjusted, UK, Q2 2009-Q4 2019.

The pandemic led to a fall in GDP that was by far the largest of any post-war recession (and probably since 1709)



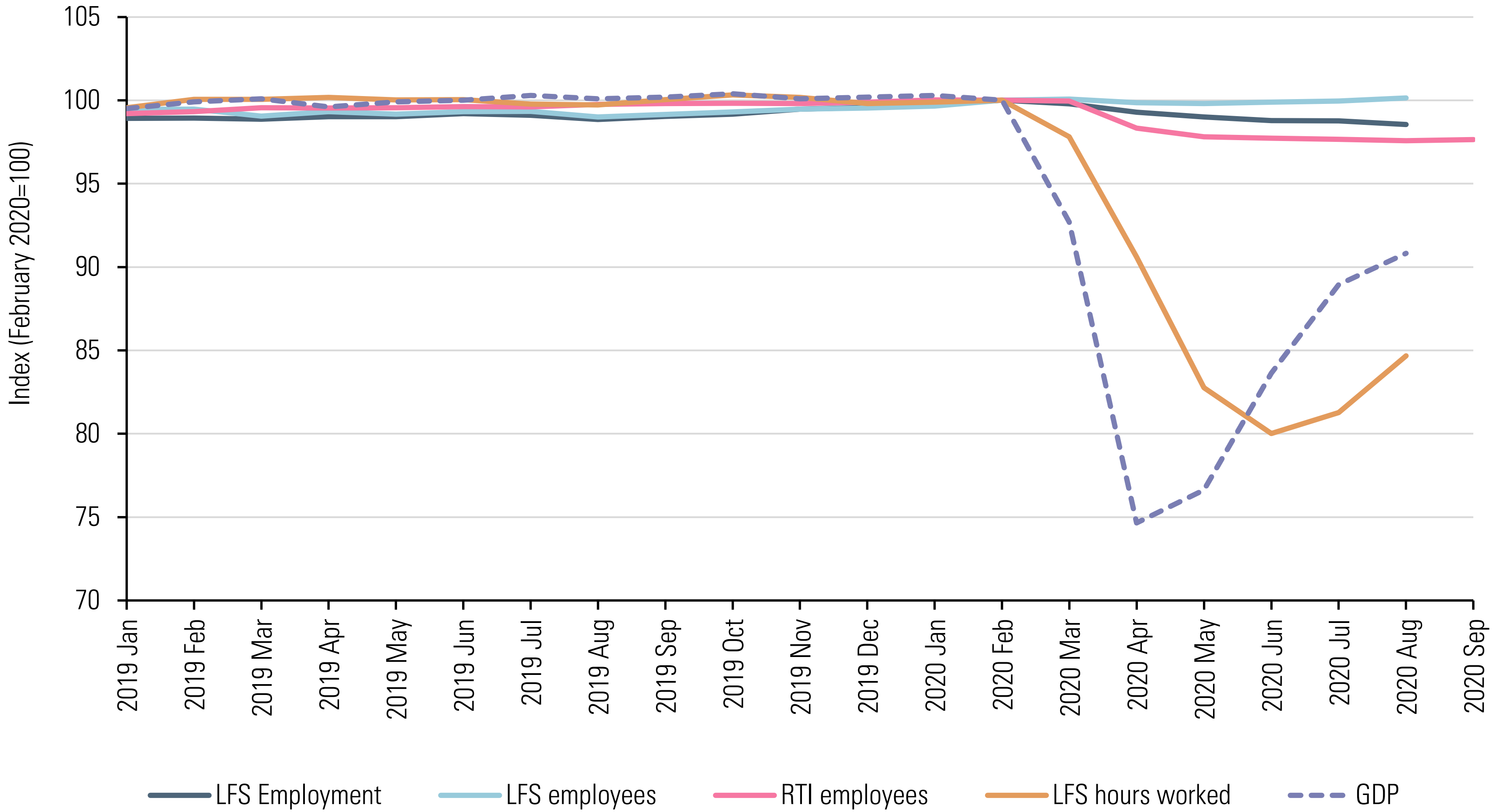
Source: LPC estimates using ONS data. Real GDP (ABMI), quarterly, seasonally adjusted, UK, 1973-2020.
Note: Q0 is 1973 Q2 in the mid-1970s, 1979 Q4 in the early 1980s, 1990 Q2 in the early 1990s and 2019 Q4 now.

It affected every country but the UK was one of the worse hit in both health and economic outcomes



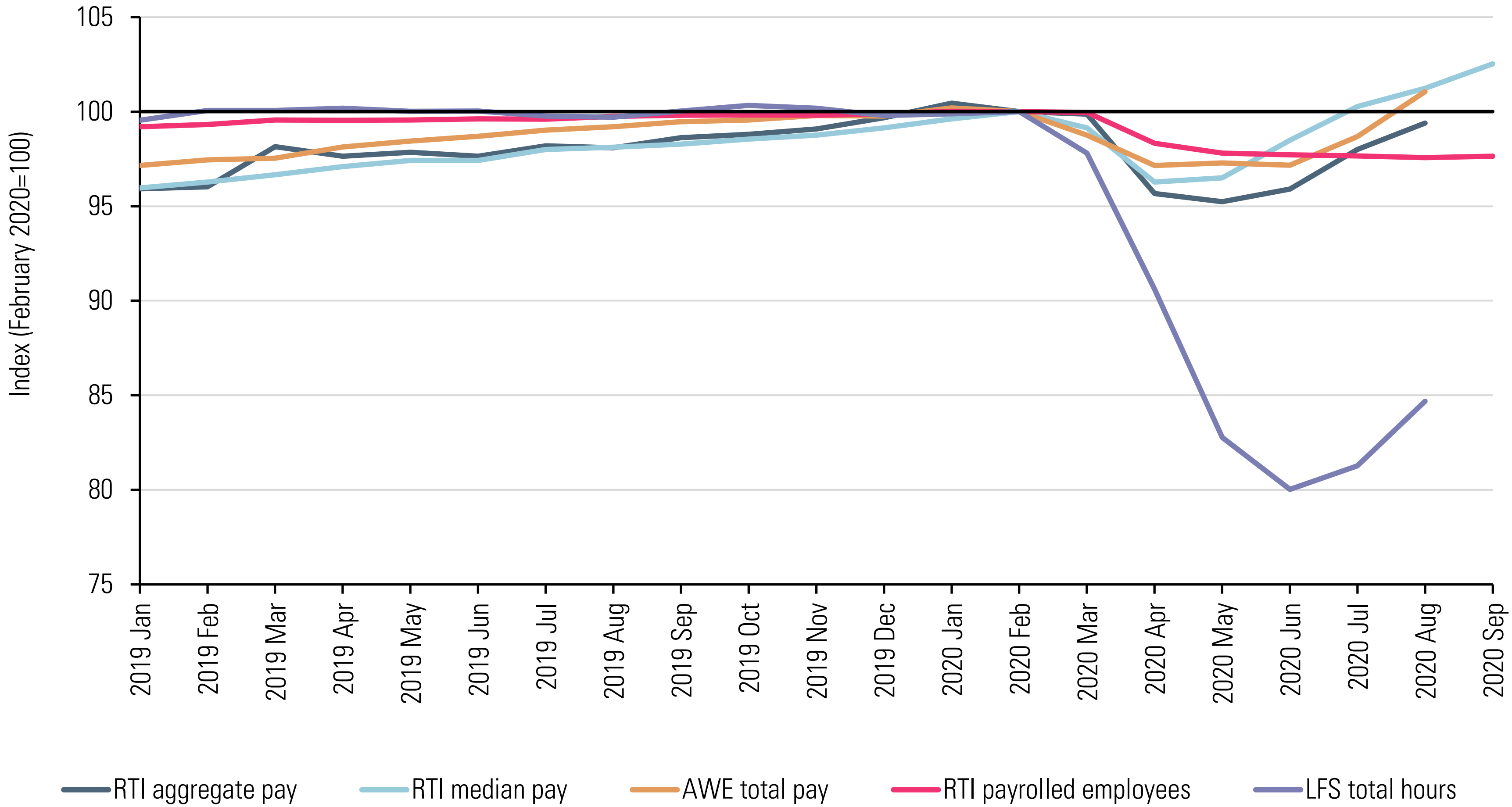
Source: LPC estimates using OECD data. Real GDP (B1_GE: Gross domestic product - expenditure approach, seasonally adjusted) and Our World Data for total deaths per million, selected countries, 2019-2020.
Note: Our World Data uses data from the European Centre for Disease Prevention and Control (ECDC) as its source.

With substantial government support (CJRS), the labour market responded mainly by adjusting hours not jobs

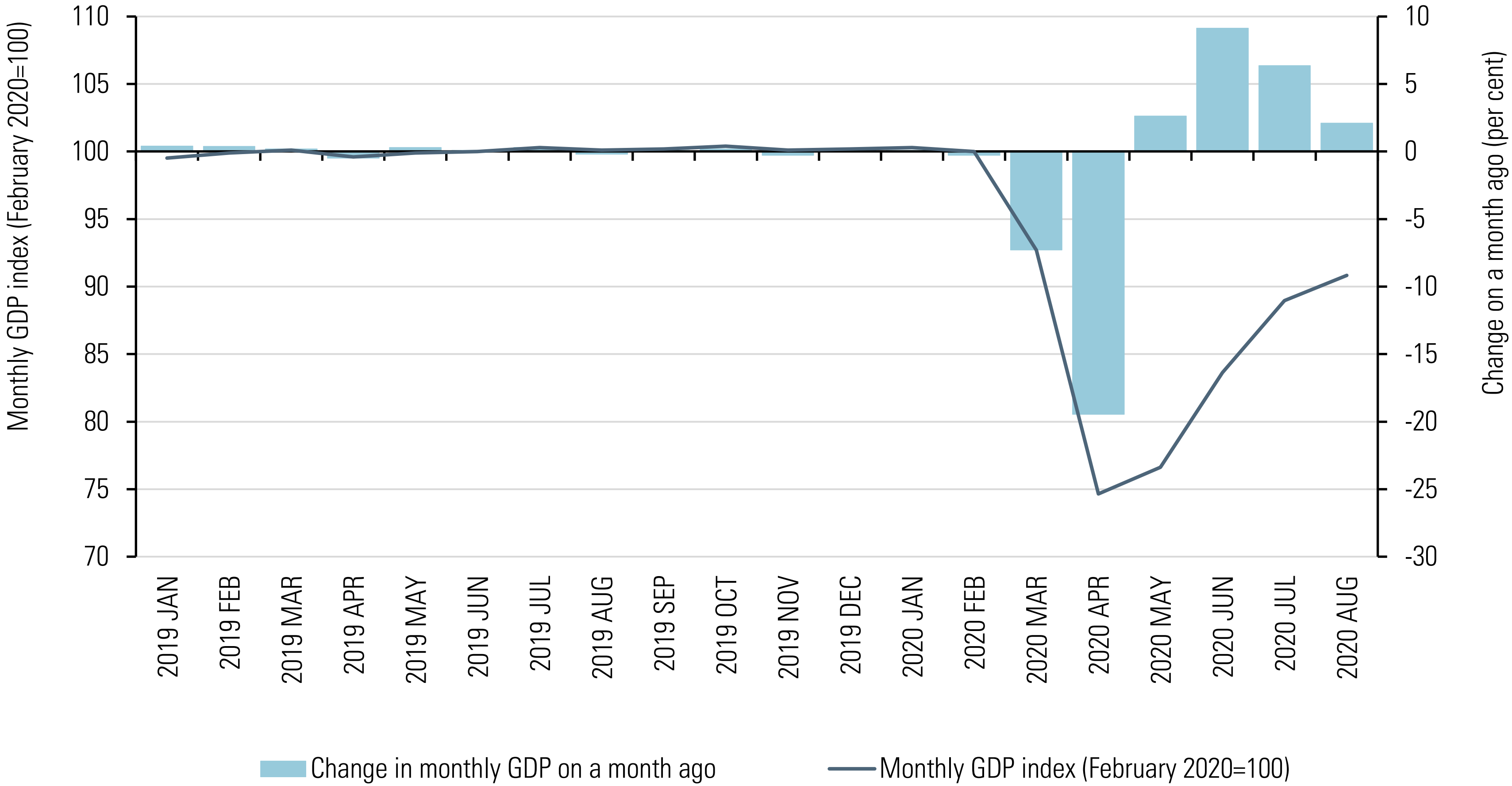


Source: LPC estimates using ONS data: total employment (MGRZ); number of employees (MGRN); total hours worked per week (YBUS); monthly GDP index (ECY2); and RTI payrolled employees, monthly, seasonally adjusted, UK, January 2019-January 2020.

Earnings were supported and did not reflect the fall in hours worked

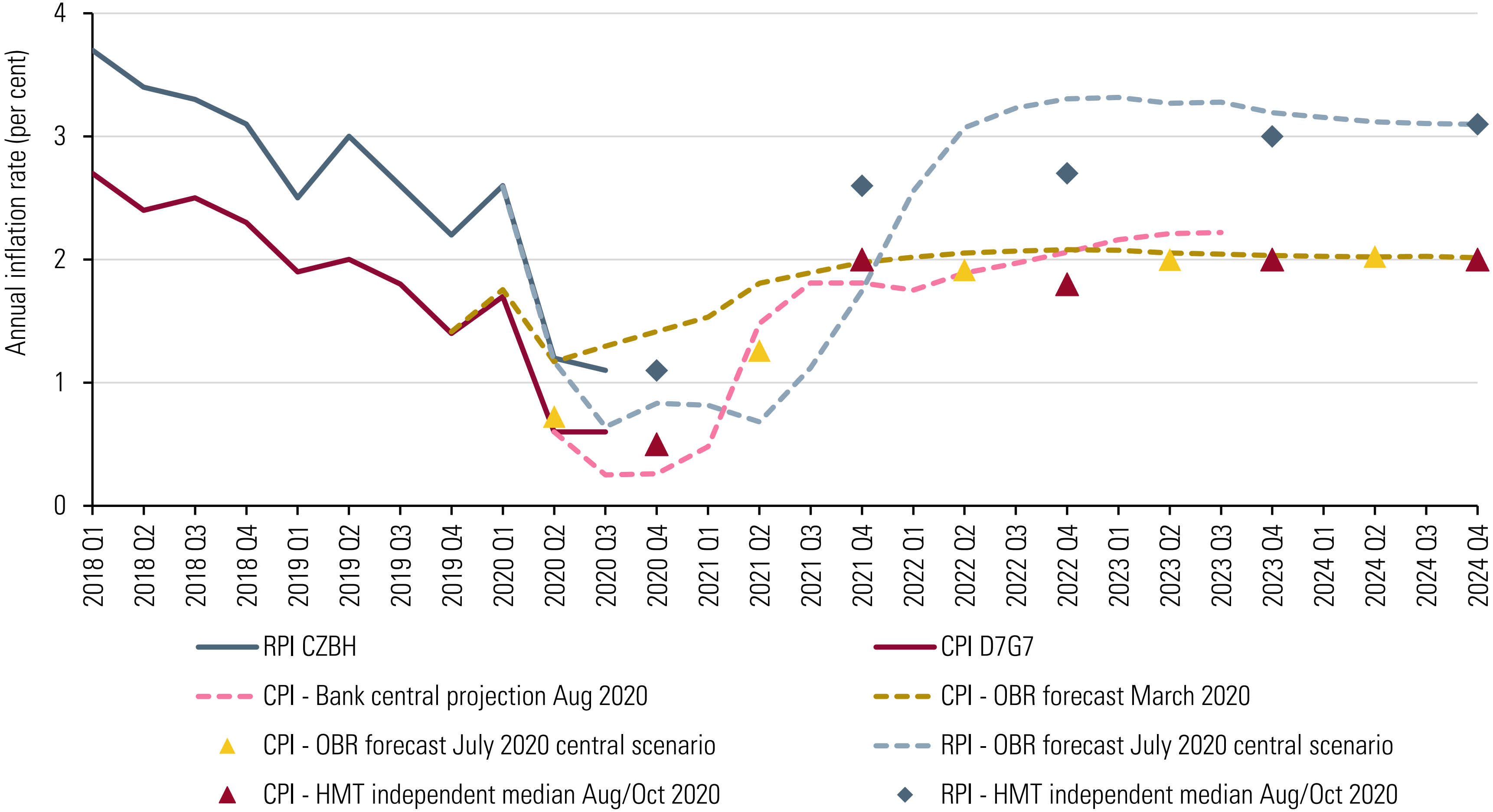


The economy rebounded strongly over the summer but growth has weakened since June and remained 9% below its pre-pandemic level



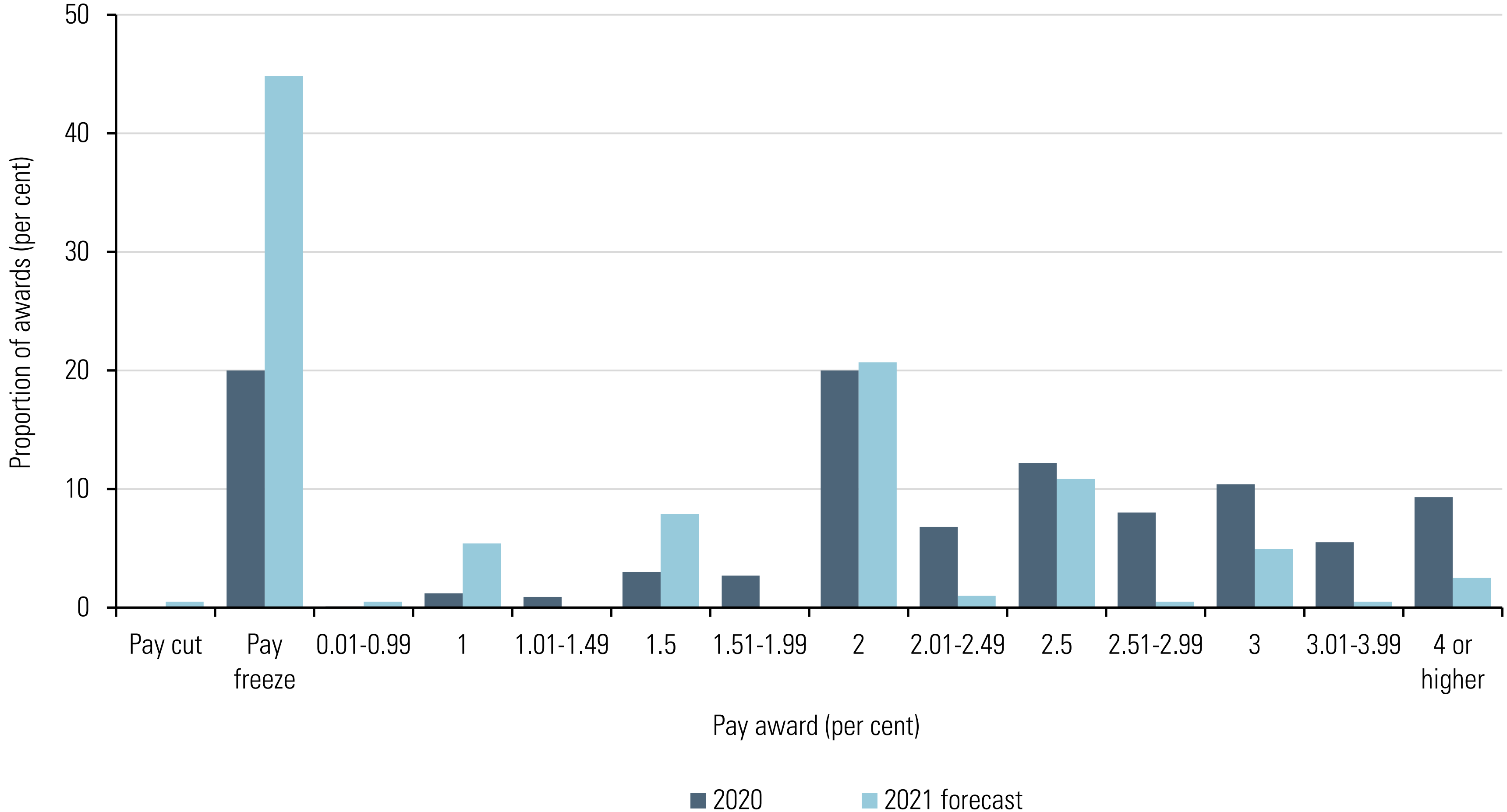
Source: LPC estimates using ONS data: AWE total pay (KAB9); total hours worked (YBUS); RTI aggregate pay; RTI median pay; RTI payrolled employees; (Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted), monthly, seasonally adjusted, UK (GB for AWE total pay), January 2019-September 2020.

Inflation slowed during the pandemic but is expected to increase towards 2% by the end of 2021



Source: LPC estimates using ONS data. CPI (D7BT) and RPI (CZBH), quarterly, seasonally adjusted, UK, 2018-2020. forecasts from HM Treasury Forecasts for the UK economy (2020 August and October), Bank of England Monetary Policy Report (2020 August) and OBR (2020 March and July). Notes: CPI forecast for market mode from Bank of England parameters from MPC CPI inflation projections. CPI forecast from OBR central scenario is inflation rate for whole year.

Pay awards had become bimodal and forecasts suggested this would continue into 2021



Source: LPC estimates using XpertHR data, 2020-2021.
Note: Data for 2020 are actual pay awards. Data for 2021 are forecasts from a survey of employers conducted in September 2020.

The outlook was extremely uncertain

Two factors loomed large:

- Covid-19 (the impact from measures to combat a second wave, a vaccine, speed of recovery)
- Brexit (the future UK trading relationship and rules)

Is the current dislocation temporary or permanent?

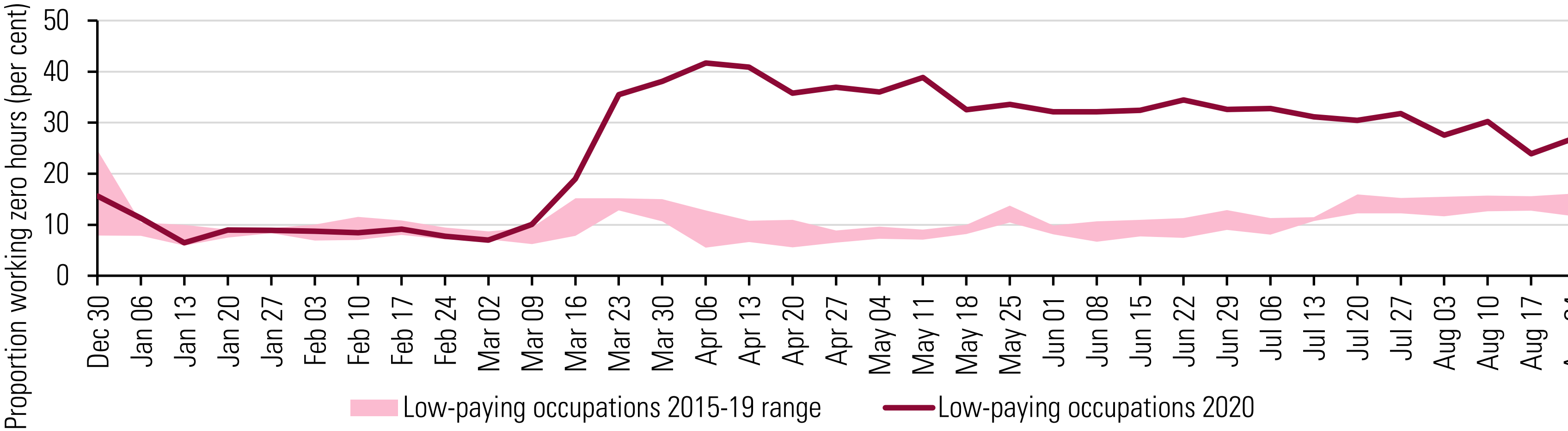
- Consumers in aggregate have built up savings but will they spend them (the poorest have increased debts)
- Businesses have increased loans to survive (with revenue down and increased costs)
- Government will likely withdraw support at some point in 2021
- Trade will be affected by Brexit

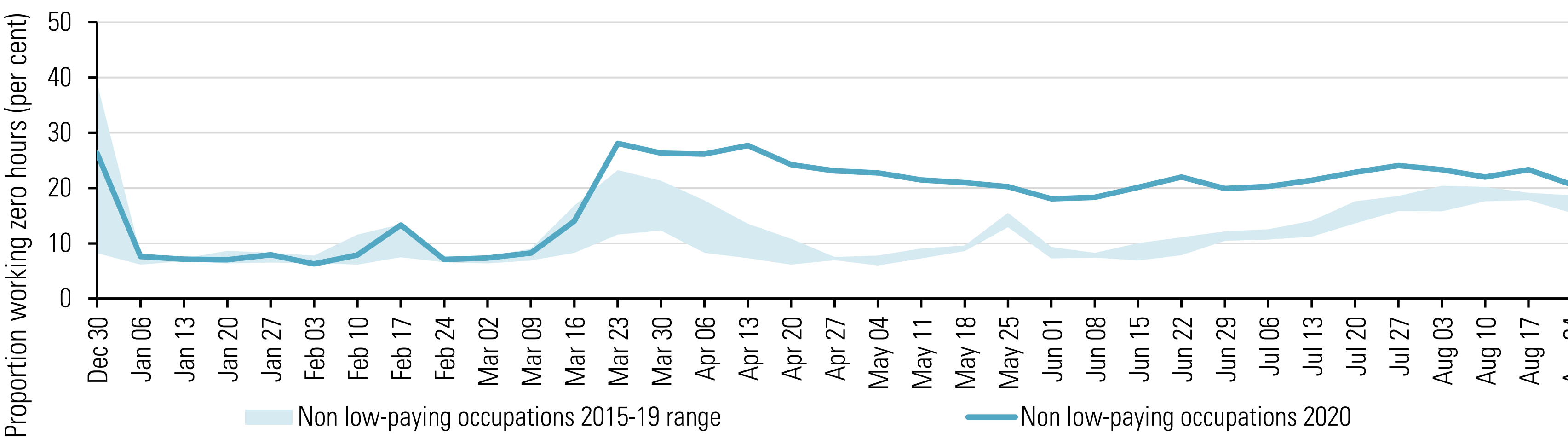
The National Living Wage

The low paid labour market was relatively solid pre-Covid-19

- Labour market outcomes for the groups most associated with high minimum wage use continued to improve faster than for others.
- Areas of the country with higher coverage of the minimum wage saw similar or higher employment growth to other areas.
- Low-paying occupations and industries saw decreases in employment
  - There were good reasons to believe that this was linked to a tight labour market inducing moves away from these sectors.
- Pay growth was high at the bottom end of the distribution

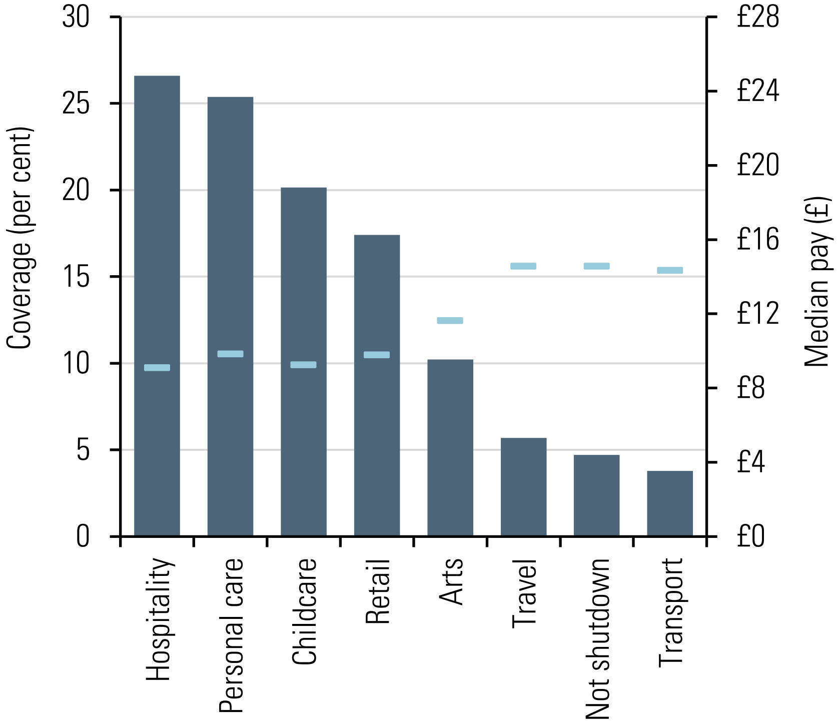
Covid-19 hit the low-paid labour market harder

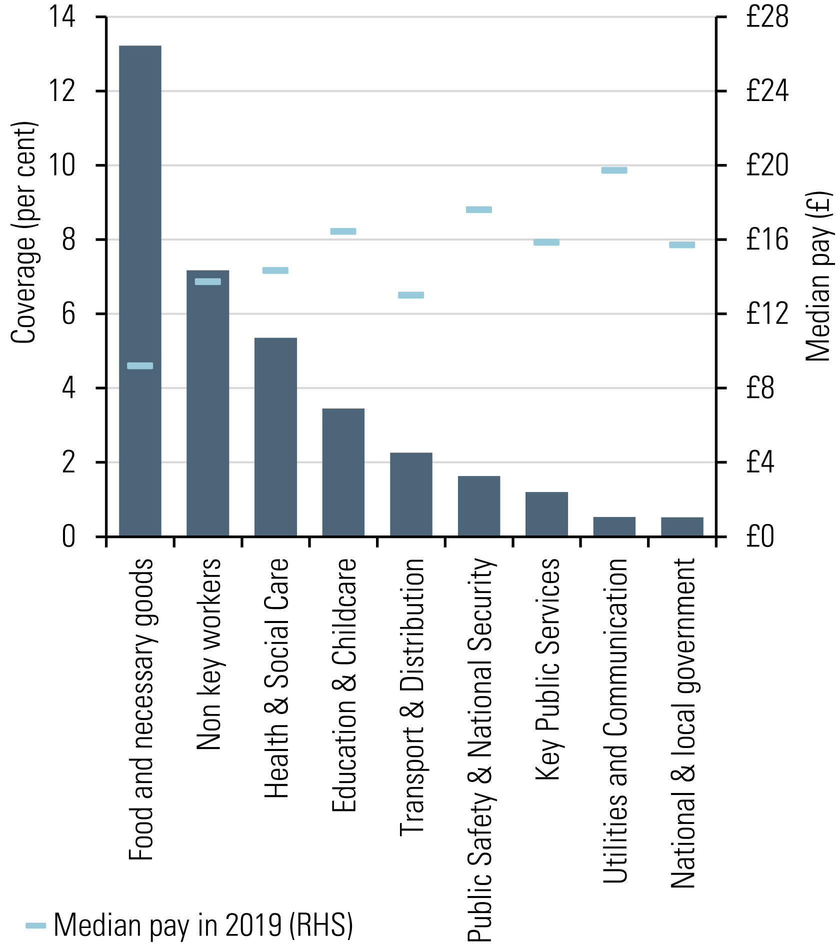




Source: LPC estimates using LFS microdata, quarterly population weights, not seasonally adjusted, UK, Q1 2020-June-August 2020. Workers aged 23-64 are included here.

NLW workers are disproportionally in shutdown sectors



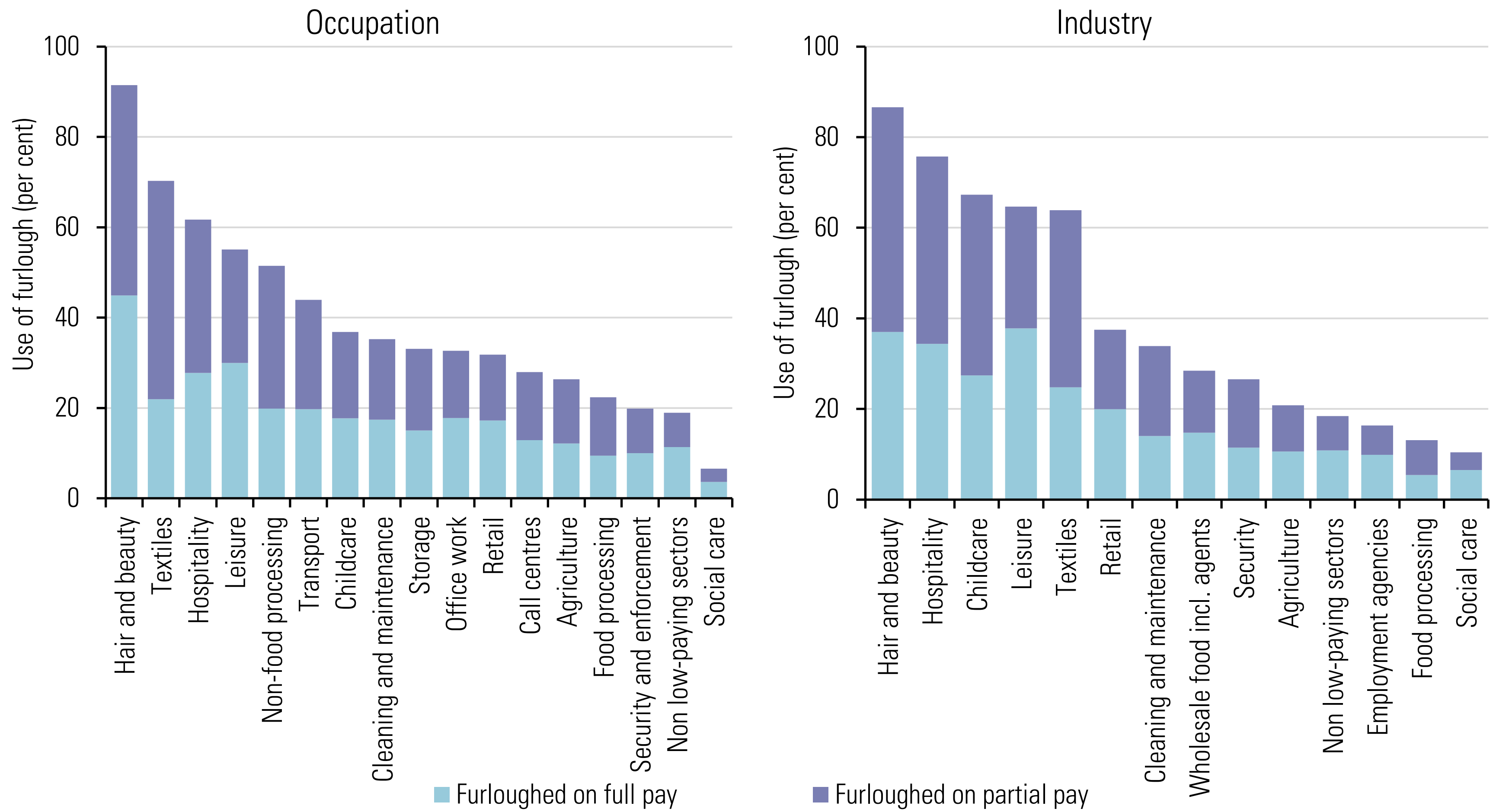


Coverage in 2019 (LHS)

Median pay in 2019 (RHS)

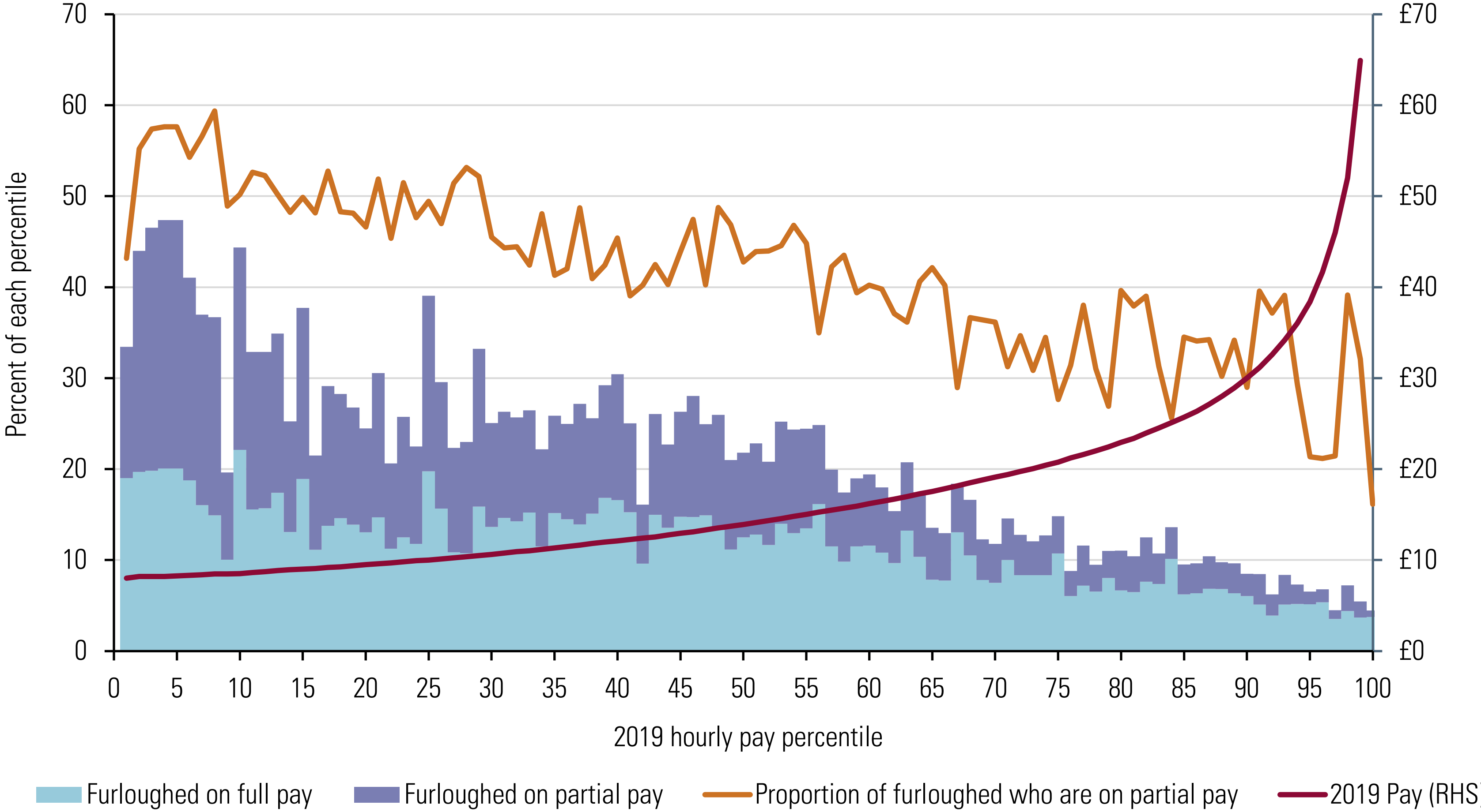
Source: LPC estimates using ASHE 2010 methodology, low-pay furloughed weights, UK, 2019. Workers aged 25 and over, excluding first year apprentices are included here. Using Joyce and Xu (2020) definition of locked-down sectors and Office for National Statistics definitions of key workers.

Low-paying sectors were heavy users of the Coronavirus Job Retention Scheme



Source: LPC estimates using ASHE 2010 methodology, low-pay furloughed weights, UK, 2020. Workers aged 25 and over, excluding first year apprentices are included here. Workers furloughed on partial pay are those furloughed according to HMRC data with 'loss of pay' identified by their employer.

Low-paid workers were more likely to be furloughed (and to suffer loss of pay if they were furloughed)



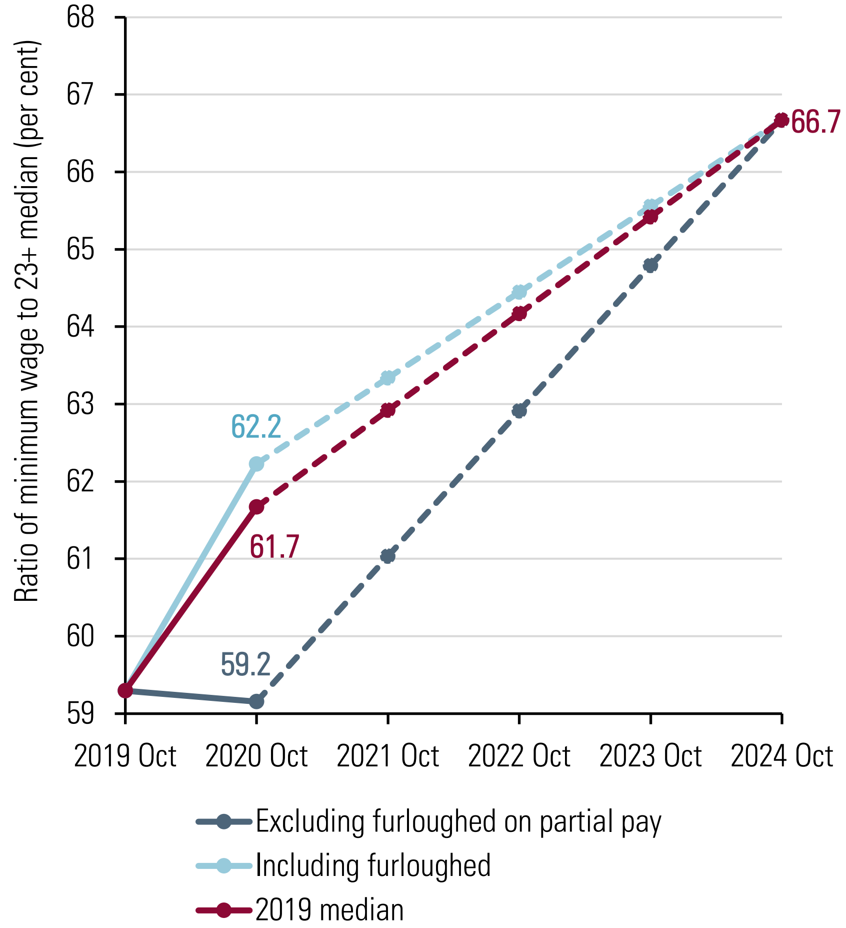
Source: LPC estimates using ASHE 2010 methodology, low-pay furloughed weights, UK, 2019-2020. Workers aged 25 and over, excluding first year apprentices are included here. Percentages are calculated based on the population in both 2019 and 2020 datasets. Workers furloughed on partial pay are those furloughed according to HMRC data with 'loss of pay' identified by their employer.

This means that we can't measure pay in a comparable way to normal

- Workers who were furloughed received pay in April, but worked no hours
  - They therefore have no measure of hourly pay
  - In ASHE we can divide the pay received by the usual number of hours
    - But this does not measure actual hourly pay
    - And will be biased downwards for those on partial pay
- If we choose to accept the hourly pay definition in ASHE, we have two options:
  1. Exclude furloughed workers on partial pay (this is more in line with our traditional approach) – but will bias pay upwards
  2. Include furloughed workers on partial pay (the ONS uses this) – but this will bias pay downwards

Therefore, we are less sure where we are on our path to the 2024 two-thirds target

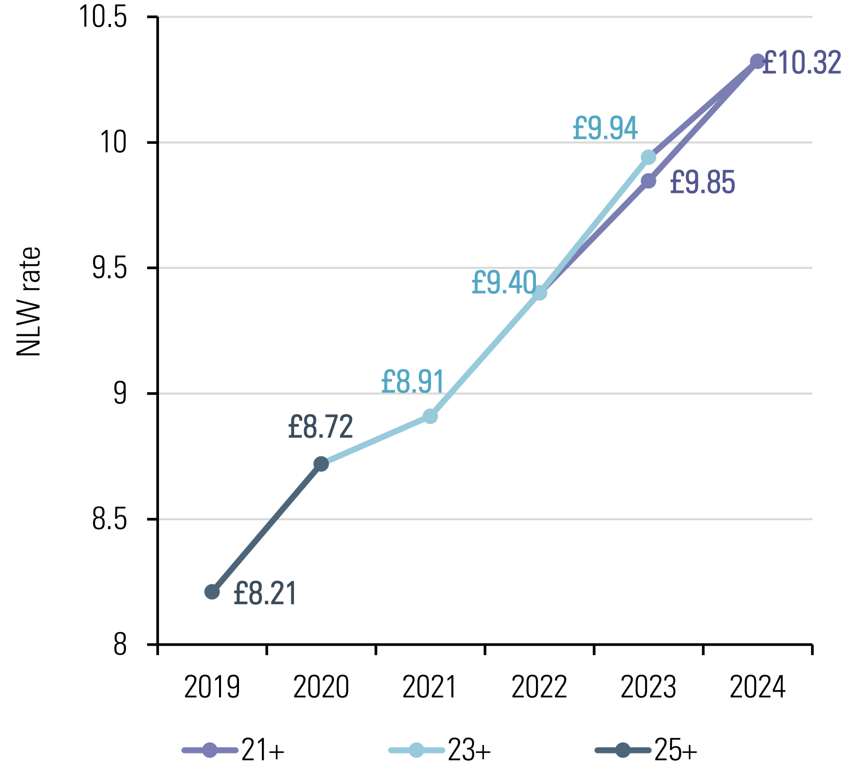
- Instead, we have three measures:
    1. Excluding workers furloughed on partial pay
        - 59.2% of 23+ median pay
    2. Including all furloughed workers
        - 62.2% of 23+ median pay
    3. Growing the 2019 median out to 2020 using AWE
        - Consistent with our approach in estimating growth between April and October
        - 61.7% of 23+ median pay
- We have decided to use option 3 to estimate the path this year



Source: LPC estimates using ASHE 2010 methodology, low-pay furloughed weights, UK, 2019-2020; ONS AWE total pay; and forecasts from HM Treasury Forecasts for the UK economy (2020 October) and Bank of England Monetary Policy Report (2020 August). Workers aged 23 and over, excluding first year apprentices are included here.

Our path to 2024

- As with our approach over the first NLW target (2016 – 2020) we have chosen to rebalance the path each year
  - This gave an estimated on-path rate of £9.06 (using our favoured approach)
- However, given the state of the economy we have recommended a NLW next year of **£8.91**
  - This gives an indicative on-course next year of £9.40
  - But this estimate is subject to revision (and is more uncertain than usual)



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

Source: LPC estimates using ASHE 2010 methodology, low-pay furloughed weights, UK, 2019-2020; ONS AWE total pay; and forecasts from HM Treasury Forecasts for the UK economy (2020 August and October) and Bank of England Monetary Policy Report (2020 August).

Young people

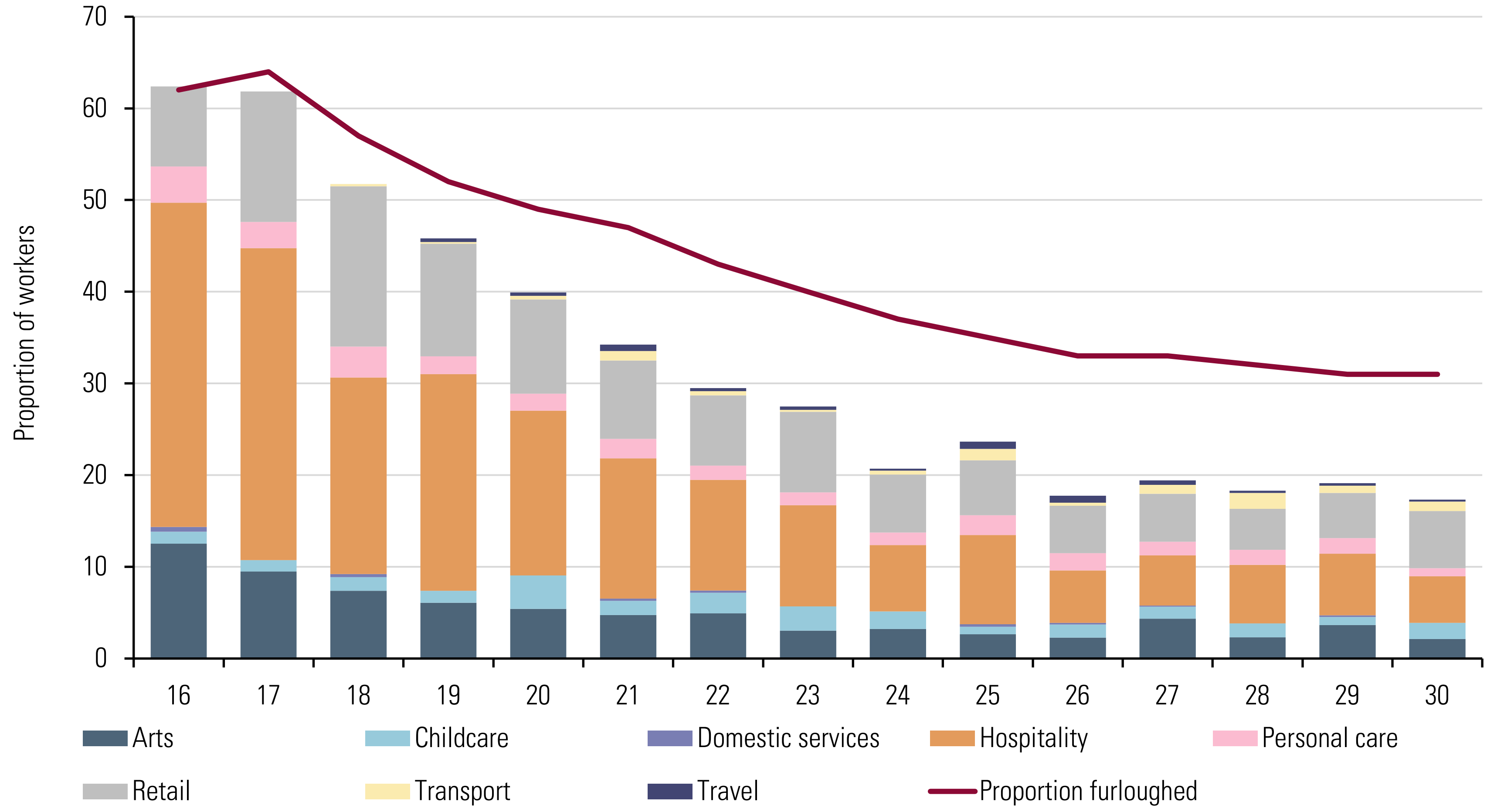
Overview

- The youth rates (16-17, 18-20 and 21-24 Year Old Rates) exist to protect younger workers from being priced out of jobs by more experienced workers, especially given the risk of scarring if they go through an unemployment spell.

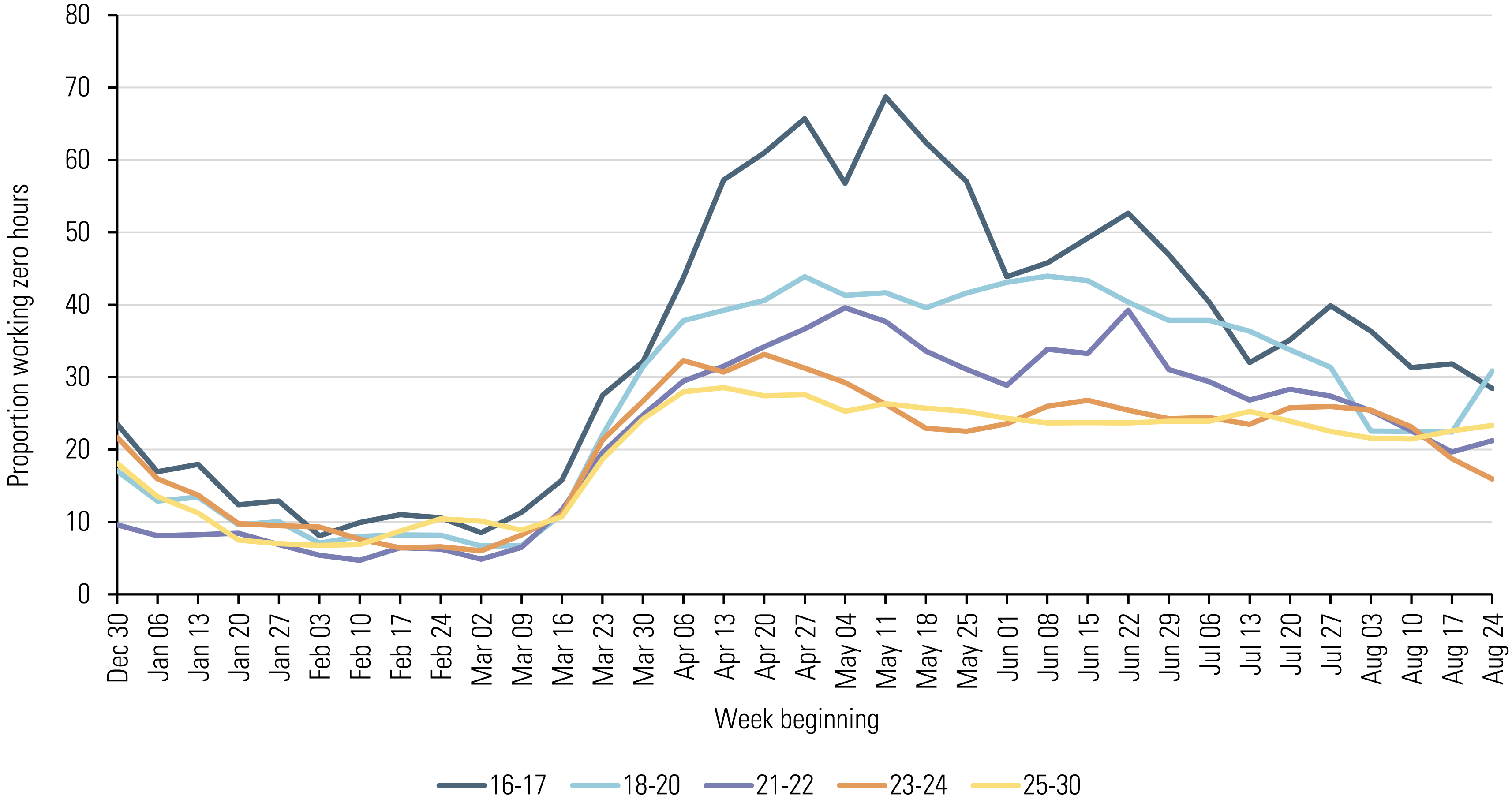
- Last year, we conducted a review of the youth rates, recommending that the age threshold for the NLW should be reduced to 21 in two stages, starting with a reduction to 23 next year.

- However, we know that young people are in a weaker labour market position as a result of Covid-19.

Young people are most likely to work in the most affected sectors, and were most likely to be furloughed



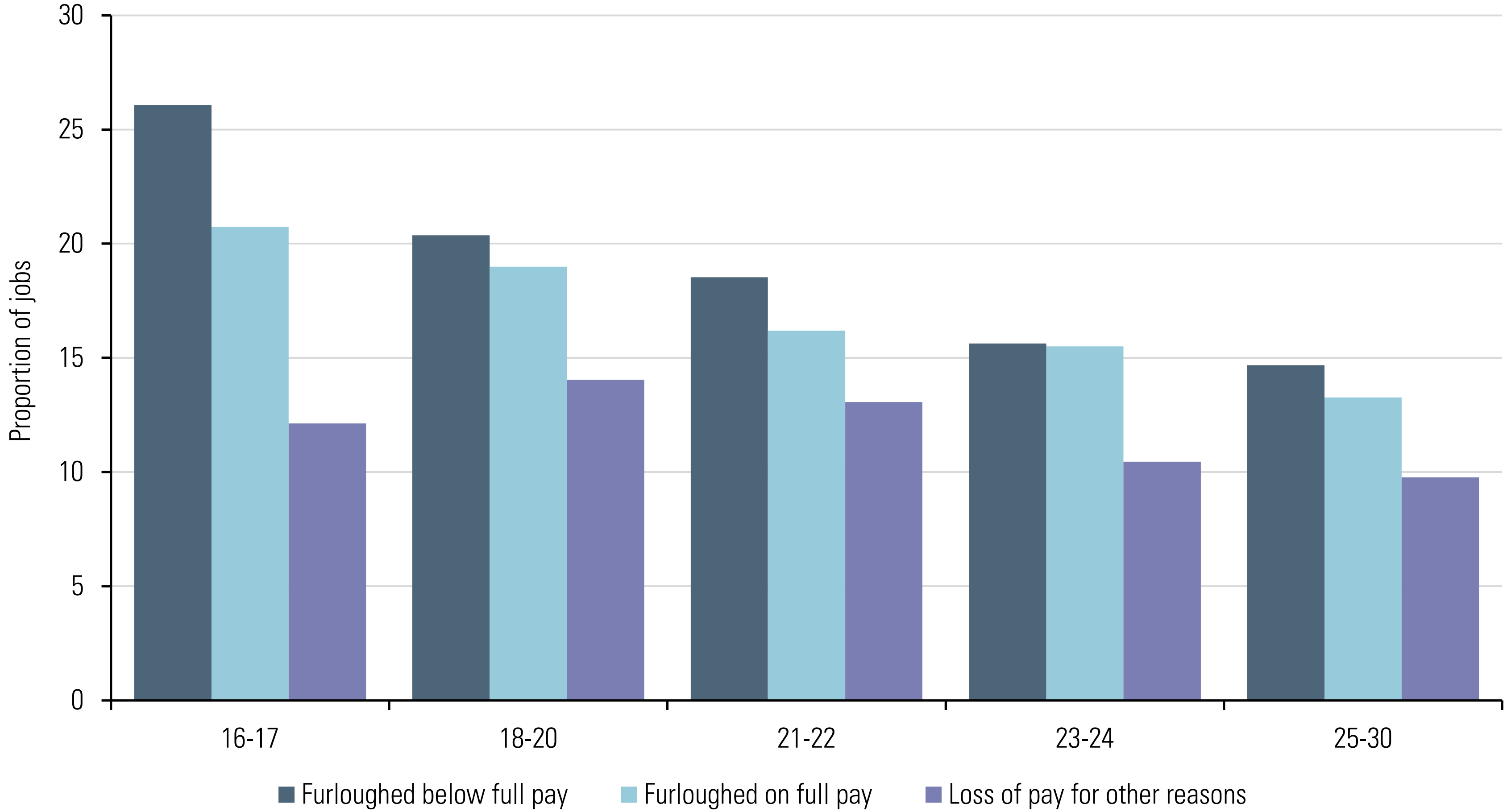
As a result of furloughing, young people were the most likely not to work any hours



LPC£

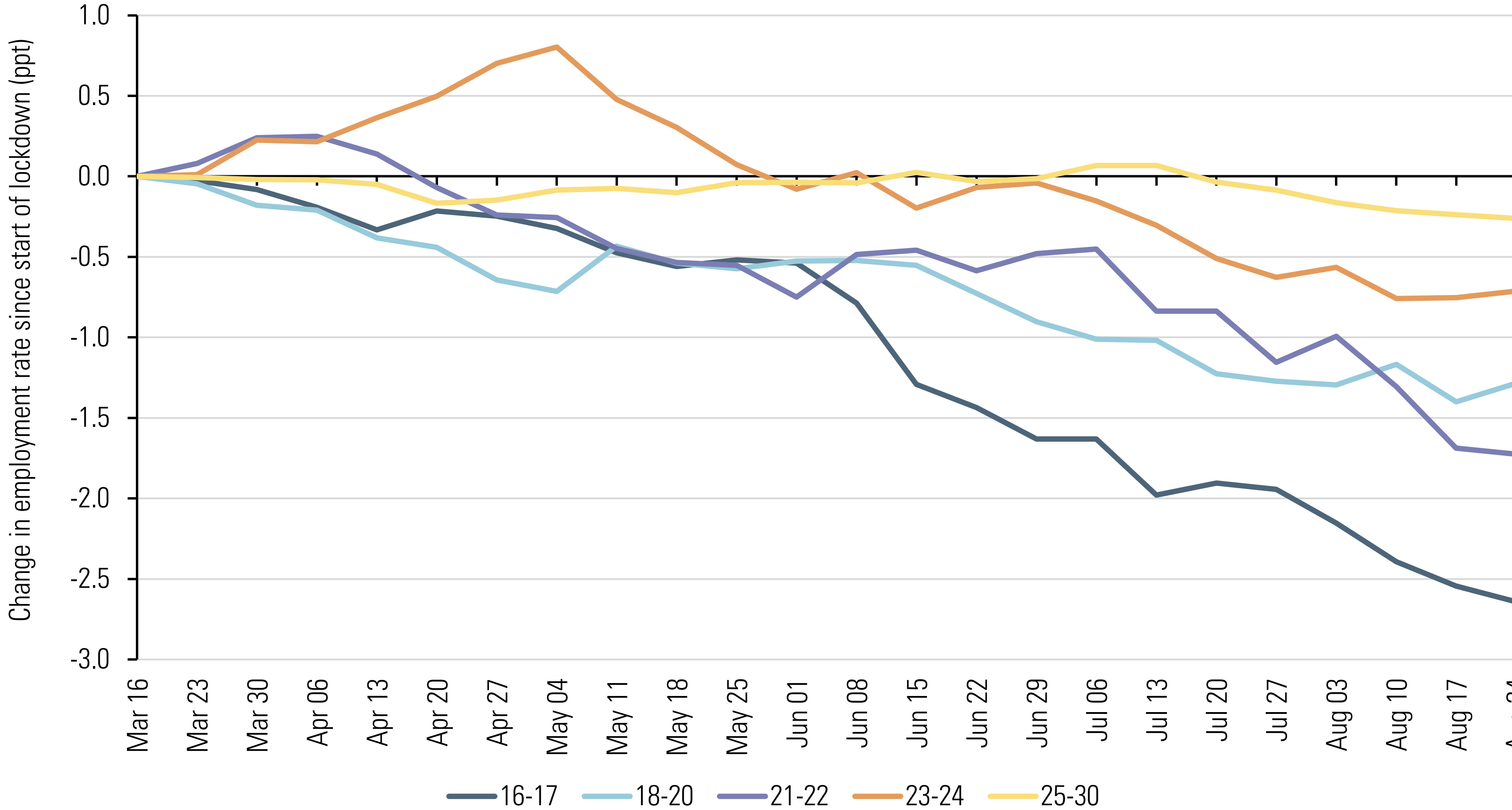
Source: LFS microdata, weekly, using quarterly population weights, three week rolling average, not seasonally adjusted, UK, 2020.

And they were also the most likely to experience changes to their pay



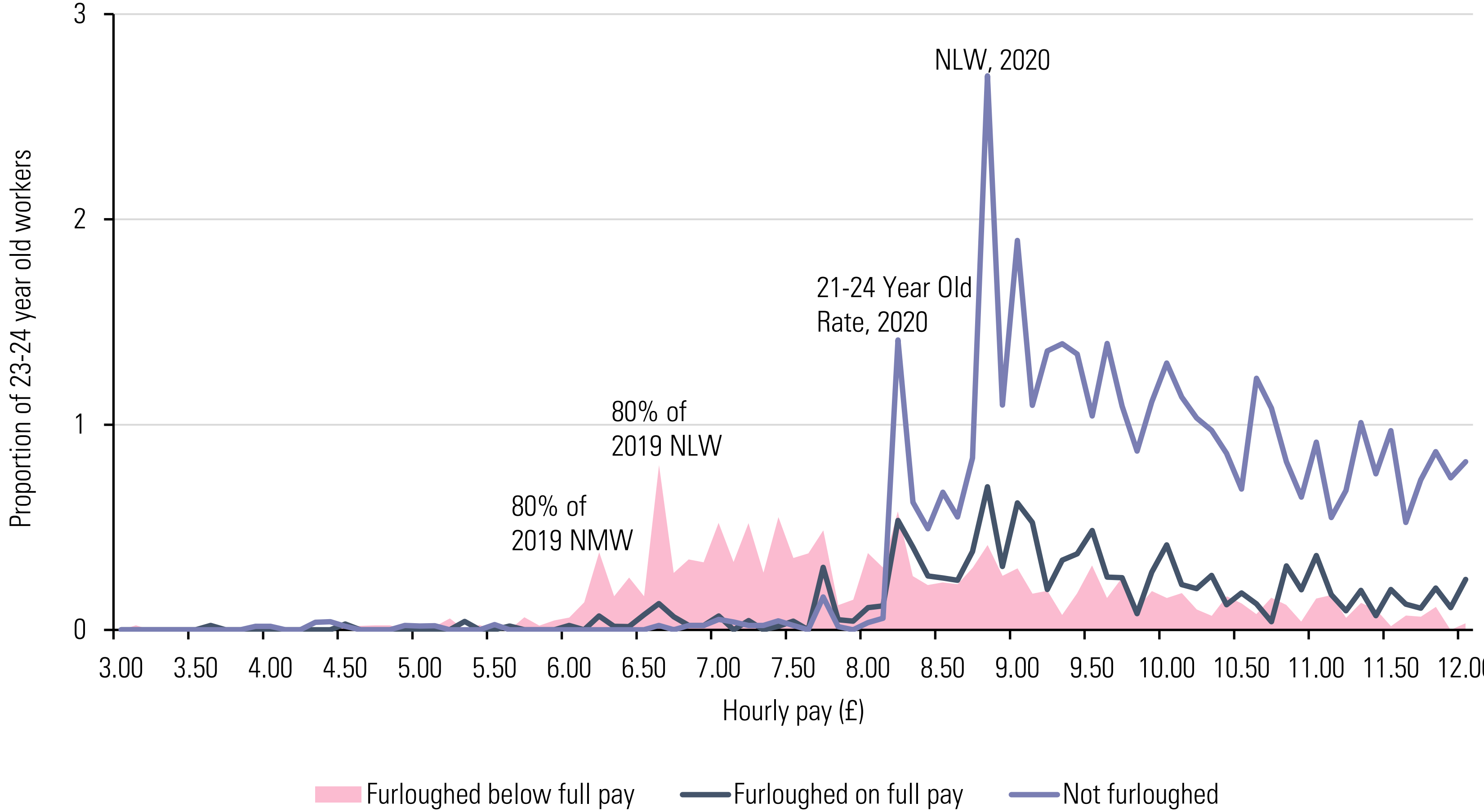
Source: LPC estimates using ASHE 2010 methodology, low-pay furloughed weights, UK, 2020.
Note: Data exclude first year apprentices.

Despite extensive furloughing, they have seen greater falls in their employment rates



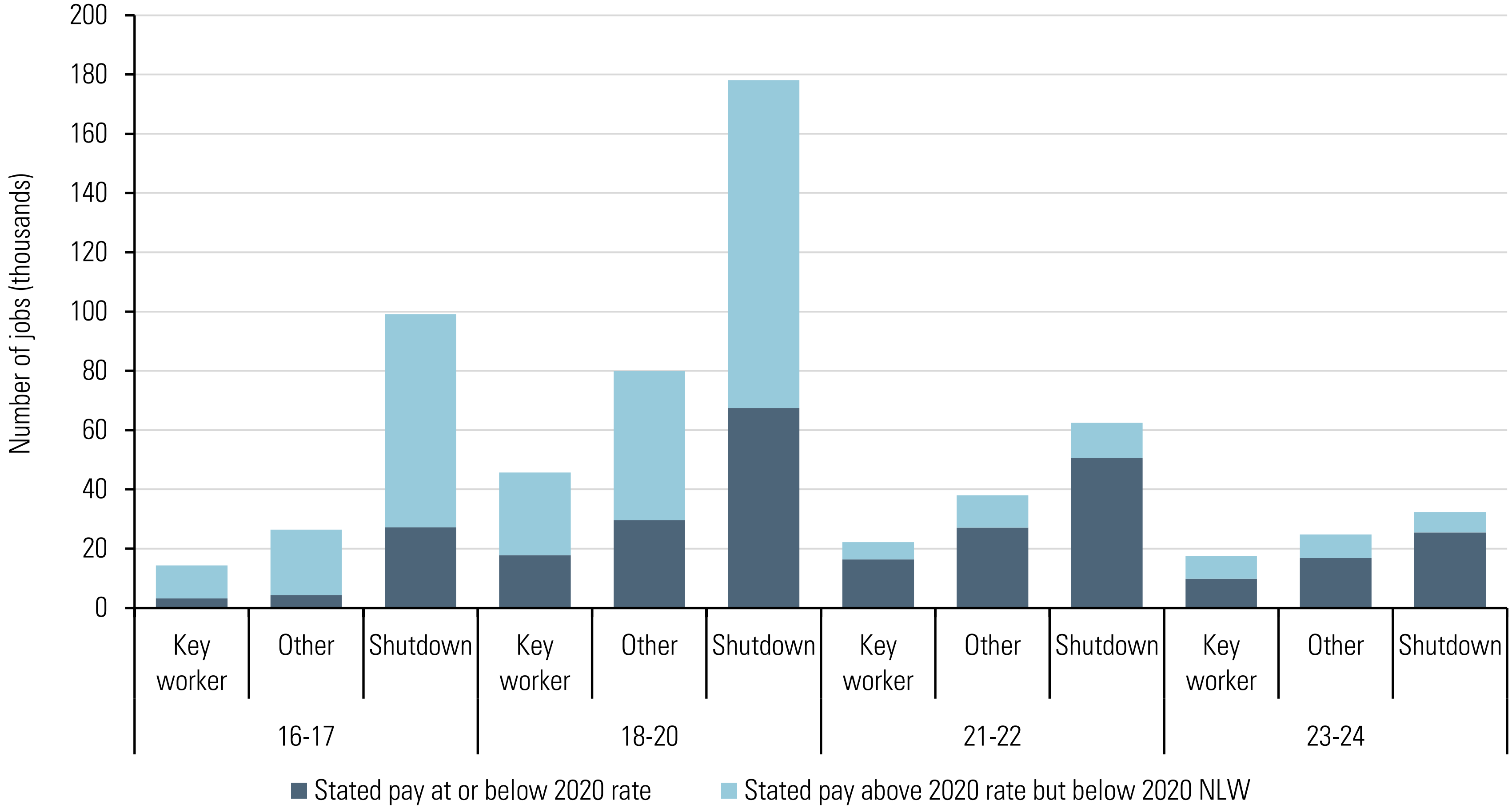
Source: LFS microdata, weekly, using quarterly population weights, quarterly rolling average, not seasonally adjusted, UK, 2020.

Furloughing makes it difficult to understand what has happened to pay, but we can see that many employers are already paying the NLW to younger workers



Source: LPC estimates using ASHE 2010 methodology, low-pay furloughed weights, UK, 2020.
Note: Data exclude first year apprentices.

And use of the 21-24 year old rate appears to be low among 23-24 year olds



Source: LPC estimates using ASHE 2010 methodology, low-pay furloughed weights, UK, 2020.
Note: Data exclude first year apprentices.

Stakeholders tend to continue to support the change in NLW age threshold

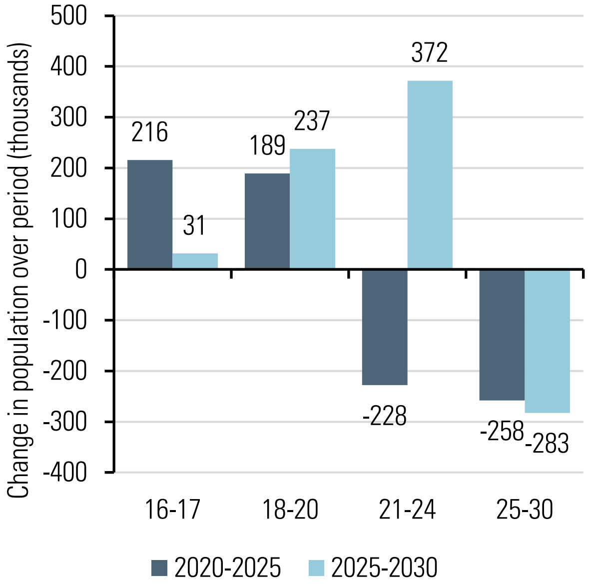
Several employer representatives continued to support the change in principle, but some asked for caution this year.

Worker representatives believe that the age reduction should go ahead as planned but feel in the long run there should be one rate for all age groups.

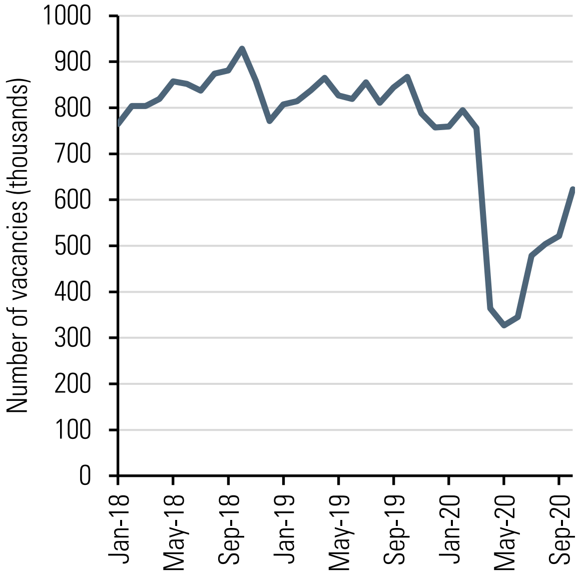
Groups that represent young people told us that they are supportive of the change. Many young people want the age threshold to be lowered sooner.

Other arguments generally support the change in age threshold

Research showed no significant negative employment effects when the NMW age was lowered in 2010.



Demographic changes over the next few years should protect the age group as the number of 21-24 year olds will fall.



But the labour market is not as protective as it was when we first made our recommendations.

References: R. Dickens, R. Riley and D. Wilkinson, 'The UK minimum wage at 22 years of age: A regression discontinuity approach', Journal of the Royal Statistical Society 2014; London Economics, 'The impact of the minimum wage on young people', 2015
Source: ONS 2018 based National Population projections; ONS single month vacancy series (X06)

Overall, the evidence suggests:

- Caution is needed this year, particularly for the youngest workers.

- 23-24 year olds are much more similar to older workers in how they have been affected by the crisis. On balance, the evidence continues to support the NLW threshold being reduced.

- In the medium term, the NLW threshold will be further reduced to 21 and so we have recommended relatively larger increases for the 21-22 year old group.

Apprentices

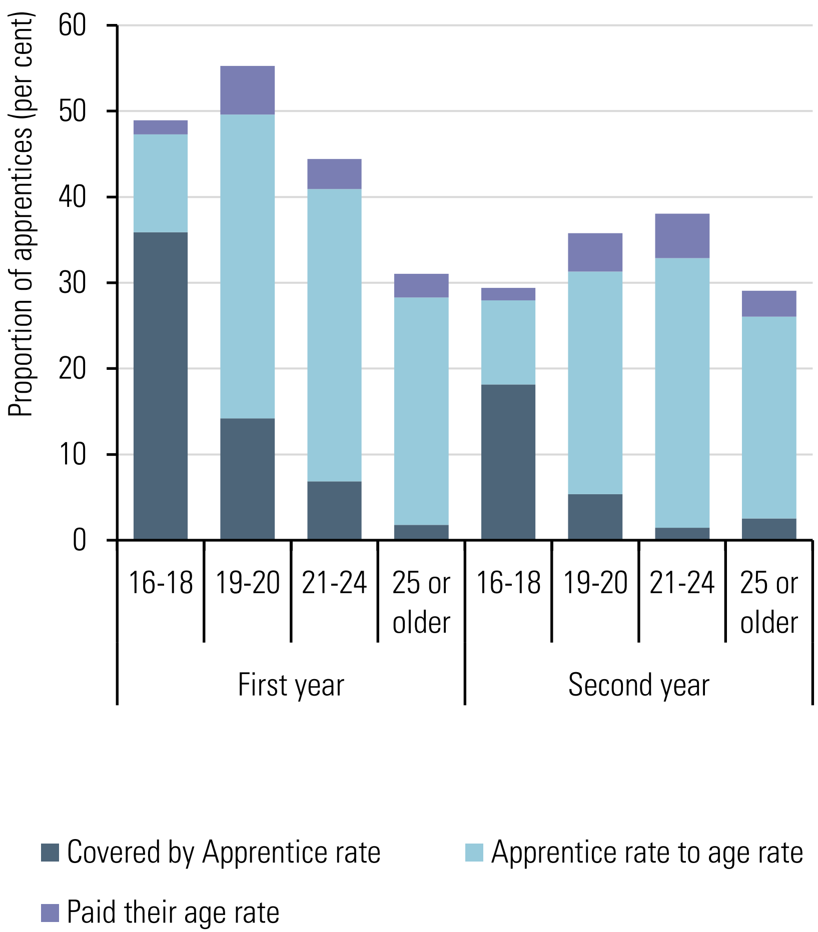
The LPC has completed a review of the Apprentice Rate.

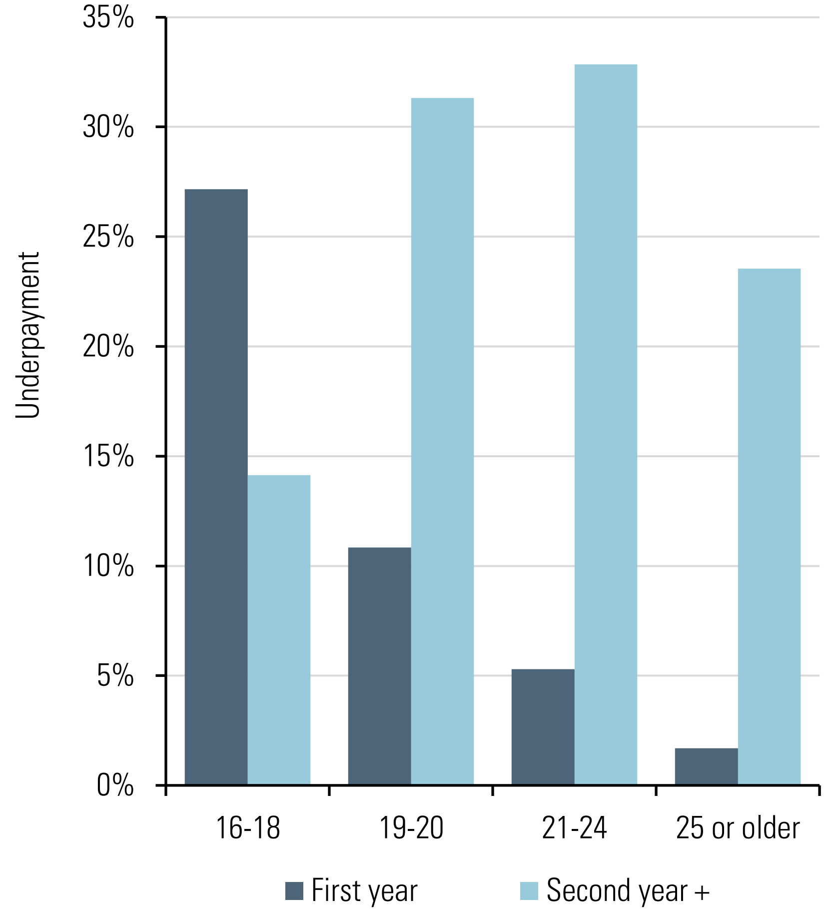
> “**The message we have heard most consistently from our stakeholders is that there is room for the Apprentice Rate to increase.** Some representatives of workers and employers advocate an equalisation of the rate with the 16-17 Year Old Rate. However, this view is not consistently held, and we are in the midst of a review of the structure of the Apprentice Rate.”
>
> (LPC 2019 letter to Government)

LPC 2020 consultation:

- As set out … the evidence suggests that underpayment of apprentices is high and unpaid training hours are the central cause of this. What are your views on the extent of this problem and solutions to it?
- In response to feedback from a range of groups, one of the options we are considering is raising the Apprentice Rate so it aligns with the 16-17 Year Old Rate. The main groups affected by this would be younger apprentices – 16-18 year olds. What would be the effect of this change on the pay, provision and take-up of apprenticeship places, and training volume and quality for those apprentices affected?
- For older apprentices, the level of the Apprentice Rate is less relevant. But there is evidence that some employers still ‘use’ the rate by paying their apprentices below the NMW. What effect do the Apprentice Rate and the other NMW rates have on apprenticeships for older (those aged 21 and over) apprentices? Please consider the pay, provision and take-up of apprenticeship places, and training volume and quality.

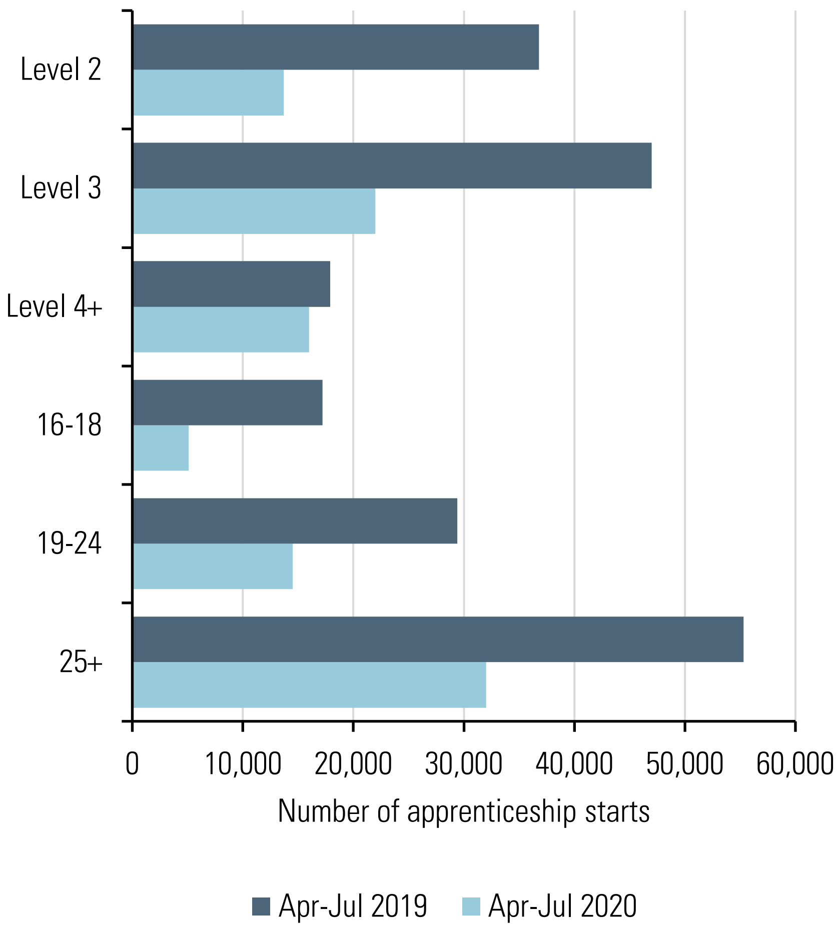
Two pieces of context: coverage and underpayment

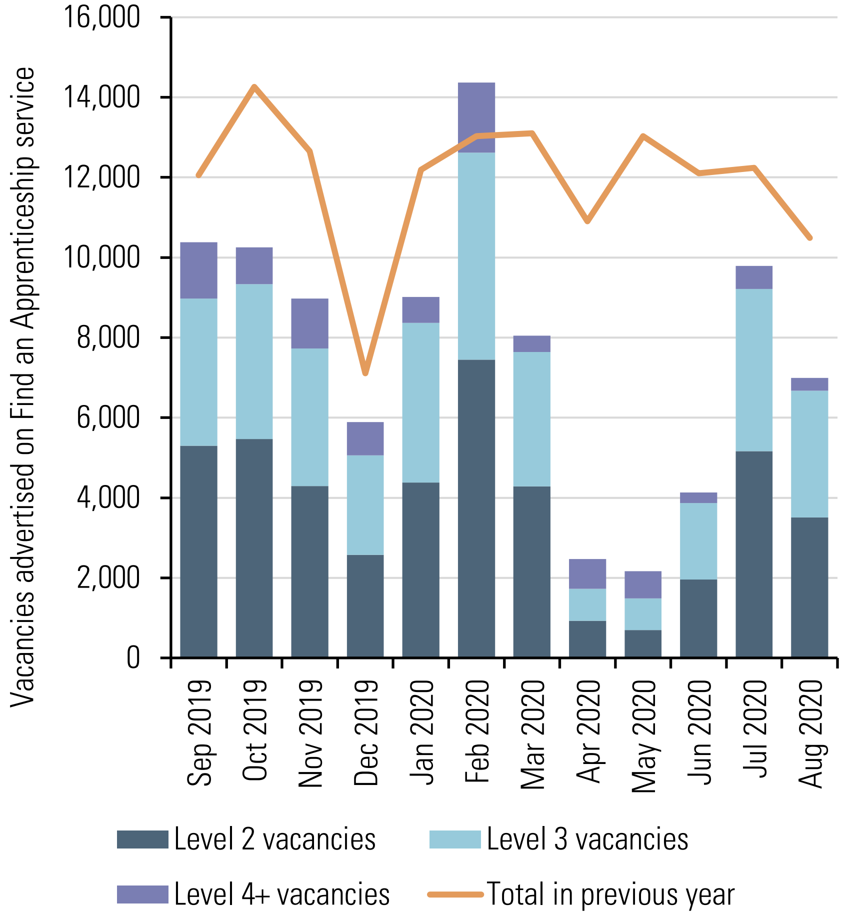




Source: LPC estimates using APS, GB, 2018

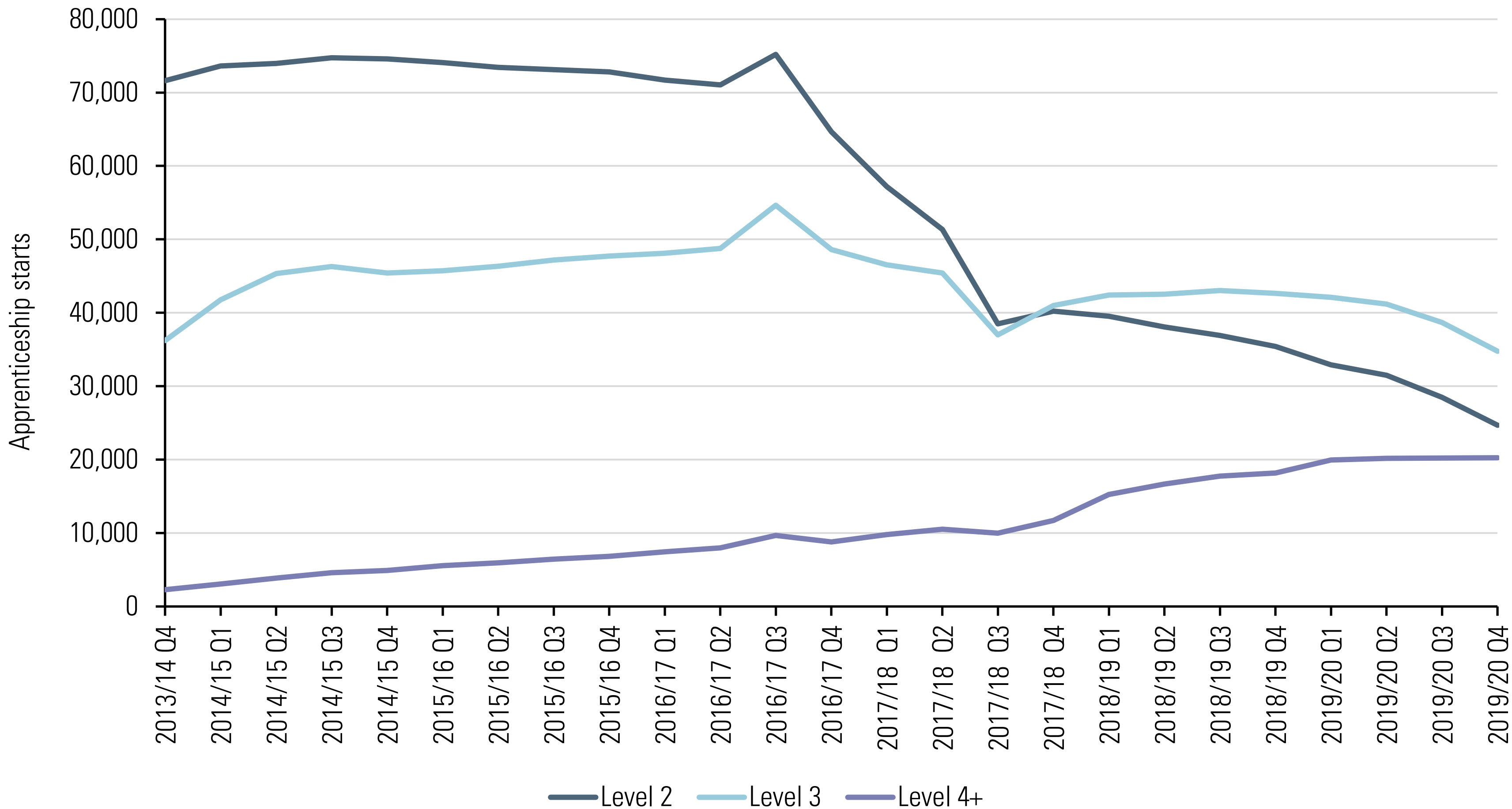
The story on apprenticeships this year…





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

…and in the longer-term



Source: LPC estimates using Department for Education Apprenticeship and levy statistics, four quarter moving average, 2013/14-2019/20. Note: Data is based on academic years (August to July).

Conclusions and recommendations

- The labour market context suggests some need for caution.
- Commissioners concluded there is scope to raise the Apprentice Rate substantially.
  - Stakeholder views: pay – and the NMW – are not driving factors in apprentice recruitment.
  - Warwick IER research: employers prefer to use a premium above the NLW.
  - Apprentice numbers do not suggest recent increases have harmed starts.
- “We propose to align these two rates over two years, with the more cautious of the rises for the Apprentice Rate in this year, given the economic picture I have outlined, and the rate aligning with the 16-17 Year Old Rate in 2022.“
- We are aligning rather than merging two rates.
  - We’ll continue to consider apprentices and the 16-17 age group separately.
- Underpayment of apprentices remains the biggest structural ‘issue’ with the rate.

We recommend that the following rates apply from 1 April 2021

	2020 rate	2021 rate	Per cent increase	Pence increase
National Living Wage (23+)	£8.72	£8.91	2.2	19
21-22 Year Old Rate	£8.20	£8.36	2.0	16
18-20 Year Old Rate	£6.45	£6.56	1.7	11
16-17 Year Old Rate	£4.55	£4.62	1.5	7
Apprentice Rate	£4.15	£4.30	3.6	15
Accommodation Offset	£8.20	£8.36	2.0	16