Interim Report for the Low Pay Commission

Impact of NLW Upratings on Businesses using the Decision Maker Panel[1]

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Introduction

This interim report summarises the key findings from work assessing the impact of the National Living Wage (NLW) on firms. The analysis is based on firm-level survey data collected through the Decision Maker Panel (DMP) and it focuses on the impact of NLW upratings on wage growth, employment, and pricing. This work was presented at the Low Pay Commission Research Symposium on 4 September 2025. For this report, the analysis has been updated to include data from the September DMP survey and to incorporate feedback from the earlier presentation.

Our analysis highlights four key findings for how firms are responding to changes in the National Living Wage:

1. Firms more exposed to the NLW have experienced higher wage growth over recent years up to 2025 and have therefore contributed to higher aggregate wage growth.
2. Having more workers above but close to the NLW, is also correlated with higher recent wage growth, suggesting some impact on wage differentials.
3. Looking ahead to 2026, the differences in expected wage growth for firms with high versus low NLW exposure are smaller than they have been in recent years.
4. Finally, firms more exposed to the NLW have reported higher recent own-price inflation and lower employment growth, but these effects are smaller than for wage growth, and also more uncertain.

This report starts by providing some more information on the Decision Maker Panel survey. It then describes the methodology used to analyse the impact of NLW increases and measures of exposure before considering the impacts on wages, employment, and prices.

The Decision Maker Panel (DMP)

The analysis in this project is based on data from the Decision Maker Panel (DMP) survey.[2] The DMP is a high-frequency economy-wide business survey run by the Bank of England in collaboration with King's College London and the University of Nottingham. It was launched in August 2016 in response to the UK's vote to leave the European Union. The DMP was designed to fill a gap in existing data sources by capturing both backward and forward-looking information directly from senior business decision-makers, particularly Chief Financial Officers (CFOs), across a broad cross-section of UK firms.

[1] Any views expressed are solely those of the authors and so cannot be taken to represent those of the Bank of England or to state Bank of England policy. This paper should therefore not be reported as representing the views of the Bank of England or members of the Monetary Policy Committee, Financial Policy Committee or Prudential Regulation Committee.

[2] https://decisionmakerpanel.co.uk/

The survey collects monthly data on a wide range of core topics including sales, employment, wages, investment, prices, and uncertainty. Its structure allows firms to provide quantitative responses, often in the form of probability distributions, which enables researchers and policymakers to assess not only average expectations but also the degree of uncertainty surrounding those expectations. The quantitative nature of the DMP distinguishes it from traditional business surveys, which typically rely on categorical or qualitative responses.

One of the DMP's key strengths is its ability to generate timely data. Aggregated results are published on a monthly basis, offering near real-time insights into business sentiment and behaviour. This has proven especially valuable during periods of economic disruption, such as Brexit negotiations, the COVID-19 pandemic, and recent inflationary pressures. The DMP has been used extensively by the Bank of England to inform monetary policy decisions and has also contributed to academic research on firm-level dynamics and macroeconomic trends.

The panel provides a representative view across sectors and regions and matches up well with data from the Business Register **(Figure A1)**. The sampling frame for the survey is drawn from UK firms with more than 10 employees and so includes firms of all sizes except for micro businesses. Firms are randomly selected from the sample frame and are invited to participate by a recruitment team based at the University of Nottingham. Participation is voluntary. The survey is administered online, allowing for efficient data collection and rapid turnaround. Each month, the survey receives between 2,000 and 2,500 responses, covering around 4% of UK employment. The response rates for the survey are about 50% of active survey participants (while for the full survey the response rate is closer to 20%). We examine the data for selectivity in response and find that larger firms, older firms and more productive firms are more likely to respond to the DMP survey, conditional on being in the sampling frame. however, the magnitudes of these coefficients are not particularly large. We conclude that the DMP has consistent response rates and absence of response bias. Aggregated results are weighted by industry and employment shares to match the UK Interdepartmental Business Register, a comprehensive list of UK businesses. Further information about the survey design, sampling, quality checks, and data validation are discussed in Bunn et al. (2024).

In addition to its core questions, the DMP includes rotating modules of special questions that address topical issues. These have covered areas such as Brexit preparedness, pandemic-related disruptions, energy costs, and the impact of the National Living Wage. The flexibility of the survey design allows it to adapt quickly to emerging policy issues and economic developments.

Methodology and measuring NLW exposure

The empirical methodology employed in this research involves comparing trends in wage growth, own-price growth, and employment growth across firms with varying degrees of exposure to the NLW. Exposure is measured using three distinct, but complementary, approaches:[3]

1. **Share of employees paid at the NLW and close to the NLW**: Firms were asked what percentage of their employees were paid at the NLW, and separately, what percentage were paid within £2 an hour of the NLW. In May-July 2024, firms were asked to estimate these percentages for 2021, 2023, and 2024. In May-July 2025, they were asked about the percentages in 2024 and 2025. This measure, which combines both the effect of

[3] Screenshots of these questions, as they appear in the online survey platform, are shown in Appendix 1.

youth rates and the adult rates, provides the richest variation at the firm level and is considered the preferred method for estimating firm exposure.[4]

2. **Perceived Importance of the NLW for wage growth**: Firms were asked to rate the importance of the NLW in determining current wage growth. This subjective measure allowed firms to indicate whether the NLW was the most important factor, among the top three most important factors, one of many factors, or not important. This question was asked between May and July 2025.

3. **Industry Classification**: Firms were categorised into higher and lower-paying industries based on previous Low Pay Commission definitions. This method did not rely on survey responses but used only sectoral data to infer exposure.[5]

The analysis aims to identify correlations between exposure and business outcomes, controlling for a demanding set of firm and time fixed effects. The baseline specification we estimate has the following form, for firm i and year t:

$$Y_{it} = \alpha_i + \beta_t + \gamma_t NLW_i \times Year_t + \lambda X_{it} + \varepsilon_{it} \quad (1)$$

The dependent variables we consider in this report are DMP survey responses to regular questions on the actual percentage change in annual wage, annual employment, and annual own-price.[6] We then study the impact of (time-invariant since the shares do not change much over the sample period) NLW exposure measures, NLW_i, on the firm outcomes across different years of the sample. This is captured by the coefficients γ_t, which inform about the contribution of the NLW to wages, employment, and prices and how these effects may have changed over time. We present results using different measures of NLW exposure, as outlined above. The specification above additionally captures time-invariant firm-level characteristics using firm fixed effects, α_i, as well as shocks which may affect all firms in the same time period using time fixed effects, β_t. We can also include other control variables, X_{it}, for robustness. Overall, although the methodology attempts to capture various confounding factors, we acknowledge that *causality* cannot be definitively established (because the data are observed at the same point in time within the same quarter). The results simply show how much higher/lower the outcome variable has been for firms more/less exposed to the NLW.

In addition to measuring the exposure of firms to the NLW, between August and October 2025, two more questions were introduced in the survey. The first asked firms how they responded to the change in the NLW in April 2025. Firms could select from: lower profit margins; higher prices; higher wages; lower number of employees; other; none of the above. Firms could select more than one margin of adjustment. A further question was added which asked firms to directly estimate the impact of the changes in the National Living Wage in April 2025 on their wages, prices, and employment. These direct estimates of how firms say that they have responded to the NLW increases can be compared to the econometric estimates we obtain using the NLW exposure measures.

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[4] 1,132 firms responded to the questions on minimum wage exposure in both 2024 and 2025. Of these, over half gave the identical minimum wage exposure for 2024 both times (proxy for recall), and around 75% were within 5pp in terms of exposure.

[5] https://www.gov.uk/government/publications/low-pay-commission-report-2023 (p.229)

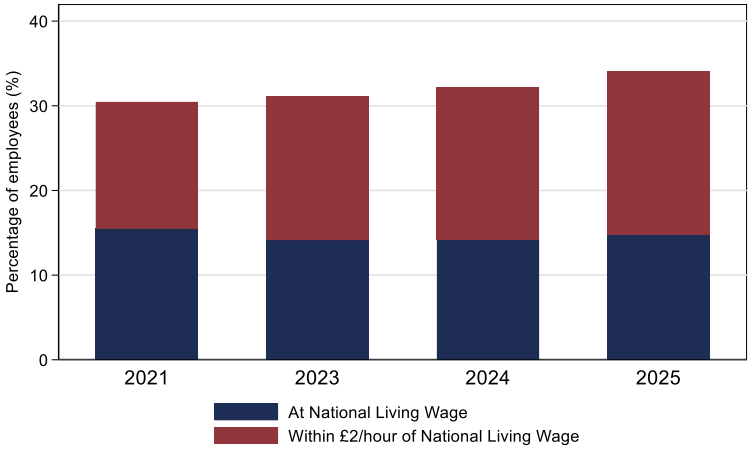
[6] The questions are Wages: "Looking back, from 12 months ago to now, what was the approximate % change in your AVERAGE WAGE per employee?" Employment : "Looking back 12 months ago how many EMPLOYEES did your business have then?" and "How many people does your business currently EMPLOY (including part-time)?" Prices: "Looking back, from 12 months ago to now, what was the approximate % change in the AVERAGE PRICE you charge, considering all products and services?"

NLW exposure across UK firms

This section describes the exposure of firms to the National Living Wage, both over recent years and in the cross section. In 2025, firms in our sample reported that 14.7% of employees were paid at the NLW, and around 34% of employees earned within £2 of it, which is broadly consistent with LPC assumptions regarding the extent of the spillovers (up to the 35th percentile **(Figure 1)**. These percentages have been relatively stable since 2021, although the share of employees paid within £2 of the NLW is slightly higher in 2025 compared with previous years.[7]

Although the trends in changes in NLW coverage are consistent with those derived from the Annual Survey of Hours and Earnings (ASHE) data, the DMP survey estimates are higher on average in levels terms. Several factors may explain this discrepancy. First, the DMP survey focuses exclusively on private sector firms and does not measure micro firms with less than ten employees which have higher NLW coverage. Second, measurement issues exist in both ASHE and DMP surveys. Third, respondents in the DMP may classify near-minimum wage workers as NLW earners. As a cross-check for our estimates, we compare NLW exposure to average wage per employee in matched firm accounts. As shown in **Figure A3**, firms with higher NLW exposure also have a lower average wage per employee.

Figure 1 Share of employees exposed to the NLW, 2021-2025

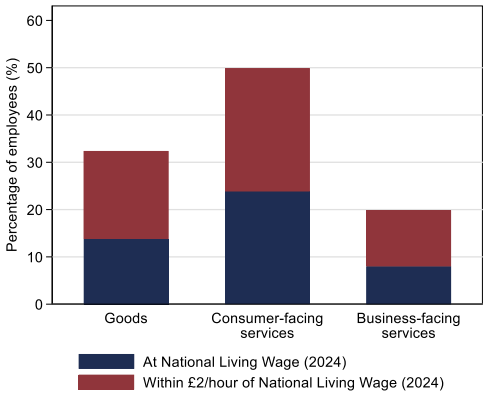


Notes: *Percentages for 2021, 2023, and 2024 are based on data collected over May-July 2024. Percentages for 2024 and 2025 are based on data collected over May-July 2025. The results are weighted by industry and employment shares.*

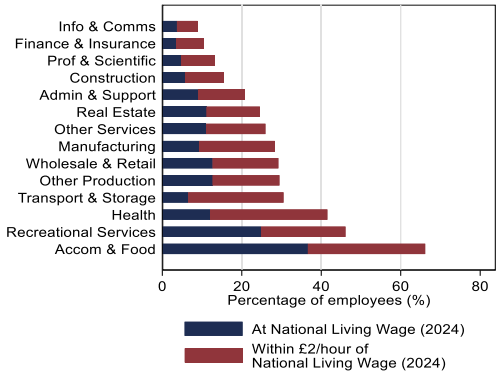
[7] Looking at the distribution, around 40% of businesses reported no employees at the NLW, and around 20% of businesses reported up to 10% of employees at the NLW **(Figure A2)**. There is, however, a non-negligible share of businesses that reported 100% of employees at the NLW. Some of these estimates also appear to be outliers when compared to average wages in firm accounts **(Figure A3).** Firms with 100% of employees at NLW are only included in the analysis in this report if their average wage per employee in their accounts data is £25,000 or less (40 hours a week at 2025 NLW = £25,400), or less than £30,000 if 100% of employees within £2 an hour of NLW.

Figure 2 NLW exposure by sector and industry

Panel A By Sector



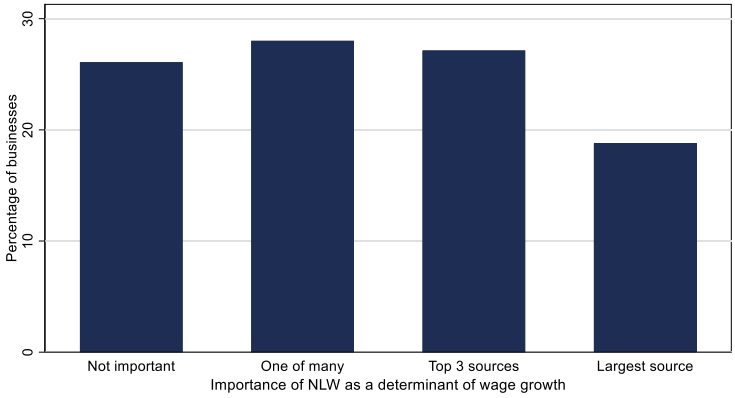
Panel B By Industry



Notes: *The data on the percentage of employees paid at or within £2/hour of the NLW in 2024 are based on responses collected over May-July 2024 and May-July 2025. The results are weighted by industry and employment shares. For firms which responded in both years, the average across the two responses is taken.*

Although the share of employees paid at the NLW in the DMP data has been relatively stable over time, we document significant heterogeneity across firms and industries. Across sectors (**Figure 2, Panel A**), 50% of employees in consumer-facing services firms were estimated to be paid within £2 an hour of the NLW. This compares to only 20% among business-facing services providers. Looking across industries, accommodation and food and recreational services firms exhibited the highest levels of NLW coverage **(Figure 2, Panel B)**. In contrast, sectors like finance and information and communications had the lowest NLW exposure.[8]

Figure 3 Importance of NLW for wages



Notes: *The data on the importance of the NLW as a determinant of wage growth is based on responses collected over May-July 2025. The results are weighted by industry and employment shares.*

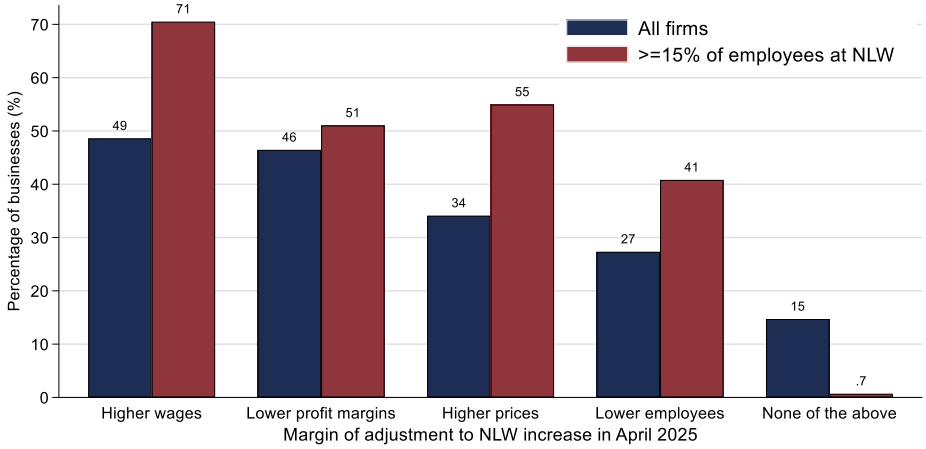
In addition to the questions on the share of employees paid at the NLW, firms were also asked a qualitative question about the importance of the NLW as a determinant of wages in their business. This question was asked between May-July 2025 to around 2000 businesses. As shown in **Figure 3**, around 19% considered the NLW to be the most important determinant of their wages, and a further 27% considered it to be among the top three most important factors (but not the most important). Furthermore, there is a strong correlation between this measure and the NLW exposure measures documented above. As shown in **Figure A4**, around 66% of employees were paid within £2/hour of the NLW for firms that considered it the most important

[8] Figure A25 shows the distribution of exposure in 2024 across firms, both those paid at the NLW and those paid within £2/hour of the NLW.

determinant of wage growth. Meanwhile, this was around 5% of employees for firms that did not consider the NLW to be an important factor.

Lastly, over August-September 2025, firms in the DMP have been asked about how they adjusted to the recent increase in the NLW. In April 2025, the NLW for those aged 21 and over increased by 6.7%.[9] Firms could select more than one margin of adjustment. The most commonly selected response was higher wages, which was selected by 49% of businesses **(Figure 4).** The second most common was lower profit margins, selected by 46% of businesses. Increasing prices and lowering the number of employees were each selected by 34% and 27% of businesses, respectively.[10]

Figure 4 Margins of adjustment to April 2025 increases in the NLW



Notes: *The data are based on responses collected over August-September 2025, with an additional month of data being collected in October. Firms are able to select more than one option. The results are weighted by industry and employment shares.*

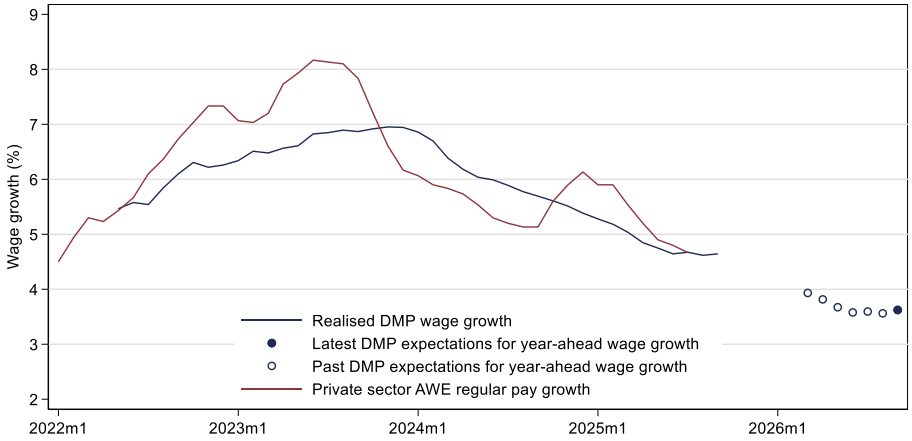
Firms with a higher rate of exposure to the NLW (defined as those with more than 15% of workers paid at NLW; 26% of firms) are more likely to have responded in multiple ways. Just over 70% of these firms reported that wages are higher than they would have been, 55% reported that they had raised prices, and 41% had fewer employees than they otherwise would have have.

The impact of the NLW on firm wages

Firms in the DMP have been regularly asked about their annual wage growth per employee and about their year-ahead expected wage growth since May 2022. Trends in annual wage growth in the DMP follow the trends in official ONS data on private sector AWE regular pay growth (**Figure 5**), although the latter series has been more volatile.[11] In the latest data, wage growth among DMP firms has fallen from its peak around the beginning of 2024. In the three months to September 2025, wage growth was 4.6%. Looking to the year ahead, firms expect further easing in wage growth as indicated by the circles in **Figure 5**. Firms expect their wage growth to decline to 3.6% by September 2026, based on the latest data.[12]

[9] https://www.gov.uk/government/news/national-living-wage-to-increase-to-1221-in-april-2025
[10] A similar question was asked about how firms adjusted to the increases in employer NICs which was also announced in the 2024 Autumn Budget and implemented in April 2025. The most common margin of adjustment to the increase in NICs was lower profit margins (65% of businesses), followed by lower number of employees (44% of businesses), and higher prices (35% of businesses).
[11] AWE record data as wage bill over employees, and DMP records the percentage change in average wages.
[12] There is a strong correlation between firm year-ahead wage expectations and realisations a year later. This is shown in Figure A24, in both the time series (Panel A) and in the cross-section (Panel B)

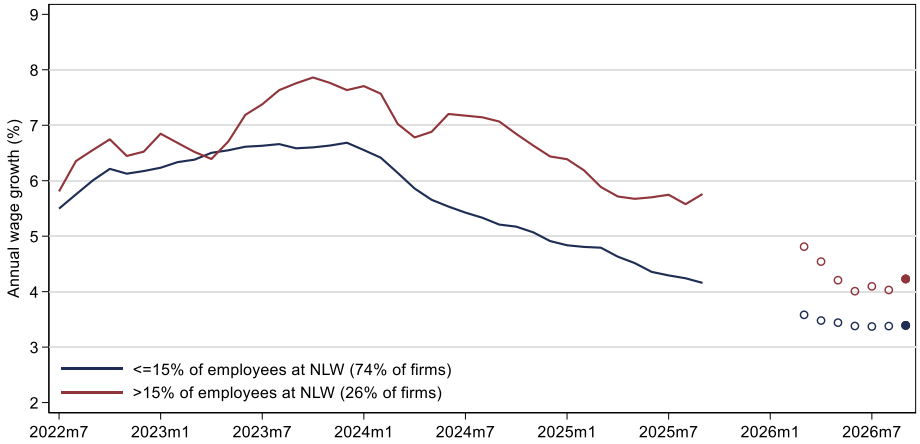
Figure 5 Trends in aggregate wage growth and wage growth expectations



Notes: *Wage growth measures are changes on a year earlier and refer to wage growth in their own business. Chart shows 3-month average data. Latest DMP data are for 3 months to September 2025 (expectations data refer to 3 months to September 2026). Questions on wage growth only added to DMP survey on regular basis from May 2022. The firm results are weighted by industry and employment shares. Data on private sector AWE regular pay growth is from the ONS.*

Firms with higher exposure to the NLW have reported higher wage growth in recent years. In **Figure 6**, firms are split in two groups based on the share of employees they report being paid at the NLW in 2024. Firms with higher NLW exposure (around 26% of firms with more than 15% of employees at the NLW) report higher annual wage growth since 2023.[13] In the three months to September 2025, these firms reported wage growth of 5.8%. In contrast, firms with fewer than 15% of employees at the NLW reported wage growth of 4.2%. Looking to the year ahead, the gap between the two groups in terms of their wage growth is expected to persist but narrow. Firms with high NLW exposure expected wage growth of around 4.2%, compared with 3.4% for firms with lower NLW exposure (solid circles in **Figure 6**).

Figure 6 Firm wage growth and wage growth expectations by NLW exposure



Notes: *Chart shows 3-month average data. Latest DMP data are for 3 months to September 2025 (expectations data refer to 3 months to September 2026). Solid markers show latest expectations data. Hollow markers show earlier expectations data. Data on percentage of employees paid at National Living Wage are for 2024. The results are weighted by industry and employment shares.*

[13] One reason to use a cut-off of 15% is to avoid measurement error with the exact numerical exposure measures.

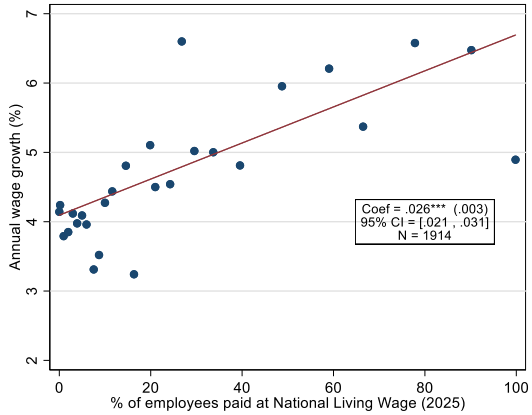
The differences in wage growth and wage growth expectations are also present with alternative splits by NLW exposure, showing our results are robust. In **Figure A5**, we split firms by whether they report above 50% of employees paid at or within £2/hour of the NLW. In **Figure A6**, firms are split by whether they consider the NLW as a top 3 determinant for their wages. In **Figure A7**, firms are split by whether they belong to higher or lower paying industries based on the classification from the LPC. In this split, the differences in wage growth are slightly smaller, and wage growth expectations are almost identical in the three months to September 2026. Finally, in **Figure A8**, we compare trends in wage growth and expected wage growth for firms that reported that they increased wages in response to the rise in NLW in April 2025 versus those who did not. Firms that indicated that they increased wages also report higher wage growth in recent years. Their expected wage growth is also above that for firms that did not increase wages following the NLW uprating, although by a smaller margin.

Overall, the evidence across several different definitions suggests that firms that are more exposed to the NLW have had higher wage growth over recent years, and that has continued to be the case since the latest NLW increase in April 2025.

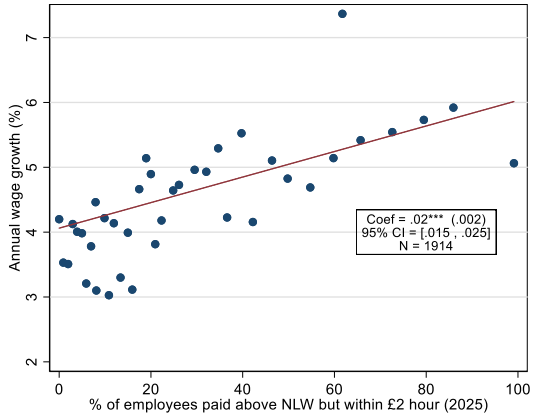
So far, we have considered trends in the time series, averaging across firms split by NLW exposure. The relationship between exposure and wage growth also holds in the cross section. **Figure 7, Panel A** shows that there is a strong positive relationship between the share of workers paid at the NLW and the wage growth in 2025. The slope suggests that a 10pp increase in the number of employees at the NLW is associated with around 0.25pp higher wage growth. **Figure 7, Panel B** shows that there is also a strong positive relationship between the share of employees paid *above but within £2/hour* of the NLW and firm annual wage growth. The relationship is also highly significant with coefficient value that has a similar magnitude to the results in Panel A. It suggests that there are likely spillovers from the NLW via pay differentials, at least for workers close to the minimum wage.

Figure 7 Wage growth and NLW exposure across firms

Panel A Wage growth and % of employees at the NLW



Panel B Wage growth and % of employees just above NLW

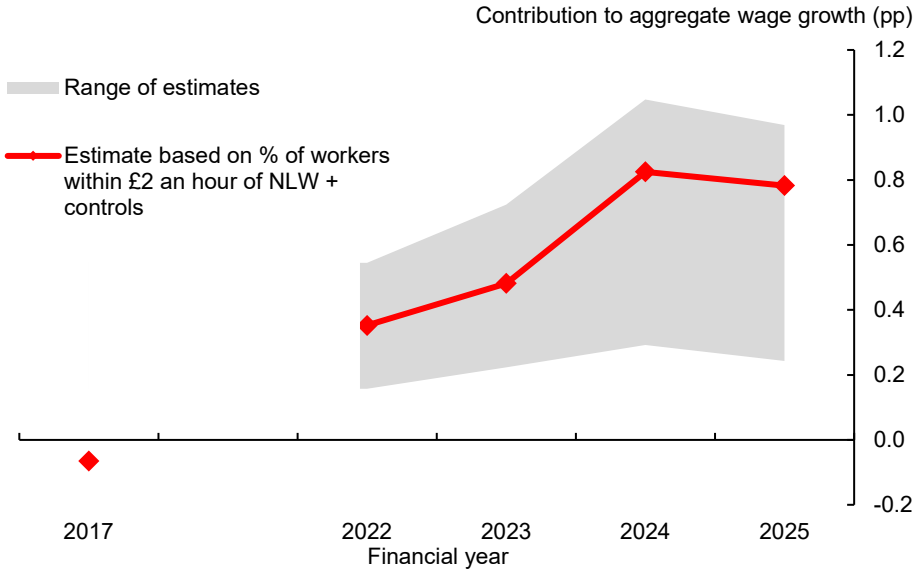


Notes: *This figure presents unweighted binned scatterplots between the share of employees paid at the 2025 (Panel A) and above NLW but within £2/hour (Panel B) and annual wage growth. The sample period is May-July 2025. Firms with 100% of employees at NLW are only included in the analysis in this report if their average wage per employee in their accounts data is £25,000 or less (40 hours a week at 2025 NLW = £25,400), or less than £30,000 if 100% of employees within £2 an hour of NLW.*

In **Figure 8**, we present regression-based estimates of the NLW's contribution to aggregate wage growth, based on Equation 1. This attempts to quantify how much higher aggregate wage growth has been because of higher wage growth amongst firms more exposed to the

NLW. It involves comparing actual wage growth against a regression-based counterfactual where the wage growth of all firms is assumed to behave like that of firms with no NLW exposure. An important caveat is that these results are not necessarily causal and could also be picking up factors other than the NLW that have disproportionately affected firms and industries who are more exposed to the NLW.

Figure 8 The contribution of NLW exposure to aggregate wage growth



Notes: *This figure shows a range of estimates on the contribution of the NLW to aggregate wage growth, based on the specification outlined in Equation 1. See Figure A9 for the individual estimates swathe. The red coefficients are based on Column 4 of Table A1. The grey region is the range of coefficient estimates from alternative specifications reported in Table A1.*

Our preferred specification, based on a full economic specification and satisfactory econometric performance, uses the percentage of workers within £2/hour of the NLW plus controls as the exposure measure (red line on **Figure 8**, based on Column 4 of **Table A1**). We use the percentage of workers within £2/hour to capture not only the direct effects of the NLW, but also potential effects via pay differentials. The specification also includes controls for firm employment growth, recruitment difficulties, and CPI inflation perceptions and expectations. Using employment-weighted data, this specification suggests that the NLW has contributed around 0.8pp to aggregate wage growth since April 2025, up from around 0.4pp in 2022. These effects are statistically significant. The precise point estimates are somewhat sensitive to the measure of NLW exposure, whether controls are included, whether firm fixed effects are included, and whether employment or pay bill weights are used. The estimates range from +0.2pp to +1pp on aggregate wage growth, as illustrated by the grey swathe in **Figure 8**.[14] Individual estimates for the different specifications are reported in **Figure A9** and the underlying regressions are reported in **Table A1**. Nevertheless, we conclude that firms more exposed to NLW have contributed meaningfully to higher aggregate wage growth in recent years.

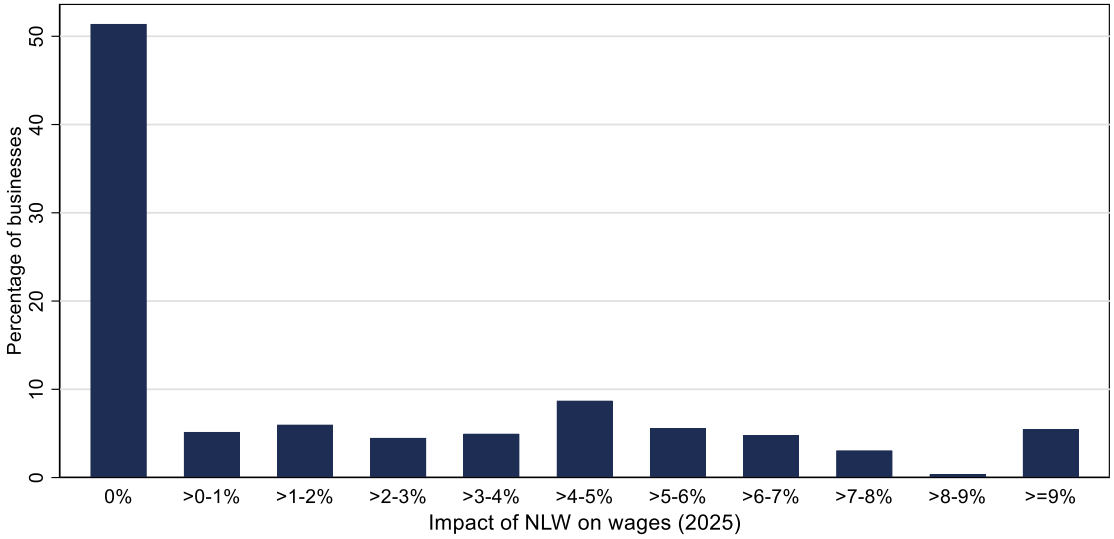
The estimated impact is notably larger than what would be expected from a simple calculation based on NLW coverage and excess wage growth. For example, assuming 15% of workers are paid at NLW (as reported in the survey results) and that the wages of these workers

[14] The results are robust to dropping all firms which report 100% of employees paid within £2/hour of the NLW (based on our preferred specification). In this regression, the NLW contributes around +0.76pp to aggregate wage growth since April 2025.

increased by 7% in 2025, but would have only risen by 4% without an increase in NLW (i.e. were 3% higher), that would imply NLW added 0.45 percentage points to aggregate wage growth, on an employment weighted basis. Indeed, this is suggested by Column 1 of **Table A1** (and shown in Figure A9), which uses the percentage of workers at the NLW as the relevant measure of exposure. But our analysis shows that there were also effects on the wages of those earning slightly above NLW. If the 34% of workers paid within £2 an hour of NLW all received a pay increase of 7% rather than 4%, that would add 1 percentage point to aggregate wage growth. So, an overall impact of 0.8pp would, for example, imply pass through of around 80% for all workers paid within £2 an hour.[15]

Overall, our exposure-based analysis is consistent with a relatively high, but still less than 100% pass through of increases in NLW to all workers paid within £2 an hour of NLW. The swathe in Figure 8 shows there is a range around this, with exposure measures that take less account of these spillover effects to employees earning just above the NLW typically being lower. Pay bill weighted impacts are also smaller. And it is also possible that at least some of these impacts also capture factors other than NLW.

Figure 9 Self-reported estimates on the impact of the NLW on wages



Notes: *This figure is based on data collected over August-September 2025, with a further month of data being collected in October. The results are weighted by industry and employment shares.*

One way to cross-check the exposure-based estimates is to compare them to how firms say they have responded to the 2025 increase in the NLW. These self-reported survey responses corroborate our exposure-based findings. Approximately half of firms reported paying higher wages than they otherwise would have due to the NLW increase (**Figure 4**). Among these firms, the reported wage increases varied widely (**Figure 9**), with some indicating increases exceeding 5% more than would have been the case. While such large responses may reflect misunderstanding or overestimation, excluding outliers above 5% still results in an estimated aggregate impact of +0.7%, within the range of estimates based on our regression analysis.

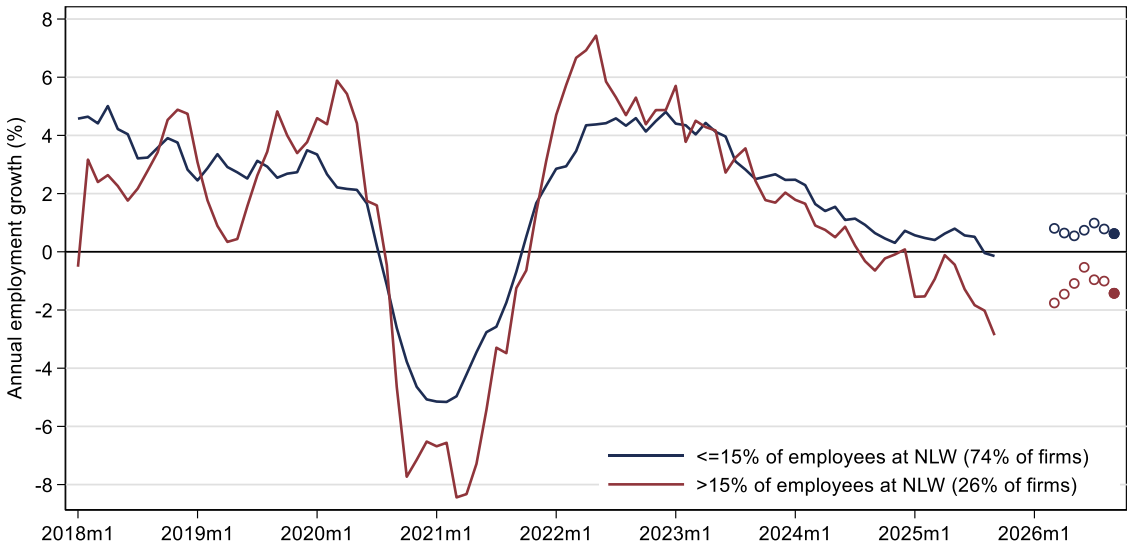
[15] This evidence is consistent with findings on spillovers of NLW increases to employees close to, but above the NLW floor (e.g. Low Pay Commission 2025; Giupponi et al. 2024). Giupponi et al. (2024), in particular, find significant evidence of spillovers up to those paid within £2/hour of the NLW. Quantitatively, our results suggest stronger pass-through of recent NLW increases to employees within £2/hour of the NLW than reported in the literature.

The impact of the NLW on employment and prices

Employment Effects

Firms in the DMP are also asked about their annual employment growth and expected year-ahead employment growth.[16] In this section, we analyse whether there are differences in employment growth for firms with different exposures to the National Living Wage, using the same approach as for the wage analysis. **Figure 10** shows that while employment growth has been declining since 2023, it has been somewhat weaker for firms with higher NLW exposure. In the three months to September 2025, annual employment growth was -2.8% for firms with more than 15% of employees at the NLW while it was close to zero for the remainder of the sample. These patterns are expected to persist, with firms that have higher NLW exposure reporting lower expected employment growth in the latest data as well.

Figure 10 Annual employment growth and expected year-ahead employment growth by NLW exposure



Notes: *Chart shows 3-month average data. Latest DMP data are for 3 months to September 2025 (expectations data refer to 3 months to September 2026). Solid markers show latest expectations data. Hollow markers show earlier expectations data. Data on percentage of employees paid at National Living Wage are for 2024. The results are weighted by industry and employment shares.*

We find similar patterns for alternative definitions of NLW exposure as well. Employment growth has recently been weaker for firms with more than 50% of employees at or within £2/hour of the NLW (**Figure A11**) and for firms that report that the NLW is one of the top three determinants of wages (**Figure A12**). The differences are less clear when splitting by high vs. low paying industries **(Figure A13)**, which suggests there may be important heterogeneities across firms but within industries. Finally, we also see weaker employment growth for firms that indicated that they lowered the number of employees in response to the April 2025 NLW increase (**Figure A14**). This margin of adjustment was selected by around 27% of businesses.

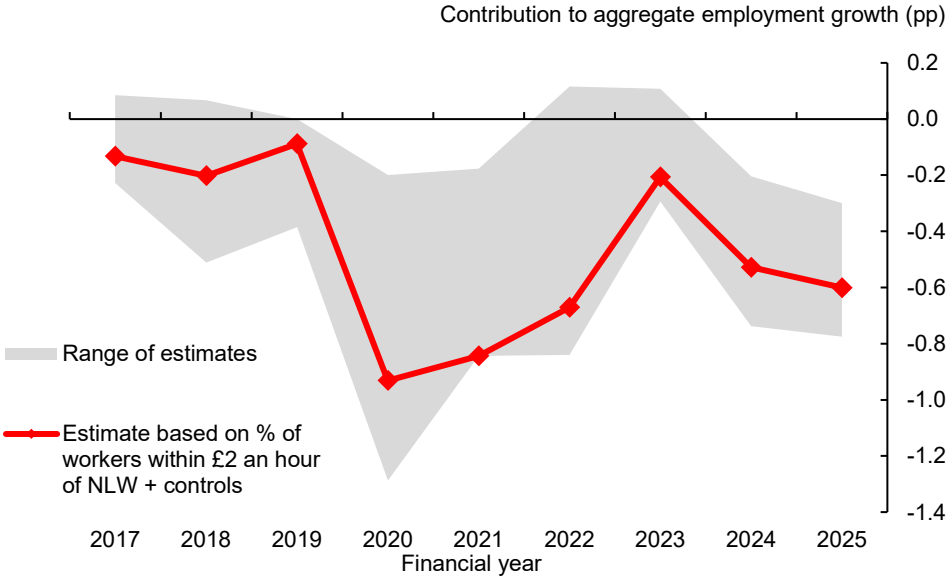
Turning to quantitative estimates, we find that weaker employment growth among firms with a greater exposure to the NLW are estimated to have lowered aggregate employment growth by 0.6 percentage points in 2025, using the share of employees at or with £2/hour of the NLW as the exposure metric (**Figure 11**). The estimates range from -0.3pp to -0.8pp, depending on

[16] In recent years, employment growth in the DMP has been declining and is consistent with trends in RTI employee growth rates (**Figure A10**).

the precise specification (see the full range in **Figure A15**). Using the percentage of employees paid at the NLW as the exposure measure, we find quantitatively similar effects (Column 1 of Table A2). However, these estimates were not consistently statistically significant across all specifications, particularly when also including firm fixed effects.[17]

One particular challenge in identifying the NLW effects in the latest data on employment (and prices) is allowing for increases in employer National Insurance Contributions (NICs), which also took effect in April. Firms more exposed to NLW might be less likely to respond to NICs increases by paying lower wages than otherwise would be the case because of the NLW increases and more likely to respond in other ways, such as by employing fewer people and by raising prices. This is consistent with qualitative evidence from the DMP survey. So, it may be possible that at least some of the recent greater contribution to weaker employment growth of more NLW exposed firms is related to NICs. And looking back to the relatively large employment effects from 2020 to 2022, these are likely to be at least partly linked to the Covid pandemic, where consumer-facing sectors, which typically have a greater share of low-paid workers, were disproportionately affected.

Figure 11 The contribution of NLW exposure to aggregate employment growth



Notes: *This figure shows a range of estimates on the contribution of the NLW to aggregate employment growth, based on the specification outlined in Equation 1. See Figure A15 for the individual estimates. Table A2 presents the regression results. The red coefficients are based on Column 4 of Table A2. The grey region is the range of coefficient estimates from alternative specifications reported in Table A2.*

In **Figure A16**, we also present the direct estimates for the impact of the NLW on employment from directly asking firms. The aggregate impact is estimated at around -1.7%, but this is driven by a tail of large estimates. Excluding changes above -5%, the impact is around -0.6% on employment.

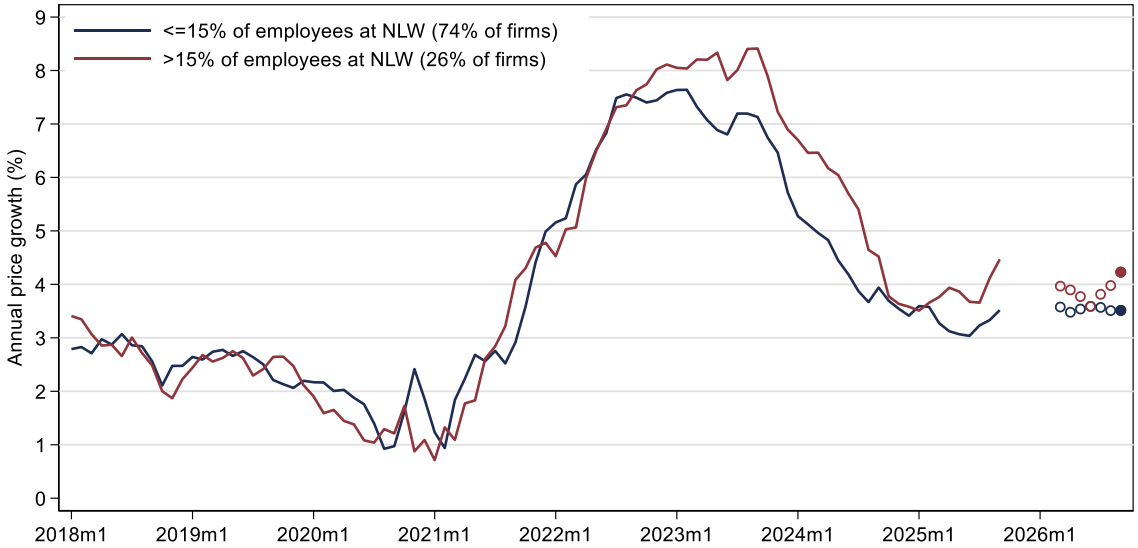
Overall, the employment effects appeared smaller and less robust than the wage effects, and there may be factors other than NLW at play. Nonetheless, the data suggest that the NLW may have exerted some downward pressure on employment in highly exposed firms.

[17] Dropping firms which report 100% of employees paid within £2/hour of the NLW yields an impact of -0.5pp in 2025, within the range reported in Figure A15.

Price Effects

Increases in the NLW may also have impacts on firm prices, as wages push up on costs. Firms in the DMP are regularly asked about their annual own-price growth (average across all the goods/services produced by the firm) and own-price expectations for the year ahead. Survey data on firm-level price changes tracks Consumer Price Index (CPI) inflation (although it smooths out peaks and troughs), suggesting that the measure is reliable **(Figure A17)**.[18] Firms with higher exposure to the NLW have reported higher price inflation over the past few years than less exposed firms **(Figure 12)**. This pattern may reflect efforts to pass on increased labour costs to consumers. In the three months to September 2025, firms with more than 15% of employees at the NLW reported annual price growth around 4.5%, compared with around 3.5% for firms with lower NLW exposure. These differences in price growth are still present in year-ahead expectations, although the gap between the two sets of firms is smaller.

Figure 12 Annual own-price growth and expected year-ahead own-price growth by NLW exposure



Notes: *Chart shows 3-month average data. Latest DMP data are for 3 months to September 2025 (expectations data refer to 3 months to September 2026). Solid markers show latest expectations data. Hollow markers show earlier expectations data. Data on percentage of employees paid at National Living Wage are for 2024. The results are weighted by industry and employment shares.*

Different splits of NLW exposure highlight similar trends in price growth. Firms with more than 50% of employees at or within £2/hour of the NLW report higher own-price growth and price growth expectations (**Figure A18**). We find a less clear difference when splitting by the importance of NLW for wages (**Figure A19**) but again find stronger price growth for firms in lower-paying industries (**Figure A20**) and also when splitting firms by whether they increased prices following the increase in NLW in 2025 (**Figure A21**). Approximately 34% of firms reported that the NLW increase had affected the prices they charged **(Figure 4)**.

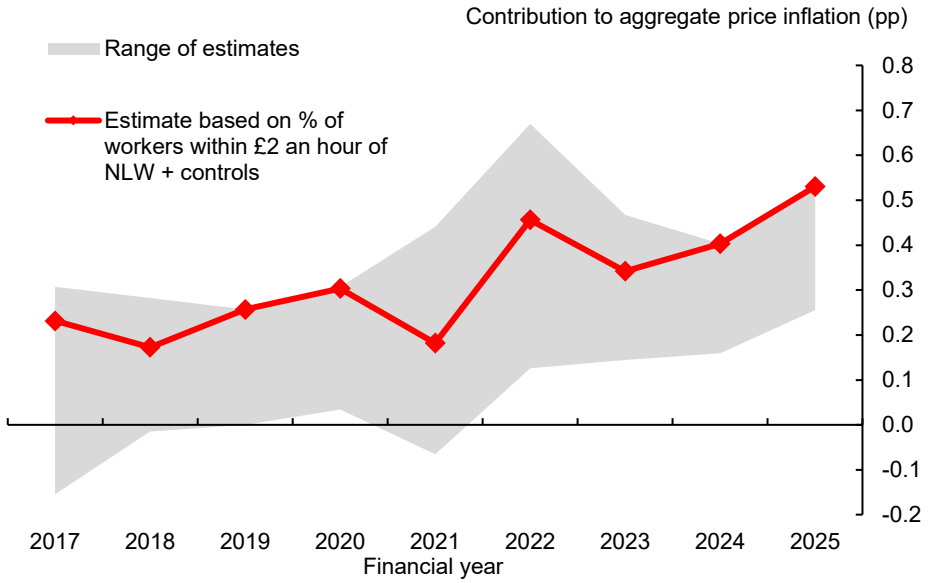
Quantitative regression-based estimates indicate that larger price increases among more NLW exposed firms may have added between 0.26pp and 0.53pp to aggregate own-price

[18] The deviations between trends in own-price growth in the DMP and CPI inflation are, to a large extent, driven by difference in the energy prices, which have a larger contribution in the CPI basket. This is shown in Figure A17, which also plots CPI inflation excluding energy.

growth in 2025, depending on the precise specification (**Figure A22**).[19] While smaller than the wage effects and less precisely estimated, this impact is not negligible. As with employment, we recognise that this could be due to higher employer NICs, and price effects are estimated to have been consistently positive since 2017.[20]

But overall, there is some evidence that wage cost pressures from NLW have been partially transmitted to consumers through higher prices. That is also consistent with what firms report when asked directly. **Figure A23** shows the distribution of estimated price impacts from a direct survey question. The aggregate impact is around 1.4%, which drops to around 0.9% when excluding changes above 5%.

Figure 13 The contribution of NLW exposure to aggregate own-price growth



Notes: *This figure shows a range of estimates on the contribution of the NLW to aggregate own-price growth, based on the specification outlined in Equation 1. See Figure A22 for the individual estimates. Table A3 presents the regression results. The red coefficients are based on Column 4 of Table A3. The grey region is the range of coefficient estimates from alternative specifications reported in Table A3.*

Conclusion

In conclusion, firms with greater exposure to the National Living Wage (NLW) — defined by the proportion of employees paid at or within £2 per hour of the NLW, self-reported influence of the NLW on wage growth, and being in a low paying sector — have consistently experienced higher wage growth in recent years, a trend that has continued into 2025. Notably, firms with a larger share of employees earning just above the NLW also report elevated wage growth, indicating a likely effort to preserve internal pay differentials. Looking ahead to 2026, firms anticipate a more modest impact from the NLW on wage increases. While there is some evidence that highly exposed firms have faced higher price inflation and reduced employment growth, these effects are less pronounced and more uncertain than those observed for wages, warranting cautious interpretation in future policy assessments.

[19] Our preferred specification in Figure 13, shown in red, additionally controls for realised sales growth, industry energy intensity, and import cost shares. See Table A3 for further details.
[20] The estimates are not overly driven by firms which report 100% of employees paid within £2/hour of the NLW. After dropping these firms in a further robustness exercise, the estimates impact on own-price growth is also +0.5pp in 2025.

Appendix 1: Survey questions on National Living Wage exposure

Decision Maker Panel

BANK OF ENGLAND

Looking back, from 12 months ago to now, what was the approximate % change in your AVERAGE WAGE per employee?

Notes:

(a) Please reply to two significant figures (e.g., 1.5%, 15%).

(b) Where possible, please report the change in your average wage per employee on a full-time equivalent basis.

Per cent (%) ☐

Decision Maker Panel

BANK OF ENGLAND

Approximately, what percentage of all employees in your business were paid at the compulsory National Living Wage/National Minimum Wage in each of the following periods? And what percentage were paid at or within £2 an hour of the compulsory National Living Wage/National Minimum Wage?

Note: The table below summarises the National Living Wage/National Minimum Wage hourly rates in April 2025 and April 2024, separated by age groups.

	21 and over	18 to 20	Under 18	Apprentice
April 2025	£12.21	£10.00	£7.55	£7.55
April 2024	£11.44	£8.60	£6.40	£6.40

	At National Living Wage	At or within £2/hour of National Living Wage
Now (2025):	☐ %	☐ %
1 year ago (2024):	☐ %	☐ %

Decision Maker Panel

BANK OF ENGLAND

How important is the National Living Wage/National Minimum Wage as an influence on current wage growth in your business?

- Most important factor
- In top 3 most important factors
- One of many factors
- Not important

Decision Maker Panel

BANK OF ENGLAND

How has your business responded to the increases in the compulsory National Living Wage/National Minimum Wage that were implemented in April 2025?

Please answer relative to what you expect would otherwise have happened. Please select all that apply.

Notes:

a) The table below summarises the National Living Wage/National Minimum Wage hourly rates in April 2025 and April 2024, separated by age groups.

	21 and over	18 to 20	Under 18	Apprentice
April 2025	£12.21	£10.00	£7.55	£7.55
April 2024	£11.44	£8.60	£6.40	£6.40

- Higher employee wages
- Lower number of employees
- Higher prices
- Lower profit margins
- Other (please state in textbox below)

- None of the above

Decision Maker Panel

BANK OF ENGLAND

How has your business responded to the increases in National Living Wage/National Minimum wage that were implemented in April 2025?

Higher employee wages:
Please provide an estimate in percentage terms of how much higher the average wage per employee in your business currently is.

Average wage per employee higher by: [ ] %

Lower number of employees:
Please provide an estimate in percentage terms of how much lower the number of employees in your business currently is.

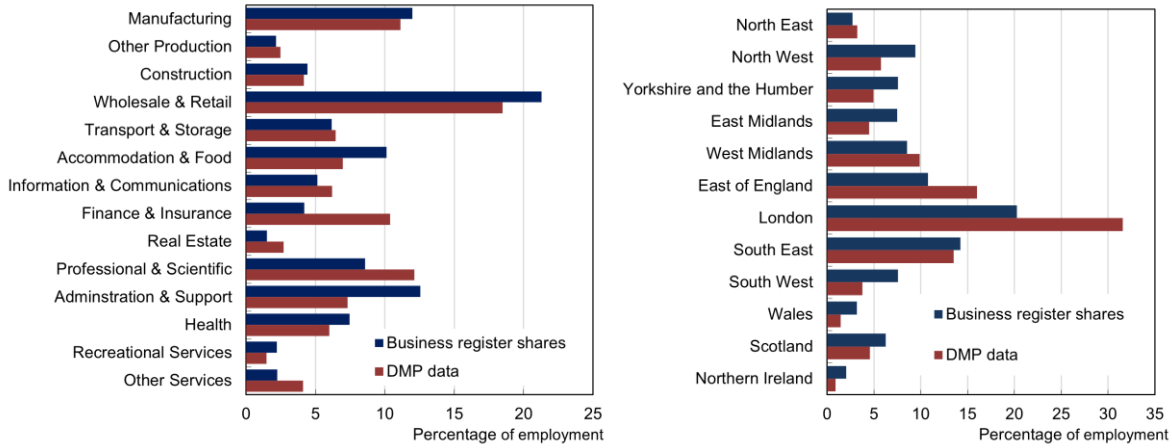
Number of employees lower by: [ ] %

Higher prices:
Please provide an estimate in percentage terms of how much higher the average price that your business currently charges is.

Average price higher by: [ ] %

Appendix Figures and Tables

Figure A1 DMP vs. UK industrial and regional distribution



Notes: Other production includes agriculture; forestry & fishing; mining & quarrying; electricity, gas & air conditioning supply; water supply; and sewerage, waste management & remediation activities. Data are averages from 2017 to 2023.

Figure A2 Distribution of employees at the NLW

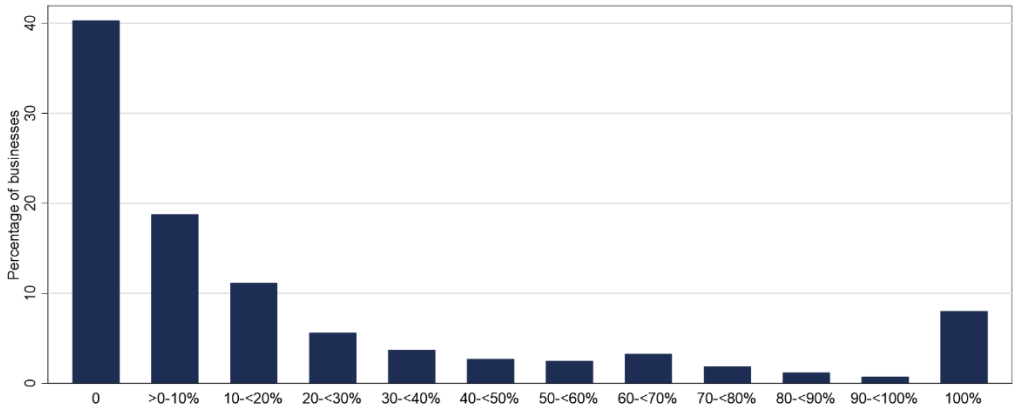


Figure A3 Comparing NLW exposure with average annual wage per employee in firm accounts

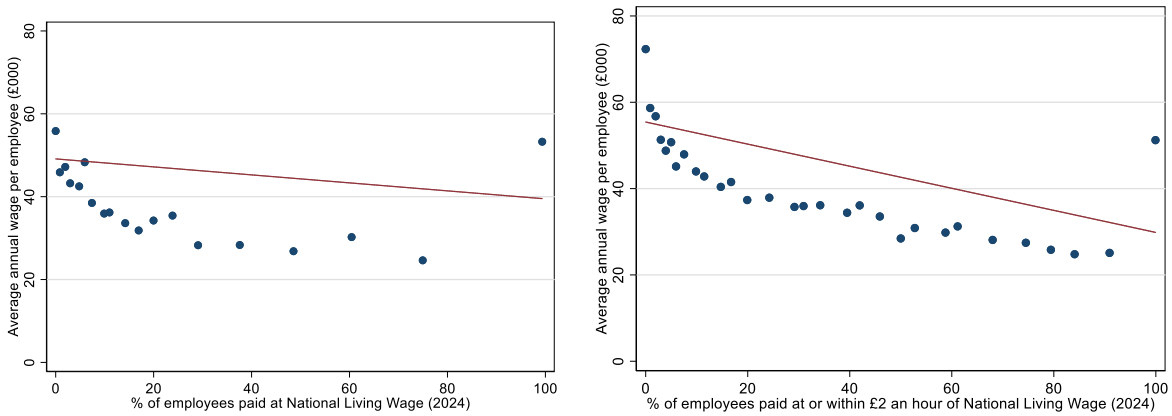


Figure A4 NLW exposure by importance of the NLW for wages

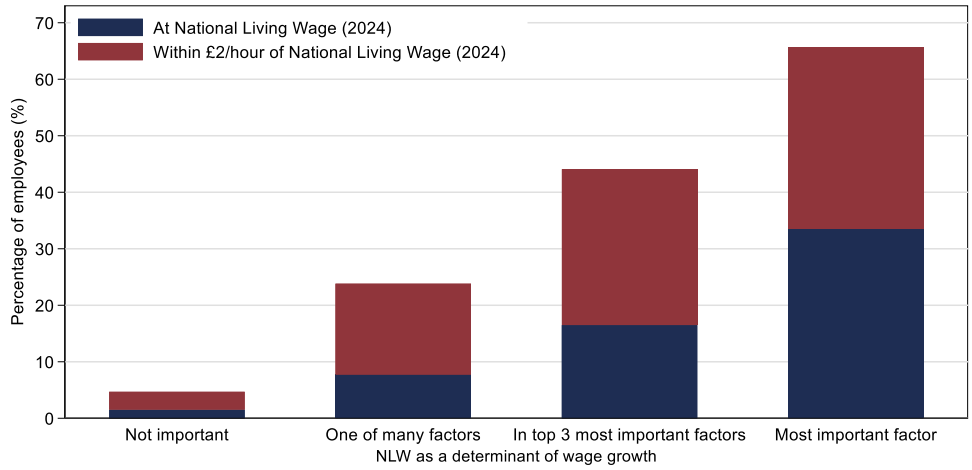


Figure A5 Annual wage growth and expected wage growth by share of employees paid at/within £2/hour of the NLW

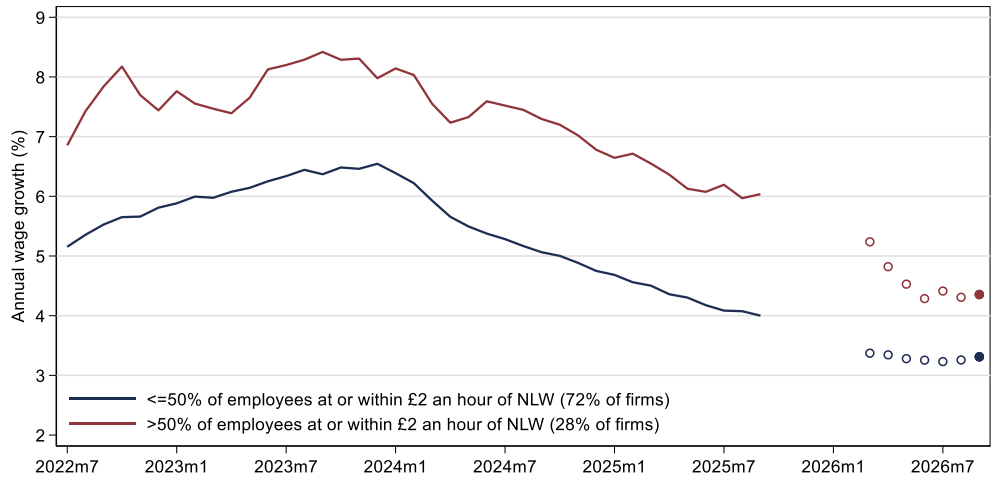


Figure A6 Annual wage growth and expected wage growth by importance of NLW for wages

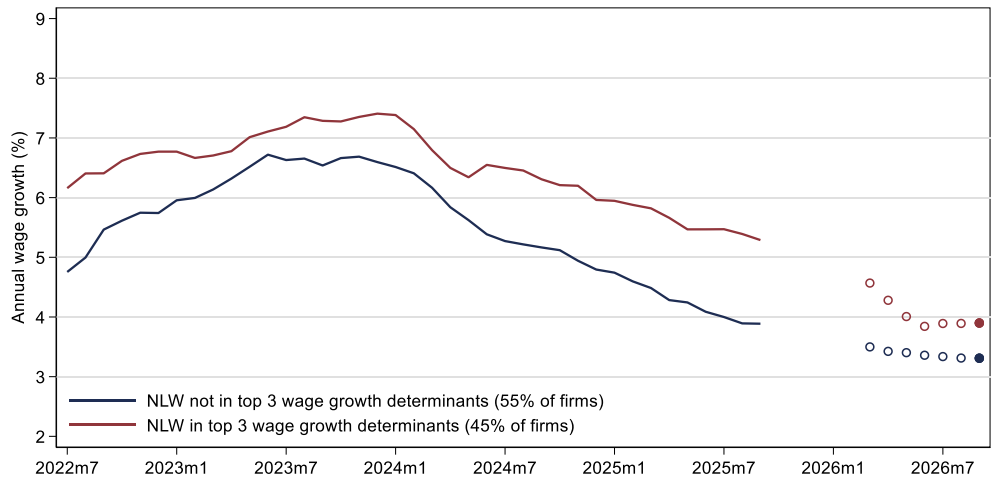


Figure A7 Annual wage growth and expected wage growth by low vs. high paying industry

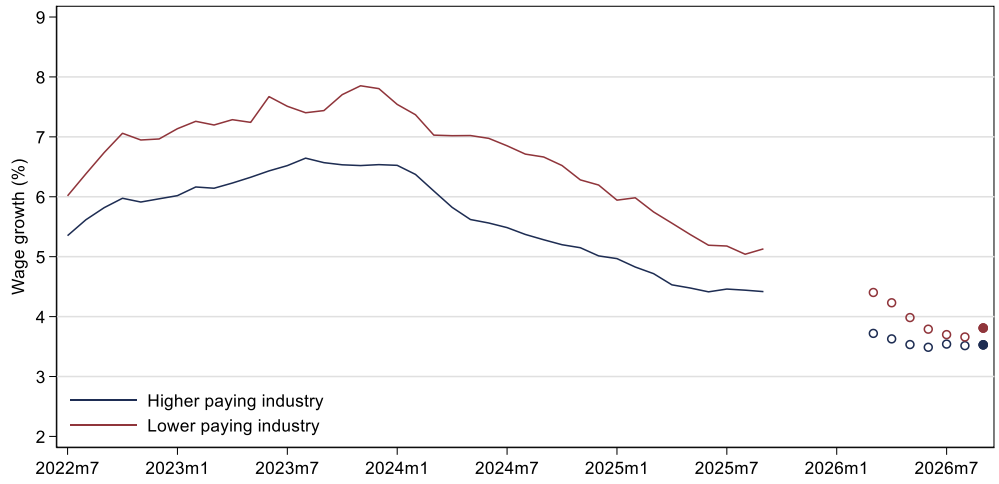


Figure A8 Annual wage growth and expected wage growth by whether increased wages in response to NLW increase

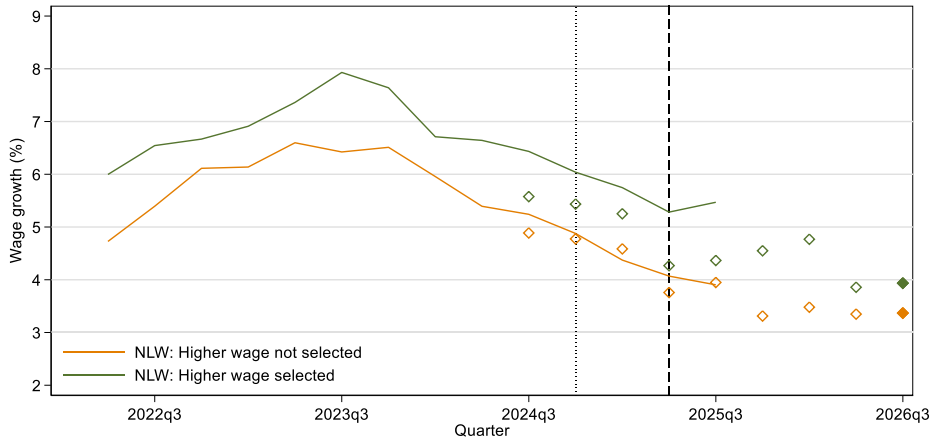


Figure A9 The contribution of NLW exposure to aggregate wage growth: Individual estimates

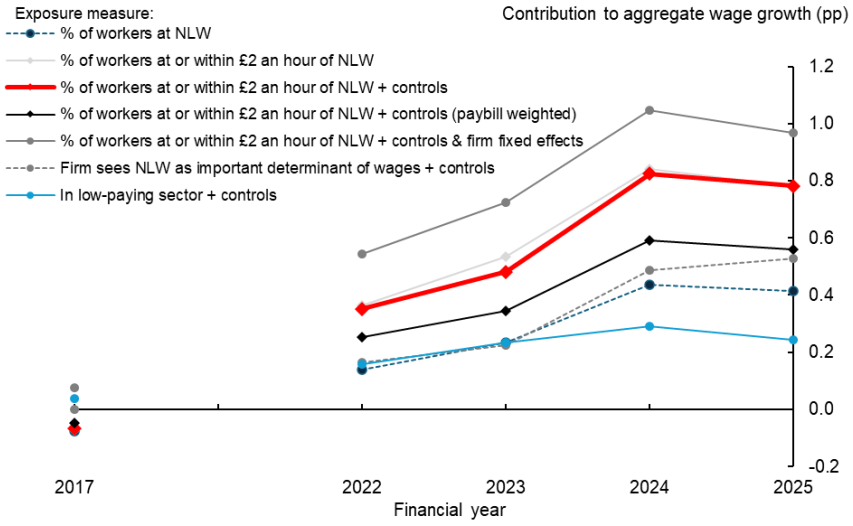


Figure A10 DMP employment growth, LFS employment growth, and RTI employment growth

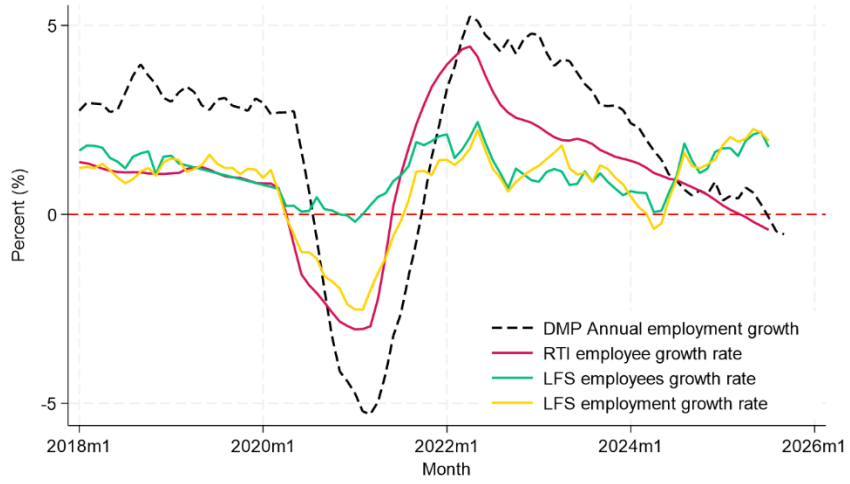


Figure A11 Annual employment growth and expected employment growth by share of employees at or within £2/hour of the NLW

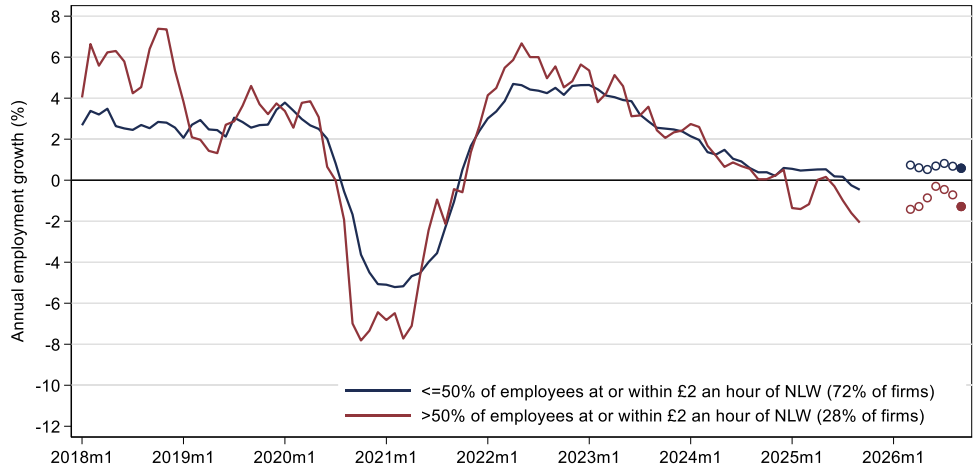


Figure A12 Annual employment growth and expected employment growth by importance of NLW for wages

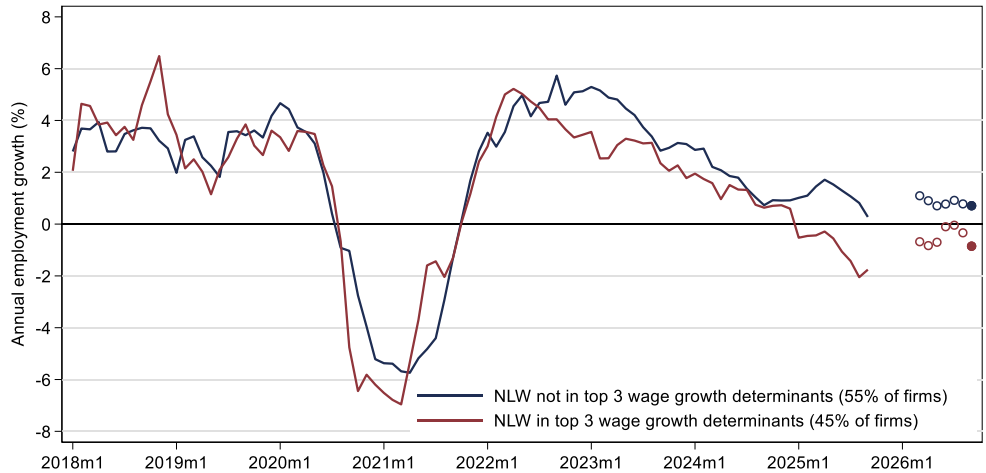


Figure A13 Annual employment growth and expected employment growth by high vs. low paying industry

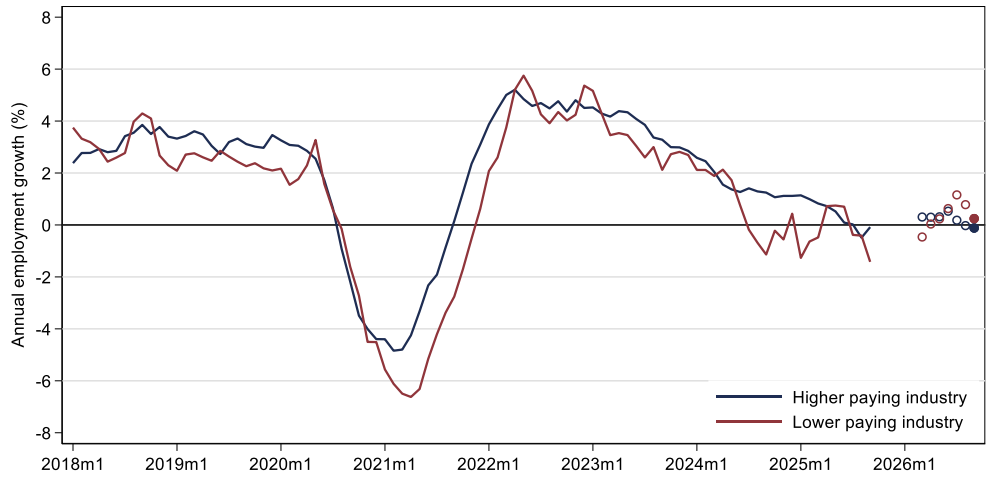


Figure A14 Annual employment growth and expected employment growth by whether lowered employees in response to NLW

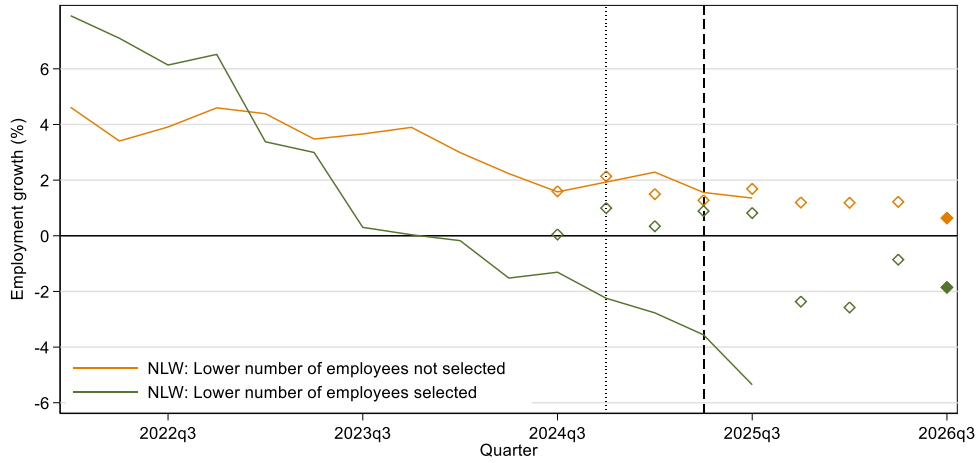


Figure A15 The contribution of NLW exposure to aggregate employment growth

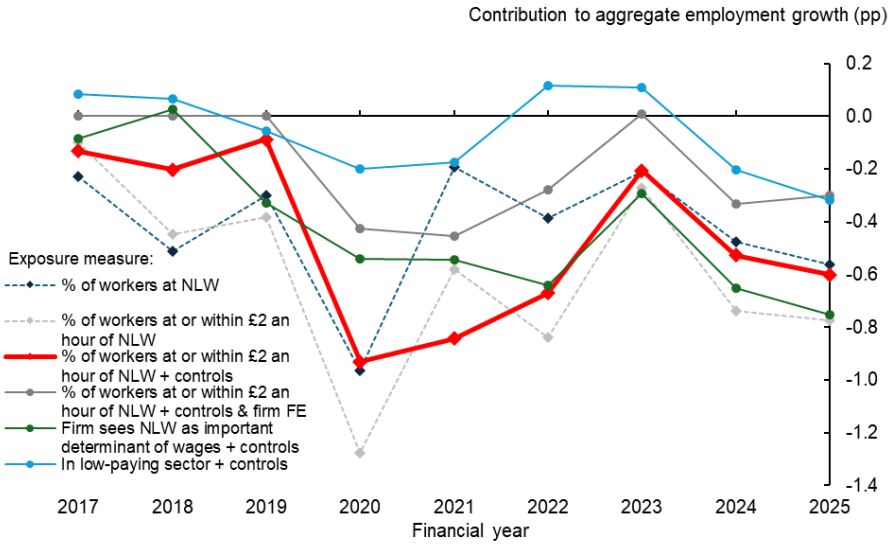


Figure A16 Direct estimates of the impact of the NLW on employment

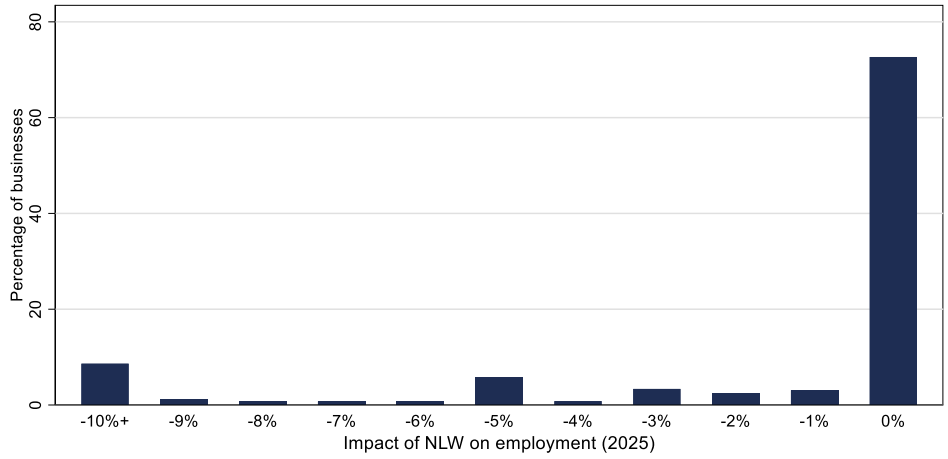


Figure A17 Annual firm own-price growth and annual UK CPI inflation

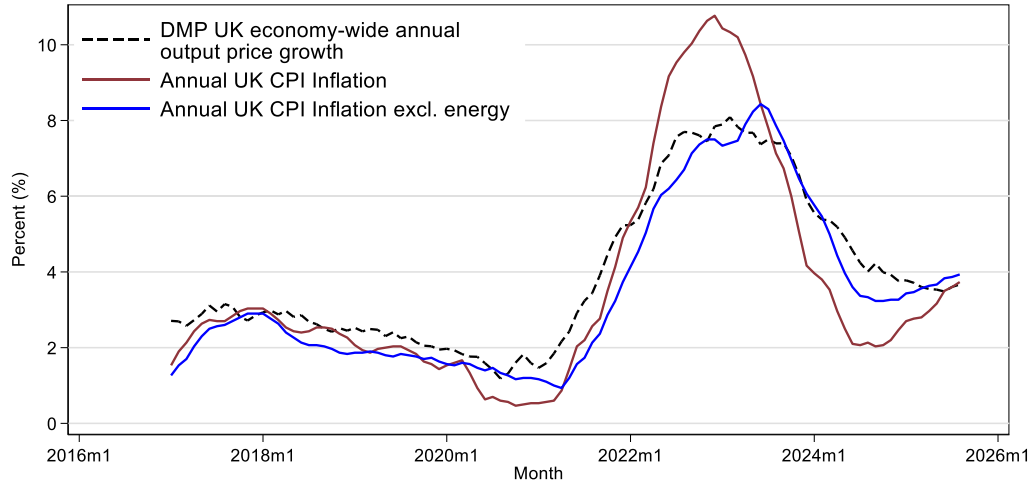


Figure A18 Annual own-price growth and expected own-price growth by share of employees at or within £2/hour of the NLW

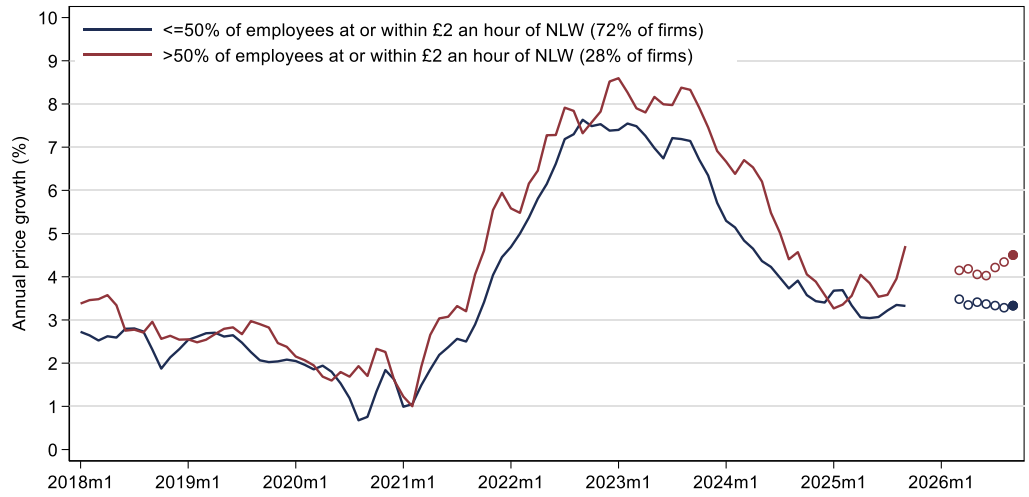


Figure A19 Annual own-price growth and expected own-price growth by importance of NLW for wages

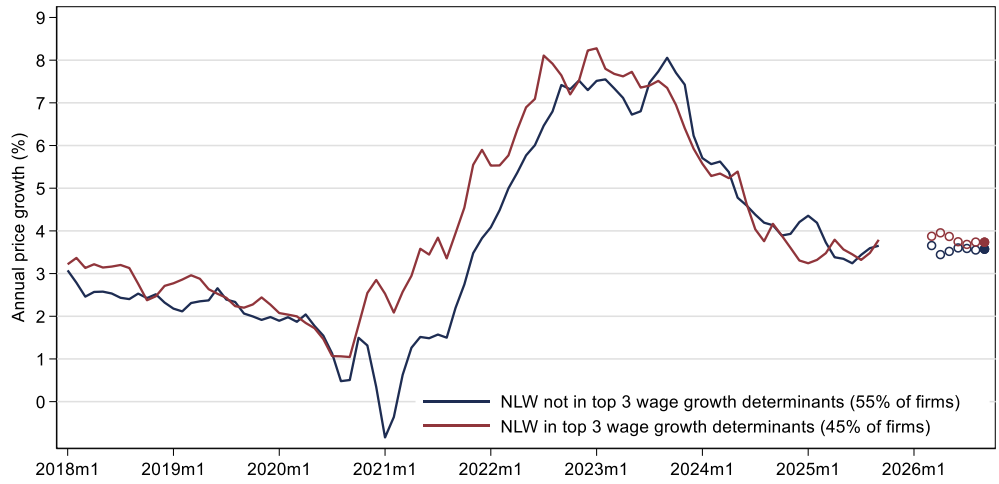


Figure A20 Annual own-price growth and expected own-price growth by high vs. low paying industry

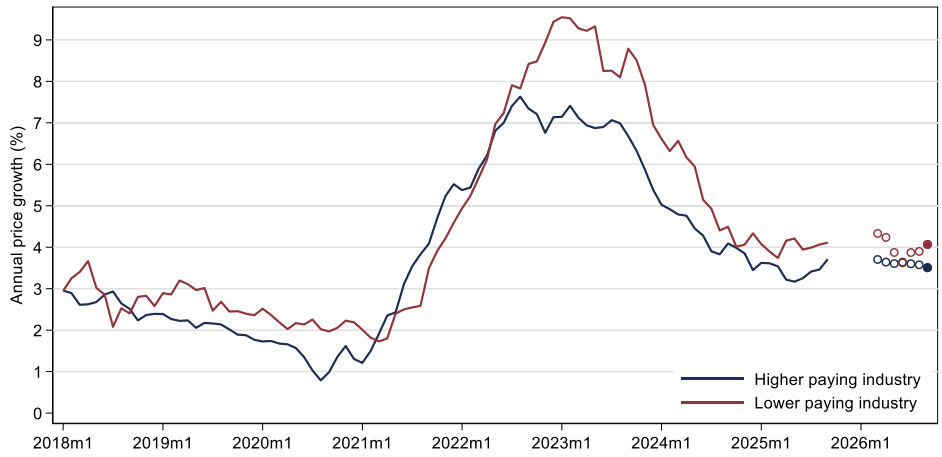


Figure A21 Annual own-price growth and expected own-price growth by whether increased prices in response to NLW

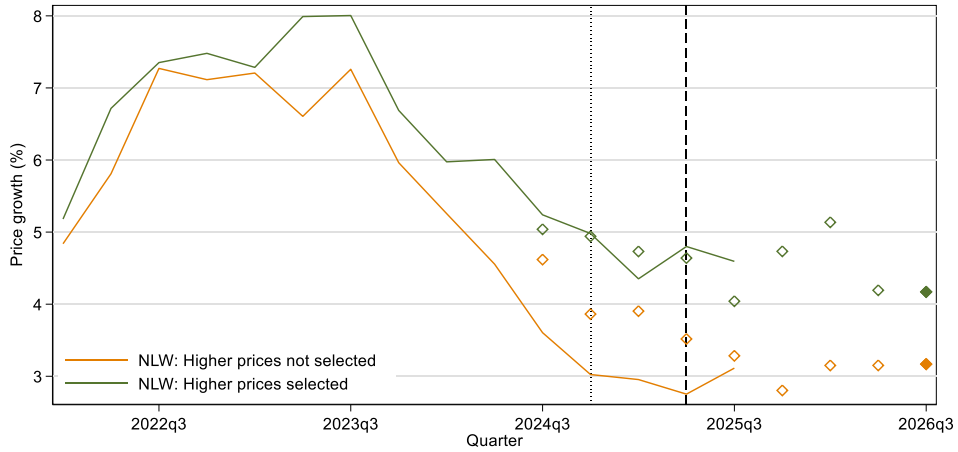


Figure A22 The contribution of NLW exposure to aggregate own-price growth

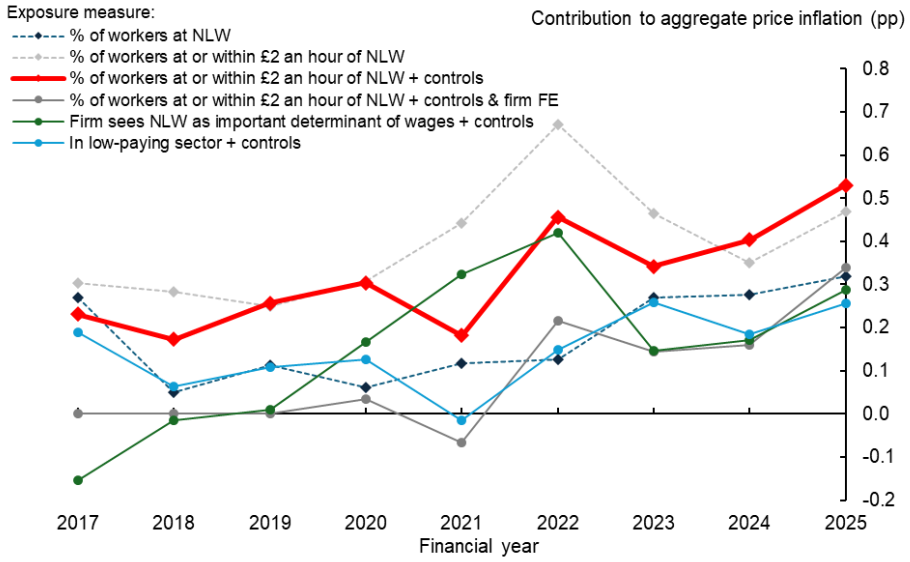


Figure A23 Direct estimates of the impact of the NLW on prices

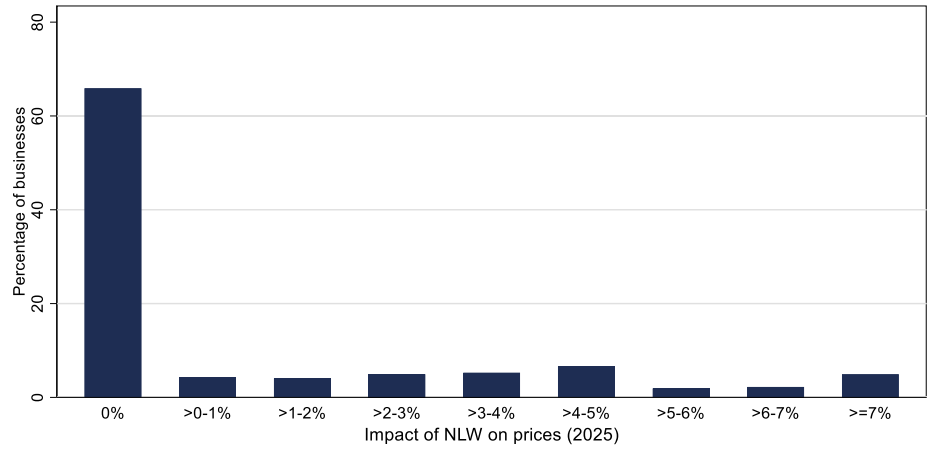
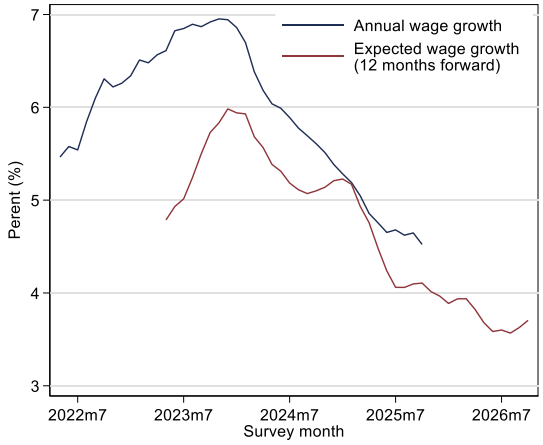


Figure A24 Relationship between realised and expected wage growth

Panel A Time series



Panel B Scatterplot

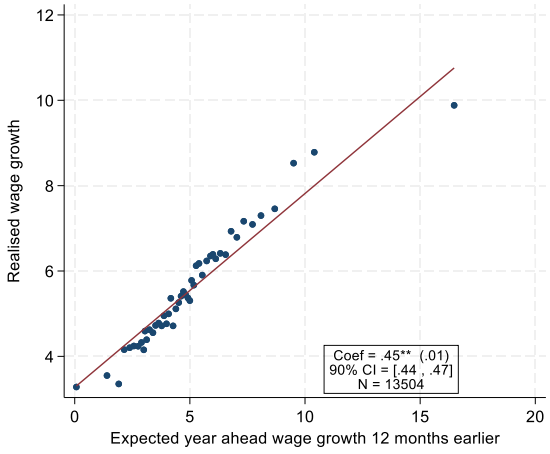


Figure A25 Distribution of NLW exposure in 2024

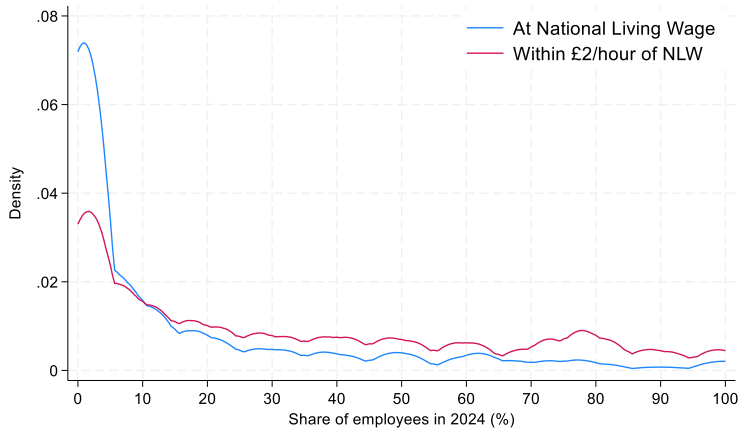


Table A1 Wage regressions

Dependent variable: Annual wage growth	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Exposure measure 1	% of workers at NLW	% of workers at NLW	% of workers at or within £2 an hour of NLW	% of workers at or within £2 an hour of NLW	% of workers at or within £2 an hour of NLW	NLW important determinant of wages	ln low-paying sector
Exposure measure 2		% of workers above NLW but within £2 an hour					
Exposure measure 1#Financial year							
2017	-0.005	-0.005	-0.002	-0.002	-	0.128	0.128
	(0.005)	(0.005)	(0.003)	(0.003)		(0.095)	(0.095)
2022	0.010**	0.009**	0.011***	0.011***	0.017***	0.522***	0.522***
	(0.004)	(0.004)	(0.003)	(0.003)	(0.004)	(0.121)	(0.121)
2023	0.016***	0.015***	0.017***	0.015***	0.023***	0.771***	0.771***
	(0.003)	(0.003)	(0.002)	(0.002)	(0.004)	(0.106)	(0.106)
2024	0.031***	0.030***	0.026***	0.026***	0.033***	0.969***	0.969***
	(0.003)	(0.003)	(0.002)	(0.002)	(0.004)	(0.104)	(0.104)
2025	0.029***	0.028***	0.024***	0.024***	0.030***	0.807***	0.807***
	(0.003)	(0.003)	(0.002)	(0.002)	(0.004)	(0.116)	(0.116)
Exposure measure 2#Financial year							
2017		-0.000					
		(0.004)					
2022		0.013***					
		(0.003)					
2023		0.018***					
		(0.003)					
2024		0.023***					
		(0.002)					
2025		0.021***					
		(0.002)					
Additional controls:							
Employment growth				0.018***	0.012***	0.019***	0.016***
				(0.003)	(0.003)	(0.003)	(0.002)
Recruitment much hard than normal				0.338***	0.104	0.389***	0.416***
				(0.084)	(0.070)	(0.099)	(0.068)
Current CPI perception				0.059**	0.004	0.067**	0.056**
				(0.027)	(0.021)	(0.031)	(0.022)
Expected CPI inflation 1 year ahead				0.062***	0.023	0.075***	0.060***
				(0.024)	(0.020)	(0.028)	(0.019)
Expected CPI inflation 3 years ahead				0.072**	0.015	0.080**	0.088***
				(0.032)	(0.026)	(0.036)	(0.026)
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed efffects	No	No	No	No	Yes	No	No
Observations	22,289	22,289	22,289	21,879	21,750	17,785	32,395
R-squared	0.114	0.133	0.132	0.148	0.534	0.135	0.144
Notes:							
Exposure measure 1 mean (emp. weighted):	14.17	14.17	32.13	32.13	32.13	0.46	0.30
Exposure measure 2 mean (emp. weighted):		17.96					
Exposure measure 1 mean (paybill weighted):	9.74	9.74	23.02	23.02	23.02	0.34	0.23
Exposure measure 2 mean (paybill weighted):		13.28					

All equations are estimated using quarterly data from 2017 and 2022-2025 (wage growth data were not collected between 2018 and 2021).

Table A2 Employment regressions

Dependent variable: Annual employment growth	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Exposure measure 1	% of workers at NLW	% of workers at NLW	% of workers at or within £2 an hour of NLW	% of workers at or within £2 an hour of NLW	% of workers at or within £2 an hour of NLW	NLW important determinant of wages	In low-paying sector
Exposure measure 2		% of workers above NLW but within £2 an hour					
Exposure measure 1#Financial year							
2017	-0.016	-0.016	-0.003	-0.004	-	-0.182	0.281
	(0.023)	(0.023)	(0.016)	(0.015)		(0.871)	(0.426)
2018	-0.036**	-0.036**	-0.014	-0.006	-	0.056	0.221
	(0.017)	(0.017)	(0.011)	(0.011)		(0.625)	(0.334)
2019	-0.021	-0.021	-0.012	-0.003	-	-0.716	-0.184
	(0.015)	(0.015)	(0.009)	(0.010)		(0.552)	(0.314)
2020	-0.068***	-0.067***	-0.040***	-0.029***	-0.013	-1.180*	-0.662
	(0.017)	(0.017)	(0.011)	(0.011)	(0.011)	(0.669)	(0.416)
2021	-0.014	-0.013	-0.018**	-0.026***	-0.014	-1.187**	-0.586
	(0.015)	(0.015)	(0.009)	(0.009)	(0.011)	(0.589)	(0.434)
2022	-0.027*	-0.026*	-0.026***	-0.021**	-0.009	-1.396***	0.386
	(0.014)	(0.014)	(0.009)	(0.009)	(0.011)	(0.530)	(0.420)
2023	-0.015	-0.015	-0.008	-0.006	0.000	-0.640	0.359
	(0.012)	(0.012)	(0.008)	(0.007)	(0.010)	(0.466)	(0.419)
2024	-0.034***	-0.033***	-0.023***	-0.016**	-0.010	-1.423***	-0.676*
	(0.010)	(0.010)	(0.006)	(0.007)	(0.010)	(0.405)	(0.409)
2025	-0.040***	-0.039***	-0.024***	-0.019**	-0.009	-1.642***	-1.062**
	(0.011)	(0.011)	(0.007)	(0.008)	(0.011)	(0.440)	(0.519)
Exposure measure 2#Financial year							
2017		0.005					
		(0.022)					
2018		0.003					
		(0.015)					
2019		-0.005					
		(0.012)					
2020		-0.019					
		(0.013)					
2021		-0.022*					
		(0.011)					
2022		-0.026**					
		(0.011)					
2023		-0.004					
		(0.010)					
2024		-0.015*					
		(0.008)					
2025		-0.012					
		(0.010)					
Additional controls:							
Realised sales growth				0.119***	0.089***	0.116***	0.126***
				(0.005)	(0.005)	(0.006)	(0.003)
Expected sales growth				0.051***	0.017*	0.041***	0.055***
				(0.011)	(0.010)	(0.012)	(0.007)
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed efffects	No	No	No	No	Yes	No	No
Observations	38,053	38,053	38,053	31,979	31,845	25,663	64,612
R-squared	0.055	0.056	0.055	0.107	0.383	0.104	0.111
Notes:							
Exposure measure 1 mean (emp. weighted):	14.17	14.17	32.13	32.13	32.13	0.46	0.30
Exposure measure 2 mean (emp. weighted):		17.96					
Exposure measure 1 mean (paybill weighted):	9.74	9.74	23.02	23.02	23.02	0.34	0.23
Exposure measure 2 mean (paybill weighted):		13.28					

All equations are estimated using quarterly data from 2017-2025.

Table A3 Price regressions

Dependent variable: Annual price growth	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Exposure measure 1	% of workers at NLW	% of workers at NLW	% of workers at or within £2 an hour of NLW	% of workers at or within £2 an hour of NLW	% of workers at or within £2 an hour of NLW	NLW important determinant of wages	ln low-paying sector
Exposure measure 2		% of workers above NLW but within £2 an hour					
Exposure measure 1#Financial year							
2017	0.019*	0.019*	0.009	0.007	-	-0.335	0.627***
	(0.010)	(0.010)	(0.006)	(0.006)		(0.384)	(0.199)
2018	0.004	0.003	0.009**	0.005	-	-0.032	0.210*
	(0.005)	(0.005)	(0.004)	(0.004)		(0.231)	(0.123)
2019	0.008*	0.008*	0.008***	0.008**	-	0.023	0.361***
	(0.004)	(0.004)	(0.003)	(0.003)		(0.204)	(0.112)
2020	0.004	0.004	0.010***	0.009***	0.001	0.361*	0.417***
	(0.005)	(0.005)	(0.003)	(0.003)	(0.003)	(0.202)	(0.121)
2021	0.008	0.008	0.014***	0.006	-0.002	0.703***	-0.050
	(0.007)	(0.007)	(0.004)	(0.004)	(0.005)	(0.268)	(0.197)
2022	0.009	0.008	0.021***	0.014**	0.007	0.913***	0.492*
	(0.007)	(0.007)	(0.005)	(0.006)	(0.006)	(0.335)	(0.252)
2023	0.019***	0.018***	0.014***	0.011***	0.004	0.319	0.861***
	(0.005)	(0.005)	(0.003)	(0.003)	(0.005)	(0.222)	(0.186)
2024	0.020***	0.019***	0.011***	0.013***	0.005	0.372**	0.612***
	(0.004)	(0.004)	(0.003)	(0.003)	(0.004)	(0.172)	(0.152)
2025	0.023***	0.022***	0.015***	0.017***	0.011**	0.624***	0.847***
	(0.004)	(0.004)	(0.003)	(0.003)	(0.004)	(0.163)	(0.164)
Exposure measure 2#Financial year							
2017		0.002					
		(0.007)					
2018		0.013***					
		(0.005)					
2019		0.008**					
		(0.004)					
2020		0.014***					
		(0.004)					
2021		0.018***					
		(0.005)					
2022		0.031***					
		(0.007)					
2023		0.011**					
		(0.004)					
2024		0.004					
		(0.004)					
2025		0.009***					
		(0.003)					
Additional controls:							
Realised sales growth				0.033***	0.028***	0.033***	0.030***
				(0.002)	(0.002)	(0.002)	(0.001)
Industry energy intensity#time dummies	No	No	No	Yes	Yes	Yes	Yes
Imports as a % of costs#time dummies	No	No	No	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed efffects	No	No	No	No	Yes	No	No
Observations	38,053	38,053	38,053	31,979	31,845	25,663	64,612
R-squared	0.055	0.056	0.055	0.107	0.383	0.104	0.111
Notes:							
Exposure measure 1 mean (emp. weighted):	14.17	14.17	32.13	32.13	32.13	0.46	0.30
Exposure measure 2 mean (emp. weighted):		17.96					
Exposure measure 1 mean (paybill weighted):	9.74	9.74	23.02	23.02	23.02	0.34	0.23
Exposure measure 2 mean (paybill weighted):		13.28					

All equations are estimated using quarterly data from 2017-2025.