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23 October 2026

The Rt Hon Andy Burnham MP  
Prime Minister  
10 Downing Street, London, SW1A 2AA

The Rt Hon Jonathan Reynolds MP  
Secretary of State for Business, Innovation, Science and Trade  
Department for Business, Innovation, Science and Trade, Old Admiralty Building, London, SW1A 2DY

Dear Prime Minister and Secretary of State,

## **NATIONAL LIVING WAGE AND NATIONAL MINIMUM WAGE RATES FOR 2027**

1. I write with the Low Pay Commission's (LPC) recommendations for the rates of the National Living Wage (NLW) and National Minimum Wage (NMW) to apply from April 2027. This letter summarises the rationale for our recommendations, which are the agreed view of the whole Commission.

2. We recommend that the following rates apply from 1 April 2027:

|                                    | NMW Rate | Increase (£) | Increase (%) |
|------------------------------------|----------|--------------|--------------|
| National Living Wage (21 and over) | £13.21   | 50p          | 3.9          |
| 18-20 Year Old Rate                | £11.27   | 42p          | 3.9          |
| 16-17 Year Old Rate                | £8.31    | 31p          | 3.9          |
| Apprentice Rate                    | £8.31    | 31p          | 3.9          |
| Accommodation Offset               | £11.53   | 43p          | 3.9          |

3. This is my third and final year as chair of the Low Pay Commission, a role I have enjoyed tremendously and will be very sad to leave. But this year was also sad for another reason, with the sudden passing of Nigel Cotgrove, one of the LPC's worker Commissioners, over the

summer. Nigel's passionate advocacy for the needs of low paid workers was deeply admirable, and he will be missed tremendously.

4. This year's negotiations on the minimum rates were particularly difficult, perhaps some of the most difficult since the National Living Wage was introduced. So, I want to again thank my fellow Commissioners for their commitment and professionalism in advocating for their constituents, and their pragmatism in finding advice that balances the requirements in our remit.

5. The reasons for this difficulty are threefold: an uncertain economic outlook, ongoing difficulty in forecasting and measuring economic and labour market conditions and, most importantly, balancing the needs of workers and employers. With those challenges in mind, the remit asks us to take account of economic and labour market conditions, so we begin with our views on these.

## Economic and labour market conditions

6. Various organisations have described the UK's current economic growth as "resilient"<sup>1</sup>. Bodies including the OBR, IMF and OECD had downgraded their expectations for 2026, anticipating that an energy price shock from the conflict in the middle east would harm growth. However, economic growth over the first part of the year has turned out higher than expected by many, including the Bank of England<sup>2</sup> and other forecasters. Sectors like professional & business services, and information & communication have seen stronger-than-forecast growth.

7. However, this growth has not been even across the economy. Output in consumer-facing services, like retail and hospitality – where many low-paid workers work – is yet to recover to pre-pandemic norms. Consumer spending improved over the summer, with some growth in retail sales, but overall consumers are still saving in greater numbers, while others are still accruing debt.

8. And this higher-than-expected economic growth does not seem to be translating into increased hiring or employment growth. Instead, the "low hire, low fire" labour market has continued into 2026. While unemployment has seen a small decline since the turn of the year, both vacancy rates and levels are at their lowest – outside of the pandemic – since 2014. Hiring in retail and hospitality is particularly weak, and more broadly the levels of redundancies have increased moderately. Even the rapidly growing professional & business services and information & communication sectors are not seeing parallel growth in jobs or vacancies. Conflicting signals from ONS' Labour Force Survey (LFS) and HMRC's Pay As You Earn Real Time Information (RTI) are unhelpful in achieving the clearest view of this situation.

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<sup>1</sup> The [IMF](#) on 16<sup>th</sup> July said " *The economy has remained resilient....despite repeated external shocks*". The IFS Green Budget in October 2016 said " *Growth has been resilient in 2026*"

<sup>2</sup> Governor of the Bank of England Andrew Bailey said the economy was " *more resilient than we expected it to be*"

## Economic risks

9. Our stakeholders are concerned about the risks stemming from the ongoing global conflicts, including the Middle East and Ukraine. There is potential for a prolonged energy cost shock that would hit business costs and prices, affecting household spending power and adding to inflation in the rest of the economy. In response, the Bank of England may lift interest rates, further squeezing firms and households.

10. The TUC told us of their concerns for low-paid workers: "*The energy price cap is set to rise, and significant increases are expected in the price of food. This is likely to have bigger impacts on the poorest households as a higher proportion of their income is spent on essentials.*" Similarly, on the business side, the BRC said "*Renewed inflationary pressure will keep interest rates higher for longer, weighing on the recovery of private consumption, with profound implications for the health of retail spending.*"

11. The growth in output is not currently being matched by growth in jobs. The risk is that any further shocks to the economy could result in a further downturn in the labour market. This is very different from the immediate post-pandemic economic era, when the labour market was exceptionally tight, vacancies were at record highs and wage growth was strong. Now the labour market is looser and therefore more fragile.

12. Against this economic backdrop, our recommendations this year have placed a greater premium on protecting employment prospects, whilst still delivering a real-terms increase across all the rates and keeping pace with wage growth.

## National Living Wage

13. Our remit asks us to use two thirds of median hourly earnings as the key reference point, taking into account:

- a. the condition of the labour market;
- b. the cost of living (including inflation forecasts between April 2027 and March 2028);
- c. the impact on businesses and competitiveness; and
- d. wider macroeconomic conditions.

14. Balancing all of these factors, we recommend a National Living Wage rate increase of 3.9 per cent (or 50p) to £13.21.

15. This recommendation is below our best estimate of the rate required to reach the key reference point of two thirds of median earnings by October 2027. To achieve this, we estimate that the rate would need to be £13.44 (5.7%), a higher figure than our best estimate at the time

of our spring consultation. We set out the reason the estimate has changed and how we've reached our recommendations in what follows.

**16.** In the spring we estimated a rate of £13.18 (3.7%), within a range of £13.02 to £13.34 (2.4% to 5%), would reach the key reference point. But over 2026, wage growth has come in ahead of what was predicted, notably the most recent estimates of hourly wage growth in ASHE – the key source of hourly wage information we rely on. Forecasters have also raised their expectations for wage growth in both 2026 and 2027 relative to their forecasts earlier in the year.

**17.** The main implication of this is that the rate needed to reach the reference point is higher than when consulted on in the spring. Indeed, it is higher than even our upper bounds published then. While in recent years we have recommended rates above our spring estimates, and indeed the upper bounds, the outlook for the labour market over the forthcoming uprate period is now weaker.

**18.** Deciding what to recommend this year has been a huge challenge for the Commission, with very good arguments on both sides. Many workers are struggling and many businesses are feeling pressured.

**19.** Despite ongoing real increases in the NLW, it was made clear to us that some workers are struggling substantially, and many households have yet to fully recover from the previous inflation shock. The TUC found workers are *"skipping meals, cutting back on essentials, going into debt, and avoiding putting on their heating"*. Usdaw's poll of its members found 41% had struggled to pay everyday bills and had resorted to borrowing, 34% had missed loan repayments or were falling behind, while only 4% said they were comfortably managing repayments.

**20.** Employers are concerned about economic and business conditions. Businesses in consumer-facing services cite the lack of consumer spending and the increases in their costs resulting from the energy price and supply chain shocks of recent years. Many are concerned that they have reached the limits of the costs that they can absorb or pass on to their customers through higher prices. A key theme from employers was the cumulative impact of all of these costs over several years.

**21.** Despite strong economic growth, labour demand is weak, particularly in key low-paying industries. Economic growth is expected to be slightly lower next year, vacancies are falling and unemployment is expected to rise. Although we have not seen robust evidence that recent NLW increases have reduced employment for either youth or adults, we have concluded that a cautious approach is justified at this time.

**22.** Furthermore, the employer stakeholder position has hardened this year. For the first time, several employer representative bodies called for below-inflation increases, not because they believe that's the right level for their workers, but because many employers are on the

edge. Employers and their representatives do not draw attention to the NLW alone, instead – as we’ve noted – it is the cumulative impact of various measures on their costs. For example, while it was implemented last year, the recent rise in employer National Insurance bills is still cited as the cost with the biggest impact. This is even true among just those employers who say the NLW has a “significant” impact on their wage bill.

**23.** Worker representatives urged us to continue with ambitious increases, noting the struggle of many low-paid workers to make ends meet. While the rate recommended is below that needed to reach the reference point, it is above the range of inflation forecasts from April 2027 to March 2028, with additional allowance made for some upside risk. Therefore, we judge that it will protect the rate in real terms over the period specified in our remit. It is also above most current forecasts of earnings growth for the same period.

**24.** Commissioners have a shared concern about the impact on the living standards of low-paid workers should macroeconomic conditions deteriorate and inflation rise above expectations. As always, the Government should stand ready to act in such circumstances.

**25.** Although our 3.9 per cent recommendation will not reach the two thirds of median earnings reference point, it still makes progress towards it. Commissioners remain committed to reaching the remit’s key reference point of two thirds of median earnings when economic conditions allow.

## 18–20-year-olds

**26.** The remit for younger workers continues to state the Government’s desire to lower the age of eligibility for the NLW to 18. Over the last 4 years we have made good progress on this aim and increased the 18–20 Year Old Rate substantially, reducing the gap between it and the adult rate. This has also delivered substantial real-terms increases, with the wage floor growing just under 60 per cent over the last 4 years.

**27.** However, this year the remit gives the LPC full flexibility on the pace and timing of rate alignment and asks us to give priority to youth employment. The youth labour market is in a different position to that of adults. Adult unemployment peaked at the end of 2025 and fell over the first half of 2026. By contrast, youth unemployment remains above its covid peak and at rates last seen in 2015. High NEET rates among young people are well documented and remain a concern.

**28.** The context we described last year, when we said the *“low hire, low fire’ labour market is a challenge for young people as they are more dependent on vacancies”* is the same, but this year there are even fewer vacancies, particularly in the youth-friendly sectors of retail and hospitality.

29. While our view remains that there is little evidence to suggest recent increases in youth rates have been a driver of reduced employment, that does not mean that future increases are risk free. When we first recommended to the Government that there was potential to lower the NLW age to 18, we noted the risks. The increases required are larger than they had been when the age was lowered to 21, and more workers would be affected. We also said that these changes should be managed carefully, with time allowed for full evaluation – the remit explicitly gives us this time. And finally, we noted that the importance of demand for young workers. *“In particular, we would want to carefully monitor levels of demand for young workers. The labour market is tight now, but is softening, if this continues then the risks increase.”* (Low Pay Commission, The National Minimum Wage Beyond 2024)

30. Our view is that while there is still potential to lower the age limit, especially for 20 year olds, demand for young workers has slowed and the risks associated with ambitious rises have increased. Therefore, we recommend pausing on alignment by recommending a percentage increase in line with that for the NLW, which we believe is consistent with the remit’s aim of prioritising youth employment. We recommend a 3.9 per cent increase or 42p to £11.27.

## 16-17 Year olds

31. For this rate, the remit asks us to set a rate that supports the employment of this group. The vast majority of 16-17 year olds are in full-time education and so their job market is distinct. Employment for this age group has deteriorated in recent years. While the evidence does not suggest this is a result of minimum wage increases, the decline in their employment is hard to ignore and the evidence does not guarantee that future increases are risk free. On this basis we recommend an increase of 31p to £8.31 (3.9 per cent).

## Apprentices

32. Apprentices of all ages are entitled to the Apprentice Rate in the first year of their apprenticeship. Apprentice vacancy numbers<sup>3</sup> have declined faster than for all vacancies in the economy. While we don’t think the Apprentice Rate is a key factor here either, some employer stakeholders are increasingly concerned about how the cost of employing an apprentice has increased. Employee stakeholders argue the level is inadequate. On this basis we recommend an increase of 31p to £8.31 (3.9 per cent).

33. For both the 16-17 Year Old Rate and the Apprentice Rate this represents a substantially lower increase than we have recommended in recent years, and in our view supports their employment in line with our remit.

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<sup>3</sup> Apprenticeship vacancy numbers are for England only

34. We anticipate that the Millburn review may have a significant impact on youth labour market policy and our future recommendations will be made in this context.

35. We recommend increasing the Accommodation Offset in line with the NLW to £11.53 (an increase of 43p or 3.9 per cent). This is in line with the conclusion of our review of the offset in 2022, where we stated that: "*The value of the offset as a proportion of the NLW will not increase significantly until we have some assurance that there are robust minimum standards in place for accommodation quality and that these are enforced.*".

With kind regards,

A handwritten signature in blue ink, reading "Baroness Stroud", written over a horizontal line.

Baroness Philippa Stroud

Chair of the Low Pay Commission

Copied to:

Kate Dearden MP, Minister of State (Minister for the Future of Work)