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Resolution Foundation
BRIEFING

The first 100 days
Early evidence on the impact of the National Living Wage

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Three months in, how employers have responded to the National Living Wage remains unclear

The National Living Wage has now been in place for just over three months. By raising the wage floor for over-24s by 50p an hour, it represents a significant boost to some of the UK's lowest paid workers. And this impact is set to build over time, as its 'bite' relative to median pay among over-24s rises from 55 per cent this year to 60 per cent by 2020. Projecting forward last September, our assessment was that around 4.5 million employees would benefit this year; with roughly 6 million gaining a pre-tax average of £760 by 2020.[1]

Welcome though this pay boost is set to be, it does of course constitute a cost to employers. As such, the precise details of the business response matter deeply – not least in determining how seriously we should take claims of any trade-off between pay and jobs. While much of the evidence surrounding the National Minimum Wage indicates that it has had little if any negative employment effect, the NLW marks a very significant lifting of the wage floor. The decision to tie it directly to the median wage rather than following the recommendation of the Low Pay Commission on what the market can bear has provoked some concern that this time will be different. Simply put, the view that "if we put up the cost of employment, we will find fewer people employed"[2] continues to have traction among policymakers and others.

At this stage, the lag with which official data on employment, pay, prices and profits becomes available means these sources are not yet available to give a clear picture of the employer reaction to the NLW. Even when such data does arrive it will offer only a partial assessment, with business responses likely to evolve over time as the policy 'beds in' and its scale widens. Nevertheless, by way of assessing the early impact of the NLW it's worth considering what changes, if any, employers have enacted both since its announcement in the July 2015 Budget and in the wake of its April 2016 introduction. Indeed, with the economic and business backdrop much changed following last month's EU referendum, consideration of this relatively limited period is likely to prove crucial for disentangling the NLW's effects from wider post-Brexit shifts in confidence, demand and indeed employer business models.

Our September 2015 survey of 1,037 employers, undertaken with the CIPD, found that firms most commonly declared their intention to meet the NLW challenge by raising productivity.[3] Among the roughly half of employers saying that the NLW would increase their wage bill, 30 per cent said they hoped to raise productivity/improve efficiency. In contrast, just 15 per cent said they intended to reduce their number of employees through redundancies and/or recruiting fewer workers.

However, the more detailed case studies we undertook at the same time revealed that many firms were unclear about just how any productivity gains might be realised. And the UK's aggregate productivity measure has continued to disappoint over recent months. The ability of employers to make good on their stated intentions to raise productivity as a means of dealing with the NLW therefore remains open to question, especially in the short term.

In this note, we combine official data and a bespoke survey to better understand employers' initial reaction to the announcement and implementation of the NLW and their plans for the future. We also consider the implications of the Brexit vote for the future trajectory of the NLW.

[1] C D'Arcy, A Corlett & L Gardiner, *Higher ground: Who gains from the National Living Wage?* Resolution Foundation, September 2015

[2] Philip Davies MP https://hansard.parliament.uk/Commons/2016-04-18/debates/16041812000001/NationalLivingWage

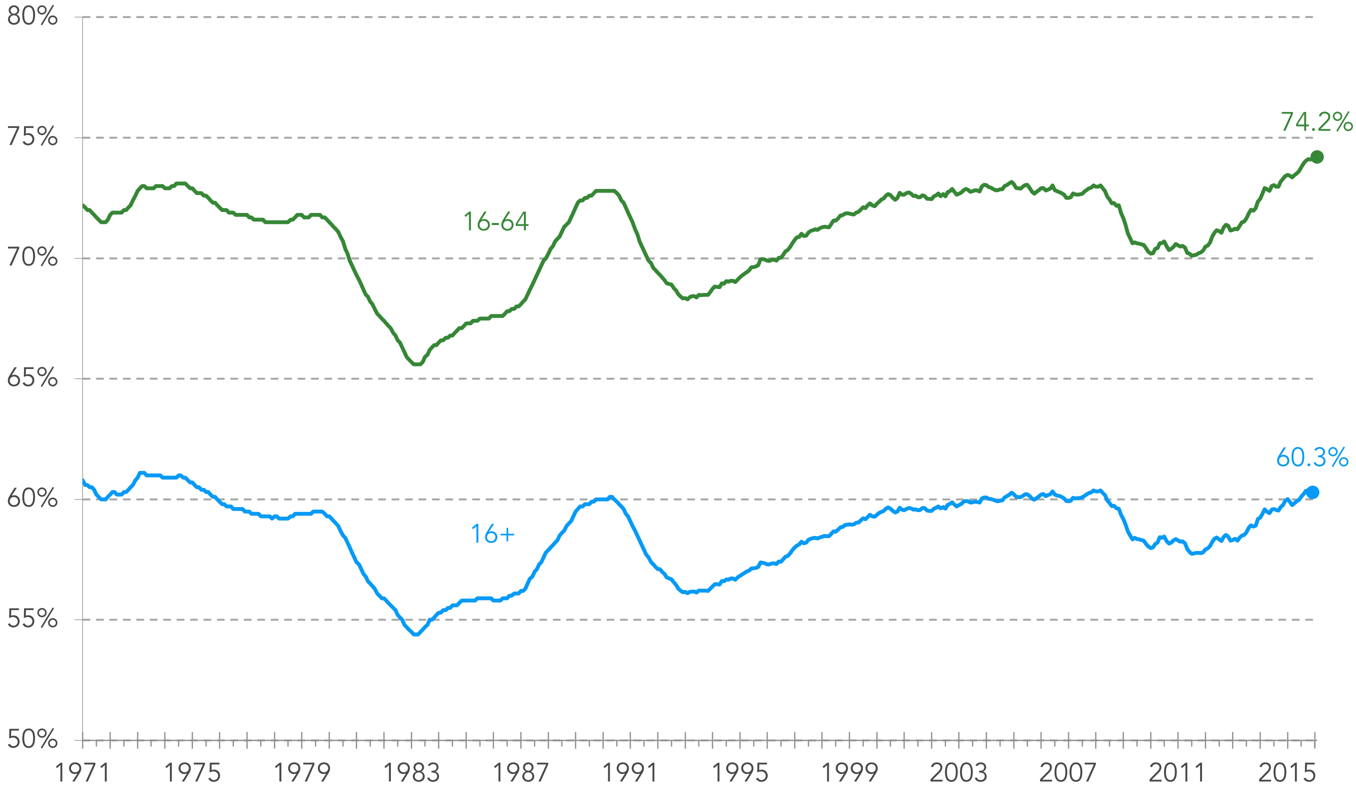
[3] C D'Arcy & G Davies, *Weighing up the wage floor: Employer responses to the National Living Wage*, CIPD & Resolution Foundation, February 2016

There is some evidence that employment growth has slowed since the NLW policy was announced

At the headline level, employment has grown at an impressively rapid rate over recent years. As Figure 1 shows, the 16-64 rate of employment has consistently hit new heights over the past 12 months, standing at 74.2 per cent in the April 2016 data. While some of this increase has been associated with the rising female State Pension age, the broader 16+ measure has also risen sharply since the post-financial crisis trough in 2011.

Figure 1: Headline employment rates: 1971-2016

UK headline employment rates (seasonally adjusted)

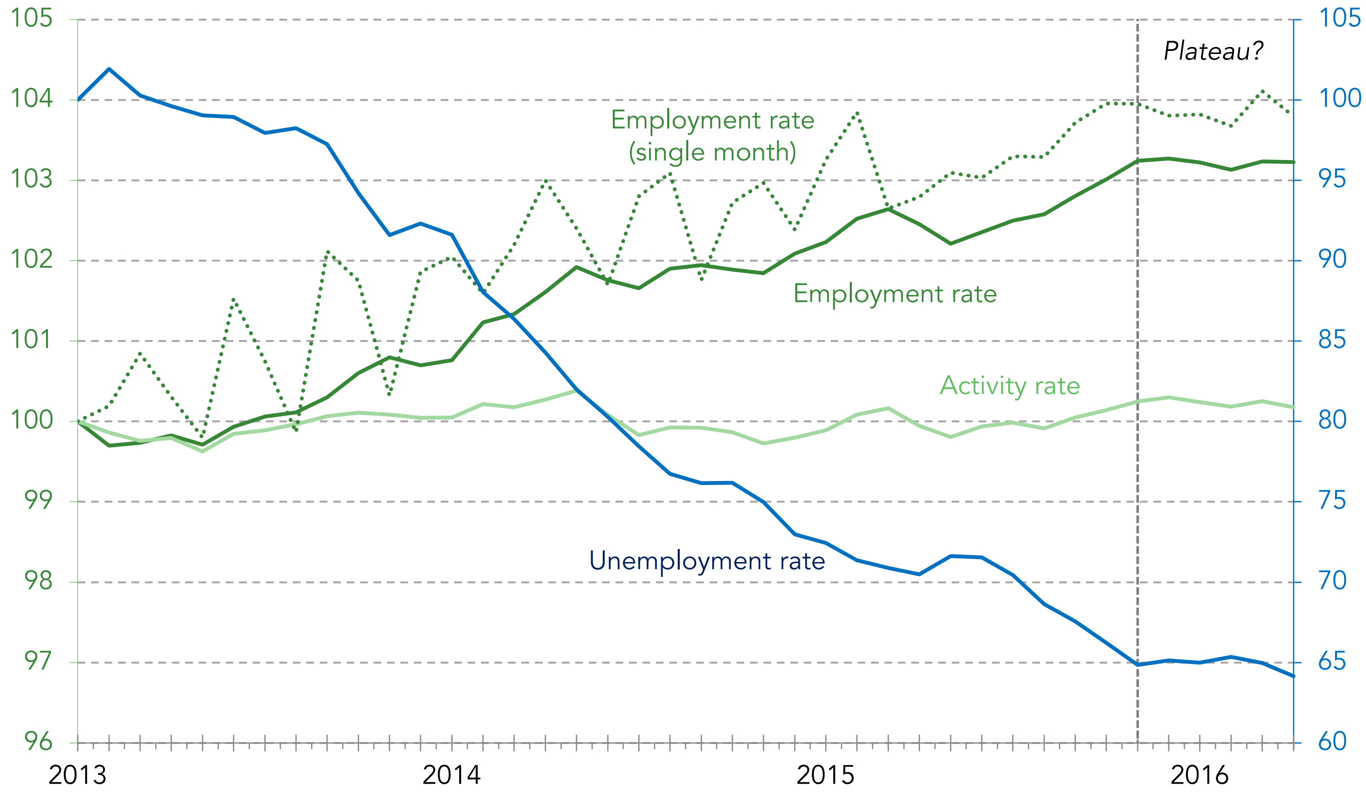


Source: ONS, Labour Market Statistics

Zooming in however, there is a suggestion that this remarkable employment growth has plateaued in recent months. As Figure 2 highlights, headline activity, employment and unemployment rates have been broadly flat since November 2015. In relation to the employment rate, this trend holds for both the three-month moving average and the usually more volatile single month measure of employment. While this doesn't quite match the point at which the NLW was announced, it might be consistent with a slowdown in hiring in advance of the new wage floor coming in.

Figure 2: Employment and activity: 2013-2016

Indices of employment and activity (16+), Jan 2013 = 100 (seasonally adjusted)

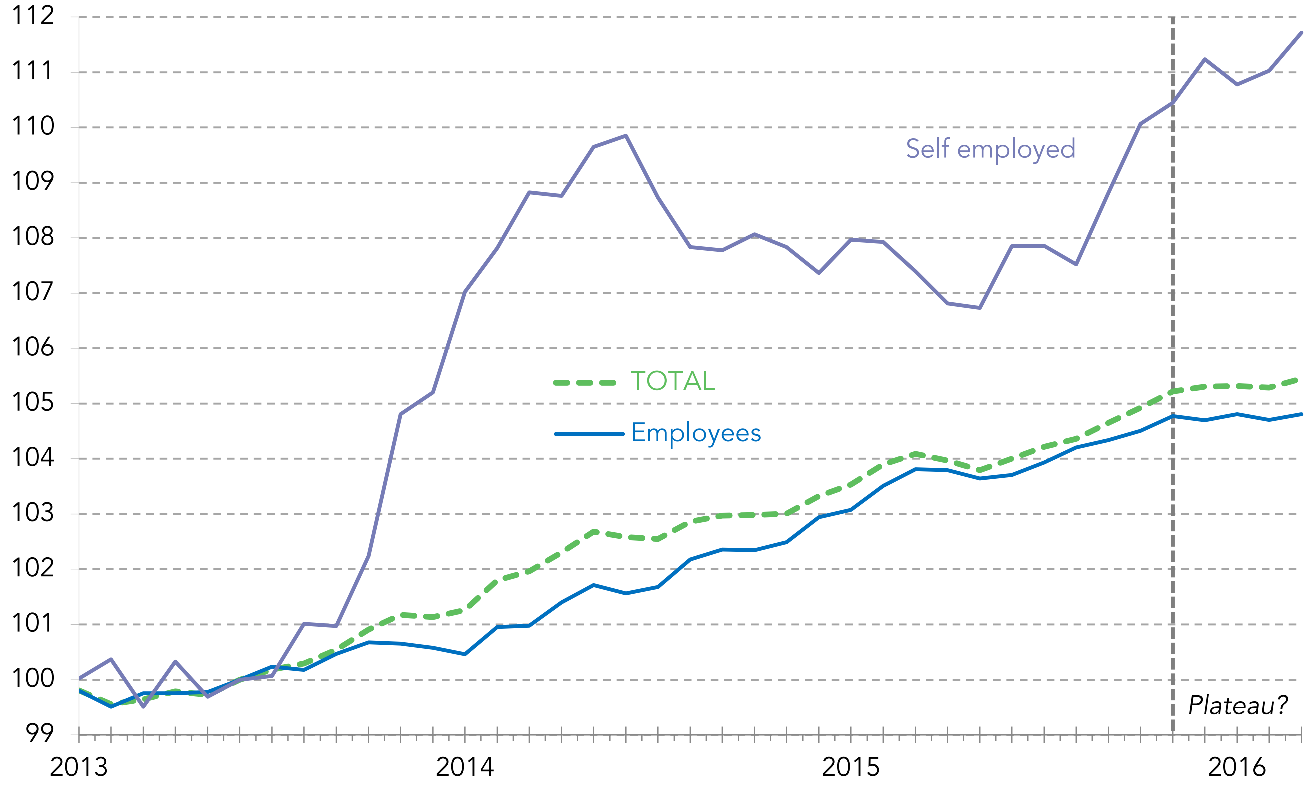


Source: ONS, Labour Market Statistics

Figure 3 might be considered to add some weight to that theory. It shows that the overall plateau in employment comprises a flatlining of employee numbers (in absolute terms rather than as a rate in this instance) and a continued upward drift in self-employment. While it's difficult to draw definitive conclusions from such a short period, this contrast at least opens the possibility that employers have pulled back on recruitment even as the overall level of 'work' in the economy has continued to rise. Crucially however, and contrary to the fears before the NLW's introduction, this does not suggest that jobs have been lost.

Figure 3: Employment types: 2013-2016

Indices of employment, Jan 2011 = 100 (seasonally adjusted)



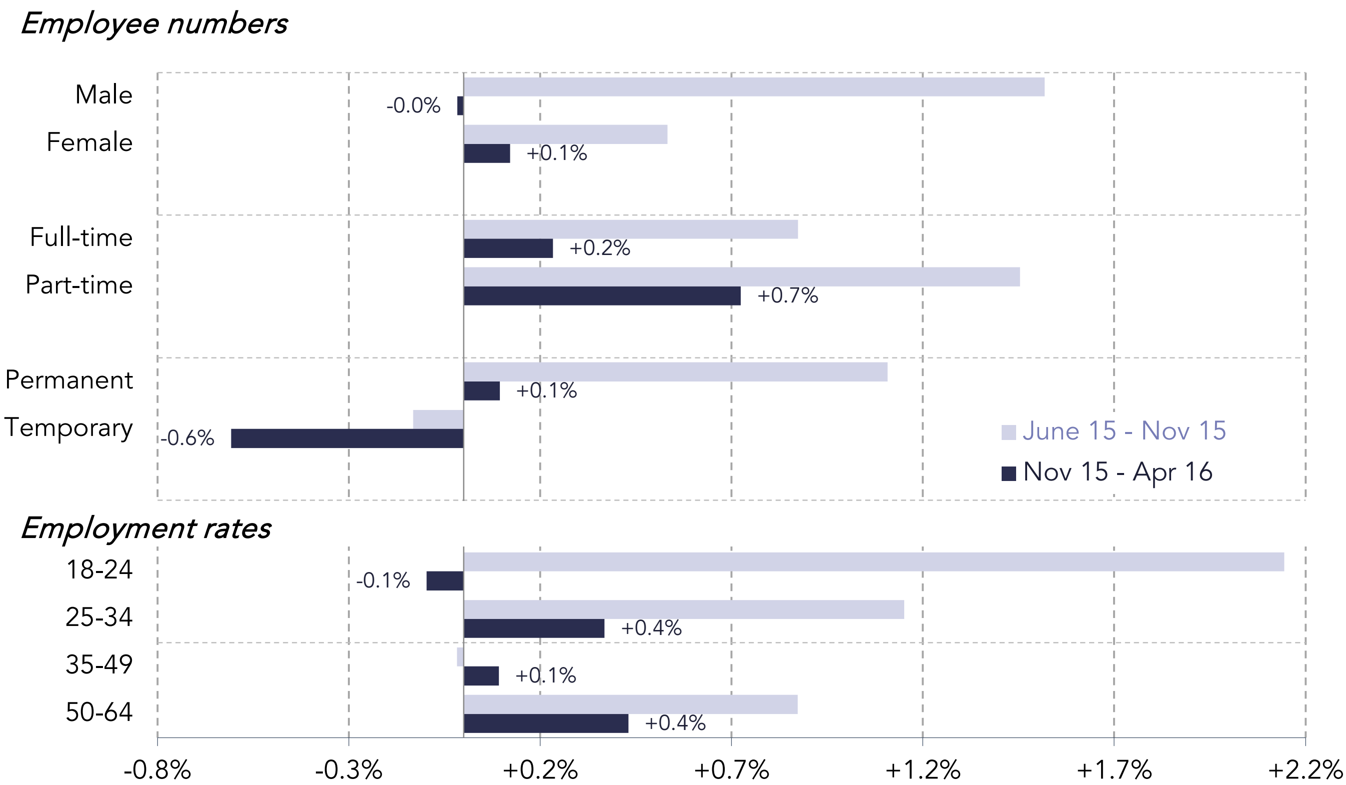
Source: ONS, Labour Market Statistics

Employees and jobs that are more likely to be lower paid haven't been the main drivers of this plateauing

A vital consideration is the kind of jobs that may be behind this slowdown. If we look at employment growth by employee and job characteristic, there is less evidence of a marked slowing for those most likely to gain from the introduction of the NLW. Low paid jobs are relatively concentrated among women, part-timers, younger and temporary workers. Yet, as Figure 4 shows, employment growth in the five months since November 2015 has slowed across all characteristics relative to the previous five month period.

Figure 4: Change in employment by individual characteristic: 2015-2016

Change in employment (seasonally adjusted)



Notes: Age figures cover all employment i.e. including self-employment.

Source: ONS, Labour Market Statistics

On age, the employment rate fell for the youngest group (18-24), who are not legally entitled to the NLW, while the rate of growth slowed significantly among older workers. Temporary positions fell particularly rapidly, but this might be considered a sign of a strengthening labour market rather than a feature of the general employment slowdown. And, while the rate of growth in female and part-time employee numbers slowed, the same trend was more marked among male and full-time employee numbers.

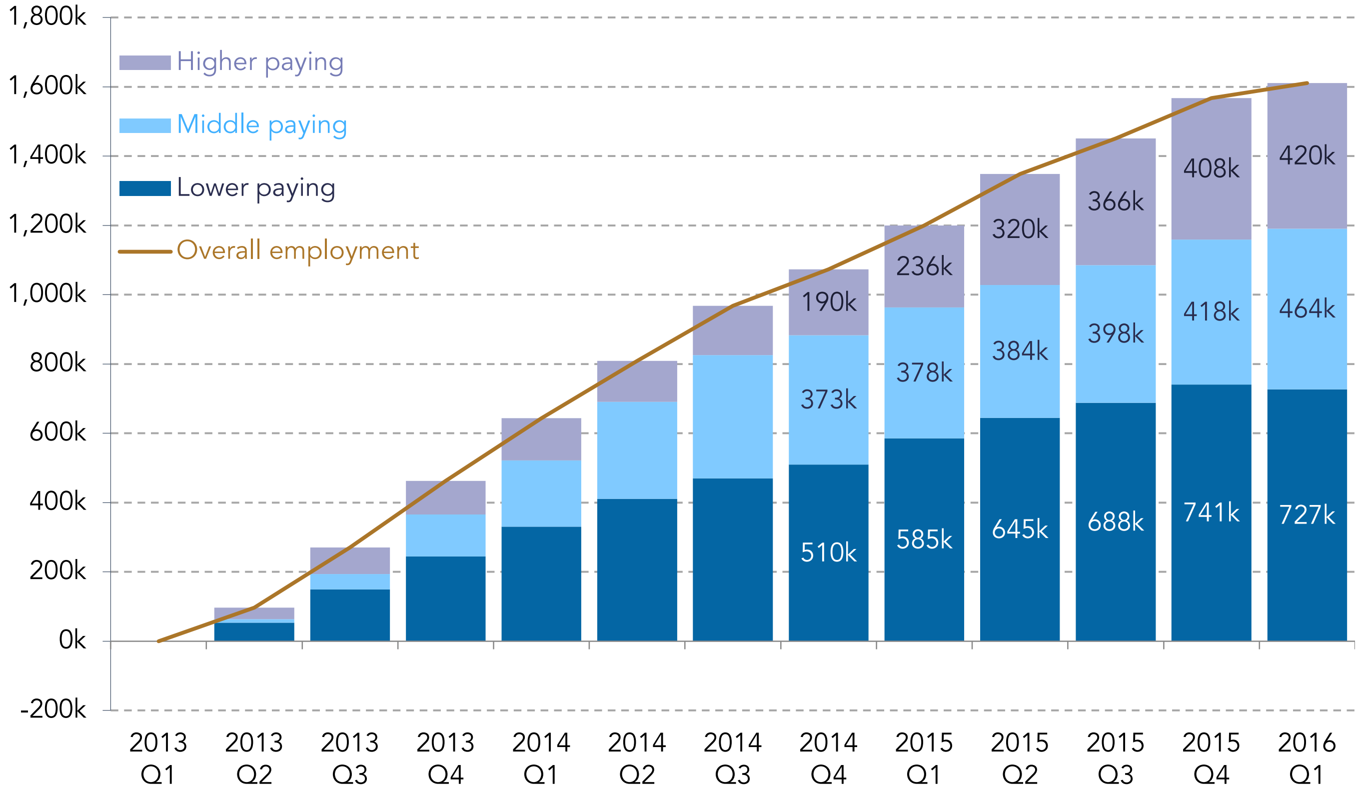
And that slowdown looks more marked in lower paying parts of the economy

While this evidence suggests those most likely to be on the NLW have not lost out as a result, it is important too to consider which sectors are responsible for the slowdown. Figures 5 and 6 provide some tentative indication that this slowdown in jobs growth has been driven by reductions in lower paying industries and occupations where the NLW is likely to bite hardest. In both instances data is only available on a quarterly basis, with the latest figures relating to Q1 2016. Due to the highly seasonal nature of some sectors, the figures are presented as four-quarter moving averages, thus dampening any post-November 2015 plateau. In addition, the industry level data includes the self-employed. As such, the movements between Q3 2015 and Q1 2016 are no more than indicative.

Nevertheless, Figure 5 details a broadly flat picture for employment in lower paying sectors (specifically hospitality, retail, administrative and support services, agriculture, health and other services) after Q3 2015 in contrast to continued growth in middle and higher paying industries.

Figure 5: Change in employment by industry: 2013-2016

Change in employment relative to Q1 2013 (four-quarter moving average)

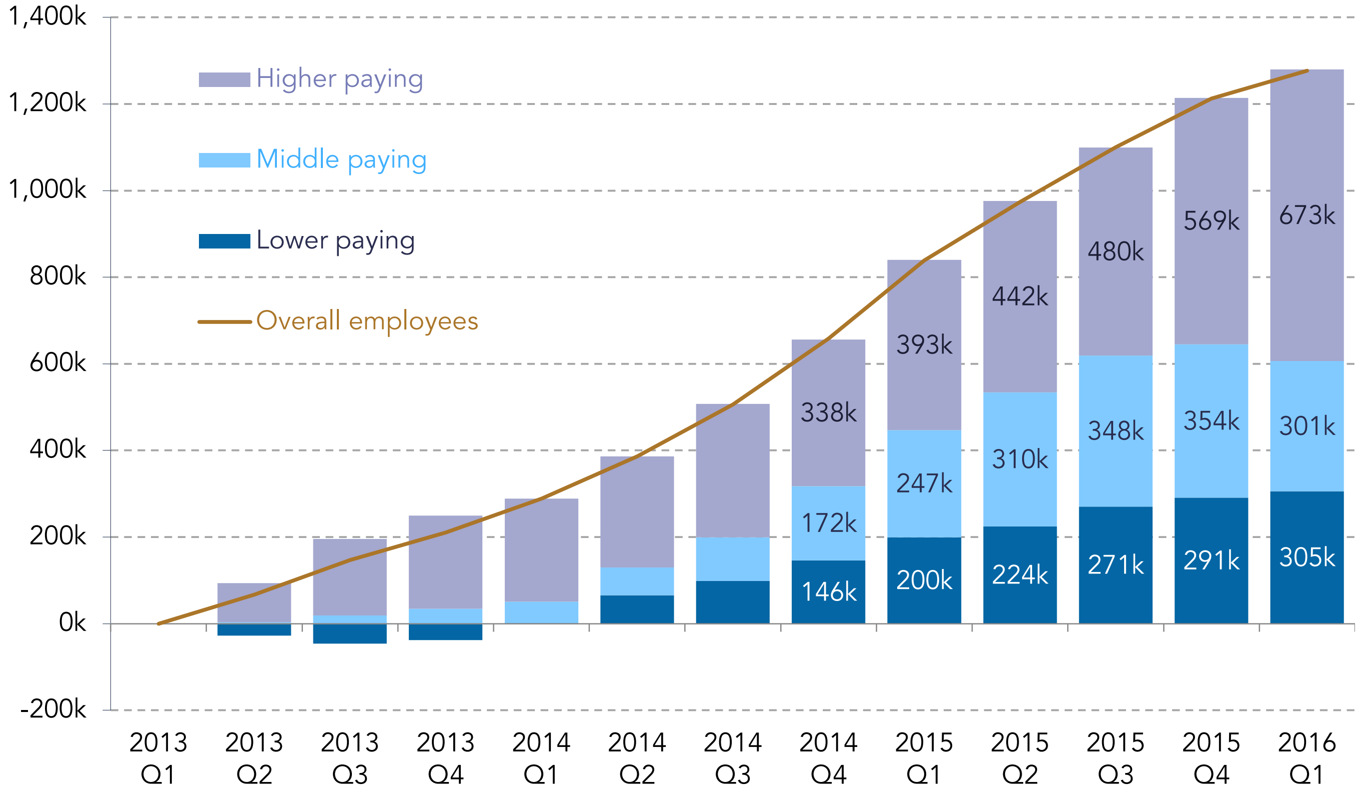


Source: ONS, Labour Market Statistics

Similarly, Figure 6 shows employment continuing to grow relatively rapidly within higher paying occupations after Q3 2015 even as growth in lower paying occupations (specifically elementary occupations, sales and customer services and caring, leisure and other services), slows and the number in middle paying occupations (process, plant and machine operatives, skilled trades and administrative and secretarial occupations) falls.

Figure 6: Change in employee numbers by occupation: 2013-2016

Change in employee numbers relative to Q1 2013 (non-seasonally adjusted)



Source: ONS, Labour Market Statistics

Business surveys reflect employers have also been concerned by pre-referendum uncertainty

Figures 5 and 6 do paint a picture of employment in low-paying industries slowing down. But isolating the NLW's role in that is not straightforward. Ahead of the publication of outturn data on employment, pay and prices, a range of surveys provide a timely indication of both current conditions and future intentions within the business community. Not surprisingly, a number of such surveys have made reference to the NLW in recent months. However, firms have also cited the impact of pre-referendum uncertainty and the associated delaying of some spending and investment decisions.

For example, ICAEW/Grant Thornton's latest *Business Confidence Monitor* (covering the period up to 20 April 2016) shows a generalised reduction in confidence across most sectors over the past 12 months.[4] Fuelled by "a number of factors including Brexit", its overall index fell to its lowest level since 2011 in Q2 2016, with the relatively low paying retail industry recording a more modest decline than any of the business services, property or banking sectors, where the NLW is set to have minimal impact.

Similarly, while the latest *Purchasing Managers Index* (published at the start of June) noted that some service sector firms had commented that the introduction of NLW had "impacted their hiring", more than one-in-three firms claimed that uncertainty surrounding the referendum was having a detrimental impact on their business.[5]

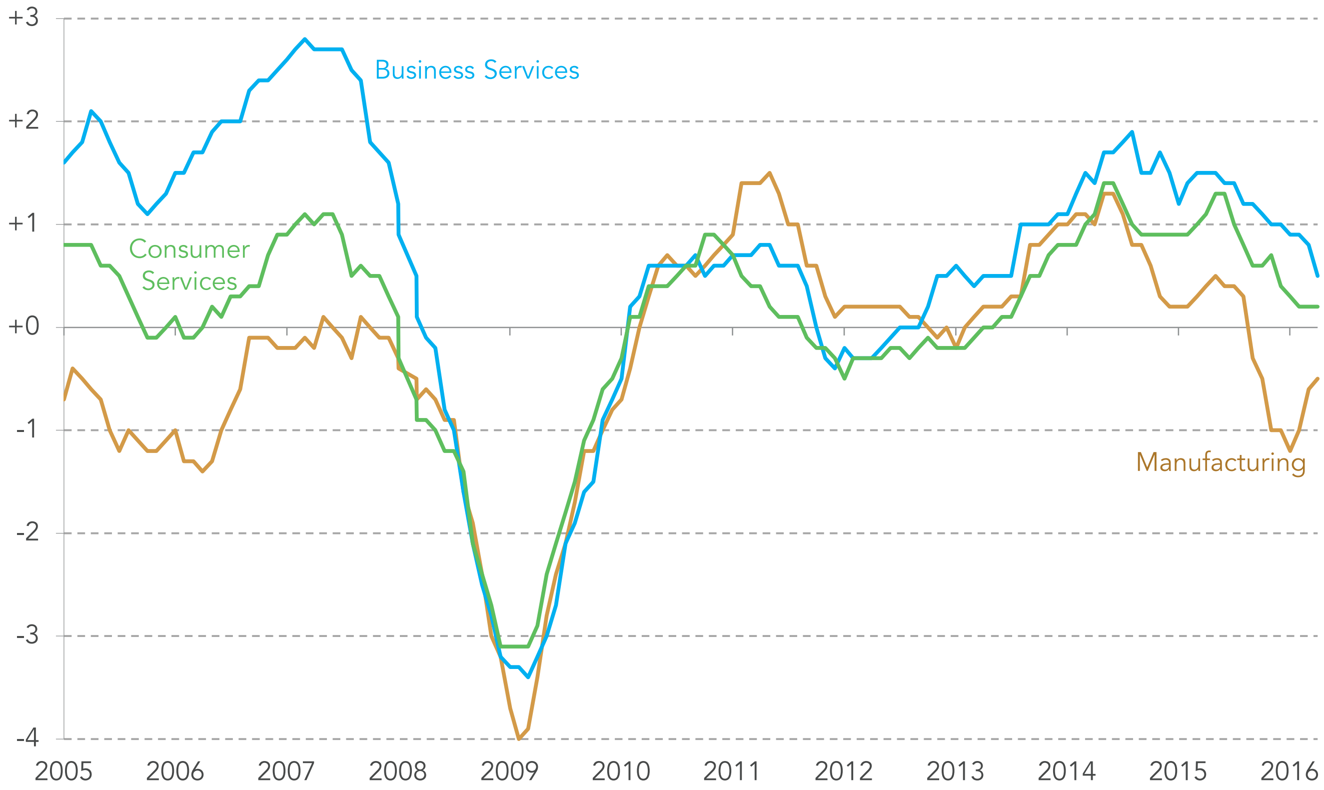
[4] ICAEW & Grant Thornton, *UK Business Confidence Monitor: Q2 2016*

[5] CIPS & Markit News Release, "UK services growth picks up but remains subdued", *Markit/CIPS UK Services PMI*, 3 June 2016

The Q2 2016 Bank of England *Agents' summary of business conditions* noted that the introduction of the NLW was weighing on recruitment plans over the next six months for some consumer services firms.[6] But, as Figure 7 shows, employment intentions have been drifting down across all three of the sectors defined by the Bank of England over the past 12 months.

Figure 7: Employment intentions by sector

Employment intentions over next six months



Notes: 'Scores' in each sector cover planned and possible changes in the (headcount) size of the companies' workforce over the next six months. Scores are scale between -5 and +5, with -5 denoting a rapid fall in employment intentions and +5 denoting a rapid increase. Scores are provided by each of the Bank's 12 regional agents and are weighted to account for the share of the economy covered.

Source: Bank of England

Once again, concerns over the referendum weighed heavily in the survey, with the Bank's agents stating that business service clients were delaying major decisions and businesses were holding off on corporate spending and investment.

Employer responses are likely to take a number of forms – and be subject to change over time

The Bank's agents highlighted a range of adjustments being made by firms affected by the NLW, including reviewing wage differentials, bonuses and commission payments. Some noted that they had started to pass through wage costs in the form of higher prices, though they expected that to be a gradual process. Interestingly, despite the costs involved, some firms said that they had extended the NLW to employees aged under-25.[7]

[6] Bank of England, *Agents' summary of business conditions 2016 Q2*, 22 June 2016

[7] Bank of England, *Agents' summary of business conditions 2016 Q2*, 22 June 2016

Other recent research suggests that the most likely short-term business response will be to absorb a large part of the increased wage costs in the form of reduced profits. Brian Bell and Steve Machin used the natural experiment provided by the NLW – its announcement was unanticipated but, once made, was widely expected to be delivered on – to conduct an 'event study' that identified the impact of the announcement on the stock market value of firms.[8] Using minute-by-minute updates, they concluded that firms with large shares of minimum wage workers experienced large, immediate reductions in their value that were not replicated in other firms.

They found that the scale of the fall in value largely matched the decline in profitability associated with the wage shock that would arrive with the introduction of the NLW. Picking up on a small (nine) sample of statements released in the weeks following the NLW announcement by firms most likely to be affected by an increase in the wage floor, Bell and Machin noted that the most-common proposed response related to price increases. Productivity and efficiency also featured, but none of the firms referred to an employment response.

Around one-in-three firms have faced an increase in their wage bill as a result of the NLW so far, with roughly half expecting to be affected eventually

The evidence from early indicators then is that the NLW is on the minds of many employers but that fears of job losses do not appear to have been borne out. Building on this work and on the tentative findings set out above in relation to employment responses, a survey of employers can provide a deeper and more detailed view of the choices firms are making. To explore this, we commissioned Ipsos MORI to conduct a telephone survey of 500 employers in June 2016 (prior to the EU referendum). While the questions and answer options included in this survey differed somewhat from our September 2015 version, it nonetheless gives us a sense of how employer expectations prior to the NLW's introduction in April 2016 match up with their actual responses.

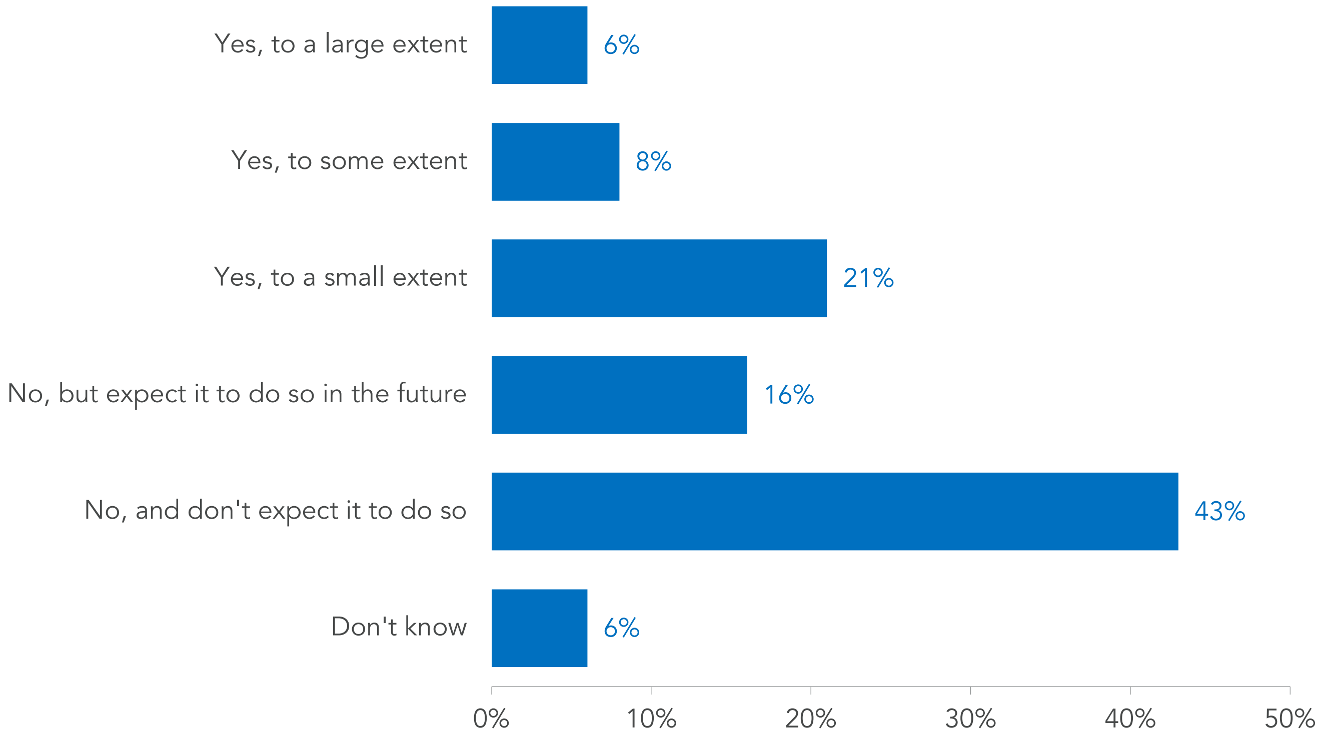
As previous Resolution Foundation analysis has identified, for many firms and industries the NLW will have a negligible effect. This is because many organisations have few or no employees earning near the wage floor. Our latest survey confirms this, as detailed in Figure 8. Only 35 per cent of organisations surveyed reported that the NLW had increased their wage bill this year.[9] The majority of these – 21 per cent – said it had been increased "to a small extent", 8 per cent "to some extent" and 6 per cent "to a large extent".

[8] B Bell & S Machin, *Minimum Wages and Firm Value*, IZA Discussion Paper Series, No. 9914, April 2016

[9] An important point to note here is the question refers only to the impact on wage bills. It does not address, for example, higher costs that firms may face as a result of suppliers raising their prices as a result of the NLW.

Figure 8: The NLW impact on employer wage bills

Has the National Living Wage's introduction this year increased your organisation's wage bill?



Base: All employers (n=500)

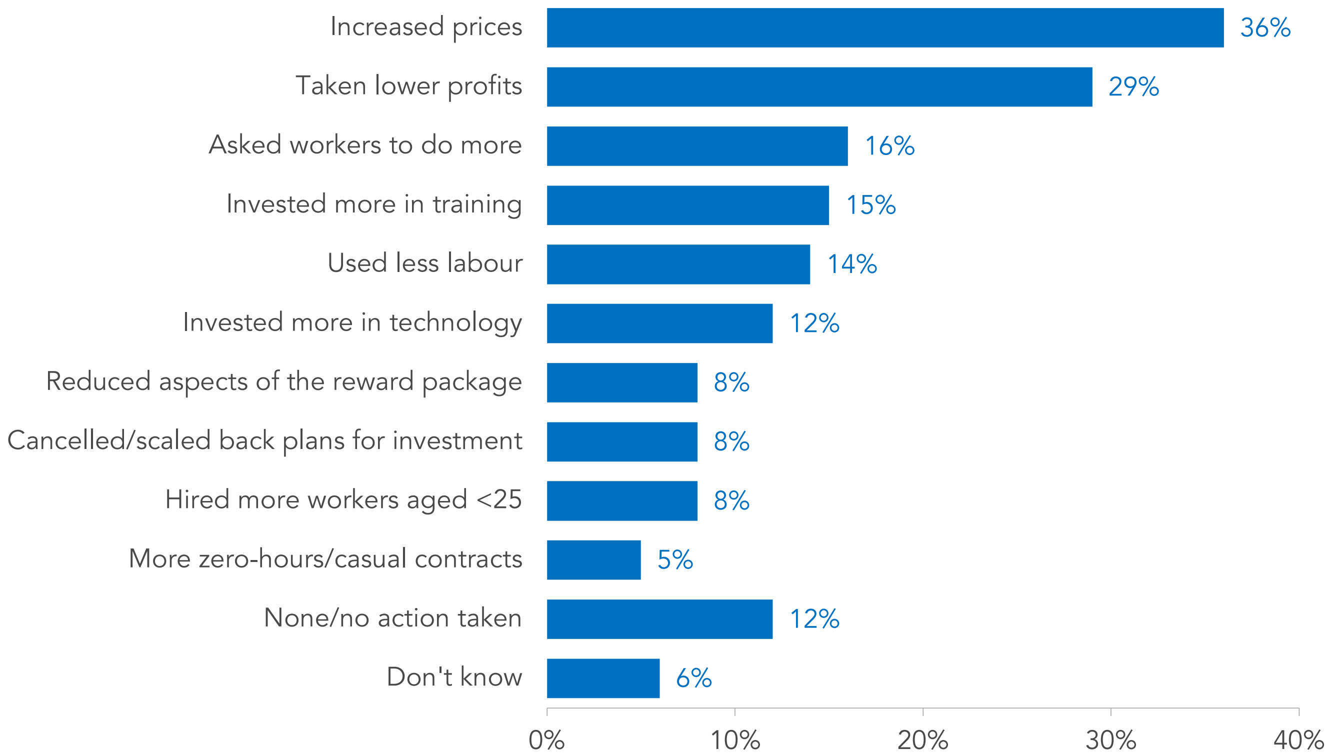
Also of note are the respondents who have not been affected by the NLW to date. Some 16 per cent say that, while the NLW has not yet impacted their wage bill, they expect it to do so in the future. The largest group however comprises the 43 per cent who don't expect the NLW to *ever* raise their wage bill. This finding underlines that for the majority of employers and sectors, a higher wage floor will have little to no effect. At the same time, it is clear that some employers in lower-paying sectors do face a genuine challenge in implementing the NLW.

In contrast to our last survey, those affected say they've responded primarily via prices and profits

Figure 9 sets out the range of responses given by those firms saying that there had been some effect on their wage bill to date (respondents could choose as many options as they wanted). Within this group, the most popular response is to have passed the cost onto customers, with 36 per cent saying that they raised prices. While the two are not perfectly comparable since the sampling and question asked were different, it is nonetheless interesting to note that the share of firms favouring raising prices has risen since the pre-implementation survey, when it was 22 per cent. This shift to price rises being the main response may reflect the relative ease with which this can be done compared to improving efficiency or reducing the amount of overtime and bonuses offered to existing staff.

Figure 9: Employer responses to the National Living Wage

Which of the following actions has your organisation taken to manage additional wage costs since the National Living Wage was introduced?



Base: All employers affected by the NLW to date (n=215)

The second most common response was to take lower profits or absorb the costs, with 29 per cent answering in this way. A further 12 per cent said that no action had been taken. While this response is open to interpretation, it may be that this 12 per cent are most accurately grouped with the 29 per cent that absorbed costs. Again, this aligns with what the employer case studies from our previous report revealed: many employers are biding their time and taking little or no action, especially in 2016 when the increase is manageable for the vast majority of firms, while considering more transformative changes to their business model in the long run. In the short term, the simplest options that don't involve changing how businesses operate are adjusting through profits and prices, with the nature of competition within the relevant market an important determinant of whether higher prices or lower profits are most feasible.

Many employers have invested in training, technology or revisited employee roles

These findings contrast with our September 2015 survey, in which raising productivity/increasing efficiency was the top answer with 30 per cent of firms including it among their top three options. In the previous research, we had case study interviews as a resource to draw upon to dig deeper into exactly what firms may be considering when they responded in this way. To explore this issue this time around, we chose to provide specific options for how firms may seek to boost productivity:

» Asking workers to do more, whether that is in terms of effort, the complexity of the tasks they carry out or the range of tasks required of them

- Investing more in training, another way of developing a more highly-skilled workforce that is capable of greater output per each hour worked
- Investing more in technology. This may be labour-enhancing (allowing workers to become more productive) or labour-replacing (requiring fewer hours of labour because technology allows a task to be done more efficiently)

Of course, these different options can overlap or have very different impacts on staffing levels, and other potential routes to higher productivity are possible. Nonetheless, these three response options give us an insight into the types of potentially productivity-boosting responses employers are making.

After higher prices and lower profits, these productivity-enhancing options occupy three of the next four positions. Workers had been asked to do more in 16 per cent of firms, 15 per cent had invested more in training, while 12 per cent had increased investment in technology. It is clear then that many firms are seeking to make their businesses more productive without necessarily seeking to pass the cost onto customers or the organisation's owners.

The extent to which these responses will offset the higher costs brought by the NLW remains to be seen. In our previous analysis, while some employers had clear plans on how to boost productivity through training or better designing jobs, many others had only a vague sense of the options available to them, or the scale of the difference it might make. It is also worth noting that 8 per cent of firms reported they had cancelled or scaled back plans to invest in the organisation, which could lead to weaker productivity growth for these companies.

Responses that might negatively affect employees appear limited so far

Using less labour – respondents were given a variety of options including having slowed or abandoned recruitment, reducing the number of hours worked by staff or making employees redundant – was the fifth most popular response, with 14 per cent of firms affected by the NLW having utilised this option. This appears to confirm previous experience with the National Minimum Wage, with some evidence of a reduction in hours (though the wage gains overall outweighed this effect)[10] but actual job losses being limited.

Somewhat surprising, given its dominance in media discussions[11] of the NLW (and its placement in our previous survey as the third most common answer), is the relatively limited reliance on reducing aspects of the reward package including Bank Holiday pay, overtime or bonuses (8 per cent). This does however correspond with the case studies previously undertaken, with employers reporting that it would be difficult to change the conditions current staff received (though doing the same to newly-recruited employees was thought to be less problematic).[12]

Figure 9 also shows that 8 per cent of respondents had hired more workers aged under-25 to avoid having to pay the higher rate. This figure may reflect trends highlighted in our past research. This suggested that employers who were previously largely ignoring the different age rates in the minimum wage system – paying the same rate for the same job, regardless of the employee's age – felt more reluctant to pay less to younger workers. In contrast, those who were already differentiating pay by age were more likely to pay those aged 21-24 the NMW rather than raising it in line with the NLW.

[10] N Allison et al., *Monitoring the impact of the National Minimum Wage*, Incomes Data Services, 2009

[11] See for instance http://www.bbc.co.uk/bbcthree/item/b8563992-b874-4e07-b09a-fe90790697fc

[12] However, as Figure 10 on the following page shows, only 8 per cent of all employers expect this to be a major method of response for them in the next five years.

Looking further ahead, employers appear to be prioritising productivity boosting responses

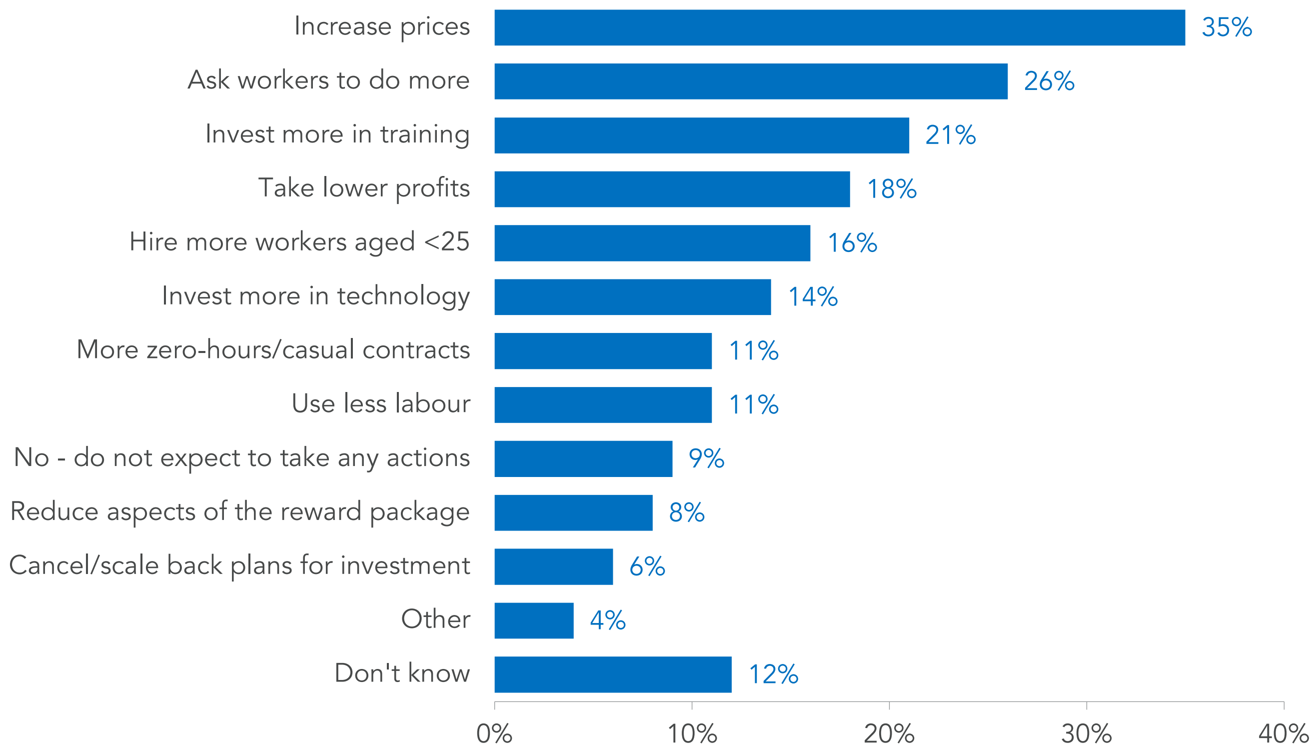
While Figure 9 gives us an overview of what employers have done to date, it says nothing about how approaches might evolve over time. For some, the effect will be relatively small in the early years of the policy, meaning absorbing the costs may be the easiest approach. For others, a policy of waiting to see how competitors react will be crucial: if similar businesses are raising their prices, choosing to follow suit bears less risk than being the only firm to do so.

We might also expect some firms to seek to develop more comprehensive, productivity-enhancing responses. Anecdotal evidence suggests firms are increasingly, particularly with the result of the EU referendum, beginning to plan for a future in which cheap labour is less available, and therefore requires a different strategy.

To explore this question, the survey respondents were asked how they planned to respond to rising labour costs over the next five years due to the NLW but also other policies like the apprenticeship levy and auto-enrolment. Figure 10 displays their responses.

Figure 10: How employers plan to respond over the next five years

Thinking about the next five years, do you expect your organisation to take any of the following actions as a result of the introduction of the National Living Wage?



Base: All who say wage bill has been increased or expect it to do so in the future (n=301)

The most noticeable shift is the reduction in the share of firms expecting to take lower profits, dropping from 29 per cent to 18 per cent. This is unsurprising, as most businesses would not be expected to plan to be less profitable in the long run. Virtually unchanged is the proportion of employers planning to use price rises as a way of dealing with the NLW (35 per cent). This suggests – in a way which was not observed with the NMW – that the consumer may be bearing more of the burden of a higher wage floor in future.

The share of respondents planning more productivity enhancing responses does increase, with greater investment in training (21 per cent), technology (14 per cent) and, in particular, getting more out of their workforce (26 per cent) among the most popular planned responses. This reflects what would be expect i.e. firms have more time to make plans and adapt their business model.

One of the obvious conclusions from comparing our September and June surveys is that these responses should not be taken as fixed. Employers may well adopt a different approach to the one they have indicated here. Because of that, the coming months and years represent a window to encourage firms to choose responses that will boost productivity without damaging the employees who are intended to benefit as a result of the NLW. As the contrast between our survey from last year and this research illustrates, the good intentions of employers are not always followed through. Employers, particularly smaller firms, would benefit from support to think through the options available to them.

Uncertainty from Brexit means the path ahead for the NLW has become less clear

While the National Living Wage has frequently been described as a step into the unknown, much greater uncertainty now surrounds the rising wage floor due to the consequences of the UK's decision to leave the EU. While our survey represents the most up-to-date picture of employer responses and outlooks on the National Living Wage, since the fieldwork was conducted in early/mid-June, the outlook for the economy has changed drastically. The significance of the vote to leave the EU is large, with potentially sizeable impacts on a number of factors influencing employers' decision-making, as well as the policy itself.

Crucially for the NLW's trajectory, and unlike the National Minimum Wage with the level being solely determined by the Low Pay Commission's negotiations, the NLW establishes a link with the median wage of those aged 25 and over. Although the figure of £9 in 2020 is often cited as the target for the NLW to reach, in fact HM Treasury documents and the Chancellor George Osborne have repeatedly made clear that the target is in fact 60 per cent of the median wage for over-24s. The £9 figure is an estimate of what that figure will be in 2020, based on OBR projections for wage growth, with 2020 set as the date by which the 60 per cent figure should be reached, assuming "sustained economic growth".

Because of this, the 2020 target was always likely to fluctuate, with wage growth projections being updated. This has already been evident since the NLW was first announced and forecast at the Summer Budget in July 2015. From a starting point of £9.35 at that time, it was subsequently revised down to £9.30, then £9.15 and most recently at the March 2016 Budget to £9. These downward revisions have been as a result of actual wage growth underperforming previous expectations, as well as the more technical issue of wage growth at the median (and for over-24s) often not exactly mirroring average (mean) wage growth, on which these assumptions are based.

The uncertainty associated with Brexit makes future forecasting all the more difficult. Projecting wage growth forward is an exercise in crystal ball-gazing at the best of times but with an event as seismic as the UK's decision to leave the EU, that process becomes a much greater challenge. Therefore, the following should be treated as a purely indicative sense of what rate the NLW may have risen to come 2020.

The OBR – whose wage projections we would generally rely upon when casting the NLW forward – do not plan to update their forecast until the Autumn Statement. The Bank of England's forecast is not expected till August. As such, here we use scenarios put forward by Ebell and Warren of NIESR, and that of Economists for Brexit.[13] While HM Treasury included two scenarios and their impact on wage growth, they do not provide year by year figures and as such we cannot use their analysis.

Our approach is to project forward median wages using the real wage growth and inflation figures provided in each post-Brexit scenario. We apply these growth figures to the 2015 all-worker median wage from the Annual Survey of Hours and Earnings. For the 2020 NLW figure, we take 65 per cent of the all-worker median. This is because a 25 and over hourly median wage is not published by the ONS but previous Resolution Foundation analysis has found that over time 65 per cent of the all-worker median has closely matched 60 per cent of the 25+ median.[14]

Ebell and Warren discuss three main scenarios, along with an optimistic and pessimistic version for each, and their impact: a European Economic Area option (similar to Norway's relationship with the EU); a Free Trade Agreement option (similar to Switzerland's arrangements) and a World Trade Organisation (no free trade agreement with the EU). We do not comment here on the likelihood or desirability of any of these options; they will each have consequences far beyond their impact on the NLW. Economists for Brexit's forecast includes a single scenario. As the authors make clear, there are a range of considerations not factored into their analysis, which could act in either direction. Nonetheless, these projections are helpful in understanding the potential scale of the impact of Brexit on the NLW's path.

The real-terms value of the NLW could be up to 40p lower than previously expected

Our baseline pre-Brexit scenario in Figure 11 is the green bar. This represents the pre-Brexit forecast for wage growth and inflation from the OBR's Economic and Fiscal Outlook in March 2016. In nominal terms, this is £9.03 and in real terms is £8.31.

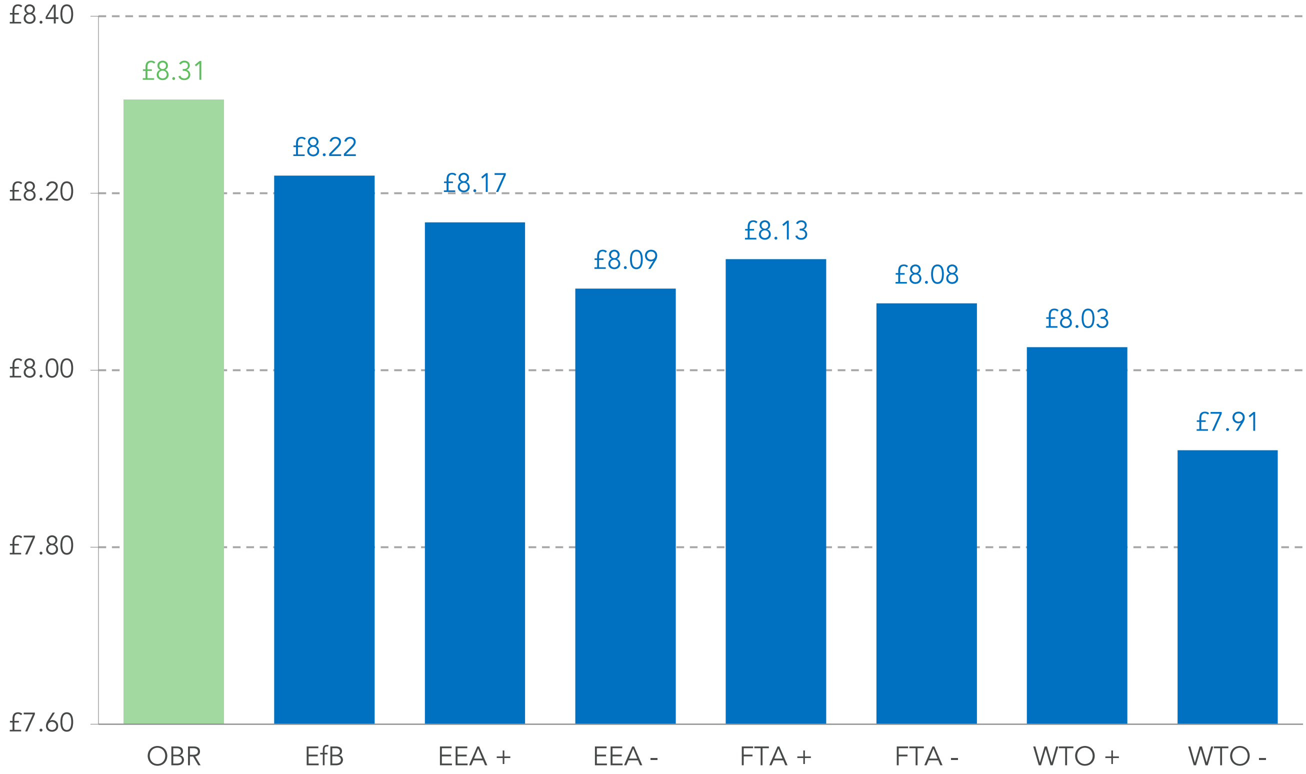
As Figure 11 makes clear, each of the post-Brexit scenarios would mean a lower NLW than that expected level, though the size of the difference does vary. The best case scenario is from the Economists for Brexit analysis which would result in the NLW being approximately 10p lower than would otherwise have been expected. Turning to Ebell and Warren's report, their EEA optimistic ("EEA +") version would mean a NLW equal to £8.22 in real-terms in 2020. At the other end of the scale, the WTO pessimistic scenario would mean a NLW worth £7.91 in 2020.

[13] M Ebell and J Warren, *The long-term economic impact of leaving the EU*, National Institute Economic Review No. 236, May 2016 and Economists for Brexit, *The Economy after Brexit*, 2016

[14] For further discussion see C D'Arcy, A Corlett and L Gardiner, *Higher ground: Who gains from the National Living Wage?*, Resolution Foundation, September 2015

Figure 11: Estimating the effect of Brexit on the National Living Wage

Indicative rates for the NLW in 2020 under various wage growth projections, 2016 prices



Source: RF analysis of OBR, Ebell and Warren and Economists for Brexit

The figures presented here should not be taken as precise estimate of what the NLW will be in 2020. Wage projections are always inaccurate and in a time of uncertainty such as now, that will be more true than ever. Rather, it underlines the value of having an ambition for the wage floor expressed as a percentage of the typical worker's hourly wage, rather than pursuing a pound figure for a minimum wage. The median wage link ensures that if the pay of the typical worker isn't rising at the pace expected when the forecast was originally made, the wage floor does not continue to rise regardless. Although the weight of evidence suggests that at moderate levels, job losses are not a major risk from minimum wage rises, the path to 60 per cent of the 25+ median worker's wage is already taking the UK's wage floor into new territory. To do so while real wages are falling, as they may if the Ebell and Warren scenarios are approximately accurate, would be challenging to say the least.

This again is one of the advantages of having a body like the Low Pay Commission to make balanced judgements, negotiated by business and worker representatives and advised by expert opinion and analysis. Their judiciousness during the 2008 crash and its aftermath ensured that the minimum wage did not exacerbate job losses over that period, according to research conducted in subsequent years.

More broadly, what other consequences is the decision to leave the EU likely to have for the National Living Wage? In some senses, it reinforces the challenge employers were likely to have faced with the NLW, the apprenticeship levy and auto-enrolment: an ending of an era of a large pool of relatively cheap labour. If fewer workers from overseas available to fill roles, it may be that firms are forced to reconsider their business models. In some low-paying sectors, this is already occurring with bodies in the hospitality and retail industries actively developing strategies to help promote their sector as offering career opportunities.

But as previous Resolution Foundation analysis has highlighted, fewer migrant workers is likely to present a serious challenge to some sectors which are currently highly dependent upon them.[15] Food manufacturing (31 per cent of employees are EU migrants), domestic staff (23 per cent) and accommodation (21 per cent) are all industries in which over one-third of the workforce are likely to be affected by NLW come 2020. While the extent to which this actually affects employers will depend on the deal negotiated with the EU, and the pace at which that process proceeds, the combination of a rising wage floor and a low-paid workforce of which EU migrants comprise a significant part means that business as usual may not be a feasible approach for such firms. In some instances, it may be that greater use of technology can help address the challenge. In others, designing higher-skilled (and higher-paid) roles may be necessary.

Conclusion

Our analysis of early employment indicators and our survey of employers supports the conclusion of much previous research on the NMW: reduced employment does not appear to be the primary response employers make to a rising wage floor. Though, of course, we cannot predict precisely how employers will move forward as the NLW increases further, especially with the uncertainty surrounding the UK's departure from the EU, our survey suggests that lower employment represents the primary strategy for only a handful of employers.

Instead, a diversity of other approaches will be used. Each has consequences for different groups. The most common response in our survey was to raise prices with customers facing higher costs as a result. While we are restricted in our ability to examine how this varies across sectors – future Resolution Foundation research will provide more information on low-paying industries – analysis of the impact of the NMW found that while there was little evidence of overall inflation being higher, prices in industries most dependent on minimum wage workers including takeaways, hotels and domestic services, did rise considerably faster than higher-paying sectors.[16] Again, past evidence can only be a guide to future responses particularly when wage increases are so much larger. Research in the US has found more evidence of an impact on prices in restaurants.[17]

But the UK's vote to leave the EU will have important consequences for the NLW's trajectory. Should projections which envisage real wage growth slowing, the NLW by 2020 is likely to prove difficult to implement for many firms in low-paying sectors. The Low Pay Commission's expertise will be of particular value in the coming years, drawing upon analysis of the impact increases are having to date, how the most-affected sectors are reacting and what path ahead can deliver for low-paid workers, without putting their jobs at risk.

[15] A Corlett, *Robot wars: automation and the labour market*, Resolution Foundation, July 2016

[16] J Wadsworth, *Did the National Minimum Wage Affect UK Prices?*, IZA Discussion Paper Series, No. 4433, September 2009

[17] S Allegretto and M Reich, *Are Local Minimum Wages Absorbed by Price Increases? Evidence from Internet-based Restaurant Menus*, UC Berkeley IRLE Working Paper 24-15, December 2015

Resolution Foundation

Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

- *undertaking research and economic analysis to understand the challenges facing people on a low to middle income;*
- *developing practical and effective policy proposals; and*
- *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

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