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Exploring the impact of minimum wage uprating in 2024 on living standards

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At this year's Conservative Party Conference, the Chancellor announced that the minimum wage would rise to at least £11 next year, up from its current rate of £10.42. But he may have under-promised. Using the standard uprating methodology, we estimate that the new adult-rate minimum wage could be as high as £11.46 in April 2024 – a 10 per cent cash increase. As a result, 1.7 million workers on the adult-rate minimum wage could be in for a real-terms pay rise of 6.3 per cent next year – the third largest in the minimum wage's 25 year history.

But for minimum wage earners on means-tested benefits (particularly those with children), the legacy of prolonged high inflation, falls in support through the benefit system and frozen tax thresholds will offset this welcome increase in their pay. Indeed, even if the minimum wage rises to £11.46 in April 2024, families with three young children where both adults earn the minimum wage would still be less well-off than the same family would have been a decade previously, despite their wages rising 35 per cent in real terms over that period.

When the Chancellor formally announces the 2024 minimum wage rate, most likely at the Autumn Statement, it is crucial to view this in the round, and consider other policy changes too that impact on the living standards of the nation's lowest earners.

The Chancellor under-promised when he recently said the minimum wage would rise to £11

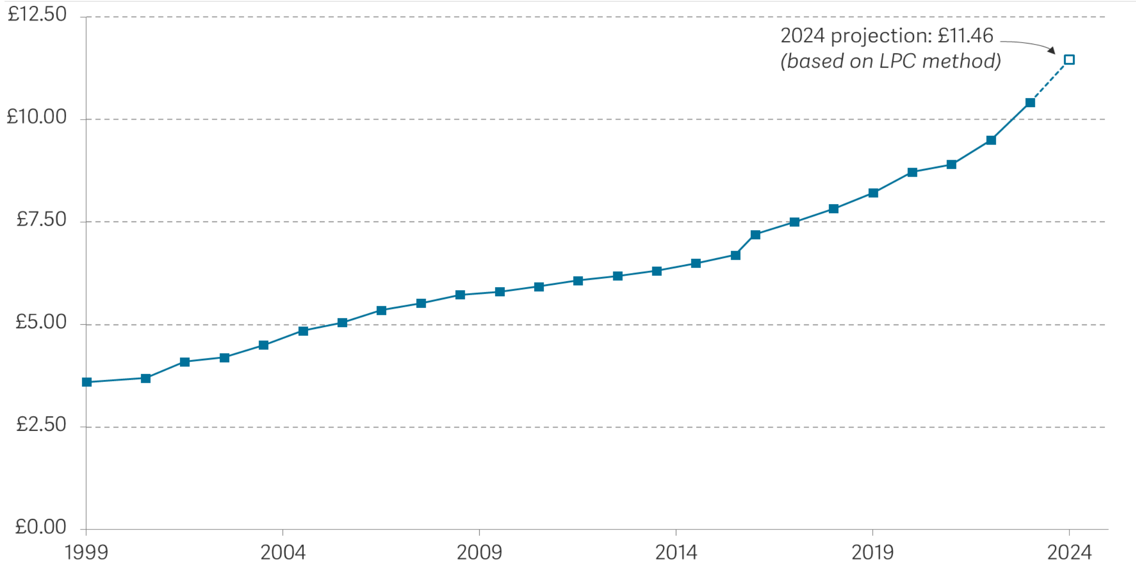
In his recent speech to the Conservative Party Conference, the Chancellor made headlines by promising a 2024 adult-rate minimum wage of at least £11, up from £10.42 in 2023.[1] (This was widely interpreted, wrongly, as announcing a minimum wage *of* £11.) The announcement was surprising for two reasons. First, at that point, the Low Pay Commission (LPC) were mid-deliberation, deciding on their recommendation for next year's rate – the normal process would have been to wait for their recommendation and announce the new rate at the

Autumn Statement.[2] But second, and more substantively, the minimum wage is likely to be much higher than £11 next year – meaning the Chancellor could have gone further in his Conference speech.

Back in March of this year when the LPC published its forecast for the 2024 rate, their central projection for the 'on-course' rate (that is, 'on course' to hit their target of the minimum wage reaching two-thirds of median hourly pay in October 2024) was £11.16 – already well above the Chancellor's £11. But since then, wage growth has strengthened. The latest available data at the time of the LPC's forecast (for January) showed average weekly earnings (AWE) growing at 6.6 per cent per year; by August (the latest available AWE data now), pay growth had reached 7.8 per cent.[3] But we also now have data from the April 2023 Annual Survey of Hours and Earnings (ASHE), showing median hourly pay rising 7.4 per cent on the previous April. Plugging these latest earnings numbers into the LPC's standard uprating methodology suggests a 2024 minimum wage rate of £11.46 (this projection is shown in Figure 1).

Figure 1 **The minimum wage could rise to £11.46 next year**

Adult-rate minimum wage, and projection of 2024 rate based on latest earnings data: UK



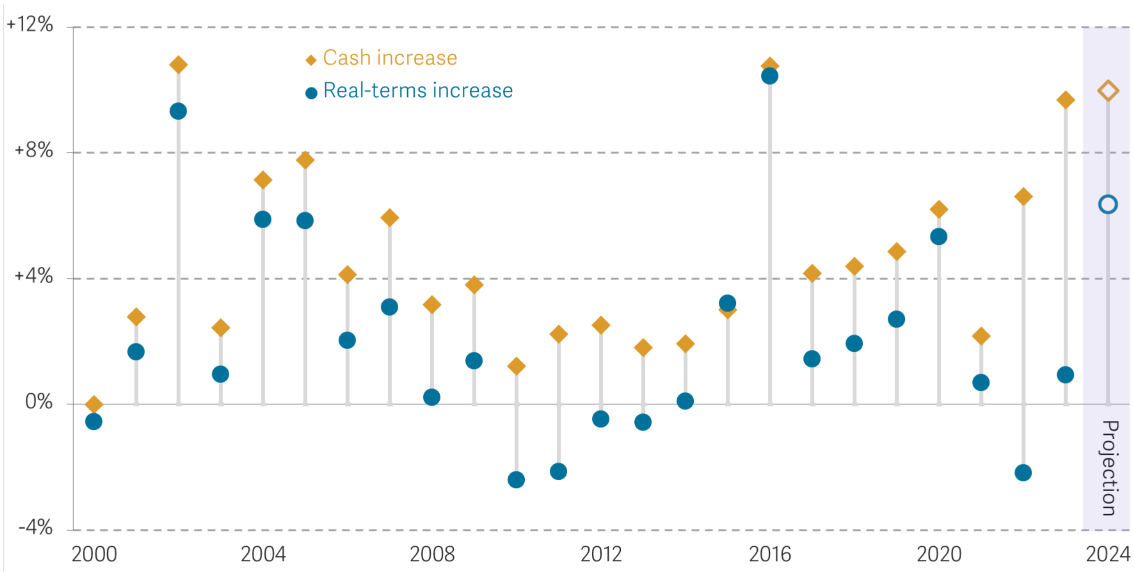
Notes: The projected value for 2024 is based on the LPC's methodology for uprating the minimum wage, as set out in the Annex of: Low Pay Commission, The National Minimum Wage in 2023 and forecast National Living Wage in 2024, March 2023.
Source: RF analysis of ONS, Annual Survey of Hours and Earnings; ONS, Average Weekly Earnings; HM Treasury, Forecasts for the UK economy.

Uprating to £11.46 would be the third biggest year-on-year increase in the history of the minimum wage, in both cash and real terms

If £11.46 was indeed the 2024 minimum wage rate, the uprating would be a very sizeable cash increase of 10.0 per cent on the previous year – giving around 1.7 million workers on the minimum wage a real-terms rise of 6.3 per cent (going by the Bank of England's forecast for CPI growth of 3.6 per cent in Q2 next year). In percentage terms, this would be the third largest cash increase in the minimum wage's history, and also the third largest real-terms increase (see Figure 2). It would see the minimum wage return to a very sizeable real-terms rise after three years of low or negative real-terms increases – which is what happens when a cost of living crisis comes along. By contrast, if the minimum wage was uprated instead to just £11 (in line with the Chancellor's conference speech), the cash increase next year would be a much more modest 5.6 per cent (or 1.9 per cent in real terms).

Figure 2 **The 2024 minimum wage uprating could be historically large in both cash and real terms**

Annual change in nominal and real value of the adult minimum wage, actual and projected for 2024: UK



Notes: Projection of minimum wage based on Low Pay Commission methodology (see notes in Figure 1). Real-terms increases are CPI-adjusted, with the projected 2024 uprating based on the Bank of England's CPI inflation forecast of 3.3 per cent in Q2 2024. Changes are April to April.
Source: RF analysis of ONS, Annual Survey of Hours and Earnings; ONS, Average Weekly Earnings; HM Treasury, Forecasts for the UK economy; Bank of England, November 2023 Monetary Policy Report.

It should be stressed, however, that this £11.46 figure is only our projection of next year's minimum wage rate. The actual figure put forward by the LPC is highly unlikely to be exactly this number for two reasons. First, although we have used the latest earnings data available to non-governmental researchers, and followed the LPC's standard uprating methodology to the best of our ability, we cannot guarantee we have followed a literally identical uprating process. And we do not have access to all the data the LPC do. The LPC will have calculated median hourly pay among 21+ year olds from the 2023 ASHE microdata, whereas we have had to estimate this based on the 2022 21+ median and by the increase in overall median hourly pay. However, we are confident these differences should not? affect our estimate significantly.

The more substantive reason why our projection might prove off-mark is that the LPC are not bound by their stated methodology: they may decide this year to take a different view of the future path of earnings growth, or to use a different estimation methodology. That is arguably more likely than in the past given some of the recent doubts cast about the accuracy of the ASHE data. Add to this that the LPC are not strictly bound to recommend an on-course rate – if they take a very dim view of the economic outlook, they could in theory suggest a more cautious uprating. This though, would be a surprise. The labour market is weakening, but unlikely by enough to push the LPC into taking the minimum wage off course.

For minimum wage earners with children, changes in benefits will have a larger effect on incomes next year than the minimum wage uprating

For some workers on the minimum wage, big increases in the minimum wage also lead to big increases in income – which is in the end what matters. This will be the case for minimum wage-earning adults who are not in receipt of means-tested benefits. For example, for a single adult without children, uprating the minimum wage by 6.3 per cent next year in real terms could see that adult's disposable (after housing costs) income grow by 5.3 per cent in real terms. (One reason income growth for this individual is lower than the wage growth is because personal tax thresholds are frozen).

However, for families who *are* in receipt of means-tested benefits, the picture is more complicated – and changes in the benefits system can be as important as changes in wages. That's particularly the case for 2024-25 when the £900 cost-of-living payments that have helped so many low-income families weather the cost of living crisis this year will not be renewed. For a family receiving those payments, their withdrawal will offset much of the wage boost from the minimum wage. For example, for a part-time worker working 20 hours per week on the minimum wage, £900 is not far off the £1,085 they would gain in gross annual pay if the minimum wage was raised by 10 per cent next year (as outlined above).

To further illustrate the important interplay between the minimum wage and benefit policy when it comes to incomes, in Figure 3 we trace the income paths of three stylised minimum wage-earning families from 2013-14 through to 2023-24 and beyond. Broadly speaking, minimum wage-earning families who are *not* receiving means-tested benefits (who will mostly be single adults or couples without children) have enjoyed almost the full impact of the rising minimum wage. This year (2023-24), the disposable income of a single adult earning the minimum wage is 20 per cent higher (in real terms) than a decade ago (2013-14). This is not very far off the full real-terms increase in the minimum wage (27 per cent) across this period, and twice as strong as the 9 per cent growth in median working-age incomes.

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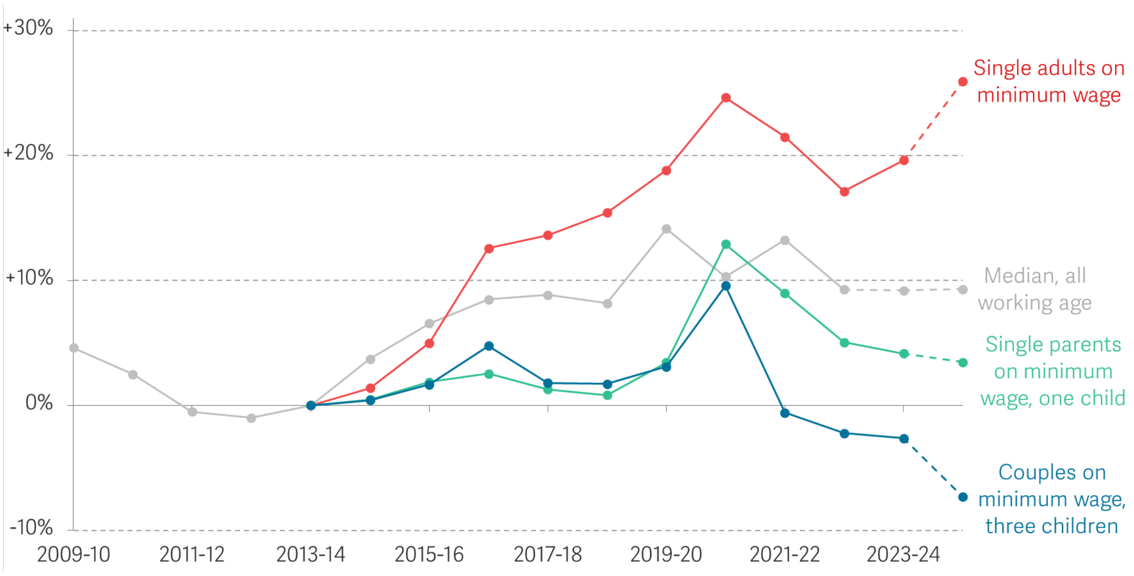
Figure 3 **Changes in the tax and benefits system have offset minimum wage rises for families on means-tested benefits**

Cumulative change since 2013 in real median equivalised household disposable income for all working-age families, after housing costs, and stylised case studies of income changes for families with workers earning the minimum wage: UK



Notes: Adjusted for CPI inflation. The dashed section of the median working-age income line represents an RF projection. The incomes for minimum wage-earning families (the coloured series in the chart) are based on stylised results from a case study model; they are not the average of all such actual families. These families are assumed to face typical Band C Council Tax bills and to rent privately with rents at the 30th percentile. Details on working hours and children: Single adult, working full-time (37.5 hrs); Single parent, working full-time (37.5 hrs), one child age 5; Couple, one adult full-time (37.5 hrs), one part-time (20 hrs), three children ages 0, 2 and 4. Modelled results based on case study model. Rents assumed to rise with CPI inflation after 2023. Minimum wage assumed to rise to £11.46 in 2024 – see notes in Figure 1. Incomes in 2022 and 2023 include cost of living payments (where applicable).
Source: RF analysis of DWP, Households Below Average Income, and RF projection including use of the IPPR Tax Benefit Model; ONS, Wealth and Assets Survey; Bank of England forecasts; OBR forecasts.

But for minimum wage-earning families with children entitled to means-tested benefits, the situation is different, because they will have been affected by the many large changes in the benefits system over the past decade. These include the freezing of benefit levels in the four years after 2015-16, the introduction of the two-child limit within Universal Credit (UC) in 2017, and the freezing of Local Housing Allowance rates from 2020-21. At the same time, the lowering of the UC taper rate in 2020-21, which lessened the amount by which claimants' UC awards are reduced for each additional £1 they earn, pushed in the opposite direction (this can be seen in the chart above with the rise in incomes in that year).

All of these factors together mean that this year (2023-24), the disposable income for a single parent earning the minimum wage with one child is only 4 per cent higher in real terms than in 2013-14. Even more strikingly, for a couple both earning the minimum wage with three children, their real disposable income is 3 per cent *lower* this year than it would have been a decade ago. In both cases, this is despite a 27 per cent real-terms increase in those families' wages over this period.

Conclusion

All of this goes to show why, when the Chancellor sets the *actual* minimum wage uprating for next year (likely at the Autumn Statement), it is important to consider that policy announcement in the round. As we set out in our Living Standards Outlook in September, our current expectation is that incomes at the bottom of the working-age income distribution will fall next year – *even if* benefits are uprated in line with inflation, which worryingly has been called into question in recent weeks. Some families earning the minimum wage will see a considerable income boost from the higher minimum wage. But for many others, the benefits system remains a critical determinant of their household income.

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1 Throughout this note, we consider the value of the adult-rate national minimum wage only. However, around 124,000 workers currently on the 21-22-year-old minimum wage rate will receive a significant boost if, as is expected, the adult rate (known as the National Living Wage) is extended to this age group in 2024. The minimum wage rates that apply to 16-17-year-olds, 18-20-year-olds and first-year apprentices will also be uprated next April; in recent years these rates have been increased by the same proportion as the adult rate.
2 In theory, the Chancellor could disregard the LPC's recommendations – but this is highly unlikely, not least because he has already committed to implementing this year's recommended rates.
3 Although average weekly earnings and median hourly pay are different measures of wage growth, they tend to grow at similar rates, so growth in (timelier) AWE can be used as a proxy for typical hourly pay which is only available once a year through ASHE.