CIPD
Championing better work and working lives

Evidence on the National Minimum Wage (including the National Living Wage)

Interim submission to the Low Pay Commission

Chartered Institute of Personnel and Development (CIPD)

July 2017

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Background

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has over 145,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Our membership base is wide, with 60% of our members working in private sector services and manufacturing, 33% working in the public sector and 7% in the not-for-profit sector. In addition, 76% of the FTSE 100 companies have CIPD members at director level.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers, to improve best practice in the workplace, to promote high standards of work and to represent the interests of our members at the highest level.

Introductory comments

This note sets out the main issues concerning the impact of the National Minimum Wage and National Living Wage, and the employer response, drawing on the most recent Labour Market Outlook [LMO] survey (Spring 2017). It will be supplemented by a further submission when data from the most recent Labour Market Outlook (Summer 2017) become available later this month.

The Spring LMO asked fewer questions about the National Minimum Wage and National Living Wage (NMW/NLW) because of a major focus on training and migration. The latter were incorporated into a joint report from CIPD-NIESR, and some of the relevant findings are summarised below. The Summer LMO has a wider set of questions, including those consistent with previous LMOs and some new questions on the NMW/NLW.

Notes

The CIPD's Labour Market Outlook survey does not differentiate between the National Minimum Wage and National Living Wage when asking for employer responses to the impact of increases in the rates. This submission, therefore, when referring to the National Minimum Wage (NMW), we mean both the National Minimum Wage and the National Living Wage.

Our submission

Employment outlook

The employment outlook remains positive, albeit with a modest easing of forward looking indicators compared with the previous LMO. Taking account of expected recruitment and redundancy decisions, the net employment score balancing out employers likely to cut staffing over the next three months against employers likely to increase staffing levels was overall +20, but with sharp differences between the private sector (+29) and the public sector (-6). Employers in wholesale and retail were much less bullish, but more expected to increase staff than cut them, giving a net positive balance of +11. The hospitality sector in contrast was significantly more likely to see a net increase in staffing, with a net balance of +33.

Overall pay trends

The latest Labour Market Outlook (Spring 2017) shows that basic pay awards are likely to fall over the next twelve months, with the median pay award dropping from 2 per cent in

Autumn 2016 to 1.5 per cent in Winter 2016-17, and then to 1 per cent in Spring 2017. This is the lowest rate recorded in the LMO for three and a half years.

In the last LMO we noted that few employers were responding to recruitment difficulties through higher pay despite very low rates of unemployment and high levels of unfilled vacancies and that any recovery was likely to depend on a recovery in productivity. The recent productivity statistics, released on 5 July 2017, showing a further decline in output per hour suggest that the weakness in pay awards is likely to persist despite a still favourable labour market.

The same downward trend in pay is evident in the official statistics, with average weekly earnings excluding bonuses falling from 2.7 per cent annual growth in the three months to November 2016 to 1.7 per cent in the three months to April 2017. We expect average earnings growth to remain weak for the foreseeable future.

Brexit and the labour market

We think it unlikely that the Brexit process will have a significant impact on pay over the next twelve months, despite concerns that a combination of migrants starting to leave the UK and decreased inward flows will worsen recruitment problems. This is partly because we anticipate any net movements in the short term to be modest, especially in relation to the overall labour market, with many employers and migrants adopting a wait and see approach.

A recent joint CIPD-NIESR report found, through sample surveys and focus groups, that some employers in low wage industries who currently recruit migrants agree that pay may be part of the problem in attracting British nationals, but are unlikely to raise pay in response to future difficulties.[1] This was either because they think there are many other barriers and it would be ineffectual or because they think a big enough pay rise to make a difference would be unaffordable. Most employers also thought that greater automation beyond that already in the pipeline was either not practicable or not affordable for most of the jobs and processes for which they were employing migrants. Those employers who are considering actions are likely to focus on investing in their own workforces, making the industry more attractive to young people, and stepping up recruitment form a wider range of sources, including some disadvantaged groups.

National Minimum Wage and basic pay awards

Most basic pay awards were clustered in the 1 to 3 per cent range. Among employers making awards of 2 per cent or more, the National Minimum Wage increase taking effect in April 2017 was one of the most commonly cited reasons at 30 per cent, alongside the organisation's ability to pay, and the influence of "going rate" pay awards made elsewhere. Of those who intended to make pay awards of less than 2 per cent were, not surprisingly, most likely to cite pay policy in the public sector, followed by an organisation's inability to pay. The NMW was cited by just under one employer in six as a constraining factor (15 per cent).

The survey data suggests that these impacts are, not surprisingly, significantly larger in low pay sectors but the sample size is not large enough to reliably report the results. Looking back at responses to past LMOs, the importance of the NMW for pay awards of 2 per cent or more has significantly increased. In Spring 2016 and Autumn 2016, this was a factor cited by 17 per cent of employers, in Winter 2017 by 21 per cent, and in Spring 2017 it was 30 per cent. There has, however, been little change in the relative importance of the

[1] CIPD/NIESR. (2017) *Facing the future: tackling post-Brexit labour and skills shortages*. London: Chartered Institute of Personnel and Development. Available at: https://www.cipd.co.uk/knowledge/fundamentals/emp-law/recruitment/post-brexit-skills-shortages [Accessed 7 July 2017].

NMW for pay awards of below 2 per cent. Pay policy and inability to pay remain by far the most important reasons for lower pay awards.

TABLE 1: GROWING INFLUENCE OF THE NMW ON PAY AWARDS

Share of employers citing NLW as a factor in making the award	Awards of 2 per cent or more	Awards below 2 per cent
Summer 2016	17%	16%
Autumn 2016	17%	13%
Winter 2017	21%	17%
Spring 2017	30%	15%

Source: CIPD Labour Market Outlook

We might conclude that there is stronger evidence for the NMW helping to push some pay awards up rather than squeezing differentials. Some organisations might still have decided to make pay awards of 2 per cent or more for other reasons, including ability to pay, concerns about recruitment and retention, to retain pay competitiveness, and productivity and performance of employees. But the NMW certainly has a more powerful influence for this group of employers than it had in the past.

The National Minimum Wage and employer responses

The Spring LMO did not cover the employer response to increases in the NMW, but the Winter 2017 LMO showed that most who reported that the NMW had increased wage bills were absorbing the cost or reducing profits (33 per cent), or had increased the performance and efficiency of the workforce (23 per cent). A significant minority had cut back on overtime and bonuses (20 per cent), and almost as many had increased prices

(18 per cent). The top two reasons were similar to those given in the Summer 2016 LMO, but the shares reporting cut backs in overtime or bonuses had increased, as had the share reporting price rises. There was no significant change in the share who said they were reducing employment or basic hours (12 per cent and 11 per cent respectively in Winter 2017).

TABLE 2: EMPLOYER RESPONSES TO INCREASED WAGE BILLS FROM THE NMW

Employer response	Winter 2017	Summer 2016
Reduce profits/absorb cost	33%	36%
Increase efficiency/productivity	23%	24%
Reduced overtime/bonuses	20%	14%
Increased prices	18%	13%
Reduced employment	12%	12%
Reduced basic hours	11%	10%

Source: CIPD Labour Market Outlook

Who should set the minimum wage rate?

The Coalition government has set the expected rate for the NMW and the current government has set out the expected future path of the NMW, although the Commission can recommend a temporary divergence if economic conditions dictate a more prudent award. The CIPD believes that in future the Commission should set the NMW in line with the arrangements that prevailed before July 2015. The Summer 2017 LMO has included a question to test this proposition with employers.

Overview

The LMO has historically been a good predictor of overall trends in the labour market and the latest statistical evidence supports the survey's forward-looking view of continued employment growth in the short term but basic pay and average earnings growth remaining subdued. We do not expect Brexit-related increases in labour shortages to boost pay, at least in the short term. The biggest single constraint on pay across all market sectors is the continued poor productivity performance of the economy. The NMW has become more influential, compared with other factors, in causing some employers to make pay awards of more than 2 per cent but has not increased in importance for employers making awards on less than 2 per cent. Most employers continue to absorb the costs of the NMW or seek improved efficiency/productivity from their workforces, together with a somewhat increased tendency to cut back on overtime or bonuses and increase prices.

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July 2017