

Supplementary forecast information release

Number of employees paid the National Living Wage

The OBR is releasing the information below following a request for further detail underlying the November 2015 *Economic and fiscal outlook (EFO)*. We will, as far as possible, meet ongoing requests to release supplementary forecast information where this will improve the quality of public debate on the public finances. Our full release policy is available on our website.

The table below shows our estimates of the number and proportion of employees aged 25 and over who will be earning the National Living Wage (NLW) over the coming 5 years, consistent with the assumptions and methodology that underpinned our November 2015 forecast. The number of employees has been rounded to the nearest 100,000.

	Employees	Per cent	Male	Per cent	Female	Per cent
2016	1,300,000	5.4	500,000	3.8	800,000	6.9
2017	1,600,000	6.9	600,000	4.8	1,100,000	9.0
2018	2,000,000	8.3	700,000	5.8	1,300,000	11.0
2019	2,500,000	10.2	900,000	7.1	1,600,000	13.4
2020	2,800,000	11.7	1,000,000	8.2	1,800,000	15.2

Note: Components may not sum to total due to rounding.

These estimates are sensitive to the assumptions we make about the distribution of hourly wages and our forecast for the path of the NLW – which is driven by our forecast for whole economy hourly wage growth since the NLW is set relative to median hourly wages in the affected group. Since we closed our November 2015 economy forecast, the Annual Survey of Hours and Earnings (ASHE) for 2015 has been released. As described in Annex B of the July 2015 *EFO*, we forecast the NLW by taking the neutral assumption that the distribution of hourly wages does not change across the forecast period, and therefore the median hourly wage for those aged 25 and over follows our forecast for mean hourly earnings. In reality there will always be changes in the distribution from year to year, with the median hourly wage rising by more or less than the mean.

The 2014 and 2015 ASHE datasets report that the distribution did change between April 2014 and April 2015 (the periods which the ASHE data measures), with median hourly wages growing more slowly than mean hourly wages. We can use this to illustrate the sensitivity of our forecast to new data. The lower median hourly wage would be pushed through to every year of the forecast such that, all else equal, the ASHE 2015 data would imply a NLW in 2020 of £9.15, rather than the £9.30 that we expected in the November *EFO*. This alternative path for the NLW, together with the

wage distribution of ASHE 2015, would – again all else equal – imply 10.9 per cent of employees aged 25 and over earning the NLW in 2020 rather than the 11.7 per cent that is consistent with our November forecast.

The Department for Business, Innovation, and Skills (BIS) has released an estimate of NLW coverage for 2016 of 1.7 million, which is higher than the number consistent with our November forecast assumptions and methodology. There are several methodological differences between the BIS forecast and ours. First, BIS assumed full compliance with the policy, whereas we have assumed that the rate of non-compliance with the NLW will be the same as non-compliance with the National Minimum Wage (NMW). Second, we assumed that the wages of employees earning just above the NMW at the time of the October 2015 NMW increase grow in line with the NMW, whereas BIS assumed that such employees receive average wage growth. Third, there are some technical differences in the way we use weights, calculate hourly pay, and treat apprentices aged 25 and over. We will be reviewing our methodological approach for our March 2016 *Economic and fiscal outlook*.