MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

Minister	Hon Brooke van Velden	**Portfolio**	Workplace Relations and Safety
Title of Cabinet paper	Minimum Wage Review: Setting the 2025 rates	**Date to be published**	17 December 2024

List of documents that have been proactively released		
Date	**Title**	**Author**
December 2024	Minimum Wage Review: Setting the 2025 rates	Office of the Minister for Workplace Relations and Safety
December 2024	Minimum Wage Review: Setting the 2025 rates [CAB-24-MIN-0489 Minute]	Cabinet Office
28 March 2024	Review of MBIE's Minimum Wage model	Motu Economic and Public Policy Research
8 May 2024	Peer Review Report on Motu's Review of the MBIE Minimum Wage Model	Tim Maloney
November 2024	Minimum Wage Review 2024	MBIE

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MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
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WORKPLACE RELATIONS AND SAFETY POLICY

Minimum Wage Review 2024

November 2024

New Zealand Government

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Executive summary

MBIE is required to review the minimum wage rates each year

This report supports the statutory obligation under the *Minimum Wage Act 1983* (the Act) for the Minister for Workplace Relations and Safety to review the minimum wage rates by 31 December each year. The Minister will fulfil this obligation by considering the advice contained in this report.

Since 2012, the Government's objective for the minimum wage review has been '*to keep increasing the minimum wage over time to protect the real income of low-paid workers while minimising job losses*' [CAB Min (12) 41-5B refers]. This objective focuses on the balance between the benefit of an increased wage for employees paid the minimum wage, and the potential for job losses, which could occur if a minimum wage increase led to a reduction in the overall demand for labour.

In 2012, Cabinet agreed that a 'comprehensive' review would be completed every four years, with 'streamlined' reviews occurring in the intervening years. This year's review is a streamlined review (a comprehensive review was completed in 2022). A streamlined review considers the three principal factors of inflation (with Consumer Price Index (CPI) as the main indicator), wage growth, and restraint on employment. BusinessNZ and the New Zealand Council of Trade Unions (NZCTU) were consulted as part of this review.

There is a commitment in the Coalition Agreement between the New Zealand National Party and New Zealand First to "moderate increases to the minimum wage every year." This provides further context for the current Government's objectives with respect to the annual minimum wage review.

This review considers six minimum wage rate options for 2025

The options considered in this report range from retaining the current minimum wage ($23.15) to a 2.5 per cent increase to $23.75 per hour (increases are rounded to the nearest five cents). We considered higher potential rate options that aligned with various actual and forecasted wage, and price indices but these are not presented as formal options in the main review.

- Option 1: $23.15 per hour (status quo)
- Option 2: $23.30 per hour (0.5% increase)
- Option 3: $23.40 per hour (1% increase)
- Option 4: $23.50 per hour (1.5% increase)
- Option 5: $23.60 per hour (2% increase)
- Option 6: $23.75 per hour (2.5% increase)

Our assessment of these options considers a range of contextual factors

This review analyses the impacts of the six options on wages, employment, minimum wage employees (and low-earning households), industries, and the public sector. These factors are considered since they either directly fall under the 2012 Cabinet objective or relate to key flow on implications from increasing the minimum wage (eg costs to government). Contextual information relating to the current state of the labour market also plays an important role – alongside the quantitative estimates provided in this review – in informing MBIE's judgement about the potential impacts of different minimum wage rate changes.

The actual impacts of any minimum wage increase will depend on how firms and workers respond to it.

MBIE considers that an increase to the minimum wage of 2 per cent would best balance the elements of the Cabinet objective

In coming to a view on the rate that is consistent with the Cabinet objective, we see there are two components which need to be balanced:

- **Maintaining the real income of low-paid workers** involves a consideration of the impact of inflation on the purchasing power of workers earning the minimum wage. The living standards of minimum wage earners will depend on factors other than income, such as household characteristics. A large proportion of minimum wage earners live in high-income households. This makes the minimum wage a poor tool for poverty reduction. However, a fall in real incomes for minimum wage earners in low-income households would have a negative impact for them.
- **Minimising job losses** requires us to assess the potential impact of an increase in the minimum wage on the labour market. MBIE understands the term "job losses" (as in the Cabinet minute) to encompass not only employees who are currently employed who may lose their job, but also people who may lose hours of work, or those who would otherwise have been employed but for an increase in the minimum wage. We use the term employment restraint to encompass all of these different elements.

With annual inflation currently at 2.2 per cent and expected to stay at about that level until the March quarter, a rate of between 2 and 2.5 per cent would appear to meet the first part of the objective.

In relation to the second part of the objective, we have changed the way we estimate the restraint on employment this year. We previously used an econometric model to estimate the potential impact on labour demand from an increase in the minimum wage. After a review of the model by external experts, we have adopted their recommended approach to estimate the size of the impacts based on the generally recognised estimates from the literature.

Estimating the employment restraint impact of a minimum wage increase is inherently difficult due to the range of factors in play. Our approach takes account of a range of these factors that are known to contribute to employment restraint, including economic conditions, age, sex, and region. Motu Research's recent review found that the literature does a better job of predicting the employment effect of a minimum wage increase than the MBIE in-house model. This includes the impact of economic conditions on employment restraint.

MBIE's estimates of employment restraint for each of the options show less than 1,000 people would be affected by any increase. Because of the small numbers involved, our estimation approach doesn't allow more detail to be disclosed. Our approach uses Household Labour Force

Survey (HLFS) data from Stats NZ. The HLFS has confidentiality rules that suppress all estimates below 1,000 people.

MBIE recommends a 2 per cent increase in the minimum wage for 2025. Although, on the surface, the employment restraint estimates do not provide strong support for favouring any particular option within the 2 per cent to 2.5 per cent range, MBIE considers that the potential for any employment restraint to affect groups already disadvantaged in the current labour market, youth in particular, weighs in favour of a conservative approach. The employment restraint will be smaller for the 2 per cent option than the 2.5 per cent option; this is an economic reality. Youth unemployment has been increasing over the past two years, and given the high proportion of youth at or below the minimum wage (16–19-year-olds in particular – see Table 2 in the body of this report), and downside risks for youth employment stemming from minimum wage increases, particularly in recessionary contexts, a 2 per cent increase best balances the objectives of the minimum wage review.

The benefits and costs of an increase would fall predominantly on some demographic groups and sectors

Minimum wage rate increases benefit workers by providing higher wage floors and boosting the incomes of the lowest paid employees. However, they are largely ineffective as a redistributive income support policy, due to the abatement of income supports that many low-to-middle income households receive.

Roughly consistent with previous years, the review finds that workers aged 16 to 64 earning the minimum wage and below tend to consist of younger workers (ie those aged 16 to 24, which make up close to 55 per cent), part-time workers (50 per cent), and women (56 per cent). Māori and Pacific workers earning the minimum wage and below represent respectively 20 per cent and 7 per cent of workers earning the minimum wage and below, compared to close to 15 per cent and 6 per cent of total workers in paid employment.

In terms of industries, the retail, and food and accommodation industries continue to have the greatest number of workers earning at or below the minimum wage (aged between 16 to 64) in 2024, with 25,600 (19.9 per cent) and 27,900 (21.7 per cent) minimum wage earners respectively.

The impact on costs for the core Public Service would be negligible because there is an expectation that agencies already pay their employees above the minimum wage. The direct costs for the broader public sector of a 2 per cent increase in the minimum wage would be approximately $18 million annually.

MBIE recommends maintaining the current relativity between the adult minimum wage and other minimum wage rates

This report recommends increasing the starting-out and training wages from the current hourly rate of $18.52 to $18.90, maintaining the current relativity of 80 per cent of the adult minimum wage. A differential between the adult minimum wage and the training and starting-out rates may support the transition of youth into employment and could help advance the policy objective of incentivising employers to take on and support trainees. As this is a streamlined review, adjusting the relativity between the adult minimum wage and the lower statutory rates was not subject to detailed options analysis.

Feedback from Social Partners

MBIE sought input into the Review from BusinessNZ and the NZCTU as representatives of employer and worker interests respectively.

BusinessNZ acknowledged that a nil increase in the minimum wage would be "effectively a reduction in real incomes" for workers. It recommended a conservative approach to setting the minimum wage based on a rolling average of movements in the Consumer Price Index (CPI) and Labour Cost Index (LCI), to reflect a balance between workers' rising living costs and increased wage costs for employers until economic stability is regained.

The NZCTU supported increasing the minimum wage to the Living Wage (currently $27.80 per hour); removing the starting-out and training minimum wage rates; and establishing a tripartite body to make recommendations to the Minister for Workplace Relations and Safety on the minimum wage.

MBIE has noted the feedback received and considers that substantive issues relating to the nature of the advice provided to the Government on adjusting the minimum wage are outside the scope of a streamlined review. Adjusting the minimum wage to align with the Living Wage was outside the scope of options considered in this year's review.

Section one: Background to the minimum wage and the Review process

There are currently three legislated minimum wage rates

Adult minimum wage

1. This applies to all employees aged 16 and over who are not starting-out workers or trainees.

Starting-out wage

2. The starting-out wage applies to the following workers, provided they are not involved in supervising or training other employees:

   - 16- and 17-year-old employees who have not yet completed six months of continuous employment with their current employer.
   - 18- and 19-year-old employees who have been paid a specified social security benefit for six months or more, and who have not yet completed six months' continuous employment with any employer since they started being paid a benefit. Once they have completed six months continuous employment with a single employer, they will no longer be a starting-out worker, and must be paid at least the adult minimum wage rate.
   - 16- to 19-year-old employees who are required by their employment agreement to undertake industry training for at least 40 credits a year in order to become qualified.

Training wage

3. The training minimum wage applies to employees aged 20 years or over who are doing recognised industry training involving at least 60 credits a year as part of their employment agreement and are not involved in supervising or training other employees.

4. The *Minimum Wage Act 1983* (the Act) requires that the starting-out wage and training wage must be no less than 80 per cent of the adult minimum wage.

MBIE is required to review the minimum wage rates each year

5. This report supports the statutory obligation under the Act for the Minister for Workplace Relations and Safety to review the minimum wage rates by 31 December each year. The Minister will fulfil this obligation by considering the advice contained in this report. There is no obligation to change the minimum wage rate or to make decisions on the rates by a particular date.

6. Since 2012, the Government's objective for the minimum wage review has been 'to keep increasing the minimum wage over time to protect the real income of low-paid workers while minimising job losses' [CAB Min (12) 41-5B refers]. This objective focuses on the

balance between the benefit for employees paid the minimum wage and the potential for job losses, which could occur if a minimum wage increase led to a reduction in the overall demand for labour. This has guided the review's analysis and recommendation for the size of the minimum wage increase.

7. Once Cabinet makes a decision on the rates, changes to the minimum wage are made by Order in Council. The *Minimum Wage Order 2025* will revoke and replace the *Minimum Wage Order 2024*, which sets the current adult, starting-out and training minimum wages.

This review considers six minimum wage rate options for 2025

8. The options considered in this report range from retaining the current minimum wage ($23.15) to a 2.5 per cent increase to $23.75 per hour (increases are rounded to the nearest five cents).

- Option 1: $23.15 per hour (status quo)
- Option 2: $23.30 per hour (0.5% increase)
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- Option 5: $23.60 per hour (2% increase)
- Option 6: $23.75 per hour (2.5% increase)

9. These rates reflect a range of options that may help to deliver on the Government commitment specified in the National Party and New Zealand First Coalition Agreement to "moderate increases to the minimum wage every year."

10. For comparison purposes, we also refer selectively to other potential rates higher than those that are formally 'in scope' for this review. This is useful to illustrate how sensitive MBIE's estimates are to rate changes of different magnitudes.

This is a streamlined review, continuing the review cycle agreed by Cabinet in 2012, after an interruption to the cycle caused by COVID-19

11. In 2012, Cabinet established a cyclical approach to reviewing the minimum wage, with comprehensive reviews to be completed every four years and streamlined reviews in the intervening years.

12. A streamlined review considers the three principal factors of inflation, wage growth, and restraint on employment, and involves consultation with BusinessNZ and NZCTU. A comprehensive review expands on the streamlined model, considering 'other relevant factors' and extending consultation beyond the social partners to other worker, employer and community organisations.

13. The 2020, 2021 and 2022 reviews were all comprehensive, due to heightened information needs in a period of economic and labour market uncertainty. These reviews were tailored in response to the complex economic climate arising from COVID-19 pandemic and also to proposals to set a future trajectory for the minimum wage.

14. A streamlined review means consultation outside of Government is limited to BusinessNZ and NZCTU, to represent business and worker interests.

15. Consistent with the standard process for a streamlined review, this review focuses on the following factors:

- inflation, using CPI as the indicator,
- wage growth, using the median wage, average wage growth, and LCI as indicators,
- restraint on employment, and
- other impacts including fiscal impacts.

16. The actual impacts of any minimum wage increase will depend on how firms and workers respond to it. This makes estimating the impact of a minimum wage increase inherently difficult. Our analytical approach estimates the impact on employment based on past observations. However, a range of other indicators and factors are used to inform a more rounded, qualitative assessment of the potential response.

The 2024 review will use a different analytical approach to estimate the impacts of potential minimum wage increases

17. In the past, MBIE has used an in-house minimum wage econometric model to estimate the restraint on employment due to increases in the minimum wage rate.

18. We recently commissioned an external review of our minimum wage model, by Motu Research, to ensure the analytical technique we follow is still relevant and robust and is aligned with international approaches. As a result of feedback received during this review, we have made changes to the approach to analysing the impact of minimum wage rate increases. The two main changes are:

- **Changing the definition of 'affected population'** – we previously calculated the affected population as people earning 'at' the minimum wage rate but are now considering the affected population to be those earning 'at or below' the minimum wage. This will better align our approach with international literature and will capture those earning the training wage or starting-out wage, but may also reflect reporting errors and non-compliant employer behaviour.

- **Changing the estimation of the potential restraint on employment from minimum wage increases** – in our new approach, we are borrowing the regression coefficients from the relevant literature, because the robustness of these studies exceeds what is achievable with a single time-series econometric model. The employment restraint numbers using our new approach will be on the lower side compared to our previous in-house estimations. A comparison analysis based on the 2023 minimum wage options is presented in Annex One.

Section two: The economic and labour market context in which this review is taking place

19. In developing this advice, MBIE has considered the global and domestic economic context to inform our understanding of the possible impacts of the minimum wage options and our recommended choice. In short, economic conditions are soft as a result of tight monetary policy and other factors and these conditions are expected to prevail until the end of the year, before gradually improving from the beginning of 2025.

20. When the minimum wage increases, labour costs for businesses increase either directly as they employ minimum wage workers, or indirectly because of flow-on effects to the wages of workers paid close to the minimum wage. Firms may respond by absorbing the rise in labour costs (ie accepting lower profits), by increasing the price of goods produced or services provided, or by reducing output through reducing labour costs. Firms can reduce labour costs either by reducing hours for some employees, by reducing the size of their workforce, or by reducing other costs, such as learning and development. The choices firms make, and the aggregate effects of those choices, will depend on the prevailing economic context.

21. In terms of the objectives stated for the annual minimum wage review, the information provided in this section feeds into the analysis of options in two key ways:

- The available information on current and forecast levels of annual CPI inflation directly informs MBIE's assessment of the level of minimum wage change necessary to 'protect the real incomes' of minimum wage workers (the first part of the Cabinet objective).

- MBIE's interpretation of the overall economic context (which requires the exercise of judgement) informs our assessment of the likelihood of negative employment effects occurring at different potential minimum wage levels. The 'potential for job losses' to crystallise (in terms of the second part of the objective) is elevated in the context of slowing economic growth and a soft labour market.

22. The economic context suggests that, if more than one minimum wage option can plausibly balance both elements of the Cabinet objective, then the lower of those options should be preferred (ie a cautious approach is justified).

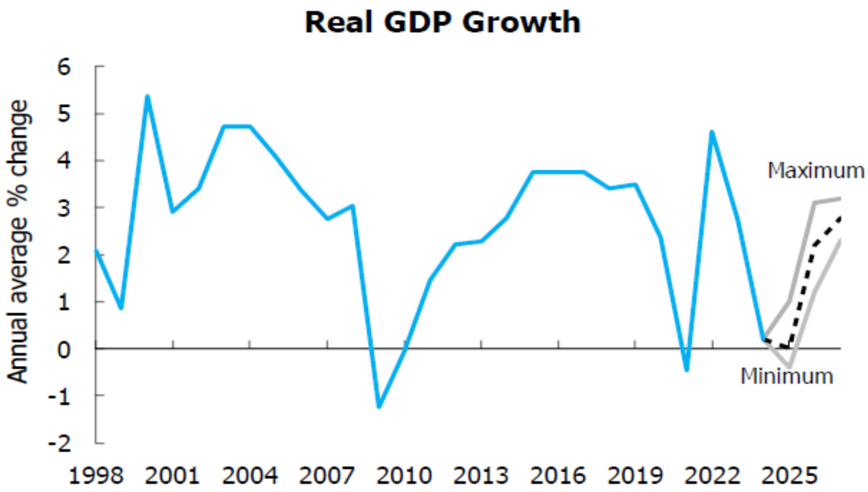
A turning point for the economy

23. Last year's minimum wage review took place in an environment of tight monetary policy aiming to reduce inflation that remained stubbornly outside the Reserve Bank of New Zealand's (RBNZ's) target band of between 1 and 3 per cent. Annual inflation peaked at 7.2 per cent in mid-2022 and fell to 5.6 per cent by September 2023 – the latest data available at the time of the last minimum wage review.

24. Over the past year, tight monetary policy, falling net migration, a softening housing market and lower government spending, as well as lower than average growth in key

trading partners, has dampened economic activity. Household spending, residential construction and business investment have slowed. New Zealand experienced a recession in the second half of 2023 with two quarters of negative Gross Domestic Product (GDP) growth. While there was positive GDP growth in the March 2024 quarter, it fell again in the June 2024 quarter. Current forecasts suggest further falls in GDP over the remainder of 2024 before picking up during 2025.

Figure 1: Actual and consensus forecast for real GDP growth[1]



Source: Stats NZ, NZIER

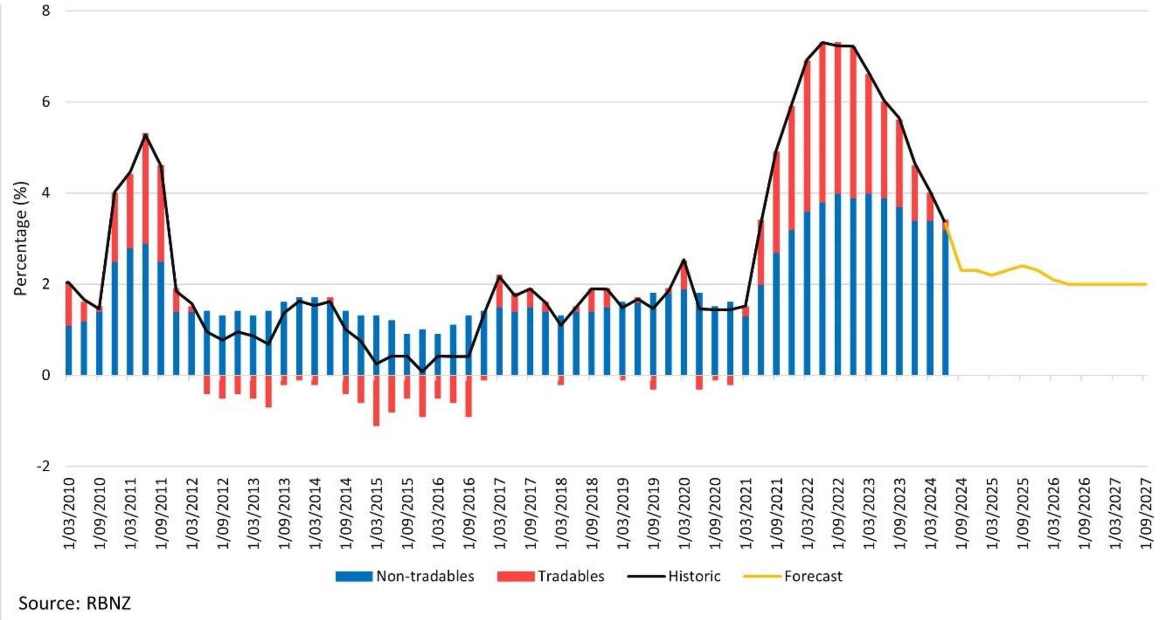
Inflation

25. The softening economy is having the desired effect on inflation with annual CPI inflation at 3.3 per cent in June 2024 and 2.2 per cent in the September 2024 quarter. Annual CPI inflation is projected to remain around 2.2 per cent from September 2024 and continue at that level before falling to 2 per cent towards the end of the projection period.

26. As a result of lower inflation, the RBNZ has started loosening monetary policy with a cut of 25 basis points in the Official Cash Rate (OCR) in August 2024 from 5.5 per cent to 5.25 per cent. This has been followed by a 50-basis point reduction to 4.75 per cent in October 2024.

[1] NZIER Consensus Forecasts, 16 September 2024.
https://www.nzier.org.nz/hubfs/Public%20Publications/Consensus%20Forecasts/Consensus%20Forecasts%20Sep%202024.pdf

Figure 2: Actual and forecast for annual CPI



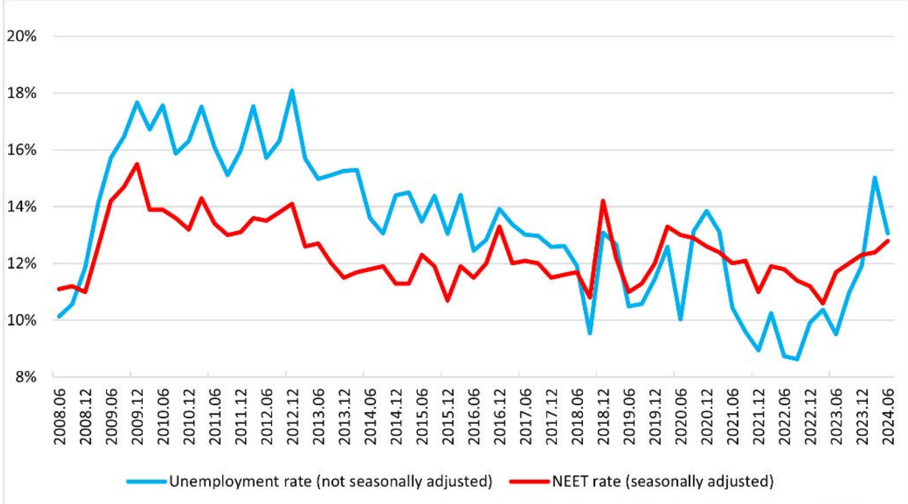
The softening economy is reflected in the labour market – with particular impacts on youth employment

27. Weak economic conditions have seen a lower demand for labour, making it harder for people to find and retain work. The unemployment rate rose to 4.6 per cent in the June 2024 quarter. It is now a full percentage point higher than the 3.6 per cent recorded in the June 2023 quarter. The labour market outlook remains soft with unemployment forecast to peak at 5.3 per cent at the end of 2024.

28. Youth (15-24 years old) have been disproportionately impacted by the soft labour market. Youth employment has fallen by around 25,700 (6.4 per cent) over the year to June 2024. Over the same period the number of unemployed and underutilised youth increased sharply: up 14,400 and 29,300 respectively. In both cases, this represents around half the total rise in unemployment and underutilisation.

29. In percentage terms, the recent increase in youth unemployment represents a 3.6 per cent increase over one year, passing from 9.5 per cent in the June 2023 quarter to 13.1 per cent in the same quarter of 2024. This aligns with longer-term trends that show that the proportion of young people in unemployment has consistently risen since mid-2022, reaching levels similar to the historical highs in the post-financial crisis period. Similarly, the rate of young people not in education, employment or training (NEET) has also increased, rising from 11.7 per cent (in the year ending June 2023) to 12.8 per cent for the year ending June 2024. This increment in NEET is mostly driven by unemployed young people not in education, which increased by 22 per cent (5,200) in the June 2024 quarter in comparison to the same quarter of the previous year.

Figure 3: Youth (15-24 years old) labour indicators



Source: StatsNZ - Household Labour Force Survey (HLFS)

Wage growth

30. There are several measures of wage growth in New Zealand, which come from different surveys and measure different aspects of earnings. These measures are showing:

- The annual growth in nominal average hourly earnings[2] was 5.1 per cent in the September 2024 quarter, down 1.8 percentage points from the September 2023 quarter. In real terms, average hourly earnings growth has steadily increased, with an average increase of 8.3 per cent per quarter in the past year. This has been driven by inflation slowing more rapidly than the growth in nominal wages.

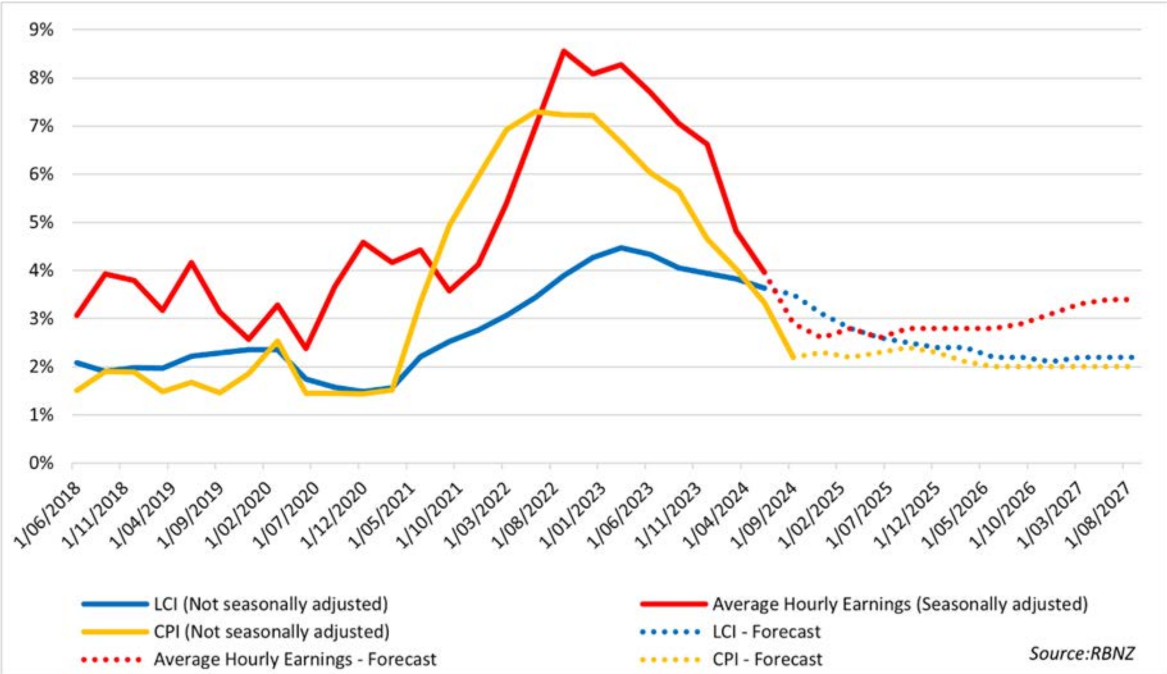
- The adjusted LCI for all salary and wage rates (including overtime) increased 3.6 per cent in the year to the June 2024 quarter. The LCI reflects wage costs for the same quality and quantity of labour and is known as the same-job wage measure. This is the measure of wage growth which is the most reflective of costs to employers and represents the rates employers pay to have the same job completed to the same standard. LCI also moves with inflation, showing a slowdown in labour cost over the past year, decreasing from 4.3 per cent in the June 2023 quarter to 3.6 per cent in the June 2024 quarter.

[2] Sourced from Stats NZ's Quarterly Employment Survey

Figure 4: Average hourly earnings

31. RBNZ forecasts nominal average hourly earnings will continue an upwards growth for the next two and a half years, reaching an annual growth of 3.4 per cent by October 2027. This suggests that real earnings will consistently grow in the mid-term, given that inflation will remain in its targeted 2 per cent. Meanwhile, forecasts for annual adjusted LCI suggest a further slowdown to 2.2 per cent by mid-2026, following a growth rate similar to inflation.

Figure 5: RBNZ forecast for average hourly earnings, LCI and CPI



The potential minimum wage increases considered in this review are lower than the expected increase in other wage measures in the economy

32. With average and median wage growth exceeding the increase in the minimum wage in 2024, the key minimum wage ratios decreased. New Zealand's minimum wage to median wage ratio (known as the 'Kaitz Index') remains relatively high compared to most other OECD countries. It reached a peak of 72 per cent but is currently 70 per cent (as at June 2024).

33. The Kaitz index is a common measure of the value of the minimum wage relative to the overall wage distribution. The median wage is used as a more neutral measure of wage trends, as the average wage is affected by extreme salaries or wages at either end of the wage distribution, with changes in the average salaries or wages primarily reflecting movements in incomes of high earners. The average wage is still an important measure and at 56 per cent of the average wage, our minimum wage is also high by that measure.

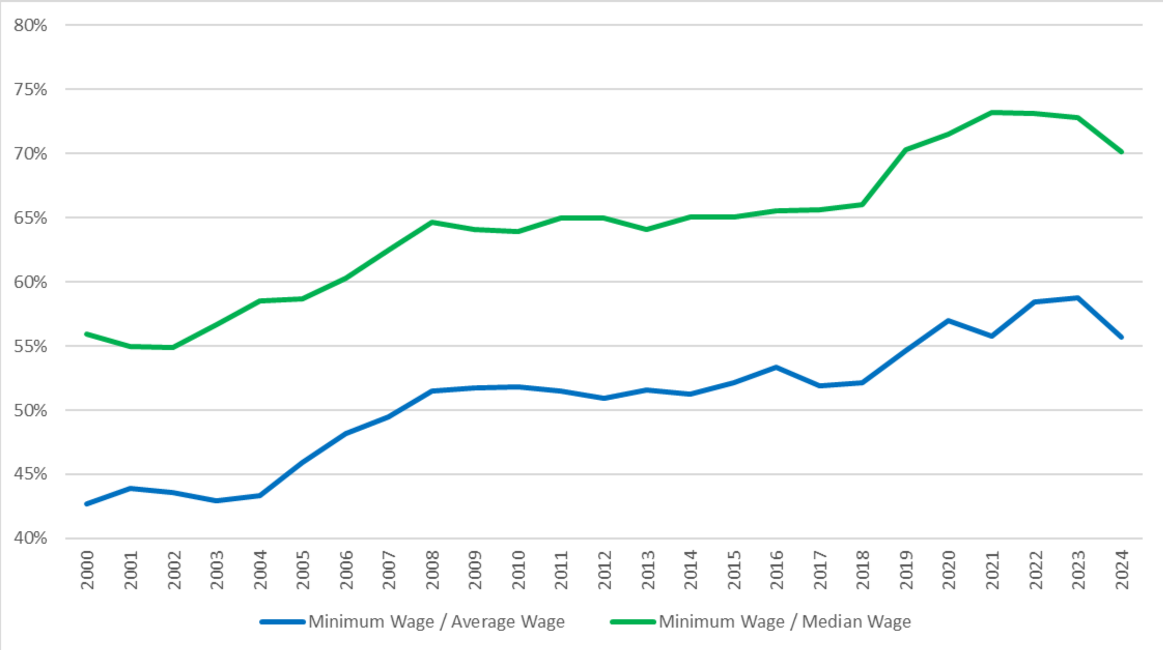
34. To put these ratios in context, a new European Union directive[3] suggests member states should use indicators and associated reference values to guide their assessment of statutory minimum wage adequacy. It uses a ratio to the median wage of 60 per cent or an average wage ratio of 50 per cent as examples. New Zealand's minimum wage has exceeded these levels every year since the mid-2000s.

35. Although wage growth measures are projected to fall over the coming year, it is likely that a minimum wage increase in the range being considered in the present review would lead to a continuation in the downward trend in the Kaitz index. While there does not appear

[3] Directive (EU) 2022/2041 of the European Parliament and of the Council of 19 October 2022 on adequate minimum wages in the European Union.

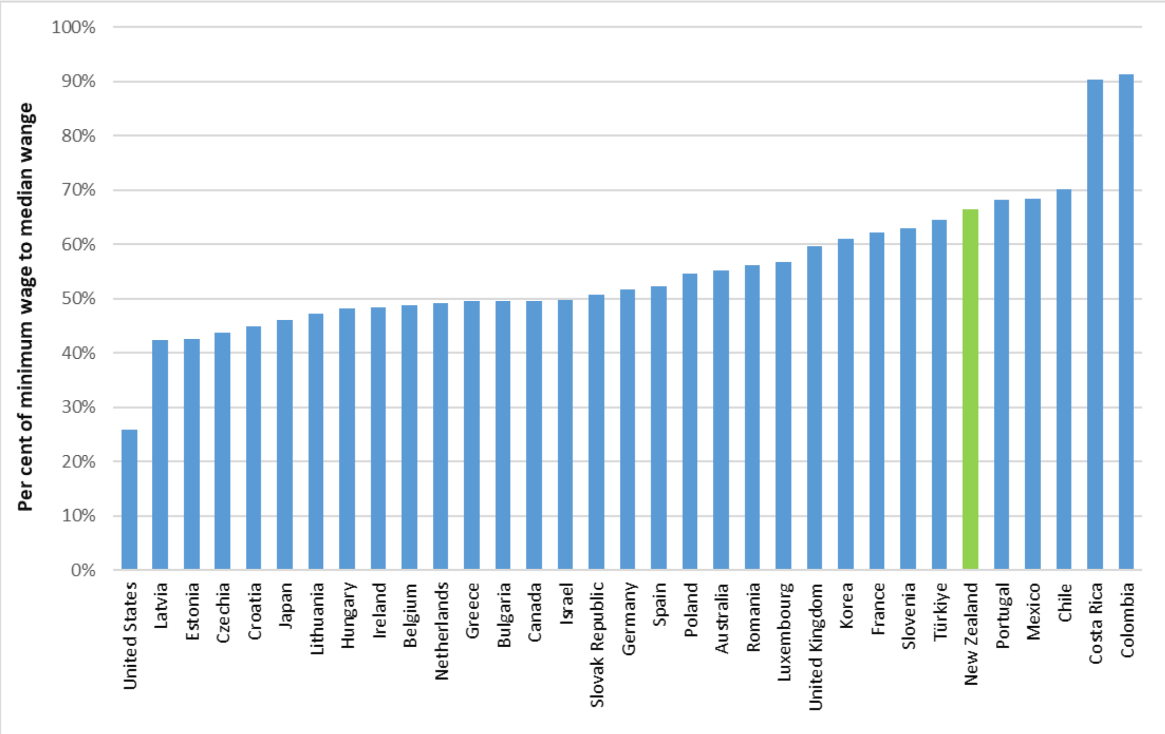
to be a specific impact from the change in the index itself, a reduction would allow relativities between workers at different skill levels to be more readily maintained, providing incentives to train and take on additional responsibility. In recent minimum wage reviews, employer feedback suggested that wage compression had blunted these incentives. Recent trends have helped to allay this concern.

Figure 6: Minimum wage as a percentage of the average hourly wage and the median wage (HLFS)



Source: Stats NZ, MBIE calculations

Figure 7: Kaitz index: minimum wages relative to median wages in OECD countries, OECD data 2023[4]



[4] Organisation for Economic Co-operation and Development OECD (2023). Minimum relative to median wages of full-time workers - https://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE.

Section three: Rate options and assessing their potential impacts

36. International literature on the minimum wage is divided on what the overall effects of minimum wage rate increases are. Increasing the rate helps lift the incomes of the lowest paid workers and can contribute to improved living standards for households. However, this benefit can be partially offset by abatements in government supports, which can occur if the recipients of these supports receive higher wages. The expected income gains from minimum wage increases must also be balanced against potential negative impacts on employers, such as increased labour costs and potentially reduced output. Decisions made by employers in response to those higher labour costs could also have negative outcomes for workers, such as reduced hours or higher unemployment.

37. This section of the report provides a snapshot of the likely impacts of various potential minimum wage increases (between 0 and 2.5 per cent as set out in Section 1 on page 9). To illustrate the range of effects of the options, we have estimated the number of employees currently paid at or below each potential new minimum wage level. We have then estimated the potential impacts of the increase with regard to restraint on employment, the economy-wide wage increase, and the impact on the wage component of nominal GDP.

38. This section also provides information on the distributional impacts of the minimum wage options (taking into account interactions with other government transfers) and the fiscal impacts of a minimum wage increase for the public sector.

Assessing the rates options' impact on…

Total wages

39. The estimated economy-wide increase in wages resulting from a change in the minimum wage (within the range being considered by this review) is relatively small, at $175 million to $270 million per annum. These numbers are slightly larger compared to recent minimum wage reviews as a result of the new approach to estimating the 'affected population' (described further in Annex One). Relative to nominal GDP the impact remains small (well below 0.1 per cent impact for all options considered).

Inflation

40. There are a multitude of factors which impact on price inflation, both from the demand side and supply side. Because a relatively small proportion of workers are paid at or below the minimum wage, and minimum wage increases typically only account for a very small proportion of overall general wage growth, minimum wage increases are viewed as having a negligible impact on overall CPI inflation.

41. In past minimum wage reviews, MBIE has described any impact on the nominal wage component of GDP as an "inflationary impact." We have avoided using this terminology in

this year's review, as it may cause confusion in the current context (where price inflation is a prominent issue in New Zealand and internationally).

Employment

42. 'Employment restraint' means the number of people who might not be employed next year if the minimum wage increases by a given amount, assuming that all other economic conditions hold.

43. MBIE's estimates of employment restraint for each of the options show less than 1,000 people would be affected. Because of the small numbers involved, our estimation approach does not allow more detail to be disclosed. Our approach uses HLFS data from Stats NZ. The HLFS has confidentiality rules that suppress all estimates below 1,000 people. However, it is an economic reality that a 2.5 per cent increase would impact more people than the lower options.

44. For comparison, and to provide an indication of the point where employment restraint becomes more visible (using MBIE's revised estimation approach described in Annex One), we note that non-suppressed average results (ie disemployment effects for 1,000 people) are shown with a minimum wage increase of approximately 6 per cent (to $24.55).

Minimum wage workers

45. Minimum wage rate increases are broadly understood to benefit workers by providing a wage floor and boosting the incomes of the lowest paid employees. It can also improve employee motivation which can have a productivity benefit. It also assists the bargaining power of employees, as relativities to the minimum wage for roles are often considered when setting pay rates. However, workers might also experience negative impacts (depending on employers' response to an increase in the minimum wage rate), such as reduced hours or job losses.

46. Other factors considered when assessing the overall impact of the minimum wage for workers are the impacts on different population groups, and the net impact on households (once abatements to other transfers are taken into account). In summary, based on the June 2024 HLFS income data, the affected population (those paid at or below the minimum wage) are more likely to be aged 16-24, female, work part-time, and tend to be spread across household decile levels.

Key demographic groups of minimum wage earners

47. Of all workers aged between 16 and 64, an estimated 128,800 (5.8 per cent of all wage earners) were paid at or below the minimum wage in June 2024. Table 1 shows the proportion of workers paid at or below the minimum wage and total wage earners with certain demographic and job characteristics.

Table 1: Incidence of minimum wage workers across focus demographic groups in 2024

Demographic groups	Number of workers paid at or below MW	Proportion of workers paid at or below MW in the demographic group	Number of all wage earners in the demographic group	Proportion of demographic group paid at or below MW
Aged 16-24 years	70,400	54.7%	335,800	21.0%
European/ Pākehā	59,200	46.0%	1,224,700	4.8%
Female	72,200	56.1%	1,085,000	6.7%
Māori	26,000	20.2%	324,800	8.0%
Pacific Peoples	8,900	6.9%	127,600	7.0%
Part-time	65,400	50.8%	340,600	19.2%
Studying	24,700	19.2%	271,800	9.1%
Total	**128,800**	**-**	**2,205,400**	**5.8%**

48. Young people tend to earn less than older employees due to their lack of work experience and being in early stages of their career. Table 1 shows that young workers aged 16-24 are significantly represented in the demographics paid at or below the minimum wage, making up nearly 55 per cent of all workers paid at or below the minimum wage. However, only 21 per cent of 16- to 24-year-old wage earners earn at or below the minimum wage.

49. Women are more likely than men to be impacted by any changes to the minimum wage rates as they tend to be overrepresented in low paid employment (for example, part-time and service sector jobs). Table 1 shows that 56 per cent of workers paid at or below the minimum wage are women.

50. Part-time workers working less than 30 hours a week are also highly represented among workers paid at or below the minimum wage. Table 1 shows that 50 per cent of workers earning at or below the minimum wage work part-time. Nearly 20 per cent of all part-time workers earn at or below the minimum wage.

51. The following table estimates the number of workers aged 16 to 64 who are likely to be affected by the minimum wage options considered in this review. The percentage columns refer to the percentage of workers earning at or below the relevant wage level among the total population of wage and salary earners of the particular age group.

Table 1: Estimated affected adult workers (aged 16 to 64 years)*

Option	Minimum Wage	16-17		18-19		20-24		25-64	
		%	Number	%	Number	%	Number	%	Number
1	**$23.15**	49.5%	23,300	32.8%	21,600	11.4%	25,500	3.1%	58,500
2	**$23.30**	51.0%	24,000	34.0%	22,400	12.0%	26,800	3.3%	61,200
3	**$23.40**	51.4%	24,200	34.1%	22,500	12.3%	27,300	3.4%	63,500
4	**$23.50**	51.4%	24,200	35.2%	23,200	12.8%	28,600	3.5%	66,000
5	**$23.60**	55.4%	26,100	39.9%	26,300	14.9%	33,100	4.0%	74,300
6	**$23.75**	59.4%	28,000	41.4%	27,300	15.9%	35,500	4.2%	79,000

*Note that the figures include both the people on the minimum wage and the people captured by lifting the rate. For option 1, the 23,300 16–17-year-olds on the minimum wage include those earning the starting-out and training rates.

Household characteristics of minimum wage workers

52. Not all minimum wage earners will be benefitted by the full dollar amount of the minimum wage increases. The level of benefit that minimum wage earners will get (up to the full value of the minimum wage increase, minus income tax and other mandatory deductions) depends on their individual household circumstances.

53. To understand the distributional impacts of different options for the 2025 minimum wage, we need to look at household types of people on the minimum wage in 2024. The HLFS income data from June 2024 identifies the following household-types having at least one minimum wage worker.

Table 2: Minimum wage earners by household type (June 2024)

Demographic (June 2024 HLFS data)	**% of total wage earners at or below the minimum wage**	**% of people at or below the minimum wage out of total paid employees**
Couple with dependent child(ren)	36% (46,400)	2.1%
Couple without dependent child(ren)	30% (38,600)	1.8%
Single with dependent child(ren)	8% (10,000)	0.5%
Single without dependent child(ren)	6% (7,200)	0.3%
Others	20% (25,400)	1.2%
Total	128,800	5.8%

54. In many households, total income will increase with a higher minimum wage, which will make it easier for minimum wage earners and their families to meet living costs. However, wages are often only part of the income of low-income workers, particularly those who are part of an overall low-income household. There are a range of government interventions and initiatives aimed at incentivising employment and increasing incomes. The most notable forms of in-work assistance/transfers for low to middle income individuals and households are the In-Work Tax Credit, the Family Tax Credit and the

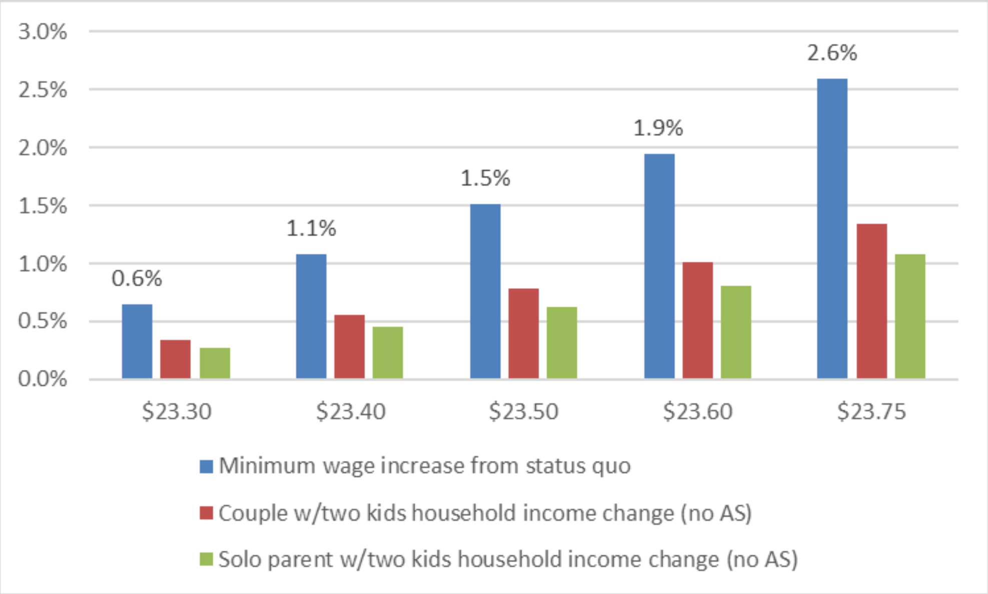
Accommodation Supplement (AS).[5] Low-income workers with children who are not on a main social security benefit (eg Jobseeker Support) are entitled to receive the In-Work Tax Credit and/or AS, alongside the Family Tax Credit. These entitlements will abate (to varying extents, depending on the household circumstances) for those who receive a minimum wage increase.

55. To estimate the net impact of potential minimum wage increases after changes in income assistance are taken into account, we have calculated the take-home pay for two hypothetical households after receiving the In-Work Tax Credit and the Family Tax Credit, but not receiving AS:

- a solo parent with two children, and
- a couple with two children.

56. Figure 8 below demonstrates the percentage increase in take-home pay for the hypothetical household types in response to the options for increases in the minimum wage. The figure below shows that in response to a 2 per cent increase in the minimum wage, a couple with two children will receive a 1 per cent increase in their take-home pay (including tax and ACC).

Figure 8: Increases in minimum wage compared to increases in household incomes (excluding AS)

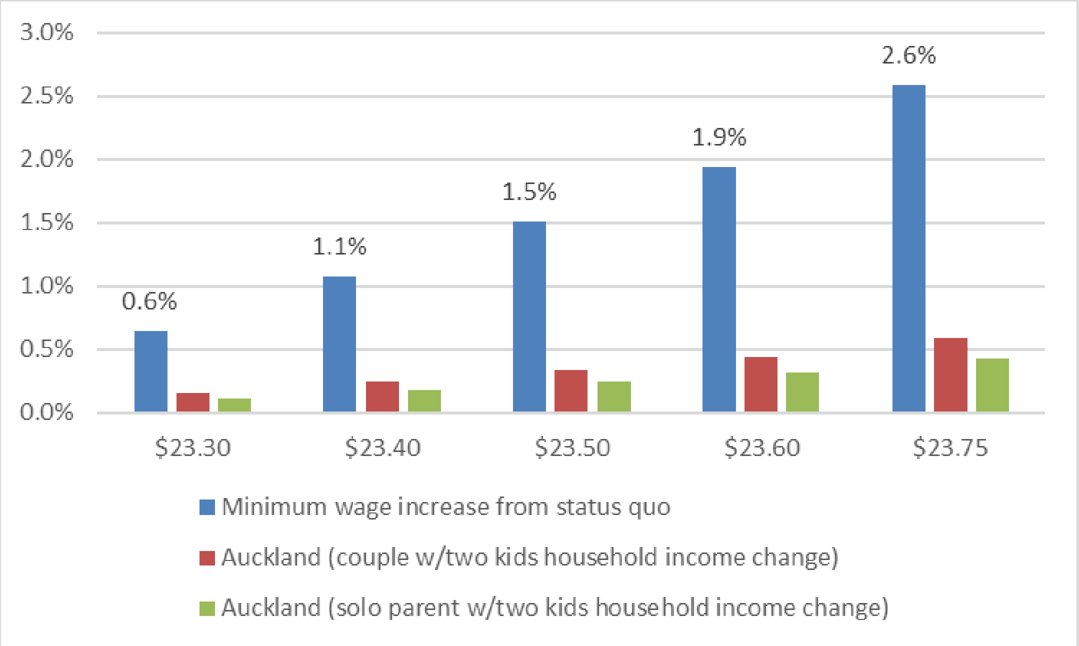


Source: MBIE calculations

[5] The In-Work Tax Credit and the Family Tax Credit consist of two out of the four types of tax credits which make up the suite of Working for Families Tax Credits. The Family Tax Credit is the main payment to support families with the costs of children and the In-Work Tax Credit is designed to make sure families are better off working than if they were not working. AS is a payment for renters in the private rental market and can be received by beneficiaries and non-beneficiaries alike. Information on Working For Families Tax Credits can be found: https://www.msd.govt.nz/about-msd-and-our-work/work-programmes/welfare-overhaul/working-for-families-consultation-guidance-material.html#:~:text=Family%20Tax%20Credit%20is%20the,other%20child%20in%20a%20family.

57. When the AS entitlement is included in the calculation, the abatement of the minimum wage increase becomes even more pronounced, and varies depending on where a household lives. Figure 9 below shows the estimated percentage increase in household income for the same two family types as the above graph, but illustrates the scenario of those families living in Auckland, receiving AS, and paying the median Auckland market rent of $660 per week (approximate). Figure 9 below shows that in response to a 2 per cent increase in the minimum wage, a couple with two children receives only a 0.44 per cent increase in their take-home pay (including tax and ACC).

Figure 9: Increases in minimum wage compared to increases in household incomes (including AS entitlement for Auckland)



Source: MBIE calculations

58. Given that the minimum wage has limited impact as a redistributive policy, and around half of the households with a minimum wage earner do not have a dependent child(ren) and, in some households with dependent children, it may be that the child is the minimum wage earner, it is also limited in terms of being an effective tool for alleviating child poverty.

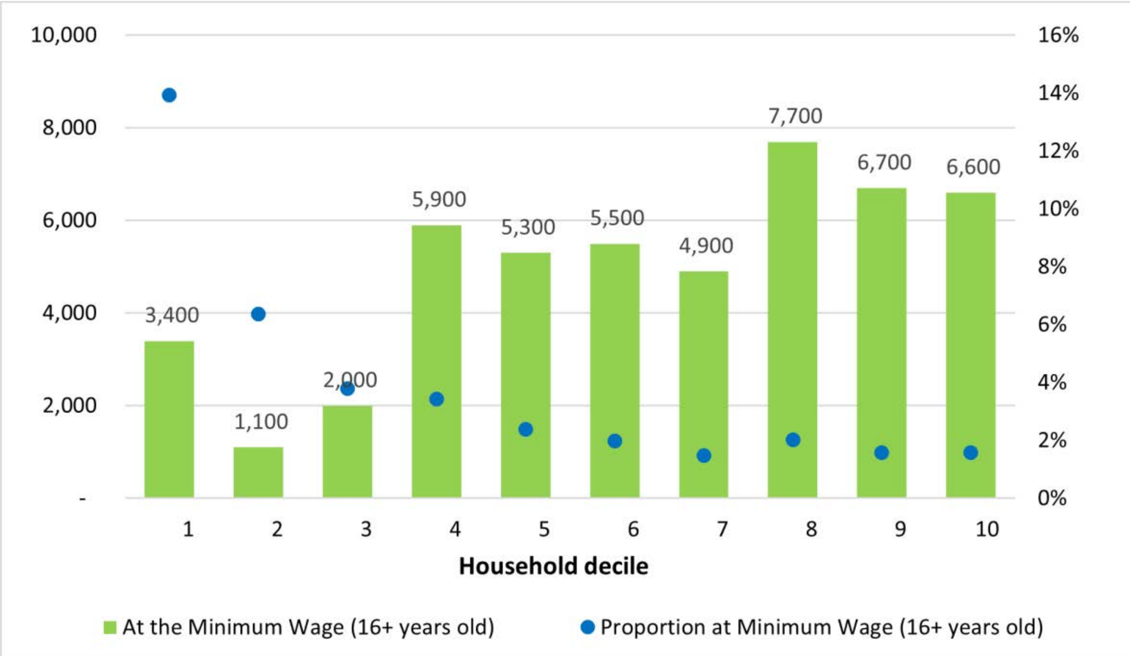
Distributional impacts for minimum wage earners by household

59. In Figure 10 below we show the number of individuals earning at or below the minimum wage by household decile (left side axis) and the proportion of individuals within each household decile earning at or below the minimum wage (right side axis). It shows that the incidence of minimum wage earners extends a long way up the household income distribution levels. This is likely to reflect the prevalence of secondary earners within couples, or family dependents in high-income households, earning the minimum wage.

60. From this analysis, it appears that the majority of individual minimum wage earners live in medium to high income households and would therefore receive few (or no) government

transfer payments. Many of these individuals are likely to be secondary earners and are less likely to face income-related abatements in income support compared to lower income families.

Figure 10: Individuals (16+) on minimum wage by household decile



Fiscal cost

61. Minimum wage increases have a minor fiscal impact for the public sector. This is due to the direct costs of higher wages for some employees in some parts of the Public Service, but also an increase in compensation or entitlements from Government programmes that are influenced directly or indirectly by the minimum wage changes (eg ACC weekly compensation). In terms of direct wages to core Government agencies, there is a zero or negligible impact from minimum wage increases, since almost all core Government agencies pay more than the minimum wage to all staff members and most contractors.

62. The total estimated additional cost to the Government for the minimum wage options at and above $23.40 ranges from $4.4 million to $28.6 million per year (excluding any potiential offset due to reductions in transfer payments). A reduction in cost to the Government is expected for rate options 1 and 2 ($23.15 and $23.30 respectively) as they are lower than the BEFU 24/HYEFU 24 baseline assumption of a minimum wage at $23.40. For more information on the total cost to government and how it will impact on specific agencies, please refer to **Annex Two – More information about fiscal impacts on Government.**

Table 4: Summary of impacts of the minimum wage options

Minimum wage rate impact measures	Option 1 0% $23.15	Option 2 0.5% $23.30	Option 3 1% $23.40	Option 4 1.5% $23.50	Option 5 2% $23.60	Option 6 2.5% $23.75
Adult minimum wage (hourly rate)	$23.15	$23.30	$23.40	$23.50	$23.60	$23.75
Adult minimum wage (gross weekly income – 40-hour week)	$926	$932	$936	$940	$944	$950
Adult minimum wage (gross annual income – 40-hour week)	$48,152	$48,464	$48,672	$48,880	$49,088	$49,400
Relativity to median wage ($33.56/hour)[6]	69.0%	69.4%	69.7%	70.0%	70.3%	70.8%
Relativity to average wage ($41.52/hour)[7]	55.8%	56.1%	56.4%	56.6%	56.8%	57.2%
Relativity of gross weekly income at minimum wage rate to Jobseeker Support[8]	230%	231%	232%	233%	234%	236%
Number of people directly impacted (rounded up to nearest 100)	N/A	134,400	137,500	141,900	159,900	169,800
Estimated restraint on employment (modelled average)	N/C	<1000	<1000	<1000	<1000	<1000
Estimated economy-wide increase in wages ($m, annual)	N/C	175	194	214	236	270
Estimated impact on nominal GDP (percentage points)	N/C	0.045%	0.050%	0.055%	0.061%	0.070%
Estimated additional annual costs to Government ($m, annual)	-8.03	-1.78	4.43	11.10	17.99	28.56
Full-time employee receiving no tax credits or other income support - net weekly income and increase from $23.15	$769.30 -	$773.91 ($4.61) 0.60%	$776.98 ($7.68) 1.00%	$780.05 ($10.75) 1.40%	$783.12 ($13.82) 1.80%	$787.72 ($18.42) 2.39%
Scenario: Auckland based couple, both earning minimum wage, working a combined 60 hours per week with two	$1,595.66 -	$1,598.01 (2.35)	$1,599.58 (3.92)	$1,601.15 ($5.49)	$1,602.72 ($7.06)	$1,605.07 ($9.41)

6 Median hourly earnings from wages and salaries, from Labour Market Statistics (Income) June 2024 Quarter.

7 Average ordinary time hourly earnings, from Quarterly Employment Survey (QES) June 2024 Quarter.

8 For a single adult, aged 25 or over, receiving $402.98 (gross) per week, as from 1 April 2024.
Source: https://www.workandincome.govt.nz/map/deskfile/main-benefits-rates/jobseeker-support-current.html

Minimum wage rate impact measures	Option 1 0% $23.15	Option 2 0.5% $23.30	Option 3 1% $23.40	Option 4 1.5% $23.50	Option 5 2% $23.60	Option 6 2.5% $23.75
dependent children, receiving Working for Families Tax Credits and Accommodation Supplement - net weekly income and increase from $23.15		0.15%	0.25%	0.34%	0.44%	0.59%
Scenario: Auckland based sole parent, earning minimum wage, working 40 hours per week with two dependent children, receiving Working for Families Tax Credits and Accommodation Supplement - net weekly income and increase from $23.15	$1,391.32 -	$1,392.80 ($1.49) 0.11%	$1,393.79 ($2.48) 0.18%	$1,394.78 ($3.47) 0.25%	$1,395.77 ($4.46) 0.32%	$1,397.26 ($5.94) 0.43%

Section four: Rate analysis and recommendations

63. The core objective of the minimum wage review is to *'keep increasing the minimum wage over time to protect the real income of low-paid workers while minimising job losses'* (CAB Min (12) 41-5B refers). In assessing the recommended rate, we have considered both parts of this objective, which effectively become the two main criteria for assessing potential rate options. The other key economic metrics discussed above feed into this analysis by informing MBIE's judgement about the likelihood that different rate options could have an employment restraint effect in the current economic context. The contextual information supplements the quantitative estimates of employment restraint provided in Section 3 of this report, and influences MBIE's interpretation of those estimates.

64. The objective has two components which need to be balanced:

- **Maintaining the real income of low-paid workers** involves a consideration of the impact of inflation on the purchasing power of workers earning the minimum wage (and the Cabinet objective specifies that CPI inflation should be used as the indicator for this). The overall impact of a change in real income for minimum wage earners will depend on other factors, such as the household characteristics. Minimum wage earners are spread through the household income distribution which makes it a poor tool for poverty reduction. However, a fall in real incomes for minimum wage earners in low-income households would have a negative impact for them.

- **Minimising job losses** requires us to assess the potential impact of an increase in the minimum wage on the labour market. MBIE understands the term "job losses" (in the Cabinet objective) to encompass not only employees who may lose their job, but also people who would otherwise have been employed but for the increase in the minimum wage. We use the term employment restraint to encompass these different elements.

How MBIE applies the two elements of the Cabinet objective as evaluative criteria for different rate choices

65. Applying the first part of the Cabinet objective involves the exercise of some judgement. No timeframe for considering the 'real value' of the minimum wage is specified in the Cabinet decisions that guide the annual minimum wage review.

66. MBIE puts higher weight on current inflation for considering the "real value". While past increases in the minimum wage have been above inflation it is unlikely that low-income employees would have saved prior "real" increases. These employees would feel the impact of a decrease in the current real value of the minimum wage. However, we acknowledge that past real increases will have led to higher real wage costs for employers who employ minimum wage workers. Assessment of the impact of the level of the minimum wage (as opposed to the impact of a marginal change to that current level) are

beyond the scope of a streamlined review but could be considered as part of the next comprehensive review of the minimum wage.

67. With annual inflation most recently reported at 2.2 per cent (September 2024 quarter) and expected to stay at about that level till the March 2025 quarter, a rate of between 2 and 2.5 per cent would appear to meet the first part of the objective. Potential increases for 2025 that are greater than 0 but less than 2 per cent can be seen as going *some* way towards protecting the real incomes of low paid workers.

68. Regarding the second part of the objective, we have changed the way we estimate the restraint on employment this year. We previously used a model to estimate the potential impact on labour demand from an increase in the minimum wage. After a review of the model by external experts, we have adopted their recommended approach to estimate the size of the impacts based on the generally recognised estimates from the literature. Further detail of the change in MBIE's approach is provided in Annex One.

69. We have estimated the employment restraint for each of the options presented would be less than 1,000 people. Because of the small numbers involved, our estimation approach does not allow more detail to be disclosed. But it is an economic reality that more people would be affected by a 2.5 per cent increase than any of the lower options. Accordingly, while the quantitative estimates of employment restraint do not clearly differentiate between different options, MBIE's judgement (informed by our reading of the economic context) is that employment restraint effects are more likely at the higher end of the option set. Whatever restraint effects there are would be experienced as adverse employment outcomes for population groups that are strongly represented among those paid at or below the minimum wage.

70. As signalled above in Section Two of this report, current labour market conditions, particularly for youth, suggest a conservative approach (ie adopting the lower end of the 2 to 2.5 per cent range) is warranted. Figure 3, in particular, demonstrates the impact current slow economic conditions are already having on the employment prospects of young people. Past research on the minimum wage in New Zealand has highlighted that the minimum wage now strongly determines the earnings of teenage workers,[9] and the updated demographic analysis provided in Section Three of this report continues to support this assessment (see Tables 1 and 2 in particular). In this context, any potential for wage-related employment restraint further affecting the employment prospects of 16-19-year-olds takes on added weight.

Comparing the different minimum wage rate options

71. Overall, applying these criteria to the set of options considered in this review results in a 'sliding scale' of options that meet one or both aspects to varying extents. Neither criteria is accorded greater weight, and deciding the option that best balances the criteria relies on the application of judgement (informed by the economic and labour market context).

[9] David C. Maré and Dean R. Hyslop, 'Minimum Wages in New Zealand: Policy and practice in the 21st century', March 2021.

72. In our discussion of the options below we also draw on the *impacts* information that is set out more fully in Section 3 of this report (including number of people affected, economy-wide wage increase, and fiscal cost to Government). These factors help to contextualise each of the options at an economy-wide level, but do not form part of the evaluative criteria per se.

Options 1 to 4 minimise employment restraint but would reduce the real income of workers

73. Based on current CPI forecasts, options that would increase the minimum wage by less than 2 per cent from 1 April 2025 are not expected to protect the real income of minimum wage workers relative to the level of the minimum wage when it was last adjusted (April 2024). But they are expected to have a low impact on employers and consumers. Based on conventional economic analysis (and supported by MBIE's quantitative estimates), they are not expected to have any negative impact on employment levels.

74. **Option 1 ($23.15, the current minimum wage rate and status quo)** is not expected to have any impact on employment, and would not directly lead to any increase in overall wages (and hence on inflation – though we note that even higher rate options are expected to have a minimal impact on inflation overall, given the relatively small number of people paid at or below the minimum wage).. There would be no additional fiscal cost to government. However, it would mean that up to 128,800 workers may not get a pay rise amid an economic downturn (and this would represent a real-terms pay decrease given annual CPI inflation).

75. **Option 2 ($23.30, a 0.5% increase)** is modelled to increase the wages for 134,400 employees, without restraining employment growth or adding fiscal cost to government. This is, however, below RBNZ's inflation target band of 1 to 3 per cent over the medium term and would reduce the real value of the current minimum wage against inflation.

76. **Option 3 ($23.40, a 1% increase)** and **option 4 ($23.50, a 1.5% increase)** fall within RBNZ's inflation target band of 1 to 3 per cent over the medium term but are below current CPI forecasts, in which inflation is forecast to return to the 2 per cent midpoint around mid-2026. Options 3 and 4 would have no restraint on employment and produce negligible fiscal cost to government. They are expected to increase earnings of about 137,500 and 141,900 workers, resulting in an economy-wide wage increase of $194 million and $214 million, respectively.

77. Overall, options 1 to 4 could be seen to meet the objective of 'minimising job losses' but would not 'protect the real income of low-paid workers', and therefore do not fulfil the full Cabinet objective of the minimum wage review. These four options are not MBIE's preferred options.

Options 5 and 6 appear to balance the factors in the Cabinet objective – but option 5 is preferred in the current economic context

78. **Option 5 ($23.60, a 2% increase)** is expected to achieve both parts of the criteria agreed by Cabinet in 2012. It is estimated to produce no restraint on employment in 2025, therefore meeting the objective relating to 'minimising job losses'. It also roughly protects

the real current value of the minimum wage as the rate increase at 2 per cent approximately matches Treasury's forecast annual CPI inflation rate for the March 2025 quarter (2.39 per cent) and aligns with RBNZ's forecast annual CPI rate for mid-2026 (2 per cent). This option represents the low-end of what could be realistically expected for annual CPI inflation by March/April 2025 (reflecting movement in the CPI since the minimum wage was last adjusted in April 2024).

79. Option 5 is assessed to impact the earnings of about 159,900 workers, resulting in an economy-wide wage increase of $236 million.

80. **Option 6 ($23.75, a 2.5% increase)** also aligns with the top of the forecast range for CPI inflation in early 2025. This option would likely preserve or produce a small increase to the real value of the minimum wage (ie exceed inflation) and, in MBIE's estimates, do not produce any significant restraint on employment. This rate is expected to impact the earnings of about 169,800 workers, resulting in an economy-wide wage increase of $270 million.

81. Both options 5 and 6 arguably meet both parts of the 2012 Cabinet objective and balance the competing interests that the objective identifies. But it is an economic reality that more people would be affected by a 2.5 per cent increase than any of the lower rate options. Given youth unemployment has been increasing over the past two years, and the 16-19 year old cohort is disprortionately represented among those earning at or below the minimum wage, taking a conservative approach to this year's increase makes sense to minimise the impact on youth unemployment. As stated earlier in this report, in the current economic context, if more than one minimum wage option can plausibly balance both elements of the Cabinet objective, then the lower of those options should be preferred. A cautious approach is justified.

82. For completeness, MBIE notes that higher rate options for 2025, outside the current option set (ie a 3 per cent change or higher) would be likely to represent an *increase* in the real value of the minimum wage relative to when it was last adjusted. These would arguably go beyond the first part of the Cabinet objective (to "protect" the real value). Higher increases would also elevate the risk of material employment restraint occurring (straining against the second part of the objective).

MBIE believes that an increase of 2 per cent to $23.60 per hour would best meet the Cabinet objective in the current context

83. MBIE recommends an increase of 2 per cent to $23.60 per hour, to meet the Cabinet objective of protecting low-paid workers' real incomes while minimising job losses. The high proportion of youth at or below the minimum wage (16-19-year-olds in particular – see Table 2 in the body of this report), and literature suggesting downside risks for youth

employment stemming from minimum wage increases,[10] mean that a 2 per cent increase best balances the objectives of the minimum wage review.

Feedback from Social Partners

84. BusinessNZ and the NZCTU, as representatives of employer and worker interests respectively, were invited to provide submissions on the 2024 Minimum Wage Review.

Feedback from BusinessNZ

85. BusinessNZ's submission this year was consistent with submissions from previous years – that in setting the minimum wage, the Government should signal future expectations around how the rate will be set. It also noted that an early announcement of the increase for 2025 would provide businesses certainty by allowing them to incorporate this into business planning.

86. The current economic downturn has placed severe constraints on many businesses, particularly small to medium sized enterprises. There has been a continuation of cashflow challenges for sectors that employ the highest concentrations of those on or about the minimum wage, eg tourism, horticulture, agriculture, cleaning, hospitality and retail. BusinessNZ suggested caution when considering future increases to the minimum wage, noting that there have been calls for nil increases to take pressure off businesses.

87. BusinessNZ acknowledged that a nil increase in the minimum wage would be "effectively a reduction in real incomes" for workers. It recommended a conservative approach to setting the minimum wage based on a rolling average of movements in CPI and LCI, to reflect a balance between workers' rising living costs and increased wage costs for employers until economic stability is regained.

88. MBIE notes that BusinessNZ's supplied modelling, using a rolling average of movements in CPI and LCI from the past three years, produced a minimum wage rate for April 2025 of $23.84, which is close to option 6 in this year's review.

[10] See for example the summaries provided in Maré and Hyslop, 'Minimum Wages in New Zealand: Policy and practice in the 21st century' (March 2021). Although the authors find no clear evidence of adverse employment effects, they "expect there are downside risks for youth and low skilled workers' employment."

Feedback from NZCTU

89. The NZCTU and its affiliates together support a common policy position for the minimum wage. The NZCTU proposed that:

- the minimum wage for 2025 should be $27.80 – the level of the current Living Wage,
- a new tripartite body (based on the Low Pay Commission in the UK) be responsible for establishing the minimum wage recommendation to the Minister for Workplace Relations and Safety in future, and
- youth and training rates should be abolished, with all workers being paid at least the minimum wage, including disabled workers.

90. The NZCTU raised concerns around this year's below-inflation minimum wage increase which "represented a real-terms pay cut for some of the vulnerable workers in Aotearoa". It also referenced the average Household Living-costs Price Index (6.2 per cent for all households for the year to the March 2024 quarter), arguing that the cost of living for low-income households are growing faster than the top of the range being considered in this review.

91. MBIE has noted the feedback provided by both NZCTU and BusinessNZ regarding the factors considered in the annual review, and the nature of the advice that should be provided to the Government. These issues could be considered in more detail in an upcoming comprehensive review of the minimum wage.

MBIE recommends retaining the minimum training wage and starting-out wage at 80 per cent of the adult minimum wage, an increase to $18.90 per hour

92. This report recommends increasing the starting-out and training wages from the current hourly rate of $18.52 to $18.90, maintaining the current relativity of 80 per cent of the adult minimum wage. The relevant minimum training and starting-out wage of an adult minimum wage at $23.60 is $18.88, which we suggest is rounded to $18.90.

93. A differential between the adult minimum wage and the training and starting-out rates may support the transition of youth into employment, and could help advance the policy objective of incentivising employers to take on and support trainees. As this year's review is a streamlined review, changes to the relative value of these lower wage rates has not been subject to detailed assessment.

Announcing the increase and next steps

94. Changes to the minimum wage are often announced prior to Christmas, and are given effect in the following year through an Order in Council under sections 4, 4A, 4B of the *Minimum Wage Act 1983*. Since 2007, changes to the minimum wage have come into effect on 1 April and we recommend that this practice continue (if a rate change is decided on). There is no obligation to change the minimum wage rates or a requirement that any rate changes come into effect on a particular date. There is only a statutory

requirement for the Minister for Workplace Relations and Safety to review and provide advice annually on the minimum wage.

95. The past three minimum wage announcements have been made in January or February of the year the increase came into force, leaving businesses only two to three months to prepare for the change. This was raised as an issue by both social partners. MBIE's recommendation is to make the decision on the minimum wage in December and announce the decision prior to Christmas if possible, to give employers time to make any necessary changes.

Annexes: Further information

Annex One: Fuller explanation of MBIE's minimum wage model, its limitations, and of our correction/change to align with international literature

1. MBIE uses a minimum wage model to estimate the restraint on employment due to increases in the minimum wage rate. As a preliminary point, restraint on employment means the number of people who might not be employed next year if the minimum wage increases by a given amount, assuming that all other economic conditions hold.

2. In 2022, we updated the internal MBIE model used to estimate the impacts of minimum wage increases, including technical improvements, and adding data from recent years' to the restraint on employment estimations. This year, we commissioned an external review of our minimum wage model by Motu, to ensure the analytical technique we follow is still relevant and robust. We have taken on board the recommendations made by Motu in their review report to improve the robustness of our analysis.

3. This year we are changing the approach we take to analyse the impact of minimum wage rate increases. There are two main changes:

   - The definition of affected population due to minimum wage increases.
   - The method for estimating the potential restraint on employment due to minimum wage increases.

4. The changed analytical approach means employment restraint numbers will be lower than in previous reviews. We acknowledge that the previous methodology may have over-estimated the employment restraint.

Change in the definition of 'affected population'

5. Previously we calculated the affected population as people earning 'at' the adult minimum wage rate on the assumption that only those being paid at the minimum wage are likely to be affected by the increase. That is, reporting of those below the minimum wage was either reporting error or reflected non-compliant employer behaviour that wasn't going to be affected by the minimum wage. After the review by Motu of international approaches and further discussion about the rationale, we are changing the approach to include people earning at and below the adult minimum wage.

6. This new approach to defining 'affected population' is important to align with our new method of estimating employment restraint numbers, so that the New Zealand data matches the international literature, which uses 'at or below'. This change has added roughly 105,300 people into the 'affected population' (previously 60,200 people) using 2023 data. This increases our percentage of employed people earning the minimum wage from 2.7 per cent to 7.7 per cent (percentage of employed people earning the adult minimum wage rate). This increase captures people earning the training wage or starting-out wage, and people earning between that rate and the adult minimum wage rate but may also reflect reporting errors or non-compliant employer behaviour.

Change in the estimation of the potential restraint on employment from an increase in the minimum wage

7. The employment restraint numbers using our new approach will be on the lower side compared to our in-house estimations.

8. Previously, the potential restraint on employment was estimated using an in-house regression model which was recently reviewed by Motu. The external reviewers found that the employment restraint numbers from our in-house model were on the higher side compared to those in relevant literature. This meant that we took a conservative approach in estimating employment restraint numbers.

9. In our new approach we are borrowing the regression coefficients (elasticities) from the relevant literature to estimate the employment restraint number, because the robustness of the studies in the literature exceeds what is achievable with a single time-series regression model.

Retrospective comparative analysis of the 2023 minimum wage review using the new and old method

10. In 2024, the minimum wage rate increased by 2 per cent. We have analysed this increase using both the old and new method. This increase in minimum wage rate has no potential restraint on employment using either approach. The difference in employment restraint numbers is apparent for minimum wage rate increase options beyond 5.7 per cent in the year 2023. At $24.00, back in 2023, the employment restraint number is on the higher side using our old approach (<1000) compared to the new approach (<100). The smaller employment restraint numbers are aligned with the international literature mentioned by Motu which highlights the fact that the impact of minimum wage increases on employment numbers is small.

Table A1: Comparison of estimates of restraint on employment using different approaches

Option	Rate ($)	Potential constraint on employment (Old approach)				Potential constraint on employment (New approach)		
		People Affected (old)	Lower limit	Average	Upper limit	People Affected (new)	Lower limit	Upper limit
Option 1	$ 22.70	60,200				165,500		
Option 2	$ 23.00	79,400				184,700		
Option 3	$ 23.40	145,200				250,500		
Option 4	$ 23.60	164,400				269,700		
Option 5	$ 23.80	188,700				294,000		
Option 6	$ 24.00	211,300	<1000	<1000	<1000	316,600	<100	<100
Option 7	$ 24.30	264,600	- 4,500	- 7,500	- 10,500	369,900	-500	-1,400
Option 8	$ 25.00	316,100	- 14,500	- 24,500	- 34,500	421,400	-1,800	-5,300
Option 9	$ 26.00	440,100	- 29,000	- 49,000	- 69,000	545,400	-4,600	-13,700

Annex Two: More information about fiscal impacts on Government

11. Increases to the minimum wage are expected to have direct and indirect fiscal impacts for some government agencies. This section summarises these estimated impacts. Most government agencies pay staff at least the Living Wage rate, and will not be substantially affected by minimum wage rate increases below this amount.

12. The Ministry of Social Development, Ministry of Education, Accident Compensation Corporation, New Zealand Defence Force and Health New Zealand Te Whatu Ora were identified as the agencies most likely to be affected by any change to the minimum wage rate. MBIE requested feedback on anticipated material impacts. In addition, MBIE canvassed over 20 Public Service and Non-Public Service Departments to learn whether the proposed minimum wage options would be expected to have a direct material impact, or an impact on departments under their oversight.

13. Most agencies reported no material impact to direct costs from anticipated increases, since their remuneration rates are currently above the current Living Wage. Likewise, a number of agencies projected no fiscal pressure from payments to service contractors, particularly as the Government is now requiring new public service contracts to pay the Living Wage (now $27.80) to cleaners, caterers and security services personnel. Others reported that their ability to fund those contracts could be impacted as a result of minimum wage increases.

14. In summary, Table A2.1 shows the estimated additional annual costs to Government (in millions), directly related to a minimum wage increase. [11]

Table A2.1: Indicative increased costs to Government

Option	Additional annualised cost ($)
$23.15	-8.03m
$23.30	-1.78m
$23.40	4.43m
$23.50	11.10m
$23.60	17.99m
$23.75	28.56m

15. The **Ministry of Education** assessed that there would be direct fiscal implications from a minimum wage increase for the education schooling workforce.

Table A2.2: Indicative increased costs for the Ministry of Education

Option	Additional annualised cost ($)
$23.15	-
$23.30	$12,668.190
$23.40	$22,834.180

[11] These figures are subject to their own assumptions and caveats based on the individual methodologies used by each agency.

$23.50	$33,000.180
$23.60	$43,166.180
$23.75	$58,415.177

16. **Health New Zealand Te Whatu Ora** identified that there would be direct workforce cost implications from a minimum wage increase for Districts (previously District Health Boards), and some health services and programmes in the primary and community sector it funds.

Table A2.3: Indicative increased costs for Health New Zealand Te Whatu Ora

Option	Additional annualised cost ($)
$23.15	-
$23.30	1,043,201
$23.40	2,995,273
$23.50	5,887,365
$23.60	8,789,958
$23.75	13,164,018

17. The **New Zealand Defence Force** advised that raising the minimum wage would see some direct cost impacts affecting its military workforce, including NZ Cadet Force cadets, some casual employees, and members of the Regular and Territorial Forces in the ranks of Private (Equivalent) and Lance Corporal (Equivalent). All civillian staff are paid at or above $26.00. Any decision to absorb the cost internally or seek additional funding would be dependent on the rate approved by Cabinet.

Table A2.4: Indicative increased costs for NZDF

Option	Additional annualised cost ($)
$23.15	-
$23.30	335,534
$23.40	529,531
$23.50	750,024
$23.60	969,807
$23.75	1,299,982

18. The **Accident Compensation Corporation (ACC)** advised that all proposed minimum wage options would not impact direct staffing costs. However, increases are expected to have a direct impact on funding for third-party employers and an indirect impact on the Labour Cost Index (LCI). Given the proposed minimum wage rate options are lower than those considered in the agency's valuation assumptions, a reduction in weekly compensation costs is expected.

19. ACC reports that most services get an annual LCI uplift, so if the LCI is higher due to minimum wage increases it will flow onto most other claims costs indirectly. While this is

not a direct link, ACC registers an expectation of increased costs related to minimum wage rate increases to $23.50 or above.

Table A2.5: Indicative increased costs for ACC

Option	Indirect cost from minimum wage impact on LCI ($)	Direct cost: funding for third-party employers ($)	Direct cost: weekly compensation costs ($)	Total cash costs ($)
$23.15	-	-	-8m	-8m
$23.30	1.6m	0.1m	-6m	-4.3m
$23.40	2.7m	0.2m	-4m	-1.1m
$23.50	3.7m	0.3m	-3m	1m
$23.60	4.8m	0.4m	-2m	3.2m
$23.75	6.4m	0.6m	0m	7m

20. In addition to anticipated third-party funding and weekly compensation costs, a minimum wage increase is expected to impact ACC's Outstanding Claims Liability (OCL). The OCL is an actuarial estimate of the funds required now to meet the future cost of all existing ACC claims. Changes in the OCL will have an impact on the long-term sustainability of the ACC scheme. ACC expects a release in the OCL as the proposed minimum rate options are lower than those considered in the agency's valuation assumptions. The estimated impacts associated with each option are outlined in Table A2.6.

Table A2.6: Anticipated cost imacts to ACC's OCL

Option	OCL impact – funded support services and indirect LCI ($)[12]	OCL impact – weekly compensation costs ($)
$23.15	-54m	-63m
$23.30	-40m	-47m
$23.40	-31m	-36m
$23.50	-22m	-25m
$23.60	-13m	-15m
$23.75	0m	2m

21. The following table shows the estimated levy rate impacts each option will have on the levied accounts. Note that these are mid points of the estimates, as a range of possible impacts exists.

Table A2.7: Anticipated impact on levied accounts

Option	Motor Vehicle Account	Earners' Account	Work Account
$23.15	-$0.98	-$0.01	$0.00
$23.30	-$0.73	-$0.01	$0.00

[12] LCI indirect cost plus non pay equity related care cost increases are expected to have indirect costs as a result of the impacts of the minimum wage options on the Labour Cost Index (LCI).

$23.40	-$0.57	-$0.01	$0.00
$23.50	-$0.41	$0.00	$0.00
$23.60	-$0.24	$0.00	$0.00
$23.75	$0.01	$0.00	$0.00

22. Consultation on recommended levies for 2025/26 has just finished, with the final decision to be made by the Government.

23. The Non-Earners' Account (NEA) appropriation for 2025/26 is currently being updated for submission to the October Baseline Update and does not account for the NEA impact shown in the following table.

Table A2.8: Anticipated impact on NEA funding

Option	Impact on NEA Funding ($)
$23.15	-8m
$23.30	-6m
$23.40	-5m
$23.50	-3m
$23.60	-2m
$23.75	-

24. The **Ministry of Social Development (MSD)** advised that the change to the minimum wage would not have a direct impact on its wage costs as all employees, including security guards and cleaners, are paid at least the Living Wage (currently at $27.80 per hour). However, there are other anticipated cost impacts shown in the table below:

Table A2.9: Anticipated costs for MSD

Option	Funded support programmes	Home Help (figures for 2025/26 FY)	Disability Support Services[13]	Sleepover costs[14]	Total anticipated costs for MSD
$23.15	$240,000	-$28,000	-	-	-$28,000
$23.30	$480,000	-$11,000	-	$900,000	$1,129,000
$23.40	$720,000	-	$100,000	$1,400,000	$1,980,000
$23.50	$960,000	$12,000	$700,000	$2,000,000	$3,432,000
$23.60	$1,200,00	$23,000	$1,400,000	$2,600,000	$4,983,000
$23.75	$240,000	$40,000	$2,400,000	$3,400,000	$7,040,000

25. For funded support, a proportion of expenditure will be minimum wage roles or roles that are affected by relativity to minimum wage. This is assumed at 15 per cent of overhead (admin support type roles and those affected by relativity) with around 6 per cent of contract value impacted by any increase.

[13] In most years, DSS would indicate to providers that the General Price Uplift provided included assumptions about increases in the Minimum Wage and no further funding would be provided. For 2024/25 (current financial year), no general price uplift has been provided.

[14] Sleepovers costs (within community residential care) are pegged to the Minimum Wage by legislation.

26. Marginal costs relate to MSD's Home Help programme, which provides financial assistance to eligible people who require temporary part-time help to complete domestic tasks (normally performed in their homes). MSD increases the Home Help hourly rate by the same percentage as any increase in the minimum wage. This ensures that the amount paid for home help workers does not fall below the minimum wage. Home Help is a component of the Special Circumstance Assistance BoRE (Benefit or Related Expense) appropriation in vote Social Development. It is demand driven and any additional spending expected to result from the setting of the minimum wage will be sought, as a forecast change, in the Budget 2025 process. The largest option (option 6, $23.75) would add about 1.3 per cent to Home Help spending itself but far less (about 0.3 per cent) to the Budget 2024 Special Circumstance Assistance appropriation.

27. For home help, funding for a 25-cent increase in the minimum wage to $23.40 at April 2025 is already factored in Budget 2024 (and will be unchanged at Preliminary HYEFU 24). Any additional funding, as specified in the table A2.9 above under each option, will be sought at Budget 2025.

28. Increases in the minimum wage will have an indirect impact on New Zealand Superannuation and main benefit rates as these are now indexed to the net average wage (since 1 April 2020). New Zealand Superannuation and Veteran's Pensions are pegged to the dollar movement in the net average wage (unless CPI per cent movement gives a higher rate). The average wage (and CPI) may both be influenced by changes to the minimum wage. Further, in the case of main benefits, beneficiaries with other income may find their income increased by changes to the minimum wage and so result in a reduction in benefit rate (higher abatement) or benefit cancellation. All of these influences are quite indirect and unable to be estimated. Any fiscal impact will be treated as a forecast change through Budget 2025.

29. As for previous years, while it is not possible to quantify the exact impacts, the following outcomes are expected:

- A minimum wage increase could lead to decreased spending as a result of lower entitlements being paid out due to higher abatement rates of welfare benefits and other social assistance (eg Working for Families Tax Credits).
- The number of people required to make student loan repayments could increase, as well as the repayment rates attached to the loans.
- The amount of KiwiSaver contributions could rise, which could increase costs for employers if more people receive their full member tax credit entitlement.
- It is expected that PAYE tax paid by employees will increase, but government revenue is likely to be offset by a decrease in corporate tax paid by employers (as wages are an expense, ie deductible from employer gross revenue).
- An increase in the minimum wage may lead to more people having more disposable income, which could result in greater consumer spending and the collection of more GST.