



COVERSHEET

Minister	Hon Brooke van Velden	Portfolio	Workplace Relations and Safety
Title of Cabinet paper	Minimum Wage Review: Setting the 2026 rates	Date to be published	12 December 2025

List of documents that have been proactively released

Date	Title	Author
December 2025	Minimum Wage Review: Setting the 2026 rates	Office of the Minister for Workplace Relations and Safety
3 December 2025	Minimum Wage Review: Setting the 2026 rates ECO-25-MIN-0208 Minute	Cabinet Office

Information redacted

YES / NO (please select)

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reason of Confidential advice to Government.

In Confidence

Office of the Minister for Workplace Relations and Safety

Cabinet Economic Policy Committee

Minimum Wage Review: Setting the 2026 rates

Proposal

- 1 This paper seeks Cabinet's agreement to:
 - 1.1 set the adult minimum wage rate from 1 April 2026; and
 - 1.2 amend the starting-out and training minimum wage rates from 1 April 2026 so that they remain at 80 percent of the selected adult minimum wage rate.

Relation to Government priorities

- 2 This decision links to the Government's commitment to 'moderate increases to the minimum wage every year' as specified in the National Party and New Zealand First Coalition Agreement. The impacts of the decision will also link to the Government's target to have fewer people on the Jobseeker Support Benefit.

Executive Summary

- 3 The adult minimum wage rate is currently \$23.50 per hour, and the starting-out and training minimum wage rates are currently \$18.80 per hour. Approximately 101,300 workers aged 16 to 64 were paid at or below the adult minimum wage in June 2025 (4.7 percent of the employed population in this age range).
- 4 In line with the Government's commitment to 'moderate increases to the minimum wage every year', and with a view to the Government's target to have fewer people on the Jobseeker Support Benefit, I seek Cabinet's agreement to set the minimum wage rates for 2026.
- 5 This paper provides options for increasing the minimum wage by 1.5 percent to 3 percent. I propose setting the adult minimum wage rate at \$23.95 per hour (a 2 percent increase). I believe such an increase is appropriate given the current economic and labour market conditions.
- 6 In setting the rates that will apply for the next year, I believe it is important for Cabinet to consider the current economic environment. While Consumer Price Index (CPI) inflation is forecast to ease over the coming months – which should relieve cost of living pressures – unemployment rates remain high, particularly for youth.

- 7 I propose that there be a corresponding increase in the starting-out and training minimum wage rates to maintain the 80 percent relativity to the adult minimum wage rate.¹
- 8 I propose that the new minimum wage rates apply from 1 April 2026. To give employers sufficient time to make necessary changes to payroll systems, I propose announcing the new minimum wage rates prior to Christmas.

Background

- 9 As Minister for Workplace Relations and Safety, I have a statutory obligation under section 5(1) of the *Minimum Wage Act 1983* (the Act) to review the minimum wage rates by 31 December each year. To fulfil this requirement, I considered advice from the Ministry of Business, Innovation and Employment (MBIE) set out in the Minimum Wage Review 2025 (MBIE's review).
- 10 Cabinet agreed in 2012 that the objective of reviewing the minimum wage rates 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]. This has remained the core objective of the review for successive Governments.
- 11 Cabinet also agreed in 2012 that the minimum wage review would be comprehensive in nature every four years and streamlined in the intervening years [CAB Min (12) 41/5B refers]. This year's review is streamlined.²

This Government has taken a balanced approach to setting minimum wage, after years of historically large increases

- 12 This Government's approach to minimum wage increases recognises the New Zealand First – National Party coalition commitment to 'moderate increases to the minimum wage every year'. Previous increases to the minimum wage agreed by this coalition Government have sought to strike the right balance between supporting workers and limiting further costs on business.
- 13 The minimum wage rate has been growing at a rate higher than CPI inflation over the medium to long term, as indicated in Figure 1 below. From June 2018 to June 2023, the adult minimum wage increased by 37.6 percent while CPI inflation increased by 21.3 percent in total (using 2018 dollars). This Government has taken a pragmatic approach to recent increases to the minimum wage, given this context.
- 14 Past minimum wage increases have also outpaced average wage growth over the longer term, as shown in Figure 2 below. This trend has led to compression of the wage distribution: where there is little differentiation in pay between workers based on skills, experience or performance. Economic research by Motu found that the minimum wage is the main contributor to wage

¹ Sections 4A and 4B of the *Minimum Wage Act 1983* require that these rates must not be less than 80 percent of the adult minimum wage.

² The difference between streamlined and comprehensive reviews lies in the need to consider 'other relevant factors' beyond the three principal factors (inflation, wage growth and restraint on employment), and the extent to which consultation extends beyond the social partners (BusinessNZ and the New Zealand Council of Trade Unions) to represent business and worker interests in the review.

compression in New Zealand that has occurred since 2000.³ The moderate increases agreed to by this Government for the 2024 and 2025 minimum wage decisions have eased this trend.

Figure 1: Actual minimum wage and minimum wage linked to six-year rolling average and actual CPI

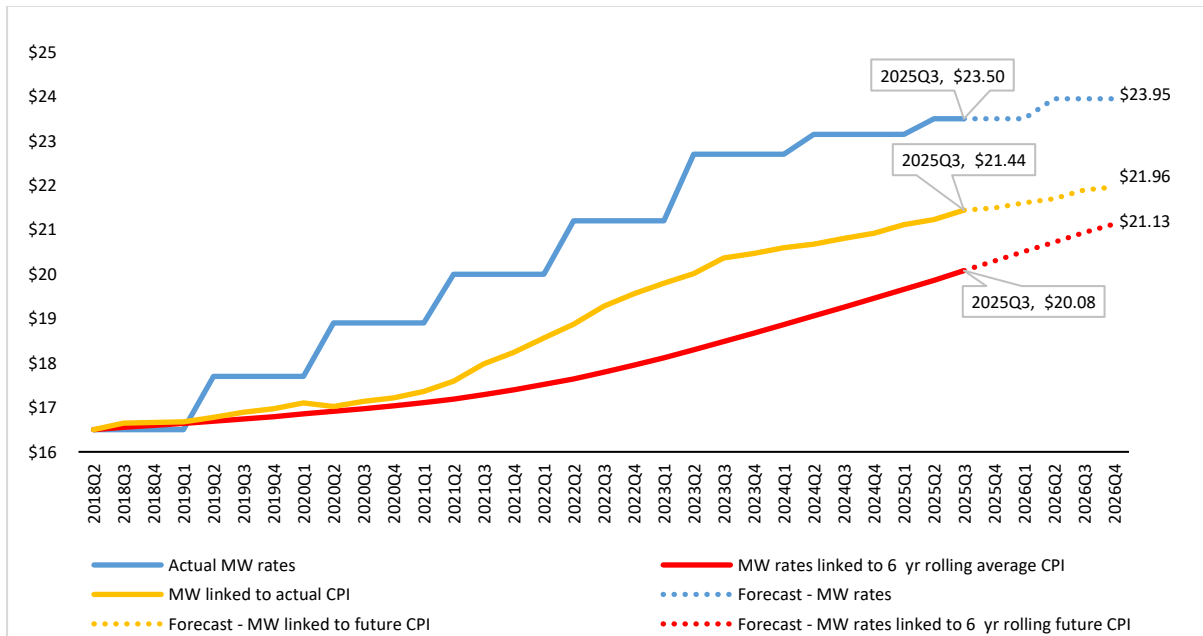
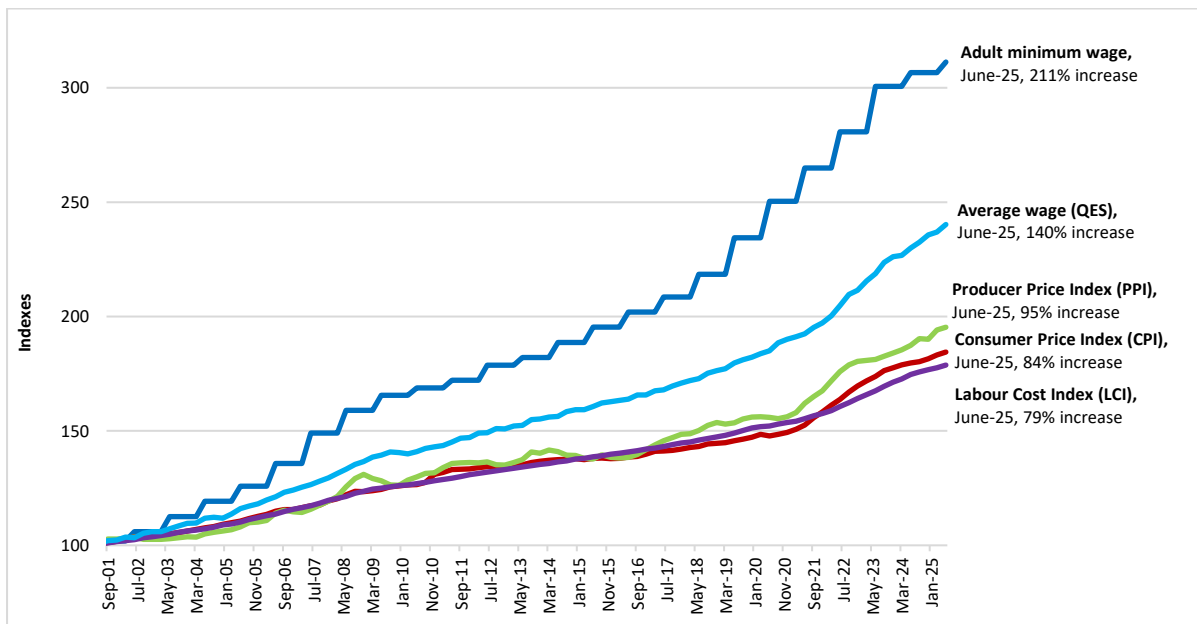


Figure 2: Minimum wage rate compared to inflation and other wage, cost and price measures, indexed to March 2001



³ Hyslop, D, Maré, D & Stelling, L (2025). *Minimum wages and wage inequality in New Zealand* (Motu Working Paper 25-04). Motu Economic and Public Policy Research.

- 15 Another measure of wage compression is the minimum wage as a proportion of the median wage, which is also high by international standards. This ratio of the minimum wage to the median wage is known as the Kaitz Index. The Kaitz Index increased from 62 percent in June 2017 to 72 percent in June 2023. To compare, the Kaitz Index has since decreased to 67.1 percent in June 2025. Even with this decrease, the most recent OECD data (from 2024) showed that New Zealand's minimum wage was the fifth most generous compared with other OECD countries.

CPI inflation forecasts and the recent high unemployment rates support an increase of up to 2 percent

CPI inflation is forecast to ease

- 16 Economic forecasts from the Treasury and the Reserve Bank of New Zealand project that CPI inflation will ease to be within the 2 to 2.5 percent range in the first half of 2026 and remain relatively stable at around 2 percent from June 2026 through to the next review. An increase of more than 2 percent may therefore produce a small increase in the real value of the minimum wage, further contributing to the longer-term trend of minimum wage increases outpacing CPI inflation.
- 17 Gross Domestic Product (GDP) contracted sharply by 0.9 percent in the June 2025 quarter, resulting in an annual average real GDP growth rate of –1.1 percent. Although the Treasury and the Reserve Bank of New Zealand anticipate an economic recovery, any increase to the minimum wage that is substantially higher than inflation risks increasing the existing pressure on businesses due to the economic conditions.

Recent unemployment rates are high, particularly among young people

- 18 The existing pressure on businesses is reflected in the softening labour market and the recent high unemployment rate, which reached 5.3 percent in the September 2025 quarter. The last time the unemployment rate reached 5.3 percent was in the December 2016 quarter.
- 19 Young people have been disproportionately impacted by the labour market conditions. Unemployment rates were particularly high for young people in the September 2025 quarter, at 22.3 percent for people aged 15–19 and 10.7 percent for people aged 20–24. Young people are much more likely than other population groups to earn at or below the adult minimum wage rate. Not all young people rely solely on their income to support themselves, as many live with their parents and are secondary earners within their households. However, the experience and skills that young people gain from an entry level job can set them up for greater future success.
- 20 The number of people receiving a Jobseeker Support benefit is also high. Approximately 217,818 people were receiving a Jobseeker Support benefit in September 2025 (6.7 percent of the total working-age population), which is a 6.4 percent increase compared to September 2024.

- 21 None of the adult minimum wage rate options considered are expected to result in any significant employment impacts. They are also not expected to have a significant impact on the number of people receiving a Jobseeker Support benefit or a Sole Parent Support benefit. However, in general, the lower the minimum wage rate, the smaller the number of people expected to experience negative employment effects.
- 22 Given the recent high unemployment rates across the labour market, the disproportionately high unemployment rates for young people, and the increase in the number of people receiving a Jobseeker Support benefit, I consider that a minimum wage increase of no more than 2 percent is appropriate to minimise further reduction in employment opportunities.

MBIE recommends setting the adult minimum wage rate at \$23.95 per hour (a 2 percent increase)

- 23 MBIE recommends increasing the adult minimum wage rate by 2 percent to \$23.95 per hour on 1 April 2026. A summary of the estimated impacts of this increase compared to the other six adult minimum wage rate options considered in MBIE's review is included as **Annex One**, and the full review is attached as **Annex Two**.
- 24 The seven adult minimum wage rate options considered in MBIE's review ranged from \$23.50 per hour (no increase) to \$24.20 per hour (a 3 percent increase). MBIE's review assessed each of the rate options against the Cabinet objective of protecting the real incomes of low-paid workers while minimising job losses. It considered key indicators such as Consumer Price Index (CPI) inflation, wage growth, restraint on employment, government fiscal impacts, and distributional outcomes.
- 25 Given the CPI inflation forecasts for the first half of 2026 and through to the next review, MBIE considers that a 2 percent increase would largely protect the real income of minimum wage workers, relative to the level of the minimum wage when it last increased on 1 April 2025.
- 26 MBIE's estimates suggest that increases of up to 3 percent are unlikely to result in any significant employment restraint, but that lower minimum wage rates are expected to have fewer negative employment effects than higher minimum wage rates. Any negative employment effects are more likely to affect young workers, who represent 61 percent of all minimum wage earners and already face disproportionately high unemployment rates. Given current economic and labour market weakness – shown by indicators such as the recent GDP contraction, high unemployment (particularly among young people), and falling hours worked, MBIE favours a more conservative increase of 2 percent over larger increases.

I propose a continued differential for starting-out and training minimum wage rates

- 27 I propose that the starting-out and training minimum wage rates continue to be set at 80 percent of the adult minimum wage rate, in accordance with sections 4A and 4B of the Act. Maintaining the current differential between the adult minimum wage rate and the starting-out and training minimum wage rates supports the transition of youth into employment and helps further the policy objective of incentivising employers to take on and support trainees.
- 28 If the adult minimum wage rate does not increase, the starting-out and training minimum wage rates would remain at \$18.80 per hour. If the adult minimum wage rate increases by 2 percent to \$23.95 per hour, the starting-out and training minimum wage rates would be set at \$19.16 per hour.

The new minimum wage rates should take effect on 1 April 2026

- 29 I propose that the new minimum wage rates come into effect on 1 April 2026. Since 1997, every minimum wage increase has come into effect in either March or April of the year following the decision, mostly on 1 April.
- 30 There is no legislative requirement that any minimum wage increase comes into effect on 1 April. This date is chosen because it aligns with annual adjustments to rates of social assistance, such as main benefits and student allowances, and the end of the financial and tax years for most employers.

Cost-of-living Implications

- 31 Minimum wage increases can produce competing impacts on the cost of living depending on the extent of the increase. On the one hand, minimum wage workers receive an income increase that helps them to address everyday cost pressures. However, minimum wage increases may contribute to a rise in overall costs for some businesses. This rise can lead to actions by businesses to minimise the effect of those cost increases, such as increasing prices, reducing the number of staff, reducing hours of work, or cutting other costs such as non-wage benefits or training.
- 32 The Minister for Social Development would like Cabinet to note that minimum wage increases play an important role in supporting parents to move into the labour market and improve their incomes over time. The Minister notes that the sectors with the highest number of minimum wage workers (such as hospitality and retail) correspond to the sectors into which many Jobseeker Support and Sole Parent Support recipients exit their benefit.
- 33 StatsNZ data shows that minimum wage earners reside in households spanning household income distribution levels, meaning that minimum wage earners may be the secondary or tertiary earners within higher income households: for example, a young person living with their parents. Research indicates that, due to this, minimum wage increases are largely ineffective as a

redistributive income support policy,⁴ and it is broadly understood that targeted interventions are likely more effective for child poverty reduction purposes than changes to the minimum wage are.

- 34 Additionally, minimum wage earners who receive income-abated supports, such as Working for Families Tax Credits or the Accommodation Supplement, may face some erosion of the full benefits of minimum wage increases.

Financial Implications

- 35 MBIE consulted with government agencies on the potential cost implications of the seven minimum wage rate options included in the review. It is estimated that a 1 percent increase in the minimum wage would result in an additional annualised cost to government of \$6.24 million, a 2 percent increase would result in an additional annualised cost to government of \$17.5 million, and a 3 percent increase would result in an additional annualised cost to government of \$30.94 million.
- 36 The Ministry of Social Development, Ministry of Education, Accident Compensation Corporation, New Zealand Defence Force, Oranga Tamariki and Te Whatu Ora: Health New Zealand were identified as the agencies most likely to be affected by any change to the minimum wage rate.
- 37 Some government programmes are adjusted based on labour market wage statistics, which may be impacted by changes to minimum wage rates. Any fiscal impact will be treated as a forecast change through Budget 2026.
- 38 The fiscal costs to government may be offset by an increase in the GST received (as a result of people having more disposable income to spend) and a reduction in social transfers (due to abatements of government supports such as Working for Families Tax Credits and Accommodation Supplement). These impacts are difficult to accurately quantify.

Legislative Implications

- 39 Minimum wages are set through an Order in Council made under sections 4, 4A, and 4B of the Act. To give effect to a change in the minimum wage, a new Order in Council needs to be made by the Governor-General, on the recommendation of the Minister for Workplace Relations and Safety. Subject to Cabinet's decisions, the new Order to increase the minimum wage will come into force on 1 April 2026.
- 40 I intend to bring a paper to the Cabinet Legislation Committee by the end of February 2026 to give effect to the minimum wage adjustment agreed.

⁴ Maré, D., and Hyslop, D. (2021, March). *Minimum wages in New Zealand: Policy and practice in the 21st Century* (Discussion Paper no. 14302). Institute for the Study of Labour (IZA).

Impact Analysis

Regulatory Impact Statement

- 41 The Ministry for Regulation has determined that this proposal is exempt from the requirement to provide a Regulatory Impact Statement (RIS) on the grounds that it would substantively duplicate the Minimum Wage Review Report. This exemption is granted on the condition that the document contains all the requirements that would otherwise be included in the RIS. A Quality Assurance Panel from MBIE has reviewed the document and confirmed that it contains these requirements. The Regulatory Impact Assessment QA Director at MBIE considers that the information and analysis in the Minimum Wage Review Report meets the Quality Assurance criteria.

Climate Implications of Policy Assessment

- 42 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met.

Population Implications

- 43 While workers on minimum wage would benefit from a wage increase, they may also be more exposed to employer responses to increased labour costs such as reduced hours or adjustments to non-wage benefits. The incidence of minimum wage workers across key population groups is shown in Table 1 below.

Table 1: Incidence of minimum wage workers across key population groups in 2025

Population groups	Number of all workers paid at or below adult minimum wage rate	Number of all wage earners	Population group as a percentage of all workers paid at or below adult minimum wage rate	Population group as a percentage of all wage earners	Percentage of population group paid at or below adult minimum wage rate
Aged 16–24 years	61,800	323,500	61.0%	15.1%	19.1%
European/ Pākehā	49,600	1,163,500	49.0%	54.3%	4.3%
Asian	23,400	472,500	23.1%	22.0%	5.0%
Female	55,800	1,051,300	55.1%	49.0%	5.3%
Māori	19,300	321,100	19.1%	15.0%	6.0%
Pacific Peoples	6,600	132,300	6.5%	6.2%	5.0%
Part-time	60,400	336,100	59.6%	15.7%	18.0%
Studying	23,400	274,000	23.1%	12.8%	8.5%
All workers	101,300	2,144,500	–	–	4.7%

Human Rights

- 44 I recommend that the starting-out and training minimum wage rates continue to be set at 80 percent of the adult minimum wage. As these minimum rates make a distinction on the basis of age, namely for those aged 16 to 19 years, or on the basis of a worker's employment status, they continue to raise a potential issue of discrimination under section 19(1) of the *New Zealand Bill of Rights Act 1990* (NZBORA).
- 45 However, this discrimination appears to be justified in light of section 5 of the NZBORA. There can be negative long-term economic and social effects associated with young people being out of work, especially if they remain unemployed for a significant period of time. Providing the ability to pay young, unskilled and in-training workers a lower wage than the adult minimum wage is one way to get young people into work and work-based training.

Consultation

- 46 MBIE consulted with BusinessNZ and the New Zealand Council of Trade Unions on the changes to the minimum wage rates. Feedback from these social partners is summarised in the review.
- 47 MBIE also consulted with key government agencies on the potential cost implications of the minimum wage options (summarised above).
- 48 MBIE informed the Treasury and the Department of the Prime Minister and Cabinet (Policy Advisory Group) about the conclusions and recommendations in its 2025 Minimum Wage Review.

Communications

- 49 I intend to make a media statement about the new minimum wage rates for 2026 following Cabinet's decisions.

Proactive Release

- 50 I intend to proactively release this Cabinet paper and will invite MBIE to release the review on its website, subject to any appropriate withholding of information that would be justified under the *Official Information Act 1982*.

Recommendations

- 51 The Minister for Workplace Relations and Safety recommends that Cabinet:
- 1 **note** that the Coalition Agreement between the National Party and New Zealand First commits to ‘moderate increases to the minimum wage every year’;
 - 2 **note** that the Ministry of Business, Innovation and Employment has provided the Minimum Wage Review 2025 and has recommended a 2 percent increase in the adult minimum wage to \$23.95;
 - 3 **note** that in setting the minimum wage rates for 2026, I believe it is important for Cabinet to consider that CPI inflation is forecast to ease, and that recent unemployment rates are high, particularly among young people;
 - 4 **agree** that the 2026 adult minimum wage rate be set at either:
 - 4.1 \$23.85 (1.5 percent increase); or
 - 4.2 \$23.95 (2 percent increase) (**Minister for Workplace Relations and Safety’s and MBIE’s preferred option**); or
 - 4.3 \$24.10 (2.5 percent increase); or
 - 4.4 \$24.20 (3 percent increase);
 - 5 **agree** to maintain the starting-out and training minimum wage rates at 80 percent of the adult minimum wage selected in recommendation 4;
 - 6 **agree** that the minimum wage rate adjustments in recommendations 4 and 5 will come into effect on 1 April 2026;
 - 7 **invite** the Minister for Workplace Relations and Safety to provide drafting instructions to Parliamentary Counsel Office to give effect to the above proposals via an Order in Council; and
 - 8 **authorise** the Minister for Workplace Relations and Safety to make decisions, consistent with the policy in this paper, on any issues that arise during the drafting process.

Authorised for lodgement

Hon Brooke van Velden
Minister for Workplace Relations and Safety

Annex One: Summary of impacts of the minimum adult wage rate options in MBIE's review⁵

Minimum wage rate impact measures	Option 1 0% \$23.50	Option 2 0.5% \$23.60	Option 3 1% \$23.75	Option 4 1.5% \$23.85	Option 5 2% \$23.95	Option 6 2.5% \$24.10	Option 7 3% \$24.20
Adult minimum wage (hourly rate)	\$23.50	\$23.60	\$23.75	\$23.85	\$23.95	\$24.10	\$24.20
Adult minimum wage (gross weekly income – 40-hour week)	\$940.00	\$944.00	\$950.00	\$954.00	\$958.00	\$964.00	\$968.00
Adult minimum wage (gross annual income – 40-hour week)	\$48,880	\$49,088	\$49,400	\$49,608	\$49,816	\$50,128	\$50,336
Relativity to median wage (\$35/hour) ⁶	67.1%	67.4%	67.9%	68.1%	68.4%	68.9%	69.1%
Relativity to average wage (\$43.39/hour) ⁷	54.2%	54.4%	54.7%	55.0%	55.2%	55.5%	55.8%
Relativity of gross weekly income at minimum wage rate to Jobseeker Support ⁸	228%	229%	230%	231%	232%	234%	235%
Number of people directly impacted (rounded up to nearest 100)	101,300	103,900	112,300	119,100	122,500	176,100	182,100
Estimated restraint on employment (modelled average)	Less than 1,000	Less than 1,000	Less than 1,000	Less than 1,000	Less than 1,000	Less than 1,000	Less than 1,000
Estimated economy-wide increase in wages (\$m, annual)	N/C	137	160	176	192	226	251
Estimated impact on nominal GDP (percentage points)	N/C	0.035%	0.041%	0.045%	0.049%	0.057%	0.064%
Estimated additional annual costs to government (\$m, annual)	–7.04	–1.86	6.24	11.32	17.50	25.65	30.94

⁵ MBIE's recommended option is highlighted.

⁶ Median hourly earnings from wages and salary income (excluding from self-employment), from Labour Market Statistics (Income) June 2025 Quarter.

IN CONFIDENCE

Minimum wage rate impact measures	Option 1 0% \$23.50	Option 2 0.5% \$23.60	Option 3 1% \$23.75	Option 4 1.5% \$23.85	Option 5 2% \$23.95	Option 6 2.5% \$24.10	Option 7 3% \$24.20
Full-time employee receiving no tax credits or other income support – net weekly income and increase from \$23.50	\$796.50 –	\$799.80 ((\$3.30)) 0.41%	\$804.75 ((\$8.25)) 1.04%	\$808.05 ((\$11.55)) 1.45%	\$811.35 ((\$14.85)) 1.86%	\$816.30 ((\$19.80)) 2.49%	\$819.60 ((\$23.10)) 2.90%
Scenario: Auckland-based couple, both earning minimum wage, working a combined 60 hours per week with two dependent children, receiving Working for Families Tax Credits and Accommodation Supplement – net weekly income and increase from \$23.50	\$1,603.28 –	\$1,605.01 ((\$1.73)) 0.11%	\$1,607.61 ((\$4.33)) 0.27%	\$1,609.35 ((\$6.07)) 0.38%	\$1,611.08 ((\$7.80)) 0.49%	\$1,613.68 ((\$10.40)) 0.65%	\$1,615.42 ((\$12.14)) 0.76%
Scenario: Auckland-based solo 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 \$23.50	\$1,396.20 –	\$1,397.35 ((\$1.16)) 0.08%	\$1,399.09 ((\$2.89)) 0.21%	\$1,400.24 ((\$4.05)) 0.29%	\$1,401.40 ((\$5.20)) 0.37%	\$1,403.13 ((\$6.94)) 0.50%	\$1,404.29 ((\$8.09)) 0.58%

IN CONFIDENCE