



**MINISTRY OF BUSINESS,  
INNOVATION & EMPLOYMENT**  
HĪKINA WHAKATUTUKI

**WORKPLACE RELATIONS  
AND SAFETY POLICY**

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# Minimum Wage Review 2025

**October 2025**

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**IN CONFIDENCE**

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# Executive summary

## Minimum wage rates are reviewed annually

The Minister for Workplace Relations and Safety is required under the *Minimum Wage Act 1983* to review the minimum wage rates each year. To support this statutory obligation, the Ministry of Business, Innovation and Employment (MBIE) produces an annual report assessing potential minimum wage rate options.

Since 2012, the objective of the 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]. In addition, the Coalition Agreement between the New Zealand National Party and New Zealand First includes a commitment to “moderate increases to the minimum wage every year.”

## This report assesses seven minimum wage rate options for 2026

This report considers seven adult minimum wage rate options for 2026, within the range of options specified by the Minister for Workplace Relations and Safety (the Minister) from retaining the current rate of \$23.50 per hour to a 3 percent increase to \$24.20 per hour. All increases are rounded to the nearest five cents. The rate options are:

Option	Increase %	Rate (rounded to five cents)
Option 1	0% increase (status quo)	\$23.50
Option 2	0.5% increase	\$23.60
Option 3	1% increase	\$23.75
Option 4	1.5% increase	\$23.85
Option 5	2% increase	\$23.95
Option 6	2.5% increase	\$24.10
Option 7	3% increase	\$24.20

In this report, MBIE assesses which of the seven rate options best meets the objective of protecting the real income of low-paid workers while minimising job losses. The effectiveness of each option in achieving the two limbs of the objective are considered separately, along with other potential economic and labour market impacts of the options. MBIE considers Consumer Price Index (CPI) inflation as the primary factor for assessing the rate options against the real income aspect, and employment restraint estimates as a key factor for assessing the job losses aspect. In forming its recommendation, MBIE also draws on a wide range of other factors, including the broader economic and labour market context.

## MBIE recommends increasing the minimum wage rate by 2 percent to \$23.95

MBIE recommends Option 5, a 2 percent increase to the adult minimum wage rate in 2026, raising the rate from \$23.50 to \$23.95 per hour. This option is considered to best balance the two limbs of the objective - protecting the real income of low-paid workers and minimising job losses. CPI inflation forecasts suggest annual inflation will ease to be within the 2–2.5 percent range in the first half of 2026 and remain relatively stable at around 2 percent from June 2026 through to 2028. These forecasts indicate that a 2 percent increase would largely maintain the real income of minimum wage workers relative to the level of the minimum wage when it last increased on 1 April 2025.

A 2 percent increase is not expected to have significant employment restraint effects. However, current economic conditions—including a recent Gross Domestic Product (GDP) contraction, elevated unemployment (particularly among youth) and falling hours worked—point to economic and labour market weakness. Given this context, MBIE favours a cautious approach, supporting Option 5 over larger increases that could pose greater risks to employment.

Options 4 and 6 are not significantly different to Option 5. Option 4 (a 1.5 percent increase) would represent a minimum wage increase slightly below forecast annual CPI inflation, prioritising the second part of the objective. Option 6 (a 2.5 percent increase) would likely have a greater impact on employers, prioritising the first part of the objective. MBIE considers that the other rate options are less effective at balancing the two limbs of the objective.

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

A 2 percent increase to the adult minimum wage is expected to affect approximately 122,500 workers, including those currently earning at or below the minimum wage, or between the current rate and \$23.95. Key demographic groups likely to be impacted include youth, part-time, female, and Māori workers, with effects concentrated in sectors such as tourism, horticulture, agriculture, cleaning, hospitality, and retail. While these workers 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 estimated fiscal cost to government from this increase is relatively modest, at \$17.5 million annually, consistent with the small cost estimates across all rate options.

### **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 wage rates from \$18.80 to \$19.16 per hour, maintaining the current relativity of 80 percent of the adult minimum wage rate. Maintaining a differential between the adult minimum wage rate and the starting-out and training minimum wage rates may support youth to transition into employment and help advance the policy objective of incentivising employers to take on and support trainees.

### **Feedback from social partners**

BusinessNZ and the New Zealand Council of Trade Unions (NZCTU) provided submissions on this year's review. BusinessNZ reiterated its call for a conservative approach to increases, citing economic pressures on small- and medium-sized businesses and the high minimum wage relative to the median wage. It recommended the government incorporate some indication of trends on wage costs (such as a three-year rolling average of CPI and the Labour Cost Index (LCI)) in its announcement of minimum wage rates each year, to provide businesses with a non-binding indication of the sorts of minimum wage increases that might occur in the next two to three years. The NZCTU advocated for a substantial increase to \$28.95 (the current Living Wage), the abolition of the starting-out and training minimum wage rates, and the establishment of a tripartite body to advise on minimum wage decisions. It expressed concerns that recent increases have not kept pace with inflation, resulting in real income losses for low-paid workers. In our analysis of the rate options, MBIE has considered the broader economic and labour market context, including the ongoing economic challenges highlighted by BusinessNZ and the cost-of-living considerations raised by the NZCTU.

## Section One: Background to the minimum wage and the review process

### There are three types of minimum wage rates for New Zealand employees

1. The minimum wage provides a wage floor for all New Zealand employees. It is a significant economic lever available to the government and can be an effective tool for reducing exploitation.
2. The *Minimum Wage Act 1983* (the Act) sets out three types of minimum wage rates, which apply to all employees aged 16 and over. It is a breach of the Act to pay an employee less than the applicable minimum wage rate.
  - The **adult minimum wage** applies to all employees aged 16 and over who are not receiving the starting-out or training minimum wage.
  - The **starting-out minimum wage** applies to the following employees, 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
    - 16- to 19-year-old employees who are required by their employment agreement to undertake industry training for at least 40 credits a year to become qualified.
  - The **training minimum wage** applies to employees aged 20 years and 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.
3. The Act requires that the starting-out and training minimum wage rates must be no less than 80 percent of the adult minimum wage rate. The adult minimum wage rate is currently \$23.50 per hour, and the starting-out and training minimum wage rates are both \$18.80 per hour. The intention behind setting minimum wage rates for starting-out and training employees at a lower rate than the adult minimum wage rate is to support youth to transition into employment and incentivise employers to take on and support trainees.

### The minimum wage rates are reviewed annually

4. The Act requires the Minister for Workplace Relations and Safety (the Minister) to review the minimum wage rates by 31 December each year. The Ministry of Business, Innovation

and Employment (MBIE) produces a report each year to support the Minister to fulfil this obligation. The government has no obligation to change the minimum wage rates.

5. This report considers the economic and labour market context, assesses the potential impacts of a range of minimum wage rate options (including fiscal impacts), and considers submissions from stakeholders. It also provides MBIE's recommendation for the Minister's consideration.
6. Since 2012, the 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]. The objective focuses on achieving a 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 objective has guided MBIE's assessments and recommendation.
7. Traditionally, the Minister seeks agreement from Cabinet to any change in the minimum wage. Any new rate is given effect by Order in Council. The current minimum wage rates were set in the *Minimum Wage Order 2025*, which came into effect on 1 April 2025.

### **This report considers seven adult minimum wage rate options for 2026**

8. This report considers seven adult minimum wage rate options for 2026, ranging from retaining the current rate of \$23.50 per hour to increasing it by 3 percent to \$24.20 per hour. These rate options were specified by the Minister in July 2025.

Option	Increase %	Rate (rounded to five cents)
Option 1	0% increase (status quo)	\$23.50
Option 2	0.5% increase	\$23.60
Option 3	1% increase	\$23.75
Option 4	1.5% increase	\$23.85
Option 5	2% increase	\$23.95
Option 6	2.5% increase	\$24.10
Option 7	3% increase	\$24.20

9. There is no requirement that any of the rates included in the report should become the actual adult minimum wage rate for 2026.
10. This report considers which of these rate options MBIE believes best achieves the balance set out in the objective described above. The Government will also want to take into account the commitment in the National Party and New Zealand First Coalition Agreement to making "moderate increases to the minimum wage every year". The previous two minimum wage increases made by this Government were 2 percent in April 2024 and 1.5 percent in April 2025. Both increases, which the Government considered "moderate", fall within the range being considered in this report.

## **This year's review is streamlined, continuing the review cycle agreed by Cabinet**

11. In 2012, Cabinet agreed to adopt a cyclical approach to reviewing the minimum wage, in which a comprehensive review is completed every four years and a streamlined review is completed in other years [CAB Min (12) 41-5B refers]. The last comprehensive review was in 2022, while the 2023 and 2024 reviews were streamlined. This year's review is streamlined, continuing the review cycle.
12. In line with the usual practice during a streamlined review, this report includes feedback from the social partners BusinessNZ and the NZCTU, to represent employer and employee interests. This report also focuses its assessment of the minimum wage rate options on the following factors:
  - **Effectiveness in protecting the real income of low-paid workers**, which looks at movements in the minimum wage compared with the Consumer Price Index (CPI);
  - **Effectiveness in minimising job losses**, which looks at modelled estimates of restraint on employment and other employment indicators; and
  - **Other potential impacts**, including fiscal impacts.
13. The key differences between a comprehensive review and a streamlined review are that a comprehensive review tends to involve wider consultation with other employer, employee and community organisations<sup>1</sup>, and may consider additional factors at the Minister's discretion<sup>2</sup>.

## **This year's review will use the same updated analytical approach used last year to estimate the impacts of potential minimum wage rate options**

14. Until 2023, MBIE used an in-house minimum wage econometric model to estimate the restraint on employment that results from increases in the minimum wage rate (the number of people who might not be employed in the following year as a result of a minimum wage increase, assuming all other economic conditions hold). In 2024, MBIE commissioned an external review of the in-house econometric model by Motu, to ensure the analytical approach used was still relevant and robust.
15. As a result of Motu's external review, two changes were made to MBIE's analytical approach. First, we included employees earning below the adult minimum wage rate in our definition of the "affected population" (as well as those earning the adult minimum wage rate). Second, we borrowed regression coefficients from the relevant literature (in place of the in-house, single-time-series econometric model used previously). Our updated analytical approach takes the expected change in employment as a result of a change in the minimum wage from the international literature and applies it to the

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<sup>1</sup> For example, for the Minimum Wage Review 2022, MBIE invited a range of organisations to make submissions. We received responses from organisations such as the Salvation Army, Tourism Industry Aotearoa, Hospitality NZ, the Employers and Manufacturers Association, Federated Farmers, Retail NZ and Horticulture New Zealand.

<sup>2</sup> For example, the last comprehensive review in 2022 considered the complex economic climate arising from the COVID-19 pandemic.

population in the New Zealand labour market expected to be affected by a given increase in the minimum wage.

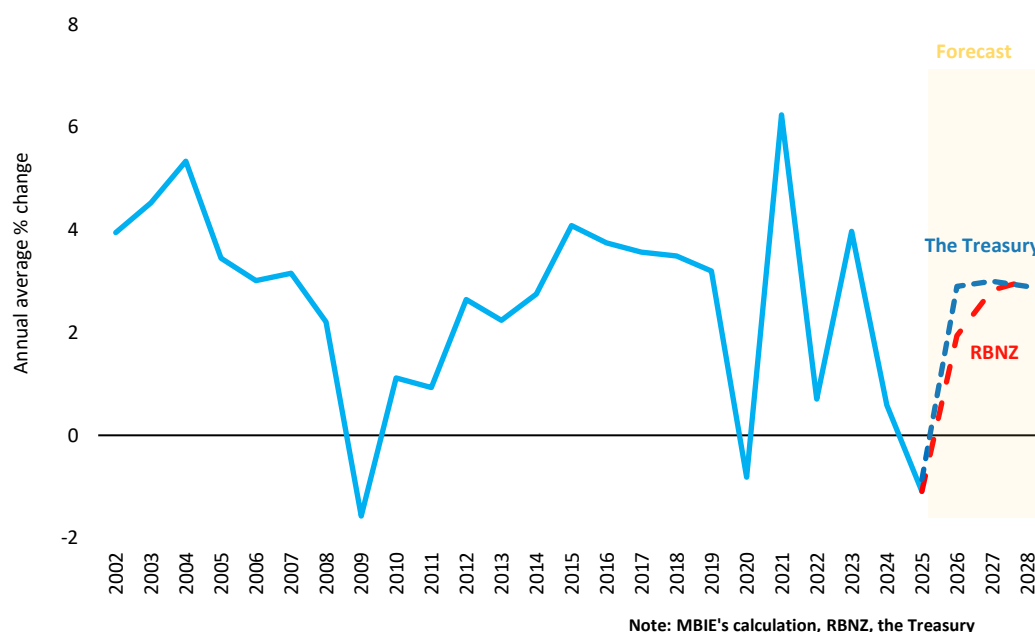
16. Our updated analytical approach was used in last year's review. As anticipated, it produced lower employment restraint estimates compared to previous years, because the in-house econometric model may have overestimated employment restraint. The same updated analytical approach is used again in this year's review.



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

17. Overall, economic activity remains subdued, with domestic demand weakening and ongoing uncertainty driven by heightened geopolitical tensions and global uncertainty. This downturn has been reflected in reduced activity in sectors such as retail and construction. In contrast, export-oriented industries like agriculture and manufacturing have shown strong growth. Looking ahead, economic recovery is expected to gain momentum throughout 2026, supported by more stimulatory monetary policy and stronger earnings from key export sectors. Economic growth is projected to continue steadily before gradually easing from early 2028.
18. When the minimum wage increases, some businesses face higher labour costs—either directly, through employing minimum wage workers, or due to flow-on effects for employees earning just above the minimum wage. Firms may respond in various ways: by absorbing the increased costs (e.g., accepting lower profits), raising prices for goods and services, or reducing output through cost-cutting measures. To reduce labour costs, firms might cut employee hours, reduce workforce size, substitute one type of labour for another (e.g., by hiring one trade worker instead of multiple apprentices), or scale back on other expenses like training and development. Over the longer term, businesses may also substitute labour with capital. The choices firms make, and the broader economic impact of those choices, will depend heavily on the prevailing economic conditions.

**Figure 1: Actual and consensus forecast for real GDP growth<sup>3</sup>**



<sup>3</sup> RBNZ. (2025, August). *Monetary policy statement, August 2025*. RBNZ. <https://www.rbnz.govt.nz/hub/publications/monetary-policy-statement/2025/aug-08hgf/monetary-policy-statement-august-2025>. The Treasury. (2025, May). *Budget economic and fiscal update 2025*. The Treasury. <https://www.treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2025>.

19. 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 percent. Annual inflation peaked at 7.2 percent in mid-2022 and fell to 2.2 percent by September 2024—the latest data available at the time of the last minimum wage review.
20. Over the past year, several factors have contributed to a slowdown in economic activity, including high global uncertainty, relatively tight monetary policy, falling net migration, a softening housing market, and lower government spending. As a result, both household spending and business investment have weakened. New Zealand entered a recession in the second half of 2024, with GDP contracting by 1 percent in both the June and September quarters.
21. Although the economy began to show signs of recovery from December 2024, returning to positive growth in the March 2025 quarter, StatsNZ's latest quarterly GDP release indicates a sharp contraction of 0.9 percent in the June 2025 quarter, falling below RBNZ's forecast. This decline resulted in an annual average real GDP growth rate of –1.1 percent. Despite this setback, both RBNZ and the Treasury anticipate a recovery ahead, projecting (in RBNZ's August 2025 monetary policy statement and the Treasury's May 2025 budget economic and fiscal update) annual average GDP growth of between 1.9 and 2.9 percent in 2026, with growth stabilising at 3 percent through 2027 and 2028<sup>4</sup>.
22. The latest New Zealand Institute of Economic Research (NZIER) Quarterly Survey of Business Opinion showed a drop in business confidence in the September 2025 quarter. A net 15 percent of firms expected an improvement in general economic conditions over the coming months on a seasonally adjusted basis - a decline from the net 26 percent that expected an improvement in the June 2025 quarter.

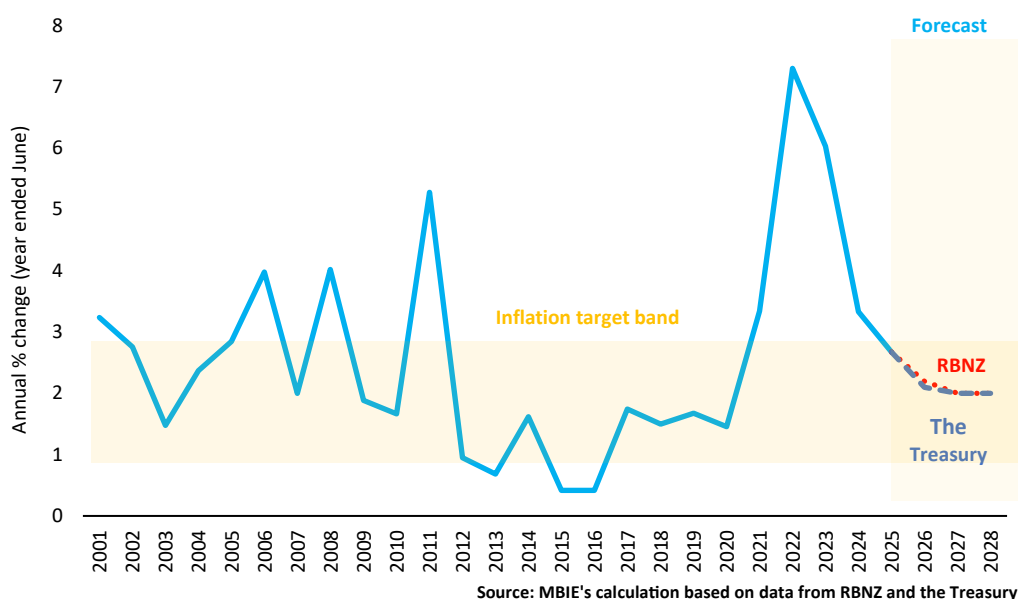
## Inflation

23. Tight monetary policy has successfully helped bring inflation within the RBNZ's target range of 1–3 percent since the September 2024 quarter. As a result of lower inflation, the RBNZ started loosening monetary policy in late 2024. There was a cut of 100 basis points in the Official Cash Rate (OCR) throughout the year, from 4.25 percent in January 2025 to 3.25 percent in July.
24. While the Consumer Price Index (CPI) rose again in the June 2025 quarter, from 2.5 to 2.7 percent, the RBNZ continues to loosen monetary policy as economic growth remains patchy. The most recent Official Cash Rate reduction was 50 basis points in October to its current level of 2.5 percent. Forecasts from both the RBNZ and the Treasury indicate that annual inflation will remain near the midpoint of the target band—around 2 percent—from June 2026 through to 2028.

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<sup>4</sup> RBNZ. (2025, August). *Monetary policy statement, August 2025*. RBNZ. <https://www.rbnz.govt.nz/hub/publications/monetary-policy-statement/2025/aug-08hgf/monetary-policy-statement-august-2025>. The Treasury. (2025, May). *Budget economic and fiscal update 2025*. The Treasury. <https://www.treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2025>.

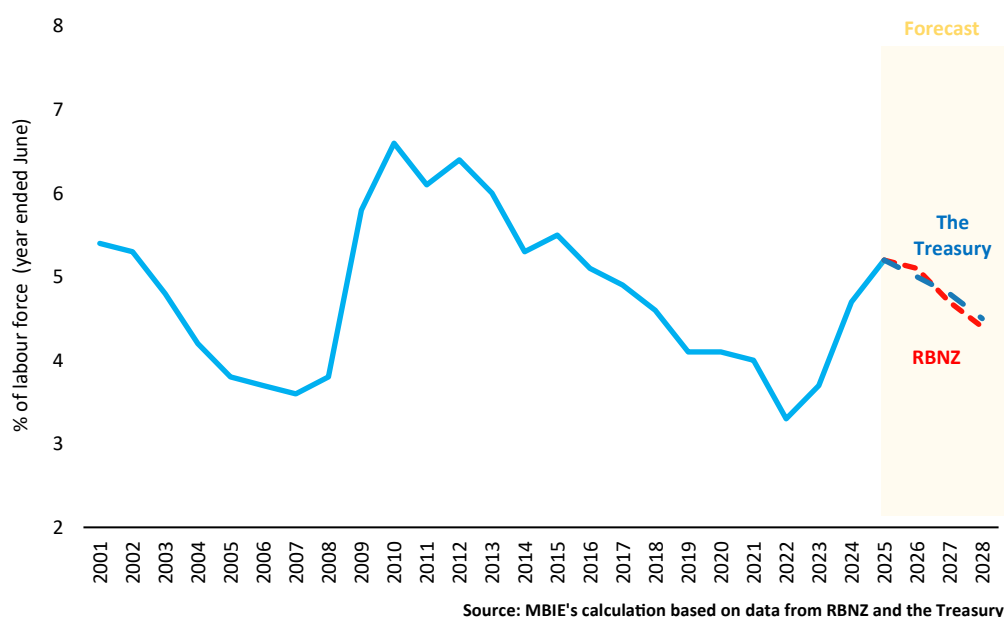
**Figure 2: Actual and consensus forecast for CPI**



## The economic downturn is reflected in the labour market – with particular impacts on youth employment

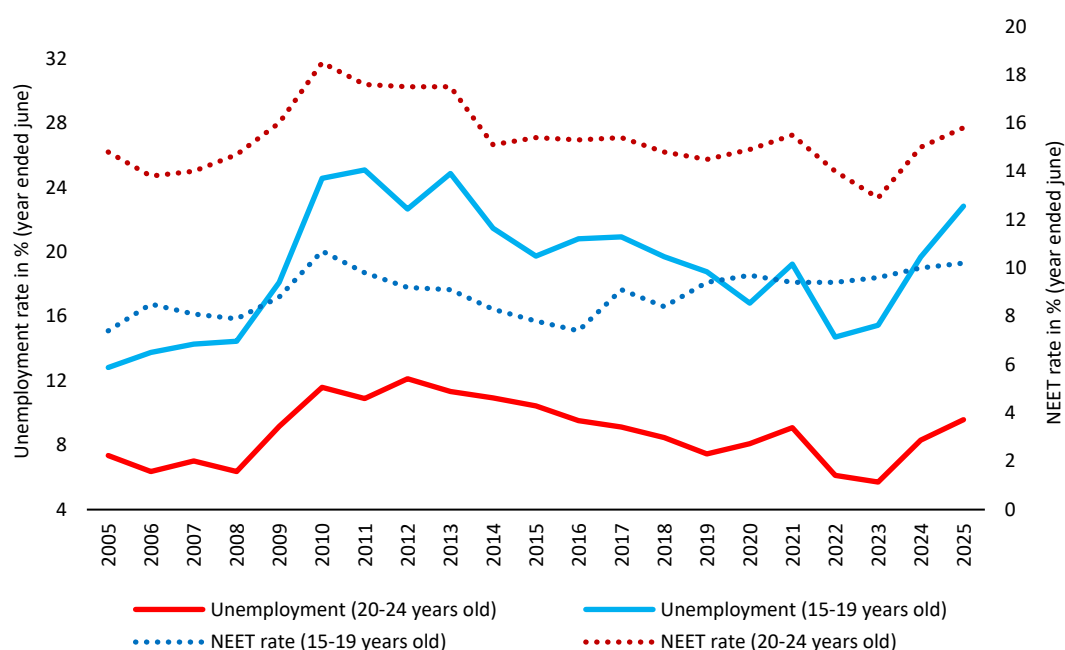
25. Subdued economic conditions have seen a lower demand for labour, making it harder for people to find and retain work. The unemployment rate rose to 5.2 percent in the June 2025 quarter, an increase of 0.5 percentage points compared to the 4.7 percent recorded in the same quarter of 2024. The labour market outlook remains soft, with unemployment forecast to peak at 5.3 percent in the September 2025 quarter. However, medium-term projections suggest a gradual improvement, with the unemployment rate expected to decline to below 4.5 percent by 2028.

**Figure 3: Actual and consensus forecast for unemployment rate**



26. Youth (15–24 years old) have been disproportionately impacted by the soft labour market. Youth employment has fallen by around 15,100 (3.9 percent) over the year to June 2025. Over the same period, the number of unemployed and underutilised youth increased sharply: up 7,100 (12.3 percent) and 10,000 (6.6 percent) respectively. In both cases, this represents around half the total rise in unemployment and underutilisation.
27. Youth unemployment has risen sharply during the current economic downturn, mirroring trends observed during the 2008 financial crisis. For workers aged 15–19, the unemployment rate increased from 15.4 percent (27,800) in the June 2023 quarter to 22.8 percent (39,100) in June 2025—an increase of 11,300 unemployed youth. Among those aged 20–24, the unemployment rate rose by 3.9 percentage points, reaching 9.6 percent (25,600) in June 2025.
28. The rate of young people aged 15–24 who are not in education, employment, or training (NEET) has also increased, rising from 12.4 percent in the year ending June 2024 to 12.9 percent in the year ending June 2025. Among the youngest group (15–19 years), the NEET rate remained relatively stable, increasing by just 0.2 percentage points to 10.2 percent in the June 2025 quarter. In contrast, the NEET rate for those aged 20–24 rose more sharply, increasing by 0.8 percentage points.

**Figure 4: Youth (15–24 years old) labour indicators<sup>5</sup>**



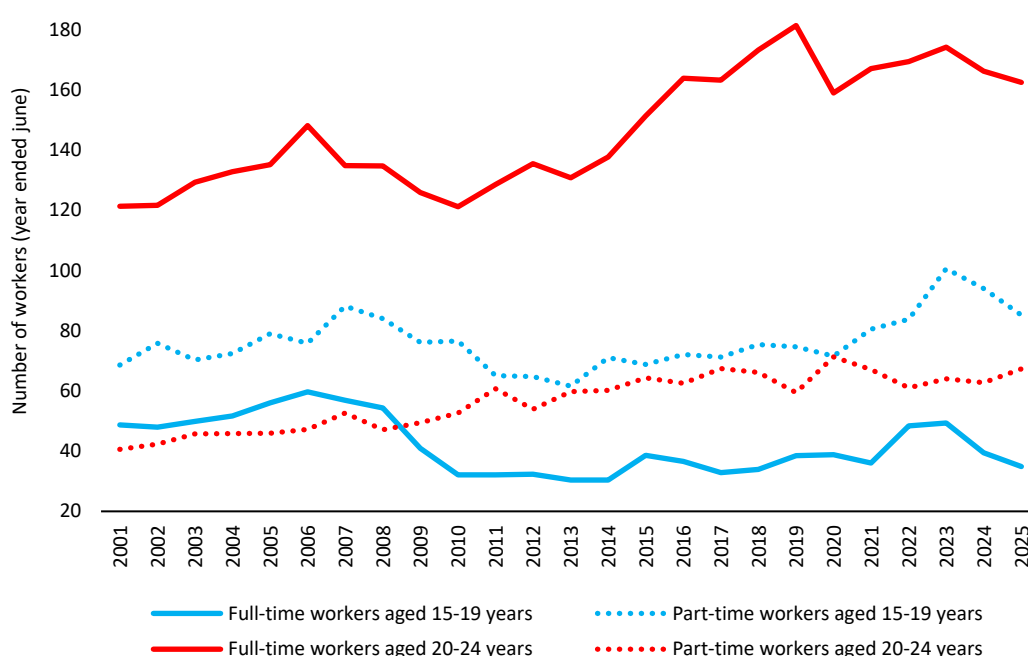
29. There is a clear and ongoing divergence in employment patterns across different youth age groups. In the June 2025 quarter, among those aged 15–19, most were working part-time—around 85,200 out of 120,100 (71 percent)—while just 34,900 (29 percent) held full-time roles. In contrast, the older youth group aged 20–24 was largely employed full-

<sup>5</sup> StatsNZ. (2025, August). *Labour market statistics: June 2025 quarter*. StatsNZ. <https://www.stats.govt.nz/information-releases/labour-market-statistics-june-2025-quarter/>.

time, with 162,500 out of 229,800 (71 percent) working full-time and 67,300 (29 percent) part-time.

30. Over the past two years, employment among the youngest workers has fallen sharply. Between 2023 and 2025, part-time employment for 15- to 19-year-olds declined by 15,400 (15 percent), while full-time jobs fell by 14,400 (29 percent). Despite this decline, part-time work now makes up a larger share of the remaining workforce in this age group, rising from 67 percent in 2023 to 71 percent in 2025.
31. For those aged 20–24, the trend has been different. Part-time work increased slightly, up by 3,300 (5 percent) over the same period, while full-time employment in this group saw the biggest decline, dropping by 11,700 (7 percent). This shift signals a modest shift toward part-time roles among older youth, which may partly explain the observed rise in underutilization rates.

**Figure 5: Youth employment type (full-time vs part-time)**



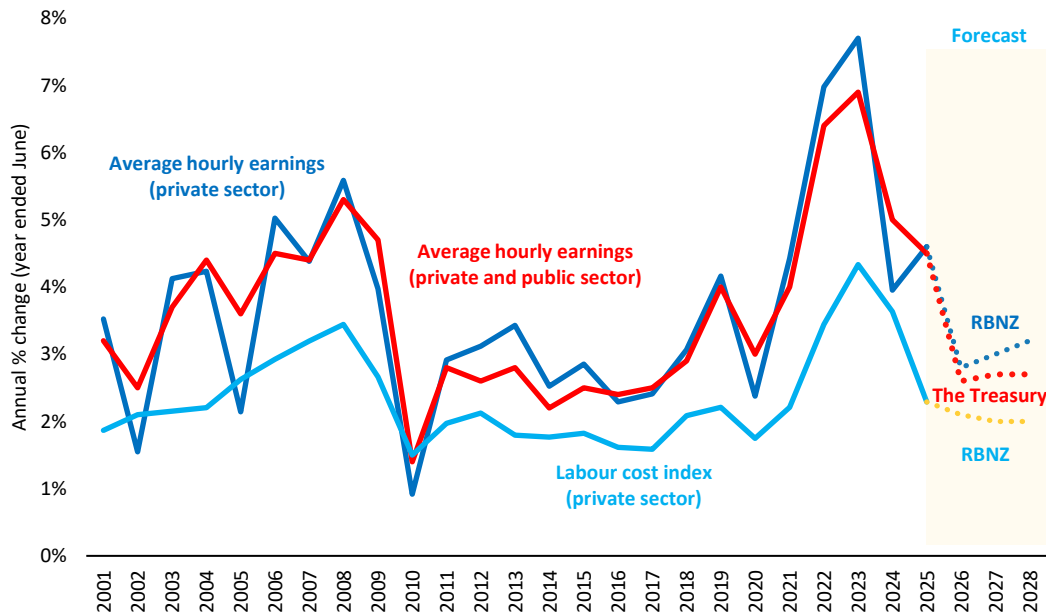
Source: StatsNZ

## Despite a softer labour market, wages continue to rise

32. 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:
  - Average hourly wages in the private sector rose 4.6 percent in the year to the June 2025 quarter, 0.6 percentage points higher than the growth recorded in the same quarter of 2024. As wage growth outpaced inflation, workers, on average, experienced an increase in purchasing power during the June quarter. Specifically, inflation-adjusted average hourly wages (real wages) grew by 1.9 percent over the year, marking the highest annual increase since 2019. Looking ahead, forecasts indicate a gradual slowdown in both nominal and real wage growth. Nominal

wages are expected to rise by just 2.8 percent in 2026, followed by projected increases of 3.0 percent in 2027 and 3.2 percent in 2028, while real wages are forecast to rise by 0.6 percent in 2026 and 1.0 percent in 2027.

**Figure 6: Actual and consensus forecast for hourly wage growth<sup>6</sup>**



Source: MBIE's calculation based on data from RBNZ and the Treasury

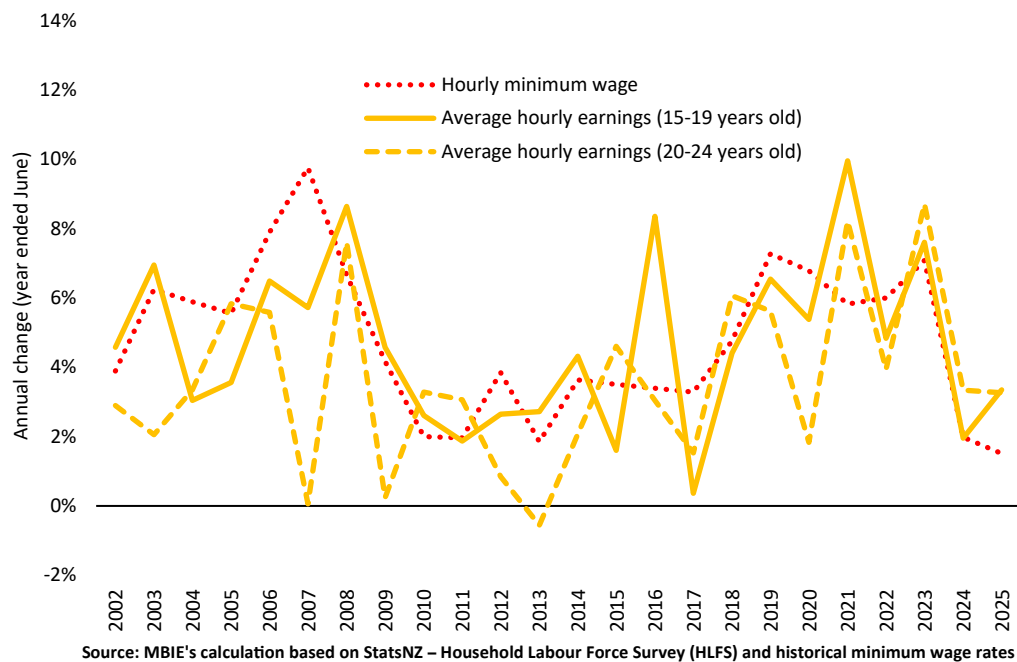
- Mirroring the trend in the private sector, average real hourly wages, including those in the public sector, increased 4.5 percent over the year to the June 2025 quarter, with workers' purchasing power rising by 1.8 percent. Despite these gains, forecasts predict a slowdown in real wage growth across both sectors. Nominal wage growth is expected to ease to 2.7 percent in the coming years, while real wage growth is projected to stabilise at around 0.7 percent by 2027.
- The adjusted Labour Cost Index (LCI) for all salary and wage rates (including overtime) in the private sector increased 2.3 percent in the year to the June 2025 quarter, which is 1.3 percentage points lower than the growth recorded in the June 2024 quarter. This index measures changes in wage costs for a fixed quantity and quality of labour, commonly referred to as the "same-job wage" measure. It is considered the most accurate indicator of wage growth from an employer cost perspective, reflecting the rates paid to have the same job performed to the same standard.
- After adjusting for inflation, the LCI decreased by 0.4 percent between June 2024 and June 2025. This negative growth indicates that wages for the same job are not keeping pace with the rising cost of living, as measured by inflation. In the

<sup>6</sup> RBNZ and the Treasury average hourly wages data is sourced from StatsNZ — Quarterly employment survey (QES).

shorter term, projections suggest that this decline will gradually ease, with real LCI growth expected to reach a neutral rate of 0 percent by 2027.

33. Annual average hourly wages for workers aged 15–19 increased by 3.3 percent in the year to June 2025, which is 1.4 percentage points higher than the growth recorded in June 2024. This rise in youth wages outpaced the increase in the minimum wage, which grew by 1.5 percent over the same period. Similarly, annual average hourly wages for workers aged 20–24 rose 3.3 percent over the year to June 2025. Compared to the youngest group, the real wage growth was nearly equivalent, with purchasing power rising by 0.6 and 0.7 percent for the 20–24 and 15–19 age groups, respectively.

**Figure 7: Youth (15–24 years old) wage growth and minimum wage**



34. Youth hourly wages have been steadily increasing since 2017, with average annual growth rates of 4.9 percent for workers aged 15–19 and 5.0 percent for those aged 20–24. However, most of this nominal growth reflects higher inflation, as real wage growth has averaged only 1.7 percent for both groups. In real terms, wage gains over the last eight years have been largely driven by increases in the minimum wage, particularly for the youngest workers. Based on a correlation analysis, we find that 74 percent of real wage growth is attributable to minimum wage rises, compared to 35 percent for those aged 20–24.

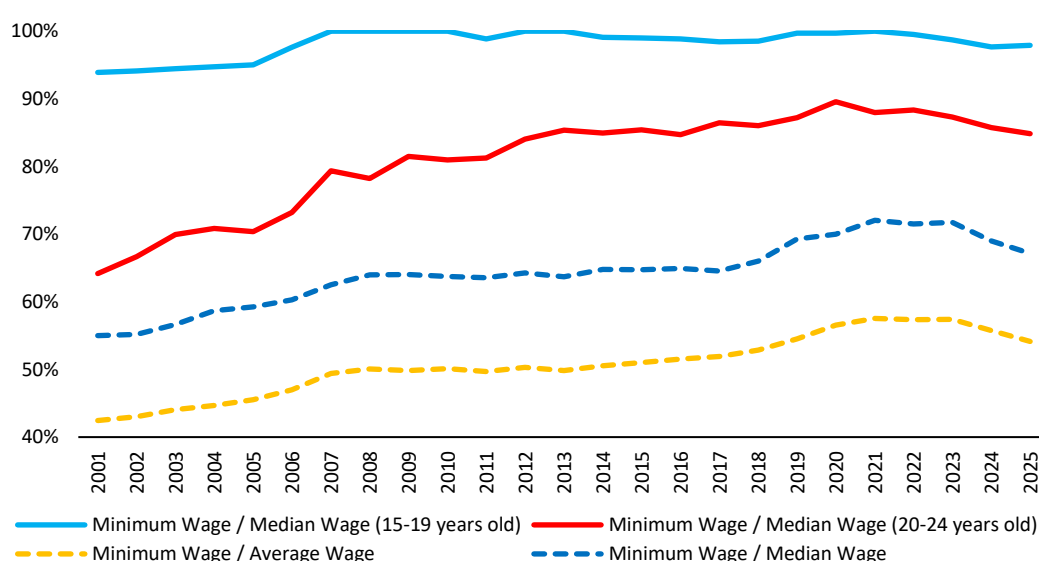
### **The potential minimum wage increases considered in this review are mostly lower than the expected increase in other wage measures in the economy**

35. With average and median wage growth exceeding the increase in the minimum wage in 2025, the key minimum wage ratios decreased. New Zealand's minimum wage to median wage ratio (known as the Kaitz Index) reached a peak of 72 percent in June 2021 but has since fallen to 67 percent in 2025 (measured as the ratio of the minimum wage to the

median wage of paid employees, excluding income from self-employment). New Zealand's Kaitz Index remains relatively high compared to most other OECD countries, just surpassed by Mexico, Chile, Costa Rica, and Colombia (see Figure 9).

36. 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. However, our Kaitz Index is also high by using the average wage measure.

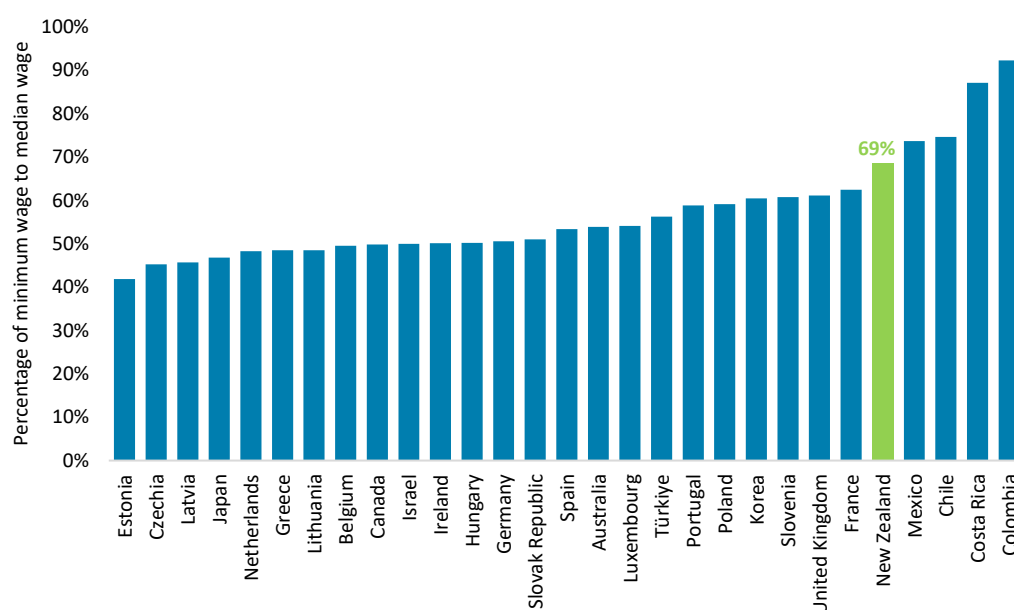
**Figure 8: Minimum wage as a percentage of the average hourly wage and the median wage (HLFS)**



37. To put these ratios in context, a new European Union directive suggests that member states should use indicators and associated reference values to guide their assessment of statutory minimum wage adequacy. It uses examples such as a ratio to the median wage of 60 percent or an average wage ratio of 50 percent. New Zealand's minimum wage has exceeded these levels every year since the mid-2000s.
38. Figure 8 shows that from 2008 to 2019, the annual growth of the Kaitz Index for workers aged 15–19 remained remarkably steady from 2008 onwards, averaging around 0 percent annually. The index rose notably between 2005 and 2008, increasing from 95 percent to 100 percent, largely due to the Youth Minimum Wage Reform in 2008. Overall, median hourly wages for this age group are almost entirely driven by changes in the minimum wage rate.
39. For workers aged 20–24, the growth in the Kaitz Index has been particularly pronounced. This upward trend in the Kaitz Index over time reflects increased wage compression at the lower end of the wage distribution, indicating that minimum wage adjustments have exerted a growing influence on median wages for employees within this age group.



**Figure 9: Kaitz Index: minimum wages relative to median wages in OECD countries, OECD data 2024<sup>7</sup>**



### **Evidence suggests the minimum wage is a driver of wage compression but has limited impacts on productivity and incentives to upskill**

40. The increase in and high level of the Kaitz Index has raised questions about the impact of the minimum wage and wage compression in the New Zealand labour market. Motu has undertaken research looking into the role of the minimum wage in observed wage compression<sup>8</sup>. They found that minimum wage increases have been the main driver of wage compression in New Zealand over the past 25 years, narrowing the gap between low and middle income earners.
41. To assess the broader impacts of the minimum wage on productivity and upskilling, MBIE has undertaken research using administrative data and compared the findings to those from the international literature. MBIE's research shows that firms most exposed to minimum wage changes tend to have lower productivity and show little investment in technology or capital, though modest increases in training and higher firm exit rates suggest some reallocation effects. Differences from international findings likely reflect structural factors such as lower margins and predictable wage adjustments.
42. Another research question focused on concerns that past minimum wage increases may have reduced incentives to upskill. The analysis found that education outcomes and returns have not changed significantly and remain strong.

<sup>7</sup> Organisation for Economic Co-operation and Development (OECD). (2024), *Minimum relative to median wages of full-time workers*. OECD. <https://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE>.

<sup>8</sup> 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. Wellington, New Zealand.

## Section Three: Assessing the potential impacts of the rate options

43. International literature is divided on the overall impacts of minimum wage increases. While increasing the minimum wage can protect real wages and boost incomes for low-paid workers, it also increases labour costs for employers and may contribute to labour market effects such as wage compression. The impact of increasing the minimum wage often depends on how employers respond to increased labour costs, as well as the specific circumstances of minimum wage workers and their households, making estimating the impact inherently difficult. The gains for workers may be partially offset by responses from employers such as reducing staff numbers or cutting hours, or by the abatement of government income supports.
44. This section of the report summarises the potential impacts of the seven adult minimum wage rate options outlined in Section One. These range from a 0 percent increase (Option 1) to a 3 percent increase (Option 7) relative to the status quo. Estimated impacts include economy-wide effects, implications for minimum wage workers, and fiscal impacts for the government.

### Expected economy-wide effects of the minimum wage rate options

#### The estimated impact on total wages is small...

45. The estimated impact of the minimum wage rate options on total economy-wide wages is relatively small. Given the small proportion of workers earning at or near the minimum wage, the overall effect on aggregate wage levels remains modest. Option 1 (a 0 percent increase) is estimated to have no impact on total wages, while Option 7 (a 3 percent increase) is estimated to result in an increase of \$251 million per annum. The other five rate options fall within this range.
46. The pattern of wage compression discussed at paragraph 40 suggests that the minimum wage has also influenced wages of workers earning above the minimum wage. However, we are not able to quantify the effect on total wages.
47. The different rate options will have different impacts on wage compression. The minimum wage is currently 67.1 percent of the median wage (the Kaitz Index). When Cabinet agreed in December 2024 to increase the minimum wage by 1.5 percent on 1 April 2025, that rate option was calculated to result in the Kaitz Index being 70 percent. All the rate options considered in this report are expected to result in the Kaitz Index being less than 70 percent, ranging from 67.1 percent to 69.1 percent.

#### ...so the estimated impact on inflation is negligible

48. Many factors impact price inflation, from both the demand and supply sides of the economy. Because the minimum wage increase affects a relatively small proportion of workers and the impact on total wages is small, the estimated impact that increases to the

adult minimum wage rate (including the seven rate options considered in this report) have on overall CPI inflation is considered negligible.

### **Employment impacts are also estimated to be small**

49. The impact of the minimum wage rate options on employment has been estimated using MBIE's updated analytical approach, as outlined in Section One. This approach estimates employment restraint, which is the number of people who might not be employed in the following year as a result of a minimum wage increase, assuming all other economic conditions hold. Employment restraint provides an indicative measure of potential labour market effects associated with each rate option.
50. MBIE's estimates indicate that, in general, the lower the rate option, the fewer people are expected to be negatively affected. While the impact each rate option is expected to have on employment differs, none are expected to result in significant employment restraint in the context of the entire labour market, given that all the rate options are estimated to affect fewer than 1,000 people.
51. MBIE's analytical approach estimates employment restraint relative to employment across the entire labour market, consistent with international literature. While the estimated number of people affected appears negligible, the estimated impacts might be more meaningful if it were possible to estimate employment restraint relative to the specific sub-groups likely to be most affected by a minimum wage increase—such as youth, who represent 61 percent of all minimum wage workers<sup>9</sup> and have disproportionately high rates of unemployment. However, we do not have the necessary forecast estimates that would enable more targeted employment restraint estimates for these sub-groups. For this reason, it is important to consider other available information, such as labour market data, alongside employment restraint estimates.

### **Expected implications for minimum wage workers**

52. Increasing the minimum wage benefits workers by providing a wage floor and boosting the incomes of the lowest paid workers. It can improve the bargaining power of workers, as pay relativities to the minimum wage are often considered when setting broader wage rates.
53. However, increasing the minimum wage may also have negative impacts for some workers. As reflected above, employers may respond to increased labour costs by reducing staff numbers, which may result in a small number of workers losing employment or being unable to gain employment they would have otherwise gained. Alternatively, employers may respond in other ways that reduce the overall benefit to workers, such as by cutting hours, adjusting non-wage benefits, increasing work intensity or limiting flexibility, or scaling back investment in training and health and safety.<sup>10</sup> For

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<sup>9</sup> StatsNZ. (2025, June). Household Labour Force Survey.

<sup>10</sup> Clemens, J. (2021). How do firms respond to minimum wage increases? Understanding the relevance of non-employment margins. *Journal of Economic Perspectives* 35 (1), 51–72.

those in households receiving government income supports, the gains from higher wages may be partially offset by abatements of those supports.

### Minimum wage workers are disproportionately young, part-time, female or Māori

54. To understand the implications of increasing the minimum wage, it is necessary to understand the key demographics of minimum wage workers.
55. Of all workers aged 16–64, an estimated 101,300 (4.7 percent of all wage earners) were paid at or below the adult minimum wage rate in June 2025. This includes workers paid the starting-out and training minimum wage rates. Table 1 outlines the proportion of workers paid at or below the adult minimum wage rate, alongside total wage earners by key demographic and job characteristics.<sup>11</sup> Table 2 estimates the number of workers aged 16–64 likely to be directly affected by each of the seven adult minimum wage rate options considered in this report, based on age group and current earnings.

**Table 1: Incidence of minimum wage workers across focus demographic groups in 2025**

Demographic groups	Number of workers paid at or below adult minimum wage rate	% of workers paid at or below adult minimum wage rate in the demographic group	Number of all wage earners in the demographic group	% of demographic group paid at or below adult minimum wage rate
Aged 16–24 years	61,800	61.0%	323,500	19.1%
European/ Pākehā	49,600	49.0%	1,163,500	4.3%
Asian	23,400	23.1%	472,500	5.0%
Female	55,800	55.1%	1,051,300	5.3%
Māori	19,300	19.1%	321,100	6.0%
Pacific Peoples	6,600	6.5%	132,300	5.0%
Part-time	60,400	59.6%	336,100	18.0%
Studying	23,400	23.1%	274,000	8.5%
<b>Total</b>	<b>101,300</b>	<b>-</b>	<b>2,144,500</b>	<b>4.7%</b>

56. Table 1 shows that young workers aged 16–24 are disproportionately represented among those earning at or below the adult minimum wage rate,<sup>12</sup> making up 61 percent of this group but only 15.1 percent of all wage earners. However, only 19.1 percent of wage earners aged 16–24 earn at or below the adult minimum wage rate.
57. Part-time workers working less than 30 hours a week are also more likely to be represented among workers paid at or below the minimum wage. Table 1 shows that 59.6 percent of workers earning at or below the adult minimum wage rate work part-time, despite part-time workers making up only 15.7 percent of all wage earners. Overall, 18 percent of all part-time workers earn at or below the adult minimum wage rate.

<sup>11</sup> We are unable to specify which type of minimum wage rate each employee is paid (starting-out, training or adult minimum wage rate).

<sup>12</sup> This group includes workers being paid the starting-out or training minimum wage rate.

58. Women are more likely than men to be impacted by 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 55.1 percent of workers paid at or below the adult minimum wage rate are women, even though women make up 49 percent of all wage earners. Overall, 5.3 percent of all female workers earn at or below the adult minimum wage rate.
59. Māori workers are also overrepresented among workers paid at or below the adult minimum wage rate. Table 1 shows that Māori make up 19.1 percent of workers paid at or below the adult minimum wage rate, but only 15 percent of all wage earners. Overall, 6 percent of all Māori workers earn at or below the adult minimum wage rate.

**Table 2: Estimated affected adult workers (aged 16 to 64 years)**

Option	Adult minimum wage rate	16–17		18–19		20–24		25–64	
		%	#	%	#	%	#	%	#
1	\$23.50	52.0%	21,900	29.1%	17,800	10.0%	22,100	2.2%	39,500
2	\$23.60	52.5%	22,100	29.4%	18,000	10.2%	22,400	2.3%	41,400
3	\$23.75	55.3%	23,300	30.9%	18,900	11.0%	24,300	2.5%	45,800
4	\$23.85	58.0%	24,400	31.7%	19,400	11.4%	25,200	2.8%	50,100
5	\$23.95	59.6%	25,100	32.8%	20,100	11.7%	25,700	2.8%	51,700
6	\$24.10	70.3%	29,600	44.9%	27,500	17.7%	38,900	4.4%	80,100
7	\$24.20	70.8%	29,800	46.7%	28,600	18.1%	39,800	4.6%	83,800

60. Young workers tend to earn less than older workers due to their lack of work experience and the nature of the jobs they are often employed in (for example, jobs in the retail sector). As a result, they are more likely to be impacted by changes to the minimum wage.
61. Table 2 demonstrates that young people aged 16 to 24 are more likely to be affected by each of the seven minimum wage rate options compared to workers aged 25 to 64. For example, increasing the adult minimum wage rate to \$23.85 (Option 4—the middle option) would affect 58 percent of workers aged 16–17, 31.7 percent of workers aged 18–19 and 11.4 percent of workers aged 20–24, compared to just 2.8 percent of workers aged 25–64.

### **Minimum wage workers are part of a wide range of households**

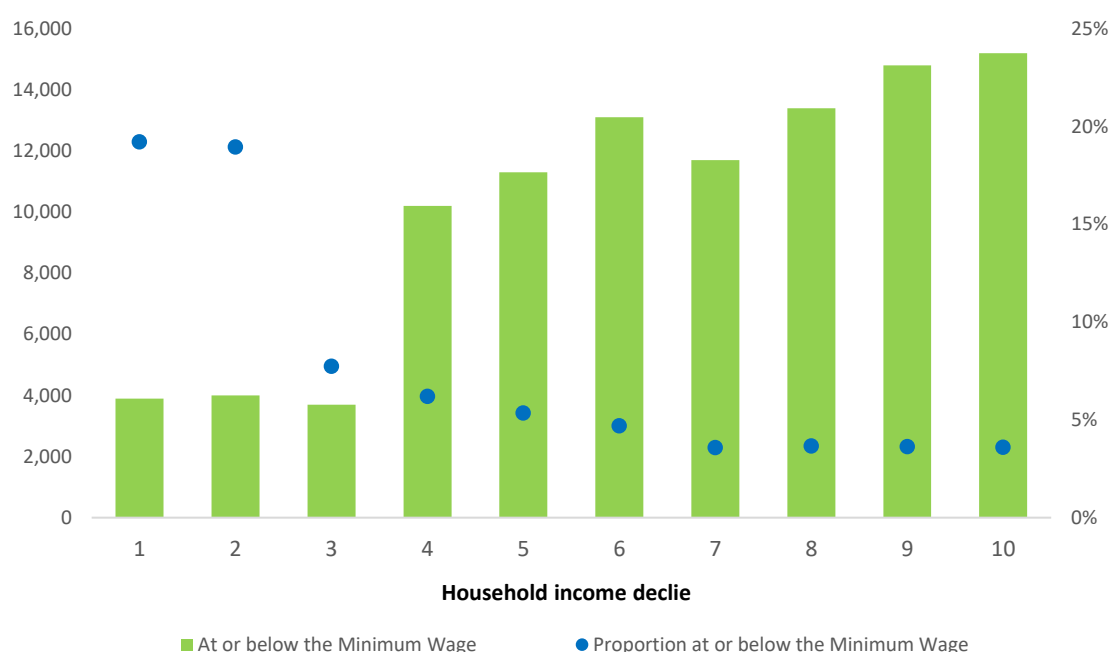
62. Minimum wage workers are found across a wide range of household circumstances and income deciles. Table 3 illustrates the composition of households that include at least one minimum wage worker.<sup>13</sup> Figure 10 shows the number of workers earning at or below the minimum wage by household decile and the proportion of workers within each household decile earning at or below the minimum wage.

<sup>13</sup> StatsNZ. (2025, June). Household Labour Force Survey.

**Table 3: Households of minimum wage workers**

Demographic (June 2025 HLFS data)	% of total wage earners at or below the minimum wage in the demographic group	% of people at or below the minimum wage out of total paid employees
Couple with dependent child(ren)	39% (39,500)	1.84%
Couple without dependent child(ren)	23% (22,800)	1.06%
Single with dependent child(ren)	10% (10,500)	0.49%
Single without dependent child(ren)	7% (7,000)	0.33%
Others	20% (20,500)	0.96%
<b>Total</b>	<b>101,300</b>	<b>4.72%</b>

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



### Increasing the minimum wage is not an effective tool for income redistribution

63. Figure 10 shows that minimum wage workers are spread across the household income distribution, with many located in medium- to high-income households. This spread likely reflects that many minimum wage workers are secondary earners, such as secondary earners within a couple or dependent children, rather than being the primary income source in the household.
64. Given that minimum wage workers are more likely to belong to medium- or high-income households, and those in low-income households may not receive the full financial benefit of minimum wage increases due to the abatement of government income supports (as explained in more detail below), increasing the minimum wage is not considered an effective tool for income redistribution.

65. Additionally, Table 3 indicates that around half of all households with at least one minimum wage worker do not include a dependent child. Approximately 24,000 of the workers earning at or below the minimum wage are dependent children (aged 15-17).

### **Many minimum wage workers experience the abatement of government income supports when the minimum wage increases**

66. When the minimum wage increases, total income increases for many households. However, for many low-income households, particularly those with dependent children, wages only make up a portion of total income. A range of government interventions and initiatives are designed to incentivise employment and boost the overall income of low-income households. Most notably, these include the In-Work Tax Credit, the Family Tax Credit and the Accommodation Supplement.
67. The In-Work Tax Credit and the Family Tax Credit are two of the four types of tax credits that make up the Working for Families Tax Credits. The Family Tax Credit is the main payment to support families with the costs of raising children, while the In-Work Tax Credit is designed to ensure that families are better off in employment than out of work.<sup>14</sup> The Accommodation Supplement is a payment for renters in the private rental market that can be received by both beneficiaries and non-beneficiaries.<sup>15</sup> These government income supports are abated as total household income increases, meaning that households with at least one minimum wage worker may see reductions in these supports when the minimum wage increases.
68. If the household of a minimum wage worker receives government income supports and the amount of these supports is abated when their total household income increases, then the total income increase resulting from an increase in the minimum wage may be lower than the rate of the increase times the number of hours worked.
69. To estimate the net amount by which minimum wage workers would benefit if the minimum wage were increased by the amounts represented by Options 2–7 in this report, Figures 11 and 12 below demonstrate the percentage increase in take-home pay for the following two hypothetical households after taking the abatement of government income supports into account:
- a solo parent earning the minimum wage with two children, and
  - a couple earning the minimum wage with two children.
70. Figure 11 includes the In-Work Tax Credit and the Family Tax Credit, but excludes the Accommodation Supplement. It demonstrates that, in response to a 1.9 percent increase in the minimum wage (Option 5), a couple earning the minimum wage with two children

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<sup>14</sup> More information about the Working for Families Tax Credits can be found here: <https://www.ird.govt.nz/working-for-families/types>.

<sup>15</sup> More information about the Accommodation Supplement can be found here: <https://www.workandincome.govt.nz/products/a-z-benefits/accommodation-supplement.html>.

would receive a 1.09 percent increase in their take-home pay (after tax and ACC levies), due to abatement.

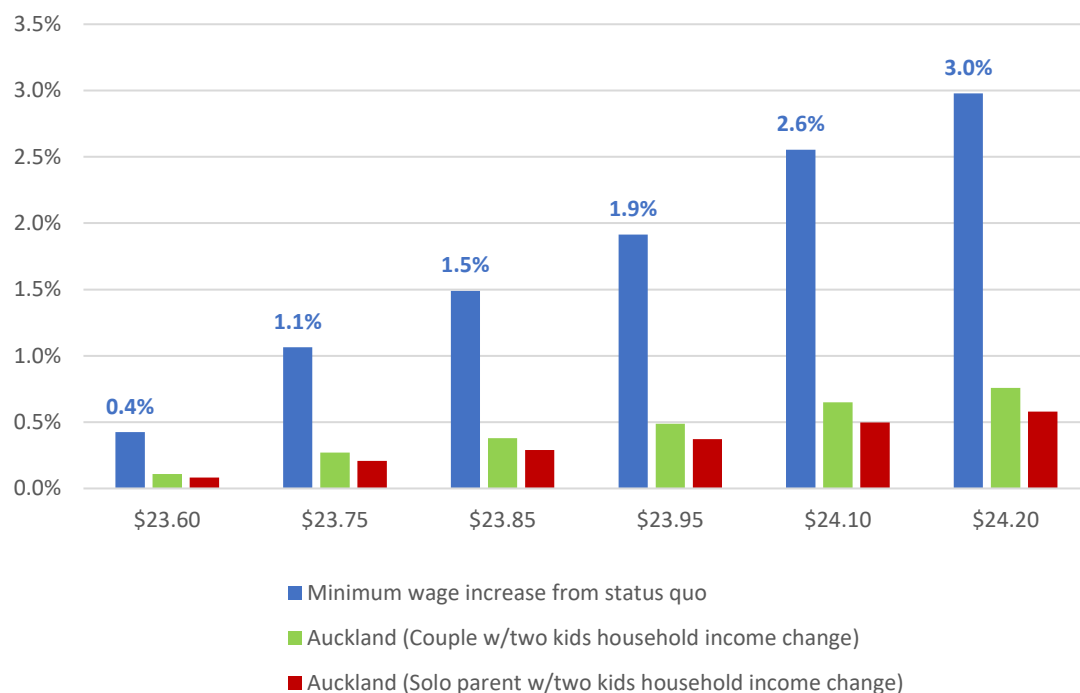
**Figure 11: Increases in minimum wage compared to increases in household incomes (excluding Accommodation Supplement)**



71. Figure 12 includes the In-Work Tax Credit, the Family Tax Credit and the Accommodation Supplement. It demonstrates that when the Accommodation Supplement is included in the calculation, abatement becomes more pronounced. In response to a 1.9 percent increase in the minimum wage (Option 5), a couple earning the minimum wage with two children would receive a 0.49 percent increase in their take-home pay (after tax and ACC levies), due to abatement.
72. The extent of Accommodation Supplement abatement depends on where a household lives. The hypothetical household in Figure 12 is based in Auckland, where the geometric mean rent is \$628 per week for the year to July 2025.



**Figure 12: Increases in minimum wage compared to increases in household incomes (including Accommodation Supplement entitlement for Auckland)**



## Expected fiscal impacts to the government

### Minimum wage increases are likely to result in minor fiscal impact for the government

73. Minimum wage increases have a minor fiscal impact for the public sector. Increased costs arise from higher wages for a small number of employees, as well as flow-on effects on government programmes where compensation or entitlements are directly or indirectly linked to the minimum wage (e.g., ACC weekly compensation).
74. The estimated additional cost to the government for minimum wage options at or above \$23.75 (Options 3–7) ranges from \$6.24 million to \$30.94 million per year, excluding any potential offsets from reduced transfer payments. In contrast, Options 1 and 2 (\$23.50 and \$23.60) are expected to result in cost savings, as they are lower than the minimum wage increases assumed by some agencies.
75. Most of the anticipated increased costs arise from government programmes where entitlements are linked to the minimum wage. The direct fiscal impact from higher wages is negligible, as most staff and contractors are already paid above the minimum wage. For more detail on total government costs and agency-level impacts, see **Annex One: Fiscal impacts for the government**.

**Table 4: Summary of impacts of the minimum wage rate options**

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) <sup>16</sup>	67.1%	67.4%	67.9%	68.1%	68.4%	68.9%	69.1%
Relativity to average wage (\$43.39/hour) <sup>17</sup>	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 <sup>18</sup>	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 1000	Less than 1000	Less than 1000	Less than 1000	Less than 1000	Less than 1000	Less than 1000
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
Full-time employee receiving no tax credits or other income support - net weekly income and increase from \$23.50	\$796.50 - 0.41%	\$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 - 0.11%	\$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 - 0.08%	\$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%

<sup>16</sup> Median hourly earnings from wage and salary income (excluding from self-employment), from StatsNZ, *Labour market statistics: June 2025 Quarter*.

<sup>17</sup> Average ordinary time hourly earnings from wages and salaries (excluding from self-employment), from Quarterly Employment Survey (QES) June 2025 Quarter.

<sup>18</sup> For a single adult, aged 25 or over, receiving \$412.51 (gross) per week, as from 1 April 2025.

Source: <https://www.workandincome.govt.nz/map/deskfile/main-benefits-rates/jobseeker-support-current.html>

## Section Four: MBIE's rate recommendation

77. The objective, specified by Cabinet in 2012, 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]. This objective has two parts, which must be carefully balanced.
78. As specified in paragraph 12, the criteria by which the potential minimum wage options are assessed are:
- **Effectiveness in protecting the real income of low-paid workers**, specified as the role of CPI inflation on the purchasing power of minimum wage workers. However, Cabinet did not specify the timeframe over which CPI inflation should be measured. We have focused our analysis on recent CPI inflation and annual forecasts for the period through to the next review. We have also noted historical CPI trends, to understand how past minimum wage increases have tracked against inflation.
  - **Effectiveness in minimising job losses**. We assess job losses by estimating employment restraint using MBIE's updated analytical approach outlined in Section One, which is intended to estimate not only the number of employees who may lose their jobs but also the number who would otherwise have been employed if not for the increase in the minimum wage. However, as noted in Section Three, there are limitations to MBIE's analytical approach, because the estimates it produces are relative to the entire labour market. Specific sub-groups (such as youth) are likely to be disproportionately affected by a minimum wage increase. Data limitations prevent the estimation of employment restraint for such sub-groups, so we also consider current economic and labour market context more broadly (with a particular focus on unemployment rates and youth employment).
  - **Other potential impacts**, such as fiscal cost. These impacts were described in Section Three. They are important to consider in our analysis because they assist us to understand potential impacts of any of the rate options, but they do not play a significant role in differentiating between the rate options.

### **MBIE recommends increasing the minimum wage rate by 2 percent to \$23.95 (Option 5)**

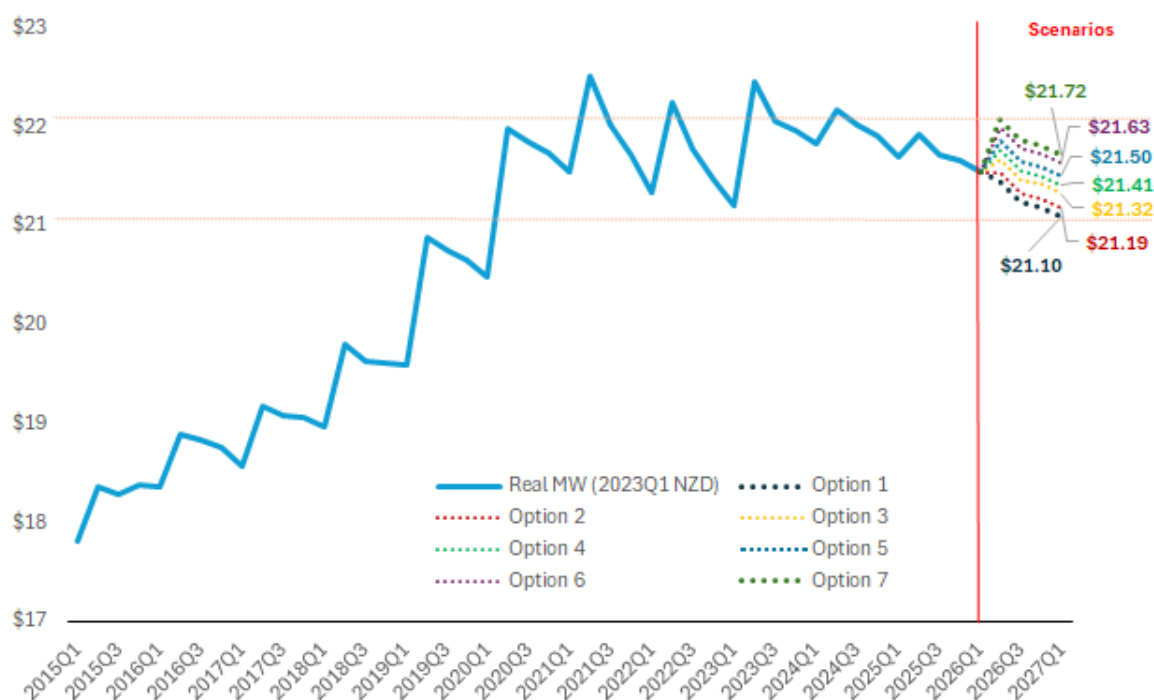
79. MBIE recommends increasing the adult minimum wage rate by 2 percent to \$23.95 in 2026 (Option 5). Based on the available data and analysis, we consider this option best balances the criteria of effectiveness in protecting the real income of low-paid workers and effectiveness in minimising job losses.

## **Criterion One: Effectiveness in protecting the real income of low-paid workers**

### *Growth of minimum wage relative to CPI inflation*

80. The CPI increased by 2.7 percent in the year to June 2025, as outlined in Section Two. The Treasury and RBNZ forecast that CPI inflation will ease to be within the 2–2.5 percent range in the first half of 2026. These CPI forecasts indicate that a 2 percent increase in the minimum wage on 1 April 2026 would largely protect the real income of minimum wage workers, when CPI inflation is measured over a one-year period since the last increase.
81. Most forecasts anticipate annual CPI inflation to remain relatively stable at around 2 percent from June 2026 through to 2028. Figure 13 incorporates CPI forecasts for 2026 and early 2027, and shows that Option 5 (a 2 percent increase) would restore the minimum wage to roughly its real value when the current minimum wage took effect on 1 April 2025. Looking over a longer time period, the various options would each return the real minimum wage to a level equivalent to sometime in the previous five years.

**Figure 13: Real minimum wage—minimum wage adjusted for inflation**



82. Figure 13 shows that the real value of the minimum wage (adjusted for CPI inflation) increased substantially over past years, before stabilising in 2020. When increases in the minimum wage outpace CPI inflation, as they have done in the past, the purchasing power of minimum wage workers improves. However, these workers are unlikely to have saved gains from past real wage increases, and they are therefore likely to still feel the impact of any real wage decrease, regardless of past increases. For this reason, while long-term trends in the real minimum wage are important, our analysis focuses on the recent CPI inflation and forecasts discussed above.

## **Criterion Two: Effectiveness in minimising job losses**

### *Employment restraint*

83. We estimate that a 2 percent increase in the minimum wage would have a minimal employment restraint effect (see Section Three for details). All rate options considered in this report are estimated to affect fewer than 1,000 people. These impacts are marginal in the context of the entire labour market. However, our estimates indicate that, in general, the lower the rate option, the fewer people are expected to be negatively affected.

### *Youth employment and unemployment rates, alongside broader economic and labour market context*

84. Given the limitations of MBIE's employment restraint estimates depicted in Section Three, in that they are relative to the entire labour market rather than particular sub-groups, we have also considered potential impacts on sub-groups most affected by minimum wage increases.
85. The unemployment rate was particularly high in the June 2025 quarter for youth (22.8 percent for workers aged 15–19 and 9.6 percent for workers aged 20–24). Youth are disproportionately represented among minimum wage workers and are therefore more likely to be affected by any negative employment consequences of increasing the minimum wage. As shown in Figure 8 in Section Two, the minimum wage is 97.9 percent of the median wage for workers aged 15–19. In light of the current economic and labour market weakness, particularly for youth, MBIE favours a conservative approach to increasing the minimum wage, supporting a 2 percent increase (Option 5) over larger increases of 2.5 percent or 3 percent (Options 6–7).

## **Criterion Three: Other potential impacts**

86. In addition to the factors above, we have also considered the potential impacts of the minimum wage rate options on wage compression, the overall number of workers directly impacted and impacts on demographic groups and sectors, the effect of minimum wage increases on government income supports and the estimated fiscal costs in our analysis. These potential impacts were discussed in Section Three, but are not considered further here as they do not play a significant role in differentiating between the rate options. However, we have kept them in mind because they assist us to understand potential impacts of any of the rate options.

## **There are not significant differences between Options 4, 5 and 6**

87. MBIE recommends Option 5, because we consider this option best balances the criteria of effectiveness in protecting the real income of low-paid workers and effectiveness in minimising job losses. However, there are not significant differences between Options 4, 5 and 6. These rate options are expected to result in a wage increase for between approximately 119,100 (Option 4) and 176,100 workers (Option 6)<sup>19</sup>, and an additional cost for the government of between \$11.32 million (Option 4) and \$25.65 million (Option 6).
88. Option 4 (a 1.5 percent increase) places slightly more emphasis on minimising job losses, and would likely have a lower impact on employers than Options 5 and 6. It would represent a minimum wage increase slightly below forecast annual CPI inflation, which is expected to remain relatively stable at around 2 percent from June 2026 through to 2028.
89. Option 6 (a 2.5 percent increase) places slightly more emphasis on protecting the real incomes of minimum wage workers, and may produce a small increase in the real value of the minimum wage, given forecast annual CPI inflation. It would likely have a greater impact on employers than Options 4 and 5, although, like all the rate options considered in this report, it is not expected to have any significant employment restraint effects.

## **The other options balance the criteria less effectively**

90. MBIE considers that the other rate options are less effective at balancing the criteria.
91. Options 1–3 (a 0 percent increase to a 1 percent increase) would likely have a lower impact on employers than Options 4–7, and they are not expected to have any significant employment restraint effects. However, these rate options would represent a minimum wage increase below forecast annual CPI inflation. Given the cost-of-living implications this may have for minimum wage workers, MBIE does not consider that these rate options balance the criteria as effectively as the higher rate options.
92. Options 1–3 are expected to result in a wage increase for between approximately 101,300 (Option 1) and 112,300 (Option 3) workers, and a relatively smaller additional cost for the government compared to Options 4–7, of up to \$6.24 million.
93. Like Option 6, Option 7 may produce a small increase in the real value of the minimum wage, given forecast annual CPI inflation. Again, this rate option is not expected to have any significant employment restraint effects across the labour market as a whole. However, given the wider labour market context outlined in Section Two, especially the high unemployment rate for youth, there is a risk that the higher increase associated with Options 6 and 7 could place further pressure on youth employment. MBIE favours taking a more conservative approach.

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<sup>19</sup> The difference between the number of workers estimated to be captured by Option 6 compared to Option 5 is notably larger than between the other rate options. A potential explanation is a threshold effect—Option 6 would capture workers who are currently paid 50 cents above the minimum wage (\$24.00), which could be a wage threshold that employers use to differentiate their roles from minimum wage roles.

94. Option 7 is expected to apply to the highest number of workers, resulting in a wage increase for approximately 182,100 workers, and a relatively greater additional cost for the government compared to Options 1–6, of \$30.94 million (although, as noted above, these additional costs are still considered small).

### **Feedback from the social partners**

95. BusinessNZ and the NZCTU, as representatives of employer and worker interests respectively, were invited to provide submissions on the Minimum Wage Review 2025.

### **Feedback from BusinessNZ**

96. BusinessNZ's submission this year maintained its consistent position from previous years: that minimum wage increases should be approached conservatively, and that the government should provide an early announcement for the 2026 rate and signal future expectations around minimum wage adjustments. It also reiterated its recommendation for broader reform of the minimum wage, social support, and tax systems.
97. BusinessNZ highlighted ongoing economic challenges, particularly for small-to-medium-sized enterprises, which continue to face significant cashflow constraints. Sectors with high concentrations of minimum wage workers—such as tourism, horticulture, agriculture, cleaning, hospitality, and retail—are particularly impacted. BusinessNZ noted that New Zealand's minimum wage is one of the highest in the OECD relative to median and average wages, and that some commentators have called for a nil increase to ease pressure on businesses.
98. However, BusinessNZ acknowledged that no increase is effectively a reduction in real incomes and therefore recommended a conservative approach to minimum wage increases but did not specify a recommended rate. It recommended that the government incorporate some indication of trends on wage costs (such as a three-year rolling average of CPI and the Labour Cost Index (LCI)) in its announcement of minimum wage rates each year, to provide businesses with a non-binding indication of the sorts of minimum wage increases that might occur in the next two to three years.

### **Feedback from the NZCTU**

99. The NZCTU's submission this year was also similar to its position in previous years, that:
- the minimum wage for 2026 should be \$28.95—level of the current Living Wage;
  - youth and training rates should be abolished, with all workers being paid at least the minimum wage; and
  - a new tripartite body should be responsible for establishing the minimum wage recommendation to the Minister for Workplace Relations and Safety in the future.
100. The NZCTU raised concerns about the government having increased the minimum wage by less than inflation over the past two years, noting that due to this, a full-time minimum

wage worker is now cumulatively \$2,438 worse off in real terms. It noted that the cost-of-living for low-income workers has run ahead of general inflation for more than a decade. It also referred to research suggesting that increasing the minimum wage has little impact on unemployment and general inflation.

101. As mentioned above, MBIE has considered the broader economic and labour market context in our analysis of the rate options, including the ongoing economic challenges highlighted by BusinessNZ and the cost-of-living considerations raised by the NZCTU.
102. We have also noted the feedback provided by both BusinessNZ and the NZCTU regarding the factors considered in the 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 starting-out and training minimum wage rates at 80 percent of the adult minimum wage rate, an increase to \$19.16 per hour**

103. This report recommends increasing the starting-out and training minimum wage rates from the current hourly rate of \$18.80 to \$19.16, maintaining the current relativity of 80 percent of the adult minimum wage rate.
104. A differential between the adult minimum wage rate and the starting-out and training minimum wage rates may support the transition of youth into employment and could help to 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.

### **MBIE recommends announcing changes to the minimum wage in December 2025**

105. Changes to the minimum wage are often announced in December, and are given effect in the following year through an Order in Council under sections 4, 4A and 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, nor any requirement that 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 the minimum wage rates annually.
106. The minimum wage rates for 2025 were announced in December 2024. This timing is preferred by employers and employees, as it provides businesses the opportunity to prepare for the changes. Changes to the minimum wage rates for the previous three years (2022–2024) were announced in January or February of the year they came into effect.



## Annex One: Fiscal impacts for the government

1. Increases to the minimum wage are expected to have both direct and indirect fiscal impacts for some government agencies. This section summarises the estimated effects.
2. MBIE canvassed over 30 public service departments and agencies to assess whether the proposed minimum wage options would have a direct material impact or would affect agencies under their oversight. Health New Zealand Te Whatu Ora, the Ministry of Education, the New Zealand Defence Force, Accident Compensation Corporation (ACC), Oranga Tamariki and the Ministry of Social Development (MSD) were identified as the agencies most likely to be affected by changes to the minimum wage.
3. Most agencies reported no material impact to direct costs from anticipated increases, as their remuneration rates are already above the Living Wage. Similarly, several agencies projected no fiscal pressure from payments to service contractors, particularly given the government's requirement that public service contracts pay the Living Wage (currently \$28.95) to cleaners, caterers, and security services personnel. However, some agencies noted that their ability to fund these contracts could be impacted by minimum wage increases.
4. In summary, Table A1.1 presents the estimated additional annual costs to government (in millions) directly related to a minimum wage increase.<sup>20</sup>

**Table A1.1: Indicative increased costs to government**

Option	Increase %	Rate	Additional annualised cost (\$)
Option 1	0% increase	\$23.50	–7.04m
Option 2	0.5% increase	\$23.60	–1.86m
Option 3	1% increase	\$23.75	6.24m
Option 4	1.5% increase	\$23.85	11.32m
Option 5	2% increase	\$23.95	17.50m
Option 6	2.5% increase	\$24.10	25.65m
Option 7	3% increase	\$24.20	30.94m

5. **Health New Zealand Te Whatu Ora** identified minor direct workforce cost implications from a minimum wage increase. It also noted potential impacts on some health services and programmes it funds in the primary and community sector, particularly aged residential care. Health New Zealand Te Whatu Ora reported that it is operating under tight budget constraints and cannot easily absorb significant cost increases. In the absence of new funding, it may need to either reduce support to providers or cut spending elsewhere, risking service reductions or increased costs for consumers.

<sup>20</sup> These figures are subject to their own assumptions and caveats based on the individual methodologies used by each agency.

**Table A1.2: Indicative increased costs for Health New Zealand Te Whatu Ora**

Option	Rate	Additional annualised cost (\$)
Option 1	\$23.50	-
Option 2	\$23.60	2,660,157
Option 3	\$23.75	6,650,581
Option 4	\$23.85	9,310,864
Option 5	\$23.95	11,971,147
Option 6	\$24.10	15,952,771
Option 7	\$24.20	18,623,972

6. The **Ministry of Education** assessed that a minimum wage increase would have minor direct fiscal implications for the schooling workforce.

**Table A1.3: Indicative increased costs for the Ministry of Education**

Option	Rate	Additional annualised cost (\$)
Option 1	\$23.50	-
Option 2	\$23.60	5,872
Option 3	\$23.75	16,145
Option 4	\$23.85	22,994
Option 5	\$23.95	29,843
Option 6	\$24.10	40,116
Option 7	\$24.20	46,964

7. The **New Zealand Defence Force** advised that a minimum wage increase would result in some direct cost impacts on its military workforce. Whether these costs are absorbed internally or require additional funding would depend on the rate approved by Cabinet.

**Table A1.4: Indicative increased costs for NZDF**

Option	Rate	Additional annualised cost (\$)
Option 1	\$23.50	-
Option 2	\$23.60	174,922
Option 3	\$23.75	437,575
Option 4	\$23.85	613,580
Option 5	\$23.95	789,687
Option 6	\$24.10	1,098,687
Option 7	\$24.20	1,340,804

8. **ACC** advised that none of the proposed minimum wage options would affect direct staffing costs. However, increases are expected to have a direct impact on weekly compensation costs and an indirect impact on the Labour Cost Index (LCI). ACC noted that most services receive an annual LCI uplift, so if the LCI rises due to minimum wage increases, the cost of most other claims would thereby be indirectly increased. As some of the proposed

minimum wage rates are lower than those used in ACC's valuation assumptions, a reduction in weekly compensation costs is expected under certain options.

**Table A1.5: Indicative increased costs for ACC**

Option	Rate	Indirect cost from minimum wage impact on LCI (\$)	Direct cost: weekly compensation costs (\$)	Total cash costs (\$)
Option 1	\$23.50	-	-7m	-7m
Option 2	\$23.60	1.1m	-6m	-4.9m
Option 3	\$23.75	2.7m	-4m	-1.3m
Option 4	\$23.85	3.7m	-3m	0.7m
Option 5	\$23.95	4.8m	-1m	3.8m
Option 6	\$24.10	6.4m	1m	7.4m
Option 7	\$24.20	7.5m	2m	9.5m

9. In addition to anticipated indirect LCI 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 today to meet the future cost of all existing ACC claims. Changes in the OCL will influence the long-term solvency of the ACC scheme (the measure of ACC's assets to liabilities). ACC expects a release in the OCL under most options, as the proposed minimum wage rates are lower than the inflation assumptions used in its valuation. Estimated impacts for each option are outlined in Table A1.6.

**Table A1.6: Anticipated cost impacts to ACC's OCL**

Option	Rate	OCL impact – funded support services and indirect LCI (\$) <sup>21</sup>	OCL impact – weekly compensation costs (\$)
Option 1	\$23.50	-43m	-60m
Option 2	\$23.60	-36m	-49m
Option 3	\$23.75	-25m	-32m
Option 4	\$23.85	-18m	-21m
Option 5	\$23.95	-11m	-10m
Option 6	\$24.10	-	6m
Option 7	\$24.20	7m	18m

10. The following table presents the estimated levy rate impacts of each option on the levied accounts for the 2028/29 year. Levy rates for earlier years have already been prescribed by the Government. The figures shown represent the midpoints of estimated ranges, as a range of possible impacts exists for each option.

<sup>21</sup> 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).

**Table A1.7: Anticipated impact on levied accounts**

Option	Rate	Motor vehicle account	Earners' account	Work account
Option 1	\$23.50	–\$0.88	–\$0.01	\$0.00
Option 2	\$23.60	–\$0.73	\$0.00	\$0.00
Option 3	\$23.75	–\$0.50	\$0.00	\$0.00
Option 4	\$23.85	–\$0.34	\$0.00	\$0.00
Option 5	\$23.95	–\$0.19	\$0.00	\$0.00
Option 6	\$24.10	\$0.04	\$0.00	\$0.00
Option 7	\$24.20	\$0.19	\$0.00	\$0.00

11. The Non-Earners' Account (NEA) appropriation for 2026/27 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 A1.8: Anticipated impact on NEA funding**

Option	Rate	Impact on NEA funding (\$)
Option 1	\$23.50	–7m
Option 2	\$23.60	–6m
Option 3	\$23.75	–4m
Option 4	\$23.85	–3m
Option 5	\$23.95	–2m
Option 6	\$24.10	0m
Option 7	\$24.20	2m

12. **Oranga Tamariki** advised that it has no staff or casual employees paid at the minimum wage, so no direct staffing impacts are expected. However, the two highest proposed minimum wage options would affect the lower levels of the Care Support Worker pay equity scale, particularly Level 2 roles. A small number of care capacity and group home contracts may be impacted, including sleepover provisions funded at minimum wage under historic models.

**Table A1.9: Indicative increased costs for Oranga Tamariki**

Option	Rate	Additional annualised cost (\$)
Option 1	\$23.50	-
Option 2	\$23.60	-
Option 3	\$23.75	-
Option 4	\$23.85	-
Option 5	\$23.95	-
Option 6	\$24.10	12,000
Option 7	\$24.20	39,000

13. **MSD** advised that the minimum wage options would not directly affect its wage costs, as all employees are paid at least the Living Wage (currently at \$28.95 per hour). However, there are anticipated cost impacts for funded support services (e.g., Disability Enterprise, Jobs and Training Support Funds) and Home Help spending.

**Table A1.10: Indicative increased costs for funded support services for MSD**

Option	Rate	Costs to funded support services (\$)	Costs to Home Help (\$)	Total additional annualised cost (\$)
Option 1	\$23.50	-	-35,000	-35,000
Option 2	\$23.60	225,000	-25,000	200,000
Option 3	\$23.75	450,000	-11,000	439,000
Option 4	\$23.85	675,000	-	675,000
Option 5	\$23.95	900,000	10,000	910,000
Option 6	\$24.10	1,125,000	25,000	1,150,000
Option 7	\$24.20	1,350,000	35,000	1,385,000

14. MSD anticipates that minimum wage increases may create cost pressures for contracted service providers, potentially affecting service quality or availability if additional funding is not provided. Additional funding may also be sought to address increase costs to the Home Help programme.
15. Increases to the minimum wage are expected to have indirect impacts on New Zealand Superannuation and main benefit rates. New Zealand Superannuation and Veteran's Pensions are indexed to movements in the net average wage, unless the Consumer Price Index (CPI) provides a higher adjustment. Both the average wage and CPI may be influenced by changes to the minimum wage. For main benefits, beneficiaries with other income may experience reduced benefit rates or cancellations due to higher abatement. These impacts are largely indirect and cannot be reliably estimated.
16. More broadly, minimum wage increases are expected to have indirect fiscal impacts that are not tied to any single agency. While these effects are difficult to quantify, several outcomes are anticipated:
- A reduction in government spending may occur due to lower entitlements paid out, as higher abatement rates reduce welfare benefits and other social assistance (e.g., Working for Families Tax Credits).
  - The number of individuals required to make student loan repayments may increase, along with repayment amounts.
  - KiwiSaver contributions may rise, potentially increasing costs for employers if more individuals qualify for the full member tax credit.
  - PAYE tax revenue is expected to increase, although this increase may be offset by reduced corporate tax revenue due to higher deductible wage expenses.
  - Higher disposable incomes may lead to increased consumer spending and greater GST collection.