

# Briefing Paper

## INFLATION REMAINS UNAFFECTED BY MINIMUM WAGES

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**Greg Jericho**  
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### Summary

Whereas last year, when inflation growth had fallen from the heights of 2022 and 2023, Inflation is now above the Reserve Bank’s target band of 2% to 3%, which could tempt the Fair Work Commission to deliver a low increase for Australia’s lowest paid workers (including both the National Minimum Wage and award wages). Such a decision would be based on a misreading of the recent growth of inflation and punish the more than 2 million Australian workers and their families surviving on the minimum wage to greater poverty. The cost-of-living rises over the past four years – including those since the 2025 annual wage review – have overly affected those on low and middle incomes because the price rises have been most significant among non-discretionary items, which those on low and middle incomes. The long-run trend level of improvements in real wages (whereby real minimum wages grow over time to reflect productivity growth and broader wage trends) can only continue with increases of between 7.5% and 11.1% this year.<sup>1</sup>

As inflation levels rise, the business community typically has argues that higher minimum wages will increase inflationary pressures and unsustainably damage company profitability. This report, drawing on and updating our 2024 and 2025 research, clearly rebuts these claims.<sup>2</sup> The impact on economy-wide prices of even a

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<sup>1</sup> As explained below, an increase of 11.1% would merely restore Modern Award wages to their pre-pandemic trend in real terms.

<sup>2</sup> Jericho & Stanford (2024) “The Irrelevance of Minimum Wages to Future Inflation”, <https://australiainstitute.org.au/report/the-irrelevance-of-minimum-wages-to-future-inflation/> and

large increase in minimum and award wages is slightly lower than we estimated in our 2025 report. It remains the case that a modest increase, such as the 5% proposed by the ACTU, would have minimal impact on profits and have no significant influence on future inflation.

Even with the historically large minimum and award wage rises that occurred 2022 and 2023, profit margins across the economy remain higher than pre-pandemic norms. Similarly, the ratio of wages to sales in the industries with the highest concentration of workers on award rates remains below or on par with pre-pandemic levels.

Given the likely rise in the cost of living due to the supply shock of the Iran War, those on minimum and award wages need a lift in wages such as will at the very least fully compensate them for these price rises which have been in no way caused by wage growth in general, and the minimum and award wages specifically.

The impact on prices of even a substantial lift in minimum and award wages could be fully offset by a very small reduction in profits. Such a reduction would still leave the share of GDP going to profits at levels similar to those before the pandemic, while assisting the recovery of the lost living standards of Australia's lowest paid workers.

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Jericho (2025) "The Continuing Irrelevance of Minimum Wages to Future Inflation", <https://australiainstitute.org.au/report/the-continuing-irrelevance-of-minimum-wages-to-future-inflation/>.

## The cause of the recent inflation increase

A year ago, when we presented analysis of the relationship between the minimum wage and inflation, inflation was much more benign. The consumer price index in the year to the December 2024 quarter had risen 2.4% – comfortably within the Reserve Bank’s target range. While the trimmed mean was 3.3%, it too had fallen significantly from 4.1% just six months prior. Now a year later, the CPI is 3.6% and the trimmed mean is 3.4% having risen from 2.7% six months prior.

It is vital to correctly diagnose the cause of this recent inflation increase otherwise there is a risk of inflicting unnecessary harm on households through either higher interest rates or lower than much-needed rises in minimum and award wages.

In 2022 and 2023, inflation rose quickly to levels not seen since the 1980s. At that time the tendency among Australia’s major economic institutions, Reserve Bank of Australia (RBA) and Treasury, was to suggest this was another example of demand-driven inflation – similar to what occurred at the end of the 1970s and 1980s. As a consequence, interest rates were raised from the emergency pandemic levels of 0.1% to 4.35%. Our research however, which drew on and echoed work by international organisations such as the European Central Bank and the OECD, found that the main driver of inflation was not labour costs or wages, but profits.<sup>3</sup> Once again, with the recent rise in inflation we observe a similar, if currently smaller, occurrence.

Unfortunately, the Reserve Bank has again fallen into the neo-liberal habit of discovering excess demand whenever it sights inflation above 3%. When it raised interest rates in February, the RBA suggested that “the staff’s overall assessment was that the labour market was a little tighter than consistent with full employment.”<sup>4</sup> Similarly, Michele Bullock told reporters after the decision was announced that “we know that unit labour costs are running still quite hot”.<sup>5</sup> This belief was contradicted by the data released in the national accounts a month later, which showed that non-farm unit labour costs fell 0.8% in real terms in the last three months of 2025, and the

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<sup>3</sup> For a summary of the research, see Stanford et al (2023) “Profit-Price Inflation: Theory, International Evidence, and Policy Implications” <https://australiainstitute.org.au/report/profit-price-inflation-theory-international-evidence-and-policy-implications/>

<sup>4</sup> RBA (2026) “Minutes of the Monetary Policy Board Meeting. Hybrid – 2 and 3 February 2026” <https://www.rba.gov.au/monetary-policy/rba-board-minutes/2026/2026-02-03.html>.

<sup>5</sup> RBA (2026) “Media conference Monetary Policy Decision, Michele Bullock, Sydney – 3 February 2026” <https://www.rba.gov.au/speeches/2026/mc-gov-2026-02-03.html>

0.2% increase in nominal terms was the smallest quarterly increase for more than 5 years.<sup>6</sup>

When it again raised rates in March, the RBA monetary policy board's statement once again suggested the pickup in inflation was due to the labour market: "while part of the pick-up in inflation is assessed to reflect temporary factors, the Board judged that the labour market has tightened a little recently and capacity pressures are slightly greater than previously assessed."<sup>7</sup> Governor Bullock then opened her press conference after the decision by noting that "the labour market has tightened a little recently, rather than being stable as we'd expected."<sup>8</sup> This was again refuted by data, this time released just two days later, when the February labour force figures revealed that had risen from 4.1% to 4.3%.

While it may be forgivable to mis-forecast the state of the economy based on data yet to be released, the decision to increase the cash rate in March to 4.1% failed to properly consider data that was contained within the December quarter national accounts.

Our analysis of the national accounts, using the same disaggregation of inflation that we undertook in 2022 and 2023, shows that increased profit margins and the implicit "unit profit cost" fully contributed to the rise in inflation in the latter half of 2025 while the contribution of labour costs actually declined.

While in 2022 and 2023 companies took advantage of the supply shocks out of the pandemic and the Russian invasion of Ukraine to raise prices by more than costs in order increase their profits, this time the impact has not been as stark (yet), however it remains significant, given it caused the Reserve Bank to raise the cash rate twice.

To disaggregate the impact, we calculated the weighted increase of unit labour costs and taxes less subsidies on GDP deflator. This leaves us with a remainder that is effectively the combination of gross operating surplus and gross mixed income, which we have labelled unit profit costs.

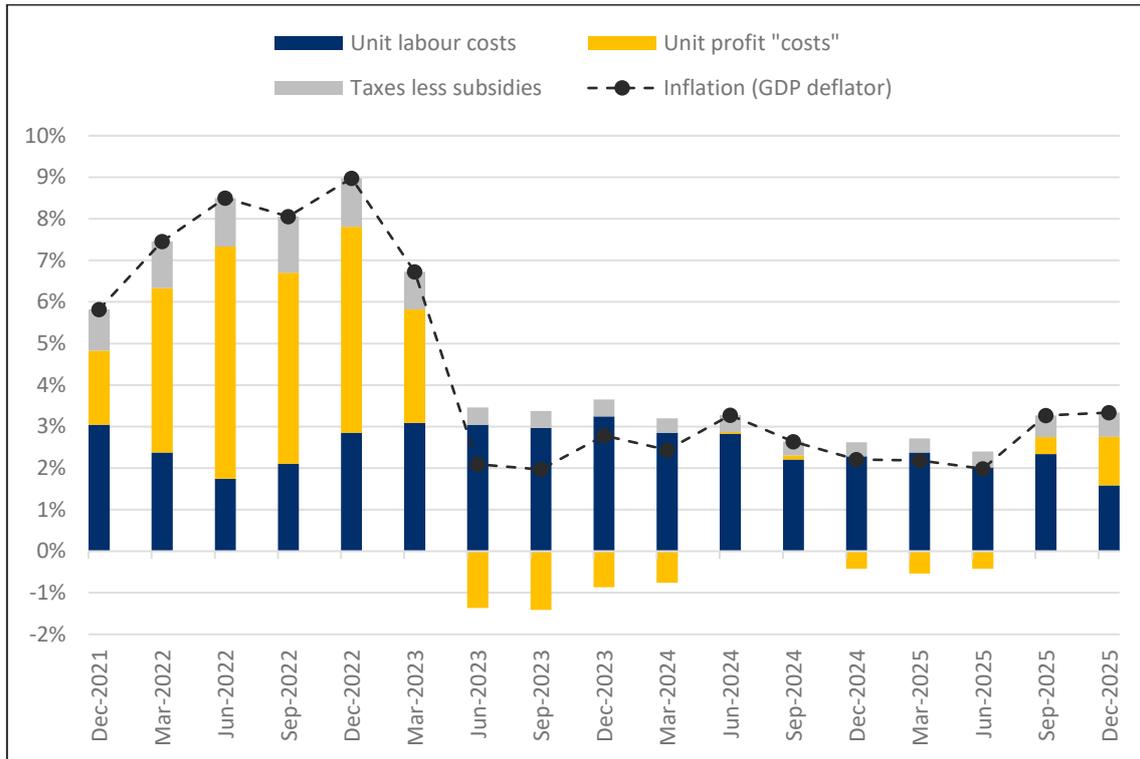
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<sup>6</sup> ABS (2026) Australian National Accounts: National Income, Expenditure and Product, December 2025, <https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release#key-statistics>

<sup>7</sup> RBA (2026) "Media Release Statement by the Monetary Policy Board: Monetary Policy Decision - 17 March 2026" <https://www.rba.gov.au/media-releases/2026/mr-26-08.html>

<sup>8</sup> RBA (2026) "Media conference Monetary Policy Decision, Michele Bullock, Sydney – 17 March 2026", <https://www.rba.gov.au/speeches/2026/mc-gov-2026-03-17.html>

**Figure 1. Contributions to annual inflation growth**



Source 1. ABS National Accounts, December 2025, Author’s calculation using Tables 5, 7 and 42.

From June to December 2025, the contribution of labour costs to annual inflation fell from 2% pts to 1.6% pts. At the same time our estimate of the contribution of the cost from profits rose from a negative 0.4% pts contribution in the year to June 2025 to a 1.2% pt contribution in the year to December 2025.

In effect, the increased inflation in the latter half of 2025 came from increased profits, not wages or labour costs. Indeed, the contributions of labour costs and wages to inflation fell in the past half of the year.

Policy makers are aware of this occurrence. In her appearance before the Senate Economics Committee in February this year, the Treasury Secretary, Jenny Wilkinson noted that one of the “temporary factors” contributing to the recent increase in inflation included “some business and service providers rebuilding margins following a period in which they had been unable to pass higher input costs onto households.”<sup>9</sup>

<sup>9</sup> Senate (2025) “Senate Economics Legislation Committee, Estimates, 11 February 2026” [https://parlinfo.aph.gov.au/parlInfo/download/committees/estimate/29369/toc\\_pdf/Economics%20Legislation%20Committee\\_2026\\_02\\_11.pdf](https://parlinfo.aph.gov.au/parlInfo/download/committees/estimate/29369/toc_pdf/Economics%20Legislation%20Committee_2026_02_11.pdf)

Given all of this happened before the Iran War and the surge in oil prices, the worry is that this will just be the start, and a repeat of 2022 and 2023 is set to follow: a period of increased profits pushing up inflation and workers saddled with the misdiagnosed cure of higher interest rates.

The RBA has already committed an error that risks a detrimental effect on workers due to its belief that the current inflation is largely driven by a tight labour market. Governor Bullock in a Q&A at the AFR Business Summit, noted that “if the labour market remains tight and there’s continued pressure on inflation, then one of the things that’s going to happen, is the unemployment rate will probably have to rise.”<sup>10</sup>

This mistake will likely hit mostly those currently unemployed or soon to be in the labour force who will find it more difficult to find work. But the mistake would be magnified were the Fair Work Commission also to fall into the trap of believing the current levels of inflation are driven by excess demand and a tight labour market and deliver a small increase in the National Minimum Wage and Award rates.

## **The declining value of minimum and award wages**

The sharp price increases in 2021 and 2022 had a dramatic impact on the living standards of Australia’s workers. The real value of average private sector wages (measured by the Australian Bureau of Statistics’ (ABS) Wage Price Index and deflated by the Consumer Price Index) fell 5.1% from the March 2021 quarter to the December 2022 quarter. In the period since then, real wages have risen just 0.8%, leaving the purchasing power of the average wage still some 4.3% worse than it was at the start of 2021, before taking into account taxes and government benefits.

The fall in living standards was much greater for those on low and middle incomes, who devote more of their income to the purchase of necessities and “non-discretionary items”. From March 2021 to December 2025 the average price of non-discretionary items in the CPI basket rose 24.4%. The overall CPI increased 23.0% and a 19.7% increase in non-discretionary items, excluding tobacco. For context, were wages deflated by the non-discretionary price index rather than CPI, real wages would now be 5.8% lower than they were in March 2021.<sup>11</sup>

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<sup>10</sup> RBA (2026) “Transcript of Question & Answer Session: Listening to Australians, Interpreting the Data and Setting Monetary Policy” <https://www.rba.gov.au/speeches/2026/sp-gov-2026-03-03-q-and-a-transcript.html>

<sup>11</sup> ABS (2026) “Consumer Price Index, December 2025”

The minimum wage and the awards system are vital bulwarks against poverty and inequality in Australia's economic system because they maintain the wages of workers who are the lowest paid, and usually least able to bargain.

Not only has there been a rise in the cost of living in the past 6 months, but when the war in Iran is also likely to have a significant impact, keeping pace with inflation and maintaining the real value of minimum and award wages is more vital than ever. The FWC's annual wage review, by determining increases in the National Minimum Wage and the schedule of Modern Award wages, plays a particularly important role.

Due to the FWC's decisions over the past four years, minimum wages have kept pace with inflation better than overall wages. The decision in 2023 to raise the minimum wage by 8.65%, from an hourly rate of \$21.38 to \$23.23, was extremely important given it lifted the real value of the minimum wage back above the 2020-21 level and did much to restore the lost purchasing power of those on the lowest wage.<sup>12</sup>

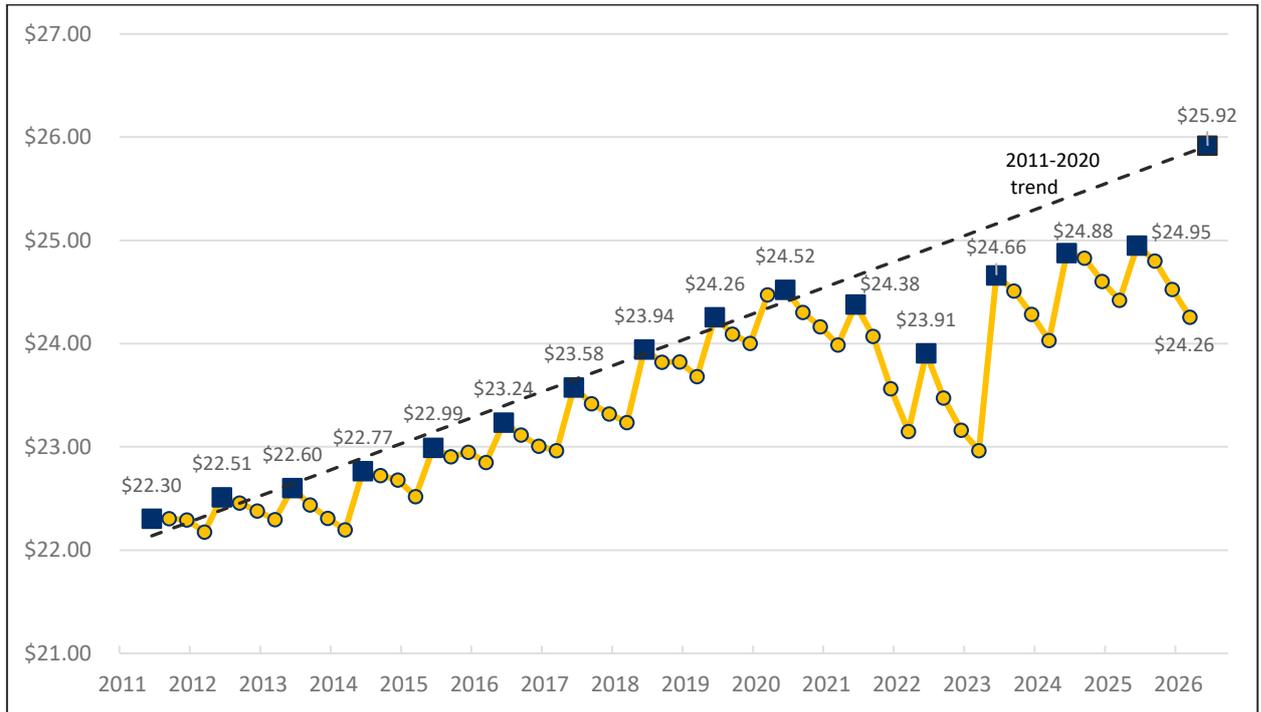
The 2024 decision to raise the minimum wage by 3.75% helped recover living standards to the near long-term trend and overcome the usual decline in value of the minimum wage over the year.<sup>13</sup> Both these increases were necessary given 2021 and 2022 saw the first decline in real value of the minimum wage since 2009 (when it was frozen for one year during the Global Financial Crisis). While those increases did return the value of the minimum wage in real terms to above that of 2020-21, it remained below the expected trend level over the pre-pandemic decade. Unfortunately, while 2025's 3.5% increase did slightly increase the real value of the minimum wage, it left workers further behind the pre-pandemic trend.

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<sup>12</sup> That increase resulted from a change in classification for the small group of workers on the lowest level of wage.

<sup>13</sup> The 'sawtooth' pattern in Figure 1 is produced by the effect of ongoing inflation on the real value of minimum wages in periods between the FWC's annual wage adjustments. The wage is increased once per year, giving real wages a lift that is then gradually eroded over coming months (eroded faster when inflation is faster). As a rule, each year's successive peak in real value should be higher than the previous years, as a reflection of ongoing productivity growth in the economy. This was the case every year from 2011 to 2020.

**Figure 2. Real Minimum Wage, 2011-2025, September 2025 dollars**



Source: FWC, ABS, RBA. March, June and September 2026 estimates based on estimates for CPI in the February 2026 Statement on Monetary Policy.

As Figure 2 displays, the real increases in 2023, 2024 and 2025 are largely in line with a trend from the 2021 decision. This new trend growth however is much slower than that which occurred prior to the pandemic. Failure to significantly increase the minimum wage this year would continue this weak trend and leave today’s workers well behind what would have been anticipated before the pandemic.

Given the expected rise in inflation by June this year, the real value of the minimum wage will be 6.4% below the pre-pandemic trend.<sup>14</sup> This means that to return the real value of the minimum wage to the pre-pandemic trend level an increase of 7.5% to \$25.90 is required.

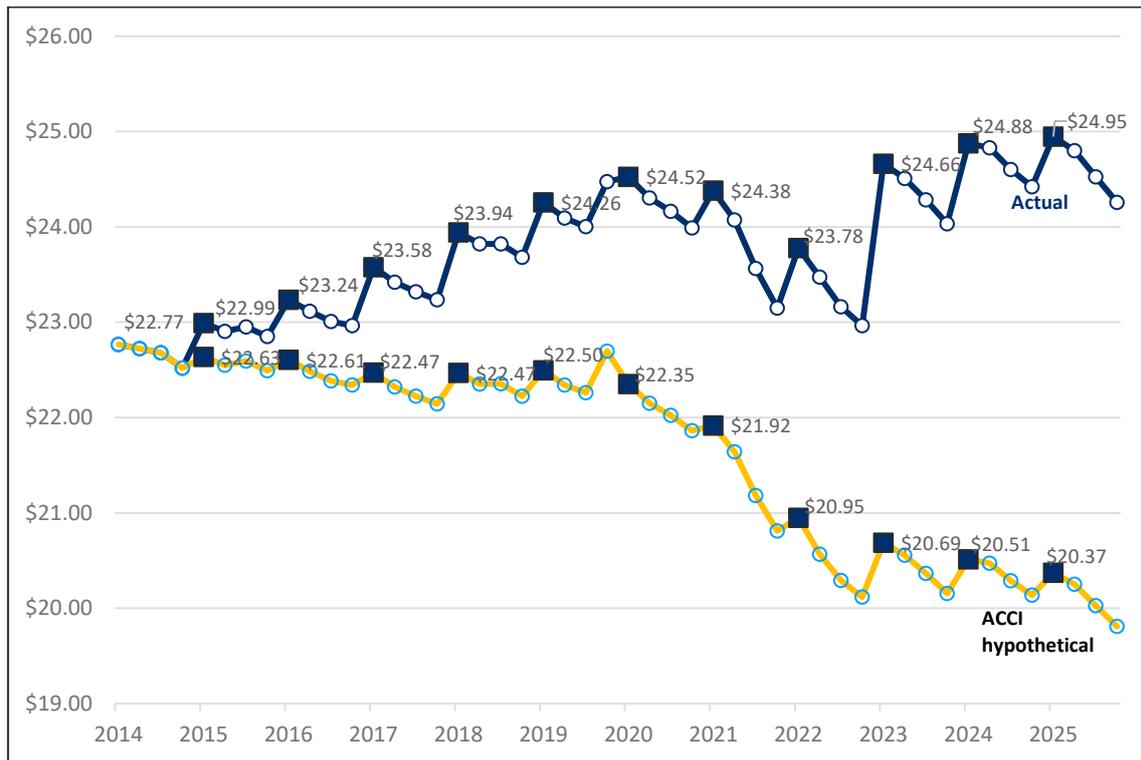
While it might seem that such an increase is overly large or possibly extreme, it should be noted against the annual recommendations by business lobbyists such as the Australian Chamber of Commerce and Industry (ACCI). Each year ACCI recommended a

<sup>14</sup> The RBA presently forecasts 4.2% CPI growth in the 12 months ending June 2026, and 3.6% in the 12 months to December 2026.

rise in the minimum wage of less than inflation – even during periods of low inflation as was observed in the 2010s.

Figure 3 reveals that had the FWC taken the advice of ACCI from 2015 onwards, the value of the minimum wage would now be 18.4% lower than it actually is.

**Figure 3. Comparison of actual minimum wage in real terms with hypothetical had ACCI recommendations been implements since 2014**

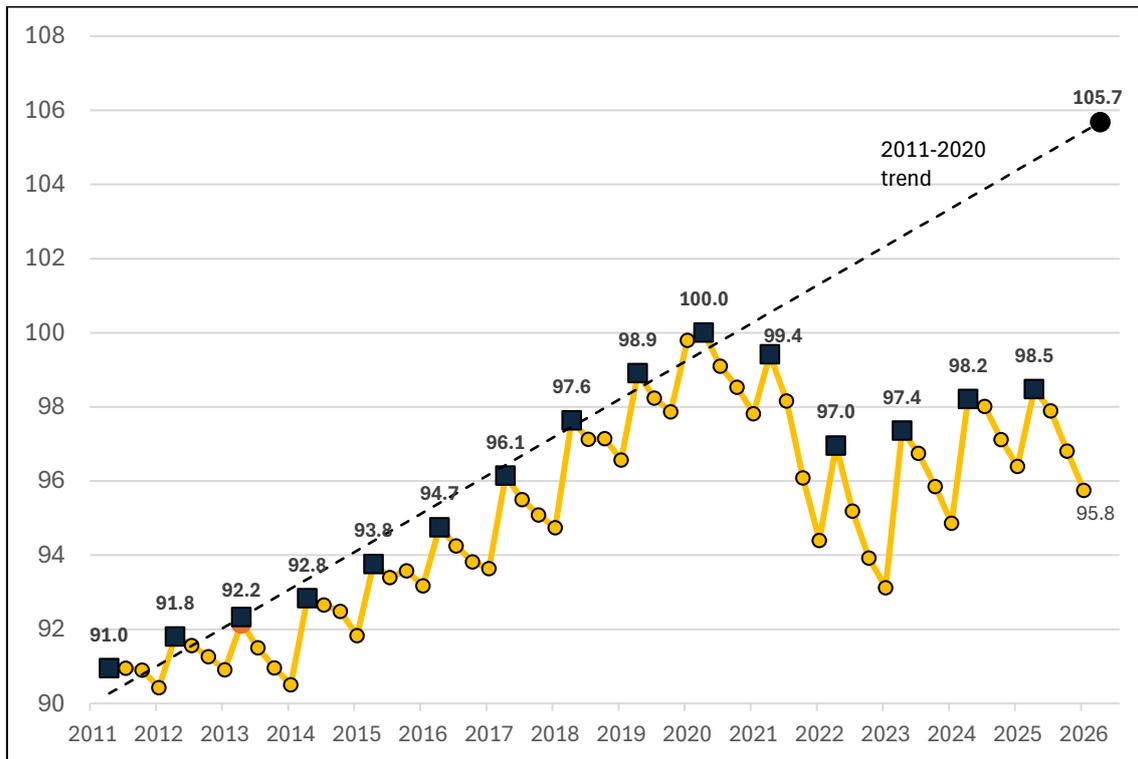


Source 2. ABS, FWC, ACCI submissions, all figures in September 2025 dollars.

The comparison between the ACCI advice and reality details just how great a role the FWC plays in keeping Australia’s poorest workers from suffering unnecessary degradation and hardship by not following the extreme advice of some business groups.

Crucially in 2022 and 2023, the annual wage increases for workers on Modern Award wages were less than for those workers on the minimum wage, despite rising costs affecting those workers to much the same extent. In 2022 rather than the 5.16% for the minimum wage, those on award wages only received a 4.6% increase, and rather than the generous but necessary 8.65% in 2023, those on Modern Award wages received only a 5.75% increase. After the 3.75% increase in 2024, and the 3.5% increase in 2025, the real value of Modern Award wages has only increased 1.6% in 3 years and was still 1.5% lower than it had been in September 2020.

**Figure 4. Index of Real Modern Award Wages, September 2020 = 100**



Source: FWC, ABS, RBA. All figures in Sept 2025 dollars, March, June and September 2026 estimates based on estimates for CPI in the February 2026 Statement on Monetary Policy.

Worse still, the real value of the Modern Award in September 2025 was 5.9% below the pre-pandemic trend of expected real wage rises. And because of inflation growth since September last year (and assuming inflation rises in line with RBA expectations) that will mean by June this year, the real value of Modern Award wages will be 9.2% below the pre-pandemic trend.

To return to the trend level, an increase of 11.1% in award wages is required. This would fully undo the damage of the past four years and also reset the parity of Modern Award wages increases with that of the smaller group of workers on the National Minimum Wage.

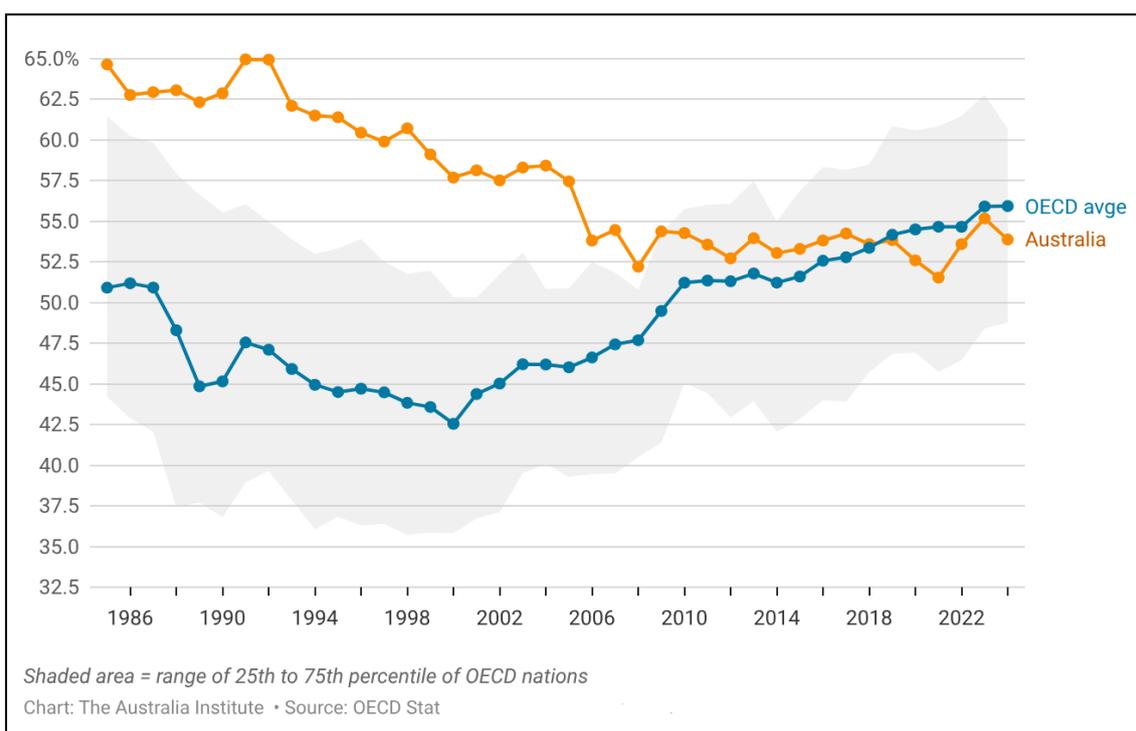
## Australia's minimum wage in international context

As noted in our report last year, business groups and conservative commentators commonly argue that Australia's minimum wage is one of the highest in the world due to a simplistic comparison of the value of minimum wages across the world in US dollar terms. However, the international standard for comparing the relative value of the

minimum wage is to compare them to the overall level of wages in that economy. This is known as the “minimum wage bite” and is typically defined as the value of the minimum wage relative to median earnings.

As Figure 5 displays, Australia once had a relatively high minimum wage compared to others across the OECD, but since 2010 the minimum wage bite has been below the top 75 percentile across the OECD, and since 2019 it has been below the OECD average.

**Figure 5. Australia’s Minimum Wage Bite among OECD Countries: minimum wage relative to median full-time earnings**



Source: OECD

Given Australia’s minimum wage in 2024 (the latest comparable figures published across the OECD) was 53.9% of the gross median wage there is little reason to argue that rises in Australia minimum wage are out of step with the rest of the world. The most recent data suggests that in 2025 Australia’s minimum wage bite rose slightly to 54.4% which still places it well below the current OECD average of 55.9%.<sup>15</sup> Indeed by

<sup>15</sup> Calculated from the ABS Characteristics of Employment Survey, August 2024.

the EU's current directive for establishing an adequate minimum wage of "such as 60 per cent of the gross median wage" Australia's minimum wage is inadequate.<sup>16</sup>

As such there is no evidence to suggest the minimum wage needs to be suppressed in order to maintain competitiveness. Not only has Australia been a main exception among OECD countries in reducing the minimum wage relative to median earnings for two decades, the idea that minimum wages need to be suppressed in the interests of global competitiveness is far-fetched. Most award-covered workers are employed part-time and mostly in non-tradeable service industries (including public and community services) that do not participate directly in international trade.

Keeping these workers even poorer by allowing the minimum wage to decline in value in real terms would be punishing them for reasons that do not hold up to scrutiny. Moreover, in the 2025 Economic Outlook, the OECD noted that Australia's "real hourly wages remain 4.4% below Q1 2021 levels ... well below the rate recorded for other OECD economies" and that "as of April 2025, minimum wages have increased in real terms only marginally (about 1%) since January 2021".<sup>17</sup>

## Businesses remain profitable

Our report last year noted that despite solid rises in the minimum wage and to a lesser extent Modern Award wages, the profit margins of industries with the highest concentration of workers on award rates remained high.

That situation continues to hold. The FWC has noted that in 2023 the four industries with the highest concentration of workers on Modern Awards were accommodation and food services, administration and support services, retail trade, arts and recreation, and other services.<sup>18</sup> The latest Business Indicator data from the ABS revealed that in the December quarter 2025, the ratio of wages to business income was lower than the pre-pandemic averages in three of those five industries (Figure 6). And while the ratio of wages to income was higher than pre-pandemic levels in the administration and support services industry, the ratio has remained stable since 2022

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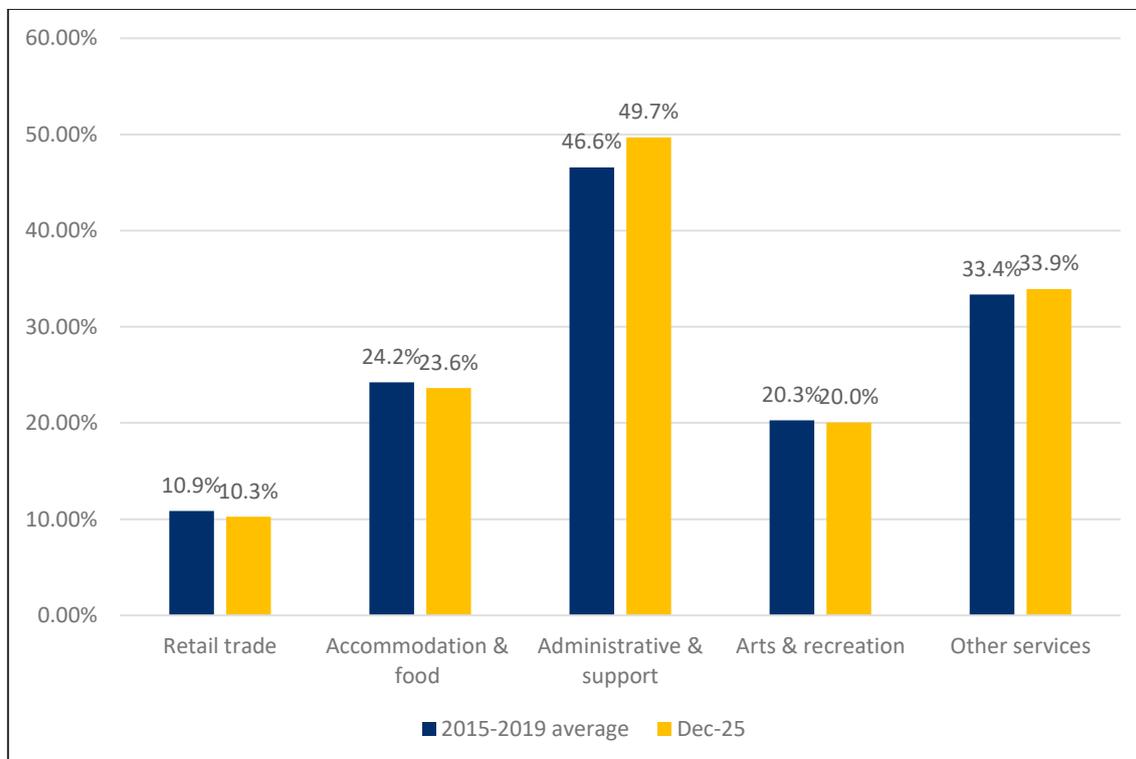
<sup>16</sup> Christine Aumayr-Pintar & Carlos Vacas-Soriano "Substantial rises in national minimum wages for 2025 – linked to the EU directive?" <https://www.eurofound.europa.eu/en/resources/article/2025/substantial-rises-national-minimum-wages-2025-linked-eu-directive>

<sup>17</sup> OECD (2025) "OECD Employment Outlook 2025 - Country Notes: Australia" [https://www.oecd.org/en/publications/oecd-employment-outlook-2025-country-notes\\_f91531f7-en/australia\\_dd6ed473-en.html](https://www.oecd.org/en/publications/oecd-employment-outlook-2025-country-notes_f91531f7-en/australia_dd6ed473-en.html)

<sup>18</sup> Strong, Rozenbes and Tomlinson (2025) op cit.

and fallen since 2021, which suggests the two significant award wage increases of 4.6% and 5.75% in 2022 and 2023 had negligible impact.

**Figure 6. Wages as a share of Total Revenue**



Source: ABS Business Indicators, seasonally adjusted.

## Minimum wages and inflation

In our 2024 and 2025 reports, we demonstrated the lack of correlation between growth in the National Minimum Wage (and award wages) and inflation. The further 12 months of data has only reinforced this case.

Table 1 summarises annual changes in the minimum wage and changes in the corresponding inflation rate for the fiscal year following each wage adjustment. There is no predictable relationship between the minimum wage change in any given year, and inflation in the subsequent year. The biggest fall in the inflation rate during this period coincided with the biggest increase in the minimum wage for 40 years and the biggest increase in Modern Award wages since 2010. In 2024-25 the minimum wage rise was lower than the previous year, and inflation fell 1.7% pts. Last year the minimum wage increase was even lower, and yet inflation rose 0.6%pts.

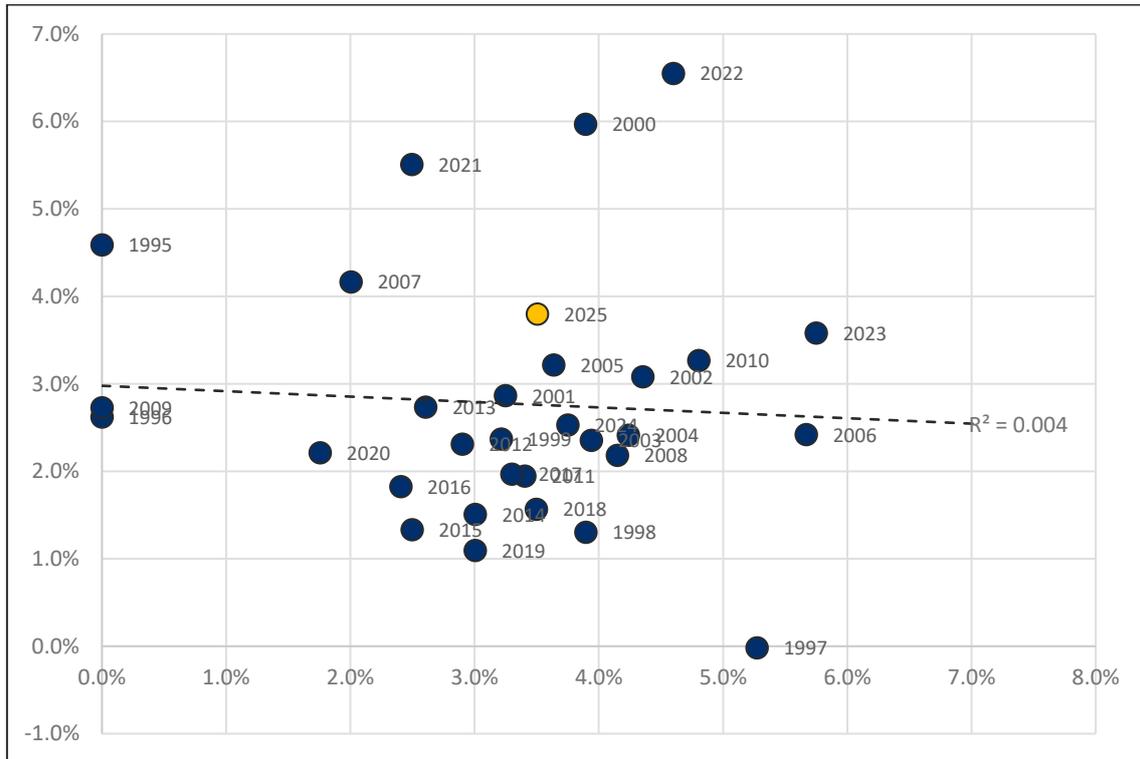
In effect the only constant is that there is no relationship between the two. A larger minimum wage rise is just as likely to be followed by lower inflation than previously as it is with higher inflation.

**Table 1. Changes in Minimum/Award Wages and Inflation 2018-2025**

<b>Fiscal Years</b>	<b>Change in Minimum / Award Wage</b>		<b>Change in Inflation Rate</b>
<b>2018-19</b>	3.50%		-0.28%pts
<b>2019-20</b>	2.96%		-0.31%pts
<b>2020-21</b>	1.80%		0.29%pts
<b>2021-22</b>	2.47%		2.82%pts
<b>2022-23</b>	5.16%	4.6%	2.58%pts
<b>2023-24</b>	8.65%	5.75%	-2.82%pts
<b>2024-25</b>	3.75%		-1.70%pts (fcst) <sup>1</sup>
<b>2025-26</b>	3.5%		0.6%pts
<i>Source: Calculations from ABS Consumer Price Index and Fair Work Commission. 1. Forecast from RBA Statement on Monetary Policy, February 2026, Table 3.1.</i>			

While Table 1 covers the most recent period of economic disruption before, during and after the pandemic, a longer view in Figure 7 reveals the complete absence of a correlation between minimum and award wage increases and future inflation. As noted above, increases in the minimum wage are mostly exercises in recovering lost real value over the previous 12 months since the previous increase. Figure 7 reveals that over the past 35 years there is no relationship to speak of between the rise in the minimum wage and the level of inflation over the following year.

**Figure 7. Minimum Wage/Award wage increases and future inflation: 1995-2025**



Source: FWC, ABS. Inflation denotes the average CPI annual growth in the 4 quarters following each minimum wage increase. Date denotes the year in which the minimum wage increase occurred. 2024 is the award wage increase of 3.75%. In 2022 and 2023 the award wage increase has been used. 2025 figures based on estimates for CPI in the February 2026 Statement on Monetary Policy.

It is common sense that the impact of minimum wage and award wages on inflation would be diffuse. The share of workers who are covered by minimum and Modern Award wages is around 20%, but the low starting point of minimum and award wages means the share of minimum and award wage payments in the total national wage bill is much smaller – closer to 11%.

The figures in Table 1 also highlight that the recent rise (and falls) in inflation were due overwhelmingly to supply-side factors such as supply-chain disruptions and company profiteering rather than demand-driven impulses such as large wage rises.<sup>19</sup> This will no doubt occur to a greater extent for 2025-26 as the figures in Table 1 and Figure 7

<sup>19</sup> See Stanford et al (2023) “Profit-Price Inflation: Theory, International Evidence, and Policy Implications” <https://australiainstitute.org.au/report/profit-price-inflation-theory-international-evidence-and-policy-implications/>

draw on the Reserve Bank's most recent estimates for inflation, which were made before the impact of the Iran War.

It is clear that wages were not the cause of the recent rises in inflation, nor will they affect future outcomes. Given overall wages have not had a material impact on inflation growth, an even more substantial case can be made that the minimum wage and award wages will have an even more negligible impact.

## **Minimum wages and future inflation**

Despite a total lack of evidence, for much of the period since the rise of inflation in 2022, the spectre of a wage-price spiral due to a tight labour market was often invoked, despite a lack of evidence that such a thing is occurring either in Australia, or even in the rest of the OECD.

As we noted last year, since the introduction of the wage price index, the best predictor of wage growth is inflation over the previous year, whereas wage growth now has no significant correlation with inflation over the next year. This suggests that, akin to minimum wages, employees attempt to recover lost gains in the real value of their wages rather than seeking wage rises above what might be expected. Moreover, lack of bargaining power, due to the fall in union representation and successive efforts over the past 30 years to weaken the ability of employees to negotiate, means that there is now little prospect of wage rises so high that they could cause a wage-price spiral.

Given total wage growth has an insignificant impact on future inflation, it is only logical that increases in minimum and award wages should have a negligible impact given they account for just 20% of all workers and around 11% of the total wage bill.

The FWC's upcoming minimum wage decision (and corresponding adjustments to award wages) applies to workers on a relatively low level of wages – indeed they are Australia's lowest paid. Thus, any overall macroeconomic impact must be even less than for all wages.

Table 2 summarises our analysis of the insignificance of the minimum wage decision to overall macroeconomic aggregates in Australia.

In our report last year, we used analysis by the FWC that used unpublished micro data to establish that 2.61 million workers are covered by Modern Awards – some 89% of the total number of employees covered by all awards. Using the same relationship with the May 2025 Employee Earnings and Hours provides us with 2.67 million employees on Modern Awards. Further analysis by the FWC has also determined that

the average weekly modern award wage in 2023 was just \$762.60 – below the \$864 average weekly wage for all awards.<sup>20</sup> Using this same relationship for the May 2025 figures, provides us with an average weekly wage for Modern Awards of \$813.97 compared to the average \$922.20.

We are able to use the most recent National Accounts to estimate the total compensation covered by Modern Awards in December 2025 (Table 2).

**Table 2. Modern Award-dependent Wages in the Total Economy, Dec 2025**

	<i>Number</i>	<i>Share total</i>	<i>Share of GDP</i>
<i>Workers covered by Modern Awards (Dec 2025)<sup>1</sup></i>	<i>2.67m</i>	<i>20.27%</i>	<i>-</i>
<i>Average Award Wage (\$/week, 2025)</i>	<i>\$813.9</i>	<i>50.5%<sup>2</sup></i>	<i>-</i>
<i>Total Compensation Covered by Modern Awards (\$b/yr, Dec quarter 2025, annualised)<sup>3</sup></i>	<i>\$145.8</i>	<i>10.2%</i>	<i>5.0%</i>
<p><i>Source: Author’s calculations from ABS National Accounts and FWC analysis of Employee Earnings and Hours<sup>21</sup>.</i></p> <p><i>1. Using the same share of workers in FWC (2024)<sup>22</sup>.</i></p> <p><i>2. Share of average wage across all employees</i></p> <p><i>3. Includes superannuation payments</i></p>			

Table 2 applies the ratios from the 2024 figures to the December quarter of 2025. In that quarter, total compensation of employees was \$356.1 billion for an annualised amount of \$1,424.5 billion. Applying the 10.2% ratio to that figure results in \$145.8 billion total compensation to workers covered by Modern Awards, which accounts for

<sup>20</sup> FWC (2024) “Information note— Award-dependent wages in the economy <https://www.fwc.gov.au/documents/wage-reviews/2023-24/c2024-1-information-note-award-dependent-wages-2024-04-16.pdf>

<sup>21</sup> Strong, Rozenbes and Tomlinson (2025) op cit. and FWC (2024) ibid

<sup>22</sup> FWC (2024) op cit.

5.0% of total GDP. – less than the 5.1% we calculated for 2024. The macroeconomic footprint of the National Minimum Wage decision, therefore, is extremely modest.

Based on Table 2 we make the following assumptions to estimate the impact of increases in Modern Awards and the minimum wage on overall prices.

All award-covered workers receive the same percentage increase as the national minimum.

Those wage increases are fully paid to all award-covered workers, including through non-wage forms of compensation (like superannuation contributions).

We do not consider the effect of growing labour productivity on unit labour costs; in general, productivity growth means that unit labour costs (most relevant for firms' pricing decisions) grow more slowly than hourly wages.<sup>23</sup>

The full impact of higher labour costs is passed through into prices by firms, with no impact on their profits.

From this we are able to estimate that the proportional impact of a 1% increase in Modern Awards and the minimum wage would now be around \$1.458 billion. This would add a negligible 0.0499% to average nominal prices even if companies and businesses fully passed on the extra cost with no reduction in their profit margins (Table 3). Such a small increase is well within the margin of error of economic statistics and hence is statistically insignificant.

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<sup>23</sup> Labour productivity trends have been disrupted by the after-effects of the Covid-19 pandemic, and economists are struggling to explain these rapid shifts. Michael Plumb, the Head of Economic Analysis Department of the Reserve Bank, in (2025) "Why Productivity Matters" <https://www.rba.gov.au/speeches/2025/sp-so-2025-02-27.html> noted that "slow growth in the amount of capital available for each worker in the Australian economy – or a lack of 'capital deepening' – has also contributed to slow growth in labour productivity" because "overall investment has not kept pace with the strong growth in employment recently". Even with the most recent falls in productivity, the average annual growth of gross value added per hour worked in the market sector since 2010 remains 1.2%.

**Table 3. Impact of Higher Minimum Wages on Average Economy-Wide Prices**

	<b>Average Labour Cost Impact</b>	<b>Share of Average Nominal Prices</b>
<i>Impact of 1% Modern Award Wage Increase (Dec 2025)</i>	<i>\$1.458 billion.</i>	<i>.0499%</i>
<i>Source: Author’s calculations from ABS National Accounts and FWC analysis of Employee Earnings and Hours.</i>		

Given such circumstances, even a more robust increase of the National Minimum Wage and award wages that would restore their value to pre-pandemic trend levels would have a small impact on the economy. Even if the minimum wage were increased by 5%, which is the current recommendation of the ACTU, the impact on average prices – assuming the cost was fully passed on – would lift nominal GDP by just 0.25%.<sup>24</sup>

Such an amount would barely be noted among all the other variables within the economy – such as the average fluctuations in the terms of trade or the change in the prices of tradable goods and services from a depreciation of the exchange rate, let alone the increases in petrol prices due to the Iran War.

As is also clear from the past three years, increases in the minimum wage above inflation levels is no barrier to inflation falling and the minor impact of minimum wage increases on consumer prices will be overwhelmed by other, more important determinants of future inflation.

## Profits, inflation, and minimum wages

One of the more important determinants of future inflation, as has been observed since 2022, and in the last half of 2025, is corporate profits. As noted above, the dominant cause of recent inflation has not been wages or labour costs, but an expansion in business profits, as firms took advantage of opportunities to increase profit margins.

It has been clear that since 2022 as the share of national income going to profits has fallen, so too did inflation, and in 2025 as inflation rose and so too did the share of

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<sup>24</sup> ACTU (2026) “Australian Unions go after a 5% wage increase for lower-paid

income going to profits – albeit at much smaller levels than in 2022 and 2023. Given the marginal impact of a rise in nominal GDP of increases in the Minimum Wage and Modern Awards, it would require only a small narrowing of current elevated profits to fully offset the impact on prices of even substantial increases in the minimum wage (Table 4).

**Table 4. Profit Reduction Required to Offset Minimum/ Modern Award Wage Increase**

	<b>Number</b>
<i>Total Annual Corporate Profit, Dec 2025 (\$b)</i>	<i>\$699.0</i>
<i>Increase since Dec 2019</i>	<i>39.8%</i>
<i>Increase in Modern Award Wages since Dec 2019</i>	<i>23.9%</i>
<i>Reduction in Profit Required to Offset 1% Minimum Wage Increase (%)</i>	<i>0.21%</i>
<i>Source: Author’s calculations from ABS National Accounts (Table 7) and estimates reported above.</i>	

In 2025, corporate profits totalled \$699.0 billion, which was a 39.8% increase on profits in 2019. At the same time workers on Modern Awards had received just over half the increase of 23.9%. Clearly the brunt of the cost-of-living has been borne by workers.

The entire \$1.458 billion additional labour cost arising from a 1% increase in minimum and Modern Award wages could be fully absorbed by reducing economy-wide corporate profits by just 0.2% (in other words, a fifth of one per cent), . That would avoid even the tiny increase in prices associated with fully passing on the cost of higher minimum and award wages. In this context, a substantial increase in minimum and award wages could be offset by a modest decline in corporate profits. A 5% increase, for example, would require only a 1% point fall in profits.

It is clear that even a substantial increase in wages for award-covered workers would have no significant impact on consumer price inflation, even if the modest labour costs associated with that increase were fully passed on in higher prices. Small reductions in profit margins should be expected given the current abnormally high levels of inflation from the Iran War, however the experience of the Russia invasion of Ukraine in 2022 is

one of companies using the disruption as an excuse to increase profits margin and drive inflation higher.

Policy makers need to be awake of the risk of 2022 occurring again. This would be calamitous for Australians on low incomes especially were the FWC to believe that a lower-than-inflation-level increase was required to reduce inflationary pressures. The minimum wage and award rates provide a necessary bulwark against poverty and rising cost of living. At a time when increasing profits are already driving inflation higher, the lowest-paid Australian workers should not be the ones who are forced to lose out while companies reap greater wealth.