



# Annual Wage Review 2026

*HIA's Submission to the  
Fair Work Commission*

27 March 2026





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## Executive Summary

HIA submits to the Fair Work Commission's Expert Panel that the National Minimum Wage and Modern Award minimum wages should be increased by 3.5 per cent for 2025–26.

This submission provides industry-specific evidence demonstrating why this figure represents the outer boundary of what the residential building sector can sustainably absorb.

The residential building industry is the critical delivery mechanism for the Federal Government's National Housing Accord commitment to build 1.2 million homes by 2029. That target is already acutely under threat. New dwelling completions were at 174,730 in 2024–25 against a required annual minimum of 240,000. A wage determination that further destabilises the cost environment for the small businesses that form the backbone of this sector will entrench that deficit.

This submission draws the Expert Panel's attention to a number of key cumulative, sector-specific cost pressures that distinguish residential construction from the general economy:

- 40 per cent increase in house construction materials costs since 2019;
- 46 per cent increase in the median price of shovel-ready land since 2019;
- government-imposed taxes and charges now exceeding \$500,000 per new home;
- the Middle East conflict generating immediate fuel supply disruption and materials cost surcharges, compounding fixed-price contract exposures;
- independent economic modelling demonstrating that proposed CGT and negative gearing changes would eliminate between 33,350 and 45,900 homes and 3,162 to 4,300 full-time equivalent jobs over five years; and
- a skilled trades shortfall of 83,000 workers required to meet the Housing Accord target.

## Recommendations

1. HIA supports an increase to the National Minimum Wage (NMW) and Modern Award minimum wages of 3.5 per cent.

This represents the maximum increase that is fiscally sustainable for the residential building industry in the current environment, having regard to the unprecedented convergence of cost pressures, geopolitical disruptions, government-imposed charges and a critical national housing supply deficit.

2. HIA opposes any C12 re-benchmarking or C13 phase-out in 2026. We suggest deferring any structural changes to a more appropriate and stable time, pending resolution of current geopolitical and cost pressures.

3. HIA calls on the Expert Panel to acknowledge the structural case for differentiated treatment of small residential building businesses in future award proceedings.

4. HIA urge governments at all levels to address the non-wage cost drivers that are suppressing housing supply, in lieu of imposing further mandated wage burdens on the sector.



## Introduction

The Housing Industry Association (HIA) is Australia's only national industry association representing the residential building sector. With over 60,000 members collectively delivering around 180,000 new homes each year, HIA represents the full spectrum of the industry: large-volume builders, small and medium builders, building product manufacturers, suppliers, and professional service providers, across every state and territory.

The residential building industry contributes over \$100 billion annually to the Australian economy, accounts for 5.8 per cent of GDP, and employs more than one million Australians. The sector has deep supply chain linkages across manufacturing, retail and professional services, amplifying its macroeconomic footprint well beyond direct construction activity.

In conducting the Annual Wage Review (AWR), the Expert Panel is required by the *Fair Work Act 2009* (Cth) to take into account the statutory considerations in sections 284(1) and 134(1), including:

- the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation, and employment growth (s 284(1)(a));
- relative living standards and the needs of the low paid (s 284(1)(c));
- the likely impact on business, including on productivity, employment costs and the regulatory burden (s 134(1)(f));
- the need to ensure a simple, easy to understand, stable and sustainable modern award system (s 134(1)(g)); and
- the special circumstances of small and medium-sized businesses (s 3(g)).

HIA places particular emphasis on s 3(g) and s 134(1)(f). The residential building industry is defined by small business. The overwhelming majority of HIA's members are sole traders, partnerships, and small companies employing fewer than 20 people. They operate on fixed-price contracts, carry thin margins, and have no ability to pass on mandated cost increases mid-project.

These structural characteristics are not shared across the broader economy, and therefore, warrant explicit consideration by the Panel.

HIA also urges the Panel to consider matters beyond the statutory list in s 284(1)(a)-(e) that it considers relevant (as per its finding made in the 2021-22 Annual Wage Review Decision).<sup>1</sup>

Accordingly, HIA invites the Panel to receive the evidence in this submission regarding the interaction between the AWR outcome and the Government's National Housing Accord obligations as one such relevant matter to take into account.

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<sup>1</sup> [2022] FWCFB 3500 at [5].



## Endorse – 3.5% NMW increase as maximum ceiling

HIA supports an increase of 3.5 per cent to the NMW and Modern Award minimum wages.

It is important to note that HIA's endorsement of this figure is not an assertion that the residential building industry can comfortably absorb it. It is, rather, a submission that 3.5 per cent represents the outer boundary of what is fiscally sustainable in the current environment.

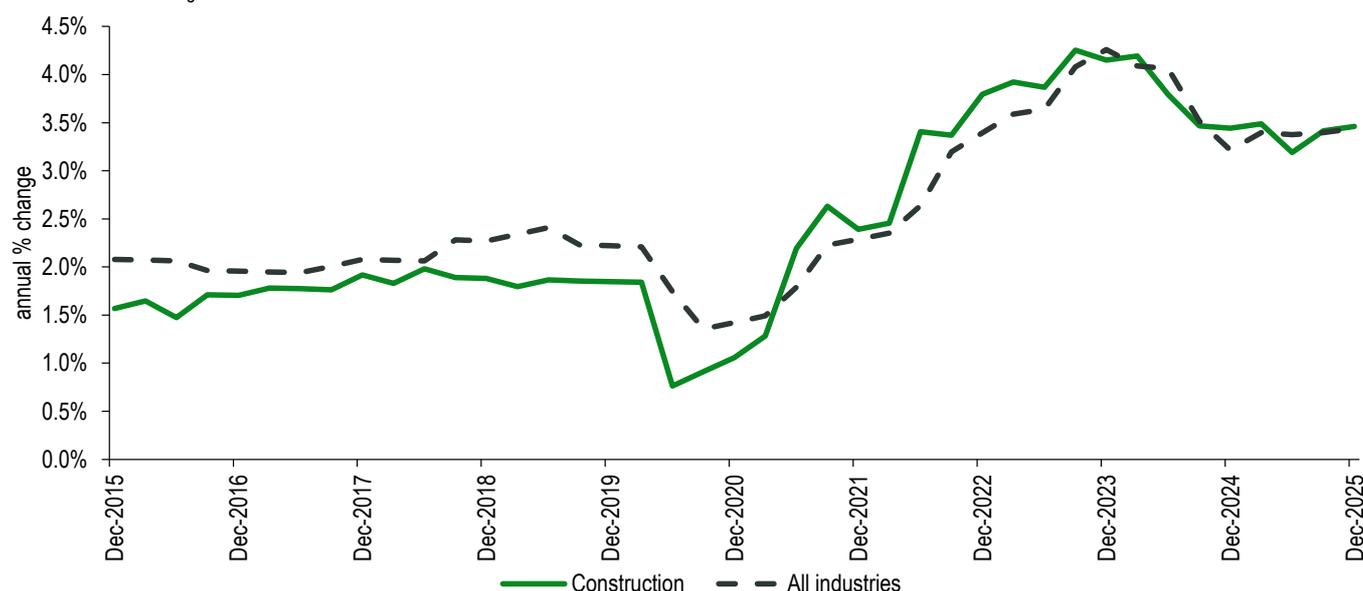
Any determination above this level risks causing material and irreversible harm to the sector's capacity to deliver the housing Australia urgently needs.

The case for restraint is grounded in the following specific considerations:

- Headline inflation has rebounded to 3.7 per cent (February 2026) with underlying inflation at 3.3 per cent. Pressures remain particularly on the services component of inflation, which increased by 3.9 per cent in the year to February 2026. An AWR outcome above 3.5 per cent risks compounding inflation persistence and triggering further RBA rate increases, adding to mortgage cost pressure on both home buyers and the small building businesses that carry construction finance.
- The RBA has already increased the cash rate twice in 2026 (February and March), reaching 4.1 per cent. The construction sector is acutely interest rate sensitive: higher rates suppress demand for new homes and increase the cost of development financing.
- The construction sector Wage Price Index (the Panel's preferred wage rate measure) grew by 3.5 per cent in the year to December 2025, slightly above the all-industries average,<sup>2</sup> while total compensation of employees in construction rose 6.9 per cent over the same period (ABS National Accounts), reflecting headcount and hours growth driven by an increase in demand for construction tradespeople from an increase in home building activity as well as the \$155 billion public sector pipeline of construction work. Award rate increases compound on top of already elevated total labour cost growth.

### Wage Price Index by Industry Segment

Source: ABS 6345.0 Wage Price Index



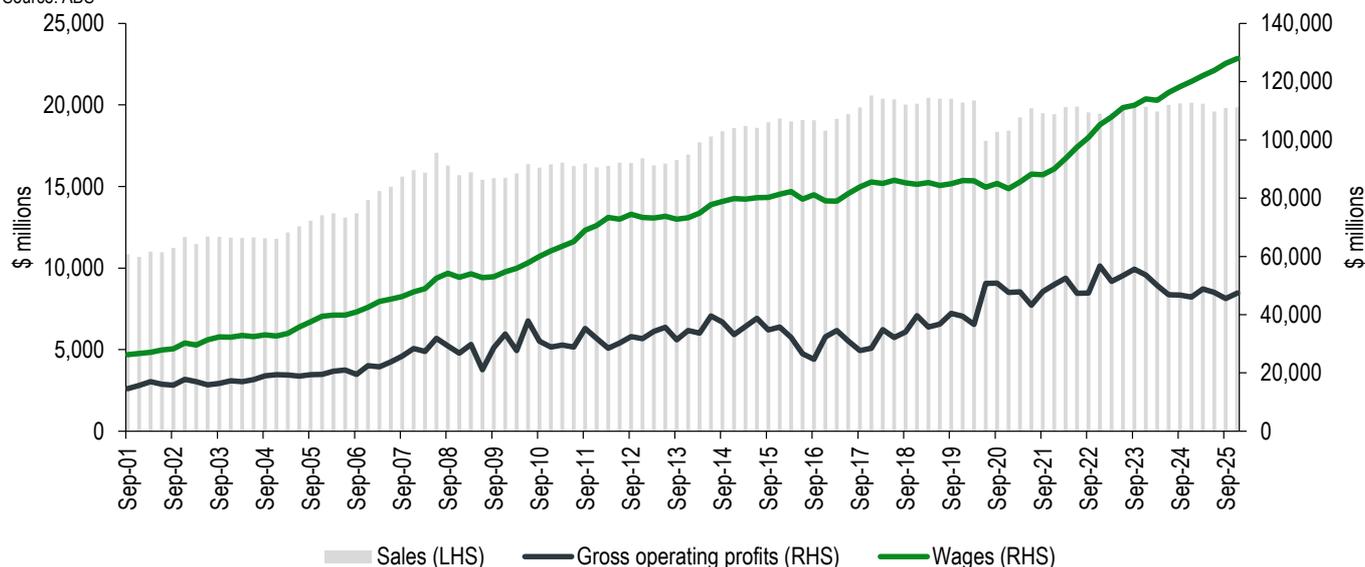
<sup>2</sup> FWC Statistical Report – Annual Wage Review 2026, Version 2, Chart 5.2.



- Business gross operating profits rose 3.1 per cent in the year to the December quarter 2025 (ABS Business Indicators) while wages and salaries rose 6.6 per cent over the same period. As a result, in the 2025 calendar year, business gross operating profits for the construction industry remained flat at \$33.9 billion, while wages grew by 6.8 per cent to \$89.3 billion. The FWC’s own data confirms the decline of gross profit margin facing residential builders, currently below the five-year average and among the lowest of any measured industry group.<sup>3</sup> Labour cost growth is materially outpacing profit growth.

## Business Indicators - Construction

Source: ABS



- Insolvencies in construction are running at nearly double their 10-year average.
- RBA forecasts project the Wage Price Index to slow to 3.1 per cent from June 2026;<sup>4</sup> below the 3.5 per cent increase HIA submits as the ceiling. Setting the award floor at 3.5 per cent would embed a wage rate above the trajectory the RBA itself considers sustainable. The RBA further forecasts project dwelling investment to decelerate sharply in the second half of 2026.

<sup>3</sup> FWC Statistical Report – Annual Wage Review 2026, Version 2, Table 3.5.

<sup>4</sup> FWC Statistical Report – Annual Wage Review 2026, Version 2, Table 14.4.



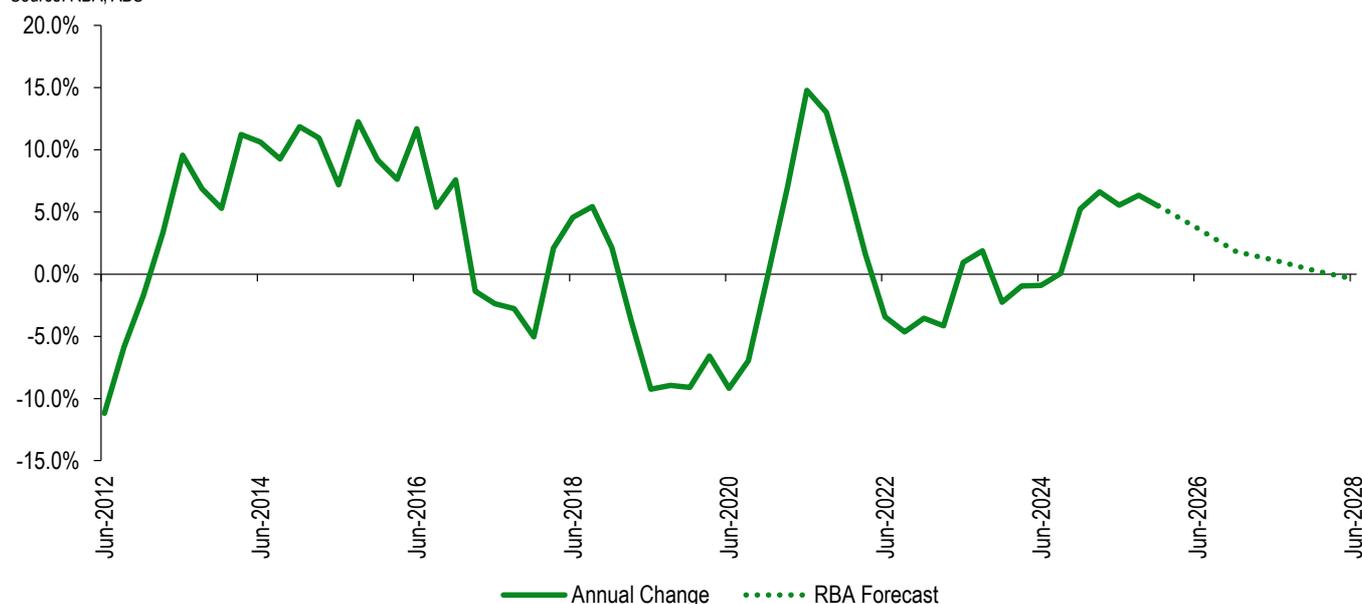
## RBA Forecast - Wage Price Index - All Industries

Source: RBA, ABS



## RBA Forecast - Dwelling Investment - AUS

Source: RBA, ABS



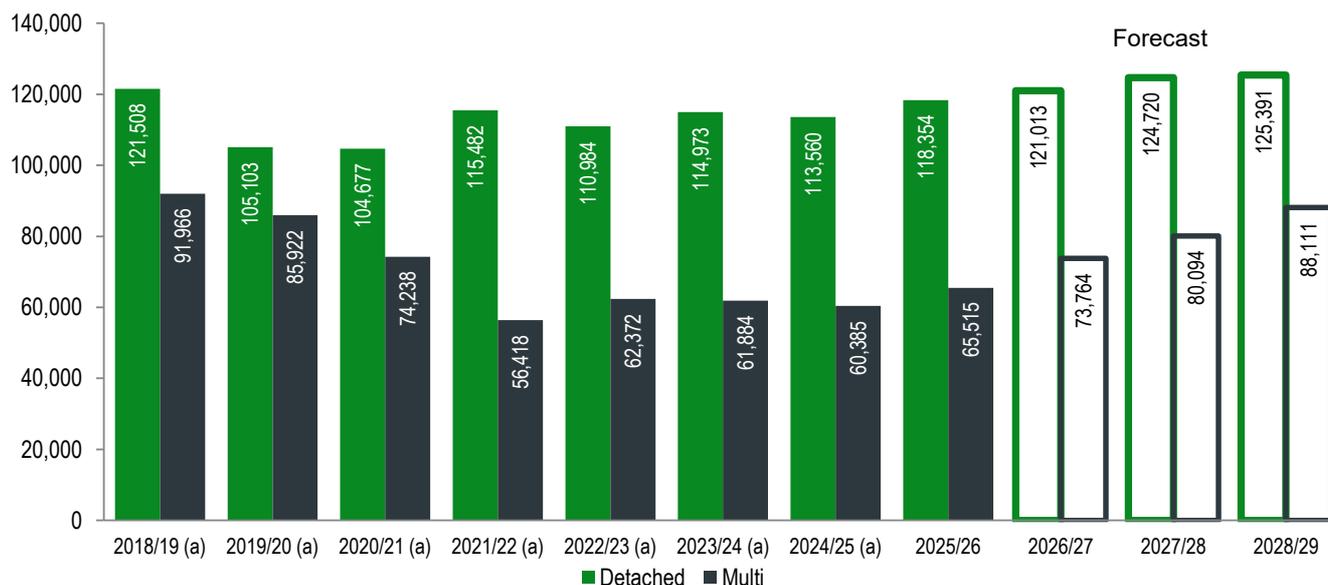
All of these factors contradict any suggestion that the residential building sector's near term improvement provides capacity to absorb elevated mandated wage cost increases.

While home building volumes are set to increase, cost pressures are squeezing margins significantly and adding pressure to an already tough trading environment. This is notwithstanding the threats posed by prolonged conflict overseas to Australian business conditions.



## Australia HIA Housing Completions Forecasts

Source: HIA Economics



HIA notes that the Expert Panel itself found in the 2025 AWR Decision that the NMW following previous year's determinations going back to 2021 exceeded cumulative CPI growth by 2 per cent. The FWC's own Statistical Report for the 2026 review confirms that NMW-reliant households experienced real disposable income growth of approximately 3.2 per cent in the year to July 2025, exceeding CPI by 1.1 percentage points.

The broad-based real wage catch-up case that justified larger increases in 2022, 2023 and 2024 has been substantially addressed by the Panel's own decisions and is reflected in the Panel's own data.

Accordingly, the 2026 AWR should reflect and acknowledge that catch-up justifications are not present at this time.

HIA's endorsement of 3.5 per cent should not be read as a concession that this level is affordable for all residential building businesses.

The FWC's own disposable income modelling confirms that NMW-reliant household disposable incomes grew approximately 3.2 per cent in real terms (in the year to July 2025) - above CPI. This data supports a normalised, non-catchup approach for the NMW consideration for 2026.

**HIA formally reserves its right to bring a future application for award variation should the Panel's determination prove unsustainable for small construction businesses.**



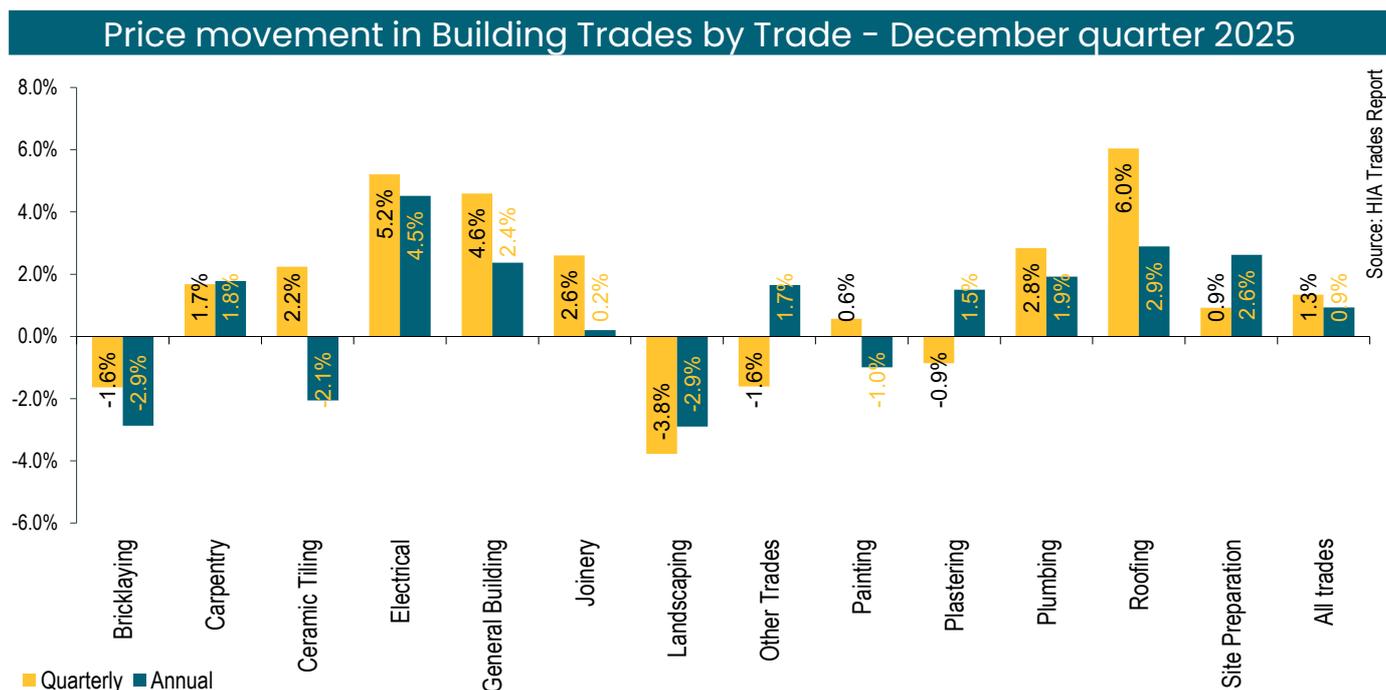
## Cost Pressures on the Residential Building Industry

No previous HIA submission to the FWC has been presented in an environment as severely stressed as the current one. The residential building industry is simultaneously navigating five distinct, compounding cost vectors. Together, they create a sector-specific burden that has no precedent in the post-pandemic period and that materially distinguishes the industry from the general economy.

### Construction Cost Inflation: +40 Per Cent Since 2019

Global supply chain disruptions, post-pandemic materials scarcity and sustained labour competition from the \$155 billion public sector construction pipeline have driven construction input costs up by more than 40 per cent since 2019. These costs have not unwound, and they represent a permanently elevated cost base from which the sector has not recovered.

The Wage Price Index (WPI) for construction grew approximately 3.5 per cent in the year to December 2025, consistent with the all-industries average (ABS, Wage Price Index, December 2025). HIA's Trades Report for the December quarter 2025 showed even stronger trades price increases, with pressures remaining considerably higher in electrical trades (+4.5 per cent in the year to December 2025). Some trades have even seen strong price increases in the span of just a quarter, at rates faster than the annual rate of growth in the WPI, including roofing trades (+6.0 per cent in the December quarter), electrical trades (+5.2 per cent) and general building trades (+4.6 per cent). These specialist trade cost increases exceed both CPI and the all-industries WPI by a material margin, reflecting the acute supply-demand imbalance in construction-specific skilled labour. A further mandated increase to award floors adds directly to this already elevated and sector-specific cost trajectory.

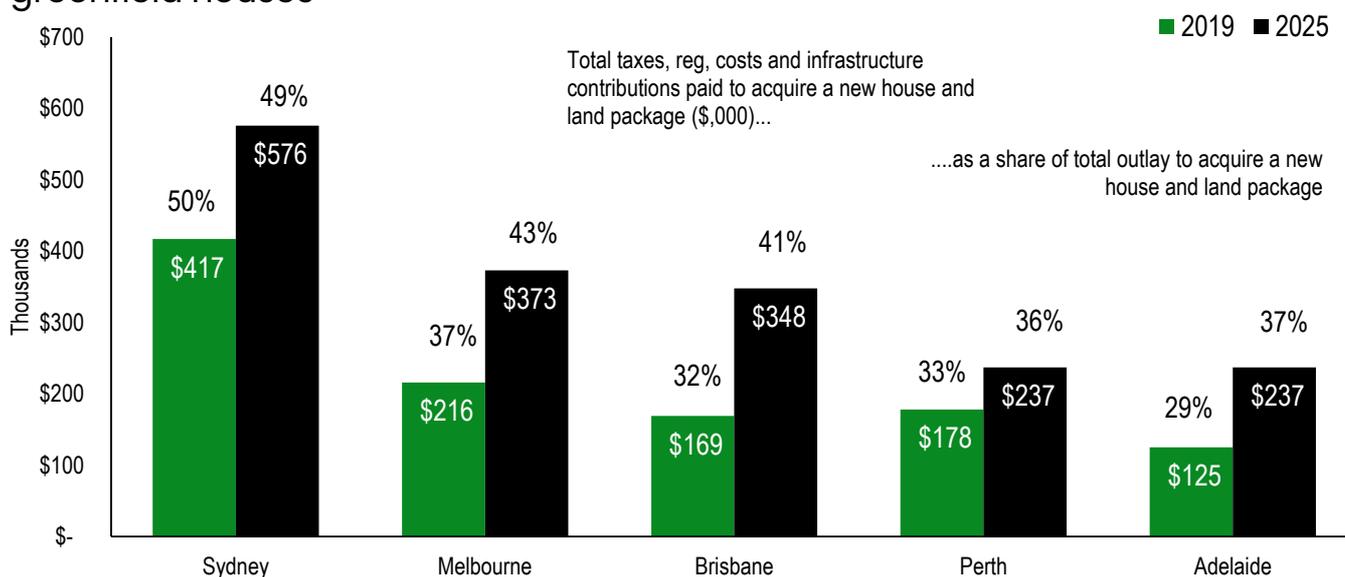




## Government-Imposed Charges: Exceeding \$500,000 Per New Home

In March 2025, the Centre for International Economics (CIE), commissioned by HIA, published modelling demonstrating that governments collectively are adding in excess of \$500,000 to the cost of a new home through taxes, fees and charges. Independent analysis for the HIA 2026-27 Pre-Budget Submission confirmed that housing is the second most heavily taxed sector in the Australian economy.

### Statutory taxes, regulatory costs and infrastructure charges for greenfield houses



These charges are applied across the full lifecycle of development: GST interactions on new construction, development charges and infrastructure contributions, stamp duties, ongoing land taxes, and income and capital gains taxation on housing investment. They are ultimately capitalised into land prices and dwelling costs, suppressing feasibility and contributing directly to the housing undersupply.

Any AWR outcome that further compresses builder margins must be understood in the context of this existing, government-imposed cost burden. The sector is not being asked to absorb a wage increase from a position of strength.

## The Middle East Conflict: Immediate Materials and Fuel Price Increases / Surcharges

At the time of this submission, the conflict in the Middle East is generating significant disruption to oil and product flows through the Strait of Hormuz, with direct consequences for Australian builders and tradies through delivery cost increases and materials surcharges. The IEA has reported major production curtailments and heightened price volatility. The RBA has acknowledged that the net impact on the Australian economy is uncertain but poses upside risks to inflation.

For the residential building industry, these effects are not abstract macroeconomic risks. They are being felt on the ground in the form of higher transport costs for materials, additional levies on imported products, and fuel surcharges for tradespeople.

Critically, many of HIA's small business members operate under fixed-price residential contracts that extend into the future were signed before the conflict. They are locked in and builders cannot pass these cost increases on to their clients. They must absorb them.



A minimum wage determination that adds a further mandated cost increase to this environment, at this moment, is a decision made without full regard to the on-the-ground reality faced by the sector. HIA urges the Expert Panel to treat the fuel disruption as a material, sector-specific risk factor in its deliberations.

## CGT and Negative Gearing Changes: New Independent Modelling

On 23 March 2026, HIA, together with Master Builders Australia, the Property Council of Australia and the Real Estate Institute of Australia, released independent economic modelling (conducted by Quaive and Tulipwood Economics) on the impact of proposed changes to Capital Gains Tax and negative gearing settings being considered by the Federal Government.

The modelling findings are directly relevant to the AWR because they quantify the cumulative investment and supply impact of the policy environment within which residential builders are operating:

| Scenario   | Homes Lost (5 Years) | Jobs Lost (Annual) |
|--|----------------------|--------------------|
| Remove negative gearing (all properties except one per investor)   | 45,500               | 4,300 FTEs         |
| Remove 50% CGT discount (all rental properties, one grandfathered) | 33,353               | 3,162              |

It is important to note that the Expert Panel is not a fiscal policy decision-maker. However, it is entitled, and required, to take account of “other matters which it considers relevant” in setting a fair and relevant safety net.

The investment environment in which residential builders are operating is directly relevant to whether those businesses have the capacity to sustain employment at higher award rates. This modelling is the most current and comprehensive evidence available on that investment environment.

## Skilled Trades Shortfall: 83,000 Workers Required

HIA’s *All Hands-on Deck Report*<sup>5</sup> identified that achieving the National Housing Accord target requires 83,348 additional skilled tradespeople across twelve key construction occupations: a 30 per cent increase on the current workforce of 277,827.

The table below sets out the shortfall by trade:

| Trade        | Current Workers | Additional Required |
|--------------|-----------------|---------------------|
| Carpenter    | 73,399          | 22,020              |
| Electrician  | 57,723          | 17,317              |
| Plumber      | 39,663          | 11,899              |
| Painter      | 26,774          | 8,032               |
| Bricklayer   | 15,059          | 4,518               |
| Cabinetmaker | 14,693          | 4,408               |
| Plasterer    | 11,826          | 3,548               |

<sup>5</sup> HIA, October 2024, ‘All Hands on Deck: Construction workforce requirements’ Report: [https://hia.com.au/our-industry/advocacy/workforce-requirements?srltid=AfmBOod7oDlp-ghNvKCiudhiJ1Uek\\_jPCJ1\\_5Xi\\_MRZqw6x5vxeNLQy](https://hia.com.au/our-industry/advocacy/workforce-requirements?srltid=AfmBOod7oDlp-ghNvKCiudhiJ1Uek_jPCJ1_5Xi_MRZqw6x5vxeNLQy)



|                       |                |               |
|-----------------------|----------------|---------------|
| <b>Tiler</b>          | 11,405         | 3,421         |
| <b>Concreter</b>      | 10,421         | 3,126         |
| <b>Roof Tiler</b>     | 6,384          | 1,915         |
| <b>Floor Finisher</b> | 6,016          | 1,805         |
| <b>Glazier</b>        | 4,465          | 1,339         |
| <b>Total</b>          | <b>277,827</b> | <b>83,348</b> |

A wage increase that makes it harder for small building businesses to take on and retain construction employees, including apprentices, directly undermines the workforce pipeline needed to address this shortfall.

Apprenticeship commencements in construction declined by 18.6 per cent in the September quarter 2024 compared to the same period in 2023. Small businesses, which employ 54 per cent of construction apprentices, are already at the limit of their capacity to support trainees. Any further increase in their labour cost base will accelerate the attrition of apprenticeships from the sector and cause long-term damage to our industry capacity and capability.

Furthermore, HIA's 2026 Small Business Conditions Survey Report<sup>6</sup> provides a stark outlook for our industry, highlighting a small business sector under pressure and subject to persistent workforce challenges, despite strong demand for new housing. The Survey was conducted amongst HIA small business members nationally in November-December 2025 and provides the most current and comprehensive evidence of conditions in the sector. Taken together, these findings describe a sector that should be expanding. Instead, the sector is contracting under the weight of cumulative regulatory burden.

The Report reflects a survey of members, which found that 68 per cent of respondents have considered scaling back or closing their business due to red tape and compliance burdens, while almost three-quarters (73 per cent) do not expect to take on additional staff in the year ahead. Other key findings include:

- 59 per cent of members do not expect to increase profits compared to last financial year.
- 67 per cent report difficulties recruiting or retaining skilled staff and trades, limiting their ability to expand operations or take on new projects.
- Alarmingly, nearly half (45 per cent) of residential businesses considered closing in the past 12 months.

HIA's data is supported by the FWC's own statistics: with the Statistical Report (version 2, Table 3.6) recording the construction sector business exit rate at 8 per cent in 2024-25, the highest of any goods-producing sector. Further, the sector's net business entry rate of 2.7 per cent reflects significant churn, with new entrants being alarmingly offset by a high and sustained rate of business failure.

Business owners and employers are making a rational risk management decision: the regulatory and legal risks associated with employing in the current framework outweigh the benefit of the additional capacity.

These stats are not reflective of a stable, resilient business environment capable of absorbing further mandated cost increases without dire disruption to national housing delivery capacity.

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<sup>6</sup> 2026 HIA Small Business Conditions Survey Report: [https://hia.com.au/our-industry/advocacy/small-business-conditions-survey?srsltid=AfmBOopJOly7nZW1dsXhXwkUL8NXCbOj8sY4ODOkBI7b\\_BJgmmWuJ-gC](https://hia.com.au/our-industry/advocacy/small-business-conditions-survey?srsltid=AfmBOopJOly7nZW1dsXhXwkUL8NXCbOj8sY4ODOkBI7b_BJgmmWuJ-gC)



## National Economy and the Residential Building Outlook

### Macroeconomic Context

Australia enters the 2025–26 AWR period in a materially different macroeconomic environment from recent reviews. GDP grew 0.8 per cent in the December 2025 quarter and 2.6 per cent through the year, but growth is moderating, inflation has rebounded, and interest rates are rising. The RBA raised the cash rate consecutively in February and March 2026 to 4.1 per cent, its highest level since the post-GFC period.

Headline CPI rose to 3.7 per cent in February 2026 (underlying 3.3 per cent) — above the RBA’s 2–3 per cent target band. The housing component of the CPI rose 7.3 per cent in the year to February, the largest increase across the major groups, driven by electricity prices (+37.2 per cent as energy rebates were exhausted), rent (+3.8 per cent) and new dwelling prices (+3.7 per cent). This confirms that housing costs remain among the most significant drivers of broader cost-of-living pressure.

Productivity growth remains the binding constraint on sustainable wage outcomes. GDP per hour worked rose only 1.0 per cent through the year to December 2025 and recorded zero growth in the December quarter. The RBA forecasts productivity to settle at 0.6–0.7 per cent over the next two years, well below the 1 per cent average recorded in the decade before 2020. As RBA Governor Bullock has stated, years of weak to no productivity growth is a key contributor to the current inflationary environment.

### Residential Building: A Sector Under Structural Pressure

The residential building industry’s contribution to GDP has declined in recent years, with dwelling investment contracted across multiple consecutive quarters. The industry faces a structural undersupply crisis that monetary policy cannot resolve. Only supply-side reform and a stable cost environment can.

There were 174,730 new dwellings completed in 2024–25. Against the National Housing Accord’s required minimum of 240,000 completions per year, this represents a deficit of approximately 65,000 homes per year: and the shortfall is continuing to increase.

The multi-unit sector is the most acute pressure point. Government-imposed taxes and charges have stifled apartment construction even as migration levels remain at record highs. During the last apartment construction boom, Australia was commencing over 25,000 units per quarter for five consecutive years. The current figure sits at around 15,000 per quarter, representing a contraction of 40 per cent. Apartment commencements need to double from current levels to meet the Housing Accord target.

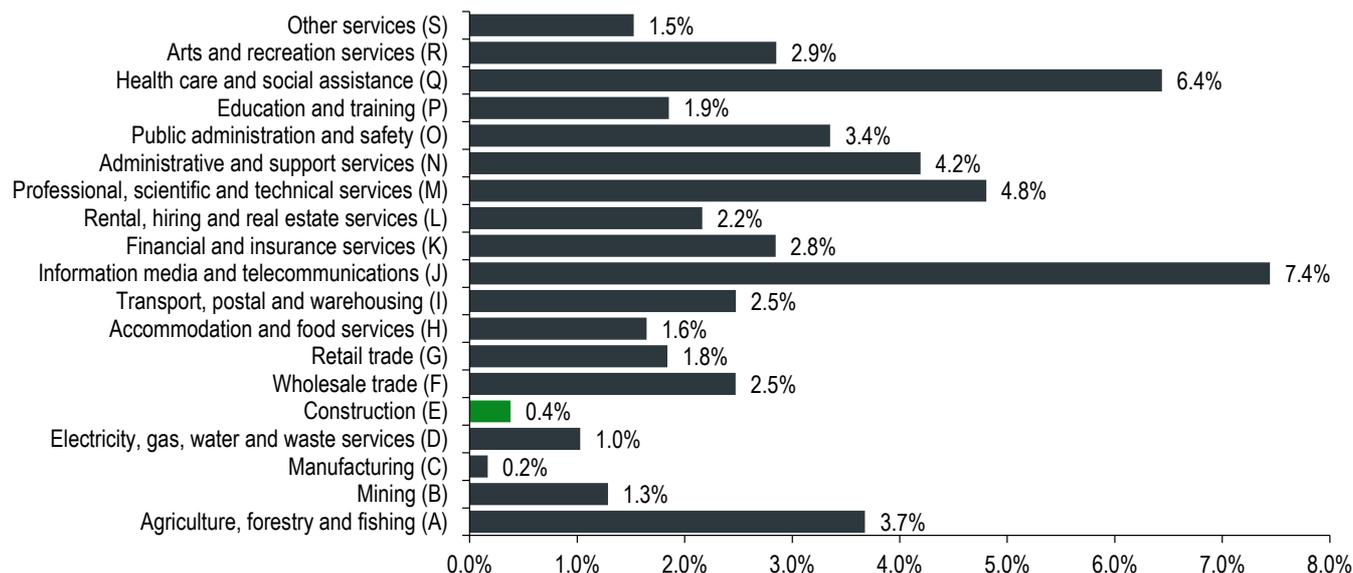
The ABS National Accounts data confirms that construction recorded gross value added (GVA) growth of just 1.6 per cent in the year to December 2025, below the all-industries average of 2.4 per cent, with the annualised growth over the past 10 years at 0.4 per cent; the second lowest of any industry sector in Australia just after manufacturing at 0.2 per cent. This is also well-below the third lowest annualised growth recorded in the mining industry, at 1.3 per cent.

A sector with a 10-year average growth rate of 0.4 per cent is not in a position to absorb additional mandated cost increases without structural harm.



## Gross value added by industry - annualised decade growth

Source: ABS



Furthermore, HIA notes that the MYEFO forecasts, as cited in the latest FWC Statistical Report, predict project dwelling investment growth of 5.5 per cent in 2025-26, and 6 per cent in 2026-27. It is important for the Panel to acknowledge and appropriately account for the fact that the MYEFO forecasts were finalised before the onset of the hostilities in the Middle East and the associated fuel supply disruptions now being absorbed on the ground by builders and all sectors. They are also volume measures which do not capture profitability, margin sustainability, or small business capacity to absorb additional mandated costs. A sector with slow recovering volume but compressed margins, plus an 83,000-worker shortfall, has not recovered.

The Expert Panel's decision will directly affect the cost structure of every residential building business in Australia. HIA submits that the Panel must treat housing supply not as a sectoral output, but as a macroeconomic input: one that directly affects inflation persistence, labour mobility, fiscal sustainability and the living standards of all Australians.

### KEY STATS:

Housing is the second most heavily taxed sector in the Australian economy. Governments were estimated to be raising approximately \$51 billion per year from taxes on land and housing in 2016/17 (10 per cent of government revenue). This is likely higher in 2026.

Independent analysis shows tax can account for up to 50 per cent of the cost of a new home.

Insolvencies in construction are running at nearly double the 10-year average.

Completions are just below 175,000 homes per year, well below the National Housing Accord target.



## Wages, Inflation and Productivity

HIA endorses and relies upon the comprehensive economic analysis set out in the ACCI submission. HIA provides the following supplementary observations, with particular relevance to the residential building sector.

### Wage Dynamics in Construction: Two Measures, One Conclusion

There are two distinct wage measures that are relevant to the Expert Panel's assessment of the construction sector, and both support a restrained AWR outcome.

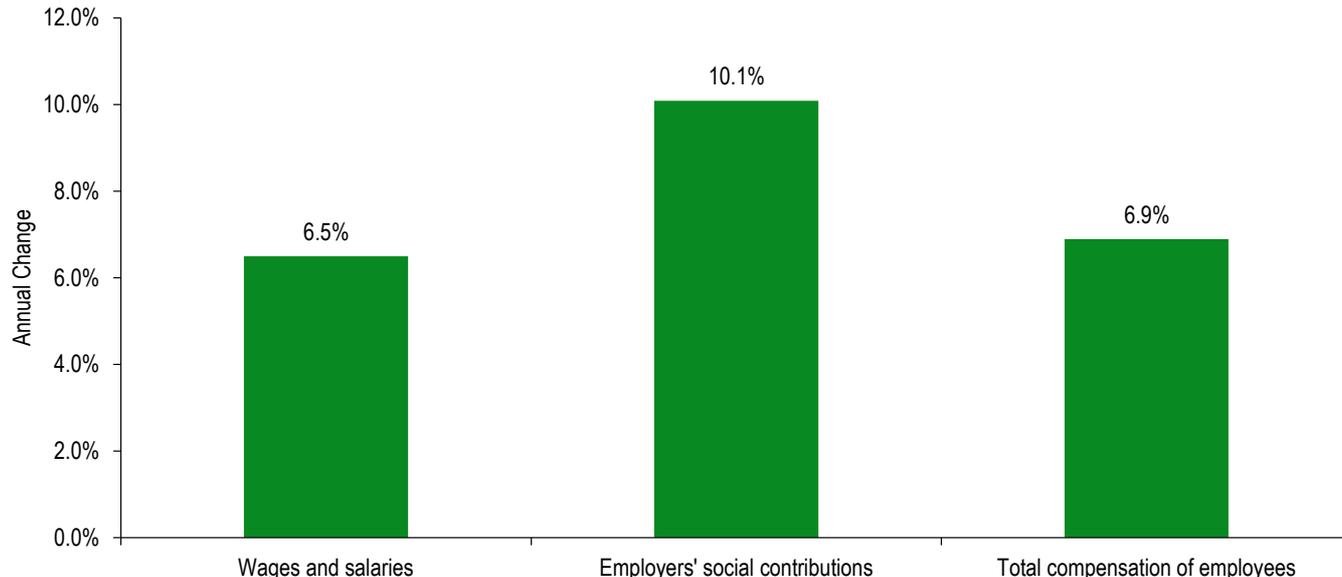
First, the Wage Price Index (WPI), as the Panel's preferred measure of pure wage rate movements, unaffected by changes in hours or headcount, grew 3.4 per cent across all industries and sectors in the year to December 2025.<sup>7</sup>

The construction sector WPI tracks closely to this all-industries average, reflecting the underlying rate of wage rate growth in the sector before any AWR determination is applied.

Second, total compensation of employees in wages and salaries rose 6.5 per cent in the year to December 2025.<sup>8</sup> This broader measure captures the combined effect of wage rate movements, increased headcount, and additional hours worked, driven substantially by the \$155 billion public sector construction pipeline competing for the same limited labour pool. It represents the total employer labour cost burden, not merely the wage rate component.

### Total compensation of employees - Construction - 2024/25

Source: ABS National Accounts



Both measures are relevant but serve different arguments. The WPI establishes that construction wage rates are already growing at, or above, the all-industries average without any AWR uplift. The compensation measure establishes the total labour cost trajectory that construction employers are navigating.

<sup>7</sup> ABS, Wage Price Index, December 2025; <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia/latest-release> (FWC Statistical Report - Annual Wage Review 2026, version 1)

<sup>8</sup> ABS National Accounts: National Income, Expenditure and Product, December 2025:



A further mandated increase to award floors adds to both trajectories and compounds cost pressures in an industry that cannot readily pass them on through price, given the regulatory limitations and prevalence of fixed-price residential building contracts.

The cost of engaging skilled trades marginally increased by 0.9 per cent in the year to December 2025 (following from an increase of 6.4 per cent in the previous year), with electrical (+4.5 per cent), roofing (+2.9%) and site preparation (+2.6 per cent) workers recording the largest increases.<sup>9</sup> These are demand-driven pressures the market is already imposing.

A mandated AWR increase is an additional, policy-imposed layer on top of an already elevated cost base.

## **Award Reliance in Construction: Acknowledging the Data, Identifying the Real Impact**

HIA acknowledges that the FWC's *Statistical Report and the Profile of Employee Characteristics across Modern Awards*<sup>10</sup> confirm that construction is not among the four industry sectors with the highest proportion of award-only employees. The sectors with the highest award reliance (Accommodation and food services, Retail trade, Health care and social assistance, and Administrative support) are well-established in the Panel's analytical framework.

Further, the latest data from the FWC Statistical Report confirms that construction's award reliance rate fell to 12.4 per cent in May 2025 (the lowest recorded figure for the sector and down from 19.7 per cent in 2016).<sup>11</sup>

HIA does not contest the fact that award reliance for construction sector workers is declining and more workers are being paid above award rates through EBAs and individual arrangements as the primary pay-setting mechanism. HIA views that the Panel's business impact analysis under s 134(1)(f) is appropriately calibrated to the award-reliant industries.

However, two construction-specific factors make the AWR directly and materially relevant to the residential building sector that must be considered by the Expert Panel, notwithstanding the industry's lower overall award reliance rate. Namely:

- Apprentice and entry-level classifications in construction are directly award-determined.  
Unlike experienced tradespeople whose pay is typically set through EBAs or individual arrangements above award minimums, apprentices are paid at award-linked rates.  
Construction employs 54 per cent of all small business apprentices nationally.<sup>12</sup>  
A mandated increase to award floors would directly increase the cost of every apprenticeship contract in the sector, at a moment when commencements have already fallen 18.6 per cent year-on-year.
- Construction EBAs are structurally linked to award minimums as the negotiating floor. Movement in the award floor flows through to enterprise agreement negotiations in the sector.

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<sup>9</sup> HIA Trades Report, December 2025: <https://hia.com.au/our-industry/economics/data-forecasts/resource/trades-report>

<sup>10</sup> Strong, Rozenbes & Tomlinson, FWC Research Report 1/2025, February 2025

<sup>11</sup> FWC Statistical Report, version 2, Table 7.1.

<sup>12</sup> Australian Small Business and Family Enterprise Ombudsman, September 2024; Small Business Data Portal – Apprentices and Trainees Employed by Small Business, December 2023. <https://www.asbfeo.gov.au/small-business-data-portal/apprentices-and-trainees-employed-small-business>



Research from the FWC and the RBA confirms that award rates operate as a key reference point and benchmark for wage-setting across the economy, including within EBAs.<sup>13</sup> In construction, where EBAs are the primary pay-setting mechanism above the award, this spillover is direct and material.

Accordingly, HIA submits that the appropriate lens for assessing the AWR's impact on residential construction is not the aggregate award reliance rate, but should reflect the specific exposure of:

- (a) the apprenticeship pipeline that is critical to long-term housing supply; and
- (b) the EBA cost base that flows directly from the award floor.

Both are acutely sensitive to the Panel's determination and should be considered as relevant other matters.

### **Real Wage Catch-Up Has Been Achieved**

HIA supports fair wages for workers, and we submit that the cumulative AWR decisions since 2022 have delivered substantial real wage gains for minimum wage earners.

The Expert Panel itself found in its 2025 decision that the NMW following that determination exceeded cumulative CPI growth by 2 per cent since 2021. The Panel also found that the C10 benchmark award rate had declined by 4.5 percentage points relative to CPI before the 2025 increase, resulting in the 2025 determination substantially addressing the erosion.

The primary case for above-CPI increases, i.e. the '*real wage erosion*' argument, has therefore, been substantially addressed by the Panel's own actions.

The FWC's Statistical Report for the 2026 AWR confirms that NMW-reliant households experienced an increase in real household disposable income of approximately 3.2 per cent in the year to July 2025, exceeding CPI by approximately 1.1 per cent.<sup>14</sup> This data, produced by the Commission itself, confirms that the living standards rationale for continuing large catch-up increases no longer applies with the same force as it has in previous years.

HIA notes that employee advocates will rely on the FWC's disposable income modelling to argue that NMW households below the 60 per cent median poverty benchmark still require support.

While HIA does not dispute the data, we submit that this is a tax-transfer system policy question, not a wages policy question.

This approach is consistent with the Panel's own observations in prior decisions that the minimum wage is a blunt instrument for addressing household income poverty, and that the tax and transfer system is better targeted to do so.<sup>15</sup>

Accordingly, it is considered that the Panel should recognise that there is no need for a reactionary catch-up increase that has been used previously in response to sharp inflationary shocks to the economy and can be counter-productive.

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<sup>13</sup> McCarthy, Ross, Terrell & Wang, October 2024: '*Development in Wages Growth Across Pay-setting Methods*'. <https://www.rba.gov.au/publications/bulletin/2024/oct/developments-in-wages-growth-across-pay-setting-methods.html#:~:text=the%20period%20ahead,-Awards,and%20employed%20by%20small%20businesses>.

<sup>14</sup> FWC Statistical Report - Annual Wage Review 2026, version 1, Table 8.4

<sup>15</sup> see [2023] FWCFB 3500 at [118]; [2024] FWCFB 3500 at [6]



## **Inflation Risk from the Construction Sector**

As submitted previously, construction sector wage increases feed directly into the housing component of CPI through new dwelling prices and rent; the components that are currently sitting at 3.5 per cent and 3.9 per cent respectively, when compared to the same period a year ago.

**The Expert Panel should be cognisant of the circularity impact of increases wages to fight inflationary living cost rises: wage increases that add to construction costs heavily contribute to the inflation persistence that the RBA is attempting to suppress, thereby requiring further rate increases that in turn suppress housing demand and worsen the supply deficit.**



## Workforce Participation, Apprenticeships and Skills

The residential building industry does not currently have the workforce capacity to deliver the homes Australia needs. Addressing this shortfall is essential to the National Housing Accord and to the long-term living standards of all Australians.

The AWR outcome must not further constrain the industry's capacity to take on, train and retain the workers it desperately needs.

As of 30 June 2025, there were 307,080 (in training) apprentice and trainee contracts nationally, with almost three-quarters in trades.<sup>16</sup> Construction Trade Worker commencements fell by 27.1 per cent (down 1,340 to 3,615) in the year to June 2025: the second largest decrease of any occupational category.

The FWC's own research for this AWR cycle directly bears on this issue. The Labour Mobility of Award-reliant Employees report<sup>17</sup> examines how award-reliant employees transition through the labour market. The research confirms that award-reliant employment in construction functions as a highly transitional pathway, with most workers moving off award rates to above-award employment within a relatively short period. This research was specifically commissioned to understand the stepping-stone function of minimum wage employment.

HIA submits that has two important findings: it confirms the transitional value of construction award employment, but it also confirms that disrupting the entry point, by making apprentice employment economically unviable for small businesses, removes the stepping stone entirely.

Small businesses are the primary employers of construction apprentices. Forty-two per cent of all apprentices and trainees are employed by small business, with more than half (54 per cent) in the construction sector.<sup>18</sup> These businesses operate with extremely tight margins and limited cash reserves. A mandated wage increase, which applies directly to apprentice award rates, increases the total cost of every training contract and reduces the already narrow financial incentive to take on a trainee.

HIA submits that the Expert Panel must factor the apprenticeship pipeline into its assessment of the AWR's impact on employment under s 134(1)(f).

A determination that depresses construction apprenticeship commencements will have long-term, structural consequences for housing supply that cannot be quickly reversed. The consequences will compound the existing 83,000 skilled trades shortfall documented earlier in our submission.

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<sup>16</sup> NCVER, December 2025: 'Apprentices and trainees 2025: June quarter' <https://www.ncver.edu.au/research-and-statistics/publications/all-publications/apprentices-and-trainees-2025-june-quarter>

<sup>17</sup> Strong and van Netten, FWC Research Report 1/2026, February 2026

<sup>18</sup> Australian Small Business and Family Enterprise Ombudsman, September 2024



## The C12/C13 Structural Issue: Opposition to Re-benchmarking

In the 2025 AWR decision, the Expert Panel indicated it was considering phasing out the C13 rate over time such that the C12 rate becomes the lowest pay rate applicable to ongoing employment in the modern award system.

HIA strongly opposes any such structural change in the 2026 AWR, and submits that any consideration of C12/C13 rate changes should be deferred.

### Disproportionate Impact on Residential Construction

HIA notes that the FWC's Background Paper on C12 and C13 Classification Rates in Modern Awards<sup>19</sup> identifies that all 155 modern awards would be affected by a re-benchmarking to C12, and that approximately 50 per cent of the classifications falling between C12 and C13 classifications are clustered within 1 per cent of C12: meaning they have already gravitated toward C12 without regulatory compulsion.

However, it is submitted that a forced elevation of the minimum classification to C12 by phasing out C13 would compress award relativities for these workers, artificially lifting wages across a broad cohort well beyond any CPI or productivity justification.

For small building businesses already operating at the margin, this structural increase would be the equivalent of a second, additional wage increase imposed in the same review cycle.

### Timing is Inappropriate

The Expert Panel itself has acknowledged that any C13 phase-out, if pursued at all, would need to occur gradually and with regard to recent award changes.

Those conditions are clearly not satisfied in the context of the current Review given:

- The C13 to C12 realignment in respect of some classifications only took effect in April 2025; less than 12 months ago;
- The Middle East conflict is generating immediate inflationary pressure on the construction sector;
- The RBA has raised rates twice in 2026 and markets are forecasting further tightening;
- Insolvencies in construction are running at nearly double the 10-year average;
- Further disincentives due to the cost of employment would amplify chronic skills shortages;
- The residential building sector is already 65,000 completions per year below the National Housing Accord target.

### Recommendations

HIA submits that the 2026 AWR is the wrong vehicle and the wrong moment for a structural change of this magnitude.

The Expert Panel should confine its decision to a measured, economy-wide adjustment of 3.5 per cent and defer any C12/C13 structural question to a dedicated award variation proceeding with full evidentiary development.

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<sup>19</sup> Kuzyk, Hayler, Rozenbes and Wray, *FWC Background Paper 2026*, February 2026



## The Case for Differentiated Treatment for Residential Small Businesses

HIA uses this submission to make the structural case for differentiated award treatment of small businesses in the residential building industry.

HIA does not request that the Expert Panel deliver a sector-specific carve-out within the current AWR, as the Panel's jurisdiction in this proceeding is confined to setting the NMW and modern award minimum rates.

However, HIA submits that the evidence presented in this and in the other HIA submissions before the Commission during this period, constitutes a sufficient factual foundation for a future formal application under s 157 of the Fair Work Act for a variation to the relevant modern awards.

Accordingly, HIA formally reserves the right to bring that application, and places the industry and the Commission on notice of its intention to do so in the event that the Panel's determination creates an unsustainable and inappropriate cost burden on small residential building businesses.

### The Statutory Foundation

Section 3(g) of the Fair Work Act requires the Act's objects to be achieved in a manner that "acknowledges the special circumstances of small and medium-sized businesses." The objects of the Act are not aspirational. They are mandatory, and all activities under the Act must be consistent with the overarching aim of "provid[ing] a balanced framework for cooperative and productive workplace relations that promotes national economic prosperity and social inclusion for all Australians."

The FWC's own research confirms that the modern award-reliant workforce is disproportionately employed by small businesses.<sup>20</sup> HIA submits that the Panel's own research agenda provides further justification for the differentiated treatment argument.

For the residential building sector, the "special circumstances" acknowledged in s 3(g) are not merely general sensitivities to economic conditions. They are specific, documented and quantifiable structural features, which include:

- a prevalence of fixed-price building contracts without rise-and-fall clauses, eliminating the ability to pass on mandated wage increases mid-project;
- project-based cash flows with extended lags between cost incurrence and revenue receipt;
- government-mandated housing production obligations (including the National Housing Accord) that impose a public duty on the sector's workforce capacity;
- extraordinary exposure to cumulative non-wage cost increases (40 per cent construction cost inflation since 2019, \$500,000+ in government charges per home);
- a workforce pipeline crisis (83,000 skilled trades shortfall) that is directly threatened by increases to apprentice employment costs; and
- insolvency rates running at nearly double the 10-year average, indicating the sector is operating at or beyond the limit of cost absorption capacity.

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<sup>20</sup> Strong, Rozenbes and Tomlinson, February 2025: 'Profile of Employee Characteristics across Modern Awards – 2023', FWC Research Report 1/2025



## **The Policy Coherence Argument**

The Federal Government has committed to delivering 1.2 million homes over five years through the National Housing Accord. That commitment is a central pillar of its housing affordability agenda.

The same Government's workplace relations agenda, through the AWR process, sets minimum wage floors that directly determine the cost base of the small businesses that must deliver those homes.

These two policy agendas are in tension. HIA does not argue that workers should receive less than a fair, balanced and appropriate wage. HIA, however, argues that the tension should be resolved not by suppressing wages, but by addressing the non-wage cost drivers such as reducing government charges, streamlining regulation, accelerating infrastructure delivery, and reforming the skilled migration system, so that residential building businesses have the capacity to pay fair wages and build the homes Australia needs.

If Governments of all levels wish to maintain both the housing delivery commitments and the wage adequacy commitment, the cost drivers that are making it impossible for small builders to honour both simultaneously must be addressed.

This is a policy reform agenda. Accordingly, the AWR outcome should not be calibrated to compensate for the Government's failure to appropriately address it.

## **Foreshadowing a Formal Award Variation Application**

HIA is taking the opportunity in this submission to notify the Commission and all interested parties to the AWR that it is considering bringing a formal application for award variation in respect of the relevant construction industry modern awards, including the *Building and Construction General On-site Award 2020*, in the event that the Panel's 2026 AWR determination creates an unsustainable cost burden for small residential building businesses.

Such an application would seek to explore, with full evidentiary development, mechanisms appropriate to the building and construction context including:

- phase-in arrangements calibrated to project completion cycles,
- small business threshold provisions,
- cost-offset recognition for non-wage regulatory burdens, and
- exemptions or extended transition periods for apprentice employment arrangements.

HIA is not asking the Expert Panel to resolve these questions in this AWR proceeding.

However, HIA is asking the Panel to acknowledge that the questions are relevant and critically important, in that the evidentiary foundation has been laid, and that the statutory framework provides a pathway to address them in the appropriate way.



## Conclusion

HIA's submission to the 2026 Annual Wage Review is grounded in a consistent and evidence-based position: that the residential building industry is the critical delivery mechanism for the homes Australia urgently needs, that it is being asked to carry an unprecedented and accumulating burden of cost pressures.

HIA urges the Panel to actively consider that the AWR outcome must not further compromise the residential building sector's capacity to function.

The primary cost vectors identified in this submission are not rhetorical but are quantified, sourced and current. These factors include:

- 40 per cent construction cost inflation,
- government charges exceeding \$500,000 per new home,
- the Middle East fuel and materials crisis,
- the risk of CGT and negative gearing changes eliminating up to 45,500 homes over five years, and
- an 83,000-worker skills shortfall

These factors are reinforced by the Final Demand Producer Price Index, which rose 3.5 per cent through the year to December 2025, confirming that input cost pressures for construction employers remain substantially elevated and have not abated with headline CPI moderation.

Together these factors establish that the residential building sector is operating without the capacity to absorb above-productivity wage increases without material harm.

Accordingly, HIA calls on the Expert Panel to recognise that housing supply is a vital macroeconomic input, not a sectoral output. The AWR decision is a housing policy decision as much as it is a wages policy decision.

The Expert Panel has both the power and the responsibility to reflect that reality in its determination. A measured, sustainable outcome of 3.5 per cent, grounded in the Panel's own research, consistent with productivity, and cognisant of the sector-specific pressures documented in this submission, is considered to be the most appropriate response to the circumstances of 2026 and the current, and increasing, levels of uncertainty.