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LABOR WAGE HIKE TO ACCELERATE INFLATION, PUNISH MORTGAGE HOLDERS AND SMALL BUSINESS

Preliminary research released today by the Institute of Public Affairs has identified that a 5.1% wage hike as proposed by Labor leader Anthony Albanese could over the next twelve months:

- lead to a 2.25 percentage point increase to inflation, taking inflation from the current rate of 5.1% to 7.36%;
- push mortgage rates up by 57 basis points, taking the average mortgage rate from the current rate of 4.52% to 5.05%;
- cost the average mortgage holder an extra $273.27 per month in higher mortgage payments, which is $3,279 per year; and
- push the average small business lending rate from 4.75% to 5.41%.

The consumer price index (CPI) measure of inflation for the March quarter is 5.1%. This means an across-the-board wage hike of 5.1% to keep up with inflation would push inflation from 5.1% to at least 7.36% over the twelve months following the wage increase.

The current average mortgage rate for a property purchased today is 4.52%. An increase of inflation from 5.1% to 7.36% could push the average mortgage rate to 5.05%, which is associated with an increase to average monthly mortgage payments $273.27.

Labor leader Anthony Albanese was asked on Tuesday if he “would support a wage hike of at least 5.1% just to keep up with inflation” to which he replied “absolutely.”

“Labor’s short-sighted and ill-considered industrial relations thought-bubble is a serious risk to Australia’s economic recovery,” said Daniel Wild, Director of Research at the Institute of Public Affairs.

“Rapid and unanticipated hikes to wages risk sending Australia back to the bad-old days of spiraling inflation and rocketing interest rates which will put mortgage holders and small businesses on their knees.”

“Australia must be a high-wage, full-employment economy. Yet both the Coalition and Labor promote a policy of net zero emissions by 2050 which is hammering the highest paid sector of the economy – mining,” said Mr Wild.

The preliminary analysis of the Institute of Public Affairs is based on the historical relationship between increases to the wage price index, inflation, household mortgage rates, and small business lending rates over the two decades from 2000-2020.

The years 2020-2022 were not included in the analysis due to the highly abnormal circumstances resulting from governments’ response to Covid-19.

Table 1: Wage growth, inflation, and lending rates

Annual increase in WPI (%)	Annual WPI inflation (%)	Annual CPI inflation (%)	Housing Lending Rates (%)	Small Business Lending Rates (%)
December 2021	2.29	5.10	4.52	4.75
0.71	3.00	5.67	4.65	4.92
1.21	3.50	6.07	4.75	5.03
1.71	4.00	6.47	4.84	5.15
2.21	4.50	6.88	4.94	5.27
2.81	5.10	7.36	5.05	5.41

Table 2: Additional borrowing payments

State/Territory	Average Loan Sizes for Owner Occupiers January 2022	Change in housing lending indicator rate from 4.52% to 5.05% = 0.53%	Additional Annual Payments	Additional Monthly Payments
NSW	$804,625.00	0.53%	$4,264.51	$355.38
VIC	$652,187.00	0.53%	$3,456.59	$288.05
QLD	$516,686.00	0.53%	$2,738.44	$228.20
SA	$457,493.00	0.53%	$2,424.71	$202.06
WA	$463,844.00	0.53%	$2,458.37	$204.86
TAS	$427,701.00	0.53%	$2,266.82	$188.90
NT	$400,000.00	0.53%	$2,120.00	$176.67
ACT	$640,827.00	0.53%	$3,396.38	$283.03
AUS	$618,729.00	0.53%	$3,279.26	$273.27

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