



Annual Wage Review 2026

Initial and/or post-Budget submission Cover sheet

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Australian Restaurant & Cafe Association Ltd. (ARCA)

Submission to the Minimum Wage Review Committee

27 March 2026

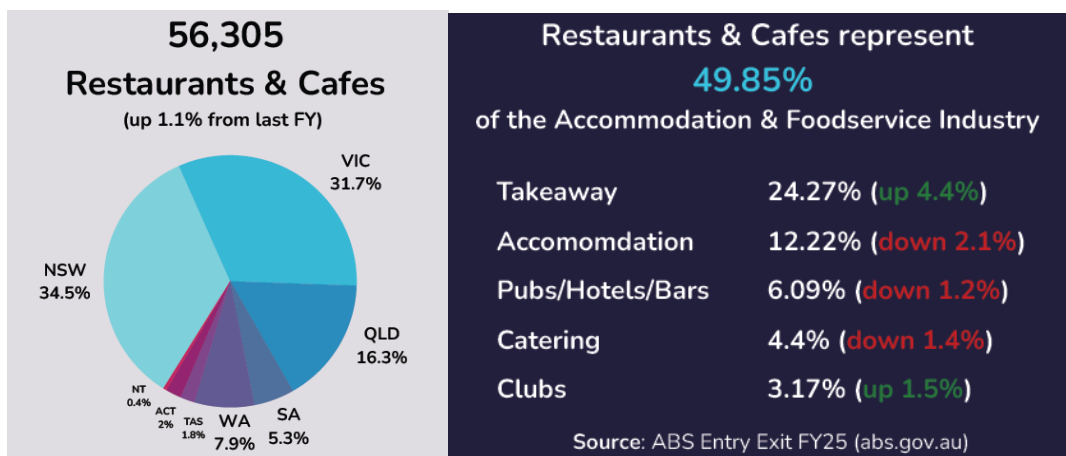
Annual Wage Review
Fair Work Commission
Via email: awr@fwc.gov.au

Dear Annual Wage Review Committee,

Re: Annual Wage Review 2025–26 (FY2027)

1. Background

The Australian Restaurant & Cafe Association (ARCA) represents Australia’s largest and most dynamic Hospitality segment, encompassing restaurants, cafes, and other foodservice businesses. ARCA is a Member based not-for-profit Industry Association and is a national body representing the restaurant & cafe segment of the Accommodation & Foodservice Industry, a segment that employs more than 500,000 workers across over 56,000 restaurants & cafes in Australia **which equals nearly 50% of all the businesses in the Accommodation & Foodservice Industry, over double the closest segment (Takeaway 24%) and 4x-16x larger than other segments in the industry.**



ARCA Members include many of the leading restaurants & cafes around the country which employ tens of thousands of workers within the restaurant & cafe segment as well as hundreds of pubs, hotels and small bars. An overwhelming majority of the segment is **Australian Restaurant & Cafe Association Ltd. (ABN 46 677 038 505)**
Lvl 32, 101 Miller Street North Sydney NSW 2060



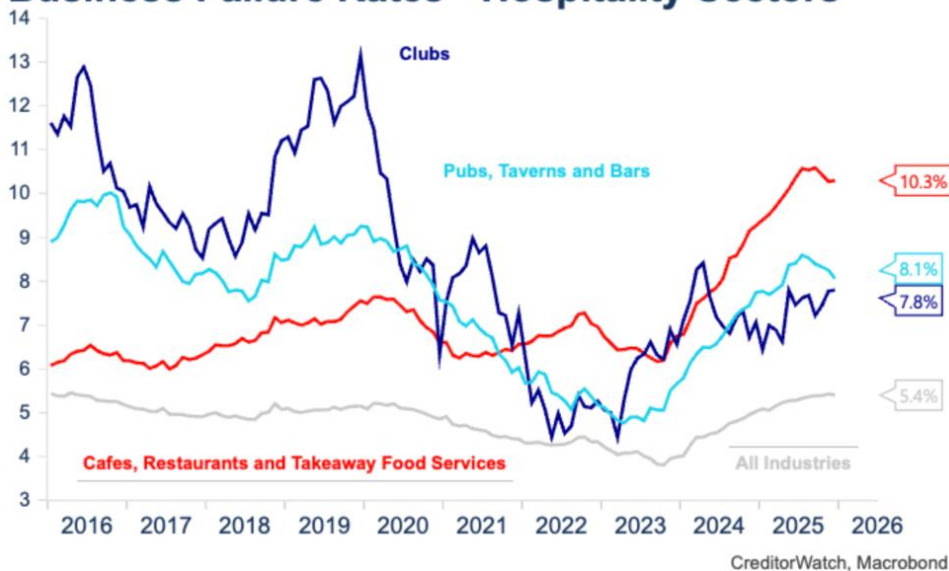
considered small businesses with 99% of restaurants and cafes earning less than \$10 million in annual revenue and 91.4% earning less than \$2 million¹ according to the Australian Bureau of Statistics (ABS).

2. Economic Context: The State of the Hospitality Industry

2.1 Segment Revenue & Economic Overview

The segment (along with Takeaway Food Services) generates \$72B+ in revenue annually, according to IBISWorld² and revenue has gone backwards in real terms since 2021. Recent persistent cost-of-living pressures & total 2025 international tourism remaining down from pre-COVID levels³ have constrained overall consumer spending at restaurants and cafes, leading to record insolvencies and closures in the last 12 months to 2026 according to Creditor Watch⁴. Recent global events have further depressed Short Term Visitor numbers in Australia, with the most recent Home Affairs figures noting a 10%+ drop in visitor visa holders on shore as at 31 January 2026 vs 2025⁵.

Business Failure Rates - Hospitality Sectors



Restaurants are struggling to maintain margins

Profitability varies depending on a venues size. Large restaurants benefit from economies of scale, while smaller cafe establishments suffer greatly when demand is flat. The segment's profitability has shrunk significantly since 2021, now just 2.8% restaurants and 2.6% for

¹ ABS Counts of Australian Businesses, including Entries and Exits, June 2020 to June 2024, 17 Dec 2024

² [IBISWorld Restaurant, Café & Takeaway Reports 2025](#)

³ [Overseas Arrivals and Departures, Australia, February 2026 | Australian Bureau of Statistics](#)

⁴ [Cafés and restaurants in crisis while pubs power on: Insolvencies trending up again | CreditorWatch](#)

⁵ Home Affairs 31 January 2026

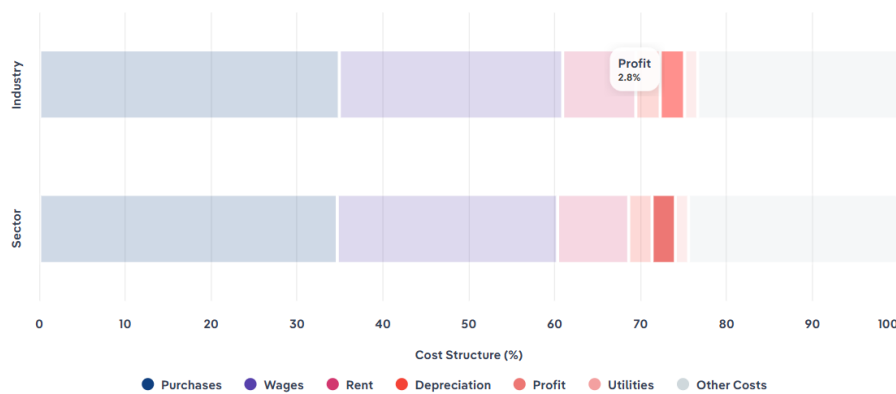


cafes, as cost-of-living pressures have weighed on industry demand while inflationary pressures have boosted restaurants' wages and costs for goods as repeated monthly by the ABS⁶ and evident in the menu price inflation most recently 3.5% year over year (subsequently exactly the same as the FY2026 Restaurant Award Rate Increase).

Restaurants and cafés operate on some of the lowest profit margins in the Australian economy, typically around 2–3%, meaning even modest cost increases can materially affect business viability.

In last year's submission we noted that IBISWorld's outlook in the segment was expected to be a "Roller Coaster" and highly unpredictable, with restaurants on just 3.8% and cafes on 3.3% expected profit margin in 2025⁷. **The segment ended up worse off and could not fully absorb wage increases so turned to a 1:1 price hike compared to last year's Award Rate increase of 3.5%. Menu price inflation in the restaurant sector closely mirrored the 3.5% award increase, suggesting businesses passed on a significant share of labour cost increases.**

Restaurants in Australia
Cost Structure Benchmarks
Average operating costs by industry and sector as a share (%) of revenue 2026



⁶ [Consumer Price Index, Australia, January 2026 | Australian Bureau of Statistics](#)

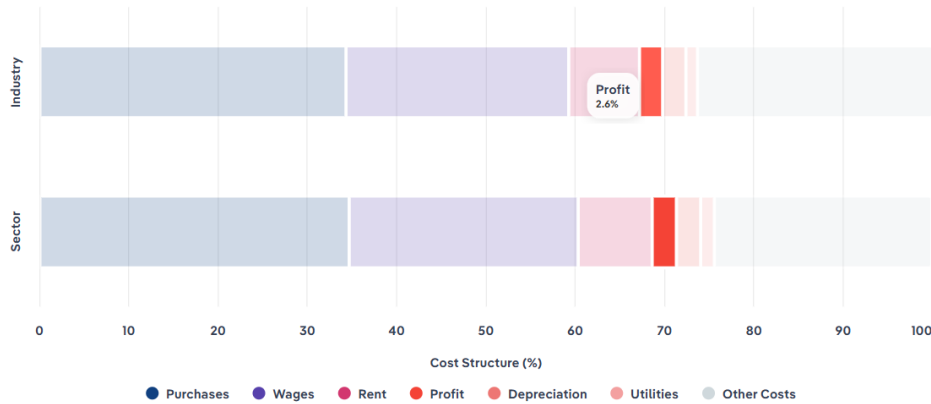
⁷ [At a Glance - H4511A Restaurants in Australia - MyIBISWorld](#)



Cafes and Coffee Shops in Australia


Cost Structure Benchmarks

Average operating costs by industry and sector as a share (%) of revenue 2026



FY2025 Entry/Exit

As businesses in the segment are also finding it extremely difficult to deal with elevated operational costs and flat demand, these factors have curbed the segment's profitability and forced businesses to exit (and inhibited growth) over FY25. The segment was relatively flat, and venue numbers grew by just 1.1%, though faring better than the overall Industry with Accommodation down -2.1%, Catering down -1.4%, Pubs (hotels), Taverns and Bars down -1.2%, and just under Clubs up 1.5%. The segment trailed Takeaway Food Services, which boomed in FY25 growing 4.4% overall.



Australian Bureau of Statistics

8165.0 Counts of Australian Businesses, including Entries and Exits, June 2021 to June 2025
Released at 11.30 am (Canberra time) 16 December 2025

Businesses by Main State by Industry Class by Turnover Size Ranges, June 2025 (a) (b)

Operating at the End of FY2025

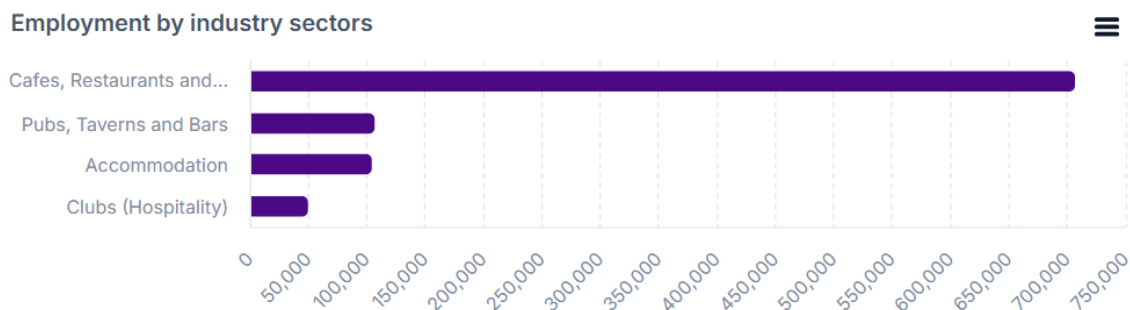
State Name	ANZSIC Industry Code	ANZSIC Industry Label	Total no.	Change no.	Percentage Change %	Entry Rate %	Exit Rate %
New South Wales	4511	Cafes and Restaurants	19,446	241	1.3	18.1	17.1
Victoria	4511	Cafes and Restaurants	17,865	-40	-0.2	17.1	17.2
Queensland	4511	Cafes and Restaurants	9,174	125	1.4	19.1	17.6
South Australia	4511	Cafes and Restaurants	2,957	72	2.5	21.5	18.7
Western Australia	4511	Cafes and Restaurants	4,467	211	5.0	20.1	15.0
Tasmania	4511	Cafes and Restaurants	1,020	-15	-1.4	14.5	15.5
Northern Territory	4511	Cafes and Restaurants	252	8	3.3	21.3	16.8
Australian Capital Territory	4511	Cafes and Restaurants	1,123	14	1.3	18.6	17.7
Other Territories/Currently Unknown	4511	Cafes and Restaurants	3	0			
	4511	Total Cafes and Restaurants	56,305	616	1.1	18.2	17.1

2.2 Employment



The Accommodation and Foodservice Industry employs approximately 981,100 or 6.7% of the Australian Workforce ranking it the 5th largest employer out of 19 Industries, accounting for a significant portion of Australia’s workforce.⁸ Key trends include:

- A majority (52%) of the workforce being female.
- 61% Part-Time Share-heavily affected by Award Rate wage decisions.
- The highest youth employment of all Industries with a Median Age of 25.
- Critical shortages in roles such as Restaurant Managers, Chefs & Cooks and over 49,600 open roles on Seek.com.au⁹ as of March 2026.
- The Cafe, Restaurant & Takeaway Food Service segment employs 706,500 or 72% of the workforce in the industry and is **Australia’s largest employing industry sector**¹⁰.



Source: ABS, Labour Force Survey, Detailed, November 2025, Jobs and Skills Australia (JSA) trend data.
Note: the sum of sectoral employment may not equal the industry total as data are trended separately, and not further defined (nfd) classifications have been excluded.

The Accommodation and Foodservice Industry provides the largest entry point into the labour market for young Australians. Maintaining sustainable employment opportunities for young workers should remain a key consideration in minimum wage decisions.

3. The Labour Intensity Problem

Australia’s CPI measures price changes across 11 major consumption groups calculated by the Australian Bureau of Statistics. Within these categories there are 87 expenditure classes representing the goods and services Australians actually purchase.

In several CPI groups, labour is the dominant cost input:

⁸ [Accommodation and Food Services | Jobs and Skills Australia](#) March 2026

⁹ [Seek.com.au](#)

¹⁰ [Australian Government Employment Outlook to May 2024.docx](#)



Examples:

CPI Category	Labour Share (Typical)
Restaurants & takeaway	35–45%
Personal services	40–60%
Education	50–70%
Health services	50–65%
Cleaning & maintenance	50–70%
Hospitality	35–45%

These sectors rely heavily on workers covered by Modern Awards set through the Fair Work Commission under the Fair Work Act 2009. Unlike goods-producing sectors, they cannot easily substitute labour with automation or imports.

When wages rise in labour-intensive sectors:

Labour represents a large share of operating costs in hospitality businesses, while productivity gains in hospitality are inherently limited.

So businesses have only three options:

1. **Raise prices**
2. **Reduce staff or hours**
3. **Exit the market**

In practice, many firms do **some combination of all three**.

How Above-Inflation Wage Decisions Feed Into CPI

If award wages rise above inflation, labour costs increase faster than other inputs.

For labour-intensive sectors, labour costs rise materially faster than other input costs and businesses must adjust prices to remain viable. This causes service prices to rise faster than the overall CPI.

A surprisingly large share of the CPI basket is dominated by sectors where Modern Awards set the wage floor through the Fair Work Commission under the Fair Work Act 2009.

Using CPI weights from the Australian Bureau of Statistics we approximate that a significant share of the basket is labour-intensive and award-wage exposed:

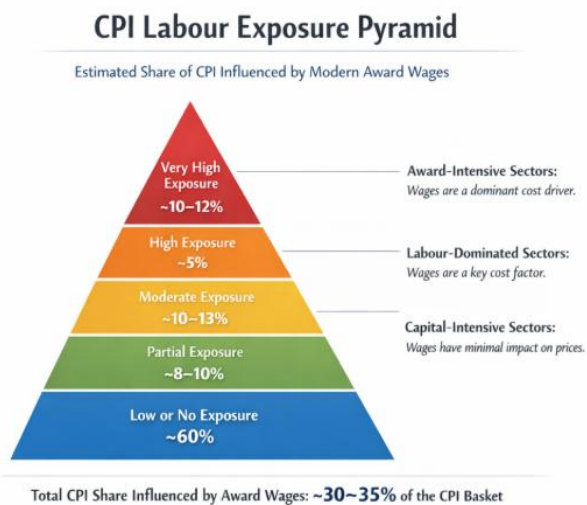
Table 1 — Estimated CPI Exposure to Modern Award Wages

Estimated share of CPI categories influenced by award-regulated labour

Exposure Category	CPI Components Included	Estimated CPI Share
Direct Labour-Intensive Sectors	Restaurants & takeaway meals, accommodation, domestic travel services, personal care, childcare, cleaning services, taxi & rideshare	13–15%
Moderate Exposure Sectors	Health services, education services, aged care & social services, recreation services	10–13%
Partial Exposure Sectors	Retail margins, insurance services, housing maintenance & repairs	8–10%

Total Estimated CPI Exposure:

→ ~30–35% of the CPI basket



A substantial share of CPI services categories are labour-intensive sectors where wages are a dominant input cost. **As a result, minimum wage decisions can contribute to services price pressures in labour-intensive CPI categories.**

4. Award Reliance

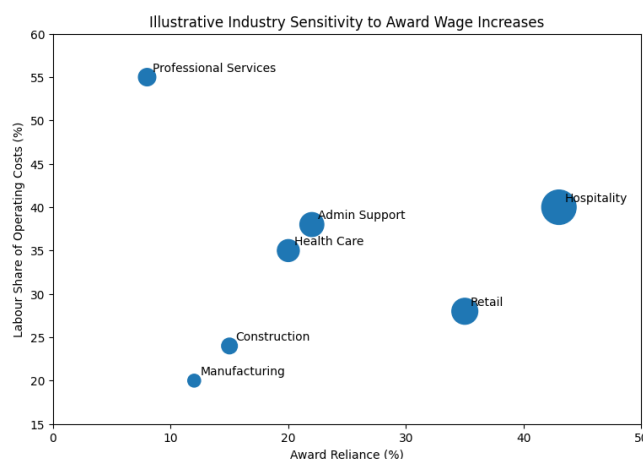
Award reliance in Australia varies significantly across the labour market, but overall, only a minority of employees are directly affected by Modern Award wage decisions. According to the ABS *Employee Earnings and Hours (EEH) Survey*¹¹, around **36–38% of employees are covered by enterprise agreements**, while **approximately 40–42% are paid through individual arrangements above award rates**. By contrast, **about 20–23% of Australian workers are award-reliant**, meaning roughly **one in five employees** have their base pay determined directly by Modern Awards.

¹¹ [Employee Earnings and Hours, Australia, May 2025 | Australian Bureau of Statistics](#)
Australian Restaurant & Cafe Association Ltd. (ABN 46 677 038 505)
 Lvl 32, 101 Miller Street North Sydney NSW 2060

However, the distribution of award reliance across industries is far from uniform. Some sectors operate largely outside the Modern Award system, while others depend on it heavily. **The Accommodation and Food Services sector — including restaurants, cafés and pubs — is one of the most award-reliant industries in the Australian economy.** ABS industry data shows that **around 40–45% of employees in accommodation and food services are award-reliant**, compared with approximately **35% in retail**, around **20% in health care**, and **less than 10% in many professional services sectors**. In practical terms, this means **hospitality has roughly double the national rate of award reliance.**

This structural difference is critical when considering the economic impact of minimum wage decisions. While the **Fair Work Commission’s Annual Wage Review directly affects only around one-fifth of workers nationally**, it affects **close to half of employees in the hospitality sector**. As a result, wage increases imposed through the award system place **disproportionate cost pressure on labour-intensive industries**, particularly restaurants and cafés where award coverage is widespread and margins are typically narrow.

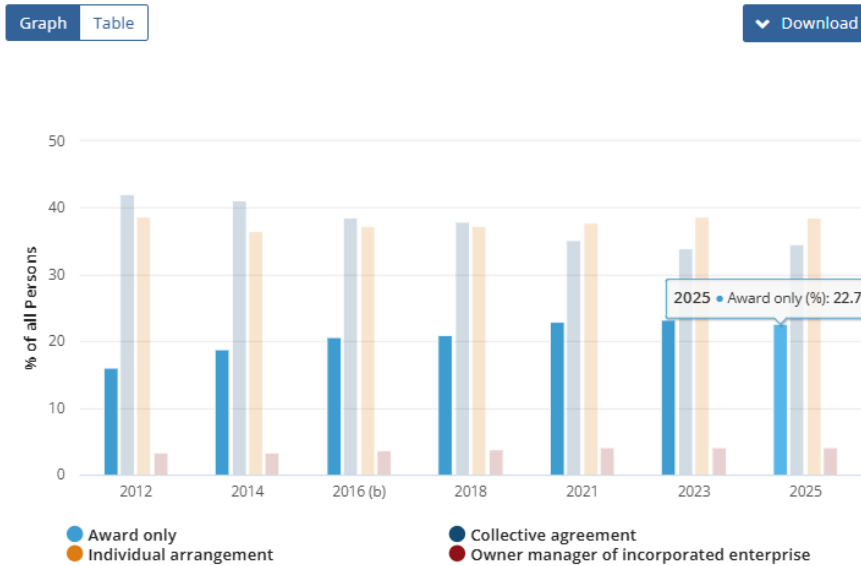
The impact becomes even more pronounced when award reliance is combined with labour’s share of total business costs. Hospitality businesses typically have **labour cost shares of around 40%**, significantly higher than many other sectors. By comparison, **retail labour costs are typically around 25–30%**, while **manufacturing labour costs are closer to 20% and involve much lower award reliance**. This means that when minimum award wages increase, **cost pressures flow through the hospitality sector faster and more directly than in most other parts of the economy**.



Illustrative industry comparison of sensitivity to award wage increases. Hospitality is more exposed than most sectors because it combines high award reliance with a high labour share of operating costs, increasing the speed and scale at which wage decisions flow into prices, margins, employment and viability.

For this reason, minimum wage decisions have an **uneven economic impact across industries**. Labour-intensive sectors with high award reliance — particularly accommodation and food services — absorb a significantly larger share of wage-driven cost increases. As a result, policy decisions made through the Annual Wage Review can have **disproportionate consequences for the viability of hospitality businesses**, even though they affect a smaller share of the national workforce overall.

All employees, proportion of employees - method of setting pay (a)



a. Percentages may not sum to 100% due to rounding

b. Data for 2016 is based on indicative comparable estimate proportions. For further information, refer to Appendix 1 in the [2018 Feature Article](#)

5. The Core Argument: Wages Cannot Sustainably Grow Faster Than Productivity + Inflation

While maintaining real wages is an important objective, increases materially above inflation and productivity growth risk imposing labour cost increases that cannot be absorbed by labour-intensive small businesses. In these circumstances, higher award wages are more likely to translate into higher prices, reduced employment, or business closures, outcomes that undermine the sustainable operation of the minimum wage system.

ABS productivity data shows that labour productivity growth in accommodation and food services has remained modest over the past decade compared with wage growth. In the past fifteen years there has been a clear divergence between labour productivity and wage growth in Australia’s accommodation and food services sector. When indexed over time, labour productivity has increased only modestly, while wages have risen significantly faster.

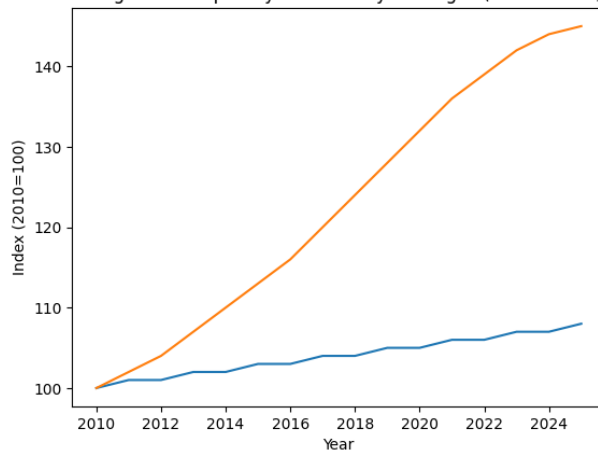
In simple terms, the **output produced per worker has grown slowly**, while the **cost of**



employing that worker has increased substantially. Conceptually, the trend can be summarised as follows:

Indicator (Accommodation & Food Services)	Approximate Change (15 years)
Labour productivity	+5–8%
Wage growth (minimum/award/WPI trend)	+40–45%

Illustrative Divergence: Hospitality Productivity vs Wages (2010=2025, Index=100)



This widening gap represents a structural challenge for labour-intensive industries such as restaurants and cafés. Labour typically accounts for **around 40% of operating costs**, while productivity gains are limited due to the nature of hospitality work. A restaurant cannot easily automate service roles or dramatically increase the number of customers served per worker. As a result, when wages rise significantly faster than productivity, labour costs grow faster than the economic value created by the workforce.

In these circumstances the cost gap must be absorbed somewhere within the business model. In practice there are only four ways this occurs: **higher menu prices, lower profit margins, reduced staffing or hours, or business closures**. Evidence across the hospitality sector suggests all four outcomes are currently occurring simultaneously.

Over the past decade and a half, wage growth in accommodation and food services has therefore significantly outpaced labour productivity. In labour-intensive small businesses where productivity gains are inherently limited, sustained wage increases above productivity and inflation place structural pressure on prices, employment and business viability. **This raises legitimate questions about the sustainability of further above-inflation increases to minimum and award wages in sectors that are already operating under significant financial strain.**



Recommendation

Under the **Fair Work Act 2009**, the **Fair Work Commission (FWC)** must take a balanced, economy-wide approach when determining minimum and award wages through the **Annual Wage Review**. Section 284¹² of the Act establishes the *minimum wages objective*, which requires the Commission to set wages that provide a “fair and relevant minimum safety net” while taking into account a range of economic factors. These include the **performance and competitiveness of the national economy (including productivity, business competitiveness and viability, inflation, and employment growth)** as well as the need to promote **social inclusion through workforce participation** and maintain a **sustainable and stable modern award system**. In practice, this means the Commission must weigh the impact of wage increases not only on workers’ living standards, but also on **inflation pressures, employment outcomes, and the capacity of businesses—particularly small businesses operating under Modern Awards—to remain viable over time**.

ARCA recommends an increase of **3.5% to the Annual Minimum Wage in FY2027** as a responsible and balanced approach that takes into account current economic conditions, business sustainability and worker welfare. An increase broadly aligned with inflation would help maintain the purchasing power of low-paid workers while limiting additional cost pressures on labour-intensive small businesses and avoiding further upward pressure on services inflation, which the Reserve Bank of Australia has identified as being closely linked to labour costs. A wage increase broadly aligned with current inflation ensures that real wages for low-paid workers are maintained while avoiding additional cost pressures on labour-intensive small businesses.

If award wages consistently rise faster than inflation and productivity, businesses must increase prices to survive. This poses the risk of entrenching services inflation and increasing closures within labour-intensive sectors such as hospitality, as has already been observed according to Creditor Watch. Sustaining employment opportunities for young and entry-level workers should remain a priority given the sector employs the youngest workforce in the Australian economy. ARCA recognises the importance of maintaining real wages for low-paid workers. However, increases significantly above inflation risk reducing

¹² Fair Work Act 2009, s.284 Minimum Wages Objective, Fair Work Commission, Annual Wage Review Decisions and Minimum Wage Objective Guidance, Australian Government, Fair Work Commission Annual Wage Review process (FWC explanatory materials).



employment opportunities and accelerating business closures, ultimately harming the very workers the minimum wage system seeks to protect.

We urge the Fair Work Commission to adopt this recommendation in the upcoming wage review.

Yours sincerely,

Wes Lambert CPA, FGIA, CAE, AAiP, MAICD

Chief Executive Officer

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