Ai GROUP SUBMISSION

Fair Work Commission

Annual Wage Review 2020-21

26 March 2021

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1. Introduction

It is important for the Expert Panel of the Fair Work Commission to take a particularly cautious approach in this year's Annual Wage Review given the economic and business risks associated with the end of JobKeeper on 28 March 2021.

In evidence given to Senate Estimates on 24 March 2021, Treasury Secretary Dr Steven Kennedy advised that Treasury expects the end of JobKeeper to directly cause some businesses to close and 100,000 to 150,000 jobs to be lost:

> *"Growth will moderate as Australia moves past the initial phase of the recovery from COVID-19 … Determining the overall level of potential job losses is difficult … We believe that in the order of 100,000 to 150,000 JobKeeper recipients may lose employment at the completion of the program, though there is a wide band of uncertainty around this estimate."*

Ai Group is pleased that the Expert Panel has called for five rounds of submissions in this year's Review. This timetable will enable Ai Group to assess the latest economic data before settling on a proposed quantum for any minimum wage increase. We will of course advise the Panel of our position on any minimum wage increase as soon as possible, but we believe that it would not be appropriate for us to propose any wage increase until the effects of the discontinuation of JobKeeper are understood.

The quantum and timing of any minimum wage increase needs to take account of:

- The uncertain outlook for employment, economic growth and business insolvencies;
- The fact that some sectors have been extremely hard-hit by the pandemic and have not yet recovered to anything like pre-pandemic levels;
- The minimum wage increase from last year's Annual Wage Review has only just been paid (on 1 February 2021) by employers in some sectors and it would be unfair for these employers to be required to pay another increase on 1 July 2021;
- Headline annual CPI is currently below 1% (i.e. 0.9%);
- The significant increases in disposable incomes of low paid employees due to the changes to taxation arrangements made in last October's Budget; and
- The legislated 0.5% superannuation guarantee increase from 1 July which will deliver an important benefit to employees.

It is also important for the Panel to take into account that Australia already has the highest national minimum wage in the world (on a purchasing power parity basis).

2. Rapid economic recovery to date, but the outlook for 2021 is fragile

The Australian community came through the COVID-19 pandemic of 2020 better than most other countries and better than had been widely feared at the outset. Local infections, illness and deaths due to COVID-19 were much lower than elsewhere. The economic fallout was addressed by a suite of government support programs, policies and measures, with a large degree of success to date.

Even so, Australia suffered its first recession since the 1990s, with economic activity dropping faster and sharper in Q2 of 2020 than in any previously recorded period. Output and employment dropped by more in the three months of Q2 than in three years during previous Australian recessions. The labour market impact was especially deep. During the worst months of 2020, the number of unemployed Australians rose above 1 million, with the number of people supported by Jobseeker and Youth Allowance payments rising to a peak of 1.6 million people. Among those who stayed employed, the number of workers supported by temporary JobKeeper subsidies rose to a peak of 3.6 million people in Q3 and was still around 1.5 million in Q4 of 2020.

On many measures, Australia's economy has bounced back at a faster and stronger pace than had been anticipated (reflecting the size, speed and success of various economic support measures implemented in 2020), but the effects of the pandemic and recession are continuing well into 2021:

- **Real GDP** was 1.1% lower than in Q4 2019, real GDP per capita was 1.8% lower and real GDP per capita in the 'market sectors' of the economy was 2.3% lower than in Q4 2019.
- **Total employment** in Feb 2021 had recovered to its pre-pandemic level of 13 million people.
- **Aggregate paid work hours** in Feb 2021 were 0.2% higher than in Feb 2020 but 0.7% lower than in March 2020 immediately prior to Australia's shut-downs due to the pandemic.[1]
- The **unemployment rate** fell to 5.8% in Feb 2021, with an estimated 800,000 people unemployed (down from a recent peak of 1 million in July 2020). This rapid improvement in unemployment is welcome but it remains well above the RBA's current estimate of full employment (4% or lower). Other indicators of unemployment remain significantly higher, with 1.37 million people receiving JobSeeker or Youth Allowance (other) benefits in January 2021.[2]
- The **underemployment rate** stood at 8.5% in Feb 2021 (0.3 percentage points higher than in Feb 2020), with an estimated 1.178 million people in work but underemployed (seasonally adjusted).

[1] ABS, *Insights into hours worked*, Feb 2021.

[2] DSS, *Table 1. Recipients of Newstart Allowance, Jobseeker Payment, Bereavement Allowance, Sickness Allowance and Youth Allowance, Time Series*. Jan 2021.

- This large pool of underemployed people included 553,400 people who **worked fewer than their usual hours for economic reasons** in Feb 2021, including 127,000 people on **zero hours**. This was 170,000 (43%) more people on reduced or zero hours than in Feb 2020 and included more than double the number of people who worked zero hours in Feb 2020 (60,000 in Feb 2020).[3]

- The **underutilisation rate** fell to 14.4% in Feb 2021 from 14.5% in Jan but it remains elevated.

- The **youth unemployment rate** fell to 12.9% in Feb 2021, with 275,700 people aged 15-24 years unemployed (down from a peak of 343,500 in June). Employment for people aged 15-24 years has improved but remains lower than pre-COVID-19 levels, as does employment for people aged 25-34 years.

- The **youth underemployment** rate is high at 16.8% and the **youth underutilisation** rate is high at 29.7% in Feb 2021 (down from a record high of 37.8% in May 2020).

- **Inflation** (annual CPI) returned to a weakly positive trend (+ 0.7% p.a.) in Q3, after dropping in Q2 (-1.9% q/q and -0.3% p.a.) for the first time since 1997.

The distribution of economic loss and recovery has been extremely uneven to date across locations, industries, occupations and demographic groups around Australia. In early 2021, interstate and international border restrictions and local activity restrictions (e.g. office attendance and density limits) continued to hamper the recovery of activity in large customer-facing service industries including retail, hospitality (food and accommodation services), education, travel and transport.

Further recovery is likely to be slower and more fragile from April 2021 onwards. Australian Treasury Secretary Dr Stephen Kennedy told Senate Estimates Committee this week that "*while the economy is recovering strongly, well supported by fiscal and monetary policy settings, we are well below our pre pandemic trend economic growth path, and it will take some time to fully recover*". Dr Kennedy estimates the economy had recovered 85% of its COVID-19 losses, as of March 2021.[4]

For the remainder of 2021, notable hurdles to Australia achieving more resilient growth in activity, jobs and incomes will include:

- The path of the COVID-19 pandemic locally and globally, with new strains emerging globally;

- The availability, distribution and efficacy of COVID-19 vaccines, locally and globally, with Australia's adult population expected to be 'fully vaccinated' by October 2021, at the earliest;

- Ongoing international travel restrictions for residents and non-residents, with limits on arrival numbers and quarantine requirements likely to stay in place until late 2021 at the earliest;

- International trade and geopolitical tensions arising from the pandemic and for other reasons;

[3] ABS, *Insights into hours worked*, Feb 2021.

[4] Dr Steven Kennedy, Secretary to the Treasury, Evidence to Senate Estimates Committee, 24 Mar 2021.

- High risk of short periods of local activity and/or interstate border restrictions ('lockdowns');

- High risk of adverse effects on employment and business viability after the JobKeeper program ends on 28 March 2021, with 1.5 million employees supported by JobKeeper in Q4 of 2020 (11.6% of the total workforce in Dec 2020) and an estimated 1.1 to 1.3 million employees supported by JobKeeper in Q1 of 2021 (8.5% of the total workforce in Jan 2021). Australian Treasury Secretary Dr Kennedy estimates that 100,000 to 150,000 JobKeeper recipients could lose their employment when this program ends;

- High risk of adverse effects on employment and business viability in 2021 after the end of various temporary business cash-flow grants and supports from federal and state government agencies;

- High risk of adverse effects on employment and business viability in 2021 due to reduced local consumer demand, as the boosts to consumption from temporary measures implemented in 2020 (including COVID-19 supplements for welfare recipients, superannuation withdrawals and cash grants and vouchers to households from federal and state government agencies) fade. Aggregate consumption will continue to be supported by personal income tax cuts and low interest rates in 2021, but the additional boost from significant extra measures in 2020 will end;

- High risk of a sudden drop in residential construction activity after 31 March 2021, when the highly successful HomeBuilder program ends. This program had very high take-up rates and supported strong activity in residential construction and renovations in Q4 of 2020, with a record high number of building approvals. It was further bolstered by enhanced first home buyer grants in some states in 2020. The construction industry directly employed 1.183 million workers (9.2% of the total workforce) in Nov 2020, with the majority employed in residential construction;

- High risk of a significant rise in bank loan defaults by homeowners and small businesses during 2021, as various schemes by banks for temporary 'interest holidays' for mortgagees and business loan borrowers come to an end;

- High risk of a significant rise in insolvencies among small to medium businesses during 2021, due to the end of temporary changes to business insolvency regulations (effectively allowing businesses to temporarily continue to operate while insolvent) in Dec 2020;

- High risk of a significant rise in business closures and/or site downsizing during 2021 as various temporary 'rent holiday' measures by state governments for businesses come to an end;

- Underlying structural weakness in background inflation, with the RBA expecting CPI to remain below its target range of 2-3% (over the cycle) until 2023 or later;

- Underlying reduction in Australia's resident population and a consequent deceleration in potential growth, relative to the growth rates prior to the COVID-19 pandemic; and

- Underlying structural weakness in non-mining business investment, productivity growth and global competitiveness (including comparatively high labour costs).

2.1 Best case scenario: V-shaped recovery in 2020

Australia's real GDP suffered its deepest fall on record in Q2 2020 (-7.0% q/q and -6.3% p.a.) but recovered by 3.3% q/q in Q3 and 3.1% q/q in Q4 of 2020, to end the year 1.1% p.a. lower (table 1 and charts 1 and 2). GDP per capita in Q4 was 1.8% lower than one year earlier. This indicates Australia experienced something close to a 'best case' scenario with regard to the economic effects of COVID-19, with a 'V-shaped' recovery emerging earlier and stronger than expected in the second half of 2020. The components of expenditure in the *National Accounts* indicated that as of Q4 2020:

- Household consumption (total spending by households) was the key swing factor in 2020, with a record fall of 12.3% q/q in Q2 followed by rapid recovery in Q3 and Q4. It was still 2.7% p.a. lower in Q4. As spending dried up, the household savings ratio bounced up to 22% of aggregate income in Q2, before falling to 12% in Q4. With incomes supported by Jobkeeper, Jobseeker and other Government programs, consumption fell mainly in response to activity restrictions rather than falling aggregate income (as had happened in previous recessions).

- This fall in household consumption was offset by big increases in general government consumption (recurrent spending by local, state and federal governments), up by 7.4% p.a.

- All forms of investment slumped in the first half of 2020, except engineering construction (mainly mining and transport projects that have long lead-times). Housing investment recovered from Q3 onwards in response to Homebuilder, low interest rates and first home buyer grants. It rose by 4.1% in Q4 to be up 0.6% p.a. Business investment in machinery and equipment recovered by 8.1% q/q in Q4 but was still down by 4.8% over the year.

- Imports and exports were both severely disrupted by COVID-19 in 2020, but a rise in the terms of trade (up 7.3% p.a. to Q4) helped to cushion the impact of lower export volumes.

Across Australia's industries, real value-added output dropped in only 2 of 19 industries in each of Q3 and Q4 of 2020 (mining and utilities). Production was higher over the year to Q4 in 9 of 19 industries. Agricultural output was 20% higher due to better weather in 2020 (table 2 and chart 3).

On the income side of the *National Accounts*, disruptions due to COVID-19 were evident across all forms of income in 2020, with large (and largely unprecedented) rises and falls in Q2 and Q3 due to the accounting effects of Jobkeeper and other income transfers. By the end of 2020, all forms of income were up over the year, with nominal total factor income up by 5.3% p.a.

More detailed data from the ABS *Business Indicators* confirm that the temporary rises in aggregate nominal business profits in 2020 were primarily due to the temporary accounting effects of government transfers rather than to business sales income. Aggregate nominal business sales plunged by 10.4% q/q in Q2 2020 and recovered in each of Q3 and Q4, to end the year 2.1% lower. Across the 15 industries included in the ABS *Business Indicators* dataset, nominal business sales were higher over the year to Q4 in only 3 industries: retail trade (+7.3% p.a.); finance and insurance (+3.4% p.a.) and professional services (2.1% p.a.). In contrast to this sales slump, aggregate nominal wages paid by businesses were up by 0.7% over the year to Q4 (chart 4).

Table 1: Composition of GDP: expenditure and trade, 2020

real volumes *Inflation adjusted, seasonally adjusted*		Quarter change, q/q Q1	 Q2	 Q3	 Q4	Annual, % y/y Q4
Real GDP		**-0.3**	**-7.0**	**3.4**	**3.1**	**-1.1**
Real GDP per capita		-0.6	-7.2	3.3	3.0	-1.8
Domestic consumption and investment						
Household consumption		-1.4	-12.3	7.9	4.3	-2.7
General government consumption		2.0	2.9	1.5	0.8	7.4
Total investment		-0.2	-4.6	0.5	3.6	-0.9
Dwelling investment		-0.1	-4.9	1.6	4.1	0.6
Private Business investment		-0.5	-4.7	-2.0	2.2	-5.0
New building		-0.7	-2.8	-6.2	-2.6	-11.9
New engineering construction		0.9	4.1	-5.2	0.7	0.2
New machinery and equipment		-1.7	-8.1	-2.6	8.1	-4.8
Intellectual property investment		-1.7	-7.2	2.2	1.4	-5.4
Public (government) investment		-0.1	-0.4	-0.2	2.5	1.8
Domestic final demand		**-0.4**	**-7.4**	**4.6**	**3.3**	**-0.3**
State final demand	NSW	-1.3	-8.5	6.8	2.9	-0.7
	VIC	-0.4	-8.4	-0.9	6.8	-3.4
	QLD	-0.2	-6.1	7.0	2.0	2.4
	SA	-0.9	-6.0	6.8	0.6	0.0
	WA	0.7	-6.2	5.5	1.5	1.2
	TAS	1.0	-7.9	5.6	3.3	1.5
International trade, volumes and prices						
Exports (volumes)		-4.2	-7.6	-4.0	3.8	-11.7
Imports (volumes)		-7.2	-12.3	5.9	4.9	-9.6
Terms of trade (relative prices)		0.3	0.8	1.3	4.8	7.3

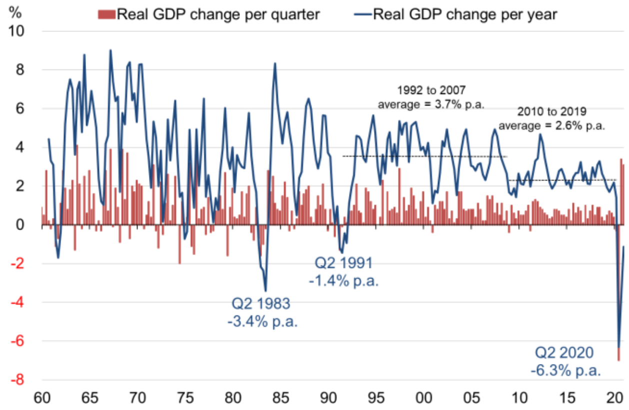
Source: ABS, *National Accounts,* Dec 2020.

Table 2: Composition of GDP: production, Q4 2020

real value-added output volumes *Inflation adjusted, seasonally adjusted*	Quarter change, q/q Q1	 Q2	 Q3	 Q4	Annual, % y/y Q4	Share of GDP*, % Q4
Real GDP	**-0.3**	**-7.0**	**3.4**	**3.1**	**-1.1**	
Agriculture, forestry and fishing	-3.3	-1.9	-0.2	26.8	20.0	2.3
Mining	-0.5	0.0	-2.1	-1.0	-3.6	9.9
Manufacturing	1.9	-9.0	4.4	1.2	-2.0	5.5
Utilities	-1.5	-1.5	1.1	-0.9	-2.8	2.4
Construction	-0.3	-7.6	2.6	0.3	-5.2	6.7
Wholesale Trade	2.1	-6.2	5.1	3.6	4.3	3.8
Retail Trade	1.7	-4.5	5.5	3.7	6.3	4.3
Food & Accommodation Services	-7.9	-38.5	42.1	7.9	-13.2	2.0
Transport, Post & Warehousing	-4.5	-21.3	4.3	6.1	-16.8	3.9
IT, Media & Telecommunications	0.5	-8.6	5.7	5.2	2.1	2.3
Finance & Insurance	1.1	0.8	0.5	0.4	2.9	8.7
Rental & Real Estate services	-1.9	-15.8	8.4	7.4	-3.8	2.8
Professional services	1.2	-6.1	2.4	4.7	1.9	7.2
Administrative services	-3.7	-18.9	0.7	9.4	-14.0	3.0
Public Administration & Safety	2.3	0.8	1.5	0.8	5.5	5.7
Education	0.2	0.2	0.2	0.2	0.8	4.8
Health	-0.1	-8.1	9.1	2.2	2.4	7.7
Arts & Recreation	-2.8	-23.9	14.4	8.5	-8.2	0.7
Personal & Other Services	-4.1	-17.2	6.2	9.9	-7.2	1.6

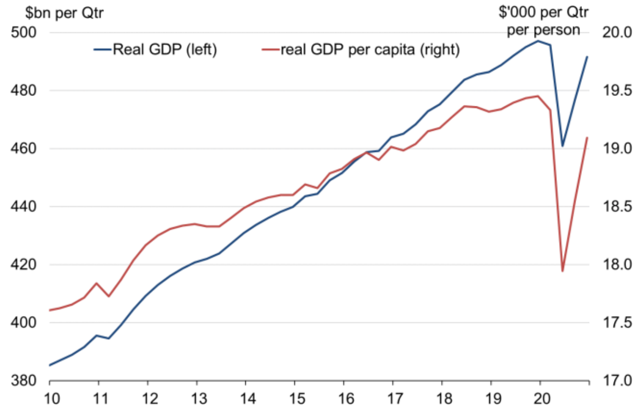
* All industries do not sum to 100% of GDP due to individual seasonal adjustment of industries and other accounting items that are included in total GDP such as 'ownership of dwellings', 'taxes less subsidies' and 'statistical discrepancy'.
Source: ABS, *National Accounts,* Dec 2020.

Chart 1: Change in real GDP, 1960 to 2020



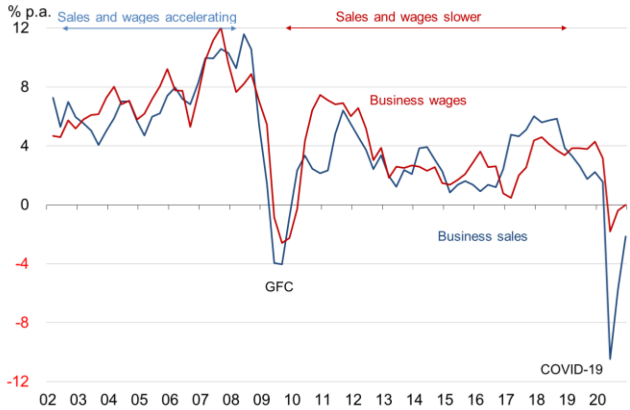
Source: ABS, *National Accounts*, Dec 2020.

Chart 2: Real GDP and GDP per capita, 2010 to Q4 2020



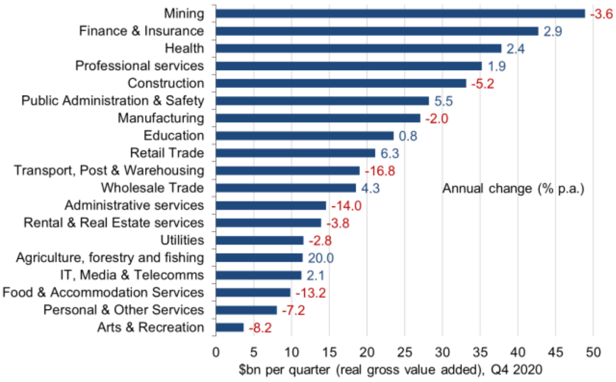
Source: ABS, *National Accounts*, Dec 2020.

Chart 3: Non-mining business sales and wages*, 2002 to Q4 2020



* nominal aggregate sales and wages by all businesses.
Source: ABS, *Business Indicators*, Q4 2020.

Chart 4: Production volumes* by industry, Q4 2020



* real value added output volumes.
Source: ABS, *National Accounts*, Dec 2020.

2.2 Surging demand supports business recovery in early 2021

As of late March 2021, progress has apparently continued towards a full recovery in local activity, jobs and incomes. This was evident across a range of monthly activity indicators as of March 2021.

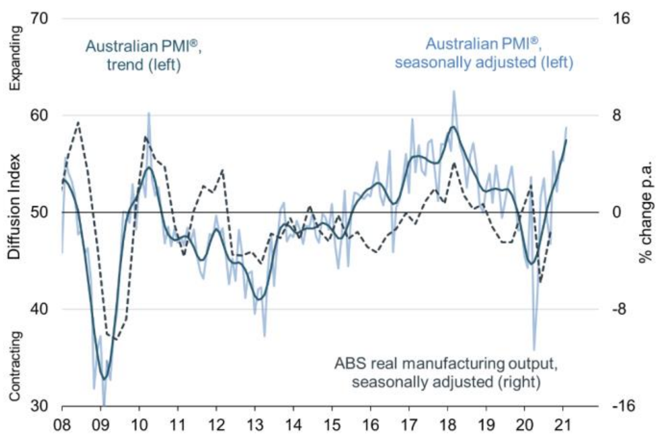
Ai Group's monthly Australian PMI, PSI and PCI all showed improvement from Q3 2020 onwards, with a stronger pace of recovery through Q4 of 2020 and into Jan and Feb of 2021. A welcome improvement in the employment indexes has been evident across all three surveys (charts 5 to 10):

- The Australian Industry Group Australian Performance of Manufacturing Index (Australian PMI®) increased by 3.5 points to 58.8 points (seasonally adjusted), indicating a stronger pace of recovery in February 2021. This was the highest monthly result for the Australian PMI® since March 2018. The Australian PMI® employment index rose by 2.7 points to 57.8 points in February (seasonally adjusted), indicating further recovery in manufacturing employment over summer. The ABS *Labour Account* indicates that manufacturing had 911,000 filled positions at the end of 2020. This was 10,000 fewer filled manufacturing jobs than in Dec 2019, but it represents a recovery of 70% of the manufacturing jobs lost earlier in 2020.

- The Australian Industry Group and HIA Australian Performance of Construction Index (Australian PCI®) eased by 0.2 points to 57.4 points in February 2021 (seasonally adjusted). The housing activity index surged to a new record high and apartment building activity turned positive for the first time since February 2018. The employment index rose to a strongly expansionary 61.7 points (highest since 2014 and close to the series record of 62.8 points in Sep 2014), as activity and employment resumed in more locations. The forward orders indexes and commentary from home builders were less positive however, reflecting widespread expectations of reduced demand when the HomeBuilder subsidy scheme ends on 31 March 2021. Demand is effectively being pulled forward by this scheme, with builders reporting high demand for immediate starts.

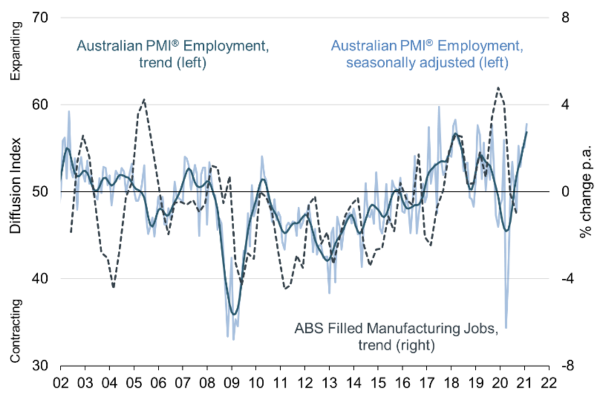
- The Australian Industry Group Australian Performance of Services Index (Australian PSI®) rose by 1.5 points to 55.8 points (seasonally adjusted) in February 2021 indicating a continuation of improving conditions after the COVID-19 recession of 2020. This was the highest monthly result in the Australian PSI® since June 2018. Unfortunately, the employment index slipped back into contraction (under 50 points) in February, indicating a pause in the jobs recovery in Dec and Jan.

Chart 5: Aust. PMI® and ABS real manufacturing output



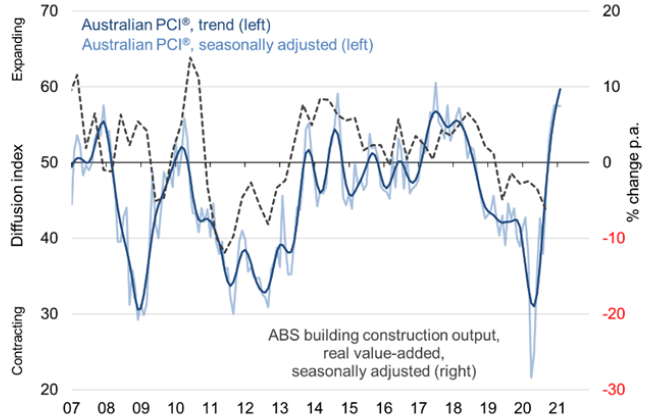
Sources: Ai Group and ABS, *National Accounts*, Dec 2020.

Chart 6: Aust. PMI® employment index and ABS manufacturing employment



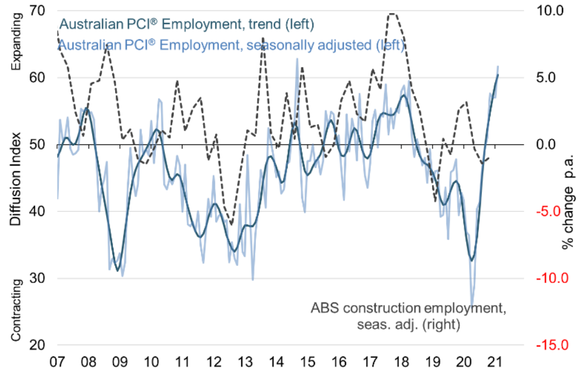
Sources: Ai Group and ABS, *Labour account*, Q3 2020.

Chart 7: Aust. PCI® and ABS real building industry output



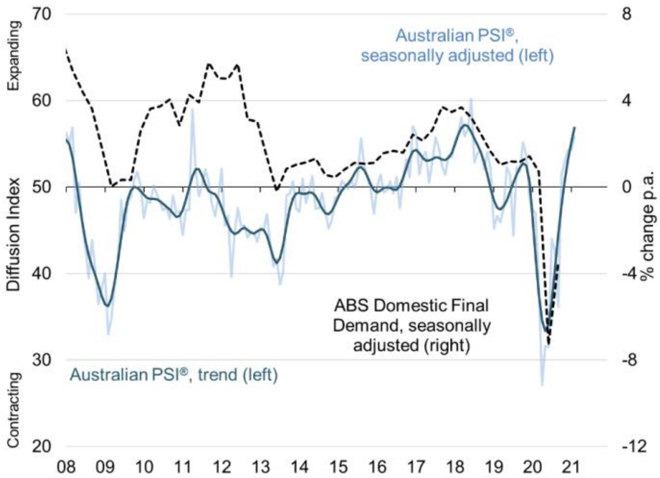
Sources: Ai Group and ABS, *National Accounts*, Dec 2020.

Chart 8: Aust. PCI® employment index and ABS construction employment



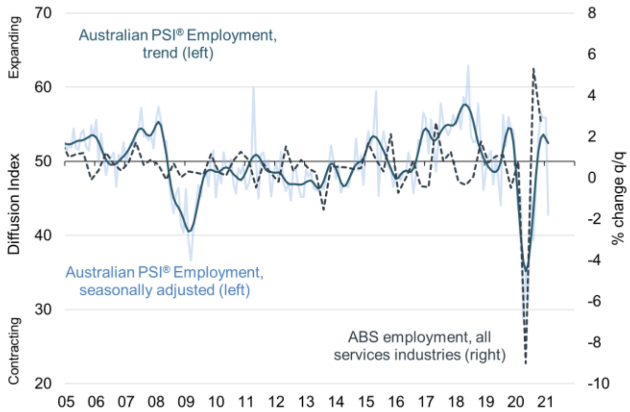
Sources: Ai Group and ABS, *Labour force Ausrtalia, detail,* Nov 2020.

Chart 9: Aust. PSI® and ABS real domestic final demand



Sources: Ai Group and ABS, *National Accounts*, Dec 2020.

Chart 10: Aust. PSI® employment index and ABS service industries employment

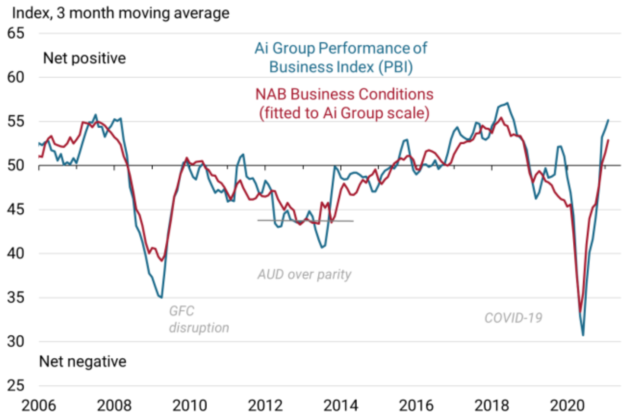


Sources: Ai Group and ABS, *Labour force Ausrtalia, detail,* Nov 2020.

The NAB Business Survey indicated similarly strong results in February 2021. The NAB business conditions index bounced around its multi-year high of +15 points in Feb, after slipping in January (results above zero indicate positive conditions in the NAB survey). These results are similar to the combined results of Ai Group's Australian PMI, PCI and PSI (Chart 11). The NAB business confidence index rose to its highest level since 2010, at +16 points in Feb. All states and industries reporting better confidence except for retail (results above zero indicate net optimism in the NAB survey).

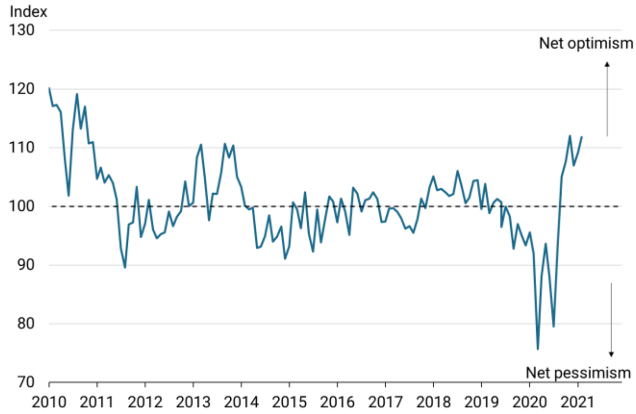
Among consumers, the Westpac-MI Index of Consumer Sentiment increased by 2.6% to 111.8 points in March, indicating more widespread optimism (results above 100 indicate net optimism, Chart 12). In their latest *Consumer Sentiment* report, Westpac Economists said the main factors driving this index higher in March were improving local economic conditions and better job prospects.

Chart 11: Ai Group PBI* and NAB business conditions index, to Feb 2021



* Ai Group PBI is a weighted composite of the Ai Group Aust PMI, PCI and PSI. Sources: Ai Group and NAB, Feb 2021.

Chart 12: Westpac-MI consumer sentiment index, to Mar 2021



Source: Westpac-MI, March 2021.

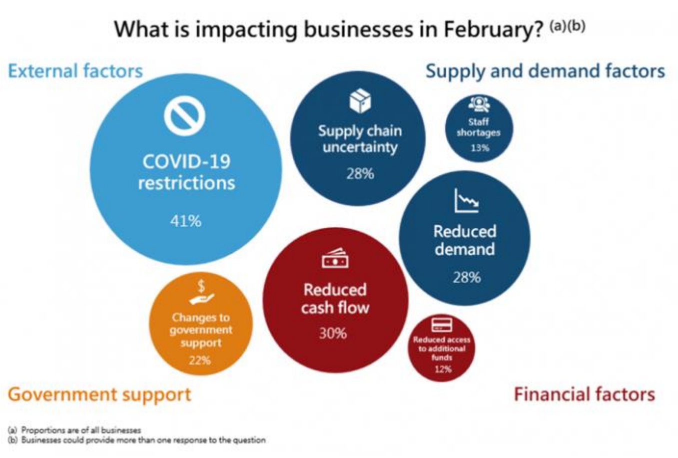
The negative impacts on business from COVID-19 have lessened significantly since mid-2020, but 41% of all businesses were still reporting some effects as of February 2021 (down from 53% in April 2020). COVID-19 restrictions with the largest impact on businesses in Feb 2021 included:

- Border restrictions and closures (international and domestic) that limit business operations and/or the ability to source staff (e.g. ability of staff to travel and attend the workplace);
- Capacity limits (e.g. restrictions on customer and/or staff numbers on site); and
- Increased cleaning requirements on site.

Customer-facing services industries continued to be heavily affected by these COVID-19 restrictions, including 80% of hospitality businesses, 70% in arts and recreation and 69% in administrative services. Other significant negative effects for businesses in Feb 2020 include reduced cash flow (30% of all businesses, down from 70% in April) and reduced demand (28% of all businesses, down from 69%) (chart 13). Reduced cash flow was still occurring in February 2021 for 59% of businesses in arts and recreation, 44% in manufacturing and 43% in administrative services.

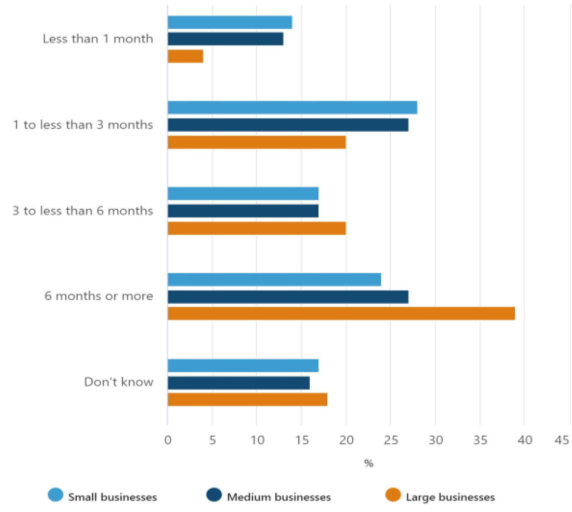
Businesses have drawn down their cash savings to cover this difficult period. In Feb 2021, 41% of all businesses reported they have enough cash on hand to cover less than three months of operations, up from 29% in June. Even among large businesses, only 39% had enough cash to cover 6 months or more in Feb 2021, dropping to 27% of medium businesses and 24% of small businesses (chart 14). 22% of businesses said they were negatively affected by changes to government support in Feb.

Chart 13: Business impacts of COVID-19 in Feb 2021



* Source: ABS Business Conditions and Sentiment, Feb 2021.

Chart 14: Length of time that 'cash on hand' can cover operations, Feb 2021



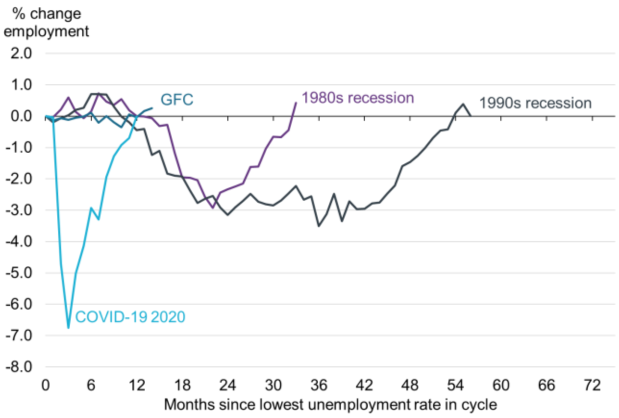
Source: ABS Business Conditions and Sentiment, Feb 2021.

These latest ABS business survey results closely mirror Ai Group research conducted throughout 2020 on the impact of COVID-19 on Australian businesses. In regular feedback collected by Ai Group, the majority of businesses reported negative impacts as a result of COVID-19 in every month from March to November. The total proportion of businesses reporting a negative impact peaked at close to 90% in April, fell to around 78% in June but then rose to 87% in September due to the 'second wave' of infections and associated restrictions to activity and internal travel. In November and early December, despite the beginnings of the recovery, 84% of businesses were still reporting negative impacts on their business as a result of COVID-19, with 43% reporting reduced customer demand and 22% reporting direct effects of activity restrictions on their operations.

2.3 Short-term risks: will the jobs recovery wobble in 2021?

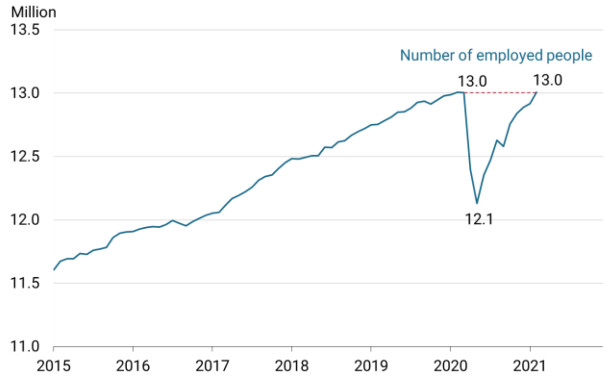
In the labour market, the recovery in headline employment has been much faster and stronger than originally anticipated, despite significantly deeper job losses in 2020 compared to previous Australian recessions. Almost 1 million jobs were rapidly lost in the worst stages of 2020, but total employment had fully recovered to 13 million people by February 2021 (charts 15 and 16).

Chart 15: Employment change, %



* Source: ABS *Labour force Australia*, Feb 2021.

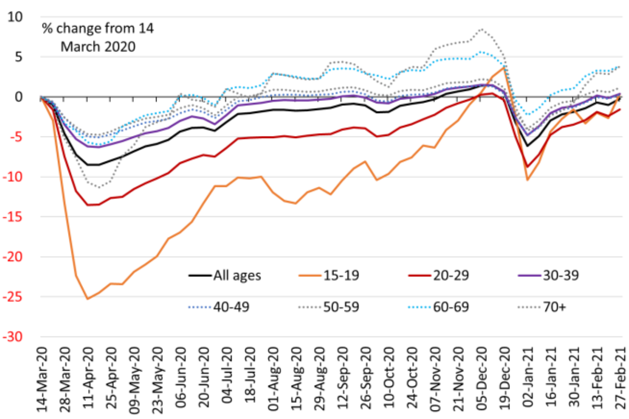
Chart 16: Employed persons, millions



Source: ABS *Labour force Australia*, Feb 2021.

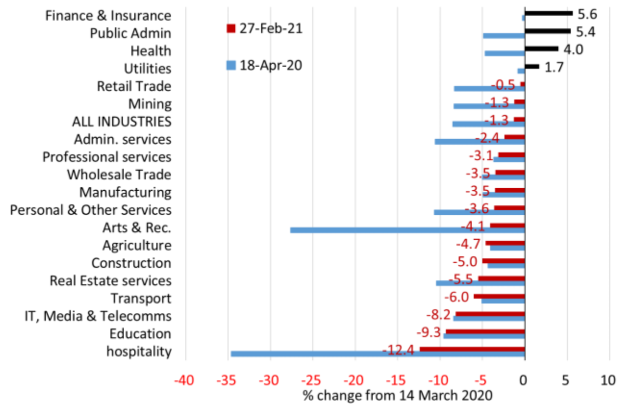
The ABS payrolls data (for all employees paid through the ATO 'single touch' system) provides a closer insight into the jobs recovery for employees (as opposed to all workers, regardless of their status in employment). As of the week ending 27 February, the total number of payroll employees was only 0.2% below 14 March 2020 and aggregate wages paid to employees were 1.0% higher than on 14 March 2020 (the ABS preferred 'pre-COVID-19' comparison date for these data). The demographic detail confirm that payroll jobs have recovered for all age groups, although 20-29 year olds are still lagging behind other age groups in the strength of their jobs recovery (chart 17). This probably relates to the industries in which this age group tend to work, since only 4 of the 19 major industry groups had more payroll employees in late Feb 2021 than in March 2020 (chart 18).

Chart 17: Payroll jobs by age group, % change, 14 Mar 2020 to 27 Feb 2021



Source: ABS *Weekly Payroll Jobs and Wages*, week ending 27 Feb 2021.

Chart 18: Payroll jobs by industry, % change, 14 Mar 2020 to 27 Feb 2021

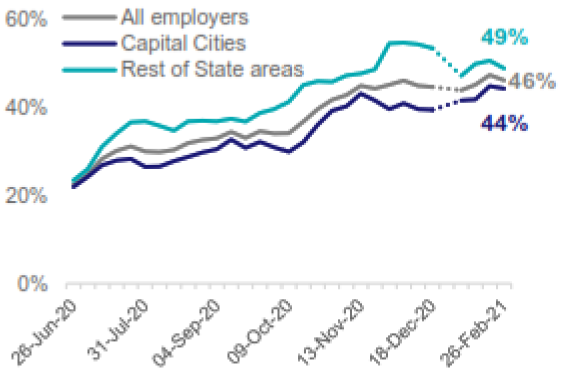


Source: ABS *Weekly Payroll Jobs and Wages*, week ending 27 Feb 2021.

The number of job vacancies advertised has also recovered, with job ad numbers in February 2021 above those of one year earlier, nationally and in all states and territories. Nationally, SEEK job ads (new job ads posted online) were up by 4.1% m/m and 12.4% p.a. in February 2021. SEEK reported that job ads were up over the year in most but not all industries and occupations to Feb 2021, with particular strength in "Trades & Services, Hospitality & Tourism and Healthcare & Medical" jobs. The ANZ count of all job ads (online and in print) was up by 7.2% m/m and 13.4% p.a. in Feb 2021.

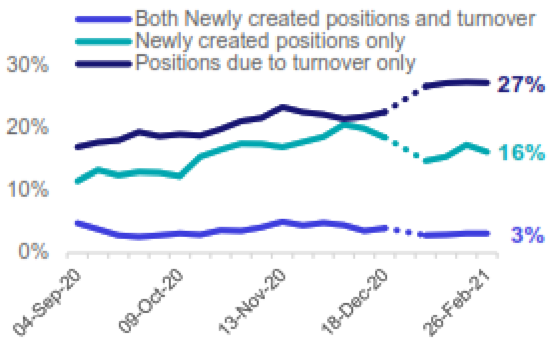
This is in line with the monthly 'recruitment insights' survey conducted by the National Skills Commission (NSC), which showed that 46% of businesses in selected industries were recruiting in February 2021, up from around 22% in July 2020 (chart 19). In Feb, 27% of all businesses were recruiting due to staff turnover (i.e. replacing departures, up from around 16% in June 2020) and 16% were recruiting for new positions (up from around 12% in June 2020) (chart 20). This suggests that at least some of the pickup in job ads growth is due to an increasing rate of turnover or 'churn' in the labour market, as people take advantage of relaxed COVID-19 restrictions and better economic conditions to seek new employment. More businesses in hospitality than in other industries were recruiting in Feb 2021 as the industry re-opens in more locations (chart 21), and more businesses in regional areas than in cities were recruiting in Feb 2021 (chart 19).

Chart 19: Recruitment activity by region, % of businesses, June 2020 to Feb 2021



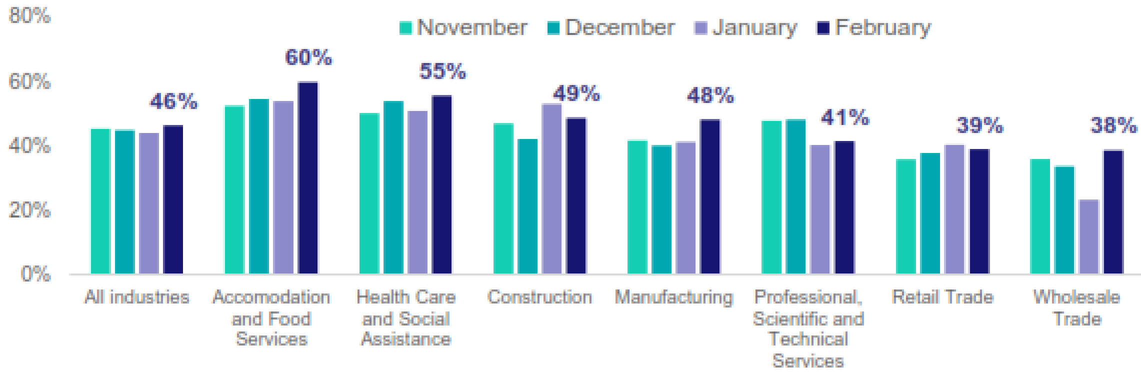
Source: NSC, *recruitment insight report*, Feb 2021.

Chart 20: Recruitment activity by reason, % of businesses, June 2020 to Feb 2021



Source: NSC, *recruitment insight report*, Feb 2021.

Chart 21: Recruitment activity by industry, % of businesses, June 2020 to Feb 2021

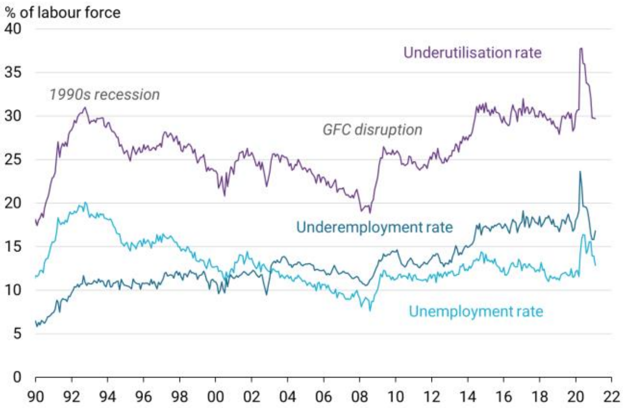


Source: NSC, *recruitment insight report*, Feb 2021.

Although jobs and job vacancies have picked up strongly in early 2021, much of this increase appears to be due to an increase in labour market turnover or 'churn'. At the same time, the latest labour market data also confirm that spare capacity remains high across many measures, in absolute number terms (that is, the number of people affected) and relative to current estimates of 'full employment' (an unemployment rate of 4% or possibly lower according to recent RBA statements).[5]

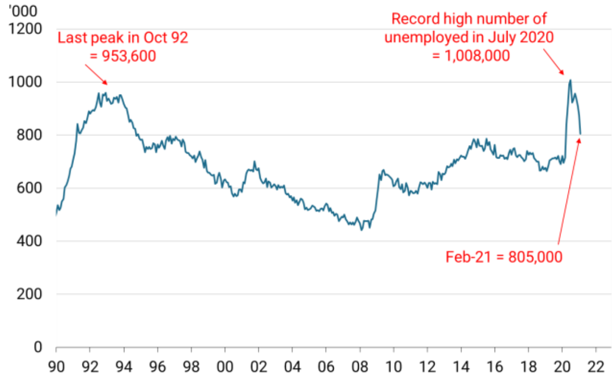
The national unemployment rate fell by 0.5 percentage points to 5.8% in Feb 2021, its lowest since March 2020 but still relatively elevated, compared to recent pre-pandemic levels (chart 22). The ABS identified 805,000 people as unemployed in February 2021, down from a record high of 1,007,900 in July 2020. Even after this improvement, 100,000 more people were unemployed in Feb 2021 than in 2019 (700,300 on average in 2019) and 110,000 more than in Feb 2020 (chart 23).

Chart 22: Unemployment and underemployment rates, % to Feb 2021



* Source: ABS *Labour force Australia*, Feb 2021.

Chart 23: Unemployed people, millions, to Feb 2021



Source: ABS *Labour force Australia*, Feb 2021.

1,371,563 people received Jobseeker or youth allowance (other) in January 2021 (chart 24). This is a larger group than the ABS estimate of unemployed people due to differences in criteria and definition. For example, JobSeeker recipients might be working a low number of hours (and thus be classified as underemployed rather than unemployed in the ABS data), or they might be undertaking training or be occupied with caring responsibilities and temporarily unable to seek work. In January 2021, 991,230 JobSeeker recipients (80% of the total) had no other earnings in the month, which indicates they were effectively unemployed in this month.[6] Female JobSeeker recipients were more likely to have earned something in Jan 2021 (25.3% of recipients) than males (14.7%), and thus to potentially be included in the ABS estimates of underemployment rather than unemployment.

Regardless of the formal labour data definitions, this very large number of Jobseeker and Youth allowance recipients signals a much larger pool of underlying spare labour capacity than is indicated by the ABS estimates of unemployment or underemployment alone. JobSeeker/Youth Allowance recipients have reduced from a recent peak of 1.6 million people in May 2020 but as of January 2021, the number of Jobkpeeper/Youth Allowance recipients was still almost double the average number in 2019 (a monthly average of 772,196 over they year).

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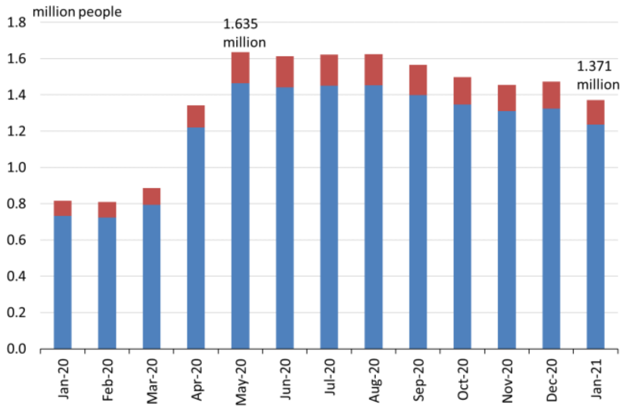
[5] RBA Governor Phil Lowe, *The Recovery, Investment and Monetary Policy*, 10 March 2021.

[6] DSS *Recipients of Newstart, JobSeeker, Bereavement, Sickness and Youth Allowances,* Jan 2021.

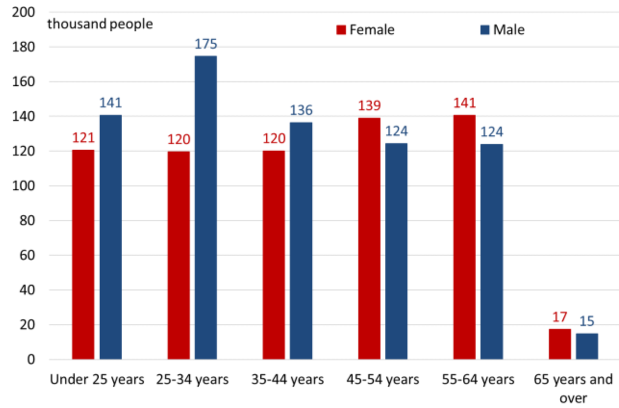
In Jan 2021, 19% of all Jobseeker and youth allowance (other) recipients were aged under 25 years, with another 21.4% aged 25 to 34 years. For age groups under 45 years, males outnumber females. But among the age groups of 45 years and over, female recipients outnumber males (chart 25). This likely reflects reduced work options for these groups in industries including hospitality and travel.

Chart 24: Jobseeker and youth allowance (other) recipients, Jan 2020 to Jan 2021



Source: DSS *Recipients of Newstart, JobSeeker, Bereavement, Sickness and Youth Allowances,* Jan 2021.

Chart 25: Jobseeker and youth allowance (other) recipients, Jan 2021



Source: DSS *Recipients of Newstart, JobSeeker, Bereavement, Sickness and Youth Allowances,* Jan 2021

As a comparison to the number of job vacancies that are potentially available, ANZ's monthly job ads report counted 174,010 advertised vacancies in Feb 2021.[7] This equates to:

- 4.6 unemployed people (ABS estimate for Feb 2021) per advertised vacancy;
- 7.9 jobseeker and youth allowance (other) recipients (DSS data for Jan 2021) per advertised vacancy.

Alternatively, the ABS *Labour Account* estimates there were 257,900 unfilled jobs (vacancies) nationally in Q4 of 2020 (1.8% of 14.5 million jobs identified nationally). This equates to:

- 3.1 unemployed people (ABS estimate for Feb 2021) per unfilled job;
- 5.3 jobseeker and youth allowance (other) recipients (DSS data for Jan 2021) per unfilled job.

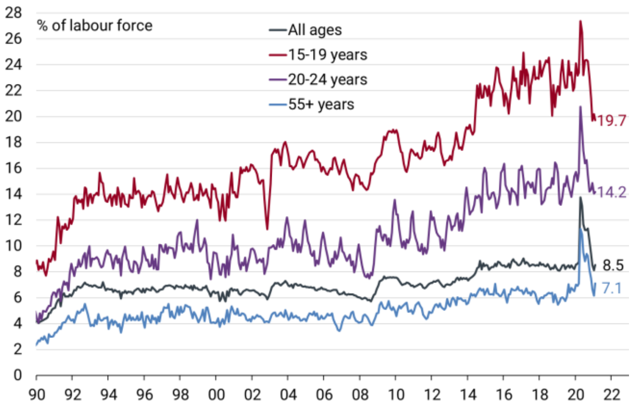
Underemployment has been relatively high nationally over the past decade, with the underemployment rate tracking higher than the unemployment rate for much of the past two decades (chart 22). Underemployment has become a big contributor to labour underutilization and is thought to have an increasing influence on aggregate wage pricing. Australia's underemployment rate hit a record high of 13.8% of the labour force (1,820,500 people) in April 2020 and has since reduced to 8.5% (1,178,700 people) in Feb 2020, which is higher than the average for 2019 (8.1%).

[7] ANZ Research, *ANZ Australian Job Advertisement Series,* 1 March 2021.

Underemployment remains significantly higher for younger than for older workers (as it has for at least the past three decades). 16.8% of 15-24 year-old labour force participants (were underemployed in Feb 2021 (19.7% of teens) versus 8.5% of all people in the labour force (chart 26). In raw number terms, underemployed 15-24 year-olds hit an all-time peak of 473,841 people in April 2020 before dropping to 360,924 in Feb 2021, which is lower than the average number in 2019 (388,830) (chart 27). Underemployment numbers among older age groups spiked sharply higher in 2020 and then dropped rapidly, but in Feb 2021 they were still relatively higher than in 2019.

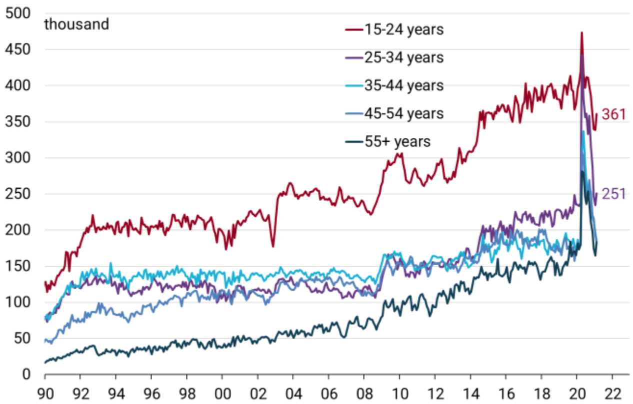
In 2019, youth underemployment (15-24 years) accounted for 34% of all underemployed people on average. A sharp rise in underemployment among older workers in 2020 saw the youth share drop to 25% in mid-2020, before rising to 30% in Jan and Feb 2021, which is still lower than prior to 2020.

Chart 26: Underemployment rates, % selected age groups, 1990 to Feb 2021



Source: ABS *Labour force Australia*, Feb 2021.

Chart 27: Underemployed people, selected age groups 1990 to Feb 2021



Source: ABS *Labour force Australia*, Feb 2021.

Recent detail about work hours published by the ABS[8] helps to explain the current composition of underemployment and to identify underemployed workers at high risk of job loss in 2021. The ABS estimates that 553,400 people worked fewer than their usual hours for economic reasons in Feb 2021 (about 4% of the total workforce and 47% of all underemployed people), including 127,000 people who worked zero hours. This was 170,000 (43%) more workers on reduced or zero hours than in Feb 2020 and more than double the number of workers on zero hours for economic reasons than in Feb 2020 (127,000 in Feb 2021 versus 60,000 in Feb 2020) (chart 28 and 29). Economists at Citibank recently identified this group as particularly vulnerable to job loss in 2021:

> *… employed people working zero hours … for economic reasons could be a proxy for those that are on JobKeeper, but unable to work because their business or employer's operations aren't generating enough revenue. These individuals would be the most susceptible to layoffs once JobKeeper ends. The total … has risen again in 2021, and it's now back to 126.5k, roughly 70k above normal. This … suggests that there could be some layoffs once JobKeeper ends in March if more employed workers don't resume working."*[9]

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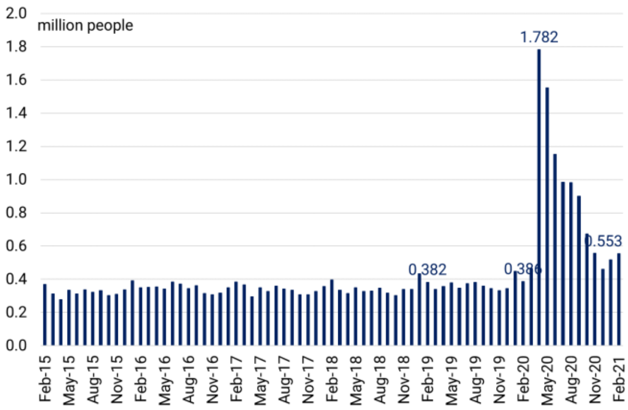
[8] ABS*, Insights into hours worked*, February 2021.

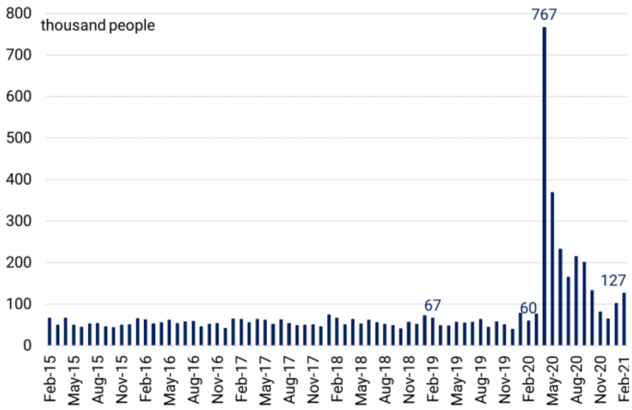
[9] Citi research, *Australia Economics Flash*, 17 March 2021.

Chart 28: Employed people working fewer than their usual hours or no hours at all for economic reasons, Feb 2015 to Feb 2021



Source: ABS, *Insights into hours worked,* February 2021.

Chart 29: Employed people working no hours at all for economic reasons, Feb 2015 to Feb 2021



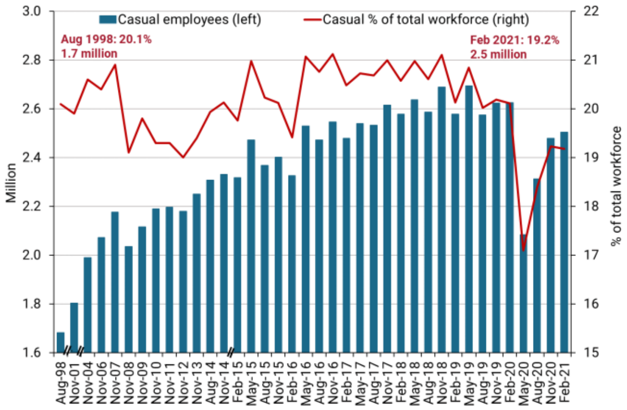
Source: ABS, *Insights into hours worked,* February 2021.

Overlapping with these groups of underemployed workers and workers on reduced work hours is the 'casual employee' sub-set. The ABS does not formally identify 'casual employees' in the national labour market data. Instead, the ABS employment status category 'employee without paid leave entitlements' is commonly cited as a proxy for 'casual workers'. The most recent currently available estimate indicates 2,503,400 people (19.2% of the total workforce and 23.1% of all employees) were 'casual' employees in February 2021 (charts 30 and 31).

Casual employment fell by a larger margin than any other employment category in Q2 of 2020, but it also recovered relatively quickly after Q3. This large rapid movement underscores the flexible nature of this form of work but also reflects the industries in which it is most prevalent – retail and hospitality – which were severely affected by COVID-19 activity restrictions during 2020. As of Feb 2021, 202,900 casual employees had a job but zero work hours in the survey week (8.1% of all casuals, down from 11% in May) and 381,900 worked 1-9 hours (15.3% of all casuals, down from 18% in May). This indicates that the number and proportion of casual employees working zero or low hours reduced significantly through late 2020. By Feb 2021, this group was smaller in number and proportion than one year earlier (204,400 on zero hours and 395,900 on 1-9 hours in Feb 2020).

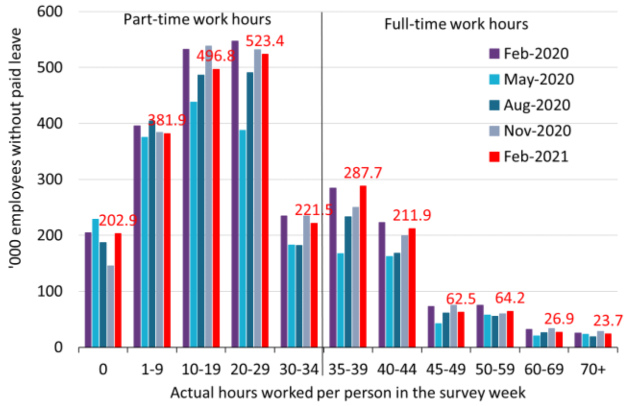
Even after this improvement to Feb 2021, this group of casual employees working few or zero hours is large, at around 600,000 people. This group overlaps with (or is a sub-set of) the ABS estimates of underemployed workers and workers who are working fewer than their usual hours, cited above. It is another indicator of the large number of workers – across a range of employment categories – who will be at risk of job loss during 2021, if economic conditions do not improve from here.

Chart 30: 'Casual employees'*, number and share of workforce, 1998 to 2021



* employees without paid leave entitlements. Source: ABS, *Labour force quarterly detail*, Feb 2021.

Chart 31: 'Casual employees'* weekly work hours, Feb 2020 to Feb 2021



* employees without paid leave entitlements. Source: ABS, *Labour force quarterly detail,* Feb 2021.

These indicators of spare capacity highlight the likely difficulty in overcoming significant hurdles and risks from here. The most significant risk to further jobs growth and unemployment reduction is of course the COVID-19 pandemic itself, which has not yet receded globally. This is likely to necessitate a further extension of international border movement restrictions in Australia, which will delay the recovery of key segments of the economy including tourism, travel and education. The risk of further interstate border restrictions and local 'snap lockdowns' will also hamper recovery in 2021.

Additional and separate to COVID-19 health measures, a number of changes to Australia's temporary assistance measures are likely to present significant speedhumps to Australia's local jobs recovery during 2021. These measures supported the economy and especially consumer spending during 2020 but will not continue in 2021. The more significant of these include (charts 32 to 35):

- **The end of JobKeeper** on 28 March 2021 will directly affect a large number of businesses and their employees. Treasury data indicate more than 1.5 million workers were supported by JobKeeper in Dec 2020[10], equivalent to 12% of the total workforce. The total number being supported by JobKeeper in Feb 2021 is not yet confirmed, but Treasury estimates it to be at least 1.1 million workers (8.5% of the current total workforce).

  As noted above, workers who are being supported by Jobkeeper but are working reduced or zero hours for economic reasons are at the highest risk of job loss. This group includes but is not limited to casual employees who are working low or zero hours. Treasury Secretary Dr Stephen Kennedy told a Senate Estimates Committee that Treasury expects the end of JobKeeper to directly cause some businesses to close and 100,000 to 150,000 jobs to be lost:

  > *"Growth will moderate as Australia moves past the initial phase of the recovery from COVID-19 … Determining the overall level of potential job losses is difficult … We believe that in the order of 100,000 to 150,000 JobKeeper recipients may lose employment at the completion of the program, though there is a wide band of uncertainty around this estimate."*

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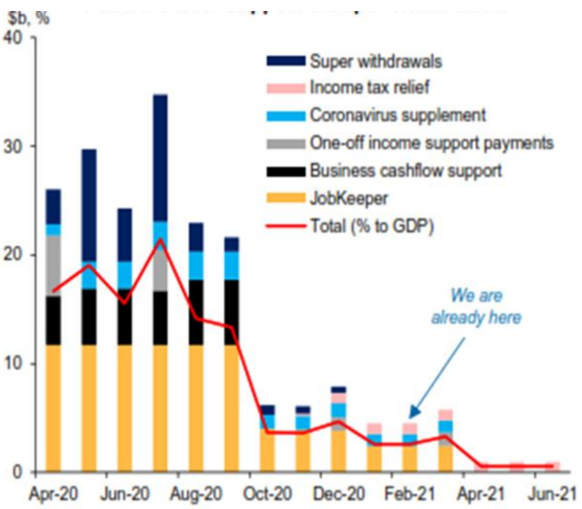
[10] Treasury, JobKeeper Postcode Data, Dec 2020. https://treasury.gov.au/coronavirus/jobkeeper/data

- **The end of Homebuilder** on 31 March 2021 will directly affect the quantity and timing of demand for residential construction work, with flow-on affects to many other sectors. Take-up rates for this program have been high, pushing residential building approvals and commencements to especially high levels in Q4 of 2020 (so as to qualify for the higher subsidy that applied until 31 Dec 2020). This was evident across national data for building approvals, commencements, activity and in Ai Group's Australian PCI (as noted above).

- **The end of loan repayment deferrals** for business and household loans in 2021 (dates will differ across financial institutions). Research by Macquarie Bank estimates that at the peak of disruption in May 2020, up to 18% of the value of loans to small businesses were on deferred repayment arrangements, dropping to 2% by the end of 2020. As the deferrals end, the outstanding amounts will need to be repaid, in addition to normal loan repayment obligations.

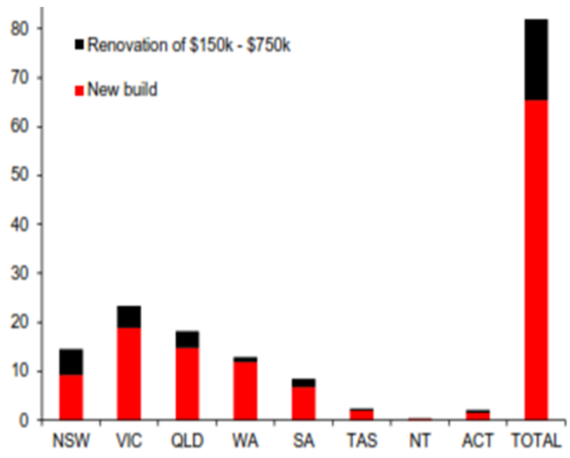
- **The end of the business insolvency regulations 'holiday'**, which saw a temporary relaxation in the rules governing business activity and trading while insolvent. This saw a sharp reduction in the number of businesses entering insolvency during 2020. Numbers are expected to rise again during 2021 as deferred insolvencies are implemented and as more businesses are adversely affected by the removal of Jobkeeper and other support measures that helped them stay afloat.

Chart 32: Government fiscal support plus superannuation withdrawals, 2020



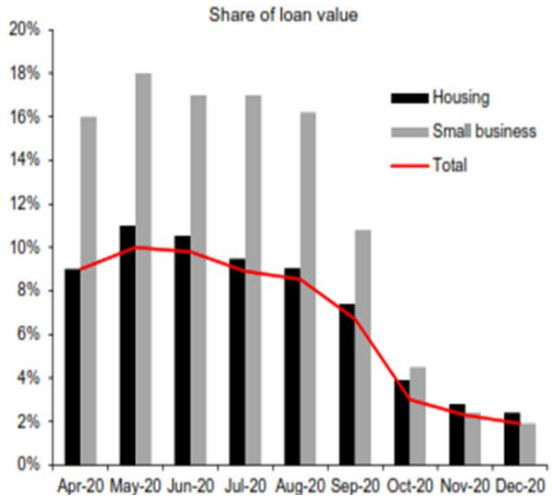
Sources: Macquarie Research, Treasury.

Chart 33: HomeBuilder grant applications ('000), total to Jan 2021



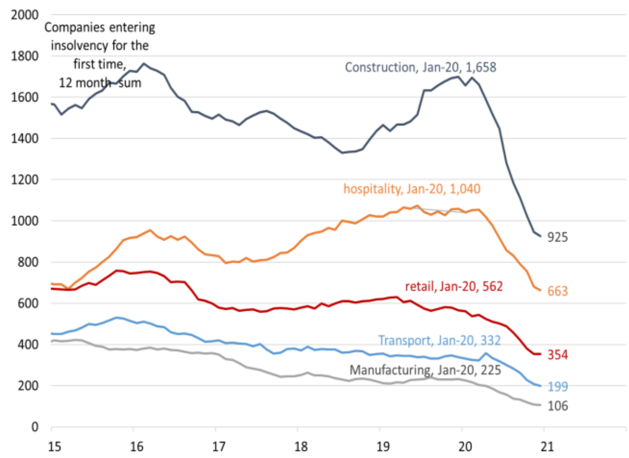
Sources: Macquarie Research, Treasury.

Chart 34: Share of loans with deferred repayments in place, 2020



Source: Macquarie Research.

Chart 35: Business insolvencies, selected industries, Jan 2015 to Dec 2020



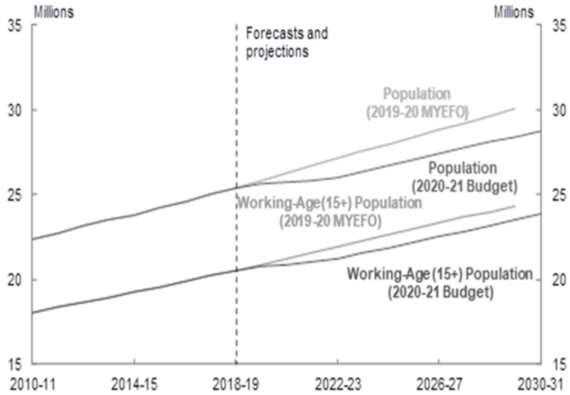
Source: ASIC Insolvency statistics: Table 1A.2.2 - Companies entering external administration (EXAD) for the first time – Appointment type and industry summary, MONTHLY, March 2020.

2.4 Underlying drivers of real income growth: population, productivity and international competitiveness

Even after previous levels of GDP, jobs and incomes have recovered, Australia's potential growth rate will remain structurally lower than prior to the pandemic. This will be due to permanent losses of population, investment and asset stocks. Unlike some of the immediate disruptions to consumption levels and composition in 2020, these losses will be absolute and not simply deferred.

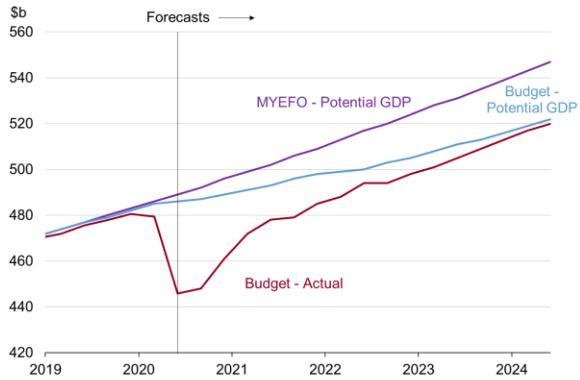
In the Federal Budget, Treasury said the impact of slower population growth will be significant. Australia's resident population growth slowed to 1.2% in 2019-20 and just 0.2% in 2020-21, mainly due to international border movement restrictions. Net migration slowed to 154,000 in 2019-20, is estimated to have turned negative in 2020-21 (-72,000) and is expected to stay negative in 2021-22 (-22,000). Treasury expects total population growth of just 0.4% in 2021-22. Treasury calculates this will reduce Australia's future 'potential' GDP over the next few years by a sizeable margin (charts 36 and 37). This means that even when GDP growth recovers from 2020, the total level of GDP will be smaller than it would have been without the population (and other) losses caused by the COVID-19 pandemic and recession, and the long-run potential growth that can be achieved will be slower.

Chart 36: potential population size, Treasury projections to 2031



Source: Treasury, *Federal Budget 2020-21*, Oct 2020.

Chart 37: potential GDP size, Treasury projections to 2024



Sources: Treasury, *MYEFO 2019-20*, Dec 2019, F*ederal Budget 2020-21*, Oct 2020.

One of the other key drivers of real income growth – productivity growth – has been unhelpfully weak in Australia and internationally over an extended period. While the impact of COVID-19 on national productivity is difficult to quantify, it is likely that activity and travel restrictions and other necessary health measures will reduce productivity, while they remain in place. Site density limits, travel restrictions, freight delays, cleaning requirements, PPE requirements and physical site modifications all increase business inputs and costs and/or reduce their physical outputs. The effect of widespread long-term 'working from home' arrangements on productivity growth is not yet clear but it is likely to differ widely across different types of work and working arrangements.

The latest ABS estimates of Australia's aggregate productivity growth indicate that it deteriorated further in 2019-20, due to the early impact of COVID-19 and adverse weather events (e.g. drought and bushfire reduced agricultural, transport & related industries' output) (charts 38 and 39):

> *"On an hours worked basis, market sector multifactor productivity (MFP) fell 0.7% in 2019-20. Market sector gross value added (GVA) declined 1.2%, the first decline recorded for the market sector since the series commenced in 1994-95. By comparison, combined labour and capital inputs declined 0.5%, reflecting capital services growth of 1.0% and hours worked fall of 1.7%. Labour productivity grew 0.6% in 2019-20, resulting from a greater fall in hours worked than GVA.*
>
> *On a quality adjusted labour input (QALI) basis, MFP fell 1.0% and labour productivity fell 0.1%. The weaker growth on this basis reflects a positive contribution from changes to labour composition, due to educational attainment and work experience.*
>
> *… In 2019-20, weakness in MFP was broad-based with ten out of 16 market sector industries recording a fall in MFP. The largest falls in MFP were in Agriculture, forestry and fishing (8.3%), and Administrative and support services (7.8%). The largest MFP gains were in Mining (3.7%) and Retail trade (3.6%).*

… Retail trade MFP grew 3.6% in 2019-20, the largest growth since 2009-10. This was driven by:

- *A small decline in GVA (0.5%), driven mainly by a large fall in Motor Vehicle and Part Retailing as COVID-19 negatively impacted the industry. The fall was partially offset by a rise in Food Retailing and Other Store Based Retailing reflecting consumers' stockpiling non-perishable products and alcoholic beverages at the early stage of COVID-19.*

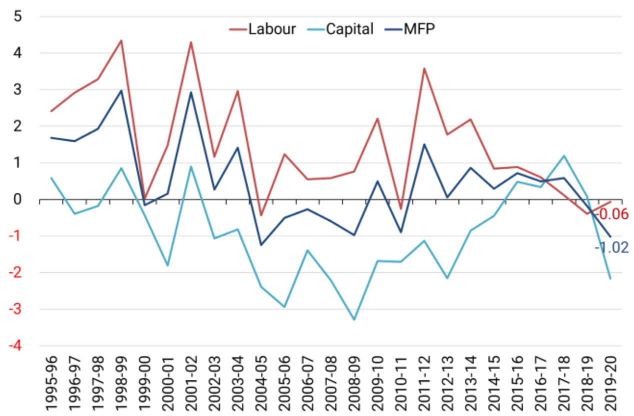
- *Combined inputs saw a larger fall (3.9%), driven by a fall in hours worked of 5.3% and a marginal fall in capital services of 0.4%. The large fall in hours worked (5.3%) is likely indicative of a shift to online retailing and shorter trading hours due to COVID-19.*

… in Administrative and support services, …MFP fell 7.8% in 2019-20, reversing an upward trend in the previous three years. The fall reflects:

- *GVA fell 4.9%, with weakness shown across all subdivisions. The divisions' GVA has been negatively impacted by COVID-19 and natural disasters. This saw reduced demand for employment and administrative services as well as travel related services.*

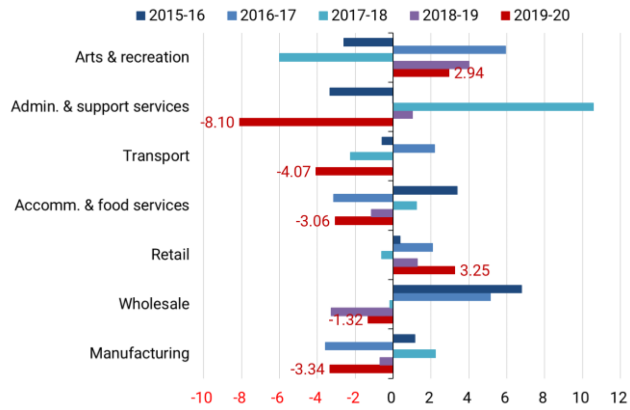
- *Combined inputs grew 3.1%. The growth was primarily driven by strength in hours worked (3.4%) since the division is very labour intensive. A fall in GVA, together with an increase in measured hours worked, translated to a large decline (8.0%) in labour productivity."[11]*

Chart 38: national productivity growth*, annual % change, 1995 to 2020



* quality adjusted hours worked basis, market sector industries.
Source: ABS, *Estimates of Industry Multifactor Productivity*, Nov 2020.

Chart 39: MFP growth*, selected industries annual % change, 2015 to 2020



* quality adjusted hours worked basis, market sector industries.
Source: ABS, *Estimates of Industry Multifactor Productivity*, Nov 2020.

Some of these fluctuations in MFP will be reversed as output and work hours are restored, but the ongoing impact of COVID-19 means aggregate productivity growth is unlikely to accelerate soon.

[11] ABS, *Estimates of Industry Multifactor Productivity*, Nov 2020.

Abstracting from the effects of COVID-19, Australia's productivity performance has been problematic over an extended period. In early 2020,[12] the Productivity Commission concludes that productivity growth has been weak since around 2012 and that "*strong terms of trade have allowed incomes to outgrow productivity over the past 20 years*". The Australian Treasury reached the same conclusion in its research paper '*Analysis of wage growth*' in 2017.[13] At an aggregate level, the terms of trade and exports have become stronger determinants of Australian income since 2012. Export earnings have added significantly to aggregate national income but the distribution of income from these sources is uneven, with almost all of it accruing directly to the mining sector.

The Productivity Commission found that the mining sector and the terms of trade are central to explaining Australia's productivity and incomes trends up to 2019, at the national aggregate level:

> *"Labour productivity and multifactor productivity in the market sector both fell in 2018 19, the first fall since the peak of the mining boom, by 0.2 per cent and 0.4 per cent respectively.*
>
> *This continues a spell of weak productivity growth since the peak of the investment phase of the mining boom in 2012 13. Advanced economies the world over have experienced a productivity growth slowdown since about 2005. The Australian slowdown was somewhat smaller, partly because of the expansion of the mining sector during this period.*
>
> *Wages growth, measured against consumer prices, has been weak since about 2012 13 for three reasons:*
>
> - *labour productivity growth has slowed (accounting for about half of the slowdown in wages)*
> - *consumer price inflation has outpaced producer price inflation due mainly to the shifting terms of trade (about a quarter of the slowdown)*
> - *the labour share of income has continued its pattern of decline since 2000 (accounting for about a fifth of the slowdown in wages). The fall in the labour share of income was due to labour reallocation towards the mining sector and increased profitability in the finance sector."* (PC, Feb 2020, p. 1).

At the disaggregated level of individual businesses, research by the Australian Treasury based on longitudinal microdata finds that business productivity and wage growth are intrinsically linked:[14]

> *"an important link between individuals' wages and firm-level productivity over the period 2001-02 to 2015-16, consistent with the idea that firms share rents with their workers. ... Our estimates – which are the first for Australia – imply that an idiosyncratic shock to firm-level productivity of 10 per cent is associated with an increase in wages of around 1 per cent, ... This*

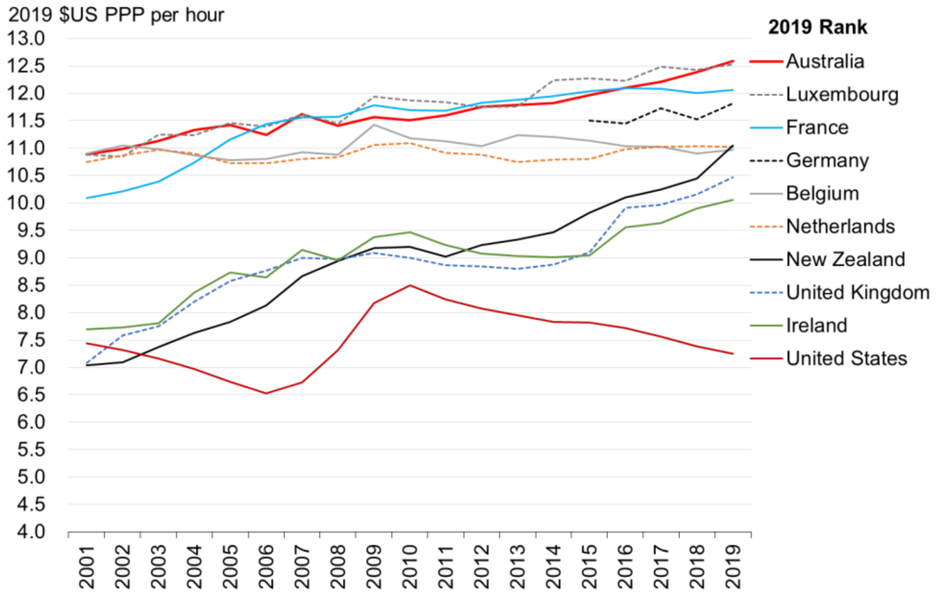
[12] Productivity Commission, *PC Productivity Insights: Recent Productivity Trends,* Feb 2020.
[13] Australian Government Treasury, *Analysis of Wage Growth*, 2017.
[14] Dan Andrews, Nathan Deutscher, Jonathan Hambur and David Hansell 2019, *Wage Growth In Australia: Lessons From Longitudinal Microdata,* Australian Treasury 2019-04.

is around the midpoint of the range of leading international estimates, and highlights the important link between firm productivity and wages …

… this pass-through may have declined modestly in the period after 2012-13, when aggregate wage growth slows … A back-of-the-envelope estimate nonetheless provides useful context, suggesting that growth in the aggregate wage price index could have been around 0.15 percentage points higher annually after 201213, had an aggregate shift in pass-through – equivalent to the same magnitude as estimated from microdata over this period – not occurred … our dataset for this part of the analysis concludes in 2014-15, however, it is not clear whether lower pass-through of productivity to wages has persisted … what emerges is not a single unified explanation of slower aggregate wage growth, but rather a pattern of evidence that lends credence to the idea that structural factors may have weighed on wage growth in Australia up until at least 2014-15." (Treasury 2019, pp. 1-2).

Australia's international competitiveness (that is, its attractiveness to businesses and skilled labour) is also relevant to the level, composition and distribution of real activity and incomes. OECD data confirm that Australia kept its place as the country with the highest hourly minimum wage in the world in 2019 (chart 40), when calculated in constant 2019 US dollars at 'purchasing power parity' (PPP, which adjusts for differences in living costs, inflation rates and exchange rates). This OECD comparison estimate does not include wage rises in Australia after 2019. It does not include labour on-costs that are paid by employers in addition to wages, or household income from non-wage sources, which vary substantially across countries. When these are included, the Productivity Commission estimates Australia has the 12th highest labour incomes among OECD countries.[15]

Chart 40: minimum wages per hour*, 2001 to 2019

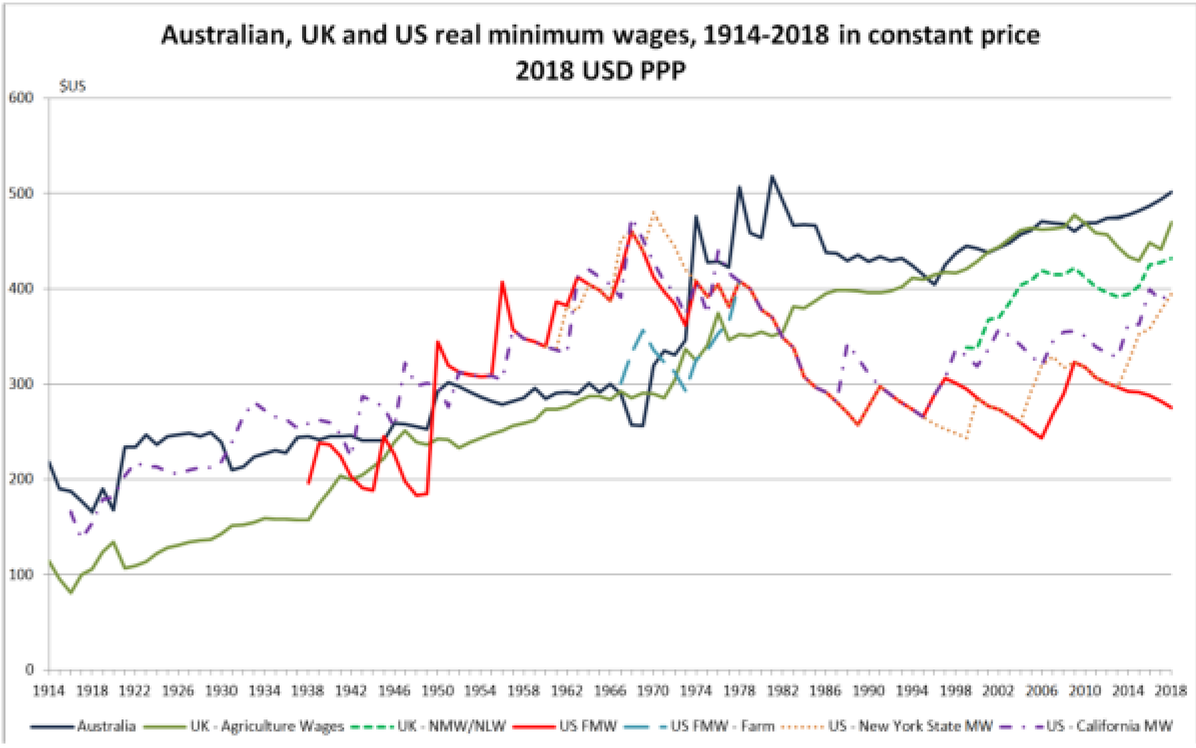


* USD at 2019 PPP. Source: OECD Stat database.

[15] Productivity Commission, *Productivity Insights: Can Australia be a productivity leader?* March 2020.

In the late 1960s, the US Federal Minimum Wage was amongst the highest in the world and close to double that of Australia's minimum wage (on a PPP basis). Today, the Australian National Minimum Wage is nearly double that of the US on a PPP Basis (chart 41).

Chart 41: 100 years of minimum wages in Australia, the United Kingdom and the United States



Source: Deputy President Reg Hamilton and Matt Nichol, *One Hundred Years of Dynamic Minimum Wage Regulation: Lessons from Australia, the United Kingdom and the United States*, Working Paper, May 2020.

Australia's high labour costs do not reflect relatively better productivity or performance than other countries, as indicated by other measures of business competitiveness. For example, the OECD estimates that when measured on the same PPP exchange-rate basis, Australia's labour productivity was 15th highest in 2018, among the OECD countries for which data were available (chart 42).

In its last pre-COVID report comparing Australia's productivity performance to international peers, the Productivity Commission ranked Australia as 16th most productive (based on GDP per hour worked) among OECD countries in 2018, with the USA providing the global 'productivity frontier' benchmark. The Commission concluded that:

> *"When it comes to working smarter – measured by our labour productivity level or GDP per hour worked – Australia's productivity is middling, sitting at 16th among the OECD.*
>
> *The United States effectively represents the productivity frontier — a large diversified economy with high underlying productivity. It currently takes a typical Australian worker five days to produce what would take their American counterpart four days.*

Catch up to the productivity level of the United States has proven elusive over the past five decades, partly because our relative remoteness and low population density have been a barrier to achieving efficient scale in manufacturing and goods distribution.

Australia's remoteness and low population density will continue to limit convergence in manufacturing and goods distribution, but there are substantial opportunities to improve performance in Australia's service industries.

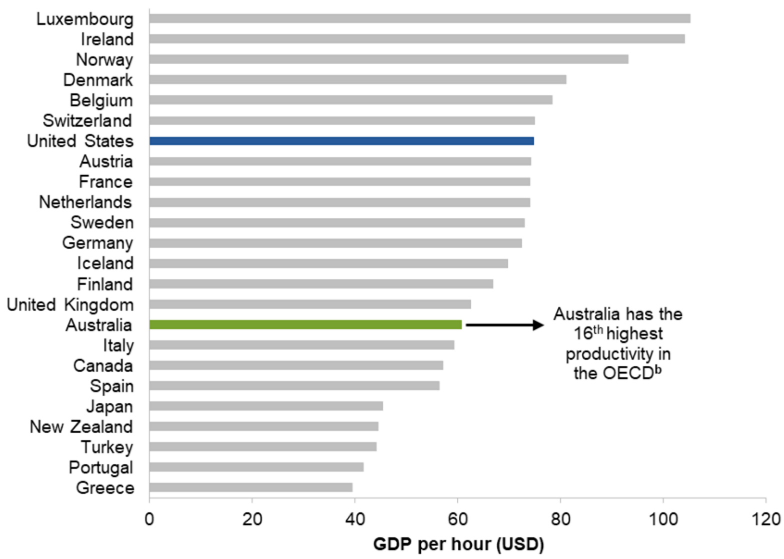
Estimates suggest the Australian service industries are between 20 per cent and 60 per cent less productive than the same industries in the United States.

Australian formal educational attainment is rapidly approaching United States levels. And while the Australian economy is less research and development (R&D) intensive, this largely reflects the different industries in which Australia's comparative advantage lies — more in mining and agriculture, and less in manufacturing.

Management capability is critical in facilitating innovation but Australian businesses tend to perform poorly in this area, particularly in harnessing the benefits of digital technologies."[16]

Similarly, the World Bank ranked Australia the 14th best economy for 'ease of doing business' in 2019-20, with a score of 81.2 out of a possible 100 points (chart 43). This is based on 10 aspects of establishing and operating a business, but does not include direct measures of labour costs, wage rates or labour productivity. It suggests that other aspects of Australia's business competitiveness do not compensate or explain Australia's high labour costs relative to our relative productivity rank.

Chart 42: Labour productivity in 2018



* USD at 2018 PPP. Only the 24 longest standing OECD countries were considered. The figure for Turkey is for 2017 as the 2018 figure is not available. Source: OECD Stat database, cited in Productivity Commission, *Productivity Insights: Can Australia be a productivity leader?* March 2020, p. 5.

[16] Productivity Commission, *Productivity Insights: Can Australia be a productivity leader?* March 2020.

Chart 43: Australia's performance in World Bank 'Ease of Doing Business', 2020

Source: World Bank, *Economy Profile: Australia. Doing Business 2020*, Nov 2019.

2.5 Outlook for wage growth remains modest

2020 saw unusual movements in inflation and wages data as a result of COVID-19 and the temporary support policies introduced in response to it (chart 44). In particular, the temporary implementation of free childcare caused the measured headline inflation rate to briefly plunge in Q2 of 2020, before recovering in Q3 when childcare pricing was restored. Freight disruptions and consumer stockpiling caused unpredictable pricing spikes across a range of goods at various times. With regard to wage measures, the ABS noted that these were affected by large and rapid changes in employment numbers and composition throughout 2020, as well as by wage freezes. The RBA noted that in Q3:

> *"Growth in the Wage Price Index (WPI) slowed to 0.1 per cent in the September quarter, to be 1.4 per cent in year-ended terms. This is the lowest reading since this series began 2 decades ago. Private sector wages growth remained at 0.1 per cent in the quarter, as many employers responded to the pandemic by delaying financial year-end wage reviews and enterprise bargaining agreement (EBA) increases.*

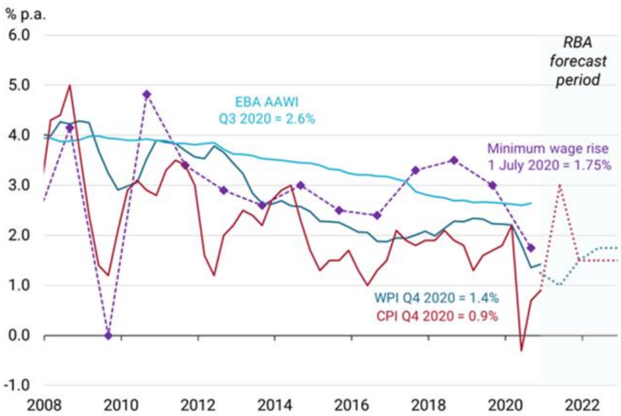
Public sector wages growth declined to 0.2 per cent, reflecting deferred wage increases for Commonwealth employees, delays in negotiating the Victorian public service EBA and delays and reductions in wage increases for New South Wales state government employees."[17]

By the end of the year, the WPI for the entire workforce rose by 0.6% q/q and 1.4% p.a. in Q4 of 2020, accelerating from just 0.1% q/q in Q3. Private sector wages rose by 0.7% q/q (1.4% p.a.) and public sector wages rose by 0.3% q/q (1.6% p.a.) in Q4 (seasonally adjusted). The ABS noted that Q4 saw "*businesses rolling back short-term wage reductions, returning wages to pre-COVID levels".*

In Q4 2020, there appeared to be a close relationship between average wage movements (as indicated by the private sector WPI) (chart 45) and labour demand. Across industries, private sector wage inflation in Q4 was at or above headline CPI (0.9% p.a.) in all industries except hospitality (cafes, restaurants, hotels) and real estate services. The strongest annual increases were in education, utilities and healthcare, which had shown stronger labour demand over the year. The unusual timing of Fair Work Commission increases to award rates in 2020 also affected measures of wage change in particular industries in Q3 and Q4 of 2020:

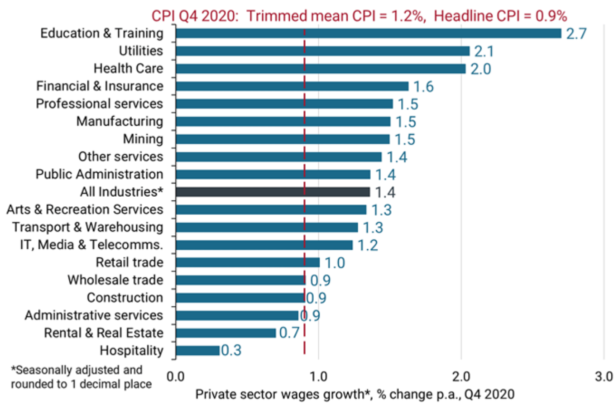
"Wages growth has been weakest in industries most reliant on award wage increases, including accommodation & food services and retail trade. Annual increases in award wages usually occur in the September quarter, but the Fair Work Commission decided in June to delay effective increases for most awards to November or February. These delayed awards are expected to provide some support to wages growth in affected industries in coming quarters, although the increase in award wages will be smaller than it has been in recent years in light of the current economic environment." [18]

Chart 44: wage and inflation measures and forecasts, 2008 to 2023



Sources: ABS, Source: ABS, RBA, Attorney-General's Department

Chart 45: Wage changes by industry, private sector, Q4 2020



Source: ABS, *Wage Price Index*, Q4 2020.

In its latest forecasts for the Australian economy, the RBA (*Statement on Monetary Policy*, Feb 2021) expects aggregate real GDP to return to the same level as December 2019 by the middle of 2021.

[17] RBA, *Statement on Monetary Policy*, Feb 2021, p. 55.

[18] RBA, *Statement on Monetary Policy*, Feb 2021, p. 55.

With jobs growing by a further 0.7% m/m in Feb 2021 and the unemployment rate dropping by 0.5 percentage points to 5.8% in just one month, the national labour market recovery seems to be tracking well ahead of the expectations of the RBA, Treasury and most other forecasters (table 3).

However, this may not be enough to generate meaningful upward pressure on wages. RBA Governor Lowe recently re-stated that high levels of spare capacity in the labour market mean unemployment still needs to fall substantially from here (5.8% in Feb 2021) before it will generate significantly stronger upward pressure on wages (e.g. due to widespread labour shortages). He also noted that structural changes appear to have pushed the 'NAIRU' lower in Australia and internationally:

> *"There is, inevitably, some uncertainty about exactly what constitutes full employment in our modern economy. Over the past decade, the estimates of the unemployment rate associated with full employment have been repeatedly lowered both here and overseas. So there is uncertainty. But based on this experience, it is certainly possible that Australia can achieve and sustain an unemployment rate in the low 4s, although only time will tell. As we progress towards full employment, we will be relying on the wages and prices data to provide a signal as to how close we are. The current signal is that we are still a long way away from full employment.*
>
> *… There's a discussion now going on that the NAIRU might even have a 3 in front of it, that it might be below 4 per cent, you might need to get unemployment below 4 per cent to get wages growth up towards 3 per cent?*
>
> *… It's entirely possible, none of us know. There's a huge amount of uncertainty here. We haven't been at such low rates of unemployment for a long period of time and there are a lot of structural factors going on, so we can't be sure. What I'm sure of is that the unemployment rate needs to be below 5. How far below 5, it's hard to tell and I certainly hope, and it's not inconceivable, that we could sustain an unemployment rate in Australia starting with a 3. But we're a long way from that so we've got a bit of time to learn, we've got a bit of time to study the experience of other countries. I suspect given the fiscal developments in the United States they'll get down to these low rates of unemployment before us and we'll, as we have done over the past decade, see what happens there and learn lessons from it."*[19]

As a result of all of these factors, the RBA expects wage growth and inflation to remain under 2.0% (Table 3 and chart 46). The RBA notes that in addition to Australia's weak and uncertain economic conditions, wage growth is likely to be tempered by wage freezes and caps across the public and private sectors extending into 2021, with around 62% of businesses telling the RBA they have or intend to implement wage caps or delays to rises in response to the COVID-19 recession (chart 47):

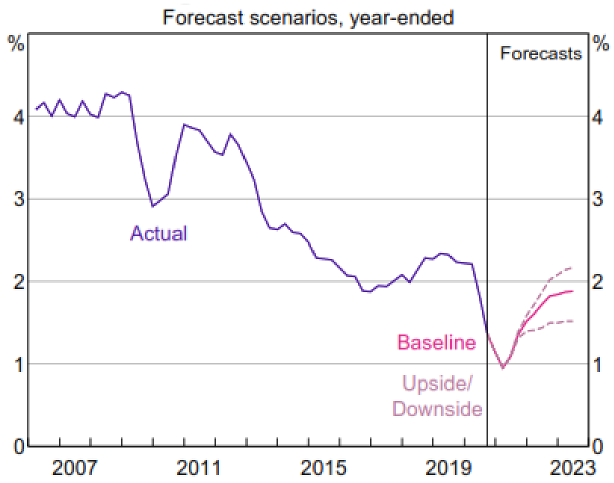
> *Liaison reports suggest that wages growth will remain weak for some time. The proportion of firms reporting they had wage freezes in place or intended to implement wage freezes this year increased further in the December quarter. Some firms also reported that bonuses would be reduced or withheld in coming quarters. However, in most cases these measures are*

[19] RBA Governor Lowe, *The Recovery, Investment and Monetary Policy* 10 March 2021 (speech and Q&A transcript).

expected to be temporary, with some unwinding of freezes and delays expected over the course of 2021.

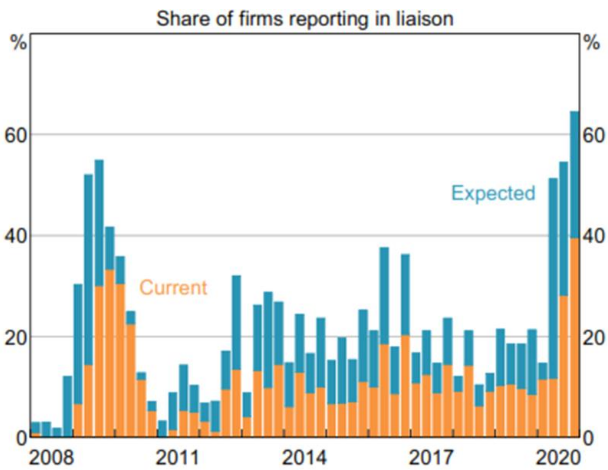
Government wage policies announced in recent months have softened the outlook for public sector wages. The Australian Government has announced a wages policy that ties wage adjustments in future EBAs for Commonwealth public servants to private sector WPI outcomes. Some state governments have also announced measures to delay wage increases or cap wages growth at lower rates than had applied in recent years. [20]

Chart 46: RBA wage price index (WPI) forecast scenarios, to 2023



Sources: RBA *Statement on Monetary Policy*, Feb 2020.

Chart 47: Actual and expected wage freezes reported to the RBA, 2008-2020



Source: RBA *Statement on Monetary Policy*, Feb 2020.

[20] RBA, *Statement on Monetary Policy*, Feb 2021, p. 67.

Table 3: economic growth rates (Q4 2020) and RBA forecasts (as of Feb 2021)

% change over the year	Dec 2020	Jun 2021	Dec 2021	Jun 2022	Dec 2022	Jun 2023
Gross domestic product (GDP)	**-1.1**	**8.0**	**3.5**	**3.5**	**3.5**	**3.0**
Household consumption	-2.7	14.0	4.0	4.5	4.0	3.0
Dwelling investment	0.6	7.0	2.0	-1.0	0	1.5
Business investment	--5.0	-2.5	3.0	6.0	7.5	6.0
Public demand	7.0	7.0	4.0	1.0	1.0	2.0
Gross national expenditure	-0.3	11.0	4.0	3.5	3.5	3.0
Imports	-9.6	17.5	7.5	8.5	9.0	5.5
Exports	-11.7	2.5	6.0	7.5	8.0	5.0
Terms of trade	7.3	12.5	3.5	-7.0	-6.0	-4.0
Real household disposable income	4.9	-3.0	-2.0	2.5	2.0	2.0
Unemployment rate (quarter average, %)	**6.8**	**6.5**	**6.0**	**5.5**	**5.5**	**5.25**
Employment	-0.7	5.75	1.75	1.5	1.25	1.0
Average wage rates (wage price index)	**1.25**	**1.0**	**1.5**	**1.75**	**1.75**	**2.0**
Trimmed mean inflation (Consumer Price Index)	1.2	1.25	1.25	1.5	1.5	1.75
Headline inflation (Consumer Price Index)	**0.9**	**3.0**	**1.5**	**1.5**	**1.5**	**1.75**

= actual. forecast. Sources: ABS, various data; RBA 'baseline scenario' in *Statement on Monetary Policy*, Feb 2020.

RBA forecasts include the following technical assumptions: The cash rate is assumed to remain at its current level (0.1%) with other elements of the Bank's monetary stimulus package, including the 0.1% target for the 3-year government bond yield, assumed to remain consistent with current settings. Other technical assumptions include the TWI at 60, A$ at US$0.70 and Brent crude oil price at US$42 per barrel.

3. Statutory considerations

The Expert Panel is required to conduct each Annual Wage Review in accordance with the *Fair Work Act 2009* (**FW Act**).

In previous Annual Wage Reviews, a number of important observations have been made by the Panel in respect of the manner in which it is to carry out its statutory task, including:

1. The following legislative provisions are particularly relevant: the object of the FW Act in section 3; the modern awards objective in subsection 134(1); and the minimum wages objective in subsection 284(1).

2. The statutory tasks in ss.134 and 284 involve an 'evaluative exercise' which is informed by the considerations in s.134(1)(a)–(h) and s.284(1)(a)–(e) of the Act. However, those matters *"do not necessarily exhaust the matters which the Panel might properly consider to be relevant".*[21]

[21] *Annual Wage Review 2018-19 Decision,* [8].

3. No particular primacy is to be given to any of the specific factors that the Expert Panel must take into account.[22]

4. There are differences in the expression of the economic considerations that the Expert Panel is required to take into account under the modern awards objective and the minimum wages objective. But the underlying intention of the various economic considerations referred to in ss.134 and 284 is that the Panel takes into account the effect of its decisions on national economic prosperity and in so doing gives particular emphasis to the economic indicators specifically mentioned in the relevant statutory provisions.[23]

5. The Expert Panel's task is to consider relevant statutory matters in the context of the prevailing economic and social environment.[24]

6. The relative living standards of employees are affected by the level of wages that they earn, the hours they work, tax-transfer payments and the circumstances of the households in which they live. It is therefore necessary to have regard to a range of measures of the relative living standards of the low paid and the household circumstances in which they live.[25]

7. In determining the award wage increases that would be consistent with the need to provide a 'fair and relevant safety net of terms and conditions'[26] (s.134), fairness is to be assessed from the perspective of both employees and employers, and the term 'relevant' is intended to convey that modern awards should be suited to contemporary circumstances.[27]

8. Even though the 'need to encourage collective bargaining' is not an element of the minimum wages objective, this is an important consideration for the Expert Panel because it is an element of the modern awards objective.[28]

9. While the statutory provisions relating to the Annual Wage Review are properly characterised as 'remedial or beneficial provisions', the extent to which they are to be given 'a fair, large and liberal' interpretation in pursuit of that broad purpose is constrained by the fact that the relevant provisions seek to strike a balance between competing interests.[29]

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[22] *Annual Wage Review 2016-17 Decision*, [129].

[23] *Annual Wage Review Decision 2017-18*, [10].

[24] *Annual Wage Review 2015-16 Decision*, [4].

[25] *Annual Wage Review 2015-16 Decision*, [397].

[26] s.134 of the FW Act.

[27] *Annual Wage Review 2016-17 Decision*, [123] – [125].

[28] *Annual Wage Review 2015-16 Decision*, [519].

[29] *Annual Wage Review 2016-17 Decision*, [142].

10. The considerations which the Expert Panel is required to take into account do not generally set a particular standard against which a modern award or the 'safety net of fair minimum wages' can be evaluated; many of them may be characterised as broad social objectives.[30]

11. The range of considerations the Expert Panel is required to take into account calls for the exercise of broad judgment rather than a mechanistic or decision rule approach to wage fixation. It is on this basis that past Review decisions have rejected proposals for the adoption of real wage maintenance; a medium-term target for the NMW; and the variation of modern award minimum wages based on trends in market wages.[31]

12. Broadly speaking, differently constituted Expert Panels should evaluate the evidence and submissions before them in accordance with a consistent and stable interpretation of the legislative framework. Justice requires consistent decision making unless a difference can be articulated and applied.[32]

13. As part of its decision-making process, the Expert Panel must first form a view about the proposed increase to the NMW and then take that proposal into account in exercising its powers to vary award minimum wages.[33]

14. There is no justification to increase the NMW by a higher rate than modern award minimum wages. To do so would create a significant risk of disemployment effects—thus putting low-paid workers at risk of unemployment and poverty. Nor would it be fair to those on higher modern award minimum wages as it would erode the recognition of their higher skill and relative 'work value.'[34]

15. The FW Act requires the Panel to take into account *all* of the relevant statutory considerations. The relative living standards and needs of the low paid are but one of a number of considerations that the Panel must take into account.[35]

16. The Expert Panel's decision-making process should be as transparent as possible and should disclose the factors which are most relevant in a particular year.[36]

[30] *Annual Wage Review Decision 2017-18*, [15].

[31] *Annual Wage Review Decision 2017-18*, [44].

[32] *Annual Wage Review Decision 2017-18* [58].

[33] *Annual Wage Review 2015-16 Decision*, [5].

[34] *Annual Wage Review Decision 2017-18,* [105].

[35] *Annual Wage Review 2018-19 Decision*, [11].

[36] *Annual Wage Review 2018-19 Decision*, [23].

4. The "exceptional circumstances" provisions in the Act

Subsection 287(4) of the FW Act enables a National Minimum Wage Order to provide that adjustments to the National Minimum Wage and Special National Minimum Wages take effect on a specified day later than 1 July if:

- The Commission is satisfied that there are exceptional circumstances justifying the adjustment taking effect on that day; and

- The adjustment is limited just to the particular circumstances to which the exceptional circumstances relate.

Similarly, s.286(2) of the Act enables the Commission to specify a later operative date than 1 July for a determination varying minimum wage rates in a modern award if the following conditions are met:

- The Expert Panel is satisfied that there are exceptional circumstances justifying why a variation determination should not come into operation until a later day; and

- The determination is limited just to the particular situation to which the exceptional circumstances relate.

In respect of the 'exceptional circumstances' provisions in the Act, in the *Annual Wage Review 2019/20 Decision* the Expert Panel determined that:

- Any determinations varying minimum wages in an award must be made by 1 July.[37]

- A National Minimum Wage Order NMW order must be made by 1 July.[38]

- A determination varying minimum wages must come into operation on or after 1 July and must take effect on or after its date of operation.[39]

- The National Minimum Wage Order must come into operation on 1 July and the elements of it must take effect on or after that date.[40]

- A variation determination and the Minimum Wages Order cannot be 'revisited' once made (other than to remove ambiguity or uncertainty or to correct error).[41]

[37] *Annual Wage Review 2019-20 Decision*, [231].

[38] *Annual Wage Review 2019-20 Decision*, [231].

[39] *Annual Wage Review 2019-20 Decision*, [231].

[40] *Annual Wage Review 2019-20 Decision*, [231].

[41] *Annual Wage Review 2019-20 Decision*, [231].

- The Commission may make multiple variation determinations that operate from 1 July or, to the extent justified by exceptional circumstances, from a later date or various later dates.[42]

- The National Minimum Wage Order must operate from 1 July but, to the extent justified by exceptional circumstances, may provide for the adjustments of its various elements to take effect in relation to some or all employees from a later date or various later dates in the financial year.[43]

- To the extent justified by exceptional circumstances, the wage increases set by a National Minimum Wage Order may be different for different employees.[44]

- The Panel expressed support for the view expressed in submissions of Ai Group and the Australian Government that, to the extent justified by exceptional circumstances, the wage increases set for employees cover by a particular modern award may be different for different employees. However, as no party in the 2019-20 Review advocated differential treatment for some employers and employees in respect of a modern award minimum wage increase, it was not necessary for the Panel to determine the issue.[45]

The reasons why 'exceptional circumstances' exist at the present time are discussed in chapter 11 of this submission.

5. A fair and relevant safety net

The Expert Panel is tasked with determining and maintaining a fair and relevant safety net for employees working in Australia.

Clearly fairness in this context should consider not just the rates of wages paid to employees but also the amount of work available at different wage rates. It is the combination of these that determines individuals' income from wages. The Panel should be mindful of the unfairness that would arise when an increase in minimum wages resulted in lower quantities of work available particularly for the most vulnerable members of the labour force (relative to the levels that would have been the case in the absence of the wage rise or in the event of a smaller wage rise). In light of recent Productivity Commission research[46] into falling incomes among young people, discussed in greater detail in Section 6.1 of this Submission, the Panel should also be mindful of the unfairness

[42] *Annual Wage Review 2019-20 Decision*, [234].

[43] *Annual Wage Review 2019-20 Decision*, [234].

[44] *Annual Wage Review 2019-20 Decision*, [250].

[45] *Annual Wage Review 2019-20 Decision*, [251] – [258].

[46] Productivity Commission, 2020, *Why did young people's income decline?*, Productivity Commission Research Paper.

that would arise when an increase in minimum wages resulted in a reduction in the quality of work available to vulnerable members of the workforce.

In a dynamic labour market, fairness in the determination and maintenance of a fair and relevant safety net for employees should, in addition to existing employees, also consider potential employees whose opportunities of finding work would be reduced at higher minimum wage levels. This applies to potential new entrants to the labour force, people actively looking for work, people who, because of their experience of not being able to find a job, have been discouraged from actively looking for work and workers who lost their employment as a result of the downturn brought about by the COVID-19 pandemic.

In the *Annual Wage Review 2018-19 Decision*, the Panel expressly recognised the risk of disemployment – particularly of young people and low-skilled people - associated with large increases in minimum wages when it stated:

> *"In our judgment the magnitude of the increase required in this Review to lift these household types above the relative poverty line would run a significant risk of disemployment and of adversely affecting the employment opportunities of low-skilled and young workers. …"*[47]

As we argue in Section 2 of this Submission, the risk of disemployment is particularly high in the current environment.

The interpretation of 'relevant' is of particular importance in the context of the present Annual Wage Review proceedings. The Full Bench of the Commission examined the meaning of this term in its Penalty Rates Decision and determined that it was intended to convey that a modern award "should be suited to contemporary circumstances".[48] In coming to this conclusion, the Full Bench referred to the following extract from the Explanatory Memorandum to the *Fair Work Bill 2008* regarding s.138:[49]

> *… the scope and effect of permitted and mandatory terms of a modern award must be directed at achieving the modern awards objective of a fair and relevant safety net that accords with community standards and expectations.*

A lengthy wage pause has recently been noted in the RBA Governor's Monetary Policy Decision as being relevant to an expectation that the RBA Board would not increase interest rates. It said:[50]

> *Wage and price pressures remain subdued. The CPI increased by just 0.9 per cent over the year to the December quarter and wages (as measured by the Wage Price Index) are increasing at the slowest rate on record. Both inflation and wages growth are expected to pick up, but to do*

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[47] *Annual Wage Review 2018-19 Decision*, [61].

[48] [2017] FWCFB 1001, [120].

[49] Fair Work Bill 2008 (Cth) *Explanatory Memorandum*, [518].

[50] Reserve Bank of Australia, 'Statement by Philip Lowe, Governor: Monetary Policy Decision' (2 February 2021).

so only gradually, with both remaining below 2 per cent over the next couple of years. In underlying terms, inflation is expected to be 1¼ per cent over 2021 and 1½ per cent over 2022.

…

The Board will not increase the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range. For this to occur, wages growth will have to be materially higher than it is currently. This will require significant gains in employment and a return to a tight labour market. The Board does not expect these conditions to be met until 2024 at the earliest.

The low wage growth generally across the labour force is a persuasive factor against awarding any significant increase that is out of step with current community norms.

Minimum wages sit alongside other elements of the overall safety net for employees working in Australia. In Section 6.2 of this submission, we show that changes to income taxation arrangements announced in the 2020-21 Budget are delivering large increases in disposable incomes for people in employment. We also show that these increases in combination with the increase in remuneration in the form of the higher Superannuation Guarantee rate legislated to take effect from 1 July 2021 stand to deliver substantial improvements in the safety net for employees working in Australia.

By taking account of the improvements in the safety net and awarding less of an increase in minimum wages than it would otherwise, the Panel has an opportunity to stimulate a speedier reduction in unemployment and underemployment. Such an outcome would avoid the disemployment effects that would come from a higher rise in minimum wages and further improve the safety net for employees working in Australia.

6. Relative living standards and the needs of the low paid

The FW Act charges the Fair Work Commission with establishing and maintaining a safety net of minimum wages, taking into account, among other things, questions relating to 'relative living standards and the needs of the low paid.'

Relative living standards and the needs of the low paid are shaped by a very wide variety of factors. These include wage rates, availability of work, hours worked, continuity of employment and the family/household situation of low-paid employees. They are also shaped by individuals' and households' access to the broader social safety net which, in addition to the public health and education systems, includes the public-funding of childcare, public assistance in relation to housing and Australia's well-developed and highly-progressive income tax and transfer systems.

The Expert Panel observed in the *Annual Wage Review 2019-20 Decision* that as a result of the COVID-19 pandemic, there was likely to be some further moderation in community wage increases due to various factors including some employers applying to delay or remove scheduled wage increases in enterprise agreements. This is likely to continue to be the case this year. The Reserve

Bank of Australia noted in its February Statement on Monetary Policy that the "proportion of firms reporting they had wage freezes in place or intended to implement wage freezes this year increased further in the December quarter".[51] Additionally, the ABS Wage Price Index (WPI) which measures the price of wages in the Australian economy recorded an annual growth rate of 1.4% in the December quarter of 2020. This should factor into the relevant comparison between National Minimum Wage-reliant workers, award-reliant workers and the average and median earnings of the broader labour force.

6.1 Recent research and the needs of the low paid

Ai Group would like to highlight some new research findings that we see as important to the considerations of the Panel about the implications of changes in minimum wages for the needs of the low paid.

The first is the challenging re-examination by David Neumark and Peter Shirley of US minimum wage research.[52] The Neumark and Shirley work examines the New Minimum Wage Research in the United States and challenges the view that research into the impacts of minimum wages on employment outcomes is inconclusive in the sense of being more or less evenly balanced between indicating positive and negative employment impacts. The paper notes the wide variety of interpretations drawn from this body of US research but, rather than taking these at face value, examines the actual measures of sensitivity of labour demand to wage rate changes (elasticities) contained in the research.

They find, in summary:[53]

- *There is a clear preponderance of negative estimates in the literature. In our data 79.3% of the estimated employment elasticities are negative, 55.4% are negative and significant at the 10% level or better, and 47.9% are negative and significant at the 5% level or better.*

- *This evidence of negative employment effects is stronger for teens and young adults, and more so for the less-educated.*

- *The evidence from studies of directly-affected workers points even more strongly to negative employment effects.*

- *The evidence from studies of low-wage industries is less one-sided with 66.7% of the estimated employment elasticities negative, but only 33.3% negative and significant at the 10% level or better, and the same percent negative and significant at the 5% level or*

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[51] Reserve Bank of Australia, 'Statement on Monetary Policy' (February 2021), p 57.

[52] Neumark, D. and Shirley, P., 2021, *Myth or Measurement: What does the New Minimum Wage Research say about Minimum Wages and Job Loss in the United States?,* National Bureau of Economic Research, Working Paper 28388. https://www.nber.org/system/files/working_papers/w28388/w28388.pdf

[53] Neumark and Shirley, 2021, pp 3-4.

> *better. We suggest however that the evidence from low-wage industries is less informative about the effects of minimum wages on the employment of low-skilled, low-wage workers.*

Importantly, Neumark and Shirley's study is not a new data set but a fresh examination of the results from this existing body of research.

Perhaps the most interesting feature of the article is the challenge to the common impression that the evidence from the existing studies is roughly evenly split on the question of whether wage rises have disemployment effects when in fact it very clearly supports the existence of negative employment effects. The authors state "*our evidence indicates that concluding that the body of research fails to find disemployment effects of minimum wages requires discarding or ignoring most of the evidence*."[54]

While we would not suggest the Neumark and Shirley study is definitive, we submit that it should give rise to a close re-examination of the existing interpretations of research that inform the considerations of the Panel. In particular, such a re-examination could give rise to a more nuanced view of the disemployment effects across different segments of the workforce and particularly among less skilled, low income employees. It would therefore lift understanding of the trade-offs involved in minimum wage decisions. This research could be conducted as part of the Fair Work Commission's research program.

The second new research area that we see as having important implications for the considerations of the Panel is the investigation undertaken by the Productivity Commission (**PC**) into the decline in real incomes for young Australians in the period from 2008.[55]

The PC found that the decline in young people's real wages in this period was due largely to the fall in income from labour and that this, in turn, was due to a combination of a reduction in wage rates (see further below) and a decline in hours worked. While the PC's finding that the outcome was due to an imbalance between labour demand and labor supply is unsurprising, the interesting new insight from the PC research is the way the imbalance was manifested in labour market outcomes for young people.

Conceptually, in a free market, an imbalance between labour demand and labour supply would be resolved (the imbalance would be removed) by a fall or rise in wage rates so the market would clear. In the case of an excess of supply over demand, wage rates would fall. However, when wage rates cannot fall because that would take them below legal minimum levels, this means of clearing the market would be prevented from operating.

[54] Neumark and Shirley, 2021, p 4.

[55] Productivity Commission, 2020, *Why did young people's income decline?*, Productivity Commission Research Paper.

As would be expected, the PC found a disemployment impact among young people arising from the market imbalance. This took the form of reduced hours worked rather than an increase in the rate of unemployment. This dimension of disemployment has become well understood by the Panel and in recent years it has increased its focus on the potential impacts of its decisions on rates of underemployment as well as on rates of unemployment.

However, the PC found that the disemployment impact of the imbalance between demand and supply was complemented by a shift in occupations of young people. A key conclusion of the PC research was:

> [*W]e find that after 2008, young workers obtained jobs that were further down the 'jobs ladder'. We draw on a ranking of occupations (based on their educational requirements and earning potential) developed by the Australian National University. We find that after 2008, young people obtained work in lower-scored occupations than did comparably-skilled young people before 2008; on balance they were worse off by 2018 than in 2001. Young job seekers still found work in the more competitive labour market, but accepted 'lower-scored' occupations.*[56]

The increased recourse by young people to "lower-scored" occupations was a major factor in the lower wage rates for young people mentioned above. The PC calculated wage rates as the average weekly wage earned in all jobs divided by average weekly hours worked in all jobs.[57] So that while minimum wage rates were increased over the period, these higher rates did not raise actual hourly earnings for young people, In fact average hourly earnings fell.

Ai Group submits that this is a very important insight into how labour markets work in the face of an imbalance between labour supply and labour demand. It is an insight that is clearly relevant to the considerations of the Panel in relation to its considerations about the needs of the low paid.

If minimum wages are higher than would clear the market, the impacts may be felt by the low paid in the form of disemployment – in this case in terms of fewer hours worked - and in a shift to lower-paid occupations. Both of these impacts would be detrimental to low paid workers and the Panel should be alert not only to the risk that its decisions will have disemployment impacts but also to the risk that its decisions will result in a shuffle of more qualified people into lesser-paying occupations. The PC found that the aggregate impact of these forces was a reduction in real incomes in the period after 2008 for young people as a group.

[56] Productivity Commission, 2020, p 4.

[57] Productivity Commission, 2020, p 57.

6.2 Changes to personal income tax, transfer and superannuation arrangements

In its Decision in last year's Review, the Panel retained its well-established view that changes to the tax-transfer system are important to the consideration of the relative living standards and needs of the low paid. The Panel noted that it had "*taken account of the interaction between wages and the tax-transfer system in our consideration of the 'needs of the low paid', including the higher rate LMITO, and have had regard to various assistance packages introduced by the Australian Government in response to the COVID-19 pandemic*".[58]

Further, as discussed in detail in Section 10 of this Submission, in its decisions following previous increases in the Superannuation Guarantee (**SG**), the Panel has taken such increases into account in its determinations.

Ai Group submits that in this year's Review account should be taken of the relevant changes to personal income tax arrangements announced in the delayed 2020-21 Budget and the legislated increase in the SG from 9.5 per cent to 10 per cent that is set to take effect from 1 July 2021.

Before turning to the impacts of these measures, we have some comments on how the Panel might have regard in this year's Review to the temporary household assistance measures to which it had regard in the 2019-20 Review.

The COVID-19-related household assistance measures have come to an end. It might be argued that any bearing they had on the magnitude of the changes to minimum wage rates in the 2019-20 Decision should be unwound in the current Review. It might further be argued that, in having regard to the fact that these COVID-19-related household assistance measures have now come to an end, symmetry of treatment between how the measures were regarded last year and how their absence should be regarded in this year's Review would seem to be appropriate.

The issue is complicated by a number of factors.

- First, although the Panel in last year's decision had regard to the various temporary assistance packages directed in large measure to low and middle-income households, it remained of its long-held view that "*it is not appropriate to apply a direct, quantifiable discount to the increase we would have awarded in the absence of such changes*".[59] As a consequence, unwinding in the current Review how these measures impacted on the 2019-20 Decision is inherently problematic.

[58] *Annual Wage Review 2019-20 Decision*, [357].

[59] *Annual Wage Review 2019-20 Decision*, [357].

- Second, in addition to the temporary household assistance considered in last year's Review, further household assistance measures were announced after the completion of the Review and these were similarly directed towards low and middle-income households. How should these additional household assistance measures now be taken into account - if at all?

- Third, the personal income tax changes announced in the 2020-21 Budget, which were delivered in October 2020, had retrospective effect being backdated to 1 July 2020. Clearly, like the additional household assistance measures, they were not taken into account in the 2019-20 Decision although they did impact positively on living standards in the 2020-21 year. Should the current Review take account of the impact the income tax changes had on living standards in the 2020-21 year?

Addressing these issues is not straightforward. Further, because they have arisen in the context of the highly unusual circumstances of COVID-19, it is not likely that there will be any repeat benefits from developing a detailed approach to their resolution.

In light of these complications, Ai Group submits that a reasonable approach to the tension between the fact that the temporary household assistance measures have come to an end and that regard was given to some of these measures in last year's decision would be for the 2020-21 Review not to reflect the cessation of these household assistance measures in any changes in minimum wage rates in the current Review.

Although these matters cannot be precise, there is likely to be a rough equivalence between this suggested approach and the fact that additional household assistance measures and the impacts in the 2020-21 year of the income tax measures were not considered in last year's Decision.

The 2020-21 Budget included a number of changes to personal income tax arrangements that have impacts beyond the 2020-21 year itself:

- The threshold at which the marginal rate of tax rises from 19 per cent to 32.5 per cent was raised from $37,000 to $45,000;

- The Low and Middle Income Tax Offset (LMITO) was extended for a further year;

- The maximum Low Income Tax Offset (LITO) was increased from $445 to $700 and changes were made to the parameters governing its withdrawal.

An important feature of the LITO and the LMITO is that they are paid as tax refunds which are delivered to recipients in the income year following the income year to which they relate. Thus, the benefits of the extension of the LIMTO in respect of income earned in the 2020-21 year will impact on the living standards of low and middle-income taxpayers in the 2021-22 year. Similarly, the benefits of the increase in the LITO in respect of income earned in the 2020-21 year, will impact on the living standards of low-income taxpayers in the 2021-22 year.

Table 4 below summarises the impacts of the income tax changes announced in the 2020-21 Budget on low and middle-income earners relative to the income tax arrangements in place when the Panel conducted the 2019-20 Review. The data in the table are "illustrative" in that they present the changes that would apply to a single adult with no children, working full-time, with no non-wage income and earning the relevant weekly wage income over the course of a full year.

The data in Table 4 include calculations of changes in disposable incomes and the equivalent increase in pre-tax incomes. An equivalent increase in pre-tax income reflects both the change in disposable income and the effective marginal tax rate at the relevant income level. The calculation of effective marginal tax rates takes into account the marginal tax rate in the income tax scale, the shade-in and shade out rates for the tax offsets and the Medicare Levy (including its shade-in rate).

Table 4: Illustrative Impacts of Changes in Income Tax Arrangements on Low Income Earners

		Annualised disposable income		Increase in disposable income		Equivalent increase in pre-tax income	
Proportion of NMW	Pre-tax income $ pw	At the time of last year's Decision	In the 2021-22 year	$ pw	%	$ pw	%
50%	376.90	19,652	19,652	0.00	0.0%	0.00	0.0%
60%	452.28	23,181	23,436	4.89	1.1%	6.89	1.5%
70%	527.66	25,972	26,227	4.89	1.0%	6.89	1.3%
80%	603.04	28,998	29,253	4.89	0.9%	6.19	1.0%
90%	678.42	32,103	32,358	4.89	0.8%	6.19	0.9%
100%	**753.80**	**35,045**	**35,545**	**9.60**	**1.4%**	**11.77**	**1.6%**
110%	829.18	37,855	38,748	17.13	2.4%	21.02	2.5%
120%	904.56	40,665	41,735	20.52	2.6%	28.70	3.2%
130%	979.94	43,243	44,313	20.52	2.5%	32.07	3.3%
140%	1,055.32	45,759	46,829	20.52	2.3%	32.07	3.0%
150%	1,130.70	48,274	49,344	20.52	2.2%	32.07	2.8%

Some key points can be drawn from Table 4:

- At income levels below the effective tax-free threshold (which includes the availability of tax offsets), changes in income tax arrangements cannot deliver increases in living standards. While not reflected in Table 4, many people with wage income at these levels would have non-wage income including from income-support payments.

- Above this low-income range, the income tax changes announced in the 2020-21 Budget will deliver substantial increases in disposable incomes. For example, for a person paid at the current National Minimum Wage, the increase in disposable income is $9.60 per week, an increase of 1.4 per cent.

- Reflecting the impacts of personal income taxation, the equivalent increases in pre-tax incomes are higher than the increases in disposable incomes. For example, for a person paid at the current National Minimum Wage, the equivalent increase in pre-tax income is $11.77 per week or 1.6 per cent. This is the amount that would need to be paid in higher wages to deliver the same increase in disposable income.

- For the range of incomes considered in Table 4, the changes in disposable income and equivalent increases in pre-tax income are due to the increase in the LITO and the threshold in the income tax scale beyond which extra income is taxed at 32.5 per cent.

- As an illustration of the relationship between the change in disposable income and the equivalent increase in pre-tax income, the effective marginal tax rate (EMTR) of the person on the National Minimum Wage (annualised at $39,303) is calculated at 18.5 per cent. This reflects the marginal tax rate in the income tax scale of 19 per cent, the shade-in rate of the LMITO of 7.5 per cent, the shade-out rate of the LITO of 5 per cent and the 2 per cent Medicare Levy). The pre-tax equivalent is the disposable income divided by (1-EMTR).

Above the low-income range mentioned above, the equivalent increases in pre-tax incomes are at least equal to, and more generally above the 0.9 per cent increase in prices measured by the Consumer Price Index for the year to the end of December 2020. This indicates that, in general, the income tax changes announced in the 2020-21 Budget will deliver equivalent increases in pre-tax incomes that are greater than the rise in prices and increases in real disposable incomes.

In addition to the taxation changes, changes to the SG are also relevant to the 2020-21 Review.

Under the legislated phase-in schedule, the SG will rise from 9.5 per cent to 10 per cent from 1 July 2021. Other things being equal, the higher rate of SG is an increase in employee remuneration in the form of greater contributions to superannuation accounts. Similarly, other things being equal, the higher rate of SG will raise employers' costs.

This increase in remuneration should be taken into account in the consideration of the needs of the low paid. The increase in the SG will assist in meeting the post-retirement needs of people who are currently low paid. Further, insofar as the higher rate of SG would otherwise raise the likelihood of a reduction in the demand for labour and hence impact adversely on the needs of the low paid, taking into account the higher SG in this year's Review can avoid the risk of an adverse disemployment impact on the needs of the low paid.

The increase in the SG of 0.5 per cent will, in general raise after-tax contributions to superannuation by this amount less the 15 per cent tax on superannuation contributions. The net impact is, in general, an increase in superannuation contributions of 0.425 per cent of pre-tax wages. An exception to this general impact arises from the operation of the Low Income Super Tax Offset (LISTO). The LISTO is applied by the ATO only in respect of taxpayers with annual incomes of less than $37,000 and is paid into accounts held by superannuation funds to offset the contributions tax. The amount of offset is the amount of contributions tax paid up to a maximum of $500.

Table 5 below summarises the impacts of the rise in the rate of SG from 9.5 per cent to 10 per cent of pre-tax wages scheduled to take effect from 1 July 2021. As with Table 4 the data in the table are "illustrative" in that they present the changes that would apply to a single adult with no children, working full-time, with no non-wage income and earning the relevant weekly wage income over the course of a full year.

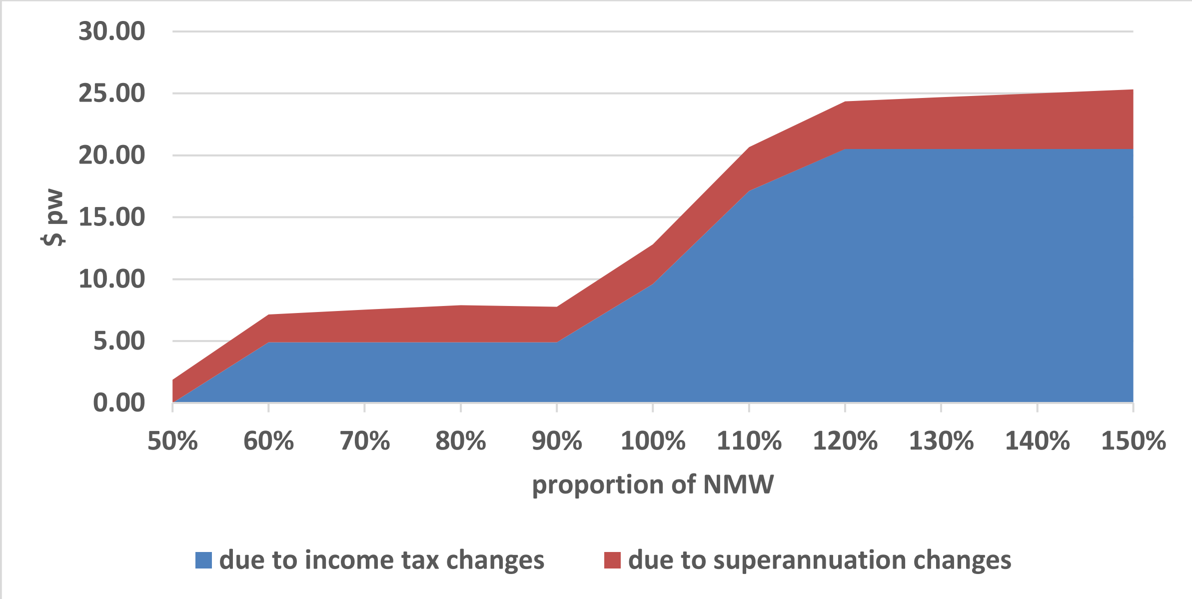
Table 5: Illustrative Impacts on Low Income Earners of the SG Increase from 9.5% to 10%

Proportion of NMW	Pre-tax income ($pw)	Additional after-tax superannuation contribution		Additional pre-tax superannuation contribution	
		$pw	% of pre-tax wages	($pw)	% of pre-tax wages
50%	376.90	1.88	0.5%	1.88	0.5%
60%	452.28	2.26	0.5%	2.26	0.5%
70%	527.66	2.64	0.5%	2.64	0.5%
80%	603.04	3.02	0.5%	3.02	0.5%
90%	678.42	2.88	0.425%	3.39	0.5%
100%	**753.80**	**3.20**	**0.425%**	**3.77**	**0.5%**
110%	829.18	3.52	0.425%	4.15	0.5%
120%	904.56	3.84	0.425%	4.52	0.5%
130%	979.94	4.16	0.425%	4.90	0.5%
140%	1,055.32	4.49	0.425%	5.28	0.5%
150%	1,130.70	4.81	0.425%	5.65	0.5%

The combination of the income tax changes announced in the 2020-21 Budget and the increase in the SG will deliver substantial benefits to low paid people.

The magnitudes of the benefits are summarised in Chart 47 below which combines the changes in disposable incomes illustrated in Table 4 and the increases in after-tax superannuation contributions as they contribute to the combined change in after-tax remuneration.

Chart 48: Illustrative Increases in After-Tax Remuneration for Low Income Wage Earners



While the dollar magnitudes presented in Chart 48 are instructive, to the extent to which the Panel considers discounting pre-tax increases in minimum wages to take into account the income tax and SG changes, Chart 48 may be more relevant. Chart 49 combines the equivalent increases in pre-tax incomes as set out in Table 4 with the actual pre-tax superannuation contributions as set out in Table 5. Chart 49 presents the data both in dollars per week and as a percentage of pre-tax incomes. The latter are contrasted in the Chart with the 0.9 per cent increase in the CPI for the year to the end of 2020 to provide a relevant point of reference.

Chart 49: Equivalent Pre-Tax Increases in Remuneration for Low-Income Wage Earners

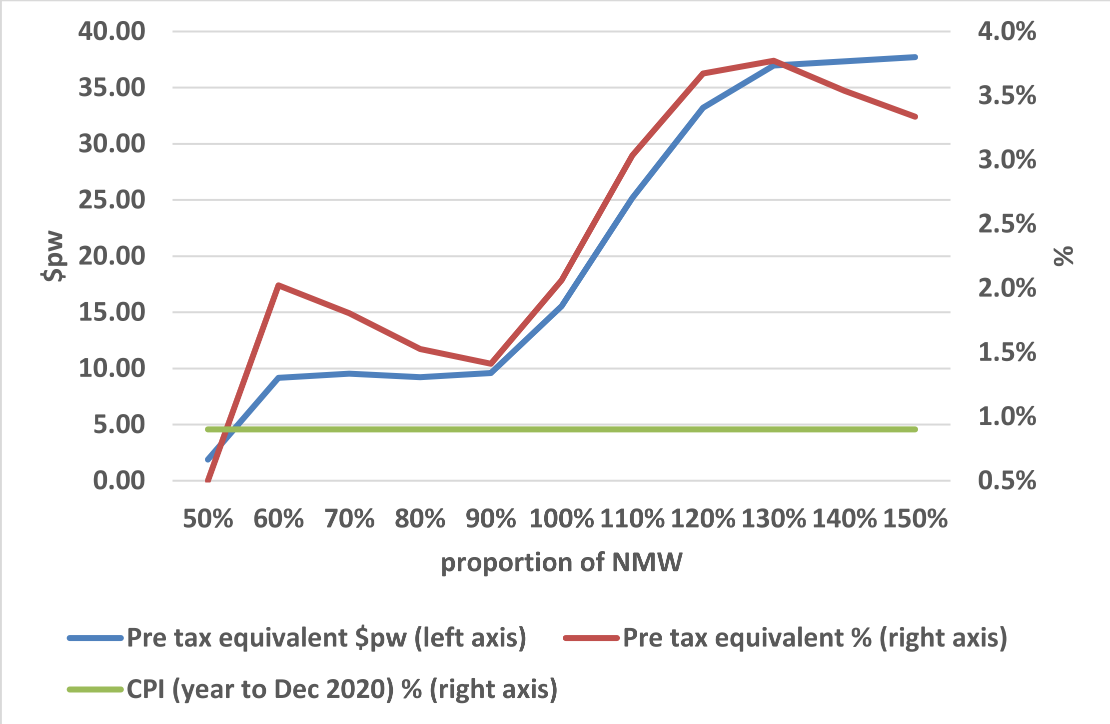


Chart 49 illustrates the significant contributions to meeting the needs of the low paid as a result of the combination of the income tax changes in the 2020-21 Budget and the scheduled increase in the SG. For example, for a person paid at the current National Minimum Wage, the equivalent increase in pre-tax remuneration is $15.54 a week (made up of the $11.77 from Table 4 and the $3.77 from Table 5). This is equivalent to an increase in pre-tax income of 2.1 per cent.

The extent of the equivalent pre-tax increases in remuneration relative to the rise in consumer prices indicates the sizable increases in remuneration in real terms over the range of low-income earners due to the changes in income taxation arrangements and the scheduled increase in the SG.

7. Promoting social inclusion through increased workforce participation

The FW Act charges the Fair Work Commission with establishing and maintaining a safety net of minimum wages, which requires consideration of, among other things, the objective of 'promoting social inclusion through increased workforce participation'.

As we have stated in previous submissions, Ai Group recognises the importance of participation in the paid workforce for social inclusion. Participation in the paid workforce can be closely linked to individuals' sense of self-worth and it can signal the contributions people make to the well-being of the broader community. In addition, of course, participation in paid work can provide the financial means by which people can participate in many aspects of social life.

It is sometimes suggested that raising minimum wage rates is a means by which social inclusion can be promoted, because it encourages more people to participate in the workforce (or to lift their participation in the workforce from existing levels). However, as we have argued in previous Annual Wage Review submissions, such encouragement would only have a positive impact on social inclusion if it leads to actual increases in participation in paid work.

Employment in a low-paid job is very often positively related to longer-term social inclusion beyond that which might be implied from the level of earnings or the status of the particular job. As the Panel noted in the *Annual Wage Review 2018-19 Decision*:

> *low paid employment is often temporary and can act as a 'stepping stone' to higher paid work….* [60]

Viewed in the context of the dynamics of workforce participation, social inclusion is promoted (or stifled) not only in the immediate sense but over time by the availability (or unavailability) of paid work – even at low wage levels.

While there has been a better-than-expected recovery in the labour market since the lows of May 2020, current levels of unemployment and underemployment show there is still considerable underutilisation of the labour available at current wage rates (see chapter 2 above). With supply still exceeding demand in aggregate, there is certainly no need to lift minimum wage rates in order to encourage additional labour supply.

Looking ahead, there is a clear threat that the current imbalance between demand and supply will be extended. In these circumstances the greater threat to participation in paid work (and therefore the near-term and ongoing social inclusion associated with this participation) will come more from a reduction in the demand for labour rather than from an unwillingness to supply labour.

A further dimension to considerations about social inclusion is the disillusion and disassociation that can be felt when people cannot find work in the jobs for which they feel they are qualified. There are many anecdotes about engineers driving taxis and feeling less included in society than they would prefer. There are also the findings of the PC in the Research Paper discussed in Section 6.1 above. That research found that the imbalance between demand and supply for labour manifested itself both in disemployment effects and in a shuffle down the occupational ladder for young people.

In this environment we urge the Panel to be particularly wary of exacerbating the imbalances between labour demand and labour supply and the associated impacts on social inclusion.

[60] *Annual Wage Review 2018-19*, [62].

8. Encouraging collective bargaining

The Expert Panel must take into account the need to encourage collective bargaining, as set out in s.134(1)(b) of the modern awards objective.

At the present time it is widely recognised that the enterprise bargaining system is in a state of decline. In the fourth quarter of 2010 there were nearly 25,110 current enterprise agreements covering 2.6 million employees. As at 31 December 2020 (the latest available statistics), there were 9,988 current enterprise agreements covering 1.9 million employees. [61]

Enterprise bargaining has an important role to play in delivering wage increases to employees. Given the adverse trend in the incidence of enterprise bargaining, it is appropriate that the Panel give particular weight to the need to encourage collective bargaining.

In past submissions, Ai Group has recommended the Expert Panel set the minimum wage increase generally at a level that is lower than average annualized wage increases in enterprise agreements. Ai Group notes the Expert Panel's comments in the *Annual Wage Review 2018-19 Decision* that this submission pays insufficient regard to the statutory obligation to take into account 'relative living standards'.[62] However, 'relative living standards' are only one of the Expert Panel's considerations and Ai Group maintains that in most circumstances, it will be appropriate to set the minimum wage increase no higher than the average annual wage increase in order to encourage collective bargaining.

We agree with the view expressed by the Expert Panel in the *Annual Wage Review 2016-17 Decision* that there are many complex factors that may contribute to decisions of employers and employees about whether or not to bargain.[63]

9. The principle of equal remuneration for work of equal or comparable value

Subsection 284(1) of the FW Act set out the minimum wages objective, which the Expert Panel is required to consider when setting minimum wages. Paragraph (d) of the objective requires the Panel to turn its mind to "*the principle of equal remuneration for work of equal or comparable value"*, a principle which is included within the modern awards objective at s.134(1)(e) of the Act.

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[61] Attorney General's Department, *Trends in Federal Enterprise Bargaining*, Trends Historical Table: https://www.ag.gov.au/industrial-relations/enterprise-agreements-data/trends-federal-enterprise-bargaining

[62] *Annual Wage Review 2017-2018 Decision*, [381].

[63] *Annual Wage Review 2016-2017 Decision*, [634]-[637].

Ai Group supports the principle of equal remuneration for work of equal value and the importance of improving gender equality in the workplace. We have been a vocal advocate for realistic, practical and targeted measures to eliminate the causes of gender inequality in the workplace.

In the *Annual Wage Review 2017-2018 Decision*, the Expert Panel acknowledged the applicability of the definition of 'equal remuneration' in s.302(2) of the Act for the purposes of ss.134 and 284 and that hence, the correct approach to the construction of ss.134(1)(e) and 284(1)(d) is to read the definition into the substantive provision. As such, the consideration is to be read: "the principle of equal remuneration for men and women workers for work of equal or comparable value".[64] The Expert Panel also accepted that the expression 'work of equal or comparable value' refers to equality or comparability in 'work value'.[65]

Past Annual Wage Review decisions have reached the following conclusions regarding the principle of equal remuneration for work of equal or comparative value:

- The application of the principle of equal remuneration for work of equal or comparable value is such that it is likely to be of only limited relevance in the context of a Review. Indeed it would only be likely to arise if it were contended that particular modern award minimum wage rates were inconsistent with the principle of equal remuneration for work of equal or comparable value; or, if the form of a proposed increase enlivened the principle.[66]

- Review proceedings are of limited utility in addressing any systemic gender undervaluation of work. Proceedings under Part 2-7 and applications to vary modern award minimum wages for 'work value reasons' pursuant to ss.156(3) and 157(2) provide more appropriate mechanisms for addressing such issues.[67]

- The broader issue of gender pay equity, in particular the gender pay gap is relevant to the Review as it is an element of the requirement to establish a safety net that is 'fair.'[68]

- The issue of gender pay equity may arise for consideration in respect of s.284(1)(b), because it may have effects on female participation in the workforce.[69]

[64] *Annual Wage Review 2017-2018 Decision*, [33].

[65] *Annual Wage Review 2017-2018 Decision*, [34].

[66] *Annual Wage Review 2017-18 Decision*, [35].

[67] *Annual Wage Review 2017-18 Decision*, [35].

[68] *Annual Wage Review 2017-18 Decision*, [36].

[69] *Annual Wage Review 2017-18 Decision*, [36].

- The causes of the gender pay gap are complex and influenced by factors such as: differences in the types of jobs performed by men and women; discretionary payments; workplace structures and practices; and the historical undervaluation of female work and female-dominated occupations.[70]

- Moderate increases in the National Minimum Wage and modern award minimum wages would be likely to have a relatively small, but nonetheless beneficial, effect on the gender pay gap.[71]

- The gender pay gap is mostly driven by higher paid workers.[72]

Research published for the purposes of the present Review has revealed that COVID-19 has had a 'relatively even' impact on the employment of males and females.[73] Although in the earlier stages of the pandemic, decreases in employment were larger for females, in the latter stages, males fared worse. The impact for males and females was reported as being fairly even by December 2020.

10. Increases in the Superannuation Guarantee

The *Superannuation Guarantee (Administration) Act 1992* (Cth), as amended by the *Minerals Resource Rent Tax Repeal and Other Measures Act 2014* (Cth), provides for a 0.5% increase in the Superannuation Guarantee (**SG**) from 1 July 2021.

The legislation also provides for 0.5% increases in 2022, 2023, 2024 and 2025, as follows.

Year	***Change (%)***	***Superannuation Guarantee (%)***
Year starting on 1 July 2021	0.5	10
Year starting on 1 July 2022	0.5	10.5
Year starting on 1 July 2023	0.5	11
Year starting on 1 July 2024	0.5	11.5
Year starting on 1 July 2025	0.5	12

[70] *Annual Wage Review 2017-18 Decision*, [38].

[71] *Annual Wage Review 2017-18 Decision*, [38].

[72] *Annual Wage Review 2018-29 Decision*, [391].

[73] Borland J., 'An assessment of the economic effects of COVID-19 – Version 1 (Research report 1/2021), p 21.

The Commission has a long history of making decisions on the basis of legislation in place at the time

The FWC and its predecessors have adopted a longstanding approach of making decisions on the basis of legislation in place at the time when a decision is made, rather than attempting to predict Government policy developments and Parliamentary outcomes.

This same point was submitted by Mr Kemppi, the ACTU's Legal and Industrial Officer, at a hearing on 17 March 2021 in AM2021/7 (Application to vary the Retail Award for Award Flexibility):

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> *And the last point, Your Honour, that I will make, may it please the commission, is the point on legislation that has been raised in the written submissions. As for that point, we say that there has been a very developed approach taken to the potential for legislation to interact with matters that might be afoot in the commission. And essentially speaking, the commission has declined to take into account that a particular legislative provision may change in the future, or may be legislated, or that there are competing policy provisions, or any of those sorts of things, because that is entering us into the entirely speculative realm of what happens in parliament as opposed to dealing with the law as we see it before us now. We say that the task is to deal with the law as it is right now. Your Honour has correctly adopted that approach on several occasions, and there's been no (indistinct) from employer representatives at the time, nor should there really be power. The fact that there could be legislation passed, if we were to say that is a reason not to press ahead with an urgent application to fix immediate need, then essentially what we would be saying is that all the government would have to do, or all an opposition for that matter would have to do to scuttle any case before the commission would be to say we're considering legislation in this area, and that would be sufficient for the commission to be disempowered from acting. And we say that would be an entirely unsatisfactory and completely absurd position to take, and we don't expect Your Honour to indeed take that position.*

On every occasion that the SG has increased, the Commission has taken the increase into account when determining minimum wage increases

There is a long history of the FWC and its predecessors taking into account increases in the SG when making decisions on minimum wages.

In its *Annual Wage Review 2012-13 Decision*, the Expert Panel agreed with submissions made by Ai Group that it would be consistent with the modern awards objective and the minimum wages objective to have regard to the increase in the SG from 9% to 9.25% which took effect on 1 July 2013. The Panel said:

> ***[355]*** *Ai Group and the NFF submitted that, while currently there is no specific legislative requirement to take into account the increase in the SG rate, this should not prevent the Panel*

from making it a consideration in its deliberations. Ai Group also argued that the objects of the Act, the modern awards objective and the minimum wages objective, support the view that such increases must be taken into account.

[356] *We agree with Ai Group's submission. Consistent with the objects of the Act, the modern awards objective and the minimum wages objective, we have had regard to the SG rate increase which takes effect from 1 July 2013 in our determination of the level of increase in minimum wages.*

[357] *While the effect of superannuation legislation on employers and employees is not specifically identified in the Act as a matter the Panel must consider, we have had regard to the increase in the SG rate to take effect from 1 July in coming to our decision in this Review. In our view, such an approach is consistent with the objects of the Act, the modern awards objective and the minimum wages objective and, in particular, the legislative requirements that we take into account:*

- *the special circumstances of small and medium-sized businesses (s.3(g));*
- *the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden (s.134(1)(f)); and*
- *the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth (s.284(1)(a)).*

[358] *In addition to the public benefit achieved by supporting retirement incomes through the superannuation system, SG contributions also constitute a deferred benefit to employees and a cost to employers. As we have mentioned, our characterisation of SG contributions distinguishes them from other non-wage labour costs. It follows that we do not accept the premise of the ACTU submission. Not every movement in non-wage labour costs will have a consequential effect on the level of minimum wage increase determined in a review.*

[359] *While we have taken the 0.25 per cent increase in the SG rate into account in determining the level of increase in minimum wages in the Review, we have not applied a direct, quantifiable, discount to the minimum wage increase, as proposed by Ai Group and the NFF. As we have noted, the AIRC decisions following the introduction of the SGC Acts provide no support for such an approach. Nor does the current legislative framework support such an approach. In reviewing modern award minimum wages and the NMW the Act requires us to have regard to a range of considerations. As we note in Chapter 2, there is a degree of overlap between the matters specified in the modern awards objective, the minimum wages objective and the objects of the Act. To the extent that these matters are of direct relevance to the Review, they may be grouped into three broad categories: economic; social; and collective bargaining. The range of considerations we are required to take into account calls for the exercise of broad judgment, rather than a mechanistic approach to minimum wage fixation.*

> ***[360]*** *The SG rate increase to apply from 1 July 2013 is a moderating factor in considering the adjustment that should be made to minimum wages. As a result, though it would not be appropriate to quantify its effect, the increase in modern award minimum wages and the NMW we have awarded in this Review is lower than it otherwise would have been in the absence of the SG rate increase.*

In the *Annual Wage Review 2013-14 Decision*, the Expert Panel similarly decided that it would be consistent with the objects of the Act, the modern awards objective and the minimum wages objective to take into account the increase in the SG from 9.25% to 9.5%, which took effect on 1 July 2014. The Panel said:

> ***[12]*** *The Superannuation Guarantee (Administration) Amendment Act 2012 increases the superannuation guarantee rate (SG rate) from 9 per cent to 12 per cent. The increase is to be phased in, commencing with increases of 0.25 percentage points on 1 July 2013 and 1 July 2014.*
>
> ***[13]*** *The Annual Wage Review 2012-13 decision (2012–13 Review decision) concluded that it was consistent with the statutory framework to have regard to the SG rate increase to take effect from 1 July 2013 in its determination of the level of increase in minimum wages. While the Panel took the 0.25 percentage point increase in the SG rate into account in determining the level of increase in minimum wages in the 2012–13 Review, it did not apply a direct, quantifiable, discount to the minimum wage increase. In the 2012–13 Review decision, the Panel said:*
>
> > *"The SG rate increase to apply from 1 July 2013 is a moderating factor in considering the adjustment that should be made to minimum wages. As a result, though it would not be appropriate to quantify its effect, the increase in modern award minimum wages and the NMW we have awarded in this Review is lower than it otherwise would have been in the absence of the SG rate increase."*
>
> ***[14]*** *In our view, such an approach is consistent with the objects of the Act, the modern awards objective and the minimum wages objective and, in particular, the legislative requirements that we take into account:*
>
> - *the special circumstances of small and medium-sized businesses (s.3(g));*
> - *the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden (s.134(1)(f)); and*
> - *the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth (s.284(1)(a)).*
>
> ***[15]*** *The 0.25 percentage point increase in the SG rate to take effect from 1 July 2014 is the second increase in the SG rate since the contribution rate reached 9 per cent on 1 July 2012. For the reasons given in the 2012–13 Review decision, we have decided to take the scheduled*

> *0.25 percentage point increase in the SG rate into account in our determination of the level of any minimum wage increase.*

The approach of the Expert Panel in the *Annual Wage Review 2012-13* and in the *Annual Wage Review 2013-14* is consistent with the approach that the Australian Industrial Relations Commission applied when the SG was progressively increased from 3% to 9% between 1992 and 2002. At this time, the *Industrial Relations Act 1988* (s.90A) and the *Workplace Relations Act 1996* (s.90A) expressly required that increases in the SG be taken into account in National Wage Case decisions.

Ai Group submits that the Expert Panel should adopt the same approach in the current Review as it adopted in the *Annual Wage Review 2012-13* and the *Annual Wage Review 2013-14* except that twice as much weight should be given to this year's increase because the SG increase is twice as large as it was in 2013 and 2014.

This approach will result in a minimum wage increase that is "*lower than it otherwise would have been in the absence of the SG rate increase".*[74]

11. Minimum wages for adults

As explained in Chapter 1 of this submission, Ai Group is pleased that the Expert Panel has called for five rounds of submissions in this year's Review. This timetable will enable Ai Group to assess the latest economic data before settling on a proposed quantum for any minimum wage increase. We will of course advise the Panel of our position on any minimum wage increase as soon as possible, but we believe that it would not be appropriate for us to propose any wage increase until the effects of the discontinuation of JobKeeper on 28 March 2021 are understood.

The quantum and timing of any minimum wage increase needs to take account of:

- The uncertain outlook for employment, economic growth and business insolvencies;
- The fact that some sectors have been extremely hard-hit by the pandemic and have not yet recovered to anything like pre-pandemic levels;
- The discontinuation of JobKeeper, HomeBuilder and other business support schemes;
- The minimum wage increase from last year's Annual Wage Review has only just been paid (on 1 February 2021) by employers in some sectors and it would be unfair for these employers to be required to pay another increase on 1 July 2021;
- Headline annual CPI is currently below 1% (i.e. 0.9%);
- The significant increases in disposable incomes of low paid employees due to the changes to taxation arrangements made in last October's Budget; and

[74] *Annual Wage Review 2012-13 Decision,* [360]; *Annual Wage Review 2013-14 Decision,*[13].

- The legislated 0.5% superannuation guarantee increase from 1 July which will deliver an important benefit to employees.

It is also important for the Panel to take into account that Australia already has the highest national minimum wage in the world (on a purchasing power parity basis).

We submit that there is no doubt that 'exceptional circumstances' exist this year for the purposes of ss.286(2) and 287(4) of the FW Act and, therefore, there can and should be a delayed operative date for any minimum wage increases in awards covering particular industry sectors.

The meaning of the expression 'exceptional circumstances' was considered in the *Annual Wage Review 2019-20 Decision*: (emphasis added)

> ***[259]*** *As to what may constitute 'exceptional circumstances' for the purposes of Part 2–6 of the Act and deferral of modern award minimum wage and NMW adjustments in particular, the Discussion paper observed that situations that may give rise to exceptional circumstances clearly are not confined to the natural disasters that have given rise to exemption or deferral claims in previous annual wage reviews. The Discussion paper proposed that:*
>
> > *'Construing the meaning of 'exceptional circumstances' in Part 2-6 may begin from the 'sensible working hypothesis' that it has the same meaning in Part 2-6 as in other parts of the Act. In considering the meaning of 'exceptional circumstances' as it appears in Part 3-1 of the Act, the Commission has found:*
> >
> > > *'the expression "exceptional circumstances" has its ordinary meaning and requires consideration of all the circumstances. <u>To be exceptional, circumstances must be out of the ordinary course, or unusual, or special, or uncommon but need not be unique, or unprecedented, or very rare … Exceptional circumstances can include a single exceptional matter, a combination of exceptional factors or a combination of ordinary factors which, although individually of no particular significance, when taken together are seen as exceptional</u>.'*

Last year, the Expert Panel was satisfied that 'exceptional circumstances' existed for those industry sectors covered by Group 2 Awards, justifying a delay in the operative date of award wage increases until 1 November 2020. The Panel was also satisfied that 'exceptional circumstances' existed for those industry sectors covered by Group 3 Awards, justifying a delay in the operative date of award wage increases until 1 February 2021.

Group 2 awards covered industry sectors adversely impacted by the pandemic, but not to the same extent as the sectors covered by the Group 3 awards. Group 3 awards covered the industry sectors most adversely affected by the pandemic, namely:

- Accommodation and food services;

- Arts and recreation services;
- Aviation;
- Retail trade;
- Tourism.

The 'exceptional circumstances' that exist this year justifying a delayed operative date for any minimum wage increase in awards covering particular industry sectors are two-fold:

Firstly, some industry sectors have been extremely impacted by the pandemic and have not yet recovered to anything like pre-pandemic levels.

Secondly, the delayed operative dates last year for award wage increases in particular sectors has result in the exceptional circumstance that employers would be being required to pay two wage increases in close succession, unless a further delayed increase is granted. The Panel alluded to this in the *Annual Wage Review 2019-20 Decision*:

> ***[192]*** *Finally, we also acknowledge that the different operative dates we have determined for the 3 award clusters may have implications for the timing of any variation in modern award minimum wages in the 2020–21 Review.*

The economic data supports the view that the industry sectors covered by Group 2 awards remain adversely impacted by the pandemic, but not to the same extent as the sectors covered by the Group 3 awards. In the circumstances, we propose an operative date of 1 September 2021 for any award wage increases for Group 2 awards. Last year, the minimum wage increase was delayed by four months. This year, we propose a delay of two months if the Panel awards a minimum wage increase. This would facilitate a smooth transition to a 1 July operative date for any minimum wage increase in Group 2 awards next year, if there are no ongoing 'exceptional circumstances'.

In addition, it is evident that the industry sectors covered by Group 3 awards remain highly impacted by the pandemic. Requiring employers in these sectors to pay a minimum wage increase in 2021 would not be in the interests of employers, employees or the broader community. For Group 3 awards, any minimum wage increase awarded by the Panel as a result of the 2020/21 review should be operative from 1 January 2022.

12. Special National Minimum Wage 1 and 2 for award/agreement free employees with disability

In its *Annual Wage Review 2019-20 Decision,* the Commission decided to maintain the approach it had adopted in previous years in respect of setting special minimum wages for award / agreement free employees with disability.[75]

[75] *Annual Wage Review Decision 2019-20*, [461] – [463].

This approach is twofold. For employees whose productivity is not affected, a special national minimum wage is set at the level of the National Minimum Wage (Special National Minimum Wage 1). For employees whose productivity is affected, a special national minimum wage is set in accordance with an assessment under the supported wage system (Special National Minimum Wage 2).

Ai Group supports the continuation of the existing structures for award / agreement free employees with disability in the *National Minimum Wage Order 2021.*

13. Special National Minimum Wage 3 for award / agreement free junior employees

In its *Annual Wage Review 2010-2011* decision, the Expert Panel decided to use the scale in the *Miscellaneous Award 2010* to set the special national minimum wage for award/agreement free junior employees. The Panel has followed this approach in subsequent Annual Wage Review decisions.

This approach remains appropriate for setting rates for award/agreement free junior employees.

14. Special National Minimum Wage 4 for award / agreement free apprentices

In its *Annual Wage Review 2013-2014 Decision*, the Expert Panel reached the following conclusions and decision on special national minimum wages for award / agreement free apprentices, consistent with Ai Group's submissions:

> ***[613]*** *We have decided to adopt the provisions of the Miscellaneous Award 2010 as the basis for the special national minimum wages for employees to whom training arrangements apply. The national minimum wage order will incorporate, by reference, the apprentice and NTWS provisions of that award.*
>
> ***[614]*** *We also accept Ai Group's submission that the adult apprentice national minimum wage in the order should now be set in accordance with the Miscellaneous Award 2010 which, since 1 January 2014, has specified a rate for adult apprentices…."*

The Panel adopted this approach in subsequent Annual Wage Reviews. This approach remains appropriate for setting rates for award/agreement free apprentices.

15. Special National Minimum Wage 5 for award / agreement free employees to whom a training arrangement applies who are not apprentices

In the *National Minimum Wage Order 2012*, the Expert Panel decided to adopt the minimum wage rates in the National Training Wage Schedule of the *Miscellaneous Award 2010* for the special national minimum wage for award / agreement free employees to whom training arrangements apply, other than apprentices. The Panel adopted the same approach in its subsequent Annual Wage Review decisions.

Ai Group supports the continuation of the above approach in the *National Minimum Wage Order 2021*.

16. Transitional instruments

In the *Annual Wage Review 2019-2020 Decision*, the Expert Panel decided to maintain the approach taken by the Panel in previous Annual Wage Reviews, by increasing the rates in relevant transitional instruments consistent with any increase determined for modern award minimum wages. Ai Group supports a continuation of this approach in the current Annual Wage Review.

17. Modern award minimum wages for junior employees

Consistent with previous Annual Wage Review decisions, any minimum wage increase resulting from this year's Annual Wage Review should flow through to the minimum award wages of junior employees, through the operation of the relevant award provisions relating to these employees.

18. Modern award minimum wages for employees to whom training arrangements apply

Consistent with previous Annual Wage Review decisions, any minimum wage increase resulting from this year's Annual Wage Review should flow through to the minimum award wages of employees to whom training arrangements apply, through the operation of the relevant award provisions relating to these employees.

19. Modern award minimum wages for employees with disability

Consistent with previous Annual Wage Review decisions, any minimum wage increase resulting from this year's Annual Wage Review should flow through to the minimum award wages of employees with disability, through the operation of the relevant award provisions relating to these employees.

The minimum weekly payment in the Supported Wage System Schedule in awards should be adjusted to reflect any increase to the disability pension's income free threshold. This is consistent with the Panel's decisions in previous years.

20. Piece rates in modern awards

Ai Group supports a flow on of any Review decision to piece rates, consistent with the existing approach within modern awards for the calculation of piece rates.

21. Casual loadings in modern awards

Paragraphs 285(2)(a)(i) and 284(3)(b) of the FW Act requires that the Expert Panel review casual loadings in modern awards.

In the *Metal Industry Casual Employment Case*,[76] a Full Bench of the Australian Industrial Relations Commission (**AIRC**) decided to increase the casual loading in the *Metal, Engineering and Associated Industries Award 1998* from 20% to 25%.

After the *Metal Industry Casual Employment Decision* was handed down, the 25% quantum flowed into many other awards. During the Award Modernisation process in 2008-09, the Award Modernisation Full Bench of the AIRC in the *Priority Stage Award Modernisation Decision*[77] relevantly said: (emphasis added)

> ***[49]*** *In 2000 a Full Bench of this Commission considered the level of the casual loading in the Metal, Engineering and Associated Industries Award 1998 (the Metal industry award). The Bench increased the casual loading in the award to 25 per cent. The decision contains full reasons for adopting a loading at that level. The same loading was later adopted by Full Benches in the pastoral industry. It has also been adopted in a number of other awards. Although the decisions in these cases were based on the circumstances of the industries concerned, we consider that the reasoning in that case is generally sound and that the 25 per cent loading is sufficiently common to qualify as a minimum standard.*
>
> ***[50]*** *In all the circumstances we have decided to confirm our earlier indication that we would adopt a standard casual loading of 25 per cent. We make it clear that the loading will compensate for annual leave and there will be no additional payment in that respect. Also, as a general rule, where penalties apply the penalties and the casual loading are both to be calculated on the ordinary time rate."*

[76] Print T4991, 29 December 2000.

[77] [2008] AIRCFB 1000.

The current standard casual loading in modern awards of 25 per cent is already relatively high and should not be increased.

22. Casual loading for award / agreement free employees

Paragraph 294(1)(c) of the FW Act requires that the Expert Panel set the casual loading for award / agreement free employees.

The casual loading in the *National Minimum Wage Order 2020* is 25 per cent, and a similar loading should be reflected in the *National Minimum Wage Order 2021*.

23. The form of the National Minimum Wage Order

In Ai Group's experience, the form of the *National Minimum Wage Order 2020* did not lead to any difficulties. We suggest that the same model is used for the *National Minimum Wage Order 2021.*

24. Request to participate in the final consultations on 19 May 2021

The Timetable for the Annual Wage Review 2020-21 states that parties wishing to participate in the final consultations are requested to express interest by 7 May 2021.

Ai Group hereby advises that it wishes to participate in the final consultations on 19 May 2021.

ABOUT THE AUSTRALIAN INDUSTRY GROUP

The Australian Industry Group (Ai Group®) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We are a truly national organisation which has been supporting businesses across Australia for nearly 150 years.

Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, ICT, transport & logistics, engineering, food, labour hire, mining services, the defence industry and civil airlines.

Our vision is for thriving industries and a prosperous community. We offer our membership strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders (domestic and international) we have the resources and the expertise to meet the changing needs of our membership. Our deep experience of industrial relations and workplace law positions Ai Group as a leading industrial advocate.

We listen and we support our members in facing their challenges by remaining at the cutting edge of policy debate and legislative change. We provide solution-driven advice to address business opportunities and risks.

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