



GOVERNMENT OF
WESTERN AUSTRALIA

Fair Work Commission

2021-22 Annual Wage Review

**Submission of the
Government of Western Australia**

1 April 2022

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Western Australian Government

Submission to Annual Wage Review 2021-22

Introduction

1. The Western Australian Government welcomes the opportunity to make a submission to the Expert Panel of the Fair Work Commission (**the Panel**) for the 2021-22 Annual Wage Review (**AWR**).
2. The AWR plays an essential role in the maintenance of a strong and principled framework of minimum wage protections. The granting of regular wage increases for Australia's most vulnerable workers is a critical part of the nation's industrial relations framework, assisting low and middle earners to achieve and maintain an adequate standard of living.
3. Pursuant to section 284 of the *Fair Work Act 2009*, the Panel is tasked with balancing a diverse range of statutory criteria to 'establish and maintain a safety net of fair minimum wages' (the 'minimum wages objective'), including:
 - (a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and
 - (b) promoting social inclusion through increased workforce participation; and
 - (c) relative living standards and the needs of the low paid; and
 - (d) the principle of equal remuneration for work of equal or comparable value; and
 - (e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.
4. In adjusting rates of pay in awards, the Panel is also required to have regard to the 'modern awards objective', which requires that it ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions.¹ Further, the Panel must take into account the objects of the *Fair Work Act* in performing its functions or exercising its powers, including the AWR.²
5. This submission addresses a variety of social, economic and employment related considerations relevant to the Panel's deliberations, with a particular focus on issues affecting Western Australian employers and employees.

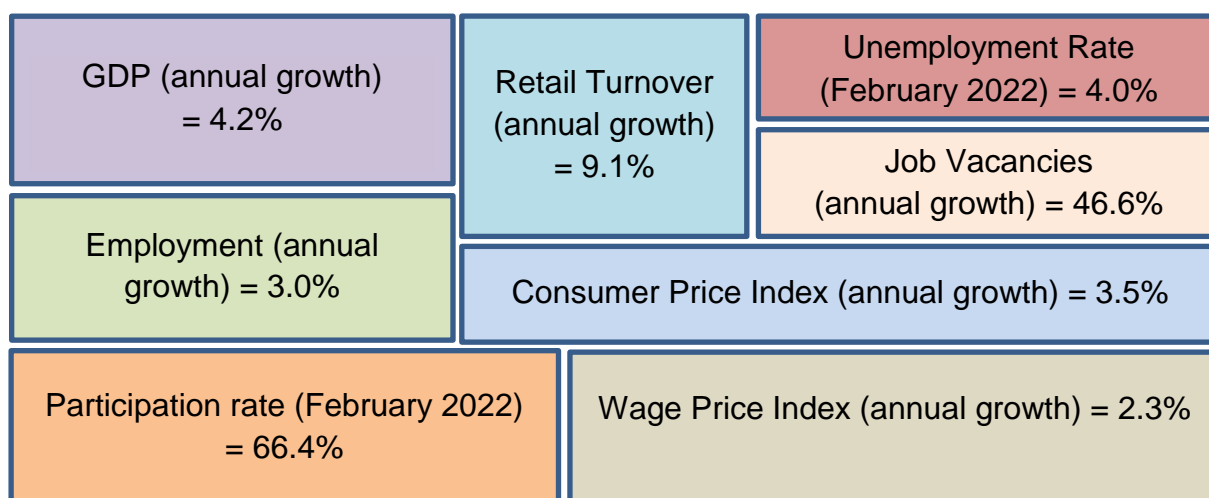
¹ Section 134 of the *Fair Work Act 2009*.

² Section 578(a) of the *Fair Work Act 2009*.

Overview

6. The Western Australian Government encourages the Panel to award a meaningful pay increase to minimum and award wage earners in this year's AWR that rewards and protects their interests and maintains a fair and relevant minimum safety net for Australia's lowest paid workers.
7. The panel should continue to adopt a balanced approach when assessing the disparate criteria it is required to consider as part of the AWR. This includes having due regard for relevant social and equity considerations in addition to the economic objectives contained within the *Fair Work Act*.
8. In 2021 the Panel awarded a 2.5 per cent increase in minimum and award wages as part of the AWR. For most awards this increase took effect from the first pay period on or after 1 July 2021, however a deferred implementation date applied to a small number of awards in industries most impacted by the COVID-19 pandemic. The Western Australian Government submits this was a fair and considered outcome in the prevailing climate.
9. A variety of global and domestic uncertainties are currently weighing on the Australian community, including cost of living increases, high fuel prices, widespread flooding on the East Coast, the outbreak of the Omicron variant of COVID-19 and geo-political conflict in Ukraine. Materials shortages and supply chain disruptions are also affecting many businesses, including a 24 day shutdown of the transcontinental rail line linking Western Australia to the Eastern States.
10. Notwithstanding the above challenges, the Australian economy continues to display considerable resilience, with low unemployment and high levels of workforce participation underpinning a tight labour market. In turn, this has given rise to skills shortages and high levels of job vacancies in a number of industries.

Australia's economic performance at a glance ³



³ All figures are current as at 1 April 2022.

Western Australian economy

11. While the *Fair Work Act* requires the Panel to consider the state of the national economy in its AWR deliberations, it is relevant to consider prevailing conditions in individual States and Territories as part of these proceedings.
12. Western Australia makes a significant contribution to the national economy, contributing approximately half of Australia's exports of goods each year, including minerals, petroleum, agri-food and specialised manufactured goods.
13. Western Australia's economy continues to perform strongly. The State's economy, as measured by Gross State Product (GSP), expanded by 2.6 per cent in 2020-21, and is forecast to grow by 3.5 per cent in 2021-22.⁴ This was underpinned by a very strong domestic economy, as measured by State Final Demand (SFD), which grew by 4.4 per cent - the highest rate of growth since 2012-13.⁵ SFD is forecast to grow by 5.0 per cent in 2021-22, before growth moderates to 2.0 per cent and 2.5 per cent in 2022-23 and 2023-24 respectively.⁶
14. In line with national trends, labour market conditions in WA have tightened significantly in recent months, with stronger than anticipated employment levels and a large decline in the unemployment rate, while job vacancies are around the highest levels in a decade.
15. Reflecting stronger hiring conditions in the year to date, employment is now forecast to increase by 3.75 per cent in 2021-22, the strongest annual growth in a decade.⁷ Despite persistently strong demand for labour, the availability of suitable workers is expected to moderate employment growth in the near term.
16. In line with stronger employment growth and a tight labour market, the unemployment rate is forecast to remain low, averaging 4.25 per cent in 2021-22 and 2022-23, before declining further to 4.0 per cent by 2023-24.⁸
17. Robust hiring conditions have seen more people join the workforce, with the participation rate exceeding pre-COVID-19 rates. With higher employment and lower unemployment rate forecasts, the participation rate is expected to average 68.6 per cent in 2021-22 and 2022-23.⁹
18. A more in-depth analysis of Western Australia's economic performance is detailed in **Attachment A**. It should be noted the forecasts contained in Attachment A are from the 2021-22 Mid-year Review, which was finalised before recent significant events including the outbreak of Omicron in the Eastern States, the closure of the east-west rail line, the more recent pick-up in Omicron cases in Western Australia, and the outbreak of conflict in the Ukraine. Updated forecasts will be published in the 2022-23 Budget, to be released in May 2022.

⁴ Department of Treasury (2021), *2021-22 Government Mid-year Financial Projections Statement*.

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

Table 1: ECONOMIC FORECASTS¹⁰
Western Australia, Annual Growth (%)

| | 2020-21 Actual | 2021-22 Budget Estimate | 2021-22 Mid-year Revision | 2022-23 Forward Estimate | 2023-24 Forward Estimate | 2024-25 Forward Estimate |
|--|--------------------|-------------------------------|---------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Demand and Output ^(a) | | | | | | |
| Household Consumption | 2.6 | 2.5 | 2.75 | 2.25 | 3.0 | 2.5 |
| Dwelling Investment | 2.4 | 27.25 | 23.5 | -16.25 | -1.75 | 6.75 |
| Business Investment | 4.6 | 9.75 | 8.5 | 8.0 | 1.25 | 0.75 |
| Government Consumption | 6.3 | 1.75 | 1.75 | 1.25 | 2.5 | 2.5 |
| Government Investment | 4.0 | 17.0 | 18.0 | 4.5 | 2.5 | 0.5 |
| State Final Demand | 4.4 | 5.0 | 5.0 | 2.0 | 2.5 | 2.25 |
| Merchandise Exports | 0.6 | 2.25 | 1.75 | 1.0 | 0.5 | 0.25 |
| Merchandise Imports | 4.7 | 4.75 | 3.25 | 3.0 | 1.75 | 1.5 |
| Net Exports ^(b) | 1.1 | 1.25 | 1.5 | -0.75 | -1.0 | -0.5 |
| Gross State Product ^(c) | 2.6 | 3.5 | 3.5 | 1.0 | 1.25 | 1.5 |
| Labour market | | | | | | |
| Employment | 1.8 | 2.5 | 3.75 | 1.25 | 1.25 | 1.25 |
| Unemployment Rate ^(d) | 6.1 | 4.75 | 4.25 | 4.25 | 4.0 | 4.0 |
| Participation Rate ^(d) | 68.0 | 68.2 | 68.6 | 68.6 | 68.3 | 68.1 |
| Population | | | | | | |
| Population | 0.8 ^(e) | 0.7 | 0.8 | 1.0 | 1.3 | 1.4 |
| Working Age Population (15+) | 1.1 ^(e) | 0.8 | 0.9 | 1.2 | 1.5 | 1.7 |
| Prices | | | | | | |
| Consumer Price Index ^(f) | 1.6 | 1.75 | 2.5 | 2.0 | 2.25 | 2.25 |
| Wage Price Index | 1.5 | 2.25 | 2.5 | 2.75 | 2.75 | 2.75 |
| Median House Price | 3.6 | 3.2 | 6.2 | 0.5 | 2.4 | 2.1 |
| Other key parameters ^(d) | | | | | | |
| Exchange Rate \$US/\$A (US cents) | 74.7 | 73.8 | 72.7 | 71.3 | 69.6 | 67.8 |
| Iron Ore Price (\$US/t) cost and freight inclusive (CFR) | 154.5 | 121.3 | 104.9 | 66.0 | 66.0 | 66.0 |
| Crude Oil Price (\$US/barrel) | 54.6 | 71.0 | 77.6 | 73.3 | 69.8 | 67.5 |

(a) Based on 2020-21 annual State Accounts data, updated with the latest State Final Demand and Balance of Payments data for the September quarter 2021.

(b) Net exports include international trade in both goods and services.

(c) Forecasts for ownership transfer costs, international trade in services and the balancing item are not separately reported.

(d) Data expressed as annual average during the financial year.

(e) Estimated actual.

(f) The CPI growth rate in 2021-22 is based on the total index excluding the electricity sub-index.

¹⁰ WA Department of Treasury (2021), *2021-22 Government Mid-year Financial Projections Statement*, p.39.

Employees impacted by Annual Wage Review

Employees paid in accordance with awards

19. The Western Australian Government notes that award-reliance in Australia has increased in recent years, in line with a general reduction in the incidence of enterprise bargaining.
20. As at May 2021, approximately 2.66 million Australian employees were paid exactly in accordance with an award, representing some 24.7 per cent of all non-managerial employees.¹¹ While this figure includes a cohort of employees subject to state awards in their respective jurisdictions (including some private sector employees in Western Australia), the vast majority of award only employees are subject to national modern awards.
21. In Western Australia, 19.6 per cent of all non-managerial employees were paid exactly in accordance with an award in 2021, representing some 234,200 employees.¹² This represents a significant increase in award reliance between 2018 and 2021, albeit award reliance in Western Australia remains well below the national average. A majority of award reliant employees in Western Australia are also covered by national modern awards.¹³
22. Award-reliant employees are especially dependent on pay increases determined through the AWR to meet their cost of living, particularly given many temporary government initiatives introduced to cushion the financial impact of COVID-19 on households at the start of the pandemic have now concluded.
23. As demonstrated in Table 1 below, over 37 per cent of all Western Australian employees work in the five most award-reliant industries, reinforcing the important role the AWR plays in fostering improved financial wellbeing for affected workers.

¹¹ ABS (2022), *Employee, Earnings and Hours, Australia, May 2021*, Catalogue 6306.0.

¹² Ibid.

¹³ Most of these employees would be employed by 'constitutional corporations' (foreign, financial and trading corporations).

Table 2: Employment and award reliance by industry - WA and Australia, February 2022

| Industry | WA: Proportion of Workforce ¹⁴ | Australia: Proportion of Workforce ¹⁴ | Australia: Proportion of employees paid by award ¹⁵ |
|---|---|--|--|
| Accommodation and Food Services | 6.4% | 6.6% | 63.0% |
| Administrative and Support Services | 3.1% | 3.1% | 44.9% |
| Other Services | 4.2% | 3.9% | 42.1% |
| Health Care and Social Assistance | 13.4% | 15.1% | 34.3% |
| Retail Trade | 10.3% | 9.6% | 30.8% |
| Arts and Recreation Services | 1.7% | 1.7% | 28.3% |
| Rental, Hiring and Real Estate Services | 1.6% | 1.7% | 25.3% |
| Manufacturing | 5.1% | 6.3% | 21.1% |
| Construction | 8.9% | 8.6% | 15.8% |
| Transport, Postal and Warehousing | 5.2% | 5.1% | 14.0% |
| Public Administration and Safety | 6.6% | 6.7% | 13.5% |
| Wholesale Trade | 2.4% | 2.4% | 11.1% |
| Information Media and Telecommunications | 1.2% | 1.6% | 8.0% |
| Education and Training | 7.4% | 8.3% | 8.0% |
| Professional, Scientific and Technical Services | 7.8% | 9.5% | 6.6% |
| Electricity, Gas, Water and Waste Services | 1.1% | 1.3% | 6.1% |
| Financial and Insurance Services | 2.5% | 4.2% | 5.5% |
| Mining | 9.0% | 2.1% | 1.1% |
| Agriculture, Forestry and Fishing | 2.2% | 2.2% | N/A [†] |
| All industries | 100.0% | 100.0% | 24.7% |

[†] N/A: Enterprises primarily engaged in agriculture, forestry and fishing are outside the scope of the ABS *Employee, Earnings and Hours* survey from which this data is drawn.

24. The Western Australian Government notes the particularly high level of award reliance in three of Australia's largest employing industries – Health Care and Social Assistance, Retail Trade and Accommodation and Food Services – and contends that a meaningful increase in award wages is important if such employees are to maintain a reasonable standard of living.

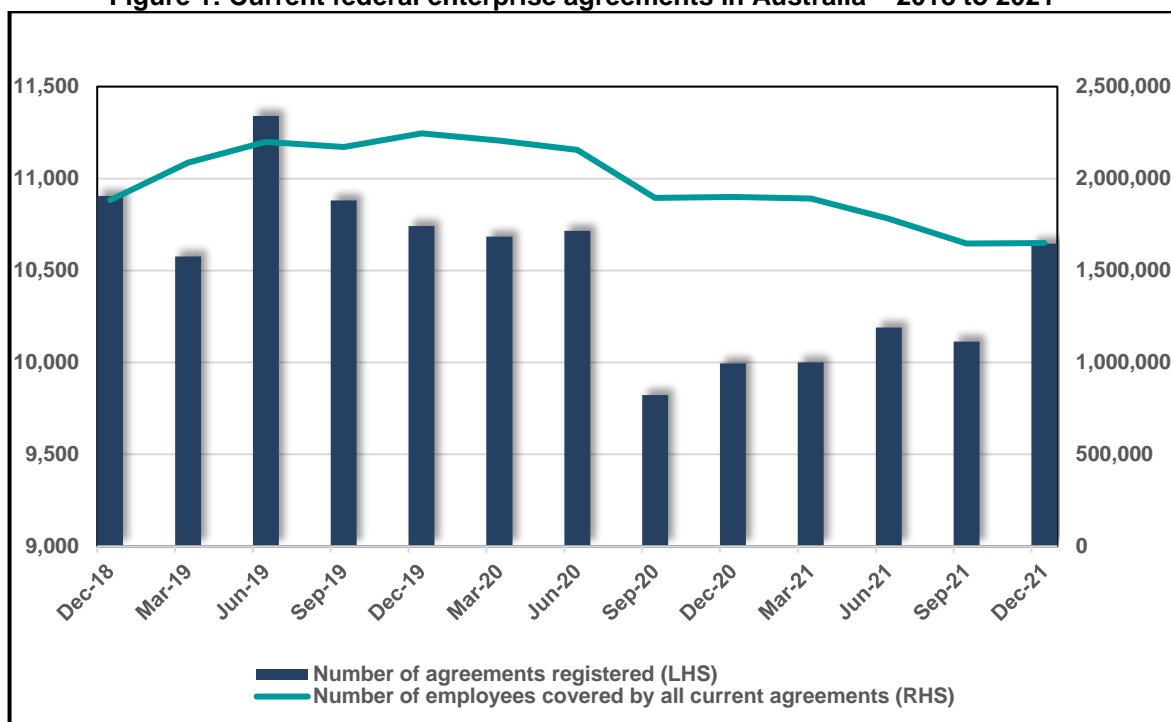
¹⁴ ABS (2022), *Labour Force, Australia, Detailed, February 2022*, Catalogue 6291.0.55.001 (original data). The share of the Western Australian workforce employed in most industries is lower than it is at the national level due to the significance of the Mining industry in the State.

¹⁵ ABS (2022), *Employee Earnings and Hours, Australia, May 2021*, Catalogue 6306.0.

Employees paid under enterprise agreements

25. In recent years the number and proportion of employees working under federal enterprise agreements has gradually declined. This is evidenced by data from the Commonwealth Attorney General's Department, which indicates the number of current federal enterprise agreements in operation declined from 10,905 in the December quarter 2018 to 10,646 in the December quarter 2021. Similarly, the total number of employees covered by these agreements has also fallen over the same period, from 1,883,100 to 1,650,100.¹⁶

Figure 1: Current federal enterprise agreements in Australia – 2018 to 2021¹⁷



26. Western Australia has witnessed a reduction in the number of federal enterprise agreements operating solely within the State, with the number of current agreements falling from 1,077 in the December quarter 2018 to 910 in the December quarter 2021. The number of employees covered by these agreements has also declined, falling from 109,800 to 86,800 over the same period.¹⁸
27. Wages growth in federal enterprise agreements applying within Western Australia continues to be modest, with the Average Annualised Wage Increase (**AAWI**) in all current agreements sitting at 2.0 per cent in the December quarter 2021. This is a slight increase on previous quarters, with the AAWI for all current agreements in Western Australia remaining constant at 1.9 per cent in every quarter between March 2019 and September 2021.¹⁹

¹⁶ Department of the Attorney General (2021), *Trends in Federal Enterprise Bargaining Report*, December Quarter 2021.

¹⁷ Ibid.

¹⁸ Ibid. This figure excludes Western Australian employees working under multi-state agreements.

¹⁹ Ibid.

28. However, there are recent signs that aggregate wages growth is starting to pick up in Western Australia, with the State's Wage Price Index (WPI) rising by 0.8 per cent and 0.5 per cent in the September and Decembers quarters of 2021 respectively.²⁰
29. National modern awards play a critical role in underpinning the federal enterprise bargaining system. Awards perform a dual role in establishing the benchmark for agreement registration through the Better Off Overall Test (**BOOT**), as well as setting a floor through which wages cannot fall below during the life of an agreement.²¹ Consequently, the impact of the AWR extends to many employees subject to federal enterprise agreements. While this effect will be indirect in many cases, it is known that a number of federal enterprise agreements peg future pay rises to award wage increases in the AWR.
30. The Western Australian Government also notes that many legacy (or 'zombie') agreements continue to operate within the national industrial relations system, including some that pre-date the introduction of the *Fair Work Act* and which would not pass a BOOT against the relevant national modern award if such an exercise were undertaken.
31. Employees subject to legacy agreements are particularly reliant on the increases awarded in the AWR, as this is often the only means by which the base rates of pay underpinning such agreements are periodically reviewed.
32. The national award system therefore continues to play a pivotal role in underpinning Australia's enterprise bargaining framework.

Employees covered by individual arrangements

33. The National Minimum Wage Order does not directly affect employees working under individual arrangements providing for above award rates of pay. However, the Western Australian Government notes that it is not uncommon for contracts of employment to include provisions linking future wage increases to movements in the National Minimum Wage (**NMW**) or modern award wages.
34. As the Panel noted in the 2018-19 AWR:

In addition to these employees, the Panel's decision is also likely to affect those paid close to the NMW rate or a modern award minimum wage rate, workers whose pay is set by a collective agreement which is linked to the outcomes of the Review, as well as workers whose pay is set by individual arrangements which are referenced to an award rate. According to the RBA, the wages of a further one-fifth of employees are linked to changes in the NMW or modern award minimum wages in their collective agreements or individual arrangements. Research undertaken for the Commission found that 21 per cent of employees in non-public sector organisations were on 'over-award' arrangements—that is, where the wage is set, influenced or guided in some way by the applicable award rate.²²

²⁰ ABS (2022), *Wage Price Index, Australia*, Catalogue 6345.0. Data represents total hourly rates of pay excluding bonuses, public and private sectors combined.

²¹ Pursuant to section 206 of *Fair Work Act 2009* base wages in enterprise agreements cannot fall below the base rates of pay in any national modern award that is applicable to the employee.

²² Fair Work Commission (2019), *Annual Wage Review 2018-19*, at [207].

- 35. The research referred to in the above quote suggests the Panel’s decision is likely to extend to a significant number of employees who are working under individual arrangements, including those being paid over-award rates of pay. Additionally, contracts of employment that provide for wage rates only marginally above the relevant award minima may be impacted by any decision the Panel makes in this year’s AWR.
- 36. As Figures 2 and 3 illustrate, award reliance is lower in Western Australia than it is nationally, with a larger proportion of the State’s workforce being paid under individual arrangements and collective agreements.

Figure 2: Method of setting pay - WA - May 2021²³

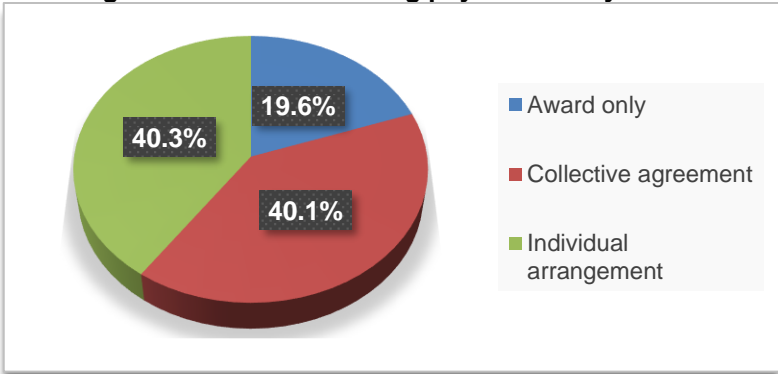
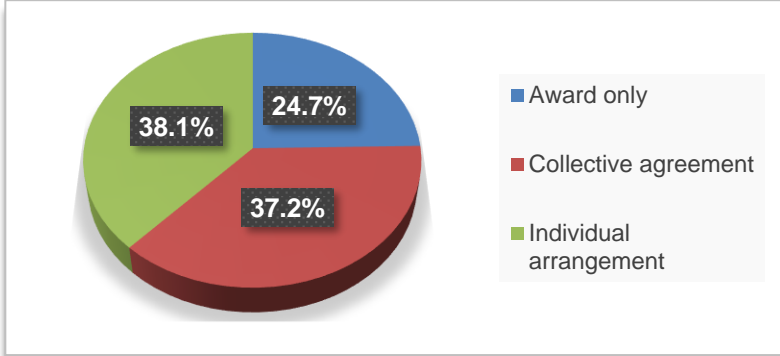


Figure 3: Method of setting pay – Australia - May 2021²⁴



²³ ABS (2022), *Employee Earnings and Hours, Australia, May 2021*, Catalogue 6306.0.

²⁴ Ibid.

Further considerations

Promoting social inclusion through increased workforce participation

37. The statutory criteria the Panel is required to consider in meeting the minimum wages objective includes “promoting social inclusion through increased workforce participation”.
38. The Western Australian Government notes the national participation rate continues to strengthen, rising to a record high of 66.4 per cent in February 2022, after falling to a low of 62.6 per cent in May 2020 (the lowest rate in more than 20 years).²⁵
39. In contrast to the experience in some advanced economies, labour force participation in Australia has remained highly resilient throughout the pandemic, tracking well above pre-pandemic levels.²⁶
40. While the participation rate is influenced by a variety of factors, increases to minimum and award wages can help to encourage people into the labour force, particularly those from traditionally disadvantaged cohorts, such as older workers, youth and people with a disability. The Western Australian Government contends this is particularly relevant in the present climate, with many industries experiencing an acute shortage of labour.
41. Higher levels of workforce participation have a number of tangible benefits for the Australian community. Greater participation in paid employment helps to lift household disposable incomes and provides enhanced short term and long term financial security for these households.
42. Increased labour force participation can also help to foster a degree of community cohesion, enabling low paid workers and their families to participate in social activities that are beneficial to their wellbeing.
43. In line with high workforce participation, total employment in Australia has steadily risen since mid-2020, coinciding with the easing of restrictions associated with the pandemic and a significant labour shortage in many industries. Aggregate national employment now sits well above levels seen at the start of the pandemic, with 13.37 million persons employed as at February 2022.²⁷
44. Unemployment has declined markedly in recent times, commensurate with the current tight labour market conditions. The national unemployment rate fell to 4.0 per cent in February 2022, the lowest rate in more than 13 years, and the equal lowest level since the early 1970s.²⁸
45. The panel can assist in the promotion of increased workforce participation (and increased social inclusion) by awarding a meaningful increase in this year’s AWR.

²⁵ ABS (2022), *Labour Force, Australia, February 2022*, Catalogue 6202.0 (seasonally adjusted data).

²⁶ Refer to Phillip Lowe (2022), [Recent Economic Developments](#) – speech to the AFR Business Summit, 9 March 2022.

²⁷ ABS (2022), *Labour Force, Australia, February 2022*, Catalogue 6202.0 (seasonally adjusted data).

²⁸ Ibid.

Collective bargaining

46. In satisfying the modern awards objective, the Panel is required to consider the need to encourage collective bargaining.²⁹

47. In last year's AWR the Panel noted:

Consistent with the views expressed by the majority in the 2019–20 Review decision, we accept that there has been a decline in current enterprise agreements, but a range of factors impact on the propensity to engage in collective bargaining, many of which are unrelated to increases in the NMW and modern award minimum wages.³⁰

48. The Western Australian Government concurs there are a range of diverse factors that impact the propensity to engage in collective bargaining, many of which are unrelated to increases in minimum and award wages. There is no evidence to suggest the level of pay increases awarded by the Panel in recent years has affected the propensity to engage in collective agreement making.

Equal remuneration

49. A further consideration in both the modern awards objective and the minimum wages objective is the need to promote the principle of equal remuneration for work of equal or comparable value.

50. As the Panel observed in last year's AWR Decision:

We also note that women are more likely to be in low-paid employment and to be paid at the award rate. Further, higher-paid award-reliant employees are more likely to be female (58.7 per cent) than male (41.3 per cent).³¹

51. The Western Australian Government submits that the higher incidence of award reliance amongst female employees highlights why the AWR process, involving annual adjustments to minimum and award wages, still plays an important role in gender pay equity considerations.

52. As at November 2021, the gender pay gap (as measured by Average Weekly Ordinary Time Earnings (**AWOTE**)) was 21.2 per cent in Western Australia and 13.8 per cent nationally.³²

²⁹ Section 134(1)(b) of the *Fair Work Act 2009*.

³⁰ Fair Work Commission (2021), *Annual Wage Review 2020-21*, at [160].

³¹ *Ibid*, at [163].

³² ABS (2022), *Average Weekly Earnings, Australia, November 2021*, Catalogue 6302.0 (seasonally adjusted data).

Table 3: Gender Pay Gap – by State / Territory – November 2021³³

| State / Territory | Male AWOTE | Female AWOTE | Gender Pay Gap |
|-------------------|------------|--------------|----------------|
| NSW | \$1,848.10 | \$1,627.20 | 12.0% |
| VIC | \$1,862.10 | \$1,596.60 | 14.3% |
| QLD | \$1,775.60 | \$1,498.50 | 15.6% |
| SA | \$1,631.40 | \$1,510.30 | 7.4% |
| WA | \$2,045.90 | \$1,611.60 | 21.2% |
| TAS | \$1,596.30 | \$1,450.60 | 9.1% |
| NT | \$1,795.00 | \$1,576.10 | 12.2% |
| ACT | \$2,052.90 | \$1,890.10 | 7.9% |
| AUS | \$1,846.50 | \$1,591.20 | 13.8% |

53. As has been the case for some time, Western Australia maintains a gender pay gap higher than that in other States and Territories, in part due a concentration of men in certain highly paid industries. Notwithstanding this, the State's gender pay gap has narrowed in the past 12 months.
54. The gender pay gap is a product of many complex structural and societal factors, not all of which can be addressed through the AWR. Nonetheless, regular increases in minimum pay rates can play an important role in helping to counter gender pay inequality.
55. The Western Australian Government notes that Australian women also retire with substantially lower average savings than men, and are at greater risk of poverty later in life.³⁴ Meaningful adjustments to minimum and award wages are therefore important for many Australian women, not only to maintain a dignified standard of living during their working lives, but to achieve greater financial security in retirement.

³³ Ibid.

³⁴ For further information see the Final Report of the Commonwealth Government's *Retirement Income Review*, available at <https://treasury.gov.au/publication/p2020-100554>.

Conclusion

56. The Australian economy continues to display considerable resilience, notwithstanding the many global and domestic challenges currently taking place. Conditions in Western Australia are similarly buoyant, with robust economic growth and a tight labour market contributing to labour and skills shortages in a number of sectors.
57. The Western Australian Government contends the prevailing conditions should give the Panel confidence to award a meaningful increase in this year's AWR, something that will help to ease cost of living pressures on Australian workers and their families and make a material difference to their wellbeing.
58. Increased levels of award reliance in recent years mean the Panel's decision in adjusting the NMW and modern award wages has assumed a greater significance for the nation's workforce, particularly when taking into account those employees who are indirectly affected by the AWR.
59. The AWR process also plays a pivotal role in fulfilling a number of social equity objectives, including encouraging increased social inclusion and the promotion of equal remuneration for work of equal or comparable value. Such considerations are an integral part of the 'fair go' ethos that underpins Australia's industrial relations framework, and should continue to feature prominently in the Panel's deliberations.
60. Without an equitable increase in this year's AWR, some award reliant workers will inevitably struggle to make ends meet, placing them and their families at greater risk of financial hardship, and reducing their spending power in the economy.
61. The Panel's decision last year was beneficial for many low paid workers, maintaining the real value of their wages during a period of significant uncertainty, without adversely affecting Australian businesses.
62. The Western Australian Government encourages the Panel to again award a meaningful increase in this year's AWR that protects and furthers the needs of Australian workers, while balancing the interests of employers and industry.
63. The Western Australian Government thanks the Panel for the opportunity to make a submission to this year's AWR.

ATTACHMENT A

State Economic Conditions

The economic outlook presented in this attachment is based on the 2021-22 Government Mid-year Financial Projections Statement (Mid-year Review) published on 16 December 2021.

The Mid-year Review was published prior to the widespread community transmission of COVID-19 in the State, though the economic impact of the current Omicron strain of COVID-19 is not anticipated to be extensive, at least in aggregate terms.

SUMMARY

The Western Australian (WA) economy has more than recovered from a fall in activity at the onset of the COVID-19 pandemic. The State's relatively positive health outcomes and the low levels of restrictions (both of which were supported by controlled borders while the vaccination rate picked-up), together with strong, and largely uninterrupted, exports sector, underpinned overall growth in the WA economy (as measured by Gross State Product, GSP) of 1.0% in 2019-20 and 2.6% in 2020-21. The economy grew over 2019-20, notwithstanding the largest quarterly fall in the State's domestic economy on record in the June quarter 2020 (-5.9%, as measured by State Final Demand, SFD).

The 2021-22 Mid-year Review forecasts the State's economic growth to strengthen to 3.5% buoyed by strong household consumption. At Mid-year Review, household consumption was forecast to grow by 2.75% in 2021-22. Household spending increased by 6% in 2021, supported by household goods and domestic retailing (including purchases of vehicles). The available evidence indicates that spending has remained robust into 2022, and sufficiently so that there is upside risk to the forecast for household spending in the near term.

The labour market in WA has been stronger than anticipated at Mid-year Review, with employment at record levels in February 2022 and the unemployment rate averaging 4% in 2021-22 to date (and falling as low as 3.4% in December 2021). This has coincided with record levels of workforce participation (with the participation rate reaching a record 70% in February) as more people have been encouraged to join the labour market.

The State's international and interstate borders re-opened in early March, which should see visitors and migration return. The Mid-year Review forecasts population growth to lift in each year of the forecast period from 0.8% in 2021-22 to 1.4% by 2024-25.

While a diminished pool of available labour and elevated levels of job vacancies have led to the tightest labour market conditions in many years, this has yet to be materially reflected in wages growth, as measured by the Wage Price Index (WPI), which grew by just 1.7% in 2021. Despite subdued wages growth, inflation (as measured by growth in the Perth Consumer Price Index) strengthened to 3.5% in 2021.

Recent data releases indicate that conditions in the State's labour market will be more favourable than forecast in the Mid-year Review. Employment growth and workforce participation are likely to be stronger than forecast, coinciding with a lower than anticipated unemployment rate. A tighter labour market is still expected to place upward pressure on wages and inflation in the near term.

The State's economic outlook is subject to several potential risks. With community transmission of COVID-19 now more widespread than ever before, some uncertainty remains about how the State will transition from a pandemic state to a 'new normal' state. The potential for new variants and the 2022 winter flu season also pose risks.

Economic conditions in WA rely heavily on the outlook of our major trading partner, China, which has recently experienced outbreaks of the Omicron variant, and is taking a 'lock-down' approach to restrict its transmission. This has the potential to restrict economic growth which would reduce demand for the State's exports. There is further international risk from developments in the ongoing conflict in Ukraine, which has seen international energy prices surge and may lead to more protracted inflationary pressures.

Overall, inflation has risen globally as well as domestically. The Reserve Bank of Australia (RBA) has indicated that it may increase interest rates sooner than it previously anticipated (in 2024). The prospect of increased borrowing costs presents some risk to the outlook for household spending, though many households have been able to build a savings buffer or pay down debt during the pandemic.

Labour and supply-chain disruptions have impacted activity, most notably new dwelling investment, over the period since COVID-19 commenced. Within the residential construction sector, ongoing shortages have resulted in extended build times and escalating costs. Any additional disruptions could result in build times being stretched further.

While the State’s borders are now open, there is considerable uncertainty about the pace of recovery in the State’s tourism and international education sectors. The uncertainty is exacerbated by the likelihood that businesses may make greater use of online tools to meet instead of travelling to meet in person.

Further details on key parts of the State’s economy follow.

NATIONAL ACCOUNTS DATA

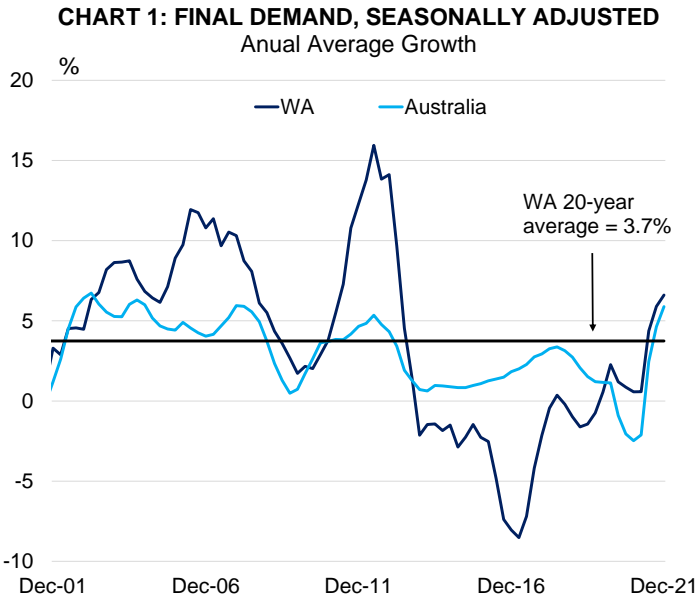
The latest estimate of GSP (released by the Australian Bureau of Statistics (ABS) in November 2021) shows that Western Australia’s economy grew by 2.6% in 2020-21 following 1% growth in 2019-20. Growth in 2020-21 was underpinned by increases in household consumption, government spending, and business investment.

On an industry basis, the main contributor to Western Australia’s GSP in 2020-21 was predominantly mining, which made up 42.5% of Gross Value Added in the economy (the second largest share on record). However, contributions to economic growth in 2020-21 were broad-based, with the other strong contributions coming from ‘agriculture’, ‘manufacturing’ and ‘health care and social assistance’. The largest detractor was the transport industry, in line with diminished activity in the sector amidst border restrictions.

GSP growth is projected to pick-up to 3.5% in 2021-22 before easing to more moderate growth rates between 1% and 1.5% over the subsequent three years. Following an extended period of export-driven growth, the domestic economy is expected to resume as the primary driver of activity, as resource projects reach operational capacity and exports moderate.

More recent data to December 2021 shows that SFD grew by 6.6% in 2021, strengthening from 0.6% growth in 2020 as the domestic economy continued to recover from the onset of the pandemic, with all components of domestic demand above pre-COVID levels.

Growth in the December quarter was modest (0.1%) as household consumption growth was partially offset by contractions in business and dwelling investment.



As Chart 1 illustrates, domestic economic growth in WA and nationally have converged, as the economic recovery from the initial impact of COVID-19 is well underway across all States.

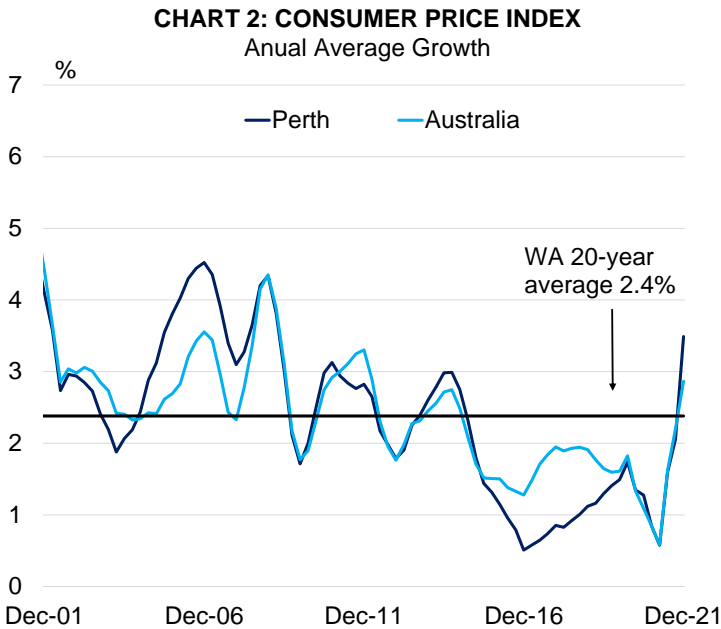
WA’s annual SFD growth is expected to moderate in the near term. However, based on the latest SFD data for the December quarter 2021, there is some upside risk to the Mid-year Review forecast for growth in the domestic economy in 2021-22 (5%), due to stronger than anticipated household consumption, which grew by 6% in 2021, following a 3.6% decline in 2020, when COVID-19 restrictions impacted spending.

EXPENDITURE COMPONENTS OF DOMESTIC DEMAND
December 2021, Seasonally Adjusted

| | <u>Western Australia (%)</u> | | <u>Australia (%)</u> | |
|-------------------------------|------------------------------|------------|----------------------|------------|
| | Quarter | Year | Quarter | Year |
| Private Consumption | 1.5 | 6.0 | 6.3 | 4.8 |
| Business Investment | -2.7 | 4.8 | -0.5 | 5.8 |
| Dwelling Investment | -2.9 | 15.6 | -2.2 | 9.2 |
| Government Consumption | 1.0 | 4.8 | 0.1 | 5.0 |
| Government Investment | -4.1 | 13.3 | -2.0 | 8.8 |
| Final Demand | 0.1 | 6.6 | 2.9 | 5.9 |
| Exports ¹ | -3.7 | 0.2 | 0.0 | 3.2 |
| Imports ¹ | -2.5 | n.a. | -0.5 | -1.2 |
| Gross Domestic Product | n.a | n.a | 3.4 | 4.7 |

¹ Trade components include both merchandise and services trade

CONSUMER PRICE INDEX



Current Inflation Trends

Perth’s Consumer Price Index (CPI) grew by 1.4% in the December quarter 2021, mainly due to a 9.4% increase in prices of ‘automotive fuels’ and a 5.2% increase in the price of ‘new dwelling purchases’.

Perth’s CPI grew by 3.5% in 2021, strengthening from 1.6% growth in 2020-21. This is the strongest rate of annual growth since March 2009 and well above the 20-year average growth rate of 2.4% per annum.

The annual increase in 2021 was supported by ‘automotive fuel’ prices, which increased by 20.1% (contributing 0.63 percentage points (pp) to growth), new dwelling prices (0.55 pp) and rents (0.17 pp).

The large increase in automotive fuel prices reflects increased global oil demand as COVID-19 restrictions eased, while global supply remained constrained. This has been further exacerbated by the current conflict in Ukraine, which has seen a reduction in oil supply from the region.

In the housing sector, strong demand for housing construction has enabled builders to pass through higher costs of material and labour to consumers while a tight rental market has resulted in a lift in rents.

For most of the period since the COVID-19 outbreak began, Perth inflation in annual average terms has moved broadly in line with national inflation. However, inflation in Perth has recently strengthened more than the national rate of 2.9% in annual average terms in 2021, reflecting relatively stronger domestic economic conditions and increased demand in Western Australia.

Inflation Outlook

The 2021-22 Mid-year Review forecast the Perth CPI to increase by 2.5% in 2021-22. Since the Mid-year Review forecasts were finalised, there has been a range of factors that have increased price pressure, including: disruptions to supply from the Omicron outbreak in New South Wales and Victoria in January, the temporary closure of the east-west rail line (from 25 January to 15 February), and the outbreak of conflict in Ukraine (which has significantly raised fuel prices).

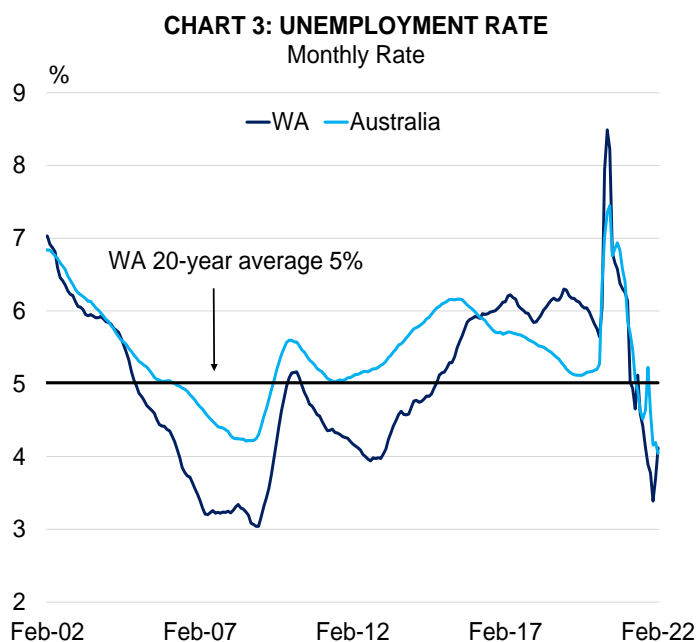
Pressure on consumer prices is expected to moderate in 2022-23, as temporary pressures from supply disruptions from key supplying states are unwound, as the global economy re-opens and migration flows are re-established, and as the residential housing market finally completes the outstanding stock of homes that are under construction.

Forecasts for the Perth CPI will be updated with the release of the 2022-23 Budget in May 2022.

LABOUR MARKET

Labour market conditions in WA tightened over 2021, with annual average employment growth of 5.8% in February 2022. This represents a significant increase in employment growth from 1.8% in 2020-21. Part-time employment has lost momentum in recent months, while full-time hiring has remained strong.

Workforce participation has strengthened in the past year to a record 70% in February 2022 and remains the highest in Australia. Notwithstanding this, the unemployment rate remains low by historical standards, averaging 4.3% in the twelve months to February 2022, the lowest of all States, and falling as low as 3.4% in December 2021 (Chart 3).



Other indicators of spare capacity in the labour market have continued to fall, including the underemployment rate, which averaged 7% in the year to February 2022. This has eased from a record high in annual average terms of 10.2% in August 2020 to its lowest levels since November 2014.

This implies that there is a falling number of employed people who would like to work more hours. When combined with the unemployment rate, the rate of underutilisation in the State eased to 11.6% in the 12 months to February 2022 from a peak of 16.7% in September 2021.

WA's annual average participation rate has increased to 68.9% in the 12 months to February 2022, the highest in around 9 years. WA's participation rate remains the highest of all States and well above the national annual average rate (65.8%).

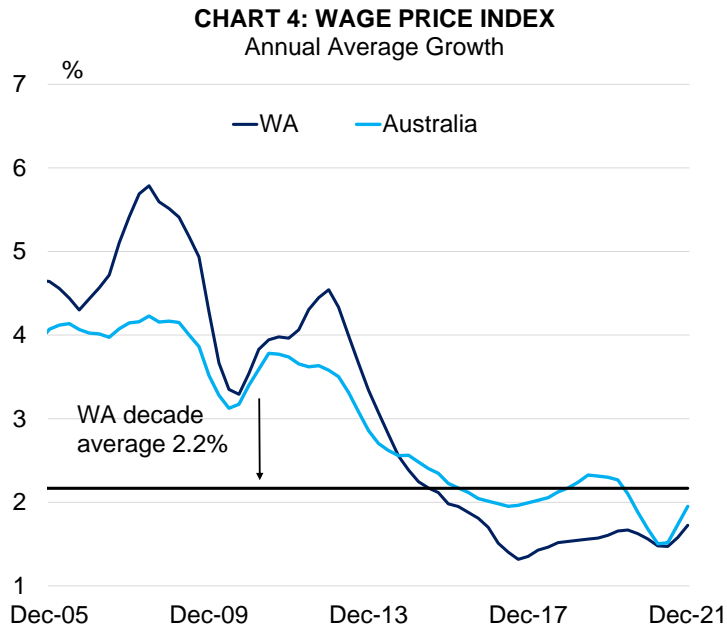
Labour force outlook

Labour market conditions have proved significantly stronger than anticipated in 2021-22 to date, with annual average employment growth in the year to February 2022 exceeding forecast growth of 3.75%. Over 2021-22 to February 2022, the unemployment rate has averaged 4.0%, which is slightly lower than the 2021-22 Mid-year Review forecasts of 4.25%

The lift in employment growth in the near term is expected to be supported by investment in the resources and construction sectors, coupled with a tight labour market. Growth over the forward estimates period is projected to remain broadly in line with the 10-year average rate of 1.3%.

WAGES

Ongoing constrained spare capacity in the labour market and the strongest inflation expectations in many years are expected to result in moderate wage growth in WA.



The State's Wage Price Index (WPI) increased by 0.5% in the December quarter 2021. This follows 0.8% growth in the September 2021 quarter and is in line with the decade average quarterly growth of 0.5%.

Annual average WPI growth picked up slightly to 1.7% in 2021, from 1.6% in 2020 and 2019.

Earnings

Seasonally adjusted, total average weekly earnings (AWE) in Western Australia grew by 3.6% in 2021¹, to reach \$1,432.90. In dollar terms, AWE in

Western Australia was the highest of all the States, but behind the ACT (\$1,569.4). However, annual average growth in WA was the third highest of all States, behind both South Australia and Tasmania (both 4.4% increase).

Average weekly full-time ordinary earnings (AWOTE) increased by 2.6% in 2021 to reach \$1,895.80 (behind only the ACT at \$1,978.50). This measure of average wages is not impacted by the compositional changes between full-time and part-time employment.

In a State like WA, growth in the various average weekly earnings measures tends to be more volatile than growth in the WPI. The greater volatility in part reflects changes in the composition of the State's workforce², which affects average earnings data but not the WPI (as the latter only measures wage movements in a basket of jobs of a fixed quantity and quality). Given the volatility and compositional issues associated with earnings measures, the WPI is a preferred measure of underlying wage growth.

Wages outlook

Following growth of 1.5% in 2020-21, the Mid-year Review projects the rate of growth in the WPI to increase to 2.5% in 2021-22 and 2.75% in the outyears as spare capacity in the labour market continues to remain low.

¹ The frequency of the AWE series changed from quarterly to biannual in 2012, with the November 2012 issue the first produced on a biannual basis. AWE data will now be produced twice a year relating to the May and November reference periods.

² For example, the mining industry has a large impact on the State's earnings measures (as earnings tend to be high in this sector). One reason that earnings for the mining industry are higher than the average for all industries is that workers in the mining industry tend to work longer hours and receive allowances for shift work and working in isolated locations.