Supplementary Submission to the Annual Wage Review 2022-23

ACTU Submission, 12 May 2023
ACTU D. No 22/2023

australian council of trade unions

CONTENTS

INDEX TO FIGURES

1. DEVELOPMENTS SINCE 28 APRIL

1. We discuss below information that has become available since the lodgement of our reply submission. This includes new material which we consider relevant to the Panel's deliberations or likely to be the subject of submissions by other parties.

1.1 Labour market conditions

2. The ABS released further Payroll Jobs and Wages data on 11 May, for the period 18 March to 15 April 2023. As previously noted, the Payroll Jobs and Wages data is highly volatile, not subject to seasonal adjustment and routinely subject to revisions. The new release, encompassing the Easter public holidays and associated school holiday period, shows a decline in payroll jobs of 0.9%. In commenting on the data, the ABS said "The fall in payroll jobs over the latest month includes the Easter holiday period, when we usually see a short-term fall of this size."[1]

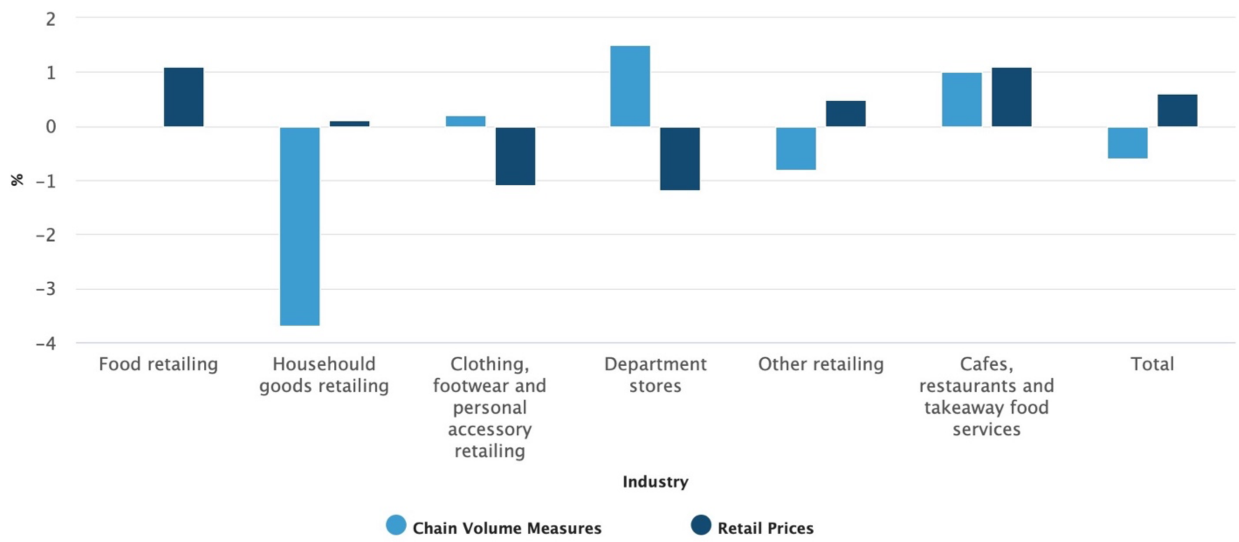
3. We would discourage the Panel from drawing conclusions about underlying trends in the labour market based on this data.

1.2 Business conditions

4. ABS Retail Trade figures for the March Quarter of 2023 present a mixed picture. Overall, seasonally adjusted turnover rose between February and March by 0.4% to finish 5.4% higher over the year. However, in volume terms, turnover decreased in the March Quarter by 0.6% to finish 0.3% higher over the year. Underlying the overall picture is evidence of different demand and pricing effects in different retail groups.

[1] ABS, "Seasonal fall in payroll jobs into April", 11 May 2023.

Figure 1: Retail turnover (seasonally adjusted) by industry, Quarterly % change to March Quarter 2023



Source: Reproduced from ABS, Retail Trade Australia March 2023

5. The highly award reliant industry represented by Cafes, restaurants and take away food services in Figure 1 has been able to increase both volumes and prices, whereas the Department Stores and Clothing, footwear and personal accessory retailers have driven rises in volume through price reductions. In a press statement accompanying the release of the most recent figures, the ABS observed:

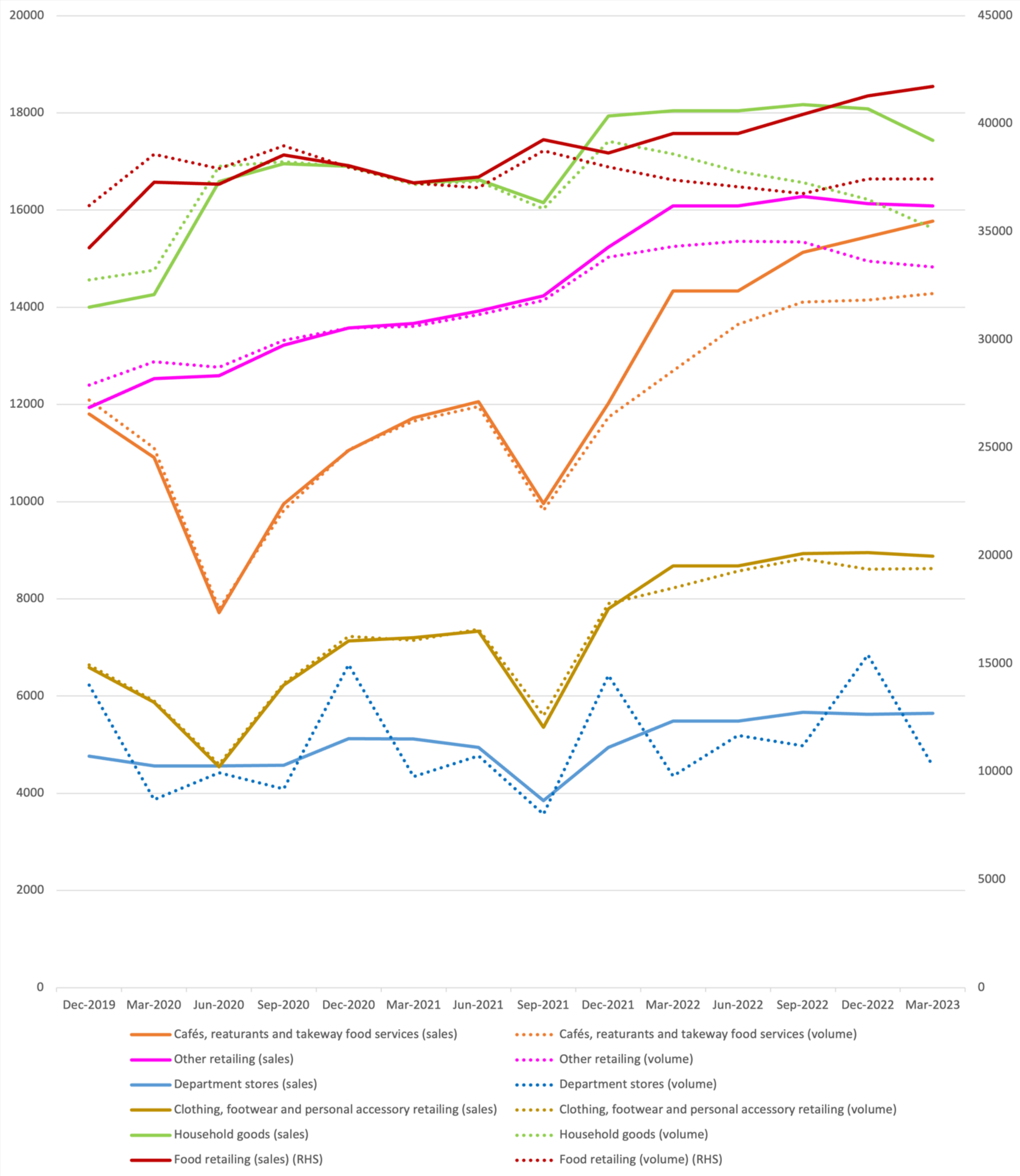
> "Retail sales volumes fell for the second straight quarter, as mounting cost of living pressures continue to weigh on household spending…
> "Retail sales volumes for household goods retailing fell 3.7 per cent, the fifth consecutive fall.
>
> Consumers continue to spend less on large discretionary purchases in this industry, which peaked in the December quarter 2021 with higher demand during COVID-19.
>
> " ….the turnover growth in food retailing we've seen each month over the past year, which includes price effects, has been driven by food inflation alone" [2]

6. We concur with the assessment that more recent movements in retail are indicative of cost of living pressures. However, as can be seen in Figure 2 below, in both volume (dotted line) and sale

[2] ABS, "Retail volumes fall for second straight quarter", 9 May 2023

(solid line) measures, all sectors remain well ahead of the pre-pandemic period save for volumes in department stores. It is likely that the clear seasonal pattern in department store volumes is reflective of Black Friday and Christmas/boxing day sale shopping patterns.

Figure 2: Retail Sales, Quarterly, Seasonally Adjusted, December 2019-March 2023

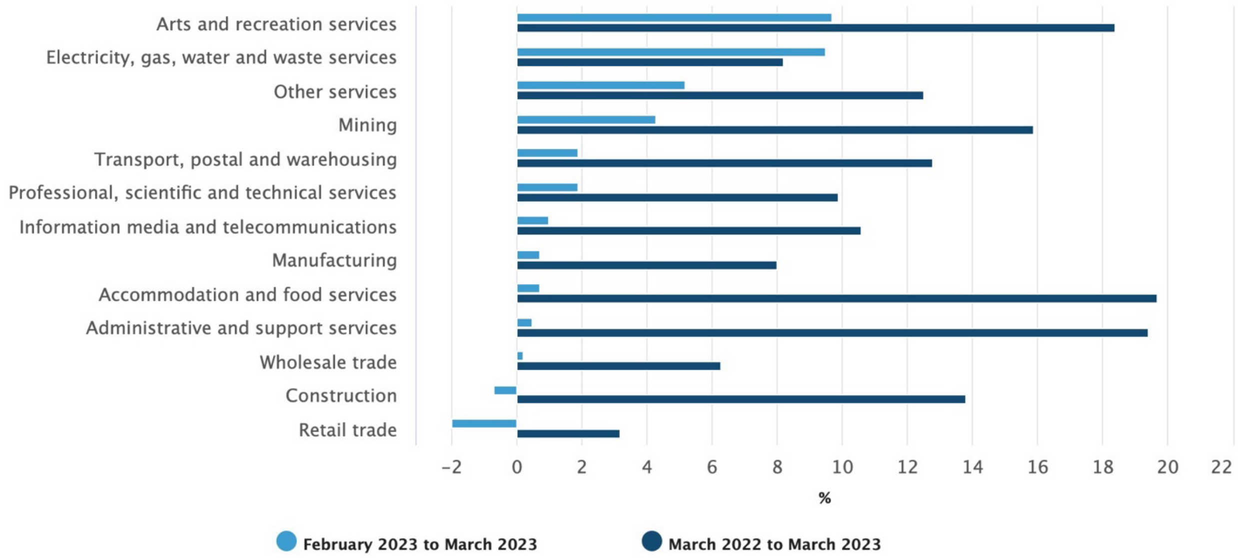


Source: ABS Retail Trade, Tables 7 & 12.

7. The ABS Monthly Business turnover index showed retail trade as one of only 2 industries to experience reduced turnover in March 2023 (-2.0%), with the other industry being construction (-

0.7%). All industries showed increased turnover over the year to March 2023, with the largest rises in the highly award reliant industries of Arts and recreation services (18.4%), accommodation and food services (19.7%) and administrative and support services (19.4%).

Figure 3: ABS Business turnover indicator, change in turnover, seasonally adjusted



Source: Australian Bureau of Statistics, Monthly Business Turnover Indicator March 2023

8. Discrepancies between the Retail Trade series Monthly Business Turnover Series are explicable by the former being a survey measure with a greater representation of small business, versus the latter being based on monthly business activity statements. Monthly business activity statements are only prepared by businesses with a turnover of $20 million or more plus those smaller business that elect to or are directed to file those statements monthly.

9. Updated quarterly business entry and exit data has been released by the ABS, current to the March Quarter of 2023. It indicates that in the March quarter, there was a net entry rate of 0.2% (+4376), based on an exit rate of 4.4% (-113,597) and an entry rate of 4.6% (+118,092). In commenting on the data, the ABS said:

> "Australian Business Register (ABR) initiated cancellations substantially increased in the September and December quarters 2022 from 2020 or 2021 (in line with pre-COVID levels in 2019). The focus of bulk cancellations continues to be businesses that have recently lodged

> but not reported business activity (and there is no other data indicating their entitlement to an ABN)"

10. Perhaps relatedly, the ATO and the Australian Federal Police issued joint statement in February of this year that said:

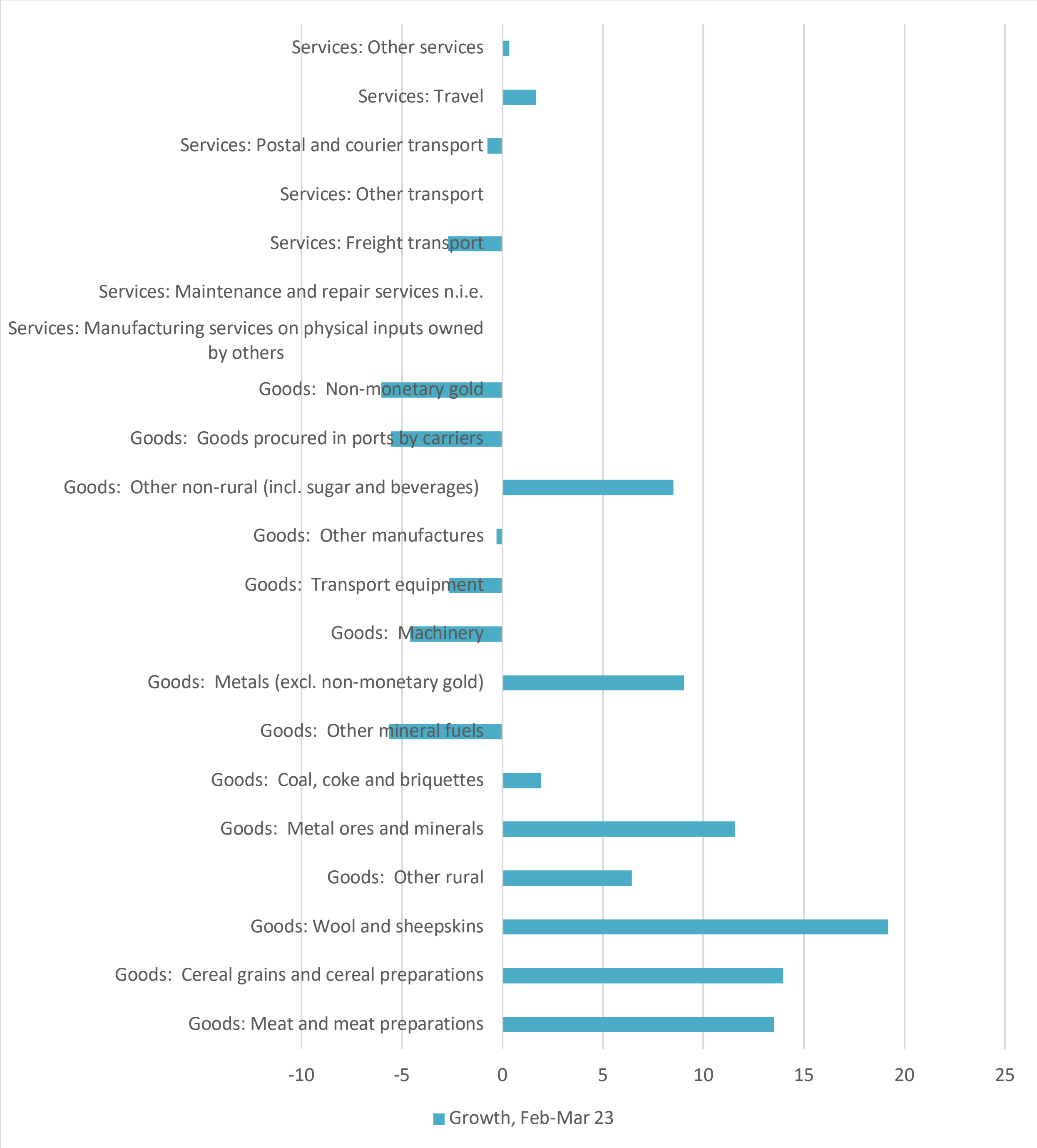
> "At 31 December 2022, the ATO has taken compliance action on more than 53,000 clients and stopped approximately $ 2.5 billion in fraudulent GST refunds from being paid to individuals seeking to defraud the system.
>
> Two individuals have been sentenced to jail time for their crimes so far, following their arrest in 2022.
>
> This follows 87 earlier arrests across the country, with many more to come. The ATO has commenced writing to more than 20,000 individuals involved in the fraud, warning them of the serious consequences coming their way unless they come forward and repay the money they have defrauded.
>
> The fraud was first detected in early 2022 and involves offenders inventing fake businesses and Australian business number (ABN) applications, then submitting fictitious Business Activity Statements in an attempt to gain a false GST refund."[3]

11. In the December quarter 2021-June Quarter 2022, prior to the "substantial increase" in cancellations referred to by the ABS, there were an average of 91,951 exits per quarter. In the quarters that followed, there was an average of 117,084 cancellations per quarter, a difference of 75,399 over the three quarters. This is largely explained by the "more than 53,000 clients" that the ATO "has taken compliance action on" as at December 2022 and would be almost entirely explained if the "20,000 individuals involved in the fraud" referred to in the joint statement as being persons that the "ATO has commenced writing to" as at February 2023 were ABN holders additional to this. It is thus very difficult to attribute the change in business exits to a fundamental shift underlying trading conditions.

[3] ATO, AFP, "AFP and ATO crackdown on Operation Protego Promoters", 17 February 2023

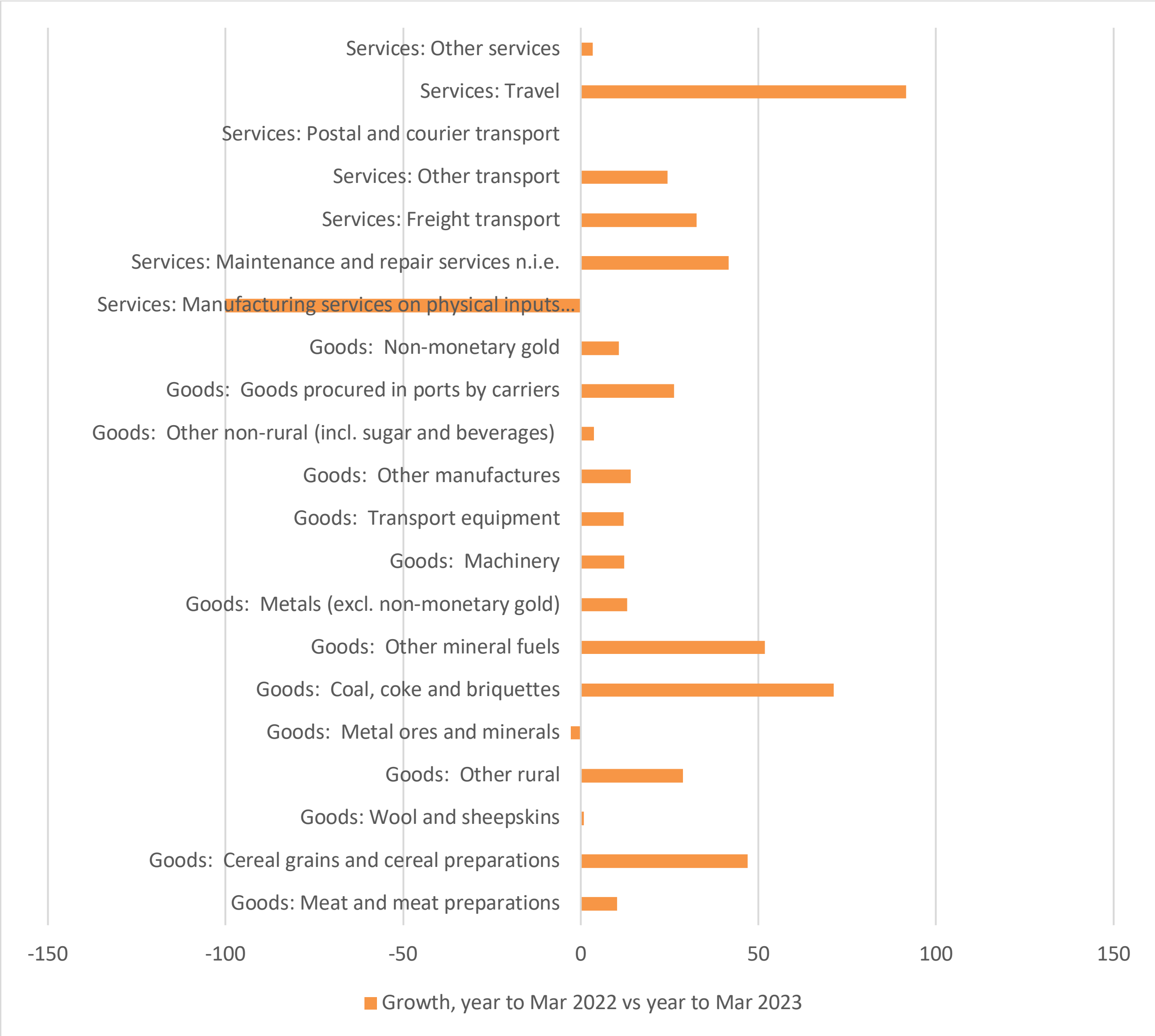
12. Further data on exports has become available through the release of International Trade in Goods and Services data from the ABS for March of 2023. Relative to the position set out at paragraph 15 of our reply submissions, there has been weaker exports outside of rural and agricultural sectors in the month of March (Figure 4). Over the year to March 2023, the position is little changed to that over the year to February 2023 (Figure 5). Passenger transport growth over the year remained unscalable, at 1,139%.

Figure 4: Growth in exports, Feb-Mar 23 (%)



Source: ABS, International Trade in Goods and Services. Goods credits from Table 5, Services Credits from Table 10 (both seasonally adjusted).

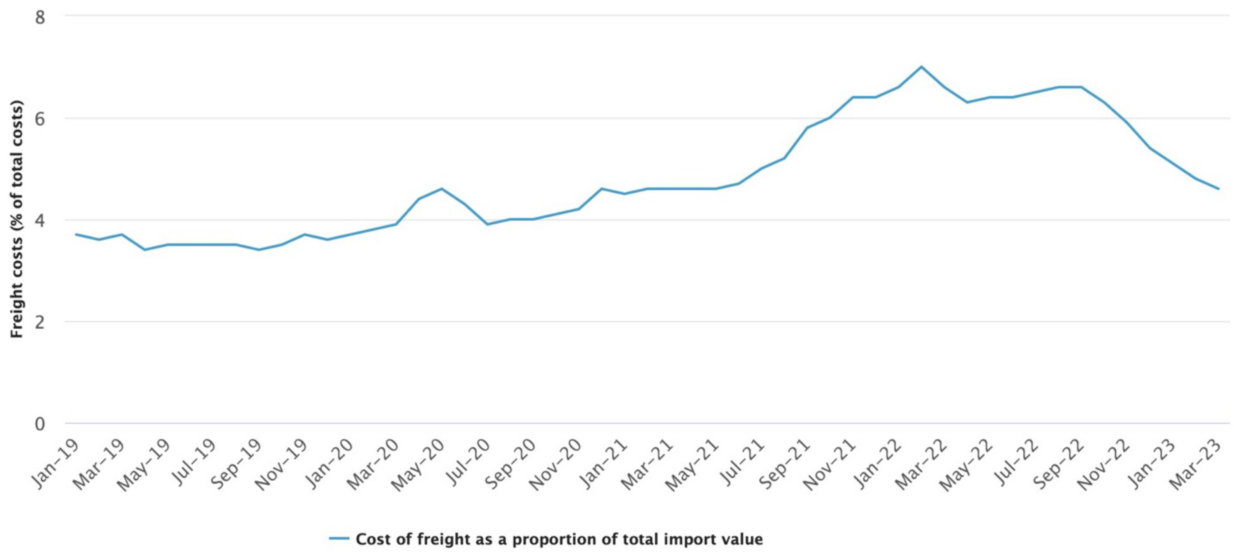
Figure 5: Growth in exports, year to March 2023 (%)



Source: ABS, International Trade in Goods and Services. Goods credits from Table 5, Services Credits from Table 10 (both seasonally adjusted).

13. ABS has used the International Trade in Goods and Services data as the basis of a feature article on freight costs. It contains observations relevant to, and consistent with, our own at paragraphs 12-14 and section 2.2 of our reply submission concerning the easing of input cost pressures for business. The ABS produced a time series showing the value of imports of freight services as a percentage of the total value of imported goods, which we reproduce as Figure 6 below.

Figure 6: Cost of freight as a proportion of total import value, 2019-2023



(a) Include cost of insuring goods during transit.

Source: Australian Bureau of Statistics, Spotlight on recent trends in Freight costs 4/05/2023

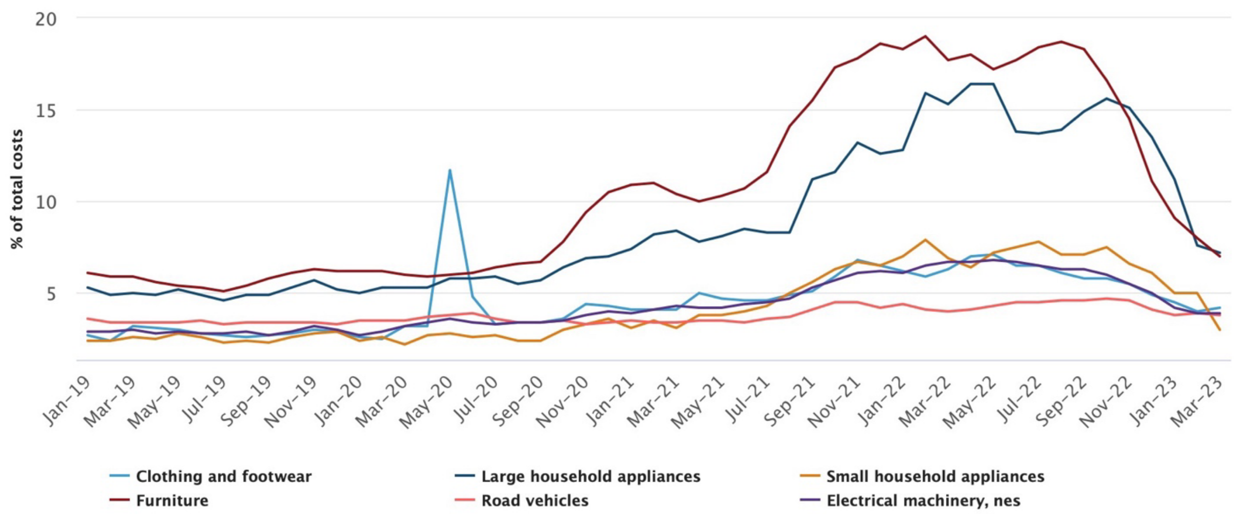
14. The ABS comments that the ratio of freight costs to import value was relatively stable, prior to the pandemic, ranging between 3% - 4%. However:

> "Following the onset of the COVID-19 pandemic this increased to around 4%-5% and reached a high of 7% in February 2022. Freight services values as a proportion of total import values started to stabilise in February 2022 before falling for six consecutive months from September 2022."[4]

15. ABS analysis shows that the decline in freight cost as a proportion of total costs in this period is applicable across multiple categories of both consumer goods and raw materials, as seen in Figure 7 and Figure 8 below respectively. This suggests an easing of cost pressures across manufacturers, wholesalers and retailers.

[4] ABS, "Spotlight on recent trends in freight costs", 4 May 2023

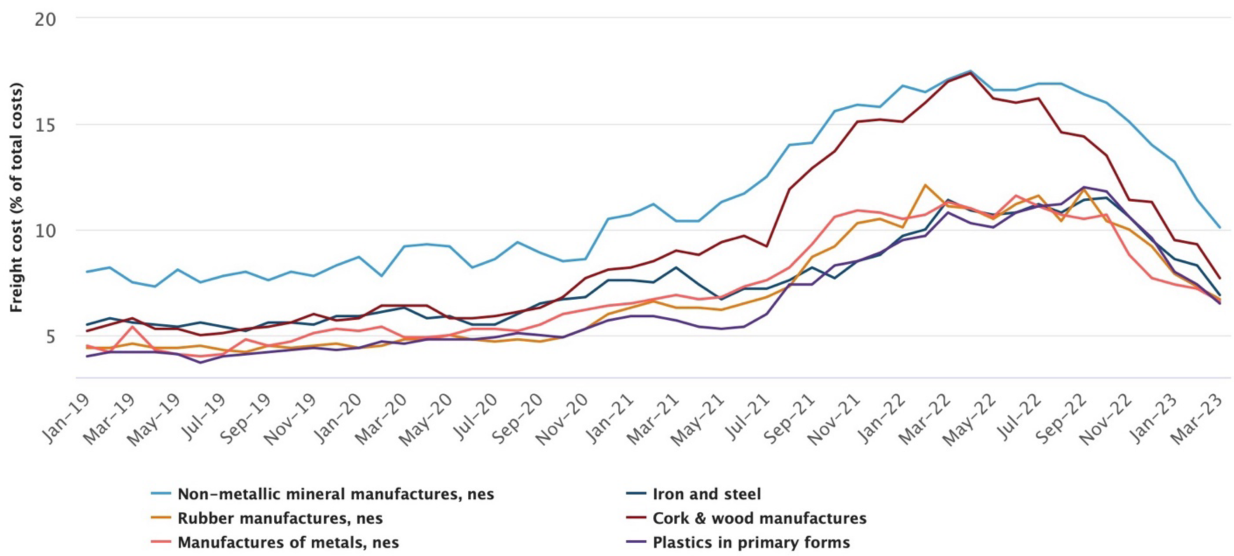
Figure 7: Freight costs as a proportion of total costs of consumer goods, 2019-2023



(a) Include cost of insuring goods during transit.
(b) Large household appliances is the combination of selected SITCs (77521,77511,72471). Small household appliances is a combination of selected SITCs (77587,77584 851671–851679. Clothing and footwear is the combination of SITCs (84 and 85).

Source: Australian Bureau of Statistics, Spotlight on recent trends in Freight costs 4/05/2023

Figure 8: Freight costs a proportion of total costs of raw materials, 2019-2023



(a) Include cost of insuring goods during transit.

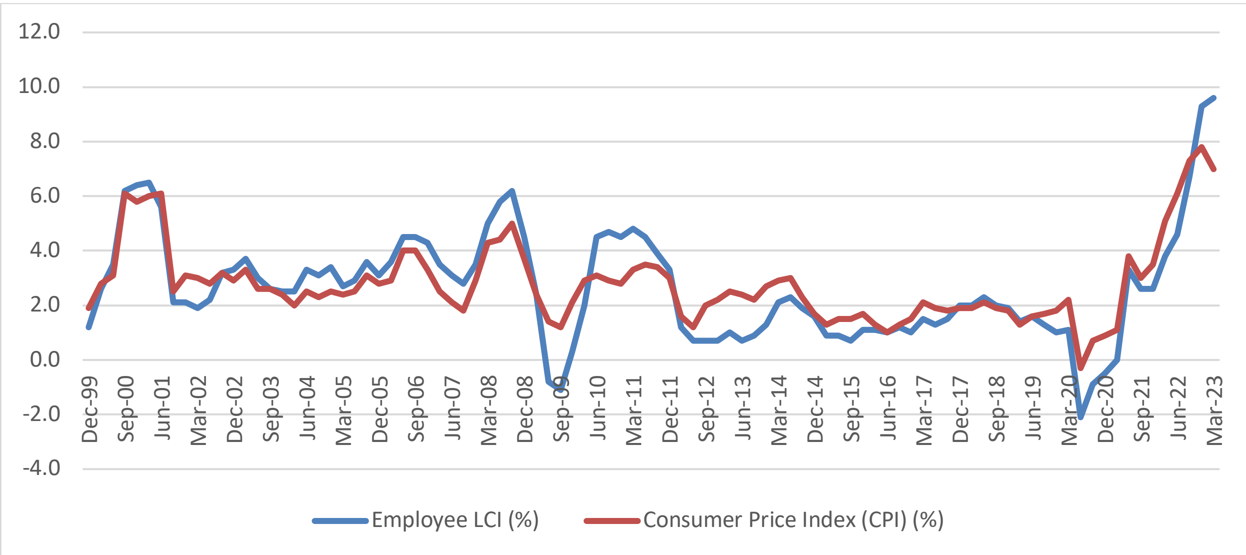
Source: Australian Bureau of Statistics, Spotlight on recent trends in Freight costs 4/05/2023

16. Additional data has also become available for building approvals. This shows a 5.6% rise in approvals for non house dwellings (semi-detached, row or terrace houses, townhouses and apartments) in March 2023 (against a 9.7% decrease in the month before), but a 2.8% fall for houses (against an 11.8% rise the month before). A more detailed analysis of the construction sector is contained in section 3.10 of our reply submission.

1.3 Household conditions

17. The continuing cost of living crisis for workers is starkly evident in the ABS living cost index for March of 2023, which has continued to rise even as inflation has started to ease. The indicator for employee households rose 2% over the March quarter and 9.6% over the year to March 2023. The annual growth was the highest seen since the commencement of the series in 1999. Employee household living costs have grown more than for self funded retirees, pensioners or welfare recipients through the year, likely because of increased exposure to debt.

Figure 9: Employee living cost indicator v. CPI, annual movement (%), 1999-2023



Source: ABS LCI, CPI

18. Employee living costs rose across multiple categories of essential living expenses including Food (1.5% over the quarter and 7.9% over the year), Health (3.4% over the quarter and 5.7% over the

year) and Housing (which includes rents and utilities) (2% over the quarter and 7.3% over the year). The largest rise, 8.1% over the quarter (and 43.1% over the year), was for Insurance and Financial services. This category includes mortgage interest (11% over the quarter and 78.9% over the year) and consumer credit charges (3% over the quarter and 5.1% over the year) and indicates the considerable mounting stress on households with personal and housing related debts.

19. This ongoing crisis has had predictable results in spending patterns, with the ABS monthly spending indicator showing a fall of 0.5% in the Month of March. The decline in discretionary spending of 0.9% exceeded the decline in essential spending of 0.2%. The only individual categories of spending to rise in the month were clothing and footwear (4.6%) and Hotels, Café's and restaurants (2.2%). As seen in Figure 1, clothing and footwear saw recent price reductions which may explain its resilience.

1.4 New forecasts

20. The Federal Budget on 9 May 2023 provides updated economic forecasts that generally provide a more positive economic outlook than that described in the previous Federal Budget of October 2022.

21. The Treasury notes that the Australian economy, while not immune from global challenges, is well placed to navigate because strong employment and wages growth which have supported consumer spending and elevated commodity prices have supported export earnings.[5] It further concludes that the Australian economy "is expected to outperform all major advanced economies", but does note that "global and domestic headwinds will be a drag on activity in 2023-24". Accordingly, forecasts for growth in real GDP have not changed since the October 2022 budget, coming in at 3.25% for FY2022-23 before dropping to 1.5% for FY2023-24 due to the monetary policy environment and weaker global growth.[6]

[5] Federal Budget 2023-24, Budget Paper No. 1 page 5.
[6] Federal Budget 2023-23, Budget Paper No.1 page 5

22. Unemployment, already low by historical standards, is projected to increase slightly to 4.25% by the middle of next year, which is less than the 4.5% projected in the October 2022 Budget and comparatively positive news. Treasury's reasoning is that the resilience of labour demand means that the rise in the unemployment rate is expected to be more gradual, and peak slightly later than expected in the October 2022 Budget.[7]

23. Inflation is now expected to drop to 6% for the year to June 2023, up from the earlier projections of 5.75%. It is however, thereafter expected to ease faster, dropping to 3.25% for the year to June 2024, instead of 3.5% as forecast in the October 2022 Budget. The Government notes that this downgrade is linked to the Government's proposed policy interventions, in particular the energy bill relief, to directly ease cost of living pressures.[8] The benefits of this lower inflation, if realised, however will only be felt by those eligible for that Bill relief. As discussed below, this includes some, but not all award-reliant employees and their household dependents.

24. Wages growth is still predicted to reach 3.75% by June 2023, before lifting to 4% by the end of June 2024, which is 0.25% higher than the October 2022 budget forecast. The Treasury notes that "there are no signs of a wage price spiral developing" and that such growth "remains consistent with inflation returning to target in 2024-25.[9]

25. In making these projections, Treasury has assumed that the FWC "adopts a similar approach to last year" in its AWR decision and that the Aged Care Work Value Case decision together adds around an additional 0.5% to wage growth in 2023-24.[10] We make two observations about these assumptions. Firstly, they may be overly optimistic in circumstances where last year's AWR decision had the effect of only lifting the WPI by 0.29 percentage points.[11] While the Aged Care decision was for a 15% rise, it is hard to see how this would contribute the additional 0.21 percentage points to reach the Treasury's projections.[12] Secondly, should the Panel decide not to

---

[7] Federal Budget 2023-23, Budget Paper No.1 page 71
[8] Federal Budget 2023-23, Budget Paper No.1 page 66
[9] Federal Budget 2023-23, Budget Paper No.1 page 72
[10] Federal Budget 2023-23, Budget Paper No.1 page 72
[11] ABS Wage Price Index (December 2022)
[12] A generous and approximate estimate of the impact of a 15% wage increase for the aged care workforce puts its contribution to WPI growth at about 0.1 percentage points. This is based on the assumptions that the aged care workforce is about 10% the size of the Award reliant workforce (ignoring the fact of overlap in the two categories) and its pay increase is roughly three times the size of the previous review decision.

adopt a similar approach this year as last year, but instead adopt the ACTU's claim of 7%, then it is more likely to reach the Treasury projection of 0.5 percentage points of wage growth, eassured in the knowledge that this remains consistent with inflation returning to target.

26. The Reserve Bank has released its May Statement of Monetary Policy (SMP) since the last round of AWR submissions. Its projections for real GDP growth and unemployment for the year to June 2024 are in line with Treasury's at 1.5% and 4% respectively.

27. The RBA differs slightly with Treasury on inflation over the same period, predicting 3.5% instead of 3.25%, possibly because these projections do not take into account the Government's cost of living relief measures in the Budget, which were announced after the SMP was published.[13] The RBA does publish confidence intervals for these inflation projections, which put the upper ends of the estimates for this period at approximately 4% (70 percent confidence) and 4.5% (90 percent confidence)[14] which may assist the Panel in how it approaches inflation projections and the task of ensuring that there are no further real cuts to minimum and award wages.

[13] Reserve Bank of Australia, Statement on Monetary Policy, May 2023
[14] *Ibid*. page 71

2. INITIATIVES CONTAINED IN THE BUDGET

28. In this section we outline the initiatives contained in the budget which we consider relevant to the Panel's deliberations in this review. Our commentary is based on the content of Budget Paper No. 2, save where otherwise noted.

29. The Panel has an established practice of taking budget measures into account which does not apply a formulaic or mechanistic approach and is based on the state of the law as at the date of its decision. We seek that the Panel continue to apply that approach.

30. We also remind the Panel that we have made submissions about changes to the tax/transfer system in section 5.3 of our initial submission, including in relation to the discontinuance of the Low and Middle Income Tax Offset and Cost of Living Payments, which factored in last year's decision[15] and, in our view, were of a more universal character than the more targeted measures discussed below.

2.1 Assistance to households

31. Award reliant workers who are in receipt of partial income support, will benefit from a planned $40 per fortnight increase to working age income support payments, planned to commence in 20 September 2023. The higher JobSeeker rate available to those aged 60 and over ($52.10 higher fortnightly) will also be made available to those aged 55 and other. Both initiatives are subject to legislation passing.[16] Wilkins and Zilio estimated in 2020 that 16% of low paid award reliant employees were welfare recipients.[17]

32. Commonwealth Rent Assistance recipients, who would include some of those within the 16% estimated by Wilkins and Zilio, may also benefit from a 15% rise in the maximum payment, raising the maximum fortnightly payment for a single by person by $23.58 per fortnight. Implementing this change would require amendments to Part 3.7 of the *Social Security Act 1991*. In our reply

[15] [2022] FWCFB 3500 at [147]-[154]
[16] See Services Australia, Budget 2023-24 Increase to Working Age and Student Payments, 9 May 2023
[17] Wilkins R & Zilio F (2020), Prevalence and persistence of low paid award-reliant employment, Fair Work Commission Research Report 1/2020

submission, we discuss ABS insights which reveal that even at the 10th percentile rents have grown by 6.7% annually.

33. Single Parents and carers will be eligible to remain on Parenting Payment (single) until their youngest child turns 14. Currently, the payment is only available to single parents and carers with an income of under $2,622.35 per fortnight who are the principal carer of child younger than 8. The maximum payment is currently $949.30 with a taper of 40cents per dollar earned above $202.60 per fortnight (so its value for a minimum wage worker is $569 per fortnight). It is intended that the change take effect from 20 September 2023. Implementing the change would require amendments to section 500D of the *Social Security Act 1991*.

34. Some Households will benefit from energy rebates through the Energy Bill Relief Fund. The rebates are jointly funded by the States and Territories, resulting in complex in eligibility criteria. Those who currently are currently eligible for rebates in their home State's and Territories will benefit from the higher level of rebate, which are to be available for two years. Additional eligibility criteria have also been introduced, with the result that recipients of the following payments and holders of the following cards will be eligible throughout Australia[18]:

    a. Family Tax Benefit
    b. Carer allowance
    c. Low Income Health Care Card
    d. Commonwealth Senior's Health Card
    e. DVA Gold Card

    We suggest that those receiving (a)-(c) above may include those performing some paid work, so the payments should be regarded as likely benefiting some, but not all, award reliant employees. The amount of the rebate varies between $175-500 depending on the State or Territory of residency. This provides some offset against predicted rises in regulated default offers, but may fall short in some cases. For example, in Victoria, where the maximum combined Commonwealth and State rebate will be $500[19], the Essential Services Commission expects typical household

[18] See further Australian Government, Energy Bill Relief for Households and Eligible cards and payments for the Energy Bill Relief Fund for households.
[19] See further Australian Government, Energy Bill Relief for Households

default offer based bills to increase around $426 in 2023-24 if its draft decision is confirmed (which will be announced in May 2023).[20]

35. The Medicare low income threshold is referred to in the current budget, although the policy of raising the threshold commenced in the current fiscal year. The Medicare levy is 2% of taxable income and the function of the low-income threshold is to set the income level at which no levy is paid and at which tapering begins. The threshold will raise by $911 to $24,276 for singles. It is of negligible benefit and bears little consideration in the current review.

36. Some workers who benefit from the Panel's decision may benefit from changes to health funding. The relevant initiatives are the introduction of a new Medicare Benefits Schedule Item for consultations of 60 minutes or more, which is expected to be introduced in November,[21] and additional incentives to bulk billing where patients are under 16 years of age or Commonwealth Concession Card Holders. The latter is unlikely to benefit full time workers without children as they are less likely to be eligible for a Low Income Health Care Card or Health Care Card. Changes to Medicare benefits are generally given effect to by regulations or other legislative instruments made under section 3C of the *Health Insurance Act 1973*.

2.2 Assistance to business

37. A temporary instant asset write off program has been announced for 2023-2024, permitting the deduction by businesses with less than $10 million in turnover of the full cost of eligible assets costing less than $20,000 each that are first installed or ready in that year. Legislation will be required to give effect to this announcement. If implemented, the policy may support business investment in productivity improvements.

38. Further tax deductible incentives are intended to apply to business with up to $50million in turnover, relating to assets that support electrification and energy efficiency. It is intended businesses will be able to deduct an additional 20% of the cost of such assets, capped at $20,000, provided they are installed and ready for use in the 2023-24 year. Details have not yet been

[20] See Essential Services Commission, Victorian Default Offer 2023-24 draft decision fact sheet
[21] Chrysanthos, N., How the new Medicare bulk billing incentives will work, SMH 9/5/23.

finalised and we have been unable to determine whether legislation is required or whether a disallowable instrument will suffice.

39. Also on the energy front, businesses with electricity usage below certain thresholds[22] will benefit from automatically applied energy rebates of between $350 and $650 from 1 July 2023. The scheme is co-funded by States and Territories, with the higher level rebate available in all jurisdictions other than Victoria and the ACT.

40. Businesses who have outstanding tax statements due between 1 December 2019 to 29 February 2022 will benefit from an amnesty on late lodgement penalties, provided the statements are lodged between 1 June 2023 to 31 December 2023.

41. Business will benefit from additional skilled labour through multiple initiatives announced in the budget. Holders of Temporary Graduate Visas, which currently permit holders to remain in Australia and work in specified occupations for at least two years, will be able to remain for up to an additional two years. This applies to graduates with specified Bachelor degrees and above relevant to the specified occupations. The specified occupations include some relevant to award reliant industries, including nursing in aged care, disability and rehabilitation and early childhood (pre-primary) teaching.[23] The expected reinstatement of the student visa working hour cap to 40 hours per fortnight will be modified, raising the threshold to 48 hours per fortnight from 1 July 2023 (however workers in aged care will not be affected by that limit until January 2024). In addition, permanent residency pathways for workers currently on temporary skilled visas are to be improved.

42. The raising of the Temporary Skilled Migration Income Threshold from $53,900 to $70,000 is intended to take effect from 1 July 2023 and may have some cost impacts on modern award reliant business. However, the threshold applies in connection with the approval of visas in subclasses 482, 186 and 187 and thus should not impact the cost for existing visa workers. The Temporary Skilled Migration Income Threshold is currently specified in the *Migration (IMMI 18/033:*

[22] See Australian Government, *Energy Bill Relief Fund for small business*
[23] See Department of Education, Extended-Post Study Work Rights: Eligible Occupations and Qualifications

Specification of Income Threshold and Annual Earnings and Methodology of Annual Market Salary Rate) Instrument 2018[24], which is a disallowable instrument.

43. Skills development in the highly award reliant early childhood sector will be boosted and funded through $72.4 million to support, build and retain the early childhood education and care workforce. The investment will improve access to professional development opportunities for early childhood educators and teachers and provide financial assistance to educators to complete the practicum required for a Bachelor or Master's degree in Early Childhood Education. This package is expected to reach over 80,000 early childhood educators, including by providing backfill while educators undertake professional development. The largest single allocation over the forward estimates is $30.8 million in 2023/24.

44. Aged Care, also a highly award reliant industry, will have funding extended to the end of the calendar year to reimburse costs associated with COVID-19 outbreaks and testing. Additionally, $13.3 million will be made available in 2023/24 to reimburse aged care providers who pay casual workers during their COVID-19 related absences. The costs of implementing the Commission's decision in the Aged Care Work Value Case (including its effect on historical leave provisions) will also be funded.

45. In the disability sector, funding will also be provided through 2023-24 to providers who pay leave entitlements to eligible direct support staff who contract COVID-19, at flat rates of $450 for workers who have lost between 8 and 20 hours of work and $750 were the worker has lost more than 20 hours of work. In addition, $35 million has been allocated for three years commencing in 2023-24 to assist supported employment organisations in implementing the Commission's decision to vary the classification structure in the *Supported Employment Services Award.*

[24] At clause 6.

3. COMMENT ON REPLY SUBMISSIONS

46. In this section we respond to particular matters in the reply submission of other parties. We have sought to highlight and scrutinise issues where criticisms have been levelled at the commentary and analysis provided in our initial submission, rather than attempt to cover all areas of obvious disagreement. As such, we should not be taken to endorse all content in reply submissions which we have not specifically addressed below.

3.1 Australian Chamber of Commerce and Industry

3.1.1 Costs of doing business

47. ACCI's discussion of the cost of doing business on page 4 of its reply submission offers some limited insights from the NAB monthly business survey for March of 2023 but otherwise relies on ABS business surveys in May and June of 2022. In our view, our more detailed and current analysis of cost pressures as set out in paragraphs 11-14 and 33-37 of our reply submissions is to be preferred.

48. We note that the RBA, in its May Statement on Monetary Policy contains some discussion of recent and likely developments which are informative as to contemporary business cost pressures. In particular, the RBA notes that:

    a. Global good price pressures are easing (including a decline in prices for some categories), and this expected to continue to be passed through in Australia, although the Australian experience is limited and lagging that of some other advanced economies.[25]

    b. Firms in the RBA's liaison program generally report that inflationary pressures have eased and that this is expected to continue over the next 12 months.[26] Those firms also indicate that "their competitors behaviour and demand conditions are important factors in their pricing decisions"[27]

    c. There is evidence of employers using non-base wage payments to attract and retain workers[28]

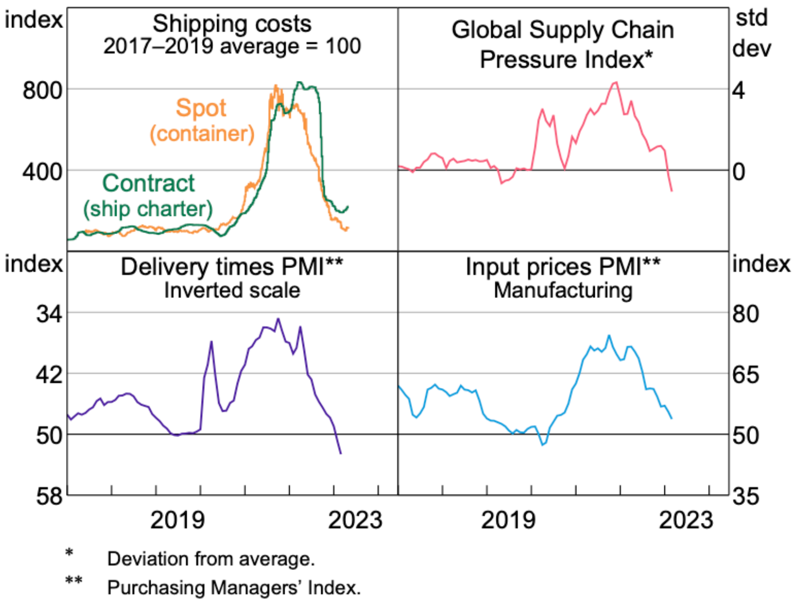
[25] RBA, "Statement on Monetary Policy, May 2023", at p1-4
[26] *Ibid.* at p31
[27] *Ibid.* at p36
[28] *Ibid.* at p2

d. Energy price inflation is expected to remain high over the next year or so[29], but global energy prices have fallen[30].

e. Global supply chain pressures, including costs, have fallen (see Figure 10 below)[31]

f. Despite softening, there is a generally positive outlook for business investment and investment intentions in aggregate for 2023/24 expect more investment in nominal terms compared to the current financial year[32] with a large pipeline of business investment still to be delivered[33]. Non mining machinery and equipment investment is expected to remain at a high level throughout the RBA's forecast period.[34]

Figure 10: RBA Global Supply Indicators



Source: Reproduced from RBA Statement on Monetary Policy May 2023, Graph 1.3

49. The overall impression is one of generally reduced cost pressures to business, leaving sufficient room for business investment, incentive payments to workers, keeping prices high while consumers are happy to pay them and an unwillingness to be a first movers in price reductions. Whilst energy costs are expected to remain high, the RBA in its May Statement re-stated its

[29] *Ibid.* at p4.
[30] *Ibid.* at p5.
[31] *Ibid*. at p6.
[32] *Ibid.* at p26.
[33] *Ibid.* at p31.
[34] *Ibid.* at p74.

estimate from February that these would add only 0.25% to headline CPI over 2023/24, with "relatively small" energy price changes thereafter.[35] Conversely, the RBA cites a risk to the inflation outlook if firms expand their margins as cost ease, if demand remains sufficiently strong.[36]

50. Relatedly, the RBA's May SMP contains an analysis commencing on page 37 titled *Have Business Profit Contributed to Inflation?* which indicates that firms outside of the mining sector have "generally passed on their costs to maintain their profit margins" and that distribution of net operating margins among non-mining businesses of various sizes "has remained relatively unchanged since 2019". These observations are broadly consistent with our position in paragraphs 36 and 37 of our reply submission that energy cost impacts have not made a significant impact on profitability.

51. However, the apparent aim of the RBA's analysis was as a counterpoint to other analyses, such as that referred to paragraphs 168-170 of our initial submission, which attributes profits as a cause of inflation. This is not a position the RBA is prepared to accept, although this seems to be a point of difference based on semantics more than anything else. Proponents of the profit-push inflation theory point to the pricing power of resource companies increasing their profits opportunistically in the current climate and to the secondary effects of those prices as energy users raise prices to protect their margins. On the other hand, the RBA has a more benign description:

> "While higher energy prices have simultaneously boosted energy producers' profit margins and consumer price inflation, the primary underlying cause is global energy market conditions rather than higher markups in the energy sector independently driving up prices"[37]

It seems there is no disagreement with the general proposition that energy prices have washed through other sectors in a way that has preserved the profit margins of non-resource businesses. The difference of opinion is essentially whether the energy producing sectors are exercising any free will in their price movements, or are being coerced by the invisible hand.

[35] RBA, "Statement on Monetary Policy, May 2023", at p71
[36] *Ibid.* at p69, 77
[37] *Ibid.* at p 38

3.1.2 Profit growth

52. ACCI's complaints about "selective" profit comparisons using 2021-222 measures are made in ignorance of the multiple time period comparisons in fact used in section 4.8 of our initial submission. Additional longer term analysis was presented in our reply submission at section 2.3. Our multiple periods of analysis are far more comprehensive that those adopted by ACCI and we stand by the views expressed in our reply submission that a return to more normal conditions had set in by the end of 2022, that the size of the distribution of profits is far from unprecedented and the number of industries experiencing profit growth versus those not doing so is unremarkable.

53. Contrary to ACCI's submissions at paragraphs 24-28 of its reply, we do not describe current labour productivity as "weak" in our initial submission but rather "modest"[38] and point to reason to be optimistic in the medium term. We note that the RBA's May SMP states that effects of the pandemic have made it difficult to discern the underlying trend in productivity.[39]

3.1.3 Disemployment effects

54. The position that ACCI attributes to us at paragraph 30, that "business tend to pass on price pressures to the consumers to protect their profit margins", is not expressed as our view on page 96 of initial submission as ACCI claims. Rather, ACCI is paraphrasing our quote from a research paper. Nonetheless, as shown above, it seems to be a view with which the RBA would agree.

55. The distinction ACCI seeks to draw at paragraphs 31-33 of its reply submission between firms rising prices to absorb wage costs versus firms rising prices to maintain margins in the face of rising labour costs is unclear.

3.1.4 Low income households

56. At paragraph 34 of its reply submission, ACCI describes our analysis on page 141 of our initial submission as an exaggeration, yet offers no contrary analysis. Instead, all ACCI has offered is its assessment in paragraph 36 that single person households, single parents working full time and dual earner couples on the minimum wage have an "acceptable standard of living". This claim is

[38] At [152]
[39] RBA, "Statement on Monetary Policy, May 2023" at p 7

advanced in apparent disregard of the analysis presented at Table 14 of the *Budget Standards* report, which indicates that none of those household types have incomes adequate to meet the total budget standards and dual earner couples with one child or no children could only meet the standard which excluded an allowance for discretionary expenditure.

57. ACCI'S ultimate position in paragraph 42 of its reply submission appears to be that it is not appropriate for centralised wage fixing to address poverty or the circumstances of the working poor. This is in our view is inconsistent with the statutory requirements to consider relative living standards and the needs of the low paid.

3.1.5 Secure Work

58. ACCI's attack on our discussion of secure work at paragraphs 43-53 of its reply submission ultimately misses the point of our analysis: that the "secure work" amendments to the objects of the FW Act and the modern awards objective therein have greater relevance to proceedings which concern conditions beyond wages, but that in the context of an annual wage review which adjusts only wages it should be appreciated that it is possible to have both secure work and rising wages. ACCI reverts to type at paragraph 51 by again linking job security to disemployment effects. We have discussed the errors of that approach at paragraphs 52-56 of our reply submission.

59. Further, we note that the Australian Government submission outlines at paragraphs 118 and 120 that secure, well paid jobs are a key objective of the Government, and that one of the factors contributing to improving job security is appropriate pay and conditions.

3.1.6 Gender Equality

60. ACCI's disagreement with us in paragraphs 60-62 of its reply submission on the impacts of an increase to minimum wages on advancing the gender equality considerations referred to in chapter 2 of our initial submission is not about the mechanism or reasons why such effects exist, but rather the magnitude of those effects. We see little point in debating the most appropriate adjectives to use in that context.

61. ACCI's discussion of gender based undervaluation at paragraphs 66-70 of its reply submission fails to appreciate that such undervaluation can (and since the amendments to section 157, must) in the context of a work value assessment be addressed without the necessity of a comparator wage rate. Such undervaluation can also now be addressed without the necessity of a comparator wage rate in the context of an equal remuneration application since the amendments to section 302.

62. At paragraphs 71-76 of its reply submission, ACCI once again caution against disemployment effects. For reasons already given in our reply submission, there is no merit in attributing to the amended provisions the same meaning that has been attributed to the existing provisions. We are content to rely on what we have already said concerning disemployment effects in our prior submissions and our discussion of women's workforce participation in section 2.4 of our reply submission.

3.1.7 Collective Bargaining

63. ACCI's discussion of collective bargaining at paragraphs 78-87 of its reply submission seeks to impress upon Panel the need to always moderate down an increase it would otherwise be inclined to award, on the basis of the need to encourage collective bargaining. In ACCI's view, such a discount must be applied irrespective of the context in which a review is being undertaken and the relative importance of other relevant considerations in that given context. This is an unduly formulaic approach which should be rejected. It does not sit well with ACCI's general position that improvements to household income through the tax and transfer system diminish the need improve relative living standards or address the needs of the low paid through the wage system.

64. Our views on the strength of any association between encouraging collective bargaining and minimum wage adjustment are well rehearsed and we stand by the views expressed in our prior submissions. We note for completeness that the recently released Trends in Federal Enterprise Agreements Report for the December Quarter shows a further improvement on the number of enterprise agreements approved, to 1126.

3.2 Ai Group

3.2.1 Domestic economic conditions

65. We rely on what we have said in section 2.1 of our reply submission in response to the wage push inflation risk discussed on pages 7-8 of Ai Group's reply submission. We note that the ABS estimated that the Panel's increase last year contributed 0.21% to the WPI growth in September Quarter 2022.[40] The December Quarter 2022 WPI was 3.3%. In its May Statement on Monetary Policy, the RBA is forecasting WPI to peak at 4% (i.e. 0.7% higher than now) and has considered the likely impact of the Panel's decision this year in that forecast.[41] Nonetheless, the RBA has simultaneously revised down its CPI inflation forecasts for June 2023 and December 2023 by 0.25% from its estimates in February of 2023.

66. Contrary to Ai Group's attacks on our description and likely trajectory of economic performance, we find little in the most recent RBA Statement on Monetary Policy to indicate that the position we put in our initial submission was incorrect on the information available at the time. Whilst it is true that forecasts since predict a more significant slowdown that initially predicted, on the three specific measures ceased on by Ai Group: consumption, private investment and business investment, the RBA has said:

> "In level terms, household consumption per capita is close to its pre pandemic trend and, other than international travel, both goods and services consumption are back to around to around trend"[42]
>
> "Dwelling investment decreased in the December quarter of 2022, to be around 4 per cent lower than a year earlier"[43]
>
> "Business investment decreased in the December quarter but remained around 3 per cent higher over 2022. Non-residential construction investment has been supported by a significant pipeline of projects and an easing of materials supply constraints. Investment in machinery and equipment declined in the quarter, but remained at an elevated level, as firms

---

[40] See discussion of methods of setting pay in the ABS WPI releases for September Quarter 2022: https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia/sep-2022
[41] RBA, "Statement on Monetary Policy, May 2023" at p 75.
[42] *Ibid.* at p23
[43] *Ibid.* at p 26

> in some industries sought to expand capacity following an extended period of above- average capacity utilisation."[44]

67. Ai Group's discussion of GVA movements in section 2.4.4 of its reply submission is predicated on the notion that the time intervals chosen by us for measurement in our initial submission were misleading. We reject that allegation. Any volatile series is sensitive to the comparison period used and this has made post-pandemic assessment in particular difficult. In our view, what stands out from the analysis presented in Table 3 of Ai Group's reply submission is that any of the industries showed any further growth in the second half of 2022 after the strong performance during the second half of 2021 and the first half of 2022. We have otherwise addressed differential industry performance in section 2.3 of our reply submission.

68. Ai Group asserts on page 15 of its reply submission that our claim that inflation, higher interest rates and modest wage growth are having a significant effect on savings, income, confidence and consumption is not consistent with any currently available data. In our view, it is uncontroversial that real incomes are falling as a consequence of inflation- real wages are not keeping up. Compensation of employees in nominal terms, relied on by Ai Group, currently reflects the lack of underutilisation in the labour market, rather that the capacity of employees to support living standards. Consumption expenditure has softened, and whist we accept as Ai Group has said that there is seasonal variation in this, we agree with the RBA's assessment in its May Statement on Monetary Policy that 'Slower household income growth, higher cost of living and lower household wealth have all weighed on household spending".[45] In relation to the household savings ratio, our concern is the trajectory and rate of decline and we share the Ai Group's view that the decline is expected to continue. The RBA describes the current household saving ratio as "a little below the average level prevailed prior to the pandemic"[46]. The Ai Group says the ratio is "yet to fall to abnormally low levels which would indicate financial stress upon households in aggregate". In our view, there are numerous indications of rising household stress as referred to in our prior submissions and it is not open to the Panel to choose to ignore them unless and until the household savings ratio falls to "abnormally low levels".

---

[44] *Ibid.*
[45] *Ibid.* at p 24
[46] *Ibid.*

69. Ai Group's criticism on page 18 of its reply submission that our discussion of wages in section 4.6 of our initial submission "fails to put recent wage dynamics in a proper long run context" is difficult to accept in light of the fact that the commentary we offer is based on over two decades of data, which we present. The point that Ai Group seeks to make is that generally real wages have grown with the exception being periods of high inflation. Whilst we may disagree on how significant real wage gains have been at various times or collectively over the period, the basic point is not controversial between us, and Chart 7 in the Ai Group's reply submission is consistent with the movements seen in Figure 32 of our initial submission. The Ai Group has, wisely, not gone so far as to suggest that past gains in real wages have been or ought to have saved by award reliant workers such that they are unaffected by the current cost of living crisis.

70. We do not dispute Ai Group's basic points on page 19 of its reply submission that there are spill overs from the Panel's decisions to other forms of wage setting. However, Ai Group's discussion of profits and performance on pages 19-21 is of little import. Although Ai Group and ACCI are clearly in disagreement with each other as to the proper interval for measuring profits, we are of the view that the multiple analysis in section 4.8 of our initial submission and section 2.3 or our reply submission are informative and fair. We stand by the views expressed in our reply submission that a return to more normal conditions had set in by the end of 2022, that the size of the distribution of profits is far from unprecedented and the number of industries experiencing profit growth versus those not doing so is unremarkable. We also note that the RBA's view in its May Statement on Monetary Policy that the distribution of net operating margins among non-mining businesses of various sizes "has remained relatively unchanged since 2019".[47] It is unclear what conclusions that the Ai Group wishes the Panel to draw from its observations on page 21 concerning business entry and exit data that it concedes does not exist. We discuss the most recent business entry and exit data in section 1.2 above.

71. It is equally unclear what conclusions Ai Group seeks that the Panel draw from its discussion of productivity on pages 21-22 of its reply submission. The point it appears to wish to make is that productivity is best measured over cycles, and that the pandemic has introduced distortions to this. We agree. The additional information we have provided is to show the long run relationship

[47] *Ibid.* at p 37

of productivity and wages and to attempt to sum the winding and unwinding of pandemic effects. There seems to be no disagreement between us that the current cycle has higher productivity growth than that preceding it.

3.2.2 Relative living standards and the needs of the low paid

72. At page 23 of its reply submission, Ai Group is critical of what it describes as our "near total focus on relativities in wage rates applying to individual employees". We remain of the view that such analysis is informative to a consideration of relative living standards in a context of a decision to adjust base rates of pay.

73. We agree with Ai Group that increased income arising from moving from unemployment to employment lifts living standards. We also agree that additional paid hours of work can have this effect, subject to other household circumstances including care needs, transport costs and welfare tapering. However, we do not accept the argument that the Panel's consideration of relative living standards legitimately calls for a moderation of base rate adjustments in recognition of positive movements in hours worked or the risk of declines in demand contingent additional hours of work. A decision rule that infers moderation on account of relative living standards both when hours of work are rising and when they are falling is most unappealing.

3.2.3 The need to achieve gender equality and improve access to secure work

74. The sole point of the discussion at pages 24-25 of Ai Group's reply submission appears to be to discourage the Panel from accepting our invitation to reconsider the significance of directive language in the objectives which apply during this review. We have said all we wish to say about that issue.

3.2.4 Promoting social inclusion through increased workforce participation.

75. The logical conclusion to be drawn from Ai Group's discussion at pages 27-28 of its reply submission is that it is presently not possible to prove that increases in modern award minimum wages have disemployment effects. We agree.

76. The submissions advanced on page 29 of Ai Group's reply submission are made in apparent ignorance of contemporary movements in minimum wages in other economies as described in paragraphs 228-232 of our initial submission.

3.3 National Retail Association

77. The criticisms directed at the SDA's initial submission in the NRA's reply submission indicate the NRA's ignorance of the detailed analyses presented in Dr O'Brien's research paper which accompanied the SDA's submission. Dr O'Brien's report examines, among other thing, *household* earnings and financial circumstances of retail industry workers (relative to other workers) in order to present a more comprehensive account of living standards than one narrowly focussed on AWOTE for full time workers (including managerial employees).

78. The NRA's submission also criticises for the SDA for claiming that "retail profitability grew in 2022". The SDA submission makes no claim at that level of generality.

79. We do not accept the NRA's criticism of our characterisation of retail turnover. It remains the case that retail turnover is higher than pre-pandemic levels, notwithstanding some recent declines in volume and turnover terms in some categories as discussed section 1.2 above.

3.4 Australian Retailers Association

80. The Australian Retailers Association revised position as stated in its reply submission continues to rely on mechanistic and inappropriate methodology. The criticisms levelled at the ARA's initial position in section 3.4 of our reply submission are equally applicable to the revised position it expresses in its reply submission.

3.5 Restaurant & Catering Industry

81. The submission from the Restaurant & Catering Industry Association is not responsive to any material already filed in the review. It seems to be an initial submission filed late (and without either leave or an application for leave). In our view, leave should not be granted and the submission ought not be considered.

82. In any event, the submission relies almost exclusively on selective observations from the RCA's own "Industry Benchmarking Report", which has not been provided and is not publicly available. From what we can discern, the report is based on surveys which respondents self-select to, including through open invitations on public social media sites including twitter and linkedin. Certainly, the previous year's report, which is publicly available, is inconsistent with the RCA's submission claim that the report is conducted "..with a sample that is statistically relevant , and compared upon year by year". Rather, it seems that there is no effort to consistently control for business size, location, business structure or to otherwise construct a representative sample.

address

ACTU

Level 4 / 365 Queen Street

Melbourne VIC 3000

phone

1300 486 466

web

actu.org.au

australianunions.org.au

ACTU Australian Unions