



STATEMENT

Fair Work Act 2009

s.285—Annual wage reviews to be conducted

Annual Wage Review 2016–17

(C2017/1)

JUSTICE ROSS, PRESIDENT
VICE PRESIDENT HATCHER
DEPUTY PRESIDENT ASBURY
COMMISSIONER HAMPTON
MR COLE
PROFESSOR RICHARDSON
MR GIBBS

MELBOURNE, 6 JUNE 2017

[1] The *Fair Work Act 2009* (Cth) (Act) requires the Fair Work Commission’s Expert Panel for annual wage reviews (Panel) to conduct and complete a review of the national minimum wage (NMW) and minimum wages in modern awards in each financial year. The decision we are issuing today deals with the *Annual Wage Review 2016–17*. The decision directly affects over 2.3 million employees in Australia who are reliant on minimum rates of pay.

[2] As part of the annual wage review the Panel considers both the setting of the NMW rate and whether to make any variations to modern award minimum wages. Each of these tasks is undertaken by reference to the applicable statutory criteria. In setting the NMW rate the Panel must take into account the objects of the Act and the minimum wages objective in s.284. In reviewing modern award minimum wages the Panel must also take these matters into account, as well as the modern awards objective in s.134. We have taken all of these matters into account.

[3] The Panel’s decision-making process should be as transparent as possible. Accordingly, our decision identifies the most significant issues which have affected the outcome in this Review. However, the wide range of data and information before the Panel, and the often complex interaction between the matters we are required to take into account, means that a comparison between Reviews will rarely be straightforward.

[4] We turn first to the economic environment.

[5] The *key changes* in the economic environment in this Review are:

- (i) Real net national disposable income increased by 6.8 per cent over the year to the December 2016, after it fell in the previous year.
- (ii) All measures of inflation have increased since the March quarter 2016, but are currently at the lower end of the RBA's medium-term target range (CPI increased by 2.1 per cent over the year to the March quarter 2017).¹
- (iii) Over the 5 years to the December quarter 2016, labour productivity growth in the market sector was higher than the previous 5-year period and rose sharply in 2016.
- (iv) On an annual basis, profit growth was particularly strong in 2016 compared with the preceding years and above the 5-year and 10-year averages for both total industries and non-mining industries.
- (v) The principal business conditions surveys show that the assessment of business conditions is positive and above long-term average levels.

[6] The economy has continued to grow, slightly below trend, with real GDP increasing by 2.4 per cent over the year to the December quarter 2016. The unemployment rate has been relatively stable, increasing slightly from 5.7 per cent in April 2016 to 5.8 per cent in April 2017. Wages growth remained subdued, growth in the WPI was lower in 2016 than in 2015, growth in AWOTE rose. The subdued inflation means that there is little risk to the macroeconomic inflationary environment from our decision.

[7] The prevailing economic circumstances provide an opportunity to improve the relative living standards of the low paid and to enable them to better meet their needs. Over the last 5 years, the real value of the NMW and modern award rates has grown at 4.3 per cent, which is less than half the rate of growth of labour productivity.

[8] Economic considerations are not the only matters which the Act requires us to take into account. We are also required to take into account a range of social and other considerations. In particular, the 'promotion of social inclusion through increased workforce participation'; 'relative living standards and the needs of the low paid', 'the principle of equal remuneration for work of equal or comparable value', and the 'need to encourage collective bargaining'. No particular primacy is attached to the various considerations we are required to take into account.

[9] Our consideration of the international research on the impact of increases in minimum wages on employment, particularly the UK research, has fortified our view that modest and regular wage increases do not result in disemployment effects. That research also suggests that the Panel's past assessment of what constitutes a 'modest' increase may have been overly cautious, in terms of its assessed disemployment effects.

[10] Some parties proposed a higher adjustment to the NMW than the adjustment they proposed to modern award minimum rates (or to award rates above a certain classification

level), with the apparent intention of providing a more substantial increase to the lowest paid and particularly those living in poverty.

[11] In previous Reviews, the Panel has accepted that if the low paid are forced to live in poverty then their needs are not being met and that those in full-time employment can reasonably expect a standard of living that exceeds poverty levels.² While we have not departed from that position, we acknowledge that the increase we propose to award will not lift all award-reliant employees out of poverty, particularly those households with dependent children and a single-wage earner. However, to grant an increase to the NMW and award minimum rates of the size necessary to immediately lift all full-time workers out of poverty, or an increase of the size proposed by some parties, is likely to have adverse employment effects on those groups who are already marginalised in the labour market, with a corresponding impact on the vulnerability of households to poverty due to loss of employment or hours.

[12] The level of increase we have decided upon will not lead to inflationary pressure and is highly unlikely to have any measurable negative impact on employment. It will, however, mean an improvement in the real wages for those employees who are reliant on the NMW and modern award minimum wages and an improvement in their relative living standards.

[13] We have determined that it is appropriate to increase the NMW and the factors identified in our decision have led us to award an increase of 3.3 per cent. The national minimum wage will be \$694.90 per week, or \$18.29 per hour. The hourly rate has been calculated by dividing the weekly rate by 38, on the basis of the 38-hour week for a full-time employee. This constitutes an increase of \$22.20 per week to the weekly rate or 59 cents per hour to the hourly rate.

[14] Having regard to the proposed NMW and the other relevant considerations, we also consider that it is appropriate to adjust modern award minimum wages. We have also decided to increase modern award minimum wages by 3.3 per cent. Weekly wages will be rounded to the nearest 10 cents.

[15] For the reasons we set out in our decision, no exceptional circumstances have been demonstrated such as to warrant a deferral of the increases we have awarded.

[16] The determinations and order giving effect to our decision will come into operation on 1 July 2017.

[17] The timetable for the *Annual Wage Review 2017–18* will be announced in the third quarter of 2017.

[18] We wish to express our appreciation to the parties who participated in the Review for their contributions and to the staff of the Fair Work Commission for their assistance.

PRESIDENT

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¹ Compare [2016] FWCFB 3500 at para. 245 with the discussion in Chapter 4 of this year's decision.

² [2016] FWCFB 3500 at para. 429; [2015] FWCFB 3500 at para. 383; [2014] FWCFB 3500 at paras 323; 370; [2013] FWCFB 4000 at paras 33; 367.