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2019-20
Annual Wage Review

Australian Chamber of Commerce and Industry

5 June 2020

Further submissions following National Accounts data for the March quarter 2020, responses to supplementary submissions and other data or research published after 29 May 2020

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1. WE ARE IN RECESSION

1. The Australian Chamber of Commerce and Industry (ACCI) appreciates the opportunity to make these further submissions to the 2019-20 Annual Wage Review.

1.1 The March quarter National Accounts

2. The National Accounts data for March quarter 2020, released by the Australian Bureau of Statistics on 3 June 2020, show the economy contracting by 0.3% in the March quarter 2020.[1] On an annual basis, GDP grew of 1.4% from March 2019 to March 2020 — the lowest since the Global Financial Crisis in September 2009

3. The downturn was driven mainly by a decrease in household consumption expenditure, export and private investment.

4. Household consumption fell 1.1% in the March quarter 2020, contributing 0.6% to the decline in GDP.

    a. This is the first decline in household consumption expenditure since the Global Financial Crisis.

    b. The bushfires and ongoing drought in January and early February, combined with the initial effects of the COVID-19 social distancing, shutdown of non-essential services and trading restrictions in the second half of March, all weighed heavily on household consumption in the quarter.

    c. The decline was mainly driven by falling demand for services as a result of the social distancing and travel bans. Services consumption was down 2.4% in the quarter, with transport services (-12%) and hotels, cafes and restaurants (-9.2%) the hardest hit.

    d. Conversely, the short-run panic buying in the early stages of the lockdown led to an increase in spending on goods, up 1%, with an increase in demand for food (5.7%), alcohol (3.5%) and office equipment (1.3%).

5. Exports were down 3.5% in the March quarter 2020. This was driven by the global contraction in economic activity as a result of the COVID-19 crisis, particularly demand from China. Service exports were hardest hit, with a 13.6% decline, due mainly to the travel bans impacting on tourism and education. Goods exports were less affected, with a decline of 0.7%, mainly a result of the drought reducing agricultural exports. However, the decline in exports was offset by a more substantial decline in imports, down 6.2%, a consequence of the decline in household consumption. Overall, net exports made a positive contribution of 0.5% to GDP in the March quarter 2020.

6. Private investment was down 0.4% overall, driven by a 1.7% fall in non-mining business investment. Although this was partially offset by mining sector investment, which rose 3.6% as miners continued to invest in new technology and automation. Public investment was also down 0.7% for the quarter.

[1] ABS 5206.0 - Australian National Accounts: National Income, Expenditure and Product, Mar 2020. 3 June 2020.

7. Gross value added by market sector contracted 0.6%, with notable declines in accommodation and food services (-7.5%), transport, postal and warehousing (-4.9%) and arts and recreation (-2.4%) sectors. This was offset to some extent by some growth in manufacturing (2.1%), retail trade (1.7%), wholesale trade (1.5%) and professional, scientific and technical services (1.5%) sectors.

8. An unexpected offshoot from the March quarter 2020 National Account data is that people have more money in their pockets than they did at the end of 2019.

   a. Household income was up 1.8% in the March quarter 2020, driven mainly by non-labour income (i.e. social assistance payments) such as JobSeeker payments.

   b. Similarly, household savings to income ratio increased to 5.5%, from 3.5% the previous quarter, reflecting the rise in income but a fall in consumption due restrictions on spending (with many businesses forced to shut down) and the current economy uncertainty.

9. Overall, the decline in the March quarter 2020 was modest and below expectations, given the combined impact of the bushfires and ongoing drought at the beginning of the quarter and the beginning of the COVID-19 social distancing, shut down of non-essential services and trade restrictions at the end of the quarter.

10. However, we should in no way be complacent. **The worst is yet to come**.

1.2 The June quarter 2020 will be worse

11. The March quarter data should be viewed as the calm before the storm.

12. The Australian economy is facing a cliff in the June quarter 2020, as the full effect of the COVID-19 social distancing, shutdown of non-essential services and trading restrictions are felt throughout the economy. While the Government support measures, such as JobKeeper, JobSeeker and payments to boost cashflow have been welcome and positive, and will go some way to soften the blow, the impact on the economy of the lockdown has been severe and is likely to continue to be for some time to come.

13. Over 3.5 million employees are being supported through JobKeeper payments.[2] While this is lower than the 6.5 million employees the Government initially estimated eligible to receive the JobKeeper payments, it still represents one third of the workforce. By implication, this indicates that over one third of businesses have experienced a 30% or greater decline in revenue relative to the same time last year (as measured by GST withheld).

14. The ABS Business Impacts of COVID-19 survey showed that 72% of all businesses reported decreased revenue in May 2020 as a result of COVID-19.[3] Further, over half (55%) of all businesses reported that they had applied for and received Government funded wage subsidies (e.g. JobKeeper, apprenticeship wage subsidies etc.).

[2] https://www.afr.com/policy/tax-and-super/later-60b-jobkeeper-error-discovered-20200522-p54vkm
[3] ABS 5676.0.55.003 - Business Indicators, Business Impacts of COVID-19, May 2020, 28 May 2020.

15. Similarly, surveys of ACCI members in April and May 2020 have shown that over one third of small to medium-sized businesses experienced a greater than 80% decline in revenue in April, which increased to a 38% of businesses in May.[4]

16. Overall the ACCI survey showed that 89% of small to medium-sized businesses had experienced some loss of income in April, increasing to 91% of businesses in May, as a result of the COVID-19 social distancing, shutdown of non-essential services and trading restrictions.

17. Other leading indicators also point to a dramatic deterioration in the economy in the June quarter 2020.

    a. The ABS jobs and wages survey showed employment down 7.3% and wages decreasing by 5.4% between 14 March and 2 May 2020.[5]

    b. The ABS Labour Force Survey indicated almost 600,000 jobs were lost, with unemployment increasing by 104,500 people, to 6.2% of the workforce.[6]

    c. Of more concern is the 490,000 people who left the workforce, dragging the participate rate down 2.4% to 63.5%, its lowest level since September 2008.

    d. In addition, retail sales were down 18% in April 2020, with food retailing (-17.4%), cafes, restaurants and takeaway food services (-35.4%), and clothing, footwear and personal accessory retailing (-53.6%) sectors hit the hardest.[7]

18. While it is too early to accurately assess the impact of the COVID-19 social distancing, shutdown of non-essential services and trading restrictions on the economy in the June quarter 2020, recent speeches by Treasurer Frydenberg and Reserve Bank Governor Lowe have indicated that Treasury and RBA modelling are predicting a 10% decline in economic activity in the first half of 2020, with most of the impact being felt in the June quarter. Given GDP fell 0.3% in the March quarter, this implies that the economy will contract by around 9.5% in the June quarter.

19. With the situation continuing to deteriorate, when the June quarter 2020 National Accounts data is released in September 2020, it will confirm that Australia entered a recession in the June quarter 2020. This will end a 29-year unbroken period of economic growth in Australia.

20. There is a wide consensus that the negative growth figure for the June quarter will be greater than the already concerning negative figure for March.

21. In reaching its decision on the 2019-2020 Annual Wage Review the Panel must take into account that the Australian economy is currently operating with substantial artificial support. While reopening has begun, and there is a real prospect of support being wound back, a high level of uncertainty remains over the state of the economy and the likely rate of the recovery, as it does about any re-emergence of COVID-19 virus, and fresh outbreaks of community transmission.

22. If the ABS Business Indicators of COVID-19 and the ACCI COVID-19 Business Conditions surveys are anything to go by over 70% of businesses have been impacted and are facing a very challenging

[4] ACCI CCOVID-19 Business Conditions Survey - Editions 1 (April) and 2 (May). 23 April 2020 and 4 June 2020. https://www.australianchamber.com.au/publication_taxonomies/surveys/
[5] ABS 6160.0.55.001 - Weekly Payroll Jobs and Wages in Australia, Week ending 2 May 2020, 19 May 2020
[6] ABS 6202.0 - Labour Force, Australia, Apr 2020. 14 May 2020.
[7] ABS 8501.0 - Retail Trade, Australia, Apr 2020. 04 June 2020.

financial situation, with small to medium-sized businesses suffering a greater impact than larger businesses. For many small businesses and small business jobs, the challenge is an existential one.

23. It must be remembered that small and medium-sized businesses are typically more labour intensive. They also employ a much higher share of NMW and award wage employees, and are concentrated in the more award reliant industries. Any decision by the Expert Panel to increase NMW and award minimum wages, increasing the cost to businesses at a time when they are under a severe financial stress, will exacerbate the crisis faced by many businesses, impede their recovery, and impact on jobs in these enterprises.

1.3 The uncertainty will continue in the September Quarter 2020, and beyond

24. It is not clear that we have reached the bottom of the downturn or how the economy will perform in the months ahead.

25. Many of the Government support measures are currently scheduled to end in September 2020, including JobKeeper (27 September) and JobSeeker (24 September), apprentice and trainee wage subsidy (30 September), and payments to boost cashflow (30 September). However, there is a high level of uncertainty as to whether the economy will have recovered enough by then and businesses will be strong enough financially to operate without this support. There will be, pending policy approaches to ending payment support, a fresh risk to jobs and businesses.

26. ACCI and many others continue to advocate for these support measures to continue, or at least be phased out slowly, rather than coming to an abrupt end in September 2020. The continuation of these measures is particularly important for sectors where the forced shutdown will remain in place or social distancing requirement continue to constrain business operations beyond September 2020. Again, these are concentrated in the key industries for award reliance / direct labour costs in these reviews.

27. It is likely that many sectors, particularly those involving large social gatherings and reliant on international and domestic travel will not be able to reopen until the end of this year or early 2021. Also, it is likely that social distancing measures, including the limiting of customers in venues (pubs, clubs, cafes, restaurants, theatres, cinemas, etc) and shops, will continue for an extended period, lowering revenue and impeding businesses' ability to recover and pay back debts racked up during the period when they were forced to shut down or their trade was restricted. In addition, higher hygiene requirements are likely to increase costs for businesses, further constraining businesses' recovery. Customer access restrictions in shops, and ongoing concern for health exposures, for example are set to deter some proportion of custom, and dampen incomings.

28. All indicators are that we should be preparing for a slow recovery from recession, and for ongoing uncertainty and risk. The best available forecast of the economy from the Reserve Bank *Statement on Monetary Policy* in May 2020, which optimistically assumes all restrictions, with the exception of international travel, will be released by September 2020.[8] This predicts the economic decline will bottom out sometime in the September quarter, with a slow recovery to begin from there. Overall, economic growth is expected to contract by 6% in 2020, but GDP growth will begin to gain momentum through 2021, with year-end growth of 6% for 2021.

[8] Reserve Bank of Australia 2020, *Statement on Monetary Policy*, RBA May 2020 https://www.rba.gov.au/publications/smp/2020/may/

29. However, even under this scenario, overall GDP will still be below its level going into the COVID-19 crisis (December 2019). While unemployment should hopefully peak at 10% in June quarter 2020, the recovery in the work force will be slow, with unemployment slowly decreasing to 9% by December 2020 and 7.5% by year-end 2021 – remaining almost 50% higher than its level going into the crisis (5.1% in March 2020).

    a. Wages growth is expected to be lower over the next year as businesses make adjustments to labour costs, through both hours worked and the number of employees.

    b. Inflation is expected to remain below 2% for at least the next three years.

30. The very notion that a significant increase in NMW and award minimum wages in the current environment will somehow stimulate consumer spending and provide a boost the economy, as advanced by the ACTU and the Victorian Labor Government, is bizarre and out of touch with the economic reality we face. Not only will it not work, not only will it be damaging to jobs and small businesses in particular, confusing struggling businesses striving to retain people in work with a source of Keynesian stimulus is perhaps the worst possible measure we could take at this point.

31. It is not household disposable income that is holding back consumer spending and economic growth in the current environment, as the National Accounts show household income has increased 1.8% and household savings to income ratio jumped to 5.5% from 3.5% the previous quarter. [9] People clearly have more money in their pockets, but in these uncertain times they are choosing to save rather than spend, as they don't know whether they will have a job and an income tomorrow.

32. Given the trying economic environment we face over the next few years, with many businesses struggling to remain viable and unemployment at exceptionally high levels, any increase in the NMW and award minimum wages, will only work to slow the rate of the recovery from the COVID-induced recession.

33. Raising NMW and award minimum wages will increase the costs on businesses that are in a very fragile financial state, particularly small to medium-sized businesses that are typically more labour intensive and higher share of NMW and award wage employees.

34. We also recall again for the Panel that many of those in directly minimum / award wage reliant employment can be the comparatively least skilled and most marginal in labour markets, whose jobs are inherently the least secure at all stages of the economic cycle, let alone a cycle utterly busted by a global pandemic.

35. What is most important at this time is to strengthen the financial position of businesses, so that they can grow and begin to employ more people. We need to restore confidence in the economy, to encourage consumers to begin spending again and businesses to begin investing again. This will not be achieved by raising NMW and award minimum wages, particularly not on any artificially inflated basis.

[9] ABS 5206.0 - Australian National Accounts: National Income, Expenditure and Product, Mar 2020. 3 June 2020.

2. RESPONSE TO SUPPLEMENTARY SUBNS

36. ACCI thanks the Panel for the opportunity to also respond to supplementary submissions, and we will look next week at the final written opportunity prior to the consultations. Rather than exhaustively deconstruct, line by line, the supplementary submissions of the ACTU, SDA and Victorian Government seeking substantial rises in this review, directly at odds with the outcome we argue the Panel must reach under the statutory parameters for this review, we have instead concentrated on perhaps the key point at issue between proponents and opponents of an increase in 2020.

2.1 ACTU supplementary submission

37. The ACTU in its second reply submission commented that ACCI's submission *"simultaneously asserts tremendous uncertainty about the future and an unshakable belief that the wrong way to respond to that which it does not know, is to raise wages about (above?) CPI (or at all)."*

38. In this respect, ACCI has previously made clear that it is imperative that the Expert Panel take into consideration the March quarter ABS Australian National Accounts, which includes estimates of key economic flows in Australia, including GDP, investment, income and saving, released on 3 June 2020. We thank the Commission for allowing the additional time to address this critical piece of data in the submission process.

39. ACCI previously emphasised in our reply submission "*The full extent of the economic impact however will depend on matters which are still largely unknown, including the spread of the virus (i.e. whether there will be a second or third wave of the pandemic, as some are predicting and as some countries are already experiencing), timing of lifting of restrictions, and the shape, pace and strength of recovery, with the exact profile depending not only upon when and how restrictions are lifted but also on resolving the uncertainty that various actors feel about the future."*

40. This remains true. However, even simply based on what we are able to know now, there is ample data to conclude that there has been a very severe, very sudden deterioration in the economy in the first half of 2020, which strongly supports, ACCI would argue compels, a conclusion that minimum award wages should remain at their current levels.

41. COVID-19 has delivered Australia's first recession in 29 years. The National Accounts March quarter data showed the slide has begun with a national contraction of 0.3 per cent in the March quarter. Annual growth has declined to 1.4 per cent, the weakest annual growth rate since 2000.

42. With the economy, confidence and jobs impacted by measures required to contain COVID-19, it is now even more clear that economic and labour market circumstances to come will be dire. We use that word very deliberately, dire.

43. The Treasurer this week (3 June 2020) said *"clearly, with this once in a century pandemic, the impact on the economy has been very severe, the impact in the June quarter will be even more severe".*[10]

[10] See Matthew Cranston, AFR, '[Australia 'in recession', worse to come in June: Treasurer]', 3 June 2020.

44. To be clear: what we do know at this point supports is the proposition that wages should remain at their current levels. What we don't know but what many experts are predicting, Australia's first recession in 29 years, supports the position ACCI has put to you in this review, even more so.

3. ABOUT ACCI

The Australian Chamber of Commerce and Industry (ACCI) is the largest and most representative business advocacy network in Australia. We speak on behalf of Australian business at home and abroad.

Our membership comprises all state and territory chambers of commerce and dozens of national industry associations. Individual businesses are also able to be members of our Business Leaders Council.

We represent more than 300,000 businesses of all sizes, across all industries and all parts of the country, employing over 4 million Australian workers.

The Australian Chamber strives to make Australia the best place in the world to do business – so that Australians have the jobs, living standards and opportunities to which they aspire.

We seek to create an environment in which businesspeople, employees and independent contractors can achieve their potential as part of a dynamic private sector. We encourage entrepreneurship and innovation to achieve prosperity, economic growth and jobs.

We focus on issues that impact on business, including economics, trade, workplace relations, work health and safety, and employment, education and training.

We advocate for Australian business in public debate and to policy decision-makers, including ministers, shadow ministers, other members of parliament, ministerial policy advisors, public servants, regulators and other national agencies. We represent Australian business in international forums.

We represent the broad interests of the private sector rather than individual clients or a narrow sectional interest.

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