



Fair Work Commission

2023-24 Annual Wage Review

**Submission of the
Government of Western Australia**

28 March 2024

Introduction

1. The Western Australian Government is pleased to make its submission to the Expert Panel of the Fair Work Commission (**the Panel**) for the 2023-24 Annual Wage Review (**AWR**).
2. The AWR process provides critical protection for Australian workers on minimum and award wages. It assists low and middle wage earners with achieving and maintaining an adequate standard of living, particularly given the elevated cost of living pressures many households are currently facing.
3. Under the minimum wages objective in 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, taking into account:
 - the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and
 - the need to achieve gender equality, including by ensuring equal remuneration for work of equal or comparable value, eliminating gender-based undervaluation of work and addressing gender pay gaps; and
 - promoting social inclusion through increased workforce participation; and
 - relative living standards and the needs of the low paid; and
 - providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.
4. The Panel is also required to have regard to the modern awards objective when adjusting rates of pay in awards, 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 The Panel must also take into account the objects of the *Fair Work Act* in performing its functions or exercising its powers, including in the AWR.²
5. The Western Australian Government notes this year's AWR is taking place concurrently with a number of other award-based reviews, including the Modern Awards Review 2023-24, the FWC's gender pay equity research project, and a variety of other reviews necessitated by the recent enactment of the *Fair Work Legislation Amendment (Closing Loopholes) Act 2023* and the *Fair Work Legislation Amendment (Closing Loopholes No.2) Act 2024*.
6. While these reviews will affect certain cohorts of workers in different ways, the importance of the AWR remains paramount in protecting the needs of the low paid.
7. This submission covers some of the economic, social and fairness considerations of relevance to the Panel's deliberations, with a particular focus on issues influencing 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

8. Pursuant to the statutory criteria for minimum wage setting in the national industrial relations jurisdiction, the Western Australian Government encourages the Panel to award a fair and sustainable increase to minimum and award wages.
9. In 2023 the Panel awarded a total increase in the National Minimum Wage (**NMW**) of \$70.20 per week, or 8.63 per cent, by re-aligning the NMW so that it is equal to the C13 classification in modern awards, rather than the historic alignment with the C14 classification.
10. The Panel's decision to realign the NMW was done on the basis that the C14 rate, which is the lowest modern award minimum wage rate, was only ever intended to constitute a transitional entry rate for new employees, and as such, it does not constitute a proper minimum wage safety net for award/agreement free employees in ongoing employment.³ As the Panel noted:

“... there is no requirement in the FW Act for the NMW to align with the lowest modern award adult rate, nor does the NMW operate as a floor to modern award minimum wage rates.”⁴
11. Separate to the setting of the NMW, modern award minimum wages were adjusted by 5.75 per cent in the 2023 AWR, with the increase taking effect from 1 July 2023.
12. This year's AWR takes place in a somewhat volatile and rapidly evolving economic and political landscape. Australian businesses and households face a variety of global and domestic challenges, including cost of living pressures, higher interest rates, and a slowing domestic economy. Ongoing geopolitical conflict in the Ukraine and the Middle East also create a risk of future adverse global supply shocks, including spikes in food, energy and shipping costs.
13. The Western Australian Government notes that headline inflation in Australia has begun to ease, particularly in relation to goods inflation. However, cost of living pressures are still being felt by many households following a sustained period of declining real wages coupled with higher mortgage and interest payments and higher tax payments. Underlying measures of inflation (as measured by the trimmed mean and weighted median) remain above the Reserve Bank of Australia's target range, however they have been trending downward in recent quarters.
14. Price pressures affect both businesses and households. Individuals and families dip into savings as the price of goods and services (particularly non-discretionary items) impacts household budgets. Meanwhile, local businesses face higher input costs, putting pressure on cash flow reserves and in some cases, business viability.
15. The Western Australian Government notes that elevated levels of inflation in Australia in recent times have not been driven by wages. As can be seen in Table 1 below, between the June quarter of 2021 and the September quarter of 2023 Australian employees experienced significant real wage declines.

³ Fair Work Commission (2023), *Annual Wage Review 2022-23*, at [8].

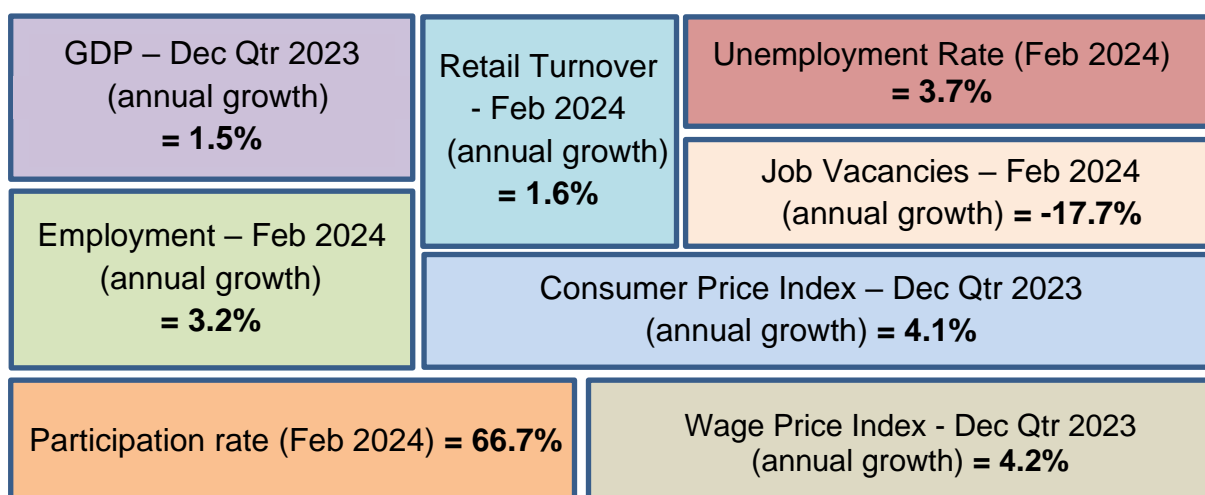
⁴ *Ibid*, at [172.]

Table 1: Annual growth in CPI and WPI – Australia⁵

	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023
CPI	1.1	3.8	3.0	3.5	5.1	6.1	7.3	7.8	7.0	6.0	5.4	4.1
WPI	1.5	1.8	2.2	2.4	2.4	2.7	3.1	3.3	3.6	3.7	4.1	4.2

16. While Australia continues to experience tight labour market conditions, this is beginning to ease as immigration has spiked to record levels and consumer spending has softened considerably. Nonetheless, unemployment remains well below historic averages.
17. The Western Australian Government encourages the Panel to award a fair and sustainable increase to minimum and award wages as part of this year's AWR, balancing economic, social and fairness objectives in a manner that protects Australia's lowest paid workers whilst taking account of the impact on industry and business.

Figure 1: Australia's economic performance at a glance⁶



⁵ Australian Bureau of Statistics (ABS) 2024, *Consumer Price Index – Australia, December Quarter 2023*, Cat. No. 6401.0 and ABS (2024), *Wage Price Index – Australia, December 2023*, Cat. No. 6345.0.

⁶ Figures are current as of 28 March 2024. All data is seasonally adjusted, except for the CPI. Wage Price index data refers to total hourly rates of pay excluding bonuses (public and private sector).

The Western Australian economy

18. 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 conditions in individual States and Territories as part of these proceedings. This section provides an overview of key aspects of the Western Australian economy.
19. Western Australia has a highly trade-exposed economy and is particularly sensitive to global economic conditions, especially those affecting key trading partners. Growth of the global economy slowed to an estimated 3.1 per cent in 2023 (down from 3.5 per cent in 2022), with growth expected to be broadly similar in 2024.
20. Notwithstanding the level of global economic uncertainty, Western Australia's economy continues to perform well. State Final Demand is forecast to grow by 4.5 per cent in 2023-24, following growth of 3.8 per cent in 2022-23. The domestic economy is being supported by stronger than expected population growth, elevated consumer spending and a pick-up in business investment.
21. Exports are expected to act as a moderator on overall economic growth, with agricultural exports expected to normalise from record highs because of hotter and drier weather conditions. Inflation is expected to fall to 4.0 per cent by June 2024,⁷ as improved global supply chains impact consumer prices.
22. Job vacancies have come off a historic peak in 2022 and have stabilised at a high level (and even declined more recently). Notwithstanding this, the labour market remains relatively tight. Employment is forecast to grow by a robust 2.5 per cent in 2023-24, following strong growth in 2022-23.
23. The unemployment rate for Western Australia is forecast to average 3.75 per cent in 2023-24, before gradually rising thereafter as labour supply improves on the back of rising overseas migration.
24. The participation rate is forecast to rise to 68.9 per cent in 2023-24 from 68.7 per cent in 2022-23, remaining elevated by historic standards. Workforce participation is expected to ease in the coming years in line with an ageing population, averaging 68.4 per cent by 2026-27.
25. 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 2023-24 Mid-year Financial Projects Statement which was finalised in December 2023. Updated forecasts will be published in the 2024-25 State Budget in May 2024.

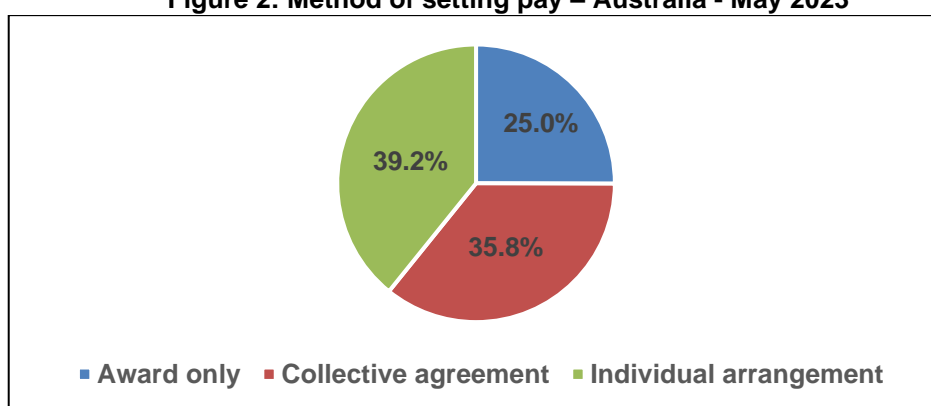
⁷ Growth in the Perth CPI (excluding the electricity subcomponent, which is highly volatile due to the household electricity subsidy provided across the state) was 3.9 per cent in the year to December 2023.

Employees impacted by the AWR

Employees paid in accordance with awards

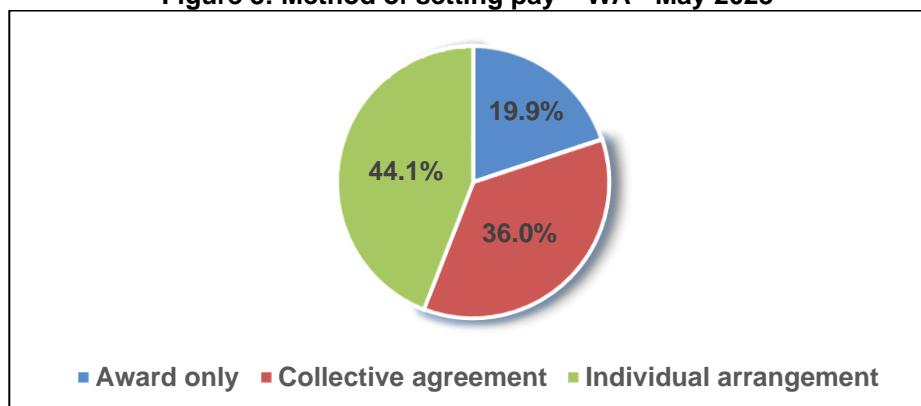
26. Award-reliant workers are particularly dependent on pay increases determined by the FWC to meet their everyday living costs. The AWR plays a critical role in sustaining the financial wellbeing of many Australian workers, particularly those in lower paid classifications.
27. Some 2.92 million Australian employees were paid solely in accordance with an award in May 2023, representing 25.0 per cent of all non-managerial employees. The Western Australian Government notes there has been an increase in award-reliance in recent years.

Figure 2: Method of setting pay – Australia - May 2023⁸



28. As indicated in Figure 3 below, in Western Australia, 19.9 per cent of all non-managerial employees were paid solely in accordance with an award in 2023. While this represents an increase in award reliance since 2018, in Western Australia award reliance remains below the national average. The vast majority of award only employees are in the national industrial relations system. In Western Australia, the cohort of award reliant employees includes some private sector employees in the state industrial relations system, and a small number of state and local government employees.

Figure 3: Method of setting pay – WA - May 2023⁹

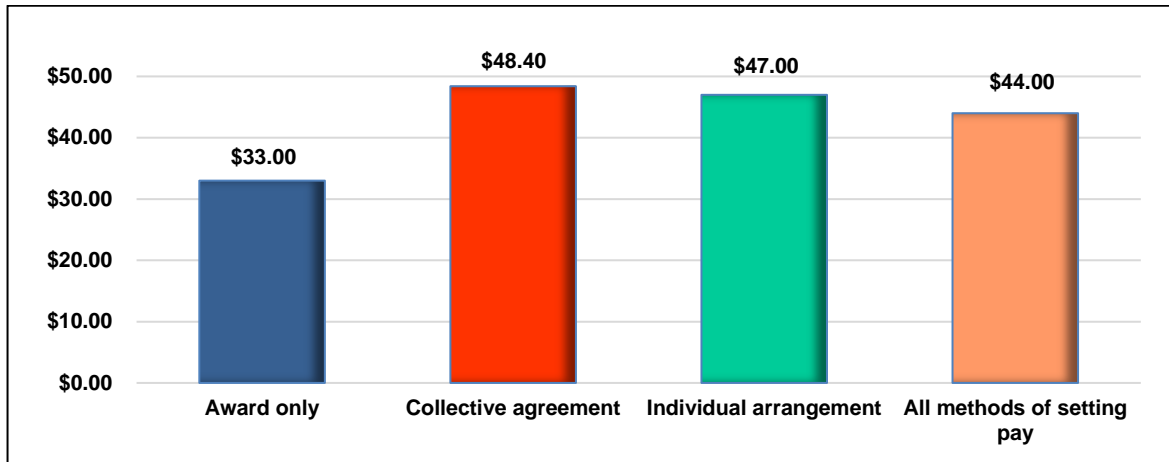


⁸ ABS (2024), *Employee Earnings and Hours – Australia, May 2023*, Catalogue 6306.0.

⁹ Ibid.

29. The latest available data from 2023 indicates that award only employees earn significantly less on average than employees working under other pay setting arrangements. Award only employees earned just 75 per cent of the average for all employees across the nation, reinforcing the important role the AWR plays in protecting Australia’s most vulnerable workers.

Figure 4 - Average hourly cash earnings by method of setting pay - Australia - May 2023¹⁰



30. In Western Australia, the gap in average hourly earnings between award only employees and those employed under other pay setting arrangements is even more acute, with award only employees earning just \$30.50 per hour, or 66.6 per cent of the average for all employees.

Figure 5 - Average hourly cash earnings by method of setting pay - WA - May 2023¹¹



31. As Table 2 below illustrates, over 39 per cent of all Western Australian employees work in the six most award-reliant industries, and there is a 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. A fair and sustainable wage increase will assist many of these employees to meet their everyday needs.

¹⁰ Ibid.

¹¹ Ibid.

Table 2: Employment and award reliance by industry - WA and Australia, February 2024

Industry	WA: Proportion of Workforce ¹²	Australia: Proportion of Workforce ¹²	Australia: Proportion of employees paid by award ¹³
Accommodation and Food Services	5.8%	6.4%	63.4%
Administrative and Support Services	3.0%	3.0%	40.5%
Retail Trade	8.9%	9.6%	35.1%
Health Care and Social Assistance	16.3%	15.6%	35.0%
Arts and Recreation Services	1.4%	1.9%	32.7%
Other Services	3.8%	3.7%	31.4%
Rental, Hiring and Real Estate Services	1.3%	1.6%	19.1%
Manufacturing	4.9%	6.3%	18.7%
Construction	8.7%	9.2%	16.2%
Public Administration and Safety	5.4%	6.5%	15.2%
Transport, Postal and Warehousing	5.4%	5.1%	14.7%
Wholesale Trade	2.8%	2.8%	13.8%
Professional, Scientific and Technical Services	8.5%	9.3%	9.9%
Information Media and Telecommunications	0.8%	1.3%	9.6%
Education and Training	8.8%	8.4%	7.4%
Electricity, Gas, Water and Waste Services	1.2%	1.2%	4.9%
Financial and Insurance Services	2.3%	3.7%	3.6%
Mining	8.9%	2.1%	2.5%
Agriculture, Forestry and Fishing	1.9%	2.3%	N/A [†]
All industries	100.0%	100.0%	25.0%

[†] 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.

¹² ABS (2024), *Labour Force, Australia, Detailed, February 2024*, Catalogue 6291.0.55.001.

¹³ ABS (2024), *Employee Earnings and Hours, Australia, May 2023*, Catalogue 6306.0. References are to non-managerial employees.

Employees paid under enterprise agreements

32. The national award system underpins the enterprise bargaining framework. Modern awards establish 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.¹⁴
33. The Western Australian Government is pleased to note that most of the legacy (or ‘zombie’) agreements entered into prior to 1 January 2010 automatically terminated on 7 December 2023 on account of sunset provisions in the *Fair Work Legislation Amendment (Secure Jobs, Better Pay) Act 2022*. Many of these agreements provided for inferior conditions of employment that fell below the standards of the relevant national modern award that would otherwise apply.
34. Several hundred zombie agreements have either had their default period extended by the FWC or are subject to a current FWC application to extend the default period. Some of the employees covered by these agreements may be impacted by the Panel’s decision in this year’s AWR, when the base rates of pay in modern awards are adjusted.
35. The number and proportion of employees working under enterprise agreements in the national industrial relations system has been declining in recent years – an issue that has been widely canvassed.
36. In Western Australia there has also been a decline in federal enterprise agreement usage, with the number of current agreements falling from 960 to 913 in the three years to December 2023, and the number of employees covered by these agreements declining from 109,400 to 91,200 over the same period.¹⁵
37. While there has been declining usage of federal enterprise agreements in recent years, the Western Australian Government notes recent legislative amendments to the *Fair Work Act* are specifically designed to foster an increased uptake of collective bargaining in Australian workplaces.
38. The most recent figures for agreement registrations (for the December Quarter 2023) show an increase in the number of agreements registered as well as an increase in the number of employees covered by newly registered agreements. While it is too early to tell if this is a longer-term trend, it is nonetheless an encouraging sign.¹⁶
39. The impact of this year’s AWR Decision will therefore extend to many employees subject to enterprise agreements, either indirectly through the BOOT and the establishment of the floor for base wages, or more directly where federal enterprise agreements peg future pay rises to award wage increases in the AWR.

¹⁴ Pursuant to section 206 of the *Fair Work Act* base wages in enterprise agreements cannot fall below the base rates of pay in any national modern award that is applicable to the employee.

¹⁵ Department of Employment and Workplace Relations (2024), *Trends in Federal Enterprise Bargaining Report*, December Quarter 2023.

¹⁶ Wages growth in federal enterprise agreements is also increasing. Across Australia, the Average Annualised Wage Increase (AAWI) for new agreements has increased from 2.6 per cent in the September Quarter 2022 to 4.3 per cent in the December Quarter 2023.

Employees covered by individual arrangements

40. While many employees working under individual arrangements providing for above award rates of pay are not directly impacted by the AWR, it is not uncommon for such employees to have contracts of employment linking wage increases to changes in the NMW or modern award wages.
41. Employees receiving rates of pay only marginally above those contained in applicable modern awards may also be affected by the AWR decision, depending on the quantum of any increase awarded.
42. The AWR process can also have a 'signaling' effect on wage movements more broadly. In the 2022-23 AWR decision the Panel noted:

More broadly, and particularly in the context of the current strong labour market, it is possible that the Review wages outcome may 'send' a signal to the labour market concerning expectations for wage increases which may influence the outcome of current or future enterprise bargaining and individual employment contract negotiations. This is a matter which we will take into account in relation to economic and labour market considerations.¹⁷
43. As noted in Figures 2 and 3 above, in May 2023, 44 per cent of employees in Western Australia and 39 percent of employees nationally were employed under individual arrangements, making this the most common method of pay setting.

¹⁷ Fair Work Commission (2023), *Annual Wage Review 2022-23*, at [57].

Further considerations

Promoting social inclusion

44. The minimum wages objective in the *Fair Work Act* requires the Panel to take into account the concept of promoting social inclusion through increased workforce participation as part of the safety net of fair minimum wages.¹⁸
45. The national participation rate remains strong, sitting at 66.7 per cent in February 2024, after falling to a low of 62.2 per cent in May 2020 during the height of the COVID-19 lockdowns.¹⁹ Increased workforce participation can have significant benefits for the economy and the broader community, as well as for households. Paid employment can lift household disposable income, strengthen financial security and wellbeing, and enable greater social and community inclusion for workers and their families.
46. Increased workforce participation is also important in combating labour and skills shortages - an issue that has affected many sectors in Australia in recent years. It enables businesses to meet demand during peak periods, bolstering domestic spending and economic activity.
47. While there are a variety of factors that influence workforce participation, increases to minimum and award wages can help to incentivise participation in the labour force, particularly amongst cohorts that have traditionally been disadvantaged such as older workers, youth and people with a disability.
48. The Panel can help to foster increased workforce participation by delivering a fair and sustainable increase to minimum and award wages which enables paid employment to remain an attractive option for prospective workers.

Collective bargaining

49. The willingness of employers and employees to engage in collective bargaining is driven by a range of factors, many of which are unrelated to wages. In this regard, the Western Australian Government notes that recent legislative amendments to the *Fair Work Act* are designed to drive increased enterprise bargaining in Australian workplaces, particularly in lower-paid and traditionally feminised industries.
50. There is little evidence to suggest that increases in modern award wages in recent years has significantly affected the incidence of collective agreement making, as many of the factors impacting on the take up of bargaining have related to legislative and regulatory issues.

¹⁸ Section 284(1)(b) of the *Fair Work Act*.

¹⁹ ABS (2024), *Labour Force, Australia – February 2024*, Cat. No. 6202.0 (seasonally adjusted data).

51. As the FWC observed in last year's decision:

Over the last 12 months, the number of enterprise agreements made has, broadly speaking, returned to the position immediately before the COVID-19 pandemic. There has been no decline in the number of agreements lodged for approval following the 2021-22 Review decision, notwithstanding that this decision awarded the highest nominal increase to the NMW and modern award minimum wage rates since the FW Act commenced. The factor most likely to influence the extent of enterprise bargaining over the next 12 months is the major amendments to the enterprise bargaining and enterprise agreement approval provisions of the FW Act effected by the Amending Act. We have no sound basis to consider that, within a reasonable range, any increase we order to the NMW and modern award minimum wage rates will either encourage or discourage enterprise bargaining. Accordingly, this is not a matter to which we give any significant weight in reaching our decision in this Review.²⁰

52. The Western Australian Government concurs with the above observation and submits that awarding a fair and sustainable wage increase is, in itself, unlikely to have any material impact on the take up of collective bargaining.

Equal remuneration

53. The Western Australian Government notes that following on from the 2022 changes to the *Fair Work Act*, which expanded the minimum wages objective and enhanced the imperative for considering gender equity in the AWR, the FWC has commenced a significant gender equity research project.

54. Under the minimum wages objective, the FWC is required to take into account “the need to achieve gender equity, including by ensuring equal remuneration for work of equal or comparable value, eliminating gender-based undervaluation of work and addressing gender pay gaps”.²¹

55. The Western Australian Government acknowledges the FWC's stage 1 research report, ‘Gender-based Occupational Segregation: A National Data Profile’, delivered on 6 November 2023, which has commenced initial work identifying gender-based undervaluation issues in 12 modern awards.

56. The stage 1 report, published as part of the gender equity research project identifying the priority occupations and industries affected by high levels of feminisation where undervaluation and pay equity issues are most likely to occur, is an important step in addressing gender equity in awards and throughout Australian workplaces.²²

57. The Western Australian Government notes the statistics in this report, which entail a comprehensive assessment of structural undervaluation of work performed by women, and is in broad agreement with the principle that wage and award reviews are an appropriate mechanism for addressing this problem.

²⁰ Fair Work Commission (2023), *Annual Wage Review 2022-23*, at [155].

²¹ Section 284(1)(aa) of the *Fair Work Act*.

²² Natasha Cortis, Yuvisthi Naidoo, Melissa Wong & Bruce Bradbury (2023), *Gender-based Occupational Segregation: A National Data Profile*, Final Report, prepared for the Fair Work Commission.

58. The Western Australian Government also notes the FWC recently issued a decision in Stage 3 of the Aged Care Work Value Case, awarding a series of further increases to various workers in the aged care sector. The Western Australian Government welcomes this decision and notes the outcome of this case will have a significant impact on those workers engaged in vital work that has traditionally been undervalued.
59. While individual cases such as those outlined above are of vital importance in achieving gender equality, the Panel’s decision in the AWR can also play a positive role. As noted by the Panel in last year’s decision:
- We have also taken into account the recent robustness of the labour market, and the fact that increases to modern award minimum wage rates will provide a disproportionate benefit to female workers and may contribute to narrowing the aggregate gender pay gap across the entire employee workforce.²³
60. As illustrated in Table 3 below, as of November 2023 the gender pay gap (as measured by Average Weekly Ordinary Time Earnings (**AWOTE**)) was 21.7 per cent in Western Australia and 12.0 per cent nationally.²⁴
61. Western Australia’s gender pay gap has decreased over the last 12 months but remains higher than that in other jurisdictions, in part due to a concentration of men in certain highly paid industries.

Table 3: Gender Pay Gap – by State / Territory – November 2023²⁵

State / Territory	Male AWOTE	Female AWOTE	Gender Pay Gap
NSW	\$1,977.50	\$1,760.20	11.0%
VIC	\$1,941.20	\$1,733.30	10.7%
QLD	\$1,931.50	\$1,709.80	11.5%
SA	\$1,793.80	\$1,628.80	9.2%
WA	\$2,301.60	\$1,802.00	21.7%
TAS	\$1,704.30	\$1,612.20	5.4%
NT	\$1,974.90	\$1,671.10	15.4%
ACT	\$2,185.80	\$1,959.70	10.3%
AUS	\$1,982.80	\$1,744.80	12.0%

62. There are many complex and inter-related factors that create and sustain the gender pay gap and wage related gender inequality for women across their working lives and into retirement.
63. While the causes of gender inequality are complex and varied, the ongoing gender pay gap and its impact on working women and their families is a critical issue for minimum wage setting.
64. A fair and sustainable increase to minimum rates of pay is one avenue to advance gender equality in Australian workplaces, particularly for lower paid women who are at greater risk of financial disadvantage and poverty, and who are more likely to be paid in accordance with national modern awards.

²³ Fair Work Commission (2023), *Annual Wage Review 2022-23*, at [9].

²⁴ ABS (2024), *Average Weekly Earnings, Australia, November 2023*, Catalogue 6302.0 (seasonally adjusted data).

²⁵ Ibid.

Conclusion

65. As part of the AWR deliberations each year, the Panel is required to consider a broad range of disparate criteria relevant to the underlying framework governing minimum wage setting in Australia.
66. This year's AWR proceedings are taking place in a volatile and rapidly evolving economic and political landscape, with a degree of uncertainty concerning certain key developments, in particular the rate at which inflation continues to decline and whether economic activity continues to slow in many advanced economies.
67. Notwithstanding the challenges of recent years, the Australian economy has shown a significant degree of resilience, with historically tight labour market conditions only recently beginning to ease.
68. Australian workers have experienced a significant reduction in purchasing power since early 2021, with elevated levels of inflation, rising mortgage rates and increased housing costs weighing heavily on many low and middle income households.
69. While Governments can and do play a part in alleviating cost of living pressures facing many households, regular adjustments to minimum and award wages remain an essential element of Australia's wage setting framework. This is particularly the case when many workers are struggling to make ends meet.
70. The Western Australian Government encourages the Panel to award a fair and sustainable increase to wages in the 2023-24 AWR, that takes account of the economic, social and fairness objectives prescribed in the *Fair Work Act*.
71. Business viability and economic growth objectives need to be balanced against the requirements to protect the living standards of the low paid and to ensure fair minimum standards of work. The Panel is best placed to make such an assessment.
72. 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 2023-24 Government Mid-year Financial Projections Statement (Mid-year Review) published on 19 December 2023.

SUMMARY

The 2023-24 Mid-year Review forecasts the Western Australian economy, as measured by Gross State Product (GSP), to grow by 1.75% in 2023-24, easing from 3.5% growth in 2022-23, the strongest growth in nine years. The moderation largely reflects a significant decline in exports due to a fall in agricultural production after a record harvest in 2022-23. GSP is then forecast to grow by a further 2% in 2024-25.

Despite higher interest rates and elevated consumer prices, the Western Australian economy remained resilient over 2023. Growth in the domestic economy (as measured by State Final Demand) has been very strong, supported by investment spending from both businesses and the State Government and is expected to strengthen to 4.5% in 2023-24 from 3.8% in 2022-23.

While growth in household consumption is expected to moderate in 2023-24 as households taper their discretionary spending, it is nevertheless expected to stay elevated and contribute to growth, supported by strong population growth, robust growth in employment (particularly in the high wage mining sector), and a lift in wage growth. The Mid-year Review forecast is for household consumption to grow by 2.5% in 2023-24, easing from 3.5% growth in 2022-23.

The Mid-year Review forecasts the State's population to grow by 2.4% in 2023-24, following 3.1% growth in 2022-23, which was the strongest growth since 2008-09. Population growth is then expected to ease to 1.7% per year over the forecast period.

Labour market conditions in Western Australia remain robust, with record employment and a low unemployment rate. While demand for labour remains strong relative to the period prior to the pandemic, the number of job advertisements has begun to ease, and the unemployment rate has crept up, though it remains historically low. The unemployment rate averaged 3.6% in 2022-23 and is forecast to drift upward to 3.75% in 2023-24 and 4% in 2024-25.

Recent tight labour market conditions have supported a lift in wages growth, as measured by the Wage Price Index (WPI), which grew by 4.7% in year-ended terms in 2023, the strongest growth in a decade, up from 3.6% in 2022. Wages growth has begun to outpace inflation, as the Consumer Price Index for Perth grew by 3.6% in year-ended terms in 2023.

The State's economic outlook is subject to several potential risks. While the Western Australian economy has navigated the impact of higher interest rates to date, the higher rate environment continues to pose a risk given that interest rate changes flow through to repayments with a lag, and that there is still a sizeable portion of loans on lower fixed rates that are yet to expire. The expiry of loans in particular may result in a further slowing in discretionary spending.

The dominance of mining in the Western Australian economy also means the State's economy is exposed to movements in the commodity price, and weaker commodity prices remain a risk to the State's economic activity.

Geopolitical tensions also remain elevated, with the ongoing war in Ukraine, the conflict in Gaza and disruptions to shipping through the Suez Canal all posing risks. The extent to which these have broader spillover effects on the global economy is uncertain.

Economic conditions in Western Australia rely heavily on the outlook of the State's major trading partner, China, which is facing challenges in residential construction and weak domestic demand. This presents challenges to the State's resources sector, with recent data showing a fall in the iron ore price, as well as other commodities.

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

NATIONAL ACCOUNTS DATA

The latest data published by the Australian Bureau of Statistics (ABS) in November 2023 shows that Western Australia's economy grew by 3.5% in 2022-23, emerging from the pandemic period without an economic contraction. Exports returned as a primary driver during the year, after briefly detracting from Gross State Product in 2021-22, following the pandemic. Growth in 2022-23 was also underpinned by strength in household consumption and Government spending.

On an industry basis, 'mining' remained the largest contributor to the State's economy in 2022-23, composing 47.2% of Gross Value Added. The next largest contributors were 'construction' (5.3%) and 'health care and social assistance' (4.8%).

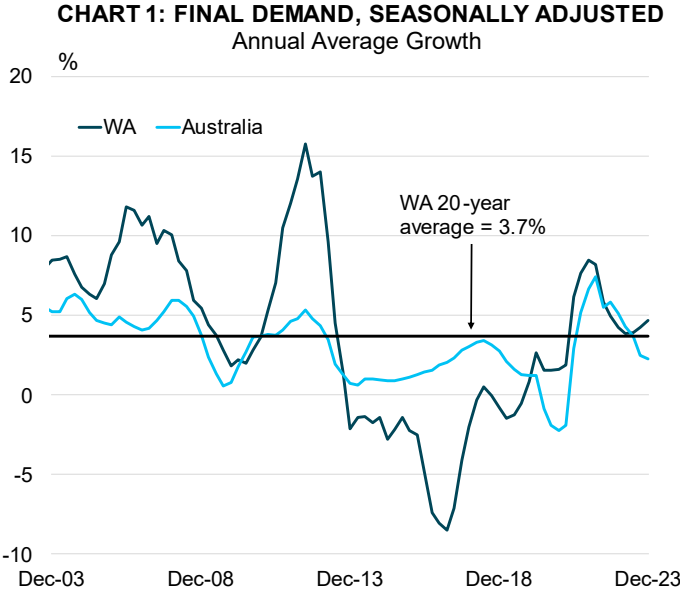
GSP growth is projected to slow to 1.75% in 2023-24 and rise slightly to 2% in 2024-25. This reflects the combined impact of a slowdown in household discretionary spending from record levels during the pandemic, and a moderation in the pace of growth in Government consumption and investment as the impact of short-term initiatives including related health spending unwind. The moderation in GSP growth also reflects weaker merchandise export growth, primarily due to hotter and drier weather conditions impacting grain production in 2023-24, large iron ore producers operating at close to capacity, and a return to a more normal level of spending by Western Australians travelling overseas in the near term.

More recent data shows that the domestic economy (as measured by State Final Demand, SFD) grew by 0.8% in the December quarter, and by 4.7% in 2023, up from 4.2% in 2022, underpinned by growth across all key components. Chart 1 shows that domestic economic growth in WA has outpaced the national equivalent recently, following a period of similar growth since the pandemic.

Household consumption grew by 0.9% in the December quarter, following a decline of 0.4% in the September quarter and 0.8% in the June quarter of 2023. Of the 0.9% growth in the December quarter, 'electricity, gas and other fuel' contributed 0.6 percentage points, which is largely attributed to the issuance of the State's Household Electricity Credit, which dampened consumption of electricity in the September quarter. Outside of this, growth in the December quarter was driven by food, rent, and operation of vehicles.

Business investment grew by 0.7% in the December quarter, following a very strong 8.2% in September. This was due to a rise in non-dwelling construction, including in mining and student accommodation, partially offset by a decline in new machinery and equipment in the December quarter, though this followed three consecutive quarters of growth.

Dwelling investment declined by 4.6% in the December quarter, following four quarters of growth, due to a decline in new dwelling investment (constrained by shortages of finishing trades), partly offset by growth in alterations and additions.



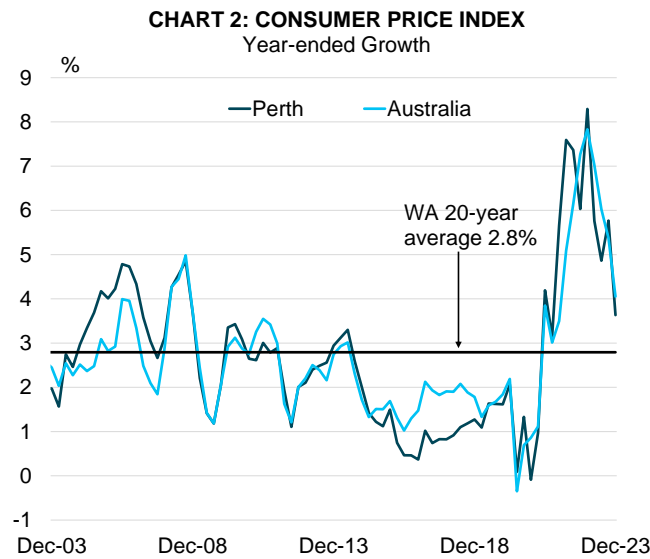
EXPENDITURE COMPONENTS OF DOMESTIC DEMAND
December 2023 Seasonally Adjusted

	<u>Western Australia (%)</u>		<u>Australia (%)</u>	
	<u>Quarter</u>	<u>Year</u>	<u>Quarter</u>	<u>Year</u>
Private Consumption	0.9	2.7	0.1	1.1
Business Investment	0.7	10.7	0.7	9.1
Dwelling Investment	-4.6	4.5	-3.8	-2.0
Government Consumption	0.0	1.4	0.6	1.7
Government Investment	6.0	18.0	-0.2	11.0
Final Demand	0.8	4.7	0.1	2.3
Exports ¹	3.4	1.5	-0.3	6.8
Imports ¹	3.3	11.7	-3.4	3.3
Gross Domestic Product	n.a	n.a	0.2	2.1

¹ Trade components include both merchandise and services trade

CONSUMER PRICE INDEX

Current Inflation Trends



Perth's headline Consumer Price Index (CPI) grew by 1.5% in the December quarter 2023, a strong result relative to the 20-year average of 0.7%. The strength in this result largely reflects the impact of the State Government's \$400 Household Electricity Credit (HEC), which temporarily reduced the cost of electricity to some households in the September quarter 2023. Excluding the electricity sub-component, CPI grew by 0.8% in the December quarter. Housing was also a significant sub-component, contributing 1.21 percentage points to

CPI in the December quarter.

Perth's headline CPI grew by 3.6% in year-ended terms in December 2023, the weakest result since September 2021. The weakening in year-ended growth over this period can be attributed to easing in global supply constraints and the impact of interest rates on discretionary demand.

In the housing sector, there have been delays to residential construction, due to ongoing labour shortages, while material shortages have broadly eased. Strong demand in recent years has led to a record number of homes under construction and rising input costs have driven a lift in the price of new houses. A very tight rental market (the Perth vacancy rate in February was 0.7%, near its 40-year low) has led to a rise in rents.

Inflation Outlook

The 2023-24 Mid-year Review includes a forecast for the Perth CPI (excluding electricity) to increase by 4% in year-ended terms in the June quarter 2024, down from 8.6% in the December quarter 2022.

The moderation in consumer prices growth reflects global supply chain pressures continuing to improve, although price growth is likely to be supported by persistent inflation for services items (partly driven by elevated business costs) and rent prices (as market conditions remain tight).

The next set of forecasts for the Perth CPI will be published in the 2024-25 Budget, to be released in May 2024.

LABOUR MARKET

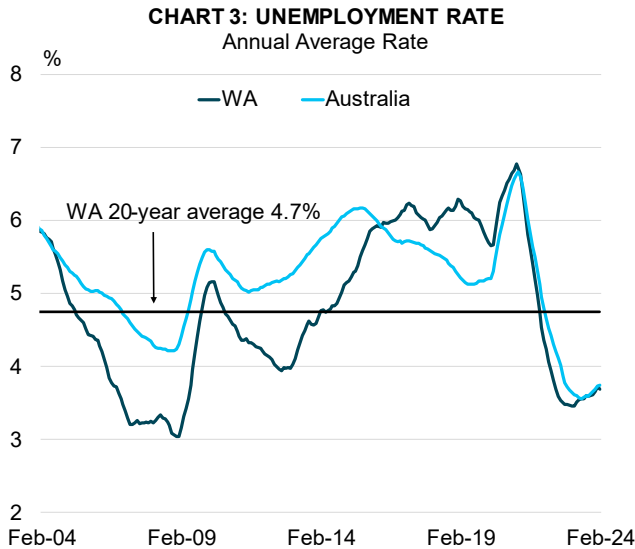
Labour market conditions in Western Australia remain strong, with employment reaching a record level in February 2024 and the unemployment rate remaining low at 3.6%. This is in contrast to a recent but moderate fall in job advertisements and numerous reports of layoffs in the mining sector. These appear to have had limited impact on the overall labour market to date.

Prior to February 2024, there were tentative signs that the labour market was softening, with employment broadly stabilising at an elevated level, unemployment creeping up from recent lows, and job advertisements levelling off. However, there was a strong rebound in labour market conditions in February, with the strongest monthly jobs growth in almost three years (1.7% during the month) and a sharp fall in the unemployment rate, to 3.6% from 4.3% in January. Employment growth strengthened to 3.3% in annual average terms in February 2024.

In monthly terms, both full-time and part-time employment were at record levels in February 2024, though there has been a recent trend towards part-time hiring. In line with a shift towards more part-time workers, total monthly hours worked have eased from a peak in April 2023.

Workforce participation has recently eased slightly from a recent peak of 69% in 2022 to 68.7% in annual average terms in February 2024. In the period since the onset of the pandemic, growth in the labour force has been supported by increased participation by women, which is at a record 64.1% in annual average terms in February 2024. This has been partially offset by a fall in the annual average participation rate for men, from 74.2% in late 2022 to 73.5% in February 2024.

While the unemployment rate has crept up from a recent trough of 3.2% in three-month average terms in May 2022, it remains historically low, averaging 3.7% in the twelve months to February 2024. In line with the overall increase in labour market capacity, the youth unemployment rate has risen to 9% in annual average terms in February, from 8.1% in March 2023, when it was the lowest in over 14 years.



Another indicator of spare capacity in the labour market is the underemployment rate, which has also fallen substantially following the onset of the pandemic. The underemployment rate averaged 6% in the year to February 2024, remaining near a decade low.

Labour Force Outlook

Labour market conditions are tracking ahead of expectations, with employment growing by 3.3% in annual average terms in February 2024, outpacing the Mid-year Review forecast of 2.5% in 2023-24. The unemployment rate has averaged 3.7% over the twelve months to February 2024, in line with the Mid-year Review forecast of 3.75% in 2023-24.

Employment growth is expected to ease to 1.75% in 2024-25 in response to more moderate growth in the domestic economy. Growth over the remaining forward estimates is projected to remain near the 10-year average rate of 1.5% per annum. The unemployment rate is forecast to rise to 4% in 2024-25 and gradually thereafter, reaching 4.5% by 2026-27, still below the average of 5.3% over the past decade.

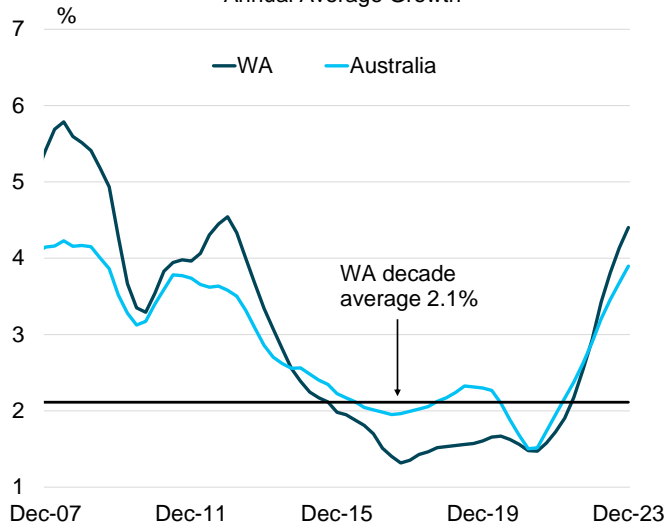
WAGES

Tight labour market conditions and elevated inflation have flowed through to wage growth in Western Australia recently.

The State's Wage Price Index (WPI) grew by 0.8% in the December quarter 2023, and by 4.7% in year-ended terms, up from 3.6% in 2022 (Chart 4). Growth was supported by tighter labour market conditions and boosted by the implementation of Federal and State minimum and award wage decisions, including the 15% increase for aged care workers.

Year-ended growth for wages in the private sector was steady at 4.6% in the December quarter, remaining the highest since September 2012. Wages growth in the public sector strengthened to 5.2% in year-ended terms in December – the highest since September 2009, though this was impacted by the lagged implementation of the State Government's public sector wages policy (which has seen some sections of the public sector receive two pay increases over the past year).

CHART 4: WAGE PRICE INDEX
Annual Average Growth



Earnings

Seasonally adjusted, total average weekly earnings (AWE) in Western Australia grew by 2% in annual average terms, to reach \$1,542.30 in 2023.¹ In level terms, AWE in Western Australia is the highest of all the States, and behind only the ACT (\$1,664.50), although annual average growth in Western Australia was the most subdued of all States in 2023.

Average weekly full-time ordinary earnings (AWOTE) increased by 5.6% in 2023 to reach \$2,107.70, the strongest of all States. This measure of average wages adjusts for the composition of full-time and part-time employment.

Growth in the various average weekly earnings measures tends to be more volatile than growth in the WPI in States like Western Australia. 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 year-ended growth of 4.2% in June 2023, the Mid-year Review projects the WPI to grow by a further 4.25% by June 2024. Wages growth is then forecast to moderate over the outyears but remain at or above 3%.

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 is now 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.