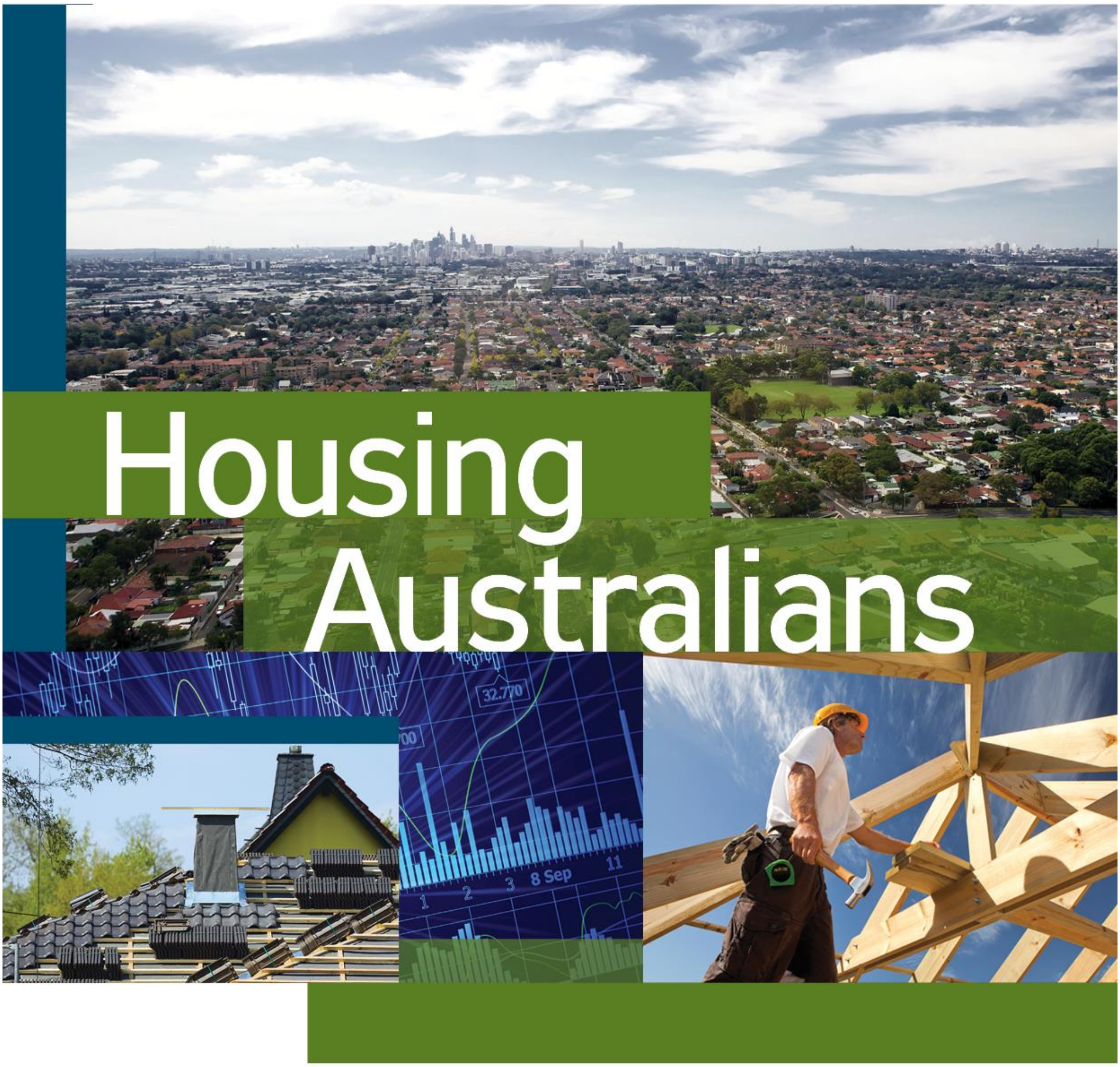
HOUSING INDUSTRY ASSOCIATION



Submission to the
Fair Work Commission

National Annual Minimum Wage Review 2019

15 March 2019

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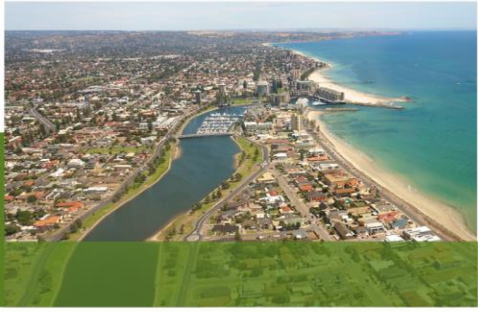

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Housing Industry Association

1. INTRODUCTION

The residential building industry is one of Australia's most dynamic, innovative and efficient service industries and is a key driver of the Australian economy.

The aggregate residential industry contribution to the Australian economy is over $100 billion per annum, with over one million workers in the construction industry, of which tens of thousands are small businesses reliant on the industry for their livelihood.

The residential building industry is one of the most important sectors of the Australian economy providing housing for millions of Australians. A home is often the greatest source of wealth and savings for many families. The industry contributes to the economy in a number of ways providing hundreds of thousands of Australians with jobs, generating billions of dollars of economic output each year and stimulating spending on housing services.

The residential building industry ranges from single dwelling construction to multi-unit apartment buildings, and also encompasses the home renovations market. The industry has important linkages with other sectors, such as manufacturing and retailing, so that its impacts on the economy go well beyond the direct contribution of construction activities. The flow-on or "multiplier" effects of construction activity on the outputs of other industries are well recognised.[1]

A large proportion of employers in the industry are small businesses. These employers rely heavily on award rates of pay and terms and conditions. They operate in a very competitive market where costs are tightly controlled and profit margins are low. These employers are highly sensitive to economic conditions affecting them, including the effects of employment regulation and wage increases.

In recent times the residential building industry has been experiencing historically high levels of construction activity, although HIA expects a marked turndown of activity in the years ahead.

Whilst measured increases to household income may help alleviate some affordability stresses, increasing labour input costs in the construction of housing at the same time, without any link to productivity improvements, will impact project costs. This in turn affects housing affordability. Increases in wages inherently place added cost pressures on businesses making them less likely to grow, invest or take on additional employees. This can also create demand side implications including tightening the supply of existing skilled trades and reducing the entry of new apprentices to the industry placing further pressure on existing businesses to meet demand.

Last year's minimum wage increase and the 2016-2017 annual wage increase, have been the highest the economy has seen in recent years. The need for a cautious approach is imperative, the cumulative impact of minimum wage increases, and current market conditions suggest the economy has limited capacity to manage another significant wage increase.

[1] See speech by Christopher Kent, Assistant Reserve Bank Governor for a summary of the importance of housing to the Australian economy: http://www.rba.gov.au/speeches/2013/sp-ag-140313.html

2. MINIMUM WAGES

In making a national minimum wage order the Expert Panel must be guided by the minimum wages objective in section 284 of the *Fair Work Act 2009*:

> *The Fair Work Commission must 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*
> - *promoting social inclusion through increased workforce participation; and*
> - *relative living standards and the needs of the low paid; and*
> - *the principle of equal remuneration for work of equal or comparable value; and*
> - *providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.*

HIA address those factors affecting the residential building industry below.

2.1 Performance And Competitiveness Of The National Economy, Including Productivity, Business Competitiveness And Viability, Inflation And Employment Growth

The residential building industry commenced a near record volume of new homes in 2018. For the fifth consecutive year there will be more than 200,000 homes built, 20 per cent higher than any year preceding the current cycle.

Unfortunately, the strong performance of new home building in 2018 represents a situation where the industry was been working through the pipeline of work that had accumulated earlier in the cycle. A marked slowdown in activity is anticipated over the years ahead.

Confidence in the housing market fell away as dwelling prices corrected, adversely impacting all buyer segments. Investors and owner occupiers are delaying purchase decisions and foreign investment has also fallen dramatically. The reduced level of demand has been evident in the market for established dwelling and the market for new homes.

Throughout the second half of 2018 leading indicators for new home building – from vacant land sales, to new home sales, building approvals and finance for new housing – have been unanimously pointing to material decline in new home building.

The slowdown in building approvals accelerated late last year, especially for approvals of apartments in east coast capital cities. Multi-unit dwelling approvals were 40.1 per cent lower in the December quarter 2018 compared with the same quarter of the previous year. Detached house approvals are more resilient and down by just 7.8 per cent in the December quarter 2018 compared with the same quarter the previous year.

The lending environment for home buyers changed significantly since 2017. The cumulative impact of APRA's interventions in the mortgage market over recent years became increasingly evident as 2018 progressed. Growth in housing credit to investors – which was the initial target of APRA's macroprudential interventions – is down to 1.1 per cent over the year to December 2018, the slowest growth since this data series began during the early 1980s. Owner-occupier housing credit growth has also dropped to its slowest rate since late 2015. For the month of December 2018, aggregate growth in housing credit was less than 0.3 per cent – the slowest monthly growth recorded since July 1984.

The number of loans for the purchase or construction of new dwellings by owner-occupiers have been consistently falling since mid-2017. The decline to date has seen lending activity drop back to levels observed in October 2013.

Expectations for the Australian economy over the year ahead are mixed. Some forecasters see more of the reasonable rates of growth that we saw in the first half of 2018 while others expect growth to slow.

The optimists note that the labour market is strong, there are signs that wage growth is finally re-emerging, the Federal Budget is set to return to a surplus and income tax cuts are legislated to follow. These cuts will support household expenditure, helping to ward off risks of a wealth effect stemming from falling property prices.

The pessimists give greater weighting to the downside risks to the economic outlook stemming from the downturn in the housing market. These declines could weigh on the household sector to the point of precipitating wider-reaching economic effects (e.g. weigh on household consumption patterns and labour market outcomes).The weak result for GDP growth of only 0.2 per cent (2.3 per cent over the year) in the December 2018 quarter supports the notion that economic growth is slowing.

State of the Residential Building Industry

Home building has been an important driver of economic growth in Australia over the past five years. In the years ahead, stronger growth in other sectors of the economy will be needed to pull housing forward. The degree to which this occurs will be pivotal in determining the speed and depth of the housing downturn.

HIA forecast a sustained downturn in home building over the next few years. Given the particularly strong levels of home building activity at the peak of the current cycle, the magnitude of the forecast decline (-23 per cent from peak to trough) is significant. A decline of this magnitude would still see around 180,000 new home starts at the low point of the forthcoming cycle (in 2020/21). In context of the industry's longer term history this would be considered a strong level of activity at the bottom of a cycle.

Detached starts are forecast to decline by 7.7 per cent in 2018/19 and then by 6.2 per cent in 2019/20 and to reach a trough of around 104,000 houses in 2020/21. The multi-unit market is a greater risk during the contractionary phase of the cycle. Multi-unit starts are forecast to decline by 15.1 per cent in 2018/19 and then by a further 13.5 per cent in 2019/20. The series of annual declines are expected to see multi-unit starts reach a trough of around 76,600 dwellings in 2020/21.

Consistent with the reduction in residential building activity, the construction labour force is likely to experience a reduction in demand. A reduction in demand for labour across the construction supply chain is also likely. Among other things, this could affect property services, manufacturing, wholesale and retail trade, and transport and logistics.

With respect to the potential impact on inflation, any direct contribution to inflation from residential building is likely to be modest. The downturn in residential building activity is likely to see building companies competing for business more aggressively which may include discounted pricing. Growth in prices paid by owner-occupiers purchasing new homes is unlikely to be a significant contributor to inflation over the next few years.

Growth in rental prices is also unlikely to be a significant contributor to inflation over the years ahead. The boost in the supply of housing over recent years has already seen rental vacancy rise and rental price inflation easing. The supply of housing is expected to continue to grow in the short term as apartment projects that were commenced at the peak of the housing cycle are completed and reach the market.

2.2 PROMOTING SOCIAL INCLUSION THROUGH INCREASED WORKFORCE PARTICIPATION.

2.3 PROVIDING A COMPREHENSIVE RANGE OF FAIR MINIMUM WAGES TO JUNIOR EMPLOYEES, EMPLOYEES TO WHOM TRAINING ARRANGEMENTS APPLY AND EMPLOYEES WITH A DISABILITY.

Apprentice and trainee completion, cancellation and withdrawal rates, continue to be a concern for the industry. The availability of skilled workers to meet business needs continues to be mismatched, with skilled trades like bricklaying, plastering and tiling in high demand due to substantial skill shortages for these trades.

The two most significant challenges to growing the labour force are the large cohort of workers approaching retirement, and the high rate of attrition amongst new apprentices. Latest NCVER data[2] shows that as at 30 September 2018 there were 267 385 apprentices and trainees in-training, a decrease of 0.6 per cent from 30 September 2017. Apprenticeship commencements followed the same trend with a 5 per cent decline for the 2018 September quarter compared to the 2017 September quarter. Cancellations and withdrawals increased to 23,725 in the 2018 September quarter, a 2.4 per cent increase over the 2017 September quarter.

While commencements for construction trades for the 12 months ending 30 September 2018 are marginally up by 1.5 per cent this is likely to be illustrative of increased activity in the industry and subject to the cyclical nature of the sector, the significant increase in cancellations and withdrawals for trades is concerning. In the 12 months ending 30 September 2018 cancellation and withdrawal rates for apprentice and trainee trades was up by 1710, representing a 10.2 per cent increase. The past five years has shown a continued upward trend of cancellations and withdrawals, with a 49.2 per cent increase in cancellations and withdrawals in 12 months ending 30 September 2014 to 2018.

Considering completion and attrition rates for employees generally, in 2017 contract completion rates were 52.7% for all occupations, a decrease from 55.4% for those commencing in 2012. For trades occupations the contract completion rates in 2017 were 47.1%, a decrease from 48.5% for those commencing in 2012.[3]With an increasing number of withdrawals/cancellations, and a decrease in completions, keeping an apprentice in training seems to be surfacing as a dominant challenge. While

[2] NCVER 2019, *Australian vocational education and training statistics: apprentices and trainees 2018 — September quarter*, NCVER, Adelaide

[3] NCVER 2018, *Completion and attrition rates for apprentices and trainees 2017*, NCVER Adelaide

a complex issue, arguments that higher rates of pay can act as an incentive for individuals to undertake and remain in apprenticeships[4], this must be balanced against the cost of employing such labour, both in terms of their wages and the ability to contribute in a productive way on a construction site. Also to be considered are the costs associated with on the job training carried out by the employer. The cost of the failure to adequately support businesses in the residential building industry to increase their capacity or attract new entrants is extraordinarily high, as it is likely to lead to further substantial skills shortages and potentially a decline in quality of building.

The majority of apprentices in the residential building industry are employed by small businesses with a turnover of less than $500,000. For some of these firms the increases in apprentice wages, especially in the first two years of progression, have made employing an apprentice financially unviable.

HIA submit that the Expert Panel should have regard to these factors during this minimum wage review.

3. CONCLUSION

It is important that minimum wage policy settings as determined by the Expert Panel, encourage both investment and employment.

In the residential building sector, new housing construction will experience a sustained downturn over the next few years, leading to a reduction in demand for labour in the industry.

Further, the current conditions affecting apprentice employment deserves special consideration. These conditions include the continual and consistent reductions in apprentice and trainee completion rates, and growth in cancellation and withdrawal rates nationally. Wage increases undoubtedly affect the capacity of small business in particular to sustain the continued employment of apprentices to obtain completion status, leading to the eventual heightening of skills shortages in industry.

HIA urges the Expert Panel to take these issues into account when considering its minimum wage decision.

[4] *Modern Award Review 2012 – Apprentice, Trainees and Juniors* [2013] FWCFB 5411