

# **Fair Work Commission Expert Panel**

## **Annual Wage Review 2022-23**

Submission from the Government of South Australia

March 2023



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## Introduction

1. The Government of South Australia welcomes the opportunity to make this submission to the Expert Panel of the Fair Work Commission (the Panel) for its consideration as part of the Annual Wage Review (AWR) 2022-23.
2. Under the current national workplace relations framework, the Government of South Australia supports minimum wages being maintained at a level that provides a safety net for minimum wage and award-reliant workers, whilst continuing to underpin enterprise bargaining.
3. The Government of South Australia recommends that the Panel adopt a fair and balanced approach, which allows wage growth to reflect a fair share of labour productivity growth, and fairness and inclusivity in the sharing of economic prosperity.

# The Statutory Context

## South Australia's Referral of Industrial Relations Powers

4. The *Fair Work (Commonwealth Powers) Act 2009* referred certain South Australian industrial relations powers to the Commonwealth. As part of the referral arrangements, South Australia signed the Multilateral Intergovernmental Agreement for National Workplace Relations System for the Private Sector (IGA).
5. The South Australian public sector, including almost all Government Business Enterprises (with the exception of SA Water and the Rail Commissioner), and the local government sector, remains in South Australia's industrial relations system subject to the *Fair Work Act 1994* (SA).
6. Accordingly, any National Minimum Wage (NMW) Order and determination on modern award minimum wages made by the Panel affects the whole of South Australia's private sector.

## Fair Work Act 2009 (Cth)

7. In making a NMW Order, the Panel must take into account the following sections of the *Fair Work Act 2009* (Cth) (FW Act):

### **Section 3: Object of this Act**

*The object of this Act is to provide a balanced framework for co-operative and productive workplace relations that promotes national economic prosperity and social inclusion for all Australians by:*

- (a) *providing workplace relations laws that are fair to working Australians, are flexible for businesses, promote productivity and economic growth for Australia's future economic prosperity and take into account Australia's international labour obligations; and*
- (b) *ensuring a guaranteed safety net of fair, relevant and enforceable minimum terms and conditions through the National Employment Standards, modern awards and national minimum wage orders;*

### **Section 284: The minimum wages objective**

*284 (1) The FWC must establish and maintain a safety net of fair minimum wages, taking into account:*

- (a) *the performance and competitiveness of the national economy including productivity, business competitiveness and viability, inflation and employment growth; and*
- (b) *promoting social inclusion through increased workforce participation; and*
- (c) *relative living standards and the needs of the low paid; and*
- (d) *the principle of equal remuneration for work of equal or comparable value; and*
- (e) *providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.*

8. In reviewing modern award minimum wages the Panel must take these matters into account, as well as the modern awards objective in section 134 of the FW Act.
9. The Government of South Australia in particular recognises the following elements of the modern award objective in section 134 of the FW Act:
  - (f) *the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden; and*
  - (h) *the likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy.*

## Award Reliance

*Nationally and in South Australia, award reliance has increased over time.*

10. The Australian Bureau of Statistics' (ABS) Employee Earnings and Hours survey classifies employees by different methods of setting pay; as 'award only', 'collective agreement', and 'individual arrangement'. Employees are classified as 'award only' (otherwise referred to as 'award-reliant') if they are paid at (and not above) the rate of pay specified in the award.
11. According to the 2021 survey, 24.7 per cent (2,657,900) of non-managerial employees in Australia are classified as 'award only'. This was higher than the corresponding figures of 20.4 per cent in 2014, 24.5 per cent in 2016 and 22.5 per cent in 2018.<sup>1</sup>
12. In South Australia, the number of non-managerial employees classified as 'award only' has risen consistently from 99,200 in 2014 to 137,900 in 2016, to 165,000 in 2018 and finally to 227,100 in 2021 – accounting for 29.9 per cent of all non-managerial employees (significantly higher than the corresponding national share of 24.7 per cent).
13. Over the same period in South Australia, the proportion of non-managerial employees covered by a collective agreement has declined from 50.3 per cent in 2014 to 39.5 per cent in 2021.

*Award reliance varies widely between industries.*

14. At the national level, industries with the highest proportion of non-managerial employees classified as 'award only' in 2021, are:
  - Accommodation and food services (63.0 per cent)
  - Administrative and support services (44.9 per cent)
  - Other services (42.1 per cent)
  - Health care and social assistance (34.3 per cent)
  - Retail trade (30.8 per cent).<sup>2</sup>

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<sup>1</sup> ABS, *Employee Earnings and Hours, Australia* (previously Cat No 6306.0), May 2014, May 2016, May 2018 and May 2021 data cube 5, table 5

<sup>2</sup> *ibid*, table 4 (state-level breakdowns not published).

15. Non-managerial employees in smaller businesses are more likely to be award-reliant than in larger businesses. At the national level in 2021, for businesses with fewer than 20 employees, 35.3 per cent of employees were award-reliant, compared to the average of 24.7 per cent for all businesses.<sup>3</sup>

*Nationally and in South Australia, small business is a significant contributor to total employment.*

16. The proportion of employees working in micro and small businesses in South Australia is 39.6 per cent in June 2021.<sup>4</sup>

## The Government of South Australia's Position

*Fair and balanced*

17. The Government of South Australia acknowledges the importance of the Fair Work Commission (FWC) setting a safety net for minimum wage and award-reliant workers, particularly those on low incomes. More generally, the ability for people on low incomes to meet rising costs of living is also supported by a range of other policies, including the tax and welfare systems.
18. The 2021-22 FWC AWR decision was responsible for a large share of 2022 wages growth in South Australia. As cost of living continues to weigh on household budgets, South Australians earning award wages will rely on a rise in the National Minimum Wage to mitigate the high price inflation in non-discretionary goods that has occurred throughout 2022, and is likely to continue into 2023.
19. The Government of South Australia recommends that the Panel adopt a fair and balanced approach, which allows wage growth to reflect a fair share of labour productivity growth, and recognises the disproportionate impact that rising inflation is having on the cost of living for those on lower incomes.
20. The rationale for the position taken in this year's submission seeks to support an outcome in relation to the national minimum wage, which can underpin the sustainability of the economic and labour market recovery while also addressing fairness, workforce inclusion and participation, and a sharing of national prosperity.
21. A priority of the South Australian Government is to improve the wellbeing and equality of women. While increasing the National Minimum Wage by itself may not eliminate the gender pay gap, doing so can improve the adequacy of incomes for workers on lower incomes, including in industries where women are more highly represented.

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<sup>3</sup> *ibid*, table 7 (state-level breakdowns not published).

<sup>4</sup> ABS, *Australian Industry 2020-21* (previously Cat No 8155.0)

# Economic Factors

## International economy

22. The global economy grew by an estimated 3.4 per cent in 2022, following growth of 6.2 per cent in 2021. In the January 2023 World Economic Outlook Update, the International Monetary Fund (IMF) forecasts global output to rise by 2.9 per cent in 2023 and by 3.1 per cent in 2024.
23. The IMF notes high inflation worldwide, and that, as a result, achieving sustained disinflation is the policy priority in most economies. The IMF notes that monetary policy is starting to reduce inflation, but that the full impact of monetary policy tightening is unlikely to be fully realised until 2024.
24. The IMF comments that *“the rise in central bank rates to fight inflation and Russia’s war in Ukraine continue to weigh on economic activity”*, and expects inflation to fall due to declining commodity prices, and the cooling effects of monetary policy tightening. The IMF expects that inflation will be lower in 2023 than in 2022 in 84 per cent of countries and globally inflation is expected to fall from 8.8 per cent in 2022 to 6.6 per cent in 2023 and 4.3 per cent in 2024.<sup>5</sup>
25. The IMF’s global growth forecast has been upwardly revised since October due to recent developments in China’s COVID-19 policy. Advanced economies - including many of Australia’s key economic partners - are forecast to record growth of only 1.2 per cent in 2023 though followed by slightly stronger growth of 1.4 per cent in 2024.
26. The Reserve Bank of Australia (RBA) also notes high inflation globally. Looking forward, the RBA notes that although services inflation remains high in many advanced economies, inflation is expected to have peaked.<sup>6</sup>
27. The RBA highlights China’s reversal of its COVID-19 policy in mid-December, and subsequent hastened economic recovery, and expects that this will add to global growth and support Australia’s terms of trade and national income.<sup>7</sup>
28. The RBA expects that the cumulative effect of synchronous interest rate rises by central banks in advanced economies will be the primary factor weighing on global growth in the period ahead, though notes the slowing pace of rate increases.<sup>8</sup>
29. The RBA notes that growth has been upwardly revised in the three largest economies; China, the USA, and the euro area, though forecasts *“subdued”* global growth, well below its historical average, in 2023 and 2024.<sup>9</sup>

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<sup>5</sup> IMF, *World Economic Outlook Update*, January 2023

<sup>6</sup> RBA, *Statement on Monetary Policy*, 7 February 2023, page 1

<sup>7</sup> *ibid*, page 1

<sup>8</sup> *ibid*, page 3

<sup>9</sup> *ibid*, page 11

## Australian economic growth

30. In the financial year 2021-22, Australia's gross domestic product (GDP) increased by 3.9 per cent. This growth reflected strong recovery from the COVID-19 pandemic, particularly in the December quarter 2022. In the four quarters to the December quarter 2022, GDP growth was lower, at 2.7 per cent.
31. Contributing to the increase in 2021-22 GDP were public consumption, dwelling investment, household consumption, and private and public investment. Partly offsetting the increase was a fall in net exports.
32. The RBA expects slow economic growth in 2023, as rising interest rates, high cost of living and declining real wealth (as a result of falling house prices) weigh on the economy. The RBA highlights the "competing forces" of strong labour markets and high inflation and interest rates as a key source of uncertainty to the national outlook.<sup>10</sup>
33. The Commonwealth Treasury forecasts Australian year-average GDP growth of 3¼ per cent in 2022-23 and 1½ per cent in 2023-24<sup>11</sup> while the RBA forecasts 3½ per cent in 2022-23 and also forecasts 1½ per cent in 2023-24.<sup>12</sup>
34. With growth widely anticipated to slow globally and nationally, the impacts of an economic slowdown are likely to be felt most severely by those on low incomes.

## South Australian economic growth

35. South Australia's real Gross State Product (GSP) rose by 5.1 per cent in 2021-22, following growth of 4.7 per cent in the previous year.<sup>13</sup> In the ten years prior to 2020-21, South Australia's GSP increased at an average annual rate of 1.6 per cent.

## Australian labour market conditions

36. Australia's seasonally adjusted unemployment rate was 3.5 per cent in February 2023, down from 4.0 per cent recorded a year earlier. The seasonally adjusted under-employment rate was 5.8 per cent in February 2023, bringing the rate of under-utilisation to 9.4 per cent.<sup>14</sup> The RBA believes that unemployment has reached its low point, and forecasts the unemployment rate to be 3¾ per cent by the end of 2023 before gradually rising to be 4¼ per cent by the end of 2024.<sup>15</sup>
37. The IMF notes that wage inflation in Australia has remained low compared to other advanced economies, despite a tight labour market and has been low since 2015. The IMF notes that Wages in Australia are less sensitive to tightness in the labour market than in other countries. The IMF also highlights that wage agreements cover a substantial portion of the workforce, and this fact, coupled with longer average duration of wage agreements in recent year partially explains why Australian wage growth has been low.<sup>16</sup>

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<sup>10</sup> RBA, *Statement on Monetary Policy*, 7 February 2023, page 69

<sup>11</sup> Commonwealth of Australia, *October Budget 2022-23*, Table 1.1, page 6

<sup>12</sup> RBA, *Statement on Monetary Policy*, 7 February 2023, Table 5.1, page 71

<sup>13</sup> ABS, *Australian National Accounts: State Accounts* (previously Cat No 5220.0)

<sup>14</sup> ABS, *Labour Force* (previously Cat No 6202.0)

<sup>15</sup> RBA, *Statement on Monetary Policy*, 7 February 2023, Table 5.1 page 71

<sup>16</sup> IMF, *Country Report No. 23/51 - Australia Selected Issues*, February 2023

38. Australia's low levels of wage inflation suggest that rising wages are not a substantial driver of the current bout of inflation.

### South Australian labour market conditions

39. South Australia's labour market has been very tight for some time, with employment and unemployment at or near record high and low levels respectively.

40. In February 2023, the South Australia's unemployment rate was 3.8 per cent (seasonally adjusted). The South Australian under-employment rate was 6.9 per cent, bringing the state's under-utilisation rate to 10.7 per cent. The under-employment rate in South Australia is higher for women (8.5 per cent) than for men (5.4 per cent).<sup>17</sup>

41. In February 2023, there were 41,400 unemployed people in South Australia, of whom 12,000 (29 per cent) were long-term unemployed (for 52 weeks or more), in original terms.<sup>18</sup> The percentage of long-term unemployed is higher in South Australia than at the national level (21 per cent).

42. Over the two years from November 2020 to November 2022, industries that recorded growth in total employment<sup>19</sup> in South Australia (in original terms) included:

- Health care and social assistance;
- Construction;
- Education and training;
- Financial and insurance services;
- Manufacturing;
- Mining;
- Accommodation and food services;
- Information media and telecommunications
- Electricity, gas, water and waste services;
- Professional scientific and technical services; and
- Agriculture forestry and fishing.

43. Over the same period, South Australian industries that recorded a fall in total employment included:

- Administrative and support services;
- Retail trade;
- Wholesale trade;
- Rental, hiring and real estate services; and
- Public administration and safety.

44. Declines in jobs in these industries reflect the enduring impacts from the period during which Australia's international borders were closed and policies implemented to contain the spread of the virus.

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<sup>17</sup> ABS, Labour Force (previously Cat No 6202.0)

<sup>18</sup> ABS, *Labour Force, Australia, Detailed*, (previously Cat No 6291.0.55.001), Pivot table UM2

<sup>19</sup> ABS, *Labour Force, Australia, Detailed* (previously Cat No 6291.0.55.003), Table 5



45. While the effect of the pandemic on the economy is fading, historically low unemployment means South Australian businesses are struggling to find staff, with businesses in the service sector particularly effected.
46. Skills shortages are having a positive impact on wages in some sectors of the economy where businesses are paying at or above award levels in order to attract and retain staff. However, employees on minimum wages are likely to be largely reliant on FWC determinations for wages growth. As stated by many firms on the RBA's liaison program *"the outlook for wages growth is uncertain and will depend on future Fair Work Commission decisions, inflation outcomes and how labour market conditions evolve over the period ahead."*<sup>20</sup>

### South Australian business conditions

47. Recently published survey data for the December quarter suggests that business conditions remain positive. Business SA's Survey of Business Expectations reports that business conditions are slightly positive, while the NAB Quarterly Business survey reports that conditions are strongly positive.
48. Recently published survey data for the December quarter suggests that business confidence is mixed. Business SA's Survey of Business Expectations reports that business confidence is negative, while NAB's Quarterly Business survey reports that confidence is slightly positive.

### Inflation outlook

49. Broadly, the causes of inflation can be divided into two different categories.
50. Cost-push inflation occurs when input costs (such as labour, raw materials, fuel) rise, and businesses need to raise prices of final products accordingly. Causes may be short-term (such as a flood raising the price of fresh fruit or vegetables or closed international borders restricting the supply of migrant labour) or longer-term (such as increases in fuel and transport costs due to supply chain disruptions, and from the war in Ukraine).
51. Demand-pull inflation occurs when demand across the economy ("aggregate demand") is rising faster than goods or services that are being supplied ("aggregate supply") which results in an increase in prices. In theory, demand-pull inflation should be temporary, because businesses increase supply to take advantage of higher prices.
52. The Australian economy is currently experiencing high inflation from both cost-push inflation (due to the war in Ukraine and resulting high commodities prices) and demand-pull inflation (due to high household spending).
53. The headline consumer price index (CPI) rose 7.8 per cent through the year to the December quarter 2022, following a rise of 3.5 per cent in the previous year (to December quarter 2021). In Adelaide, CPI rose 8.6 per cent through the year to December 2022.

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<sup>20</sup> RBA, *Statement on Monetary Policy, February 2023*, Page 37

54. Some of the CPI component groups that displayed high growth in Adelaide in the year to the December quarter 2022 were housing (up 12.7 per cent), food and non-alcoholic beverages (up 9.8 per cent) and transport (up 9.3 per cent). Each of these component groups experienced growth rates above their corresponding rates nationally.
55. The Australian Bureau of Statistics (ABS) categorises inflation in to discretionary and non-discretionary items. On average over the 16 years since December quarter 2006, non-discretionary CPI rose at a faster rate (2.9 per cent per annum) than discretionary CPI excluding tobacco (1.5 per cent per annum).
56. Price inflation is widespread in the Australian economy. Measures of “underlying” inflation, which remove highly volatile components of the CPI to filter out price shocks are also growing rapidly. One measure (the trimmed mean) increased by 1.7 per cent in the December quarter to be 6.9 per cent higher than a year earlier.
57. Mortgage interest rates in Australia had been at historically low levels in recent years, but have risen sharply as the RBA has raised the target cash at every meeting since May 2022 by a cumulative 3.6 percentage points. As a result, the cost of servicing mortgages has risen and will continue to rise.
58. The RBA expects to further raise rates<sup>21</sup> and a substantial number of fixed-rate mortgage contracts are set to expire through 2023. For households on lower incomes, this is likely to place further constraints on other non-discretionary types of household expenditure.
59. As interest rates have risen, house prices have been falling across Australia, but so far to a much lesser extent in Adelaide.
60. The RBA considers it likely that inflation peaked at the end of 2022, and forecasts inflation to fall to 4¾ per cent by the end of 2023, and further to 3¼ per cent by the end of 2024.<sup>22</sup> The IMF expects that broad-based inflationary pressures will decline, and inflation will return to the (RBA's) target band (of 2 to 3 per cent) by the end of 2024.<sup>23</sup>
61. While inflation is expected to subside over the year, without deflation the cost of living will remain elevated. In other words, without a period of growth where wages catch-up to recent cost-of-living increases, real wages will remain depressed.

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<sup>21</sup> RBA, *Statement by Philip Lowe, Governor: Monetary Policy Decision*, 7 February 2023

<sup>22</sup> RBA, *Statement by Philip Lowe, governor: Monetary Policy Decision*, 7 February 2023

<sup>23</sup> IMF, *Country Report No. 23/51 - Australia Selected Issues*, February 2023

## Wages growth

62. The ABS Wage Price Index (WPI) is considered to be the most reliable measure of the underlying growth in wages over time because it is adjusted for the number of hours worked, and for compositional changes (for example, a change in the proportion of the population working in higher-paid as opposed to lower-paid industries). The WPI measures changes in the wages and salaries paid by employers for a unit (i.e. hour) of labour where the quality and quantity of labour are held constant.
63. Measured by the WPI, in the year to the December quarter 2022:
- Australian wages rose by 3.4 per cent
  - South Australian wages rose 3.5 per cent (reflecting private sector wage growth of 3.8 per cent and public sector wage growth of 2.9 per cent).<sup>24</sup>

*The outcome of last year's Annual Wage Review has substantially driven growth in private sector wages over the past year.*

64. Private sector wage growth in 2022 was driven significantly by growth in the September quarter (1.7 per cent in the quarter nationally, 2.0 per cent in South Australia).
65. Other than in the September quarter, private sector wage growth in the other three quarters was much lower – in the range of 0.5 to 0.8 per cent per quarter nationally and in South Australia. This suggests that labour shortages have not been a large driver of wages growth in the private sector.
66. The outcome of last year's (2021-22) AWR was an increase of 5.2 per cent in the NMW. This decision (effective conditionally from 1 July 2022) lifted the NMW to \$812.60 per week, or \$21.38 per hour, and for most workers, came into effect on the first full pay period after 1 July 2022 (i.e. at the beginning of the September quarter).
67. Senior economists at the Commonwealth Bank of Australia<sup>25</sup> and ANZ Bank<sup>26</sup> agree that there is no evidence of a “wage price spiral” emerging in Australia.
68. The National Minimum Wage (NMW) has grown in real terms in the last five years. The NMW has increased by 3.2 per cent per annum over the past five years (June 2017 to June 2022), while the CPI has risen by 2.6 per cent per annum over the same period.
69. In the 5 years from 2017 to 2022 the South Australian WPI grew 2.3 per cent per year (December to December), while the South Australian adult, full-time average weekly ordinary time earnings (AWOTE) grew 3.2 per cent in the same period (November to November).<sup>27</sup>
70. The WPI grew 3.5 per cent in the year to the December quarter 2022, primarily driven by the 1.8 per cent wage growth recorded in the September quarter. This high September quarter growth reflects the FWC's 2021-22 AWR decision coming into effect.

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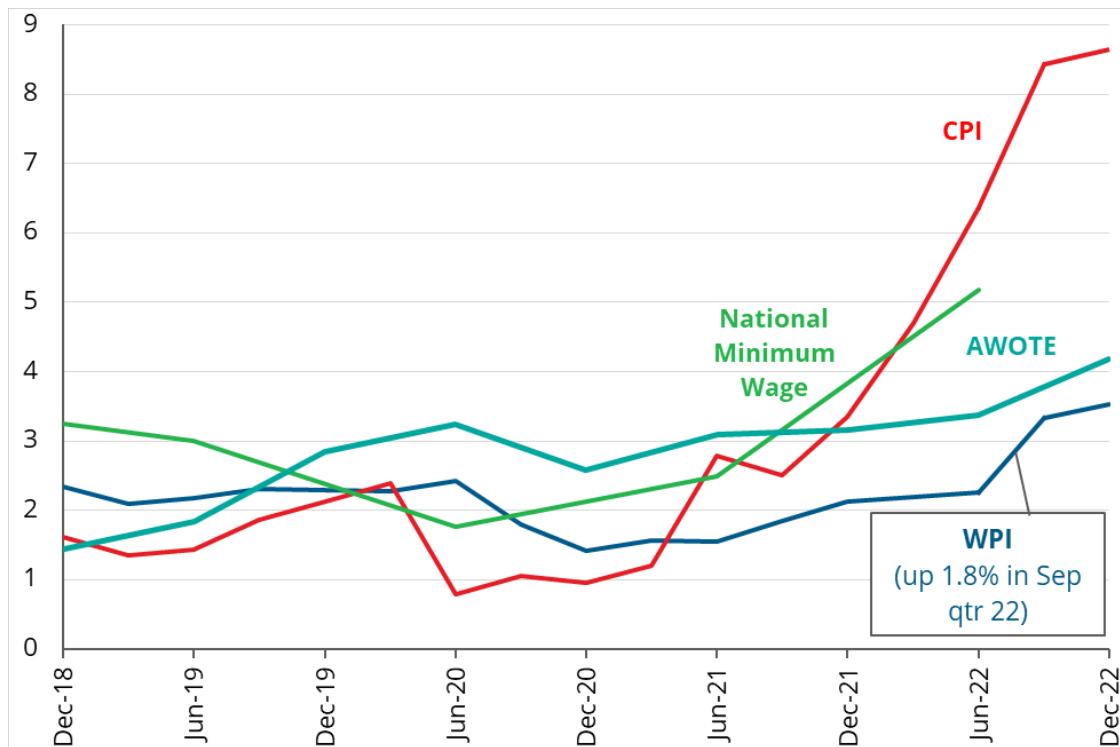
<sup>24</sup> ABS, *Wage Price Index, Australia* (previously Cat No 6345.0) for hourly rates of pay, excluding bonuses.

<sup>25</sup> CommBank, *Economic Insights – Global Economics & Markets Research – Economics Update*, 22 February 2023

<sup>26</sup> ANZ, *Quick Reaction – Australia*, 22 February 2023

71. Real wages are defined as growth in wages less growth in prices (inflation). Where the nominal growth in wages exceeds the growth in consumer prices over the same period (as indicated below in Chart 2) there is considered to be growth in real wages.
72. While recent increases in the NMW determined by the FWC have narrowed the gap between growth in wages and growth in prices, real wages fell sharply in 2022. In real terms, the WPI fell 4.0 per cent in South Australia and 3.3 per cent nationally.

**Chart 1: South Australian wages growth and inflation<sup>28</sup>**  
(through-the-year growth, %)



### Real wages and labour productivity

73. In the long term, growth in real wages received by the average worker is strongly correlated with growth in labour productivity, in the short to medium term, factors such as relative bargaining power and economic shocks can lead to divergence between real wages and labour productivity.<sup>29</sup>
74. The historical relationship between labour productivity and real wages is shown for South Australia and Australia in Chart 2 below, using a measure of real wages derived from the WPI and a measure of labour productivity using real output (GDP or GSP, chain volume) per hour worked.

*For the past three years, the gap between labour productivity and real wages has widened.*

<sup>28</sup> Sources: ABS, *Consumer Price Index, Australia* (previously Cat No 6401.0); ABS *Average Weekly Earnings, Australia* (previously Cat No 6302.0) Table 13D; ABS *Wage Price Index, Australia* (previously Cat No 6345.0); National Minimum Wage data from Fair Work Commission determinations.

<sup>29</sup> Australian Productivity Commission, *5-year Productivity Inquiry: The Key to Prosperity Interim Report*, 3 August 2022

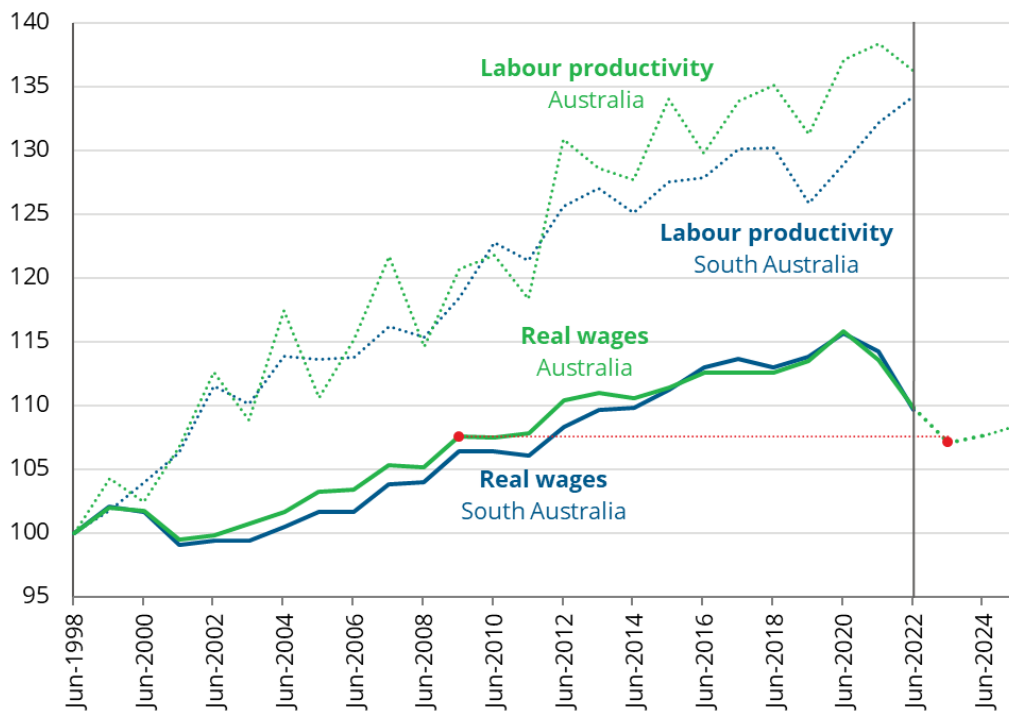
75. Over the past 24 years (June 1998 to June 2022), labour productivity in South Australia has grown at rate of 1.2 per cent per annum, while real wages have only grown by 0.4 per cent per annum over the same period.

76. In the last three years, (June 2019 to June 2022), this divergence has become even more pronounced in South Australia with labour productivity growing 2.2 per cent per annum and real wages falling by 1.2 per cent per annum.

*If real wages follow the trajectory implied by latest RBA forecasts, a decade of wages growth in Australia will have been wiped out in the space of 3 years.*

**Chart 2: Growth in labour productivity and real wages<sup>30</sup>**

(Index, June 1998 = 100)



<sup>30</sup> Derived by the South Australian Government Department of Treasury and Finance, based on the following sources: ABS, *Consumer Price Index, Australia* (previously Cat No 6401.0); ABS *Wage Price Index, Australia* (previously Cat No 6345.0); ABS, *National Accounts* (previously Cat No 5206); forecasts are based on RBA, [Forecast Table - February 2023](#), 7 February 2022.

## Conclusion

77. The South Australian Government recognises that a key objective of national minimum wages is to provide a safety net for people employed in lower-paid jobs.
78. Consistent with the objectives of the FW Act, the South Australian Government also believes that maintaining a safety net of fair minimum wages must reflect not only a consideration of economic conditions and the economy, but also have regard to indirect gender-based impacts in 'award reliant' industries, as well as fairness and inclusiveness having regard to general economic prosperity.
79. The Government of South Australia recommends that the Panel adopt a fair and balanced approach, which allows real wage growth to reflect a fair share of labour productivity growth.
80. The Government of South Australia recognises that inflation may be a consideration for the FWC and other parties lodging submissions for this review.
81. The outcome of last year's Annual Wage Review has substantially driven growth in private sector wages over the past year.
82. As highlighted by prominent economic commentators and recently commented by the RBA, longer term inflation expectations and wage growth in Australia have so far remained consistent with the inflation target.<sup>31</sup>

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<sup>31</sup> RBA, *Statement on Monetary Policy, February 2023*, Pg 3