

**Fair Work Commission**

**2018-19 Annual Wage Review**

**Submission of the
Government of Western Australia**

**DATE: 15 March 2019**

**Western Australian Government**

**Submission to Fair Work Commission Annual Wage Review 2018-19**

# Introduction

1. The Western Australian Government welcomes the opportunity to make this submission to the Expert Panel of the Fair Work Commission (**the Panel**)for the 2018-19 Annual Wage Review (**AWR**).
2. The AWR plays a vital role in maintaining a fair and principled framework of minimum employment protections for Australian workers.
3. In fulfilling its statutory obligations under section 284 of the *Fair Work Act 2009* (**the Act**), the Panel is required to ‘establish and maintain a safety net of fair minimum wages’ (the ‘minimum wages objective’) taking into account the following criteria:
	1. the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and
	2. promoting social inclusion through increased workforce participation; and
	3. relative living standards and the needs of the low paid; and
	4. the principle of equal remuneration for work of equal or comparable value; and
	5. providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.
4. In adjusting rates of pay in awards, the Panel must also have regard to the ‘modern awards objective’, 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]](#footnote-1)
5. This submission includes information pertaining to Western Australia’s economy and labour market to assist the Panel in its deliberations, as well as broader observations on some of the criteria relevant to the National Minimum Wage Order.

# Overview

1. The Western Australian Government supports a fair and equitable increase for the National Minimum Wage (**NMW**) and modern award wages in this year’s AWR.
2. A balanced approach to the economic, social and labour market considerations relevant to the AWR is important to meet the objectives of the Act. In the current economic climate it is also important that the needs of all workers, particularly those who are low paid and/or vulnerable, continue to be a key consideration of the Panel.
3. In last year’s AWR Decision the Panel made the following observation regarding minimum wage increases:

“We remain of the view that modest and regular minimum wage increases do not result in disemployment effects or inhibit workforce participation.”[[2]](#footnote-2)

1. The Western Australian Government concurs with the above view, and notes that in 2018 the Panel awarded a 3.5 per cent increase to minimum and award wages. That decision has not adversely affected the Australian labour market, which has continued to perform strongly over the course of 2018-19, particularly in the states of New South Wales and Victoria.
2. The national unemployment rate in Australia currently sits at 5.0 per cent, the equal lowest level in almost six years. Total employment grew at an annual average rate of 2.6 per cent over the year to January 2019.[[3]](#footnote-3)
3. Notwithstanding the apparent strength of the national labour market, in recent years stagnant wages growth and below average household income growth have combined to create considerable challenges for many workers and contributed to subdued household expenditure.
4. The Governor of the Reserve Bank, Dr Phillip Lowe, recently noted before the House of Representatives Standing Committee on Economics that stagnant household income is a threat to consumer spending, particularly as 60 per cent of the economy is based on consumer expenditure. Dr Lowe observed that while aggregate household income previously grew at 6 per cent per year, it is currently growing at below 3 per cent.[[4]](#footnote-4)
5. While the AWR cannot address all of the factors inhibiting household consumption, a healthy increase in minimum rates of pay can help to counter low wages growth and ensure that workers are afforded a fairer share of the productivity gains that have occurred in Australia in recent years.

# Western Australian economy and labour market

1. While the Act requires that the Panel consider the state of the national economy in its AWR deliberations, the national economy itself is comprised of many geographic regions and associated labour markets, and it is appropriate that consideration be given to prevailing conditions in individual States and Territories.
2. The Western Australian Department of Treasury (**WA Treasury**) has provided an overview of the State’s economy, which is included at **Attachment A**. The overview provides detailed information on economic developments and labour market trends.
3. Economic conditions in Western Australia continue to gradually improve, as evidenced by a variety of indicators. Total State output, measured by Gross State Product (**GSP**), is expected to increase by 3.0 per cent in 2018-19, up from 1.9 per cent in 2017-18. GSP is expected to grow by a further 3.5 per cent in 2019-20. [[5]](#footnote-5)
4. A number of other indicators point to improving conditions, including an increased labour force participation rate, a lift in internet job vacancies, and improving business confidence.
5. A return to growth in GSP in 2017-18 was coupled with an expansion in the domestic economy, measured by State Final Demand (**SFD**), for the first time since 2012-13. Growth in SFD was largely the result of the timing of investment on a number of LNG projects which helped sustain business investment at 2016-17 levels.[[6]](#footnote-6) SFD is expected to decline marginally in 2018-19, as a result of a fall in business investment due to the completion of work on major LNG projects. However, SFD is expected to rebound strongly in 2019-20, with growth of 3.5 per cent forecast for 2019-20.
6. Western Australia’s unemployment rate averaged 6.3 per cent in the year to January 2019, up from an average of 5.9 per cent in the year to January 2018.[[7]](#footnote-7) The higher unemployment rate is partly the result of a significant increase in the labour force participation rate, which remains the highest of all States by a considerable margin. Western Australia’s seasonally adjusted participation rate averaged 68.5 per cent over the year to January 2019, up from 67.8 per cent over the year to January 2018.[[8]](#footnote-8)
7. The Wage Price Index (**WPI**) for Western Australia increased by 1.5 per cent in the year to December 2018, with private sector wage growth increasing by 1.6 per cent and public sector wage growth increasing by 1.4 per cent.[[9]](#footnote-9) WA Treasury estimates total WPI will increase by 1.75 per cent in annual average terms in 2018-19, before rising to 2.75 per cent in 2019-20.[[10]](#footnote-10)
8. More detailed information on the state of the Western Australian economy is included in **Attachment A**.

# Coverage of the national industrial relations system in WA

1. Unlike the other Australian States, Western Australia has not referred its industrial relations powers in relation to private sector employers and employees to the Commonwealth. Consequently, those employing authorities that are not “constitutional corporations” for the purposes of section 51(xx) of the Australian Constitution generally fall within the State industrial relations jurisdiction.[[11]](#footnote-11)
2. As a non-referring State, a larger proportion of the workforce remains subject to the State industrial relations system than in other jurisdictions. Notwithstanding this, a sizable proportion of Western Australian employers and employees are covered by the national industrial relations system, and the AWR therefore has an appreciable impact on businesses and employees within the State.
3. The Western Australian Department of Mines, Industry Regulation and Safety estimates that between 64 and 78 per cent of the State’s workforce are subject to the national industrial relations jurisdiction.[[12]](#footnote-12) Estimates of employee coverage vary depending on the methodology used.

# Who is impacted by the Annual Wage Review?

**Employees covered by awards**

1. Available data indicates that award-reliance in Australia had been increasing until 2016, reversing a long-term trend away from awards being the central tenet of the wage fixing system. However, award reliance declined marginally between 2016 and 2018, both in Western Australia and nationally.
2. In Western Australia award reliance fell from 16.4 per cent of all non-managerial employees in 2016 to 15.0 per cent in 2018.[[13]](#footnote-13) This equates to approximately 162,000 employees being paid entirely in accordance with a State or national award. Given the composition of the Western Australian industrial relations system, the majority of these employees would be subject to national modern awards.[[14]](#footnote-14)
3. Nationally, award reliance fell from 24.5 per cent to 22.5 per cent amongst non-managerial employees between 2016 and 2018.[[15]](#footnote-15) As at May 2018 approximately 2.23 million Australian employees were paid entirely in accordance with an award, the vast majority of whom would be subject to national modern awards.
4. A number of award-reliant employees are solely dependent on increases determined in the AWR to meet changes in their everyday living costs, and it is essential that fair and equitable adjustments to pay rates are granted on a regular basis to ensure the needs of the low paid are adequately safeguarded.
5. Employees in industries known to be award-reliant constitute a significant proportion of Western Australia’s workforce, as shown in Table 1 below.

**Table 1: Employment and award reliance by industry - WA and Australia, November Quarter 2018**

|  |  |  |  |
| --- | --- | --- | --- |
| Industry | WA: Proportion of Workforce[[16]](#footnote-16) | Australia: Proportion of Workforce16 | Australia: Proportion of employees paid by award[[17]](#footnote-17) |
| Accommodation and Food Services | 6.9% | 7.1% | 44.9% |
| Administrative and Support Services | 2.7% | 3.2% | 41.3% |
| Other Services | 3.8% | 3.8% | 38.1% |
| Health Care and Social Assistance | 12.2% | 13.2% | 31.7% |
| Retail Trade | 9.4% | 10.2% | 30.1% |
| Rental, Hiring and Real Estate Services | 1.7% | 1.7% | 29.4% |
| Arts and Recreation Services | 2.0% | 1.9% | 22.5% |
| Manufacturing | 6.8% | 7.1% | 20.8% |
| Construction | 9.1% | 9.1% | 16.6% |
| Wholesale Trade | 3.0% | 3.2% | 16.1% |
| Transport, Postal and Warehousing | 4.7% | 5.2% | 12.7% |
| Public Administration and Safety | 6.4% | 6.5% | 10.9% |
| Education and Training | 8.2% | 8.3% | 10.0% |
| Professional, Scientific and Technical Services | 7.1% | 8.4% | 8.0% |
| Information, Media and Telecommunications | 0.9% | 1.7% | 7.1% |
| Financial and Insurance Services | 1.8% | 3.5% | 5.2% |
| Electricity, Gas, Water and Waste Services | 1.6% | 1.2% | 4.1% |
| Mining | 8.3% | 2.0% | 0.9% |
| Agriculture, Forestry and Fishing | 3.3% | 2.6% | N/A✝ |
| All industries | **100.0%** | **100.0%** | **22.5%** |

✝ 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.

1. The above figures demonstrate the vital ongoing role that the AWR plays in establishing a wages safety net for many employees, both in Western Australia and nationally.
2. The Western Australian Government notes that penalty rates in two of the most award-reliant industries - retail and hospitality - are being reduced at the same time as any increase awarded by the Panel in this year’s AWR takes effect. This includes further cuts to Sunday penalty rates in the hospitality, fast food, retail and pharmacy awards due to take effect from July 2019.[[18]](#footnote-18)
3. Not all of the impending penalty rate cuts can be ameliorated by any general increase to award wages granted by the Panel in 2019. Some award-reliant workers in the retail and hospitality industries therefore face a reduction in their take home pay, and the Western Australian Government contends this is a contextual factor that should be taken into consideration in determining wage outcomes in this year’s AWR.

**Employees covered by enterprise agreements**

1. Australia-wide, the number and proportion of employees subject to federal enterprise agreements has been declining.
2. According to the Commonwealth Department of Jobs and Small Business, the number of current federal enterprise agreements in place declined from 15,139 to 10,989 between September 2015 and September 2018. The number of employees covered by federal enterprise agreements also declined during this period, falling from 2,175,600 to 1,890,000.[[19]](#footnote-19)
3. Western Australia has also witnessed a significant decline in the number of employees covered by federal enterprise agreements in recent years, with the number of employees engaged under agreements applying solely within the State falling from 164,700 to 117,000 during the three years to September 2018.[[20]](#footnote-20)
4. Notwithstanding the decline in collective agreement making, national modern awards play a critical role in underpinning the federal enterprise bargaining system. Awards perform a dual role in establishing 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.[[21]](#footnote-21)
5. The effect of pay increases determined by the Panel for national modern awards therefore extends beyond award covered employees, and has a material impact on employees subject to federal enterprise agreements. While this effect will be indirect in many cases, it is known that a number of federal enterprise agreements peg future wage rises to award wage increases.[[22]](#footnote-22) For instance the following agreements link future pay increases (either in part or in whole) to the AWR:
* *Coles Supermarkets Enterprise Agreement 2017* (covering approximately 82,000 employees throughout Australia)
* *Woolworths Supermarkets Agreement 2018* (covering approximately 110,000 employees throughout Australia)
* *Southern Cross Care (NSW & ACT) Enterprise Agreement 2017 - 2020* (covering approximately 2,000 employees)[[23]](#footnote-23)
* *ISS Facility Services and United Voice Cleaning Services Enterprise Agreement 2017* (covering approximately 4,000 employees)
1. The federal award system therefore continues to play an important role in underpinning Australia’s enterprise bargaining framework. The impact of the Panel’s determinations in the AWR extend beyond award and minimum wage workers, influencing wage outcomes in a variety of pay setting arrangements.
2. In satisfying the modern awards objective, the Panel is required to consider the need to encourage collective bargaining.[[24]](#footnote-24)
3. In last year’s AWR the Panel made the following observations regarding the impact of the National Minimum Wage Order on collective bargaining:[[25]](#footnote-25)

As mentioned earlier, one of the matters we are required to take into account is ‘the need to encourage collective bargaining.’ As set out in Chapter 4, while we accept that there has been a decline in current enterprise agreement making, a range of factors impact on the propensity to engage in collective bargaining, many of which are unrelated to increases in the NMW and modern award minimum wages.

We are not persuaded that the gap between modern award minimum wages and bargained wages, to the extent it can be identified with any precision, has reached a level where it is encouraging or discouraging collective bargaining.

We maintain the view expressed in past Review decisions that given the complexity of factors which may contribute to decision making about whether or not to bargain, we are unable to predict the precise impact of our decision. We cannot be satisfied that the increase we have determined will encourage collective bargaining and this is a factor to be weighed along with the other statutory considerations. However, we are also of the view that it is likely that the increase we have determined in this Review will impact on different sectors in different ways and will not, in aggregate, discourage collective bargaining.

1. The Western Australian Government concurs with the above observations, and acknowledges that there are a variety of factors that influence the incidence of collective bargaining in Australia. Fair and equitable minimum wage increases are unlikely to provide a disincentive to collective agreement-making.

**Employees covered by individual arrangements**

1. The National Minimum Wage Order does not directly affect employees working under individual arrangements that provide for above award rates of pay. However, some common law contracts of employment may contain provisions linking future wage increases to the movements in the NMW or modern award wages.
2. As the Panel noted in last year’s AWR *“It is also likely that there are workers whose pay is set by individual arrangements which are referenced to an award rate - for example, by being paid a certain dollar amount or percentage above the modern award.”* [[26]](#footnote-26)
3. Additionally, contracts of employment that provide for wage rates only marginally above the relevant award minimum may be impacted by any decision the Panel makes in this year’s AWR.

# Further considerations

**Promoting social inclusion through increased workforce participation**

1. The statutory criteria the Panel is required to have regard to in meeting the minimum wages objective also includes “promoting social inclusion through increased workforce participation.”
2. In the past year there has been a noticeable increase in the labour force participation rate, both in Western Australia and nationally.
3. The participation rate in Western Australia averaged 68.5 per cent over the year to January 2019, up from an average of 67.8 per cent in the year to January 2018. Australia-wide, the participation rate averaged 65.6 per cent in the year to January 2019, up from an average of 65.2 per cent in the year to January 2018.[[27]](#footnote-27)
4. While the participation rate is influenced by a variety of factors, fair and equitable increases to minimum and award wages can help to encourage people into the labour force, particularly those with a marginal attachment to it. For instance, paid employment can become relatively more attractive for some individuals if minimum and award wages are rising by more than Commonwealth income support payments.
5. Total employment has continued to grow steadily over the past 12 months, following the Panel’s decision to award a relatively robust wage increase of 3.5 per cent in last year’s AWR. As outlined earlier in this submission, total employment increased by an annual average rate of 2.6 per cent across Australia in the 12 months to January 2019, while the national unemployment rate fell to 5.0 per cent.[[28]](#footnote-28) Such figures should give the Panel confidence that fair and equitable pay increases can play a role in positively promoting social inclusion without jeopardising employment outcomes.

**Equal remuneration and the gender pay gap**

1. An important consideration in both the modern awards objective and the minimum wages objective is the need to promote the principle of equal remuneration for work of equal or comparable value.
2. As noted by the FWC in the 2017-18 AWR Decision, the gender pay gap is a relevant consideration as it is an element of the requirement to establish a safety net that is fair and relevant.[[29]](#footnote-29)
3. The Western Australian Government concurs with the FWC’s observation that reducing the gender pay gap may also be a relevant consideration in promoting social inclusion through workforce participation, as it may have effects on female participation in the workforce.[[30]](#footnote-30)
4. As can be seen from the table below, Western Australia continues to have the largest gender pay gap in Australia, as measured by Average Weekly Ordinary Time Earnings (**AWOTE**). The State’s gender pay gap was 23.2 per cent in November 2018, compared with 14.2 per cent nationally.[[31]](#footnote-31)

**Table 2: Gender Pay Gap – by State / Territory – November Quarter 2018[[32]](#footnote-32)**

|  |  |  |  |
| --- | --- | --- | --- |
| State / Territory | Male AWOTE | Female AWOTE | Gender Pay Gap |
| NSW | $1,717.30 | $1,479.80 | 13.8% |
| VIC | $1,614.40 | $1,468.80 | 9.0% |
| QLD | $1684.40 | $1389.80 | 17.5% |
| SA | $1,514.10 | $1371.00 | 9.5% |
| WA | $1,915.90 | $1,472.20 | 23.2% |
| TAS | $1,452.10 | $1,299.80 | 10.5% |
| NT | $1,762.90 | $1,500.80 | 14.9% |
| ACT | $1,936.80 | $1,657.80 | 14.4% |
| AUS | $1,696.50 | $1,455.70 | 14.2% |

1. Women are more likely to be paid in accordance with awards than their male counterparts, at both lower and higher award classifications. In May 2018, 26.6 per cent of female non-managerial employees in Australia were paid in accordance with an award, compared to 18.2 per cent of male non-managerial employees.[[33]](#footnote-33)
2. The causes of the gender pay gap include many economic, social and historic factors. While many of these factors cannot be addressed solely through the AWR, regular increases in minimum and award wages can nonetheless play an important role in helping to reduce gender pay inequality, particularly as the AWR directly affects a larger proportion of female employees.

# Conclusion

1. Labour market conditions in Australia have remained favourable over the past year, underpinned by steady growth in total employment, low unemployment and increased workforce participation.
2. The Western Australian Government acknowledges the importance of the AWR in establishing the wages safety net for workers in the national industrial relations system. A robust framework of minimum and award wages is essential in supporting working Western Australians.
3. The Western Australian Government encourages the Panel to award a fair and equitable wage increase that will help to protect the living standards of the low paid, and encourage their participation in the workforce. Any increase should balance economic, social and labour relations considerations in accordance with the objects of the Act.

**ATTACHMENT A**

**State Economic Conditions**

**SUMMARY**

The Western Australian economy (as measured by Gross State Product, GSP) grew by 1.9% in 2017-18, reversing a contraction of 1.8% in 2016-17. Economic activity was heavily impacted by the timing of spending on major LNG projects, and partly supported by moderate growth in household consumption.

The recovery in the overall economy is expected to continue, with GSP growth of 3% forecast for 2018-19, supported by an expansion in net exports. Western Australian iron ore exports continued to expand in 2018, but at a much slower rate than in recent years, as major producers have mostly completed construction of new mines and expansions. Exports are expected to grow by 7% in 2018-19, underpinned by growth in LNG, gold, lithium and iron ore export volumes.

After expanding for the first time five years in 2017-18 (by 1.0%), Western Australia’s domestic economy, as measured by State Final Demand (SFD), is expected to contract by 0.5% in 2018-19. This contraction reflects an expected fall in business investment as a result of the completion of work on major LNG projects. Consumer spending has been weak, with household caution reflected in the household savings rate remaining at close to peak levels, suggesting that households are focussed on paying down debt. The State’s population growth is also expected to remain modest at 1.2% in 2018-19, with natural increase continuing to be the largest contributor to growth.

Employment expanded by 1.3% in the year to January 2019. Notwithstanding this, there remains significant spare capacity in the labour market. The unemployment rate averaged 6.3% in the year to January 2019 and the underutilisation rate is at 15.7% over the same period. Reflecting this, wage growth remains soft at just 1.5% in 2018 (compared to long run trend growth of 3.4%). Inflation for Perth has also been weaker than in the other State capital cities. The annual average increase of 1.1% in the Consumer Price Index was just over half of that recorded nationally in December 2018.

Looking forward, the labour market, population, income and wages are all expected to gradually lift, as consumer and business confidence strengthens and Western Australia’s performance equalises with the National economy. Notwithstanding this, there are a number of potential risks that may impact the State’s economic outlook over the next few years.

The outlook for dwelling investment and the established residential housing market could be more subdued than anticipated if population and income growth are weaker than expected. Further increases in home loan rates independent of changes to the official cash rate and any additional tightening of residential lending criteria could also weaken overall demand in the property sector.

The near term business investment forecast is particularly sensitive to the continued wind down in expenditure on major LNG projects. Any delays to the commissioning and subsequent ramp up of the LNG projects has flow on implications to merchandise export growth, which could also be lower than forecast. Changes to the profile of investment and exports may also impact the outlook for the State’s economic growth and labour demand.

The timing around the expected recovery in household consumption is still unclear, and any further weakening in the outlook may delay households returning to more normal rates of spending. On the other hand, households have been achieving solid rates of saving (the highest of all States), and there may be a point at which households decide they have tightened their belts and repaired their balance sheets enough. Given projected improvements in the overall economy, labour market and incomes, a change in sentiment and behaviour could result in consumption rebounding more strongly than anticipated.

Global risks relevant to Western Australia mainly relate to conditions in China, which is by far the State’s most important trading partner and an increasingly important source of foreign investment. Trade tensions between the US and China pose some risk to the Western Australian economy.

Importantly, however, the direct impact on Western Australia’s exports is likely to be very small as most of the State’s exports to China are consumed domestically. For example, the State’s most important export to China by value is iron ore, which is transformed into steel. In 2017, China only exported 8% of its steel production, most of which went to other Asian countries such as Korea, Vietnam and the Philippines, and only 0.1% went to the US.

Movements in the prices for the commodities most relevant to Western Australia so far in 2018-19 have varied, with rises in iron ore, oil, LNG and alumina but declines in gold, copper, nickel and zinc.

There is a risk that relatively solid economic growth over 2018 in China, which directly impacts royalty income from the sale of iron ore, will lose momentum over the course of 2019. Risks primarily relate to uncertainties regarding the impact of trade disputes with the US and increasingly negative sentiment regarding the property market in China.

The price of oil is important for mining revenue as most petroleum products, including LNG, are priced relative to crude oil benchmarks. Risks to these price projections relate to uncertainty about demand, for example a potential slowdown in global growth, and supply, particularly from Russia, Saudi Arabia and the US.

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

**NATIONAL ACCOUNTS DATA**

The latest estimate of GSP (released by the Australian Bureau of Statistics (ABS) in November 2018) shows that Western Australia’s economy grew by 1.9% in 2017-18. The return to growth in the overall economy was coupled with an increase in the domestic economy for the first time since 2012-13. Growth in SFD was largely due to ongoing work on large LNG projects.

The composition of GSP growth in 2017-18 illustrates the economy’s transition from investment‑led to export‑driven growth, which is expected to continue until 2018-19 as construction on the State’s large resource projects is completed. Following forecast growth of 3.5% in 2019-20, the overall economy is expected to grow at 3% per annum from 2020‑21, slightly below long run average growth, as investment activity maintains rather than expands production levels and hence exports.

On an industry basis, the main contributor of Western Australia’s GSP growth in 2017-18 was ‘mining’, and ‘health care and social assistance’, while ‘agriculture, forestry and fishing’ was the largest detractor. Of note, ‘construction’ contributed to GSP growth, for the first time since 2013-14.

Abstracting from net exports, domestic economic activity expanded (by 1.0%) in 2017‑18 (based on latest ABS National Accounts for the December quarter 2018), following four years of contraction. Growth in SFD was largely the result of the timing of investment on a number of LNG projects which helped sustain business investment at 2016-17 levels. SFD is expected to decline in 2018-19, as a result of a fall in business investment due to the completion of work on major LNG projects. Western Australia's SFD declined by 0.3% in the December quarter and in annual average terms fell by 0.5% in 2018, in line with a fall of 0.5% in 2018-19 forecast at Mid-year Review.

 

1 Exports refers to merchandise exports (goods) and service exports

 Source: ABS Catalogue 5206.0 and 5302.0.

It is important to note that SFD is not a comprehensive measure of the State’s overall economic growth, as it does not include the external trade sector. For a State such as Western Australia, the external trade sector is an important driver of income and therefore growth. Given the State’s strong international trade linkages, GSP is a better measure of overall economic activity (as it also includes the State’s external trade sector).

Notwithstanding this, trends in domestic demand tend to have a strong influence on labour market conditions, particularly as the investment phase of activity tends to be more labour intensive than the production phase.

**CONSUMER PRICE INDEX**

***Current Inflation Trends***

Perth’s CPI grew by 0.5% in the December quarter 2018, primarily due to increases in ‘recreation and culture’ and ‘alcohol and tobacco’. Apart from these increases, price pressures in the broader economy remain subdued, particularly in ‘transport’ and ‘health’.

Perth’s annual inflation rate increased by 0.9% in 2017-18, lifting marginally from 0.6% growth in 2016-17. Annual average growth of 1.1% in 2018 represents highest growth since March 2016, but remains well below the 20‑year average growth rate of 2.6% per annum.



Prices of housing related expenditure (particularly for rents and dwelling prices) continued to act as the biggest drag on the Perth CPI. Housing has now detracted from annual average growth for 10 consecutive quarters with the rent sub-component contracting in annual average terms for 14 consecutive quarters. Weakness in Perth’s housing related prices has been the primary contributor to the divergence between Perth and national CPI in recent years (Chart 2).

Inflation in Perth remains below the national rate of 1.9% in annual average terms, reflecting weaker domestic economic conditions in Western Australia. The drivers of recent price movements have been broadly similar at the State and national level and across all capital cities, with the exception that housing (e.g. rent) costs have fallen substantially in Perth relative to other capitals.

***Inflation Outlook***

There are signs that the drag on CPI growth from housing will ease in the near future. This reflects that the Perth housing market is returning towards equilibrium after having been oversupplied for some time. For example, the rental market has been tightening, with the Perth vacancy rate falling to below 3% in late 2018, from a recent peak of 7.3% in the June quarter 2017.

The Perth CPI is forecast to lift to 1.5% in 2018-19 due to increases in administered items (such as electricity, public transport, water and vehicle registrations) as well as tobacco. Growth in the CPI is expected to lift to 2% in 2019-20 and 2.5% from 2020-21, supported by a recovery in general economic conditions. This is consistent with the middle of the RBA’s target band of between 2% and 3% (and in line with long run growth in the Perth CPI).

**LABOUR MARKET**

Labour market conditions in WA have moderated over 2018, with annual average employment growth of 1.3% in January 2019. This compares to employment growth of 2.3% in 2017-18, which represented a strong recovery from a 0.9% fall in 2016‑17. Sustained higher workforce participation (the highest in Australia) has partially flowed through to a higher unemployment rate, which averaged 6.3% in the year to January 2019. Employment in the State is forecast to grow by 1.75% in 2018-19.

Improved hiring conditions have enticed people back into the labour market. Workforce participation has been higher than expected, particularly in recent months. The State’s participation rate averaged 68.5% in the year to January 2019, and remains well above the other States.



Western Australia’s annual average unemployment rate remains above the national equivalent (5.3%), as it has done since May 2016 (Chart 3).

There are other indicators that suggest the degree of spare capacity in the labour market is relatively high. One indicator is the underemployment rate, which averaged 9.4% in the year to January 2019. This is lower than a record high of 9.9% in December 2017 (but much higher than its recent low of 5.6% in April 2013) and implies that there is a large portion of employed persons who would like to work more hours. When combined with the unemployment rate, the rate of underutilisation in the State rose to 15.7% in January 2019, slightly lower than the peak of 16.0% in June 2017.

In addition, there are a record number of persons in Western Australia looking for work who were not classed as 'unemployed' by the ABS as they did not meet the official criteria (i.e. they were either passively looking for work or not immediately available to start). Consistent with the stronger job prospects, the State’s participation rate increased to 68.5% in the year to January 2019, up slightly from 68.3% in 2017-18. Western Australia’s participation rate remains the highest of all States and well above the national rate (65.6%).

***Labour force outlook***

Lead indicators of labour demand suggest a further increase in hiring in Western Australia in the near term. This is consistent with the Mid-year Review forecast for 1.75% growth in 2018‑19, following 2.3% growth in 2017-18. The moderation in the rate of employment growth in 2018‑19 as work on large LNG projects is completed was expected. Growth over the forward estimates period is projected to remain broadly in line with the 28 year average rate of 2.1%.

**WAGES**

Ongoing spare capacity in the labour market and low inflation expectations are expected to result in subdued wages growth in Western Australia.



The State’s Wage Price Index (WPI) increased by just 0.3% in the December quarter 2018. This follows 0.6% growth in the September 2018 quarter, well below the decade average quarterly growth of 0.7%.

Annual average WPI growth picked up slightly to 1.5% in 2018, from 1.3% in September 2017 (the lowest annual growth rate on record). This compares to 1.7% WPI growth in 2016 and is currently the lowest result of all jurisdictions.

While national wages growth in 2018 is near record lows at 2.2%, it remains above growth in Western Australia (Chart 4).

Consistent with a slowing in the pace of nominal wage growth, real wages growth moderated to 0.4% in 2018, compared to 0.5% in 2017 and 0.5% in 2017-18. This also reflects a slight increase in the Perth CPI over this period (as outlined in the CPI section above).

Throughout 2018, nominal wage growth in Western Australia has eased in both the public and private sectors. From June 2018, however, public sector wage growth has been weaker than that in the private sector (for the first time since March 2013). In 2018, private sector wage growth was slightly higher (at 1.6%) than public sector wage growth (at 1.4%). Since the December quarter 2014, annual average growth in total WPI for WA been weaker than the national rate which has remained above 2.0% over this period.

***Earnings***

Seasonally adjusted, total average weekly earnings (AWE) in Western Australia decreased by 1.7% in 2018[[34]](#footnote-34), to reach $1,299.30. In dollar terms, AWE in Western Australia was the highest of all the States, behind only the NT ($1,351.70) and the ACT ($1,460.80). However, annual average growth was the lowest of all jurisdictions, following growth of 0.7% in 2017. This compares to a 2.9% recent growth peak in the year to May 2015.

Average weekly full‑time ordinary earnings (AWOTE) increased by 1.2% in 2018 to reach $1,757.10 (behind only the ACT at $1,811.30). This measure of average wages is not impacted by the compositional changes between full‑time and part‑time employment.

In a State like Western Australia, growth in the various average weekly earnings measures tends to be more volatile than growth in the WPI. The greater volatility in part reflects changes in the composition of the State’s workforce[[35]](#footnote-35), 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.

1. Section 134 of the *Fair Work Act 2009*. [↑](#footnote-ref-1)
2. Fair Work Commission (2018), *Annual Wage Review 2017-18*, at [259]. [↑](#footnote-ref-2)
3. Australian Bureau of Statistics (ABS) (2019), *Labour Force, Australia, January 2019*, catalogue 6202.0 (seasonally adjust data), Table 1. [↑](#footnote-ref-3)
4. Commonwealth, *Parliamentary Debates*, House of Representatives Standing Committee on Economics, 22 February 2019. [↑](#footnote-ref-4)
5. Department of Treasury (2018), *2018-19 Government Mid-Year Financial Projections Statement.* [↑](#footnote-ref-5)
6. Business investment had declined each year since 2012-13, reducing the level of SFD. [↑](#footnote-ref-6)
7. ABS (2018), *Labour Force, Australia, January 2019*, catalogue 6202.0 (seasonally adjusted data), Table 8. [↑](#footnote-ref-7)
8. Ibid. [↑](#footnote-ref-8)
9. ABS (2019), *Wage Price Index, Australia, December 2018*, catalogue 6345.0 (original data), Tables 2b, 3b and 4b. Wages growth is expressed in annual average terms. [↑](#footnote-ref-9)
10. Department of Treasury (2018), *2018-19 Government Mid-Year Financial Projections Statement*. [↑](#footnote-ref-10)
11. For the purposes of Section 51(xx) of the Australian Constitution, a “constitutional corporation” refers to “foreign corporations, and trading or financial corporations formed within the limits of the Commonwealth”. Local governments may be deemed trading corporations, depending on the level of their trading activities. [↑](#footnote-ref-11)
12. ABS (2011), *Employee Earnings and Hours, Australia, May 2010,* catalogue 6306.0, unpublished data. The specific EEH data obtained in 2010 is no longer produced by the ABS; however, it is unlikely that jurisdictional coverage has changed significantly since that time. [↑](#footnote-ref-12)
13. ABS (2019) *Employee, Earnings and Hours, Australia*, *May 2018*, data cube 5 and ABS (2017) *Employee Earnings and Hours, Australia, May 2016*, data cube 5. [↑](#footnote-ref-13)
14. Particularly as most public sector employees in Western Australia are paid under collective agreements. [↑](#footnote-ref-14)
15. ABS (2019), *Employee Earnings and Hours, Australia, May 2018*, catalogue 6306.0, Datacube 5, Table 5; and ABS (2017), *Employee Earnings and Hours, Australia, May 2016*, catalogue 6306.0, Datacube 5, Table 5. In some State industrial relations jurisdictions awards perform the function of collective agreements, which can have the effect of elevating the number of ‘award only’ employees. [↑](#footnote-ref-15)
16. ABS (2018), *Labour Force, Australia, Detailed Quarterly, November 2018*, catalogue 6291.0.55.003, Datacube EQ06 (original data). The share of the Western Australian workforce employed in most industries is lower than it is at the national level due to the significance of the Mining industry in the State. [↑](#footnote-ref-16)
17. ABS (2019), *Employee Earnings and Hours, Australia, May 2018*, catalogue 6306.0, Datacube 5, Table 4. [↑](#footnote-ref-17)
18. It is acknowledged that some penalty rate increases are also being phased in for casual employees under the *General Retail Industry Award 2010*. [↑](#footnote-ref-18)
19. Department of Jobs and Small Business (2018), *Trends in Federal Enterprise Bargaining Report*, September Quarter 2018. [↑](#footnote-ref-19)
20. This figure excludes Western Australian employees working under multi-state agreements. [↑](#footnote-ref-20)
21. Pursuant to section 206 of *Fair Work Act 2009* base wages in enterprise agreements cannot fall below the base rates of pay in any federal award that is applicable to the employee. [↑](#footnote-ref-21)
22. Such agreements appear to have become more common since the decision of the Full Bench of the FWC not to approve the *Coles Store Team Enterprise Agreement 2014 – 2017* on the grounds that it did not meet the Better Off Overall Test (BOOT). Refer to *Hart v Coles Supermarkets Australia Pty Ltd and Bi-Lo Pty Ltd* [2016] FWCFB 2887 (31 May 2016).  [↑](#footnote-ref-22)
23. The agreement provides for wages increases of 2.4% per annum for 2017, 2018 and 2019 or increases to ensure wage levels are 3.5% higher than the award; whichever is greater. [↑](#footnote-ref-23)
24. *Fair Work Act 2009*, s134(1)(b). [↑](#footnote-ref-24)
25. Fair Work Commission (2018), *Annual Wage Review 2017-18*, [94]-[96]. [↑](#footnote-ref-25)
26. Fair Work Commission (2018), *Annual Wage Review 2017-18*, at [266]. [↑](#footnote-ref-26)
27. ABS (2019), *Labour Force, Australia, January 2019*, catalogue 6202.0, Tables 1 and 8 (seasonally adjusted data). [↑](#footnote-ref-27)
28. ABS (2019), *Labour Force, Australia, January 2019*, catalogue 6202.0, Table 1 (seasonally adjusted data). [↑](#footnote-ref-28)
29. Fair Work Commission (2018), *Annual Wage Review 2017-18*, at [418]. [↑](#footnote-ref-29)
30. Ibid. [↑](#footnote-ref-30)
31. ABS (2019), *Average Weekly Earnings, Australia, November 2018*, catalogue 6302.0, Time Series Spreadsheets 2 and 12E. Data is expressed as full time average weekly ordinary time earnings (seasonally adjusted). [↑](#footnote-ref-31)
32. ABS (2019), *Average Weekly Earnings, Australia, November 2018*, catalogue 6302.0, Time Series Spreadsheets 2 and 12A – 12H. Data is expressed as full time average weekly ordinary time earnings (seasonally adjusted). [↑](#footnote-ref-32)
33. ABS (2019), *Employee Earnings and Hours, Australia, May 2018*, catalogue 6306.0, Datacube 5, Table 1. [↑](#footnote-ref-33)
34. 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 will now be produced twice a year relating to the May and November reference periods. [↑](#footnote-ref-34)
35. 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 for often working in isolated locations. [↑](#footnote-ref-35)