Introduction

This is the second issue of the Australian Fair Pay Commission’s *Economic and Social Indicators – Monitoring Report*. It is designed to monitor the outcomes from the Commission’s minimum wage-setting decisions and to inform future decisions. The report discusses changes that have occurred in key indicators since the Commission was established in 2006 and developments over the period January to June 2008.

As with the first issue, the report has three main sections, broadly reflecting the factors to which the Commission must have regard in fulfilling its wage-setting function. These relate to:

1. Macroeconomic developments;
2. Employment of low-paid workers; and
3. The safety net and work incentives.

The report provides a range of indicators on these matters.

There are some changes in this particular issue of the report, including: a broader range of labour market indicators; a more detailed analysis of living costs for low-paid employee households; and further measures of disposable incomes and work incentives for different households and employees.

Over the last six months, growth in aggregate economic activity has slowed and the labour market has been adjusting to these new conditions. Among the industries that are highly reliant on Australian Pay and Classification Scales, the diversity of employment and wage patterns has continued, with strong growth in some industries and weak growth in others. The Commission will continue to monitor the effects of its decisions, particularly in a period of heightened economic uncertainty.

The Commission’s modelling suggests that, for individuals in a broad range of circumstances, there are financial incentives to take up low-paid work. However, the Commission notes that some groups face weaker financial incentives, largely as a consequence of the interaction of wages with the tax/transfer system.

Many factors affect the indicators presented in this monitoring report, apart from minimum wages. Therefore, the Commission continues to foster more intensive research on the effects of minimum wages. This report will continue to evolve with new research on those relationships and as new data become available.

Ian R. Harper
Chairman
Contents

1. Macroeconomic developments 4
   Economic activity 4
   The labour market 5
   Wages and prices 9
   Summary 12

2. Employment of low-paid workers 13
   Selected demographic groups 13
   Industries 15
   Occupations 19
   Wage growth 22
   Summary 25

3. The safety net and work incentives 26
   Real and relative values of the Federal Minimum Wage (FMW) 26
   Living costs for low-paid households 27
   Disposable incomes and work incentives 30
   Trends in disposable incomes of families with one earner
     on either the standard FMW or higher Pay Scale wages 31
   Work incentives 34
   Replacement rates 34
   Other approaches to measuring work incentives 37
   Work incentives of employees with a disability 39
   Work incentives of junior employees 40
   Living standards and work incentives of apprentices and trainees 42
   Summary 43
1. Macroeconomic developments

This section focuses on indicators of economic and labour market performance at the aggregate level.

Economic activity

Economic growth in Australia has slowed over the last six months to a more moderate rate (Figure 1). Both GDP and non-farm GDP increased by 3.6 per cent in real terms over the year to March 2008. The 0.6 per cent increase in GDP in the March quarter 2008 was the lowest quarterly increase in the last two years.

Figure 1: Change in real GDP

Both the Dun & Bradstreet National Business Expectations Survey and the National Australia Bank Monthly Business Survey indicated that business conditions and employment expectations weakened over the last six months.¹

Among the states and territories, demand growth was highest over the past year in Tasmania, followed by Western Australia and Queensland (Figure 2). Growth increased in most states over the six months to March 2008, while growth slowed in New South Wales, Western Australia and the Northern Territory.

The labour market

Aggregate employment growth has also moderated since the beginning of 2008. Annual growth in employment by February 2008 was 3.0 per cent, with growth over the year to June 2008 slowing to 2.4 per cent (Table 1). This equals the average annual rate of growth in employment since June 2005.

Employment growth slowed in the resource-rich states of Western Australia and Queensland to rates closer to those in other states and territories. However, the unemployment rates in those two states are significantly lower than for most of Australia. The Northern Territory, Western Australia and Tasmania recorded the highest annual employment growth over the last six months.2

The number of unemployed people looking for part-time work increased significantly in the June quarter 2008. There was also a large fall in the number of people unemployed for one year or longer (Table 1).

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### Table 1: Selected labour market indicators

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment ('000)</td>
<td>10 459</td>
<td>10 675</td>
<td>10 711</td>
<td>0.3%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Full-time ('000)</td>
<td>7496</td>
<td>7636</td>
<td>7665</td>
<td>0.4%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Part-time ('000)</td>
<td>2963</td>
<td>3039</td>
<td>3046</td>
<td>0.2%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Unemployment ('000)</td>
<td>473</td>
<td>456</td>
<td>475</td>
<td>4.4%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Looking for a full-time job ('000)</td>
<td>332</td>
<td>314</td>
<td>319</td>
<td>1.4%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Looking for a part-time job ('000)</td>
<td>141</td>
<td>141</td>
<td>157</td>
<td>11.0%</td>
<td>11.3%</td>
</tr>
<tr>
<td>Long-term – 1 year or longer ('000)</td>
<td>67</td>
<td>71</td>
<td>68</td>
<td>-4.4%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>4.3</td>
<td>4.1</td>
<td>4.3</td>
<td>0.2</td>
<td>-0.1</td>
</tr>
<tr>
<td>Looking for a full-time job (%)</td>
<td>4.2</td>
<td>4.0</td>
<td>4.0</td>
<td>0.0</td>
<td>-0.3</td>
</tr>
<tr>
<td>Looking for a part-time job (%)</td>
<td>4.5</td>
<td>4.4</td>
<td>4.9</td>
<td>0.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Participation Rate (%)</td>
<td>64.9</td>
<td>65.2</td>
<td>65.3</td>
<td>0.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Employment to Population (%)</td>
<td>62.1</td>
<td>62.5</td>
<td>62.5</td>
<td>-0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Labour Force ('000)</td>
<td>10 932</td>
<td>11 130</td>
<td>11 186</td>
<td>0.5%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

Note: All data are seasonally adjusted.

Changes in employment growth typically follow changes in economic growth. This is broadly evident in Figure 3. The slowing in employment growth over the last six months, combined with steady growth in the labour force, has resulted in a small increase in the unemployment rate (Figure 4).

### Figure 3: Change in employment and real GDP

![Figure 3: Change in employment and real GDP](image-url)

Note: All data are in trend terms. Employment data calculated as monthly average over quarter.
The composition of employment growth over the last twelve months is shown in Figure 5. While the data are volatile on a month to month basis, around two-thirds of all new jobs created in 2007-08 were full time positions: 169,000 full time compared with 83,000 part time jobs. This is similar to the aggregate proportion of employees in full-time positions, which is around 70 per cent.
Measures of labour underutilisation indicate that the labour market has been strong over the past year, although the trends have been mixed over the last six months (Table 2). Measures based on the hours of work lost due to unemployment, underemployment or discouragement have fallen over the last year. Small increases in these measures were recorded in the three months to May 2008, to around 7 per cent.

Table 2: Hours-based measures of labour underutilisation

<table>
<thead>
<tr>
<th></th>
<th>May 2007</th>
<th>Feb 2008</th>
<th>May 2008</th>
<th>Quarterly Change</th>
<th>Annual Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Per cent</td>
<td>Per cent</td>
<td>Per cent</td>
<td>Percentage points</td>
<td>Percentage points</td>
</tr>
<tr>
<td>Underemployment</td>
<td>2.8</td>
<td>2.7</td>
<td>2.3</td>
<td>-0.4</td>
<td>-0.5</td>
</tr>
<tr>
<td>Underutilisation (excl. hidden unemployment)</td>
<td>5.9</td>
<td>5.6</td>
<td>5.7</td>
<td>0.1</td>
<td>-0.2</td>
</tr>
<tr>
<td>Underutilisation (incl. hidden unemployment)</td>
<td>7.1</td>
<td>6.7</td>
<td>6.9</td>
<td>0.1</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

Note: Underemployment is measured as the ratio of the hours of work lost due to part-time workers not working as many hours as they would like, to the total available hours of work in the labour force. The measure cited above does not include part-time workers who preferred more hours of work but did not actively search for it or were unavailable.

Underutilisation is measured as the ratio of the hours of work lost due to unemployment and underemployment to the total available hours of work in the labour force. Hidden unemployment refers to the hours of work lost due to ‘discouraged’ workers, who are willing to work and available to start work, but are not actively searching for work because they believe they cannot find a job.

Source: Centre of Full Employment and Equity (University of Newcastle), Labour Market Indicators, February 2008.

Growth in the number of job vacancies has moderated over the past year. While there was a 9 per cent increase in job vacancies for the year to May 2008, the growth in vacancies has been slowing over the last six months. In the three months to February and to May 2008, vacancies grew by 1.5 per cent and 1.1 per cent, respectively, significantly lower than the growth rates recorded at the end of 2007.

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3 ABS, Job Vacancies, Australia, May 2008, Catalogue No. 6354.0.
Wages and prices

Measures of aggregate wage growth have been reasonably steady over the last few years. The increase in the Wage Price Index (WPI) ranged between 3.5 per cent and 4.2 per cent per annum. It increased by 1.0 per cent in the June quarter 2008 to be 4.2 per cent higher over the year (Table 3 and Figure 6).

Table 3: Wage measures

<table>
<thead>
<tr>
<th>Wage measure</th>
<th>Current</th>
<th>Year to June Quarter 2008</th>
<th>Year to March Quarter 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Weekly Ordinary-Time Earnings (AWOTE) for Full-Time Adult Employees</td>
<td>1131</td>
<td>3.7</td>
<td></td>
</tr>
<tr>
<td>Average Weekly Earnings (AWE)</td>
<td>891</td>
<td>2.9</td>
<td></td>
</tr>
<tr>
<td>New federal collective agreements</td>
<td></td>
<td></td>
<td>3.7</td>
</tr>
</tbody>
</table>

Note: Data are seasonally adjusted estimates. AWOTE and AWE are measured at mid-month of quarter.

Figure 6: Wage Price Index

The All Groups Consumer Price Index (CPI) increased by 1.5 per cent in the June quarter 2008 to be 4.5 per cent higher over the year (Figure 7). The main contributors to the increase were transportation costs4 and financial and deposit services. The average of the Reserve Bank of Australia’s (RBA’s) underlying inflation measures was also high, at 1.1 per cent in the quarter and 4.4 per cent over the year.

4 Transportation costs include: motor vehicles; petrol; motor vehicle repairs, servicing, parts and accessories; other motoring charges; and urban transport fees.
While most aggregate wage measures have been reasonably steady over the last few years, labour productivity growth has slowed on a number of measures. GDP per hour worked increased by 0.6 per cent over the year to March 2008, while GDP per hour worked in the market sector increased by 1.9 per cent. Real unit labour costs increased over the past year, albeit marginally, a significant change from the declines observed through 2005-06 and 2006-07 (Figure 8).
Macroeconomic developments

Over the past two years, the profit share of total factor income has remained at a record high of around 27 per cent of national income, while the wage share was broadly steady at around 53 per cent (Figure 9).

Figure 9: Wage and profit shares of national income

Gross operating profit for all industries grew by around 7 per cent over the year to March 2008, compared with around 16 per cent over the previous year. Of the more Australian Pay and Classification Scale (Pay Scale) reliant industries, Retail trade recorded higher than average growth in gross operating profits over the last three years, mainly due to high growth in 2007 (Figure 10). However, gross operating profit declined in Retail trade in the March quarter 2008 for the first time in two years.
Macroeconomic developments

Figure 10: Average annual growth in company gross operating profits, March 2005 to March 2008

![Graph showing average annual growth in company gross operating profits, March 2005 to March 2008.]

Note: Average annual gross operating profit growth from March 2005 to March 2008. Other selected industries includes: Electricity, gas and water; Accommodation, cafes and restaurants; Communication services; Other financiers; Financial asset investors; Services to finance and insurance; Cultural and recreational services; and Personal services. A further decomposition of ‘other selected industries’ is not published by the ABS.

Source: ABS, Business Indicators, Australia, March 2008, Catalogue No. 5676.0.

Summary

Economic growth has slowed over the last six months, with the lowest quarterly growth in real GDP in the past two years recorded in the March quarter 2008. The labour market has been adjusting to the new conditions, with aggregate employment growth slowing and unemployment increasing. While most aggregate wage measures have been reasonably steady over the last few years, labour productivity growth has slowed on a number of measures and real unit labour costs have increased slightly.
2. Employment of low-paid workers

This section focuses on the labour markets for selected demographic groups, industries and occupations.

Selected demographic groups

The trends in employment rates for five selected groups\(^5\) containing relatively high proportions of low-skilled employees have been similar to those of the general population (Table 4). Notably, the employment rate for single parents has continued to increase, while there have been above-average increases in the employment rates for people between 20 and 24 years of age not in full-time education and migrants from non-English speaking backgrounds.

There were no significant changes in employment rates for these groups in the months immediately after the Commission’s first and second general Wage-Setting Decisions took effect. For each of the groups, the average monthly percentage of people in full-time employment increased in the three months following the Commission’s 2006 general Wage-Setting Decision, consistent with the increase in the overall full-time employment rate. There were minor falls in employment rates for some low-skilled groups following the Commission’s 2007 general Wage-Setting Decision.

Table 4: Percentage of people in the selected groups who are in employment

<table>
<thead>
<tr>
<th>Percentage of unmarried individuals living in non-metro areas:</th>
<th>Average Monthly Percentage Before and after first decision (December 2006)</th>
<th>Average Monthly Percentage Before and after second decision (October 2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td>in part-time employment</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of 20-24 year-olds who are not in full-time education:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in full-time employment</td>
<td>67.6</td>
<td>68.6</td>
</tr>
<tr>
<td>in part-time employment</td>
<td>14.5</td>
<td>14.3</td>
</tr>
<tr>
<td>Percentage of migrants from non-English speaking backgrounds:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in full-time employment</td>
<td>37.5</td>
<td>37.9</td>
</tr>
<tr>
<td>in part-time employment</td>
<td>15.0</td>
<td>14.9</td>
</tr>
<tr>
<td>Percentage of single parents:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in full-time employment</td>
<td>29.5</td>
<td>30.0</td>
</tr>
<tr>
<td>in part-time employment</td>
<td>22.1</td>
<td>21.9</td>
</tr>
<tr>
<td>Percentage of non-dependent children:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in full-time employment</td>
<td>62.0</td>
<td>62.0</td>
</tr>
<tr>
<td>in part-time employment</td>
<td>16.6</td>
<td>16.8</td>
</tr>
<tr>
<td>Percentage of civilian population:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in full-time employment</td>
<td>44.1</td>
<td>44.3</td>
</tr>
<tr>
<td>in part-time employment</td>
<td>17.6</td>
<td>17.7</td>
</tr>
</tbody>
</table>

Note: Average monthly percentages have been calculated. All data are seasonally adjusted by AFPCS, except for percentages of civilian population in employment.

Employment of low-paid workers

Industries

This section focuses on the four industries that are estimated to account for around 70 per cent of all Pay Scale reliant employees – Accommodation, cafes and restaurants; Health and community services; Property and business services; and Retail trade.

The number of employees in Retail trade has grown at a faster rate over the year to May 2008 than for all employees (Figure 11). Employment in Property and business services and in Health and community services grew at a lower rate than for all industries. The number of employees in Accommodation, cafes and restaurants decreased in the year to May 2008. This is in contrast with the year to May 2007, when the number of employees in that industry grew by around 14 per cent.

Figure 11: Number of employees by industry

![Figure 11: Number of employees by industry](chart)

Note: All data seasonally adjusted by AFPCS.

Total hours worked is another indicator of labour demand, adjusting for the full-time and part-time composition of employment in an industry. Industries such as Retail trade and Accommodation, cafes and restaurants have a high proportion of part-time workers.
Employment of low-paid workers

Growth in hours worked in the Health and community services industry over the year to May 2008 was above the average for all industries. However, total hours worked fell in the three months to May 2008 for most of the more Pay Scale reliant industries, and for the labour market as a whole, with the exception of Accommodation, cafes and restaurants (Figure 12).

**Figure 12: Total hours worked by all employees in each industry**

![Graph showing total hours worked by all employees in each industry](image)

Note: All data seasonally adjusted by AFPCS.

Employment growth for low-skilled workers in some of the more Pay Scale reliant industries has been higher than the average for all industries in the economy, while in other more Pay Scale reliant industries low-skilled employment growth has been low. After a period of decline, employment for low-skilled workers in Accommodation, cafes and restaurants returned to the same level in May 2008 as it was a year before, while the number of low-skilled workers in Health and community services and in Property and business services decreased over the same period (Figure 13).
Access Economics developed a model to monitor output in those industries with a relatively high reliance on low-skilled labour. Such industries are likely to be most affected by minimum wage decisions, as these industries tend to be relatively labour intensive. Therefore, an increase in real labour costs may lead to lower industry output compared with other industries.

After controlling for economy-wide shocks, output in the more Pay Scale reliant industries appeared to be growing at a significantly lower rate than in other industries over 2006-07 (Figure 14). Since then, there has been no significant difference in output growth between the two groups, as the performance of the more Pay Scale reliant industries improved.

Growth in mining may have been responsible for the difference in relative growth rates in 2005. However, relatively strong growth in Retail trade contributed to a reduction in the difference in performance between the industries over the past year.

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Figure 14: Output growth in industries most reliant on Pay Scales relative to other industries

Note: Further details on the modeling used are available in the Economic and Social Indicators – Monitoring Report, Issue 01. Confidence intervals are used to indicate the range of values within which the estimate can be said to lie, at a chosen confidence or probability level, as estimated from the data sample.

Employment of low-paid workers

Occupations

Employment in unskilled occupations has been growing more slowly than in other occupations over the longer term (Figures 15 and 16). Over the last three years, employment in skilled occupations has grown by around 9 per cent, while employment in unskilled occupations has remained generally steady. However, over the last six months, employment of Labourers and related workers increased significantly.

Figure 15: Number of employees by occupation

Note: All data seasonally adjusted by AFPCS.
Access Economics also developed a labour demand model to compare the growth in employment between low-skilled occupations and high-skilled occupations. The model takes into account industry-specific effects, such as a mining boom, that can influence a comparison between the two groups of occupations. Given that Pay Scale reliant industries tend to be relatively labour intensive, an increase in real labour costs may lead to lower employment growth in the more low-skilled occupations compared with all other occupations.

The results of the model, shown in Figure 17, suggest that employment growth in low-skilled occupations has been lower than that in other occupations over the last three years. However, the Commission’s general Wage-Setting Decisions do not appear to have had a discernible negative effect on employment in low-skilled occupations compared with high-skilled occupations.

Note: All data seasonally adjusted by AFPCS.

Employment of low-paid workers

Figure 17: Employment growth in low-skilled occupations relative to other occupations (net of industry effects)

<table>
<thead>
<tr>
<th>Percentage points</th>
<th>1st Decision</th>
<th>2nd Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>May-03</td>
<td>May-04</td>
</tr>
<tr>
<td></td>
<td>-20</td>
<td>-15</td>
</tr>
</tbody>
</table>

90 per cent confidence interval

Note: A negative number means that employment in low-skilled occupations has grown relatively less rapidly than for others. Further details on the modelling used are available in the Economic and Social Indicators – Monitoring Report, Issue 01. Confidence intervals are used to indicate the range of values within which the estimate can be asserted to lie, at a chosen confidence or probability level, as estimated from the data sample.


Most measures suggest that the number of job vacancies has fallen over the last six months, particularly for skilled jobs.8

On Australian JobSearch, there were around 79 000 vacancies recorded in mid-June 2008 and unmet demand for unskilled labour remains high, showing little change over the last quarter. The occupational groups with the highest number of vacancies were Labourers, Accounting and Hospitality (Figure 18). Queensland recorded the highest number of vacancies, almost 30 per cent of all vacancies, followed by New South Wales and Victoria.

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8 The Skilled Vacancy Index reported in the Australian Department of Education, Employment and Workplace Relations, Vacancy Report, June 2008.
Employment of low-paid workers

Figure 18: Highest number of vacancies recorded by occupation, June 2008

Note: A description of the following categories are: Labourers: Labourers, factory and machine workers; Hospitality: Food, hospitality and tourism; Accounting: Accounting, finance and management; Sales assistants: Sales assistants and store persons; Building: Building and construction; Marketing: Marketing and sales representatives; Administration: clerks, receptionists and secretaries; Transport: Drivers and transport; Social: Social, welfare and security; Sciences: engineering, science and the environment; Teaching: teaching, child care and library.

Wage growth

The WPI measures changes over time in the price of labour. Wage growth for workers in low-skilled occupations was below the average over the year to the June quarter 2008 (Table 5). Over the same period, wage growth in Accommodation, cafes and restaurants was below the average, while wage growth in Retail trade was equal to that of all industries. Over the last ten years, wage growth in each of the low-skilled industries and occupations has been lower than the economy as a whole.
Table 5: Growth in total hourly rates of pay, excluding bonuses, in low-skilled industries and occupations

<table>
<thead>
<tr>
<th>Industries</th>
<th>Annual percentage growth to June quarter 2008</th>
<th>Annualised percentage growth since June quarter 1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation, cafes and restaurants</td>
<td>2.2</td>
<td>2.8</td>
</tr>
<tr>
<td>Retail trade</td>
<td>4.2</td>
<td>3.1</td>
</tr>
<tr>
<td><strong>Occupations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elementary clerical, sales and service workers</td>
<td>3.9</td>
<td>3.1</td>
</tr>
<tr>
<td>Labourers and related workers</td>
<td>3.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Intermediate clerical, sales and service workers</td>
<td>3.5</td>
<td>3.4</td>
</tr>
<tr>
<td>All industries/occupations</td>
<td>4.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Consumer Price Index</td>
<td>4.5</td>
<td>3.1</td>
</tr>
<tr>
<td>Underlying inflation</td>
<td>4.4</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Note: Underlying inflation refers to the average of weighted median and trimmed mean measures.


Recent wage growth under collective agreements is shown in Table 6. Wage growth in two of the more Pay Scale reliant industries, Retail trade and Accommodation, cafes and restaurants, has been lower on average than in most other industries. Wages under collective agreements are also relatively close to those under ‘awards’ in those two industries, compared with all other industries.

Table 6: Wage growth in collective agreements by industry

<table>
<thead>
<tr>
<th>Wage growth in collective agreements</th>
<th>Current Agreements in the March quarter 2008</th>
<th>Agreements formulated in the March quarter 2008</th>
<th>% in industry who are on collective agreements</th>
<th>Ratio of collective agreement average wages to award average wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAWI**</td>
<td>AAWI**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accommodation, cafes &amp; restaurants</td>
<td>3.0</td>
<td>3.0</td>
<td>8.8</td>
<td>1.3</td>
</tr>
<tr>
<td>Retail trade</td>
<td>3.4</td>
<td>3.4</td>
<td>34.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Health &amp; community services</td>
<td>4.1</td>
<td>4.2</td>
<td>58.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Property &amp; business services</td>
<td>4.0</td>
<td>3.9</td>
<td>15.5</td>
<td>1.6</td>
</tr>
<tr>
<td>All industries</td>
<td>3.7</td>
<td>3.9</td>
<td>41.2</td>
<td>1.8</td>
</tr>
</tbody>
</table>

** AAWI is the annualised average wage increase
^ ‘award’ is the term used by the ABS in classifying this data

Note: Ratio of collective agreement wages to award wages are calculated from the ABS Employee, Earnings and Hours, Australia, May 2006, Catalogue No. 6306.0.

Results from the Melbourne Institute Wages Report indicate that wages for the lowest-paid employees have been growing more slowly than for the labour force as a whole (Figure 19). Since the beginning of 2006, average annual growth in the basic hourly wage rate for employees whose pay is determined solely by an award has generally been lower than that of the overall basic hourly rate indicator. There was an exception to this pattern in November 2007, by which time Pay Scales had been adjusted twice (on 1 December 2006 and 1 October 2007) within the preceding twelve months.9

Figure 19: Average annual growth in basic hourly wage rate by pay-setting method

![Graph showing average annual growth in basic hourly wage rate by pay-setting method.](image)

Note: A break was introduced in the series with the May 2008 release. Results now include all employed respondents rather than only those respondents that have not changed jobs over the previous year. Source: Melbourne Institute of Applied Economic and Social Research, Melbourne Institute Wages Report, May 2008.

Movements in the WPI indicate that there was little change in wage growth at the aggregate level around the time of the Commission’s first two general Wage-Setting Decisions. However, industry level data indicate that wage growth increased in some low-skilled industries, particularly Accommodation, cafes and restaurants and Retail trade, around the time of the Commission’s 2006 general Wage-Setting Decision (Table 7). Wage growth in the March quarter 2007 for these industries was well above wage growth in previous March quarters.10 Some low-skilled occupations also showed an increase, particularly Elementary clerical, sales and services workers and Labourers and related workers. Wage growth in low-skilled industries and occupations appears to have been steadier through the time of the Commission’s 2007 general Wage-Setting Decision, with the exceptions being in Retail trade and for Elementary clerical, sales and service workers.

9 Given the small size of the survey, the results should be treated with some caution.

10 Due to the timing with which data are collected, the Commission’s 2006 general Wage-Setting Decision first affected the Wage Price Index in the March quarter 2007. The previous two March quarters have been selected as a point of comparison as previous safety net adjustments had little to no effect in those quarters, and overall wage growth has been relatively steady since 2005.
### Table 7: Growth in total hourly rates of pay, excluding bonuses, in low-skilled industries and occupations, following recent minimum wage changes

<table>
<thead>
<tr>
<th></th>
<th>First decision (December 2006)</th>
<th>Second decision (October 2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percentage increase in March quarter 2007</td>
<td>Average percentage increase in previous two March quarters</td>
</tr>
<tr>
<td><strong>Industries</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accommodation, cafes and restaurants</td>
<td>1.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Retail trade</td>
<td>1.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Health and community services</td>
<td>1.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Personal and other services</td>
<td>1.2</td>
<td>0.9</td>
</tr>
<tr>
<td>Property and business services</td>
<td>0.8</td>
<td>1.1</td>
</tr>
<tr>
<td>Cultural and recreational services</td>
<td>1.0</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Occupations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elementary clerical, sales and service workers</td>
<td>1.3</td>
<td>0.6</td>
</tr>
<tr>
<td>Labourers and related workers</td>
<td>1.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Intermediate clerical, sales and service workers</td>
<td>1.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Tradespersons and related workers</td>
<td>1.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Intermediate production and transport workers</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>All industries/occupations</strong></td>
<td>1.1</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Note: All data are in original terms.

### Summary

At the aggregate level, low-skilled employment has continued to grow consistently over the past year. However, over the last six months, employment in low skilled occupations grew at a higher rate than employment in higher skilled occupations.

Wages in those industries that have a greater proportion of Pay Scale reliant employees have tended to grow at a slower rate than in other industries over the past year.
The safety net and work incentives

This section presents indicators of the real and relative value of minimum wage rates, as well as work incentives and living standards for different household types and employees.

Real and relative values of the Federal Minimum Wage (FMW)

Estimates of the value of minimum wages adjusted for price inflation can reflect the extent of the safety net provided by minimum wages, the strength of work incentives and the incentive to enter wage bargaining rather than rely on minimum wages.

The increase in the standard FMW on 1 October 2007 was 2 per cent, equal to the change in the CPI over the period since the Commission’s 2006 general Wage-Setting Decision (Figure 20). This does not include inflation since then and the 4.1 per cent increase in the standard FMW that is to take effect on 1 October 2008.

The recent trends in the real and relative values of the standard FMW (Figure 21) are similar because inflation has been keeping pace with average earnings growth. The Commission’s 2008 general Wage-Setting Decision will raise the real and relative values of the standard FMW from 1 October 2008.

Figure 20: Trend in the real value of selected Pay Scale rates

Note: Pay Scale rates are measured at end of quarter, except for the September quarter 2007 which measures the Pay Scale rates as of 1 October 2007.

Source: ABS, Consumer Price Index, June 2008, Catalogue No. 6401.0; Metal, Engineering and Associated Industries Award 1998.
The safety net and work incentives

Figure 21: The FMW relative to average and median earnings

![Figure 21: The FMW relative to average and median earnings](image)


Living costs for low-paid households

Living costs for households change over time as the prices of the goods and services that households purchase change. If the increase in a household’s living costs is outpacing the increase in its disposable income, then that household’s standard of living may decline. Changes in living costs therefore form part of the consideration of a safety net for low-income households.

Changes in living costs will vary across different households depending on the specific goods and services that they purchase. The ABS publishes analytical living cost indexes for selected types of Australian households. These indexes are designed to measure the change in after-tax money incomes required by different types of households to purchase a given basket of goods and services. They are based on the average expenditure patterns of each household type, and the price changes for each good or service.

The analytical living cost indexes are slightly different in concept to the CPI calculated by the ABS. Whereas the living cost indexes measure the payments made by households in order to gain access to goods and services, the CPI measures changes in prices for the goods and services that are actually acquired. In practice, the main difference is that the living cost indexes, unlike the CPI, include interest charges and exclude house purchases.

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11 ABS, Analytical Living Cost Indexes for Selected Australian Household Types, Catalogue No. 6463.0. The four types of household for which indexes are compiled are employee, age pensioner, other government transfer recipient, and self-funded retiree.

12 The weight on insurance is also calculated on a different basis in the living cost indexes.
ABS data indicate that there are only minor differences in the average expenditure patterns of low-income employee households and those of all employee households (Table 8). (Since employee households make up the majority of all households, their average expenditure patterns will be similar to those of the household sector as a whole.) On average, low-income employee households spend around 2 per cent more of their total expenditure on both food and housing costs (including rents), compared to all employee households. On the other hand, low-income employee households spend, on average, around 1 per cent less of their total expenditure on transportation.13

Table 8: Estimated average weekly expenditure in 2003-04 by commodity group for low-income and all employee households

<table>
<thead>
<tr>
<th>Commodity group</th>
<th>Low-income employee households</th>
<th>All employee households</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average weekly expenditure per household ($)</td>
<td>Average of Total Expenditure (%)</td>
</tr>
<tr>
<td>Food</td>
<td>164</td>
<td>18.1</td>
</tr>
<tr>
<td>Alcohol and tobacco</td>
<td>64</td>
<td>7.1</td>
</tr>
<tr>
<td>Clothing and footwear</td>
<td>37</td>
<td>4.1</td>
</tr>
<tr>
<td>Housing</td>
<td>122</td>
<td>13.4</td>
</tr>
<tr>
<td>Household contents and services</td>
<td>88</td>
<td>9.7</td>
</tr>
<tr>
<td>Health</td>
<td>41</td>
<td>4.6</td>
</tr>
<tr>
<td>Transportation</td>
<td>126</td>
<td>13.9</td>
</tr>
<tr>
<td>Communication</td>
<td>36</td>
<td>4.0</td>
</tr>
<tr>
<td>Recreation</td>
<td>99</td>
<td>11.0</td>
</tr>
<tr>
<td>Education</td>
<td>31</td>
<td>3.4</td>
</tr>
<tr>
<td>Financial and insurance services</td>
<td>97</td>
<td>10.7</td>
</tr>
<tr>
<td>Total</td>
<td>906</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Notes: Low-income employee households are defined as the bottom 20 per cent by equivalised total current weekly household income of households whose principal source of household income is wages and salaries. Average weekly expenditure figures are based on 2003-04 Household Expenditure Survey data at June quarter 2005 prices.

13 Low-income employee households and all employee households spend about the same percentage of their total expenditure on petrol.
The safety net and work incentives

It is possible to create an indicative living cost index for low-income employee households based on their expenditure patterns and prices data from the CPI release. According to such an index, estimated changes in living costs for low-paid households have accelerated over 2007-08, due to both higher consumer prices and higher interest charges (Figure 22). As there are minor differences in average expenditure patterns, recent changes in living costs for low paid households have been similar to those of employee households as a whole.

Figure 22: Changes in living costs for low-income employee households and all employee households

![Percentage change](chart)


In this analysis, it should be remembered that households may lower their living costs by buying more of relatively cheap goods and less of relatively expensive goods. To the extent that the living cost indexes do not account for these substitution effects, they will overestimate increases in households’ living costs.\(^{14}\)

\(^{14}\) As with the CPI, the weights in the living cost indexes are updated every five years.
Disposable incomes and work incentives

A further perspective on the safety net role of minimum wages is provided by monitoring trends in the real value (adjusted for CPI inflation) of the disposable income of households containing one or more low-wage earners, and the effect of these trends on apparent financial incentives for low-paid work. This acknowledges that the standard of living of most workers is determined not only by their earnings, but also by the tax and social security systems.

The Commission’s primary focus, as reflected in the first issue of the *Economic and Social Indicators – Monitoring Report* (ESIMR), is on the circumstances of those households that are most heavily reliant on the safety net of minimum wages and/or income transfers. That first report charted trends in a variety of indicators of disposable income and work incentives from August 2005 to November 2007 for households containing one earner on the standard FMW: (i) a single person without children; (ii) a couple without children; (iii) a single parent with one child aged 5 to 7; and (iv) a couple with two children aged 5 to 12.15

Because the values of most of these indicators move slowly over time, the Commission intends to update the primary analysis once a year, in its March ESIMR. In this and subsequent September reports, it will provide a complementary analysis which focuses on the circumstances of other groups affected by its wage setting decisions (for example, employees in higher Pay Scale classifications, part-time and secondary earners, and junior employees).

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Trends in real disposable incomes of families with one earner on either the standard FMW or higher Pay Scale wages

Between August 2005 and August 2008, all of the selected family types with one earner on the standard FMW experienced significant real increases in disposable income. Real household disposable income rose by an estimated:

- 10 per cent for a couple without children;
- 8 per cent for a couple with two children aged 5 to 12;
- 6 per cent for a single parent with one child aged 5 to 7; and
- 4 per cent for a single adult without children.

Figures 23 and 24 show disposable income trends for the same four household types with one full-time earner on Pay Scale wages above the standard FMW. Two different classification levels from the Pay Scale derived from the benchmark Metal Industries Award are used for this analysis: the C10 classification (currently $615.98 per week) and the C4 classification (currently $749.74 per week).

All the modelled household types experienced a marginal decline in real disposable incomes in the period to June 2006, when there were no wage increases or substantial changes to the tax or social security systems. Since then, real disposable incomes for all these household types have grown, most solidly for those with an earner on C10 wages. Overall, between August 2005 and August 2008, the strongest growth in real disposable income (over 14 per cent) was experienced by couples without children, while single people without children experienced the weakest improvement of around 5 per cent.

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16 August 2005 represents the first quarter following implementation of the last Safety Net decision of the Australian Industrial Relations Commission. Much of the analysis in this Section uses that date as a baseline for comparisons over time.

Moreover, all household types with one C10 earner experienced stronger growth in real disposable incomes over the period than comparable households with one FMW earner. By contrast, disposable income growth was more compressed in C4-earner households, as illustrated in Figure 24. This is due, in part, to the two-tier minimum wage increases in December 2006 and October 2007 for those earning above $700 per week.

Among households with one C4 earner, the couple without children again experienced the largest real increase in disposable income (around 5 per cent), while the pensioner single parent\(^{18}\) fared slightly better than the couple with children. The single person without children had a disposable income in August 2008 only 1.3 per cent higher than in August 2005.

\(^{18}\) In its modelling, the Commission uses two different single parent household types – one with a child aged 5 to 7, that is assumed to be eligible for Parenting Payment (single), and one with a child aged 8 to 12, that is eligible only for Newstart Allowance. The terms ‘pensioner single parent’ and ‘non-pensioner single parent’ are used occasionally in the text to refer to these two household types, respectively.
Finally, whether a household has a wage-earner at the C10 or the C4 classification, most of the gains in disposable income over the past three years have resulted from changes to the tax and/or social security systems. While the Commission’s first general Wage Setting Decision significantly increased the disposable income of a single person with no children and had a smaller positive effect for other household types, the effect of the second general Wage Setting Decision on real disposable incomes was marginal.

Summary

The Commission’s modelling suggests that, for Pay Scale reliant employees earning at least up to the C4 classification wage, across a range of household types, the wage rises granted by the Commission and relevant changes to the tax and social security systems have resulted in sustained real increases in disposable income relative to the situation in mid-2005.
Work incentives

Assessing the financial incentives that jobless people face when considering low-paid work is complex. The financial incentives faced by individuals are as diverse as their characteristics and circumstances.

In its modelling of financial incentives, the Commission focuses primarily on those groups within the unemployed and low-paid populations for whom financial incentives to work are more likely to be problematic. These are people or households receiving income-support payments (pensions and allowances).

The analysis presented in this report complements that provided in the first edition of the ESIMR.19 It focuses, in particular, on the experience of low-paid single-earner and dual-earner households, part-time and secondary earners, workers with disability, and those receiving junior and apprentice wages.

Replacement rates

One perspective on the incentives to take up paid work is provided by income support replacement rates (that is, the ratio of a person's or family's disposable income when out of work to their disposable income when in work). It is a common economic assumption that people with higher replacement rates have poorer financial incentives to work.

Table 9 compares replacement rates for a variety of single-earner family types at July 2008. This shows that replacement rates are higher for couples than for single people, and higher for people with dependent children than for people with no children. This is because the level of income that families receive when out of work varies more with family size than does their income when in work. Replacement rates also decrease across all family types as weekly earnings rise. This trend is most pronounced for single people with no children, who receive the least in income support and therefore leave the income support system at a lower level of earnings.

The safety net and work incentives

Table 9: Income support replacement rates for various households with one earner on 100, 120 or 150 per cent of the standard FMW, July 2008

<table>
<thead>
<tr>
<th>Family type</th>
<th>@ 100% FMW</th>
<th>@ 120% FMW</th>
<th>@ 150% FMW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single, no children</td>
<td>57</td>
<td>48</td>
<td>41</td>
</tr>
<tr>
<td>Single, one child aged 5-7</td>
<td>61</td>
<td>59</td>
<td>55</td>
</tr>
<tr>
<td>Single, one child aged 8-12</td>
<td>64</td>
<td>57</td>
<td>51</td>
</tr>
<tr>
<td>Couple, no children</td>
<td>69</td>
<td>66</td>
<td>63</td>
</tr>
<tr>
<td>Couple, one child aged 8-12</td>
<td>73</td>
<td>71</td>
<td>66</td>
</tr>
<tr>
<td>Couple, two children aged 8-12</td>
<td>75</td>
<td>73</td>
<td>69</td>
</tr>
</tbody>
</table>

Assumptions: FMW = $522.12 per week. Tax/transfer payments modelled as at 1 July 2008. Single parent with child aged 5-7 eligible for Parenting Payment (single), all other households for Newstart Allowance. Households paying sufficient private rent to receive maximum rent assistance where applicable.

Source: AFPCS Modeling.

Relative to the situation in July 2007,20 replacement rates for the families modelled in Table 9 have improved marginally (by one or two percentage points) or remained constant. On this measure, work incentives for most family types have remained relatively steady, notwithstanding the July 2008 tax cuts.

Replacement rates for dual-earner couples

The replacement rates presented in Table 9 imply that work incentives are generally weaker for couples than for single people when measured relative to the income available from the social security system. However, single-earner couple households are a declining group in Australian society and in a majority of couples both partners now work (one often at a part-time level).21 Table 10 summarises replacement rates for dual-earner couples where the first partner takes up full-time work at the full standard FMW and the second enters part-time employment at either 20, 50 or 100 per cent of the standard FMW.

Table 10 shows that, where the in-work situation consists of one and a half jobs at the standard FMW, couples face similar replacement rates to those facing single FMW-earners in Table 9. Replacement rates are even lower for those families where the second earner takes a full-time job at the standard FMW.

21 For example, see ABS, Family Characteristics and Transitions, Australia, 2006-07, Catalogue No. 4442.0, pp. 22-23.
The safety net and work incentives

Table 10: Income support replacement rates for couple families with one partner employed at 100, and the other at 20, 50 or 100, per cent of the standard FMW, July 2008

<table>
<thead>
<tr>
<th>Family type</th>
<th>F-t @ FMW plus 20% P-t hrs @FMW</th>
<th>F-t @ FMW plus 50% P-t hrs @FMW</th>
<th>F-t @ FMW plus F-t hrs @FMW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Couple, no children</td>
<td>63</td>
<td>58</td>
<td>47</td>
</tr>
<tr>
<td>Couple, one child aged 8-12</td>
<td>68</td>
<td>64</td>
<td>54</td>
</tr>
<tr>
<td>Couple, two children aged 8-12</td>
<td>71</td>
<td>67</td>
<td>54</td>
</tr>
</tbody>
</table>

Assumptions: FMW = $522.12 per week. Tax/Transfer payments modelled as at 1 July 2008. Single parent with child aged 7 eligible for Parenting Payment (single), all other households for Newstart Allowance. Households paying sufficient private rent to receive maximum rent assistance where applicable.

Source: AFPCS Modelling.

For the three couple families modelled in Table 10, as for single-earner households, replacement rates remained broadly constant between July 2007 and July 2008.

Replacement rates for secondary earners

While work incentives for primary earners are generally similar whether or not their partner is also seeking work, secondary earners may face quite different incentives.

Table 11 compares replacement rates for secondary earners with partners already in low-paid work, who make the decision to undertake part-time employment (at either 20 or 50 per cent of the FMW) or to work full-time at the standard FMW. It shows that, for secondary earners without children, replacement rates are high when working part-time and lower when in full-time work. By contrast, secondary earners with children continue to experience relatively high replacement rates even when engaged in more substantial low-paid employment.

Table 11: Replacement rates for secondary earners at 20, 50 and 100 per cent of the standard FMW (primary earner receiving FMW), selected households, July 2008

<table>
<thead>
<tr>
<th>Employee household type</th>
<th>Secondary earner's replacement rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20% P-t hrs @ FMW</td>
</tr>
<tr>
<td>No children</td>
<td>91</td>
</tr>
<tr>
<td>Two children aged 8-12</td>
<td>94</td>
</tr>
</tbody>
</table>

Assumptions: FMW = $522.12 per week. Tax/Transfer payments modelled as at 1 July 2008. Single parent with child aged 7 eligible for Parenting Payment (single), all other households for Newstart Allowance. Households paying sufficient private rent to receive maximum rent assistance where applicable.

Source: AFPCS Modelling.
The safety net and work incentives

The high replacement rates for secondary earners in some situations may compromise their incentives to take up low-paid work, particularly at part-time levels. However, it should be noted that many part-time workers on minimum wages reside in higher-income households, and are therefore unlikely to experience high replacement rates as they receive little or no income support when not in work.

Other approaches to measuring work incentives

Two further indicators of work incentives provide complementary perspectives. They are:

- the net financial gain obtained by moving from unemployment into work; and
- the proportion of earnings effectively retained after taking account of tax liabilities and reductions in income transfers.

Net financial gain from full-time work

Figure 25 illustrates the net increase in disposable income for adults in a variety of family situations who move from unemployment into full-time work at 100, 120 or 150 per cent of the standard FMW. It shows that, for most people, movement into a full-time job at the standard FMW delivers a substantial net financial gain. Gains are significantly higher for single people than for single-earner couples, particularly at higher multiples of the FMW. They are also somewhat higher for people with children than for people without, although this advantage would be diminished if people with children face higher work-related costs (for example, for childcare).

The figure also shows that, at 150 per cent of the standard FMW, a non-pensioner single parent experiences a higher net financial gain than a pensioner single parent, due to lower levels of out-of-work income support. Conversely, at lower levels of earnings the net financial gain favours pensioner single parents, due to their more generous income test.
Figure 25: Net financial gain on moving from unemployment into full-time work at 100, 120 or 150 per cent of the standard FMW, various single-earner family types, July 2008

Assumptions: FMW = $522.12 per week. Tax/Transfer payments modelled as at 1 July 2008. Single parent with child aged 7 eligible for Parenting Payment (single), all other households for Newstart Allowance. Households paying sufficient private rent to receive maximum rent assistance where applicable.
Source: AFPCS Modeling.

Proportion of earnings retained
A final perspective on work incentives is provided by the proportion of earnings effectively retained when a person moves from unemployment into full-time work or increases their hours of work. This is equal to the net increase in disposable income (after tax and reductions in income transfers) as a proportion of gross earnings.

Figure 26 illustrates how the proportion of earnings retained can vary between family types and at different levels of earnings. It shows that a pensioner single parent retains a relatively high proportion of his or her income from low-paid or part-time work (more than 60 per cent up to earnings of $400 a week), compared with a person without children, who initially retains a lower proportion of their income as earnings rise. However, once a single person works full-time at the standard FMW and is no longer entitled to part-rates of Newstart allowance, they experience an improvement in their proportion of earnings retained. On this measure, a pensioner single parent may be more inclined to limit their working hours than a person without children, who has greater incentive to engage in more substantial employment.
The safety net and work incentives

Figure 26: Proportion of total earnings retained by a (pensioner) single parent with one child and a single person with no children, July 2008

Assumptions: FMW = $522.12 per week. Tax/Transfer payments modelled as at 1 July 2008. Single parent with child aged 7 eligible for Parenting Payment (single), single person for Newstart Allowance. Households paying sufficient private rent to receive maximum rent assistance where applicable.

Source: AFPCS Modelling.

Work incentives of employees with a disability

Financial incentives may also play a part in the decision of people with a disability to combine part-time work with the Disability Support Pension (DSP). Table 12 indicates that single people on DSP would experience net financial gain of at least $127 per week if they took up part-time employment of 12 hours per week at the standard hourly FMW ($13.74 per hour).22

Table 12 also shows that financial incentives for part-time work are stronger for DSP recipients than for unemployed people receiving Newstart Allowance (NSA), some of whom may also have reduced capacity for work due to disability. This is due to the relatively more generous income test for the pension and the fact that, unlike NSA, DSP is not assessable as income for tax purposes.

22 This financial modelling does not take into account the circumstances of employees who work in Special Business Services and have their work capabilities assessed as a proportion of minima or award rates of pay.
Table 12: Disposable incomes and work incentives indicators for income support recipients moving into part-time work of 12 hours per week on the standard FMW, July 2008

<table>
<thead>
<tr>
<th>Family type</th>
<th>Disposable income in work ($pw)</th>
<th>Net financial gain ($pw)</th>
<th>% earnings retained</th>
<th>Replacement rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single, no children (DSP)</td>
<td>466.04</td>
<td>126.52</td>
<td>77</td>
<td>73</td>
</tr>
<tr>
<td>Single, no children (NSA)</td>
<td>324.89</td>
<td>93.59</td>
<td>57</td>
<td>71</td>
</tr>
<tr>
<td>Single, one child aged 8-12 (DSP)</td>
<td>620.43</td>
<td>131.44</td>
<td>80</td>
<td>79</td>
</tr>
<tr>
<td>Single, one child aged 8-12 (NSA)</td>
<td>534.67</td>
<td>92.30</td>
<td>56</td>
<td>83</td>
</tr>
</tbody>
</table>

Assumptions: FMW = $522.12 per week. Tax/Transfer payments modelled as at 1 July 2008. Households are paying sufficient private rent to receive maximum rent assistance where applicable. Source: AFPCS Modelling.

This assessment suggests that there is sufficient financial incentive for DSP recipients to engage in a small amount of low-paid work. The inclination and capacity of a person with disability to undertake part-time employment will, of course, vary according to individual circumstances. For some people, management of a physical, intellectual or psychiatric impairment may be incompatible with even a small amount of paid employment. For others, part-time work may deliver sufficient financial (and non-financial) incentives to engage in the labour market.

Work incentives of junior employees

As with adult workers, young people’s decisions to enter the labour force can be motivated by a variety of factors, both financial and non-financial.

Work incentives for young people can differ from those of adults due to different income-support eligibility and entitlements and their likelihood of receiving age-related (‘junior’) rates of pay. Table 13 summarises a range of work incentive indicators for young people in a variety of situations, who would receive age-related rates of pay on taking up employment. Pay rates from the Retail trade industry are used in this analysis, since this is the industry which employs the highest proportion of young people.23

23 For example, in 2008, 32 per cent of employees aged between 15 and 24 were employed in Retail trade (Source: ABS Labour Force Survey, May 2008, unpublished data).
The safety net and work incentives

Table 13: Net financial gain, proportion of earnings retained and income support replacement rates for young people moving from unemployment to full-time employment in Retail trade industry, July 2008

<table>
<thead>
<tr>
<th>Employee age and circumstances</th>
<th>Disposable income in work ($pw)</th>
<th>Net financial gain ($pw)</th>
<th>% earnings retained</th>
<th>Replacement rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>16 years, at home, no children</td>
<td>287.16</td>
<td>189.91</td>
<td>65</td>
<td>34</td>
</tr>
<tr>
<td>16 years, independent, no children</td>
<td>349.67</td>
<td>136.23</td>
<td>47</td>
<td>61</td>
</tr>
<tr>
<td>18 years, at home, no children</td>
<td>379.58</td>
<td>262.63</td>
<td>65</td>
<td>31</td>
</tr>
<tr>
<td>18 years, independent, no children</td>
<td>379.58</td>
<td>166.14</td>
<td>41</td>
<td>56</td>
</tr>
</tbody>
</table>

Assumptions: Junior rates of pay based on those contained in the Shop Employees State Award NSW - $290.32 and $406.22 per week for 16 and 18 year old permanent employees, respectively. Tax/transfer rates as at 1 July 2008. Young people living at home assumed to be entitled to the maximum rate of income support under parental means test. Independent young people assumed to be paying sufficient private rent to receive maximum rent assistance for people in shared accommodation.

Source: AFPCS Modelling

The table indicates that moving into full-time work on age-related rates of pay delivers a substantial increase in disposable income in all cases, although net gains are lower for young people living independently. Proportions of earnings retained are also lower, and replacement rates higher, for young people living independently than for those still living at home. While this may suggest poorer work incentives for the former group, this needs to be weighed against their likely greater need for income, due to lack of access to parental resources to augment their standard of living.

Both the net financial gain and replacement rate indicators show improvement with age. This is due to the fact that wages increase much faster with age than do income support payments. Compared to the situation facing low-paid adults, these indicators imply that work incentives are somewhat stronger for young people living at home and broadly comparable for young people living independently of their parents.
Living standards and work incentives of apprentices and trainees

Financial incentives may also be relevant to people's decisions to enter a period of training in an Australian apprenticeship or traineeship. While apprentice wages are often lower than the wages payable to full-time junior employees, apprentices and trainees may be eligible to receive student income support payments (Youth Allowance or Austudy Payment) on the same basis as full-time students. Although eligibility for Youth Allowance is tightly means-tested for young people still considered financially dependent on their parents, apprentices or trainees from low income families, or who are otherwise considered independent of their parents, may be entitled to a part-rate income support payment to supplement their earnings.

Table 14 summarises disposable incomes from work and the three different indicators of work incentives for a young person entering into his or her first apprenticeship year, assuming qualification for income support. The illustrative apprentice rate of pay is that payable under the NSW Electricians Award. This is not intended to be representative of all apprentice earnings, but rather a benchmark for the lower end of the apprentice wage distribution.

Table 14: Disposable incomes and work incentives indicators for young people moving from unemployment to a first year electrician's apprenticeship, July 2008

<table>
<thead>
<tr>
<th>Employee age and circumstances</th>
<th>Disposable income ($pw)</th>
<th>Net financial gain ($pw)</th>
<th>% income retained</th>
<th>Replacement rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>16 years, at home, no children</td>
<td>261.43</td>
<td>164.18</td>
<td>73</td>
<td>37</td>
</tr>
<tr>
<td>16 years, independent, no children</td>
<td>366.27</td>
<td>152.83</td>
<td>68</td>
<td>58</td>
</tr>
<tr>
<td>18 years, at home, no children</td>
<td>279.34</td>
<td>162.39</td>
<td>73</td>
<td>42</td>
</tr>
<tr>
<td>18 years, independent, no children</td>
<td>366.27</td>
<td>152.83</td>
<td>68</td>
<td>58</td>
</tr>
</tbody>
</table>

Assumptions: Apprentice rate of pay - $223.44 a week for an indentured first-year apprentice engaged on construction work. Tax/transfer rates as at 1 July 2008. Young people living at home assumed to be entitled to the maximum rate of income support under parental means test. Independent young people assumed to be paying sufficient private rent to receive maximum rent assistance for people in shared accommodation.

Source: AFPCS Modelling

Even though the apprentice in this case earns a wage significantly lower than that payable to a young person working full-time in the retail industry (Table 13), the net financial gains from taking up such an apprenticeship are still quite substantial and, in one case, higher than would be obtained from the retail job. Proportions of income retained are considerably higher, due to the generous personal income test applied to student income support, while the pattern of replacement rates is quite similar to that observed for young people on junior rates of pay. It should also be emphasised that apprentice rates for most industries improve significantly in later years, with a concurrent increase in financial work incentives.

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The safety net and work incentives

Unpublished data obtained from the Department of Education, Employment and Workplace Relations indicate that, as at June 2008, around 5300 apprentices received student payments. This number has been increasing slowly over time, presumably due to increasing awareness of the availability of student income support among apprentices and trainees and their employers.

When considering the implications of this and the previous analysis of work incentives for junior employees and those on apprentice or trainee wages, it is worth bearing in mind that the outcomes modelled represent ‘worst case’ scenarios. For the larger number of young people who would not qualify to receive income support because of parental income, the financial incentives to take up low-paid employment are unambiguously positive.

Summary

The Commission’s modelling suggests that, for individuals in a broad range of circumstances, there are financial incentives to take up low-paid work. However, the Commission notes that some groups face weaker financial incentives (for example, people contemplating part-time work whose partners are in low-paid full-time work). This is largely a consequence of the interaction of the tax and transfer system, rather than the wages that individuals receive.