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ACCI MEMBER ORGANISATIONS
1. INTRODUCTION AND POSITION

1.1 INTRODUCTION

1. 2009 will see the fourth and final minimum wage review by the AFPC, pending the passage of the Fair Work Bill 2009 and the creation of the specialist minimum wage panel of Fair Work Australia.

2. The 2009 review also takes place in the context of a near unparalleled economic crisis and a level of economic downturn unseen in living memory. There is an increasing consensus that Australia is yet to feel the full effects of the global economic crisis the magnitude and duration of which remain unclear.

3. The Global Financial Crisis (GFC) is increasingly a global economic crisis, impacting at the domestic level on all facets of Australia’s economy and labour market. It is the pre-eminent policy challenge of our times, and is a challenge confronting all those responsible for the economic levers of any economy – from central bankers, to politicians setting fiscal and taxation settings, to minimum wage setters such as this Commission.

4. This adds up to a materially different AFPC minimum wage review to the three which preceded it, and to the work of the preceding Australian Industrial Relations Commission in decades of national wage cases. The relevance and importance of this 2009 review to the economic and social future of Australia could not be greater.

5. For the first time since the decentralisation of the Australian industrial relations system and the shift to workplace bargaining, the potential effects of this review are acute and truly fundamental to retaining employment, retaining businesses and services, and ensuring the Australian economy is not further damaged during such challenging times. It is more important than ever that minimum wage setting is right in 2009.

6. The magnitude and pervasiveness of the GFC have created a quantum shift in the considerations this Commission must have regard to in 2009. They have created an imperative for genuine caution and consideration of the micro and macro impact of any wage increases. They also force decision makers to recognise and take account of significant uncertainty, and to accept what cannot be known at this point and for this to be a material consideration in decision making.
1.2 **KEY CONSIDERATIONS / KEY THEMES**

7. There are a number of key considerations for the AFPC in determining its approach in the most important review of minimum wages in Australia in decades. These include in summary:

   a. **Crisis:** Australia (and indeed the world) is facing the worst economic crisis since the Great Depression. There is the potential for mass job displacement, widespread failures of consumer and investment confidence, and severe disruptions to credit supply. Whilst the negative impacts of the crisis on Australian jobs and communities are yet to become fully clear, it is clear that they will be negative and that they will be significant.

   b. **Jobs:** The key to the functions of this body is jobs, and job retention is arguably the principal policy challenge for contemporary Australia and all economic decision makers. This Commission has a vital role to play in ensuring Australia can navigate the current economic crisis with the minimum possible job losses and the maximum possible opportunity for a rapid and fulsome recovery.

   c. **Uncertainty:** There is significant uncertainty on the medium and longer term outlook for the Australian economy and labour market. We know that the timing and extent of any Australian recovery is essential to the determination of this matter, but we also know that we have not yet reached the point where this will become clear. We don’t know how many more jobs will be lost, nor for how long net job losses will prevail. This uncertainty not only makes decision making more difficult, but is a material consideration in favour of the approach to minimum wage setting employers commend to the Commission.

   d. **Risk:** Allied to uncertainty of course is risk. There are clearly significant risks of getting minimum wage fixing wrong in 2009 and in particular of uprating minimum wages with the threat of displacing jobs, and of displacing business viability and sustainability (particularly for SMEs). The Commission must be mindful of what it cannot know in determining this matter. Being mindful of what cannot be known at this point dictates not risking the unknowable consequences of an uprating in the absence of necessary information.

   e. **Real Incomes:** There are always a range of factors potentially increasing incomes for the lower paid exogenous to the minimum wage system. This is particularly the case in 2009, given the deliberate policy decisions by
government, largely supported by employers, to add economic stimulus through public expenditure increasing household incomes. In 2009 changes in taxes, inflation and government transfer payments\(^1\) (for example) should be take into account and further favour the approach employers commend to the Commission.

f. **Change:** There has been a significant level of economic change/flux across the past 12-18 months. Decision makers need to be properly aware of the rapidity and extent of change, both for their decision making and for those impacted on by minimum wage decisions. Research based on the impacts and benefits of previous decisions may need to be critically re-examined in light of significantly changed circumstances.

g. **Caution:** Australia stands at a tipping point in regard to its economic and jobs future. In the tempest of a near unprecedented global economic crisis, and with little clarity on the medium to longer term outlook, it is crucial that economic settings are right. Coincident to the start of this crisis, minimum wages rose by $21.66 per week consequent on the AFPC’s 2008 review. A further increase in the midst of this downturn is a significant risk, which on the balance of risk is not warranted.

h. The dangers of further risking jobs or precipitating their loss are significant and could be long lasting. One of the key conclusions to reach is the need for caution, and erring on the side of genuine prudence in light of the known negatives and the known unknowns which proliferate in early to mid-2009.

8. These themes / considerations are expanded on throughout this submission.

9. These are indivisibly linked considerations, with risk for example arising from uncertainty and in turn, the need for caution. The combination of such considerations support the position the Commission should adopt in finalising this review (below):

### 1.3 ACCI Position

10. The crisis facing our economy and labour market, and prevailing levels of economic uncertainty constitute exceptional circumstances, unparalleled in the living memory of working Australians. They represent a challenge for minimum wage setting not seen since the Great Depression.

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\(^1\) Including the various stimulus packages.
11. These exceptional circumstances compel consideration of different approaches to reviewing minimum wages, and of measures and determinations not generally under consideration by this Commission to date. All appropriate options need to be on the table when faced with a crisis of the present magnitude, and in light of the consequences of wrong decision making for jobs, and the futures of employees, those who employ them and the wider Australian community.

12. In recent months we have seen a global policy reversal on issues as diverse as government spending stimulus, deficit financing, government borrowings, and interest rate policy. The magnitude of the current financial crisis demands similar policy courage and foresight from those responsible for minimum wage setting.

13. Australia has seen:
   a. The near unparalleled level of global and domestic economic downturn and risk, and the increasing negative impacts on employers directly and indirectly subject to increases in minimum wages.
   b. The significant minimum wage increase of October 2008.
   c. Two stimulus packages providing additional income to the lower paid.
   d. Reductions in inflation, and forecast further easing in prices.
   e. Substantial tax cuts to date, and further scheduled tax cuts from 1 July.
   f. Forecast increases in unemployment.
   g. Pending cost increases for employers and benefits to the low paid from statutory and award changes (from both 1 July 2009 if legislation is enacted by then, and 1 January 2010 (including costs flowing from award modernisation)).

14. In light of such considerations, ACCI calls on the AFPC not to order a further increase in regulated minimum wages in its current review.

15. There should be no uprating in Australian minimum wages prior to such time as:
   a. There is greater clarity on the extent, impact and duration of the economic downturn.
b. Essential information is available to minimum wage decision makers to inform a responsible decision which can properly take into account the economic considerations relevant to minimum wage setting.

16. ACCI does not therefore support an increase arising from the AFPC’s current review becoming payable in October 2009 (as scheduled under the nominal timetable set out in previous decisions), nor indeed is there any valid basis for an uprating in minimum wages during the remainder of 2009.

17. Minimum wages should therefore next be reviewed, with a view to any increase, by the successor body to this Commission; the Minimum Wage Panel of Fair Work Australia.

18. **Context:** The near unprecedented levels of adversity and uncertainty in which this case takes place dictate a departure from the previous approach of annual minimum wage uprating. In doing so, the AFPC would be remaining true to its purpose and discretions – increases (some substantial) in good economic times; caution (and allowing other levels of policy to work) in bad times.

19. This is reflected in the ACCI position in this 2009 review. This is only the second time in nine (9) annual reviews that the ACCI network has not countenanced or supported some level of increase\(^2\). 2009 is an extraordinary time, and such unusual circumstances require consideration of the full range of appropriate options in reviewing minimum wages.

20. **Outcome of This Review:** What may usefully arise from this review would be an expert examination of the Australian economy and labour market in mid-2009, and an update on the finalisation of the AFPC’s research programme and a conclusion that the balance of risk does not warrant a general economy wide movement at this time. What should not arise from this review is a 2009 minimum wage decision uprating the adult basic periodic rate of pay, or an adjustment of basic periodic rates of pay in pay scales.

21. The decision documents which should issue in mid 2009 for commencement during 2009 are:

   a. An uprating of the minimum payment level for the Supported Wage System (SWS) for employees with a disability (see below).

   b. Any adjustment to the various orders relating to the use of wage assessment tools in business services (Australian Disability Enterprises).

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\(^2\) And ACCI’s 2003 submission to the AIRC was a product of a severe and damaging drought.
22. **Factors Increasing Incomes for the Lower Paid**: As outlined throughout this submission, the approach proposed by Australia’s employers needs to be considered in light of various factors increasing incomes and purchasing power for the lowest paid in receipt of safety net minimum wages. These include:

   a. The positive impact of taxation cuts.

   b. Direct payments to lower paid persons in work through the various government stimulus packages.

   c. Alleviation in inflationary pressures.

   d. An easing of interest rate policy.

23. A range of factors are increasing incomes and advancing the purchasing capacities of those in receipt of minimum wages. They provide the Commission with additional scope to adopt the approach recommended in light of the prevailing economic concern and the as the best possible balancing of the parameters for minimum wage setting in s.23 of the *Workplace Relations Act 1996*.

**1.3.1 - If an increase is awarded**

24. The preceding is the ACCI network’s position on the proper outcome of this review. The employers of Australia consider it vitally important that there not be a further uprating of minimum wages in 2009 for all of the reasons set out in this submission. To do so would generate considerable and unnecessary economic and jobs risk.

25. This said if, directly contrary to the approach advocated by employers and our considered view of the best interests of the economy and the statutory requirements on the Commission, a wage increase is to be applied during 2009 practical and implementation considerations will arise as they have arisen in relation to previous increases.

26. ACCI has said a great deal in previous submissions about practical issues such as absorption, tiering, targeting, notice, and implementation etc. If there is to be an increase employers stand by their previous input on these mechanical considerations and again commend it to the Commission.

27. In particular, if an increase were to be awarded, contrary to what employers maintain is required and merited, then restricting its application will be particularly important in 2009. Any increase would need to be applied at the
minimum wage level only or tightly capped to the genuinely lower paid. Given the costs and risks involved careful targeting would need to be undertaken.

28. Notwithstanding this, it is the lowest paid and often lowest skilled, least experienced employees who can be most vulnerable to losing work in a downturn. This is a very important consideration. Localising a labour price increase to such employees may serve only to make their employment more vulnerable. Again, the correct approach in 2009 is not to uprate minimum wages given the economic situation.

1.3.2 - Subsidiary Minimum Wages

1.3.2.1 - Introduction

29. In addition to its general minimum wage setting function, the AFPC is specifically empowered to set various “subsidiary wage rates”. These are the particular minimum wage arrangements for juniors, trainees and apprentices, employees undertaking piecework, casuals, persons with a disability etc.

30. ACCI put substantial submissions before the AFPC in 2006 and 2007 dealing with the “subsidiary minimum wage rates” (juniors, trainees and apprentices, piecework, casuals etc). A more summary submission was provided in 2008.

1.3.2.2 - The existing approach to flow on is correct

31. The AFPC has already applied the correct approaches to flowing on any headline minimum wage increases to subsidiary minimum wage rates. Key concerns in the operation of minimum wage increases for these particularly important (and potentially minimum wage reliant) cohorts of employees have essentially already been addressed.

32. Any flow on of an increase arising from this review (contrary to the position outlined above) should therefore essentially be consistent with the practice to date, reiterating the position outlined above that there should not be an uprating of minimum wages during the final quarter of 2009.

33. A further dimension is that these rates are to imminently be reincorporated into modern awards, and out of pay scales and statutory orders. This further favours the status quo / minimal disruption approach to the implementation of any increase (but in no way favours or demands the awarding of an increase in 2009).
1.3.2.3 - Juniors

34. In the event an increase is awarded, ACCI calls on the AFPC to again:

a. Proportionately flow on the general adult decision for Australian Pay and Classification Scales (Pay Scales) to junior rates in Pay Scales and to employees to whom training arrangements apply.

b. Pro rate the general wage increase(s) for junior employees and employees to whom training arrangements apply, based on formulas applying in relevant pre-WorkChoices wage instruments.

c. Increase wage rates on the basis of pre-WorkChoices relativities with appropriate adult rates in relevant preserved Pay Scales where no formula or method appeared in a pre-Work Choices wage instrument.

35. The AFPC should maintain the approach of 2008:

Consistent with its previous approach, the Commission will flow on the general Wage-Setting Decision 2008 in relation to Australian Pay and Classification Scales (Pay Scales) to junior wages in Pay Scales. The general wage increase will be pro rated on the basis of formulas applying in the relevant pre-Work Choices wage instruments.

In circumstances where there is no formula in the pre-Work Choices wage instrument, the general increase will be pro rated so that the junior rate retains its relativity to the relevant adult rate in the preserved Pay Scale. If no relevant rate is identified, the junior rate will be adjusted to retain its relativity to the lowest adult rate in the Pay Scale.3

1.3.2.4 - Employees to whom training arrangements apply

36. Similarly, if there is to be an increase arising from this review, ACCI calls on the AFPC to again include proportionate flow on paragraphs in its 2008 decision to the following effect:

Consistent with its previous approach, the Commission will flow on general Wage-Setting Decision 2008 to employees to whom training arrangements apply.

The general wage increase will be pro rated on the basis of formulas applying in the relevant pre-Work Choices wage instruments, to maintain the relativity of the basic periodic rates of pay for apprentices with the relevant tradesperson rate.

Formulas, where available, will be used to adjust basic periodic rates of pay for full-time, part-time and school-based apprentices (noting that the Pay Scale derived from repealed s.552 of the Workplace Relations Amendment (Work

(Choices) Act 2005 retains a formula suitable to flow on the general minimum wage increase).

Where apprentice rates are derived from a specific rate in another Pay Scale, they will be adjusted to reflect the parent rate on which they are based, where the parent rates are adjusted to give effect to the general Wage-Setting Decision 2008.

Trainee basic periodic rates of pay in preserved Pay Scales will be adjusted to flow on the general Wage-Setting Decision 2008, using the method described in the transcript of the application to vary the National Training Wage Award 2000 for the 2003 Safety Net Review. This method is also adopted to flow on the general increase to related traineeships. Related traineeships include those with rates that were originally drawn from the National Training Wage Award prior to 27 March 2006.

1.3.2.5 - Apprentices

37. In the event of an increase, ACCI also would propose that there be a proportionate or pro-rated application of the headline increase as was applied in previous years.

1.3.2.6 - Employees with a disability

38. ACCI continues to support and participate in the work of the AFPC in regard to minimum wage arrangements for employees with a disability through the AFPC’s Disability Round Table.

39. Within this paradigm, ACCI continues to support key principles such as (but not limited to):
   a. Proportionate flow on of any wage increases to employees with a disability (which is achieved through the long agreed supported wage system, SWS).
   b. Ensuring there are no gaps in access to appropriate minimum wage coverage for employees with a disability.
   c. A safety net or minimum level of payment for employees working in open employment under the SWS.

40. ACCI and the ACTU have for some years agreed to apply the income free threshold level for the Disability Support Pension as the minimum pay level for the operation of the Supported Wage System (SWS).

41. ACCI maintains this position, and does so notwithstanding of the primary outcome in this matter and the issue of whether there should be a general increase during 2009.
42. This will ease the reintegration of these rates back into modern awards, based on unique considerations for this employment and without prejudice to employers’ more general position and approach to other subsidiary wage rates which should continue to be a function of the approach to uprating generally.

43. The AFPC should therefore, pending logistical and timing considerations, uprate the minimum SWS payment (presently $69 per week) based on a change in the DSP threshold to be announced by Government in the lead up to 1 July 2009.

1.3.2.7 - Casual loadings

44. Again, ACCI supports the AFPC maintaining the approach of 2006, 2007 and 2008 in regard to casual loadings should there be any increase arising from this review. As described by the AFPC in 2007:

The general pay increase flows to casual employees through adjustments to the basic periodic rates of pay (or as otherwise specified where Pay Scales provide for differing methods of casual compensation).

45. This remains the correct approach, the AFPC should again include a paragraph in its 2008 decision consistent with the following:

The Commission will not make any adjustment to the casual loadings expressed as a percentage contained in preserved Pay Scales or the default casual loading at this time.

Where preserved Pay Scales provide a flat dollar amount for casual employees, these rates will be increased by the same amounts and in the same way as the general increase.

1.3.2.8 - Piecework rates

46. Again, ACCI supports the AFPC maintaining the existing, proportionate approach to piecework rates if there is to be a general increase.

1.4 BALANCING LEGISLATIVE OBJECTIVES

47. The statutory parameters for the AFPC’s exercise of its wage setting function are in s.23 of the Workplace Relations Act 1996. They remain the law, and their interpretation at this point is not altered by the pending commencement of the Fair Work Act 2009.

48. A proper interpretation and consideration of these factors compels the position ACCI advances, in the current economic context. A review of the legislation supports not further uprating minimum wages in any 2009 minimum wage decision.
1.4.1 - Capacity for the unemployed and low paid to obtain and remain in employment

49. Employment is perhaps the principal concern in this matter, and the preeminent policy concern facing Australia in 2009. There is widespread jobs vulnerability throughout the developed and developing world. Job retention (and ongoing job creation) is being treated as an urgent global crisis at the highest international levels; and there is a considerable multilateral effort underway towards both coordinated national policy responses and international measures. The international jobs crisis is quite rightly being combated with international actions of an unprecedented scale in modern times.

50. At the domestic level Australia, along with many of our international peers, has shifted fiscal policy to a decidedly expansionary setting and done so based on a reversion to budget deficits. This significant shift in policy is a direct function of the magnitude of the threat to Australian jobs and the widespread recognition that the capacity of the unemployed and low paid to remain in employment is very fragile and under a level of threat unseen in living memory.

51. International bodies and the domestic and international media are increasingly reporting concerning economic developments. Each day some new threat to the economy and to jobs is revealed, and each day there is some new announcement of job losses, either in Australia or internationally.

52. The RBA has eased monetary policy in a direct attempt to support growth and maintain employment, and the central bank’s primary focus has shifted from inflation to growth. The RBA has expressed considerable concern regarding the outlook for the labour market and expects conditions to deteriorate in the near to medium-term:

   Conditions in the labour market had continued to soften, with no growth in monthly trend employment in January. The unemployment rate to date had risen relatively gradually from its low of 4 per cent, though members noted that significant deterioration was forecast.\(^5\)

   … the combination of last year's financial turmoil, a severe global downturn and substantial falls in commodity prices has had a significant dampening effect on confidence, and therefore on prospects for growth in demand. Inflation has

\(^4\) Section 23(a) of the *Workplace Relations Act 1996*.

\(^5\) Reserve Bank of Australia, Minutes of the Monetary Policy Meeting of the Board, Sydney - 3 March 2009
begun to moderate and, given recent developments, it is likely to continue to decline.\(^6\)

The labour market has been reasonably resilient to date, with the unemployment rate remaining close to generational lows. Nonetheless, labour market conditions have begun to soften in response to the general slowing in demand and activity. Employment growth slowed in the December quarter and the unemployment rate has been edging up. With job vacancies and hiring intentions falling and short-term economic prospects subdued, more significant rises in unemployment are likely in the period ahead.\(^7\)

Forward-looking indicators of labour demand are pointing towards further softening in labour market conditions in the early part of 2009. The number of job advertisements fell sharply towards the end of 2008, business surveys report that firms’ hiring plans have been scaled back significantly, and the Bank’s liaison with firms also indicates weaker hiring intentions.\(^8\)

53. What then is the AFPC to make of this, and what does consideration of retaining employment demand of the AFPC in this review? This statutory consideration supports the approach employers advance in this matter. The capacity of the unemployed and low paid to obtain and remain in employment is under the greatest threat in Australia in living memory. Australia, as with all nations, faces the prospect of rising unemployment with upside risks of a potentially very rapid acceleration in joblessness.

54. A particular concern is that it may be the last created jobs (as Australia made real inroads into unemployment) which will be first lost, along with those more marginal and atypical. Those with lesser skills, shorter labour market attachment (or longer periods out of work), with disabilities, or indeed parents with restrictions on their working availability may well be amongst the first to feel the impacts of reduced labour demand. This may well emerge most significantly in reduced demand for casual or seasonal employment as companies endeavour to retain full and part time staff.

55. The importance of employment is underscored in the extrinsic parliamentary materials which accompanied the passage of the AFPC’s wage setting parameters through Parliament:

…the Fair Pay Commission will have to look at the capacity of the unemployed and low paid to obtain and remain in employment, as well as factors impacting on employment and competitiveness across the economy and the need to provide for a safety net for the low paid. I welcome that responsibility being placed on the shoulders of the Fair Pay Commission.

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\(^6\) Reserve Bank of Australia, 3 February 2009, Statement by Glenn Stevens, Governor - Monetary Policy
\(^7\) Reserve Bank of Australia, February 2009 Statement on Monetary Policy
\(^8\) Reserve Bank of Australia, February 2009 Statement on Monetary Policy
It introduces equity for those seeking entry to the job market for the first time and for those on low wages, as the Fair Pay Commission will be considering their needs alongside those of the rest of the workforce. The setting of overly high minimum wages without reference or link to the impact on the job market and the ability of the economy to generate new employment opportunities is wrong. I hold the view that, ultimately, the best form of welfare is a job, and the requirement placed on the Fair Pay Commission will help ensure that those seeking to escape the welfare trap will have a chance to do so.9

56. **Research**: A particular consideration must be a critical re-examination of research on the impact of minimum wage increases on employment. Approaches and conclusions developed in more benign times need to be re-examined in light of a radically changing economy. The impact of minimum wage rises on employment is likely to be more acute than some researchers may have previously suggested.

1.4.2 - **Employment and competitiveness across the economy**10

57. Linked to jobs of course is the vulnerability of businesses themselves. Jobs start and end with employer demand, and the capacity and sustainability of commercial entities to offer employment on a sustainable basis. This is again validated by the will of parliament in passing the provisions the AFPC is now discharging:

> If you do not have a job then any increase in the minimum wage is going to be of little assistance. In fact, it may even work to price you out of the market. No amount of increase in the minimum wage is going to increase your living standards if you do not have a job. The best safeguard against poverty and social problems in our community is providing jobs for people.11

58. Again, both domestically and internationally, the viability of businesses of all sizes is under nearly unparalleled threat.

59. In contemporary Australia, the solvency and sustainability of many businesses is highly fraught and under significant tension. Many are so finely geared and facing such threat to their sustainability that an additional labour cost can threaten their viability. Recent insolvency statistics indicate rises in business failures:

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9 Mr Henry, Member for Hasluck, WA, Hansard, House of Representatives, 3 November 2005, pp 22 - 23.
10 Section 23(b) of the *Workplace Relations Act 1996*.
11 Mr Hartsuyker, Member for Cowper, NSW, Hansard, House of Representatives, 3 November 2005, p 63.
Small businesses now failing


The number of companies going broke increased 38 per cent in January compared with the same period last year and accountants warned of a wave of small business failures.

Insolvency Practitioners Association of Australia president Paul Cook said while statistics showed insolvency appointments had increased significantly on last year's figures, the worst was yet to come.

"Last year there was a lot happening at the top end, with big corporate collapses like ABC Learning and Allco in the paper every day, going as far back as Westpoint and Storm [Financial]. They seem to have taken the first wave of the global economic crisis," Mr Cook said.

"But the real damage will occur if it triggers down to the mum and dad companies, the small engineering company or the panel-beating shop, because they account for around 80 per cent of the productive capacity of Australia." The latest provisional figures from the Australian Securities and Investments Commission show that 517 companies entered external administration in January, compared with 372 companies in January 2008.

There were also 846 insolvency appointments, compared with 641 in January 2008. January was traditionally a quiet month for administration and insolvency appointments, as few creditors were chasing companies to pay debts, PricewaterhouseCoopers partner Paul Kirk said.

He expected the figures to increase for February and to climb for the rest of the year. "When business conditions turn down there is usually a lag effect of six to 12 months as companies cut costs and do what they can to re-structure and bolster sales," he said.

"I would expect that the 2008 figures are probably a start on, unfortunately, an increasing trend until we can see a return in confidence and the economy bouncing back into relatively good growth phases again."

Mr Cook said that while interest rates crippled small business in the last recession, this time it would be a crash in demand and sales.

"If you have a 20 per cent reduction in sales, you are going to have to start looking at reduced employment.

"Those companies that can re-structure will probably survive.

"We have had record numbers enrol in our education courses for insolvency practitioners," Mr Cook said. "So the market is saying insolvency is going to rocket."

60. A labour cost increase, not contingent upon additional productivity or customer demand, in the current climate will, along with other factors, further threaten the viability of many businesses.
61. Allied to this is an alternative conception of competitiveness – that of substitution. Section 6 sets out the grave situation of the retail and restaurant industries. These industries compete against substitutes - not buying something new or not eating out (or lowering the quality of dining). The key services component of our economy is therefore already less competitive against its substitutes by virtue of a pervasive economic crisis, and a further increase in labour costs threatens to worsen this competitive position. There is evidence of economic ‘belt tightening’ across the economy in response to a heightened level of economic insecurity.

1.4.3 - Providing a safety net for the low paid\(^{12}\)

62. There are a number of considerations in regard to the relevance of this consideration and how it should contribute to the approach the AFPC takes to this review during 2009:

63. A safety net is predicated on having a job: The concept of a safety net only comes into play to the extent that someone retains a job, or has the opportunity to enter one. This parameter is intrinsically linked to the pre-eminent importance of employment and economic sustainability, and compels the approach employers advocate.

64. An annual increase is not mandatory: Consideration of a safety net for the low paid is not the sole consideration in this matter, nor does it compel an increase arising from each and every review regardless of its detrimental impact, and impact on the other wage setting parameters.

65. If that were the case, and indexation to price changes were the inalienable minimum outcome of these reviews, the legislation would make this clear and there would be a statutory foundation for such an approach (no less than an indexation process being set out in the Act).

66. The construction of the Act and the basis on which it is introduced clearly indicates that minimum wages are not compelled to increase in each and every review, regardless of the gravity and danger of the economic climate and the consequences of increasing minimum wages. Wage setting needs to be mindful of the economic and labour market circumstances and consequences of uprating and when warranted, an approach which does not deliver an increase as scheduled must be able to be countenanced. This is what the Act says (and incidentally is what the Act has always said).

\(^{12}\) Section 23(c) of the *Workplace Relations Act 1996*. 
67. **Needs to be balanced:** Clearly the considerations in s.23 need to be balanced. The outcome of a balanced consideration can be an approach which does not see the single lever available in these reviews pulled in exceptional circumstances. 2009 is such a circumstance.

68. **Inflation, Interest Rates and Tax Cuts:** Consideration also needs to be given to factors which are increasing incomes to the lower paid, exogenous to any specific action in this matter. Stimulus packages, tax cuts, interest rate cuts, and emergent and further forecast easings in inflation are factors which positively impact on the living standards and expenditure capacities of the lower paid.

69. Various sections of this submission go to these considerations. The wage setting parameters of s.23 support the course proposed by employers for this, 2009 review.

1.4.4 - **Providing minimum wages for junior employees, employees to whom training arrangements apply and employees with disabilities that ensure those employees are competitive in the labour market**

70. ACCI has indicated above that were any increase to be awarded, proportionality of subsidiary to adult wages should be maintained. However there should not be an uprating in minimum wages during the remainder of 2009 given the gravity of the economic crisis.

71. There is a particular challenge in the area of training, with employers, unions and governments recognising not only the importance of maintaining training and skills development through the economic crisis, but also the particular vulnerability of training based employment to the widespread demand downturn and increasing business vulnerability.

72. In the current climate, employment to which training arrangements apply is particularly vulnerable and cost sensitive. Employers are already struggling to maintain traineeships and apprenticeships, and will in particular struggle to take on new inductions in the face of making redundancies elsewhere. Any change in the price of training based employment in the current context threatens to tip more of these calculations in favour of not taking on or retaining employment and training places.

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13 Section 23(d) of the *Workplace Relations Act 1996*. 
This is reinforced by emerging data from the education and training industry:

**Young hit by employment crisis**

By Andrew Trounson | The Australian | March 16, 2009

Apprenticeship and trainee placement agency WPC Group yesterday reported an almost 20 per cent drop in work opportunities in the past three months. And it is being overwhelmed with applications.

Chief executive Nicholas Wyman said the group was receiving 120 applications for every business administration trainee position it advertised, compared with three to four applicants per job 12 months ago. About 1000 resumes a day are flooding into its Melbourne and Sydney offices.

"The number of opportunities is falling dramatically, and the number of young people looking for work has gone off the chart," Mr Wyman said.

He warned that the country was sowing the seeds of the next skills shortage. "It's a natural reaction that employers are taking and you can understand it from their perspective, but it's very short-sighted," he said.

"It's vital for businesses to maintain their skills commitments, and Generation Y is going to be essential to the recovery."

Extra monies are being spent on key employability skills to ensure young people remain employable:

**Extra Support for Young Jobseekers**

04 March 2009

Thousands of young Australians will get training and support to develop the basic skills they need to get and keep a job under new Australian Government funding announced today.

From 1 July 2009, an additional 3,650 pre-vocational training and support places will be made available for vulnerable young jobseekers through the Australian Apprenticeships Access Program.

The Rudd Government will invest $30.2 million to expand the Australian Apprenticeship Access Program, which provides at-risk jobseekers with the support they need to pursue an apprenticeship or training and then move into skilled employment.

This measure will provide assistance of around $6 million for an estimated 730 young Queenslanders.

The Australian Apprenticeships Access Program gives job seekers who experience barriers to skilled employment nationally recognised pre-vocational training, support and assistance. The program is provided at no cost to participants.

The new places will support 19-24 year old jobseekers who are most likely to be affected by the impact of the economic downturn on the labour market and also those made redundant.
75. The Government, with the urging and support of employers is also acting to ensure that training places can be retained and in particular that training is completed:

**Securing Apprenticeships through training**

Speaking at the Sydney Institute, the Deputy Prime Minister announced a $9.7 million initiative to help apprentices and trainees who have lost their jobs continue with their qualification through a Registered Training Organisation.

As part of the Rudd Government’s plan to support training, Securing Apprenticeships through Registered Training Organisations will provide financial assistance to cover the cost of the off-the-job training component where an apprentice or trainee with an incomplete qualification has been made redundant.

Under this initiative apprentices and trainees can maintain the value of their investment in training by enabling them to complete the off-the-job component of their training arrangements with their Registered Training Organisation (RTO).

RTOs would receive Government funding of either $1,250 or $2,500 for each apprentice or trainee who completes their off-the-job training. The level of support will depend on how much additional training the apprentice or trainee needs to complete the off-the-job component of their apprenticeship or traineeship.

The initiative will commence on 1 July 2009 for a two year period and is targeted at apprenticeships and traineeships at the Certificate III, IV, Diploma and Advanced Diploma level.

The Rudd Government is also acting to encourage employers to take on out-of-trade apprentices and trainees who have been laid off through a $145.6 million package of Securing Apprenticeships incentives announced today.

The Government is investing in nation building and education and training to help the Australian economy and the Australian people weather the worst impacts of the global economic downturn.

**$155m plan to keep apprentices in jobs**

Patricia Karvelas | February 20, 2009 | Article from: The Australian

In a speech to the Sydney Institute last night, Employment Minister Julia Gillard said employers would be encouraged to retain apprentices and trainees through a completion payment.

She also said tenderers for government-funded infrastructure projects would be given preference if they could demonstrate a commitment to retain and employ trainees and apprentices.

Ms Gillard said that, during an economic downturn, employers would find it more challenging to maintain their support for apprentices and trainees.

Under the Securing Apprenticeships scheme, a payment of $1800 will be available for employers or group training organisations that take on an eligible out-of-trade apprentice or trainee, in the form of a wage subsidy of $150 a week, paid in arrears 12 weeks after they resume their apprenticeship or traineeship.
An additional completion payment of $1000 will be available at the end of the apprenticeship or traineeship.

Ms Gillard said the payments would be on top of existing apprenticeship incentive payments.

The wage subsidy will be available to those who take on a sacked apprentice on or after January 1 this year. Payments will be backdated to this date and available for two years.

Opposition employment participation spokesman Andrew Southcott said the Rudd Government had not addressed the lack of early intervention for the recently unemployed.

Ms Gillard said history suggested youth unemployment would spike fastest in the early months of a downturn.

76. This parameter further supports the approach ACCI is urging the Commission to adopt. To increase training based wages in the current economic climate will threaten the competitiveness of these modes of employment (and training) in a highly changeable and increasingly treacherous labour market. As government has already recognised, Australia needs to do all it can to support training opportunities in this climate, and that includes not further increasing the costs of providing training to employers already facing increasing barriers, disincentives and risks.

1.4.5 - Statutory Object and Wider Statutory Context

77. Section 23 is of course not the sole consideration for the AFPC in the discharge of its review functions. The AFPC does its work in the context of the wider Workplace Relations Act 1996 and the objects and framing thereof.

78. Section 3 sets out the principal object of the legislation. Consideration of these precepts supports not awarding an increase to take effect during 2009:

a. Section 3(a): Emphasises high employment, living standards, low inflation, competitiveness and productivity. The key to each (and the simultaneous delivery of all) is a sound economy and not endangering jobs. This compels an approach to minimum wages which reflects the gravity of the current economic situation, and the threat to jobs and industries.

b. Section 3(c): Requires an economically sustainable safety net. This compels balance and not so called maintenance of the safety net at all costs, and in particular, not at the costs of jobs or economic sustainability. These wider provisions of the Act support the approach recommended in this submission.
1.4.6 - Conclusion

79. The legislation for this review remains the Workplace Relations Act 1996, preceding as it does the pending commencement of the Fair Work Act 2009.

80. Employers’ recommended approach directly accords with the statutory parameters for this matter. Consideration of the precepts and expectations of Parliament strongly supports, if not compels the approach the ACCI network advocates for 2009.

1.5 Submission Overview

81. This submission ranges across the considerations the Commission has regard to. The approach employers commend to the Commission should be adopted because it represents the best balance of giving effect to the Commission’s wage setting parameters under s.23 of the Workplace Relations Act 1996, and because it will be in the best interests of the low paid, those who employ them, the unemployed and the wider Australian community.

82. The submission is structured into 7 parts:

Section 1: Introduction

Section 2: Context: The global and domestic context for the 2009 review could not be more acute or more relevant. ACCI has endeavoured to bring forward contemporary information and expert perspectives on the GFC, its magnitude, impact and outlooks. This is highly germane to determining an approach to this review.

Section 3: The National and International Economy: This section examines in further detail a range of economic data and forecasts relevant to the economic considerations of the Commission and supportive of the position outlined in this introductory section. Section 3 further charts the extent and impact of the Global Financial Crisis and its impact on Australian employers and the economy in which they operate.

Section 4: Jobs: This is a first order consideration in this matter, and directly underpins the statutory parameters for this review. This section examines employment performance, indicators, and forecasts.
Section 5: Prices, Wages and Real Incomes: This section examines key considerations affecting the incomes of the lower paid, including various factors combining to increase the purchasing power of those on safety net minimum wages.

Section 6: The Costs of Award Modernisation: The outcome of this matter is neither the sole potentially damaging labour cost increase in 2009, nor the sole source of additional incomes to employees. An unavoidable context for this review is the very substantial pending cost increases for minimum wage-reliant industries set to flow from the award modernisation process. This section outlines significant pending additional costs for (the pay scale reliant) hospitality, retail and pharmacy employers which need to be taken into account, which further support the ACCI position, and which will already be negatively impacting on business capacities and viability prior to any minimum wage increase.

Section 7: AFPC Research: The Commission has released various pieces of commissioned research in the lead up to the 2009 review, in addition to materials arising from the 2008 research forum. As invited, ACCI has made brief responses. Responses engage not only with the research, but also with its current relevance in a rapidly slowing economy, and in the context of key issues set to be dealt with in a revised statute (such as gender pay disparity).

83. ACCI looks forward to meeting with the full Commission during mid-April to address the issues raised in this submission, the economic and financial crisis, and the implications for minimum wage setting for 2009/10.
2. CONTEXT – CRISIS AND RISK

2.1 INTRODUCTION

83. The context in which 2009 review is taking place is a near unparalleled level of economic downturn and risk. As set out in the introduction, these considerations weigh in favour of the approach employers commend to the Commission for this 2009 review.

2.2 INTERNATIONAL CRISIS

84. The global financial crisis began with the emergence of problems in the United States market for sub-prime housing loans in the first half of 2007.

85. The global financial crisis and the associated economic downturn have had a sudden, severe and sustained negative impact on investors, businesses, employees, families and governments around the world.

86. Globally there has been sharp falls in equity markets, asset values (including housing), company profits, new investment, and consumer and business confidence, resulting in substantial job losses and increased levels of unemployment.

87. The International Monetary Fund has recently indicated that the world has entered its first global recession since the Second World War; described by the IMF Managing Director as the “Great Recession”:

   DAR ES SALAAM (Reuters) - The International Monetary Fund warned on Tuesday that the world economy will likely contract this year in a "Great Recession"

   "The IMF expects global growth to slow below zero this year, the worst performance in most of our lifetimes," IMF Managing Director Dominique Strauss-Kahn told African political and financial leaders in the Tanzanian capital.

   "Continued deleveraging by world financial institutions, combined with a collapse in consumer and business confidence is depressing domestic demand across the globe, while world trade is falling at an alarming rate and commodity prices have tumbled," Strauss-Kahn added.  

   http://www.reuters.com/article/topNews/idUSTRE52910520090310?feedType=RSS&feedName=topNews

88. And the world may not yet have experienced the worst of the global financial crisis, with many economists, analysts and indeed governments warning of further downside risks.

89. Professor Steve Keen, Associate Professor of Economics and Finance at the University of Western Sydney, put the global financial crisis in context when he stated in October 2008:

“There have been financial crises before, and in our life times. This one swamps all of those. It can only be compared with 1929, because the level of irresponsible lending that drove the now bursting bubble has no parallel in history. Even 1929 doesn’t rate by comparison.”

90. As recently as February 2009 the International Monetary Fund (IMF) described the global economy as being:

“... in the midst of a deep down turn, as an adverse feedback loop between the real and financial sectors is taking its toll. The dramatic worsening of the financial crisis since mid September (2008) has generated historic declines in confidence and severe disruptions in credit intermediation ... down side risks to the outlook remain substantial.”

91. The global financial crisis has shown few signs of abating, and there is a strong possibility that economic conditions may further deteriorate.

92. In a February 2009 address to a business audience, Australia’s Treasurer Wayne Swan stated:

“There’s no doubting the severity of this global recession. And we know that things are likely to get worse before they get better.”

93. Furthermore, in its March Quarter 2009 Economic Outlook, ANZ stated that

“Near term prospects for the world economy are, in a word, grim.”

**Global Unemployment**

94. The International Labour Organisation (ILO) estimates that up to 50 million jobs may be lost worldwide as a result of the Global Economic Crisis:

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3 Found at: http://www.imf.org/external/np/g20/020509.htm
The global economic crisis is expected to lead to a dramatic increase in the number of people joining the ranks of the unemployed, working poor and those in vulnerable employment, the International Labour Office (ILO) says in its annual Global Employment Trends report (GET).

Based on new developments in the labour market and depending on the timeliness and effectiveness of recovery efforts, the report says global unemployment in 2009 could increase over 2007 by a range of 18 million to 30 million workers, and more than 50 million if the situation continues to deteriorate.6

**United States of America**

95. Many argue that the global financial crisis originated in the US, and the US is certainly experiencing a rapid acceleration in job losses (with consequences for the global economy and the economies of developed nations such as Australia):

**US jobless rate hits 25-year high**7

The US economy has now lost 4.5 million jobs since the recession began in late 2007.

The United States’ recession appears to be deepening, with employers slashing more than 650,000 jobs in February.

The unemployment rate has jumped to 8.1 per cent - its highest level in a quarter of a century.

The labor commissioner, Keith Hall, says the job losses appear to be accelerating.

"We've never had four straight months of job losses in excess of 600,000," he said.

The US economy has now lost 4.5 million jobs since the recession began in late 2007 and half of those losses have been in the last four months.

96. Expert commentators underscore the extent of the crisis and its longer term consequences:

**Buffett says US facing 'economic Pearl Harbour'**8

Billionaire investment guru Warren Buffett has underscored dire times ahead for the United States, declaring the world’s biggest economy has "fallen off a cliff".

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6 ILO Press Release “Unemployment, working poor and vulnerable employment to increase dramatically due to global economic crisis” 28 January 2009
Mr Buffett believes the US economy will eventually recover, but has warned the rebound could result in levels of inflation not seen since the late 1970s.

The 78-year-old billionaire told the US cable network CNBC that the US was experiencing a "close to worst case scenario" of falling business activity and rising unemployment that had created a collapse in consumer spending and confidence.

While praising repeated efforts by the US Federal Reserve to stimulate the economy, Mr Buffett said the economy "can't turn around on a dime" and that the combined stimulus efforts could trigger higher inflation once demand returns.

"We are certainly doing things that could lead to a lot of inflation... in economics there is no free lunch," Mr Buffett said.

China

The fate of the Chinese economy is, of course, directly relevant to the Commission’s considerations in this matter given the importance to Australian demand and employment.

**China hit raises fear of great recession**

THE "great recession" is hitting China harder than expected, threatening to prolong the bust in the commodities sector and worsen the domestic downturn.

Chinese exports fell almost 26 per cent last month, a far cry from the small increase that had been expected, as a collapse in global demand hit Australia's second-largest trade recipient.

Evidence of the slump came after the head of the International Monetary Fund said the world was heading towards a "great recession", and predicted the global economy would shrink this year.

For Australia, the chief concern of the decline in Chinese exports would be if it triggers further falls in commodity prices.

... The plunge in exports signalled "further commodity price weakness and or a reduction in bulk volumes, and that's where its impact on Australia will be," an economist at Macquarie Equities, Brian Redican, said.

... Earlier, the managing director of the International Monetary Fund, Dominique Strauss-Kahn, said the world faced a "great recession". "The IMF expects global growth to slow below zero this year, the worst performance in most of our lifetimes."

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In January, the IMF predicted the world economy would enjoy a small expansion this year, but it now agrees with the World Bank that a contraction is imminent.¹⁰

### 2.3 Domestic Crisis

98. Despite the strength of the Australian economy over the past decade, fuelled by a resources boom, low interest rates and relatively ready access to business and consumer finance, Australia has not been immune from the effects of the global economic downturn.

99. In an address to the Australian Chamber of Commerce and Industry and the NSW Business Chamber in March 2009, Australia’s Prime Minister Kevin Rudd stated:

“This is the first truly synchronised global economic down turn involving developed and developing economies since the war. The impact is seen daily on global financial markets, in the real economy and in rising global unemployment. The reality is an open economy like Australia can not escape the impact of a global economic recession because there are no silver bullets."¹¹

100. The Prime Minister’s recent well publicised essay in the Monthly magazine emphasises the extent of the crisis and its truly seismic and historic magnitude:

> From time to time in human history there occur events of a truly seismic significance, events that mark a turning point between one epoch and the next, when one orthodoxy is overthrown and another takes its place. The significance of these events is rarely apparent as they unfold: it becomes clear only in retrospect, when observed from the commanding heights of history. By such time it is often too late to act to shape the course of such events and their effects on the day-to-day working lives of men and women and the families they support…

> The global financial crisis has demonstrated already that it is no respecter of persons, nor of particular industries, nor of national boundaries. It is a crisis which is simultaneously individual, national and global. It is a crisis of both the developed and the developing world.¹²…

101. A number of economists have highlighted the business sector as a key area of vulnerability for the Australian economy, due to a variety of intersecting factors. According to ANZ in March 2009:

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“GDP data showed that Australia suffered a substantial shock from the global downturn in the December quarter (2008). Not only did this economic contraction come at an earlier point in the downturn than expected, but the data emphasised some key areas of vulnerability in the Australian economy, particularly in the business sector.”\(^{13}\)

102. Westpac, in its *Market Insights* March 2009 edition, states:

“the economic contraction in 2009 will increasingly be driven by declining business spending. We anticipate a 25% drop in business investment over the next two years, consistent with past recessions. Firms will be responding to a number of negatives: weak demand globally and domestically, rising costs of imported capital goods, declining profits, tighter lending standards, and uncertainty. Private surveys show a collapse in business confidence to recessionary lows and that investment plans are being cut.”\(^{14}\)

103. The most recent official view of Australia’s economic outlook is from Reserve Bank Assistant Governor (Economical) Malcolm Edey in a 19 March 2009 address in which he described the financial crisis and its effects:

“…financial cycles like the one we’re having now are not new, but this one has been very severe, and it entered a particularly intense phase with the collapse of Lehman Brothers in September last year. These events have driven a sharp downturn in global demand and activity. In this environment it’s not going to be possible for Australia to avoid some further weakness in 2009.”\(^{15}\)

104. The Australian Government has made repeated statements emphasising the extent of the threats and risks facing the Australian labour market:

…..Treasurer Wayne Swan says Australia’s unemployment rate will "not necessarily" reach 10 per cent by Christmas.

Mr Swan was asked on ABC TV if the latest wave of bad economic news would push unemployment up that high.

"I wouldn’t be speculating along those lines. I don’t necessarily think that that follows," Mr Swan said.

"But with this global recession and in the savagery of its impact, it can really have a substantial impact on employment in Australia.”\(^{16}\)

105. In an address to the nation on 3 February 2009, the Prime Minister indicated that:


In the last three months, the global financial crisis has deteriorated dramatically. We now face a global economic recession - with a massive impact on jobs right across the world. What began with unrestrained greed on Wall Street has now spread across every economy in the world.

For Australia this reality has also hit home. Six of our ten major trading partners are now in recession. Our biggest trading partner, China, has had its growth forecasts halved in the last year.

... Because of the global recession the Government will go into temporary deficit and once the global economy recovers, act to restore our budget to surplus.

That's the responsible course of action for the nation. I recognise that a temporary deficit may not be popular. But that is the global reality we face with virtually all Governments now in deficit. I cannot remove the impact of the global recession on Australian jobs. But by Government action we can reduce it.

106. Similarly, the Australian Fair Pay Commission cannot remove the impact of the global recession on Australian jobs, but its finalisation of this review can either reduce it or exacerbate its impact.

2.4 Uncertainty and Risk

107. As set out in the introduction, the impact of the economic downturn is not solely restricted to a direct downturn in indicators (growth, employment, investment, confidence etc). Combined with the observable downturn is what we don’t know and what cannot be known by minimum wage setters in relation to this most significant and strategic of minimum wage reviews.

108. There are “known unknowns” in this matter, being factors clearly germane to consideration of minimum wage setting which cannot be discerned given the prevailing economic crisis. The fact that no one can know or reliably forecast the extent of the downturn or the timing, speed and spread of any recovery is unusual and is material to this matter (and indeed material to economic and equity considerations throughout the world).

109. An information gap adds up to an unacceptable level of risk for embarking on minimum wage uprating at this point. Minimum wages should not be uprated in mid 2009, or determined to be uprated in mid-2009 because there is not sufficient information to properly assess the factors under s.23 of the Workplace Relations Act 1996, and the available information strongly points to a conclusion that the balance of risk favours no general increase at this time and until the economic outlook stabilises.
2.5 IMPACT ON MINIMUM WAGE RELIANT BUSINESSES

110. A particular consideration, recognised by the AFPC and its predecessors, is that there is a disproportionate application of minimum wages (and minimum wage increases) in particular industries. The service industries including retail, hospitality and restaurants have a comparatively higher level of direct employment on minimum wages (without overaward\textsuperscript{17} or agreement based pay) than both all industries averages and other industries with a higher incidence of agreement making (manufacturing, construction, mining communications, transport etc). This is recognised in the industry profile prepared for the Accomodation, Cafes and Restaurants Industry\textsuperscript{18}.

111. This means that the impact of wage increases in minimum wage reviews is disproportionately (and more comprehensively) experienced in these industries than in all industries, and in other industries with a higher incidence of agreement making (who are not required to adjust their actual pay following an uprating of minimum wages). Therefore these industries need to be a particular focus of minimum wage reviews and it dictates that their circumstances and overall economic and operational health must be taken into account.

112. A particular consideration in 2009 is the disproportionate impact of the economic crisis on consumer demand for the retail sector, and on demand for restaurant meals, and other hospitality and tourism services. The retail, hospitality, restaurant and tourism industries are not only set to pay these increases in full, they are not only set to incur additional costs through award modernisation, but they are also already at the sharpest end of the global economic downturn.

113. It is retail, tourism and hospitality spending which downturned first. It is retail, tourism and hospitality businesses which have experienced the direct and early impact of Australians changing their purchasing decisions in the face of (a) crisis, but also (b) uncertainty about their jobs, their mortgages and their economic prospects. It is retail and hospitality employers who stand the direct prospect of going under in light of depressed demand and depressed operating conditions, and increased operating costs.

\textsuperscript{17} Or in this case, over minimum wage or over pay scale.
\textsuperscript{18} AFPC (2208) Research Report 1/09, Accomodation, Cafes and Restaurants Industry Profile, p.67
114. This is a directly relevant consideration to the decision in this matter. Proper 360 degree consideration of the circumstances of the industries most subject to these decisions, should lead to not uprating minimum wages in this review and to the adoption of the course we propose.

2.5.1 - Award Modernisation

115. Another consideration directly germane to this matter, and to the minimum wage-reliant service sector in particular, is the Award Modernisation process.

116. Section 6 of this submission sets out extensive costs set to flow to precisely these businesses, regardless of the outcome of this matter, through the award modernisation process. It is the traditionally “award reliant” service industries of retail, restaurants and hospitality which are scheduled to become subject to additional labour costs from 1 January 2010 regardless of the outcome of this matter. These unavoidable and looming additional costs favour of not imposing further additional costs through a minimum wage increase, particularly given the risks of any additional imposts in the current climate.

117. As outlined in Section 6, consideration of Award Modernisation is not solely about costs to employers. The flip side of these costs are additional incomes becoming payable to employees through (for example) additional penalty rates and allowances. This provides an accelerating safety net alleviating the ‘need’ for any remedial action through the review.

2.6 RELEVANCE TO MINIMUM WAGE SETTING IN 2009

118. These considerations, and the combination of them being felt by the businesses most subject to the direct impact of this review, are directly relevant to the decision the AFPC must reach in this matter and to the course of minimum wage setting in 2009. Taking into account both the impact of the downturn to date, and what no one can yet know about its extent and duration, strongly favours the approach ACCI recommends arise from this review.

119. There is an unparalleled downturn mixed with an unparalleled level of uncertainty, which adds up to an unacceptable level of risk for decision makers on minimum wages in 2009. It compels an approach which delays further minimum wage setting until such time as considerations material to this matter clarify and additional, more reliable information is available.
120. It compels in the view of employers not uprating minimum wages in 2009 and not reaching conclusions on minimum wages in mid-2009 (at which time essential reliable information will not be available).
3. NATIONAL AND INTERNATIONAL ECONOMY

3.1 Economic Overview

121. The present minimum wage review takes place against the backdrop of the worst financial crisis since the Great Depression and expectations of a deep global recession in 2009. The strains in financial markets that had been ongoing since mid-2007 intensified in late 2008 and the real economic impacts have been profound. Economic activity in most advanced economies contracted sharply in the December quarter of 2008 and the Australian economy has also been negatively affected.

122. The extent to which the real economy effects of the global financial crisis have been under-estimated by policymakers is evident in the repeated downward revisions to the growth forecasts of, amongst others: the Treasury, Reserve Bank of Australia and the IMF. The global economy is now expected to contract in 2009 with the severity and duration of the downturn subject to considerable uncertainty. The ‘Great Recession’\(^1\), as it is referred to by the Head of the IMF, carries a dangerously high risk of developing into depression in number of major economies and also triggering damaging deflation.

123. Economic growth in the Australian economy slowed dramatically over 2008. Non-farm GDP contracted in the September and December quarters and there is little real prospect of a recovery in activity in the near-term. There is, however, a high risk of the Australian economy entering recession. Indeed, it is likely we are already in recession despite the GDP figures not having yet recorded two consecutive quarters of declining activity.

124. The implications for labour demand and conditions in the labour market from the past and expected deterioration in economic growth are dire. Employment growth tracks economic activity closely, and with a lag. The downturn in the Australian economy saw labour market conditions weaken considerably in 2008. The unemployment rate rose significantly over the past twelve months and is forecast to push substantially higher by mid-2010. Leading indicators of employment have fallen to recessionary levels and are pointing toward a significant loss of employment over 2009. The impact on the job prospects of the lower paid and unemployed from the economic slowdown are likely to be severe.

125. Similarly, the capacity of Australian business to sustain an increase in minimum rates of pay is greatly diminished given the sharp downturn in economic activity.

### 3.2 Domestic and International Outlook

126. Prospects for the domestic economy deteriorated significantly throughout 2008 as global growth slowed and key export prices recorded large falls. In more recent months expectations for growth have diminished dramatically following the sharp contraction in activity across the advanced economies in the December quarter of 2008. Seven out of ten of Australia’s major trading partners are already in recession and the worst global recession since the Great Depression has triggered a sharp drop in commodity prices that is expected to see our terms of trade decline 20 per cent.

127. The persistence of the global financial crisis and the extent to which it intensified following the collapse of Lehman Brothers in September 2008 had a sudden and profound impact on business and consumer confidence around the world. Severe strains in credit markets combined with the collapse in confidence leading to a sharp, synchronised contraction in economic activity in almost all advanced economies in late 2008.

Gross domestic product (GDP) in the OECD area fell by 1.5% in the fourth quarter of 2008, the largest fall since OECD records began in 1960, according to preliminary estimates.²

128. Updated estimates for growth in this quarter have done little to alter this picture. In fact, the decline in US GDP has been revised downward from a contraction of -1.0 per cent to -1.6 per cent. Economic activity fell markedly in all of the G7 countries in the December quarter of 2008.

Such was the severity and unexpected nature of the economic downturn in late 2008 that government and private sector forecasters have significantly revised down their expectations for global growth. Moreover, the balance of risks around those forecasts are considered to be largely to the downside and subject to an unusual degree of uncertainty given the nature of the current crisis.

The combined impact of a deep global recession and a forecast 20 per cent reduction in Australia’s terms of trade will make it difficult for the domestic economy to avoid recession and a severe deterioration in labour market conditions. Both the Treasury and the Reserve Bank have markedly downgraded their expectations for economic growth in early 2009 and even these more pessimistic forecasts appear as though they will be subject to further downward revision in the wake of the December quarter GDP figures that showed the economy contracting significantly.

The magnitude of the global headwinds facing the Australian economy were well summarised in the government’s Updated Economic and Fiscal Outlook released in early February 2009:

The outlook for the world economy has deteriorated sharply since the Mid-Year Economic and Fiscal Outlook 2008-09 (MYEFO), with a deep global recession now expected in 2009. Despite intervention to support financial markets and stimulatory monetary and fiscal policies, the global financial crisis has driven almost all major advanced economies into recession.
The OECD is predicting the number of unemployed could rise by eight million people in advanced economies over the next two years.

It has also become clear that emerging economies will be more profoundly affected by the crisis than originally thought. In particular, the momentum provided to the world from China’s rapid growth has dissipated in recent times. Downward revisions to China’s growth prospects have contributed substantially to a weaker outlook for the world economy and to sharp falls in commodity prices.

Against this backdrop, the risk of Australia following the rest of the world into recession has intensified. GDP growth is expected to be weaker than forecast at MYEFO at 1 per cent in 2008-09 and ¾ of a per cent in 2009-10, with very substantial fiscal and monetary policy responses only partially able to offset the impact of the global recession. The unemployment rate is now expected to rise to 7 per cent by June 2010. Without the significant and timely policy stimulus announced by the Government, Australia would face a more severe slowdown than forecast.

In view of the speed of developments in the global economy, the risk of weaker domestic growth outcomes remains. News of the effects of the global financial crisis on our major trading partners continues to emerge, and we are yet to see the full effect of the financial crisis on the global economy. A deeper or more prolonged recession than expected in the global economy would cause a more severe slowdown in Australia.3

132. As a medium-sized open economy, Australia’s economic fortunes are tied inexorably to developments in the world economy. A deep global recession will weigh heavily on domestic prospects for growth and our heavy reliance on exports of hard commodities leaves Australia particularly exposed to a downturn in commodity prices. With the economies of most of our major trading partners contracting export markets for Australian goods and services will suffer as will the job prospects of those employed in industries servicing those markets.

133. Invariably demand for labour follows changes in activity in the economy. The close relationship between the pace of non-farm GDP growth and employment is long standing and has been recognised in the Commission’s own research4. The figure below shows the year-end rate of growth in the non-farm economy and year-end employment growth lagged by two quarters. It is clear that over the past three decades a strong relationship exists between activity and employment, with economic growth leading changes in employment.

3 Treasury, Updated Economic and Fiscal Outlook, February 2009, page 27.
The rapid slowdown in economic growth we have witnessed over the last twelve months has already led to a marked deterioration in labour market conditions. Jobs growth in the economy has effectively stalled and the result has been a sharply rising unemployment rate. A contraction in economic activity in 2009 stemming from the impact of a deep global recession on the domestic growth will carry strongly adverse implications for the labour market and job seekers. Disproportionately, the employment prospects of the low paid and unemployed will suffer as a result of the downturn.

### 3.3 IMF Repeatedly Downgrades Global Growth Forecasts

The extent to which the outlook for the global economy has deteriorated over the past twelve months is well-evidenced by the repeated downgrades to the IMF’s forecasts of world output. When the IMF published its World Economic Outlook (WEO) in April 2008 expectations were that global growth would slow from 4.9 per cent in 2007 to 3.7 per cent in 2008 before edging marginally higher to 3.8 per cent in 2009. With each successive update to the IMF’s forecasts since April 2008 we have seen expectations for global growth in 2009 scaled back considerably.
136. The October 2008 WEO pared back the IMF’s forecast for world output 0.7 percentage points to 3.0 per cent. That downgrade left expectations for world growth bordering on the threshold of the generally accepted definition of a global recession, namely, world growth of less than 3 per cent. The risks to that forecast was acknowledged to be weighted to the downside, with the 90 per cent confidence interval surrounding the projection stretching from slightly above 1 per cent growth to just over 4 per cent.\(^5\)

137. The persistence and intensification of those downside risks combined with the poor incoming economic data saw the IMF further downgrade its global growth forecast in November, from 3.0 per cent to 2.0 per cent. Once the extent of the contraction in economic activity in the December quarter of 2008 became clear, a far more dramatic downgrade to expectations of global growth was announced in January 2009. The forecast for world output in January was wound back 1.7 percentage points to just 0.5 per cent. At the same time the IMF’s expectations for the Australian economy was reduced from growth of 2.2 per cent published in the October 2008 WEO to a contraction of -0.2 per cent.

138. In total, the IMF has revised down its forecasts for global growth 3.3 percentage points since April 2008 and is now forecasting a deep global recession. Growth amongst advanced economies is expected to be particularly hard-hit in 2009: the US is seen to contracting -1.6 per cent, Euro Area activity is forecast to decline -2.0 per cent and the Japanese economy is expected to slump -2.6 per cent.

**IMF World Economic Outlook: Australian Growth Forecasts**

![IMF Growth Forecasts Chart]

Source: IMF

139. The negative developments in prospects for the advanced economies is in turn weighing heavily on forecasts for growth in developing Asia which includes a number of Australia’s key trading partners. Growth in developing Asia is forecast at a well-below average 5.5 per cent in 2009, compared to actual growth in excess of 10 per cent in 2007 and a rate of expansion of 7.8 per cent in 2008. Growth in these economies tends to be export-led so a sharp downturn in developed country markets weighs heavily on their economic prospects. The view that growth in developing Asia would be able to independently ‘decouple’ from the rest of the world is being proved largely without merit.
The continuation of the worst financial crisis since the Great Depression sees the IMF forecasting the worst global recession since the Great Depression. Conditions are not expected to improve until the difficulties in the financial sector are resolved.

World growth is projected to fall to ½ percent in 2009, its lowest rate since World War II. Despite wide-ranging policy actions, financial strains remain acute, pulling down the real economy. A sustained economic recovery will not be possible until the financial sector’s functionality is restored and credit markets are unclogged.6

Advanced economies are forecast to be most heavily impacted by the financial crisis:

... output in the advanced economies is now expected to contract by 2 percent in 2009. This would be the first annual contraction during the post-war period, with a cumulative output loss (relative to potential) comparable to the 1974–75 and 1980–82 periods.7

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7 Ibid, page 2.
Decisive and timely fiscal and monetary responses by governments and central banks around the world are expected to support growth and facilitate economic recovery once conditions in financial markets improve. While the IMF expects world growth to slowly recover in 2010 this is a view held with little confidence given the current high level of uncertainty.

Helped by continued efforts to ease credit strains as well as expansionary fiscal and monetary policies, the global economy is projected to experience a gradual recovery in 2010, with growth picking up to 3 percent. However, the outlook is highly uncertain, and the timing and pace of the recovery depend critically on strong policy actions.8

The IMF stresses the balance of risks around its forecasts are weighted heavily to the downside and that given the nature of the current crisis the ‘uncertainty surrounding the outlook is unusually large’9.

Downside risks continue to dominate, as the scale and scope of the current financial crisis have taken the global economy into uncharted waters. The main risk is that unless stronger financial strains and uncertainties are forcefully addressed, the pernicious feedback loop between real activity and financial markets will intensify, leading to even more toxic effects on global growth. In addition, the risks of deflation are rising in a number of advanced economies, while emerging economies’ corporate sectors could be badly damaged by continued limited access to external financing.10

8 Ibid. page 1.
144. Indeed, in just over a month since the update of the WEO forecasts released in January the IMF signalled an intention to further downgrade its outlook for world output. The Head of the IMF, Dominique Strauss-Kahn, warned on 10 March 2009 that the organisation was now expecting a contraction in global activity, stating:

The IMF expects global growth to slow below zero this year, the worst performance in most of our lifetimes. Continued deleveraging by the world’s financial institutions, combined with a collapse in consumer and business confidence, is depressing domestic demand across the globe. World trade is falling at an alarming rate, and commodity prices have tumbled.11

145. The extent and frequency of downward revisions to the IMF’s expectations for growth in recent months emphasises the gravity of the global economic downturn and its unexpected severity. In the space of less than twelve months the IMF has moved from expecting reasonably solid global growth of 3.8 per cent in 2009 to a contraction in world output. Risks to even this pessimistic outlook remain to the downside and forecasts that a recovery will commence in 2010 are ‘highly uncertain’ and conditional upon a normalisation of financial markets.

3.4 TREASURY REVISES DOWN GROWTH FORECASTS

146. Government forecasts for economic growth published in the 2008-09 Budget have been revised down heavily as a result of both the deterioration in expectations for global growth and a sharp correction in commodity prices that will have a strong negative impact on our terms of trade. The outlook for the labour market has also been subject to downward revision and the unemployment is now forecast to rise to 7 per cent in the June quarter of 2010.

147. Treasury’s forecast for growth of 2 ¾ per cent in the 2008-09 financial year was downgraded to 2 per cent with the release of the Mid-Year Economic and Fiscal Outlook and then again to 1 per cent upon the publication of the Updated Economic and Fiscal Outlook (UEFO) in early February 2009. The UEFO outlined expectations for sluggish growth of ¾ of a percentage point in 2009-10.

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The Treasury forecasts explicitly highlight two key factors undermining expectations for the performance of the Australian economy over the next eighteen months. Firstly, a global recession that is impacting heavily on our major trading partners and, secondly, a serious reversal of fortunes in the mining sector.

The outlook for the global economy has deteriorated sharply since the Mid-Year Economic and Fiscal Outlook 2008-09 (MYEFO). The IMF has cut its forecast for global growth three times and is now forecasting a deep global recession.

The global financial crisis has driven almost all major advanced economies into recession — including the United States, United Kingdom, Euro area and Japan. In our region, Hong Kong, Singapore and New Zealand are also in recession. No economy is expected to escape the effects of the global financial crisis.

Advanced economies are expected to experience the sharpest collective decline in GDP in the post-war period. The key emerging economies of China and India are now expected to slow markedly. The global commodity boom which has provided significant stimulus to Australian growth and incomes over recent years is unwinding.12

149. Treasury’s outlook for global economy largely mirrors the pessimistic expectations of the IMF. It is likely given the IMF’s recently expressed intention to further cut its expectations for world activity the Treasury will follow suit when it releases its updated forecasts in the 2009-10 Budget.

While the global economy has been slowing for some time, it is clear that the world is facing a much deeper and more protracted slowdown than previously anticipated. The effects of the global financial crisis on the real economy have been faster and more pervasive than many previously expected.

The world economy is expected to grow by just ½ of one per cent in 2009. Advanced economies are expected to experience the deepest recession since World War II. The key emerging economies of China and India, which are vitally important for Australia’s growth prospects, are now slowing sharply.

The weakness in China will be particularly damaging for Australia since China has been the main driver of global growth over the past few years, pushing up commodity prices, driving an investment boom and providing significant stimulus to Australian economic growth and national incomes. Large falls in the terms of trade are now expected, with key commodity prices forecast to reverse much of the gains from recent years.

…

Even with this sobering prognosis, there remain significant downside risks. If the global recession is deeper and more protracted than expected, this would inevitably cause a more severe slowdown in Australia.13

150. In light of the persistence of the global financial crisis and its impact on real economic activity across the advanced economies, the official view of the Australian government is that our economic performance will suffer greatly as a consequence of the downturn in global growth. With the IMF now expecting a contraction in world activity in 2009 the risk of a ‘more severe slowdown in Australia’ appears far more likely to be realised.

151. The headwinds to growth from offshore are key factors underlying the poor outlook for the domestic economy. Of particular importance is the slump in commodity prices accompanying the onset of the global recession which will have important implications for the Australian economy that flow far beyond the direct impact on the mining sector.

Compounding the impact of the global recession on Australia is the sharp fall in global commodity prices, which have provided a substantial stimulus to economic growth and national incomes over recent years. Key bulk commodity prices have eased and are expected to lose much of the gains

13 Ibid, pages 5 to 6.
they have made over recent years as global demand slows sharply. The slowdown underway in emerging economies, particularly China and India, will therefore have inevitable implications for Australian exports.\(^{14}\)

...  
The terms of trade are now expected to fall by around 20 per cent over 2009, a much larger fall than expected at MYEFO.\(^{15}\)

152. A decline in Australia’s terms of trade of this magnitude will result in a substantial fall in real domestic income and weigh heavily on domestic demand. The current situation is the polar opposite of expectations around this time last year when surging terms of trade were seen stimulating incomes and offsetting the impact of the nascent slowdown in global growth occurring at that time.

TREASURY, DOMESTIC ECONOMY FORECASTS

<table>
<thead>
<tr>
<th>Demand and Output</th>
<th>Outcomes 2007-08</th>
<th>MYEFO 2008-09</th>
<th>UEFO 2008-09</th>
<th>UEFO 2009-10</th>
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<tbody>
<tr>
<td>Household consumption</td>
<td>3.7</td>
<td>2</td>
<td>1 3/4</td>
<td>1/2</td>
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<tr>
<td>Dwellings</td>
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<td>Business Investment</td>
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<td>-15 1/2</td>
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<tr>
<td>Private Final Demand</td>
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<td>3/4</td>
<td>-2 1/2</td>
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<tr>
<td>Public Final Demand</td>
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<td>3 1/2</td>
<td>5 1/2</td>
<td>7 1/4</td>
</tr>
<tr>
<td>Domestic Final Demand</td>
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<td>2 3/4</td>
<td>1 3/4</td>
<td>-1/4</td>
</tr>
<tr>
<td>Change in Inventories (a)</td>
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<td>-1/4</td>
<td>0</td>
</tr>
<tr>
<td>Exports</td>
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<td>6 1/2</td>
<td>1/2</td>
<td>1/2</td>
</tr>
<tr>
<td>Imports</td>
<td>12.7</td>
<td>7</td>
<td>2 1/2</td>
<td>-3</td>
</tr>
<tr>
<td>Net Exports (a)</td>
<td>-1.9</td>
<td>-1/2</td>
<td>-1/2</td>
<td>3/4</td>
</tr>
<tr>
<td>Real GDP</td>
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<td>1</td>
<td>3/4</td>
</tr>
<tr>
<td>Non-farm</td>
<td>3.6</td>
<td>1 3/4</td>
<td>1</td>
<td>1/2</td>
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<td>1 3/4</td>
<td>1</td>
<td>1/2</td>
</tr>
<tr>
<td>Other Selected Measures</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terms of trade</td>
<td>5.1</td>
<td>10 3/4</td>
<td>9</td>
<td>-12 3/4</td>
</tr>
<tr>
<td>Employment (b)</td>
<td>2.5</td>
<td>1/2</td>
<td>-1/4</td>
<td>0</td>
</tr>
<tr>
<td>Unemployment Rate (c)</td>
<td>4.3</td>
<td>5</td>
<td>5 1/2</td>
<td>7</td>
</tr>
<tr>
<td>Consumer Price Index (b)</td>
<td>4.5</td>
<td>3 1/2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Wage Price Index (b)</td>
<td>4.1</td>
<td>4 1/4</td>
<td>3 3/4</td>
<td>3 1/4</td>
</tr>
</tbody>
</table>

(a) contribution to growth  
(b) year-end June quarter  
(c) estimate for June quarter

Source: Treasury

153. Treasury’s domestic economic forecasts show a pronounced divergence between the outlook for the private and public sectors. Household consumption is expected to slow dramatically and private business

\(^{14}\) Ibid, page 12.  
\(^{15}\) Ibid, page 30.
investment is seen posting a large -15 ½ per cent contraction. Dwelling investment is the one bright spot in terms of private sector activity, expected to increase 4 per cent in response to dramatic falls in interest rates and grants for first home buyers. Public final demand is expected to be the only area of real strength in the economy, largely a product of the substantial fiscal policy response to the crisis. Employment is forecast to contract as growth slows, while price and wage inflation are both expected to ease considerably. The detail of the government’s forecasts will be examined further when discussing the present state of the national economy.

3.5 RBA DOWNGRADES GROWTH OUTLOOK

154. In response to the same influences that saw the government paring back its growth forecasts, the Reserve Bank of Australia has similarly been compelled to repeatedly downgrade its expectations for the performance of the economy. The central bank publishes its forecasts for growth quarterly in the Statement on Monetary Policy and each of the four statements issued since February 2008 have seen the RBA scaling back its expectations for Australia’s near and medium-term economic growth.

Reserve Bank of Australia: Year-end Real GDP Growth Forecasts
155. The most recent quarterly Statement on Monetary Policy issued in February 2009 forecasts year-end GDP growth slowing to a mere $\frac{1}{4}$ per cent in the June quarter of 2009 from 1 per cent in December 2008. The December quarter National Accounts released in March showed the economy slowing much faster than the central bank had anticipated just a month earlier. Year-end GDP growth in December at 0.3 per cent sees the RBA’s decidedly pessimistic growth forecast for the June quarter of 2009 being realised six months earlier than expected.

Reserve Bank of Australia: Year-end Real Non-farm GDP Growth Forecasts

156. The Reserve Bank’s outlook for non-farm GDP has been wound back in largely the same manner as its forecast for headline growth. Expectations in February 2008 that non-farm GDP growth would be a solid 2 3/4 per cent over the year to the June quarter 2009 have been slashed to zero in repeated downward revisions. Again, even this bleak forecast was achieved six months ahead of schedule with year-end non-farm GDP slumping to zero in the December quarter 2008.

157. The extent to which recent growth figures have come in well below the Reserve Bank forecasts strongly suggests that they will be downgraded yet again when the next quarter Statement on Monetary Policy is issued in May 2009. This is despite the forecasts published in the February statement incorporating the impact of the sizeable fiscal stimulus announced by the government in late 2008 and early 2009.
3.6 FISCAL POLICY RESPONSE

158. The severity of the global economic downturn has prompted the government to respond by shifting fiscal policy rapidly to an expansionary setting. Both the size of the fiscal stimulus announced and the speed with which it has been sought to be implemented underscore the scale of the challenges facing the Australian economy and the degree to which the outlook has worsened recent months. It is notable that the depth of the anticipated global recession led the government to conclude that it could not be dealt with sufficiently by a monetary policy response alone.

In normal times, monetary policy is the main tool for stabilising the economy. But these are not normal times. Extraordinary times call for extraordinary macroeconomic policy measures. In the current circumstances, monetary policy action alone will not be sufficient to restore growth within a reasonable time period.

The extraordinary speed and scope of the deterioration in the global economy means that there is a much greater macroeconomic stabilisation role for discretionary fiscal policy than would normally be the case.16

<table>
<thead>
<tr>
<th>ECONOMIC SECURITY STRATEGY</th>
<th>Underlying Cash Balance Impact ($m)</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-off Pension Payment</td>
<td>-4,000</td>
<td>0</td>
<td>0</td>
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<tr>
<td>One-off Carers Payment</td>
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<td>0</td>
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<tr>
<td>One-off Seniors Payment</td>
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<td>Family Tax Benefit Payment</td>
<td>-3,500</td>
<td>-290</td>
<td>-70</td>
<td>-3,860</td>
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<tr>
<td>Productivity Places Program</td>
<td>-120</td>
<td>-70</td>
<td>0</td>
<td>-190</td>
<td></td>
</tr>
<tr>
<td>First Home Owners Boost</td>
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<td>-350</td>
<td>0</td>
<td>-1,540</td>
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<tr>
<td><strong>Total Stimulus Package</strong></td>
<td><strong>-9,660</strong></td>
<td><strong>-710</strong></td>
<td><strong>-70</strong></td>
<td><strong>-10,440</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Prime Minister’s Press Release

159. The government’s first response to these ‘extraordinary times’ in terms of discretionary fiscal policy came in October 2008 with the announcement of a $10.4 billion Economic Security Strategy. The package consisted of $8.7 billion in one-off payments to pensioners and families designed to support consumer spending and included $1.5 billion worth of assistance to first home buyers to stimulate the housing sector. Details of the package are set out below.

160. Following the further deterioration in the global economic outlook in early 2009 the government responded again with a second much larger fiscal stimulus package. The $42 billion Nation Building and Jobs Plan was announced in early February 2009 and provides a stimulus of around 2 per

cent of GDP. The bulk of the new spending proposals contained in the package involve investment in social infrastructure while a further round of cash payments was incorporated in the plan, this time targeted at low to middle income earners and families with children.

<table>
<thead>
<tr>
<th>NATION BUILDING AND JOBS PLAN</th>
<th>Underlying Cash Balance Impact ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Building Prosperity for the Future</strong></td>
<td>2009-09</td>
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<tr>
<td>Building the Education Revolution</td>
<td>-987</td>
</tr>
<tr>
<td>Energy Efficient Homes</td>
<td>-260</td>
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<tr>
<td>20,000 Social and Defence Homes</td>
<td>-39</td>
</tr>
<tr>
<td>Small Business and General Business Tax Break</td>
<td>0</td>
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<tr>
<td>Black Spots, Boom Gates and Community Infrastructure</td>
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<tr>
<td><strong>Sub-total</strong></td>
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<tr>
<td><strong>Supporting Jobs Now</strong></td>
<td>2009-09</td>
</tr>
<tr>
<td>Tax Bonus for Working Australians</td>
<td>-6,950</td>
</tr>
<tr>
<td>Single-income Family Bonus</td>
<td>-1,273</td>
</tr>
<tr>
<td>Farmer's Hardship Bonus</td>
<td>-20</td>
</tr>
<tr>
<td>Back to School Bonus</td>
<td>-2,347</td>
</tr>
<tr>
<td>Training and Learning Bonus</td>
<td>-413</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>-11,003</td>
</tr>
<tr>
<td><strong>Total Stimulus Package</strong></td>
<td>-12,720</td>
</tr>
</tbody>
</table>

Source: Updated Economic and Fiscal Outlook

161. The clear intention of the Nation Building and Jobs Plan was to compensate for the slump in private sector demand resulting from the world-wide economic slowdown. Government spending was designed to take up some of the slack created by a steep decline in private sector business activity while the cash payments were delivered to support weak consumer demand. The principal motivating factor behind the package was the expectation the global slump in activity would have a serious adverse impact on the domestic economy and cost jobs.

The global recession will result in the Australian economy facing a deeper and more protracted period of weakness than previously anticipated. Macroeconomic policy has an important role to play to cushion the impact of these events on economic activity and employment in Australia. The most effective thing that can be done to support employment is to avoid a prolonged slowdown in demand.17

162. While the fiscal policy response of the government will assist in mitigating the impact of the global recession it is inevitable that domestic growth will slow markedly as a result of the downturn and employment growth will suffer. The size of the fiscal policy response of the government highlights the depths of the challenges facing the Australian economy.

3.7 UNPRECEDENTED MONETARY POLICY EASING

163. Over the first half of 2008 the primary focus of monetary policy was rising inflation and price pressures generated by strong demand in the economy. Monetary policy was tightened 25 basis points at both the February and March Reserve Bank Board meetings taking the cash rate to 7.25 per cent, its highest level in almost 12 years. In both instances the central bank cited the objective of reducing inflation by moderating domestic demand. The fact world growth was expected to slow below trend was noted but the stimulus to the economy flowing from the terms of trade boom at the time was seen as providing a powerful offsetting influence. In May 2008 the Reserve Bank was still expecting a 20 per cent increase in the terms of trade.

In assessing the outlook for demand and growth, an important countervailing consideration is the stimulus that will come this year from Australia’s rising terms of trade. Based on the latest contract negotiations for coal and iron ore, it is likely that the terms of trade will rise by around 20 per cent this year as the new contracts come into effect.18

164. This surge in contract prices of hard commodities that was delivering the terms of trade boom had a significant impact on the setting of monetary policy as highlighted in the minutes of the May meeting.

The increase in the terms of trade was expected to boost national income by about 3–4 per cent, which would be a significant potential stimulus to spending, notwithstanding possible constraints inhibiting a further rise in business and public-sector investment spending. Members were informed that, measured by the change in the terms of trade over the past five years, Australia had received a larger income gain than any other comparable country, even before taking this year’s projected increase into account.19

165. Concern about the boost to domestic demand from the rapid increase in the terms of trade made the Reserve Bank reluctant to reduce interest rates in spite of a weaker outlook for the growth in the advanced economies and the persistence of the global financial crisis.

Looking ahead, members could see powerful opposing forces affecting the Australian economy. On the one hand, the slowdown in the developed economies, the ongoing strains in world financial markets and tight domestic financial conditions were working to slow demand and activity. Working in the other direction was the larger-than-expected stimulus to domestic incomes from the rising terms of trade that would flow from the very large recent increases in bulk commodity contract prices. Members acknowledged that

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the net effect of these forces on the prospects for growth and inflation was highly uncertain.\textsuperscript{20}

166. Elevated levels of inflation and the expectation that the stimulus from the terms of trade would be ongoing and offset the impact of slower global growth and strains in credit markets saw the cash rate left at 7.25 per cent and the Reserve Bank retaining a residual tightening bias up until June 2008. At the July meeting the central bank appeared to shift its policy bias to neutral and in August it was signalling an easing bias evidence demand was finally moderating.

167. Satisfied that monetary policy had done enough to curtail household demand the Reserve Bank reduced the cash rate 25 basis points to 7 per cent at its September meeting. The collapse of Lehman Brothers in mid-September led to profound dislocations in financial markets and in the view of the Reserve Bank sufficiently changed the balance of risk surrounding the outlook to warrant shaving 100 basis points off the cash rate at its October meeting. As downside risks to the outlook for global growth grew substantial easings of 75 and 100 basis points were implemented at both the November and December meetings, respectively. The cash rate was lowered a further 100 basis points to 3.25 per cent in February 2009.

\begin{center}
\textbf{Official Cash Rate}
\end{center}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{CashRateGraph.png}
\caption{Official Cash Rate from March 2005 to March 2009.}
\end{figure}

\textsuperscript{20} Ibid.
168. The Reserve Bank Governor outlined the central bank’s reasons for these moves in his public testimony to the House of Representatives given in late February 2009.

Six months ago, our judgment was that Australia was experiencing an economic slowdown that would turn out to be not unlike that of 2001 in magnitude, and that inflation would gradually decline. Absent the events of September and October, that would still have been a reasonable expectation. But the financial turmoil, and the real economic impacts that have flowed from it, altered the balance of risks for the world and Australian economies significantly. The Board quickly came to the judgment that the gradual easing of monetary policy that appeared to be in prospect six months ago should be accelerated. It moved to reduce the cash rate quite aggressively. The total decline of 400 basis points since August – as rapid as easing as any in Australia’s history – takes monetary policy to a clearly expansionary setting. The Government has also implemented a major discretionary easing of fiscal policy, and the exchange rate is significantly lower.

The deterioration in international economic conditions was so rapid that no policy response could prevent a period of near-term weakness in the Australian economy. We are being affected by the global downturn, and cannot realistically expect other than weak conditions in the first part of 2009. But the very large reduction in interest rates, the lower exchange rate and the major fiscal initiatives will work to support demand, increasingly so as the year goes on. Inflation is likely to continue its moderation that began in the December quarter, and to do so faster than expected six months ago.\(^21\)

169. It is also becoming apparent that the global recession has triggered a sharp correction in commodity prices which had been grinding steadily higher for the past several years. The Reserve Bank’s commodity price index shows prices peaking in July 2008 and falling away sharply as prospects for global growth diminished. In US dollar terms the All Items series has dropped -16 per cent between July 2008 and February 2009. The rural and non-rural components of these series have slumped -29.5 per cent and -13.1 per cent over this period, respectively. Base metals prices, which are more sensitive to trends in industrial production, have slumped just over -54 per cent.

170. As a result of declining bulk commodity prices the Reserve Bank is now expecting a 20 per cent decline in our terms of trade over the course of 2009.

A large fall in the terms of trade is expected in the first half of 2009 as renegotiations of annual contract prices for coal and iron ore take effect. Overall, the terms of trade are forecast to decline by around 20 per cent between late 2008 and early 2010, implying a significant reduction in real domestic income.\(^22\)


171. If the expectation of the central bank in May 2008 was that a 20 per cent increase the terms of trade would ‘boost national income by about 3–4 per cent’ an equivalent decline could reasonably be anticipated to have a profoundly negative impact on national income in the year ahead. Indeed, the Reserve Bank finds that:

The projected weakness in real GDP coupled with the large fall in the terms of trade implies a sharp fall in real domestic income, which is forecast to contract by around 4 per cent over 2009.\(^\text{23}\)

172. The 400 basis point reduction in the cash rate to 3.25 per cent in the space of six months constitutes an unprecedented shift in monetary policy. That the Reserve Bank of Australia undertook to act so decisively in response to deteriorating international economic conditions highlights the severity of the global financial crisis and the magnitude of its actual and expected impact on the real economy. A marked decline in our terms of trade is also expected to weigh heavily of expectations for growth.

173. While the central bank opted to keep rates on hold at 3.25 per cent its March policy meeting the view of most commentators is that the RBA Board is merely pausing to gauge the impact of past fiscal and monetary policy easing before being resuming further rate cuts. That position is validated by the

\(^{23}\) Ibid, page 65.
futures market which is currently pricing in an additional 100 basis point reduction in the cash rate to 2.25 per cent by July 2009.

### 3.8 State of the National Economy

174. Economic growth slowed markedly over the course of 2008 with activity contracting significantly in the December quarter. The annual pace of economic expansion has fallen from a strong 4.2 per cent over the year to December 2007 to a mere 0.3 per cent in the final quarter of 2008. Growth is now at its slowest pace since the recession of the early 1990s and there is little prospect of a rebound in the near-term.

175. Non-farm GDP, which constitutes 97.7 per cent of total activity and provides a far better picture of underlying strength in the economy, contracted for two successive quarters in the second half of 2008. Real activity in the non-farm sector declined marginally in the September quarter of 2008 and then in a more pronounced fashion in the December quarter, falling -0.8%q/q. Had the agricultural sector not experienced a sharp recovery in production, rising 24.4 per cent in the second half of 2009, the Australian economy would already have experienced the two consecutive quarters of declining output necessary to constitute the technical definition of a recession.

### Real GDP Growth

![Real GDP Growth Chart](Source: ABS Cat. No. 5206.0)
176. The public debate about whether or not the Australian economy is in recession is becoming increasingly academic. Certainly, if one accepts the proposition that two consecutive quarters of declining activity amounts to a recession, then figures for the non-farm economy have satisfied that definition. That conclusion is bolstered when one examines the composition of growth over 2008. Weakness has been broad-based and there is little expectation amongst private sector forecasters that conditions will improve significantly in either the short or medium-term.

**Real Non-farm GDP Growth**

![Real Non-farm GDP Growth chart]

Source: ABS Cat. No. 5206.0

177. Outside of the National Accounts statistics we see evidence of the impact of the slowdown in economic growth in the labour market data. Jobs growth stalled over the last six months of 2008, and as new entrants to the labour market fail to find positions the unemployment rate has risen sharply. After reaching a generational low of 3.9 per cent in February 2008, the unemployment rate has risen 1.3 percentage points over the last twelve months to 5.2 per cent. More importantly, particularly given employment tends to lag economic activity, the leading indicators of employment are pointing to a sharp deterioration in labour market conditions in the first half of 2009 with an attendant loss of full-time employment.
Business has been particularly hard hit by the slowdown in economic activity with trading conditions becoming increasingly difficult as the year progressed. Firms have responded to the downturn by reducing hours worked and to date have managed within the bounds of what is possible to maintain employment levels. Nevertheless, after years of strong growth the outlook for business investment is profoundly negative and the depth of the slump in capital expenditure plans is key risk to the government’s domestic economic forecasts. ACCI’s business surveys show firms winding back their investment intentions in light of poor demand conditions.

### 3.8.1 - Household Consumption

A rapid and pronounced moderation in household spending has been a key feature of the slowdown in economic growth over the course of 2008. Household consumption was running at a year-end growth rate in excess of 4 per cent in the December quarter 2007 and has since slumped to just 0.6 per cent in the final quarter of 2008.

A number of negative factors impacted heavily on consumers in 2008, with the character of those influences changing markedly as the year progressed. Of major significance in the first half of 2008 was the Reserve Bank’s decision to further tighten monetary policy 25bps at both its February and March Board meetings in response to continued evidence of price pressures in the
incoming inflation data and the persistence of strength in domestic demand thought to be generating rising prices.

### Real Household Consumption Growth

![Real Household Consumption Growth Chart](chart.png)

Source: ABS Cat. No. 5206.0

181. The 50bps increase in the cash rate in early 2008 added to the 50bps tightening in monetary policy in the second half of 2007. The policy tightening took the cash rate to 7.25 per cent, its highest level in almost 12 years where it remained until September 2008. On top of an increase in the official cash rate, households were also experiencing a de-facto tightening of monetary conditions as banks hiked lending rates in excess of increases in the cash rate to compensate for a rise in the cost of their funds resulting from the global credit crunch.

182. The impact of tighter monetary conditions in combination with the continued elevation of petrol prices was to crimp household incomes and constrain consumer spending. Negative wealth effects from equity market losses aggravated the resulting downturn in spending, as did falling house prices. Household consumption moderated significantly in the first quarter of 2008 before contracting marginally in the June quarter of 2008. This should not be surprising, indeed, the express intention of the Reserve Bank in lifting the cash rate was to slow the pace of domestic demand which it considered to be generating inflationary pressures.
183. The second half of 2008 saw marginal growth in household consumption of +0.1%q/q in both the September and December quarters. Anaemic consumer spending was in part a response to the lagged impact of tighter monetary policy but slower employment growth and the slump in already battered consumer confidence following the collapse of Lehman Brothers in mid-September were also key factors. Further negative wealth effects following a sharp drop in global stock markets again weighed on spending. Providing a number of countervailing influences were a significant drop in petrol prices as world oil prices tumbled, 300bps of monetary policy easing late in the year and $8.7bn in cash payments to pensioners and families as part of the government’s Economic Security Strategy.

184. Taking a slightly longer-term perspective, an important reason for the profound slowdown in spending is the desire of households to consolidate their balance sheets by paying down debt and reducing their use of personal credit. In the context of households having accumulated historically high levels of debt and now facing an environment of increasing economic uncertainty, there has been a marked shift in savings behaviour and consumption patterns in consequence. Specifically, households are seeking to reduce debt burdens and cutting back on discretionary items of expenditure as a result.

### Household Savings Ratio

![Diagram of Household Savings Ratio]

Source: ABS Cat. No. 5206.0
185. The change in the behaviour of households has been clearly demonstrated in the economic data. The household savings ratios leapt from 0.1 per cent in the March quarter of 2008 to 8.5 per cent in the December quarter, taking the ratio to it’s highest level since the recession of the early 1990s. The speed with which this movement has taken place underscores the sudden and dramatic turnaround in the consumer behaviour. Similarly, lending figures published by the Reserve Bank of Australia show the annual pace of personal credit growth slumping from a peak of 16.1 per cent in July 2007 to a decline of -4.9 per cent in January 2009. The series has posted eight consecutive monthly declines.

![Personal Credit Growth](image_url)

Source: RBA

186. In determining the implications of the sharp moderation in household spending it is important to give consideration to the character of the slowdown and its differential impact by industry, particularly those which are award reliant. A slump in consumer spending concentrated in those sectors of the economy would have a more negative impact on the job prospects of those reliant on award rates of pay relative to slowdown that was more broadly-based.

187. Examining the composition of household consumption we see clear evidence of consumers reining in spending on ‘big ticket’ items and discretionary items of expenditure. Motor vehicle purchases have declined for four successive quarters and over the year to the December quarter are -10.6 per
cent lower. This stands in stark contrast to the 12.0 per cent increase in real expenditure on motor vehicles over the twelve months to December 2007. Spending on the operation of vehicles and transport services have contracted -1.0 per cent and -1.4 per cent, respectively, in sympathy with the collapse in vehicle sales.

HOUSEHOLD FINAL CONSUMPTION EXPENDITURE

<table>
<thead>
<tr>
<th>Quarterly Change</th>
<th>Mar-08</th>
<th>Jun-08</th>
<th>Sep-08</th>
<th>Dec-08</th>
<th>year-end</th>
</tr>
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<tbody>
<tr>
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<td>0.3</td>
<td>0.6</td>
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<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
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</tr>
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<td>3.8</td>
</tr>
<tr>
<td>Furnishings and Household Equipment</td>
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<td>0.1</td>
<td>0.2</td>
<td>1.0</td>
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<td>0.7</td>
<td>4.3</td>
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<td>-7.9</td>
<td>-1.2</td>
<td>-10.6</td>
</tr>
<tr>
<td>Operation of Vehicles</td>
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<td>-1.0</td>
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<td>Recreation &amp; Culture</td>
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<td>-0.4</td>
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<td>-0.5</td>
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<td>2.5</td>
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<tr>
<td>Hotels, Cafes &amp; Restaurants</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-1.0</td>
<td>-2.6</td>
</tr>
<tr>
<td>Insurance &amp; Other Financial Services</td>
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<td>0.7</td>
<td>1.0</td>
<td>0.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Other Goods &amp; Services</td>
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<td>1.1</td>
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<tr>
<td>Total</td>
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<td>-0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Source: ABS Cat. No. 5206.0

Disturbingly for the job prospects of those working in the retail trade and hospitality industries, the contraction in discretionary elements of consumption expenditure have significant negative implications for these sectors. Household spending on hotel, cafes and restaurants declined in all four quarters of 2008 and is now -2.6 per cent lower over the year. The recreation and culture component of consumption has fallen for the past three quarters and is -0.5 per cent down over the year. This compares highly unfavourably with the very strong 6.4 per cent year-end growth seen in December 2007. The decline in spending over the year on cigarettes and tobacco, down -0.9 per cent, and alcoholic beverages, falling -2.5 per cent, underscores the fact that ‘belt-tightening’ is taking place in Australian households.

The sharp moderation in household consumption expenditure will have a disproportionately adverse impact on industries in which award reliant workers are employed. The most recent government forecasts released in the Updated Economic and Fiscal Outlook anticipate year-average household consumption will slow from 3.7 per cent in 2007-08 to 1 ¾ per cent growth in 2008-09 to just ½ a percentage point in 2009-10. The most recent National
Accounts figures, released just one month after the UEFO, suggest these forecasts are excessively optimistic and will need to be revised down significantly in the 2009-10 Budget. Accordingly, trading conditions and employment prospects in those sectors of the economy that rely heavily on discretionary consumer spending can be expected to deteriorate further.

**Treasury Forecasts for Real Household Consumption**

![Chart showing Treasury Forecasts for Real Household Consumption](chart)

Source: Treasury

3.8.2 - **Business Investment**

190. Business investment grew at a strong rate of +12.0 per cent over the year to the December quarter 2008, albeit the pace of expansion eased substantially in the second half of the year. Persistent growth in domestic demand beyond the rate of growth in output since early in the decade had led to widespread capacity constraints in the economy and strong underlying demand for new business investment. Combined with an ongoing commodity price boom that had stimulated considerable new mining activity, business investment as a percentage of GDP reached a more than 30-year high of +18.2 per cent in December 2008.
191. The outlook for business investment has changed markedly as a result of the slump in demand conditions and expectations of a severe global recession. ACCI’s business surveys show firms winding back their capital expenditure intentions and are pointing to a sharp decline in business investment.

192. The ABS Private New Capital Expenditure and Expected Expenditure survey for December 2008 is already showing the first signs this was occurring even before forecasts for world growth nose-dived in early 2009. The fifth estimate of total capital expenditure for 2008-09 at $98,145 million was -4.4 per cent below the fourth estimate taken in the previous quarter\(^{24}\). It has been typical in years past for expected capital expenditure plans to ratchet up as the year progressed and in at least the preceding four financial years the fifth estimate has exceeded the fourth. Moreover, the first estimate for 2009-10 at $79,866 million was only marginally higher than the first estimate for 2008-09 which stood at $79,392 million\(^{25}\). In at least the past four years the first estimate for the next financial year has usually substantially exceeded the last.

193. The Department of the Treasury in conducting the most recent round of its business liaison program noted firms were already scaling down their investment plans:


\(^{25}\) Ibid.
Insofar as the majority of business investment relates to building and machinery and equipment, there is mounting evidence that a significant contraction is underway. Businesses continue to report delays in their discretionary capital expenditure with a clear trend towards reducing it from previous high levels. Several businesses reported expansion plans have been curtailed and refurbishment projects delayed pending more favourable conditions.26

194. Indeed, a concern that business investment would collapse was a major factor behind the introduction of the 30 per cent temporary investment allowance advocated and supported by ACCI in the Nation Building and Jobs Plan. Treasury’s forecast for business investment takes this tax concession into consideration but is still alarmingly pessimistic, especially for an institution know for the conservatism of its forecasts. Business investment is seen slowing from +14.2 per cent in 2007-08 to just +½ per cent growth in 2008-09 before contracting -15 ½ per cent in 2009-1027. The commentary accompanying this forecast notes:

There has been a marked deterioration in the outlook for business investment since MYEFO. A significantly weaker outlook for global and domestic demand and a weaker profits outlook have reduced much of the stimulus for investment that has prevailed over the last five years. Credit conditions for businesses continue to be tight and the cost of equity funding remains high. Consequently, as current projects are completed few new projects are being added to the pipeline, and a large number of projects have either been cancelled or postponed in light of the deteriorating economic outlook and lower commodity prices. Investment is now expected to fall by 15½ per cent in 2009-10.28

195. With business investment at present constituting more than +18 per cent of economic activity the forecast downturn is expected to weigh heavily on growth in 2009-10. To the extent that a deeper contraction is realised it will be difficult for the economy to resist falling into recession.

3.8.3 - Dwelling Investment

196. Despite a high level of pent-up demand for new housing driven by strong population growth, new dwelling investment has been relatively subdued as a result of interest rates being held at an almost 12-year high throughout early 2008. Private sector building approvals for houses and units dropped -32.5 per cent over the year to the December quarter 2008 and point to a

27 Treasury, Updated Economic and Fiscal Outlook, February 2009, page 33.
period of declining activity in at least the first half of 2009. However, the medium-term outlook for housing construction has improved markedly following a 400 basis point easing in monetary policy and an increase in grants for new home buyers purchasing a newly constructed dwelling.

197. Treasury forecast dwelling investment to decline -2 per cent in 2008-09 before commencing a modest recovery in 2009-10 to grow by +4 per cent, although they acknowledge downside risks to the latter forecast.

Dwelling investment is expected to recover somewhat over the forecast horizon, although near-term results are likely to be weak. Building approvals fell sharply at the end of 2008, a legacy of the high interest rates and low levels of confidence which prevailed over much of 2007-08. However, large interest rate cuts, strong underlying demand and the First Home Owners Boost for new houses are expected to support a recovery in dwelling investment in 2009-10, with growth expected to rise to 4 per cent. A downside risk to these forecasts is that confidence in the household sector remains low, exacerbated by uncertainty around unemployment levels.29

Building Approvals Quarterly Year-end Growth

198. The Reserve Bank similarly expects the sharp decline in lending rates to put a floor under the prospective decline in housing activity and lead to ‘a recovery from late 2009’30.

29 Ibid, page 32.
3.8.4 - External Sector

199. A deep global recession will have a significantly adverse impact on the performance of the external sector. The vast majority of our major trading partners are now in recession and the IMF is in the process of further downgrading their already pessimistic global growth outlook. Export growth will moderate significantly as a result of the contraction in demand from our trading partners and there is a real the potential goods and services exports will contract as a result of the slowdown. Imports have slowed in line with domestic final demand in the Australia economy. Because imports actually fell much faster than the decline in exports in December 2008 this led net exports to contribute strongly to growth in that quarter.

Composition of Real GDP Growth: Year-end

![Graph showing composition of real GDP growth](image)

Source: ABS Cat. No. 5206.0

200. Treasury forecasts export growth will slow from +4.3 per cent in 2007-08 to just ½ per cent in both 2008-09 and 2009-10 given the poor conditions in the international economy. Imports growth is expected to ease from +12.7 per cent in 2007-08 to just +2 ½ per cent in 2008-09 before contracting -3 per cent in 2009-10. Net exports are seen shaving -½ a percentage point off growth in the current financial year before contributing +¾ of a percentage point to output in 2009-10. The sharp depreciation of the Australian dollar in 2008 will help buffer the impact of the downturn in the performance of our trading partners but will not spare us entirely from those effects.

While some support will be provided by the depreciation of the Australian dollar, the broad based and pervasive weakness in growth across the world economy
means that demand for Australia’s exports will likewise be weak. Offsetting this in 2009-10 is the significantly weaker outlook for imports, which are expected to fall by 3 per cent in that year. The outlook is driven by the weakness in domestic demand, particularly the sharp slowdown in business investment, which relies heavily on imported capital goods.31

201. Given the further deterioration in the outlook for global growth since the release of the government’s forecast we can reasonably anticipate expectations for export growth will be revised down. Forecasts for imports growth will also be negatively impacted largely as a result the domestic economy slowing faster than expected. The impact on the outlook for net exports will depend on which effect is larger.

3.8.5 - Industry Gross-Value Added

202. Examining the production side of the National Accounts reveals some important trends in industry level activity that carry significant implications for the job prospects of workers whose pay is determined by award. Disproportionately, the two industries that are most award reliant – the retail and hospitality sectors – are struggling as a result of the slump in household spending on discretionary items of expenditure.

203. Activity in the retail trade sector has been sluggish across 2008 with year-end growth in output slowing to just 0.5 per cent compared to a strong annual pace of expansion of 5.8 per cent a year earlier. The present 0.5 per cent year-end growth rate is well below the five-year average annual growth 2.9 per cent of activity in the retail trade sector. The sharp slowdown in retail trade has seen the industry shed 45,700 jobs in the past twelve months.

204. Output in the accommodation, cafes and restaurants industry classification has contracted -1.9 per cent over the year to the December quarter 2008 and has been particularly weak since onset of the global financial crisis in mid-2007. Activity declined in the four quarters between September 2007 and June 2008 and increased only marginally over the last six months of 2008. Total employment in the industry is still growing with declining activity having been dealt with primarily, at least at this stage, by a reduction in the hours worked by part-time employees.

31 Ibid, page 32.
GDP - INDUSTRY GROSS VALUE ADDED

<table>
<thead>
<tr>
<th>Quarterly Change</th>
<th>Dec-07</th>
<th>Mar-08</th>
<th>Jun-08</th>
<th>Sep-08</th>
<th>Dec-08</th>
<th>year-end</th>
<th>5-year average</th>
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<td>-0.8</td>
<td>-2.4</td>
<td>1.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Government administration &amp; Defence</td>
<td>3.7</td>
<td>-1.7</td>
<td>-1.0</td>
<td>1.3</td>
<td>-0.9</td>
<td>-2.3</td>
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<td>1.4</td>
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<tr>
<td>Health &amp; Community Services</td>
<td>-0.6</td>
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<td>3.3</td>
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<tr>
<td>Cultural &amp; Recreational Services</td>
<td>2.8</td>
<td>-1.2</td>
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<td>2.1</td>
<td>-1.3</td>
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<tr>
<td>Personal &amp; Other Services</td>
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<td>-0.9</td>
<td>-0.3</td>
<td>1.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Ownership of Dwellings</td>
<td>0.6</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
<td>2.8</td>
<td>3.3</td>
</tr>
<tr>
<td>Gross Value Added at Basic Prices</td>
<td>1.2</td>
<td>0.8</td>
<td>0.7</td>
<td>0.1</td>
<td>-0.7</td>
<td>1.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Taxes less Subsidies</td>
<td>0.7</td>
<td>-0.3</td>
<td>-0.7</td>
<td>-1.0</td>
<td>-0.1</td>
<td>-2.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Gross Domestic Product</td>
<td>1.0</td>
<td>0.5</td>
<td>0.3</td>
<td>0.1</td>
<td>-0.5</td>
<td>0.3</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Source: 5206.0

205. The property and business services industry saw a -3.2 per cent fall in industry gross-value added in the second half of 2008, the steepest decline since the recession of the early 1990s. While year-end growth in the sector was still standing at 1.5 per cent in the December quarter 2008 that was largely on the strength of activity early in the year. By contrast, the health and community services industry, the other major award dependent industry, has continued to grow in line with longer term trends with output in the sector tending to move independently of the economic cycle.

206. Industries that are suffering heavily as a result of the global financial crisis and the virtual halt in economic growth are notably the finance and manufacturing sectors. Activity in the finance and insurance industry has fallen -3.4 per cent over the year to December 2008 with output contracting in each quarter of 2008. Manufacturing, which has been under enormous competitive pressure for decades from the emergence of China and other exporting countries with low labour costs, is being forced to shut down struggling low-value added businesses in the wake of shrinking margins. Activity in the manufacturing industry fell more than -5 per cent in the last six-months of 2008 with the vast majority of the decline in activity occurring in the December quarter.
3.9 INCOMES

207. The incomes breakdown of the gross domestic product figures show wages and salaries growth continuing to increase at a solid pace while profits fell markedly in the final quarter of 2008. Most of the impact of the downturn in economic growth in late 2008 is presently being borne by the business sector in the form of reduced earnings. Profits of financial corporations have been particularly hard hit as a result of the downturn in financial markets globally and the slowdown in the rate of credit growth.

208. The total compensation of employees grew strongly throughout 2008 to be 7.9 per cent higher over the year to the December quarter 2008. Both the wages and salaries, and employer’s social contributions (largely superannuation) components of increased at a solid rate over the year.

209. The result of sudden collapse in demand in the December quarter of 2008 has been a sharp contraction in the profits of private non-financial companies, which fell -5.6 per cent in the final quarter of 2008. The profits of unincorporated businesses, to the extent that it is recorded in gross mixed income, have held up better but nevertheless slowed over 2008. Year-end growth of gross mixed income slowed from +6.2 per cent in December 2007 to +2.9 per cent in December 2008. The profits of financial corporations have fallen in each quarter of 2008 and over the year are down -13.9 per cent as a result of very poor trading conditions directly stemming from the crisis in global financial markets.

3.9.1 - Income Shares

210. ACCI acknowledges that the corporate profits share of total factor income reached a record high of 28.0 per cent in the September quarter of 2008 but disputes the assertion that this has been at the expense of the wages share. Rather, the increase has primarily come at the expense of gross mixed income which to a large extent reflect the profits of unincorporated businesses. The trend towards incorporation by sole traders, partnerships and other forms unincorporated enterprises has led to a secular decline in the gross mixed income share of total factor income over the past five decades. An increasing corporate profit share is a natural concomitant of the change in the legal structure under which a business is conducted.
211. The gross mixed income share of total factor income at 28.2 per cent was at its highest level in the September quarter of 1959, the commencement of the National Accounts. It has fallen away in each of the five decades since, reaching an historic low of just under 9.2 per cent in June 2008. The decline has been a result in the trend toward the use of corporate structures and the incorporation of small businesses. Whereas the profits of unincorporated entities would previously be included in gross mixed income, once a business incorporated their earnings would be thereafter recorded as company profits lifting the corporate profit share of total factor income.
Adding the gross mixed income and corporate profit share of total factor income together controls for the trend toward incorporation over the last half century. It provides us with a measure of total business profits (corporate and non-incorporated) and we can see it has been fairly stable over the past five decades. After trending downward from 44.5 per cent to 40.7 per cent over the 1960s the business profits share fell heavily as a result of the three recessions experienced in the 1970s before beginning to recover toward the end of that decade. The severe recession of the early 1980s saw the business profit share slump again and then gradually recover.
Over the past two decades the total business profits share has been reasonably stable at around 35 per cent while the wages share of total factor income has similarly been steady around 54 per cent. Allegations that an increasing profit share has resulted from a decline in the wages share of income are without foundation, as are suggestions that a rise in the profit share has had important distributional impacts. On the contrary, once one allows for the trend toward incorporation, total business profits as a share of total factor income have been largely static.

3.10 **EVIDENCE FROM ACCI BUSINESS SURVEYS**

3.10.1 - Business Conditions in ACCI Surveys

The February 2009 *Commonwealth Bank – ACCI Business Expectations Survey* shows business conditions continuing to deteriorate over the December quarter. The index of *General Business Conditions*, which gives an overall assessment of current trading conditions, pushed further into negative territory in the December quarter, reaching 35.8 points the lowest level in the survey’s 14 year history and almost 20 points below its five year average of 55.5. Moreover, firms expect business conditions to deteriorate further in the first three months of 2009.
As shown in the figure above, the index of Expected General Business Conditions in the Survey is highly correlated with and has led the Australian Bureau of Statistics (ABS) quarterly real GDP growth data, demonstrating that the index gives an early and accurate indication of changes in Australian economic performance prior to the release of official figures. ACCI’s index of Expected General Business Conditions suggested a downturn in economic activity in the December quarter of 2008 and the most recent readings point to a further contraction in the March quarter of 2009.

All ACCI’s surveys show businesses scaling back their investment plans, with indicators of business investment intentions falling to record lows over the December quarter despite official data on business capital expenditure plans remaining relatively robust. The deteriorating business investment outlook as well as weaker overall trading conditions will bring about a further softening in labour market conditions in the coming periods.

### 3.10.2 - Employment Indicators in ACCI Surveys

The Commonwealth Bank – ACCI Business Expectations Survey for February 2009 shows employment contracting significantly over the December quarter. Following a record high 59.3 point level in March 2007, the index on Employment has fallen for six consecutive quarters to a record low level of

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32 Note: An index above 50 indicates the variable is increasing and any level below 50 represents the variable is falling.
44.5 in December 2008 (figure below). The employment index is currently below the subdued levels seen during the 2000/01 slowdown. Businesses expect to further reduce employment levels over the January quarter, with 30 per cent of business expecting a fall in employment, up from 21 per cent in the September quarter.

**Employment Index (All Business)**

![Employment Index Graph](image)

Source: Commonwealth Bank – ACCI Business Expectations Survey

218. The **ACCI Small Business Survey** shows that all three business sizes reported declining employment over the December quarter (figure below), with small business posting the largest fall in employment. Small businesses expect employment to fall over the January quarter, albeit there has been some improvement in intentions to hire.

219. Employment growth in the **ACCI-Westpac Survey of Industrial Trends** is also weak, with the index recording deteriorating labour demand during the December quarter. The **Labour Market Composite** index fell to its lowest level since the December quarter of 1991 with conditions in the labour market in first quarter of 2009 expected to remain poor. The index is now below the troughs seen in the 2000/01 and 1996/97 slowdowns, but has still managed to remain above the lows seen in the 1982/83 and 1990/91 recessions.
Similar trends are evident in the January release of the ACCI Survey of Investor Confidence, which shows the index for the Expected Number of Full-Time Employees plunging deeper into negative territory over the December quarter and currently on par with the low levels achieved during the economic downturn in 2000/01. The reading suggests a further decline in full-time employment over the first half of 2009. National unemployment expectations for the next twelve months have also risen to their highest level since 1998.

All ACCI’s survey indicators on labour market conditions point toward a weaker labour market in the first half of 2009, consistent with the slump in the leading indicators of employment over the past year.

In the wake of a softening job market, the ACCI Small Business Survey shows that the Availability of Suitably Qualified Employees no longer ranked within the top five constraints on investment for small and large businesses.

3.10.3 - Wage Costs in ACCI Surveys

Consistent with weaker demand for labour across the economy, businesses are also experiencing slowing wages growth and are expecting labour cost growth to moderate further in line with the significant decline in general business conditions in recent months.
The Commonwealth Bank – ACCI Business Expectations Survey for February 2009 showed the indexes on Wages Growth and Non-Wage Labour Costs\textsuperscript{33} continuing to fall from record high levels achieved in March 2008 and slumping well beneath their five-year averages over the December quarter (figures above and below). Nevertheless, the indices remained above the 50 mark indicating that wage costs are continuing to grow, albeit at a much slower pace. Given falling sales revenue and business conditions, continued growth in wage costs will put significant pressure on business profitability, especially given the marked slowdown in economic growth. While remaining positive, business expects wage costs to moderate further over the first three months of 2009.

\textsuperscript{33} The index of Non-Wage Labour Costs measures labour on-costs such as fringe benefits, workers’ compensation, payroll tax, and training.
The latest ACCI Small Business Survey continues to show a significant divergence in wages growth by business size, with wages and non-wage labour costs growing much more strongly in medium and large businesses relative to small business (figures below). All three business sizes continued to experience increasing labour costs despite slower growth. It is also evident from the figure below that wage growth remains above the trough seen during 2000/01 slowdown.
More importantly, the Survey also reveals that Wage Costs and Non-Wage Labour Costs continued to be the second and third most important constraints on investment for plant and equipment for small businesses.
4. JOBS

4.1 - OVERVIEW

227. Historically, periods of recession in the Australian economy have been associated with considerable job losses and a sharp rise in the rate of unemployment. With the risk of recession at this point high, conditions in the labour market are liable to deteriorate dramatically in the year ahead beyond the softening in conditions we have already witnessed. Key lead indicators of employment have slumped markedly over the past twelve months and are suggesting the economy has already entered recession.

228. The worst global recession since the Great Depression is expected to have a profoundly negative impact on the Australian economy and labour demand will suffer as a consequence. The Commission should exercise extreme caution in light of the very poor outlook for the labour market. ACCI believes the scale of the downturn in demand for labour should lead the Commission to not uprate minimum wages at this juncture in order to ensure job opportunities for the low paid and unemployed are maintained to the maximum extent possible and not endangered.

229. Moreover, the Commission should give consideration to both the level of unemployment and underemployment when considering the impact of minimum wage changes. Recently published ABS data on rates of underemployment by industry and occupation cast new light on the impact of uprating minimum rates of pay on the ability of minimum wage reliant employees to obtain sufficient hours of employment. The data showed that underemployment tends to be concentrated disproportionately in minimum wage reliant industries and occupation levels, to an extent not previously recognised.
4.2 - Employment

Labour market conditions have softened considerably over the past year. Despite employment levels remaining remarkably resilient in the face of rapidly slowing economic growth, job creation effectively stalled in the six months to February 2009. The result has been a sharp increase in the rate of unemployment to 5.2 per cent from a generational low of 3.9 per cent achieved in February 2008. The bulk of that increase of 1.3 percentage points having occurred in the past six months.

Non-Farm GDP and Employment: Year-end Growth

Employment growth lags economic activity so there is every expectation that labour market conditions will deteriorate further following the contraction in non-farm GDP in the second half of 2008. A deeper decline in non-farm activity will worsen the downturn in jobs growth and has the potential to lead to a substantial loss of employment. Leading indicators of employment have slumped markedly over the past year and are pointing to sizeable job losses in the coming twelve months.
4.2.1 - Employment Growth Slows Over 2008

232. Monthly employment changes in the labour force survey show the pace of job creation slowing markedly over the last year. Month to month movements in the employment figures can be volatile so examining a moving average can assist in more clearly discerning the underlying trend in the data. The six-month moving average displayed in the chart was running at just over 28,000 jobs per month in February 2008 where it had remained largely steady at about this level over the preceding two years. The most recent data shows the six month moving average having fallen to 2,400 positions, barely positive and indicating that employment growth over the past six months has effectively stalled.

![Employment Monthly Change](image)

Source: ABS Cat. No. 6202.0

233. The year-end rate of employment growth in February 2009 has slowed to 0.7 per cent from 2.9 per cent in the same month last year, a substantial reduction in the pace of growth of some -2.2 percentage points. Moreover, not only has employment growth eased considerably but the composition has changed dramatically between full and part-time employment with the balance shifting decidedly in favour of part-time jobs. In the twelve months to February 2009, part-time employment contributed 1.0 percentage point to total jobs growth while full-time positions subtracted 0.3 percentage points.
Full-Time / Part-Time Contribution to Year-end Employment Growth

Source: ABS Cat. No. 6202.0

234. Taken as a whole the labour force data provides evidence of business ‘labour hoarding’, being as yet reluctant to reduce staffing levels in response to declining demand. This behaviour is consistent with the early stages of an economic downturn and also reflects the economy is transitioning out of a period in which labour shortages have been wide-spread.

235. However, the sudden shift in the composition of employment growth points to firms being unwilling to take on full-time employees given the downturn in activity and the significant degree of uncertainty to which they are currently exposed. Instead, businesses are turning increasingly to part-time employees who can provide more flexibility with respect to working hours should trading conditions deteriorate further. Over the past six months full-time employment has actually fallen by almost 100,000 positions which has been more than offset by an increase in part-time jobs of around 114,000 positions.
4.2.2 - Stalled Job Market Leads to Sudden Spike in Unemployment Rate

The slump in employment growth over the course of 2008 has led to a sharp rise in the unemployment rate. After reaching a cycle-low of 3.9 per cent in February 2008 the unemployment rate increased 1.3 percentage points in the past twelve months to 5.2 per cent, its highest level in almost four years. The 1.1 percentage point spike in the unemployment rate in the past six months is the fastest rise over that period of time since late 1991 when the recession of the early 1990s was still impacting heavily on the labour market.
237. With jobs growth in the economy essentially having stalled the continued expansion of the labour force has resulted in an increase in the unemployment rate. On aggregate, the dynamic is fairly straight-forward. As the labour force grows, those entering a job market in which employment growth is practically zero are finding themselves unemployed. Over the past twelve months there were almost 230,400 additional job seekers, of which, less than a third were able to obtain employment. The remaining 157,900 unable to find work took the number of unemployed persons to just over 590,000, a 36.5 per cent increase over the year.

238. While the unemployment rate is still not too far above a recent multi-decade low, historical experience shows that it tends to rise rapidly and persist following the onset of recession. The recession of the early 1990s commenced in the June and September quarters of 1990 and resulted in the unemployment rate rising 2.6 percentage points in the twelve months. Within eighteen months of June 1990 the unemployment rate had leapt 3.7 percentage points to 10.1 per cent, just shy of the eventual peak of 10.9 per cent reached in December 1992. The unemployment rate only gradually subsided from that level, taking more than nine years to re-attain the 6.5 per cent rate seen in June 1990.
A similar rise in the unemployment rate accompanied the recession in the early 1980s but given the more severe contraction in activity the accompanying spike in the jobless rate was more rapid. The recession of the early 1980s commenced in the December quarter of 1981 and the March quarter of 1982. Twelve months after December 1981 the unemployment rate had spiked 3.4 percentage points to 9.4 per cent in December 1982. Eighteen months after December 1981 it had risen 4.2 percentage points to 10.2 per cent. It was more than seven years before the unemployment rate fell back below its level of 6.0 per cent in December 1981.

The lesson of past recessions is that unemployment rises rapidly following the downturn in economic activity and persists for an extended period afterward. Long-term unemployment rises and the job prospects of the unemployed and low paid are greatly diminished for a sustained period. A major risk facing the Australian economy at present is the downturn in labour market conditions leading to an increase in the unemployment rate beyond the already pessimistic official forecast of 7 per cent. The resulting social and economic costs would be high and inequality would increase as a consequence of employees being unable to obtain employment.
4.2.3 - Participation Rate

241. The participation rate has broadly held steady over the past twelve months. Labour force figures for the month of February 2009 recorded the participation rate at 65.5 per cent, just 0.2 percentage points higher than twelve earlier and only marginally above than its average level of 65.4 per cent over the past year. The current level remains only just shy of the historic high of 65.6 per cent reached in April 2008.

242. The plateau in the participation rate follows a period in which labour force participation increased markedly in response to strong employment growth (the ‘encouraged worker’ effect) and the implementation of policy measures designed to encourage certain welfare recipients to take up paid employment. Between mid-2004 and the end of 2007 the participation rate surged more than 2 percentage points.

**Participation Rate**

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Source: ABS Cat. No. 6202.0
4.2.4 - Hours Worked

243. The initial response of employers to the slump in domestic demand has been to maintain employment levels and in some cases to reduce working hours. The significant costs involved in hiring and firing staff leads firms to ‘hoard labour’ in the preliminary phases of an economic slowdown and is the principal reason that employment growth lags economic conditions. The shift between full-time and part-time employment seen in the past six months has been a function of business adapting to a slump in activity. The other key feature has been a dramatic slowdown in the growth of total hours worked in the economy.

![Total Hours Worked](source: ABS Cat. No. 5206.0)

244. Aggregate hours worked contracted -0.1 per cent in the December quarter of 2008 after having slowed considerably over first three quarters of the year. The year-end pace of growth in total hours worked peaked in December 2007 at 3.4 per cent and has eased considerably over the past year to be just 0.8 per cent in December quarter of 2008. Total hours worked in the market sector, which is more responsive to changes in economic conditions, fell -0.8 per cent in December 2008 and the downturn in the rate of growth during the
past year more severe. The year-end rate of growth in the series slumped from a peak of 3.6 per cent in December 2007 to just 0.1 per cent in the final quarter of 2008.

Total Hours Worked Market Sector

Source: ABS Cat. No. 5206.0

4.2.5 - Underemployment

245. Sole reliance upon on the unemployment rate as a measure of labour market conditions is inappropriate and fails to take into consideration the full extent to which Australian workers are unable to obtain their desired level of employment. Underemployment in the economy continues to be a problem and has risen in line with the unemployment rate as employment growth stalled. Rates of underemployment are particularly acute in the two principal minimum wage reliant industries – retail trade and hospitality – with almost one in six workers in the accommodation, cafes and restaurants sector wanting to work more hours. The combination of unemployment and underemployment gives rise to a persistent relatively high degree of labour underutilisation in the Australian economy.
246. The ABS classify an employee as underemployed if they are wanting and available to work more hours whether they are part-time or full-time employees. The vast majority of the 655,100 underemployed workers are part-time employees (603,700) wanting to either work more part-time hours or preferring full-time hours\(^1\). The majority of the underemployed are women.

Underemployment Rate

![Graph showing underemployment rate]

Source: ABS Cat. No. 6105.0

247. The underemployment rate ticked up sharply in late 2008 as jobs growth stalled and the unemployment rate continued to push higher. In seasonally adjusted terms, the number of underemployed workers increased 66,500 in the November quarter of 2008, lifting the underemployment rate +0.6 percentage points from its recent low of +5.8 per cent in August to +6.4 per cent, its highest level in over a year.

The underutilisation rate is measured by adding the unemployment rate to the underemployment rate, and gives a better measure of the extent of spare labour capacity in the economy than the unemployment rate alone. It also provides a more comprehensive picture of the degree to which workers desired levels of employment remain unfulfilled. The underutilisation rate increased +0.9 percentage points in the November quarter to +10.8 per cent, an almost two-year high. Underpinning the rise was an increase in both the unemployment rate, up +0.3 percentage points to +4.4 per cent, and the underemployment rate, up +0.6 percentage points to +6.4 per cent. The figure reveals that 1.2 million people in the labour force are unable to achieve a satisfactory employment outcome under the current industrial relations framework. Even this understates the true size of the problem given the data fails to take into account the number of ‘discouraged workers’ that have given up on finding work and remain outside the labour force as a result.

Minimum rates of pay set above market clearing levels not only result in a loss of jobs they also impact negatively on the capacity of employees to obtain a sufficient quantity of work even where they are able to find employment. Across the economy the underemployment rate was +6.4 per cent in November 2008 but the
burden of underemployment falls disproportionately on minimum wage reliant industries and those in less skilled occupations.

### UNDEREMPLOYMENT BY INDUSTRY

<table>
<thead>
<tr>
<th>November quarter 2008 (original)</th>
<th>Employed</th>
<th>Underemployed</th>
<th>Underemployment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry &amp; Fishing</td>
<td>374.3</td>
<td>14.2</td>
<td>3.8</td>
</tr>
<tr>
<td>Mining</td>
<td>180.3</td>
<td>0.9</td>
<td>0.5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1,066.9</td>
<td>41.6</td>
<td>3.9</td>
</tr>
<tr>
<td>Electricity, gas &amp; water</td>
<td>108.1</td>
<td>1.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Construction</td>
<td>993.8</td>
<td>42.7</td>
<td>4.3</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>442.8</td>
<td>13.9</td>
<td>3.1</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>1,544.9</td>
<td>209.0</td>
<td>13.5</td>
</tr>
<tr>
<td>Accommodation, cafes &amp; restaurants</td>
<td>512.2</td>
<td>81.7</td>
<td>16.0</td>
</tr>
<tr>
<td>Transport &amp; Storage</td>
<td>530.4</td>
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<td>4.7</td>
</tr>
<tr>
<td>Communication Services</td>
<td>197.3</td>
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<td>5.1</td>
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<tr>
<td>Finance &amp; Insurance</td>
<td>380.1</td>
<td>8.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Property &amp; Business Services</td>
<td>1,295.6</td>
<td>62.7</td>
<td>4.8</td>
</tr>
<tr>
<td>Government administration &amp; Defence</td>
<td>485.0</td>
<td>9.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Education</td>
<td>769.6</td>
<td>60.5</td>
<td>7.9</td>
</tr>
<tr>
<td>Health &amp; Community Services</td>
<td>1,134.2</td>
<td>73.8</td>
<td>6.5</td>
</tr>
<tr>
<td>Cultural &amp; Recreational Services</td>
<td>288.5</td>
<td>35.9</td>
<td>12.1</td>
</tr>
<tr>
<td>Personal &amp; Other Services</td>
<td>413.5</td>
<td>24.8</td>
<td>6.0</td>
</tr>
<tr>
<td>All Industries</td>
<td>10,717.5</td>
<td>715.6</td>
<td>6.7</td>
</tr>
</tbody>
</table>

Source: ABS Cat. No. 6105.0

Data on underemployment by industry reveals the negative impact minimum wage regulation has on the ability of those employed in minimum wage reliant industries to obtain sufficient hours of work. Almost 60 per cent of total underemployment occurs in the four industries the Commission identifies as minimum wage reliant. Rates of underemployment are particularly acute in the retail trade and hospitality sectors. Almost one in six people working in the accommodation, cafes and restaurants industry are unable to find enough work, with the underemployment rate in that sector nearly two and a half times the national average. The rate of inadequately employed workers in the retail trade industry is more than double the national average. Of those employed in the retail sector +13.0 per cent desired and were unable to find more hours of work.

### UNDEREMPLOYMENT BY OCCUPATION

<table>
<thead>
<tr>
<th>November quarter 2008 (original)</th>
<th>Employed</th>
<th>Underemployed</th>
<th>Underemployment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers and administrators</td>
<td>891.2</td>
<td>11.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Professionals</td>
<td>2,134.1</td>
<td>73.5</td>
<td>3.4</td>
</tr>
<tr>
<td>Associate professionals</td>
<td>1,336.3</td>
<td>37.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Tradespersons &amp; related workers</td>
<td>1,381.6</td>
<td>49.9</td>
<td>3.6</td>
</tr>
<tr>
<td>Advanced clerical, sales &amp; service workers</td>
<td>381.8</td>
<td>16.6</td>
<td>4.3</td>
</tr>
<tr>
<td>Intermediate clerical, sales &amp; service workers</td>
<td>1,764.8</td>
<td>163.2</td>
<td>9.2</td>
</tr>
<tr>
<td>Intermediate production &amp; transport workers</td>
<td>948.1</td>
<td>73.4</td>
<td>7.7</td>
</tr>
<tr>
<td>Elementary clerical, sales &amp; service workers</td>
<td>974.1</td>
<td>177.6</td>
<td>18.2</td>
</tr>
<tr>
<td>Labourers &amp; related workers</td>
<td>905.5</td>
<td>112.8</td>
<td>12.5</td>
</tr>
<tr>
<td>All Occupations</td>
<td>10,717.5</td>
<td>715.6</td>
<td>6.7</td>
</tr>
</tbody>
</table>
251. Occupation level data also shows the burden of underemployment falling disproportionately on minimum wage reliant employees. The two occupation classifications most dependent on minimum wage rates of pay for determining wages and conditions account for more than +40 per cent of all underemployed workers. Almost one in five elementary clerical, sales & service workers wanted to work more hours but did not have the opportunity. The rate of underemployment for employees at these occupation levels is in excess of two and a half times the national average. Labourers & related employees experienced a +12.5 per cent rate of underemployment, meaning one in eight could not find sufficient work.

252. It is imperative the Commission take into account the disproportionately high levels of underemployment in minimum wage dependent industries and occupations in its wage-setting decision. High rates of underemployment in these industries and occupations provide strong prima facie evidence that minimum rates of pay are too high relative to the capacity of business to offer sufficient hours of work to employees at those rates.

253. The issue of underemployment for award reliant workers has not been given sufficient weight in the Commission’s past determinations due primarily to the absence of detailed industry and occupation level data\(^2\). This is the first time statistics on underemployment by industry and occupation have been available to the Commission in the context of a wage-setting decision. The implications they carry are profound and point to minimum rates of paying potentially having a significantly negative impact on the ability of workers to obtain sufficient hours of employment. The recent publication of the data by the Australian Bureau of Statistics provides dramatic clarification of the employment prospects of the low paid in terms of the extent to which they are unable to find an adequate quantity of work.

\(^2\) The ABS note the data has only been published since November 2008.
Industry level employment data shows jobs growth slowing more rapidly in the market sector of the economy than the non-market sector. That is to be expected given the greater sensitivity of market sector employment to changes in economic growth\(^3\). Over the year to November 2008 total employment growth fell from +2.9 per cent to +1.5 per cent. However, market sector employment growth slowed -1.8 percentage points to +1.2 per cent compared to a -1.0 percentage point moderation in the annual pace of non-market sector jobs growth to +1.9 per cent.

There are some clear divergences in employment growth by industry reflecting differing conditions in various sectors of the economy. Employment in property and business services increased by 53,200 positions over the year to November 2008, contributing +0.5 percentage points to total employment growth. However, declining levels of activity in the industry over the second half of 2008 suggests this employment growth will slow. While the mining sector added 41,500 new jobs over the year and contributed +0.4 percentage points total employment, these positions may be at risk as the commodities boom continues to unwind.

<table>
<thead>
<tr>
<th>EMPLOYMENT, BY INDUSTRY</th>
<th>Percentage Change</th>
<th></th>
<th>Change 000s</th>
<th>Contribution</th>
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<tbody>
<tr>
<td></td>
<td>Feb 2008</td>
<td>May 2008</td>
<td>Aug 2008</td>
<td>Nov 2008</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
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<td>Health and community services</td>
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<td>Non-market sector employment</td>
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<tr>
<td>All Industries</td>
<td>1.1</td>
<td>0.1</td>
<td>0.4</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

\(^3\) The definition of the market sector is consistent with the National Accounts, namely, total employment less employment in the following industries: Property and business services; Government
256. Employment growth in minimum wage reliant industries has been mixed over the year. While property and business services employment has fared well the same can not be said for the retail trade sector. Employment in the retail industry fell in all four quarters of 2008 shedding 45,700 workers in total, sufficient to detract -0.4 percentage points from economy-wide employment growth.

257. The year-end pace of jobs growth in the health and community services sector has eased over the last four quarters from +3.3 per cent to +2.3 in November 2008. Jobs growth in the hospitality sector has managed to hold up well in spite of difficult trading conditions. Employment in the accommodation, cafes and restaurants industry increased by 20,000 positions over the year to November 2008 but that follows three years in which jobs growth had been stagnant.

4.2.7 - Leading Indicators of Employment

258. The near-term outlook for employment growth can be projected with reasonable accuracy by examining leading indicators of labour market conditions. The ANZ Newspaper Job Advertisements series and the DEEWR Skilled Vacancies Index are two of most reliable lead indicators of employment in Australia and both are pointing to a significant loss of employment in 2009. The series tends to lead employment growth by around six months.
The DEEWR Skilled Vacancies Index has declined for 10 consecutive months since May 2008, posting a number of particularly large monthly falls toward the end of 2008. The index slumped a huge -22.2 per cent in February 2009 and over the year is down -51.5 per cent. In the entire history of the series, which stretches back to July 1983, the only other year-end decline of this order of magnitude was during the 1990s recession when it heralded a -4.3 per cent contraction in the level of employment over the twelve months to July 1991. Unfortunately the series does not extend back across the recession of the early 1980s. At the present point in time the DEEWR Skilled Vacancies series appears to suggest employment will contract by more than 1 per cent by mid-2009.
260. A similar negative outlook on the near-term prospects for employment growth is provided by the ANZ Newspaper Job Advertisement series. Mirroring changes in the DEEWR Skilled Vacancies Index the ANZ series also posted some large monthly declines in last months of 2008 and despite abruptly ticking higher in January 2009 entirely corrected that move when it tanked -25.2 per cent in February 2009. Over the twelve months to February 2009 the series has fallen -55.4 per cent consistent with a year-end decline in employment by the middle of 2009 in excess of 1 per cent.
261. The negative implications for labour market developments from the ANZ Job Ads series has been noted repeatedly by the ANZ Head of Australian Economics, Warren Hogan. When publicly releasing the December figures he remarked:

   The rate of decline in job advertising intensified in the month of December, providing further evidence that the demand for labour across the Australian economy is now at recession levels.4

262. More recently, in analysing the steep fall registered in the data in February he commented that:

   Our assessment is that the latest job ad results are consistent with employment contracting at a 2% annualised pace over the second half of 2009. This in turn suggests that the current downturn in the economy is likely to last throughout 2009, with little prospect of a meaningful recovery before 2010. Recent trends in job advertising are consistent with other indicators which suggest that the Australian economy entered recession in late 2008 and remains in recession in early 2009.5

263. The -55.4 per cent drop in newspaper job advertisements over the year to February is in fact the largest decline over a period of 12 months recorded since the series began in 1975. ANZ revised up its

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5 ANZ, ANZ Media Release: Job advertisements plunge in February, 10 March 2009, page 2.
forecast for the unemployment rate as a result of the recent incoming data on job advertisements.

The trends in job advertising in Australia suggest a substantial rise in the unemployment rate is likely. We have revised up our unemployment rate forecasts. We now expect the unemployment rate to reach 6½% by the end of 2009 and 7½% by mid 2010. These job advertisement numbers, based on historical relationships, suggests the risks to our forecasts are for higher unemployment.\(^6\)

**ANZ Newspaper Job Advertisements and Employment: Early 1980s**

![ANZ Newspaper Job Advertisements and Employment: Early 1980s](image)

Source: ANZ, ABS Cat. No. 6202.0

264. ACCI is concerned that there is a high degree of likelihood that employment growth will contract in line with ANZ’s expectations given the historical accuracy of the newspaper job ads series in picking turning points in the labour market. While the lead times between changes in advertisements and changes in employment have varied slightly over time the job ads series predicted the sharp fall in employment in both the recession of the early 1980s and the beginning of the 1990s.

\(^6\) Ibid, page 2.
In the twelve months to November 1982 the ANZ Newspaper Job Ads series plunged more than -50 per cent and picked the -3.4 per cent fall in employment over the year to April 1983. At this point in time the job ads series appeared to lead employment by about 4 months. In the early 1990s another fall of more than -50 per cent over the year to November 1990 lead the -4.3 per cent year-end contraction in employment in July 1991 by eight months. In light of these two outcomes, the -55.4 per cent slump in newspaper advertisements over the year to February 2009 suggests a high probability of a sizeable loss of employment by the second half of 2009.

4.2.8 - Labour Market Forecasts

Official government expectations are that conditions in the labour market will deteriorate in 2008-09 and 2009-10 as economic growth slows. The Updated Economic and Fiscal Outlook shows Treasury forecasting total employment will contract by – ¼ of a percentage point over the year to the June quarter 2009 and maintain that level over the twelve months to the June quarter 2010. The unemployment rate is forecast to rise to 7 per cent. The key driver of these forecasts is the downturn in the pace of economic growth.
In line with the significant slowdown in the domestic economy, employment is expected to contract through 2009 and remain weak in 2010. This will flow through to a substantial rise in the unemployment rate, which is expected to increase to 5½ per cent by June 2009 and 7 per cent by June 2010.7

267. The most recently published findings of Treasury’s business liaison program conducted in the later months of 2008 found businesses are beginning to respond to the downturn in activity by cutting back on levels of employment.

Trends such as reduced operating hours and laying off staff have become apparent in past months, in contrast to earlier liaison rounds where firms had been aiming to keep employment levels relatively steady. The clear trend in the retail sector was toward engagement of casual staff, underlying a strategy of retaining flexibility in terms of trading hours and hours worked.

In the construction and resources sectors, employment intentions were more varied. In relation to major projects, given the momentum in activity and long project lives, firms were generally continuing to hire. That said, several firms reported actual and planned workforce reductions in light of diminishing operating conditions and scaled-back expansion plans.8

268. ACCI has serious concerns that in light of the pronounced slump in key lead indicators of the labour market there is a serious risk the government’s forecasts for employment growth and the unemployment rate are unduly optimistic. The further downgrading of the global growth outlook by the IMF and the extent to which the Australian economy is likely to fail to meet an already pessimistic forecast for domestic growth accentuate that risk.

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7 Treasury, Updated Economic and Fiscal Outlook, February 2009, page 32.
Unemployment Rate Forecasts

Source: Treasury
5. PRICES, WAGES, AND REAL INCOMES

5.1 INFLATION

269. Inflation peaked in both headline and underlying terms in the September quarter of 2008 and is expected to moderate significantly given the sudden abatement of demand pressures in the economy and falling global commodity prices. The CPI recorded year-end headline inflation reaching 5.0 per cent in September 2008 before falling very rapidly -1.3 percentage points to 3.7 per cent in December largely as a result of a sharp drop in petrol prices. Prices dipped -0.3 per cent in December 2008 the largest quarterly fall in the CPI since September 1997 with the rate of price increase easing considerably in most groups over the quarter.

Headline Inflation

Source: ABS Cat. No. 6401.0

270. Underlying inflation also peaked in September, reaching 4.8 per cent before slowing -0.3 percentage points to 4.5 per cent in December. The quarterly rate of underlying inflation slowed markedly in December, rising just 0.8 per cent versus an increase of 1.3 per cent in September 2008. In each of the four quarters preceding December the underlying inflation rate had been recording a rate of quarterly increase in excess of 1 per cent. The underlying inflation measure is constructed to abstract from large movements in volatile sub-components of the CPI and therefore provides a better measure of the underlying trend in inflation. The fact that quarterly underlying inflation has slowed so rapidly in
the December quarter shows that the easing in price pressures in broad-based and can not be attributed solely to fuel prices.

**Underlying Inflation**

![Graph showing Underlying Inflation]

Source: ABS Cat. No. 6401.0

271. Underlying inflation is the average of the Reserve Bank’s trimmed-mean and weighted-median measures of CPI, both of which peaked in the September quarter of 2008. Trimmed-mean inflation was recorded at 4.6 per cent in September before slowing 0.4 percentage points to 4.2 per cent in the December quarter while weighted-median inflation eased from 4.8 per cent to 4.5 per cent over the same period. The quarterly rate of price increase according to both measures slowed dramatically between the September and the December quarters. Trimmed-mean CPI grew 0.6 per cent in December versus 1.2 per cent in the preceding quarter and weighted-median CPI slowed from 1.3 per cent to 0.9 per cent.
Examining the changes in the CPI groups over the past year reveals that prices for housing, food and financial and insurance services contributed 2.9 percentage points of the 3.7 per cent headline inflation rate over the year to the December quarter. Movements in food prices tend to be volatile and can be expected to slow given the sharp increase in agricultural production in the second half of 2008. Recent large cuts to interest rates are yet to be fully reflected in the price of financial services which in year-end terms will slow dramatically once the base effect of the large 3.8 per cent increase in the June quarter 2008 drops out of the calculation.

Across a range of the other CPI groups we see evidence of muted price pressures stemming from the sharp downturn in domestic demand over 2008. Prices for clothing and footwear are just +0.2 per cent higher over the year, while household contents and services (+0.4 per cent) and communication (+0.5 per cent) also show a very limited year-end price increases. Good retailers have been engaged in aggressive price discounting in response to demand conditions and for the most part have been forced to absorb the impact of the sharp reduction in the exchange rate. Considering the value of the Australian dollar fell almost 30 per cent since peaking in mid-July 2008 and the end of 2009 the effect of absorbing this cost on margins has been significant.
274. The slump in demand in the December quarter 2008 was global so it is not surprising to see evidence of a sharp drop in the elements of the CPI that are considered to be determined by world markets. The tradable component of the CPI fell -1.8 per cent in the December quarter compared to a +0.6 per cent rise in non-tradable component. Over the year there has been a marked divergence between tradable and non-tradable components of the CPI, tradable prices are +1.2 per cent higher over the year against non-tradable inflation of +5.4 per cent.

** Tradable and Non-Tradable Inflation**
5.1.1 - Producer Prices

275. The producer price index shows cost pressures mounting for business across all stages of production, with increases in import prices particularly marked following the sharp depreciation of the exchange rate in the second half of 2008. Poor demand conditions in the economy are severely limiting the ability of business to pass on these cost increases on to consumers via higher prices, leading to pressure on margins and a reduction in profits. Surging input prices further undermine the capacity of Australian business to sustain an increase in award rates of pay without adversely impacting levels of employment.

![Producer Prices by Stage of Production: Year-end Growth](chart)

Source: ABS Cat. No. 6427.0

276. The further up the supply chain we move the more extreme the acceleration in producer prices. Input costs at the preliminary stage of production have surged +7.3 percentage points over the year to be running at an +11.9 per cent year-end rate in December 2008. The year-end growth rate of intermediate price inputs pushed +5.2 percentage points higher to +9.5 per cent and final stage producer price inflation accelerated +3.5 percentage points to hit +6.4 per cent in the December quarter. Final stage producer prices are increasing at their fastest pace in the history of the series.

277. A strong increase in import costs were a key feature at each of the preliminary, intermediate and final stages of production; recording growth over the year at +25.7 per cent, +24.0 per cent and +16.4 per cent, respectively. For a long period, the strength of the Australian dollar had been moderating influence on
producer prices but the recent drop in the value of the currency in the second half of 2008 means it is now generating serious cost pressures for business.

5.1.2 - Exchange Rate

278. The value of the Australian dollar exchange rate reached a record high in mid-July 2008 in both US dollar and Trade-Weighted Index (TWI) terms. Daily exchange rate data published by the Reserve Bank of Australia shows the local currency trading at 97.86 US cents on 16 July 2008 with the TWI reaching 74.0. Surging commodity prices and comparatively high official interest rates had driven the exchange rate to the historic high but once commodity prices began to correct and the central bank commenced rapidly easing monetary policy the value of the Australian dollar declined sharply.

US Dollar and Trade-Weighted Index Exchange Rates

[Graph showing USD/AUD and TWI exchange rates from 2/01/2007 to 26/02/2009]

Source: Reserve Bank of Australia

279. The Australian dollar exchange rate has fallen more than 30 US cents since peaking mid-last year to be trading at around 64 US cents in early March. The 400 basis point reduction in the cash rate by the Reserve Bank and a significant reversal in commodity prices have been the key drivers of the move, with poor equity market sentiment also weighing on the currency given its importance in ‘carry trades’.
280. The US dollar value of the exchange rate has fallen more than 30 per cent from its peak with the drop in TWI terms only slightly less severe, down -25 per cent. Imported producer prices have risen sharply as a result and Australian businesses have largely absorbed the cost impact. The Reserve Bank noted that feedback from its business liaison program pointed to firms being unable to pass on the impact of higher import costs because of anaemic demand conditions.

Importers suggest that the depreciation of the Australian dollar has put upward pressure on prices, although distributors and retailers report that it will be difficult to pass on the higher cost of imports in full due to soft consumer demand and ongoing competitive pressures.¹

281. The sudden depreciation of the exchange rate has been a significant shock for Australian business and its impact on input costs is seen across all stages of production in producer prices.

5.1.3 - Inflation Forecasts

282. The sudden and dramatic collapse in domestic demand pressures combined with sharp falls in global commodity prices results in the outlook for inflation being relatively benign. Both Treasury and the Reserve Bank expect inflation to slow significantly from its current elevated level with the focus of the central bank’s monetary policy actions focussed primarily on expectations for growth. In the context of a deep global recession concerns about inflation and price pressures in the economy are of a markedly lower order of priority. Indeed, the current pace of inflation provides a degree of protection against the threat of deflation which is being cited by the IMF as a potential risk to the economic performance of the advanced economies.

283. Treasury forecast year-end inflation in both headline and underlying terms slowing to just 2 per cent in the June quarters of both 2009 and 2010.

Inflation forecasts have decreased significantly since MYEFO, with both headline and underlying inflation expected to fall to 2 per cent by June 2010. Inflation is expected to ease on the back of weaker global growth and domestic demand, moderating wage pressures and substantially lower oil prices.²

² Treasury, Updated Economic and Fiscal Outlook, February 2009, page 32.
284. Reserve Bank expectations for inflation have been revised downward significantly following the sudden deterioration in global growth in late 2008. Throughout most of 2008 the central bank’s quarterly Statements on Monetary Policy were anticipating only a slow moderation in the rate of inflation. The change in the outlook for inflation between the November 2008 and February 2009 statements shows the marked impact of falling fuel prices and interest rates on near-term inflation and the effect of slower economic growth in the medium-term.

285. In the February 2009 Statement on Monetary Policy the RBA reduced its headline year-end inflation forecast for June 2009 -1 ¼ percentage points to 1 ¾ per cent.

   Overall, underlying inflation is forecast to decline gradually to around 2 per cent by mid 2011. Reflecting falls in petrol prices and some other special factors, including a fall in the measured cost of deposit & loan facilities, year-end CPI inflation is expected to decline more quickly in coming quarters. CPI inflation could fall to below 2 per cent later in 2009, but is then expected to move broadly in line with underlying inflation.³

286. In discussing its forecasts the Reserve Bank highlighted the important impact of slower growth domestically and abroad:

While year-ended underlying inflation is expected to remain above the Bank’s medium term target range in coming quarters, price pressures in the domestic economy should ease. This reflects the slowing in global and domestic activity, which will alleviate capacity pressures and reduce the pricing power of businesses (including the extent to which firms can pass on higher prices for imports). Wage growth is likely to slow in line with conditions in the labour market. The projected decline in inflation will also be aided by the significant decline in inflation expectations since mid 2008 and the falls in the prices of oil and many other commodities.  

<table>
<thead>
<tr>
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<td>3 1/4</td>
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<tr>
<td>Underlying Inflation</td>
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<td>4.3</td>
<td>3 1/2</td>
<td>3</td>
<td>2 3/4</td>
<td>2 1/2</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: RBA Statement on Monetary Policy: February 2009

287. While acknowledging the high degree of uncertainty surrounding the economic outlook at this point, ACCI considers the inflation forecasts of the Treasury and the Reserve Bank of Australia to be highly credible. The forecast alleviation of inflationary pressures is a factor that will act to increase the real incomes of the lower paid. It is a factor in the wider safety net which must be taken into account in this 2009 review and which should provide the Commission with additional confidence in adopting the approach employers commend to you.

5.2 WAGES

288. The wage price index has recorded nominal wage inflation pushing steadily higher in recent years. The annual pace of wages growth reached a record high of +4.3 per cent in the December quarter of 2008, with the +1.2 per cent quarterly rate of increase the fastest pace in the history of the series. Because it is a quality and quantity adjusted measure, ACCI believes the wage price index represents the best measure of changes in wage costs over time.

Sustained high rates of nominal wage inflation are evident across both the public and private sectors, with each recording year-end inflation at **4.2 per cent**. Public sector wages posted a record **+1.4 per cent** quarterly increase in the December quarter of 2008 even as labour market conditions deteriorated and the unemployment rate pushed higher.

### WAGE PRICE INDEX

<table>
<thead>
<tr>
<th>Quarterly growth</th>
<th>Dec-07</th>
<th>Mar-08</th>
<th>Jun-08</th>
<th>Sep-08</th>
<th>Dec-08</th>
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</table>

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<thead>
<tr>
<th>Year-end growth</th>
<th>Dec-07</th>
<th>Mar-08</th>
<th>Jun-08</th>
<th>Sep-08</th>
<th>Dec-08</th>
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<td>3.9</td>
<td>3.8</td>
<td>3.6</td>
<td>4.2</td>
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</tbody>
</table>

Source: ABS Cat. No. 6345.0
290. Wages growth by industry shows a number of divergent trends. The impact of the commodities boom is still evident in strong wage increases in the mining industry, presently running at +6.1 per cent but having slowed from +6.7 per cent in mid-2008. The property and business services industry is the other industry showing wages inflation significantly above the all industries average, rising +5.3 per cent over year. It is doubtful that this strength will be maintained in the wake of the downturn in activity in the industry over the second half of 2008.

291. Health and community services is considered award reliant by the Commission and has chalked up solid +3.8 per cent increase in wages over the year in line with relatively stable output growth. Wages growth in other award reliant industries have not been as robust reflecting difficult trading conditions and deteriorating labour demand conditions. The pace of wages growth in the retail sector eased from +5.0 per cent to +3.7 per cent over the year and can be expected to come under further pressure in response to slowing activity. Hospitality recorded the slowest rate of wages growth of all industries, just 2.8 per cent higher over the year.

<table>
<thead>
<tr>
<th>WAGE PRICE INDEX (original data)</th>
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<td>Year-end growth</td>
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5.2.1 - Real Wages

292. Although nominal wage inflation has recently reached a record high, wages in real terms have actually been under pressure as a result of persistently high inflation. Real wages fell in the first three quarter of 2008 before ticking up strongly in the December quarter as falling petrol prices led to a reduction in headline inflation. Declining real wages are a sign of labour demand in the economy waning and shows that employees have been unable to negotiate full inflation wage indexation in light of deteriorating jobs markets.

293. Rather than signalling any requirement to increase minimum rates of pay, this should rather be viewed as a signal for caution as it evidences diminished capacity to sustain higher wages. As previously indicated, there are clear indications these pressures are set to abate.

![Real Wage Price Index](source: ABS Cat. No. 6345.0, ABS Cat. No. 6401.0)

5.2.2 - Wages Outlook

294. Given the prospect of a further deterioration in labour market conditions following the slowdown in economic growth, the government forecasts wage inflation will moderate significantly. Treasury forecast year-end growth in the wage price index to slow to 3 ¾ per cent in the June quarter of 2009 and ease further to 3 ½ per cent by mid 2010.
5.2.3 - Average Weekly Earnings

295. Average weekly full-time ordinary time earnings increased +5.5 per cent over the year to the November quarter 2008, reaching $1,166.50 per week. For the most part average weekly full-time earnings matched the rise, surging +5.3 per cent, with the series tracking changes ordinary time earnings closely over the past decade. At $1215.70 per week, average weekly full-time earnings are only $50 above ordinary time earnings. The shift in the composition of employment away from full-time toward part-time jobs and the loss of high-paid positions in the finance sector sees total average weekly earnings increasing at a slower pace of +4.2 per cent over the year to November 2008.

Average Weekly Earnings: Year-end Growth

![Average Weekly Earnings: Year-end Growth graph](image)

Source: ABS Cat. No. 6302.0

5.2.4 - DEEWR Trends in Federal Enterprise Bargaining

296. Data published by the Department of Education, Employment and Workplace Relations on outcomes in Federal certified agreements shows wage increases in line with those seen in the broader Wage Price Index. The average annualised wage increase per employee in the December quarter of 2008 was +4.3 per cent with public sector awards, +4.4 per cent, rising faster than private sector awards, +4.2 per cent. The rate was slightly slower for All Current Wage Agreements, which increased at an annualised rate of +4.0 per cent.
5.2.5 - Productivity

297. Aggregate levels of productivity have recorded a worrying decline over the past year. Falling productivity undermines the sustainability of wages growth and puts pressure on business margins already suffering as a result of weak domestic demand. Output per hour worked declined in both the September and December quarters of 2008 and over the year is -0.5 per cent lower. The drop in productivity followed a period of twelve months in which productivity growth had been relatively modest compared to the experience of recent years.

![GDP Per Hour Worked: Year-end Growth](chart.png)

Source: ABS Cat. No. 5206.0

298. Growth in GDP per hour worked in the market sector also eased significantly over the last twelve months albeit to a slightly less degree given the sharper cut back in hours worked in the market sector. Over the year to the December quarter 2008 year-end market sector productivity growth slowed to just +0.2 per cent and recorded significant declines in the June and September quarters of 2008.

299. Declining productivity leads to upward pressure on real unit labour costs which in turn will have a negative impact on employment growth. The Commission acknowledged the important role of productivity in its reasons for the 2008 wage-setting decision.
300. Higher productivity enables businesses to better confront competition and support increased wages, while a healthy level of profitability enables businesses to be more resilient to adverse economic conditions.6

301. That statement was made in the context strong economic growth and rising productivity. Declining productivity implies the opposite, leaving businesses competitive and with reduced capacity to support rising wages. ACCI believes it is imperative that the Commission take into consideration falling productivity in its wage determination decision and continue to monitor the incoming data closely. Declining productivity reduces the capacity of Australian business to bear the cost of any increase in the award rates of pay.

302. Maintaining and encouraging productivity becomes more important in light of the economic adversity facing, in particular, minimum wage reliant businesses, and it is crucial to business survival, capacity to retain employment and capacity to take on new staff in the recovery from the current crisis.

5.2.6 - Real Unit Labour Costs

303. Non-farm unit labour costs have recently recorded a steep increase in nominal terms over the past twelve months largely driven by price pressures in the economy. Real non-farm unit labour cost have been more muted but have picked up sharply in the second half of 2008 as wage costs continued to grow and productivity slowed. The rise in real unit labour costs in the latter half of 2008 almost fully reverses the decline seen in the first half of the year. ACCI believes non-farm unit labour costs are a better measure of labour costs because they exclude the impact of large fluctuations in agricultural output driven largely by weather.

Nominal non-farm unit labour costs are running at 7.5 per cent in year-end terms to the December quarter 2008 after having accelerated rapidly over the year from 3.2 per cent. The sharp increase in nominal terms has largely been a function of an acceleration of output prices in the economy that saw the non-farm GDP deflator rise +7.7 per cent over the year to December. It is certainly unusual for business to be facing such a strong increase in nominal unit labour costs outside of a high inflation environment.

While real non-farm unit labour costs are -0.2 per cent lower over the year they have increased significantly over the last six months as the pace of output prices eased and productivity declined. Real non-farm unit labour costs rose almost 2 per cent in the second half of 2008, picking up convincingly after a period of weakness. Given nominal wages tend exhibit little downward flexibility, there is a risk that falling productivity and easing prices will cause an increase in real unit labour costs that will lead have a negative impact on employment growth. That risk is magnified with nominal wages running at presently high levels and inflation slowing rapidly.
5.3 Real Incomes

306. Real disposable incomes are a function of nominal incomes and their interaction with the tax and transfer payments system. When determining the issue of providing a safety net for the low paid it is important the Commission have regard to factors beyond nominal incomes and take into consideration the impact of tax changes and increases in tax offsets, welfare payments, in-kind benefits and subsidies and any other measures that lift the after-tax incomes or living standards of the low paid.

307. Low-paid employees in recent years have seen a substantial rise in their after-tax incomes as a result of a significant increase in the low income tax offset, which is set to be increased further in the 2009-10 Budget. There is also the potential for additional cash or in-kind assistance for the low-paid to be announced in the upcoming Budget, any such measures will need to be considered by the Commission. Moreover, the two fiscal stimulus packages already announced by the government have provided large one-off cash payments to households and this has materially increased their standard of living.
5.3.1 - Low Income Tax Offset

308. The low income tax offset (LITO) is a tax benefit that reduces or eliminates the amount of income tax paid by low income earners. The full LITO is available to those earning below $30,000 and is used to offset their income tax liability. The increase in the LITO in recent years has led to a significant rise in the after-tax incomes of the low-paid and the benefit is scheduled to be increased further on both 1 July 2009 and 1 July 2010. The Commission must take into account the boost to after-tax incomes of the low paid resulting from the very substantial increase in the LITO in recent years, and its prospective increase on 1 July 2009, when considering the issue of providing a safety net for the low paid.

309. The 2008-09 Budget increased the LITO from $750 to $1,200, effectively lifting the tax-free threshold for low income earners to $14,000. Those earning up to $30,000 per annum receive the full benefit of the LITO, while for every dollar earned above this amount the offset is reduced by 4 cents. Those taxpayers benefiting from the full LITO receive a $23 per week increase in their after-tax incomes, with the increase in the LITO announced in 2008-09 Budget having delivered almost $9 per week of this total amount. The increase is clearly substantial and has had a significant positive impact on after-tax incomes.

310. As part of its election pledge the government is committed to deliver a further increase in the LITO to $1,350 in the 2009-10 Budget which will take the effective tax-free threshold to $15,000 and further raise the after-tax incomes of the low-paid. The increase in after-tax income arising from the full $1,350 LITO is almost $26 per week, with the incremental benefit due on 1 July 2009 amounting to almost $3 per week. A further increase in the LITO to $1,500 is scheduled for 1 July 2010 which will leave the effective tax-free threshold for low income earners at $16,000 and provide a benefit of almost $29 per week.

311. The increase in the LITO in the 2008-09 Budget was substantial and will be increased further in the 2009-10 Budget. In total the after-tax income of low income earners will have risen $11.50 as a consequence of these increases. This benefit is significant and means that for any given level of income the low-paid will receive a higher after-tax income, enhancing the safety aspect of the present minimum wage.
5.3.2 - Income Tax Relief

312. The government has also given an election commitment to provide income tax relief in the 2009-10 Budget. The threshold for the 30 per cent marginal income tax rate will be lifted from $34,000 to $35,000 which will provide a modest benefit to middle-income earners. However, the 2009-10 Budget carries the potential for the government to announce measures that will also benefit the low-paid, either by augmenting their after-tax incomes through changes to transfer payments or the provision of in-kind benefits or subsidies.

313. If the Commission is to embark on a substantive uprating of minimum wages (contrary to the course employers propose), it would need to review any additional announcements in the 2009-10 Budget any benefits for the incomes of the lower-paid. If substantive decision making is embarked upon, income measures in the Budget may obviate the need for any uprating of minimum wages.

5.3.3 - Stimulus Packages

314. The federal government has made a number of substantial one-off cash payments to taxpayers and welfare recipients as core elements of two fiscal stimulus packages designed to support activity in the economy. These payments were made in an effort to stimulate consumption and have been targeted particularly at the low-paid and families with children.

315. Both the Economic Security Strategy and the Nation Building and Jobs Plan contained one-off cash payments that have significantly boosted household incomes for employees. Although the payments are not recurring, the Commission needs to take account of their benefit to households. The Commission’s latest Monitoring Report does not appear to have given any consideration of the payments made under the Economic Security Strategy package. They are however material additions to the income of the lower paid.

316. The Economic Security Strategy announced on 14 October 2008 included $8.7 billion worth of cash payments to pensioners and families with children. Single pensioners on a broad range of pension benefits were provided a $1,400 lump sum payment with couples receiving a $2,100 payment. The payments were designed to be a down payment of on long-term pension reform and were made in order to tide pensioners over for the nine months between when they were announced and the implementation of longer-term measures to be come into effect at the commencement of the 2009-10 financial year.
317. Although the lump sum payments are not recurring, in this instance they do give an indication of the magnitude of the ongoing increase in pension payments that will be announced in the Budget for introduction in 2009-10. Over nine months the payments amount to a considerable weekly increase in income of $35.90 per week for singles and $53.85 per week for couples.

318. The *Economic Security Strategy* also provided eligible families with children with a $1,000 lump sum cash payment per child. Families receiving Family Tax Benefit (A) or with dependent children receiving benefits were entitled to receive the payments. While one-off in nature they constitute a $19.23 per week per child benefit when averaged out over a year which is a significant boost to the incomes of recipients, particularly for families with more than one child.

319. Further cash payments were also provided in the second stimulus package announced by the government in early February 2009. The *Nation Building and Jobs Plan* provided another round of cash payments but on this occasion directed to Australian taxpayers on low to middle incomes and again to families with children. Importantly, these cash payments are exempted from income tax and income assessments for welfare benefits.

320. The *Tax Bonus for Working Australians* provides taxpayers with an assessable income of up to $80k in the 2008-09 financial-year with a $900 cash payment, those with assessable incomes between $80k and $90k will receive a $600 cash payment while taxpayers with assessable incomes between $90k and $100k will receive only a $250 payment.

321. Averaged over a year the payments constitute a significant boost to per week household income of $17.31, $11.54 and $4.81, respectively.

322. Families with children will also receive sizeable cash payments as a result of the *Single-Income Family Bonus* and the *Back to School Bonus* announced the package. The *Single-Income Family Bonus* provides a $900 cash payment to single-income families receiving Family Tax Benefit B, spread over a year this averages to $17.31 per week. The *Back to School Bonus* provides a $950 cash payment per child for families receiving Family Tax Benefit A, averaged over twelve months this amounts to $18.27 per week per child.

323. The cash payments provided in the government’s fiscal stimulus packages have been substantial and lead to a considerable increase in the incomes of the low paid. A low income family with two working adults and two children would have received $2,000 lump-sum payments as a result of the *Economic Security Strategy* and further cash payments totalling $3,700 under the *Nation Building and Jobs Plan*. 
324. In total they would have received $5,700 in cash payments as a result of both packages. This equates to a more than $100 per week increase in household income averaged over 52 weeks.

325. Clearly these benefits are considerable and will have had a substantial impact on the living standard of the low paid. The Commission must take into account the positive impact of the stimulus payments when determining the issue of the safety net for the lower paid.

5.3.4 - Australian Fair Pay Commission Monitoring Report

326. ACCI notes that the Commission’s Monitoring Report for the July to December 2008 period reveals that the operation of the tax and transfer system has led to a substantial increase in the real disposable incomes of the four different household types tracked by the Commission. Over the period from August 2005 to November 2008, the approximate real increase in these households’ disposable income were as follows:

a. 12 per cent for a couple without children;

b. 9 per cent for a couple with two children aged 5 to 12;

c. 7 per cent for a single-parent pensioner household and a single person without children; and

d. 4 per cent for a single-parent with a child aged 8 to 12.

327. Again this is important contextual information which needs to be taken into account in considering the prospect of not uprating minimum wages as previously foreshadowed and departing from the (comparatively recent) uprating of minimum wages in each calendar year. A range of factors have increased incomes for the lower paid and need to weigh positively in support of the course employers propose.
6. THE COSTS OF AWARD MODERNISATION

6.1 INTRODUCTION

328. The costs and risks in this matter do not arise solely in relation to the Global Financial / Economic Crisis or the macro and micro operation of the Australian economy and labour market.

329. A vital consideration must be the otherwise pending costs of implementing planned changes to the workplace relations system during the prospective period of any increase arising from this matter.

6.2 AWARD MODERNISATION WILL INCREASE COSTS

330. Foremost amongst these is the pending impact of award modernisation. Estimates from affected employers indicate an alarming level of cost increases set to be imposed on employers from the start of 2010 (during the prospective 12 month “life” of any increase arising from this review).

331. Outlined in the next section are cost estimates from key award / minimum wage reliant industries most affected by the determinations of the AFPC including the retail and hospitality industries. The additional costs are significant, in the region of 10% to 20% in many cases, and they are also imminent and directly foreseeable as the AFPC reviews minimum wages.

332. These additional costs are directly relevant to the AFPC’s considerations in this matter. They go quite directly to:

a. The capacity of the unemployed and low paid to obtain and remain in employment\(^1\). Additional costs through award modernisation already (without the exacerbation of a further cost increase in this matter) threaten scope for employment, availability of hours, and scope to remain open at particular times.

b. Employment and competitiveness across the economy\(^2\). Additional costs through award modernisation threaten the competitiveness of many industries against alternatives (such as eating at home rather

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\(^1\) S.23(a) of the *Workplace Relations Act 1996*.

\(^2\) S.23(b) of the *Workplace Relations Act 1996*. 

than eating out, or bearing a medical condition and not going to the pharmacy etc).

c. A safety net for the low paid\(^3\). A safety net will not be a safety net unless it retains people in work, not just of itself but in combination with other labour market and cost structures. The need for a safety net must also take into account other sources of income, something the AFPC has already accepted in relation to tax changes.

333. In its last decision the Commission emphasised that it had sought to “balance a range of key trends and developments across the economy”\(^4\). One of the most significant and unavoidable trends during the prospective period of operation of the Commission’s decision in this matter is the widespread imposition of non-productivity based additional labour costs, particularly for minimum wage reliant industries, which will threaten jobs, services and business viability, due to the Award Modernisation process.

334. Properly taking in to account this key issue in 2009 and 2010 further favours ACCI’s recommended approach to the 2009 minimum wage review.

6.2.1 - Indicative Costs

335. ACCI appeared at the Senate Education, Employment and Workplace Relations Committee inquiry hearing into the Fair Work Bill 2009 in Melbourne on Tuesday, 17 February 2009. At page 20 of the transcript ACCI undertook to provide a response to a question on notice:

Senator BARNETT—And you have evidence to support that claim?

Mr Barklamb—I might take that one, Senator, if I may. We will supply you, as a question on notice, with extracts from our members’ submissions to the Full Bench of the Industrial Relations Commission which quantify costs in a number of those industries.

Senator BARNETT—That would be most useful, and I do appreciate your concerns. And, finally, in relation to that, those discussions are ongoing, are they not, with the government? And is there any update you can provide the committee with regard to the extent of the concerns you have regarding the modernisation of awards?

\(^3\) S.23(a) of the Workplace Relations Act 1996.

\(^4\) 2008 AFPC decision, Executive Summary, p.9
336. The following information covers a number of increased costs ACCI members have calculated across key industry areas of the economy. These were calculated predominantly from the AIRC’s 14 draft priority awards (September 2008).

337. For some industries, states and territories, the impact of imposing these draft replacement awards would be significant cost increases, and changes in the capacity to effectively structure hours of work. Some ACCI members have calculated that this will reduce their capacity to staff to effective levels and they may have to reduce services or opening hours.

338. The potential impact of the draft modern awards is illustrated by the following analyses from ACCI member materials.

339. ACCI understands that this additional information to the Committee represents only a small sample of information on increased costs to employers as a result of award modernisation. Given that the AIRC finalised only a small minority of awards, with Stage 3 involving the modernisation of thousands of awards, employers fear they will be further exposed to increased costs as a result of this process.

6.2.2 - Pharmacy Industry

340. Attachment ACCI-PGA [Comparative Analysis of Wages Paid in the Pharmacy Industry, 23 October 2008, Peter Saccasan – appendices have not been attached due to size].5

341. Independently audited research prepared for the Pharmacy Guild of Australia shows a significant increase in labour costs as a direct function of award modernisation.

342. The independent audit of a variety of pharmacy models throughout the country indicates that:

6. Table 1 sets out the final wages costs of the stores reviewed. It also includes results for stores in Victoria, ACT and Tasmania which were not included in the 10 October submission. This gives a picture of the impact on all states and territories. We note that in every instance except one (with only a $658 fall), the expectation is an additional cost to pharmacy owners – in 4 states this will be $100,000 or more, being more than a 20% increase - Western Australia, NSW, Tasmania and Queensland in particular appear to be significantly effected.
Table 1 of ACCI-PGA indicates the following cost increases to employers in the pharmacy industry:

Table 1 – Summary of impact of new Retail Industry Award on wages paid in Community Pharmacy (average increase 11.28%)

<table>
<thead>
<tr>
<th>State/Location</th>
<th>Current Wages including current allowances</th>
<th>Wages under Draft Award including new allowances</th>
<th>$Annual Increase in Wages</th>
<th>$Annual Increase incl super, payroll tax &amp; w/comp</th>
<th>% total Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>WA – small suburban strip</td>
<td>307,695</td>
<td>338,587</td>
<td>30,892</td>
<td>33,841</td>
<td>11.00%</td>
</tr>
<tr>
<td>WA – medium suburban strip</td>
<td>616,931</td>
<td>734,299</td>
<td>117,369</td>
<td>131,357</td>
<td>21.29%</td>
</tr>
<tr>
<td>WA – large 24hr</td>
<td>740,880</td>
<td>882,792</td>
<td>141,912</td>
<td>164,008</td>
<td>22.14%</td>
</tr>
<tr>
<td>NSW – small strip</td>
<td>225,328</td>
<td>240,065</td>
<td>14738</td>
<td>16,293</td>
<td>7.23%</td>
</tr>
<tr>
<td>NSW – suburb medium strip</td>
<td>521,088</td>
<td>613,634</td>
<td>92,546</td>
<td>106,443</td>
<td>20.43%</td>
</tr>
<tr>
<td>NSW – large</td>
<td>970,212</td>
<td>1,118,342</td>
<td>148,130</td>
<td>173,449</td>
<td>17.88%</td>
</tr>
<tr>
<td>Qld – remote rural medical centre</td>
<td>515,643</td>
<td>594,440</td>
<td>78,797</td>
<td>86,179</td>
<td>16.71%</td>
</tr>
<tr>
<td>Qld – rural strip</td>
<td>485,517</td>
<td>537,752</td>
<td>52,235</td>
<td>57,129</td>
<td>11.77%</td>
</tr>
<tr>
<td>Qld – suburban shop centre</td>
<td>520,678</td>
<td>617,419</td>
<td>96,741</td>
<td>105,804</td>
<td>20.32%</td>
</tr>
<tr>
<td>Qld – suburban strip</td>
<td>474,860</td>
<td>546,437</td>
<td>71,577</td>
<td>78,283</td>
<td>16.49%</td>
</tr>
<tr>
<td>ACT suburban shop centre</td>
<td>419,227</td>
<td>480,531</td>
<td>61,304</td>
<td>68,733</td>
<td>17.07%</td>
</tr>
<tr>
<td>NT – remote city</td>
<td>321,045</td>
<td>325,570</td>
<td>4,525</td>
<td>5,031</td>
<td>1.57%</td>
</tr>
<tr>
<td>NT – remote rural medium</td>
<td>349,613</td>
<td>359,286</td>
<td>9,674</td>
<td>10,757</td>
<td>3.08%</td>
</tr>
<tr>
<td>SA – small rural</td>
<td>288,861</td>
<td>301,344</td>
<td>12,483</td>
<td>13,825</td>
<td>4.79%</td>
</tr>
<tr>
<td>SA – suburban strip</td>
<td>427,082</td>
<td>447,054</td>
<td>19,972</td>
<td>22,118</td>
<td>5.18%</td>
</tr>
<tr>
<td>SA – rural shop centre</td>
<td>506,516</td>
<td>505,921</td>
<td>(594)</td>
<td>(658)</td>
<td>-0.14%</td>
</tr>
<tr>
<td>Tas – large after hours</td>
<td>688,695</td>
<td>785,152</td>
<td>96,457</td>
<td>106,842</td>
<td>15.51%</td>
</tr>
<tr>
<td>Vic – large suburban</td>
<td>1,065,773</td>
<td>1,083,796</td>
<td>18,024</td>
<td>20,708</td>
<td>1.94%</td>
</tr>
</tbody>
</table>

344. The report indicates the reasons for the increased costs as follows:

a. New penalty rates which apply to the current base rate of pay of employees which in some cases are well above the current award rates of pay;

b. Increase in casual loadings in most states (excluding NSW and Vic);

c. Increase in garment laundry allowances in all states;

d. Introduction of new allowances – first aid, language, bicycle. We have been conservative in our estimation of these (see later comments);

e. Increase in penalty rates above existing penalty rates in some states.

345. Examining three indicative and representative pharmacy operations of different sizes, in locations throughout Australia, the Guild found:

The increased costs per annum (inclusive of superannuation and 5.5% payroll tax) are: $190,008.58 for the large pharmacy, $136,297.95 for the medium pharmacy and $30,125.38 for the small pharmacy. These increases represent an increase of around 20% of current wages.

6.2.3 - Retail Industry

346. Attachment ACCI-ARA [ARA Submission to AIRC, 10 October 2008].

347. Again examining indicative retail operations, the Australian Retailers Association (ARA) calculate that “the results of our exercise clearly indicate that employers would face payroll cost increases ranging from at least an additional 8% through to a staggering figure of almost 50%” (p.6)

348. They also indicate that most scenarios result in an increase in labour costs to employers (p.7):

349. Out of a total of 120 different scenarios, employees are disadvantaged in only one case. Hence, there are 119 instances where employer costs have increased.

350. At the hearing before the AIRC Full Bench on Wednesday, 5 November 2008, the ARA states (at PN3399):

This reveals to us that payroll costs would increase from between approximately 11 per cent or around $20,443 per annum in the case of Victoria through to almost 22 per cent or $30,094 per annum in the case of New South Wales, with the other jurisdictions sitting somewhere in between. Just by way of further illustration we have arrived at figures for Queensland reflecting an increase of approximately 19 per cent, WA would be around 14.3 per cent, South Australia 19.6 per cent, Tasmania 17.6 per cent, the ACT 18.5, and the Northern Territory around 11 per cent. The approximate average annual increase between all jurisdictions based on these roster examples is around 14 per cent or nearly $22,000 per annum.
351. Similarly, the National Retail Association (NRA) has calculated a number of different cost impacts across different States, which all result in cost increases to business.

352. Attachment ACCI-NRA1 [Excel Spreadsheet Cost Impact Analysis NSW Example 1]

<table>
<thead>
<tr>
<th>Name of Award/NAPSA</th>
<th>Weekly Wage Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shop Employees Award (NSW)</td>
<td>$1,834.49</td>
</tr>
<tr>
<td>General Retail Industry Award 2010</td>
<td>$2,053.70</td>
</tr>
<tr>
<td>Difference</td>
<td>$219.22</td>
</tr>
</tbody>
</table>

11.95% increase

353. Attachment ACCI-NRA2 [Excel Spreadsheet Cost Impact Analysis NSW Example 2]

<table>
<thead>
<tr>
<th>Name of Award/NAPSA</th>
<th>Weekly Wage Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shop Employees Award (NSW)</td>
<td>$1,423.68</td>
</tr>
<tr>
<td>General Retail Industry Award 2010</td>
<td>$1,633.20</td>
</tr>
<tr>
<td>Difference</td>
<td>$209.52</td>
</tr>
</tbody>
</table>

14.72% increase

354. Attachment ACCI-NRA3 [Excel Spreadsheet Cost Impact Analysis NSW Example 3]

<table>
<thead>
<tr>
<th>Name of Award/NAPSA</th>
<th>Weekly Wage Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shop Employees Award (NSW)</td>
<td>$26,778.97</td>
</tr>
<tr>
<td>General Retail Industry Award 2010</td>
<td>$28,915.94</td>
</tr>
<tr>
<td>Difference</td>
<td>$2,136.97</td>
</tr>
</tbody>
</table>

7.98% increase

355. Attachment ACCI-NRA4 [Excel Spreadsheet Cost Impact Analysis Qld 1]

<table>
<thead>
<tr>
<th>Name of Award/NAPSA</th>
<th>Weekly Wage Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Industry Award (Qld)</td>
<td>$17,506.52</td>
</tr>
<tr>
<td>General Retail Industry Award 2010</td>
<td>$19,961.33</td>
</tr>
<tr>
<td>Difference</td>
<td>$2,454.81</td>
</tr>
</tbody>
</table>

14.02% increase
356. Attachment ACCI-NRA5 [Excel Spreadsheet Cost Impact Analysis Qld 2]

<table>
<thead>
<tr>
<th>Name of Award/NAPSA</th>
<th>Weekly Wage Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Industry Award (Qld)</td>
<td>$34,274.22</td>
</tr>
<tr>
<td>General Retail Industry Award 2010</td>
<td>$39,117.85</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td><strong>$4,843.63</strong></td>
</tr>
</tbody>
</table>

14.13% increase

357. Attachment ACCI-NRA6 [Excel Spreadsheet Cost Impact Analysis SA]

<table>
<thead>
<tr>
<th>Name of Award/NAPSA</th>
<th>Weekly Wage Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Video Hire SA Award</td>
<td>$4,136.14</td>
</tr>
<tr>
<td>General Retail Industry Award 2010</td>
<td>$4,753.82</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td><strong>$617.68</strong></td>
</tr>
</tbody>
</table>

14.93% increase

6.2.4 - Restaurant Industry


359. In a Statement to the AIRC, Restaurant & Catering Australia (RCA) calculates that the proposed Hospitality Industry General Award would significantly increase costs and impact upon the economic sustainability of the restaurant, café and catering industry.

360. The most significant impacts will be felt by the following proposed changes:

   a. The increase of the casual loading from 20% to 25% in South Australia and from 23% to 25% in South East Queensland;
   b. Addition of an extra 25% in Sunday penalties in New South Wales, South East Queensland and Western Australia;
   c. The addition of an evening penalty (of some 10%) for all hours worked after 7pm in New South Wales, Queensland and Western Australia and Tasmania;
   d. The significant increases in the pay rates for apprentices at each of the level of apprenticeship rates, and;
   e. The significant increase in the junior rates in most jurisdictions.
361. RCA has identified a range of specific examples of the cost impacts of implementing the draft Hospitality Industry (General) Award 2010 in the form released by the AIRC in September:

a. A NSW Restaurant with a $2 Million per annum turnover that has an even spread of turnover over the 5 days of its operation. It opens both Saturday and Sunday with 20% of turnover on each day of the weekend - The proportion of staff that are casual is slightly higher than the average at 60% - This restaurant has an average increase of 12.2% in its wage bill each year.

b. A caterer in Queensland with a half a million dollar per annum turnover with 70% casual staff would have a 8.4% increase - This business does 70% of its business on the weekend (as most caterers would) and employs two apprentices.

c. A restaurant in NSW that does half of its $2.5 Million turnover on a weekend would be exposed to a 15.7% increase in wage cost - In this business 80% of staff are casual and they employ a large number of apprentices in their team of 50 staff. The increase translates to a $150,000 increase in wage costs.

d. A restaurant business in NSW with a turnover of $2.5 Million with 50% casual staff and 30% of staff working on Saturday or Sunday would have an increase of 13.3%.

e. A restaurant business in NSW with a turnover of $800,000 with 60% of staff working on the weekend would have an increase of 11.6%.

f. A restaurant business in NSW with a turnover of $2 Million with 60% casual staff and 20% of staff working on the weekend would have an increase of 11%.

g. A restaurant business in NSW with a turnover of $500,000 with no casual staff and 80% of staff working on the weekend would have an increase of 32.2%.

h. A restaurant business in NSW with a turnover of $4.5 Million with 80% of staff working Saturday and 60% of staff working on Sunday would have an increase of 27.7%.
i. A restaurant business in NSW with a turnover of $2 Million with 70% casual staff and 60% of staff working on the weekend would have an increase of 26.6%.

j. A restaurant business in NSW with a turnover of $300,000 with 80% casual staff and 80% of staff working on Sunday would have an increase of 20.5%.

k. A restaurant business in South Australia with a turnover of $750,000 with 83% casual staff would have an increase of 17.3%.

l. A restaurant business in South Australia with a turnover of $340,000 with 100% casual staff and 40% of staff working on Saturday would have an increase of 22%.

m. A Monday to Friday restaurant business in South Australia with a turnover of $500,000 with 50% casual staff would have an increase of 24%.


363. The report reiterates the RCA’s overall findings of cost impacts:

<table>
<thead>
<tr>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
<th>TAS</th>
<th>ACT</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.55%</td>
<td>0.41%</td>
<td>5.35%</td>
<td>15.70%</td>
<td>1.50%</td>
<td>-3.70%</td>
<td>-0.47%</td>
<td>3.38%</td>
</tr>
</tbody>
</table>

Source: Restaurant & Catering Australia

364. However, the impact to jobs, as a result of increased labour costs, has also been quantified by RCA and is indicated in a report prepared by KPMG/Econtech. It indicates a 0.07 per cent reduction in employment of approximately 8000 jobs across Australia (p.20).

Higher labour costs, as a result of the changes in the wage costs results in a lower level of national employment. The reduction in employment of 0.07 per cent is equivalent to a loss of about 8000 jobs across Australia, including about 2500 jobs from Accommodation, Cafes and Restaurants and 5500 jobs from other sectors. The reduction in employment leads to a lower level of GDP. GDP is 0.04 per cent lower than in the baseline case. These national results are medium term impacts, where each sectoral capital stock level is assumed to be fixed while the sectoral employment levels are sensitive to the wage rates they face.
365. Worryingly, the KPMG report also indicates job losses in other areas as a result of “spill-over impacts” (p.22):

The results from MMR suggest that the increase in labour costs (except for Tasmania and ACT) hits a number of industries particularly hard. Clearly, the largest impact is felt in the Accommodation, Cafes and Restaurant sector, where the direct impacts of the wage cost increase are concentrated. Employment in the industry is 0.45 per cent lower than would otherwise be the case. However, the above chart also shows that there are spill-over impacts across other industries from the wage cost increase in the Accommodation, Cafes, and Restaurants sector. In fact, employment in other industries is 0.06 per cent lower than otherwise, this is a loss of about 5500 jobs.

366. Attachment ACCI-RCA3 [Witness Statements to AIRC, 17 October 2008].

367. Two witness statements by restaurateurs were provided to the AIRC to illustrate the cost impact on these businesses as a direct result of the modern award. They were also provided at a time in the economy which was not as perilous as presently experienced.

Pier Restaurant

368. The Managing Director of The Pier Restaurant indicated the following consequences as a result of the modern award applying to their business:

49. An increase in the Sunday full-time/part-time penalty rate from 50 percent to 75 percent will increase my labour costs significantly.

50. If a new evening penalty were to be introduced from Monday to Friday my wage costs would increase markedly because most of my trade is in the evenings. However, the amount of the evening penalty set out Annexure “C” would cost more to administer than what is actually payable.

51. Labour costs are the highest expense item for Pier Restaurant, at over 33 per cent against all gross revenue. The other major expense item is rent pursuant to lease agreements. Of course, this is fixed for long periods of time.

... 

54. The Sunday penalty is already a heavy burden, and if it were to increase by 25 percent as well, it would have detrimental effect on the financial viability of all businesses in the industry.

55. Wage costs are high enough as it is at the moment with the turmoil on global financial markets feeding into my operating costs every day of the week. Fresh farm produce does not come cheap. Nor does high quality seafood, fresh from the source. I find it hard to understand why restaurateurs should have to shoulder Hotel award type evening penalties when our businesses are nothing a like to each other. As a restaurateur it is a tough ask to maintain high level service in a fine dining environment with wage costs increasing even more under a new Award. I have to be able to pay all my suppliers and staff on time no matter how much financial pressure my business in under.
... 

60. If there was an increase in labour costs like the proposed 75 per cent for Sundays for permanent employees, reducing the number of hours of employees is not an option. I can’t just raise my menu prices either, there is a certain price that customers will not be willing to pay. I would have to review our surcharge policy, but it has been in place for some time, so a sudden change could provoke complaints from even my most regular customers.

61. The surcharge at Pier Restaurant is only payable on Sundays and public holidays. A 10 dollars per person surcharge on Sundays and 12.50 dollars per person on public holidays, respectively, per guest doesn’t go anywhere near covering the relevant penalty rates, but if I removed it, Sundays could become financially unsustainable. The Modern Award could make the things even more expensive, and, honestly, I would have to take a serious look at whether it would be worthwhile. The big issue would be looking at reducing staff and this does not appeal to a person like myself that prides itself on running an upmarket business which is offering something unique to overseas tourism.

Pilu at Freshwater

369. The Managing Director of Pilu at Freshwater, a family owned business, also indicated the cost impact of the modern award as follows:

IMPACT OF THE PROPOSED HOSPITALITY AWARD

108. The introduction of a higher penalty on Sundays could have a negative impact on my lunch time trade. I may have to introduce a surcharge for Sundays, which my customers have considered unpalatable in the past, so I removed it. I know that my customers would not wear an even higher surcharge, which would be a strong possibility should there be a 175% Sunday penalty.

109. The introduction of an evening penalty, Monday to Friday, would increase costs. However, the amount of the evening penalty set out in Annexure “C” would be a burden to administer.

110. Labour costs are the second highest expense item for Pilu at Freshwater Restaurant, at 30 per cent against all gross revenue, followed by purchases (beverage and food) at 35 per cent. The other major expense item is rent pursuant to our lease.

111. The Restaurant NAPSA does not have evening loadings, which means I can serve my customers in the peak periods without being penalised. The evening loadings in the Modern Award draft would make doing business even tougher. It basically means I am being penalised for catering to peak period trade.

112. Pilu at Freshwater’s profitability depends on being able to open for dinner Monday to Saturday and not having to pay extra evening loadings.

113. The high level of service demanded by customers of Pilu at Freshwater and the personal philosophy of the chef and owner Giovanni Pilu, means that service is at the heart of our business. Giovanni strongly believes in the maintaining the
integrity of Italian cuisine and this is why he established the Council of Italian Restaurants in Australia (CIRA). Giovanni is passionate about Italian culinary culture, and would find it hard to reconcile cutting back on service because of labour costs rising during our peak trading times under the Modern Award.

114. It is a very tough industry, and to win two chef hats is a highly coveted prize and an honour. I don’t think a restaurant critic would understand if I lost a ‘Hat’ because I had little choice but to reduce my service and kitchen staff because of the higher costs in the evenings and Sundays.

115. On top of that, I already put in about 60 hours a week into the business to keep it running smoothly. If I cut back on service staff to cut back on costs, my family life would come under tremendous stress. It is hard enough to juggle picking up the kids from school and keeping them happy while running a fine dining establishment like Pilu.

116. We are not in a position to cut back anyone’s hours, front or back of house, because our service would suffer. It's not as simple as it sounds to let go a casual waiter or reduce our kitchen staff, because in a restaurant environment, you may have saved on your wage costs, but someone else is forced to shoulder the extra workload. This is what would happen under the draft Modern Award.

Opinion Piece

370. The impact of award modernisation on the Australian restaurant industry is further illustrated by the following from the Australian newspaper of 17 March 2009:

**IR club and pub grub**

Michael Stutchbury, Economics editor | March 17, 2009

Article from: The Australian

JUST as licensing regulations restrict competition in the hotel industry, working conditions in pubs have long been standardised by the award system and the liquor trades union.

By contrast, the restaurant business is lightly regulated, dynamic and highly competitive. Restaurants used John Howard’s Work Choices and its individual work contracts to more flexibly deploy and reward their waiters and cooks.

Now it’s payback time as the Rudd Government foists the straitjacket of the protected hotel industry on to its restaurant competitors.

Penalty rates, overtime, loadings, allowances and rosters built into the hotel industry over generations will be loaded on to restaurants. Don't tip your waiters for good service; they already may be on a 275 per cent penalty rate. At these penalty rates, don't count on a fine dining-led recovery; it's bistro self-service.

Yet this industrial relations assault on one of Australia’s great small business sectors hardly registers in the national political debate. That's because Julia Gillard’s IR counter-revolution has been turned into the political issue of the Liberal leadership, and because the policy issue is too complicated for the glibness of today's sound-bite politics.
Among the serious media, it seems that only The Australian is capable of recognising the threat to small business entrepreneurs as well as the business model that sustains the international reputation of Australian fine dining. It has hardly registered at the Australian Financial Review, which once heroically led the charge against the industrial relations club, or The Sydney Morning Herald and The Age, which remain blissfully unaware of the attack on the celebrity chefdom they so celebrate.

The particular threat comes from the combination of Gillard's new Fair Work legislation in Canberra and, more insidiously, her order to the Industrial Relations Commission in Melbourne to quickly "modernise" hundreds of industrial awards into a few dozen industry-based awards to regulate Australia's workplaces from the start of 2010.

Australia's award structure has mutated, rather than competitively evolved, over the past century into a large and incoherent body of business regulation. Gillard spits disdain for Work Choices rip-off merchants who stripped away basic human rights from a defenceless proletariat. But the mish-mash of a system is more about micro-regulating business.

Under Gillard's counter-revolution, the restaurant trade is being "modernised" into the hotel-industry award structure and business model reflexively favoured by the IRC. Traditional workplace regulation for pubs, which now might cover only 80,000 or so workers, will drive the work rules for the 250,000 or so restaurant and cafe workers.

Just one example is set out in sections 32.1 to 32.4 of the "modernised" Hospitality Industry (General) Award 2010. These impose 25 per cent penalty loadings for working on Saturday, 175 per cent for Sunday work, and 250 per cent for public holidays. Casuals get a hefty 25 per cent loading on top of that, lifting them up to 275 per cent for public holidays.

A 10 per cent weekday penalty applies after 7pm along with detailed rules for overtime, rest breaks, loadings for driving a forklift or holding a first aid certificate, and whether Fridays can be pay days (they can't). Higher-cost, pub-based rules apply for junior staff, even 19-year-olds.

Beer stains from Australia's drinking history can still be seen in this hotel-based award structure.

The penalty for evening weekday work signposts the end of the six o'clock swill in the 1950s and '60s. Yet this old hotel sweetheart deal should have little to do with how restaurants operate in 2010.

Businesses based on selling and consuming liquor are controlled by licences that, being limited in number, change hands for large sums of money, particularly when they come with licensed poker machines. Just as the liquor trades union polices the award, the Australian Hotels Association spends millions lobbying governments to regulate in favour of pubs.

By contrast, there is no regulation on the number of outlets preparing and serving meals. This business is much higher risk and lower margin: while many pubs have been around for a century or more, new restaurants open and close all the time.
Opening a restaurant is a classic low-barrier business opportunity for migrants. Working part-time in a restaurant is a classic source of income for university students.

Restaurants tend to be much smaller businesses than pubs and naturally trade for fewer hours, based around two meals a day rather than all day and night drinking. And this calls for a more flexible workforce that, in practice, is younger, more casual and partly paid directly by customers. Waiters get tipped, barmaids don't.

So it's bizarre for a "modernised" award to increase penalty rates for what, in practice, are the restaurant industry's standard operating hours.

An estimated 75 per cent or so of restaurant business is done at night and weekends. If you want to be a chef, that's when you'll work.

It's even more bizarre when this customer demand is matched by the changing pattern of labour supply. In this diverse and multicultural society, working at nights or on weekends actually suits many workers, such as students. Under Work Choices, the Restaurant & Catering Industry Association reckons it signed up 10 per cent of restaurant staff on template Australian Workplace Agreements, which rolled penalties and loadings into a simpler and higher hourly pay rate.

Gillard's new system won't permit such individual work contracts. The new system will include "flexibility" clauses, but these can be guaranteed to operate inflexibly.

And the IRC flatly dismissed restaurateurs' pleas to retain their own modernised award, which really only needs to run to a handful of pages. Instead, it roped restaurants into a complex pub-based hospitality award.

"We accept that there are some differences in trading and staffing arrangements between various sectors within the hospitality industry," an IRC full bench explained. "Equally, however, there is some commonality between the sectors. It is also significant that there is a level of diversity in the operations of various businesses within sectors of the industry."

Such dribble is now back in charge of regulating how Australian businesses employ their staff.⁶

6.2.5 - Fast Food

371. Attachments ACCI-NRA7 and 8 [NRA Spreadsheets of Cost Impacts under Fast Food Industry Award 2010].

372. Finally, by way of further example of increased employers’ costs under award modernisation, the NRA also calculated the impact of the AIRC’s draft Fast Food Industry Award 2010 and summarised the resulting increase for a casual employee (in two different examples) as compared to the existing award as follows.

373. Once again, they indicate a significant increase to weekly wage costs:

### Attachments ACCI-NRA7:

<table>
<thead>
<tr>
<th>Name of Award/NAPSA</th>
<th>Weekly Wage Cost</th>
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<tr>
<td>Fast Food (SEQ)</td>
<td>$1,844.05</td>
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<tr>
<td>Fast Food Industry Award 2010</td>
<td>$2,081.55</td>
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<tr>
<td>Difference</td>
<td>$237.49</td>
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### Attachments ACCI-NRA8:

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<th>Name of Award/NAPSA</th>
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<tr>
<td>Fast Food Industry Award 2010</td>
<td>$3,204.21</td>
</tr>
<tr>
<td>Difference</td>
<td>$946.57</td>
</tr>
</tbody>
</table>

6.2.6 - Conclusion

374. These costs are significant and very concerning. ACCI has recently publicly indicated that:

Tuesday 3 March 2009

**SENATE REPORT MISSES KEY PROBLEM WITH PROPOSED NEW AWARDS**

Statement by Peter Anderson, Chief Executive

The Australian Chamber of Commerce and Industry, Australia's largest and most representative business organisation, has called on the Senate to prevent employers bearing higher employment costs from 'modern awards', when it debates new industrial relations laws this month.

The Senate Employment Committee's report into the Fair Work Bill is a helpful contribution to debate, but does not do justice to very significant employer concerns regarding additional labour costs to employers when industrial awards are reactivated from 1 January 2010.

Hundreds of thousands of employers in the hospitality, retail and related service industries are set to pay higher penalty rates, allowances, overtime, annual leave and wages solely in the name of regulatory clean up (as hundreds of existing awards are rolled into a smaller number).

In evidence to the Senate Committee, business organisations demonstrated that some employers face labour cost increases of 20% from next year solely from new award regulation.

"Paying more to employ people simply because regulations are being consolidated is unacceptable. It will start the new industrial relations system on the wrong note.

Labour cost increases on this basis are grossly unfair to employers. They will cost jobs in labour intensive and award-reliant industries."
"Neither the government nor the parliament can simply throw this issue back to the Australian Industrial Relations Commission. The new awards are a product of government policy, and ministerial direction to the Commission under legislation."

"The government said there would not be additional costs from award modernisation, and the Senate has an obligation to make sure there are not. The Bill should be amended to direct the Commission that no new industrial award should increase employer costs.

Fair Work Australia will be able to order that an employee’s pay not be reduced in the transition onto a modern award. Employers need equal protection against additional award costs.

Employers facing these additional costs will hold the government and parliament accountable for the system imposed on them.

ACCI has described costs flowing from the proposed new awards as "the single largest problem" that needs to be fixed in the proposed new industrial relations system.

6.3 AWARD MODERNISATION WILL INCREASE INCOMES

375. For the purposes of the Commission’s consideration, award modernisation has twofold relevance:

a. Modernised awards are set to significantly increase employer costs, and threaten viability and employment in an already unprecedentedly challenging economic and operating environment. Modernisation is in short a significant exacerbating or multiplying negative factor directly germane to your consideration in this matter and the matters the AFPC must have regard to in this review.

b. Modernised awards will also provide additional incomes to some employees through increased allowances, penalties etc. This is a pending source of additional incomes to the lower paid (in particular in key minimum wage reliant industries) which should be taken into account in considering the need to change the safety net and weighing the impact of any increase against costs.

376. Award Modernisation is a critical factor for consideration that lends weight to the course that ACCI commends in relation to the 2009 review.
7. AFPC RESEARCH

7.1 MINIMUM WAGE EFFECTS ON EMPLOYMENT

377. ACCI has throughout the course of these reviews, and in the preceding AIRC process examined the key issue of the effect of uprating minimum wages on employment (and thereby the Commission’s wage setting parameters). It is appropriate that prior to examining new AFPC published research we update the Commission on this issue.

7.1.1 - Employment Effects: Theoretical Arguments

378. A central goal of raising the minimum wage is to raise incomes for the lower paid in the context of a minimum wage safety net that meets all of the parameters of s.23 of the Workplace Relations Act 1996. However such a goal will not be achieved if a higher minimum wage:

   a. Discourages employers from employing the very lower wage, lower skilled workers that the policy was intended to help.

   b. Causes negative employment effects that are concentrated among lower skilled workers.

   c. Reduces schooling, training and work experience – the drivers for higher wages – and makes it harder for the low-skilled to attain higher incomes in the future.

379. The textbook economic effects of uprating a minimum wage on employment are relatively straightforward. In a competitive labour market, an increase in the minimum wage above market rates will cause employers to reduce their use of labour for two reasons:

   a. Substitution effects: In an effort to minimise the costs of production to maximise returns, employers will use less of the now-more-expensive labour and relatively more of other inputs (such as capital).

   b. Scale effects: Due to an increase in labour costs, the price of products firms produce must increase. This in turn causes a lower demand for the firm’s products leading to a reduction in the scale of production and subsequently reduced demand for labour.
7.1.2 - Employment Effects: Evidence

380. One of the Commission’s considerations in its minimum-wage decision making is “the capacity of the unemployed and low-paid to obtain and remain in employment”.

381. In its 2008 Decision, the Commission acknowledged that uncertainty in the economic outlook and weakness in employment growth may place low-paid workers in a more vulnerable position. Also stating that:

The Commission regards labour market transitions as an important dimension of the experiences of low-paid and unemployed people. Setting minimum wages too high could exacerbate churning between low-paid employment and unemployment, reducing the chances of people moving into better paid jobs.

382. The Commission went on to note:

This reflects concerns that the employment prospects of the unemployed, and those who are marginally attached to the labour force, may be adversely affected by the Commission’s decision.

383. Other sources and research cited in the 2008 decision also cautioned on the danger of excessive increases in minimum wages.

The Victorian Government presents the results of modelling exercise in its submission. Its findings are that there would be a moderate boost to employment in the short-term in response to slower growth in minimum wages.

Evidence for a sustained effect may be found in Australia’s experience during the 1980s. An objective of the Prices and Incomes Accords during that time was to restrain growth in real wages and real unit labour costs. The Accords were found to have boosted employment during that time to levels that would not otherwise have been achieved.

384. Research by Dr. Ian Watson stated that:

...Watson observed that, compared with their counterparts further up the wage distribution, employees earning at or below the standard FMW experience longer periods out of the labour force or unemployed.

385. Further, the Australian Government cautioned that:

... these workers [i.e. low-paid employees] are also at risk that any increase in the minimum wage which is too large will be counterproductive if it leads to a reduction in hours of work (including the loss of jobs) of these workers...

2 Ibid, page 44.
3 Ibid, page 45.
5 Ibid, page 43.
386. One of the most frequently cited pieces of literature in regards to the negative employment effects of minimum wage increases is the study by David Neumark and William Wascher (2006). The paper examined more than 90 studies on the effects of minimum wages. Although there is no clear consensus, the authors found an overwhelming majority of the studies surveyed give a relatively consistent indication of negative employment effects arising from minimum wages.

387. Andrew Leigh’s 2003 paper estimated the employment impact of raising the minimum wage using observations from six increases in the Western Australian statutory minimum wage during the period from 1994-2001. The author found that between 1994 to 2001, the Western Australian minimum wage was increased 6 times by between 3.49 per cent and 9.29 per cent. After each minimum wage increase, the employment to population ratio in Western Australia fell relative to the rest of Australia.

388. Aggregating the six increases, the elasticity of labour demand in Western Australia with respect to Western Australian minimum wage is estimated to be -0.13, implying a 10 per cent increase in minimum wages reduces employment by 1.3 per cent.

389. Moreover, the employment impact is most substantial among younger employees, with the labour demand elasticity for employees aged 15-24 estimated at -0.39, implying a 10 per cent increase in minimum wages reduces younger employees’ employment by 3.9 per cent.

7.2 2008 / 2009 RESEARCH

390. The AFPC has published various pieces of research in the lead up to the 2009 review. Putting to one side the validity or applicability of this material – the key point ACCI would raise is its relevance and currency during a period of unprecedentedly rapid change.

391. Employers question whether any body of micro-economic research prepared during mid to late 2008, using potentially 2006 and 2007 data could stand as relevant in a review which is taking place in the most uncertain and changeable

6 Ibid, page 44.
economic situation in living memory, and in the context of the worst downturn in living memory.

392. Put simply, things have changed and continue to change, and assumptions and conclusions as recently as months ago are no longer sustainable in light of changing circumstances. Thus, as a function of the rapidity and extent of economic and labour market change we question the applicability of the body of research presented mere months after its preparation.

393. Even where the validity of research stands, the extent to which it can be extrapolated to 2009 has changed, is changing or is unknowable in the tempest of the current economic seas. Thus, a body of research may be perfectly valid in showing particular effects of previous increases. However given the changes in the economy, the significance of the downturn, and the level of uncertainty, there would be no valid basis to extrapolate or extend that reasoning into any assumptions on the effect of an increase in 2009.

394. Thus, the research axiomatically cannot be as useful to the Commission’s considerations as may have been hoped – and it has rendered by circumstances little more than background material of little or no probative relevance.

395. Further key considerations are the pending changes to the system, the passage of the Fair Work Act 2009, and the creation of Fair Work Australia. Some of the considerations arising from this material do not properly form the subject of this review or stand to be addressed through any 2009 decision. Issues such as gender pay disparity not only are subject to separate remediation in the existing statute, this is to shortly be revised into a new system. Parliament is telling us that any work on this issue is to be undertaken elsewhere.

396. Ultimately we say that the probative and determinative relevance of this material must be very limited, and whilst a research capacity remains relevant to minimum wage setting the context in 2009 qualifies the utility of this material.

397. With these overall perspectives we wish to offer some brief comments on the recently published research materials.
7.3 MONITORING REPORT (DEC 2008)

7.3.1 - Introduction

398. On 24 February 2009, the AFPC released its third Economic and Social Indicators – Monitoring Report, for the period July – December 2008, during which the AFPC’s third general Wage-Setting Decision was implemented.

399. Below are general comments engaging with the monitoring report. We would however also recall our general comments throughout this section questioning extrapolation from the impacts of the previous increase to any increase in 2009. One of the striking characteristics of the current crisis is the rapidity with which things changed, and the lack of reliability of economic material often mere months old in light of changing circumstances.

400. In the six months to December 2008, employment increased by just 35,000 (0.3%) compared to a 153,000 increase in the six months to December 2007. More importantly the increase in the number of people entering the labour force outpaced growth in the number of people employed causing an increase in the unemployment rate in the second half of 2008.

401. Moreover, during the last six months of 2008 growth in part-time employment exceeded growth in full-time employment, with part-time employment growing 1.9% while full-time employment contracted by 0.3%. The shift towards greater part-time employment in 2008 has contributed to an increase in underemployment; in December 2008 the labour underutilisation rate was around 9%.

7.3.2 - Employment of Low-paid Workers

402. Following the AFPC’s third wage-setting decision, part-time employment growth has increased while full-time employment has fallen for a selection of demographic groups with a high concentration of low-skilled workers. The largest fall in the total rate of employment was for 20-24 year olds who are not in full-time education.

403. Over the six months to November 2008, employment growth in low-skilled occupations slowed significantly to around 0.5%, with the average number of hours of employment increasing at a higher rate.

404. Over the ten-year period since 1998, employment in low-skilled occupations has grown at a slower but more variable pace on average than in the high-skilled occupations.

405. Accommodation, Cafes and Restaurants, Health and Community Services, Property and Business Services and Retail Trade account for 70 per cent of all Pay Scale reliant employees. Over the six months to November 2008, the number of employees in Retail Trade and Accommodation, Cafes and Restaurants declined while the growth in employment for Property and Business Services and Health and Community Services has increased.

406. Nevertheless, low-skilled employment in each of Retail Trade, Accommodation, Cafes and Restaurants and Property and Business Services has declined in the same period.

7.3.3 - The Safety Net and Work Incentives

407. The income safety net of low-paid workers is determined by the interaction of wages, taxes and transfers. The report has looked into the changes in the real value of disposable income for different types of household (with one earner on standard Federal Minimum Wage (FMW)) over time.

408. Over the period from August 2005 to November 2008, the approximate real increase in households’ disposable income were as follows:

a. 12% for a couple without children;

b. 9% for a couple with two children aged 5 to 12;

c. 7% for a single-parent pensioner household and a single person without children; and

d. 4% for a single-parent with a child aged 8 to 12.

409. The report also considered financial incentives for a person who is not employed to take up full-time employment at the FMW. Overall financial incentives for above household types appear to have strengthened. However for most part, the increase has been driven mainly by tax cuts rather than an annual increase in the FMW.
7.3.4 - Implications

410. From the Monitoring Report, it is evident that pay scale reliant industries are particularly vulnerable against the backdrop of economic slowdown, of which the depth and breadth remains unknown. A further increase in FMW in 2009 may cause a further decline in employment growth in these sectors.

411. Furthermore, the objective of increasing safety net and work incentives for low-skilled workers through an increase in FMW is better achieved through tax reduction, increase in income threshold as well as increase in Low Income Tax Offset (LITO). Since the costs of LITO are not directly borne by employers, expansions in this wage subsidy do not cause adverse labour demand effects.

7.4 Living Standards Report


413. Using six waves (2001 to 2006) of data from Household, Income and Labour Dynamics in Australia (HILDA) survey, this research aimed at examining the ability of the income ‘safety net’ to provide adequate living standards for low-paid workers. Specifically this report examined the following three questions:

a. What are the locations of low-paid employees in the distribution of income, wealth and consumption expenditure?

b. What proportion of low-paid employees can be classified as having low living standards – defined as a combination of low household income, consumption and/or wealth?

c. What is the persistence of such low living standards among low-paid employees?

414. The report found that low-paid employees are distributed across the household income distributions and tend be located in the middle of the income distributions, with around 50 per cent of the low-paid in the middle four deciles (Deciles 4 to 7) of the income distributions.

415. Low-paid employees are similarly found throughout the wealth and consumption expenditure distributions. However unlike the case of income distributions, the low-paid are more likely to be found in the lower deciles of wealth and consumption distributions.

416. Using different definitions of ‘poor’ or inadequacy of living standard, this paper revealed that relatively few low-paid have low material living standards. Even when only income and wealth are considered in the assessment of living standards, no more than 5 per cent of the low-paid in 2006 can be classified as poor or near-poor.

417. Some of the stylised demographic characteristics of low-paid poor in comparisons with other members of the community (especially the non-poor) are that the low-paid poor are relatively young and more likely to be indigenous or born in a non-English speaking country, single, and in sole parent households, and tend to be working for a small for-profit businesses in low-skill occupations, with little experience in the current job or occupation.

418. The paper also examines the persistence of low living standards among the low-paid by following over time those identified as initially low-paid and poor in Waves 1 and 2 (2001 and 2002) of the HILDA survey and analysing their income and wealth outcomes in the subsequent waves. The paper showed that approximately 40 to 58 per cent of the low-paid poor in 2002 have exited poverty four years later and those who remained poor had higher rates of both part-time employment and non-employment. Clearly these findings indicated that full-time employment is the key to exiting poverty.

7.4.1 - Implications

419. The findings from this research demonstrated that employment is an effective mechanism to avoid poverty, provided sufficient hours of employment can be secured. Therefore to mitigate poverty, Australia should look beyond an increase in the wage floor (particularly given the impact of increasing minimum wages in the current context) and look into measures to encourage employment of low-skilled workers and to increase on the job training provided by employers.
420. An increase in FMW may reduce the employment of low-skilled employees as employers substitute low-skilled workers with higher skilled workers and reduce opportunities for work experience accumulation directly via the disemployment effect. These adverse effects of minimum wages on skill formation development amongst low-skilled employees consequently imply that fewer low-skilled workers will attain higher wage jobs in the future - one of the most effective ways of attaining higher living standards.

7.5 LABOUR MOBILITY REPORT

421. In December 2008, the AFPC released a commissioned report: *Labour Mobility and Low-paid Workers*, by Professor W. Mitchell from the Centre of Full Employment and Equity\(^\text{11}\) which examines recent patterns of labour mobility in Australia.

422. The report considered three broad questions in the Australian context as follows:

a. Whether internal migration and commuting are operating to drive workers to more favourable labour markets, with lower employment rates and better employment opportunities.

b. Whether these processes are operating for low-skilled workers in particular, and how these flows compare to other workers.

c. Whether low-skilled workers are benefiting from mobility in terms of wages and employment.

423. This paper found that both low-skilled and higher skilled employees in general respond to labour market signals and migrate to areas of higher employment growth. Thus over the last decade, Australian regions that experienced strong employment growth also exhibited strong labour force growth.

424. However, low-skilled employees in particular do not benefit from this growth. They are disadvantaged by the influx of higher skilled employees through migration and/or changing commuting patterns, who are prepared to take low-skill jobs. Moreover, low-skilled and less educated employees are less likely to migrate than other workers.

425. In comparison to other workers, low-skilled employees have a lower propensity to change occupation and industry. However, low-skilled employees who changed occupation experienced a greater growth (almost double) in median gross wages than low-skilled employees who did not change occupations.

426. The report also revealed that employment growth had only a small impact on changes in both males’ and females’ unemployment. This may be partly due to increased job competition from migration and technology substitution, but it remains that the overall employment growth has not been sufficient to generate enough jobs to satisfy the desires of employees.

7.5.1 - Implications

427. It is clear from the above report that low-skilled employees have lower mobility than other employees to find employment opportunities in other regions outside their locality and thus their job search remains localised. This is because low-skilled employees, especially those with lower educational attainment, face commuting or moving costs that are not compensated by subsequent wage gains.

428. Therefore any disemployment effects from an increase in FMW may cause low-skilled workers to fall into long run unemployment trap as they have lower capability to move or commute to other areas to look for employment opportunities than other higher skilled workers.

429. Moreover an increase in FMW may cause an influx of higher skilled employees with higher mobility into certain industries or localities, who are prepared to take lower-skill jobs, and thus replace the lower-skill employees, i.e. the ‘bumping effect’. This will cause the low-skilled employees to remain in structural unemployment and thus put more pressure on the Government budget via the reliance on the transfer system.

430. Thus in the current environment of weak labour demand, the Government should introduce policy to encourage more employment growth to offset the increase in labour force participation so as to keep unemployment genie in the bottle. This is preferable to an increase FMW to improve the living standard of the low-skilled. A further mandated wage increase may cause adverse effects for low-skilled employees, which would contrast sharply with the intentions of policymakers.
7.6 RESEARCH FORUM PAPERS


7.6.1 - International Comparisons

432. In 2008, Australia’s minimum wages ranked among the highest in relative to US, UK, New Zealand, Canada and France in both exchange rates and purchasing power parity terms (Machin, S.(2008)13).

433. Australia’s minimum wage relative to the average wage is quite high in comparison to other rich economies. Immervoll (2007)14 ranked Australian Federal Minimum Wage – after tax and employee social security contributions for a full time worker (as a percentage of net average wage) the fourth highest among 21 OECD countries in 2005. In Australia, the minimum wage is 52% of net average wage compared to an OECD average of 44%.

434. Moreover, Australian minimum labour costs (including payroll taxes and mandatory social contributions) as a percentage of labour costs for an average earner is almost 50% and ranks the fourth highest among 21 OECD countries.

435. Buchanan & Considine (2008)15 examine the significance of Australia’s minimum wage in the context of the broader wage-setting environment. The data presented in this paper revealed that the Australian industrial relation system was not as centralised and regulated in the past as commonly believed. At the same time it is not as decentralised and deregulated now as commonly proclaimed.

436. It is commonly cited that over the period from 1990 to 2006, award reliance has declined from covering directly four in five employees to now covering less than one in five. However this paper argued that:

“…Awards are not just relevant to the 20 per cent of so totally dependent on them, they are integrally embedded in wage determination for many, many

workers. Employee derived estimates put it at at least 40 per cent. Those derived from employers range up to 80 per cent depending on how the question asked.” (p.56)

437. Given the far-reaching award system, Australia’s minimum wage is more than just a safety net to the low-skilled and those workers who cannot access the bargaining system. Therefore, minimum wage decisions should not be perceived as only affecting those totally dependent on awards. Any minimum wage decisions that neglected those indirectly but closely connected to the awards in its policy analysis and prescriptions would be seriously flawed.

7.6.2 - Employers’ Responses to Rising Minimum Wages

438. In a study of firms’ responses to increases of the minimum wage for teenage workers in 2000 to 2007 in New Zealand, Hyslop et. al.(2008)\(^1\) demonstrated that during 2000 to 2007 (i.e. in the longer run), initial high teenage-employing firms reduced their subsequent teenage employment by 2.5 to 3 percentage points in the main teenage-employing industries such as Retail Trade and Accommodation, Cafes and Restaurants, and about 1.2 percentage points for firms in other industries. They also found adverse effects on survival for firms that had high levels of teenage employment at the beginning of the observation period.

439. They also find preliminary evidence that firms with high levels of teenage employment at the beginning of the period had a lower rate of survival, in which firms in the main (other) teenage-employing industries with initial teenage-employment shares greater than 0.3, having about 3% per cent (10%) lower survival rate than other firms.

440. The Employer Responses to Minimum Wage Adjustments report commissioned by AFPC by Wearne et. al. at TNS Social Research\(^1\), examined the impact of changes in Federal Minimum Wage and Pay Scales on 92 participants (i.e. employers) from small and medium businesses within the Retail; Health and communities services; and Accommodation, cafes and restaurants. It found that:

a. The wage rate offered by other businesses – whether directly or indirectly linked to statutory minimum wages or not increased when competitor wages rise following an increase in statutory minimum rates.

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b. Following the most recent increase in wage costs experienced by businesses, almost half of the participants increased their number of working hours to ensure the ongoing financial solvency of their business, despite recognising its negative effect on their work/life balance. In addition, other commonly implemented strategies focussed on reducing staff costs through direct measures (such as reducing the number of staff or the number of staff per shift) and indirect measures (such as training existing staff to fill a vacancy or to deliver an increase in productivity).

c. In response to wage rises, small and micro businesses participating in the research were most likely to personally work an increased number of hours and increase prices; while medium-sized businesses were most likely to train existing staff to increase productivity or to increase prices.

7.6.3 - Impacts on Well-being and Incentives

441. Burkhauser & Sabia (2008)\textsuperscript{18} concluded that past minimum wage increases in the United States during 2003 to 2007 had not diminished poverty and the currently proposed increase in the US minimum wage will be even less targeted to working poor.

442. The above findings are due to the fact that the majority of those who gain from a minimum wage increase do not live in poor or even near poor households; and a large share of the working poor are not affected by such increases since they already earn wages above the proposed minimum.

443. More importantly the negative employment effects of the increase in minimum wage are sufficient to offset any benefits from the movement out of poverty by those who benefited from the policy.

444. They estimated at an employment elasticity of -0.3 for minimum wage workers, an increase in minimum wage from USD7.25 to USD9.50 per hour, will cause nearly 1.5 million low-skilled workers to lose their jobs, including 178,000 jobs held by the working poor. Furthermore, at an employment elasticity greater than -0.77, they estimated that the monthly benefits of the minimum wage increase are not enough to offset the cost increase.

445. They argued that expansions of Earned Income Tax Credit (EITC) offered a better alternative as an anti-poverty measure.

446. Since EITC eligibility is based on household income rather than a wage rate, its benefits are more likely to go to the working poor. Moreover since the costs of EITC are not borne by employers directly, expansions in EITC will not create adverse labour demand effects.

447. They further argued that Australian minimum wage increases are no more effective at reducing poverty for the same reasons stated above. Moreover, they indicated that low-skilled, never-married single mothers in Australia are less likely to be working than in the US both because it is difficult for them to find employment opportunities and Australia offers much higher and more permanent benefits to single mothers who do not work and penalises those who work, through the transfer system.

448. Two recent studies on the impact of minimum wages on living standards in Australia have similar findings to the Burkhauser & Sabia (2008) study.

449. Leigh (2007) argued that due to the low labour force participation rate in Australia poorest households, minimum wage workers are most likely from a middle-income family, in which the median minimum wage worker is at the 50th percentile of the family income distribution for the entire sample of adult worker. Under all plausible elasticity of hourly wages and labour demand, Leigh found that it appears unlikely that raising the minimum wage will significantly lower family income inequality, notwithstanding raising minimum wage will reduce hourly wage inequality.

450. AFPC decisions on minimum wage setting have emphasised providing a safety net for the low-paid, in which in AFPC (2008) stated that:

"...By definition, the safety net concept is primarily concerned with the living standards of people at the lower end of the income distribution" (p. 12).

451. However according to a recent study by Wooden et. al. (2007), any poverty reducing effects from minimum wage increases have been modest. This is due to the findings that most low-wage employees are not found living in the poorest households, and instead many are income-support reliant and only working part-time.

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452. Using the 2001 to 2006 data from the HILDA survey, their study argued that minimum wage increases are not effective in protecting the living standards of the ‘working poor’ as the large increases in hourly wages experienced by low-wage workers do not always translate into a similar increase in annual earnings. This may be due to low wage workers being most at risk of spells of unemployment and working fewer hours than desired due to the minimum wage increase.

453. Dockery et. al. (2008) investigated the circumstances of persons who are paid at or near the minimum wage. Using the data from HILDA survey, they argued that unemployed persons are considerably worse off in terms of general well-being and financial prosperity than persons who are in a job but paid at around minimum wage or lower.

454. This finding implies that AFPC has to be wary in making minimum wage rulings, as a decision to increase minimum wages in order to ensure the well-being of low wage employees, may cause a higher rate of unemployment especially for the low-skilled workers and thus negatively impact their well-being, which contradicts the social objectives of minimum wage.

455. Moreover, increases in minimum wages produce relatively minor improvements in minimum-wage employees’ disposable income due to the interaction with the Australian tax and transfer system. The financial effect is modest because the tax and welfare system in Australia already operates to supplement the income of the low-paid, which in turn contributes to work disincentives among the low-paid and non-employed.

456. Similar to Leigh’s (2007) study, Dockery et. al. (2008) concluded that the imposition of further increases in the FMW contribute little to reducing households’ income inequality. In contrast, following an increase of the minimum wage employment opportunities might be reduced for those people who are unemployed or not in the labour force.

7.7 GENDER PAY REPORT

7.7.1 - Introduction

457. There is an ongoing disparity between average male and female earnings notwithstanding that the minimum rates of pay have been equalised for more than three decades, and that enterprise agreements apply wages rates equally to persons doing the same functions / classifications without gender specificity.

458. Australia is not alone in this challenge. There is a gender pay disparity, sometimes called a gender pay gap, in a wide range of comparable countries and across the OECD. No country has “solved” this problem – nor is there a clear consensus on what solving the problem might mean.

459. **Complexity:** The causes of gender pay disparity are complex.

460. An apparently straightforward equity proposition (men and women should earn on average the same) masks a quite complex and multi-causal phenomenon. This is noted in the *Austen et al* report at a number of points.

461. A complex phenomenon such as gender pay disparity demands complex and wide ranging consideration – it cannot be viewed or addressed through the narrow prism of minimum wage setting (as is already recognised through the existence of remedial channels in industrial relations legislation quite separate to minimum wage setting).

7.7.2 - This is a Minimum Wage Review

462. This leads to the first and foremost point regarding this material – this is a minimum wage review which addresses a single setting – the level of the minimum wage and any general level of minimum wage rise.

463. The levers or measures which might be used to address gender pay disparity (assuming this were validly attempted and would not have adverse consequences) do not arguably arise for minimum wage setters in a decentralised system. The existing and pending legislation both recognise that equal pay can be addressed through specific remedial measures in addition to minimum wages, rather than through general minimum wage setting. ACCI

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would go a step further and identify better support for workplace bargaining as a key measure for further reducing gender pay disparity.

7.7.3 - Harm to Vulnerable Industries

464. The report identifies a number of lower paying industries and highlights them in regard to gender pay disparity\textsuperscript{26}. These are to a significant part the same industries identified as having:

a. High minimum wage reliance.

b. Comparatively lower incidence of bargaining.

465. They are also key industries most vulnerable to the current economic downturn, and in which employers are already displacing employment and fighting for survival in many cases. The impact of any consideration of pay disparity cannot be divorced from its effect and consideration of the employers and employees in enterprises most exposed to additional costs.

7.7.4 - Legislative Context

466. During the prospective period of any pay increase arising from this review (from October 2009, either until October 2010, or until 1 July 2010), the \textit{Fair Work Act 2009} is set to commence.

467. It will contain:

a. New Part 2-7 on Equal Remuneration, which will create new remedial orders to address gender pay disparity.

b. New Part 2-4, Division 9, providing the new Low Paid Bargaining orders which can be used to address comparatively lower incidences of bargaining in industries highlighted in the report.

c. A new National Employment Standard (Requests for Flexible Working Arrangements) specifically designed to allow parents to be able to maximise their participation in employment.


468. The AFPC should therefore take into account in considering the Gender Pay Report that responsibilities for addressing this issue are not to fall on its shoulders, but on Fair Work Australia through these new, specifically targeted measures.

469. It is the intention of Parliament that this be the mechanism, or part of a set of mechanisms, to address this consideration in the context of the new system.

470. Furthermore, the passage of the *Fair Work Bill* obviates the relevance of the passages in the report on the relative impact of centralised versus decentralised systems of workplace regulation\(^{27}\). Parliament has addressed this issue, and there is to be a major change of approach legislatively. This means that the comparative issues raised are firstly no longer relevant, but secondly are addressed elsewhere through statutory change (through the *Fair Work Act 2009*).

### 7.7.5 - Everything is in Flux

471. Additionally of course, consistent with one our key contentions in this submission, economic and employment outcomes and indicators are in flux in early to mid-2009. The impact of the GFC and the domestic downturn translates into an unprecedented level of uncertainty, and questioning of research and analysis that may be mere months old.

472. We do not argue that the gender pay gap will be narrowed by the GFC, but employers consider that the magnitude of economic change during this period means research about causation and industry characteristics may not stand as relevant or current mere months later. The HILDA, earnings etc data in the *Austen et al* report may well have changed, or be changing at this point.

473. In particular, the impact of minimum wage increases and the assumed capacity of industries to absorb further increases may be changing and changing rapidly. This dictates significant caution in considering and responding to this new report.

474. There is a particular issue for the analysis in Section 4 of the *Austen et al* report\(^{28}\). It is not clear that the economic models and settings upon which the analysis was based will be applicable in the current context, nor that the model of constrained or expanded minimum wages for women would stand in a much

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tighter economy. It is not clear that minimum wage increases would translate into real, relative wage increases in an economy in which they would endanger women’s employment and scope for participation and the very viability of employing enterprises. We would particularly query the following:

However, changes in minimum wage rates are widely recognised as a significant source of wage growth for workers in low-paid jobs. Thus, it is reasonable to conjecture that, in the absence of adjustments of minimum wage rates over recent years, wage outcomes for low-paid workers would be worse than they currently are and wage inequality would be greater. Given that women are over-represented in low-paid jobs, this implies that the gender pay gap would be greater than it currently is if minimum wage adjustments had not occurred. Analysis in this section identified the minimum wage adjustments awarded between 1995 and 2005 reduced the gender wage gap by approximately 1.2 percentage points.29

475. Given the current state of economic flux, it cannot be assumed based on the Austen et al research, at this point in 2009 that:

a. The “reasonable conjecture” of the report’s authors remains reasonable in an economy which has changed markedly since the report was released in October 2008.

b. The absence of a minimum wage increase in 2009 will necessarily lead to any worsening of gender pay disparity, nor in particular any worsening beyond the general or otherwise applicable impact of a down-turning, uncertain economy.

c. The overall impact of cumulative and annual minimum wage increases over a number of years stands as authority that minimum wages must increase in each year (or from each annual review).

d. The impacts of a minimum wage increase will outweigh potential positives in other areas such as job retention and ongoing opportunities for material employment during a period of near unprecedented economic downturn.

476. Qualitative Research: We have particular concern with the relevance of the qualitative material in Section 5 of the Austen et al Report. It appears to have been undertaken in the unique, boom economy of 2007 in WA. It is well known how much things have changed in that State since that time, including a

quantum shift in the housing market, emergent unemployment and a change in resource outlook in many areas.

477. Ultimately, the qualitative material is interesting but we believe it cannot be assumed to stand in light of changing circumstances.

478. Labour Supply Decisions: Again, the material in Section 6 of the Austen et al report needs to be reconsidered in light of changing circumstances. In particular, tightening household budgets and falling house prices may well be changing decisions to participate in paid work. To the extent the research indicates a need for real wage growth for women to attract supply this may be being overtaken by other factors.

479. The importance of decisions to work on pay outcomes is one of the concluding points of the research. Employers suggest that there may be a new imperative to work which arises exogenously and will already be meeting the non-participation element of the pay equity equation.

7.7.6 - Way Forward

480. The Austen et al report appears a useful and interesting contribution to an ongoing debate. However, consideration of gender pay differences in this 2009 AFPC review requires no more specificity or specific redress than it did in preceding AFPC reviews.

481. This is essentially an issue to be inherited by the new Fair Work Australia – and its relevance to specific settings and approaches stands to be debated in that context.

7.8 Industry Profiles

482. The AFPC has published a Health and Community Services Industry Profile30 and Accommodation, Cafes and Restaurants Industry Profile31. Each is in two parts: a quantitative overview and a qualitative overview.

483. Specific submitting parties should address the detail of this information, including those most directly representing these industries.

484. However there are a number of general points which can be made at this point, applicable to the two reports:

a. Growth, employment, profit and performance findings in previous years cannot be assumed to stand in light of the GFC. For the Accomodation, Cafes and Restaurants industry in particular, economic change and its effects came on very hard and very fast – and rapidly disturbed the understandings and assumptions of 2007 and 2008 markedly.

i. One would need look no further in this regard than changes in consumer confidence and demand for restaurant meals in light of the emerging financial crisis. The significant fall off in demand was not present in the period in which much of the data in the report appears to have been gathered.

b. Much of the quantitative data is dated, and the dated nature of this data is exacerbated in light of rapidly changing circumstances. 2005-06 data on profits and margins for example cannot be assumed to now stand. The idea that 2005-06 data\(^{32}\) could remain current cannot be sustained.

c. The employment profile of these industries, particularly in the private sector, is subject to rapid change as demand falls – obviously more so for hospitality than health.

d. Longer term employment trends, including across periods of minimum wage uprating, cannot simply be assumed to stand in the current economic context.

e. Projections of employment growth\(^{33}\) must be dismissed as outdated and no longer current unless specifically revised for the changed economic climate. ACCI cannot accept for example the ongoing currency of a projection that employment in the hospitality sector will exceed all sector averages by a significant amount.

f. In regard to the bargaining performance of particular industries, the *Fair Work Act 2009* is to introduce a range of new measures which will address bargaining. This includes but is not limited to the new Low Paid Bargaining stream. These measures are\(^{34}\) to be available from the commencement of the new Act contemporaneous with a decision in this matter and prior to any increase taking effect (were an increase to be

\(^{32}\) Accomodation, Cafes and Restaurants Industry Profile, p.34

\(^{33}\) Accomodation, Cafes and Restaurants Industry Profile, p.47

\(^{34}\) At the time of writing.
awarded). Therefore nothing material can be made of the relative lack of agreement making in hospitality or health at this time.

g. Industry demographics, entry and exit rates (for hospitality) are likely to be very fluid in the current climate and the industry is indicating that a number of businesses are folding. The profile may therefore underrepresent the extent of business vulnerability in the industry.

7.8.1 - Qualitative Overview

485. The two profile reports contain a second, qualitative half, reporting on various focus group consultations:

a. Employers are very concerned about the validity and reliability of this qualitative material generally. It may make an industry live for a decision maker, however the representativeness and validity of the views received needs to be treated with a high degree of caution.

b. Some of this is just hearsay and conjecture, such as the following:

   *What pay slip? You want to talk about the shonky Gold Coast hospitality industry…I’ll tell you about it*.35

i. This is no more than generalisation without evidence or validation. It should be treated as such.

ii. In the absence of detailed information on any “shonky-ness”, this is no more than unsupported assertion, nor is it material to this review.

c. The material contains a great deal of research “noise” and findings irrelevant to the consideration at hand. That a hospitality employee finds their work boring, or has to put up with drunks, doesn’t like techno music or “weird people” is not germane to minimum wage setting36.

d. Cash in hand payments are an issue for the taxation system, not minimum wage setting37.

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35 Accomodation, Cafes and Restaurants Industry Profile, p.105
36 Accomodation, Cafes and Restaurants Industry Profile, p.96
37 Accomodation, Cafes and Restaurants Industry Profile, p.105
7.8.2 - Training

486. Both the quantitative and qualitative elements of the profiles address training and skills considerations. Training and skills in this industry are a significant and complex matter, in which the industry invests significant time and money. The industry though its representative organisations is undertaking significant work on hospitality skills, and in turn contributes to a very wide range of industries as younger people move out of the industry into general employment having gained key employability skills.

487. Regardless – this material is not relevant to minimum wage setting in 2009. The quality or availability of training is not a matter relevant to the AFPC’s minimum wage setting functions. Section 23(d) does require consideration of the competitiveness of employees to whom training arrangements apply, but it does not encompass a consideration of the quality of training, availability, curriculum etc which arise in other policy areas (and which ACCI and key hospitality employers have decades of engagement with).

7.8.3 - Conclusion

488. Whilst appreciating the purposes for which the profiles were undertaken, their relevance is as background information and their usage will need to be very carefully considered. Ultimately, they should be of no probative or determinative value to the outcome of this review.

7.9 CONCLUSION

489. The research materials going into the 2009 review are interesting and varied, and were appropriate for background consideration before the extent of the global financial crisis was known. Crucially for this review, the extent and rapidity of economic change appear to diminish the relevance and applicability of much of this research.

490. Quite legitimate and accurate research finalised mere months ago using the then most up to date data and reliable methodology may well have been rendered irrelevant and no longer applicable by changing circumstances.

491. Ultimately, we argue that the Commission has before it very relevant and current materials from the mainstream of the economy, including forecasts, expert analysis, surveys etc which point to ongoing downturn, considerable economic harm and uncertainty. We bring forward such material in this submission.
492. We argue that the available evidence base, properly assessed supports the course argued by employers and that there is nothing in the commissioned research materials which mitigates against the course proposed by ACCI.
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