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**Introduction**

Business SA is the State’s leading business organisation and represents thousands of businesses through direct membership and affiliated industry and association groups.

We deliver a wide range of integrated services to business, including:

> lobbying and representation on issues significant to industry
> workplace relations advice, advocacy and consulting services
> health, safety, environmental and injury management training and consultancy services
> wide-ranging training programs
> reference publications and handbooks
> international trade and business development services
> management of apprenticeships and traineeships
> administrative support services for industry and trade associations
> networking opportunities
> Workplace Relations seminars and workshops

Business SA is a registered association of employers under the South Australian *Fair Work Act 1994* and recognised under that and other legislation as the State’s peak business and employer group.

Business SA has also been granted federal registration under the Transitional Provisions of the *Workplace Relations Act 1996*.

As the peak employer organisation in South Australia, Business SA is well placed in representing the interests of members across most industries in South Australia.

Business SA provides a comprehensive representative and advisory service on approximately 100 State awards and approximately 250 Pre-Reform Federal awards and Notional Agreements Preserving State Awards (NAPSA). Our service not only extends to the supply of requested industry awards to members but also includes continual updates of Pay Scale Summaries in federal instruments and consulting with the relevant industrial parties in award related matters including the current award modernisation process.

Through membership of the Australian Chamber of Commerce and Industry (ACCI), Business SA is able, on behalf of the South Australian business community, to play an active role in national issues that impact on the local business community.
Business SA is also currently conducting a survey of its members in relation to business expectations in the current economic environment. The survey is expected to be completed and returned at the end of March 2009.

Accordingly, Business SA respectfully seeks to make supplementary submissions on the results of this survey which may be of assistance to the AFPC in its current wage setting deliberations.

As in previous Reviews, Business SA welcomes the opportunity to make submissions on the 2009 Australian Fair Pay Commission (AFPC) Minimum Wage Review. While Business SA largely endorses the submissions of ACCI in relation to this matter, we have also attempted to provide information more specific to South Australia which may be of assistance to the Commission.

We have appreciated the opportunity of meeting with members of the AFPC and of being involved in the consultative process to assist the Commission in its 2009 Minimum Wage Review.

2.1 On behalf of its members and as the peak employer body in South Australia, Business SA strongly advocates that in making its 2009 determination, the AFPC be mindful of the current economic environment and the uncertainty associated with it, including

> the deteriorating labour market, and
> the costs on businesses flowing from award modernisation

2.2 Business SA also submits that in making its determination the AFPC be mindful of:

> the recent Government cash handouts
> the Schedules personal income tax cuts, and
> the falling interest rates

all of which have increased the disposable incomes of employees likely to be affected by a decision of the AFPC.

2.3 Business SA now refers the AFPC to the submissions that follow on various matters and considerations that are relevant to this Review.
3. **Background**

3.1 **Previous AFPC Decisions**

3.1.1 The final wage setting decision to be handed down by the AFPC follows the inaugural decision in October 2006 and subsequent decisions in July 2007 and July 2008.

3.1.2 As indicated in the Executive Summary of its July 2008 decision, in making its decisions the AFPC is informed by the research evidence available to it and also by the range of information available through the Australian Government Budget, Reserve Bank of Australia (RBA) Statements and recent business surveys.

3.1.3 In its initial two differential decisions, a benchmark rate of $700 per week was used to award a higher wage increase to those pay scales below it than those above.

3.1.4 The 2008 decision however awarded a single increase of $21.66 per week in all pay scales.

3.1.5 The AFPC has also indicated that it will continue to follow the previous pattern of announcing the decision in July with any increases to be operative from 1 October.

3.1.6 In the Economic and Social Indicators - Monitoring Report - January to June 2008 – as issued by the AFPC on 8 September 2008, the AFPC indicated that it “will continue to monitor the effects of its decisions, particularly in a period of heightened economic uncertainty”.

3.1.7 In the subsequent July to December 2008 Monitoring Report released on 24 February 2009, in its introductory comments the AFPC stated that in the current economic environment “conditions have fluctuated and expectations about future conditions have become more uncertain”.

3.1.8 The AFPC further went on to state that there was a clear indication from the various business surveys that the labour market will significantly weaken during 2009, that employment is expected to decline and that the rate of unemployment is also to rise further.

3.1.9 Of significance, the Report indicated that it remained unanswered as to how sharp and how prolonged the prevailing conditions will be.

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1 Page 2 - Introduction - Economic and Social Indications - Monitoring Report January to June 2008
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3.2  **Australian Industrial Relations Commission (AIRC) Flow-On Decision**

3.2.1  Following its recent decisions to endorse decisions of the AFPC, the AIRC continued the approach of flowing-on the major elements of the 2008 AFPC decision into a number of transitional awards.

3.2.2  The AIRC adopted the same operative date as determined by the AFPC.

3.3  **2008 General Review of Award Wages/Minimum Standards of Remuneration (MSR) Decision (South Australia)**

3.3.1  Whereas the 2007 State Wage Case decision resulted in achieving consistency between State adult award wage rates and their federal counterpart NAPSAs, the 2008 decision awarded a higher increase than that of the AFPC. ( (2008) SAIRComm 10 ).

3.3.2  The $24.50 per week increase is all adult award wage rates in State Awards established a State Minimum Weekly Wage of $546.65 as compared to the Federal Minimum Weekly wage of $543.78.

3.3.3  In their decision, the Full bench of the SA Industrial Relations Commission determined that while the earlier (2007) AFPC decision was relevant to their consideration, it should not be followed on this occasion.

3.3.4  A common operative date of the increase was set being the first pay period commencing on or after 1 October 2008 and proportionate adjustments were applied to juniors, trainees and other employees.

3.3.5  The decision also increased the MSR pursuant to S69(3) of the Fair Work Act 1994 (State) by the same amount and brought forward its operative date to synchronise with the operative date of the review of award wages decision.
4. Impact of Legislative Changes

4.1 Transitional Legislation and Award Modernisation

4.1.1 On 28 March 2008, the Workplace Relations Amendment (Transition to Forward With Fairness) Act 2008 (the Act) was assented to by the Governor General and commenced its operation.

4.1.2 Amongst other matters, the Act provided for the creation of modern awards pursuant to S576(A) of Part 10A.

4.1.3 Award modernisation was to be conducted in accordance with a Request made by the Minister for Employment and Workplace Relations pursuant to S576 (C) of Part 10A of the Act.

4.1.4 The Ministerial Request to the AIRC was made on 28 March 2008 and subsequently amended and consolidated to clarify the Government’s intent on the award modernisation process and its outcomes.

4.1.5 In establishing modern Awards, the AIRC is to have regard to the objects of award modernisation which includes that awards are:

> to reduce the regulatory burden on employers
> to be economically sustainable
> not to disadvantage existing employees
> not to increase costs for employers

4.1.6 In considering ‘transitional arrangements’ for modern awards which have a maximum duration of five (5) years commencing from 1 January 2010, the AIRC is to ensure that the objects of award modernisation are complied with and that State based differentials are dealt with.

4.1.7 Following the identification of priority industries to be targeted in Stage 1 of the process, the AIRC published 17 finalised modern awards in relation to those priority industries on 18 December 2008.

4.1.8 Stages 2, 3 and 4 of the award modernisation process will be conducted over the duration of 2009 and finalised in December 2009.

4.1.9 Modern awards will commence their operation from 1 January 2010 and replace all existing pre-reform federal awards and NAPSAs, excepting enterprise awards.
4.1.10 Finalised modern awards as established by the AIRC are subject to variation and updating prior to their commencement on 1 January 2010 to take into account, amongst other matters, an adjustment in minimum wages as a result of any adjustment to existing pay and classification scales by the AFPC and to insert transitional provisions.

4.1.11 At this stage AIRC has indicated that transitional provisions in awards will probably be dealt with in the second half of 2009.

4.1.12 Despite the stated aims of modernisation as referred to in 4.1.5, it is increasingly clear that while existing employees will not be disadvantaged and in many instances will in fact benefit from the process, employers on the other hand are likely to face increased costs and regulatory burdens as a result of it.

4.1.13 The cost impact of the award modernisation process will differ depending on the industry in which the business operates. Some modern awards will offer terms and conditions that may only have a marginal effect on labour costs, whereas others may result in significant cost increases.

4.1.14 Examples of increased labour costs flowing from Stages 1 and 2 include the following:

4.1.14.1 A casual loading of 25% applying across awards. Currently, most South Australian NAPSAs allow for a 20% loading.

4.1.14.2 Overtime payments at 150% generally applying for the first two (2) hours instead of the first three (3) hours as is the case in most South Australian NAPSAs.

4.1.14.3 Overtime payable for part-time employees working in excess of their regular agreed hours. Currently, under most SA NAPSAs overtime is not payable unless the part-time employee works in excess of the maximum full-time hours. However under the proposed modern awards a part-time employee regularly working 20 hours per week will be entitled to overtime if he/she works in excess of these hours.

4.1.14.4 Increased documentation and regulation in relation to the engagement of part-time employees.
4.1.14.5 Increased penalty rates applying in a number of industries usually identified as award reliant, for example, retail, health services and hospitality sectors.

4.1.14.6 A country supermarket in South Australia employing around 50 employees and a video hire business employing twenty employees, have estimated that they will be faced with increased labour costs of greater than $70,000 per annum as a result of increases to the casual loading, evening, weekend and public holiday penalty rates.

4.1.15 Employers have been advised to identify any potential increases by comparing current arrangements with the relevant modern award.

4.1.16 However, the actual impact on businesses will not be fully identifiable till transitional provisions have been established in modern awards.

4.1.17 Consequently, a significant amount of uncertainty exists in relation to the full impact of modern awards on various industries.

4.2 Fair Work Bill 2008

4.2.1 On 25 November 2008, the Deputy Prime Minister introduced the Fair Work Bill 2008 (the Bill) into the House of Representatives.

4.2.2 The Bill was subsequently passed by the House of Representatives on 4 December, 2008.

4.2.3 Presently, in addition to the Bill, a further two (2) bills are to be introduced into Parliament. They are:

> The transitional and consequential bill (to be introduced in the week commencing 16 March 2009)

> A second consequential bill (to be introduced in the week commencing 23 May 2009)

4.2.4 The Bill will replace the existing Workplace Relations Act 1996 in its entirety.
4.2.5 The Bill establishes a new institutional framework, Fair Work Australia (FWA), which will replace the AIRC, the Australian Industrial Registry, the Workplace Authority, Workplace Ombudsman, the AFPC and the AFPC Secretariat. FWA is to operate from 1 July 2009.

4.2.6 Existing Australian Pay and Classification Scales (APCS) will be replaced with a system of national minimum wage orders effective from 1 July each year.

4.2.7 A specialist panel within FWA will conduct an annual wage review to set or vary minimum wages in modern awards.

4.2.8 It is presumed that although FWA is to commence its operation from 1 July 2009, the AFPC will be allowed to make its final wage setting decision in early July.
5. **Enterprise Bargaining and Agreement Making**

5.1 As indicated earlier in 4.2 of these submissions, the Federal Government introduced the *Fair Work Bill 2008* (the Bill) in the House of Representatives on 25 November 2008 and was passed by the House of Representatives on 4 December 2008. The Bill is yet to be passed by the Senate, however the Government intends to have the Bill passed by the end of March and the new workplace relations system, except for Modern Awards and the National Employment Standards, operating from 1 July 2009.

5.2 The *Fair Work Act 2008* will transform enterprise bargaining and agreement making and will have a direct impact on wages.

5.3 One of the key objects of the Bill is the emphasis on enterprise-level collective bargaining underpinned by good faith bargaining obligations. A number of new provisions in the Bill are aimed at facilitating bargaining or will otherwise affect agreement making.

5.4 **Expiry of Workplace Agreements**

5.4.1 More than 5,000 workplace agreements expire during 2009 and will come up for renewal. Hence, it is expected that there will be an increase in collective bargaining during 2009.

5.4.2 It is our understanding that the increase awarded to minimum wages has usually been used as a “benchmark” by employees and their representatives in negotiating wage increases in workplace agreements. While it is very difficult to obtain empirical data on this tactic, it is nevertheless commonly used in bargaining negotiations. As agreements are assessed against relevant industrial instruments, for the purpose of the current no-disadvantage test, any increase awarded by the AFPC to minimum wages therefore will affect renewal and renegotiation of current workplace agreements.

5.4.3 In addition, any agreements negotiated prior to the commencement of the Modern Award system and the National Employment Standards will have to comply with Modern Award minimum wages from 1 January 2010. Hence, agreements negotiated for example during 2007 and 2008 will have to provide at least the minimum wages included in Modern Awards from 1 January 2010.

5.4.4 In relation to modern award minimum wages, we refer to AFPC to our earlier comments in 4.1.12 to 4.1.14 of these submissions.
5.5 **Good Faith Bargaining**

5.5.1 Under the current *Workplace Relations Act 1996*, employers are not legally required to bargain, but may refuse to take part in enterprise bargaining.

5.5.2 Under the Bill parties are required to bargain in good faith which includes:

- attending, and participating in, meetings at reasonable times;
- disclosing relevant information in a timely manner;
- responding to proposals made by other bargaining representatives for the agreement in a timely manner;
- giving genuine consideration to the proposals of other bargaining representatives for the agreement, and giving reasons for the bargaining representative’s responses to those proposals.

5.5.3 Business therefore will no longer be able to make a decision not to take part in enterprise bargaining and simply rely on the award safety net as this would be in breach of the good faith bargaining requirement.

5.5.4 It is therefore expected that enterprise bargaining will be more prevalent and more employees will have pay and conditions regulated through enterprise agreements rather than award wages.

5.6 **Better-Off-Overall Test (BOOT)**

5.6.1 Under the Bill, any agreements negotiated after 1 July 2009 will have to comply with the Better-Off-Overall Test (BOOT), meaning that each award covered employee and each prospective award covered employee would have to be better off overall under the agreement compared if they would be covered by a relevant Modern Award.

5.6.2 This can be contrasted with the no-disadvantage test, where an agreement will be approved as long as it does not leave an employee worse off compared to the award or another relevant industrial instrument.

5.7 **Low-paid bargaining stream**

5.7.1 The Bill also introduces the concept of low-paid bargaining. The stated intent is to assist groups of employees who traditionally have not had the benefits of enterprise bargaining.
5.7.2 The Bill does not define “low paid”, but the government has indicated that employees in the childcare, aged care, community services, security and cleaning industries are likely to be considered low paid as these employees often are paid the basic award rate. Significantly, this focuses on many of the same industries that the AFPC refers to in its previous determinations. As indicated by statements from unions in the above industries, up to 20 per cent of the workforce could have access to the low-paid bargaining stream.

5.7.3 Rather than simply facilitating for low-paid employees a key aspect of the stream is that the bargaining is on an industry-wide level and should parties fail to agree on, for example, rates of pay, Fair Work Australia is empowered to arbitrate the matter. Hence, businesses in a number of industries may be roped-in to the low-paid bargaining stream and may have to pay wages above the award safety net.
6. Economic Outlook

6.1 Preamble

6.1.1 At the time of filing submissions for the 2008 Minimum Wage Review, the affects of the drought were still being felt in South Australia. Notwithstanding this, the national economy was still riding high on the crest of the resources boom and the national unemployment rates remained at historically low levels.

6.1.2 However due to the rising interest rates at the time and the increasing uncertainty in international financial markets as the initial effects of the US sub-prime mortgage crisis began to unfold, Business SA cautioned against any excessive wage increase being granted by the Australian Fair Pay Commission.

6.1.3 Twelve months later, the major economies of the world are under siege as the global financial crisis began to deepen in the last quarter of 2008 and forced many countries into recession.

6.1.4 Australia’s economic outlook has also worsened as the impact of the global economic slowdown resulted in the slowing of business activity across the economy, in particular investment intentions and confidence.

6.1.5 Business owners and managers are increasingly becoming concerned about their businesses’ capacity to weather the economic downturn, as the full extent and duration of the economic crisis has been difficult to predict.

6.2 International

6.2.1 Economy in 2008

6.2.1.1 The world economy is slowing. Several advanced economies are close to or in a recession, while emerging economies are showing signs of weakening.

6.2.1.2 The global credit crunch changed the global financial landscape significantly. Many reputable financial institutions have gone bankrupt, prompting governments to intervene.

6.2.1.3 United States’ economic growth has slowed with an increase in unemployment and recession fears. After contracting at an annual rate of 6.2 percent in the last quarter of 2008, the largest decrease since 1982, the GDP is forecast to shrink further in the first quarter of 2009.
6.2.1.4 The Chinese economy is not immune from the downturn, with an evident weakness in construction, industrial production and trade. In the second quarter of 2008, year-ended GDP growth in China slowed to seven percent, from more than 13 percent in the same quarter previous year. The Chinese Government has responded by announcing significant stimulus packages, amounting to more than $500 billion, to avoid any further decreases in its economic growth.

6.2.1.5 Inflation

Inflation in many advanced economies is on a trend of decline, as global commodity prices decrease. In December 2008, year-ended inflation decreased significantly in China while the United States’ consumer prices were stagnant over the four months to December 2008. The figures imply that inflationary pressures, most pronounced until mid-2008 started to ease in late 2008.

6.2.1.6 Employment

United States experienced the most severe impact of the global financial crisis on its workforce, where almost 2 million people were retrenched in the four months from September to December 2008, similar to the numbers seen in the 1980s recession. The unemployment rate was at 8.1 percent in February 2009, the highest in more than 25 years.

In the United Kingdom, the unemployment rate increased by 0.4 percentage points in the December quarter 2008 to 6.3 percent. The European Union Statistics Office reported that the unemployment rate in the Euro region increased to 8.2 percent in January 2009, the highest in more than two years.

6.2.1.7 Business confidence

> Business conditions weakened in many economies, which in turn translated into a fall in household consumption and confidence. Business investment is on a downward trend, with large falls in the United States, Europe and Japan

> According to the latest UEAPME SMR Business Climate Index, business confidence among small and medium-sized firms across Europe declined by 14 points to 55.1 in February 2009, the sharpest fall ever recorded.
6.2.2 Forecasts

6.2.2.1 The global economy is slowing down and the contraction does not affect only the advanced economies. Trade activity is decreasing East Asia, evident in Japan registering its first current account deficit in 13 years.

6.2.2.2 Worldwide growth in 2009 is expected to be the lowest since World War II, despite the synchronised monetary and fiscal policies being implemented in several countries.

6.2.2.3 In January 2009, the International Monetary Fund forecast that the global economy would expand by 0.5 percent this year. However the president of the World Bank, Robert Zoellick, recently stated that the world economy could shrink by 1-2 percent in 2009, and added that the economic slowdown could extend well into 2010.

6.2.2.4 Growth in the emerging economies, such as China, is expected to be below that of previous years, while the Reserve Bank of Australia expects world economic growth weighted by Australia’s export share with each country to be nearly five percentage points less than the trend in 2009.

6.3 National

6.3.1 Economy in 2008

6.3.1.1 The global economic slowdown is affecting the Australian economy significantly. GDP data for the December quarter showed the economy shrank by 0.5 percent in the December quarter 2008, the first contraction in the GDP figures in eight years.

6.3.1.2 Most economists acknowledge that in July 2007 the US sub-prime mortgage crisis expanded to international financial markets and became the global financial crisis. More than $700 billion were wiped out from the Australian Stock Exchange since the start of the global financial crisis.

6.3.1.3 Superannuation funds were greatly affected by the fall in stock values. In the year to September 2008, balanced funds were down 12 percent, approximately $1 billion lost in super each day. It is the first time there has been four consecutive quarters of negative returns since compulsory superannuation was introduced in 1992.
6.3.1.4 Investment experts suggest that people nearing their retirement age are delaying their retirement plans for at least five years when their funds are predicted to have recovered.

6.3.1.5 Anecdotal evidence shows that a number of self funded retirees are looking for employment due to the impact of the share market downturn.

6.3.1.6 Inflation

> Inflation in Australia has been increasing in the past few years, however the December quarter 2008 figures from the ABS indicate that inflation is starting to ease. The Consumer Price Index (CPI) declined by 0.3 percent in the quarter.

> This decline was mainly due to lower petrol prices. However, the decline is expected to continue with lower consumer demand, commodity and agriculture prices and a fall in global inflation.

> Housing price pressures are also easing and are expected to contribute to a lower CPI in 2009.

6.3.1.7 Employment

> In its latest Economic and Social Indicators Monitoring Report, the AFPC acknowledged that employment growth was slowing Australia wide. The report mentioned that the business sector is expecting the labour market to weaken significantly during the course of 2009.

> Pressures on the labour market started to ease in the December quarter 2008. Employment grew by 0.2 percent in the quarter, translating into no growth in trend terms in the last quarter of 2008.

> In February 2009, Australian wide unemployment rate increased 0.4 percentage points to 5.2 percent, with a 47,000 increase in the number of unemployed from January 2009.

> There is a trend of a decrease in full-time employment and an increase in part-time employment. This is consistent with businesses’ reaction to previous economic crises.
6.3.1.8 Interest Rates

> The Reserve Bank of Australia (RBA) increased its cash rate target twice in both 2007 and 2008. On the verge of an economic crisis, the decision by the RBA to increase interest rates in February and March 2008 was a significant setback for the business community.

> After September 2008, when the affects of the global economic events became more evident in Australia, the RBA started its expansionary policy. The RBA decreased its official cash target rate from seven percent to 3.25 percent between September 2008 and February 2009. Businesses welcomed the rate cuts and urged the RBA to make avoiding a possible recession its highest priority.

> In the statement following the decision not to change the target rate in its March meeting, the RBA acknowledged that business sentiment was still fragile and reinstated its forecast of a decrease in inflation.

> The statement mentioned that, on the basis of the available information at the time of the meeting, the Australian economy had not experienced the large contraction seen globally.

> Given the recent contraction in the Australian Gross Domestic Product (GDP), the RBA Board is more likely to re-consider its position at its next meeting in April.

6.3.1.9 Trade

> As industrial production and business investment decreased, prices of commodity prices including iron ore and coal became significantly lower than the previous year’s contract prices.

> According to the RBA, spot prices of iron ore and thermal coal are around 20 to 35 percent below the current contract prices, although they have increased to some extent in February 2009.
> The latest ABS figures demonstrated that in January 2009, Australian exports decreased five percent to $24.2 billion. The ABS stated that the fall in non-rural goods was largely driven by the coal, coke and briquettes component, which fell $1,043m (19 percent).

6.3.1.10 Business Confidence

> Business confidence has been affected greatly by the global financial crisis and the waning consumer demand.

> The February 2009 Commonwealth Bank – ACCI Business Expectations Survey shows a continued decline in business confidence and reported business conditions, with the Expected Economic Performance and General Business Conditions indicators falling to their lowest levels since the survey began in 1994. There was a marked deterioration in investment, with Investment in Plant and Equipment contracting for the first time in the survey’s 14 year history.

> All survey expectations indicators are currently below their five year averages.

> The indexes of Employment and Overtime Utilisation also fell sharply to new historic lows over the December quarter. Together with lower expectations, the index points to a more rapid deterioration in job growth and a higher rate of unemployment over the first quarter of 2009.

> In contrast to recent years, firms are also reporting that a lack of demand has become more important as a constraint on output than difficulty finding suitable labour.

> Due to the fall in construction confidence since late 2008, the non-residential building sector has experienced a significant downturn. The number of approvals for private non-residential buildings fell by more than 15 percent from December 2008 to January 2009.
6.3.1.11 Disposable incomes and government assistance

> In its latest Economic and Social Indicators Monitoring Report, the AFPC acknowledged that measures of nominal wages grew over the past six months, between July and December 2008.

> The AFPC’s report focused on the circumstances of households with one adult worker on the Federal Minimum Wage. The modelling included income tax cuts to be introduced in the four (4) years between 2008-09 and 2011-12, changes to income tax thresholds, the Child Care Tax Rebate increase and Medicare Levy Surcharge threshold increase. The Modelling did not include one-off payments as part of the Federal Government’s stimulus packages.

> Economic modelling demonstrated that over the period from August 2005 to November 2008, the disposable incomes of all the households that were mentioned increased in real terms.

> The approximate real increases for each of the household types over this period were as follows:

- 12 percent for a couple without children
- 9 percent for a couple with two children aged 5 to 12
- percent for a single-parent pensioner household and a single person without children
- percent for a single-parent allowed with a child aged 8 to 12.

> Income tax cuts, falling interest rates, lower petrol prices and the Australian Government’s fiscal stimulus package provided a significant boost to real household disposable income.

> The federal Government will reduce personal income tax by $46.7 billion in the four (4) years between 2008-09 and 2011-12.

> The cuts have been directed at low and middle income earners.
> From 1 July 2008, the 30 per cent threshold increased from $30,001 to $34,001, the 40 per cent threshold increased from $75,001 to $80,001 and the 45 per cent threshold increased from $150,001 to $180,001.

> From 1 July 2009, the 30 per cent threshold will increase further to $35,001 and the 40 per cent tax rate will be reduced to 38 per cent. From 1 July 2010, the 30 per cent threshold will increase again to $37,001 and the 38 per cent tax rate will be cut to 37 per cent.

> There will also be an increase in the low income tax offset from 1 July 2008 to $1200. It will then rise to $1350 in 1 July 2009 and $1500 in 1 July 2010. The tax free threshold will increase to $14,000 in 2008-09, $15,000 in 2009-10 and $16,000 in 2010-11.

> As a result of these changes, a person earning $30,000 a year receives a tax cut of $450 in 2008-09. The person will pay $600 less tax in 2009-10 and $750 less tax in 2010-11 than in 2007-08.

**Projected weekly savings from tax cuts 2008 - 2010**

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> According to the RBA, interest payments have fallen from a peak of 15 percent of disposable income in June quarter 2008 to around ten percent in the March quarter and petrol prices have fallen by nearly 30 percent from an average of $1.60 per litre in mid-2008 to $1.15 per litre, which is equivalent to a boost of approximately one percent of real household income.
The latest ABS figures demonstrate that gross disposable income increased by 5.9 per cent in the December quarter 2008, mainly due to lower interest payments, declining fuel prices, tax cuts and government assistance.

The RBA estimates the Government’s one-off payments to low-to-middle-income families in December, as part of the $10 billion package, to have boosted disposable income by around 4.5 percent in the quarter.

The total cost of new policies announced since early October amounts to around $27 billion in 2008-09 (or 2.25 percent of GDP) and $22 billion in 2009-10 (1.75 percent of GDP). The stimulus measures include a combination of direct transfers to households, support for businesses and increased public investment.

In addition to the payments in late 2008, a second round of payments to households is planned for early 2009. The RBA estimates that the measures to support the business sector and boost public investment will have their largest effect in 2009-10.

The recently announced $42 billion package will contribute to households’ incomes in various ways.

*Tax Bonus for Working Australians* allocate $900 for each worker and is expected to benefit approximately 8.7 million taxpayers.

The Government is providing additional financial assistance to families that rely on one main income earner via the *Single Income Family Bonus*. The Bonus will be a one-off payment of $900 per family to every family entitled to Family Tax Benefit Part B (FTB-B), irrespective of the number of children. Families that benefit from the *Tax Bonus for Working Australians* can benefit from the *Single Income Family Bonus* at the same time.
> Another initiative, the Back to School Bonus is expected to assist 2.8 million children aged 4 to 18, over 1.2 million families across Australia receiving Family Tax Benefit Part A (FTB-A). The bonus will be a one-off lump sum payment of $950 per eligible child.

> Under the $42 billion stimulus plan, a couple which is on FTB-B can receive up to $1800; while a couple that is on FTB-A with 3 school-aged children can receive up to $4650.

> The package will provide further relief to low income families, with $6.6 billion to increase the national stock of public and community housing by about 20,000 units.

6.3.2 Forecasts

6.3.2.1 Respected economic forecaster, Access Economics, has indicated as much predicting that the resources side economies of WA and QLD may only be expected to face their worst years in 2009-10.

6.3.2.2 In the Mid-Year Economic and Fiscal Outlook, Commonwealth Treasury revised its GDP growth forecast for 2008-09 to 2 percent, ¼ of a percentage point lower than expected at Budget, and to 2¼ percent in 2009-10.

6.3.2.3 In its Economic and Social Indicators Monitoring Report, the AFPC recognises that the RBA revised its forecasts for inflation downwards since 2008 and that price pressures are expected to ease as the slowing in activity alleviates capacity pressures and reduces the pricing power of businesses. The RBA expects the underlying inflation to fall within its target range of 2-3 percent by December 2009.

6.3.2.4 The fall in commodity prices is expected to affect Australia’s terms of trade significantly. Terms of trade are forecast to decline by approximately 20 percent between late 2008 and early 2010.

6.3.2.5 ABS figures for February 2009 reveal that 54,000 full-time jobs were lost across all sectors while part-time jobs increased.
6.3.2.6 The unemployment outlook is in fact predicted to worsen over the course of the year with the Prime Minister indicating that unemployment is expected to increase from 4.5 percent in December 2008 to 5 percent by the middle of 2009.

6.3.2.7 While this is an acknowledgment, job losses are now a reality and the predicted increase is believed to be a fairly conservative one. Some private sector economists believe that unemployment will in fact be worse, increasing to seven percent by the end of 2009.

6.4 South Australia

6.4.1 Economy in 2008

6.4.1.1 In 2007-08, South Australia saw strong economic growth characterised by high commodity prices, strong business investment and solid consumer spending, with rising inflation being a major concern for businesses and consumers.

6.4.1.2 South Australian Gross State Product in 2007-08 was 3.8 percent, exceeding the Gross Domestic Product growth of 3.7 percent in the same period. However, the impacts of the global credit crisis and its effects on the State have become more evident since September 2008.

6.4.1.3 State Final Demand (SFD) grew by 5.1 percent in the year to the September quarter 2008, above the 4.1 percent growth recorded nationally.

6.4.1.4 Business investment is still the main contributor to the State’s growth and increased spending in plant and equipment has caused an increase in demand growth over the year.

6.4.1.5 After being negatively affected by high interest rates since 2006, housing construction activity in the State weakened significantly due to the lack of confidence brought on by the global financial crisis. Building approvals decreased from 953 in December 2007 to 857 in December 2008, a decrease of 11 percent.

6.4.1.6 Employment

> As of February 2009, there are 791,200 persons employed in South Australia.
> In general, the South Australian labour market has not performed as strongly as the national labour market. The annual rate of employment growth in South Australia has averaged 1.6 percent since June 2003, considerably lower than the national annual average growth rate of 2.5 percent over the same period.

> During February 2009, the State labour market showed a weakening trend. The Australian Bureau of Statistics Labour Force figures showed that the seasonally adjusted unemployment rate for South Australia in February 2009 was 5.8 per cent, 0.2 per cent higher than the previous month’s figures.

> Currently, South Australian unemployment rate is the highest of all States. In February 2009, youth full-time unemployment was at 19.5 percent, higher than the national average of 17.7 percent.

> The ANZ Job Advertisements Series February 2009 results show that the annual growth in South Australian job advertisements were 48.8 percent lower than in February 2008. The ANZ report states that the weakness in job advertisements is consistent with contracting labour demand and highlights the upside risk to the Australian unemployment rate. (Attachment A)

> Recent falls in commodity prices are having a significant impact on the resources sector in Australia. Recently, BHP Billiton announced a cut of 285 positions in the Olympic Dam Expansion Project. While this will have a moderate impact in overall employment in South Australia, there will potentially be larger flow on effects on other businesses.

6.4.1.7 Automotive manufacturing

> South Australia plays an important role in the Australian automotive industry. It is home to major operations by the car manufacturer GM Holden. It is also home to a cluster of component manufacturers and suppliers, such as Bridgestone Australia, Hirotec and Futuris Automotive.
The South Australian automotive industry comprises businesses involved in the manufacture of motor vehicles and motor vehicle parts including, tyres, steel and alloy wheel, engine components, rear-view mirrors, seats, suspension modules, mouldings and exhaust systems.

According to the Department of Trade and Economic Development (DTED), as of November 2008 10,100 people were employed in motor vehicle and parts manufacturing industry. Thirty five percent of all Australian cars produced in 2007 or 118,000 cars were made in South Australia.

$1.8 billion in relation to road vehicles, parts and accessories were exported in the year to December 2008, or 17 percent of the State’s total goods exports. According to the Department of Foreign Affairs and Trade (DFAT), in 2007-08 passenger motor vehicles were South Australia’s second largest export, with $1.4 billion.

Key export markets for road vehicles, parts and accessories exports include the United States, China, New Zealand, and Korea.

While the weakening Australian dollar in late 2008 has increased the attractiveness of Australian cars internationally; large falls in consumer demand in South Australia’s export markets such as the United States and New Zealand, has increased pressure on employment in the automotive manufacturing sector.

This is evident as GM Holden has recently begun reducing output, employee pay and hours. The company recently announced that it will reduce salaried employees worldwide by 10,000, or 14 percent, and also trim United States’ salaried workers’ pay by as much as 10 percent.

Anecdotal evidence suggests that when one position is lost at GM Holden, up to seven jobs are lost in the supporting South Australian businesses such as tyres, engine components, seats and exhaust systems manufacturers.

It can only be assumed that if the current conditions continue, employment in the automotive manufacturing industry will decline, potentially affecting more than 10,000 people in the State.
6.4.1.8 Drought

> According to the latest PIRSA (Primary Industries and Resources, South Australia) Crop and Pasture Report, South Australian crop yields were down about 25 percent in January 2009, about a quarter below the State’s 10 year average. (Attachment B)

> The two week heatwave in February 2009 has worsened the effects of the drought and forced wine grape growers at McLaren Vale, south of Adelaide, to start their harvest early. Some growers have indicated that up to 70 percent of their crop could be ruined by the extreme heat.

6.4.1.9 Business confidence

> Results from the Commonwealth Bank Business SA Survey of Business Expectations for the December quarter revealed that business confidence is being affected by the global financial crisis. (Attachment C)

> The Survey demonstrated that South Australian business confidence decreased 15 percent from the previous quarter. In comparison, businesses’ confidence in the Australian economy decreased 18 percent in the same period.

> Nearly 85 percent of businesses that took the survey expect an increase in unemployment levels in the March quarter 2009. More than 90 percent of the respondents expect interest rates to decrease in the same period.

> Despite the expectation of more interest rate cuts and the Federal Government’s fiscal stimulus plan, respondents were much less optimistic about the upcoming quarter than they were in the previous quarter in regard to total sales revenue and general business conditions.

> According to the March quarter 2009 Hudson Quarterly Report into Employer Expectations, there was a 13 percent fall in employer confidence in South Australia. The fall in confidence points out to the increase in the number of employers who intend to reduce staff.
6.4.1.10 Forecast

> According to the latest Access Economics Business Outlook, the severity of the economic downturn will depend heavily on falls in commodity prices, declining economic activity in China and levels of business and consumer confidence.

> Access Economics has forecast output and demand growth in South Australia to ease over the next two years, from 4.1 percent in 2007-08 to 2.3 percent in 2008-09 and 2.9 percent in 2009-10.

> The State Government has revised down its Gross State Product (GSP) growth forecast for 2008-09 to two percent. For 2009-10, GSP growth has been revised down to 2.25 percent, and SFD growth is expected to slow to 1.75 percent. (Attachment D)

> However, the largest decline in the level of ANZ job advertisements recorded since late 2007 is suggestive of further softening in new hiring activity in South Australia for the remainder of the year and into 2010.

> The State Government has revised down its forecast employment growth for 2009-10 to a quarter of a percent. While the December 2008 Access Economics Business Outlook states that in South Australia, the number of unemployed persons is expected to increase to 61,000 by 2009-10 and the unemployment rate will increase to 7.2 percent by 2009-10.

> After a promising start to the 2008-09 season, farm sector production prospects have been set back by poor rainfall outcomes for broad acre farming. Latest Australian Bureau of Agricultural and Resource Economics (ABARE) estimates for South Australian winter crop production indicate a 13 percent reduction from 2007-08 levels.

> Irrigated agriculture continues to suffer extremely adverse conditions as a result of continuing low flows in the Murray-Darling Basin system, with South Australian irrigation allocations currently at 18 percent.
7. **2009 AFPC Minimum Wage Review**

7.1 **Legislative Parameters**

It is Business SA’s understanding that the wage setting functions, legislative parameters and overall objectives of the AFPC remain the same for the 2009 determination as in the previous reviews.

7.2 **Economic Setting, Other Factors and Primary Focus**

7.2.1 The AFPC Chairperson, Professor Ian Harper, is on record warning that the protection of jobs will be the principle and guiding factor influencing the 2009 determination.

7.2.2 Professor Harper expressed deep concerns on any exacerbating effect on unemployment levels as a result of pushing the minimum wage too high.

7.2.3 Understandably, he also indicated that the final 2009 decision was by far the most difficult given the existing national economic slowdown and the absence of any clear indication to date on the full extent and duration of the global economic downturn and its effect on the national economy.

7.2.4 The Federal Government has also called for a hold on pay claims to help the country weather the economic crisis.

7.2.5 On the 29 January 2009, the Prime Minister issued an unprecedented call to Australia’s 10 million workers to forgo any pay rises.

7.2.6 “The magnitude of the global financial crisis almost beggars belief. Things will get worse before they get better. I can tell you that 2009 is going to be a tough year”, he said.

7.2.7 As reported in the Financial Review of 11 March 2009, pressure is also building on the Reserve Bank of Australia to deliver a further cut in interest rates next month as the national economy succumbs to the deep global downturn and unemployment is expected to soar (refer comments in 6.3.2.5 to 6.3.2.7).

7.2.8 We also refer the AFPC to our comments in 6.4.1.6 and 6.4.1.7 which further underlines the effects of the economic crisis on employment in South Australia.
7.2.9 In attempting to cope with the current economic situation in the short-term, employers are avoiding lay-offs by either reducing hours, restructuring rosters or by other means.

7.2.10 However, those options can only be considered and utilised over a limited time frame.

7.2.11 Further to our comments in 4.1, it is also becoming increasingly clear that in addition to the effects of the national economic slowdown, employers face the reality that award modernisation is also likely to further exacerbate a difficult situation and increase unemployment.

7.2.12 As employers become increasingly aware of the terms of their modern industry awards there are increasing reports across the country warning that the award modernisation process will significantly increase labour costs for employers in many industries and result in further job losses.

7.2.13 Even Unions have now acknowledged the cost pressures that employers will face as a result of award modernisation.

7.2.14 As reported on Page 1 of the Australian (12 March 2009), Unions are conceding the need to minimise the cost pressures on employers resulting from the award modernisation process and are prepared to accept phasing-in wage increases over the five (5) year transitional period.

7.2.15 The Liquor, Hospitality and Miscellaneous Workers Union (LHMU) National Secretary is also reported as not ruling out a wage rise deferral over the initial 12 to 24 months with higher increases implemented over the concluding stages of the transitional period.

7.2.16 It is against this background of major economic slowdown and uncertainty, rising unemployment, implementation of new industrial laws and awards, government cash handouts and tax cuts and falling interest rates that the AFPC is faced with its final determination.
8. **Summary**

8.1 In making its previous Minimum Wage Review decisions, the AFPC has indicated that it has to have regard to three (3) broad factors:

They are:

> Macroeconomic developments
> Employment of low paid workers
> The safety net and work incentives

8.2 Previous decisions have been made in circumstances where the AFPC has had a reasonably clear understanding of the prevailing economic and labour market environments and the likely impact of a particular wage increase on such factors.

8.3 The AFPC is currently faced with a significant degree of uncertainty in relation to both the economic environment and the labour market. In fact, there is growing evidence that the labour market is deteriorating rapidly.

8.4 Other factors likely to exacerbate this uncertainty are the implementation of new industrial laws and its many regulatory obligations on employers in the current recessionary environment.

8.5 Businesses in many industries are also likely to face increased costs and regulatory obligations flowing from the award modernisation process.

8.6 In responding to the growing levels of unemployment, the Government has continually urged restraint in wage claims and has in fact called on workers to forgo pay rises to prevent further job losses.

8.7 There are also growing signs from Unions prepared to exercise wage restraint in attempting to protect existing jobs.

8.8 The AFPC will also be mindful of the two fiscal stimulus packages handed down by the Government, the scheduled tax cuts and the falling interest rates, all of which are currently assisting employees.

8.9 Having regard to all of the above, of principle importance therefore is the need to protect existing jobs and Business SA calls on the AFPC to be mindful of this and other relevant factors when making their 2009 Review determination.
9. **Attachments**

(A) ANZ Job Advertisements February 2009

(B) Crop and Pasture Report - January 2009 (PIRSA Crop Report)

(C) The Commonwealth Bank Business SA – Survey of Business Expectations - December 2008 (SOBE)

(D) 2008 - 2009 Midyear Budget - Government of South Australia