> Submission to the Australian Fair Pay Commission

Minimum Wage Review

24 March 2009
1.0 CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND

1.1 As the peak business organisation in this State, the Chamber of Commerce and Industry Queensland (CCIQ, formerly Commerce Queensland) welcomes the opportunity to make a submission to the 2009 Minimum Wage Review. It is essential that the nation’s workplace relations system promotes and is conducive to flexible, creative and mutually beneficial working arrangements, which includes determining the appropriate minimum wage increase, if any, for 2009.

1.2 CCIQ is the State's largest business organisation. It has a State-wide membership across all industry sectors. In total we represent in excess of 25,000 businesses - 3,700 members spread across the State with links to 135 local chambers of commerce and 60 industry associations. A full membership profile is attached.

1.3 CCIQ is a member of the Australian Chamber of Commerce and Industry (ACCI). We support the submission made by ACCI to the 2009 Minimum Wage Review. CCIQ will provide specific economic information in respect to Queensland to highlight to the Commission the depressing economic outlook for this State.

1.4 CCIQ’s position is that there should be no wage increase granted for the 2009 Minimum Wage Case Review. In the current economic environment jobs are more important than a wage increase. Further, the Australian Government has provided financial relief in the form of two stimulus packages and also a reduction in the tax rates effective from 1 July 2009. These benefits are specifically targeted to the low pay families who are reliant on wage increases arising out of the minimum wage review.

2.0 OVERVIEW

2.1 Chamber of Commerce and Industry Queensland's submission to the Australian Fair Pay Commission's (the Commission) 2009 Minimum Wage Review is taking place at a time when Australia and Queensland are facing serious economic challenges with the economies in all likelihood heading into a recession.

2.2 The Review is taking place when Australia is facing its worst possible economic climate in many decades.
2.3 There appears to be no likely end to this downturn in the immediate future. The Australian Government has recently indicated that we are facing 'the deepest global recession since World War II'.

2.4 The Prime Minister and Treasurer have indicated that:

'No country will escape the impacts of the global recession, which is causing falls in growth, job losses and budget deficits right across the world.

The weight of the global recession is now bearing down on the Australian economy, economic growth is slowing and employment is weakening.'

2.5 There is evidence that inflationary pressures will decline over the next 12 months due to slowing of the global economy, declining wage pressures and other matters.

2.6 Business investment has declined.

2.7 Business confidence has declined and is at its lowest level on record.

2.8 Unemployment has increased significantly and is rising each quarter. It is predicted that unemployment could rise to 7% in 2009.

2.9 In Queensland the economic deterioration has seen a significant decline in business confidence as a result of reduced consumer spending.

2.10 The Queensland Government has announced a budget deficit as part of the 2008/09 Mid Year Fiscal and Economic Review (MYER).

2.11 Unemployment is expected to rise by 0.5% in the 2009/2010. However, it is likely that that this figure will rise during the 2009/2010 period.

2.12 Regional centres across Queensland, especially centres that rely on tourism are suffering.

1 Media Release Macroeconomic and Fiscal Outlook 3 February 2009
2 Media Release Macroeconomic and Fiscal Outlook 3 February 2009
2.13 The Wage Price Index is slowing due to the weaker demand to 3.25% in the next financial year.

2.14 Overall, the Queensland economy which has to some degree been protected due to the mineral boom in the past couple of years is now facing an uncertain future, due to global conditions. Like the rest of Australia, employers are laying off employees, reducing their capital expenditure, delaying or cancelling new construction projects or maintenance programmes and have slowed down production due to a lack of demand.

2.15 Under the *Workplace Relations Act 1996* there is no requirement for the Commission to grant a wage increase.

2.16 The majority of businesses that are paying the minimum wages would be classified as SMEs, and those businesses are already facing extreme economic times and added pressures such as a wage increase will only compound their despair. These are reducing their staff to meet the challenges they are facing due to these economic times.

2.17 The Australian Government has scheduled tax cuts from 1 July 2009 and has, during 2008/2009, provided two stimulus packages to the majority of families that would benefit from any minimum wage increase.

2.18 In order to protect jobs, the Commission should not grant a minimum wage increase for 2009. There can be no certainty of the impact that an increase would have on business viability, except to say it will cost jobs.
3.0 LEGISLATION

3.1 The *Workplace Relations Act 1996* requires the Commission to review the minimum wage taking into consideration the following criteria in performing its wage setting function:

- The capacity of the unemployed and the low paid to obtain and remain in employment;
- Employment and competitiveness across the economy;
- Providing a safety net for low paid workers; and
- Providing minimum wages for junior employees to whom training arrangements apply and employees with disabilities that ensure those employees are competitive in the labour market.

3.2 I will address the above criteria in Section 6.

4.0 AUSTRALIAN ECONOMIC ENVIRONMENT

4.1 CCIQ refers to the submissions made to the Commission by ACCI. It will show that the Australian economy has deteriorated significantly since the last review was undertaken. It shows that there is no clear indication of when the Australian Economy will improve.

4.2 The only fact that we do know is that this global recession is a having a significant impact on Australian industries and there is a great deal of uncertainty as to when the Australian economy will bounce back.

5.0 QUEENSLAND ECONOMIC ENVIRONMENT

5.1 The Queensland economy in 2009 finds itself with rising unemployment; business and consumer confidence at historic lows and one in three businesses revealing that they are in serious financial hardship as a consequence of the Global Economic Crisis. In looking forward there exists a real perception that things will get worse before they improve.
5.2 Over the past 12 months the St George - CCIQ Pulse Survey has revealed a significant decline in business confidence, with business expectations for the Queensland and Australian economies falling to their lowest levels on record. This downturn is overwhelmingly attributed to considerably reduced consumer spending and confidence as a result of the Global Financial Crisis.

![12 Month Forecast – Australian and Queensland Economies](image)

Source: St. George Bank - CCIQ Pulse Survey of Business Conditions - December Quarter 2008

5.3 As part of the Pulse Survey respondents are asked to indicate the level of constraint that various factors place on their business' growth. The levels of ‘demand and economic activity’ and ‘political and economic stability’ are now firmly entrenched as the top constraints for the Queensland business community. Direct wages costs continue to be a major constraint on Queensland businesses.
5.4 CCIQ has surveyed our State’s business community on how the Global Financial Crisis is impacting on their operations. Key findings from the survey include:

- The largest issue for business at present is the devastating impact that the GFC is having on consumer and business confidence and accordingly their willingness to spend.

- One in three businesses has experienced a major to critical impact from the GFC with a commensurate downturn in their sales revenue.

- In looking forward there exists a real perception that things will get worse before they improve. Two thirds of Queensland businesses believe that their growth prospects over the next six months will be weaker in light of the GFC, and 40% have indicated that they anticipate having to reduce their employment levels over the coming months.

5.5 Both the Commonwealth Government and current State Government’s Mid-Year Fiscal and Economic Reviews confirm a significant revising down of annual economic growth rates for the 2008-09 financial year; a further reflection of the difficult economic environment currently confronting Queensland business operators.
5.6 At this time the damage may be recovered from, however ongoing business viability is under serious threat for many Queensland business operators. Little time remains for these businesses in which they will have the ability to recover.

5.7 The Queensland business community is now looking for a decision from the Australian Fair Pay Commission that will assist in allaying growing concerns about the economy. CCIQ believes that if the AFPC provides no wage increase recognisable of the difficult economic environment then this would provide considerable assistance to businesses and help improve confidence and inevitably investment and employment.

5.8 Global Economic Conditions 2008-09

5.8.1 The world economy has experienced a sharper downturn as a result of the global financial crisis than previously anticipated. Almost all major advanced economies are in recession, with growth in China and India now expected to slow markedly. Recent data indicates that the UK and US economies contracted 1.5% and 1.0% respectively in the December quarter 2008. Queensland’s two largest trading partners, Japan and South Korea, recorded a 3.3% and 5.6% fall in GDP respectively in the December quarter. This is the sharpest global contraction since the early 1970s oil crisis. As a whole, Queensland’s major trading partner economies are now expected to contract by 0.7% in 2009. This outlook represents the
poorest in living memory and the first time our trading partners, in aggregate, have been forecast to contract.

5.9 Domestic Economic Outlook 2008-09

5.9.1 Queensland is still forecast to grow at a stronger rate than the national economy but our State’s economic indicators for 2008-09 are expected to be significantly weaker than previous years. In the table on the previous page we see a significant revising downwards of growth forecasts for 2008-09.

5.9.2 Reflecting the deterioration in the world economic outlook and continued tight credit conditions, economic growth in Queensland is now forecast to be 2.5% in 2008-09, below the 3% forecast in late 2008. This is mainly due to a weaker outlook for exports, with a sharp deterioration in global steel production expected to suppress coal exports in 2009, as well as a scaling back in metals production due to low base metal prices.
5.9.3 Approvals for the construction of new residential dwellings have continued to fall. However, housing finance approvals have shown signs of recovery in recent months, following changes in transfer duty concessions by the Queensland Government, the extension of the First Home Owner Grant (FHOG) in October 2008, and cuts in official interest rates of 400 basis points between September 2008 and February 2009. These factors, as well as continued population growth, are expected to translate into a recovery in new construction activity in 2009-10.

5.9.4 With equity prices remaining subdued and house prices falling in late 2008, growth in consumer spending is forecast to be weaker. Lower variable mortgage rates and the Australian Government’s Nation Building and Jobs Plan should support disposable incomes, however households are only likely to increase spending until such times as consumer confidence improves.

5.9.5 Employment growth is forecast to slow and unemployment forecast to rise over the remainder of the financial year. Employment growth is forecast to slow to 2.25% and the unemployment rate is expected to rise to 4.25% in year-average terms. This forecast implies a rise in the monthly unemployment rate through the second half of the financial year, with the trend unemployment rate already rising from 3.7% in July 2008 to 4.1% in January 2009. This deterioration will continue into 2009-10.
5.9.6 Due to a sharper than expected decline in oil prices, inflation is forecast to be a more modest 4% in year-average terms in 2008-09. This will in turn ease wage pressures, with the Wage Price Index forecast to rise by only 4%.

**Consumer and Labour Price Indexes**

5.10 Economic Outlook 2009-10

5.10.1 Overall economic growth is forecast to slow to 1% in 2009-10, largely reflecting a softening in business investment and a cautious household sector. After doubling over the previous five years, business investment is expected to have peaked, with construction activity related to the mining, commercial property and retail sectors expected to fall.

5.10.2 Exports are expected to recover slightly in 2009-10. However, this largely reflects a turnaround in rural exports, which are less sensitive to changes in global incomes and where good rainfall has improved growing conditions.

5.10.3 Dwelling investment is also forecast to recover in 2009-10, due to the lagged impact of lower interest rates and the $21,000 FHOG for new home contracts signed before 1 July 2009.
5.10.4 Recent falls in house prices, combined with lower interest rates, have improved housing affordability and should encourage housing demand. Furthermore, annual population growth is forecast to remain around 2.25% over the forecast period, reflecting ongoing high interstate and overseas migration. As a result, underlying demand for dwellings is also expected to support a recovery in construction activity.

5.10.5 Employment is expected to decline by 0.5% in 2009-10, consistent with slower growth in consumer spending and the outlook for business investment. As a result, the year-average unemployment rate is forecast to rise to 6.25% in 2009-10. Weaker labour market conditions are anticipated to slow growth in the Wage Price Index to 3.25% next financial year.

5.10.6 Headline inflation is forecast to ease to 2.25% in 2009-10, reflecting weaker growth in domestic economic activity and an easing in capacity constraints.

5.10.7 Conclusion

While there is considerable uncertainty about the timing of recovery, the Queensland economy is projected to return toward long-run rates of growth over 2010-11 and 2011-12, in concert with national projections. Economic growth is projected to average 4% per annum, while employment growth is projected to average 2.25% over this period. These projections assume a return to average growth in the world economy and the effective functioning of the global financial system.

6.0 CRITERIA – WAGE SETTING FUNCTIONS

6.1 The capacity for the unemployed and low paid to obtain and remain in employment.

6.1.1 In the last couple of years there has been significant growth in the economy that has resulted in low unemployment rates across all industries and across all States and Territories.

6.1.2 The economic outlook is for a deteriorating economy that is heading into a recession, high unemployment levels, low business confidence and a slower growth in the Wage Index.
6.1.3 Any increase in the minimum wage will impact on the unemployed and low paid workers remaining in employment. Granting a wage increase in the current economic environment will result in further redundancies and less incentive for employers to recruit new employees.

6.1.4 The Commission must maintain an incentive to keep employees employed or to recruit. It is our submission that if the Commission does grant a wage increase it will result in a negative reaction from SMEs who are struggling to survive.

6.1.5 2009 should be a year where we do everything possible to ensure that employees in all industries, especially in the low pay industries that are predominately award employees, retain their employment. To sacrifice a wage increase for retaining a job must outweigh all the arguments that will be put forward why a wage increase should be granted. By not granting a wage increase for 2009 will have a more beneficial impact on our economy by retaining employees in employment and will assist the Australian economy to recover. The single greatest contribution a business can make to support low paid workers is to provide secure ongoing employment.

6.1.6 Employees that will be affected by not granting a wage increase will benefit from the scheduled tax cuts that will apply from 1 July 2009 and the two stimulus packages that have already been delivered by the Federal Government.

6.2 Employment and competitiveness across the country.

6.2.1 The Australian economy has taken a significant fall since the last time the Commission reviewed the minimum wage. As stated above, the decline in the Australian economy has resulted in:

- Inflation pressures declining;
- Wage pressures are slowing as more employees are losing their employment;
- WPI is expected to reduce as a result of a weaker labour environment;
- Interest rates have reduced as a result of the Reserve Bank of Australia taking action to try to stimulate the economy;
- Wage outcomes in Collective Agreements have reduced;
- CPI has declined but is still unpredictable under the current economic environment.
6.2.2 Based on the economic indicators, to grant a wage increase under the current environment will have a negative and significant impact on employment, especially in Regional Queensland which is already suffering from the global crisis due to significant reduction in tourists visiting the regions.

6.2.3 On balance the Commission should not grant a wage increase for 2009.

6.3 Providing a safety net for the low paid.

6.3.1 The Commission in its 2008 decision stated:

‘The Commission considers that the Australian income safety net comprises minimum wages, tax benefits and income support payments.

By definition, the safety net concept is primarily concerned with the living standards of people at the lower end of the income distribution. The Commission therefore focuses its attention mainly on those households that rely most heavily on minimum wages; either alone or in combination with income transfers’.3

6.3.2 The Commission, in considering this issue, should take into account that CPI is falling, tax cuts have been scheduled for 1 July 2009 and the two stimulus packages and the low interest rates will provide relief for the majority of employees that would be impacted if the Commission decides to not to grant a wage increase.

6.3.3 In our view, if it was choice of a job or a low minimum wage increase, the majority of employees that will be affected would elect to keep their job, and forego this year's compulsory wage increase.

6.4 Providing minimum wages for juniors, disabled employees etc.

6.4.1 For the reasons given earlier, no employee including junior employees or employees with disabilities, or employees to whom training arrangements apply should receive an adjustment to their minimum wage.

3 Australian Fair Pay Commission 2008 Decision p 12
7.0 ISSUES ARISING FROM THE PREVIOUS DECISION

7.1 The Commission in the 2008 Minimum Wage Decision granted a $21.66 per week increase, effective from 1 October 2008.

7.2 There is minimal evidence to suggest that the 2008 Decision impacted on employment in Queensland. The decline in employment was not as a result of the 2008 decision but as a result of the global crisis that hit Australia.

7.3 Due to the economic downturn that has rapidly occurred, it is difficult to provide any true assessment of the impact of the 2008 wage increase.

8.0 CONCLUSION

8.1 The majority of the evidence will show that Australia is facing a severe economic downturn that will impact on all Australian employees, especially low paid employees.

8.2 Higher unemployment rates are already impacting on employees seeking to maintain their standard of living.

8.3 A lower inflation rate will assist in lower prices of goods and services paid by consumers.

8.4 Lower interest rates will assist low income earners in meeting their financial commitments.

8.5 The impact of the two stimulus packages and the scheduled tax cuts will assist the low income earners who generally rely on wage increases arising out of the Minimum Wage Decision.

8.6 CCIQ’s submission is that due to the severe economic conditions impacting on Australia, the Commission should not at this time grant a minimum wage increase.

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