3. Review of the Economic Statistics

Economic Growth

[3.1] There are two senses in which it can be said that the Australian economy is performing quite well at the moment, both of which should put present circumstances into their proper context. The economy is performing quite well in relative terms – relative to where we were and relative to what is around us. But unquestionably it is underperforming relative to its potential.

[3.2] Let us therefore look at Australia's current economic performance in its proper context. To begin with, the economy is performing well in the sense that after one has fallen into a hole and then climbs back out again that one can say that there has been some kind of upturn. If one forgets the preceding downturn one can then state that the upturn is a positive move forward. One should not, however, forget the preceding downturn to understand the relative nature of our current economic conditions.

[3.3] The second aspect of why it is considered that the Australian economy is doing very well is because of the surrounding problems across the world. Whether one looks to the United States, or to Japan, or to Asia generally, or to Europe, what one finds are economies which have entered recession or near-recession and are experiencing a sharp slowdown in activity.

[3.4] There is almost a sense of disbelief that surrounds our current position. It is as if someone had been in the middle of a major automobile accident and had come out of it looking around at the wreckage and is in the process of checking to see if there are any broken bones and is astonished to find there are none. In this sense Australia is doing extraordinarily well since while most of the developed world is in the midst of a serious slowdown, not all of it stemming from the effects of September 11, Australia remains, at this stage, and as a whole only mildly affected. Sectorally, though, there are adverse impacts, as evidenced by the submissions separately put by our member, the Australian Hotels Association, which are supported by ACCI.

[3.5] But at the same time it must be recognised that there are profound weaknesses in the Australian economy. These are weaknesses which justify a prudent and conservative wages outcome in this Safety Net hearing.

[3.6] There is, firstly, the fact that the recovery has to date not been widely based. Much of what strength there is has been in the area of household consumption and therefore, whatever else we as a nation may be doing, we are not building for a stronger future.

[3.7] Secondly, even where private investment has been strong, it is to a large extent no more than a reversal of the previous downturn in the housing sector. Even there, how far into the future this housing construction upturn will continue is a matter of some conjecture since a good deal is based on the First Homeowners Grant Scheme.

[3.8] Moving beyond dwellings construction, the level of investment in the private sector remains weak and while there are indications that it will strengthen over the period ahead, the aim must be not just one quarter of good growth or even just a single year, but investment growth that continues at strong rates on a continuing basis. There has been a marked downturn in the level of business investment over the past year in which there has been an actual contraction. Until this is reversed and growth is occurring at far more rapid rates, the recovery will not be in any sense complete.

[3.9] There is then the labour market. The actual number of full-time jobs in Australia had contracted through the later half of 2000 and the first part of 2001. There has now been the commencement of an upturn in the labour market, but we have not even yet returned to the level of full-time employment we had already achieved more than a year ago.

[3.10] There is then the issue of inflation. The CPI has, at December, exceeded the Reserve Bank's 2-3% target range. At December, the CPI was measured to have grown by 3.1% across the year. The Reserve Bank has itself been at pains to point out that this upturn in the CPI is expected to be temporary and that the inflation rate will fall back within the 2-3% range over the coming half year.

[3.11] But it is crucially important that the inflation rate is kept below the RBA target figure. Whatever minimal good a Safety Net increase might do to some

within the economy, raising the level of interest rates to contain an inflation that higher labour costs set off will cost many individuals increases in real income through the higher interest payments they make and through the additional job losses that would inevitably occur if interest rates began to rise sooner than they otherwise might have done.

[3.12] There is then the data on labour cost growth. The latest data on Average Weekly Ordinary Time Earnings has shown a sharp upturn in the level of earnings in Australia which ought to have set alarm bells ringing, especially within the Reserve Bank. Here, more directly than in any other area, can be seen the dangers that arise from granting across-the-board increases in the way we have. Wages costs are rising more rapidly than productivity growth and the effect is spilling over into higher inflation.

[3.13] If, through these increases in the cost of labour, we touch off further growth in the level of interest rates in Australia, whether directly through Reserve Bank action or indirectly through financial markets building in an inflationary risk premium because of concerns about the future growth in the price level, the effect will be the same. There will be fewer jobs and real incomes will grow more slowly. This is, surely, not the outcome we are looking to achieve.

[3.14] Turning to the data on the economy found at Tag XX, we find a table and a chart for each set of figures we are intending to examine. The table takes this review back to 1993. The charts generally have a longer time frame, with the data usually commencing during 1989.

Gross Domestic Product

[3.15] The first set of data in Table 1 are for Gross Domestic Product. The table shows the long period of strong rates of growth which occurred within Australia across the entire period from March 1993 through until the start of the calendar year 2000. It will be seen that the December quarter 2000 has the lowest growth rate at any point during that period of time. There the rate of economic growth fell, in trend terms, to 0.1%. In seasonally adjusted terms as the chart shows, there was actually a contraction in the level of GDP in that quarter.

[3.16] The aim now, clearly, is to return the rate of growth towards the kinds of improvement that had become common during the latter half of the 1990s and then maintain our growth rate at that level. These were, it might be noted, periods of not only rapid growth but also of low inflation. It is clearly possible to have both at one and the same time.

[3.17] It should also be recognised that this period of rapid growth coincided with rapid increases in the real level of earnings. It was the growth in the underlying strength of the economy which made possible the real increases in wages that had occurred concurrently with higher levels of employment.

Gross Non-Farm Product

[3.18] Table 2 deals with Gross Non Farm Product. The data shows the same downturn and upturn as in the previous set of figures. There is a downturn which commences from around the March or June quarter of the year 2000, that is it commences before the introduction of the GST, and it continues through until reaching a trough in the December quarter 2000. Since then there has been some upturn in the level of Non Farm Product so that, as at September 2001, the level of growth is 2.6% higher than it was in the previous September.

Household Consumption

[3.19] Table 3 shows the data on Household Consumption. This is the largest component within the expenditure sector of the National Accounts. The data show the downwards movement and then subsequent upwards movement in the level of consumption growth.

[3.20] The data show that the downturn commenced around the March quarter 2000 and continued downward during the June quarter 2000 which is quite against the grain of those who believe that the GST had been the cause of the recession. The slowdown had, instead, followed the increases in interest rates by the Reserve Bank and preceded the introduction of the GST in the September quarter. If anything, one would have expected the level of spending to have been pulled forward into the quarters prior to the introduction of the GST but instead, as the data show, there was a slowdown in spending rather than an increase.

[3.21] Those observations aside, it will be seen that it is household consumption which is the crucial factor in holding up the rate of economic growth. It is production for consumer items that is the most important growth area of the economy at this time. It is, of course, good that this area has been doing well, but it also is something of a concern, as we show in the next few tables, that the economy is as dependent as it is on the level of domestic consumption.

Private Sector Investment

[3.22] Table 4 shows Private Sector Investment in real terms. It will be seen that the negative quarters represent the worst period of Private Sector Investment since the much deeper recession of 1989 through until 1992. But the current downturn is bad enough.

[3.23] To some extent the growth rates on the table going back a number of years are difficult to interpret because of the privatisations which had occurred during the 1990s. This created an appearance of a more rapid rate of growth than was warranted by the underlying condition of the private sector.

[3.24] But whatever may have been past relationship between these statistical series and reality, the present downturn is a legitimate reflection of economic conditions and as the data show, beginning in the June quarter 2000 there was a four quarter period during which private sector investment contracted. It will also be seen that even though there has been some upturn in the level of investment, as at September 2001 the level of investment has not returned to the level that had already been achieved in March 2000.

[3.25] The poor investment picture for Australia is one of the crucial issues in this Safety Net hearing. What must remain one of the most important considerations in reaching a decision are questions in relation to the effects of an increase in the cost of labour on investment because it is the rate of improvement in the level of private sector investment that will determine, over the medium and longer term, what the rate of growth in real earnings will be. It is private sector investment that will have the largest determining influence on real incomes. And to the extent that we continuously slow investment down

below rates that would otherwise be achievable we are doing those things that will ensure that the real growth in earnings is lessened.

[3.26] There is some optimism at this time that there will be an upturn in private sector investment, not so much during the present financial year but sometime during the financial year to come.

Actual and Expected Capital Expenditure

[3.27] Table 5 shows Actual and Expected Capital Expenditure within the private sector. These figures show the expected level of investment during the financial year as recorded at different moments during the prior financial year and then while the financial year is underway. The most recent figures available for the present financial year are what are marked as "Estimate 5", which are for the six months actual to the December quarter to which are added the six months of expectations which cover the March and June quarters, which are the remaining quarters of the financial year.

[3.28] There are then the figures marked Estimate 1 which are the first expectations for the financial year 2002-03.

[3.29] Looking at the data in "Estimate " in relation to the financial year 2001/02, we see that the growth rate expected at this time is 4.1%. These figures are, moreover, recorded in current prices so that some estimate of the growth in prices during the period must also be factored in to arrive at a calculation of what the real growth in investment will be.

[3.30] The graph shows that the trend in the level of Capital Expenditure over the past four years has been continuously downward with a possible, and then only very slight, upward shift during the current financial year.

[3.31] The data merely reinforce the point that there has only been, at best, a marginal improvement in investment during the present financial year.

[3.32] The data looking into the financial year ahead are much more positive. Although there can and often is much slippage between these first estimates and the actual outcome sixteen months ahead, the figures do portray the possibility of an upturn in business investment. As this will be occurring as the effects of

the First Home Owners Grant Scheme begin to taper off in the dwelling construction area, it is a providential upturn that will be crucial to the future economic success of the Australian economy.

Dwelling Investment

[3.33] The data on Dwellings Investment provide the now very familiar story of the strong growth rate in dwelling construction prior to the introduction of the GST which was then followed by a very precipitous downturn in the quarters that followed. There has now been something of a return towards better conditions but as the data in the table show, to drop by 26.6% over the four quarters to March 2001 requires a reversal of more than the 11.8% that has happened since. It can be seen that the level of dwellings investment at September 2001 remains well below the peak achieved in the June quarter of the year 2000.

[3.34] It is also important in understanding the future dynamics of this sector of the economy that the First Home Owners Grant Scheme will be coming to an end in the period immediately ahead. Thus, one of the major aspects of the momentum currently being experienced within the dwelling construction sector will be removed. It is the hope of those monitoring the economy in Treasury that other areas of private sector investment will take up the slack. But what is almost certain is that there will a slowing in the growth in dwelling construction which will have its own consequences for economic growth overall.

Other Buildings and Structures

[3.35] The data on Other Buildings and Structures cover private investment in assets such as wharves, harbors, mine sites and commercial building in general. It is the smallest component amongst the major sectors of private investment but, small as it may be, it is a significant contributor to our overall economic prosperity.

[3.36] It will be seen that from the December quarter 1998 through until December 2000 there had been a very significant drop in the level of private investment in this area. This has been reversed, to some extent, during the last three quarters but it does remain, in general, a subdued sector of the economy.

Machinery and Equipment

[3.37] Table 8 shows the data on Machinery and Equipment Investment by the private sector. This is the largest component of private sector investment, encompassing about half of all of the Private Fixed Capital Formation.

[3.38] The data in the table show the fall of 7.4% over the year to September 2001 but also show, more hopefully, the increase of 0.4 in the September quarter itself. Private sector investment is comprised of Other Buildings and Structures, Machinery and Equipment plus Investment in Livestock and intangible fixed assets. It attempts to provide a measure of investment in the non-dwelling aspects of Private Capital Formation which contribute directly to the productivity of the economy as a whole.

Business Investment

[3.39] The data in Table 9 show the lull in the level of business investment during the most recent quarters with the small upturn of 0.5% a hopeful sign for the future.

[3.40] It is investment that is the basis for productivity growth. There has indeed been productivity growth of a kind during the last few quarters in Australia but this has little to do with making the economy more productive, but rather has been a consequence of the full in hours work. This is what we have referred to in previous cases as spurious productivity because rather then representing an actual increase in the productiveness of the economy, what it actually does is demonstrate that if labour costs go up then productivity will be found one way or another and the most expedient and rapid way to generate productivity without actual investment is to reduce the level of employment.

[3.41] It is only when we see rising levels of investment in each succeeding quarter that it can be said that there is a basis for rising productivity in the years ahead and it is only upon this basis that higher rates of wages can be genuinely contemplated without concerns about the implications for the unemployed.

Imports and Exports

[3.42] The data on Imports and Exports shown in Table 10 portray a downwards movement in both components of Australia's international trading position. It will be seen that the exports figures has been on a downward trend since the peak reached in the December quarter of 1999. Since then, in each succeeding quarter, although there has been positive growth in the level of exports, nevertheless, in each quarter the growth rate has been lower than in the quarter before. The growth as at September 2001 was a mere 0.2%.

[3.43] The fall in export growth obviously commenced prior to the events of September 11 which can only make this situation, which was already showing reasons for concern, an even worse situation. The production that would otherwise have become overseas sales can be diverted towards domestic markets. Thus falling exports can itself be a contributing cause of falling imports.

[3.44] The details on the similar fall in imports, which began to slow around the September quarter of 1999 and became negative one year later, do on their own suggest that there may be some diversion from domestic production into import replacement.

[3.45] Because the level of exports remains positive while the level of imports have been negative, the effect on GDP has remained positive. Nevertheless, these falling levels of exports, along with the falling level of imports should be a consideration in assessing the medium term prospects for the Australian economy.

Employment

[3.46] We now turn to look at the crucial issue of the labour market. The first of the employment tables, Table 11, shows the movement in the total level of employment, and comprises both full-time and part-time employees. The data for the March quarter are actually those for January alone, which is all that has currently been published. However, the January figure has been compared with the figure for the month of October 2001 to get the quarterly growth rate and

with January 2001 to calculate the annual growth rate. The data are all in trend terms.

[3.47] The chart shows the steep decline in employment from around December 2000. There were many contributing factors causing that steep decline which included the slowdown in the economy engineered by the Reserve Bank, the ending of the Olympics and effects in the labour market of the introduction of the GST.

[3.48] That our explanation sees a primary role for the increases in interest rates we would defend by using the example of the two previous such declines which occurred in the period from the end of 1989 through until the period at the end of 1991 and again from towards the end of 1995 through until the beginning of 1997. Both of those were the result of increases in interest rates which slowed the economy. It is for this reason that labour market outcomes consistent with maintaining low rates of inflation, and which do not trigger the Reserve Bank into a reaction of its own, are extremely important for future labour market growth.

[3.49] We would also note that increases in the Safety Net will also have meant that the growth in the labour market was not as rapid as it would otherwise have been. The Safety Net increases have not been the primary cause of the slowdown in employment, but have contributed to it.

[3.50] It will be seen that the growth rate across the four quarters to March 2002 is around 1.2%. This is certainly an improvement on the most recent quarters but it is hardly a stellar performance. Across the entire nine year period shown on the table, the average annual rate of growth has been 2.1%. Thus the 1.2% over the past year is certainly well below rates of improvement Australia has been able to achieve over recent periods.

[3.51] It is always well understood that employment growth is a lagging indicator so that if recovery continues the expectation would be that employment growth would accelerate beyond its present poor quarterly growth rate. But it is not an outcome that will happen of itself but must be contributed towards through all arms of policy: fiscal, monetary and wages.

[3.52] The labour market is currently subdued. It suffers from structurally high rates of unemployment. It is clearly underperforming, despite multiple years of economic growth. Efforts will need to be taken to ensure that a recovery in the number of jobs is hastened and accelerated.

Unemployment

[3.53] The data on the number of unemployed also show that effects of inappropriate domestic policies, including the effects of higher interest rates on labour market activity. In the period 1989/1991, then again in the period 1994 through until 1996, and once again from the end of 2000 through until the beginning of 2001 we can see the effect on the labour market of rising rates of interest.

[3.54] To reduce the level of unemployment the trend line must, of course, be under the zero percentage change line. It is only when the data are negative in this table that unemployment levels are actually falling. At this stage, the recovery does not yet appear to indicate that a falling number of unemployed will be the near term prospect within the Australian economy.

Unemployment Rate

[3.55] Table 13 shows the data on the rate of unemployment. Towards the end of calendar year 2000, there was some discussion about the possibility that the unemployment rate would at long last fall beneath the six percent mark where it has not been for a number of years. Now the situation has been reversed and, in seasonally adjusted terms at least, the unemployment rate has now reached seven percent. It will be a long time yet before we are contemplating a fall below six percent.

[3.56] In trend terms the unemployment rate has reached about 6.8% for period up to December 2001 and again in the March quarter 2002. Rather than showing evidence that there is a fall in the unemployment rate in store for us over the near future, the current trends seem to indicate that the rate may hover in the high 6-point-somethings for a period and many forecasts suggest that the unemployment rate will rise above 7% sometime during the middle of the current calendar year.

[3.57] As the data in this chart so clearly demonstrate, an increase in the rate of unemployment which may take place in a matter of a few months will take many many years to reverse. The aim of policy should be not just to lower the unemployment rate when it becomes too high but to take whatever steps are necessary to keep unemployment low so that efforts to lower unemployment again do not need to be taken. The employment consequences of inappropriate or excessive across-the-board award wage increases is relevant to such an outcome.

Full-time Employment

[3.58] The data on Full-time Employment provide a depressing picture of the current circumstance within the labour market amongst full-time employees. We have gone through three periods of contraction in full-time employment since 1989 although the slowdown which occurred between 1994 and 1997 was much less pronounced than that which has occurred in the earlier time and on this occasion.

[3.59] Since the end of the calendar year 2000 there was a period of a year in which the level of full-time employment continued to contract. Only since towards the end of 2001 has there been any upwards movement in the level of full-time employment but given that the upturn has commenced from a diminished based it will take some time yet before the number of full-time employees returns to where it had already been in September 2000. That may, of course, have set an artificial high standard because of the effects of the Olympics at the time, but it must still be an objective to return full-time employment to a level that we are obviously able to support.

[3.60] A period of steady employment growth over the year ahead will take us back to the level already achieved more than a year ago. The average growth in full-time employment across the period of this table is 1.5%. That first hurdle, returning to the level of full-time employment already reached in September 2000, should be achieved by the beginning of the coming financial year if the growth rate can be returned to its long longer run average.

[3.61] But that is the challenge still before us. Ensuring a moderate wages outcome is an essential part of the process that will allow a recovery in this most

important aspect of the labour market. Without a conservative approach at this time the required outcome is put at risk or at least will take much longer than it otherwise would need to.

Part-time Employment

[3.62] Table 15 shows the data on Part-time Employment. What has allowed the labour market in general and the rate of unemployment in particular to appear somewhat better than it actually is has been the strong growth in part-time employment during the past few quarters. The average annual growth rate in part-time employment over the period of the table is 4.1%.

[3.63] In the last few quarters the average annual growth rate has been much higher than that average and exceeded the annual rate in the half year between June 2001 and September 2001.

[3.64] It is providential that the part-time labour market is capable of absorbing many of those who would otherwise have become or remained unemployed. Nevertheless, for many it is a very much second best solution to the form of employment that they seek.

[3.65] Overall then it can be seen that labour market remains subdued and there is little evidence at this stage of a rapid return to more robust conditions. The labour market is, as frequently noted, a lagging indicator and the hope and expectation is that so long as economic growth continues, the likelihood is that the labour market will return to better conditions. But as the old expression states, “there’s many a slip ‘twixt cup and lip”. The economy did slow last year and it is only at the start of a very tentative and subdued recovery. There are international economic conditions which continuously threaten to undermine the domestic situation. We all hope that better times are coming, but they have not come yet.

Consumer Price Index

[3.66] The data on the Consumer Price Index are extraordinary relevant to the issues of this case. Clearly at the top of the concerns is the Reserve Bank of Australia’s inflation target range which has as its upper limit a figure of 3.0%.

As will be seen, the annual movement to the December quarter 2001 is 3.1%, a rate of growth above the upper limit of the Reserve Bank's target.

[3.67] We would also note that we have adjusted the Consumer Price Index for the introduction of the GST. The annual data show the growth rate in the CPI reaching 6.1% in the September quarter 2000 following the introduction of the GST. The CPI remains in that range through until the June quarter 2001 when the four quarter movement across the year in the GST-affected CPI was still 6.0%.

[3.68] The more important figure is that for the GST-adjusted Consumer Price Index because it is this which removes the effects of indirect tax change. Since there were substantial personal tax cuts which were granted at precisely the same time that the GST was introduced, it is important that the CPI that we use abstracts from the movements in the recorded price level caused by these tax changes. Not to have adjusted for the GST would have meant that in terms of the effects on purchasing power, the CPI would have greatly overstated the movement in the price level which had taken place.

[3.69] But whether one uses the GST-adjusted CPI or the original series, as at the December quarter 2001 the growth rate was 3.1%, a figure above the RBA's target range. The expectations within the RBA are that the rate of inflation will fall back during the next quarter or two and remain within its target.

[3.70] But this is an outcome that certainly would not be achieved if the ACTU claim, or any thing remotely like it, were to be granted. An increase of 6.0% on the minimum wage and of even 2.5% on award rates of around $1000 per week would ensure that the inflation rate would accelerate beyond the current level. The increases sought by the ACTU are not matched by productivity. There is no underlying growth in the support for higher labour costs unless productivity is rising at the same time as wages.

[3.71] By putting the platform beneath the wages system, and therefore pressing the inflation rate higher than it would otherwise have gone, edges the Australian economy closer to that moment when the Reserve Bank would see itself compelled to raise rates once again. As our previous data have shown, raising rates has a devastating effect on the labour market but we have already

been made more than well aware that the Reserve Bank sees inflation as a far more important issue than short to medium term rates of unemployment.

Full-time Adult Ordinary Time Earnings

[3.72] The data on earnings growth are often volatile which is shown by the seasonally adjusted data which lies across the darker trend figures on the chart. Nevertheless even with the zigzag pattern shown by the trend data, what is unmistakable is the growth in the earnings figure which has continued to trend upwards.

[3.73] This is shown on the table where the 5.9% growth rate in November 2001 is the highest has been during the entire period shown by this table.

[3.74] It is of some interest that these data are consider unreliable because of the compositional and distributional effects that emanate from the labour market. The way these are calculated is that the total amount paid to adults as ordinary time earnings is divided by the number of persons who are earning those incomes. And while there are distributional effects that can be caused between the growth in male and female employment or because of different levels of employment between industries, at the very bottom of this estimate is that the average goes up either because the numerator increases or the denominator goes down.

[3.75] Where one might look first for such distributional effects would be in an increase amongst the more highly paid male employees relative to those of the more lowly paid female employees on average. But no such differential is shown on an annual basis either in the trend data or in the seasonally adjusted data. If anything, the growth in female earnings has been more rapid than the rate for males.

[3.76] It is also conceivable, although very unlikely, that there has been some major distributional change in the composition of the workforce over the past year that has continuously led to an increase in this average series.

[3.77] Indeed the only compositional shift that is clearly visible within the data are the differences between the public sector and the private sector. According to the trend data, in the public sector, the growth rate in earnings over the year

has been 4.8%. In very sharp contrast, the growth in the private sector full-time ordinary time earnings has been substantially higher at 6.3%. And this substantially higher growth rate has not just occurred in the most recent quarter but has been evident within the data for three quarters since May 2001.

[3.78] And what is interesting to contemplate is the possibility that the average has been rising because those on the lowest incomes are leaving the labour force. That is, the one distributional shift that can cause the average to rise without there being an increase in actual wages paid would be for those at the bottom of the pay scale to be employed in relatively lower numbers.

[3.79] While many wish to simply dismiss the Average Weekly Earnings data as an inaccurate reflection of current labour market movements, and therefore of no consequence in understanding current adjustment processes within the economy, one would be very unwise to ignore these data entirely. Given the firming of the inflation rate one cannot just dismiss these figures as irrelevant to an understanding of current economic conditions.

[3.80] The rise in ordinary time earnings of 5.9%, and within the private sector by a rate of 6.3% across the previous twelve months, is a circumstances that should be of direct concern. It may indeed mean nothing at all and be a result of flaws within the statistic itself, but to ignore one of the traditional danger signs of this economy may mean that we are ignoring until much too late sets of data which are in actual fact providing a reasonably accurate picture of what is taking place within the labour market.

[3.81] The problem with across-the-board wage increases, as we have noted in the past, is that the adjustment processes of the economy become more difficult to achieve. If the Safety Net is flowing far and wide, as we believe it is, then for an adjustment process in the labour market to successfully attract employees into new and expanding sectors of the economy requires increases greater than the amounts paid through the Safety Net. The amount equivalent to the Safety Net is, to some extent, now merely to match what others have already received in exchange for no improvements in productivity. Therefore, to get workplace change, or to attract employees to an enterprise, requires an employer to pay more than just the Safety Net amount.

[3.82] It is impossible, obviously, to know what it is that has caused this statistic to rise in the way is has so relentlessly done over the past nine months. But it is a trend that needs to be considered within the context of this case because if the Safety Net increases are going to be continuously granted year in year out employers will discover that to attract new employees or to reward higher skills and performance, means that an increase above that granted through the Safety Net will have to be paid.

Real Full-time Adult Ordinary Time Earnings

[3.83] Table 18 shows the data on Ordinary Time Earnings adjusted for the price levels. We have here used the GST adjusted CPI to calculate the Real Average Weekly Ordinary Time Earnings figures.

[3.84] And the important point to note is that real earnings have continued to rise even as the labour market has contracted. But to the extent that this is a compositional effect, it may, as we have already noted, be no more than a reflection that those at the bottom of the pay scale, those whom the ACTU is trying to protect, are losing employment more rapidly than those at the upper ends of the pay scale, or are finding it more difficult to get the jobs that are created.

[3.85] But whatever may be the cause of the rise in real earnings, and the rapid rise in the growth in Ordinary Time Earnings, the consequence is that real earnings are higher, as the table shows, by 2.6% relative to their position one year before.

Wage Cost Index

[3.86] Table 19 shows the data on the Wage Cost Index. These figures are for both the private sector and the entire economy.

[3.87] These figures provide a benign picture of the labour market and the growth in wages. Rather than the more pronounced growth rates shown by the earnings statistics these data show a lower rate of growth.

[3.88] This series was only introduced at September 1997 and has yet to show much variation in its annual growth component. It has had a fluctuation from a

low of 2.8% recorded in March 1999 through to a high of 3.7% recorded in June 2001, using the private sector data. It is hard to read anything from this table other than an indication that the series itself may be less revealing of the labour market than those who had urged the construction of a fixed waged index had hoped.

Real Wage Cost Index

[3.89] Table 20 shows the Real Wage Cost Index which adjusts the data in the previous table by the GST-adjusted Consumer Price Index. The data show that the strong real growth in real earnings that had continued through until the September quarter of 1999 appears to have ended and while some real growth has continued these figures, anyway, suggest a more subdued movement in real earnings.

[3.90] Taking these figures together with those of the Average Weekly Ordinary Time Earnings data requires some kind of resolution. Whether there is promotion going on within categories so as to provide increases in earnings without changing the wage structure, or that there are compositional effects affecting the data, is difficult to judge.

[3.91] What can be seen is that there are different representations of earnings growth in Australia and they tell very contradictory stories. One must hope that the Wage Cost Index is the more accurate of the two but there is no reason at this stage to believe that it is.

GDP Market Sector

[3.92] In turning to examine productivity growth, we first turn to examine the national accounting data on which these estimates are based. The first set of data shows Market Sector GDP in trend terms. The quarterly movements are somewhat erratic but these is no mistaking the very large fall in activity that took place during the September and December quarters. There has been some reversal of that decline in the period since but as at the September quarter 2001 the rate of growth in the market sector is only some 1.6% above where it had been the September before. Given that the average annual rate of growth

throughout this period is on average 3.6% per year, this is clearly an outcome well below outcomes only recently achieved.

GDP Per Hour Worked – Market Sector

[3.93] Possibly the most interesting aspect of this table are the data on hours worked in the second column. They show that since the June quarter 2000, there has been a continuous fall in hours worked so that at September 2001 the number of hours worked across the market sector has fallen by 2.2%. This outcome is a reflection of the fall in full-time employment and the rise in the proportion of employees who now work part-time.

[3.94] But what is significant in addition is that the 3.6% estimate of productivity growth over the four quarters to September 2001, shown in the final column is made up of a rise in Market Sector GDP of 1.6% and a fall in hours worked of 2.0%. That is between September 2000 and September 2001 there has been a reduction in the number of hours worked of 2.0%, and this combined with the growth in market sector output of 1.6%, produce a figure for productivity growth of 3.6%.

[3.95] Thus, the growth in productivity is not a consequence of an improvement in the underlying productiveness of the Australian economy so much as it is a reflection of a declining workforce. This is the form of productivity that we have regularly described in such cases as "spurious productivity". It is spurious because it is the kind of productivity that cannot be distributed to wage earners because what it is the product of is the actual reductions in the numbers of hours worked across the economy. There is no additional output to fund the increases in the cost of labour.

[3.96] But what this fall in the number of hours worked does achieve is that it allows an increase in productivity to occur so that the remaining hours worked can be afforded through the output of the firms involved. We make the point repeatedly that it requires productivity growth to finance higher real wages without causing a loss of jobs. But where wages rise more rapidly than productivity, the job losses that occur take place to allow the economy to adjust to the higher average cost of employment per employee.

[3.97] Increases in the cost of labour without simultaneous increases in the level of productivity must cost jobs. Either some people do not become employed in the first place, or those who are employed end up working fewer hours. The only productivity growth that really does count it productivity that occurs simultaneously with rapid increases the number of jobs and in hours worked.

Conclusion

[3.98] What the data in this review of the economic indicators attempts to show is that there is a recovery taking place but that it is once again at only an early stage and in relative terms off a low base. We have been in this position so often in the past decade that it is of concern that we have to go through this process as often as we do. Nevertheless, the economy did slow last year and that is where we must begin. The investment picture is poor and will only recover slowly. The labour market is depressed and while there has been some return to growth in the number of full-time jobs, we have a structurally high unemployment rate and it will still take some time before the same level of full-time employment is reached that had already occurred during calendar year 2000. And even while the number of jobs is slowly increasing, so too will number of those who are in the labour force so that it will remain as difficult as ever to get the unemployment rate down.

[3.99] We have also seen contradictory evidence in regard to the rate of growth in real wages. On some of the figures that we now have on the Australian economy, there is a reason for genuine concern that labour cost growth is increasing at an excessively rapid rate. We now have two sets of figures, one which seems to hardly move at all and the other which in recent quarters has begun to move at a very rapid rate. Where truth between them is difficult to assess.

[3.100] There are now some signs that investment is picking up but until the investment climate has genuinely improved, no matter what else may take place within the Australian economy, it will remain incapable of raising productivity into the long term future. Moreover, in the absence of strong rates of investment the economy will not provide genuine improvements in the real standard of living without at the same time jeopardising the continuous employment of

many of those who have jobs, while many others looking for work fail to get the jobs they seek.

[3.101] We also have the evidence within these tables of the return to a more rapid rate of inflation within Australia. The 3.1% growth rate in the CPI through to December 2001 is considered by many, and especially by the Reserve Bank, as an aberration. That will need to be the case indeed if interest rates are not rise prematurely.

[3.102] There is no economy without its problems and it is therefore always critical to examine carefully the state of economic conditions before reaching a decision in such cases as this. Restricting labour cost growth to what can be afforded given the state of productivity and the level of inflation and the rate of unemployment and the growth in investment and the problems of the international economy requires very careful judgments.

[3.103] The ACTU presents the economy as having a clean bill of health so that, in its view, there should be no obstacle to granting further increases at this time. A more realistic review of economic conditions would take note of all of the problems that now exist and would ensure that the decision made is part of the solution to those problems rather than not contributing to their resolution, or even making them worse than they already are.