

ACTU Minimum Wages Case 2003

Submission of the
State and Territory Governments

NEW SOUTH WALES
VICTORIA
QUEENSLAND
WESTERN AUSTRALIA
SOUTH AUSTRALIA
TASMANIA
NORTHERN TERRITORY
AUSTRALIAN CAPITAL TERRITORY

5 FEBRUARY 2003

Case Numbers: 2281, 5548, 5547, 5546, 4268,
5545, 2282, 2283, 2284, 5559, 5558, 5569, 5639,
5640, 5716, 5674, 5694, 5679, 5693, 5692

TABLE OF CONTENTS

TABLE OF CONTENTS	2
CHAPTER 1 INTRODUCTION.....	3
CHAPTER 2 LEGISLATIVE BACKGROUND.....	4
Introduction.....	4
Workplace Relations Act 1996.....	4
Legislation of the States and Territories	6
New South Wales	6
Victoria.....	7
Queensland	10
South Australia	13
Western Australia	14
Tasmania.....	16
Northern Territory	17
Australian Capital Territory	17
CHAPTER 3 ECONOMIC PERFORMANCE AND OUTLOOK.....	18
Introduction.....	18
National economic performance and outlook.....	20
Economic performance and outlook for the States and Territories	21
Gross State Product.....	22
Consumption	28
Dwelling investment	32
Business investment	37
Tourism	42
Labour market.....	47
Inflation.....	54
Wage Costs.....	58
Summary	63
New South Wales	64
Victoria.....	64
Queensland	65
South Australia	65
Western Australia	66
Tasmania.....	66
Northern Territory	67
Australian Capital Territory	68
CHAPTER 4 SUPPORT FOR AN \$18 INCREASE	69
Introduction.....	69
Economic factors considered by the Commission	69
Quantum of the increase.....	73
Needs of the low paid	75
CHAPTER 5 CONCLUSION	77

CHAPTER 1 INTRODUCTION

1. This submission is made on behalf of the State and Territory Governments of New South Wales, Victoria, Queensland, South Australia, Western Australia, Tasmania, the Australian Capital Territory and the Northern Territory.
2. In this case the Australian Industrial Relations Commission is being asked to consider an application by the Australian Council of Trade Unions (ACTU) for a \$24.60 per week flat wage increase in federal award rates of pay.
3. Section 88B(2) of the *Workplace Relations Act 1996* provides that the Australian Industrial Relations Commission must ensure that a safety net of fair minimum wages and conditions of employment is established and maintained.
4. In performing this function the Commission must have regard to:
 - The need to provide fair minimum standards for employees in the context of living standards generally prevailing in the Australian community;
 - economic factors, including productivity and inflation, and the desirability of attaining a high level of employment; and
 - when adjusting the safety net, the needs of the low paid.
5. The State and Territory Governments, whilst noting the ACTU claim, ask that the Commission grant an increase of \$18 per week in the minimum wage and all minimum award rates. The State and Territory Governments submit that \$18 is a sustainable amount that is reasonable based on the current state of the economy as well as the need to establish a balance between economic concerns and the needs of the lowest paid workers. The claim is also consistent with the legislative provisions and on this basis should be granted.

INTRODUCTION

6. The State and Territory Governments consider that the current ACTU application is consistent with the provisions of the *Workplace Relations Act 1996* (the WR Act). The application seeks to ensure the maintenance of a safety net of fair minimum wages and conditions of employment, and in particular, having regard to the needs of the low paid.
7. National wage case outcomes extend beyond federal awards and into state jurisdictions, mainly through state wage case mechanisms. While national decisions are not specifically referred to in the industrial relations legislation of all the States and Territories, decisions of the Australian Industrial Relations Commission generally have direct and substantial significance in state wage cases.
8. This chapter will briefly review the relevant provisions of the WR Act, and detail the relevant legislative provisions which apply in each of the Labor States and Territories.

WORKPLACE RELATIONS ACT 1996

9. The principal object of the WR Act as set out in section 3 is to provide a framework for cooperative workplace relations that promotes the economic prosperity and welfare of the people of Australia. This objective is to be achieved in part by:
 - encouraging the pursuit of high employment, improved living standards, low inflation and international competitiveness through higher productivity and a flexible and fair labour market [s.3(a)];
 - providing the means for wages and conditions to be determined (as far as possible) by the agreement of employers and employees but upon a foundation of minimum standards [s.3(d)(i)]; and

- providing the means to ensure the maintenance of an effective award safety net of fair and enforceable minimum wages and conditions of employment [s.3(d)(ii)].
10. Part VI of the WR Act provides mechanisms for the prevention and settlement of disputes. The objects of this Part are set out in s.88A and include that:
- wages and conditions of employment are protected by a system of enforceable awards established and maintained by the Commission; and
 - awards act as a safety net of fair minimum wages and conditions of employment.
11. Section 88B of the WR Act provides that the Commission must perform its functions under this Part in a way that furthers the objects of the WR Act and, in particular, the objects of Part VI.
12. More specifically, section 88B(2) states that:
- In performing its functions under this Part, the Commission must ensure that a safety net of fair minimum wages and conditions of employment is established and maintained, having regard to the following:
- (a) the need to provide fair minimum standards for employees in the context of living standards generally prevailing in the Australian community;
 - (b) economic factors, including levels of productivity and inflation, and the desirability of attaining a high level of employment; and
 - (c) when adjusting the safety net, the needs of the low paid.
13. Section 90 of the WR Act requires the Commission to take into account the public interest, and for that purpose to have regard to:

- the objects of the Act, and in particular, the objects of Part VI; and
- the state of the national economy and the likely effects on the national economy of any award or order that the Commission is considering, or is proposing to make, with special reference to likely effects on the level of employment and on inflation.

LEGISLATION OF THE STATES AND TERRITORIES

New South Wales

14. The objects of the New South Wales *Industrial Relations Act 1996* (the 'NSW IR Act') are set out at section 3 and include:
 - to provide a framework for the conduct of industrial relations that is fair and just;
 - to promote efficiency and productivity in the economy of the State;
 - to facilitate the appropriate regulation of employment through awards, enterprise agreements and other industrial instruments; and
 - to encourage and facilitate co-operative workplace reform and equitable, innovative and productive workplace relations.
15. Section 50(1) of the NSW IR Act provides that as soon as practicable after the making of a national decision, a Full Bench of the Industrial Relations Commission of New South Wales (the NSW Commission) must give consideration to the national decision either on application or on its own initiative.
16. A 'national decision' is defined in section 48 of the NSW IR Act as a decision of a Full Bench of the Australian Industrial Relations Commission that generally affects, or is likely to generally affect, the conditions of employment of employees in New South Wales who are subject to its jurisdiction.

17. The NSW Commission, unless satisfied that it is not consistent with the objects of the NSW IR Act or that there are other good reasons for not doing so, must adopt the principles or provisions of the national decision for the purposes of awards and other matters under the NSW IR Act.
18. When adopting the principles or provisions of a national decision or making a state decision, a Full Bench of the NSW Commission may make or vary awards, or make other orders, to the extent necessary to give effect to its decision.
19. Immediately following the release of the national decision in the 2002 Safety Net Review on 9 May 2002, the NSW Commission on its own initiative commenced proceedings in the State Wage Case 2002. The NSW Commission issued a Summons to Show Cause as to why, after consideration of the national decision, it should not take such action as it deems proper.
20. On 31 May 2002, a Full Bench of the NSW Commission handed down its decision in that case and, in the absence of any major dissent, agreed to flow-on the full \$18 from the recent National Wage Case decision to all workers on New South Wales state awards.
21. Having regard to the quantum of and reasons for the Australian Commission's decision, the NSW Commission noted the adjustment in wages arising from the national decision was not inconsistent with the objects of the New South Wales Act.

Victoria

22. Victoria is unique amongst the Australian states in that all workers in the state are subject to the provisions of the federal *Workplace Relations Act 1996* (the WR Act). This follows the enactment of the Victorian *Commonwealth Powers (Industrial Relations) Act 1996* referring a number of Victoria's industrial relations powers to the Commonwealth.

Whilst approximately 67% of Victorian workers are covered by the federal award safety net or by agreements, a significant number (estimated at around 561,000) continue to be covered by the inferior minima prescribed in Part XV and Schedule 1A of the WR Act.

23. Section 501(2) of the WR Act provides that on application by an employee, a group of employees, an employer or employee organisation or the Minister, the Commission may set or adjust minimum wages. In setting the level of minimum wages the Commission must, so far as possible and appropriate in relation to Victorian practice and conditions, take into consideration:
- the needs of workers and their families (having taken into account the general level of wages in Victoria), the cost of living, social security benefits and the relative living standards of other social groups; and
 - economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment (section 501(4)).
24. Since 1997, all national wage case decisions have flowed on to the Schedule 1A employees as a result of an application under section 501(2) of the Act. It is anticipated, therefore, that the Commission's decision in the current matter will have direct relevance to Schedule 1A employees through these provisions.
25. The Victorian Government has attempted to introduce further protection for workers not covered by federal awards or agreements. The Federal Awards (Uniform System) Bill 2002 (the Bill) was introduced into Parliament in September 2002 and was defeated in the Legislative Council in October 2002. The Bill had two principal purposes, being to:
- refer to the Commonwealth a further industrial relations power, being the power to legislate to allow the Commission to make common rule awards for Victoria. In effect this would allow the

Commonwealth to legislate for a uniform industrial relations system for all Victorian employees, and

- in the event that the referral is not taken up by the Commonwealth, provide for federal award conditions to apply to non-award covered Victorian employees via common rule orders based on an appropriate federal award, following an application to, and decision by, the Victorian Civil and Administrative Tribunal (VCAT).

26. The Victorian Government has indicated that it will reintroduce the Bill.
27. On 21 March 2002 the Workplace Relations Amendment (Improved Protection for Victorian Workers) Bill 2002 (the Federal Bill) was introduced into Parliament by the Federal Employment and Workplace Relations Minister the Hon Tony Abbott MP.
28. In summary, the Bill seeks to make amendments in the following four broad areas:
 - limited improvements to conditions of employment under Schedule 1A (i.e., those employees not covered by federal awards or agreements);
 - enhanced provisions for compliance and enforcement of Schedule 1A;
 - intervention rights for the Victorian Government in AIRC proceedings; and
 - provisions for outworkers to be paid a minimum rate of pay and for the enforcement of that payment.
29. In comparison to minimum conditions of employment in other states, the Bill is lacking in a number of specific areas. The Bill does not extend unpaid parental leave to long term casuals and does not provide for redundancy pay – provisions that exist in both Queensland and New South Wales.
30. The limited improvements do little to address the significant difference between the standards in federal awards and those in Schedule 1A. Passage of this Bill will mean that Schedule 1A provides for seven basic

conditions of employment whereas a federal award provides for up to 20 allowable matters. Notable matters that may be contained in federal awards that are not included in Schedule 1A include:

- penalty rates;
- overtime rates and allowances;
- provisions in relation to hours of work; and
- provisions for the resolution of disputes.

31. The Federal Bill is yet to be debated.
32. As the decision the Commission makes in this case may flow through to Schedule 1A employees through section 501 of the WR Act, it is important to consider the current inadequate protection afforded such workers through the Federal Act. The Australian Industrial Relations Commission has in fact recognised the relative disadvantage faced by Schedule 1A employees. In its decision in the 2002 minimum wage orders case, the Bench stated:

... we find that some Schedule 1A employees are disadvantaged relative to comparable Federal Award employees¹.

Queensland

33. The Queensland *Industrial Relations Act 1999* (the 'Queensland IR Act') makes no direct reference to national wage case decisions but in practice, great weight is placed on the outcome of national wage cases during state wage cases. The Queensland Industrial Relations Commission (QIRC) has historically substantially adopted the decisions of the Australian Industrial Relations Commission (AIRC), subject to necessary variations to suit particular regional needs and circumstances.
34. This practice is supported by the objects of the Queensland IR Act (section 3) which are to provide a framework for industrial relations that

¹ PR921046 7 August 2002. para 9 of Bench's statement

supports economic prosperity and social justice by (amongst other things):

- (a) providing for rights and responsibilities that ensure economic advancement and social justice for all employees and employers; and
- (b) providing for an effective and efficient economy, with strong economic growth, high employment, employment security, improved living standards, low inflation and national and international competitiveness; and
- (c) promoting the effective and efficient operation of enterprises and industries; and
- (d) ensuring wages and employment conditions provide fair standards in relation to living standards prevailing in the community.

35. Section 287 permits a full bench to make general rulings about:

- (a) for employees bound by an industrial instrument – an industrial matter to avoid a multiplication of inquiries into the same matter; or
- (b) a Queensland minimum wage for all employees.

36. Following amendments to the Queensland IR Act in December 2001, section 287(2) now requires the full bench to ensure that a general ruling about a Queensland minimum wage for all employees is made at least once each calendar year (rather than the previous situation where it was discretionary). The consequences are that decisions made in the national wage case will now potentially impact on both award employees (via the state wage case) and non-award employees (via the minimum wage case). However, the number of non-award employees affected by decisions of the minimum wage case is estimated to be minor.

37. On 18 December 2002, the QIRC set a minimum wage for all employees (including non award workers) in Queensland of \$431.40 per week, based on a 40 hour week, with an operative date of 1 April 2003. This minimum wage is the same amount as the federal minimum award rate and the Queensland minimum state award rate established in the respective national and state wage case hearings in 2002. It is likely that future general rulings on the Queensland minimum wage will be issued at the same time as the state wage case.
38. Section 320(5) stipulates that in making a decision the QIRC must consider the public interest, and to that end must consider:
- (a) the objects of (the) Act; and
 - (b) the likely effects of the commission's decision on the community, local community, economy, industry generally and the particular industry concerned.
39. More specifically, section 126 provides that the QIRC must ensure an award (amongst other things):
- (d) provides for secure, relevant and consistent wages and employment conditions; and
 - (f) provides fair standards for employees in the context of living standards generally prevailing in the community.
40. Section 130(3) of the Queensland IR Act requires the QIRC to review awards at least every three years to ensure they remain relevant and up-to-date and provide adequate minimum standards for workers reliant on them.
41. To the extent that the objects of the federal legislation and the outcomes of national wage cases continue to reflect the objects of the Queensland legislation (as they have in the past) it is likely that the outcomes of national wage cases will continue to substantially inform the outcome of Queensland state wage and minimum wage cases.

South Australia

42. The current objects of the *Industrial and Employee Relations Act 1994* (the SA I&ER Act) are set out in section 3 and include:
- to promote goodwill in industry;
 - to contribute to the economic prosperity and welfare of the people of South Australia;
 - to facilitate industrial efficiency and flexibility, and improve the productiveness of South Australian industry;
 - to encourage enterprise agreements that are relevant, flexible and appropriate;
 - to provide for awards that are relevant, flexible and expressed in non-technical language;
 - to provide a framework for making enterprise agreements, awards and determinations affecting industrial matters that is fair and equitable to both employers and employees; and
 - to encourage and assist employees to balance their work and family responsibilities effectively through the development of mutually beneficial work practices with employers.
43. In relation to the flow on of the national wage case decision, section 100 of the SA I&ER Act provides that the Full Commission may, on its own initiative, or on the application of:
- the Minister; or
 - the United Trades and Labor Council; or
 - the South Australian Employers' Chamber of Commerce and Industry Incorporated,

make a declaration adopting in whole or in part, and with or without modification, principles, guidelines, conditions, practices or procedures enunciated or laid down in, or attached to, a decision or declaration of the Commonwealth Commission.

44. On 28 June 2002 a Full Bench of the Industrial Relations Commission of South Australia (the 'IRCSA') handed down a state wage decision which adopted the 9 May 2002 Decision of the Australian Industrial Relations Commission.
45. The IRCSA rejected submissions by Business SA and other employers to change the terminology in relation to adversity in the economic incapacity principle (Principle 15.1) from 'very serious or extreme' to 'serious'. The IRCSA concluded that the existing wording was appropriate.
46. Implementation of the flow-on of the national decision occurred on an award by award basis.

Western Australia

47. The Western Australian *Industrial Relations Act 1979* (the WA IR Act) is established on a number of principal objects, which include:
 - a system of fair wages and conditions of employment;
 - to ensure that all agreements registered under the Act provide for fair terms and conditions of employment;
 - to facilitate the efficient organisation and performance of work according to the needs of an industry and enterprises within it, balanced with fairness to the employees in the industry and enterprises; and
 - to encourage employers, employees and organisations to reach agreements appropriate to the needs of enterprises within industry and the employees in those enterprises.

48. Section 51(2) of the WA IR Act provides that when and as often as a National Wage Decision is made, the Western Australian Industrial Relations Commission (WAIRC) is required to consider that decision on its own motion, and:
- unless it is satisfied there are good reasons not to do so, shall make a General Order to adjust, by the amount of any change in the rate of wages under that decision, rates of wages paid under awards; and
 - may make a General Order to adopt in whole or in part and with or without modification any principle, guideline, condition or other matter having effect under that decision.
49. Before making an order, the WAIRC is to give the Trades and Labor Council (UnionsWA), the Chamber of Commerce and Industry of WA, the Australian Mines and Metals Association and the Minister for Labour Relations an opportunity to be heard.
50. Following the National Wage Decision of the Australian Industrial Relations Commission on 9 May 2002, a Full Bench of the WAIRC convened hearings into the State minimum award wages, and agreed to flow-on the \$18.00 per week increase to State award wages by General Order.
51. In addition to the award minimum wage, the *Minimum Conditions of Employment Act 1993* (MCE Act) also establishes a statutory minimum wage that underpins all contracts of employment operating within the State jurisdiction. Following the passage of the *Labour Relations Reform Act 2002*, the MCE Act minimum wage is now set by the WAIRC. The WAIRC is now also required to set a minimum wage for all apprentices and trainees in Western Australia.
52. The MCE Act minimum wage was previously set by the Minister for Labour Relations, and was traditionally lower than the minimum award wage. The Labor Government has established a policy of equalising

the statutory minimum wage with the minimum award wage. As a result, the Adult Minimum Wage underpinning all employees in Western Australia is now set at \$431.40 per week for a 38-hour week.

53. It is therefore expected that any decision of the Australian Industrial Relations Commission in the National Wage Case will have a direct bearing on the rates of pay under State awards, and will have an indirect influence on the statutory minimum wage that is established by the WAIRC.

Tasmania

54. Section 35(7) of the Tasmanian Industrial Relations Act 1984 (the 'Tas IR Act') empowers a Full Bench of the Tasmanian Industrial Commission (the 'TIC') to vary wage rates in Tasmanian awards where it is satisfied that it is appropriate to do so, having regard to a decision of the Australian Commission applicable to Tasmanian employees working under federal awards.
55. The Full Bench may provide for, or alter, a minimum wage in an award (section 35(1)(b)), and may extend this provision across the State (section 35 (4)).
56. Section 36 provides that in making an award or approving an agreement the TIC shall satisfy itself that the award or agreement is consistent with the public interest.
57. The TIC shall consider:
- The economic position of any industry likely to be affected by the proposed award or agreement;
 - The economy of Tasmania and the likely effect of the proposed award or agreement on it with particular reference to the level of employment; and
 - Any other matter considered to be relevant to the public interest.

Northern Territory

58. All awards in the Northern Territory are federal awards. As such Unions need to make application to vary awards to reflect safety net adjustments before the increase can be passed on to workers in the private sector.
59. Not all workers in the private sector will receive the increase as many have their employment regulated by certified agreements or Australian Workplace Agreements
60. Safety net adjustments do not directly affect Northern Territory Public Sector employment. Public Sector employees are currently covered by certified agreements under which greater increases have been achieved in exchange for productivity and efficiency gains.

Australian Capital Territory

61. The ACT is covered by federal industrial relations legislation (the WR Act) and ACT employees work under conditions established in federal awards and agreements. As a consequence, adjustments to the award safety net will be available to relevant ACT employees in accordance with decisions of the Commission.

INTRODUCTION

62. Since the beginning of the financial year there has been a deterioration in the global economic outlook. The global recovery to date has been more hesitant and uneven than had been expected. While a global recovery is still expected to unfold in 2003, forecasts for major economies have been continuously revised lower. Moreover the balance of risks for the global outlook remains to the downside. Heightened tensions in the Middle East and rising oil prices are adding further uncertainty to the global outlook.

- The latest World Bank forecasts (released December 11, 2002) are for World GDP growth to lift from 1.1% in 2001 to 1.7% in 2002 and 2.5% in 2003. These growth rates remain significantly below long-term potential growth rates and the World Bank suggests 'that the global rebound might quickly lose momentum and there is a significant risk that the world could slip back into recession'.
- The Commonwealth Treasury's Mid-Year Economic and Fiscal Outlook released in November 2002 forecasts global GDP growth of 2.75% in 2002 and 3.5% in 2003. The Treasury notes that 'global economic conditions are subdued and uneven and, while the central forecast for world growth has been lowered only a little since the Budget, the downside risks are large and dominate the global picture'.
- The Reserve Bank of Australia (RBA) in its November 2002 Statement on Monetary Policy, cautioned that in the first half of the current financial year 'considerable uncertainty has emerged as to whether the momentum of (global) growth will be sustained'.

63. The major development in the domestic economy since the start of the financial year has been the emergence and intensification of the drought. In an assessment in December 2002, the ABS estimated that

the direct effects of the drought will reduce annual average GDP growth by around 0.75 percentage points in 2002-03.

- In its Mid-Year Economic and Fiscal Outlook, the Commonwealth Treasury revised down its forecast 2002-03 Australian GDP growth to 3% from 3.75% at Budget-time. The downward revision to the forecast was 'largely due to the anticipated impact of the drought'.
- In his Opening Statement to the House of Representatives Standing Committee on Economics, Finance and Public Administration on 6 December 2002, the Reserve Bank Governor also noted a downward revision to 2002-03 GDP growth to around 3%. 'Obviously the major factor behind the reduction has been the drought, but the weaker world economy has also had an effect at the margin.'

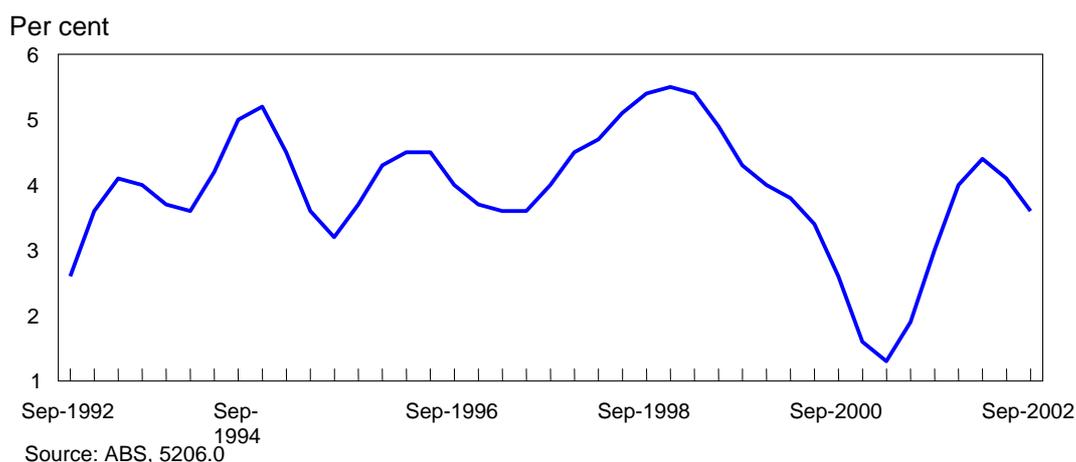
64. To date the Australian economy has performed strongly whilst the world economy has first slowed and recently entered a tentative recovery. Unexpected ongoing strength in the housing market has added to the resilience to date. However, with some downturn in the housing sector likely and the effects of the drought likely to become more apparent, domestic demand and overall economic growth is likely to slow, notwithstanding strength in business investment.

- In its November 2002 Statement on Monetary Policy the RBA states that: 'Drawing all these influences together, a modest slowing in domestic demand and output [growth] appears likely in the period ahead, principally reflecting the expected maturing of the housing cycle and the impact of the drought. While these factors have been evident for some time, they were initially expected to lead mainly to a rebalancing of growth, with the slowing in domestic demand being more or less offset by the impact of gradually improving external conditions. But with global economic prospects less assured, this expectation is unlikely to be met, and hence the economy overall can be expected to slow from its recent strong pace over the coming year'.

NATIONAL ECONOMIC PERFORMANCE AND OUTLOOK

65. After modest growth of 1.8% in fiscal 2000-01, the Australian economy bounced back to record firm growth of 3.9% in fiscal 2001-02. That said, over the year to the September quarter 2002, GDP growth has eased back to 3.7%, from a peak of 4.6% through the year to the December quarter 2001.

Trend Gross Domestic Product
Chain volume measure, annual change



66. Private consumption spending was once more the mainstay of overall economic growth, rising by 3.5% in fiscal 2001-02 after growing by 3.0% in 2000-01. A lift in employment growth, expenditures associated with the housing cycle and ongoing stimulatory monetary policy settings saw private consumption spending contribute over half of all growth in the economy in 2001-02. Quarterly growth in consumption spending eased back to 0.4% in the September quarter 2002, but grew by a robust 4.2% through the year.
67. After detracting 1.3 percentage points from GDP growth in 2000-01, a sharp recovery in dwelling investment added 0.9 percentage points to GDP growth in 2001-02. Growth in dwelling investment continued in the September quarter 2002 and approvals data suggest that activity levels should remain high into early 2003. However, as 2003

progresses, the housing cycle is expected to mature and activity levels start to decline.

68. Business investment also started to recover in 2001-02, contributing around 0.5 % to GDP growth, after detracting a similar amount in 2000-01. A recovery in mining, manufacturing and transport and storage sector business investment were the key contributors. Business expectations, as surveyed by the ABS, point to a further recovery in business investment in 2002-03, especially in engineering construction investment.
69. In 2001-02 export volumes fell by 1.5%, while import volumes rose by 2.3%. This saw net exports detract around 1 percentage point from GDP growth after having made a positive contribution of nearly 2 percentage points in 2000-01. With sluggish global growth and the effects of the drought likely to affect exports in 2002-03 and with firm domestic demand suggesting ongoing increases in imports, net exports should make an even larger deduction from growth in 2002-03.

ECONOMIC PERFORMANCE AND OUTLOOK FOR THE STATES AND TERRITORIES

70. Table 1 provides the Gross State product (GSP) statistics for the States and Territories.

Table 1: Gross State Product, Chain Volume Measures Percentage changes from previous year Source: ABS 5220.0		
	2000-2001 (%)	2001-2002 (%)
New South Wales	2.2	2.4
Victoria	2.9	4.9
Queensland	2.0	5.4
South Australia	3.3	3.7
Western Australia	-1.2	5.7
Tasmania	-0.5	3.3
Northern Territory	4.1	4.8
Australian Capital Territory	4.2	3.9

Gross State Product

New South Wales

71. NSW GSP grew by 2.4% in 2001-02 following growth of 2.2% in 2000-01. As a result of the sluggish economic growth, employment growth was subdued in New South Wales in 2001-02. Slower than long-run average growth in New South Wales in 2001-02 was largely due to the State's relatively greater exposure to the recent global downturn in information technology, communications, financial and business services and tourism. These sectors are likely to stabilise and start regaining some momentum as 2002-03 proceeds and New South Wales growth should return to around long-run average rates in subsequent periods.
72. Some acceleration in growth was expected in New South Wales in the current financial year. However, as a result of the drought and ongoing global weakness, those expectations are no longer likely to be met. Instead growth in 2002-03 will probably be about the same as in 2001-02.
73. In 2001-02 growth was driven by an acceleration in investment, especially housing investment, which offset some slowing in consumption growth. Household consumption is expected to bounce back in 2002-03 and growth of investment is expected to continue. That is expected to be offset by a negative contribution from foreign trade and inventory investment. The international situation remains unsettled, however, and that may have an impact on business sentiment and current business investment plans.

Victoria

74. The Victorian economy has continued its record of solid growth outcomes, with economic growth of 4.9% in 2001-02. This was above the national outcome of 3.9%.

75. Consumer spending, business investment and housing construction all contributed positively to this outcome, with total state final demand (SFD) growing by 5.9% in 2001-02. However, net overseas exports detracted from growth, a reflection of the impact of the weak world economy on exports and the strength of the domestic economy resulting in higher imports.
76. Despite the strength in 2001-02, there were signs of moderating growth in the first quarter of 2002-03. National growth is being constrained by weaker global economic conditions, compounded by the worsening drought. In Victoria, the September quarter saw a decline in overseas exports and weakness in consumer spending; business investment and housing construction were the main drivers of growth in the quarter.
77. Estimates of the negative impact from the drought have been progressively raised over recent months, in line with a series of revisions to agricultural projections from the Australian Bureau of Agricultural and Resource Economics. Coupled with the continued weakness in global economic conditions, estimates of national growth for 2002-03 have been revised lower; the current private sector average (as at end 2002) is around 3 to 3.25%. For similar reasons, the estimate of Victorian economic growth for 2002-03 has also been lowered slightly, from 3.5% to 3.25%. The longer term outlook for Victorian GSP is for annual growth of around 3.5% .

Queensland

78. The Queensland economy grew by 4.4%² in 2001-02, which was slightly above the Budget estimate of 3.75%. This higher than expected result was partly due to higher than anticipated growth in dwelling investment, business investment and public final demand over 2001-02. In trend terms though, quarterly economic growth in Queensland has

² Estimates of economic growth and its components are based on the Queensland State Accounts, compiled by the office of the Government Statistician (Queensland Treasury), and will therefore differ to estimates based on annual ABS State Accounts (Cat. No. 5220.0).

eased over the course of the financial year, from 1.5% in September quarter 2001 to 0.8% in June quarter 2002.

79. The domestic sector underpinned economic activity in 2001-02, with a recovery in dwelling investment and steady growth in household consumption offsetting a weak trade sector during the year. Historically low mortgage rates and the extension of the First Home Owner Grant (FHOG) resulted in a strong rebound in dwelling investment in 2001-02, while steady employment growth, low interest rates and some recovery in consumer confidence since September 11 also allowed private household consumption to grow solidly over the year.
80. At the time of the State Budget, Queensland was forecast to record economic growth of 4.25% in 2002-03, with the business sector expected to replace dwellings as the main source of growth in private investment. Construction work on major projects is forecast to lead to a sharp increase in business investment, while the phased reduction of the FHOG is expected to subdue dwelling investment in 2002-03. Improved labour market conditions, combined with an expected rise in real wages, are also forecast to strengthen growth in private consumption during the year.

South Australia

81. South Australia's GSP grew in real terms³ by 3.7% in 2001-02, translating to real per capita growth of 3.2%—see Table 2 below. South SFD grew very strongly in 2001-02—up 6.0%. Household consumption spending, the major component of SFD, increased by 5.5% and contributed 3.6 percentage points to total GSP growth. Overseas exports continued to perform well, with goods exports (real terms) up 8.0% in 2001-02, but well below the very significant growth in 2000-01

³ The convention used throughout the South Australian economic report is to report data of the type mentioned in the preceding text (i.e. real versus nominal, seasonally adjusted versus trend data), unless otherwise stated. This minimises the need to explicitly state the data types for each figure.

of 23%. Growth in (real) household consumption and exports was partially offset by a 4% decline in private fixed capital formation (subtracting 0.8 of a percentage point from GSP growth in the year).

82. GSP growth during 2002-03 is estimated by the South Australian Department of Treasury and Finance (DTF) to be 2.75%⁴. Stronger than expected growth in the non-farm sector (forecast to grow by a strong 3.5%), assisted by ongoing strength in housing construction and associated consumer spending is anticipated to offset the negative impacts of the drought and weak international economic conditions.

Table 2: South Australia GSP growth		
	Total	Per capita
1999-2000	1.0%	[^] 0.5%
2000-2001	* 3.3%	[#] 2.8%
2001-2002	3.7%	3.2%
[^] Revised down from 0.6% * Revised up from 0.7% [#] Revised up from 0.4% Source: ABS 5220.0 ABS National Accounts – chain volume		

83. Australian Bureau of Statistics economic data for small States (eg South Australia) can be subject to significant revision, are volatile and subject to high statistical error. Small State data should be interpreted cautiously.

Western Australia

84. The Western Australian economy grew strongly in 2001-02, with GSP increasing by 5.7% over the financial year. This strong economic growth follows a contraction in GSP of 1.2% in 2000-01.

⁴The GSP growth rate has been revised upwards since the Budget-time estimate of 2.25%, but is not as yet published.

85. Underpinning the strong growth in GSP was SFD, which increased by a solid 5.4% in 2001-02. The main contributors to growth were dwelling investment (up 14.7%) and business investment (up 13.8%).
86. Imports of goods and services were also much lower than anticipated, which allowed net exports to increase 1.7% in 2001-02.
87. Economic growth has eased slightly in the September quarter 2002, with GSP increasing 0.6% for the quarter. However, Western Australia continues to record solid growth in business and dwelling investment. Business investment increased 2.2% for the quarter and 4.1% in the year to September, while dwelling investment increased 3.5% for the quarter and 16.4% in the year to September.
88. WA Treasury has recently revised down their estimate for GSP in 2002-03, mainly due to the effects of the drought. GSP is now expected to grow by 3% during 2002-03, increasing to 4% in 2003-04.
89. Business investment forecasts have also been revised. Business investment is now expected to increase 5.25% in 2002-03, before increasing to 7.75% in 2003/04.

Tasmania

90. Over the past five years, Tasmania's real GSP has grown at an average annual rate of around 1.5%, which compares with national average growth of 3.9% over the same period. GSP for Tasmania rose by 3.3% in 2001-02, well above the average annual growth rate, due to strong growth in private and public investment and solid improvements in consumer spending and public consumption expenditure.
91. SFD grew by 9.4% in real terms in the year to September 2002, with private investment growing by 31.4% and consumer spending increasing by 3.6% over the year.

92. Despite the weakness in the world economy, the outlook for the Tasmanian economy remains favourable, with the State's population expected to grow further over the coming year, continuing the improvements of recent years. The 2002-03 Budget forecast that the Tasmanian economy will grow by 1.9% in 2002-03, above the average growth rate in recent years

Northern Territory

93. The performance of the Territory economy was mixed in 2001-02. After two years of very weak growth, the economy began to improve. GSP growth of 4.8% was reported, masking to some extent the patchy nature of the pick up. The Territory economy was constrained by weak external factors and a continued outflow of population to the other states. Some sectors performed well, notably construction, boosted by work on the Alice Springs to Darwin railway. Consumption grew strongly and the labour market improved. However, tourism was affected by a slump in international visitor arrivals due to weak global growth, exacerbated by the terrorist attacks in the United States and the collapse of Ansett. And although production levels remained high in historical terms, a sharp fall in oil output and prices had a negative impact on GSP growth.

Australian Capital Territory

94. Growth in ACT GSP has been volatile due to the relative narrowness of the ACT economic base compared to that of the national economy. In 2001-02 in seasonally adjusted volume terms, ACT GSP grew 3.9% from the 4.2% growth recorded in 2000-01.
95. SFD grew 4.7% in 2001-02, a significant increase on the 2000-01 result of 1.2%.
96. GSP is forecast to grow 3.1% in 2002-03 led by strong growth in employment and a steady increase in wages. SFD is forecast to increase by 3.0% supported by the continuing low interest rate environment.

97. In 2001-02 in seasonally adjusted volume terms, economic growth was underpinned by an increase in both household and general government consumption, and an increase in private gross fixed capital formation. The strongest contributor to growth was from general government consumption, which contributed 2.1 percentage points to the 4.7% rise in SFD.
98. Despite two increases in interest rates at the end of 2001-02, private capital expenditure, in particular dwellings and other housing, is still likely to be a leading factor in economic growth in 2002-03. A very strong labour market should also bolster household consumption, while public consumption is expected to grow, albeit at a lower rate than that experienced in 2001-02.

Consumption

99. Nationally, household consumption remained firm through 2001-02, growing by 3.5% in year average terms and by 4.4% through the year to the June quarter 2002. Quarterly growth eased back to 0.4% in the September quarter 2002, but remained a healthy 4.2% through the year to the September quarter. Government consumption rose by 3.7% in 2001-02 after sluggish growth of 2.2% in 2000-01. In the September quarter 2002 it was 4.2% higher than a year ago.

New South Wales

100. Household consumption rose by 2.2% in 2001-02, reflecting the slow growth in employment that year. Employment growth has accelerated, however, and that should underpin somewhat faster growth of household consumption in the current financial year. Retail sales were weak in September and October but bounced back sharply in November. Commentators from the retail sector claim pre and post-Christmas sales were satisfactory.

Victoria

101. Consumer spending was an important contributor to growth last year, with the retail component particularly strong. In 2001-02 total consumer spending in Victoria rose by 4.7%.
102. A number of factors have supported this strength in consumer spending, including continued growth in employment and low interest rates. The large rise in Melbourne house prices has also been important due to its impact on household wealth. The housing boom has further contributed to the growth in consumer spending via increased expenditure on home furnishings and related items.
103. More recent data indicate that growth in consumer spending in Victoria – at least the retail component – slowed noticeably over the second half of 2002. A key reason appears to be an unwinding of the strength in household goods and related expenditure.
104. Nevertheless, consumer spending is expected to remain a positive contributor to growth in 2002-03, although at a slower pace than last financial year.

Queensland

105. Overall growth in private consumption spending in Queensland remained relatively strong in 2001-02, although the rate of growth eased slightly from 4.0% in 2000-01 to 3.6% in 2001-02. Despite historically low interest rates, increased housing and other personal finance commitments acted as a drain on household incomes during the year, reducing the discretionary income base available for consumption expenditure.
106. Household consumption is forecast to grow by 4.25% in 2002-03, representing a slight acceleration in growth compared with 2001-02. Improved labour market conditions and higher real wages should support growth during the year, while the realisation of house price

gains in 2001-02 may also have a modest 'wealth-effect' on consumer spending in 2002-03.

107. Recent indicators suggest consumption activity may have strengthened in the early part of 2002-03. Comprising around 40% of consumption spending, real retail turnover rose 2.2% in September quarter 2002, to be 6.8% higher over the year. This represents the strongest annual growth in the State since March quarter 1995. Growth in retail trade over the year was driven by growth in household goods, reflecting the recovery of the housing sector.

South Australia

108. Household consumption spending growth in 2001-02 was stronger than the national average, increasing by 5.5% (real terms) during the year. There have been some signs of a slowing in the rate of growth in consumer spending during the first half of 2002-03, but through-the-year growth rates remain at high levels, supported by continued good growth in employment, continued historically low interest rates and the wealth effect from the strong increase in house prices. Retail trade was 9.4% higher in November 2002 than in November 2001 (seasonally adjusted, current prices).

Western Australia

109. Private household consumption grew by 5.2% in the 12 months to September 2002. There was a small decline in household consumption in the September quarter, however the Western Australian Treasury still predicts growth of 3.5% for 2002-03.
110. Growth in retail spending has remained strong in Western Australia, increasing by 9.4% in the year to November 2002, compared with 7.5% throughout Australia.
111. Growth in new motor vehicle registrations has also remained solid, increasing by 7.2% in the year to November 2002.

Tasmania

112. Consumer spending, which accounts for over 60% of SFD, has experienced relatively good growth in recent years. Over the five years to 2001-02, consumer spending rose at an annual average rate of 2.7% in real terms compared with SFD growth of 3.2% over the same period. This comparison hides the fact that growth in consumer spending generally exceeds growth in SFD, as strong growth in private and public investment in 2001-02 was responsible for the relatively higher rate of growth in SFD over the past five years.
113. Over most of the 1990s, growth in consumer spending closely tracked the national average but lagged somewhat from the strong national rate of growth in more recent years, affected by the decline in the State's population in the latter part of the 1990s.
114. Growth in consumer spending has generally exceeded growth in retail turnover since the mid-1980s, implying a relatively larger increase in non-retail spending, such as on health care, recreation and motor vehicle purchases. Over the past five years, the annual average growth rates in consumer spending and retail trade have been 2.7% and 3.2% respectively, in real terms.

Northern Territory

115. After weak growth in the previous year, consumption recovered in 2001-02, recording growth of 5.4% and continuing to strengthen during the first quarter of 2002-03. Private consumption increased by 5% in 2001-02 following weak growth of 1.9% in 2000-01. Household expenditure was supported by solid employment growth, low interest rates and lower petrol prices. Government consumption increased by 6% in 2001-02 (compared to 3.4% the previous financial year), driven by a strong increase in defence-related consumption.
116. Private consumption is set to remain strong in 2002-03. Low interest rates and a solid labour market will continue to underpin disposable

income, with consumer confidence to play an important role in determining how strongly retail sales and other household spending components grow. Further out, as population growth picks up, consumption growth can be expected to strengthen further.

Australian Capital Territory

117. Retail trade in the ACT totalled \$3.5 billion in 2001-02 in seasonally adjusted terms – an increase of 10.9% on the \$3.1 billion spent in 2000-01. The largest increases were recorded by Clothing and Soft Good retailing, up 20%, and Household Good retailing, up 15.6%. Recreational Good retailing experienced a decline of 14.1%, one of only two sectors to record a decrease in sales – Other Retailing also fell, but by just 1.1%.
118. New motor vehicle sales in the ACT reached 13,767 seasonally adjusted in 2001-02, a 6.2 % decrease on the 2000-01 estimate of 14,671. High levels of employment and continuing low interest rates should see new motor vehicle sales remain healthy. Data for the first five months of 2002-03 indicate 5,838 sales – a 2.8 % increase on the same period in 2001-02.

Dwelling investment

119. Nationally, dwelling investment rose sharply through 2001-02, growing by 19.5% in year average terms after declining by 20.9% in 2000-01. It contributed nearly a full percentage point to GDP growth in 2001-02. This increase reflected in part a pull-forward of activity as owner-occupier households took advantage of the Commonwealth Government's extended First Home Owners Grant (FHOG), but also reflected heightened investor activity in the sector in the face of diminished returns from other asset classes. With owner-occupier demand already starting to slow and rising vacancy rates expected to diminish investor demand, a downturn in housing investment is expected as 2003 progresses.

New South Wales

120. Dwelling construction rose by 17.8% in 2001-02 after falling by almost 30% the previous year. In the September quarter, however, dwelling construction rose by only 0.7%. Furthermore, the number of dwellings commenced in the September quarter was 6.5% lower than in the June quarter. That may not, however, signal a turning point, as commencements slumped in the March quarter and rebounded in the June quarter. For the financial year, dwelling construction is expected to rise but at a slower pace than last year, with activity declining as 2003 progresses.

Victoria

121. Residential construction activity was another key driver of growth in 2001-02. Dwelling investment rose 18% last financial year, more than offsetting the previous year's (GST induced) decline. The value of residential building approvals in Victoria in 2001-02 was a record \$9.0 billion, equivalent to 32% of the national total.
122. At the beginning of 2002, it was widely predicted there would be a downturn in construction activity by mid 2002, as pent up demand was met, the FHOG wound back and (as forecast at the time) interest rates were increased. However, data up to the September quarter 2002 show that dwelling investment remains resilient, defying these earlier predictions. Forward indicators of housing construction suggest that activity will remain at relatively high levels in the near term, before an anticipated decline by early–mid 2003.

Queensland

123. Dwelling investment reversed the downward trend experienced in 2000-01, rising 28.1% in 2001-02, stimulated by low mortgage rates and the extension to the FHOG during the year.

124. Dwelling investment in Queensland fell sharply in 2000-01 due to the unwinding of the pull-forward of dwelling construction activity that occurred prior to the introduction of the GST. However, housing construction activity recovered strongly as mortgage rates fell over the course of 2001, together with the extension of the FHOG from \$7,000 to \$14,000 between March and December 2001. The volatility and weak performance of stock markets in 2001 also increased the attractiveness of property investment.
125. The latest dwelling approval data, however, may represent the first tentative sign that the dwelling construction cycle in Queensland has peaked. There are indications that demand from first home buyers has diminished, and that demand from non-first home buyers and property investors may also be weakening. The total number of dwelling approvals in the State declined for the second consecutive month in November 2002, falling by 1.5% during the month.
126. Home buyers may have become more cautious following a surge in house prices of more than 20% over 2001-02, and concerns about the possibility of further interest rate rises over the coming year. These factors are likely to restrain dwelling construction over 2003.

South Australia

127. Despite the September 2002 quarter's seasonally adjusted decline, dwelling unit commencements in South Australia (and nationally) remain at relatively high levels. This suggests a continued high level of residential building activity in the short term (i.e. in early 2003). The number of private sector house approvals fell in South Australia during December (down 3.7%), the fourth consecutive monthly decrease, thus adding weight to the view that a moderation in housing construction should be expected in the near future. Furthermore, trend housing finance commitments (a forward looking indicator of owner-occupier building activity) fell in South Australia and nationally during November for the fifth consecutive month. Declines occurred for purchases and

construction of new homes—both of which have been falling in trend terms since the latter half of 2001. Nonetheless, finance commitments remain at historically high levels. Recent residential building activity has been driven largely by investor demand, with owner-occupier demand appearing to wane.

Western Australia

128. Dwelling investment in Western Australia grew by 16.4% in the year to September 2002. This can be largely attributed to the extension of the FHOG, low interest rates and a residential property boom.
129. After small declines in the June 2002 and March 2002 quarters, dwelling investment rebounded in the September 2002 quarter, increasing by 3.5%.
130. While it is expected there will be some cooling in activity in the established dwelling market, dwelling investment is still expected to be positive in 2002-03.

Tasmania

131. The level of dwelling investment in Tasmania has swung widely over the past three years, which has been in response to the introduction of the GST and the additional FHOG for new dwellings. While similar trends were observed nationally, it is likely that the impact in Tasmania has been relatively larger than for the rest of Australia due to the relatively lower level of house prices in the State.
132. In the four quarters to September 2002, dwelling investment in Tasmania increased by 20.9% in real terms, compared with a national increase of 26.2% over the same period. The level of dwelling investment in the September quarter 2002 is slightly above (in trend terms) the previous record level in the June quarter 2000, when investment decisions were brought forward to avoid the increase in cost associated with the introduction of the GST on building services. Low

interest rates have also encouraged strong dwelling investment in Tasmania.

Northern Territory

133. The level of dwelling investment continued to fall in 2001-02, but by much less than the sharp declines recorded in 1999-00 and 2000-01. The downturn in dwelling investment over the past three years followed a major phase of overbuilding that occurred in conjunction with the defence-driven construction boom that peaked in mid 1998. However, with most if not all of the excess stock absorbed (evidenced by lower vacancy rates), residential construction is forecast to make a positive contribution to economic growth in 2002-03 as the upturn begins to gather momentum. However, to the extent that various incentive schemes pulled demand forward, the upswing in the Territory housing cycle is likely to be less pronounced in the short term than would otherwise have been the case.

Australian Capital Territory

134. The housing market in the ACT has shown remarkable activity over the last 18 months as low interest rates, the FHOG, a weak equity market, and solid economic conditions have combined to create a surge in all dwelling investment indicators.
135. There were 2,378 residential building approvals in the ACT in 2001-02 in trend terms, representing a 39.6% increase on the 1,704 approvals recorded in 2000-01. The ACT result is consistent with national building activity, with building approvals increasing by 39.2% nationally. There is little sign of a slowdown in the market, with the first five months of 2002-03 registering 1,786 approvals – a 60.9% increase on the corresponding period in 2001-02.
136. There were 2,388 dwelling commencements in the ACT in 2001-02 in seasonally adjusted terms – a 45% increase on the number of commencements in 2000-01. Again, there is no sign of a slowdown,

with the September quarter 2002 result of 891 dwelling commencements being 34% higher than the previous quarter and 60.3% above the September quarter 2001.

137. Housing finance for owner occupation increased by 4% in 2001-02 to 9,258 commitments seasonally adjusted, while the value of commitments increased by 24.2% to \$1.45 billion. Housing finance commitments also follow the trend of continuing strong growth with the first four months of 2002-03 registering 3,210 commitments. This represents a 4.7% increase on the corresponding period in 2001-02.

Business investment

138. After declining by around 5% in 2000-01, national business investment rose by a similar degree in 2001-02. Investment has rebounded sharply in the mining and transport and storage sectors and has started to recover in the manufacturing sector. At this stage investment in other sectors (especially telecommunications and property and business services) remains subdued. The latest ABS survey of capital expenditure plans suggests that investment will grow even more strongly in 2002-03, perhaps by 10-15%, though without broadening to all sectors. Engineering construction activity is expected to be the key driver of business investment. It is likely that the drought will have a negative impact on farm investment in 2002-03.

New South Wales

139. Business investment fell by 8.1% in 2001-02, driven by an 11.3% fall in business spending on equipment. Non-residential building and construction rose by 1.7%. By the June quarter of 2001-02, however, business investment had already started to rise as spending on building and construction accelerated. In the September quarter spending on equipment also turned around. As a result, solid growth of about 8% is expected in business investment in 2002-03.

140. Much of that growth, however, will be the result of decisions made by multinational companies with a global outlook. If, for whatever reason, economic conditions in other parts of the world deteriorate, those decisions could be changed and the outcome for business investment could be substantially different from the forecast above.

Victoria

141. Private business investment in Victoria is at record levels. Business investment rose by 8% in 2001-02 in trend terms, a little above the national increase (6%).
142. Investment in non-residential buildings and structures in Victoria has been particularly strong, and forward indicators suggest a solid pipeline of non-residential investment remains. Offices and other business premises have been among the strongest areas of non-residential construction activity. Investment in machinery and equipment rose by 8% last financial year.
143. This trend in business investment has meant a significant increase in the Victorian economy's productive potential, and is also indicative of an improvement in business confidence more generally.

Queensland

144. Business confidence in Queensland improved steadily over the course of 2001-02, despite a brief pause associated with the September 11 terrorist attacks on the US. The improvement in business confidence triggered a strong recovery in equipment investment over the year. In contrast, investment in other buildings and structures continued to fall in 2001-02, although the rate of decline eased in the second half of the year.
145. Five successive increases in the official cash rate between November 1999 and August 2000, together with the uncertainty surrounding the implementation of the GST, resulted in business investment falling 15%

in 2000-01. The negative impacts of these factors reversed in 2001-02, as businesses became familiar with the new tax system and the RBA lowered the official cash rate by an accumulated two percentage points over the course of the year. These positive developments sparked a strong recovery in investment in machinery and equipment during the year. In 2001-02, investment in machinery and equipment in the State rose 23.1%.

146. Queensland business investment is expected to rise further in 2002-03, with spending on both machinery and equipment and other buildings and structures anticipated to strengthen over the year. In particular, investment in other buildings and structures should be supported by a number of major resource projects that began construction in the State in 2002, including the Comalco alumina refinery and the AMC magnesium metal plant.
147. The prospect of monetary policy tightening in 2003 remains a risk factor for business investment. However, while the RBA raised cash rates by 25 basis points following both the May and June 2002 Board meetings, it has subsequently left the cash rate unchanged amid ongoing concerns over the global economic recovery and greater volatility on financial markets. The current global economic and political environment perhaps represents a more significant risk factor to business investment in 2002-03. Continued uncertainty in relation to equity prices, business sustainability, corporate valuation and accounting transparency, may increase the risk premia attached to corporate bond issuance, while any prolonged conflict in the Middle East may cause oil prices to rise, again leading to an increase in business costs.

South Australia

148. Private new capital expenditure (real terms) was quite strong in 2001-02, increasing by 9.4% during the year. Although capital expenditure fell by 2.5% (seasonally adjusted) in the September quarter 2002, this was

due to a fall in machinery and equipment investment of 3.4%, following growth of 23% in the previous quarter. In 2001-02, investment in machinery and equipment grew by over 16%—offset somewhat by a decline of 12% in building and structures investment.

149. Nonetheless, it is anticipated that building investment will continue to strengthen in 2003 with the RBA indicating that it expects growth in this sector to be strong—essentially replacing the previous contribution to economic growth made by the housing construction sector.
150. Business investment in South Australia will be boosted by work related to the Alice Springs-Darwin railway, expansion of both the Holden and Mitsubishi plants and ongoing work on the Port Adelaide waterfront development (as well as several other smaller projects). In addition there is the potential construction of the SAMAG's magnesium plant.

Western Australia

151. Business Investment grew solidly during 2001-02, increasing by 13.8%. This was underpinned by a number of significant mining projects coming on stream.
152. Business investment was more subdued in the September quarter 2002, increasing by 2.2%. There was a very large increase of 24.8% in non-dwelling construction during the quarter, where as machinery and equipment purchases fell by 8.3%.
153. Business investment in Western Australia is traditionally volatile due to the reliance on the mining industry.
154. The outlook for business investment in Western Australia still remains positive, with a number of large projects contributing significantly to investment. This includes a \$25 billion deal by a consortium of mining companies to supply liquefied natural gas to China.

Tasmania

155. Business investment in Tasmania outpaced the national average in the year to September 2002, with growth of 36.3% (real) compared with a national increase of 9.5% cent. Private sector investment in machinery and equipment has been the primary source of the recent growth of business investment in Tasmania.
156. Surveys of business sentiment in Tasmania show that, due to stronger national and international economic conditions, confidence has improved after dropping in the latter part of 2001, and near-term investment intentions are positive.
157. Investment in the State has been boosted by the Duke Energy natural gas project, which commenced construction in December 2001 and was completed in late 2002. As well as the direct boost to the economy from this project, Tasmania's competitiveness as a business location is expected to be enhanced significantly by the growth and security of energy supply.

Northern Territory

158. Business investment increased nearly 60% in 2001-02, and is expected to be a major contributor to economic growth again in 2002-03. While a more broad-based recovery in investment is expected as business confidence improves, the majority of activity will be associated with major infrastructure works. Investment related to the construction of the railway will continue to have a major impact on the Territory economy, with manufacturing and engineering activity generating significant flow-on benefits. Although most of the benefits associated with the stage 1 development of the Bayu-Undan oil and gas fields will leak out of the Territory economy, the project is still likely to create some opportunities for local value adding. Other engineering construction projects such as stage 2 of East Arm Port will also contribute to growth in 2002-03. Non-

residential building is also beginning to strengthen, with work relating to a number of office, retail and hotel developments already underway.

Australian Capital Territory

159. In seasonally adjusted terms Private Gross Fixed Capital Formation (GFCF) increased by 22.9% in 2001-02 to \$1.8 billion seasonally adjusted. Building activity was responsible for a substantial proportion of this increase with capital expenditure on dwellings increasing by 38.1% and capital expenditure on other buildings increasing by 31.4% in seasonally adjusted year average terms. Another large contributor to the increase was investment in machinery and equipment, which increased by 19% in seasonally adjusted terms.
160. Corporate collapses such as those of Ansett and HIH don't appear to have adversely impacted on business investment in the ACT and, with low interest rates, the continuation of a strong housing industry, and strong economic conditions generally in terms of employment and consumption, business investment should continue to grow strongly in 2002-03.

Tourism

161. Nationally, short-term tourist arrivals have shown a modest trend increase since mid-2002. At November 2002, trend tourist arrivals were at an annual rate of 4.9 million, up 6.9% from the 4.6 million at November 2001, but still below peak levels of 5.1 million recorded in late 2000.
162. Among Australia's major international visitor markets, arrivals from Japan in December quarter 2002 were 43.6% higher compared with the same quarter a year earlier, while arrivals from United States of America and the United Kingdom rose by 12.1% and 8.7% respectively over the same period. However, arrivals from New Zealand in

December quarter 2001 were 4.4% lower compared with the same quarter a year earlier.

New South Wales

163. Almost the full impact in Australia of the decline in international travel post-September 2001 fell on New South Wales. In the year to December 2001, the number of overseas visitors to New South Wales fell by 7.2% compared to the year to September. In the rest of Australia the number of visitors was down by 1.2%. New South Wales was probably more affected because it receives a disproportionate share of business travellers, where the cutbacks were particularly severe.
164. In the subsequent three quarters the number of visitors to Australia continued to fall but the fall continued to be greater in New South Wales. In the year to September 2002 the number of visitors to New South Wales was 11.1% lower than a year earlier. For the rest of Australia visitor numbers were down 2.9%.
165. The effect of this on the NSW economy was significant. Every aspect of the hospitality industry was affected: the accommodation sector; cafes, bars and restaurants; and the entertainment industry. Because the hospitality industry tends to be more labour intensive than other sectors of the economy, employment growth was less in NSW than in other States.
166. The threat of war in Iraq will probably ensure that the number of overseas visitors does not recover in the first half of 2003. Recovery might commence in the second half of the year, depending on how the Iraq problem is resolved. Of course if Australians also stay home and holiday domestically, that would partly offset the fall in visitor numbers. Unfortunately the impact of that is likely to be smaller in New South Wales than in some other States.

Victoria

167. For the year ended 30 June 2002, Victoria received 18.0 million domestic overnight visitors for the year, remaining stable compared with June 2001. Interstate visitor numbers decreased by 4% over the same period.
168. Victoria received 55.3 million domestic visitor nights, an increase of 1.3% over the year to June 2002. However, over the period June 1999 – June 2002, overnight visitation to regional Victoria has remained at constant levels, but daytrip visitation has decreased by 11% in line with national trends.
169. Victoria recorded over 1.6 million room nights for the quarter ending June 2002, the same volume of activity as for the June 2001 quarter.
170. Victoria's takings from accommodation establishments in the June 2002 quarter decreased by 5% from the June 2001 quarter.

Queensland

171. The latest data on tourism in Queensland is from the ABS survey of tourist accommodation establishments for September quarter 2002, which indicates that tourism numbers in the State have improved since the impact of September 11, 2001. The number of room nights sold in Queensland increased by 2.4% over the year to September quarter 2002, compared with a more subdued rise of 1.3% in the rest of Australia. As a result, takings from accommodation rose by 4.9% in Queensland over the year, compared with a slight fall of 0.5% in the rest of Australia over the same period.

South Australia

172. In trend⁵ terms, total guest arrivals increased by 1.6% through the year to September 2002, but there was a fall of 1.7% (trend) in the September quarter 2002. Takings from accommodation rose by 4.8%

through the year to September 2002 (current prices, trend data). As with other tourist destinations the future growth of guest arrivals in South Australia (both in Adelaide and in regional areas) is uncertain due to international conditions and uncertainties.

Western Australia

173. Western Australia experienced a small decline in tourism numbers in 2001-02, in a difficult year for the tourism industry with the events of September 11 and the collapse of Ansett Airlines.
174. There were 622,000 guest arrivals in Western Australia during the June quarter 2002, which was 1.6% lower than the 632,000 guest arrivals in the June quarter 2001.
175. Total takings from accommodation in the June quarter 2002 were \$89,018,000, which was slightly below the \$90,341,000 recorded in the three months to June 2001.
176. There were approximately 7.1 million domestic visitors and 555,000 international visitors to Western Australia in 2001-02. Domestic visitors are estimated to have spent \$3.47 billion, whilst international visitors are estimated to have spent \$1.03 billion.
177. There continues to be some encouraging signs for the Western Australian tourism market, with the State Government investing \$5 million to promote local tourism and Virgin Blue and Emirates Air increasing the volume of flights into the State.

Tasmania

178. In the year to September 2002, an estimated 530,700 visitors came to Tasmania, 0.4% lower than the number of visitors from one year earlier. Around 81.8% of all visitors were from interstate and 18.2% from overseas. The number of visitors was 5.6% lower than for the year to September 2001, reflecting a world-wide reduction in international

⁵ Tourism trend data is calculated by DTF as a quarterly moving average of original ABS data.

travel. Visitor nights spent in Tasmania rose by 10.5% to 5.3 million visitor nights in the year to September 2002 and visitors spent an estimated \$722.2 million in the State during this period.

Northern Territory

179. Over the past decade, strong growth in international visitor numbers has driven overall growth in tourism. Since 1991, the number of overseas visitors has increased at an annual average rate of close to 10% per annum. However, weak world growth exacerbated by the 2001 terrorist attacks and the collapse of Ansett affected the Territory's tourism industry in 2001-02. The tail end of the world downturn will continue to dampen international tourism in the short term. Recovery in the world economy will eventually lead to improved tourism demand, impeded to the extent of any substantial appreciation of the Australian dollar.

Australian Capital Territory

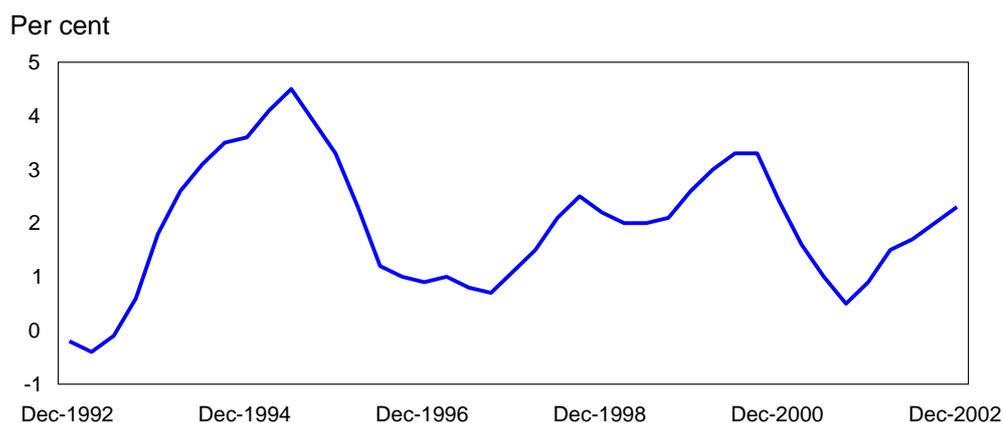
180. Guest arrivals to the ACT in 2001-02 were recorded at 863,600 in original terms, a 1.8% increase on the 848,300 visitors in 2000-01. The sharp decline in arrivals in the December quarter 2001 was a result of September 11, the collapse of Ansett and the timing of the ACT and Federal elections. Guest arrivals in the December quarter 2001 were 15.3% lower than in the September quarter 2001. However, arrivals improved in the March and June quarters of 2002, with arrivals rising by 12.8% from December 2001 to June 2002. Room nights occupied increased by 3.7% in 2001-02 while guest nights occupied increased by 4.5%.
181. Takings from accommodation in original terms totalled \$126.7 million in 2001-02, a decrease of 0.7% on 2000-01. A similar pattern to guest arrivals is evident, with takings dropping in the December 2001 quarter but recovering in the following two quarters. Room occupancy rates also followed the same trend with the rate falling to 57.4% in the

December quarter 2001 in original terms, the lowest rate since the September quarter 2000. Room occupancy rates then recovered to 62.3% and 63.2% in the March and June 2002 quarters respectively.

Labour market

182. Employment growth nationally slowed to 1.1% in 2001-02 from 2.1% in 2000-01. However, the year average growth rates disguise a lift in employment growth through the year. In trend terms, employment grew by 1.7% through the year to June 2002 and lifted further to 2.3% through the year to December 2002. Trend part-time employment grew by 4.7% through the year to December 2002, whilst full-time employment growth rose by 1.4%.

Employment Annual change

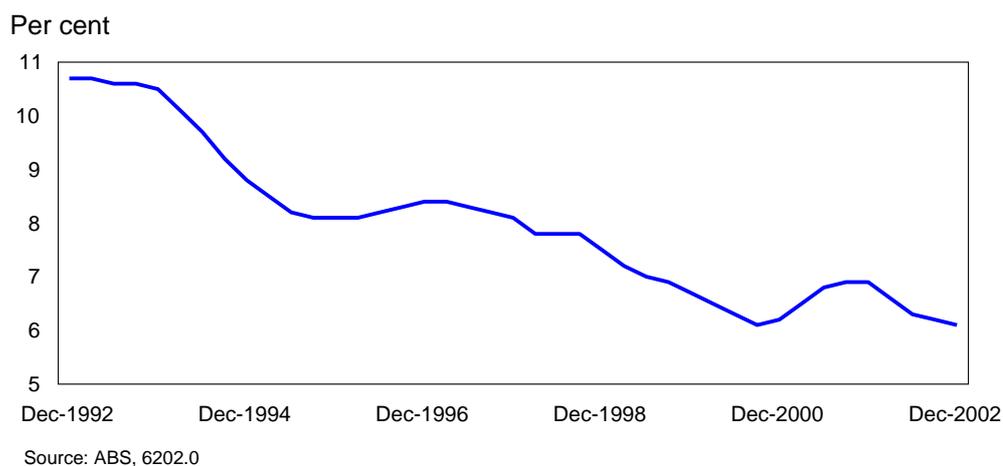


Source: ABS, 6202.0

183. In year average terms the national unemployment rate rose from 6.4% in 2000-01 to 6.7% in 2001-02. Again, the year average figures are somewhat deceptive, as the trend unemployment rate has fallen from 6.9% early in 2001-02 to 6.3% at June 2002. By December 2002 the trend unemployment rate had eased further to 6.1%.

184. With national GDP growth expected to be somewhat slower in 2002-03, employment growth is expected to slow from recent above 2% rates to around a 1.5 -2% pace, in part reflecting weaker farm employment and weaker construction employment. Such employment growth would see the unemployment rate continue to track lower, though at a somewhat slower pace than seen in 2001-02. Commonwealth Treasury forecasts the unemployment rate to fall to 6% by June 2003.

Unemployment Rate Quarterly Trend



New South Wales

185. Employment was flat in the second half of 2001. Moderate growth of 1% in the first half of 2002 saw employment growth of 0.8% for the financial year. All of that growth, however, was in part-time employment. Full-time employment fell by 1.1% in 2001-02, the number of people unemployed rose, and the unemployment rate averaged 6.2%, up from 5.6% in 2000-01.
186. As noted above, the labour market did improve in the second half of last financial year and that improvement has continued into 2002-03. In the first six months of the current financial year the NSW unemployment rate averaged 5.9%. As a result, the employment growth forecast for this year is significantly higher than the result achieved in 2001-02. To

meet that forecast, however, the forecast increase in business investment must be achieved. That will depend to some extent on developments in the rest of the world over which Australia has no control.

Victoria

187. After a strong labour market performance in 2000-01, employment growth in Victoria was more subdued in 2001-02, rising by 1.1%. Employment growth in the construction and retail trade sectors was particularly strong, consistent with the strong conditions prevailing in these sectors, while employment in the manufacturing, transport and accommodation/cafes/ restaurants sectors fell in the year.
188. Much of the growth in employment in 2001-02 occurred in the second half of the year, and this improvement has continued into the first half of the 2002-03 financial year. In year average terms, employment growth of around 1.5% is expected for 2002-03, with similar rates expected over the following few years.
189. The unemployment rate is forecast to average 6% this year, down from 6.3% in 2001-02. As at December 2002, Victoria had the second lowest unemployment rate of all the States (5.8%, compared to the national average of 6.2%).

Queensland

190. Employment in Queensland continued to grow strongly in 2001-02, rising by 1.9%, to be more than twice the growth rate recorded in the rest of Australia (0.9%) during the year.
191. Queensland jobs growth in 2001-02 was below the average growth rate over the past decade (2.6%), a lagged effect of slightly lower economic growth than the State's long run average in 2000-01. As a result, jobs growth (1.9%) in Queensland only slightly exceeded labour force growth (1.8%) in 2001-02, causing the unemployment rate to edge down 0.1%

point to 7.9% in year-average terms. However, jobs growth strengthened over the second half of 2001-02, following an improvement in consumer and business confidence and strengthening growth in consumption spending in the March and June quarters of 2002.

192. Queensland generated an increase in employment of 32,200 persons in 2001-02. Part-time employment (up 28,200 persons) underpinned jobs growth in the State, following three consecutive years where full-time employment led jobs growth. Several factors may have underpinned the shift toward part-time employment. The financial year was characterised by heightened uncertainty over the domestic and global economy, possibly causing employers to shift more toward part-time employment arrangements. Further, job gains were concentrated in the service sector during 2001-02, which has a greater incidence of part-time employment relative to other sectors of the economy.
193. In the June 2002 State Budget, labour market conditions were forecast to improve in 2002-03, driven by strong growth in private investment and household consumption. Queensland Treasury forecast year-average employment growth of 2.5% for 2002-03, representing the creation of an additional 43,000 jobs and yielding an unemployment rate of 7.5%.
194. Recent indicators suggest labour market conditions have continued to improve over the first half of 2002-03. Employment growth in trend terms has exceeded labour force growth in each of the first five months of the financial year, causing the trend unemployment rate to fall to 6.9% in November 2002.

South Australia

195. Total employment increased by 1% during 2001-02, following growth of just 0.7% in the previous year. This growth was entirely in part-time employment: full-time employment declined by 1.4% during 2001-02.

Nonetheless, since reaching its most recent trough in August 2001, full-time employment has been increasing recently, growing by 4.1% through the year to December 2002. Concurrent with the increasing employment has been a trending downwards of the State's unemployment rate. The trend rate fell from 7.5% in June 2001 to 6.7% by June 2002—and had reached a low 5.9% by December 2002, falling below the national rate of 6.1%. Between June 2001 and December 2002 the gap between trend national and State unemployment rates had fallen from a positive 0.6 of a percentage point to a negative 0.2 of a percentage point (in stark contrast to the positive 2.0 percentage points differential recorded in July 1998).

196. State employment growth in 2002-03 is forecast by SA Department of Treasury and Finance to be 1.75%⁶, with current indicators (eg ANZ job advertisements) supporting this forecast. Nonetheless, the employment growth rate is forecast to dip to 0.75% in 2003-04 as GSP growth is expected to reflect the direct and indirect effects of a slowing in the housing construction sector and international conditions.

Western Australia

197. Total employment grew by 3.0% in the 12 months to December 2002, which took Western Australia's total workforce to a record high of 971,800 people.
198. Western Australia's unemployment rate increased to 6.4% on a seasonally adjusted basis in the month of December, after an increase of 15,800 people entering the job market. Youth unemployment continues to be low, with a seasonally adjusted rate of 17.9% being recorded in December 2002.
199. The labour force participation rate has continued to be extremely high, standing at 67.1% in December 2002. Western Australia continues to have the highest participation rate of all the States.

200. WA Treasury predicts that total employment will grow by 2% in 2002-03, before increasing to 2.25% in 2003-04. Part-time employment continues to grow at a faster pace than full time employment, while female employment grew by 4.5% in the 12 months to December 2002.

Tasmania

201. The Tasmanian labour market has improved significantly over the past few years. There has been a general underlying improvement in the State's employment performance since the most recent trough in late 1998. In the four years to December 2002, employment in Tasmania has risen by 3.2%, in trend terms, compared to a decline of 1.2% for the previous four years.
202. The unemployment rate fell to 8.6%, in year average terms in the year to December 2002 compared to 8.8% one year earlier. At 8.6%, Tasmania's unemployment rate in average annual terms is around a twelve year low.
203. In year average terms, the participation rate has eased over the past year and was 0.7 percentage points lower in the year to December 2002 than the previous year. At 58.1% (in year average terms), the participation rate for Tasmania is well below the national rate of 63.7%.
204. Continued economic growth is expected to support further employment growth, an increase in labour force participation and some further reduction in unemployment in the State.

Northern Territory

205. After a solid pick up in 2000-01 and 2001-02, Territory trend employment has fallen back in recent months, to be only slightly above the level reached a year ago. This reflects the expected moderation in employment growth in 2002-03 following the initial boost to aggregate employment associated with direct and indirect employment related to

⁶ Growth forecast in DTF's Mid-Year Economic and Fiscal Outlook. This is an upward revision of

the construction of the railway. Similarly, a slight deterioration in the unemployment rate over the past few months comes after a sharp improvement in 2001-02. In trend terms, despite the recent reversal, the unemployment rate has fallen from 7.8% in December 2001, to 5.5% in December 2002, averaging 6% over the course of the calendar year 2002.

206. In the short term, the tail end of the world economic downturn may continue to limit job opportunities in tourism, constraining aggregate employment growth. Further out, the Territory labour market will benefit from opportunities associated with construction of major projects and an upturn in residential and non-residential investment. Strengthening domestic demand, driven by interstate migration and population growth, will further support employment growth.

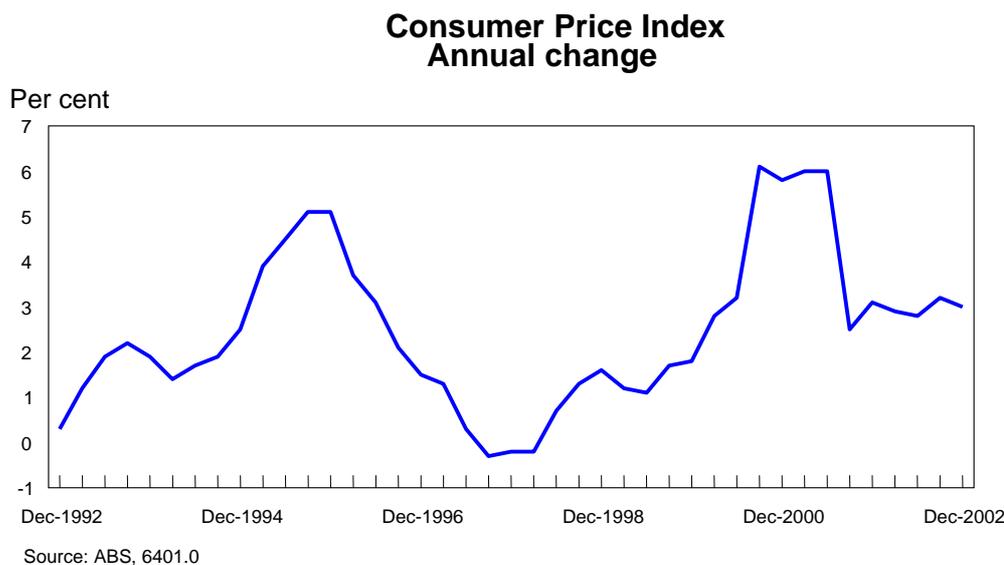
Australian Capital Territory

207. After a strong labour force performance in 2000-01, most ACT labour market indicators eased in 2001-02. Employment in the ACT fell by 0.7% (in year average original terms) compared with the 2.7% employment increase in 2000-01. The average participation rate also dropped slightly from 72.9% in 2000-01 to 71.6% in 2001-02. Despite the fall in employment, the fall in the participation rate resulted in the unemployment rate in 2001-02 still finishing the year at 4.6% – well down on the 5.5% recorded in June 2001.
208. Year-to-date employment results for 2002-03 suggest a large turnaround on last year's result. Employment growth to November 2002 is 4.4% above the corresponding period in 2001-02 reaching record levels in the process. The unemployment rate is also near historical lows at 3.8%. Given the strong year-to-date results, the 2002-03 forecast for employment growth was recently revised upwards to 2% in average annual terms.

the budget time forecast of 0.75%.

Inflation

209. The Consumer Price Index (CPI) increased by 0.7% in the December quarter 2002 to be 3% higher than a year earlier. A number of large one-off price increases have contributed to the CPI being above the RBA's 2-3% target range. These include higher vegetable prices due to the drought, higher holiday travel costs due to the Ansett and insurance airfare levies and higher insurance costs. The Reserve Bank's assessment is that excluding such one-off price increases, underlying inflation is currently around 2.75%. Regarding the near-term outlook for inflation, the RBA states in its November Statement on Monetary Policy: 'With evidence that wages and upstream price pressures are subdued, and no sign of global inflationary pressures, underlying inflation is likely to remain close to its recent level of around 2.75% during 2003.'



New South Wales

210. In NSW the rate of inflation continues to hover around 3%, the same as for Australia. The quarterly rate of inflation in the December quarter, at

0.6%, and the annual rate at 2.8% were marginally below the national rates, but such small differences are not significant.

Victoria

211. Consumer price inflation was relatively low in 2001-02. The Melbourne CPI rose by 2.8% in year average terms, compared with 2.9% nationally. Through the year to the December quarter 2002, the increase was slightly higher at 3.1% (3% nationally), which is at the top of the Reserve Bank's medium-term target range of 2 to 3%.
212. The drought is expected to have some impact on food prices over coming quarters, and petrol prices are another source of upward pressure in the near term. However, the subdued global economy should ensure import price pressures remain low. Overall, CPI inflation is expected to be around 2.75% in 2002-03, before declining to 2.25% in subsequent years.

Queensland

213. Headline inflation in Queensland, as measured by the change in the Brisbane CPI, averaged 2.9% during 2001-02. Several temporary and seasonal factors played an important role in the CPI outcome, including higher fruit and vegetable prices and seasonal influences on the prices of pharmaceuticals and education. In addition, airline levies arising from the collapse of Ansett had an upward impact on the CPI as did higher insurance premiums, part of which was the result of the collapse of HIH. Partially offsetting these increases was a decline in the average price of petrol over the year.
214. Inflation is expected to moderate slightly to a year-average 2.75% in 2002-03. The prospect of businesses re-building profit margins, increased insurance costs to households and higher average petrol prices will hold up inflation over the year. On the other hand, a number of factors should act to dampen price inflation. These include continued labour productivity growth restraining any rise in unit labour costs and

the assumed appreciation of the Australian dollar leading to cheaper imports.

South Australia

215. The CPI for Adelaide increased by 2.8% in 2001-02, just within the RBA's targeted medium term average inflation rate. Inflation in the September quarter 2002 was 0.9%. For 2002-03, the Adelaide CPI is expected to grow by 3 1/2%.

Western Australia

216. Inflation in Perth rose by 2.4% during the 2001-02 financial year, after increasing by 5.5% in 2000-01. CPI growth has eased further in the December quarter 2002, rising by just 0.4% for the quarter and 2.9% in year-earlier terms.
217. It is generally agreed that the high headline rate of inflation in 2000-01 was primarily the result of the introduction of the GST.
218. The Western Australian Treasury forecasts an annual average growth in the Perth CPI of 2.75% during 2002-03, easing to 2.5% during 2003-04. The current underlying rate of inflation remains within the Reserve Bank's target range and is not expected to put pressure on wages.

Tasmania

219. Prices in Tasmania are largely influenced by similar factors to those affecting the rest of Australia. Therefore, the rate of inflation for Tasmania is generally similar to that for the rest of Australia. Over the five years to 2001-02, average annual inflation in Tasmania was 2.1%, below the national average of 2.5%. Annual inflation for Tasmania through the year to December 2002 was 3.1%, compared with 3% nationally.

Northern Territory

220. Darwin's CPI rose by 0.6% in the December quarter, resulting in an annual inflation rate of 2%. Nationally, the CPI increased by 0.7% in the quarter, with annual inflation at 3%. One-off price rises in specific areas have kept inflation relatively high (at or above the Reserve Bank's upper band of the target range), with some latent price pressures continuing to feed through. However, this is unlikely to represent a sustained increase in ongoing inflationary pressures.

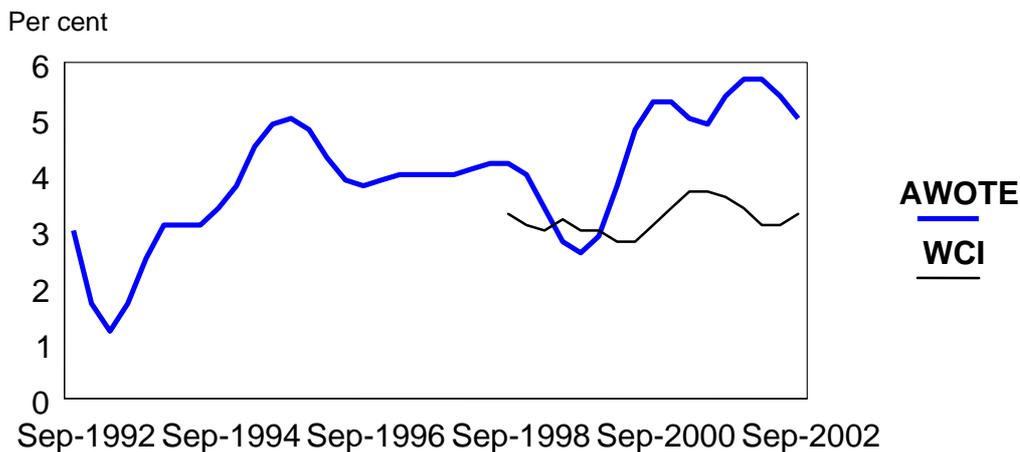
Australian Capital Territory

221. The Canberra inflation rate, as measured by the CPI is largely determined by national macroeconomic parameters. Annual inflation in the ACT for 2000-01 was primarily influenced by the introduction of The New Tax System and First Home Owners' Grant. The Canberra CPI increased by 6.1% for 2000-01 in year average terms, slightly above the national rate of 6.0% and well above the 1999-00 rate of 2.3 % due largely to the introduction of the GST.
222. The sharp increases in CPI growth that followed the introduction of the GST have now flattened out. Current increases are due to ongoing price movements and are no longer influenced by the direct effects of The New Tax System.
223. In 2001-02, the CPI for Canberra grew by 2.8 % – an identical result to the national CPI increase. The largest price index increase was in the Recreation group (up 6.5%) as a result of increases in the price of holiday travel and accommodation. There was also a large increase in the Health group (up 6.3%), which was largely due to a rise in the price of hospital and medical services and pharmaceuticals.
224. The Canberra CPI forecast for 2002-03 is for an increase of 2.75%. This forecast is consistent with Commonwealth Treasury's forecast for national CPI growth.

Wage Costs

225. Average weekly ordinary time earnings (AWOTE) for full-time adults in Australia lifted from 5.3% in 2000-01 to 5.5% in 2001-02. Growth in AWOTE peaked at 6.3% through the year to December 2001 and has decelerated to 5% through the year to September 2002. Changes in AWOTE, however, can be due to compositional changes in employment such as the ratio of males to females and industries expanding and contracting.
226. The ABS considers that the Wage Cost Index (WCI) provides a better measure of wage pressure in the economy because it measures the rate of pay for a sample of particular jobs rather than earnings for a sample of employees. Growth in the national WCI slowed to 3.3% in 2001-02 from 3.5% in 2000-01. Through the year to the September quarter 2002, the WCI rose by 3.3%, showing signs of having reached a trough in 2001-02.

**Average Earnings and Wage Costs
Annual change**

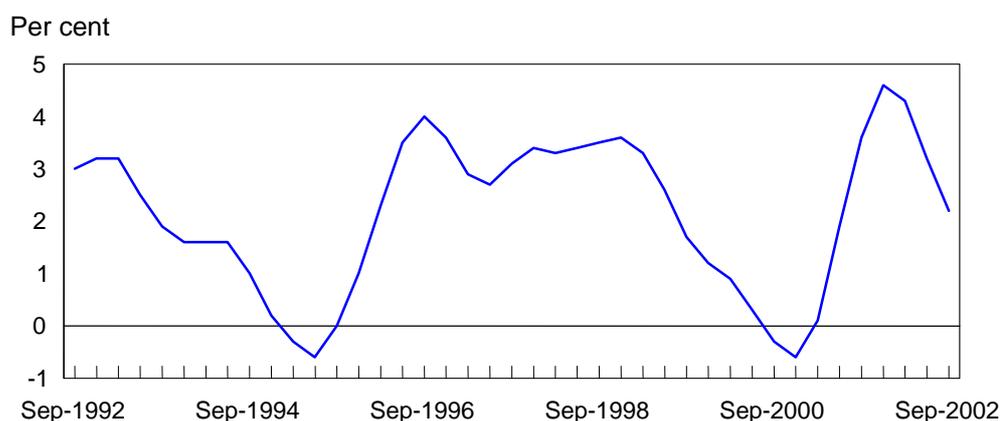


Source: ABS 6302.0 and 6345.0

227. After slowing to less than 1% in 1999-00 and 2000-01, national trend productivity growth for the market sector rose by over 4% in 2001-02.

Some cyclical slowing in productivity growth is likely in 2002-03 as economic growth slows more sharply than employment growth. Even so, productivity growth is likely to be in the 1.5-2% region, meaning that with moderate wages growth, unit labour costs should remain contained at levels consistent with the RBA's 2-3% inflation target.

Labour Productivity: GDP/Hour Worked Annual change



New South Wales

228. The rise in AWOTE for full-time adults accelerated from 5.1% in 2000-01 to 6.2% in 2001-02. However the rise in AWOTE slowed sharply in the September quarter. In contrast to AWOTE, the WCI rose more slowly in 2001-02, decelerating from 3.7% to 3.3%. In the September quarter the annual rise in the WCI was 3.2%.

Victoria

229. Wages growth remained subdued in 2001-02, consistent with the relatively moderate employment outcome recorded last year. As measured by the WCI, wages growth in Victoria was 3.5% in 2001-02, a little above the national average (3.3%). Latest data show an increase of 3.5 % through the year to the September quarter 2002.
230. The increase in average weekly earnings was quite a bit higher in 2001-02. However, this measure is often subject to distortion from

compositional changes in the labour force, and is no longer considered the benchmark measure of wages growth.

231. For 2002-03 and the following few years, it is expected that wage claims will remain consistent with growth in the WCI of around 3.5% per annum.

Queensland

232. The WCI rose 0.9% in terms of the ordinary time hourly rate (excluding bonuses) in Queensland during September quarter 2002. Annual growth in the WCI has moderated from a peak of 3.8% in September quarter 2001 to 2.8% in September quarter 2002.
233. AWOTE for full-time adult workers in Queensland grew by 1.0% in trend terms for the third quarter in a row in September quarter 2002. Annual growth in AWOTE has steadily eased from a peak of 6.5% in December quarter 2000 to 4.2% in September quarter 2002.

South Australia

234. The WCI for South Australia (and nationally) increased by 3.3% during 2001-02, just 0.1 of a percentage point higher than the increase in 2000-01. AWOTE increased by 3% during 2001-02 in South Australia (well below the national increase of 5.5%). Growth of 3.5% was recorded for the private sector with public sector growth of 4.1%. Wage growth does appear to have moderated in the August quarter 2002 with (trend) AWOTE increasing by 0.4% in South Australia—lower than the national increase of 1.1%—but there is some volatility in the data at the State level and quarterly data should be considered in that light.

Western Australia

235. Wages growth for Western Australia, as measured by the WCI, rose by 3.9% in the twelve months to September 2002, up from 2.8% in the 12 months to June 2002. This compares with the national average

increase in the WCI of 3.3% and 3.1% for the September 2002 and June 2002 quarters respectively.

236. AWOTE for Western Australia increased by 4.3% in the year to August 2002. Nationally, AWOTE increased 4.9% in the year to August 2002.
237. Western Australia did record a larger than normal quarterly increase in the WCI (1.6%) in the September quarter 2002. This mainly reflects the State Wage Case decision taking effect from the beginning of August, as well as the proclamation of the *Labour Relations Reform Act 2002*, which brought the minimum wage underpinning all employees into line with the minimum award wage.
238. WA Treasury forecasts, based on WCI, predict that wages in WA will continue to grow by 3.0% during 2002-03, before moderating to 2.25% in 2003-04.

Tasmania

239. Wages in Tasmania are generally lower than the national average level. In the September quarter 2002, AWOTE for Tasmania was 92.4% of the level of the national AWOTE.
240. Since the mid-1990s, AWOTE for Tasmania has risen at an average annual rate of about 3.6%, in nominal terms, which is below the national growth rate of 4.3%. In year average terms, AWOTE for Tasmania was 5.6% higher in the year to September 2002 than one year earlier, compared with national growth over the period of 5.5%.
241. In terms of average weekly total earnings, Tasmania has also lagged well behind the national average, with average annual growth over the past five years of 2.3% for Tasmania compared with 3.55 nationally (nominal). In the year to September 2002, average weekly total earnings for Tasmania grew by 3.6% compared with 4.1% nationally. In the September 2002 quarter, average weekly earnings for Tasmania was only 87.7% of national total average weekly earnings.

Northern Territory

242. The Territory WCI increased by 1.3% in the September quarter, with a 1.6% increase in the private sector and a 0.7% increase in the public sector. Nationally, the WCI increased by 1.3% in the quarter, slightly higher than market expectations. The Territory WCI increased by 3.6% through the year and 3.3% in year on year terms. Nationally, a 3.3% increase was recorded in both through the year terms and year on year terms. Territory wage inflation remains moderate, and is expected to remain subdued in 2002-03.

Australian Capital Territory

243. Historically, per capita income in the ACT has been significantly higher than that for Australia overall and is the highest of any state or territory. This result arises from the industry structure of the ACT economy, which has a high proportion of public sector employment. In addition the ACT has a high proportion of residents in working age groups and a high level of educational attainment.
244. AWOTE for adults in the ACT grew by 1.1% year-on-year ending May 2002 in seasonally adjusted terms. This is lower than the 3.2% growth recorded in the year ending May 2001, and well below the 8.4% growth recorded in the year ending May 2000. Despite the lower growth rates, the ACT maintains the highest AWOTE recording \$995.20 in the August quarter 2002 – well above the national average of \$879.40.
245. Wage increases as measured by the WCI show a 3% increase in the ACT in 2001-02. This result was just below national growth of 3.1%. Wage cost growth for the ACT in the September quarter 2002 was 1.5% compared with 1.3% nationally. The increase of 1.5% for all employees for the quarter represents the second largest quarterly change recorded since the commencement of the index in September quarter 1997.

SUMMARY

246. Through 2001 and 2002, the Australian economy has once more shown resilience in the face of weak global growth. While this has been the case through the 1990s, the year 2003 looks set to be a more significant challenge for the economy. A spluttering global economic recovery seems unlikely to fill the void left from a domestic housing slowdown and the direct and indirect impacts of the drought. Since there is more than the usual degree of uncertainty surrounding the global outlook, there is also a large degree of uncertainty about business investment plans, which are expected to be one of the key drivers of the Australian economy in 2003. Notwithstanding the fact that policy settings are currently stimulatory (especially monetary policy), Australian growth seems destined to slow in 2003. The extent of that slowdown is unclear and will largely depend on circumstances which are outside Australia's control. These include high oil prices, the resolution of current tensions in the Middle East and whether major economies such as the US, Europe and Japan can grow strongly while imbalances are being restored.
247. While there are upside risks to the Australian outlook of modest economic growth for 2003, at this stage downside risks would seem to be dominant. The Commonwealth Treasury reported in the November Mid-Year Economic and Fiscal Outlook:
- 'A possible confluence of a further deterioration in global conditions, the drought and the expected downturn in housing activity would create difficult conditions for the economy. Unlike 1997-98, when the US was growing strongly, or 2001, when domestic activity was supported by a pick-up in housing activity and strong consumption, the Australian economy would find it difficult to maintain momentum in the face of any further significant global deterioration.'
 - 'On the upside, the economy has proved to be very resilient, underpinned by solid fundamentals and supportive policy settings. Consumption has remained firm and investment intentions have

held up well, despite the heightened global uncertainty. A near-term stabilisation in the external environment, particularly in international financial markets and in the level of geo-political tensions, could see the economy grow more strongly than currently forecast.'

New South Wales

248. In 2001-02 the NSW economy grew less vigorously than the rest of Australia. Some of the developments causing that slower performance, such as the fall in overseas visitor numbers, and the downsizing, restructuring and weak business investment in the telecommunications, business services and finance industry, continue into 2002-03.
249. While NSW farmers are bearing the brunt of the current drought (farm production is projected to fall far more steeply in NSW than nationally) the state economy is less dependent on agriculture than the national average, and therefore the aggregate impact of the drought on New South Wales is likely to be about the same as on the national economy – both on the downside in 2002-03, and on the upside when weather conditions return to normal.
250. As a result, the NSW economy is again expected to grow a little more slowly than the Australian economy. The gap, however, is expected to be much narrower than it was in 2001-02.

Victoria

251. The Victorian economy has continued its record of solid growth outcomes, growing at an average annual rate of 4.8% over the past five years. This was above the equivalent growth rate of 3.9% for Australia as a whole.
252. After growing strongly in 2001-02, there are signs that growth in the Victorian economy has moderated into 2002-03. This has been evident in overseas exports and a slowing in the rate of growth in consumer spending.

253. With the drought and global economy operating as negatives for the Victorian (and national) economy, the pace of activity is expected to be more subdued in 2002-03. The Victorian economy is forecast to expand by 3.25%, below the average of the past five years. Over 2002-03, the State's unemployment rate is expected to remain one of the lowest in the nation, while inflation and wages growth remain relatively contained.
254. The major near-term risks to the Victorian economy include a further deterioration in global economic conditions and a worsening of drought conditions, including a failure of autumn rains.

Queensland

255. Economic growth is expected to remain solid in 2002-03, driven by strong business investment and private household consumption spending in particular. The expansionary stance of current monetary policy settings will also help foster economic growth over the coming financial year. However, global economic and political conditions, along with continued drought conditions domestically, pose key risks to growth in 2002-03.
256. Economic growth in the medium term is projected to return towards the average growth rate over the past decade, with an increase of around 4.5% per annum projected for the period 2003-04 to 2005-06. With average employment growth of 2.5% per annum projected to outpace population growth of 1.75% per annum over this period, an ongoing improvement in the unemployment rate is implied, provided there is no unanticipated increase in labour force participation.

South Australia

257. Growth in the South Australian non-farm sector has remained strong during the first half of 2002-03, offsetting the negative impact of the drought and uncertain international conditions. A moderation of activity in the housing construction sector is expected through the course of 2003 and it is anticipated that the direct and indirect impacts of this will

reduce non-farm GSP growth in 2003-04. This impact on overall GSP growth is likely to be offset by higher farm production assuming a return to more normal seasonal conditions.

258. Unemployment in South Australia continues to decline; and total employment continues to grow strongly. Forward indicators of labour demand suggest some moderation in employment growth in 2003 however.

Western Australia

259. The Western Australian economy is expected to grow steadily in the coming year, with SFD forecast to increase by 4% in 2002-03.
260. The fiscal outlook for the State remains positive, with increases in business investment and dwelling investment expected to yield employment growth of 2% in 2002-03. With a number of significant mining projects coming to fruition, the business sector should be capable of absorbing a fair increase in the minimum wage.
261. The inflation rate in Perth continues to fall within the RBA's underlying target range. Western Australia also recorded a very high rate of labour productivity in 2001-02, which should help to cushion the impact of any increase in the minimum wage.

Tasmania

262. Economic growth for Tasmania is expected to improve in 2002-03 but is also expected to trail the national average. Business investment and retail trade continue to be strong and dwelling investment has shown continual improvement. Tasmania's employment levels should continue to grow and improvements are also expected in the participation rate. Wages growth remains below the national average, while inflation is expected to broadly follow the national trend.
263. As Tasmania has a high proportion of low income earners, an increase in minimum wages would have a relatively greater impact on the

economy than in other states and territories and may help boost Tasmania's participation rate, which is considerably below the national average.

Northern Territory

264. After a period of weak onshore growth to 2000-01, the pick up in economic activity that occurred in 2001-02 is expected to continue in 2002-03. Territory GSP is forecast to grow by 3.7% in 2002-03, again driven by domestic factors, notably investment associated with construction of the railway and growth in household consumption expenditure. Low interest rates and the competitive Australian dollar will support growth, with the recovery in the world economy eventually adding to momentum. Offshore oil production and exports are expected to stabilise in 2002-03, after the steep decline recorded over the previous year. Improving external conditions should assist other Territory exports, including international tourism, a high growth sector that has suffered a number of setbacks in the past 18 months.
265. In the medium term, Territory economic growth prospects have significant upside. The defence force plans to relocate an army helicopter regiment to Darwin, and there are a number of potential gas-related projects under consideration, the most advanced of which is for a liquefied natural gas plant. Growth in Territory GSP is forecast to average 5% per annum over the five-year period to 2006-07. Initially, the construction phase of the railway project will continue to have a strong positive impact on the economy. The operational phase of the railway, scheduled to commence in 2004, will provide an important link to southern Australia. Combined with the new East Arm Port, the railway has the potential to see Darwin develop into a nationally important transport hub, with significantly increased land-to-sea international freight.

Australian Capital Territory

266. GSP is forecast to increase by 3.1% in 2002-03 on the back of forecast strong employment growth. SFD is forecast to increase by 3%, revised up from the 2.8% forecast at Budget 2002-03.
267. The housing market in the ACT remains very strong due to the continuation of low interest rates. The housing sector is likely to make significant contributions to the ACT economy in 2002-03 primarily through employment, investment and retail trade.
268. Employment looks set to grow by around 2% in 2002-03. These continuing high levels of employment should see strong household consumption and promote solid economic growth.

INTRODUCTION

269. This section sets out the reasons for proposing that the increase granted should be \$18. This section refers directly to the economic outlook provided at Chapter 3 and revisits the Commission's assessment of economic considerations in the 2002 Living Wage Case Decision [PR002002]. Paragraph numbers cited in this section refer to the relevant paragraph in Chapter 3.
270. As well as the obligation of the Commission to have regard to economic factors, the Act is very clear that there is an equal need when adjusting the safety net to consider the needs of the low paid in providing for fair minimum standards prevailing in the Australian community. This section also addresses the findings of the Commission in recent years about those who rely on safety net adjustments.

ECONOMIC FACTORS CONSIDERED BY THE COMMISSION

271. In 2002 the Commission awarded an increase of \$18 per week on award rates.⁷ The State and Territory Governments submit that the reasons given by the Commission in that matter are relevant to the current application.
272. In awarding an \$18 increase in May 2002, the Full Bench stated:
- We are confident that the cost of the increase is manageable and will not impact significantly on aggregate wages growth. The gross effect on aggregate wages growth should be broadly comparable with that associated with the \$15 adjustment provided for in the May 2000 decision and not significantly greater than that arising from the May 2001 decision. Given the limited net impact of our

⁷ Safety Net Review – PR002002

decision on aggregate wages growth and the likelihood of some offsetting productivity improvements any effect on inflation will be minimal. In the circumstances, particularly the growth in GDP and productivity over recent years, the outcome is a fair one which properly balances the range of matters which we are obliged by the Act to take into consideration.

273. The Commission reached this conclusion after a thorough assessment of the Australian economy. The Commission stated that:

Based on the materials before us the present outlook for the Australian economy is generally positive. The Treasury outlook and recent private sector surveys suggest the continuation of economic growth, which recommenced in mid-2001, strengthening in 2002-2003. Improved labour market outcomes are expected to continue, with employment growth positive but moderate at around 1% over the coming year, with the unemployment rate forecast to remain steady. Inflation is expected to remain within the RBA target range of 2-3%. The immediate outlook for private investment is for continued growth, strengthening into 2002-2003.

The greatest risks raised in the proceedings were the international outlook, the implications for the trade sector and the necessity for the realisation of business investment. The most recent Organisation for Economic Co-operation and Development (OECD) forecasts suggest signs of recovery in the world economy and the most recent Australian investment expectations survey give cause for some confidence with respect to business investment.⁸

274. The Commission was of the view that the Australian economy was continuing to operate in a low-inflation, high growth cycle, and could sustain an increase in minimum award wages of \$18 per week. In summarising the economic material before it, the Full Bench concluded:

...the past six months has seen a resumption of the sustained period of low inflation, strong growth, historically high productivity growth and an emerging improvement in labour market performance, which had been interrupted from around the middle of 2000. The immediate economic outlook, reflected in official forecasts and business surveys, is positive. We have had regard to risks identified by those opposing the ACTU claim, including continuing uncertainty about the world economy to the differential impact of safety net increases. In our view, the Australian economy can accommodate further reasonable improvements in the safety net of minimum wages of the level we determine in this decision.⁹

275. The foregoing illustrates how the Commission, in providing fair minimum standards for employees and in accordance with its obligations under the Act, considers the range of economic matters including productivity, inflation, and the desirability of attaining a high level of employment (section 88B(2)). As well as examining these factors, in reaching its decision the Commission summarised the economic prospects for the coming twelve months:

GDP growth has rebounded (since 2000) and it is now predicted that the economy will grow between 3 and 4% in 2001-2002. The rate of unemployment is declining. Unemployment was over 10% in 1993. The rate moved steadily down in the following years to a low of 6.1% in the September quarter 2000. After a setback during 2001 there are now strong grounds to conclude that the decline has resumed. The growth in full-time employment evident since 1993 was interrupted in 2000 but resumed during 2001 and strengthened in the early months of 2002. Real private business investment increased in the second half of 2001 and although investment in dwellings is likely to reduce in the second half of

⁸ Safety Net Review – PR002002 para 73, 74

⁹ Safety Net Review – PR002002 para 126

2002 the outlook for private business investment generally is good. While inflation was just outside the RBA's medium-term target range in the December quarter 2001 at 3.1%, current expectations are that inflation will moderate over the coming quarters.

... There is no reason to conclude that world economic conditions pose a significant threat to the Australian economy in the next 12 months.¹⁰

276. The State and Territory Governments submit that similar observations to those made by the Commission in 2002 about Australia's economic prospects also can be made in the context of the current matter. Therefore, the same increase that was awarded in 2002 should be awarded in 2003.

277. Those similar arguments include comparing the following relevant economic factors:

	AIRC Decision 2002	Economic Prospects 2003
Economic Growth	It is now predicted that the economy will grow between 3 and 4% in 2001-2002	Economic Growth is forecast to be 3% in 2002-2003
Unemployment	The rate of unemployment is declining. Unemployment was over 10% in 1993. The rate moved steadily down in the following years to a low of 6.1% in the September quarter 2000. After a setback during 2001 there are now strong grounds to conclude that the decline has resumed.	Unemployment is forecast to decline to 6% by June 2003.
Inflation	While inflation was just outside the RBA's medium-term target range in the December quarter 2001 at 3.1%, current expectations are that inflation will moderate over the coming quarters.	The RBA's assessment is that the underlying inflation rate is currently around 2.75%, with a medium term outlook that has the rate remaining close to this level during 2003 (para 209).
Employment	The growth in full-time	Employment is expected to grow

¹⁰ Safety Net Review – PR002002 para 154.

	employment evident since 1993 was interrupted in 2000 but resumed during 2001 and strengthened in the early months of 2002.	at around 1.5 – 2%.
--	---	---------------------

	AIRC Decision 2002	Economic Prospects 2003
Investment	Real private business investment increased in the second half of 2001 and although investment in dwellings is likely to reduce in the second half of 2002 the outlook for private business investment generally is good.	Despite a 5% fall in 2000-01, business investment rebounded sharply in 2001-02 in the mining and transport and storage sectors and has started to recover in the manufacturing sector. The most recent ABS survey of private capital expenditure plans (ABS 5625.0) suggests that investment will grow even more strongly in 2002-03, perhaps by 10-15%, though without broadening to all sectors (para 138).

278. The State and Territory Governments are not suggesting that the economic factors that existed during the 2002 Living Wage Case and that of the current proceedings are the same. Today, there are different pressures such as the effect of the drought and unresolved geo-political concerns that place an analysis of the economy in a different context. However, the economic material does suggest that the underlying economy is still strong, and in this way, not dissimilar to the projections that the Commission took into account when it awarded an \$18 increase in 2002.

QUANTUM OF THE INCREASE

279. In terms of the amount of the adjustment, it is noted that AWOTE for full-time adults peaked at 6.3% through the year to December 2001, and decelerated to 5.0% through the year to September 2002. The WCI,

which is the ABS's preferred measure, slowed to 3.3% in 2001-02 from 3.5% in 2000-01. Through the year to the September quarter 2002, the WCI rose by 3.3%, showing signs of having reached a trough in 2001-02 (paras 225 and 226).

280. An increase of \$18 would equate to a 4.2% increase in the minimum wage, down from the 4.5% granted in 2002. It would also imply, given forecasts for the CPI and WCI, that minimum wage earners would achieve a slightly smaller real wage increase of 1.2% in 2003 and achieve a wage increase around 0.5 percentage point above the increase expected to be gained by the average of all wage earners across the economy.
281. Such an increase, being relatively modest and close to average increases achieved across the economy could not be expected to have a deleterious impact on the labour market.
282. As pointed out in earlier paragraphs, any moderate wages growth must, strike a balance between positive indicators of domestic activity on the one hand, and a somewhat uncertain global situation, on the other. It is the submission of the State and Territory Governments that an increase of \$18 strikes such a balance.
283. Further, it is submitted that the costs of such an increase are manageable and will not significantly increase aggregate wages growth. The \$18 increase now sought is identical to the increase granted in the May 2002 decision, so that the effect upon aggregate wages growth should not be significantly greater than that flowing from the previous decision.
284. Finally, in its 2002 Decision, the Commission noted the potential impact that the \$18 increase may have on employment in some sectors and said that:

We accept that the increase we have decided upon may have some negative effects on employment in those sectors of the economy in which a high proportion of the workers are award reliant. Because safety net increases only directly apply to the wages of around 23% of the employed workforce, the aggregate impact of the adjustment on employment will be small.

285. The State and Territory Governments submit that the conclusions the Commission reached about the impact of an increase of \$18 on wages growth in 2002 is less likely to be an issue in 2003 when examined in light of recent data from the Australian Bureau of Statistics. Preliminary data from the 2002 Employee Earnings and Hours (ABS 6305.0) indicates that now only 21% of all Australian employees are entirely dependant on awards for pay.

NEEDS OF THE LOW PAID

286. In its 2002 decision, the Commission accepted the evidence of the ACTU that many low-paid employees, i.e. those who rely on safety net adjustments, are struggling financially. The Full Bench also accepted that this placed added pressure on those low income earners.

It is apparent from their evidence that all of the witnesses struggled to make ends meet. A significant proportion of their expenditure is on necessities and unexpected expenditures are difficult to finance. There were a number of things which the witnesses went without, for example: regular holidays, social outings, replacing household appliances, new clothes, insurance, telephone and motor vehicle.

We accept that many low paid employees experience difficulties in making ends meet and are unable to afford what are regarded as necessities by the broader Australian community.¹¹

¹¹ Safety Net Review – PR002002 para 131, 132

287. The Commission also considered evidence that in recent years, inequality in income, earnings and wealth have all increased. The Bench concluded that minimum wage adjustments are a 'complementary and inter-related mechanism' for looking after the needs of low paid employees.¹²
288. The preliminary results of the ABS *Employee Hours and Earnings Survey*, conducted in May 2002¹³ indicates that the average weekly earnings of award reliant workers (\$430.20) was 43.5% less than that of workers whose pay was set through collective agreements and 45.1% less than those workers whose pay was set through individual agreements. It is submitted that these figures are illustrative of the disparity in the pay of award reliant workers and those who benefit from collective and individual bargaining, and that the Commission's conclusions with respect to the needs of the low paid remain valid in 2003.
289. The 2002 increase was awarded partly in recognition of this by the Commission. Therefore not to grant a similar increase on this occasion would mean that those reliant on minimum rates mean increased wage dispersion as award reliant workers would go backwards as compared to those enjoying wage increases from other sources.

¹² Safety Net Review – PR002002 para 144

¹³ ABS, *Employee Hours and Earnings*, Cat. 6305.0.

CHAPTER 5 CONCLUSION

290. The submission of the State and Territory Governments has adopted a responsible position concerning the ACTU claim, paying careful regard to Australia's continued economic wellbeing. The conclusions give due emphasis to reaching a balance between these economic factors and the needs of the low paid and in so doing, the importance of maintaining a viable and fair award system.
291. Section 88B(2) of the *Workplace Relations Act 1996* requires the Commission to establish and maintain a safety net of fair minimum wages and conditions of employment having regard to:
- the need to provide fair minimum standards for employees in the context of living standards generally prevailing in the Australian community;
 - economic factors, including productivity and inflation, and the desirability of attaining a high level of employment; and
 - when adjusting the safety net, the needs of the low paid.
292. The submission of the State and Territory Governments has examined the ACTU's Minimum Wages Claim in this context.

293. Chapter 2 of the submission detailed the federal legislative framework within which the present claim must be determined. The previous six national wage cases have also been determined under this same framework. Additionally, as the wage case outcomes extend beyond federal awards and into state jurisdictions, the chapter reviewed the relevant legislative provisions which apply in each of the Labor States and Territories.
294. Chapter 3 examined Australia's strongly performing economy to date against a world economy that first slowed and recently entered a tentative recovery.
295. Through 2001 and 2002, the Australian economy has once more shown resilience in the face of weak global growth; however the year 2003 looks set to be a more significant challenge for the economy. The housing activity slowdown and the direct and indirect impact of the drought are likely to become more apparent, and a modest slowing in domestic demand and overall economic growth is likely. Further, there is more than the usual degree of uncertainty surrounding the global outlook and this may have an impact on business investment plans, which are expected to be one of the key drivers of the Australian economy in 2003.
296. However, on the upside, the Commonwealth Treasury itself reported in the November Mid-Year Economic and Fiscal Outlook that economic activity in Australia has proved to be very resilient, underpinned by solid fundamentals and supportive policy settings. Consumption has remained firm and investment intentions have held up well, despite the heightened global uncertainty. The economy has the potential to grow more strongly in the event that there is a near-term stabilisation in the external environment, particularly with regard to the level of geo-political tensions.
297. The economic evidence suggests that:

- Nationally, household consumption remained firm through 2001-02. Quarterly growth eased back to 0.4% in the September quarter 2002, but remained a healthy 4.2% through the year to the September quarter. In the September quarter 2002 it was 4.2% higher than a year ago.
- Based on evidence that wages and upstream price pressures are subdued, and with no sign of global inflationary pressures, the Reserve Bank of Australia states that underlying inflation is likely to remain at the top of the Bank's range at around 2.75% during 2003. The ongoing impact of the drought and high oil prices however may be of concern.
- Growth in the National WCI slowed to 3.3% in 2001-02 from 3.5% in 2000-01. Through the year to the September quarter 2002, the Wage Cost Index rose by 3.3%, showing signs of having reached a trough in 2001-02.
- Unexpected ongoing strength in the housing market has added to the resilience to date, although some downturn in the housing sector is likely to cause a slow down in domestic demand.
- In trend terms, employment grew by 1.7% through the year to June 2002 and lifted further to 2.1% through the year to November 2002. Trend part-time employment grew by 4.8% through the year to November 2002, whilst full-time employment growth rose by 1.1%.

298. The State and Territory Governments submit that the Commission should consider the claim on its merits in the light of Australia's present strengths and outlook. In determining the quantum of the wage increase, the economic impact of minimum wage increases needs to be balanced with the needs of the low paid. There is limited economic justification for the Commission not granting a meaningful safety net adjustment. It is not equitable for the lowest paid Australians to bear the responsibility for any economic slow down.

299. Chapter 4 of the submission examined the observations made by the Commission in the 2002 Living Wage Case about Australia's economic prospects, and how they can be similarly made in the context of the current matter.
300. The chapter also showed that the \$18 increase of 2002 amounted to a 4.5% increase in minimum wages, some 1.25% above the increase in the WCI and 1.6% above the increase in the CPI in 2001-02. When compared with the State and Territory Governments position for an \$18 increase in these proceedings, this would equate to a 4.2% increase in the minimum wage, down from the 4.5% granted in 2002. It would also imply, given forecasts for the CPI and WCI, that minimum wage earners would achieve a slightly smaller real wage increase of 1.2% in 2003 and achieve a wage increase around 0.5 % point above the increase expected to be gained by the average of all wage earners across the economy.
301. It is worth noting that in past decisions¹⁴, the Commission has acknowledged that the:
- '...material does not establish a basis to depart from the conclusion of the Commission in previous decisions that moderate wage increases in the wages of the low paid, of themselves, do little or nothing to diminish job prospects.'
302. The State and Territory Governments support this finding of the Commission and would add that factors including monetary and fiscal policy responses play an important role in the overall economic effect of safety net adjustments.
303. The purpose of the award safety net is to provide protection for the low paid workers in Australia, many of whom are endeavouring to support families.

¹⁴ May 2001 Decision at para 98

304. The State and Territory Governments submit that on balance, given the need to provide fair minimum standards for employees in the context of living standards generally and the current economic conditions and outlook, an \$18 increase in the minimum wage and minimum award rates is reasonable, sustainable and justified and should be granted to ensure that a genuine safety net for the low paid is maintained.