



Business SA Submission

2016 Annual Wage Review

30 March 2016

BusinessSA

South Australia's Chamber of
Commerce and Industry

Executive Summary

- **Business SA supports the submissions of the Australian Chamber of Commerce and Industry (ACCI)**
- As at February 2016, South Australia's unemployment rate jumped 0.6 percentage points to 7.7%
- Youth unemployment is at a startling 14.7%
- South Australia is facing major downturns across a number of industries including automotive and mining.
- Any increase in wages should take into consideration the economic climate across the whole Nation.

Why this matter is important to South Australian businesses

As South Australia's Chamber of Commerce and Industry, Business SA is the peak business membership organisation in the State. Our members are affected by this matter in the following ways:

- A significant increase in wages reduces the ability for South Australian businesses to retain and hire and grow
- As part of the rejuvenation of the State, businesses need to be encouraged to invest in South Australia. High wages prevent investment in an already struggling state.

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Impact of Fair Work Commission minimum wage decisions

Function of FWC in this process

The Fair Work Commission, in its annual review of the national minimum wage, serves a crucial function in balancing the needs of Australia's low paid with any potential impact on the wider economy. Business SA considers the minimum wage a fundamental aspect of Australia's workplace relations safety net.

In undertaking the annual wage review the Fair Work Commission is required to meet the minimum wages objective.¹ When providing the minimum wage safety net, the FWC must consider the following objectives:

- a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and
- b) promoting social inclusion through increased workforce participation; and
- c) relative living standards and the needs of the low paid; and
- d) the principle of equal remuneration for work of equal or comparable value; and
- e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.

These are sound objectives but some should be given more weight than others. The Full Bench of the FWC itself has noted the tension between the economic and social objectives above.² For this reason, Business SA agrees with the Australian Chamber of Commerce and Industry (ACCI) that greater weight should be given to the interests of those who have a comparatively higher level of direct employment on minimum wages.³ Given the FWC's decision on this matter will apply nationally, extra consideration must be given to the impact on industries exposed to minimum rate wage increases and regional areas. These areas will be some of the most affected by an over-increase in the minimum wage, hurting employment growth and business viability.

Productivity Commission Findings

The Productivity Commission recently released its review on Australia's workplace relations framework⁴ which discussed Australia's minimum wages and the effect of any changes. Importantly, the Productivity Commission acknowledged Australia's high minimum wage compared to that in other OECD countries.⁵ While again, Business SA recognises the importance of the minimum wage safety net, the impact of changes to businesses should be considered.

Changes to this already high minimum wage will impact businesses. If an increase is too large businesses will face a significant cost-disincentive to employ more workers. Additionally, a large increase could also result in 'disemployment'. This is where, due to over-increased wages for low skilled workers, businesses are inclined to reduce employment, seek labour displacing capital, hire more skilled workers, and/or pass on costs.⁶

It is important that the FWC's minimum wage decision does not increase the risk of unemployment nor make it too difficult for employers to hire more workers. Any change must balance the potential benefit for low-paid workers against the potential detriment of those who miss out on jobs because businesses cannot afford to hire another minimum-wage staff employee.⁷ A minimum wage increase which locks the unemployed out of the market is counterproductive and damaging.

Australian Chamber of Commerce and Industry Submission

Business SA supports ACCI's submission on the Annual Wage Review.⁸ In particular that Australia's economy is undergoing transition and that any minimum wage decision will impact some industries and regions more than others.⁹ Given the economic challenges currently facing South Australia the Fair Work Commission must bear in mind the national impact of their determination.

Economic Outlook

Based on the latest ABS figures, SA's economy likely contracted by 0.2% in the June quarter, and after taking into account declining export growth over 2014/15, Business SA estimates the economy is only growing at 1% per annum, well below Australia's growth rate of 2% per annum. Weak business confidence and conditions are not helping to arrest SA's unemployment rate which is hovering around 8%. Building data is also mixed with apartments construction showing some promise in an otherwise subdued sector. The lower Australian dollar has assisted many food & beverage exporters but overall export earnings have still declined due to falling commodity prices slowing the mining sector.

¹ *Fair Work Act 2009* (Cth) s 284(1) ("FWA").

² [2015] FWCFB 3500, [12].

³ Australian Chamber of Commerce and Industry, *Annual Wage Review 2015-2016*, 30 March 2016, [10].

⁴ Productivity Commission, *Workplace Relations Framework* (2015).

⁵ *Ibid* 181.

⁶ Productivity Commission, *Workplace Relations Framework* (2015), 185.

⁷ Productivity Commission, *Workplace Relations Framework* (2015), 226.

⁸ Australian Chamber of Commerce and Industry, *Annual Wage Review 2015-2016*, 30 March 2016.

⁹ *Ibid* [3].

i. Employment

South Australia's unemployment rate as at February 2016 has jumped to 7.7%, which is an increase of 0.9 percentage points from the beginning of 2015. This sees a continued increase of South Australia's unemployment over the last four years. As per the table below, South Australian continues to have the highest unemployment rates in the Nation.

Unemployment	NSW	VIC	QLD	SA	WA	TAS	NT*	ACT*
2015	6.3%	6.0%	6.7%	6.9%	5.8%	6.6%	4.3%	4.5%
2016	5.3%	6.0%	5.6%	7.7%	6.0%	7.0%	4.3%	4.9%

Furthermore, as at February 2016, the labour force participation rate in South Australia stood at 62.2%, the second lowest of all States and Territories and well behind the national average of 64.9%:

Participation	NSW	VIC	QLD	SA	WA	TAS	NT*	ACT*
2016	63.9%	64.8%	65.4%	62.2%	67.7%	60.1%	73.9%	70.6%

South Australia's participation rate has been declining since 2008 when it peaked at 64.4%. In 2008 the national participation rate stood at 65.5%. This trend is concerning for South Australia, particularly given its ageing population and net interstate migration.

Full time employment in South Australia fell over the year to February 2016 to 527,100, a drop from 536,300 in January 2015. Part-time employment has also continued to decrease by 3,700 over 2015 following on from a 3,900 fall in 2015.¹⁰

SA's headline unemployment rate peaked in mid-2015 at nearly 8% and has since receded marginally but we are yet to face the vast majority of job losses associated with the exit of local auto-manufacturers, particularly Holden. Unfortunately, there will be limited jobs in the component manufacturing sector post 2017 with the most optimistic forecasts at 20% of pre-2013 employment levels. There has been some evidence of component manufacturers diversifying but the majority of companies are internationally domiciled with no strategic drivers to keep operating in Adelaide.

¹⁰ ABS, *Labour Force, Australia*, March 2016

* Only trend values are available for the NT and ACT.

ii. Trade

During 2015, SA's export growth was supported by increases in exports of wheat, wine, meat and meat preparations, and fruit and vegetables while there were declines in exports of copper, metal ores and metal scrap, petroleum, gold, silver, platinum and other metals. SA's export profile is still dominated by agriculture & associated food and beverage manufacturing including wine with the mining industry weakening. China remains South Australia's most important trade partner and exports in the 12 months to January 2016 was worth 222 million, however this was a drop of 21.7% from the previous year.¹¹

iii. Building Approvals

Total residential building approvals for SA dropped 5.9% over the year to January 2016. This is in contrast to most other states, particularly Victoria and NSW, where housing starts are key drivers of economic growth.

Non-residential building is faring slightly better with the value of approvals during 2015 up nearly 12% on 2014. The recently approved \$300m Adelaide Casino expansion has provided some relief to the construction sector as other major projects like the Royal Adelaide Hospital near completion.

iv. Retail Trade

Retail turnover in South Australia has been positive with year on year turnover up 4.5%, which is slightly above the national year-on-year results of 4.3%. The Christmas period saw relatively moderate increase of 0.4% from December 2015 to January 2016.

All three best performing retail sectors in 2014, Clothing, Takeaway Food Services and Liquor, have also been the top performing sectors over the past five years since the GFC averaging annual growth of 4.9%, 5.3% and 4.8% respectively. Other key sectors which have seen recent growth include:

- The largest retail sector, Supermarkets and Grocery Stores, saw turnover increase 6.0% in 2014 and has experienced average annual growth of 4.6% per annum since 2010.
- Combined Cafes/Restaurants/Take Away Food Services turnover grew 3.1% in 2014 and has grown an average 2.9% per annum since 2010.

¹¹ SA Overseas Goods Exports, January 2016, Government of South Australia, 3 March 2016

The worse performing retail sectors in 2015 were Footwear and Other Personal Accessories, Newspaper & Books and Other Specialised Foods. Not surprisingly, sales in all these sectors have also performed poorly over the past five years. Other major sectors which have struggled in 2015 include:

- Clothing retailing dropped 1.9% in 2015 and has fallen an average of 1.6% since 2010.
- Liquor Retailing has decreased slightly by 1.2% ¹²

Conclusion

Business SA supports the submissions of ACCI but also believes strongly that the Fair Work Commission should take into consideration the specific economic situation of each state. South Australia has undergone significant economic decline. Whilst Business SA is positive South Australia can make the necessary changes to become an economically viable and flourishing State, these changes can only occur in the right climate.

The Fair Work Commission has a responsibility to take into consideration the economic position of each individual state and the impact of a wage increase when making its decision.

¹² ABS, Retail Trade Australia, January 2015