



Submission to the Fair Work Commission
Annual Wage Review 2016-17
March 2017

Australian Federation of Employers and Industries (AFEI)

Submission to the Fair Work Commission

Annual Wage Review 2016-17

March 2017

Overview

1. We do not expect that the Australian economy will be sufficiently robust in 2018 to justify the imposition of significant increases in labour costs via the annual minimum wage review. Minimum wage policy settings should encourage further investment and employment and not act to constrain business propensity to employ. While economic forecasting and commentary by the Reserve Bank of Australia (RBA), Treasury and others suggest that the Australian economy may be entering a period of comparatively increased growth, in our view the uneven condition of our economy, and particularly our labour market, does not support these optimistic prognostications.
2. An improvement in labour market conditions will be fundamental to an improvement in the economy as a whole. The RBA's latest assessment (made prior to the February 2017 employment data release) of this capacity to underpin economic recovery remains tepid at best:

Momentum in the labour market remained difficult to assess, but it was clear that spare capacity remained and there continued to be significant differences in labour market outcomes across the country. Domestic wage pressures remained subdued and household income growth had been low, which, if it were to persist, would have implications for consumption growth and the risks posed by the level of household debt. Spare capacity was expected to decline slowly as momentum in the economy built; wage growth and underlying inflation were expected to rise, but only gradually.¹
3. AFEI supports the submission and the recommendation made by Australian Chamber of Commerce and Industry (ACCI) that the Panel award an increase of 1.2 per cent in the National Minimum Wage and a 1.2 per cent increase to modern award wages. Our less than optimistic assessment of the capacity within the economy to sustain an

¹ Reserve Bank of Australia Board (RBA) Minutes 7 March 2017

increase in the minimum wage beyond 1.2 per cent arises from the following considerations:

- Core inflation is running below the 2-3 per cent target band and unemployment persists well above the level associated with full employment. At 5.8 per cent unemployment (5.9 per cent seasonally adjusted) is almost a full percentage point above the 'non-accelerating inflation rate of unemployment' (NAIRU);
- Underutilisation rates are high and continue to rise, particularly in the award dependent sectors;
- Employment growth has continued to be concentrated in part time jobs over the past year and wage growth has remained low;
- The award dependent sectors have high levels of part time work and lower hours worked;
- The historically low measures of inflation and wages growth are an indication of spare capacity and economic weakness, not an indication that there is capacity for increasing costs;
- Increases in minimum wages and award rates have a direct impact on all other labour costs, both wage and non wage, including workers compensation, superannuation and payroll tax. These increases also feed directly into bargained rates and compliance with the BOOT.
- Mining investment continues to fall while non mining investment has been insufficient to offset the fall in the mining sector. Improvement in business confidence and increase in capacity utilisation has yet to translate into actual investment;
- Australia's Gross Domestic Product (GDP) is growing on average around 2.5 per cent a year, below the rate needed to reduce unemployment levels. GDP increased by 2.4 per cent through the year compared with 2.5 per cent a year earlier.
- Since 2011, the Panel has consistently awarded increases above the rate of inflation and, since 2014, increases which have exceeded growth in both average earnings and the wage price index.

The Economic Environment

4. The economy continues to grow at only a modest pace, with significant regional differences. GDP is now growing on average around 2.5 per cent a year, below the rate needed to reduce unemployment levels. A ‘technical recession’ was avoided by the return to growth in the December quarter 2016. GDP recorded growth of 1.1 per cent in that quarter and increased by 2.4 per cent through the year.² This growth primarily reflects the lift in resource exports and commodity prices, the residential construction boom in the eastern states and higher public spending.
5. The rising commodity output and prices mask some major challenges in the economy which continues to be characterised by uneven performance across industries and some regions experiencing low or no growth.
6. Two major factors maintaining economic growth are the contribution of public sector investment (contributing 10.9 per cent over the year to December 2016 in trend terms) and the reversal in our terms of trade in the December quarter 2016 (rising 13.5 per cent over the year or 15.6 per cent seasonally adjusted). Real net national disposable income growth grew by 1.5 per cent (5.3 per cent over the year) as a result of improving terms of trade over this period:

*The strength in export prices can be observed in the Terms of trade, which was also up 9.1% this quarter. This was the strongest growth rate experienced in the Terms of trade since June Quarter 2010.*³
7. To maintain this annual growth figure of 2.4 per cent Australia is dependent on continued strong performance in our terms of trade and reliance on public investment, given the subdued level of private sector investment (see below).
8. Over the year Agriculture forestry and fishing, Mining and Professional scientific and technical services led growth, while Manufacturing, Construction and Administrative and support services were in decline. The largest quarterly falls in December 2016 were in Administrative and support services (-2.5 per cent), Accommodation and food services (-2.0 per cent). Further, growth in those industries employing more full time workers has not been robust (Electricity, gas, water, Manufacturing, Construction, Communications, Transport, and Wholesale). Gross valued added by industry is shown in Table 1 below.

² ABS 5206.0 - Australian National Accounts: National Income, Expenditure and Product, Dec 2016

³ op cit Analysis

Table 1: Gross Value added**MAIN FEATURES PRODUCTION CHAIN VOLUME MEASURES**

	Trend		
	% change Sep 16 to Dec 16	% change Dec 15 to Dec 16	% points contributions to growth in GDP Sep 16 to Dec 16
Agriculture, forestry and fishing	7.4	20.4	0.2
Mining	—	1.3	—
Manufacturing	-0.5	-1.8	—
Electricity, gas, water and waste services	-0.2	-0.5	—
Construction	-2.1	-5.8	-0.2
Wholesale trade	2.2	7.1	0.1
Retail trade	—	0.8	—
Accommodation and food services	-0.2	1.6	—
Transport, postal and warehousing	0.4	0.8	—
Information media and telecommunications	1.2	3.6	—
Financial and insurance services	0.7	4.1	0.1
Rental, hiring and real estate services	-0.1	1.2	—
Professional, scientific and technical services	1.7	6.3	0.1
Administrative and support services	-1.1	-1.5	—
Public administration and safety	0.3	3.1	—
Education and training	0.4	2.0	—
Health care and social assistance	1.0	4.3	0.1
Arts and recreation services	0.2	0.8	—
Other services	0.8	0.1	—
Ownership of dwellings	0.5	2.2	—
Taxes less subsidies on products	-0.4	1.7	—
Statistical discrepancy (P)	na	na	-0.1
Gross domestic product	0.3	1.9	0.3

— = nil or rounded to zero (including null cells)

na = not available

Source: ABS 5206.0 - Australian National Accounts: National Income, Expenditure and Product, Dec 2016

9. With subdued activity across most of the non mining sectors, the 2016 uplift in agriculture and mining has not been sufficient to improve employment and incomes growth across the economy. Poor job growth, and declining hours worked in the market sector resulted in a rise of aggregate nominal wage and salary income (employee compensation) of 1.5 per cent per annum.
10. Across the states, the Northern Territory led growth in State final demand with major investment and output in large resource projects underway. The ACT followed with large contributions to growth from public expenditure. These were followed by NSW and Victoria with growth driven by household spending, as well as government expenditure in large public infrastructure projects and private construction investment.

Table 2: State Final Demand

	% per annum Seasonally adjusted
NT	11.1
ACT	7.3
NSW	4.1
VIC	3.4
SA	2.1
TAS	2.4
QLD	1.8
WA	-7.3

Source: ABS, National Accounts, Dec 2016

11. The Mid Year Economic Forecast predicts that Australia’s real GDP will grow by 2 per cent in 2016-17. This is weaker than forecast in the Pre Election Economic and Fiscal Outlook, partly reflecting the decline in GDP in the September quarter 2016.
12. The RBA has recently forecast a return to improved economic conditions in 2017-18, based on an optimistic view of improved international and domestic conditions.⁴ However, the RBA Governor’s commentary on the state of the labour market, wages and inflation indicates a high level of uncertainty about employment and wage growth. While “satisfied that the labour market is heading in the right direction”, the Governor also noted that it was not occurring “as quickly as we’d like”.⁵ He also said that it is an area that the RBA continues to watch carefully. One concern is that the composition of job creation, mostly part time, will operate to weaken wage growth and contribute to the risk that sub-target core inflation, i.e. below 2-3 per cent will persist:

*Labour market indicators continue to be mixed and there is considerable variation in employment outcomes across the country. The unemployment rate has been steady at around 5¾ per cent over the past year, with employment growth concentrated in part-time jobs. The forward-looking indicators point to continued expansion in employment over the period ahead.*⁶

Profits

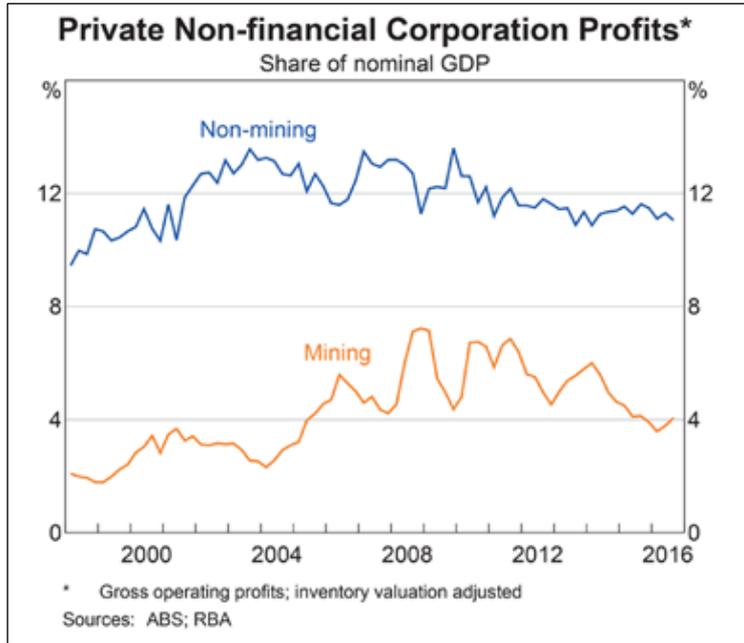
13. After two years of flat or declining profits, company operating profits rose by 9.3 per cent in trend terms (20.1 per cent seasonally adjusted) in the December quarter 2016 after rising 1.5 per cent in the September quarter. As a consequence of this quarterly uplift, profits were up 20.0 per cent (26.2 per cent seasonally adjusted) over the year, primarily because of the recovery in commodity prices and mining industry profits.

4 RBA Statement 7 March 2017

5 Philip Lowe Governor RBA Speech Australia and Canada – Shared Experiences Australia-Canada Economic Leadership Forum Sydney – 22 February 2017

6 RBA 7 March Statement 2017

Chart 1: Private Non-Financial Corporation Profits



14. Non mining sector profits had been stagnant or in decline since 2013, growing by less than 5 per cent in the past year. The mining sector led the 20.1 per cent reported profit surge in the December quarter 2016, accounting for nearly \$9 billion of the \$13 billion increase in profits over the quarter and reflecting the lift in commodity prices.⁷ In the December quarter, profits rose most in Financial and insurance services (up 22.2 per cent in trend terms, 108.9 per cent seasonally adjusted) and Mining (up 21.0 per cent in trend terms, 49.7 per cent seasonally adjusted), profits fell most in Arts and recreation services (down by 8.6 per cent trend; 15.8 per cent seasonally adjusted) and Accommodation and food services (down 1.5 per cent trend and 14.4 per cent seasonally adjusted). Retail trade rose 1.0 per cent in trend terms, falling by 2.9 per cent seasonally adjusted.
15. As the Treasurer pointed out it would be:

“wrong to assume gains have been experienced evenly by businesses across the economy.

“It is also important to note that this one quarter of strong profits growth... comes after many quarters of subdued profits growth, and reflects in large part the recovery in global commodity prices that took place late last year.”⁸

⁷ ABS Business Indicators 5676.0 Dec 2016

⁸ Statement by The Hon Scott Morrison MP Treasurer of the Commonwealth of Australia. National Accounts – December quarter 2016. 2 March 2017

16. With the exception of Other Services (which includes repairing and/or maintaining equipment and machinery), the latest reported profit levels in sectors with higher levels of award wage dependent workers remain low or negative and below the all industry total:

Table 3: Award dependent industries: Company Gross Operating Profits December Qtr 2016

	Trend estimate %	Seasonally adjusted estimate %
Retail trade	1.0	↓2.9
Accommodation and food services	↓1.5	↓14.4
Administrative and support services	↓8.0	↓13.7
Education and training	2.0	1.6
Health care and social assistance	0.6	1.5
Arts and recreation services	↓8.6	↓15.8
Other services	13.0	20.2
All industries	9.3	20.1

Source: ABS Business Indicators 5676.0 Dec 2016

17. In trend terms, over the past five years wages have grown at a higher rate than profits, as shown in Table 4. As the Panel has noted previously, company gross operating profits show considerable volatility in quarterly profit growth over time, although less so in non mining industries.⁹ This is in contrast to the steady upward growth in wages.

Table 4: Profits and Wages

	Non mining Wages and salaries	Non mining Profits	Mining Wages and salaries	Mining Profits	Total Wages and salaries	Total Profits
Dec-2011	108279	53945	5946	23447	114225	77392
Mar-2012	109408	53384	6176	21334	115584	74718
Jun-2012	110344	53519	6325	19443	116669	72962
Sep-2012	111148	54325	6402	18203	117550	72528
Dec-2012	111950	54858	6390	17854	118340	72712
Mar-2013	112805	54883	6359	18686	119164	73569
Jun-2013	113628	54603	6367	20558	119995	75161
Sep-2013	114435	54666	6403	22368	120838	77034
Dec-2013	115088	55254	6462	23333	121550	78587
Mar-2014	115644	55854	6495	22863	122139	78717
Jun-2014	116693	55794	6454	21166	123147	76960
Sep-2014	117106	55433	6350	19374	123456	74807
Dec-2014	117604	55661	6232	18143	123836	73804
Mar-2015	118211	56948	6173	17532	124384	74480
Jun-2015	119172	58330	6172	16955	125344	75285
Sep-2015	120372	58481	6126	16058	126498	74539
Dec-2015	121438	57659	6012	15309	127450	72968
Mar-2016	122341	56683	5846	14855	128187	71538
Jun-2016	123036	56972	5706	16536	128742	73508
Sep-2016	123500	58331	5604	20099	129104	78430
Dec-2016	123770	60428	5545	24311	129315	84739
	14.31%	12.02%	-6.74%	3.68%	13.21%	9.49%

Source: ABS 5676.0 - Business Indicators, Australia, Mar 2016 Tables 15 & 17 Trend

⁹ [238]

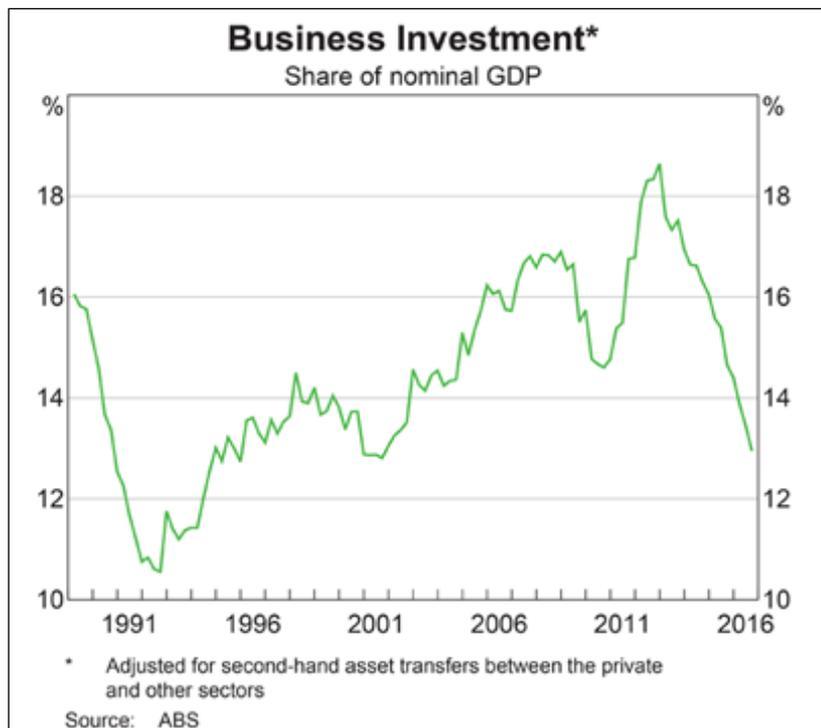
18. With the strong record of Mining industry commodity prices and profits in December quarter 2016, the ratio of profits to total factor income rose from 24.4 per cent to 26.5 per cent in seasonally adjusted terms. Up to September 2016 the wages share of total factor income increased from 54.2 to 54.5 per cent, falling to 52.3 per cent in December 2016 with the stronger profit performance. The wages shares of factor income has been consistently around 53 per cent for the past decade. As the Panel observed in its 2015-16 Decision:

The shares of wages and profits in total income have barely changed over the past three decades in the non-mining part of the economy.¹⁰

Investment

19. One of the greatest uncertainties for the year ahead is non mining investment levels and capital expenditure. The RBA has long been expecting an eventual jump in non mining investment to boost economic growth.

Chart 2: Business Investment



20. Total new capital expenditure fell by 15.5 per cent over the 12 months to December 2016, investment in buildings and structures fell by 25.5 per cent over the year and expected investment in 2016-17 is 9 per cent lower than in 2015-16.¹¹

10 [2016] FWCFB 3500 [37]

11 Private New Capital Expenditure and Expected Expenditure

21. Business investment as a share of GDP now stands at 12.8 per cent, down from around 18 per cent in 2012 at the peak of the mining boom and the lowest share since 2001. There has been insufficient non mining investment to offset the fall in the resources sector, with slow economic growth and excess capacity reducing the incentives for firms to invest. This has been particularly pronounced in those sectors supplying the mining industry.
22. The recovery in non mining investment remains tepid at this stage with lacklustre capital expenditure plans and thus far is not improving fast enough to underpin the RBA and Treasury expectations for more robust growth. ABS Private Capital Expenditure Survey suggests a loss of momentum in the non mining investment recovery for 2017-18. The trend estimate for Manufacturing rose 1.5 per cent in the December quarter 2016, with buildings and structures rising 0.4 per cent and equipment, plant and machinery by 1.9 per cent. However, the trend estimate for Other Selected industries fell 0.5 per cent in the December quarter 2016. Buildings and structures in this sector rose 0.3 per cent while equipment, plant and machinery fell 1.1 per cent.¹² While investment expenditure in the Services sector is expected to expand, that improvement will not be sufficient to offset the decline in mining investment. Mining investment plans for the financial year ahead are down around 30 per cent compared with a year ago, while plans for non mining investment are up 7 per cent.
23. Construction, particularly residential building, which had been experiencing historically high levels of activity and government infrastructure spending have assisted in meeting this gap. Economic growth would have been considerably weaker without the residential construction boom. The contraction of the economy in the September quarter 2016 shows how vital an improvement in non mining business investment is to the economy.
24. New approvals and building commencements data suggest we have entered the phase of the construction cycle where growth is slowing, and some loss in momentum in this significant source of growth for the economy, particularly in the eastern states. The value of total building approved fell 2.9 per cent in January 2017, in trend terms, and has fallen for six months. The value of residential building fell 0.9 per cent while non residential building fell 6.8 per cent and has fallen for five months. The number of total dwellings approved fell 2.1 per cent in January 2017, in trend terms, and has fallen for eight months.¹³

¹² ABS Private New Capital Expenditure 5625.0 Dec Qtr 2016

¹³ ABS Building Approvals Australia 8731.0 Jan 2017

Business exits and entry

25. From 2014-15 to 2015-16 there was a moderate increase in the business entry rate (from 13.4 per cent to 14.6 per cent) and a small decrease in business exit rate (from 12.4 per cent to 12.3 per cent).
26. Much of the growth occurred in Construction with the largest growth in businesses counts, increasing by 11,967 units (3.5 per cent) and in Financial and insurance services with an increase of 4.7 per cent between June 2015 and June 2016.¹⁴
27. Retail trade businesses have declined by -1.0 per cent over 2012-16 and have a survival rate of 56.9 per cent compared to an all industries average of 62.1 per cent. All award dependent industries have survival rates below the all industries rate.¹⁵
28. While Accommodation and food services had the highest entry rate at 19.2 per cent in 2016, these businesses also had a high exit rate (16.1 per cent) and were also the least likely to survive given the 2012-2015 data – a survival rate of 53.3 per cent.¹⁶
29. For businesses operating in both June 2015 and June 2016, there was a net movement of 15,377 businesses away from having 1-19 employees. 85.3 per cent of this movement was into the non employing category. Between June 2015 and June 2016, the non employing category had the largest net movement (14,402 units) from changes in employment size range.¹⁷

Inflation

30. Inflation throughout 2016-17 remained below RBA expectations and which, according to the Bank, reflected weak labour cost growth, low inflation expectations, heightened competitive pressures in some product markets and low rent inflation due to the increases in the stock of housing.¹⁸
31. Headline inflation was 1.5 per cent over the year (down from 1.7 per cent to January 2016) and the underlying rate of inflation was 1.6 per cent over the year (down from 2 per cent to January 2016).¹⁹ The Living Cost Index (Employees) was 1.0 per cent over the year (down from 1.1 per cent to December 2015.)²⁰
32. In a low inflation environment, where cost increases cannot be readily passed on to cost sensitive consumers, there are significant risks in increasing labour costs at a higher rate than inflation. Where these costs cannot be sustained businesses will

¹⁴ ABS Counts of Australian Business 8165.0

¹⁵ *ibid*

¹⁶ *ibid*

¹⁷ *ibid*

¹⁸ RBA Bank Statement on Monetary Policy February 2017

¹⁹ ABS Consumer Price Index 6401.0 Jan 2017

²⁰ ABS 6467.0 - Selected Living Cost Indexes, Australia, Dec 2016

adjust by taking measures to reduce labour costs including lower hours and reduced hiring.

Labour Productivity

33. In trend terms, in the twelve months to December 2016 GDP per hour worked increased by 1.5 per cent and gross value added per hour worked in the market sector increased by 1.9 per cent. Hours worked increased by 0.4 per cent overall and fell by 0.2 per cent in the market sector.²¹ The seasonally adjusted measures are reproduced in Table 5.
34. In the Panel’s 2015-16 Decision, reference was made to the impact of increased hours on the measurement of labour productivity and, in particular, to the effect of increased hours in the December quarter 2015.²² As has been pointed out previously by ACCI, labour productivity measured in terms of GDP per hours worked is ultimately just a ratio of output and hours worked. For labour productivity to improve, output needs to grow more quickly than hours worked.²³
35. A similar effect appears to have operated throughout 2016. As hours increased, productivity wanes and, with reduced hours, labour productivity increases.

Table 5: GDP and GVA per hours worked

Quarterly Year end	TOTAL			MARKET SECTOR		
	GDP	HOURS WORKED	GDP/HOURS WORKED	GVA	HOURS WORKED	GVA/HOURS WORKED
	%	%	%	%	%	%
DEC 15	3.0	3.3	-0.3	2.8	1.9	0.9
MAR 16	3.1	1.5	1.6	2.8	1.0	1.8
JUN 16	3.3	0.5	2.7	3.0	0.1	2.9
SEPT 16	1.8	0.7	1.0	1.2	0.5	0.7
DEC 16	2.4	0.6	1.8	2.3	-0.1	2.4

Source: ABS 52060 December 2016 Table 2 Seasonally adjusted

36. However, we note the complexities and difficulties measuring productivity and their limited application in aggregate wage determination given there is no fixed relationship between minimum wages and productivity.

21 ABS National Accounts 5206.0 Table 1

22 [2016] FWCFB 3500 [225]

23 ACCI Initial Submission 2016 [90]

Wages

37. Over the year to the December quarter 2016, the Wage Price Index (WPI) increased by 1.8 per cent in the private sector (1.9 per cent total). To November 2016, average weekly ordinary time earnings (AWOTE) increased by 1.6 per cent (trend estimate). The Average Annualised Wage Increases (AAWI) for agreements grew by 3.4 per cent (private sector), and 3.0 per cent (public sector) in the September quarter 2016. Much of this increase is attributable to new construction enterprise bargaining agreements. Without construction the AAWI is 2.8 per cent for all other industries, down from the 2.9 per cent increase for the June quarter 2016.²⁴
38. All measures match, or are in excess of, the headline inflation rate over the same period of 1.5 per cent and the underlying inflation rate of 1.6 per cent.
39. In relation to the drop in mining sector wages (see Table 4) with the end of the mining boom, we note the Panel's statement that "*For the purposes of setting the NMW and award rates of pay, developments in the Mining sector have little direct relevance. There are almost no award-reliant employees in that sector.*"²⁵ However, the Panel does have regard for aggregate measures of wages growth in reaching its conclusions and these include wages in the mining sector. A major factor in the slower rate of wages growth, apart from reduced demand conditions, has been the disappearance of the elevated rate of wage increases in the mining industry and the shift in the composition of employment away from mining related activities. Mining earnings remain the highest with average weekly total cash earnings of \$2,494.40.²⁶
40. Slower wages growth in comparison to the period of high wages growth during the mining boom is to be expected now that income generator has subsided and the rest of the economy is having to provide the investment and profit needed to drive higher wages growth. As noted above that growth is patchy and lower wages growth reflects excess capacity in the economy. Slow wages growth is the result of our sluggish economy, with uneven performance among sectors and regions and an ongoing transition from dependency on mining sector performance to drive growth in both wages and employment. It also results from the rise in the share of part time workers in the workforce, with a proportion of those part timers wanting to work longer hours, around 8 per cent of the workforce²⁷ (underemployment – see Page 22). While this excess capacity remains, wage growth will be restrained.

²⁴ Department of Employment Trends in Enterprise Bargaining Report September qtr 2016

²⁵ [2016] FWCFB 3500 [237]

²⁶ ABS 6306 Employee Earnings and Hours May 2016

²⁷ RBA Bulletin March 2017 Insights into low wage growth

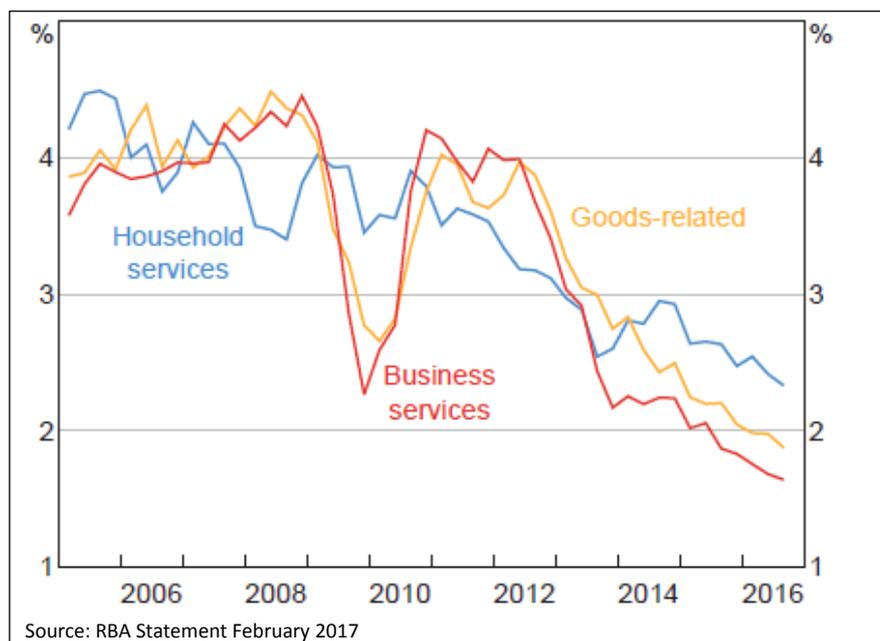
41. In the 2015-16 Decision the Panel took the view that the underemployment rate tended to move fairly closely with the unemployment rate and separate consideration of the impact of underemployment was not necessary:

Over the past 10 years, under-employment and unemployment have moved together, and the addition of one to the other does not alter the essential interpretation of changes in the state of the labour market.²⁸

42. While the RBA is unclear how much under utilisation influences wages growth it does suggest that the recent divergence in underemployment and unemployment trends could account somewhat for wage growth slowing by more than what is suggested by the unemployment gap.²⁹

43. The RBA has noted the higher than average WPI outcomes in minimum wage decisions and the connection between relatively higher wages growth in those industries whose wage setting methods are linked to the minimum wage – the award dominated industries in the Household services sector.³⁰ In contrast, the rate of wage growth in industries with lower concentrations of award dependency has been comparatively slower for the past three years.

Chart 3: Wage Price Index Growth: Goods related, Household and Business services

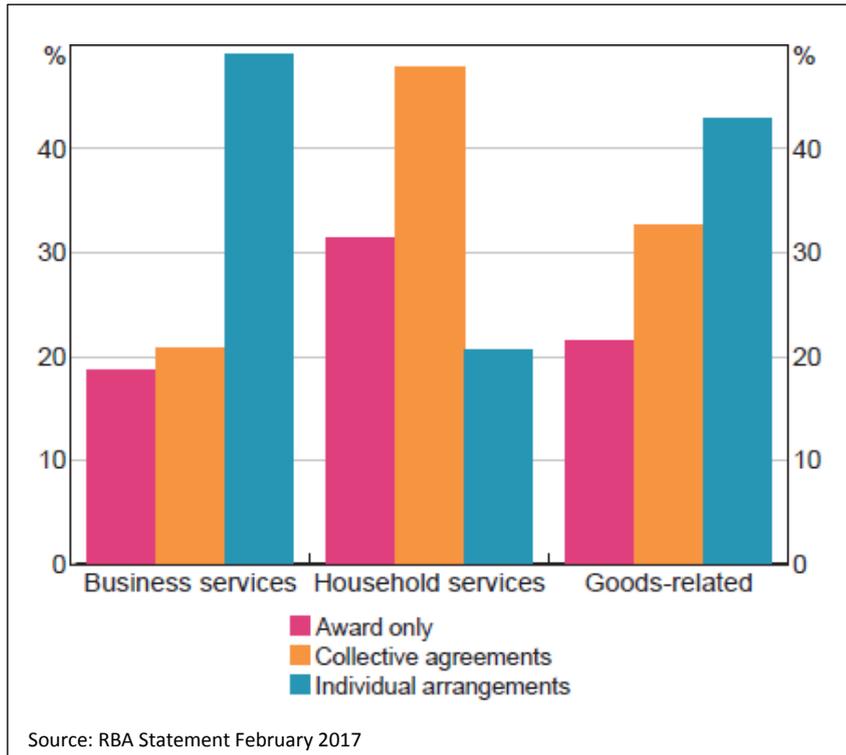


28 [2016] FWCFB 3500 [277]

29 RBA Bulletin March 2017 Insights into low wage growth

30 RBA Statement February 2017 page 34

Chart 4: Wage Setting Methods



44. In 2016 all but one award dependent industry had wages growth equal to or above the All Industries WPI growth rate of 1.8 per cent, with growth rates pushed up by the Panel’s 2016 decision to increase minimum rates by 2.4 per cent. The only industry with a wages growth rate approaching this was Education and training, a sector which is underpinned with a high proportion of public funding. In comparison with the WPI year end outcome for 2016, the Panel decision of 2016 exceeded wage outcomes in the economy overall.

Table 6: Award Dependent

	Dec Qtr 2014	Dec Qtr 2015	Dec Qtr 2016
Retail trade	2.2	2.5	1.8
Accommodation and food services	2.6	2.3	2.3
Administrative and support services	2.0	1.4	1.3
Health care and social assistance	2.7	2.3	2.4
Arts and recreation services	3.9	2.3	1.9
Other services	2.2	2.3	1.9
All Industries	2.5	2.0	1.8

Source: ABS 6345.0 Wage Price Index Dec 2016

45. This is a further indication of the widespread lack of capacity within the economy to sustain inflated wage increases. Instead it would appear that the bulk of recent wage growth has been primarily driven by the minimum wage review Decisions, not by the demand and supply conditions faced by employers. In its 2015-16 Decision the Panel

was concerned to demonstrate that wages growth in award dependent industries did not underperform when compared with other sectors. However, this ignores the fact that these wage increases largely reflect the increased award minimums awarded by the Panel in successive minimum wage reviews over the past three years. The Panel has noted the reduced gap between award wages and the measures of wages growth, attributing this to “*reduced growth in the AWOTE, AWE and the WPI and decisions of the Panel*”.³¹

46. The impact of the minimum wage decision in increasing wages to an extent that would not occur if the labour market was simply responding to changed economic and market conditions is implicit in the following observation by the RBA:

*Wage growth in industries that have a higher prevalence of individual agreements has declined most significantly over recent years, following strong growth in the previous few years. This may reflect the fact these industries have been influenced by the large terms of trade movements, but may also indicate that wages set by individual contract can respond most quickly to changes in economic conditions.*³²

47. The RBA and the ABS also found that almost half the individual jobs tracked by the ABS for the WPI series had a wage increase of between 2 and 3 per cent, with less than 10 per cent of jobs receiving a wage increase in excess of 4 per cent.³³ The average size of wage changes has fallen from 3.6 per cent in 2012 to 2.3 per cent in 2016. The share of wage rises between 2 per cent and 3 per cent has more than doubled since 2012 and now accounts for almost half of all wage changes.³⁴

48. The share of jobs receiving a rise of 0–2 per cent has also grown, while the proportion of jobs experiencing wage falls has remained broadly stable. Lack of capacity for higher wages is also reflected in the RBA-ABS finding that the average frequency, along with the size of wage increases, have fallen since 2012. These all provide further indications that the impact of minimum wage increases is pervasive and extends well beyond the 24.5 per cent of non managerial employees estimated as paid by award only.³⁵ As the RBA has recently observed, awards also indirectly affect a significant proportion of employees covered by collective or enterprise agreements and individual agreements; these agreements each cover over 35 per cent of employees.^{36 37}

49. In terms of meeting the minimum wages and modern awards objectives, to ensure a fair and relevant minimum safety net taking into account the relative living standards and needs of the low paid, those on award rates have fared better than employees

31 [2016] FWCFB 3500 [386]

32 *ibid*

33 *ibid*

34 ABS 6345.0 Wage Price Index Sep 2016 Feature Article: The Size And Frequency Of Wage Changes James Bishop, Research Economist,RBA; **Philip Lowe** RBA Governor **Address to Citi's 8th Annual Australian & New Zealand Investment Conference** Sydney – 18 October 2016

35 ABS 6306 Employee Earnings and Hours May 2016

36 RBA Statement February 2017

37 The ABS data indicates that employees paid by award cover 24.2 per cent of the private sector non managerial workforce in 2014, up from 18.8 per cent in 2014 and 15.2 per cent in 2010.. FWC commissioned research indicates around 36 per cent of the private sector workforce pay setting is based on award rates. [ABS 6306.0, Employee Earnings and Hours, May 2014; ABS Cat No 6306.0, Employee Earnings and Hours, May 2016.;Australian Workplace Relations Study First Findings report Pay Equity Unit, Fair Work Commission 29 January, 2015 page 37]

overall. Over the past three years, C14 grew at an average of 2.6 per cent compared to growth of 2.0 per cent for private sector WPI. Average weekly earnings grew by 2.2 per cent on average over the last three years (full time ordinary time earnings; 1.4 per cent all employees). Over the last year, the 2.4 per cent increase the Panel provided to those on award wages compares to 1.8 per cent private sector WPI growth and 1.6 per cent growth in average weekly earnings (all employees).

50. The implications for continued increases in award wages which exceed the rate of growth in both measures of aggregate wages and the CPI can be seen in the persistent excess capacity in the labour market with trend unemployment at 5.8 per cent and underutilisation at 14.4 per cent – see Page 22. As the lower rate of growth in earnings measures compared to minimum wage increases demonstrates, there are already indications that increases awarded in annual wage reviews are outstripping the capacity of many employers in the circumstances of their operations. Where labour costs remain or become too high in the face of demand and price pressures, employers will continue to cut back on hours worked and hiring; consequently unemployment and underemployment will remain at elevated levels.
51. The RBA has also noted the “*possibility*” that the lower wage growth could be part of businesses’ responses to increased competitive pressure arising from globalisation and technological progress.³⁸ Firms, and workers, not only in Manufacturing but also in the Services sector, are increasingly exposed to competitive pressures from overseas markets and Australia’s wage rates remain high in international comparisons. Australian employers face increased competition while at the same time having high minimum wages and reduced pricing power, given the impact of foreign competition.
52. Since 2010, with annual minimum wage review decisions, Australian employers have experienced award wage increases of at least 17-18 per cent with percentage increases awarded in all years but one, with a compounding effect in each year. Further, these base rates are the foundation for all labour costs, including penalties, superannuation and workers compensation.

Table 7: Award wage increases 2010- 2016

	July 10	July 11	July 12	July 13	July 14	July 15	July 16	Change 2010-16 %
% increase	\$26	3.4%	2.9%	2.6%	3.0%	2.5%	2.4%	15.2
C14	569.90	589.30	606.40	622.20	640.90	656.90	672.20	17.96
C10	663.60	686.20	706.10	724.50	746.20	764.90	783.30	18.03
SCHCDSIA L8.3	1106.16	1143.80	1177.00	1207.60	1243.80	1274.90	1305.50	18.02

53. The rate of wage growth is one aspect of the economic environment. While that rate of growth has slowed over the past three years, Australian wages remain high by international standards and, in particular, with our major competitors. Wage growth in Australia remains strong by international standards and this undermines the

³⁸ RBA Statement February 2017; RBA Philip Lowe Governor Address to Citi's 8th Annual Australian & New Zealand Investment Conference Sydney – 18 October 2016

competitiveness of our trade-exposed industries. It also makes the transition to a non mining economy more difficult.

54. On a Purchasing Power Parity basis Australia's minimum wage continues to rank third in OECD economies after Luxembourg and the Netherlands.³⁹ Although our wage levels are high, Australia's minimum wage is comparatively close to average wages at a ratio of .44 of the average wage for a full time employee, and .53 of median wages. For OECD countries overall, the minimum wage – average ratio is .38.⁴⁰
55. The numbers of unemployed and underemployed are a clear indication that further numbers of jobs should not be put at risk as a consequence of unaffordable minimum rates. Unsustainable increases will not meet the objective of promoting inclusion through increased workforce participation.
56. The Panel has, in the past, relied on the absence of irrefutable evidence that minimum wage increases damage employment (or have other negative effects on the labour market) to form the conclusion that '*modest and regular increases in minimum wages have a small or even zero impact on employment*'.⁴¹ The persistence of elevated unemployment and underemployment, despite over three years of successive forecast improvement in the Panel's Decisions, supports the Productivity Commission's view that:

But the likelihood that minimum wages cause some disemployment means that, in considering adjustments to minimum wages, there is a need to weigh up the potential benefits to low-paid workers who retain their jobs (and/or hours) against the potential losses to those 'would be' employees who fail to gain employment, or experience greater underemployment or job loss, as a result. The greater the assessed risk and extent of such disemployment effects, the greater would be the case for constraining the growth of minimum wages (so as to reduce the minimum wage bite) or even reducing them. Determining 'optimum' minimum wage adjustments depends largely on how these gains and losses are balanced. This involves judgments about both the employment response to changes in the minimum wage and the relative size of the groups affected, and value judgments about whose welfare warrants the most weight. Several considerations are relevant.

*During periods of heightened unemployment and underemployment, there is less doubt that restraining minimum wage growth would yield material benefits through promoting employment. At present, the unemployment rate is around 6 per cent and many Australians are underemployed (including many minimum wage workers in the lowest quintile of equivalised household income). There are significantly higher rates of unemployment in some regions. Such conditions provide grounds to moderate the growth rate of the minimum wage. This approach should still allow for nominal increases in the hourly incomes of low-paid workers, avoiding the transition costs of any precipitous cut in minimum wages.*⁴²

39 OECD.StatExtracts Real Minimum Wages constant prices at 2015 USD PPPs

40 OECD.StatExtracts Minimum relative to average wages of full time workers

41 [2016] FWCFB 3500[492];[2015] FWCFB 3500[435];

42 Productivity Commission Workplace Relations Framework Final Report page 226

57. It is apparent that many employers have adjusted to reduced demand and uncertain economic conditions by reducing working hours and wage growth rather than reducing employee numbers. This has been an important driver in restraining the growth of unemployment beyond its current elevated level. There are limits to this adjustment, particularly as the labour market transitions to a service economy and where part time employment has been displacing the growth in full time employment. The Panel should consider the impact of minimum wage increases in those sectors where unemployment is high and where there is excess capacity in working hours.

Employment

58. The Minimum Wage Panel expectations that job growth would be stronger in 2016-17 did not eventuate.⁴³ Overall, the Australian labour market is weak and showing no signs of improvement with flat growth over the past year – 0.8 per cent compared with 2.6 per cent in 2015. In contrast to other countries, Australian unemployment remained stagnant at 5.8 per cent with Australia retaining higher unemployment than the US (4.7 per cent)⁴⁴, UK (4.7 per cent)⁴⁵ New Zealand (5.2 per cent)⁴⁶ and Japan (3.0 per cent)⁴⁷, despite our higher growth rates of real GDP, although that gap is closing.⁴⁸
59. Australian employment growth in 2015-16 has substantially slowed to a rate of 0.8 per cent (i.e. below the current population growth rate of around 1.6 per cent p.a.) in the year to February 2016.⁴⁹ Year on year trend employment increased by 100,800 persons (or 0.8 per cent), which is less than half of the average year-on-year growth over the past 20 years (1.8 per cent). Over the same 12 month period the trend employment to population ratio, which is a measure of how employed the population over 15 years is, decreased by 0.4 percentage points to 60.9 per cent. The minimal jobs growth did not keep pace with underlying population growth.
60. The trend unemployment rate over the year remained unchanged at 5.8 per cent in February 2017. There are now 738.9 unemployed compared with 728.3 a year ago.
61. Unemployment would have been higher had not the participation rate declined over the year. The participation rate has dropped steadily from November 2015 (65.1 per cent) to November 2016 (64.6 per cent) and remained at this relatively low rate in February 2017 (64.6 per cent). Over the past year, the labour force, which includes both employed and unemployed, increased by 111,500 (0.9 per cent). This was below

43 [2016] FWCFB 3500 [41-49]

44 US Department of Labor Bureau of Labor Statistics

45 UK Office for National Statistics <https://www.ons.gov.uk/>

46 Statistics New Zealand http://www.stats.govt.nz/browse_for_stats/income-and-work/employment_and_unemployment/LabourMarketStatistics_HOTDec16qtr.aspx

47 Statistics Japan <http://www.stat.go.jp/english/>

48 OECD STAT <https://stats.oecd.org/index.aspx?queryid=350>

49 ABS 6202.0 - Labour Force, Australia, Feb 2017 All data in trend terms.

the rate of increase in the total population aged 15 years and over (302,800 persons, or 1.6 per cent), resulting in the declining participation rate. The most recent high for the participation rate was 65.8 per cent in November 2010. The failure to return to this higher level indicates a significant element of discouraged workers and hidden unemployment.

62. While some part of this decline may be attributable to the changing demographics of an aging population, the increasing numbers of younger adults remaining in training and education, along with the continued increase in underutilised labour, points to a discouraged worker effect in response to reduced demand. The trend participation rate for 15-24 year olds decreased over the year to February 2017 by 0.6 percentage points.
63. Part time employment has dominated the minimal job growth over the past year, continuing the trend for the past two years. Over the past year, full time employment decreased by 21,200, while part time employment increased by 122,000 persons. Over the year part time employment continued to increase as a share of the workforce, remaining at a high of 32 per cent since November 2016. Working between 1 and 35 hours a week means a worker is considered part time and could be working each week only a few hours – the average part time hours are around 21 hours per week.
64. The RBA has observed that the recent strength in part time employment is more likely to have been driven by weakness in labour demand than changes in employee preferences:
- The shift towards part-time employment within sectors is consistent with liaison reports that firms have been hesitant to employ full-time workers until they see evidence that increased demand for their output is likely to be sustained.*⁵⁰
65. This strong trend toward part time jobs at the expense of full time, combined with sluggish job growth overall, does not augur well for those anticipating a resurgence in 2017-18 wages growth and consumption expenditure with a subsequent lift in inflation. Instead, only modest jobs growth with little progress in lowering unemployment is the more likely outcome.⁵¹ Treasury is forecasting a “slightly more” moderate pace of 1¼ per cent through the year to the June quarter 2017, reflecting more subdued employment growth over recent months. By mid 2018 this growth is forecast to be a low 1.5 per cent. The unemployment rate is forecast to remain around 5½ per cent in the June quarters of 2017 and 2018.⁵²

50 RBA Statement on Monetary Policy – November 2016. Box B: Trends in Part-time and Full-time Employment

51 Commbank:

https://www.commbank.com.au/content/dam/commbank/corporate/research/publications/economics/economic-update/2017/160317-Labour_Force.pdf;

NAB:

<http://business.nab.com.au/wp-content/uploads/2017/03/2017-03-world-on-two-pages.pdf>

52 Mid Year Economic and Fiscal Outlook 2017-17 December 2016

66. Employment performance has differed across the States and Territories and across industries. Since February 2016, the largest increases in employment have been in Victoria (up 100,200), followed by South Australia (up 12,700). Over the same period, the largest decreases in employment were in Queensland (down 24,200), Western Australia (down 5,500) and New South Wales (down 5,400). Unemployment rates were 6 per cent or above in Victoria (6 per cent), Queensland (6.3 per cent), Western Australia (6.4 per cent) and South Australia (6.6 per cent). The NSW unemployment rate remained unchanged at 5.2 per cent.

Table 8: State and Territory Labour Force 2016-17

	Unemployment rate		Annual Employment Growth
	2016	2017	2017
	%	%	%
NSW	5.2	5.2	-0.1
VIC	5.9	6.0	3.3
QLD	6.1	6.3	-0.1
SA	7.1	6.6	1.6
WA	5.8	6.4	-0.4
TAS	6.7	5.8	0.8
NT	5.0	3.0	3.5
ACT	4.4	3.8	3.8

Source: ABS Labour Force 6202 .0 February 2017 Trend data

67. In the award dependent industries there has been jobs growth in Accommodation and food services, Administrative and support services and Other services. Employment fell in Retail trade and Arts and recreational services. Part time work is a significant feature in these industries and the largest proportion of jobs growth, where it occurred, is attributable to part time employment.

Table 9: Award dependent industries: Proportion part time employment

	% part time
Retail Trade	48
Accommodation and food services	60
Administration and support services	42
Health care and social services	45
Arts and recreational services	43
Other services	33

Source: ABS 6291.0.55.003 Labour Force Australia Detailed Quarterly Table 27

Table 10: Award dependent industries: Employment Growth November 2015—November 2016

	Nov 15	Nov 16		Nov 15	Nov 16	
	Full time '000	Full time '000	% change	Part time '000	Part time '000	% change
Retail Trade	654.1	636.9	-2.6	645.5	608.6	-5.7
Accommodation and food services	345.3	345.5	0.05	482.4	504.9	4.6
Administration and support services	239.9	248.6	3.6	176.3	186.6	5.8
Health care & social services	868.7	813.0	-6.4	665.8	680.7	2.2
Arts & recreation	123.0	117.9	-4.1	104.5	97.5	-6.6
Other services	329.8	311.9	-0.7	142.1	157.7	9.2

Source: ABS 6291.0.55.003 Labour Force Australia Detailed Quarterly Table 27 Original data

Hours Worked

68. Average hours worked across the economy remained flat across the year at 32 hours in terms of trend average hours worked per week and showed only a small lift of 0.9 per cent over the year to February 2017 (compared with 2.6 per cent in 2015-16). Despite an uplift in 2015, this was not maintained in 2016 and the overall trend, since the 2011 significant drop in hours worked, has been very low growth.
69. The ABS notes that changes in the underlying composition show a larger increase in hours worked by part time workers (around 0.8 million hours), than full time workers (around 0.4 million hours). This further underscores the weakness in the labour market.
70. Hours worked in the award dependent industries is low by comparison with other sectors:

Table 11: Average Weekly Total Hours Paid for (Hours)

Mining	42.7
Manufacturing	36.8
Electricity, gas, water and waste services	38.5
Construction	38.9
Wholesale trade	34.7
Retail trade	26.3
Accommodation and food services	21.9
Transport, postal and warehousing	38.6
Information media and telecommunications	33.5
Finance and insurance services	34.9
Rental, hiring and real estate services	32.9
Professional, scientific and technical services	33.6
Administrative and support services	30.7
Public administration and safety	33.7
Education and training	26.7
Health care and social assistance	28.3
Arts and recreation services	22.0
Other services	30.0
All industries	31.0

Source: 63060D0004_201605 Employee Earnings and Hours, Australia, May 2016 Table 8

Underemployment and Underutilisation

71. The trend underemployment rate in February 2017 remained at 8.6 per cent of the labour force and 9.1 per cent of those in employment. Over the past year both measures of the underemployment rate have been relatively constant, at around 8.6 per cent and 9 per cent in trend terms respectively and have maintained a steady upward movement since 2010.⁵³
72. The underutilisation rate now stands at 14.4 per cent, up from 14.2 a year ago and around 12 per cent in 2010.
73. The number of underemployed is currently estimated to be 1,098,500 persons who want more hours of work in addition to the 738,900 currently unemployed.⁵⁴ This excess capacity among those already working suggests that improvement in numbers employed is some considerable way off, as those wanting more hours absorb any increases in demand for labour.
74. The long term unemployment ratio has increased significantly, rising from 17.1 per cent in January 2010 to a current high of 25.4 per cent. In January 2016 it was 23.4 per cent.⁵⁵
75. Government data shows that in January 2010, there were 592,737 recipients of the unemployment benefit (Newstart) of which 52.6 per cent had been receiving the benefit for more than 12 months. By January 2017, there were 774,122 Newstart recipients, of which 564,484, or over 70 per cent, are long term, and 99,888 on Youth Allowance (not in education or training).⁵⁶ In addition, there are a proportion of the over 814,000 people on disability pensions who can be considered potential members of the workforce.
76. The ABS has observed that:
- In recent years Australia's unemployment rate has been trending downwards while the underemployment rate has been trending upwards. This rise in the underemployment rate has led to a growing sentiment that the level of slack in Australia's labour market is not wholly represented by the unemployment rate, and that it is increasingly important to consider additional measures of labour underutilisation like the underemployment rate.*⁵⁷
77. It points out that:
- Since February 2015, there has been an increasing divergence between the rates. While the unemployment rate has decreased 0.5 percentage points to 5.7 per cent, the underemployment rate has remained at 8.5 per cent, a series high.

53 ABS 6202.0 Labour Force, Australia FEB 2017 Table 22. Underutilised persons by Age and Sex - Trend

54 ABS *ibid*

55 ABS 6291.0.55.001 Labour Force, Australia, Detailed - Electronic Delivery Table 14b. Unemployed persons by Duration of job search and Sex - Trend

56 DSS Labour Markets and Related Payments January 2017

57 ABS 6202.0 - Labour Force, Australia, Nov 2016 Spotlight on Underemployment

- Females have consistently represented the greater share of underemployed workers; accounting for 56.9 per cent of underemployed persons in November 2016.
- The 15-24 years age group has consistently had the highest underemployment rate.
- The prevalence of underemployment has consistently been greatest in the lower skilled occupation groups and lowest in the higher skilled groups.

78. Significantly for minimum wage review purposes, the greatest prevalence of underemployment has been at the lower skill occupation groups:

Skill level 5 occupations (which account for around 20.9 per cent of total employment) saw the greatest rise in underemployment, in part also reflecting the rise in youth underemployment, which increased by 5.1 percentage points to 21.1 per cent. In contrast, the underemployment ratio for Skill level 1 (which account for around 4.4 per cent of total employment) only rose by 2.1 percentage points over the period, to 4.6 per cent.⁵⁸

79. The occupations with the highest underemployment rates in November 2016 were Sales workers (19.0 per cent), Labourers (17.9 per cent) and Community and personal service workers (17.4 per cent), all award dependent categories.⁵⁹

Table 12: Levels of under employment in award dependent industries—proportion of employed November 2016

Accommodation and food services	20.7%
Administrative and support services	15.0%
Retail trade	19.2%
Health care and social assistance	10.3%
Arts and recreation	19.6%
Other services	8.8%

Source: ABS 6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, Feb 2017 Table 19

80. These persistently high levels of under employment (i.e. less hours worked than needed) do not give support to the proposition that the reduced growth in hours worked is a reflection of the:

“ successful labour market transition from resources sector employment to the service sector and the reduction in hours worked resulting from a lesser average number of hours worked by full-time employees is not a negative development in the labour market.”⁶⁰

81. The Panel has, in the past, accepted that the unemployment rate is the paramount guide to changes in labour market spare capacity. While the unemployment rate itself has not improved over the past year, this may not be indicating the full extent of slack in the labour market. Given continued excess capacity and lower wage growth over recent years, the consistently high underemployment rate suggests that improved

⁵⁸ ibid

⁵⁹ ABS 6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, Nov 2016 Table 19

⁶⁰ [2016] FWCFB 3500 [260]

demand has not yet reached levels where it needs to be met by significantly increased hours for those with jobs - let alone improving jobs growth and reducing the number of unemployed. Consideration of increases in the minimum wage should be viewed in this context, with the implications of increasing wage costs where there is already excess capacity for those with a job, let alone those who are unable to find one.

82. The Panel has determined that s.284(1)(b) of the *Fair Work Act 2009* encompasses both the obtaining of employment **and** the pay and conditions attaching to the job concerned.⁶¹ High levels of underemployment suggest that the Panel should give greater weight to considerations about obtaining employment with sufficient hours as opposed to considerations about the rate of pay enabling a worker with a job to fully participate in society.

83. To reiterate from the ACCI Initial Submission to the 2015-16 Annual Wage Review:

The minimum wage function must not exacerbate the risk of unemployment for those most vulnerable in the labour market. Wooden made the following comments in response to the inaugural minimum wage decision post FW Act implementation, comments which maintain their cogency: Minimum wage rises benefit low-paid workers at the expense of the unemployed. Any action that increases the cost of hiring low-wage labour reduces the likelihood of those without jobs finding one in the future. Moreover, it is the long-term unemployed whose employment chances are most damaged. This seems very unfair. And it certainly doesn't promote social inclusion through greater workforce participation [...] The decision looks even more unfair once you realise that many low paid workers do not live in poor households, and that a low-paid worker has a much better chance of getting a better paid job than someone who doesn't have a job at all.⁶²

Youth unemployment

84. The long term deterioration in the youth labour market continues. The unemployment rate for 15-24 year olds has risen over the year to February 2017 to 13.0 per cent while the participation rate decreased by 0.6 per cent. There are now 274,500 unemployed in this age group, up from 257,800 a year ago.

85. The unemployment rate for 15-19 year olds is 18.1 per cent, up from 17.4 per cent a year ago. Over the past year the number employed in this age group have diminished by over 14,000. Since February 2010, over 44,000 jobs have been lost in this segment of the labour market. The teenage labour force, being the least experienced, has been particularly disadvantaged by the excess capacity in the labour market.

61[2016] FWCFB 3500 [18]

62 ACCI initial submission Annual Wage Review 2015-16 citing Mark Wooden, "A hole in the safety net", The Australian Financial Review, 9 June 2010

86. The 15-24 years age group has consistently had the highest underemployment rate, which, after falling to 11.0 per cent in May 2008 increased to 20.8 per cent in February 2017, up from 19.7 in February 2016. This represents 18.0 per cent as a proportion of the labour force.
87. Given that youth workers are more likely to be paid at award rates, and that those with jobs predominantly work in the Retail trade and Accommodation and food services,⁶³ the Panel should pay close attention to the impact on those most likely to be adversely affected by increases in minimum rates, particularly where options for entry into the labour force may be closed off or reduced.

Impact on Enterprise Bargaining

88. The minimum wage increases awarded by the Panel apply not only to minimum wage recipients but directly to workers on award wages (up to income levels well in excess of average earnings) and indirectly to a far wider range of workers whose rates are set with reference to minimum rate increases, including bargained rates. Awards have moved beyond providing a minimum safety net and closer to (and beyond) “paid rates” entitlements, reducing employer flexibility and incentive to bargain.
89. ABS data indicates that employees paid by award only now cover 24.2 per cent of the private sector workforce in May 2016, up from 18.8 per cent in 2014 and 15.2 per cent in 2010.⁶⁴ The increasing proportion of award dependent workers indicates that minimum rates have moved beyond a “safety net” minimum into the area of paid rates awards. Estimates from the ABS survey of Employee Earnings and Hours show a continuing rise in the number of non managerial employees paid by award only – see Table 13.

Table 13: Method of Setting Pay

Non Managerial Employees	Award Only	Collective Agreement	Individual Arrangement	All methods of setting pay
Number of Employees ('000)				
2014	1,852.0	3,937.7	3,270.2	9,059.9
2016	2,276.1	3,615.5	3,398.5	9,290.1
Per cent change	23%	—8%	4%	

Source: ABS 6306.0 Employee Earnings and Hours May 2014 and May 2016

90. According to Department of Employment analysis of its data, the number of private sector enterprise agreements and employees covered by enterprise agreements continues to decline. The number of private sector agreements has been steadily declining since 2013 and is below the monthly average for agreements negotiated since the *Fair Work Act 2009* was introduced.⁶⁵ Private sector agreements have

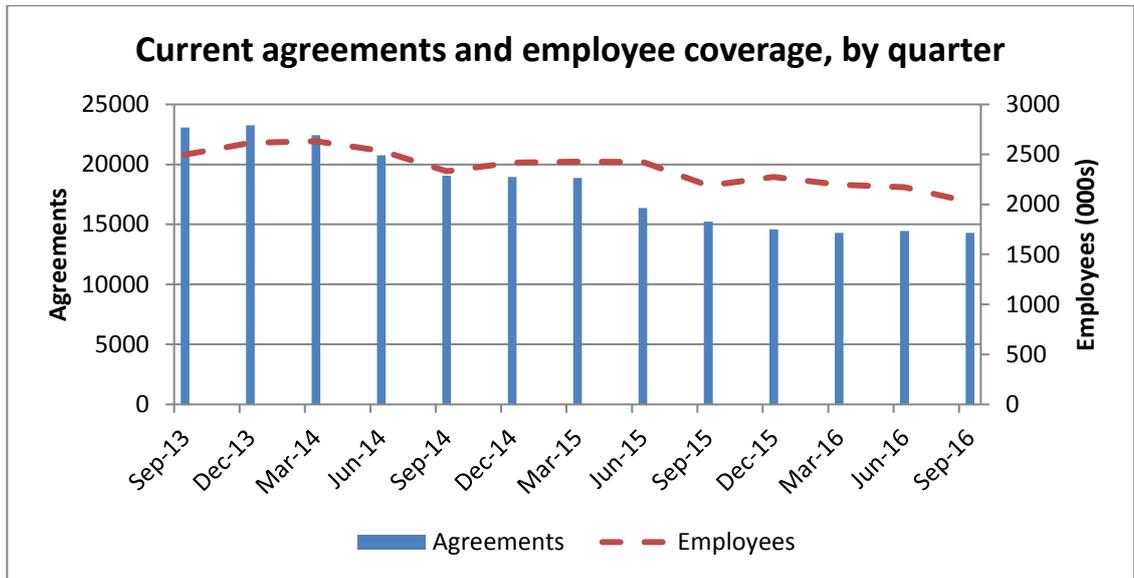
63 Productivity Commission Inquiry into Australia’s Workplace Relations Framework 2015

64 ABS 6306.0, Employee Earnings and Hours, May 2016; ABS Cat No 6306.0, Employee Earnings and Hours, May 2010.

65 Department of Employment Trends In Federal Enterprise Bargaining September Quarter 2016 Table 4

declined from 22,535 in September 2013 to 13,853 in September 2016, with the number of employees covered falling from 1,896.6 to 1,474.3 million employees.

Chart 5: Current Agreements and Employee Coverage, by Quarter



Source: Department of Employment Trends In Federal Enterprise Bargaining September Quarter 2016

91. The number of current (not expired or terminated) agreements peaked in Q4-2010. Between Q2-2014 and Q2-2016, the number of agreements declined by 30.8 per cent to 13,953 agreements. The number of employees covered by these agreements declined by 13.2 per cent over the same period. The decline is skewed toward small and medium agreements (agreements covering from 0-99 employees).⁶⁶

92. Since 2014, the number of agreements has declined in all industries with the exception of Electricity Gas water and waste services. This includes a significant decline in the number of Retail and Construction agreements (down by almost 50 per cent); with Administrative and support services and Accommodation and food services down by almost one quarter.⁶⁷ This across the board fall in the number of agreements does not appear to be primarily a reflection of the economy transitioning to the services sector or changes in union density. FWC commissioned research did not find a large effect for structural change in industry composition of employment:

Overall, the analysis has not determined that structural changes in the labour market have significantly driven the decline in CA coverage. If anything, some structural changes in the labour market have facilitated slight increases, rather than decreases, in CA coverage to 2016.

.....

*Projections of employment patterns over the period to 2020 suggest a minor future structural impact on CA coverage density and union density, but this does not appear likely to be large.*⁶⁸

⁶⁶ Department of Employment Report on Enterprise Bargaining February 2017

⁶⁷ *ibid*

⁶⁸ FWC Research Report 4/2017 Explaining recent trends in collective bargaining D Peetz and Serena Yu February 2017

93. This persistent decline in the number and coverage of agreements indicates that the level of minimum rates and conditions prescribed in modern awards is curtailing both the incentive and scope for enterprise bargaining. Over the past three years the Panel has awarded minimum wage increases in equal to or in excess of growth in GDP; exceeding growth in CPI, at levels which exceed growth in overall wages levels, in circumstances of rising unemployment and declining hours worked. These increases apply indirectly to a far wider range of workers whose rates are set with reference to minimum rate increases, including bargained rates.

Table 14: Current Private Sector Agreements: Number and Employees Covered

Industry	June 2016	Change since 2014	Change since 2009	Change since 2006
Accommodation and food services Employees	432 144,996	-23.0% -1.9%	-70.6% 159.9%	-38.1% 158.4%
Administrative and support services Employees	552 44,925	-25.6% -14.2%	-17.0% -23.0%	113.1% 123.3%
Agriculture, forestry and fishing Employees	150 9,297	-29.6% 24.0%	-62.2% -21.2%	47.1% 99.7%
Arts and recreation services Employees	148 42,757	-9.8% 10.2%	-45.0% 3.2%	35.8% 102.7%
Construction Employees	3,907 102,411	-47.9% -24.3%	-44.1% -30.5%	-32.0% 5.1%
Education and training Employees	570 137,711	-10.1% 11.5%	-18.0% 124.9%	214.9% 246.8%
Electricity, gas, water and waste services Employees	396 25,934	2.1% -14.1%	19.3% 11.8%	97.0% 62.5%
Financial and insurance services Employees	129 99,001	-23.2% -26.4%	-48.8% 61.7%	17.3% 24.7%
Health care and social assistance Employees	1,455 302,830	-19.5% 10.2%	7.9% 66.4%	71.6% 240.6%
Information media and telecommunications Employees	94 41,887	-35.2% -14.7%	-62.8% 19.9%	-44.7% 19.9%
Manufacturing Employees	2,437 162,768	-21.1% -18.1%	-33.4% -33.0%	-17.0% -28.0%
Mining Employees	443 49,962	-18.4% -13.6%	-21.6% 20.0%	59.4% 107.9%
Other Services Employees	384 48,499	-20.2% 22.1%	-7.0% 160.0%	116.9% 301.8%
Professional, scientific and technical services Employees	397 36,372	-32.0% 3.6%	22.2% 90.5%	331.5% 346.4%
Public administration and safety Employees	212 17,568	-24.3% 3.8%	-35.2% -15.5%	73.8% 78.1%
Rental, hiring and real estate services Employees	268 8,086	-31.1% -11.8%	-2.5% 62.8%	170.7% 270.1%
Retail Trade Employees	259 126,632	-49.1% -57.1%	-84.4% -67.5%	-23.8% -60.4%
Transport, postal and warehousing Employees	1,213 132,586	-14.9% 2.5%	-15.5% 14.6%	24.7% 46.8%
Wholesale trade Employees	507 36,158	-7.7% 9.7%	53.6% 137.3%	302.4% 384.1%
Total Employees	13,953 1,570,380	-30.8% -13.2%	-35.6% 1.6%	2.8% 35.6%

Source: Department of Employment Report on Enterprise Bargaining February 2017

About the Australian Federation of Employers and Industries (AFEI)

The Australian Federation of Employers and Industries (AFEI), formed in 1903, is one of the oldest and most respected independent business advisory organisations in Australia. AFEI has been a peak council for employers in NSW and has consistently represented employers in matters of industrial regulation since its inception.

With members of all sizes and across most industries and affiliated industry associations, our main role is to represent, advise and assist employers in all areas of workplace and industrial relations and human resources. AFEI provides advice and information on employment law and workplace regulation, human resources management, workplace health and safety and workers compensation.

AFEI is a key participant in developing employer policy at national and state (NSW) levels and is actively involved in all major workplace relations issues affecting Australian businesses.