HOUSING INDUSTRY ASSOCIATION

Submission to the
Fair Work Commission

National Annual Wage Review 2017

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contents

Housing Industry Association

1. INTRODUCTION

The residential building industry is one of the most important sectors of the Australian economy. Residential real estate provides housing for millions of Australians and is often the greatest source of wealth and savings for many families. The residential construction sector contributes to the economy in a number of ways: through home building in the construction of detached and multi-residential structures and via residential renovations it provides hundreds of thousands of Australians with jobs and generates billions of dollars of economic output each year; and through consumption spending on housing services.

The residential building industry also has important linkages with other sectors, such as manufacturing and retail, so that its impacts on the economy go well beyond the direct contribution of construction activities. There are flow-on or "multiplier" effects of construction activity on the outputs of other industries.[1]

In recent times the residential building industry has been experiencing historically high levels of construction activity, although HIA expects a sizeable downward adjustment over the next 2 years.

The residential building industry ranges from cottage construction to multi-unit apartment buildings, and also encompasses the home renovations market.

A large proportion of employers in the industry are small businesses. These employers rely heavily on award rates of pay and terms and conditions. They operate in a very competitive market where costs are tightly controlled and profit margins are low. These employers are highly sensitive to economic conditions affecting them, including the effects of employment regulation and wage increases.

Whilst measured increases to household income may help alleviate some affordability stresses, at the same time increasing labour input costs in the construction of housing, without any link to productivity improvements, will impact project costs and, in turn, affect housing affordability. Increases in wages also inherently place added cost pressures on businesses making them less likely to grow, invest or further employ. There are also demand side implications for skills shortage and skills development in the industry.

HIA elaborates on these matters in greater detail below.

2. MINIMUM WAGES

HIA notes that in making a national minimum wage order the Expert Panel must be guided by the minimum wages objective in s.284 of the *Fair Work Act 2009*:

> *The Fair Work Commission (**Commission**) must establish and maintain a safety net of fair minimum wages, taking into account:*
>
> - *the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and*
> - *promoting social inclusion through increased workforce participation; and*
> - *relative living standards and the needs of the low paid; and*

[1] See speech by Christopher Kent, Assistant Reserve Bank Governor for a summary of the importance of housing to the Australian economy: http://www.rba.gov.au/speeches/2013/sp-ag-140313.html

- *the principle of equal remuneration for work of equal or comparable value; and*
- *providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.*

2.1 APPRENTICE WAGES

Apprentice commencement and completion rates continue to be a significant concern for the industry.

Whilst it is argued that higher rates of pay can act as an incentive for individuals to undertake apprenticeships[2], this must be balanced against the cost of employing such labour, both in terms of their wages and the ability to contribute in a productive way on a construction site. Also to be considered are the costs associated with on the job training carried out by the employer.

Latest NCVER data[3] shows that as at 30 September 2016, there were 278,500 apprentices and trainees in-training, a decrease of 5.7 per cent on the same period a year earlier.

Of further concern is that in the 12 months to the September quarter 2016, trade commencements decreased by 14.0%, specifically, for those aged 24 years and younger commencements decreased by 8.0% and for those over 25 years and older commencements decreased by 26.3%.[4] Completion figures are equally problematic with a decrease of 15.6% for the same period.[5]

The observation made by the Commission in its 2013 Apprentice Wage Decision that *'the increases to the base pay rate would attract more young people into apprenticeships compared to other training or employment options (and) improve completion rates…'*[6] does not seem to be coming to fruition.

The majority of apprentices in the residential construction industry are employed by small businesses with a turnover of less than $500 000. For some of these firms the increases in apprentice wages, especially in the first two years of progression, have made employing an apprentice financially unattractive relative to the productivity and cost of a qualified tradesperson.

The All Trades Decision

In its submission to the 2014 Annual Wage Review, HIA alerted the Expert Panel to correspondence received in November 2013, from the Queensland Department of Education, Training and Employment advising that the Queensland Government was seeking to remove the savings provisions for the continuation of NAPSA and Division 2B State Awards, the Queensland Apprentice Orders and the Queensland Tools Order (**Queensland Instruments**).

Although no steps were taken and the terms and conditions of those affected Queensland Apprentices continued to be governed by the Queensland Instruments, in September 2016 the Commission released a Background Paper to review, amongst other things, transitional instruments, including the Queensland

[2] *Modern Award Review 2012 – Apprentice, Trainees and Juniors* [2013] FWCFB 5411
[3] NCVER 2017, *Australian vocational education and training statistics: apprentices and trainees 2016 — September quarter*, NCVER, Adelaide.
[4] ibid
[5] ibid
[6] *Modern Award Review 2012 – Apprentice, Trainees and Juniors* [2013] FWCFB 5411

Instruments.[7] The Commission sought views on the treatment of the review of these instruments as a part of this Annual Wage Review.

In submissions in response to the Background Paper, HIA highlighted that the status of the Queensland Instruments was currently a 'live' issue, noting that on 12 August 2016, in *All Trades Queensland and CFMEU & Ors*[8] (**All Trades Decision**) the Commission determined that, by operation of a 'sunsetting provision' at Item 20 of Schedule 3, of the *Fair Work (Transitional Provisions and Consequential Amendments) Act 2009,* the above outlined Queensland Instruments terminated on 1 January 2014.

This was held to be the case despite the operation of Item 16 of Regulation 3B.02 of the *Fair Work (Transitional Provisions and Consequential Amendments) Regulations 2009* which sought to preserve the operation of the Queensland Instruments (as indicated in the Background Paper) and advice from both the State and Federal Government and the Fair Work Ombudsman as to the ongoing nature of the preservation of the Queensland Instruments. It would also seem that the Commission was of the view that the Queensland Instruments *'may continue to operate indefinitely.'*[9]

In February 2017 a Full Bench of the Commission confirmed the decision.[10]

Although there are now further Federal Court proceedings in relation to the matter, the termination of the savings provisions has substantially increased wage costs for employers of Queensland apprentices who were engaged under the saved instruments.

HIA requests that the Panel have regard to these matters.

Unincorporated entities

In HIA's submission the All Trades Decision has not affected the status of the relevant savings provisions that preserved the operation of the Queensland Instruments in relation to Division 2B State Awards that apply to unincorporated entities.[11] As such, HIA submits that the approach of the Expert Panel in past Annual Wage Review Decisions, that is that the increase awarded to modern award minimum wages be applied to those transitional instruments,[12] be adopted in relation to unincorporated entities subject to the Queensland Instruments.

2.2 UNEMPLOYMENT

Even though the rate of unemployment has started to drift lower over the past year, youth unemployment has continued to increase. During February 2017, the unemployment rate among people aged 15 to 24 years was 13.3 per cent, substantially up on the 12.1 per cent rate a year earlier. Youth unemployment had bottomed out at 7.6 per cent just before the GFC.

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[7] [2016] FWCFB 6730; *Annual Wage Review 2016-17 – Transitional Instruments*

[8] [2016] FWC 2832

[9] Background Paper at paragraph 45

[10] *All Trades Queensland v CFMEU and Ors* [2017] FWCFB 132

[11] The All Trades Decision did not consider Regulation 3A.01 of the *Fair Work (Transitional Provisions and Consequential Amendments) Regulation 2009* nor Schedule 3A of the *Fair Work (Transitional and Consequential Amendments) Act 2009*

[12] *Annual wage review* [2014] FWCFB 3500 at paragraph 563 – 572; *Annual wage review* [2015] FWCFB 3500 at paragraph 535; *Annual wage review* [2016] FWCFB 3500 at paragraph 592

As unemployment remains a little on the high side and economic growth is below trend, higher labour costs carry with them much greater risks. This may be reflected through fewer hours worked and reductions in the employee headcount.

HIA Economics estimates that for every $5,000 increase in an employer's direct costs, revenues will have to rise by some $22,500 in order to prevent deterioration in the firm's financial position.

2.3 SKILL SHORTAGES

As was the case last year, there continues to be a mismatch in the skills required by employers and the skills available. In particular, rather substantial shortages continue to affect skilled trades like bricklaying, plastering and tiling and this has placed pressure on related costs.

The two most significant challenges to growing the labour force are the large cohort of workers approaching retirement, and the high rate of attrition amongst new apprentices. In tandem with supporting traditional apprenticeships, more flexible and affordable pathways into the housing industry to facilitate opportunities for career progression and business growth must be considered.

The cost of the failure to adequately support businesses in the construction industry to increase their capacity or attract new entrants is extraordinarily high, as it is likely to lead to further substantial skills shortages and potentially a decline in quality of building.

HIA submit that the Expert Panel should have regard to these factors during this minimum wage review.

3. ECONOMIC OVERVIEW OF THE INDUSTRY

The residential building industry has become increasingly important to Australia's economy over the past few years. ABS figures show that during the three months to November 2016, there were 269,700 persons directly employed in the building construction industry, an increase of 6.4 per cent on a year earlier. Building construction directly accounts for 2.2 per cent of total employment – however, residential building supports a much wider set of jobs. Total construction employment in the economy is estimated to account for 8.8 per cent of total employment.

ABS figures also show that during the 2016 calendar year, dwelling construction – new home building as well alterations and additions – was worth $101.6 billion, equivalent to 6.0 per cent of GDP. The upturn in residential building has helped ease some of the pain associated with the natural resources downturn and has become a significant contributor to GDP growth overall. Within the housing industry, expenditure on new dwelling construction in 2016 was worth $67.1 billion, with renovations valued at $34.5 billion.

Apart from its direct effects on economic activity, residential construction also contributes to long-term economic growth by adding to the stock of physical capital. An efficient residential building sector is one of the key requisites for achieving economic competitiveness internationally through the delivery of an adequately sized dwelling stock.

The residential building industry, in particular, is one of Australia's most dynamic, innovative and highly efficient service industries and is also a key driver of employment and the Australian economy in general. The provision of an adequate dwelling stock is one of the key drivers of improved living standards, higher productivity and greater economic competitiveness.

3.1 STATE OF THE AUSTRALIAN ECONOMY

The Australian economy grew by 2.5 per cent in 2016, pretty much as expected. Growth in GDP was a strong 1.1 per cent in the December 2016 quarter, meaning the economy grew by 2.4 per cent compared to the December quarter of 2015. This latter result is quite positive, because it follows a contraction in GDP in the September 2016 quarter (-0.5 per cent quarterly/+1.8 per cent annual). A growth rate of 2.5 per cent in 2016 is reasonably favourable by developed country standards. Provided the Australian economy grows in early 2017 then Australia will pass the Netherlands as the country in the world that has gone the longest without having a recession.

The Australian economy does face many challenges and considerable uncertainty ahead. The risk of recession in 2018 or 2019 is now considerably higher than it was previously and there is a real possibility that Australia could lose its AAA credit rating. It is worth pointing out that a number of key sectors of the Australian economy are performing well – including household consumption, exports, public infrastructure, not to mention residential building which is now firing on both cylinders – new dwellings as well as renovations activity. Business investment remains the economy's Achilles' heel with mining investment remaining weak and non-mining businesses displaying a lack of enthusiasm towards large capital outlays. Combined with the environment of low price inflation, this means that the RBA's key interest rate is likely to remain unchanged during 2017, although the scope for further unilateral rate increases from the banks remains real and is already coming to fruition

Having grown by 2.5 per cent in 2016, we are forecasting growth of 2.4 per cent for the Australian economy in 2017, with downside risk because insufficient private sector business investment may materialise. New dwelling investment will detract from growth in 2016/17 as activity falls back from record levels.

3.2 STATE OF THE HOME BUILDING INDUSTRY

Latest official figures regarding building activity show that 55,070 dwellings commenced construction during the September 2016 quarter. While this is the softest quarter for commencements since the December quarter of 2014, the level is still higher than any other quarter on record prior to 2015 - when the current cycle began reaching its peak. It is likely that this preliminary 'count' for the September 2016 quarter will be upgraded the next time the figures are published.

In the year ending September 2016, there were over 229,000 dwellings that commenced construction. While this is still an exceptionally high level of activity based on historical experience, the annualised level of commencements has eased since peaking at over 231,000 in the year ending in the March 2016 quarter. This is supportive of HIA's view that the current new residential building cycle is likely to have peaked in 2016.

Despite the decline in the total number of commencements, the detached house segment of the market has proven resilient. There were 29,634 detached houses commenced during the September 2016 quarter, which makes a total of 115,953 commencements in the year up to this point. This is consistent with the level of activity throughout the second half of this cycle, with the quarterly flow of commencements remaining within a relatively tight band around 29,000 since the first quarter of 2014.

The 'multi-unit' market is somewhat weaker in aggregate. After a very strong result in the March 2016 quarter, the number of multi-unit commencements fell away quite sharply throughout the middle of the year.

However, there are markedly different trajectories for the semi-detached market (including townhouses, row and terrace type dwellings) and the market for apartments in buildings of four or more storeys.

The number of commencements for semi-detached dwellings continued to grow throughout the year. This was driven by particularly strong growth in the number of commencements of semi-detached dwellings with two or more storeys. In contrast, the number of commencements for apartments in high-rise developments slowed as activity in Victoria and Queensland eased. The flow of new apartment projects getting underway in New South Wales has remained more buoyant and there is a record level of apartments in developments awaiting commencement.

In aggregate, there were a total of 25,202 multi-unit dwellings commenced in the September 2016 quarter, which results in 113,383 across the full year. While 2016 was a very strong year for the multi-unit segment, commencements in the September quarter of 2016 were down by around 10 per cent compared with a year earlier.

Detached house commencements are forecast to remain relatively stable at the current level over the next few years. However, the outlook for the multi-unit market is somewhat weaker. After achieving five consecutive years of growth, amounting to growth of over 160 per cent from the 2010/11 trough, activity is expected to fall in 2016/17. A decline of 8.7 per cent is forecast for 2016/17 ahead of a more substantial decline of 28.5 per cent in 2017/18.

In aggregate, the level of multi-unit dwelling commencements nationally is expected to have reached a record high of 116,362 in 2015/16 year. From this level, HIA is forecasting that multi-unit dwelling commencements will remain at quite a high level in the 2016/17 financial year, albeit with a decline of 11.3 per cent. Looking beyond 2016/17 is when we anticipate commencements will post more significant declines. Multi-unit commencements are forecast to decline by around 25 per cent in 2017/18, and then by a further 12 per cent in 2018/19. The 2018/19 year is projected to be the low point of the cycle for multi-unit commencements, when 68,400 starts are forecast to occur.

Renovations activity in Australia is likely to continue expanding over the next few years and into the 2020s decade. This reflects the mix of background factors which are favourable overall to renovations demand. One of the most important of these factors from the perspective of renovations activity is that interest rates are at such remarkably low levels. Even though the RBA's key interest rate is likely to remain unchanged during 2017, the likelihood of some lenders implementing unilateral mortgage interest rate increases is real and this may take some of the edge off growth in renovations demand. Indeed this process has already begun.

The position of house prices, especially in the Sydney and Melbourne markets, is also a major driver of demand for renovations work, given that home equity reserves have received such a boost from the big lift in home values over the past five years. Growth in house prices and renovations work has been helped by the big expansion in employment in recent years. This is partly the result of the weakening of the Australian dollar which has made Australia a more competitive economy with which to do business. With the Australian dollar likely to remain both stable and competitive, export-driven economic growth is likely to continue although employment growth has lost some of its energy and the pace of wage growth has been weak for some time.

Over the longer term, the most important influence on renovations activity will be the profile of Australia's detached house stock. Over the next decade, the number of houses in the 20-30 year age group will fall back a bit but the stock of those aged between 30-40 years will rise by over 14 per cent. A proportion of these will

require renovations work and assuming economic conditions are reasonably permissive then it is likely that a strong pipeline of activity is assured for the next 10 years.

Having grown by 4.1 per cent during 2015/16, renovations activity is projected to slow to 1.6 per cent during 2016/17. During 2017/18, the pace of increase in renovations activity is anticipated to quicken to 2.0 per cent with the growth rate expected to accelerate further to 2.7 per cent during 2018/19.

4. CONCLUSION

It is important that minimum wage policy settings as determined by the Expert Panel encourage both investment and employment.

At the level of the broader national economy, consumer price inflation remains slow and labour productivity growth remains low. In spite of recent GDP figures, the risk of recession in 2018 or 2019 are now considerably higher than they were previously and there is a real possibility that Australia could lose its AAA credit rating.

In the residential construction sector, as new housing construction activity slows so does the desire for labour in the industry.

Further the current conditions affecting apprentice employment deserves special consideration. These conditions include the continual and consistent reductions in apprentice commencement and completion rates and the specific circumstances facing apprentices and their employers in Queensland.

HIA urges the Expert Panel to take these issues into account when considering its minimum wage decision for the 2016/2017 period.