

**Fair Work Commission**

**C2017/1**

**Victorian Government Submission to the  
Annual Wage Review 2016-17**

**29 March 2017**

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## Victorian Government Submission to the Annual Wage Review 2016-17

### Executive Summary

- The Victorian Government believes in fostering inclusive economic growth that delivers rising incomes to all workers. An appropriate minimum wage helps share the benefits of economic growth throughout the community and supports an inclusive society by safeguarding the relative incomes and living standards of vulnerable workers, and encouraging participation in the economy.
- The Victorian Government calls on the Fair Work Commission to award at least a 2.5 per cent increase in its 2016-17 review of the National Minimum Wage and all award minimum wages. This would increase the National Minimum Wage to at least \$689.50 or by \$16.80 per week.
- In this submission, the Victorian Government calls on the Fair Work Commission to carefully consider a number of the Government's concerns, specifically:
  - growing income inequality;
  - the increasing gap between minimum wages and other methods of setting pay;
  - the narrowing gap between the National Minimum Wage and poverty lines;
  - the impact of minimum wages on the gender pay gap, on young people and other cohorts of vulnerable workers; and
  - the need for adequate levels of pay to promote social inclusion.
- The Victorian Government firmly believes that appropriate penalty rates help to share the benefits of economic growth throughout the community and support an inclusive society by safeguarding the relative incomes and living standards of more vulnerable workers with limited alternatives to award-based weekend work. This is a core element of economic inclusion.
- Many low paid award reliant workers in industries including hospitality, retail and fast food will have their rates and overall wages reduced because of the recent penalty rates decision and this is a factor that should also be taken into account.

- This submission includes reference to evidence of an increasing and significant level of award reliance in Australia and Victoria. Despite the Fair Work framework's focus on enterprise agreements driving productivity and balanced wage growth, the Victorian Government notes with concern increasing award reliance which can lead to increased levels of income inequality, as demonstrated by continuing disparities between wages outcomes drawn from award rates compared to wages determined by collective agreement and by individual arrangement.
- The increasing level of award reliance and its likely consequences is a critical issue for women, due to their greater reliance on award earnings. Women are more likely to depend on minimum wage regulation and therefore are often relatively low paid. Women experience a higher degree of employment and income insecurity than men do. Conversely, in addition to having a positive impact on the persistent gender pay gap, higher minimum wages can provide an increased incentive to women participating in the labour force, which in turn strengthens the economy.
- The Victorian Government submits that maintaining a fair safety net of award wages by the FWC is an essential protection for vulnerable and low paid workers, including older workers, young people and labour hire workers in Victoria and across Australia.

## Introduction

1. The Victorian Government makes this submission to assist the Fair Work Commission (**FWC**) in the exercise of its functions in setting minimum wages for employees in the national workplace relations system.
2. The FWC must ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions.
3. In establishing and maintaining a safety net of fair minimum wages, the FWC is required to take 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
  - 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.<sup>1</sup>
4. These matters are dealt with throughout the submission, with more detailed supporting data included in **Attachments 1 and 2**.

## Submission

5. The Victorian Government supports inclusive growth and pay equity and is strongly conscious that employment is critical to social inclusion and again calls on the FWC to consider these issues. In particular, the FWC should consider and prioritise a number of this Government's concerns:
  - growing income inequality;
  - the increasing gap between minimum wages and other methods of setting pay;
  - the narrowing gap between the National Minimum Wage and poverty lines;
  - the impact of minimum wages on the gender pay gap, on young people and other cohorts of vulnerable workers; and
  - the need for adequate levels of pay to promote social inclusion.
6. On Thursday 23 February 2017, as part of the modern awards review process, the FWC handed down its decision to reduce penalty rates for retail, hospitality and accommodation workers. The Victorian Government believes that these reductions will cause significant hardship for low paid workers in those sectors, who are heavily award-reliant, with the majority being young people and women.

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<sup>1</sup> *Fair Work Act 2009*, s.284(1).

7. Many low paid award reliant workers in industries including hospitality, retail and fast food will have their rates and overall wages reduced because of the penalty rates decision, and this is a factor that should be taken into account.
8. Considering all these matters, the Victorian Government submits that in its Annual Wage Review 2016-17, the Fair Work Commission should award at least a 2.5 per cent increase in its 2016-17 review of the National Minimum Wage and all award minimum wages. This would increase the NMW to at least \$689.50 or by \$16.80 per week.

## Performance and competitiveness of the national economy

### Current Victorian economic conditions and outlook

9. The Victorian Government is committed to prudent financial management and strategic infrastructure investments to facilitate a strong economy and boost job growth. The Government is taking advantage of a robust economy to improve jobs and services such as hospitals, schools, and transport.
10. The Victorian economy grew by a strong 3.3 per cent in 2015-16, compared with a 2.6 per cent growth rate recorded in 2014-15. Economic conditions are expected to remain solid, with Budget Update forecasts indicating above trend rate of growth of 3.0 per cent in 2016-17, before returning to trend.
11. Employment growth has been strong and sustained over the past year, supported by the Victorian Government's *Back to Work* plan. This integrated set of policies is driving expansion in high-growth industries, improving access of local business to overseas markets; and supporting young people, the long-term unemployed, and retrenched workers with more job opportunities through tax relief to businesses. The Victorian Premier's Jobs and Investment Panel is drawing on the expertise and insight of economic and industry leaders to provide strategic advice to the Government.
12. Victorian employment increased by 3.8 per cent in 2015-16, which contributed to a fall in the unemployment rate in the same period. In January 2017, Victoria's unemployment rate reached 5.7 per cent – in line with the national unemployment rate – and is 0.5 percentage points lower than a year ago.
13. However, spare capacity in the labour market does remain elevated, with the Victorian labour force underutilisation rate at 15.8 per cent in January 2017, slightly lower when compared to 16.2 per cent in January 2016. More broadly across the nation, the labour force underutilisation rate was 15.3 per cent in January 2017.
14. Despite employment growth strengthening, with spare capacity remaining in the labour market, the Victorian labour market is likely to remain highly competitive for those seeking work in the near-term. Given this and acknowledging unemployment levels, and other job pressures in the Victorian economy, the Victorian Government submits that the minimum wage be sustained at a level that ensures that wage inequality (and the social and economic exclusion that can flow from this) is not exacerbated by these conditions. Victorian workers deserve to have access to meaningful jobs that are safe, secure and remunerated fairly.

### Productivity growth

15. The Victorian Government recognises the need to improve productivity by focusing on strategies that encourage growth and investment, create a supportive

environment for jobs and position the Victorian economy for sustained growth into the future.

16. As is well accepted, growth in productivity is a key factor in improving wealth and living standards in the community. However, productivity growth in Australia has remained weak in recent years. Compared to last year, the Victorian Government notes that Australia's recent productivity performance has again been flat as measured by multifactor productivity. Again, like last year, preliminary data in the most recent (incomplete) cycle to 2015-16 does show some improvement compared to the previous cycle. This year, among the award reliant industries, average annual multifactor productivity in Australia improved significantly in **retail trade**, while average annual labour productivity improved in **retail trade and manufacturing**.
17. Whilst the key importance of productivity growth is generally acknowledged, identifying the influences on productivity growth is a more complex process and the Victorian Government acknowledges that it is difficult to distinguish the effects of the workplace relations system from other variables that have an impact on labour market outcomes.
18. However, the Victorian Government argues that productivity can be significantly influenced by workplace management practices. The Victorian Government supports the Fair Work framework and is not of the view that this framework acts to inhibit productivity. Instead, the Victorian Government believes the Fair Work Act provides ample scope for employers to negotiate flexible working arrangements with their employees that can in turn, support productivity improvements. In turn, therefore, productivity impacts cannot be said to provide a strong rationale against increasing minimum wages in a balanced way.
19. Further detail about Australian productivity growth and performance is provided in **Attachment 2**.

## Relative living standards and the needs of the low paid

### Award reliance and earnings inequality

20. The Victorian Government submits that there is evidence of an increasing and significant level of award reliance in Australia and Victoria. Despite the Fair Work framework's focus on enterprise agreements driving productivity and balanced wage growth, the Victorian Government notes with concern increasing award reliance which can lead to increased levels of income inequality, as demonstrated by continuing disparities between wages outcomes drawn from award rates compared to wages determined by collective agreement and by individual arrangement.
21. The Victorian Government maintains the view that the overriding objective of a fair and effective safety net is to provide fair minimum employment standards that reflect the general expectations of the Australian community. Central to this objective is a fair minimum wage that is adjusted to reflect those standards and protects workers who might be in a poor bargaining position to successfully individually negotiate improved wages outcomes. Correspondingly important is the objective that a fair minimum wage operates to reduce income inequality and moderates against social and economic disaffection and isolation.
22. The importance of award minimum wages is highlighted by the continued, increased and significant reliance on awards as a pay setting mechanism. During the period 2008 to 2012 there was a dip in the level of award reliance from 2006, where award reliance in Australia was 21 per cent. Award reliance subsequently then rose to **20.4** per cent in 2014 (**Table 10**).
23. The latest bi-annual Australian Bureau of Statistics (**ABS**) publication of data on wages outcomes by method of setting pay indicates that as of May 2016, there has been a further increase in award reliant non-managerial employees across Australia to **25** per cent in 2016 (**Table 1**). In Victoria, the 2016 ABS data reveals that 19 per cent of non-managerial employees were award reliant, earning an average of \$656.30 per week, compared to 16.2 per cent of employees, earning an average of \$631.70 per week in 2014.<sup>2</sup>

**Table 1: Award reliance and average weekly earnings (May 2016)**

State and Territory	Award employees average weekly total cash earnings (\$)	Proportion state/ national average total cash earnings	Number of award employees ('000)	All non-managerial employees Number of employees ('000)	Proportion award employees/ all employees
New South Wales	953.60	1.19	937.50	2,908.30	0.32
Victoria	656.30	0.82	447.80	2,381.60	0.19
Queensland	744.00	0.93	479.70	1,872.40	0.26
South Australia	667.70	0.83	137.90	593.00	0.23

<sup>2</sup> ABS Catalogue 6306.0 *Employee Earnings and Hours, Australia, May 2014* "Employees paid by award only."

State and Territory	Award employees average weekly total cash earnings (\$)	Proportion state/ national average total cash earnings	Number of award employees ('000)	All non-managerial employees Number of employees ('000)	Proportion award employees/ all employees
Western Australia	642.60	0.80	172.50	1,050.30	0.16
Tasmania	928.40	1.16	60.90	177.20	0.34
Northern Territory	672.90	0.84	18.70	108.80	0.17
Australian Capital Territory	490.20	0.61	21.10	198.50	0.11
<b>Australia</b>	<b>802.80</b>	<b>1.00</b>	<b>2,276.10</b>	<b>9,290.10</b>	<b>0.25</b>

Source: ABS Catalogue 6306 (January 2017)

24. This latest ABS data across Australia demonstrates continuing disparities between award rates and wages determined by collective agreement and by individual arrangement. There is a level of income inequality between low paid workers, who are generally award reliant and those on average weekly earnings or above usually set by agreement or individual arrangement. In May 2016, the widest ratio in average weekly total cash earnings is found when comparing award only wages (\$802.80) to wages outcomes under individual arrangements (\$1,311.60) at 61 per cent.

**Table 2: Average weekly and hourly total cash earnings of non-managerial Employees by method of setting pay (May 2016)**

Method of setting pay	Average weekly total hours paid for (hours)	Average hourly total cash earnings (\$)	Average weekly total cash earnings (\$)
Award only	27.1	29.60	802.80
Collective agreement	30.7	39.60	1,215.20
Individual arrangement	34.0	38.50	1,311.60
<b>All methods of setting pay</b>	<b>31.0</b>	<b>37.00</b>	<b>1,149.40</b>

Source: ABS Catalogue 6306 (January 2017)

25. Other data across Australia now to hand also demonstrates growing earnings inequality, with low wage households not enjoying increases in income, compared to higher wage households. Recent research conducted by the Members Equity Bank (MEB) and presented in its *Household Financial Comfort Report* (February 2017) asserts there is a “marked long-term deterioration in Australian households’ comfort with income, which remains at its lowest level since the Report began in 2011 at 5.55 out of 10.”<sup>3</sup>

<sup>3</sup> Members Equity Bank (2017) *Household Financial Comfort Report: Insights from national research into the financial psychology of Australian Households* (Eleventh survey published February 2017). Accessed from: <https://www.mebank.com.au/media/2511295/Household-Financial-Comfort-Report-Feb-2017.pdf>

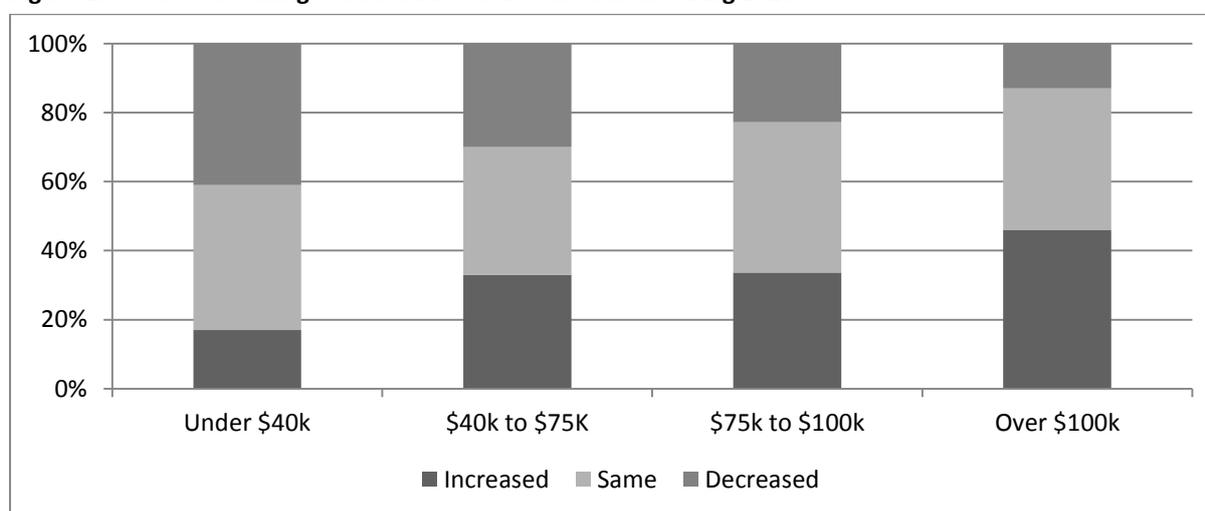
26. Further, the MEB research indicates the households with a higher income are more likely to report higher income gains. Relevantly, households with an income of \$40,000 or less, which represents a weekly income of approximately \$796 per week, overwhelmingly report that their income has either stayed the same or decreased (at 42 per cent and 41 per cent respectively). This reflects a concerning increase in income inequality.

**Table 3: Income changes across various income bands during 2016**

Income band	Under \$40k	\$40k to \$75K	\$75k to \$100k	Over \$100k
Increased	17%	33%	34%	46%
Same	42%	37%	44%	41%
Decreased	41%	30%	23%	13%

Adapted from: Members Equity (2017), p. 7.

**Figure 1: Income changes across various income bands during 2016**

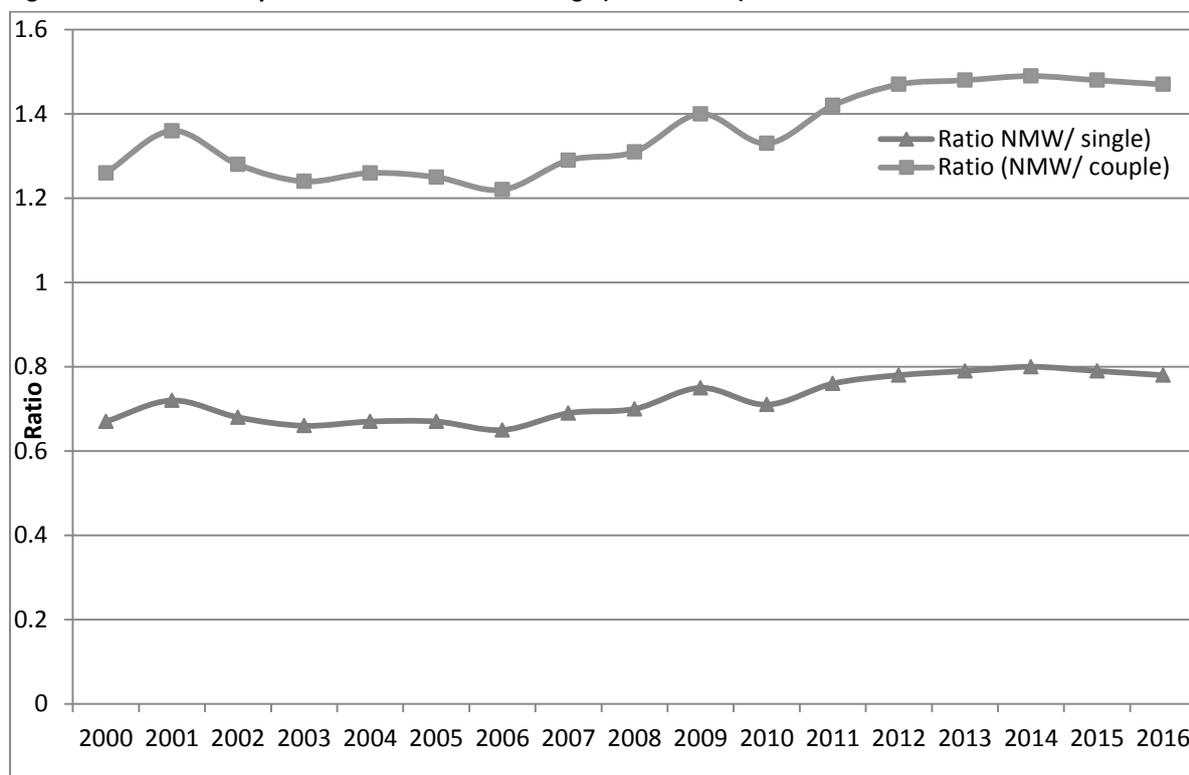


Adapted from: Members Equity (2017), p. 7.

27. The Victorian Government submits that in the AWR 2016-17, the FWC should consider action that can address the narrowing gap between the NMW and the poverty line. In recent years, the gap between the poverty line and the NMW has narrowed, highlighting the vulnerability of people on the minimum wage to poverty.
28. A comparison of a single person in the workforce and a couple (with one person in the workforce) with two dependents against the poverty level (including housing costs) in June of each year from 2000 to 2016 is illustrated in **Figure 2**: below. In the case of a single working person, the gap between the NMW and the poverty line has narrowed over 15 years by 12 percentage points: in June 2000, the single working person poverty line was 67 per cent of the NMW, but by June 2015, it was 79 per cent of the NMW.
29. The very minor improvement in the gap between the NMW and the poverty line as at June 2016 (that is, the gap has slightly widened), with a gap of 78 per cent

between the NMW and poverty lines for a single working person, is not seen as mitigating against this concern.

Figure 2: Ratio of Poverty line to National Minimum Wage (2000 to 2016)



Source: Melbourne Institute of Applied Economic and Social Research (2017)<sup>4</sup>

30. The Victorian Government also notes with concern the evidence that older workers, depending on their gender and form of employment, can be more exposed to lower wage outcomes. Recent research from the FWC indicates that 28 per cent of award reliant employees were 45 years and over,<sup>5</sup> with evidence there is a notable decline in average weekly earnings for all employees who are 55 years or over.<sup>6</sup>
31. The decline in women's average weekly earnings commences earlier in the 45 to 54 year old cohort, for both full time and part time female employees. Whilst some of this may be attributed to early retirement or reduced participation or hours, these factors will not wholly account for the diminished earnings.<sup>7</sup>
32. The gender pay gap also widens and persists for middle aged and older workers, and peaks in the 45 to 54 year old cohort at approximately 20 per cent, regardless of whether women are in full or part time employment. The gap remains relatively

<sup>4</sup> Melbourne Institute of Applied Economic and Social Research (2017) Poverty Lines: Australia. Accessed from: <https://melbourneinstitute.com/miaesr/publications/indicators/poverty-lines-australia.html#y2016>

<sup>5</sup> Jimenez, C. and Rozenbes, D (2017) *Fair Work Commission Research Report 2017: Award reliance in the household income distribution* (February 2017), p. 9.

<sup>6</sup> ABS Catalogue No. 6306 (May 2016).

<sup>7</sup> ABS Catalogue No. 6306 (May 2016)

high for the 55 year and over cohort at 16.9 per cent, compared to the gap for 35 to 44 year olds at 12.6 per cent.

33. This decline in earnings has implications for the living standards and retirement incomes for both older men and women, who are currently working, and an indicator that older workers are a vulnerable cohort within the workforce as retirement age is pushed to extend beyond 65 years.

**Figure 3: Average weekly earnings by age cohort, full time and part time employment status (May 2016)**



Source: ABS Catalogue 6306 (January 2017)

**Table 4: Gender pay gap by form of employment and age cohort**

Gender pay gap	20 years and under	21 to 34 years	35 to 44 years	45 to 54 years	55 years and over	All ages
Full-time employees	5.75	12.57	12.55	20.04	16.9	15.66
Part-time employees	10.52	0.66	10.71	20.42	12.28	0.56

Source: ABS Catalogue 6306 (January 2017)

34. The Victorian Government urges the FWC to take into account the wages outcomes of the increasing number of award reliant employees and the needs of the low paid, compared with workers under other methods of setting pay. In particular, the Victorian Government continues to be concerned with the narrow gap between the NMW and poverty levels in Australia and the disparity between the low paid, and higher paid employees and households. There are also certain cohorts of employees, including older workers, who are particularly vulnerable to income distress.

### **Award reliant employees – Retail trade and Accommodation and food services sectors**

35. Employees in the *Retail trade* and the *Accommodation and food services* industry sectors are more likely to have their wages determined by awards rather than enterprise agreements. Therefore, any changes to award conditions in these industries will have a significant effect on employees' take home pay. Further, award reliant employees in these sectors are relatively low paid, with ABS data showing that their average weekly earnings were significantly less than award averages across all industries:
36. In May 2016, there were 367,600 employees in the Australian retail trade sector paid by an award only. This represented 35 per cent of the retail trade sector or 16 per cent across all industries. Those employees earned an average of \$563.70 per week or around 70 per cent of the average weekly earnings under an award for all industries. Nationally under an award, average earnings were \$802.80 per week.<sup>8</sup>
37. In the same period, there were 316,600 employees in the Australian accommodation and food services sector paid by an award only. This represented 43 per cent of the accommodation and food sector or 14 per cent across all industries. Those employees earned an average of \$478.70 per week or around 60 per cent of the average weekly earnings under an award for all industries.

### **Penalty rates decision – Retail, hospitality and accommodation sectors**

38. As part of the four-yearly review of modern awards, the FWC conducted a review of penalty rate arrangements in awards operating in the retail, hospitality and accommodation sectors. On 23 February 2017, the FWC released its decision, which announced reductions to penalty rates as follows:
  - **Hospitality Award:** Sunday rates reduced from 175 per cent to 150 per cent for permanent employees;
  - **Fast Food Award:** Sunday rates reduced from 150 per cent to 125 per cent for permanent employees and 175 per cent to 150 per cent for casuals;
  - **Retail Award:** Sunday rates reduced from 200 per cent to 150 per cent for permanent employees and from 200 per cent to 175 per cent for casuals;
  - **Pharmacy Award:** Sunday rates reduced from 200 per cent to 150 per cent for permanent employees (a 50 per cent decrease) and from 200 per cent to 175 per cent for casuals;
  - **Public holiday** rates are reduced from 250 per cent to 225 per cent for permanent employees and 275 per cent to 250 per cent for casuals in all the above awards with the exception of the Clubs Award, which maintains a 250 per cent public holiday penalty rate for both full time and casual employees, pending additional evidence to be provided to the Commission by 24 March 2017.

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<sup>8</sup> ABS Catalogue 6306.0 *Employee Earnings and Hours, Australia, May 2016* – Data Cube 5.

39. The FWC has acknowledged that these industries are all among the lowest paid industries in Australia, with workforces predominantly comprised of women and young workers. Existing employees will face reduced earnings – it is improbable that, as a group, existing workers’ hours on Sundays would rise sufficiently to offset the income effects of penalty rate reductions.

**Table 5: Women and young workers – Hospitality and retail industry sectors**

Cohort/ Industry	Hospitality	Retail	All industries
Total female employment	53.4%	55.5%	46.4%
Total employment – 15 to 24 years	44.2%	32.3%	15%
Ratio of average weekly earnings, all employees, in sector relative to all industries	46.6%	59.7%	n/a

Source: Fair Work Commission, Four yearly review of modern awards – Penalty Rates, 2017

40. A Victorian Government analysis on the cost of lost wages in each of the affected industries, provides the following estimates:
- A full time Level 8 retail worker could lose as much as \$5,519.28 per year if they ordinarily work every Sunday and public holiday.
  - A full time Level 6 hospitality worker could lose as much as \$2,948.00 per year if they ordinarily work every Sunday and public holiday.
  - A full time Level 1 fast food worker could lose as much as \$2,488.32 per year if they ordinarily work every Sunday and public holiday.
  - A full time Level 8 pharmacist manager could lose as much as \$7,370.20 per year if they ordinarily work every Sunday and public holiday.
41. The financial hardship caused is likely to impact on **already** lower paid workers, women and young people who are overrepresented in the affected industries. Further, even if existing employees’ hours increased sufficiently to offset the income effects, this is unlikely to leave employees better off, as they would be giving up time usually spent doing other things (e.g. studying or spending time with children).
42. The Victorian Government firmly believes that appropriate penalty rates help to share the benefits of economic growth throughout the community and support an inclusive society by safeguarding the relative incomes and living standards of more vulnerable workers with limited alternatives to award-based weekend work. This is a core element of economic inclusion.

### **Victorian Inquiry into Labour Hire and Insecure Work**

43. The Victorian Government submits that maintaining a fair safety net of award wages by the FWC is an essential protection for vulnerable and low paid workers, including labour hire workers, in Victoria, especially where those workers may have limited prospects outside of low paid work.

44. In September 2015, the Victorian Minister for Industrial Relations announced an inquiry into the labour hire industry and insecure work in Victoria, to investigate the practices of labour hire companies, insecure work, sham contracting and the abuse of visas to avoid workplace laws and undermine minimum employment standards. The Inquiry's terms of reference also included examining the social impact of insecure work and assessing if the current legal framework meets the needs of Victorian employers and labour hire workers.<sup>9</sup>
45. The independent Victorian Inquiry into Labour Hire and Insecure Work (**Inquiry**) was chaired by Professor Anthony Forsyth, RMIT University. The Inquiry engaged in an extensive evidence-gathering process, with almost 700 submissions received, and 17 days of public hearings across Victoria, speaking to 221 individual witnesses.
46. The final report of the Inquiry was tabled in Parliament on Thursday 27 October 2016 and included 35 comprehensive recommendations. The Victorian Government has accepted in principle the key recommendations to establish licensing of labour hire firms and is developing its response to the other recommendations.
47. There were also a number of important findings and recommendations flowing from the Inquiry Report that related to minimum employment standards, including the National Minimum Wage and award minimum wages (**Figure 4** and **Figure 5**).
48. In relation to the engagement of casual employees or independent contractors through labour hire firms, it was found that these workers invariably did not receive the full benefit of many or all minimum conditions under the National Employment Standards. Further, casual employees sourced from labour hire firms, even when accounting for casual loadings, were "worse off" than directly engaged employees of a host firm.
49. Evidence to the Inquiry also indicated that the employment benefits of labour hire and casual workers may be worsened through the operation of piece rate award provisions that "creates the possibility that employees may be paid below the minimum hourly rate, and accordingly undermines the minimum safety net intended to be established by minimum hourly rates."
50. The Final Report concluded that "modern awards play a critical role in ensuring that labour hire employees have the protection of **minimum hourly rates of pay**; and certain other minimum conditions (which vary depending on whether they are casuals or fixed term employees)."
51. Accordingly, in support of the Inquiry's recommendations, the Victorian Government will call on:
  - the Fair Work Ombudsman (**FWO**) to focus more of its compliance activity on underpayment/ non-payment of award rates; and

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<sup>9</sup> *Victorian Inquiry into Labour Hire and Insecure Work – Terms of Reference:*  
<http://economicdevelopment.vic.gov.au/inquiry-into-the-labour-hire-industry>

- the Commonwealth Government to quickly implement its 2016 election commitments to increase the FWO’s investigatory powers and to increase the penalties applicable under the Fair Work Act for award breaches and failure to maintain proper employment records.

**Figure 4: Victorian Inquiry Findings relevant to minimum entitlements**

**Minimum terms and conditions of engagement**

3.2 It is an unavoidable consequence of the engagement of labour hire workers as casual employees, or as independent contractors, that they do not receive the benefit of many/any minimum employment conditions under the National Employment Standards. Labour hire workers engaged as fixed term employees receive most but not all of the minimum National Employment Standards conditions. Casual labour hire employees also miss out on many award conditions, so are often worse off than directly engaged permanent employees of the host, even taking into account the casual loading.

3.3 Modern awards play a critical role in ensuring that labour hire employees have the protection of minimum hourly rates of pay; and certain other minimum conditions (which vary depending on whether they are casuals or fixed term employees). The on-hire provisions in most modern awards appear to operate effectively to ensure the extension of award terms and conditions to labour hire employees performing work covered by the relevant award, reflecting the principle that labour hire employers and their employees should be covered by the award covering the host employer to whom the employees are on-hired.

**The role of piece rates**

4.7 The operation of the piece rate award provisions, particularly in the horticulture industry, creates the possibility that employees may be paid below the minimum hourly rate, and accordingly undermines the minimum safety net intended to be established by minimum hourly rates. In the horticulture industry, the safeguards which attach to piece rate systems do not appear to be utilised in practice. Further, the use of piece rates in that industry contributes to a level of subjectivity and uncertainty regarding what rate is payable to an employee, and underlies a number of problematic outcomes. In addition to the following recommendations, measures to address these issues are dealt with in Recommendation 26, at 5.6.4.

**Figure 5: Victorian Inquiry Recommendations relevant to minimum entitlements**

**Recommendation 11**

The Victorian Government should advocate for the Fair Work Ombudsman to focus more of its compliance activity on underpayment/non-payment of award rates in the horticulture and meat industries; unlawful deductions (e.g. for accommodation) and the imposition of piece rate arrangements in those sectors; and sham contracting in the cleaning industry.

**Recommendation 12**

The Victorian Government should advocate for the Federal Government to implement, as quickly as possible, its 2016 election commitments to increase the Fair Work Ombudsman’s investigatory powers and to increase the penalties applicable under the Fair Work Act for award breaches and failure to maintain proper employment records.

## The principle of equal remuneration for work of equal or comparable value

52. In addition to having a positive impact on the persistent gender pay gap, the Victorian Government is of the view that higher minimum wages can provide an increased incentive to women participating in the labour force, which in turn strengthens the economy overall.
53. It is well established that a critical issue for women in work is their greater reliance on award earnings. Women are more likely to depend on minimum wage regulation in certain industries and occupations, with the application of award determined penalty rates a significant source of income for female workers (who are often relatively low paid). Further, women experience a higher degree of employment and income insecurity than men do.
54. *Safe and Strong*, Victoria's Gender Equality Strategy released in December 2016, sets out a framework for enduring and sustained action over time. The aim of the Strategy is to progressively build the attitudinal and behavioural change required to reduce violence against women and deliver gender equality. The Strategy draws on global evidence of what works in gender equality.
55. The Strategy sets out the founding reforms that lay the groundwork and set a new standard for action by the Victorian Government. These reforms will draw on all levers, including legislative changes, governance structures, employment practices, policy, procurement, funding decisions and advocacy to the Commonwealth Government. The Strategy also considers six settings for state wide action in which strategic alliances and partnerships will enable shared progress towards gender equality, with one key setting being: Work and economic security.

### Work and economic security

56. Women continue to be under-represented in industries such as finance, construction, utilities, science and technical services. A failure to attract and skill women for careers in these industries has a twofold negative economic impact: a loss of productivity gains, by not drawing on the skills and capabilities of a large sector of the labour force; and further entrenching occupational segregation, with potential to widen the gender pay gap and reduce economic security for women and their families.
57. On 16 November 2016, the Workplace Gender Equality Agency (**WGEA**) data from 2015-16 reported a 23.1 per cent full-time total remuneration gender pay gap, with men earning on average \$26,853 a year more than women (down 1.6 percentage points since 2013-14).
58. Minimum wages are significant for gender equality. Women make up 60-70 per cent of workers in lower paid occupations such as clerical and administration,

community and personal services and sales.<sup>10</sup> Women also undertake 70 per cent of part-time work, and experience a higher level of underemployment than men (12 per cent compared to 7.4 per cent for men).<sup>11</sup> A Fair Work Commission report found that a substantial portion of the low paid workforce were women aged over 55.<sup>12</sup> An appropriate minimum wage provides a safety net for these workers.

59. The ABS *Employee Earnings and Hours* 2016 data, released on 19 January 2017, provides key data about wages outcomes by method of setting pay by gender as at May 2016. As outlined in **Table 6**, the gender pay gap is narrowest under awards at 83.6 per cent and the widest under collective agreements at 70.2 per cent and individual arrangements at 73 per cent.

**Table 6: Average weekly total cash earnings by method of setting pay and gender (May 2016)**

Gender	Award (\$)	Gender pay gap Awards (%)	Collective Agreement (\$)	Gender pay gap CA (%)	Individual Arrangmt (\$)	Gender pay gap IA (%)	All methods of setting pay	Gender pay gap (%)
All male employees	893.50	83.6	1,446.40	70.2	1,491.80	73.0	1,357.00	70.8
All female employees	746.70		1,014.90		1,088.80		960.40	
All employees	802.80		1,215.20		1,311.60		1,149.40	

Source: ABS Catalogue No. 6306.0 *Employee Earnings and Hours, Australia, May 2016* (January 2017)

60. While female labour force participation in Australia is gradually increasing (though still low at 58 per cent compared with the OECD rate of 65 per cent), male participation is declining. However, women experience a higher degree of employment and income insecurity than men do. As noted, higher minimum wages can provide an increased incentive to participate in the labour force, which in turn strengthens the economy.

61. The gendered nature and characteristics of labour force participation was reinforced in the findings of the Final Report of the Victorian Inquiry into Labour Hire and Insecure Work:

*It is clear from evidence provided to the Inquiry and academic and other sources that the working arrangements commonly associated with insecure work, especially casual and fixed term work, disproportionately affect women – with detrimental consequences for women’s financial security, control over working hours and career advancement.*<sup>13</sup>

62. The ABS *Forms of Employment* data from November 2013 (**Figure 6**) shows whether employees do or do not have access to paid leave entitlements, with this category

<sup>10</sup> The Gender Pay Gap Over the Life Cycle, ACTU 2016

<sup>11</sup> ABS catalogue 6202.0 Table 23. Underutilised persons by State, Territory and Sex

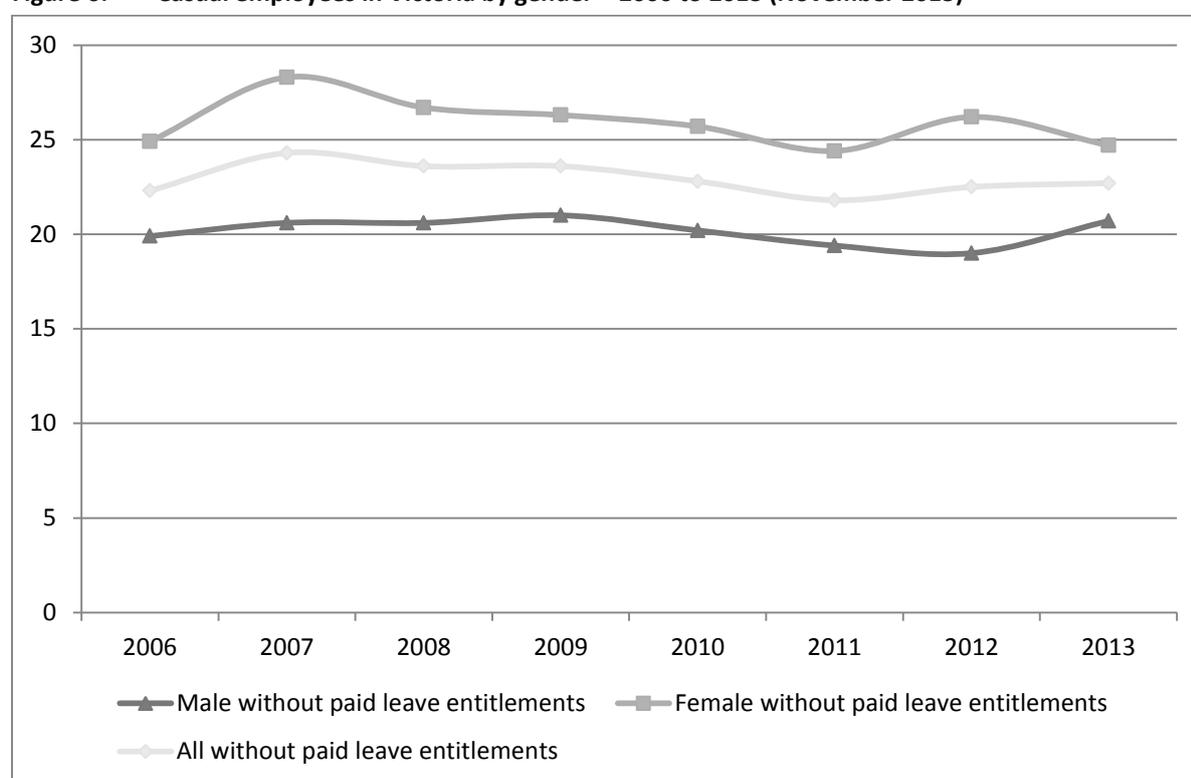
<sup>12</sup> Low paid women’s workforce participation decisions and pay equity, Broadway, B. and Wilkins, R., Fair Work Commission, December 2015

<sup>13</sup> Insert reference

of employment being a proxy for casual employees.<sup>14</sup> Based on this ABS data, as at 2013, 22.7 per cent of Victorian employees were casual employees.<sup>15</sup>

63. Women were more likely to be in casual employment than men in Victoria throughout the period 2006 to 2013. In 2013, 24.7 per cent of Victorian female employees were without paid leave entitlements, compared to 20.7 per cent of male employees.
64. The level of casualisation for women compared to men in some occupations and Victorian industries is particularly high. In November 2013, over 70 per cent of casual workers in the occupations of clerical and administrative workers, community and personal service workers and sales workers were women. In November 2013, women without paid leave entitlements were overrepresented in particular industries: agriculture, forestry and fishing (59.8%); accommodation and food services (67.9%); and arts and recreation services (52.7%).

**Figure 6: Casual employees in Victoria by gender – 2006 to 2013 (November 2013)**



Source: Customised Report ABS Catalogue No. 6359.0

65. The Victorian Government welcomes the FWC’s recognition in its 2015-16 AWR Decision that:  
*An increase in award rates of pay relative to other wages would reduce the gender pay gap in two ways: it would raise the level of low pay rates relative to median pay*

<sup>14</sup> Shomos, A., Turner, E. and Will, L. (2013) *Forms of Work in Australia: Productivity Commission Staff Working Paper* (April 2013). Accessed from: <http://www.pc.gov.au/research/supporting/forms-of-work>

<sup>15</sup> ABS 6359.0 (2013), Customised Report.

*rates, and hence particularly benefit women, who disproportionately receive low pay rates; and an increase in the higher levels of award rates will particularly benefit women, because at the higher pay scales, women are substantially more likely to be paid the award rather than the bargained rate than are men.*

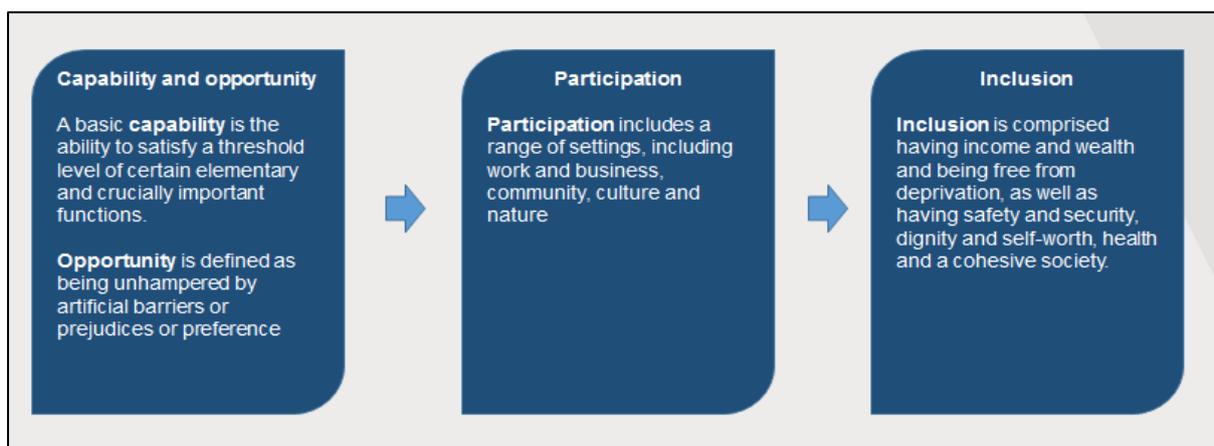
66. The Victorian Government submits that the FWC should again take the opportunity to influence the wage outcomes of Victorian women, who are predominantly award reliant due to the industries and occupations they work in, and experience persistently higher levels of income and employment insecurity due to higher levels of casual engagement with the workforce.

## Promoting social inclusion through increased workforce participation

### Economic inclusion: the minimum wage, social inclusion and vulnerable workers

67. The ability of lower wage earners to participate in the economy is vital to economic inclusion. Conceptually, economic inclusion (and a cohesive society) is comprised of having income and wealth, being free from deprivation, as well as having safety and security, dignity and self-worth.
68. The Victorian Government believes in fostering inclusive economic growth that delivers rising incomes to all workers. An appropriate minimum wage helps share the benefits of economic growth throughout the community and supports an inclusive society by safeguarding the relative incomes and living standards of vulnerable workers, and encouraging participation in the economy.
69. Promoting social inclusion is a fundamental principle of Australia's minimum wage system. It is reflected in the object of the FWA, which is to *provide a balanced framework for cooperative and productive workplace relations that promotes national economic prosperity and social inclusion for all Australians*.<sup>16</sup> In deliberating on minimum wages, the FWC is required to take into account *promoting social inclusion through increased workforce participation*.<sup>17</sup>
70. The Victorian Government submits that social inclusion should be understood more broadly in the context of economic inclusion. Economic inclusion is about more than just having a job: it is about having the opportunity and capability to participate fully in the economy, building income, wealth and assets (**Figure 7**).
71. Greater economic inclusion can result in improved safety and security, dignity and health, and reduced reliance on public or welfare services. A job with an inadequate wage can lead to economic exclusion, which has a considerable social dimension.

**Figure 7: Conceptualising economic inclusion**



Source: Department of Economic Development, Jobs, Transport and Resources

<sup>16</sup> s 3 *Fair Work Act 2009*

<sup>17</sup> s 284(1)(b) *Fair Work Act 2009*

## Income and wealth inequality are growing

72. A recent OECD report finds that a key aspect of economic exclusion is a drag on economic growth. In its May 2015 report, the OECD found that rising income inequality reduced cumulative growth by an average of 4.7 percentage points across OECD countries over the two decades to 2010. The key driver was the growing gap between lower-income households – the bottom 40 per cent of the distribution – and the rest of the population. This gap closes off opportunities for education and employment for those at the bottom, which *locks in privilege and exclusion, undermines intergenerational social mobility and weakens incentives to invest in knowledge and, in turn, holds back potential growth.*<sup>18</sup>
73. The minimum wage plays a crucial role in reducing income inequality, increasing consumption and strengthening the workforce.<sup>19</sup> The ability of lower wage earners to participate in the economy is vital to economic inclusion.
74. While it is sometimes observed that some minimum wage earners live in higher earning households (particularly teenagers), it should also be noted that 33 per cent of households living in poverty relied on wages as their main income.<sup>20</sup> For many households primarily reliant on the minimum wage, particularly households with children where there is a single wage earner, there is an increased risk of reduced living standards and vulnerability to poverty.
75. Minimum wage jobs may be a ‘stepping stone’ to higher paying jobs and it is sometimes argued that wages should be kept low for this reason. However, rather than just a stepping stone, many minimum wage earners remain in low paid occupations and have few prospects of advancement. The Annual Wage Review 2015-16 found that 56.1 per cent of those who were in a low paid job remained in a low paid job a year later.<sup>21</sup>
76. Economic inclusion in Australia is weakened by the growing disparity between the minimum wage and the median wage. While the minimum-median wage ratio is high in Australia compared with many OECD countries, it has declined over the past decade, from 00.58 in 2000 to 00.53 in 2015.<sup>22</sup> Of six countries surveyed, Australia had the lowest growth rate in minimum wages from 2003-2014 (while not having the lowest minimum wages).<sup>23</sup>
77. The graph below demonstrates that the distribution of income in Victoria is unequal, with a high proportion of Victorians earning well below the median income, and over four per cent on the poverty line.

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<sup>18</sup> OECD (2015): In it together: Why less inequality benefits us all; OECD Framework p 5; OECD 2014 Trends in Income Inequality and its Impact on Economic Growth

<sup>19</sup> Artificial Intelligence, Automation and the Economy, Executive Office of the President, December 2016

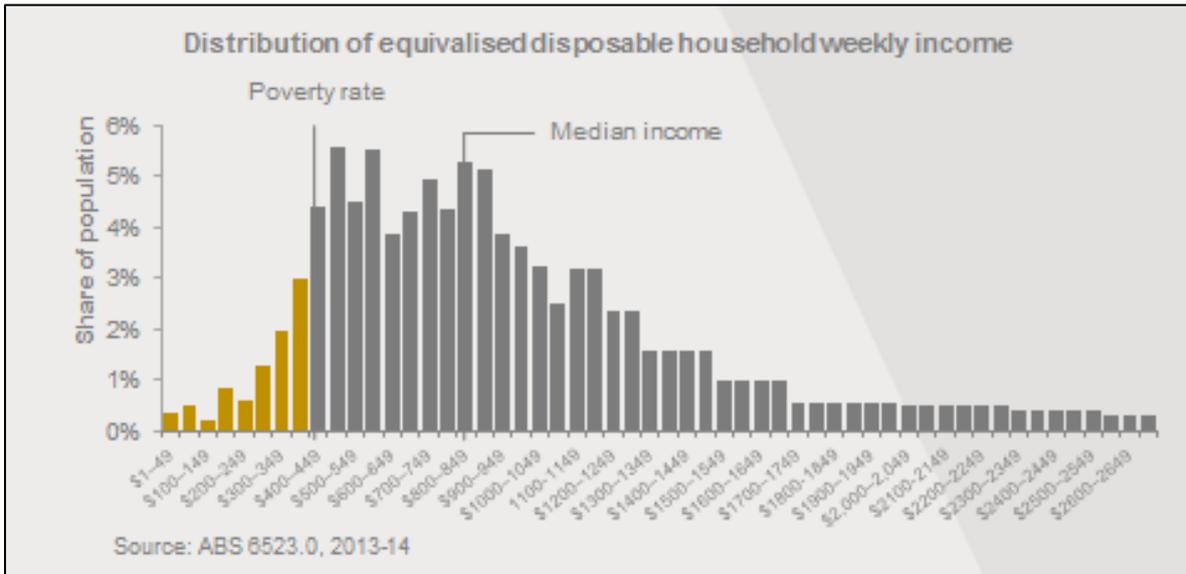
<sup>20</sup> ACOSS Poverty in Australia report 2014

<sup>21</sup> Annual Wage Review 2015-16, Fair Work Commission

<sup>22</sup> OECD Stat: <https://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE>

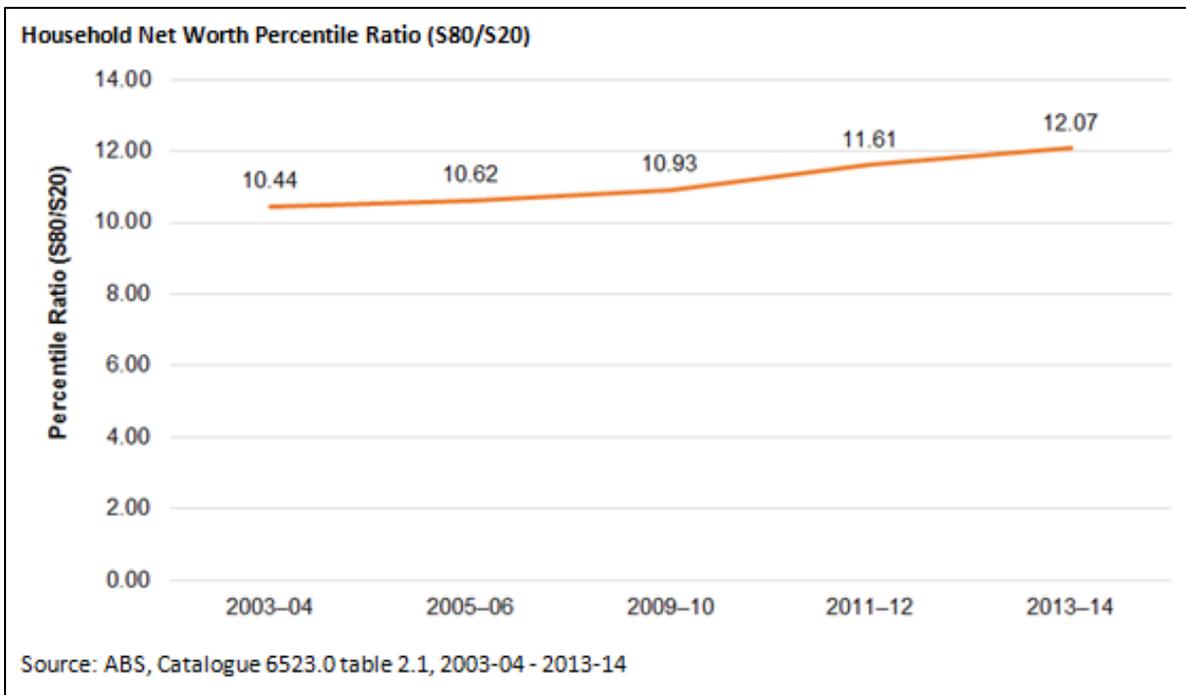
<sup>23</sup> An International Comparison of Minimum Wages and Labour Market Outcomes, Fair Work Commission, February 2016

Figure 8: Distribution of equivalised disposable household weekly income



78. The graph below demonstrates that for Australia, wealth inequality is increasing, with the ratio of the 80<sup>th</sup> percentile to the 20<sup>th</sup> percentile increasing by almost two points since 2003-04, indicating that fewer Australians are building assets such as housing. Adequate income is essential for building wealth, which in turn enables further capability development and economic participation that generates higher incomes.

Figure 9: Household net worth percentile ratio



## **Minimum wages provide a safety net for vulnerable workers and boost participation**

79. There remains a large proportion of vulnerable workers with a greater reliance on the minimum wage, including less qualified and low-income workers.<sup>24</sup> The FWC should be particularly cognisant of the impacts of wage determinations on vulnerable workers with limited prospects out of low paid work.
80. The Victorian government notes that wages are only one aspect of economic inclusion and other levers such as education and opening up opportunities for low wage workers are also important. However, improving the wages of low wage workers is a crucial first step towards boosting economic inclusion and increasing workforce (and community) participation.

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<sup>24</sup> Enhancing Economic Flexibility: What is in it for Workers? OECD Economic Policy Papers No. 19, November 2016

## **Providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply & employees with a disability**

### **Youth employment and unemployment**

81. The Victorian Government firmly believes that a fair minimum wage provides young people with stability in the workplace and protects them from exploitation. This has a lasting effect, establishing young people on a path towards productive inclusion in society and reducing the likelihood of encounters with the criminal justice system.
82. Victoria's youth unemployment rate is below its level from one year ago and has been edging down since mid-2015. The number of young Victorians in employment increased by 18 500 persons (+4.2 per cent) in December 2016 compared with the previous calendar year. The Victorian Government's Back to Work Plan, which encourages businesses to hire young Victorians, has supported this. The Government is also strengthening the TAFE system, which plays a vital role in developing the skills of young Victorians.
83. Of the Victorian youth population, 56.5 per cent were in full-time education in December 2016. This proportion was the highest of all states and well above the national average (53.1 per cent). A further 33.7 per cent of Victorian youth were employed in December 2016 (this is in addition to those young Victorians who, for example, are in full-time education and hold a part-time job).
84. The remaining 9.8 per cent of young Victorians were both not in full-time education and either unemployed or not in the labour force in December 2016. This proportion was the lowest of all states, and below the national average of 11.1 per cent, indicating that young Victorians are relatively more engaged with the education system and the labour market.
85. However, young workers who are reliant on award or junior wages and insecure work may be vulnerable to disengagement and longer term social exclusion. Vulnerable young people include refugees, early school leavers, Aboriginal people, people from low socio-economic backgrounds and people with disabilities. These young people often have extremely low bargaining power due to their limited education and work experience, and therefore can be heavily reliant on, and affected by, the outcomes of the annual wage review process.

## **Attachment 1: The performance and competitiveness of the global, national and Victorian economies**

### **Introduction**

1.1. This Attachment presents more detailed information on the performance and competitiveness of the national and Victorian economies and on labour market and business conditions and prospects, which supports the Victorian Government submission that the Fair Work Commission (**FWC**) should provide an economically responsible increase to low wage earners, by increasing the National Minimum Wage (**NMW**) and modern award wages.

### **Global conditions and outlook**

1.2. After subdued activity in 2016, the world economy is expected to pick up in 2017-18. In January 2017, the International Monetary Fund (**IMF**) released the *World Economic Outlook*,<sup>25</sup> keeping their forecasts for global growth in 2016-18 broadly unchanged, but upgrading the outlook for 2017-18 for advanced economies.

1.3. Global growth is still projected at 3.1 per cent for 2016 and 3.4 per cent in 2017, below the long-run average of 3.8 per cent. The IMF largely attributed this to improving conditions in the advanced economies, due to stronger activity in the second half of 2016 and projected fiscal stimulus in the United States. However, this is being offset by downgrades for a number of large emerging economies, including India, Brazil and Mexico.

1.4. The near-term outlook for China improved, with the IMF now forecasting economic growth to reach 6.7 per cent in 2016, before dropping back to 6.5 per cent in 2017. This is in line with upgrades in the OECD's updated forecasts,<sup>26</sup> which predict the Chinese economy would grow at 6.7 per cent in 2016, and 6.4 per cent in 2017. The improved growth outlook is based on expectations for continued policy support. However, over the longer term, reliance on policy stimulus, rapidly increasing credit and high levels of corporate debt increase the risk of a sharper slowdown in the Chinese economy.

1.5. The 2017 growth outlook has been revised upward for a number of large advanced economies, including Germany, Spain, the United Kingdom and Japan. This is primarily based on stronger than expected performance in the second part of 2016 in these countries. The growth outlook for the US has also been upgraded as activity picked up and the economy moved closer to full employment. The announcement of fiscal stimulus measures also contributed to the upgrade. At the same time, uncertainty around the policy stance of the incoming administration poses a considerable risk for the US as well as for the global growth outlook.

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<sup>25</sup> The International Monetary Fund, *World Economic Outlook Update*, January 2016.

<sup>26</sup> OECD: *Economic Outlook*, November 2016

## The Australian economy

- 1.6. The transition of the Australian economy from resources investment-led growth towards broader-based drivers of activity is underway. This is reflected by falling mining investment being offset by growth in household consumption, dwelling investment and exports.
- 1.7. In its Mid-Year Economic and Financial Outlook 2016-17, the Commonwealth Government forecast the Australian economy to grow a little below trend, at 2.0 per cent in 2016-17. Australia's real GDP growth is forecast to pick up to 2.75 per cent in 2017-18.<sup>27</sup>
- 1.8. Historically low interest rates and the lower Australian dollar are supporting economic activity in the non-mining sector. The pick-up in services activity has underpinned employment growth, with the relatively diverse eastern states' economies outperforming the rest of the country. At the national level employment growth has been slower in 2016 than in the previous year, and it is forecast to grow at a moderate pace of 1.25 per cent to June 2017.
- 1.9. Non-mining business investment is expected to remain subdued in 2016-17, and rise moderately over the coming years, particularly due to positive developments in the non-mining states.
- 1.10. Despite strong employment growth during 2015-16, particularly in the more labour intensive services sectors, wages increased modestly at 2.1 per cent. The Commonwealth Government downgraded its forecast wages growth to 2.25 per cent in 2016-17, and 2.50 per cent in 2017-18.
- 1.11. The Reserve Bank of Australia (**RBA**) expects that wage growth will gradually recover from late 2017, as:<sup>28</sup>
  - (i) the decline in wage growth in the mining states and mining related industries is expected to diminish as the economy transitions towards other activities;
  - (ii) inflation expectations of firms and employees are already low and not expected to fall further; but
  - (iii) spare capacity in the labour market is expected to limit wage growth.
- 1.12. Weak wage growth, increased competition in some product markets, and declining inflation expectations have decreased inflationary pressures. This has more than offset the upward pressure on tradeable prices, due to the depreciation of the exchange rate since 2013. The underlying inflation rate, the Reserve Bank of Australia's (**RBA**) preferred measure for monetary policy purposes, was 1.6 per cent over the year to December 2016, sitting well below the RBA's 2-3 per cent target band. The RBA forecasts underlying inflation to stay in the 1.5-2.5 per cent range

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<sup>27</sup> Commonwealth *Mid-Year Economic and Fiscal Outlook, 2016-17*, December 2016

<sup>28</sup> Reserve Bank of Australia: *Statement on Monetary Policy*, February 2017.

until 2018.<sup>29</sup> Following cuts to the cash rate of 25 basis points in May and August 2016, the RBA has held the cash rate unchanged at a record low 1.5 per cent.

## The Victorian economy

1.13. The Victorian economy is expected to grow above trend, at 3.00 per cent in 2016-17, before reverting to trend in the out years. Outcomes for 2015-16 and the economic projections for the Victorian economy prepared for the *Victorian 2016-17 Budget Update* are presented in **Table 7** and discussed further below.

**Table 7: Victorian 2016-17 Budget Update economic forecasts**

	2015-16 Actual	2016-17 Forecast	2017-18 Forecast	2018-19 Projection	2019-20 Projection
<b>Real Gross State Product</b>	3.3	3.00	2.75	2.75	2.75
<b>Employment</b>	2.4	2.75	2.00	1.50	1.50
<b>Unemployment rate</b>	5.9	5.75	5.50	5.50	5.50
<b>Consumer price index</b>	1.6	1.75	2.00	2.25	2.50
<b>Wage price index</b>	2.3	2.25	2.50	3.00	3.50
<b>Population</b>	2.0	1.9	1.9	1.8	1.8

Source: *2016-17 Budget Update*

1.14. The Victorian economy strengthened in 2015-16, growing by 3.3 per cent compared with 2.6 per cent in 2014-15. This was driven primarily by robust growth in dwelling investment, supported by an active property market and record low borrowing costs. Household consumption, public demand and business investment growth was also solid in 2015-16.

1.15. Victoria's household consumption grew 3.2 per cent in 2015-16, supported by solid employment growth, low interest rates, subdued petrol prices and wealth effects flowing from rising house prices. Household consumption growth is forecast to stay marginally above trend in 2016-17 and 2017-18.

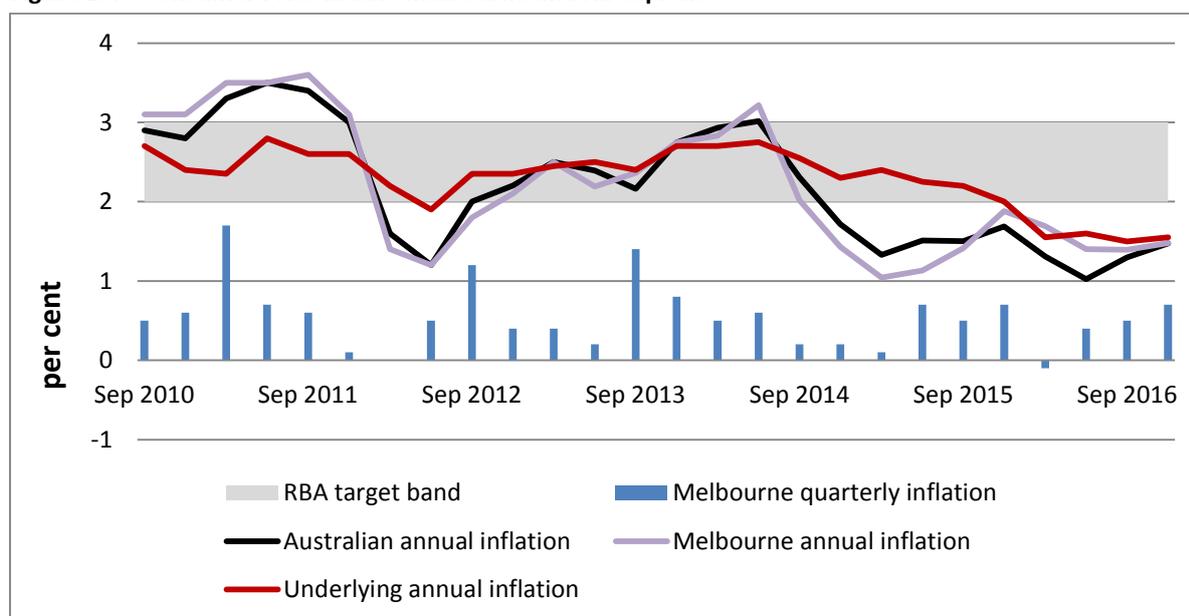
1.16. Activity in the Victorian property market remained strong in 2015-16, and dwelling investment increased by 11.1 per cent. Growth in dwelling investment is expected to moderate in 2016-17 as a large supply of high density apartments come on to the market.

1.17. Victoria's merchandise exports fell by 1.6 per cent in 2015-16. A fall in grain exports due to poor weather affecting crop production contributed to the drop in goods exports. The outlook for 2016-17 is tempered, with the lower exchange rate supporting the competitiveness of Victorian exports on the international markets.

<sup>29</sup> Reserve Bank of Australia: *Statement on Monetary Policy*, November 2016.

- 1.18. Following strong growth in 2014-15, Victoria's service exports moderated, to be 4.0 per cent in 2015-16. Export volumes reached a new record of \$16.5 billion, driven by international education and tourism. Growth is expected to gradually return to trend by 2017-18.
- 1.19. Annual population growth in Victoria to June 2016 reached 2.1 per cent. This was driven by increasing net overseas migration, which accounted for over 53 per cent of the increase. Net interstate migration reached a record high 16 700 people. Population growth is expected to remain at an elevated level in 2016-17.
- 1.20. Inflationary pressures in Melbourne were subdued in 2016, as consumer prices rose by 1.5 per cent over the year to December 2016, equal to the national average. (Figure 10). Despite annual underlying inflation sitting at 1.6 per cent, below the Reserve Bank's 2-3 per cent target band, the Bank has stated that it is willing to tolerate a period of below target inflation to avoid causing instability in the financial system, keeping the near term outlook for Melbourne inflation benign.

**Figure 10: Consumer Price Index –Melbourne and All Capitals**



Source: ABS, *Consumer Price Index, Australia*, Cat No. 6401, December 2016. \*RBA preferred measure for monetary policy purposes (average of the weighted median and trimmed mean measures of inflation).

### Labour market conditions and prospects

- 1.21. The national unemployment rate was 5.8 per cent in December 2016, up from 5.7 per cent a year earlier. In seasonally adjusted terms, total employment increased by 91 500 persons (0.8 per cent) in December 2016 compared with the previous year.
- 1.22. Employment growth has moderated from its strong pace last year and full-time employment has declined over the course of this year. The Commonwealth Government has downgraded its forecast for national employment growth to 1.25 per cent in 2016-17, and to 1.5 per cent in 2017-18. The unemployment rate is

forecast to decrease to 5.5 per cent in 2016-17 and 2017-18 before falling to 5.25 per cent in the out years<sup>30</sup>.

- 1.23. Labour market conditions in Victoria were generally stronger in 2015-16 than previously forecast, consistent with the strength in economic growth. Employment grew by 2.3 per cent, the best result since 2010-11, which contributed to a fall in the unemployment rate to 5.9 per cent in 2015-16 from 6.4 per cent in the previous year. This strength is repeated in the near-term outlook, with employment growth again expected to be above trend in 2016-17 and 2017-18.
- 1.24. Victoria's unemployment rate increased to 6.0 per cent in December 2016, slightly above the national rate and also its level a year earlier. The unemployment rate is projected to fall to 5.50 per cent in 2017-18, one year earlier than forecast at Budget. Victoria's participation rate is currently elevated, and this has prevented the unemployment rate from declining more significantly, given the employment growth underway.
- 1.25. The youth unemployment rate fell to 12.9 per cent in December 2016 (12 month average, original data), from 14.5 per cent a year ago. It is still slightly higher than the national average (12.7 per cent).
- 1.26. In seasonally adjusted terms, employment in Victoria increased by 118 500 persons (4.0 per cent) in December 2016 compared with the previous year, the strongest result of all states. However, the underemployment rate (a measure of people who have a job but would like to work additional hours) remains high. Therefore despite employment growth strengthening, spare capacity in the labour market remains elevated, with the Victorian labour force underutilisation rate (the sum of the unemployment and underemployment rates) at 16.0 per cent in December 2016 (original data).
- 1.27. Leading indicators of employment such as surveyed hiring intentions and measures of job advertisements continued to improve at a solid pace throughout 2016. In seasonally adjusted terms, the Victorian Internet Vacancy Index (**IVI**), produced by the Commonwealth Department of Employment, increased by 2.1 per cent in the year to December 2016.
- 1.28. The ANZ Job Advertisements series<sup>31</sup> identified that nationally, the number of newspaper and online job advertisements increased by 3.7 per cent in December 2016 compared with the previous year in seasonally adjusted terms.

### **Labour costs**

- 1.29. In the 12 months to the December quarter 2016, the private sector wage price (**WPI**) index increased by 1.8 per cent nationally – a decline from its previous record

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<sup>30</sup> Commonwealth *Mid-Year Economic and Fiscal Outlook, 2016-17*, December 2016

<sup>31</sup> ANZ *Job Advertisement Series*. Accessed from:

<http://www.media.anz.com/phoenix.zhtml?c=248677&p=irol-jobad&nyo=0>.

low *since the start of the WPI series*, which was reported in the last quarter.<sup>32</sup> The average annualised wage increase in all current private sector enterprise agreements in the September quarter 2016 was 3.2 per cent.<sup>33</sup>

- 1.30. According to the March 2016 ACCI Business Expectations Survey, indexes for both Wage Growth and Non-Wage Labour Costs decreased strongly in the March quarter of 2016.<sup>34</sup> Business expectations for wage growth are well below their long term average, consistent with other data on wages.
- 1.31. The persistence of elevated levels of spare capacity in the labour market implies a low probability of rapid improvement in private sector wages growth.

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<sup>32</sup> Australian Bureau of Statistics, *Wage Price Index Australia*, Dec 2016, Cat No: 6345.0

<sup>33</sup> Department of Employment, *Trends in Federal Enterprise Bargaining September Quarter 2016*, December 2016.

<sup>34</sup> Australian Chamber of Commerce and Industry (2016), *Business Expectations Survey*, March 2016.

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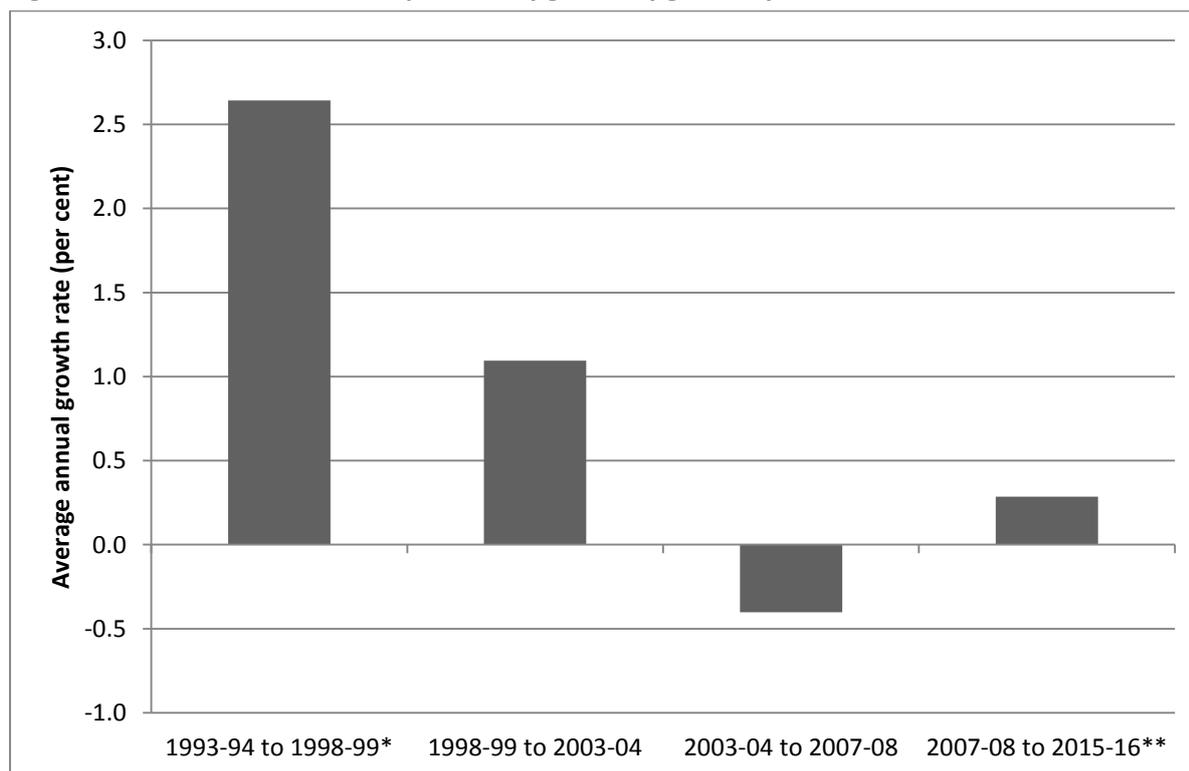
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## Attachment 2: Productivity growth

### Productivity performance

- 2.1. Australia's recent productivity performance has been poor, as measured by multifactor productivity (MFP). MFP is a comprehensive measure of productivity performance as it incorporates the impact of both capital and labour inputs.
- 2.2. The deterioration in Australian MFP growth is demonstrated in Figure 2, with average annual growth easing from 2.6 per cent a year in the cycle ending 1998-99 to -0.4 per cent a year in the cycle ending 2007-08. Preliminary data for the current (incomplete cycle) indicates that average annual MFP growth has improved compared to the previous cycle, particularly in the recent years. In 2015-16, market sector MFP grew by 0.9 per cent, close to its long term average of 1 per cent. This was the fifth consecutive year of uninterrupted growth in MFP. This demonstrates that growth in gross value added has outpaced growth in combined labour and capital inputs. However, on average annual MFP growth has been broadly flat at 0.3 per cent per year since 2007-08.

Figure 11: Australian multifactor productivity growth by growth cycles



Source: ABS, Estimates of Industry Multifactor Productivity, 2015-16, Cat No 5260.0.55.002. Table 1. \*Due to a gap in market sector industry data, selected industry data used. \*\*Incomplete productivity cycle.

- 2.3. Australia's average annual labour productivity declined from 1.8 per cent between 1998-99 to 2003-04 to 0.9 per cent between 2003-04 to 2007-08. Since 2007-08, average annual labour productivity growth has improved to 1.5 per cent.

2.4. In the most recent (incomplete) productivity cycle, retail trade has been the only award reliant industry to record significant improvement in average annual MFP growth (**Table 3**).

2.5. Average annual labour productivity growth has also been flat across most of the award reliant industries, with the exception of retail trade and manufacturing (**Table 4**).

**Table 8: Australian average annual multifactor productivity growth for selected industries (per cent)**

Cycle	Accom. and food	Retail	Arts and rec.	Manuf.	Transp. and postal	All
1993-94 to 1998-99	1.8	2.3	-1.7	0.9	2.3	2.6
1998-99 to 2003-04	0.8	1.8	0.8	1.4	1.8	1.1
2003-04 to 2007-08	0.6	0.0	-2.1	-0.7	1.1	-0.4
2007-08 to 2015-16**	-0.1	1.2	-0.3	-0.1	-0.8	0.3

Source: ABS, Cat. No. 5260.0.55.002 Estimates of Industry Multifactor Productivity 2015-16, Table 1.

Note: MFP data is only available for the market sector of the economy. As such, MFP data is not available for the health care and social assistance industry.

\*Due to a gap in market sector industry data, selected industry data used.

\*\*Incomplete productivity cycle.

**Table 9: Australian average annual labour productivity growth for selected industries (per cent)**

Cycle	Accom. and food	Retail	Health and social	Arts and rec.	Manuf.	Transp. and postal	All
1998-99 to 2003-04	1.4	2.9	2.2	2.1	2.5	2.6	1.8
2003-04 to 2007-08	1.6	1.4	0.8	-1.7	1.0	1.9	0.9
2007-08 to 2015-16**	-0.1	2.3	0.2	0.3	0.9	0.3	1.5

Source: ABS Cat. No. 5204.0, *Australian System of National Accounts, 2015-16*, Table 15, GVA per hour worked.

\*\*Incomplete productivity cycle.

## Attachment 3: Data tables

**Table 10: Instrument providing rate of pay for non-managerial employees (2006-2014)**

Instrument providing rate of pay	All non-managerial employees				
	2006 (%)	2008 (%)	2010 (%)	2012 (%)	2014 (%)
Award	21.0	18.1	16.4	17.8	20.4
Collective agreement (federally registered)	28.5	29.0	33.1	34.3	34.5
Collective agreement (state registered)	12.8	13.2	12.4	10.4	9.0
Collective agreement (unregistered)	3.2	0.7	0.0	0.2	0.1
Individual agreement (registered and unregistered)	34.5	39.1	38.0	37.3	36.1

Source: Department of Employment (2015)<sup>35</sup>

**Table 11: National minimum wage and poverty lines (2000 to 2016)**

Year	National minimum wage (NMW) rate	Poverty line – Single person working	Ratio NMW/ single)	Poverty line – Couple, one working, two dependants	Ratio (NMW/ couple)
Jun-00	400	269.23	0.67	505.7	1.26
Jun-01	413.4	299.15	0.72	561.88	1.36
Jun-02	431.4	293.5	0.68	551.27	1.28
Jun-03	448.4	296.6	0.66	557.1	1.24
Jun-04	467.4	313.04	0.67	587.98	1.26
Jun-05	484.4	322.58	0.67	605.89	1.25
Jun-06	511.76	333.45	0.65	626.32	1.22
Jun-07	522.12	357.81	0.69	672.06	1.29
Jun-08	543.78	380.28	0.7	714.27	1.31
Jun-09	543.78	405.52	0.75	761.69	1.4
Jun-10	569.9	402.52	0.71	756.05	1.33
Jun-11	589.3	446.47	0.76	838.59	1.42
Jun-12	606.4	474.2	0.78	890.69	1.47
Jun-13	622.2	490.37	0.79	921.06	1.48
Jun-14	640.9	509.53	0.8	957.05	1.49
Jun-15	656.9	517.55	0.79	972.11	1.48
Jun-16	672.7	526.77	0.78	989.43	1.47

Source: Melbourne Institute of Applied Economic and Social Research (2017)<sup>36</sup> and Fair Work Commission.

Note: All data reported in the submission is at the end of January 2017.

<sup>35</sup> Department of Employment (8 December 2015) *Trends In Federal Enterprise Bargaining: September Quarter 2015*. Accessed from: <https://docs.employment.gov.au/node/35521>

<sup>36</sup> Melbourne Institute of Applied Economic and Social Research (2017) *Poverty Lines: Australia*. Accessed from: <https://melbourneinstitute.com/miaesr/publications/indicators/poverty-lines-australia.html#y2016>