



GOVERNMENT OF
WESTERN AUSTRALIA

Fair Work Commission

2016-17 Annual Wage Review

**Submission of the Government of
Western Australia**

DATE: 1 May 2017

Western Australian Government

Submission to Fair Work Commission Annual Wage Review 2016-17

Introduction

1. The Western Australian Government welcomes the opportunity to make this submission to the Expert Panel of the Fair Work Commission (**the Panel**) for the 2016-17 Annual Wage Review (**AWR**).
2. This submission includes information pertaining to Western Australia's economy and labour market to assist the Panel in its deliberations.

Overview

3. The Western Australian Government supports a fair and economically sustainable wage increase being granted by the Panel for the National Minimum Wage (**NMW**) and modern award wages.
4. In carrying out its functions, the Panel is required to 'establish and maintain a safety net of fair minimum wages' taking into account a range of statutory criteria (the 'minimum wages objective') set out in Section 284 of the *Fair Work Act 2009* (**the Act**). This includes:
 - (a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and
 - (b) promoting social inclusion through increased workforce participation; and
 - (c) relative living standards and the needs of the low paid; and
 - (d) the principle of equal remuneration for work of equal or comparable value; and
 - (e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.
5. In adjusting rates of pay in awards, the Panel must have regard to the 'modern awards objective', which requires that it ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions, taking into account a range of factors outlined in Section 134 of the Act.
6. In addition to the minimum wages objective and the modern awards objective, the objects of the Act itself are also relevant to the Panel's deliberations. Section 3 of the Act provides that the object of the Act is "to provide a balanced framework for cooperative and productive workplace relations that promotes national economic prosperity and social inclusion for all Australians".
7. In meeting the objectives of the Act the Western Australian Government contends that economic and social factors should both be given due consideration, so that a robust and principled workplace relations framework is maintained.

8. The need to foster increased workforce participation, enhanced productivity and economic growth on the one hand should be balanced against the requirements to protect the relative living standards of the low paid, which will ensure that fair minimum standards of work are maintained for vulnerable employee groups.
9. The Western Australian Government notes that award reliance has risen in recent years. Many award-reliant employees are solely dependent on increases determined in the AWR to meet changes in their everyday living costs, and it is appropriate that fair and meaningful adjustments to pay rates are provided on an annual basis to ensure the needs of the low paid are adequately safeguarded.
10. The Western Australian Government concurs with the observations of the Panel in last year's AWR decision that the legislative framework does not support a mechanistic or formulaic approach being adopted for wage determinations, as it is impractical to quantify the importance given to each criterion that must be considered as part of this process.¹
11. Wage determinations necessarily involve an analysis of various different factors, and it is appropriate that all relevant criteria be given due consideration.
12. While the Act requires that the Panel consider the state of the national economy in its AWR deliberations each year, the national economy itself is comprised of many geographic regions and associated labour markets, and it is therefore appropriate consideration be given to prevailing conditions in particular States and Territories.

Western Australian economy and labour market

13. The Western Australian Department of Treasury (**Treasury**) has provided an overview of the State's economy, which is included at **Attachment A**. The overview provides detailed information on the current health of the Western Australian economy and commentary on labour market trends.
14. As noted in the Treasury overview, Western Australia is currently experiencing challenging economic conditions, which have moderated further over the past financial year.
15. While Gross State Product continues to grow, supported by a lift in export volumes, domestic economic activity (as measured by State Final Demand) contracted in 2015-16 for the third year in a row, declining by 3.9 per cent.²
16. Conditions are expected to remain subdued in the short term, although most indicators are forecast to improve over the forward estimates. The weaker economic conditions currently being experienced have flowed through to a softening in the labour market and an increased unemployment rate, as the State undergoes a transition from the construction to production phase in the resources sector.³

¹ Fair Work Commission (2016), *Annual Wage Review 2015-16*, at [32].

² Department of Treasury (2017), *2016-17 Pre-Election Financial Projections Statement*, p.28.

³ Ibid.

17. Wages growth in Western Australia has slowed in recent years, in line with a softening of wages growth throughout Australia. The State's Wage Price Index (**WPI**) increased by just 1.4 per cent in the year to December 2016 - a new low. Growth in the WPI at the national level is also at historically low levels, increasing by 2.0 per cent in the year to December 2016.⁴
18. Treasury anticipates that wages growth in Western Australia will remain subdued in the near term, with annual average growth in WPI forecast to be 1.5 per cent in 2016-17, increasingly marginally to 1.75 per cent in 2017-18.⁵
19. As illustrated in Table 1 below, State level data for WPI confirms that wages growth has moderated over the last year in the majority of industries for which data is available.

Table 1: Wage Price Index, annual average increase by industry, December quarters 2015 and 2016, WA ⁶

Industry	WPI Annual change to Dec Q 2015	WPI Annual change to Dec Q 2016
Professional, scientific and technical services	1.4%	0.4%
Administrative and support services	0.3%	0.5%
Construction	0.9%	1.2%
Mining	2.2%	1.3%
Manufacturing	2.8%	1.9%
Accommodation and food services	1.9%	2.1%
Retail trade	2.7%	2.4%
Health care and social assistance	3.0%	2.4%
Public administration and safety	3.3%	2.6%
Education and training	2.8%	2.8%
All industries	2.0%	1.7%

20. Consumer spending has also slowed in Western Australia, with household consumption growing by just 1.5 per cent in annual average terms in 2015-16.⁷
21. Subdued household spending has in turn contributed to low inflation, with the Perth Consumer Price Index (**CPI**) increasing by just 0.6 per cent in annual average terms in the year to March 2017.⁸

⁴ Australian Bureau of Statistics (ABS) (2017), *Wage Price Index, Australia, December 2016*, Cat. No. 6345.0, Table 2 (original data). In annual average terms the Western Australian WPI increased by 1.7 per cent in the year to December 2016. Most Treasury projections are expressed in annual average terms.

⁵ Department of Treasury (2017), *2016-17 Pre-Election Financial Projections Statement*, p.28.

⁶ ABS (2017), *Wage Price Index, Australia, December 2016*, Cat. No. 6345.0, unpublished data available on request. Data for some industries was not available for publication. These industries have been excluded from the table, but relevant data is included in the total where applicable.

⁷ Department of Treasury (2017), *2016-17 Pre-Election Financial Projections Statement*, p.28.

⁸ ABS (2017), *Consumer Price Index, March 2017*, Cat. No. 6401.0.

Minimum and award wage earners in Western Australia

22. Western Australian Department of Commerce analysis indicates that a majority of the State's employees are covered by the national industrial relations system. Using data from 2010, it has previously been estimated that between 64 and 78 per cent of State's workforce is subject to the national jurisdiction.⁹ However, it is difficult to determine an exact figure, as comprehensive data is not available and certain types of business (such as those owned by trusts) can fall within either the State or national jurisdiction depending on the legal structure of the entity.
23. While award reliance in Western Australia is lower than the national average, it has increased in recent years, in line with growing award reliance throughout the country. In Western Australia, award reliance increased from 14.6 per cent of all non-managerial employees in 2014, to 16.4 per cent in 2016. Nationally, award reliance rose from 20.4 per cent in 2014, to 24.5 per cent in 2016.¹⁰
24. As can be seen from the Table 2, in May 2016 Western Australia had an estimated 1,050,300 non-managerial employees, of which, 172,500 (or 16.4 per cent) were paid entirely in accordance with an award. Australia-wide, there were an estimated 9,290,100 non-managerial employees in May 2016, of which 2,276,100 (or 24.5 per cent) were award reliant.^{11,12}

Table 2: Method of setting pay (non-managerial employees) - by State/Territory - May 2016

	No. of Employees (000s)				Percentage of total employees		
	Award only	Collective agreement	Individual arrangement	All methods of setting pay	Award only % of total	Collective agreement % of total	Individual arrangement % of total
NSW	937.5	785.4	1,185.4	2,908.3	32.2%	27.0%	40.8%
VIC	447.8	1,046.4	887.5	2,381.6	18.8%	43.9%	37.3%
QLD	479.7	795.1	597.5	1,872.4	25.6%	42.5%	31.9%
SA	137.9	261.9	193.2	593.0	23.3%	44.2%	32.6%
WA	172.5	469.1	408.7	1,050.3	16.4%	44.7%	38.9%
TAS	60.9	75.3	41.0	177.2	34.4%	42.5%	23.1%
NT	18.7	54.5	35.7	108.8	17.2%	50.1%	32.8%
ACT	21.1	128.0	49.4	198.5	10.6%	64.5%	24.9%
Australia	2,276.1	3,615.5	3,398.5	9,290.1	24.5%	38.9%	36.6%

⁹ ABS (2011), *Employee Earnings and Hours, Australia, May 2010*, Cat. No. 6306.0, unpublished data available upon request.

¹⁰ ABS (2015), *Employee Earnings and Hours, Australia, May 2014*, Cat. No. 6306.0, Datacube 5, Table 5; and ABS (2017), *Employee Earnings and Hours, Australia, May 2016*, Cat. No. 6306.0, Datacube 5, Table 5.

¹¹ ABS (2017), *Employee Earnings and Hours, Australia, May 2016*, Cat. No. 6306.0, Datacube 5, Table 5. Figures include employees paid under awards and collective agreements in the State and national industrial relations jurisdiction. It is not possible to disaggregate these figures further by jurisdiction.

¹² Estimates for the number of non-managerial employees exclude owner managers of incorporated enterprises. Care should be taken when comparing total employee numbers in *Employee Earnings and Hours* (Cat. No. 6306.0) with *Labour Force, Australia* (Cat. No. 6202.0), as there are a number of differences between the two collections. The Survey of Employee Earnings and Hours is a business survey that collects information from a sample of employers about their employees, whereas the Labour Force Survey is a household survey that collects information from the occupants of selected dwellings. The two collections use different sample design and survey methodologies and there are differences in scope and coverage.

25. Employees in industries known to be award-reliant constitute a significant proportion of Western Australia's workforce, as shown in Table 3 below.

Table 3: Employment and award reliance by industry - WA and Australia, February Quarter 2017

Industry	WA: Proportion of Workforce ¹³	Australia: Proportion of Workforce ¹³	Australia: Proportion of employees paid by award ¹⁴
Accommodation and Food Services	7.0%	7.1%	42.7%
Administrative and Support Services	3.9%	3.7%	42.1%
Retail Trade	10.1%	10.2%	34.5%
Other Services	4.3%	4.1%	34.3%
Health Care and Social Assistance	11.2%	12.7%	28.8%
Rental, Hiring and Real Estate Services	1.8%	1.7%	27.2%
Arts and Recreation Services	1.9%	1.8%	26.2%
Education and Training	7.7%	7.8%	26.0%
Construction	10.0%	9.2%	19.7%
Public Administration and Safety	6.5%	6.8%	18.1%
Manufacturing	5.8%	7.5%	17.7%
Wholesale Trade	2.9%	3.1%	16.8%
Transport, Postal and Warehousing	5.1%	5.0%	13.4%
Professional, Scientific and Technical Services	6.4%	8.3%	9.3%
Electricity, Gas, Water and Waste Services	1.4%	1.2%	6.5%
Information, Media and Telecommunications	1.0%	1.7%	5.5%
Financial and Insurance Services	2.8%	3.7%	N/A*
Mining	7.6%	2.0%	N/A*
Agriculture, Forestry and Fishing	2.6%	2.6%	N/A [†]
All industries	100.0%	100.0%	24.5%

[†] N/A: Enterprises primarily engaged in agriculture, forestry and fishing are outside the scope of the ABS *Employee, Earnings and Hours* survey from which this data is drawn.

* Not available for publication, but included in totals where applicable, unless otherwise indicated.

26. While overall, Western Australian employees continue to have higher hourly earnings than employees in other States, recent data indicates that award-reliant employees in Western Australia have the third lowest hourly earnings in the country - well below the national average. This is shown in Table 4 below.

¹³ ABS (2017), *Labour Force, Australia, Detailed Quarterly, February 2017*, Cat. No. 6291.0.55.003, Time Series, Table 5 (original data);

¹⁴ ABS (2017), *Employee Earnings and Hours, Australia, May 2016*, Cat. No. 6306.0, Datacube 5, Table 4.

Table 4: Average hourly cash earnings – by method of pay setting¹⁵

	Average Hourly Total Cash Earnings (\$)			
	Award only	Collective agreement	Individual arrangement	All methods of setting pay
NSW	\$34.10	\$39.50	\$38.40	\$37.40
VIC	\$24.70	\$38.70	\$38.70	\$36.40
QLD	\$27.70	\$37.00	\$37.80	\$35.20
SA	\$25.60	\$37.90	\$34.80	\$34.40
WA	\$25.30	\$45.40	\$41.30	\$41.10
TAS	\$32.40	\$35.40	\$33.00	\$33.80
NT	\$26.50	\$43.90	\$37.60	\$39.50
ACT	\$23.50	\$44.80	\$44.20	\$43.10
Australia	\$29.60	\$39.60	\$38.50	\$37.00

27. The AWR therefore plays a vital role in maintaining a fair and relevant safety net for many low paid employees in Western Australia, and by granting equitable wage increases the Panel can directly assist many award-reliant workers in the State.

Further considerations

Collective bargaining

28. The Panel is required by the objectives set out in the Act to ensure that it has regard for the need to encourage collective bargaining when adjusting rates of pay.
29. Between 2014 and 2016 the proportion of non-managerial employees whose pay is determined by a collective agreement in Western Australia increased from 40.8 per cent to 44.7 per cent.¹⁶
30. The Panel stated in last year’s AWR decision that:
- “on the available evidence and the experience to date it is likely that the increase we have determined in this Review will impact upon the incentive to bargain in various sectors in different ways, but will not in aggregate, discourage collective bargaining.”¹⁷
31. The Western Australian Government agrees with the Panel that fair and economically sustainable increases in minimum and award wages are unlikely to act as a disincentive to engage in collective bargaining.

¹⁵ ABS (2017), *Employee Earnings and Hours, Australia, May 2016*, Cat. No. 6306.0, Datacube 5, Table 5.

¹⁶ ABS (2015), *Employee Earnings and Hours, Australia, May 2014*, Cat. No. 6306.0, Datacube 5, Table 5; and ABS (2017), *Employee Earnings and Hours, Australia, May 2016*, Cat. No. 6306.0, Datacube 5, Table 5. This includes collective agreements registered in both the State and national industrial relations jurisdictions. It is not possible to disaggregate these figures further by jurisdiction.

¹⁷ Fair Work Commission (2016), *Annual Wage Review 2015-16*, at [540].

Equal remuneration for work of equal or comparable value

32. Another key consideration in minimum and award wage determinations is the principle of equal remuneration for work of equal or comparable value.
33. As can be seen from the table below, Western Australia continues to have the largest gender pay gap in Australia, as measured by Average Weekly Ordinary Time Earnings (**AWOTE**). The State's gender pay gap was 23.9 per cent in November 2016, compared with 16.1 per cent nationally.¹⁸

Table 5: Gender Pay Gap – by State / Territory – November Quarter 2016

State / Territory	Male AWOTE	Female AWOTE	Gender Pay Gap
NSW	\$1,634.00	\$1,380.80	15.5%
VIC	\$1,573.70	\$1,359.90	13.6%
QLD	\$1,579.30	\$1,316.20	16.7%
SA	\$1,504.00	\$1,336.60	11.1%
WA	\$1,855.40	\$1,411.70	23.9%
TAS	\$1,398.90	\$1,236.80	11.6%
NT	\$1,806.80	\$1,397.30	22.7%
ACT	\$1,834.00	\$1,620.30	11.7%
AUS	\$1,631.90	\$1,368.60	16.1%

34. Women are traditionally more reliant on award rates of pay than men, and a higher proportion of female employees are currently paid in accordance with an award. In May 2016, 28.9 per cent of female non-managerial employees in Australia were paid exactly in accordance with an award, compared to 19.6 per cent of male non-managerial employees.¹⁹
35. While the causes of the gender pay gap are complex and varied, regular increases in minimum and award wages can nonetheless play an important role in helping to reduce gender pay inequality, particularly as the AWR directly affects a larger proportion of female employees.

¹⁸ ABS (2017), *Average Weekly Earnings, Australia, November 2016*, Cat. No. 6302.0, Time Series Spreadsheets 12A – 12H. Data is expressed as full time average weekly ordinary time earnings (seasonally adjusted).

¹⁹ ABS (2017), *Employee Earnings and Hours, Australia, May 2016*, Cat. No. 6306.0, Datacube 5, Table 2.

Conclusion

36. Western Australia is currently experiencing subdued conditions in its domestic economy, which have flowed through to a softening in the labour market and an increased rate of unemployment. Notwithstanding, many award-reliant employees in the State are low paid, and are solely dependent on increases determined in the AWR to meet changes in their everyday living costs.
37. The Western Australian Government recognises the important role that minimum and award wages play in modern Australian workplaces, particularly in providing a robust safety net for vulnerable employee groups.
38. The Western Australian Government encourages the Panel to award a fair and economically sustainable wage increase that will help to protect the living standards of the low paid and encourage their participation in the workforce. Any increase should balance economic and social objectives in accordance with the objects of the Act.

ATTACHMENT A

State Economic Conditions Input for the 2017 National Wage Case Submission

SUMMARY

Annual average growth in the Western Australian economy, as measured by Gross State Product (GSP), slowed to 1.9% in 2015-16, down from 3.6% in 2014-15 and below the 20-year average of 4.6% per annum. While growth was buoyed by a strong rise in exports, this was partially offset by a large contraction in business investment as construction on the State's large resource projects continued to wane.

Economic growth is expected to fall to 0.5% in 2016-17, as business and dwelling investment declines and weak labour market conditions contain consumer spending. These trends are expected to continue into 2017-18, resulting in a prolonged period of subdued activity in the State's domestic economy.

As a result, growth in GSP is expected to remain below trend over the next few years, notwithstanding a strengthening to 3.25% by 2018-19. Growth over this period is expected to be supported by a continual lift in exports (especially in the liquefied natural gas (LNG) sector), as large resource projects ramp-up production.

Weakness in the domestic economy has flowed through to the State's labour market, where the annual unemployment rate has risen to a 14-year high, full-time employment has fallen and wages are growing at their lowest rate on record. Subdued labour market conditions are expected to persist over the forecast period, in line with historically weak rates of economic growth.

Notwithstanding the above, there are a number of potential risks that may impact the State's economic outlook over the next few years. The magnitude of these risks is largely weighed on the downside.

Global risks relevant to Western Australia mainly relate to conditions in China, which is by far the State's most important trading partner and an increasingly important source of foreign investment. These risks include:

- uncertainty regarding China's economic transition from the resource-intensive construction and manufacturing sectors, towards the less resource-intensive household consumption and services sectors;
- the potential for China's access to US markets being limited as a result of changes to US trade policy; and
- the nation's rapid accumulation of debt, which has been used to finance the construction of fixed assets (such as dwellings, factories and offices).

Another key global risk is a 'normalisation' of monetary policy in the United States. Expectations of increasing US interest rates have had a negative impact on emerging market economies (such as China) by increasing capital outflows and exchange rate volatility. In addition, an appreciation of the US dollar has increased the cost of servicing US dollar debt in many countries.

The timing and magnitude of the tapering in capital expenditure on Western Australia's large LNG projects remains the key risk to the domestic economic outlook. In particular, a sharper than expected fall in business investment could translate into weaker than anticipated economic growth.

Substantial spare capacity has also built up in the State's housing market, creating the risk that house prices could fall by more than anticipated, particularly if demand is hampered by factors such as weaker than expected population growth or higher interest rates.

While there has been a lift in employment in recent months, the completion of a number of large resource projects and ongoing cost-cutting, albeit at a slightly slower pace, means that there is a risk of a further easing in labour market conditions.

Price pressures have been very subdued in recent quarters, highlighting a risk that declining domestic economic activity could result in lower than expected growth in Perth's Consumer Price Index (CPI) in the near term.

Further details on key parts of the State's economy follow.

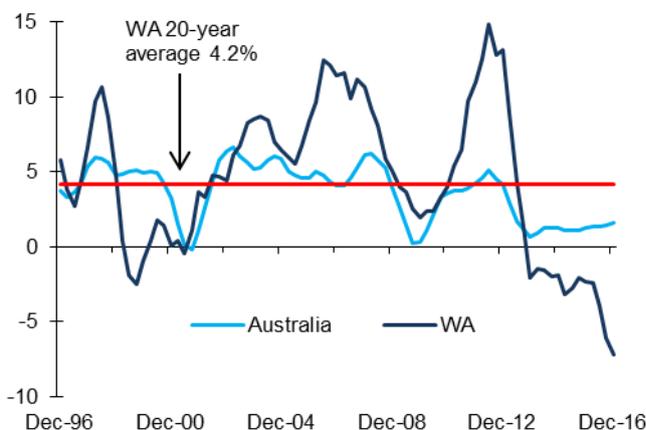
NATIONAL ACCOUNTS DATA¹

The latest estimate of GSP (released by the Australian Bureau of Statistics (ABS) in November 2016) shows that Western Australia's economy grew by 1.9% in 2015-16, moderating from average growth of 5% per annum over the previous three years. National Gross Domestic Product growth in 2015-16 (2.7%) exceeded Western Australia's GSP growth for the first time since 2000-01.

For the third consecutive year, growth was underpinned by merchandise exports while business investment detracted from growth. This composition of growth illustrates the economy's transition from investment-led to export-driven growth, which is expected to continue as construction on the State's large resource projects reach completion and progressively enter production.

Detracting from international trade, domestic economic activity moderated sharply in 2016, with State Final Demand (SFD) falling by 7.2%, the largest annual fall on record and the largest decline of all jurisdictions. The contraction in domestic activity was primarily due to a 27.3% fall in business investment in 2016, which detracted 7.4 percentage points from annual SFD growth.

CHART 1: STATE FINAL DEMAND, SEASONALLY ADJUSTED
Annual Average Growth %



¹ Figures for 2014-15 quoted in this section may differ from those in Table 1 of this Attachment. This is because Table 1 is consistent with the forecast table provided in the 2016-17 Pre-election Financial Projections Statement, released in February 2017. However since then, the ABS has released revised estimates of SFD and its components, which are reported in this section. Figures are expressed in annual average terms.

Notwithstanding this, trends in domestic demand tend to have a strong influence on labour market conditions, particularly as the investment phase of activity tends to be more labour intensive than the production phase.

TABLE 1: EXPENDITURE COMPONENTS OF DOMESTIC DEMAND
December 2016

	<u>Western Australia (%)</u>				<u>Australia (%)</u>			
	<u>Seasonally Adjusted</u>		<u>Trend</u>		<u>Seasonally Adjusted</u>		<u>Trend</u>	
	<u>Quarter</u>	<u>Year</u>	<u>Quarter</u>	<u>Year</u>	<u>Quarter</u>	<u>Year</u>	<u>Quarter</u>	<u>Year</u>
Private Consumption	-0.1	1.6	0.3	1.5	0.9	2.7	0.6	2.7
Business Investment	2.4	-27.3	-8.8	-27.6	1.6	-9.8	-1.0	-9.3
Dwelling Investment	-3.5	-13.5	-6.7	-13.1	1.2	7.9	0.1	7.7
Government Consumption	-0.5	3.3	0.3	3.2	0.0	3.9	0.4	3.9
Government Investment	6.9	1.2	-0.4	-1.0	7.7	8.7	1.4	7.2
Final Demand	0.4	-7.2	-2.1	-7.4	1.2	1.6	0.4	1.6
Exports	3.7	7.4	3.7	7.1	2.2	7.6	1.3	7.4
Imports	n.a.	n.a.	n.a.	n.a.	1.4	0.4	1.7	1.0
Gross Domestic Product	n.a	n.a	n.a	n.a	1.1	2.5	0.3	2.4

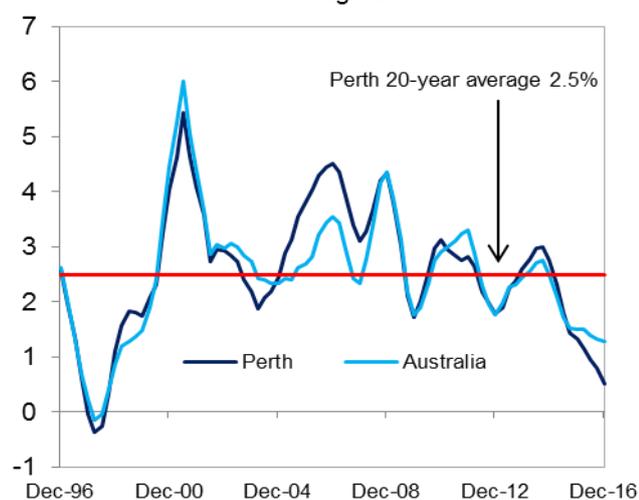
CONSUMER PRICE INDEX

Current Inflation Trends

Perth's CPI grew by 0.4% in the December quarter 2016, as increases in prices for alcohol and tobacco, transport and food were partially offset by declines in housing and health prices.

Perth's annual inflation rate slowed sharply over 2016, as higher prices for alcohol and tobacco, healthcare, and insurance and financial services were partially offset by falls in housing, communication and transport costs. Perth's CPI increased by just 0.5% in annual average terms in 2016, compared to 1.3% growth in 2015. This is the lowest annual growth rate in 19 years and below the 20-year average growth rate of 2.5% per annum (Chart 2).

CHART 2: CONSUMER PRICE INDEX
Annual Average Growth %



Inflation in Perth remains below the national rate of 1.3%, reflecting weaker domestic economic conditions in Western Australia. The drivers of recent price movements have been broadly similar at the State and national level and across all capital cities, with the exception that housing (e.g. rent) costs have fallen substantially in Perth relative to other capitals.

Inflation Outlook

A number of downward price pressures are likely to contain overall price growth in the short-term.

The 2016-17 Pre-election Financial Projections Statement forecasts Perth's inflation to remain subdued at 1% in 2016-17, primarily reflecting weak household spending (which is limiting retailers' capacity to raise prices), modest wage growth and falling rent. This is expected to partially offset upward price pressure associated with the depreciation of the Australian dollar and temporary impacts such as a further increase in the Commonwealth's tobacco excise.

Inflation is expected to lift to 1.75% in 2017-18, boosted by a further rise in the tobacco excise in September 2017, lagged effects of the lower exchange rate and higher automotive fuel prices (reflecting the assumed increase in oil prices). Perth's CPI is subsequently expected to return to the lower end of the RBA's target band of 2% to 3% per annum to 2018-19.

The Reserve Bank of Australia expects national inflation to lift to around 2% over 2017 and 2018 before picking up to around 2.5% by the end of the forecast period.

LABOUR MARKET

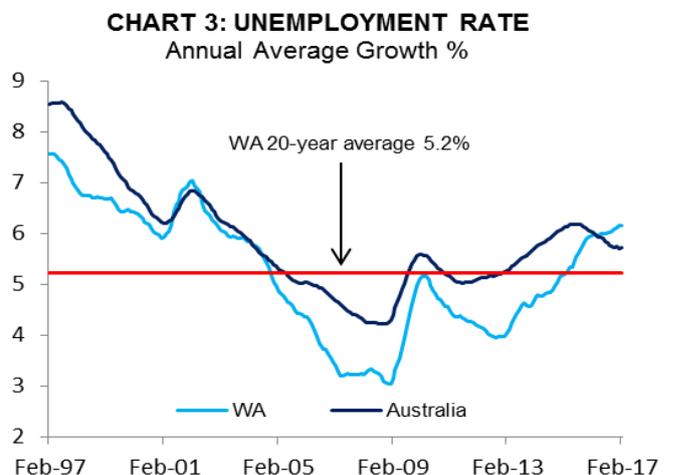
Softer conditions in the domestic economy have flowed through to the State's labour market, reflected by a decline in full-time employment and increasing spare capacity in the workforce.

Employment fell by 0.6% in annual average terms in the year to February 2017, compared to 0.2% growth in 2015-16. Strong growth in part-time employment (6.7% or over 27,000 persons in the year to February 2017) was unable to fully offset the decline in full-time employment, which fell by 3.8% (or almost 36,000 persons) over the same period. Movements in the composition of the labour force towards more part-time employment tend to reflect weaker domestic economic activity.

In line with the fall in employment, the State's annual average unemployment rate rose from 6% in 2015-16, to 6.2% in the year to February 2017. This is the equal-highest annual rate in more than 14 years.

Western Australia's annual unemployment rate remains above the national equivalent (5.7% in February), as it has done since April 2016, which was the first time in over 15 years that Western Australia's rate exceeded the national average (Chart 3).

Despite this, there are a number of indicators that suggest the degree of spare capacity in the labour market may be higher than the unemployment rate indicates. This includes the underemployment rate, which surged to a record high 10.4% in February 2017. This is much higher than its recent low of 5.5% in August 2012, and implies there is a large portion of employed persons who would like to work more hours. When combined with the unemployment rate, the rate of underutilisation in the State rose to 16.2% in February 2017, the highest rate in over 23 years.



In addition, there are a record number of persons in Western Australia looking for work who were not officially classed as 'unemployed' by the ABS as they did not meet the official criteria (i.e. they were either passively looking for work or not immediately available to start).

Consistent with weaker job prospects, the State's participation rate fell to 67.5% in the year to February 2017, which is its lowest rate in over 11 years. Notwithstanding this, it remains the highest of all States and well above the national rate (64.7%).

Labour force outlook

General weakness in lead indicators of labour demand (such as internet job vacancies) suggests that hiring will remain subdued in the near-term, while the upcoming completion of a number of large resource projects is expected to weigh on employment growth.

In line with the outlook for the domestic economy, employment is forecast to decline by an annual average rate of 1.5% in 2016-17, before gradually recovering to 2.25% growth in 2019-20. The annual unemployment rate is forecast to rise to 6.5% in 2016-17 and remain steady at this rate in 2017-18, before gradually improving to 6% in 2019-20 as labour demand moderately improves.

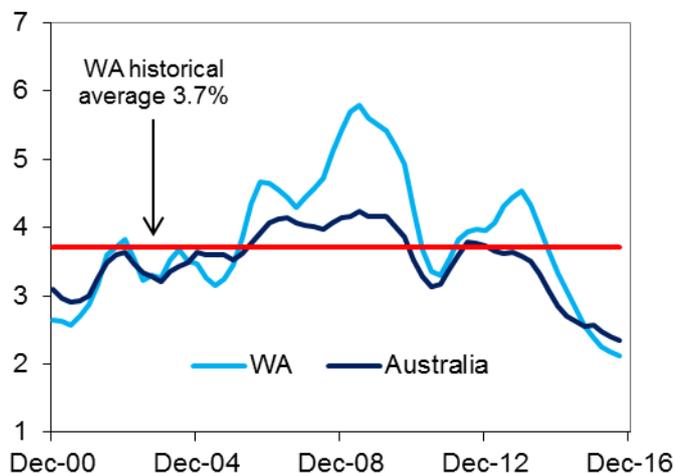
WAGES

Wage growth in Western Australia has slowed to record lows as spare capacity in the labour market builds and businesses continue to cut costs.

The State's Wage Price Index (WPI) increased by just 0.2% in the December quarter 2016, the lowest rate since the series began in 1998-1999 and well below the decade average of 0.9%.

After growing by 1.9% in 2015-16, annual average wage growth eased to 1.7% in 2016, the lowest annual growth rate on record and the lowest result of all jurisdictions.

CHART 4: WAGE PRICE INDEX
Annual Average Growth %



While national wages growth has also slowed (easing to 2% in 2016), it remains above growth in Western Australia (Chart 4).

Despite the declines to nominal wage growth, real wages growth lifted to 1.2% in 2016, after growth of 0.7% in 2015. This reflects a substantial easing in inflationary pressures over this period (as outlined in the CPI section above).

The slowing of nominal wage growth in Western Australia continues to be led by the private sector, where annual average growth reached a record low of 1.4% in 2016. As has been the case for some time, public sector wage growth remained more robust by comparison (at 2.6%), as above-CPI increases from a number of existing public sector wage agreements continue to be implemented. While this annual average growth was above the national rate of 2.3%, year-ended public sector wages growth (which typically leads annual average growth) in Western Australia grew by 1.8%, suggesting the annual average rate will move towards, or below, the national rate over the next 12 months.

Earnings

Seasonally adjusted total average weekly earnings (AWE) in Western Australia increased by 0.6% in the six months to November 2016², to reach \$1,328. In dollar terms, AWE in Western Australia was the highest of all the States, behind only the NT (\$1,402) and the ACT (\$1359). However, annual average growth was the lowest of all jurisdictions, with AWE declining by 0.7% in the year to November 2016, compared to a recent peak of 2.9% growth in the year to May 2015.

Average weekly full-time earnings (AWOTE) increased by 0.3% in the six months to November 2016 to reach \$1,703 (behind only the ACT at \$1,744). This measure of average wages is not impacted by the compositional changes between full-time and part-time employment.

In a State like Western Australia, growth in the various average weekly earnings measures tends to be more volatile than growth in the WPI. The greater volatility in part reflects changes in the composition of the State's workforce³, which affects average earnings data, but not the WPI (as the latter only measures wage movements in a basket of jobs of a fixed quantity and quality).

Given the volatility and compositional issues associated with earnings measures, the WPI is a preferred measure of underlying wage growth.

Wages outlook

Wage growth is expected to remain subdued at 1.5% in 2016-17, as spare capacity in the labour market continues to build. The WPI is subsequently forecast to strengthen to 2.5% by 2018-19, coinciding with a modest improvement in economic conditions and a fall in the unemployment rate. Nevertheless, growth is expected to remain significantly lower than the 17-year historical average growth of 3.7% per annum.

² The frequency of the AWE series changed from quarterly to biannual in 2012, with the November 2012 issue the first produced on a biannual basis. AWE data will now be produced twice a year relating to the May and November reference periods.

³ For example, the mining industry has a large impact on the State's earnings measures (as earnings tend to be high in this sector). One reason that earnings for the mining industry are higher than the average for all industries is that workers in the mining industry tend to work longer hours and receive allowances for shift work and for often working in isolated locations.