Ai GROUP SUBMISSION

Fair Work Commission

Annual Wage Review 2017-2018

13 March 2018

Ai GROUP

About Australian Industry Group

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing, engineering, construction, automotive, food, transport, information technology, telecommunications, call centres, labour hire, printing, defence, mining equipment and supplies, airlines, health and other industries. The businesses which we represent employ more than one million people. Ai Group members operate small, medium and large businesses across a range of industries. Ai Group is closely affiliated with many other employer groups and directly manages a number of those organisations.

Australian Industry Group contact for this submission

Stephen Smith, Head of National Workplace Relations Policy
Telephone: 0418 461183 or 02 9466 5521
Email: Stephen.smith@aigroup.com.au

Contents

1. Introduction

The Australian Industry Group (Ai Group) submits that a modest wage increase is warranted in this year's Annual Wage Review.

The Expert Panel needs to take a cautious approach when determining the quantum of this year's minimum wage increase. An excessive increase would reduce the job security of low paid workers and would reduce employment opportunities for the unemployed and underemployed.

Despite some improvements in GDP and employment growth, national disposable income growth remains weak, and unemployment and underemployment rates continue to indicate considerable spare capacity.

Businesses are under pressure. Steep energy price rises are proving difficult to pass on to customers and are squeezing margins across a wide range of industries. Also, productivity growth has been exceedingly weak over the past decade and over the current productivity growth cycle.

Global competitiveness is a key risk for Australian businesses. Australia already has one of the highest national minimum wage rates in the world, and most Australian workers are entitled to minimum award wage rates that are higher than the National Minimum Wage.

Currently background inflation in Australia is weak and this means that a smaller minimum wage increase will generate real wage increases for workers, including those in low-wage jobs. Now is not the time to take risks with minimum wage setting.

The 3.3 per cent minimum wage increase awarded by the Panel last year was exceptionally high. It is essential that the increase awarded by the Panel this year is much more modest.

When all of the relevant factors are weighed up, a modest wage increase of **1.8 per cent** is warranted in this year's Annual Wage Review. This equates to an increase of about $12.50 per week in the National Minimum Wage and about $14.60 per week at the base trade level.

2. Australian growth, jobs and wages in 2017-2018

The Australian economy appeared to turn a corner during 2017, setting down a solid base for further improvement in 2018. By Q4 of 2017, real GDP growth picked up to a very modest 2.4% p.a., after tracking below 2.0% in Q1 and Q2. While GDP growth is looking better in 2017-18, it remains well below Australia's long-run average GDP growth rates or RBA estimates of current 'potential' growth of around 3%, and it is not yet generating stronger growth in aggregate national incomes.

Within this context, a range of factors continues to weigh on labour market outcomes, including on wages growth. These factors are examined in more detail below. They include:

1. Employment growth has improved and pockets of skill shortage are emerging in some sectors, but unemployment and underemployment rates continue to indicate spare capacity.

2. Despite improvements in GDP and output measures, real net national disposable income growth remains weak in aggregate (+1.5% p.a.) and per capita (+0.8% p.a.) terms. Compensation of employees recovered somewhat in 2017 (+4.7% p.a.) but this reflected growth in the labour force rather than a per capita increase. Profits also recovered a touch in 2017 (+4.1% p.a. for private sector non-financial corporations) but this included large and volatile profits in the mining sector. Some non-mining industries also recovered profitability but others sank further.

3. Background inflation remains modest. This reduces the ability of businesses to raise their own prices in order to fund wage rises. At the same time, steep energy price rises are proving difficult to pass on to customers and are squeezing margins across a wide range of industries. More positively, weak background inflation also means that smaller nominal wage rises will generate real wage increases for workers, including those in low-wage jobs.

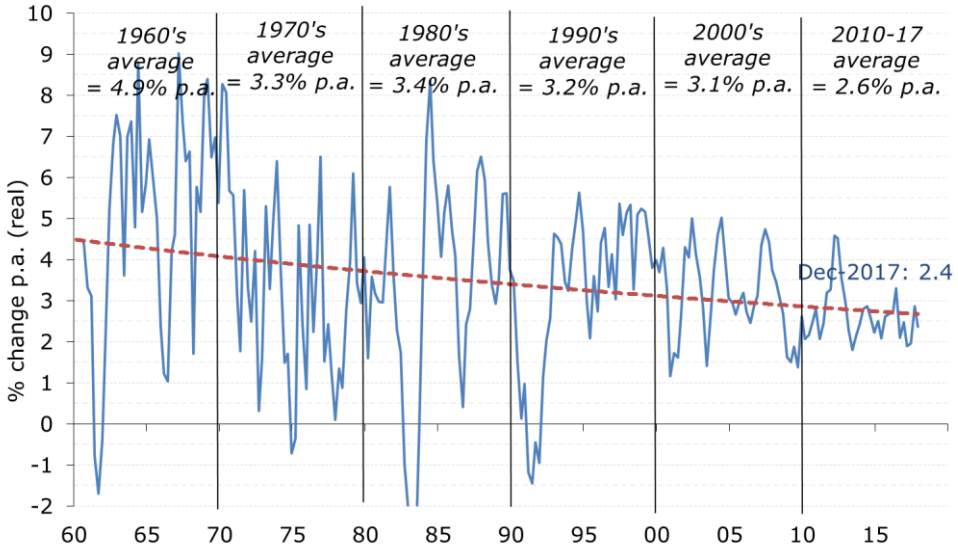
4. Productivity growth has been exceedingly weak over the past decade and over the current productivity growth cycle. The ABS estimates that multifactor productivity for all market sector industries improved by just 0.3% in 2016-17. This ongoing problem of slow productivity growth dampens the prospect of stronger rises in real incomes, be it in the form of profits or wages.

5. Global competitiveness is a key risk for Australian businesses, an increasing proportion of whom are becoming trade-exposed (through exports, imported inputs or competition against imports). The lower dollar in recent years has helped for some but not all businesses, but as for productivity, this lack of improvement makes it more difficult to fund real income rises for anyone, be it in the form of profits or wages.

2.1 Outlook

By Q4 of 2017, real GDP growth had picked up to a modest 2.4% p.a., after tracking below 2.0% in Q1 and Q2. Exports, home building, non-mining business investment and government spending all contributed to this very mild acceleration in 2017 (although net exports fell in Q4, subtracted from growth in Q4). Household consumption accelerated in Q4 of 2017, after an extended period of weak local consumer spending, driven by population and, importantly, jobs growth. National incomes growth remained weaker in aggregate and per capita terms in 2017, due to fall in the terms of trade and (long-term) weakness in productivity. GDP growth is on track to improve in 2018 but it remains well below long-run trend growth rates (chart 1).

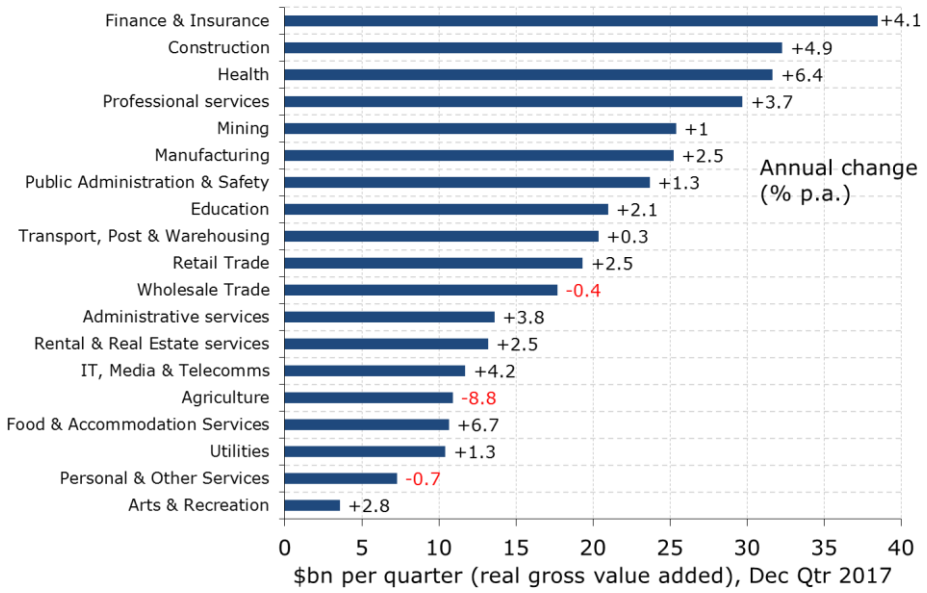
Chart 1: real GDP growth, % change p.a. to Q4 2017



Source: ABS *National Accounts*, Dec 2017.

The distribution of economic growth also improved through 2017, with a greater range of industries and regions expanding over the year. Across industries, output and employment growth is strongest in finance, healthcare, professional services and construction (chart 2). The big services sectors are benefiting from strong population growth. Higher education is also benefiting from the relatively competitive Aussie dollar, with record high numbers of international students. Recoveries were also evident in parts of manufacturing in 2017 despite the final exit of automotive assembly, with output, sales, jobs and exports recovering in food, building materials and other key segments. Wholesale trade and transport expanded due to rising demand to distribute agricultural products, building materials and online purchases of consumer goods. Weak pockets remain among more traditional and discretionary retail segments. Many (but not all) regional locations are benefiting from good agricultural output volumes coinciding (rather unusually) with high agricultural commodity prices.

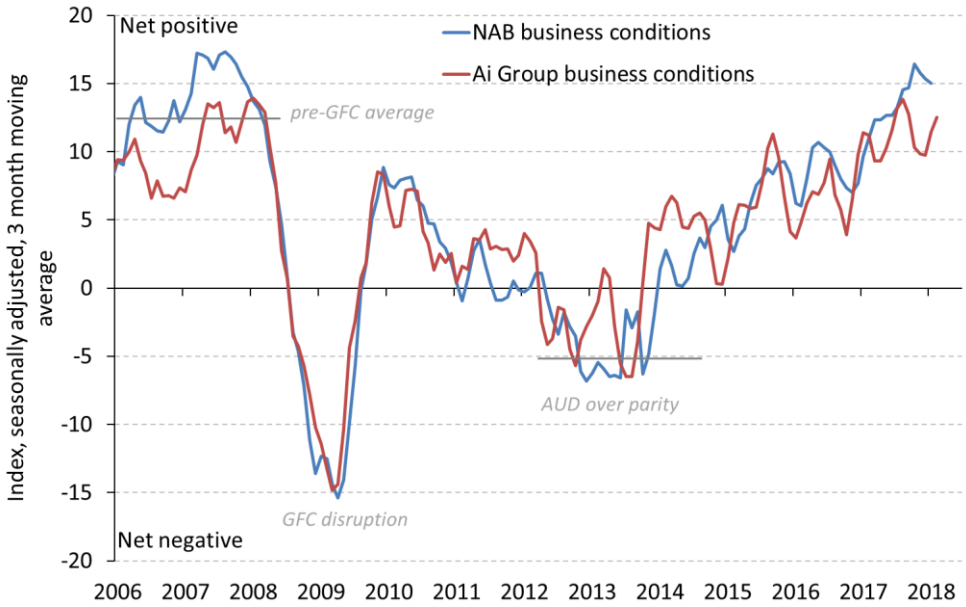
Chart 2: Output by industry*, % change p.a. to Q4 2017



* Gross value added output (real volumes), seasonally adjusted. Source: ABS *National Accounts*, Dec 2017.

Australian monthly business surveys (Ai Group's Australian PMI®, Australian PSI® and Australian PCI® and NAB's Business Survey) suggest business conditions improved in 2017 to similar levels as the pre-GFC average (around 12 points). Conditions held firm in in January and February 2018 at these more positive levels (see Chart 3), with most but not all major sectors exhibiting broadly positive conditions and confidence.

Chart 3: Ai Group business conditions* and NAB business conditions

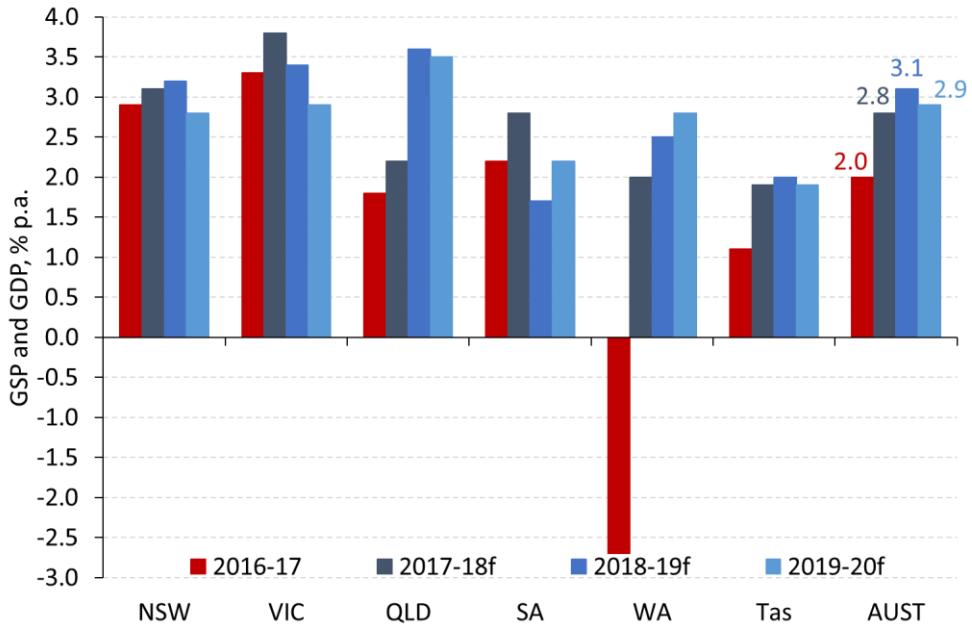


* weighted and fitted composite of Ai Group PMI, PSI & PCI indexes. Sources: Ai Group and NAB, to Feb 2018.

Retail trade remains a notable anomaly in the business surveys and in the ABS data, with discretionary retail spending failing to improve in 2017 in response to other indicators that should normally lead to stronger spending (e.g. stronger jobs growth, ongoing low interest rates, low petrol prices and better business confidence). Total nominal retail sales recovered by just 0.1% m/m in January 2018 after falling 0.5% m/m in December 2017, to be up just 2.1% p.a. With inflation sitting at around 2.0%, this suggests retail sales volumes have barely moved. Hospitality, recreation, personal services and other consumer-oriented discretionary services sectors were also weaker in early 2017 but appeared to be picking up by the end of 2017, in line with stronger employment and incomes growth. Factors contributing to weak local retail spending include: slow household income growth (despite better jobs growth); rising energy prices; high housing and childcare costs; and changes in consumer spending preferences away from local discretionary retailing in favour of more online shopping, digital services, experiential services, health services and international holidays.

NAB, Deloitte Access Economics and other private-sector Australian forecasters expect stronger growth in 2018-19 – with GDP likely to accelerate above 3% for the first time in many years – followed by another slower patch from 2019-20, mainly due to an anticipated cyclical downturn in construction activity from current peaks. Deloitte expects growth (GSP) will accelerate in 2018-19 in NSW, Qld, WA and Tasmania but decelerate in Vic and SA. In 2019-20 however, only SA and WA can expect a further acceleration (chart 4).

Chart 4: Local economic growth and forecasts: GSP and GDP*



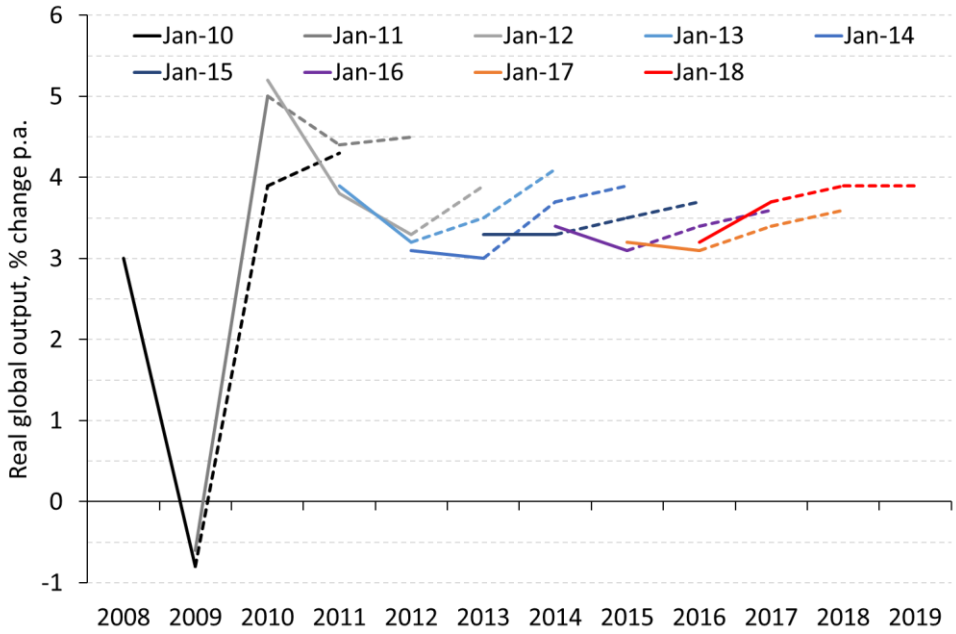
* Gross State Product and Gross Domestic Product. Sources: ABS *State Accounts*, Nov 2017, Deloitte Access Economics, *Business Outlook*, Jan 2018.

Externally, the global economy is providing better support for Australian business in 2017-18, with small but welcome accelerations in global GDP, trade and investment. In their latest assessments of the global economy, the IMF (January) and the OECD (November) lifted their forecasts for global GDP growth to 3.9% and 3.7% respectively in 2018, due to improvements in Asia (mainly China and Japan), the Eurozone and Russia, which are helping to offset weaker trends elsewhere (e.g. the UK,

India and the Middle East). Global GDP outperformed IMF and OECD expectations in 2017, for the first time in almost a decade (see chart 5). The IMF estimates that global GDP grew by 3.7% in 2017, its strongest pace since 2011.

The IMF continues to note that this long-overdue cyclical recovery comes after a decade of disappointment and remains fragile (see Chart 5). In 2018, global investment and trade are especially vulnerable to disruption due to rising isolationist tendencies in the US and elsewhere. Growth therefore needs to be supported by "*structural reforms and growth-friendly fiscal policy measures [to] boost productivity and labour supply*" in Australia. Weak productivity growth remains the Achilles Heel in Australia and many other countries, holding back incomes and living standards.

Chart 5: Global economic growth and forecasts*, 2008 to 2018



* Solid lines denote IMF estimates of real global GDP growth. Dotted lines denote IMF forecasts for real global GDP growth. Source: IMF, *World Economic Outlook*, various editions from January 2010 to January 2018.

For Australia, both the RBA (February 2018) and Treasury (December 2017) expect real GDP growth to accelerate to 3.0% or more in 2018. The RBA expects growth to strengthen to 3.5% in 2018-19, before moderating to 3.0% towards the end of 2019. The Treasury is more cautiously expecting growth to accelerate to 3.0% in 2018-19 but to remain there until 2020-21 (see Table 1). The OECD is more cautious again on Australia, with a forecast of 2.8% p.a. for Australian GDP in 2018 and 2.7% p.a. in 2019, due to the effects on Australian trade of anticipated slower growth in China.[1]

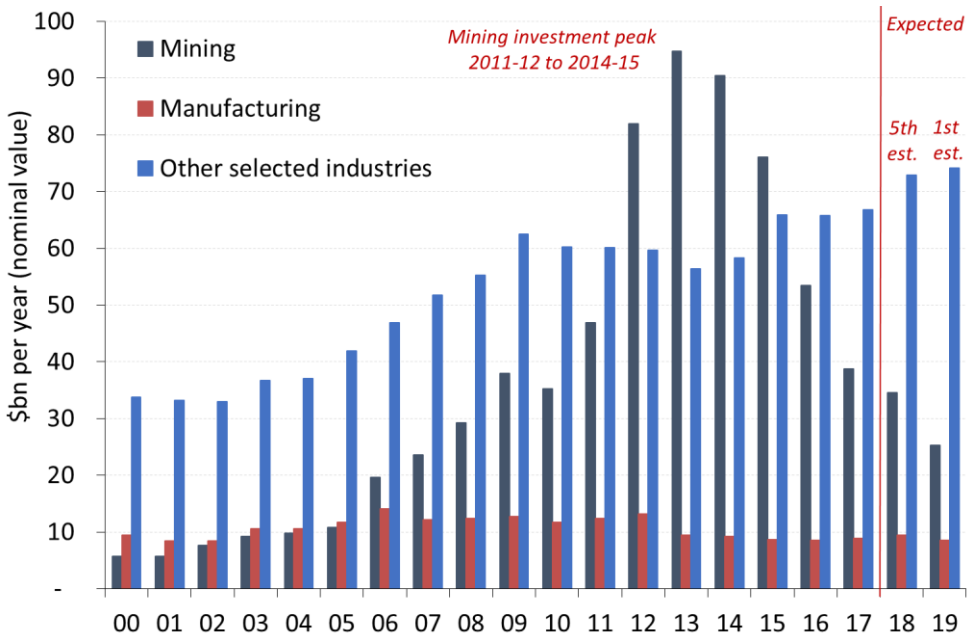
Importantly, the drivers of Australia's growth are now shifting further away from mining investment and exports, in favour of public-sector demand (government spending and investment, led by large-scale transport and telecommunications projects), housing and non-mining business investment. Reflecting the improvement in manufacturers' conditions through 2017, private sector capital

[1] OECD, *Economic Outlook: Australia*, November 2017.

expenditure (CAPEX) by manufacturers rose by 2.6% q/q in the December quarter (Q4) of 2017 to $2.4bn (in real terms), accounting for 8.1% of all CAPEX. Across most non-mining industries (with the exception of local retailers), many businesses are now increasing investment and employment in order to meet future demand. Total non-mining CAPEX lifted by 1.8% p.a. in Q4 of 2017 to $20.7bn, while total credit lent to private businesses by banks (and other financial intermediaries) was up by 3.4% over the year to January 2018. And after a lull in mid-2017, residential housing finance and building approvals both surged higher again in late 2017. This suggests residential construction activity will continue to contribute to growth in 2018 and into 2019 (in contrast to Treasury's anticipated fall), as will improving commercial and industrial building activity.

Looking ahead, the ABS survey estimates that non-mining CAPEX will rise by 8.8% p.a. to $82.3bn in 2017-18. This represents a significant step up in investment activity, after relatively weak growth of just 1.8% p.a. in 2016-17. This will include higher CAPEX spending in both manufacturing (+5.9% p.a.) and businesses outside mining and manufacturing (+9.2% p.a.) from 2016-17 (chart 6). The first estimate of CAPEX plans for 2018-19 suggests further falls in spending lie ahead for businesses in the mining and manufacturing sectors (in nominal dollars, based on realisation ratios for this first estimate over the past five years). Mining investment is estimated to fall a further 26.9% to $25.2bn and manufacturing CAPEX is estimated to fall by 9.6% to $8.5bn in 2018-19. CAPEX by businesses other than miners and manufacturers is likely to rise by a relatively modest 1.7% p.a. in 2018-19.

Chart 6: Actual and expected* CAPEX per year, Q4 2017



* Five-year average realisation ratio applied. Source: ABS, *CAPEX*, Dec 2017.

For households, the national unemployment rate (5.4% in December 2017) is already slightly better than RBA and Treasury expectations for 2017-18 (5.5%), so unemployment might fall to 5.25% sooner than anticipated. While underemployment remains high (around 8.4% of the labour force), other signs point to areas of the labour market tightening in 2018. Concerns about future skill

shortages are spreading, with pockets of shortage already apparent in some locations for construction and a few other specialist sectors. Treasury had expected household consumption growth to remain muted in 2017-18, but it grew by a relatively strong 2.9% p.a. in the year to Q4 2017 and looks set to remain higher in 2018, supported by ongoing population growth and better jobs growth.

Table 1: Australian economic growth and forecasts

RBA SoMP (Feb 2018)	**2016-17 actual**	**Dec '17 actual**	**Jun '18 f**	**Dec '18 f**	**Jun '19 f**	**Jun '20 f**
GDP, % change p.a., year end	1.8	2.4	2.75	3.25	3.5	3.0
Unemployment rate, %, year end	5.6	5.5	5.25	5.25	5.25	5.25
Inflation (CPI), % change p.a., year end	1.9	1.9	2.0	2.25	2.25	2.25
Treasury MYEFO (Dec 2017)	**2015-16**	**2016-17**	**2017-18 f**	**2018-19 f**	**2019-20 p**	**2020-21 p**
GDP, % change p.a., year average	2.6	2.0	2.5	3.0	3.0	3.0
Household consumption, % p.a., year average	2.9	2.4	2.25	2.75		
Dwelling investment, % p.a., year average	10.6	2.6	-1.5	-1.5		
Business investment, % p.a., year average	-10.3	-4.0	2.0	3.0		
Employment growth, % p.a., year end	1.9	1.9	1.75	1.5	1.25	1.25
Unemployment rate, %, year end	5.8	5.6	5.5	5.25	5.25	5.25
Terms of trade, % change p.a., year end	-10.2	14.5	-2.0	-5.0		
Inflation (CPI), % change p.a., year end	1.0	1.9	2.0	2.25	2.5	2.5
Wages (WPI), % change p.a., year end	2.1	1.9	2.25	2.75	3.25	3.5

f = forecast. p = projection. Sources: ABS data; RBA *SoMP*, Feb 2018; Australian Treasury, *MYEFO 2017-18*, Dec 2017.

Ai Group's annual Business Prospects survey for 2018 confirmed that Australian CEOs were more optimistic heading into 2018 than they have been for any year since 2012. The single biggest caveat on this outlook is a strong expectation of rising input costs and especially energy costs in 2018, which is denting an otherwise positive outlook for sales and margins. Nevertheless, more CEOs are planning to grow employment and investment in 2018 than has been the case in previous years of this survey. In the 2018 Business Prospects survey:

- General business conditions are expected to pick up in 2018 for more businesses than in any of the previous five years. Across all businesses, 42.3% of CEOs expect an improvement, 15.7% expect deteriorating conditions (+26.7% net balance) and 42% expect no change in conditions.

- Sales are expected to increase for 67.3% of businesses in 2018, with 19.8% expecting no change from 2017 levels and 13.0% expecting a decline in sales in 2018. This reflects clearly better sales growth than was expected in 2017. When asked one year earlier (in Ai Group's CEO survey conducted in November 2016), 51% of CEOs had expected higher sales revenue in 2017.

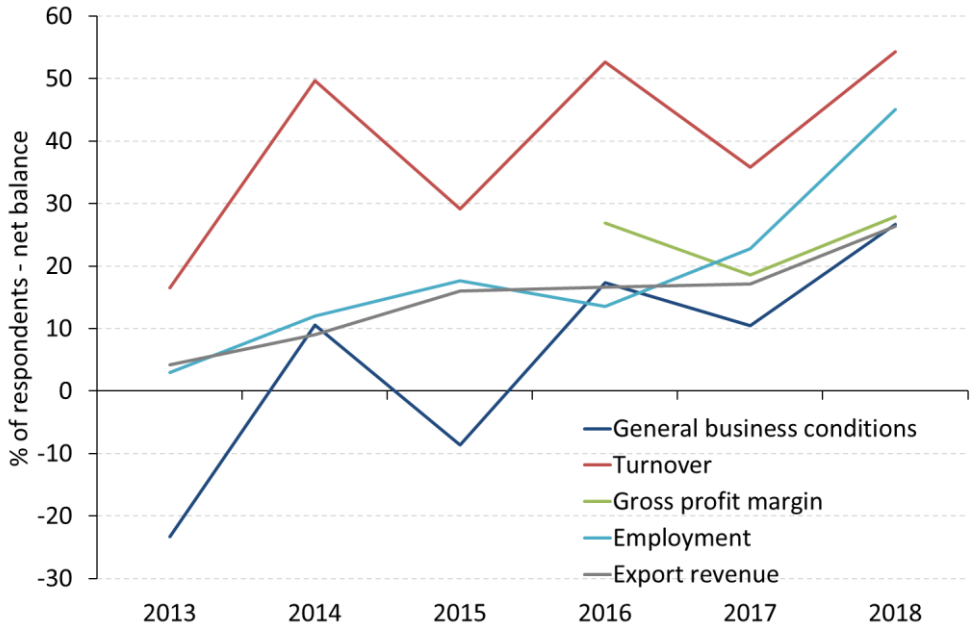
- Employment is expected to increase in the majority (57.9%) of businesses in 2018. This is the first time in at least five years that a majority of businesses have planned to employ more people. With 12.9% of businesses planning to shed staff in 2018, a 'net balance' of 45% of CEOs plan to increase employment this year. This is around double the next best net balance for expected employment growth from the previous five years.

- This expectation of strong employment growth is predicated upon an expectation that average wage growth will remain moderate. Wages pressure is identified by only 5% of respondents as their leading business concern heading into 2018. This is sharply lower than in 2017 and below the levels reported in the previous four surveys.

- Although the majority (67.3%) of CEOs expect their total turnover to grow in 2018, gross profit margins are expected to grow in only 40.9% of businesses in 2018. 13% of CEOs are expecting deteriorating margins and 46.1% expect no change (giving a net balance of 27.9%). The low expectations of margin growth relative to expectations of sales growth is related to expectations of rising input prices and especially rising energy prices for the majority of businesses.

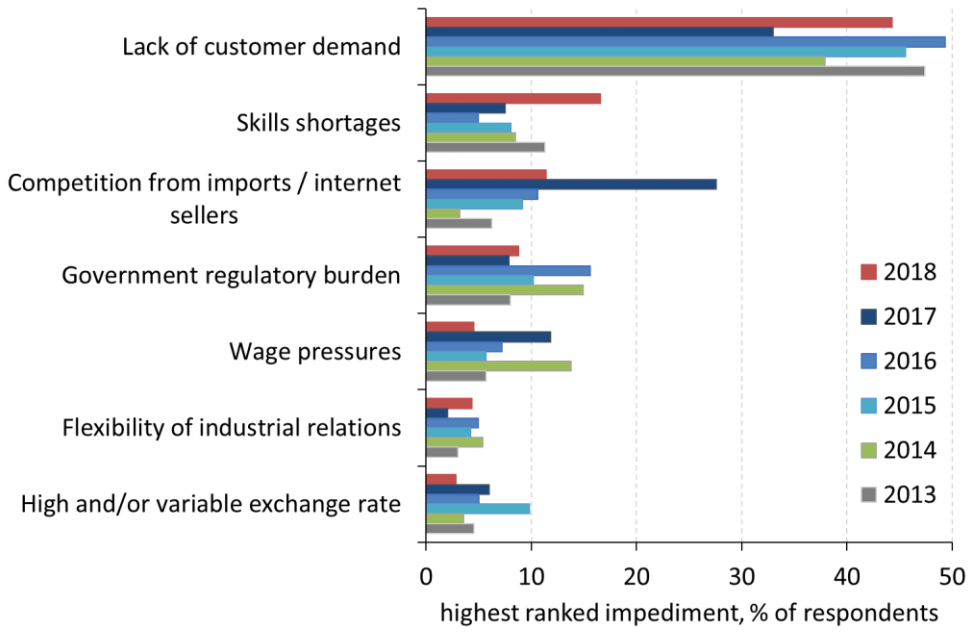
- This year's survey indicates that the large majority of CEOs plan to maintain or increase their spending on various types of business investment including staff training (with 50.1% of businesses planning to increase this in 2018); spending on new technologies (with 48.2% of businesses planning to increase their spending; R&D expenditure (25.9% of businesses plan to expand R&D spending); and physical investment (with 37% planning to lift physical capital expenditure in 2018).

Chart 7: Australian CEOs' expected business conditions, 2013-2018



Source: Ai Group, *National CEO Survey: Business Prospects in 2018*, Jan 2018.

Chart 8: Expected impediments to business growth*, 2013 to 2018

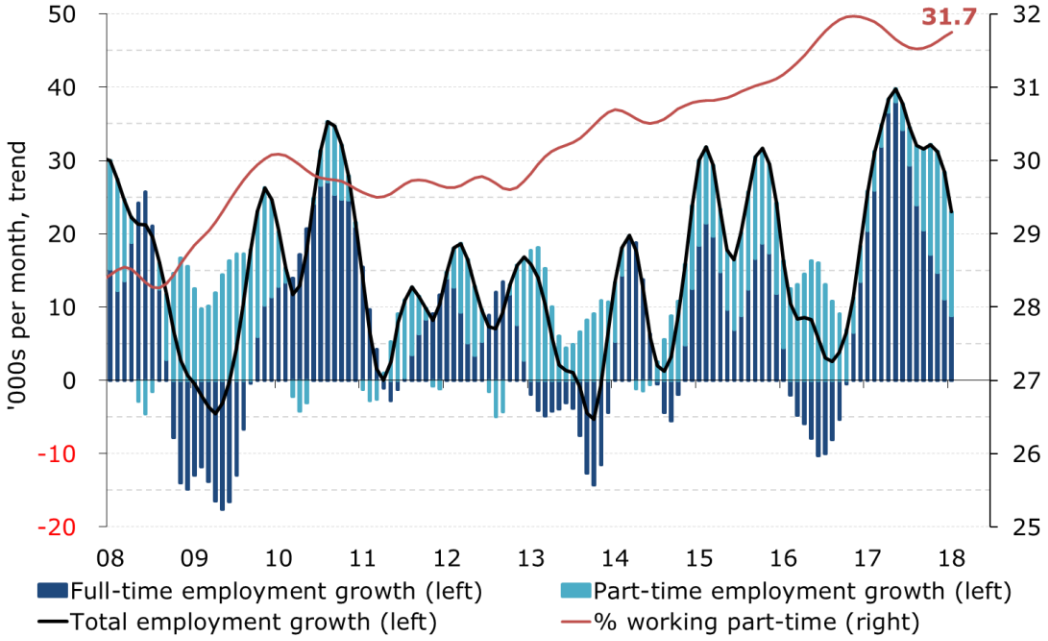


* Highest ranked answer in response to "*What factors do you expect will inhibit your business growth in 2018?*" Source: Ai Group, *National CEO Survey: Business Prospects in 2018*, Jan 2018.

2.2 Labour market

The national labour market continued to strengthen in January 2018, with the total number of persons employed increasing by 16,000 in January and the unemployment rate falling by 0.1% to 5.5% (seasonally adjusted). Total employment has grown by 400,000 (3.3%) over the past year. Although part-time employment growth (0.4% m/m) outpaced full-time employment growth (0.1% m/m) in January, monthly full-time employment increased for a 15th straight month and accounted for 74% of employment growth over the past year. Part-time employment (defined by the ABS as 35 hours or less per week) accounted for 31.7% of the total workforce in January 2018, down from a record high of 32.0% of the total workforce in November 2016 (chart 9).

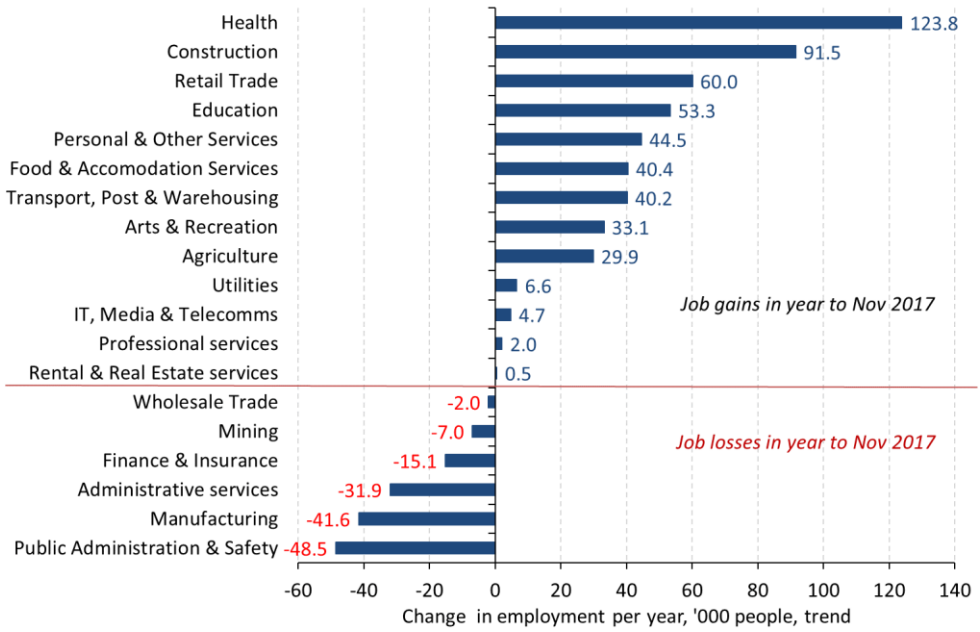
Chart 9: Full-time and part-time employment growth (trend)



Source: ABS, *Labour force Australia* January 2018

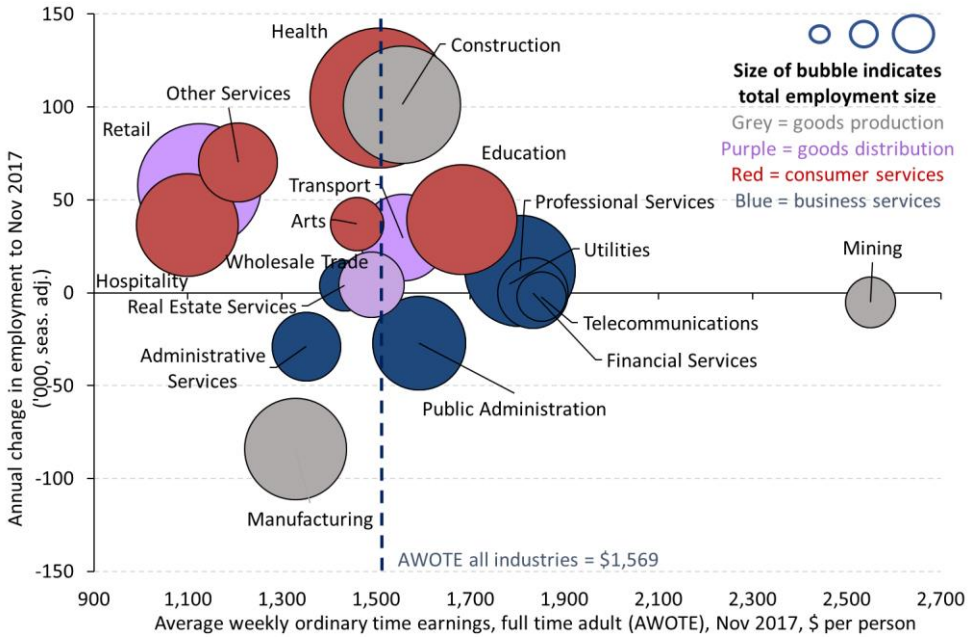
Employment growth in 2017 was spread over a greater range of industries than in past years, but continued to be concentrated in the larger services industries and in construction. In total, 13 major industries added around 530,000 jobs in 2017, while 6 major industries shed around 140,000 jobs (chart 10). Over the year to November 2017, healthcare was (again) the largest source of jobs growth, adding 123,800 or 31% of the net addition to employment. Healthcare now accounts for 13.5% of all employment. Construction added 91,000, or 23% of all new jobs (9.5% of all employment) while education added 53,000, or 13.3% of net additional jobs (8% of all employment). These industries are all clustered around average to upper average ordinary time earnings (AWOTE) rates (chart 11). The industries with lower AWOTE rates, retail trade and hospitality, added 60,000 and 40,000 jobs in the year to November 2017. They employed 10% and 7% of all workers respectively.

Chart 10: Employment growth by industry, year to Nov 2017 (trend)



Source: ABS, *Labour force Australia, Quarterly detailed data,* November 2017

Chart 11: Employment growth by industry and AWOTE, year to Nov 2017 (seas. adj.)

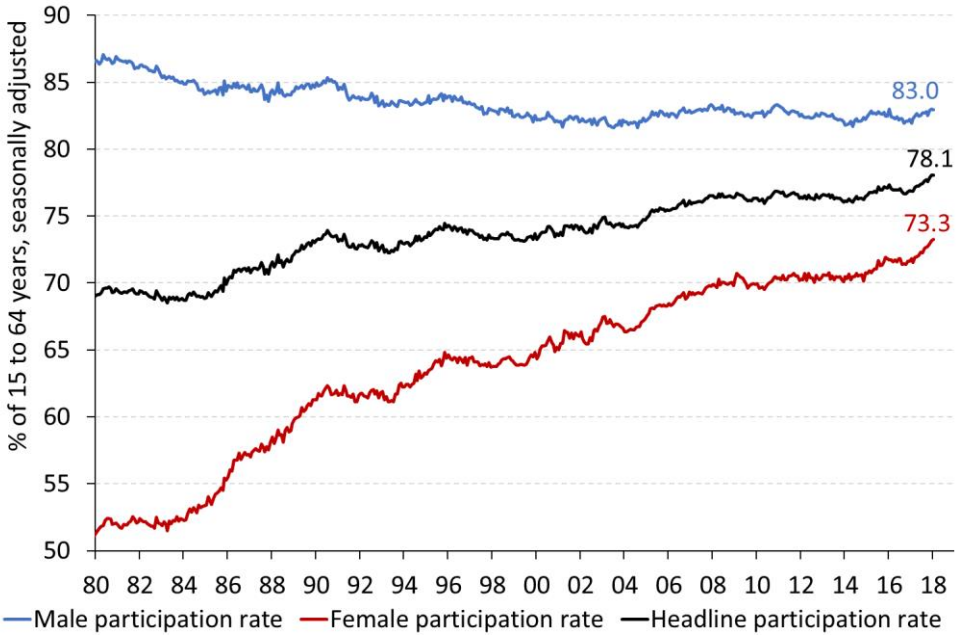


Sources: ABS, *Labour force Australia, Quarterly detailed data,* Nov 2017 and Average Weekly earnings, Nov 2017.

Importantly, despite strong employment growth, the unemployment rate held steady for the seventh straight month at 5.5% in January (trend). This is because employment growth is being matched by labour force growth (3.2% p.a. in January 2018) due to a combination of adult population growth and a rising participation rate. The female labour force participation rate reached an historic high of 60.5% in January, while the overall participation rate of 65.6% in January was the

highest since February 2011 and is only 0.2% off its all-time high in December 2010 (see chart 12). For people aged 15 to 64 years (instead of all people aged 15 years or older), labour force participation rates hit a record high of 78.1% for all people and 73.3% for women in January 2018. This strong rise in participation – despite an ageing population - indicates that current labour market conditions and prices (that is, current wage rates) are attracting more people into work or actively seeking work.

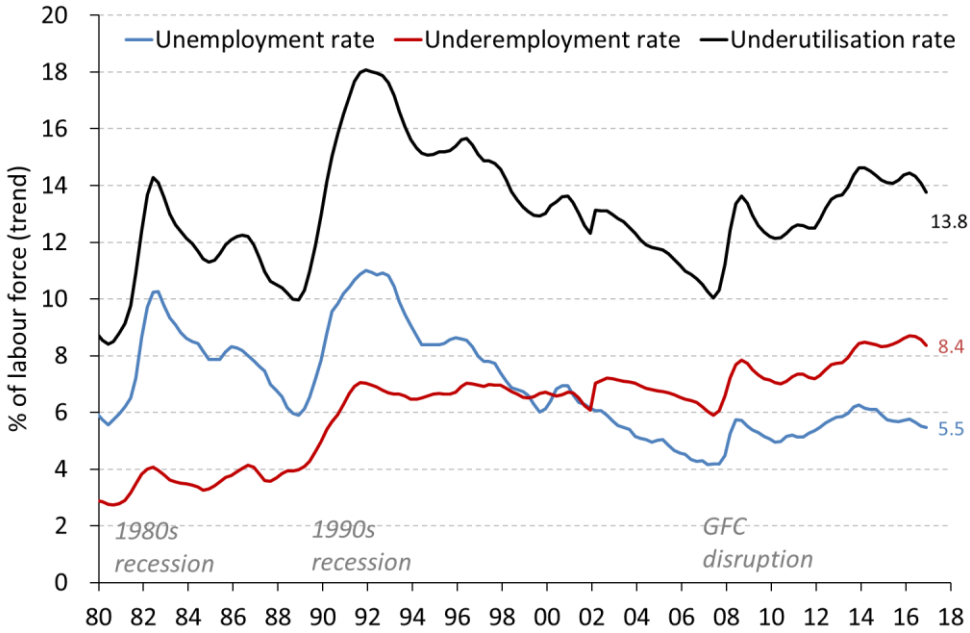
Chart 12: Participation rate, persons aged 15 to 64 years



Australia's national unemployment rate has been steady at 5.5% since July 2017 (trend). This indicates that despite better jobs growth (and the emergence of skill shortages in certain specialist pockets), the labour market is not overly tight. Indeed, as noted above, current conditions are attracting record numbers of people to enter or re-enter employment or active jobseeking, so the supply of labour is steadily keeping pace with demand for it.

Another indication of spare capacity in the labour market is the under-employment rate. As of November 2017 (latest quarterly estimates available), the underemployment rate had fallen to 8.4% of the labour force (trend), but remained elevated. This implies a total labour force underutilization rate of 13.8%, which is clearly high compared with historical averages. It confirms that the labour market is not overly tight in 2017-18 and by no means close to 'full employment'. This lingering spare capacity – plus an apparently steady supply of new labour market entrants – can be expected to continue to dampen wage pressures in 2018.

Chart 13: Unemployment, underemployment and underutilization rates (trend), to Nov 2018



Source: ABS *Labour Force Australia,* Nov 2017.

2.3 National income growth and distribution

The Australian economy grew by just 2.4% p.a. in 2017 in real output terms (real GDP). As noted above however, a fall in net exports subtracted from growth in Q4 (-0.5 percentage points). This subtraction, combined with a fall in the terms of trade (-1.0% p.a.), meant that real national income growth was not so good in 2017; real gross domestic income grew by 2.1% p.a. while real net national disposable income grew by 1.5% p.a. to Q4 2017. In per capita terms, real net national disposable income fell by 0.3% in Q4 of 2017 and was flat over the year to Q4 of 2017.

The implicit price deflator for GDP was 1.1% in Q4 2017 (the *de facto* GDP inflation rate). In nominal terms, Australian GDP grew by 3.5% p.a. in 2017 and total factor income (total income from all sources) grew by 3.6% p.a. Growth in income was distributed fairly evenly in 2017, such that the shares of total factor income derived from each source were largely unchanged from a year earlier, despite some variations through the year (largely due to changes in quarterly nominal profits in mining) (see charts 14 and 15). Growth in nominal income in 2017 included:

- Total compensation of employees (including wages, salaries, superannuation contributions and other social contributions) rose by 4.8% p.a., accounting for 52.9% of total factor income in Q4 2017, compared with 52.4% one year earlier. A large part of this growth in aggregate income was due to workforce growth, so average compensation per employee was up just 1.6% p.a. for all employees, or 1.8% p.a. for non-farm employees. The ABS notes that total compensation of employees rose more strongly in the public sector than in the private sector in 2017 and was especially strong in healthcare, education, public administration,

construction and finance, in line with stronger employment growth in these industries than in others over the year;

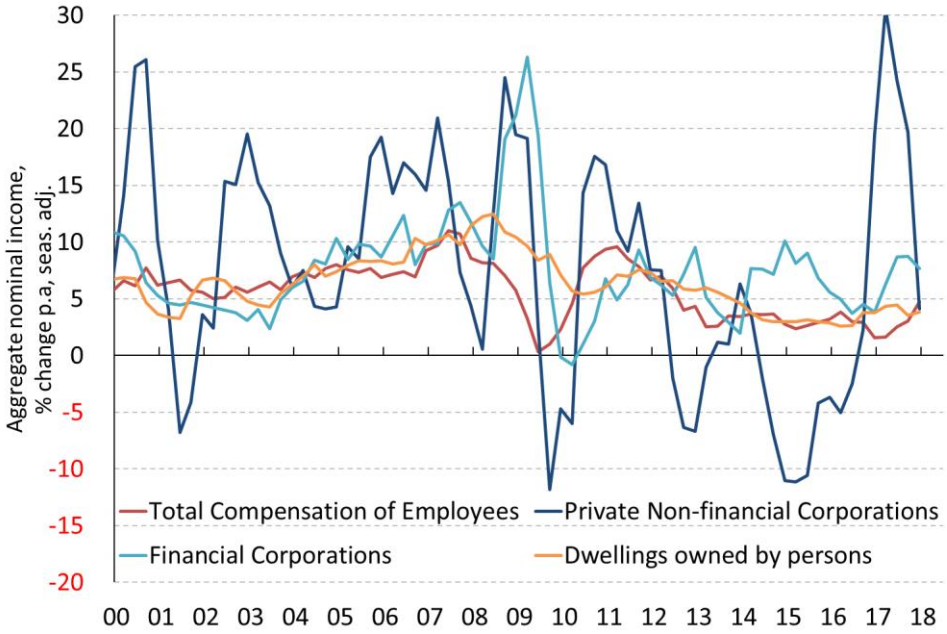
- Gross operating surplus (gross profits) for private sector non-financial corporations rose by 4.1% p.a.. Growth in this type of income is extremely volatile from quarter to quarter, largely due to big swings in commodity prices and exports that affect nominal gross profits in mining (chart 14). It accounted for 19.4% of total factor income in Q4 2017, compared with 19.3% one year earlier;

- Gross operating surplus (gross profits) for financial corporations (including banks, finance providers and all superannuation funds) rose by 7.7% p.a., accounting for 6.6% of total factor income in Q4 2017, compared to 6.3% one year earlier. The share of national income derived from this category has been rising over a very long period (chart 14), reflecting the growth in bank profits and more recently, superannuation fund earnings, as a source of income for many; and

- Income derived from dwellings owned by persons (excluding dwellings owned by corporations) up by 3.8% p.a. This source of income accounted for 8.5% of total factor income in Q4 2017, compared to 8.4% one year earlier. It has been gently rising as a share of national income over a very long period (chart 14), reflecting the rise in property investment as a source of income.

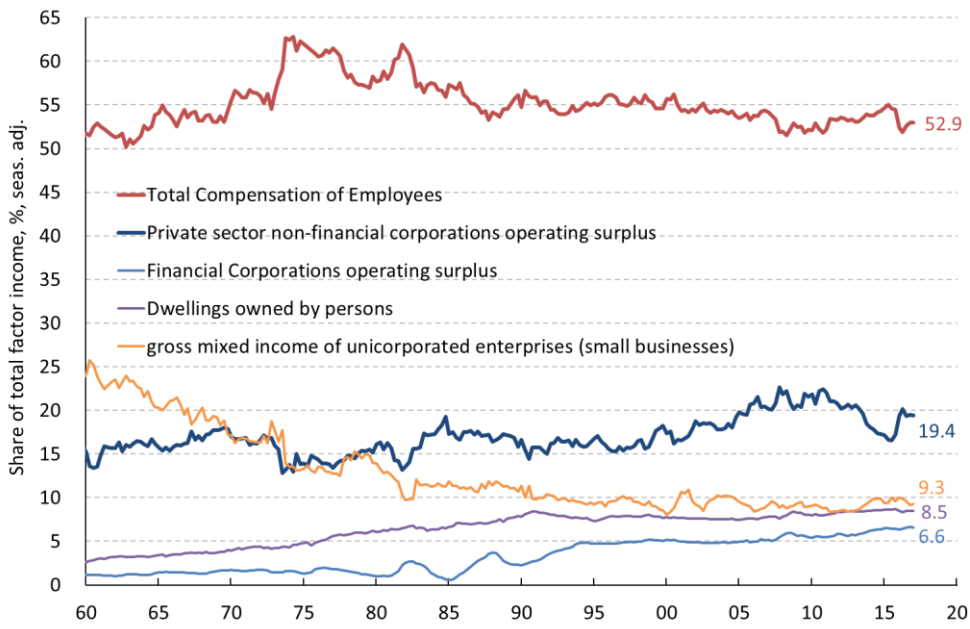
These rises in Q4 were offset by falls in nominal income for private sector unincorporated businesses (gross mixed income fell by 3.7% p.a.) and public sector non-financial corporations (-14.8% p.a.).

Chart 14: Growth in nominal total factor income, % change p.a. to Dec 2017



Source: ABS *National Accounts*, Dec 2017.

Chart 15: Shares of nominal total factor income, % share to Dec 2017



Source: ABS *National Accounts*, Dec 2017.

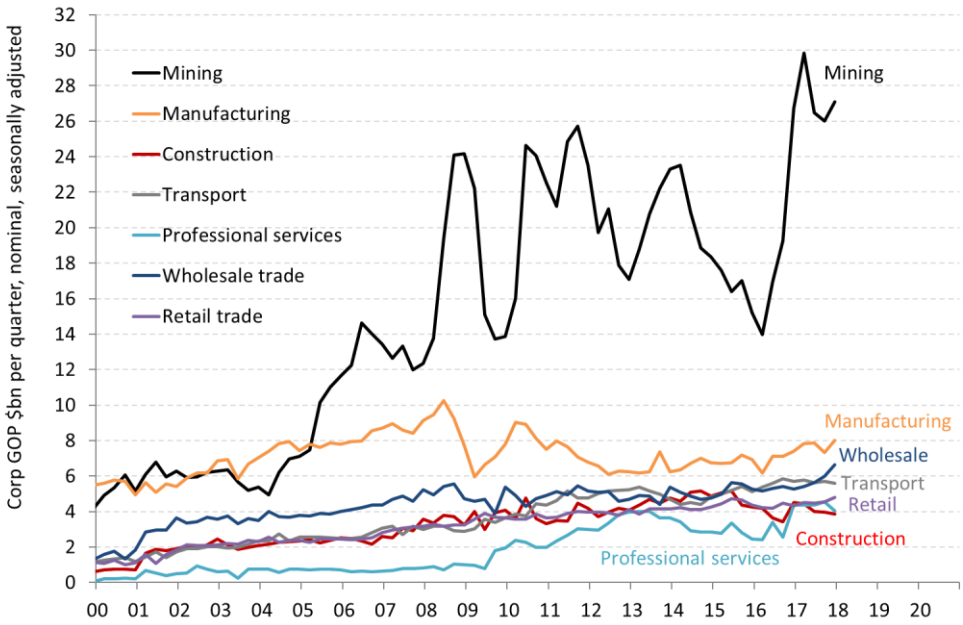
Detailed data on company profits across industries (published separately in the ABS *Business Indicators* series) confirms that much of the recent growth – and the volatility – in nominal profits for private sector corporations is occurring in the mining sector (chart 16). Mining sector nominal gross operating profits (a slightly different but related measure to gross operating surplus in the *National Accounts*) spiked sharply higher in Q1 of 2017, but subsequently fell again, to be up just 1.4% p.a. in Q4. Mining accounted for one third of the nominal profits included in the ABS *Business Indicators* series, in 2017, up from around a quarter one decade ago.

Outside of mining, private sector corporate nominal gross operating profits (GOP) recovered in 2017 in some but not all of the industries included in the ABS *Business Indicators* series (chart 16):

- Aggregate nominal GOP in manufacturing were 8% higher in Q4 2017 than one year earlier, but remained 22% below their all-time peak in 2008 (a bigger fall in real terms);
- Aggregate nominal GOP in wholesale trade were 26% higher in Q4 2017 than one year earlier;
- Aggregate nominal GOP in retail trade were 10% higher in Q4 2017 than one year earlier;
- Aggregate nominal GOP in hospitality were 7% higher in Q4 2017 than one year earlier;
- Aggregate nominal GOP in construction were 15% lower in Q4 2017 than one year earlier, and 26% below their all-time peak in 2014;

- Aggregate nominal GOP in transport services were 2% lower in Q4 2017 than one year earlier;
- Aggregate nominal GOP in professional services were 7% lower in Q4 2017 than one year earlier.

Chart 16: Aggregate company profits, nominal dollars per quarter, to Dec 2017



Source: ABS *Business Indicators*, Dec 2017.

2.4 Inflation

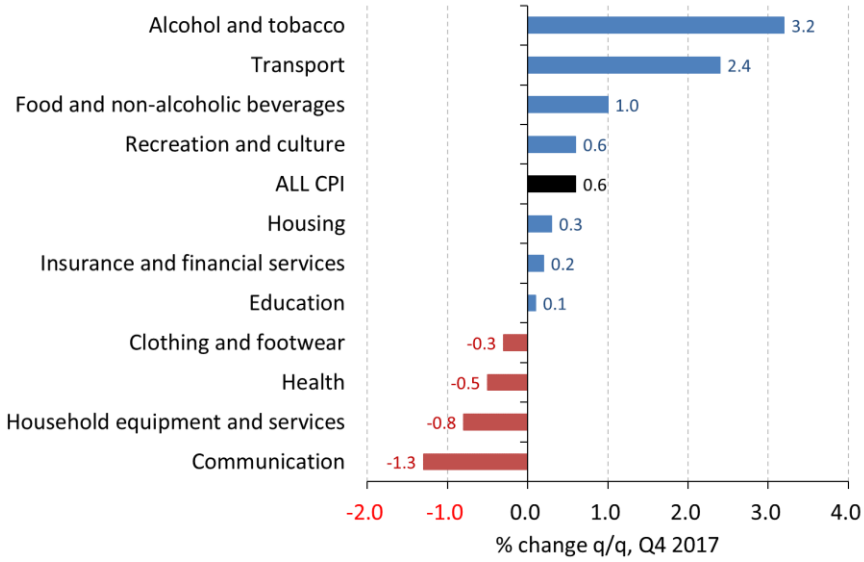
In Q4 2017, nominal GDP rose by just 3.5% p.a., versus 2.4% in real terms. This implies a price deflator or 'GDP inflation rate' of just 1.1% p.a., almost half as weak as the headline CPI rate of 1.9% p.a. in Q4. ANZ Economics noted that this "result highlights the still patchy nature of growth and *the subdued nature of inflationary pressures in the economy*."[2]

Australia's consumer price index (CPI) accelerated mildly to 1.9% p.a. in the December quarter (Q4) of 2017, from 1.8% p.a. in Q3. The slight acceleration was driven by the rising cost for automotive fuels, due to increases in global oil prices, and government regulated price increases. It remains below the RBA's target band of 2 to 3% over the cycle. Core inflation (a less volatile measure than headline CPI which removes volatile and seasonal items) remained subdued at 1.9% p.a. for most of 2017 (except for Q1 2017 at 1.8% p.a.). Although widespread expectations for accelerating inflation in 2017 did not eventuate, core inflation has remained steady for the best part of a year and may be pointing to an easing of disinflationary pressures in the economy. Broad-based

[2] ANZ Economics, "Quick Reaction: Australian Q4 GDP - a soft number but strength in household spending is encouraging". *Australian Economic Updates*, 7 March 2018.

consumer price rises may not be on the cards just yet however, with only 33% of the items contained within the ABS' 'basket of goods' showing price rises of more than 2.0% p.a. in Q4 2017 (chart 17).

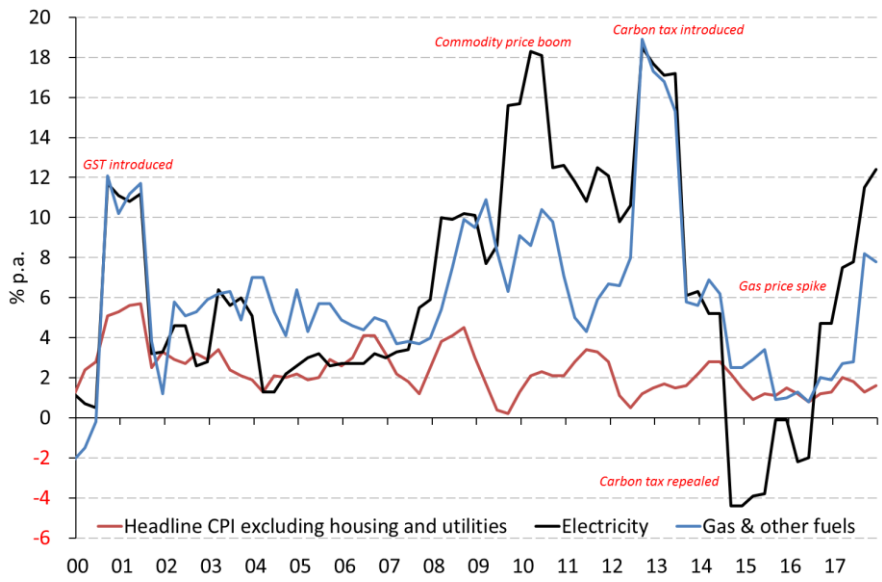
Chart 17: CPI changes, major categories, Q4 2017



Source: ABS, CPI, December 2017

In Q4, retail electricity prices continued to increase (+0.9% q/q) but gas prices declined by 1.7% q/q after rising 5.8% q/q in the previous quarter. General housing costs were significantly higher than headline inflation in 2017 due to large price rises for utilities (see chart 18). Within the utilities group, retail prices rose for electricity (+12.4% p.a.), gas (7.8% p.a.) and water (3.2% p.a.). The *National Accounts* for Q4 2017 show that in response to these price rises, household consumption of electricity gas and other fuels fell by 3.4% in Q2 of 2017 and a further 3.1% in Q4 (but bounced higher again in Q1 and Q3), to be 3.4% lower over the year in real volume terms.

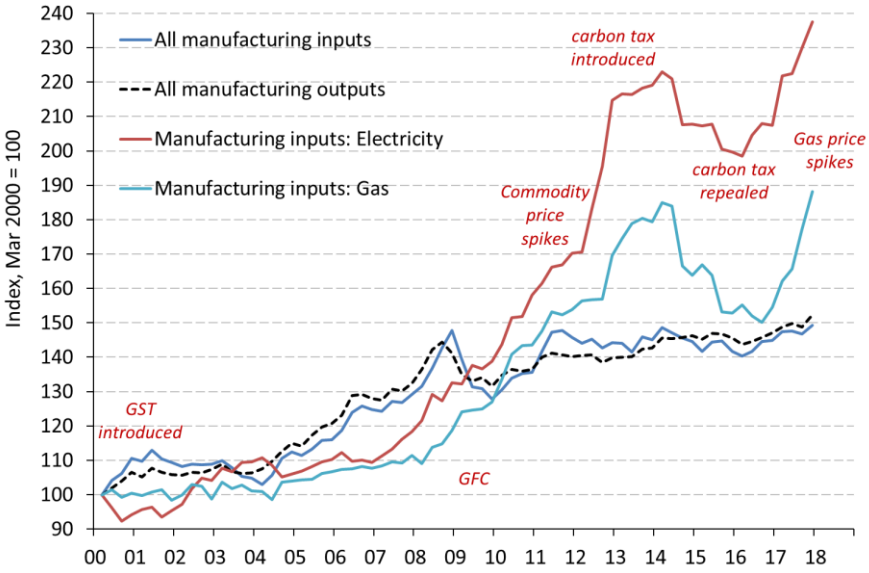
Chart 18: Electricity and gas retail price indexes, % change p.a.



Source: ABS, CPI, December 2017

Among businesses, Australia's producer price index (PPI) indicate that energy price rises are a major input cost pressure across all industries, but particularly for many manufacturers and other energy-intensive businesses. These national pricing data confirm widespread reports of outsized energy price rises in Ai Group's monthly Australian PMI®, Australian PSI® and Australian PCI® throughout 2017 and Business Prospects in 2018. The rise in input prices was mainly evident for oil and gas extraction (15.8% q/q), primary metals and metal production (4.8% q/q) and metal ore mining to manufacturing (2.6% q/q) and were driven by price rises for crude oil, steel and copper. Electricity input prices for manufacturers are at a new high and more than double the prices paid one decade ago (chart 19). Manufacturers in the Ai Group's annual Business Prospects Report believe this trend will continue, with 85% of manufacturing CEOs expecting energy input prices to rise in 2018. These energy price rises are squeezing business margins again, across many sectors of the economy.

Chart 19: Manufacturers' electricity and gas input price indexes, cumulative change*



* producer price indexes rebased to March Quarter 2000 = 100. Source: ABS, PPI December 2017.

2.5 Productivity

One of the biggest ongoing challenges for the Australian economy is generating stronger rates of productivity growth than can, in turn, support stronger and more broad-based incomes growth. Productivity growth has remained unusually – and on many counts surprisingly - weak in Australia this century. The ABS estimates that over the current productivity cycle (1998-99 to 2016-17), labour productivity change has been weakly positive with a slow improvement evident over the cycle, while capital productivity growth has been negative throughout, resulting in extremely low multifactor productivity growth over the cycle (see table 2).

Table 2: Productivity growth cycle estimates, 1998-99 to 2016-17

compound annual percentage change between multifactor productivity growth cycle peaks, Quality adjusted hours worked basis	1998-99 to 2003-04	2003-04 to 2011-12	2011-12 to 2016-17	**1998-99 to 2016-17**
Labour productivity	1.99	1.02	1.27	**1.36**
Capital productivity	-0.67	-2.14	-0.54	**-1.29**
Multifactor productivity	0.91	-0.33	0.49	**0.24**

Source: ABS, *Estimates of industry multifactor productivity, 2016-17.* Jan 2018.

Australia is not alone in facing this productivity problem. In its review of Australia's productivity performance and policies, the Productivity Commission notes that:

> *"…all around us new digital services, information and ideas are obvious, yet this form of [multifactor] productivity has been weak since 2004, here and around the developed world. This is a long enough period to suggest something is awry in our economic fundamentals. Since productivity is inextricably linked to maintaining growth in national income and individual opportunity, this is no academic observation. Suggestions that mismeasurement of the new economy are to blame appear simply insufficient to explain the weakness."*[3]

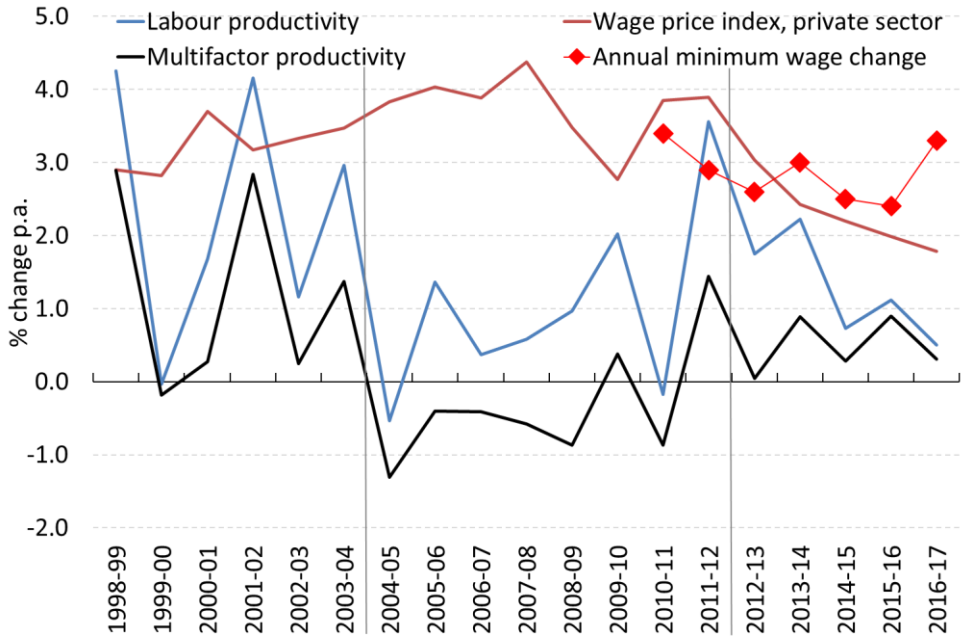
At a national level, multifactor productivity (MFP) in Australia's market-sector industries improved by just 0.3% in 2016-17 (quality-adjusted hours-worked basis). It has been improving annually since 2010-11 (that is, annual changes above zero). Labour productivity for all market-sector industries improved by 0.5% in 2016-17 (quality-adjusted hours-worked basis). This is an improvement from the previous decade, but it remains exceedingly weak (Chart 20). The latest ABS *National Accounts* (for the December quarter of 2017) estimates that gross value added per hour worked in the market sectors fell in three of the four quarters of 2017, to be down by -0.8% over the year. Real unit labour costs for the non-farm economy finished 2017 1.1% higher than a year earlier.

This lack of national productivity growth is also evident in Australia's GDP per capita. In Q4 2017 for example, real GDP per capita was flat (again) in the quarter, and up by just 0.8% over the year. Growth in real GDP per capita has averaged only 0.9% p.a. over the past five years. The difference between this per capita rate of GDP growth and the headline growth rate (2.4% p.a. in Q4 2017) is indicative of our reliance on population growth to drive growth in aggregate output and incomes.

The relationship between productivity growth and income growth tends to be a long term one. At an aggregate level, Australian national wage growth remained strong despite a collapse in productivity growth from around 2005 due to the supporting influence of a range of unusual and unique factors including the mining investment 'super-cycle' and a temporarily high terms of trade. Since 2012 however, average private sector wage growth has slowed to a rate that seems more commensurate with slow productivity growth, at a national aggregate level (chart 20).

[3] Productivity Commission, *Shifting the Dial, Five year productivity review*, Oct 2017 (p. 29).

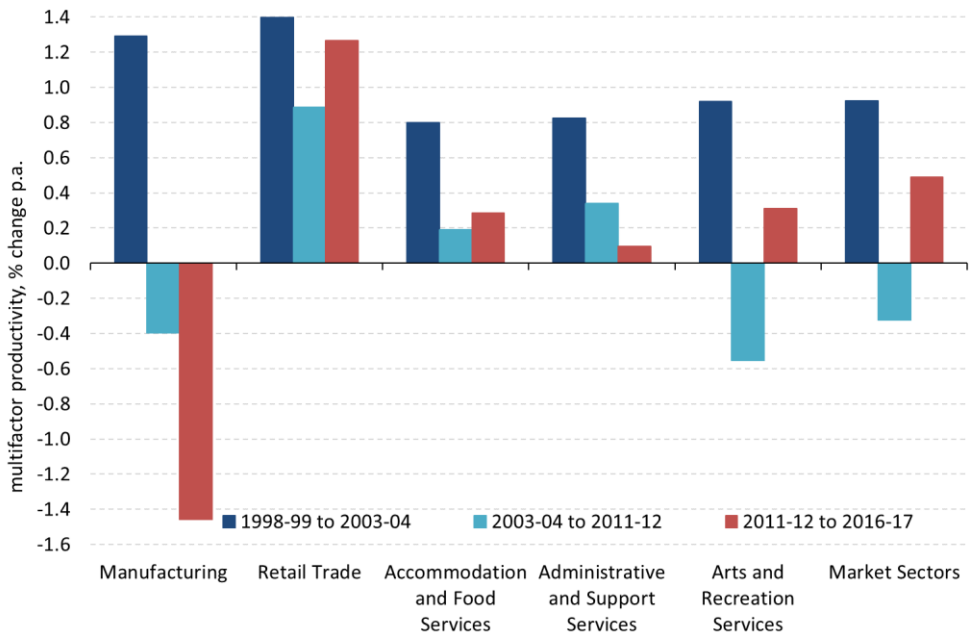
Chart 20: Australian productivity cycle and private sector wage price index, annual % change



Source: ABS estimates of productivity 2016-17, Jan 2018 and ABS wage price index, Dec 2017.

Looking specifically at the market-sector industries in which minimum wage workers are often employed (and therefore abstracting from factors that affect national productivity trends but might not be relevant to these sectors, such as capital investment in mining and utilities), annual average productivity growth has been significantly weaker in every sector since 2003-04 than it was in the earlier period of the current productivity cycle. In manufacturing, annual average multifactor productivity growth has been negative since 2003-04. This long-term weakness is contributing to slow real incomes growth across the board in these sectors, for both businesses and workers.

Chart 21: multifactor productivity changes*, selected 'low wage' market sectors



* annual average change in multifactor productivity, quality-adjusted hours worked basis, for productivity growth cycle periods identified by the ABS. Source: ABS, *Estimates of industry multifactor productivity, 2016-17,* Jan 2018.

2.6 Global Competitiveness

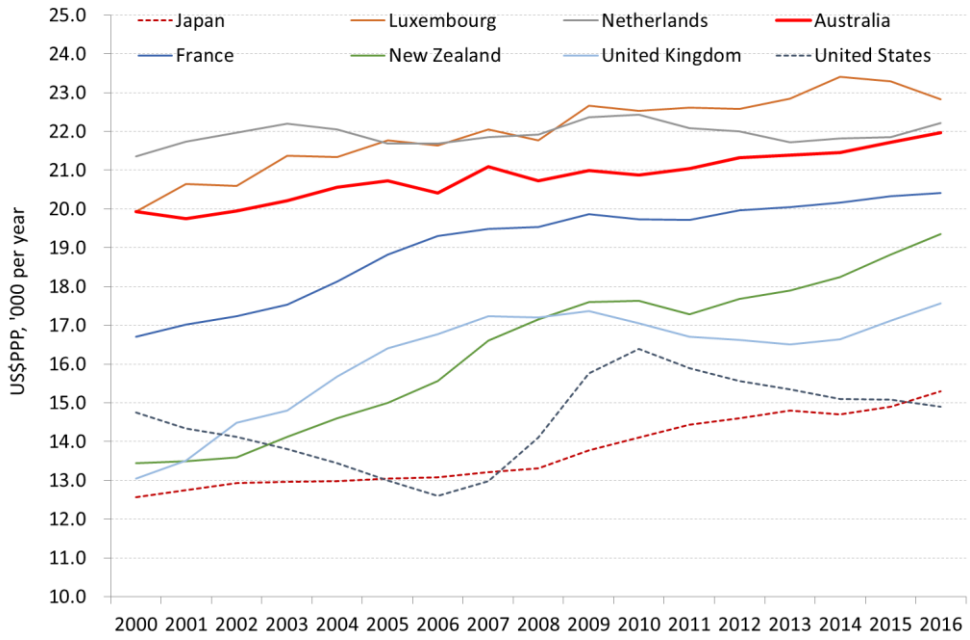
High labour costs are one of many factors contributing to Australia's relatively poor international competitiveness. OECD data indicate that among OECD countries that had a national minimum wage in 2016, Australia's minimum wage moved closer to the top of the scale. In 2016, Australia's national minimum wage was higher than all countries with a national minimum wage except the Netherlands and Luxembourg (measured as an annual full-time wage in 2015 US dollars on a purchasing power parity (PPP) basis (Chart 22). On a per hour basis, Australia's minimum wage was the second highest globally, behind France (measured as an hourly wage rate in 2015 US dollars on a purchasing power parity (PPP) basis, Chart 23).

OECD data also indicate that Australia's minimum wage is a higher proportion of median Australian wages (sometimes called the minimum wage 'bite') than in most comparable countries. In 2016, only France and New Zealand had a higher minimum wage 'bite' than Australia (chart 24), even though their minimum wages were lower than Australia's on a PPP basis. These OECD data also indicate that Australia's minimum wage 'bite' (the ratio to the median wage) remained relatively stable over the decade to 2016. These data pre-date the increase to Australia's minimum wage of 3.3% from 1 July 2017, which pushed the minimum wage even higher, relative to other countries and relative to Australia's own median wage.

Australia's relatively higher minimum wages reflect higher living costs and other factors in Australia over a very long period of time. Significantly, they do not appear to reflect higher labour productivity in Australia than in comparable economies. For example, OECD data indicate that on a PPP basis,

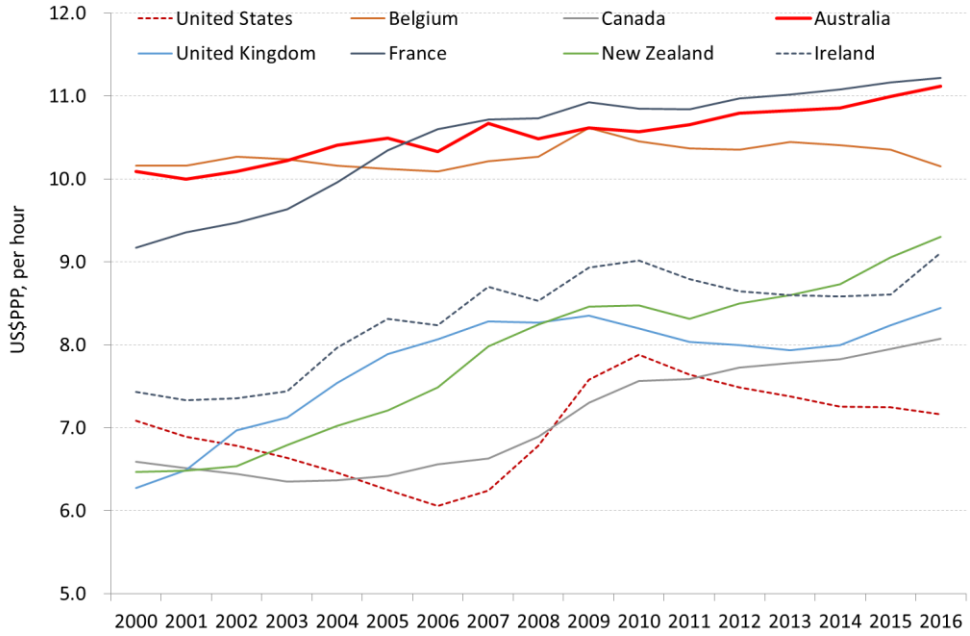
Australia's average labour productivity (measured as real output per hour worked) has been lower than in the US since at least the 1970s and that it has fallen further behind the US over the past decade (Chart 25). This growing labour productivity 'gap' is indicative of Australia's poor competitiveness across a range of factors that affect our productivity and performance, absolutely and relative to our global peers.

Chart 22: Real minimum wages per year to 2016 (2015 US dollars, PPP basis)



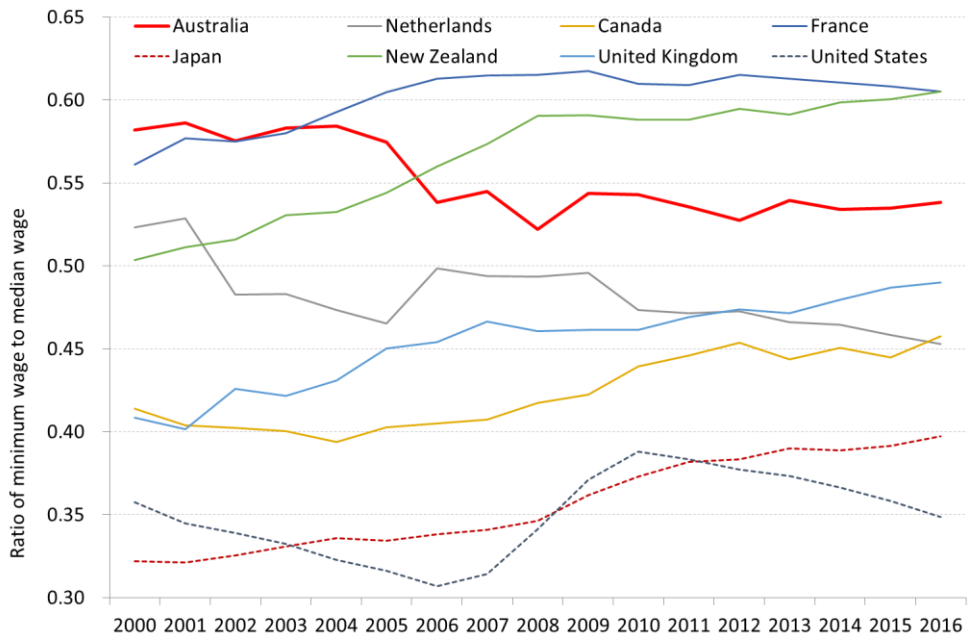
Source: OECD, *Real minimum wages, OECD.Stat Online.*

Chart 23: Real minimum wages per hour to 2016 (2015 US dollars, PPP basis)



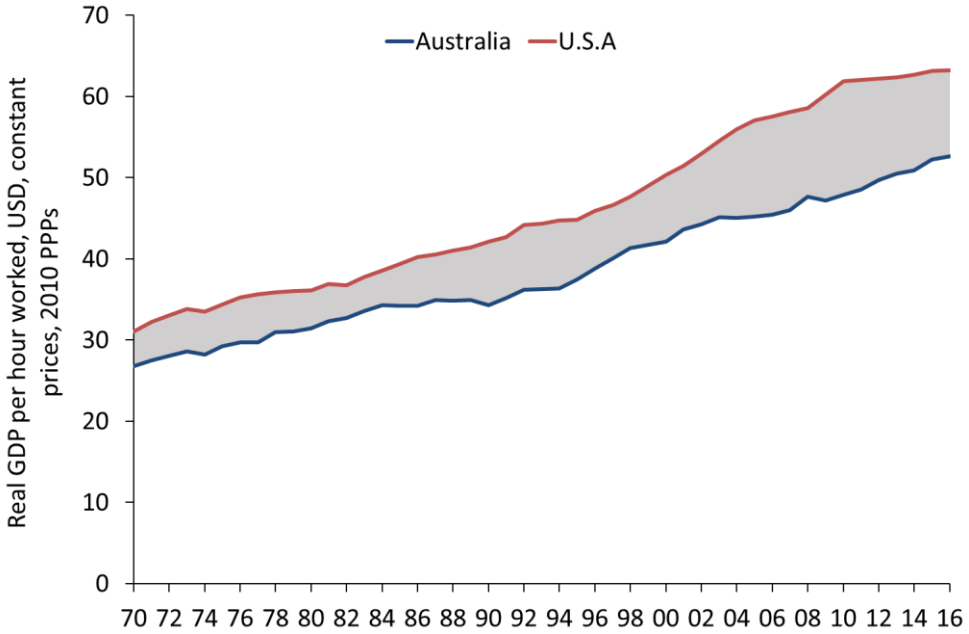
Source: OECD, *Real minimum wages, OECD.Stat Online.*

Chart 24: Real minimum wages ratio to median wages for full-time workers to 2016



Source: OECD, *minimum wage ration to average wages of full-time workers, OECD.Stat Online.*

Chart 25: Labour productivity 'gap' between Australia and USA to 2016



Source: OECD, *Real GDP per hour worked, OECD.Stat Online.*

Australia's ranking in the World Economic Forum's (WEF) Global Competitiveness Report ticked up one place to 21st most competitive in 2017-18, out of 137 economies. Australia has ranked 21st or 22nd since 2013-14 and has ranked outside the top 20 countries since 2012-13 (chart 26). Australia scored 5.2 points out of a possible 7 points in 2017-18, the same score as in 2016-17 and the same score as from 2007-8 to 2009-10. Australia scored 5.10 points from 2010-11 to 2015-16. This

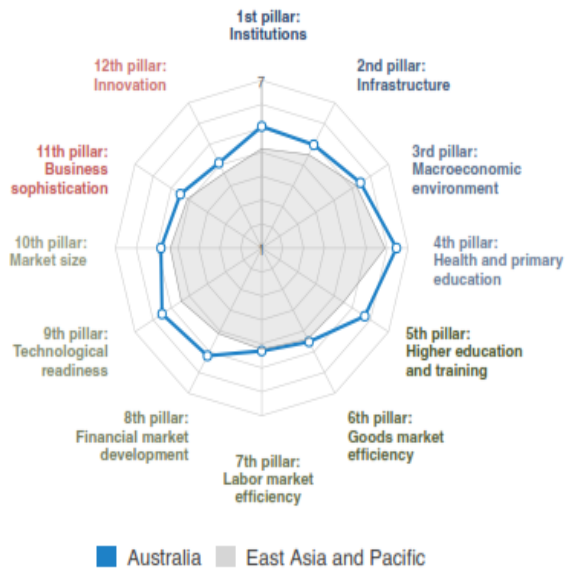
combination of a marginally better rank but a broadly stable score indicates Australia's business environment is effectively standing still, while other nations improve (or deteriorate) around us.

Beneath this stable headline, this year's WEF results indicate Australia's performance deteriorated markedly in infrastructure (dropping from a score of 5.6 and a rank of 17th in 2016-17 to 5.3 to and 28th in 2017-18) due to worsening scores for communications infrastructure. This was balanced out by marginal improvements in a number of other key performance areas. Among the main 'pillars' in the WEF indexes, Australia continues to rank in the top 10 of global economies for only our financial markets (6th best) and higher education and training (9th best) (chart 26).

Chart 26: Australia's Global Competitiveness 2017-18: rank and score for 12 'pillars'

Index Component	Rank/137	Score (1-7)	Trend	Distance from best
Global Competitiveness Index	21	5.2		
Subindex A: Basic requirements	18	5.7		
1st pillar: Institutions	18	5.4		
2nd pillar: Infrastructure	28	5.3		
3rd pillar: Macroeconomic environment	27	5.7		
4th pillar: Health and primary education	12	6.5		
Subindex B: Efficiency enhancers	13	5.3		
5th pillar: Higher education and training	9	5.9		
6th pillar: Goods market efficiency	28	4.9		
7th pillar: Labor market efficiency	28	4.7		
8th pillar: Financial market development	6	5.5		
9th pillar: Technological readiness	27	5.7		
10th pillar: Market size	22	5.1		
Subindex C: Innovation and sophistication factors	27	4.7		
11th pillar: Business sophistication	28	4.9		
12th pillar: Innovation	27	4.5		

Edition	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Rank	20 / 144	21 / 148	22 / 144	21 / 140	22 / 138	21 / 137
Score	5.1	5.1	5.1	5.1	5.2	5.2

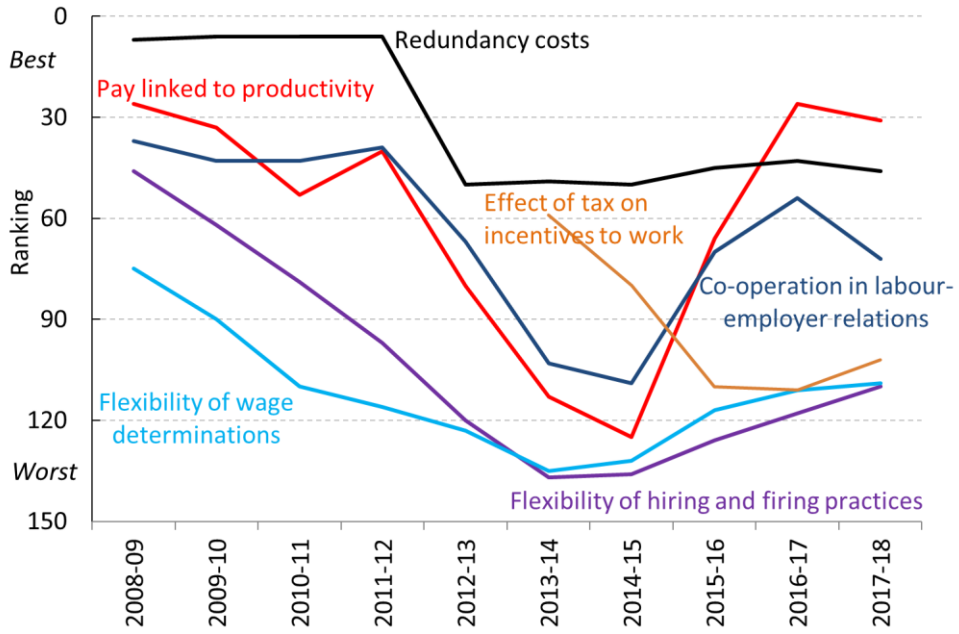


Source: WEF, *Global Competitiveness Report*, September 2017.

With regard to the 'labour market efficiency' pillar (which looks at labour market flexibilities but does not include any measures of relative wage costs), Australia continued to score and rank poorly in 2017-18 but showed some improvement in three key sub-indexes (chart 27):

- The flexibility of 'hiring and firing practices' (a score of 3.2 out of 7 points and a rank of 110th, which was a small improvement from 3.1 points and 118th in 2016-17 and a second year of improvement):
- The 'effect of taxation on incentives to work' (a score of 3.4 out of 7 points and a rank of 102nd, up marginally from 3.2 points and 111th in 2016-17); and
- The 'flexibility of wage determinations' (a score of 4.4 out of 7 points and a rank of 109th, up marginally from 4.3 points and 111th in 2016-17), which largely reflects the strength of centralised wage setting versus decentralised workplace-based wage setting arrangements.

Chart 27: Australia's Global Competitiveness: Labour Market Efficiency Indicators



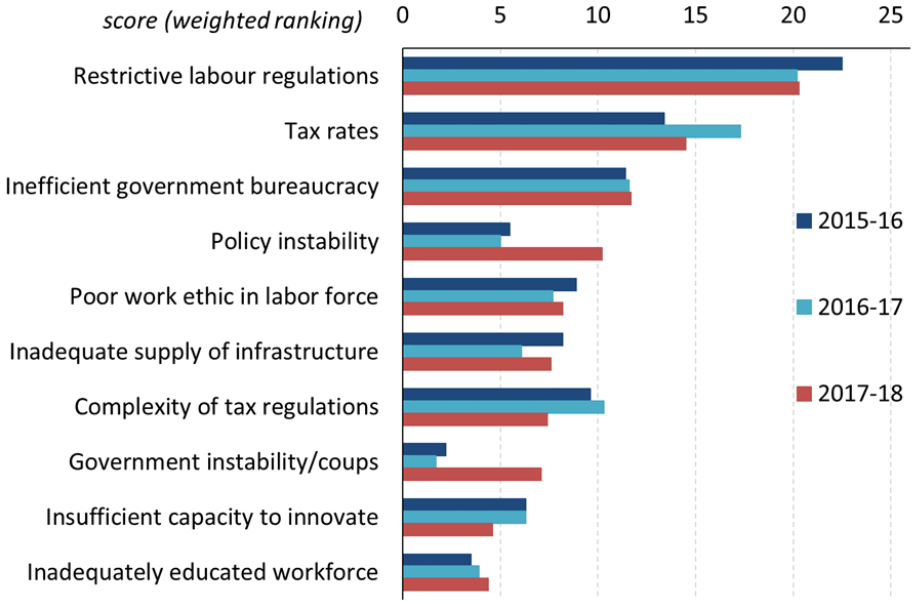
Source: WEF, *Global Competitiveness Report*, September 2017.

This year marked a significant shift in the factors identified as 'problematic to doing business in Australia'. 'Restrictive labour regulations' and 'tax rates' were again identified as problems by more CEOs doing business in Australia than other factors, but there was a notable increase in concern about the impact of 'inadequate supply of infrastructure', 'policy instability' and 'political instability' on business competitiveness in 2017-18, compared to 2016-17 and previous years (chart 28).

Compared to earlier years, concerns have also become slightly more pronounced in 2017-18 (and in 2016-17) regarding problems of 'poor work ethics' and 'inadequately educated workforce', although these concerns still rank much lower than many other factors affecting competitiveness.

Concerns abated in 2017-18 regarding Australia's 'tax rates' and the 'complexity of tax regulations'. This might reflect the cut to the company tax rate for some (but not all) businesses in 2017 and reductions in payroll tax rates for some (but not all) businesses in some (but not) all states. Concerns about 'insufficient capacity to innovate' on the part of business and government also abated in 2017-18, relative to the previous two years.

Chart 28: Australia's Global Competitiveness: 'most problematic factors for doing business'*



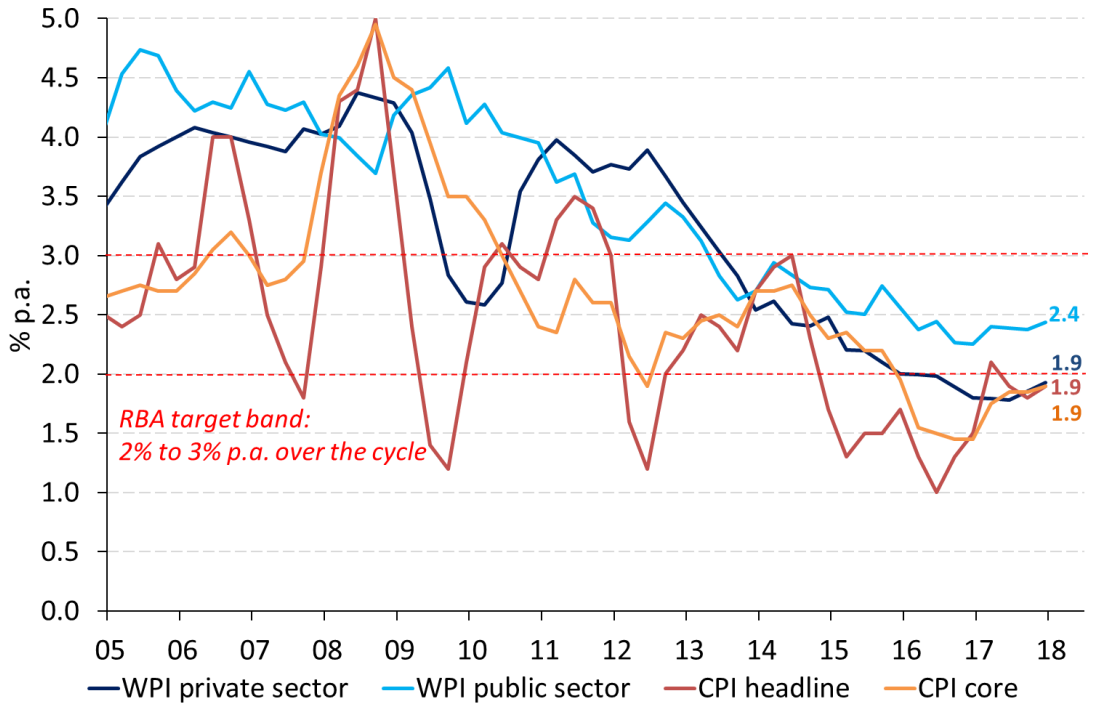
* From this list of factors, respondents were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5 (least problematic). The score corresponds to the responses weighted according to their rankings. Source: WEF, *Global Competitiveness Report*, September 2017.

2.7 Wages

The factors and trends outlined above - including: ongoing spare capacity in the labour market; weak background inflation; poor productivity growth; and a challenging global competitiveness position - appear to be holding down growth in wages and incomes in Australia. This slow pace in incomes growth is evident across the board and not just at the low end of the income scale.

The latest wages data suggest Australia may have tentatively lifted off the trough in this current wages and prices cycle. The ABS Wage Price Index for the December quarter (Q4) of 2017 grew by 0.6% q/q and 2.1% p.a. This is slightly faster than 2.0% p.a. in Q3 2017 and the record lows experienced in late 2016 and early 2017 of 1.9% p.a. (see chart 29). Wage growth in Q4 2017 continued to be stronger in the public sector and in services industries dominated by the public sector (such as healthcare, public administration and education), driven by a handful of new public sector enterprise agreements. Public sector wages increased by 0.6% q/q and 2.4% p.a. largely because of bigger public-sector health care (0.9% q/q) and education (0.8% q/q) increases. Private sector wage growth was more subdued at 0.5% q/q for a fourth consecutive quarter and 1.9% p.a.

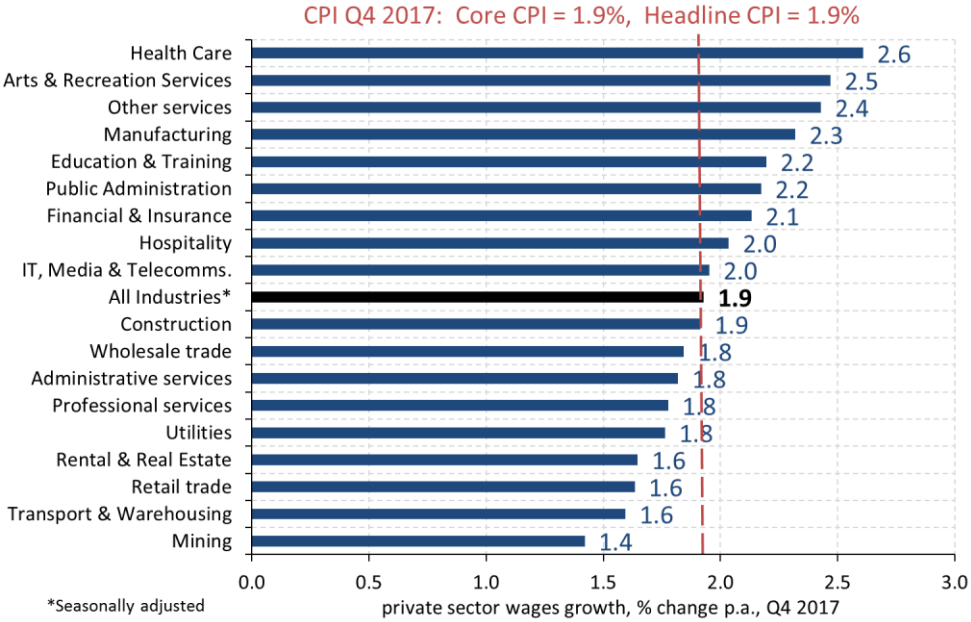
Chart 29: CPI (headline and core) and WPI (public and private sector), % p.a.



Source: ABS, CPI and Wage Price Index, Dec 2017

Across Australia's private sector, wage growth ranged from 1.4% p.a. in mining to 2.6% p.a. in healthcare. Private sector wage growth remained stronger than core inflation for half of the industries and including many of the largest employing industries (see chart 30). Private sector wage growth was strongest in healthcare (+2.6% p.a.), followed by arts & recreation (2.5% p.a.), other services (2.4% p.a.) and manufacturing (2.3% p.a.). Private sector wage growth was weakest in mining (+1.4% p.a.), transport & warehousing (1.6% p.a.), retail (1.6% p.a.) and rental & real estate services (+1.6% p.a.). (see chart 30).

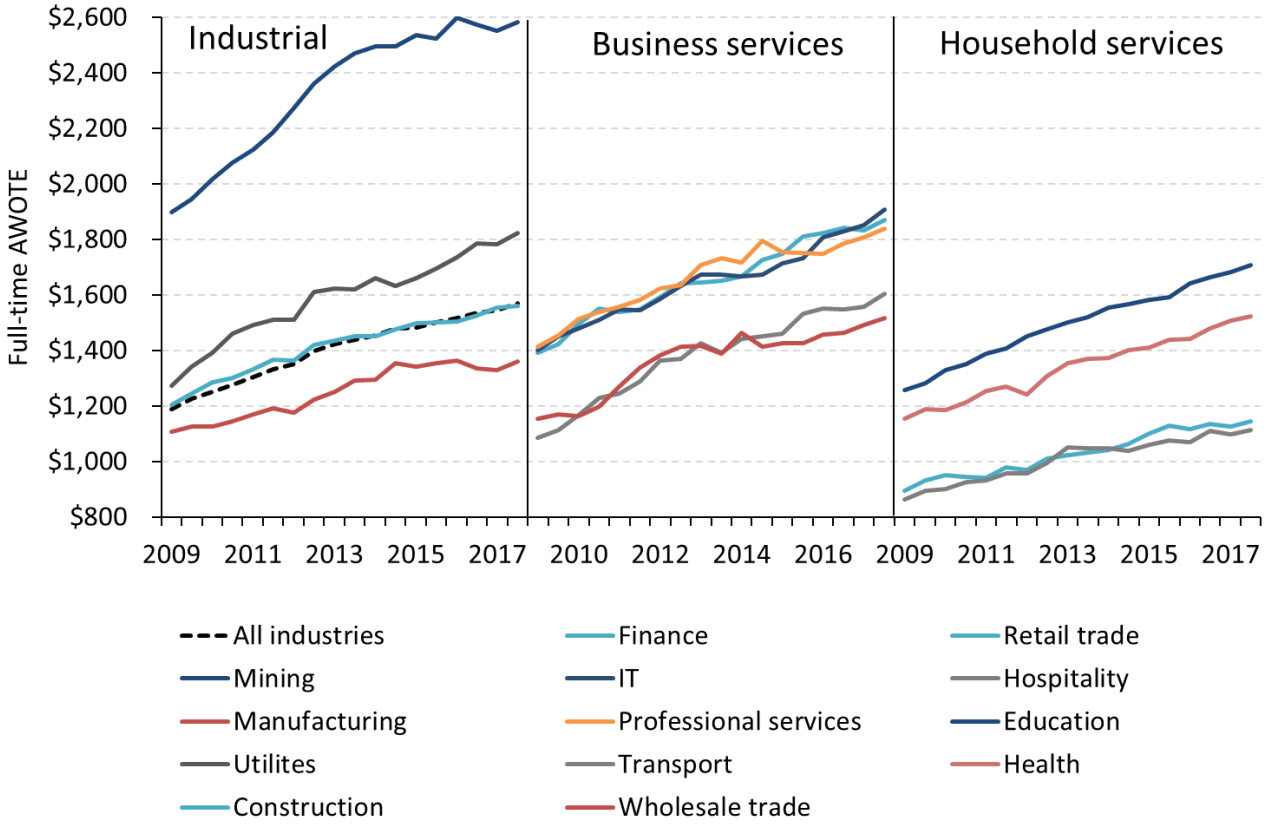
Chart 30: Private sector wage price index changes, Q4 2017



Source: ABS, CPI and Wage Price Index, Dec 2017

In dollar terms, the ABS estimates that nominal Full-time Average Weekly Ordinary Time Earnings (AWOTE) for full-time workers increased to $1,569.60 in November 2017, up 2.4% from a year earlier. Across industries, private sector employees in mining remain the highest paid, even though their average pay had fallen from recent boom-time peaks (chart 31). All industries experienced increases in nominal AWOTE over the six months to November 2017. AWOTE in IT, media and telecommunications overtook AWOTE in finance & insurance and professional services (chart 31).

Chart 31: Nominal full-time AWOTE by industry, to Nov 2017

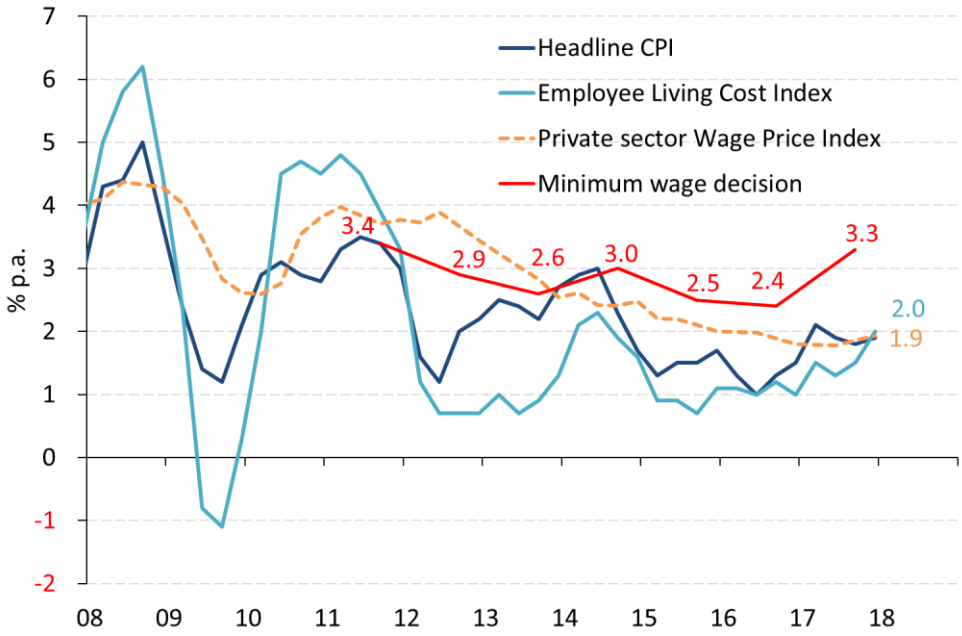


Source: ABS, Average Weekly Earnings, November 2017

The persistence of very weak background inflation (wages and prices) over several years means that:

- The last four annual minimum wage decisions have been stronger than average annual wage rises for all private sector employees; and
- The last six annual minimum wage decisions have been stronger than average annual changes in headline inflation (CPI) or living cost indexes for employees in those years (see chart 32), which implies reasonably positive growth in the minimum wage in real terms.

Chart 32: Annual change in prices, wages and living cost indexes, to Q4 2017



Sources: ABS and FWC.

3. Statutory considerations

The Expert Panel is required to conduct each Annual Wage Review in accordance with the *Fair Work Act 2009* (**FW Act**).

In previous Annual Wage Reviews, a number of important observations have been made by the Panel in respect of the manner in which it is to carry out its statutory task, including:

1. The following legislative provisions are particularly relevant: the object of the FW Act in section 3; the modern awards objective in subsection 134(1); and the minimum wages objective in subsection 284(1).

2. The Panel's task is to consider relevant statutory matters in the context of the prevailing economic and social environment.[4]

3. No particular primacy is to be given to any of the specific factors that the Panel must take into account.[5]

[4] *Annual Wage Review 2015-2016 Decision*, [4].

[5] *Annual Wage Review 2016-2017 Decision*, [129].

4. The relative living standards of employees are affected by the level of wages that they earn, the hours they work, tax-transfer payments and the circumstances of the households in which they live. It is therefore necessary to have regard to a range of measures of the relative living standards of the low paid and the household circumstances in which they live.[6]

5. In determining the award wage increases that would be consistent with the need to provide a 'fair and relevant safety net of terms and conditions'[7] (s.134), fairness is to be assessed from the perspective of both employees and employers, and the term 'relevant' is intended to convey that modern awards should be suited to contemporary circumstances.[8]

6. Even though the 'need to encourage collective bargaining' is not an element of the minimum wages objective, this is an important consideration for the Panel because it is an element of the modern awards objective.[9]

7. While the statutory provisions relating to the Annual Wage Review are properly characterised as 'remedial or beneficial provisions', the extent to which they are to be given 'a fair, large and liberal' interpretation in pursuit of that broad purpose is constrained by the fact that the relevant provisions seek to strike a balance between competing interests.[10]

8. As part of its decision-making process, the Expert Panel must first form a view about the proposed increase to the National Minimum Wage and then takes that proposal into account in exercising its powers to vary award minimum wages.[11]

4. A fair and relevant safety net

The Expert Panel is tasked with determining and maintaining a safety net of fair minimum wages in respect of the modern wages objective (s.284) and ensuring that modern awards, together with the National Employment Standards, provide a fair and relevant safety net of terms and conditions – the modern awards objective (s.134).

In its 2016-2017 decision, the Panel summarized and adopted particular observations in the *Penalty Rates Decision* [12] relating to the construction of the phrase *"fair and relevant safety net of terms and conditions"* in the modern awards objective:[13]

---

[6] *Annual Wage Review 2015-2016 Decision*, [397].

[7] s.134 of the FW Act.

[8] *Annual Wage Review 2016-2017 Decision*, [123] – [125].

[9] *Annual Wage Review 2015-2016 Decision*, [519].

[10] *Annual Wage Review 2016-2017 Decision*, [142].

[11] *Annual Wage Review 2015-2016 Decision*, [5].

[12] *Annual Wage Review 2016-2017 Decision*, [123] – [125].

[13] [2017] FWCFB 1001, [117]-[119].

- Fairness is to be assessed from the perspective of both employees and employers covered by the modern award in question; and

- The term 'relevant' is intended to convey that modern award should be suited to contemporary circumstances.

The Panel concluded that these observations in respect of the modern awards objective would apply in equal force to the meaning of those words in the minimum wages objective.[14]

Accordingly, fairness in the context of both the minimum wage and the safety net of terms and conditions in modern awards and the NES, should take into account the perspective of employers including their capacity to absorb increases and to maintain their competitiveness .

Further, fairness should also involve consideration of not just the rates of minimum wages paid to employees but also the amount of work available at different wage rates. It is the combination of these that determines individuals' income from wages. The Panel should be mindful of the unfairness that would arise when an increase in minimum wage rates resulted in lower quantities of work available particularly for the most vulnerable members of the workforce (relative to the levels that would have been the case in the absence of the wage rise).

In a dynamic labour market, fairness in the determination and maintenance of a fair and relevant safety net for employees should, in addition to existing employees, also take into account potential employees whose opportunities of finding work would be reduced as minimum wages rise. This applies to potential new entrants into the labour force; people actively looking for work; and people who, because of the current weakness of the labour market, have been temporarily discouraged from actively looking for work.

It is instructive to note that the employment growth of around 400,000 in 2017 was associated with generally moderate growth in wages. While this was an unambiguously positive outcome, the unemployment rate remains well above five per cent and the underemployment rate remains at close to historical highs. According to the latest ABS labour force data:[15]

- The unemployment rate is 5.5 per cent (in trend terms) and the number of active jobseekers stands at 720,200 (only 2.4% fewer than a year earlier).

- In November 2017, the number of underemployed people was 1,098,900 - a reduction of a mere 1/10th of a percentage point on a year earlier. The rate of underemployment, at 8.4 per cent of the workforce, was driven lower over the previous year mainly by the increase in the workforce rather than by the fractional fall in the level of underemployment.

[14] [2017] FWCFB 1001, [127].

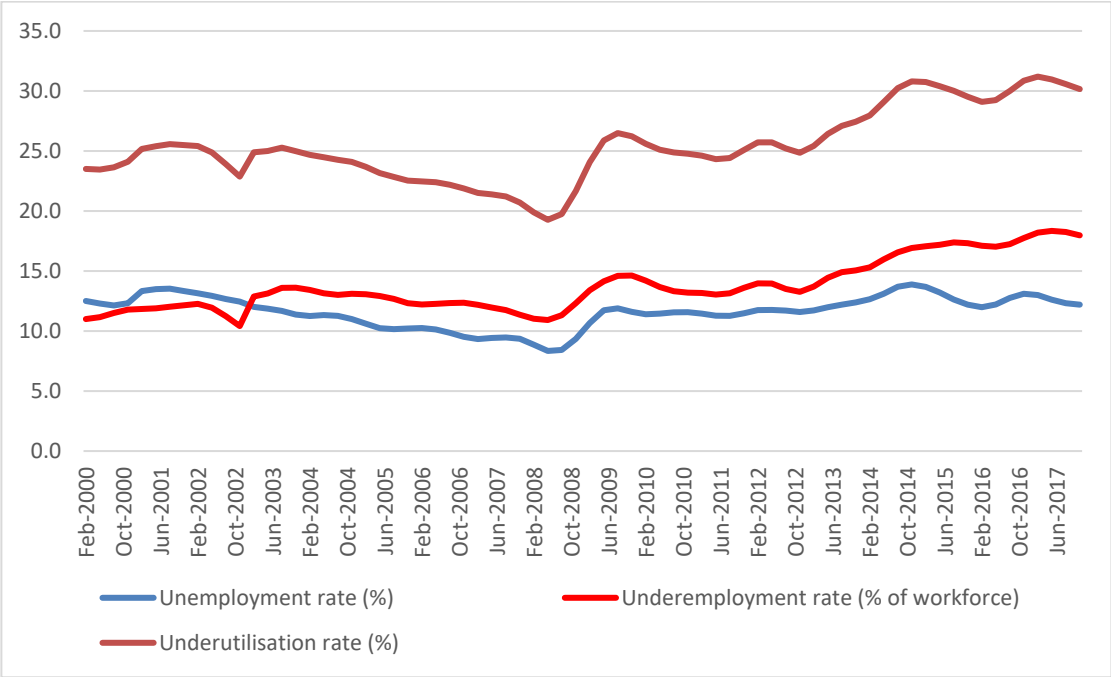
[15] The data below are drawn from ABS 6202.0, *Labour Force Australia*, February 2018.

- The labour force underutilisation rate, which is a broader measure of underutilisation than either the unemployment rate or the underemployment rate, at 13.8 per cent of the workforce in November2017, remains elevated.

- One in every 7.25 people in the workforce were either unemployed or underemployed in November 2017.

Particular note should be made of the extent of youth unemployment, underemployment and underutilisation. Recent ABS data show that for each measure, labor market outcomes are more than twice as bad for people aged between 15 and 24 than they are for the workforce as a whole. The ABS data are summarised in Chart 33.[16]

Chart 33: Youth unemployment, underemployment and underutilization, February 2000 – November 2017



Source: ABS 6202.0, *Labour Force Australia*, March 2017

Thus, notwithstanding the strong employment growth over the previous year, there remains considerable underutilisation of the labour force. There are clear risks in this environment that a high increase in minimum wage rates would slow employment growth and contribute to a reversal of the recent tentative inroads into labour force underutilisation.

To put it more positively, the Panel has an opportunity to assist further employment growth and additional inroads being made into unemployment and underemployment by deciding on a moderate increase in minimum wage rates, as proposed in this submission.

[16] ABS 6202.0, *Labour Force Australia*, March 2017.

5. Relative living standards and the needs of the low paid

The FW Act charges the Fair Work Commission with establishing and maintaining a safety net of minimum wages, taking into account, among other things, questions relating to 'relative living standards and the needs of the low paid.'

Relative living standards and the needs of the low paid are shaped by a very wide variety of factors. These include wage rates, availability of work, hours worked, continuity of employment and the family/household situation of low paid employees. They are also shaped by individuals' and households' access to the broader social safety net which, in addition to the public health and education systems and public support for childcare, also includes Australia's well-developed and highly-progressive income tax and transfer systems.

5.1 Underemployment

In our Annual Wage Review submissions of the past few years, we have emphasised the significance of the high incidence of underemployment in Australia. We have suggested that high levels of underemployment are clearly relevant to both the relative living standards and the needs of low paid employees, whose opportunities to find additional hours of work risk being diminished if minimum wage rates rise to deter employers from offering additional hours of work.

Offering more or fewer hours to part-time employees is a more flexible, less expensive and more likely area of response by employers to changes in wage rates compared with the more costly alternative of adding to or reducing the number of people employed. While changes in the total quantity of jobs on offer clearly remains relevant to the consideration of the impacts of changes in minimum wage rates on relative living standards and the needs of the low paid, the more sensitive margin of impact is very likely to be felt in changes to the quantity of hours offered to part-time employees.

We remain concerned that with considerable excess capacity evident in the labour market, an excessive rise in minimum wage rates could have the apparently paradoxical impacts of worsening relative living standards for households whose members faced a high risk of underemployment and detracting from rather than enhancing the ability of low paid people to contribute to meeting their needs from employment.

In our Minimum Wage Submission last year we pointed to research commissioned by the Fair Work Commission on the incidence of award-reliant employees across Australia's household income distribution[17] to highlight the vulnerability of low-income employees to underemployment.

[17] Carlos Jimenez and David Rozenbes, *Award-reliant workers in the household income distribution*, Fair Work Commission Research Report 1/2017, February 2017.

The high incidence of part-time employment among award-reliant employees and the greater incidence of part-time employment among award-reliant employees in lower income employee households uncovered by the research illustrate the vulnerability of these employees to underemployment. This heightened vulnerability of award-reliant part-time employees in lower income households is where the disemployment impacts of excessive rises in minimum wage rates will be most keenly felt. Underemployment remains high in Australia and it fell by only 1/10th of a per cent in the year to November 2017. Neither relative standards of living nor the needs of the low paid would be advanced and in fact could be worsened if the disemployment impacts of a rise in wage rates further exposed these vulnerabilities.

Accordingly, in order to reduce these risks of detrimental impacts on the relative living standards and the needs of the low paid, Ai Group recommends the Panel adopts our proposal for a modest increase in minimum wage rates.

5.2 Budget Standards Research

Recent research on Budget Standards presented to the Fair Work Commission[18] provides important insights into the needs of low paid households. While the study reveals a wealth of contestable methodological and measurement issues that deserve close examination, there are two sets of results that are particularly pertinent to the consideration of relative living standards and the needs of the low paid. There are:

- For low-paid households there is a wide variation in the calculated adequacy of Safety net income relative to the relevant Grossed-up Budget Standard. The calculated adequacy assessed in the research for a set of household types ranges from +$61.91 to -$88.74 depending on the characteristics of the individual household. For the range of household types covered by Budget Standards research, the results vary according to whether there are other adults in the household; whether other adults in the household are employed; whether there are children; and the number of children.

- For each of the categories of households considered, the Safety net income is greater for low-paid households than it is for unemployed households. Moreover, even though the Grossed-up Budget Standards for each household type is lower for unemployed households than for low-paid households, the discrepancy between the Grossed-up Budget Standard and the Safety net income is greater for unemployed households than it is for low-paid households.

The variations in calculated adequacy of Safety-net income for low paid households, reinforces an argument that Ai Group has being making for well over a decade: namely that, for all its virtues, minimum wage setting which does not and indeed cannot discriminate between low-wage earners

[18] Peter Saunders and Megan Bedford, S, *New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians,* Social Policy Research Centre, University of New South Wales, August 2017.

according to the range of household characteristics, is ill-suited to the task of addressing the needs of low-income households. Low-paid employees live in rich as well as low and middle-income households; they may or may not have children; they may or may not have other caring responsibilities; they may or may not have partners who may or may not also be in the workforce; and they, or other members of their household, may have non-wage sources of income.

Certainly, minimum wage setting is a considerably less-effective social policy instrument than the broader system of income support that has developed in Australia. This system is practiced in making allowance for a very wide range of family and household circumstances.

While we welcome the Budget Standards research, we are very wary of it being used to support an argument to raise minimum wage rates to address discrepancies between calculated Grossed-up Budget Standards and the Safety net level of income for particular household types. We are particularly concerned that adjusting wage rates to address this discrepancy would raise the risks of disemployment both for this household type and for all other low-paid households including low-paid household types for which no discrepancies between calculated Grossed-up Budget Standards and the Safety-net level of income is suggested.

It is instructive to note in this context that, according to the research under discussion, for any low-paid employee who, as a result of such a wage rise, failed to find work that would otherwise have be available or lost employment, both the level of Safety net income would be lower than otherwise and the discrepancy between the level of Safety net income and the relevant Grossed-up Budget Standard household type would be greater than if they were a low-paid household. Thus, these households would suffer both an absolute and relative deterioration in their living standards (as well as experiencing the other costs of unemployment).

Ai Group supports the suggestion offered in the research that an annual process similar to that applying to minimum wage setting also be considered for the assessment of the adequacy of the broader safety net. Indeed, we suggest that the research is more directly related to effective policy possibilities in that domain than it is in the domain of minimum wage setting.

We further note that caution should be applied to the results of Budget Standards research because of the often-considerable lags in the availability of household data and the frequency of changes to both the broader social safety net and to minimum wage rates. The research under discussion is based on calculations relating to household circumstances and safety net levels as at the June quarter of 2016. Thus, among other more contemporary considerations relevant to this year's decision, the Federal Government's new Child Care Package which is considered below and which will be operative from 2 July 2018, is not reflected in the Budget Standards research.

5.3 Changes to child care assistance

In the *Annual Wage Review 2015-2016 Decision*, the Expert Panel noted:

> *'The effect of taxes and transfers on disposable incomes of the low paid is relevant to the needs of the low paid and their relative living standards, both in terms of specific changes in the tax-transfer system at the time of a particular AWR and in assessing broader information in relation to measures of the relative income of the low paid…'*[19]

The above paragraph was reproduced and concurred with in the *Annual Wage Review 2016-2017 Decision*.[20]

In considering the potential relevance of changes to tax-transfer payments to the relative income of low paid workers, in last year's decision the Panel made the following comments about upcoming changes to child care assistance to workers:

> ***[420]*** *The ACTU also drew the Panel's attention to what was then prospective legislative change related to government assistance for child care ahead of the Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Act 2016 being passed in both Houses of Parliament on 27 March 2017 and receiving Assent on 4 April 2017.*
>
> ***[421]*** *The Child Care Subsidy in the Jobs for Families Child Care Package will not commence until 1 July 2018 and therefore its impact would be more appropriately dealt with in the 2017–18 Review.*

The Federal Government's new Child Care Package is operative from 2 July 2018. The Child Care Rebate and Child Care Benefit will be replaced by a single Child Care Subsidy.

A 12 November 2017 Media Release of Senator the Hon Simon Birmingham, Minister for Education and Training includes the following relevant information:

> *The Turnbull Government's child care package includes:*
>
> - *Increasing Australia's investment in early childhood education and care by $2.5 billion so that almost one million Australian families benefit.*
> - *Introducing a better targeted activity test to ensure taxpayer subsidised child care places are targeted to those who depend on it in order to work, or work more hours.*
> - *Delivering the highest rate of subsidy to those on the lowest income levels and more hours of subsidy to those who work the most. We're increasing the base subsidy from*

[19] *Annual Wage Review 2015-2016 Decision*, [391].

[20] *Annual Wage Review 2016-2017 Decision*, [406].

around 72 per cent to 85 per cent for the more than 370,000 families earning around $65,000 or less a year.

- *Low and middle income families, earning up to around $185,000, will no longer be limited by an annual $7,613 cap on the amount of subsidised child care they can access – that's more than 85 per cent of families using child care and means families won't run out of subsidy mid-year as happens now. Families earning more than around $185,000 will also benefit from an increased cap of $10,000.*

- *A $1.2 billion Child Care Safety Net will support vulnerable children and families who need extra support*

The changes to child care support arrangements will provide a significant benefit to most low income workers who are currently receiving childcare assistance from the Federal Government. Accordingly, it is appropriate for the Panel to award a lower minimum wage increase in this year's Annual Wage Review than the increase that would have otherwise been awarded.

6. Promoting social inclusion through increased workforce participation

The FW Act charges the Fair Work Commission with establishing and maintaining a safety net of minimum wages, which requires consideration of, among other things, the objective of 'promoting social inclusion through increased workforce participation'.

In the *Annual Wage Review 2016-2017* decision, the Expert Panel endorsed the following construction of s.284(1)(b) of the Act:[21]

> *'This involves a consideration of the increased incentives that higher minimum wages can provide to those not in employment to seek paid work, balanced against potential impacts on the demand for low-paid workers and hence the supply of low-paid jobs, from large increases in minimum wages.'*

As we have made clear in previous submissions, Ai Group recognises the importance of participation in the paid workforce for social inclusion. Participation in the paid workforce can be closely linked to individuals' sense of self-worth and it can signal the contributions people make to the well-being of the broader community. In addition, of course, participation in paid work can provide the financial means by which people can participate in many aspects of social life.

It is sometimes suggested that raising minimum wage rates is a means by which social inclusion can be promoted by encouraging people to participate in the workforce (or to lift their participation in the workforce from existing levels). However, such encouragement would only have a positive impact on social inclusion if it leads to actual increases in participation in paid work.

[21] *Annual Wage Review 2016-2017 Decision*, [493].

Indeed, lifting minimum wage rates may reduce participation in paid work (below the level that would otherwise apply) if, by making labour more costly, it reduced employers' demand for labour (again, relative to the levels of demand that would apply if wage rates were lower).

As discussed in Section 2.2 above, while wage growth has been relatively low in historical terms, participation rates increased over the past year. This is clear evidence that, at current wage rates, there are already strong incentives for people to look for work and that the extra participation is closely linked to the rise in demand for labour (and the greater prospects of finding a job).

Current levels of unemployment and underemployment indicate that there is still a considerable underutilisation of the labour available at current wage rates. With supply still exceeding demand in aggregate, there is certainly no need to lift minimum wage rates in order to unearth additional labour supply.

There is a very strong opportunity in the period ahead to further lift participation in paid work and the quantity of hours of work offered to existing members of the workforce by further encouraging strong demand for labour. Across the economy this encouragement will be best achieved by further moderate wages growth. For employees paid minimum rates, their greater participation in paid work and through this, their greater social inclusion, will be facilitated by a moderate increase in minimum wages rates as proposed in this submission.

7. Encouraging collective bargaining

The Expert Panel must take into account the need to encourage collective bargaining, as set out in s.134(1)(b) of the modern awards objective.

It is important that the level of increase in minimum wages awarded by the Panel does not limit the scope or motivation for bargaining over wages at the enterprise level. It is Ai Group's experience that the level of the minimum wage increase granted in the Annual Wage Review is a factor considered by employers and employees when deciding whether to pursue the making of an enterprise agreement; the higher the minimum wage increase granted by the Panel, the less likely an employer and its employees will seek an enterprise agreement.

For this reason, the level of any minimum wage increase should generally be set at a level that is lower than average annualized wage increases in enterprise agreements. On 10 January 2018, the Department of Employment released its report on *Trends in Federal Enterprise Bargaining* for the September 2017 quarter. The results are summarised in the following table.

Table 3: Average annualised wage increases (AAWI) in enterprise agreements – Agreements approved in the September 2017 quarter.

Industry Sector or Type of Agreement	AAWI (%) in September 2017	Change from June 2017 (%)
All sectors	2.2	- 0.4
Private sector	2.4	- 0.2
Public sector	2.0	- 0.5
Manufacturing	2.4	Same
Retail trade	1.1	- 1.3
Construction	3.1	- 0.6
Accommodation and Food Services	2.9	- 0.5
Mining	1.9	- 0.4
Transport, Postal, Warehousing	2.0	- 0.1
Health and community services	2.5	- 0.2
Union/s covered	2.1	- 0.5
No Union/s covered	2.5	Same

In last year's Annual Wage Review, the Panel gave consideration to the reasons why, over recent years, there has been a significant decline in the number of employees covered by collective agreements and a significant increase in award reliance. No firm conclusions were reached by the Panel on the reasons for this:

> *[636] Given the complexity of the factors which may contribute to decision making about whether or not to bargain, we are unable to predict the precise impact of our decision on collective bargaining with any confidence. 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. However, we are not satisfied that the increase we have determined in this Review will encourage collective bargaining and this is a factor we have taken into account, and balanced against the other matters we are required to consider, in determining the outcome of this Review.*[22]

In its submissions to the FWC's *Loaded Rates in Agreements Case,*[23] which is being heard by a 5-Member Full Bench of the Commission, Ai Group has expressed significant concerns about the Commission's current approach to assessing enterprise agreements. In our view, the Commission's current approach, which makes extensive use of a team of employees called 'Agreement Assessors', is overly theoretical, overly risk-averse and not sufficiently practical. In our experience, the widespread delays and other problems that are currently occurring are imposing a very substantial barrier to agreement-making. While some of the current impediments are due to problematic drafting of various provisions of the FW Act (e.g. s.193 – Passing the better off overall test), and the absence of an express provision in the Act which allows the Commission to overlook minor

[22] *Annual Wage Review 2016-2017 Decision*, [636].

[23] AG2017/1925, AG2017/1943, AG2017/2228, AG2017/3027, AG2017/2569, AG2017/2558.

procedural defects in the agreement-making process, in Ai Group's view, many of the problems are due to the Commission's current approach at the approval stage

Despite this, we agree with the view expressed by the Panel in last year's Annual Wage Review that there are many complex factors that may contribute to decisions of employers and employees about whether or not to bargain, and that minimum wages are only one element of the incentive to bargain.[24]

8. The principle of equal remuneration for work of equal or comparable value

Subsection 284(1) of the FW Act set out the minimum wages objective, which the Expert Panel is required to consider when setting minimum wages. Paragraph (d) of the objective requires the Panel to turn its mind to *"the principle of equal remuneration for work of equal or comparable value"*, a principle which is echoed in the modern awards objective at paragraph 134(1)(e) of the Act.

Ai Group supports the principle of equal remuneration for work of equal value and the importance of improving gender equality in the workplace. We have been a vocal advocate for realistic, practical and targeted measures to eliminate the causes of gender inequality in the workplace.

In the *Annual Wage Review 2016-2017 Decision*, the Panel observed that:

- Modern award minimum rates are structured to provide equal remuneration for work of equal or comparable value both within and across awards.[25]
- The grant of a uniform percentage adjustment to the National Minimum Wage and modern award wage rates would be the approach most consistent with the equal remuneration principle.[26]
- In relation to the gender pay gap, women are disproportionately represented among the low paid and hence an increase in minimum wages is likely to promote gender pay equity, although a moderate increase in minimum wages would be likely to have a relatively small effect on the gender pay gap.[27]
- The other mechanisms available under the FW Act, such as bargaining and equal remuneration provisions, provide a more direct means of addressing the gender pay gap.[28]

[24] *Annual Wage Review 2016-2017 Decision*, [634]-[637].

[25] *Annual Wage Review 2016-2017 Decision,* [642].

[26] *Annual Wage Review 2016-2017 Decision,* [676].

[27] *Annual Wage Review 2016-2017 Decision,* [677].

[28] *Annual Wage Review 2016-2017 Decision,* [677].

When the above observations are considered, it is evident that the increase that Ai Group has proposed in this submission is consistent with the principle of equal remuneration for work of equal or comparable value.

9. Penalty Rates Decision

On 23 February 2017, a Full Bench of the Fair Work Commission issued the *4 Yearly Review of Modern Awards - Penalty Rates Decision.*[29] The Decision:

- adjusts Sunday penalty rates in the *Fast Food Industry Award 2010*, the *General Retail Industry Award 2010*, the *Hospitality Industry (General) Award 2010*, and the *Pharmacy Industry Award 2010*; and

- adjusts public holiday penalty rates in the above awards and in the *Restaurant Industry Award 2010*.

The Full Bench determined that the existing Sunday penalty rates in the four relevant modern awards did not achieve the modern awards objective, as they did not provide for a fair and relevant safety net. The statutory considerations required of the Expert Panel in the current proceedings were considered by the Full Bench in the *Penalty Rates Decision*, including: the objects of the FW Act (s.3); the modern awards objective (s.134); and the minimum wages objective (s.284).

The *Penalty Rates Decision* applies only to a small number of awards in the hospitality and retail industries. In this regard, the Full Bench said:

> *[76] It is important to appreciate that the conclusions we have reached in relation to the weekend and public holiday penalty rates in the Hospitality and Retail Awards is largely based on the circumstances relating to these particular awards. The Hospitality and Retail sectors have a number of characteristics which distinguish them from other industries.*

The adjustments to Sunday penalty rates in the relevant awards are being phased-in over 3-4 years. The first increment was operative from 1 July 2017 and the second increment is operative from 1 July 2018. Even though the *timing* of the adjustments has been sensibly aligned with the operative date of any minimum wage increase in Annual Wage Review decisions, it would be inappropriate for the *quantum* of any minimum wage increase to be any higher as a result of the *Penalty Rates Decision*. This would negate the intended beneficial effects of the *Penalty Rates Decision* in the relevant industries. This would also be unfair to businesses in other industries that have not received the benefit of adjusted penalty rates.

[29] [2017] FWCFB 1001.

In this regard, we note the following observations of the Expert Panel in the *Annual Wage Review 2016-2017 Decision*: (Emphasis added)

> "T*he Penalty Rates Decision will, over time, reduce the employment costs of some employers covered by the Hospitality and Retail Awards affected by the decision. It is not appropriate to take account of the decision in some quantifiable or mechanistic way to support a particular level of increase in the NMW or in modern award minimum wages...*"[30]

10. Minimum wages for adults

In setting minimum wages this year, Ai Group proposes a **1.8 per cent** wage increase for all classifications. This equates to an increase of about $12.50 per week in the National Minimum Wage and about $14.60 per week at the base trade level.

The proposed minimum wage increase takes into account the following factors:

1. An excessive increase would reduce the job security of low paid workers and would reduce employment opportunities for the unemployed and underemployed.

2. Despite some improvements in GDP and employment growth, national disposable income growth remains weak.

3. Unemployment and underemployment rates continue to indicate considerable spare capacity.

4. Businesses are under pressure. Steep energy price rises are proving difficult to pass on to customers and are squeezing margins across a wide range of industries.

5. Productivity growth has been exceedingly weak over the past decade and over the current productivity growth cycle.

6. Global competitiveness is a key risk for Australian businesses. Australia already has one of the highest national minimum wage rates in the world, and most Australian workers are entitled to minimum award wage rates that are higher than the National Minimum Wage.

7. Currently background inflation in Australia is weak and this means that a smaller minimum wage increase will generate real wage increases for workers, including those in low-wage jobs.

8. The 3.3 per cent minimum wage increase awarded by the Panel last year was exceptionally high and it is essential that the increase awarded by the Panel this year is much more modest.

9. The need to provide a fair and relevant safety net;

[30] *Annual Wage Review 2016-2017 Decision*, [29].

10. The relative living standards and the needs of the low paid;

11. The promotion of social inclusion through increased workforce participation;

12. The need to encourage collective bargaining; and

13. The principal of equal remuneration for work of equal or comparable value.

When all of the above factors are taken into account and weighed up, it can be seen that a 1.8% minimum wage increase is appropriate.

11. Modern award wages for junior employees, employees to whom training arrangements apply, employees with disability and pieceworkers

Consistent with previous Annual Wage Review decisions:

- The minimum wage rate resulting from this year's Annual Wage Review should flow through to the minimum award wages of junior employees, employees to whom training arrangements apply, employees with disability and pieceworkers, through the operation of award provisions relating to these employees.

- The minimum weekly payment in the Supported Wage System Schedule of awards should be adjusted to reflect any increase to the disability pension's income free threshold. This is consistent with the Panel's decisions in previous years.

12. Special national minimum wages for award / agreement free employees with disability (Special National Minimum Wage 1 and 2)

In its *Annual Wage Review 2016-2017 Decision,* the Expert Panel decided to maintain the approach it had adopted in previous years in respect of setting special minimum wages for award / agreement free employees with disability.

This approach is twofold. For employees, whose productivity is not affected, a special national minimum wage is set at the level of the National Minimum Wage (Special National Minimum Wage 1) and for employees whose productivity is affected a special national minimum wage is paid in accordance with an assessment under the supported wage system (Special National Minimum Wage 2).

Ai Group supports the continuation of the existing structures for award / agreement free employees with disability in the *National Minimum Wage Order 2018.*

13. Special national minimum wages for award / agreement free junior employees (Special National Minimum Wage 3)

In its *Annual Wage Review 2010-2011* decision, the Expert Panel decided to use the scale in the *Miscellaneous Award 2010* to set the special national minimum wage for award/agreement free junior employees. The Panel has followed this approach in subsequent Annual Wage Review decisions.

This approach remains appropriate for setting rates for award/agreement free junior employees.

14. Special national minimum wages for award / agreement free apprentices (Special National Minimum Wage 4)

In its *Annual Wage Review 2013-2014 Decision*, the Expert Panel reached the following conclusions and decision on special national minimum wages for award / agreement free apprentices, consistent with Ai Group's submissions:

> ***[613]*** *We have decided to adopt the provisions of the Miscellaneous Award 2010 as the basis for the special national minimum wages for employees to whom training arrangements apply. The national minimum wage order will incorporate, by reference, the apprentice and NTWS provisions of that award.*
>
> ***[614]*** *We also accept Ai Group's submission that the adult apprentice national minimum wage in the order should now be set in accordance with the Miscellaneous Award 2010 which, since 1 January 2014, has specified a rate for adult apprentices…."*

The Panel adopted this approach in subsequent annual wage reviews, including the 2016-2017 Annual Wage Review. Consistent with the above conclusions of the Panel, and its decision last year, the wage rates for apprentices in the *Miscellaneous Award 2010* should be adopted for the purposes of the *National Minimum Wage Order 2018*.

15. Special national minimum wages for award / agreement free employees to whom a training arrangement applies who are not apprentices (Special National Minimum Wage 5)

In the *National Minimum Wage Order 2012*, the Expert Panel decided to adopt the minimum wage rates in the National Training Wage Schedule of the *Miscellaneous Award 2010* for the special national minimum wage for award / agreement free employees to whom training arrangements apply, other than apprentices. The Panel adopted the same approach in its subsequent Annual Wage Review decisions.

Ai Group supports the continuation of the above approach in the *National Minimum Wage Order 2018*.

16. Casual loadings in modern awards

Paragraphs 285(2)(a)(i) and 284(3)(b) of the FW Act requires that the Expert Panel review casual loadings in modern awards.

The current standard casual loading in modern awards of 25 per cent is already relatively high and should not be increased.

17. Casual loading in the Business Equipment Award

The Expert Panel in its *Annual Wage Review 2015-16* decision at paragraphs [638] to [640] determined that the casual loading in the *Business Equipment Award 2010* (**Award**) be increased from 20 per cent to 25 per cent incrementally over the course of five years, commencing 1 July 2016.

We do not oppose the casual loading in the Award being increased to 23 per cent as of 1 July 2018, consistent with the phasing-in approach determined by the Expert Panel in 2016.[31]

18. Casual loading for award / agreement free employees

Paragraph 294(1)(c) of the FW Act requires that the Expert Panel set the casual loading for award / agreement free employees.

The casual loading in the *National Minimum Wage Order 2017* is 25 per cent, and a similar loading should be reflected in the *National Minimum Wage Order 2018*.

[31] *Annual Wage Review 2015-2016 Decision*, [637].

19. Process for varying modern awards to reflect the Annual Wage Review Decision

In previous years, the Commission has issued draft Determinations and a draft National Minimum Wage Order following the Annual Wage Review Decision to allow interested parties, such as Ai Group, to check the Commission's calculations and provide feedback before the final Determinations and National Minimum Wage Order were published. Ai Group urges the Expert Panel to implement the same consultative approach in this Review.

A very large number of employers rely on industry organisations, such as Ai Group, to advise them of the wage rates and allowances payable under modern awards. Ai Group provides a specific information service on most modern awards and it is a huge task for our staff to check the draft Determinations, prepare written advice on each award and distribute the advice to thousands of employers.

Keeping this in mind, we urge the Commission to publish the final Determinations with as much lead-time as possible before 1 July 2018 to enable industry associations to advise employers and then for employers to make the necessary payroll adjustments. There are substantial direct and administrative costs associated with back-paying wage and allowance increases.

20. The form of the National Minimum Wage Order 2018

In Ai Group's experience, the form of the *National Minimum Wage Order 2017* did not lead to any significant difficulties.

We suggest that the same model be used for the *National Minimum Wage Order 2018.*

21. Matters raised at the Preliminary Hearing Stage

On 23 August 2017, a research report was published entitled *'New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians'* by Peter Saunders and Megan Bedford of the Social Policy Research Centre at the University of New South Wales.

On 25 August 2017, President Ross issued a Statement inviting parties to give consideration to the report and to provide comment on the utility of holding a Preliminary Hearing to discuss the outcomes of this research.

After considering the views of Ai Group and the other parties who made submissions on the matter, the Expert Panel issued a Statement on 20 September 2017 advising that:

> ***[7]*** *In the circumstances, the Expert Panel does not propose to hold a preliminary hearing to discuss the budget standards report. Interested parties are invited to comment on the report and its relevance to the adjustment of minimum wages in the context of the Annual Wage*

Review in their submissions to be filed in accordance with the Statement confirming the timetable for the Annual Wage Review 2017–18.

The budget standards report is discussed in section 5.2 of this submission.

22. Request to participate in final consultations

The Directions for the Annual Wage Review 2017-2018 state that parties wishing to participate in the final consultations are requested to express interest by 4 May 2018.

Ai Group hereby advises that it wishes to participate in the final consultations.

AUSTRALIAN INDUSTRY GROUP METROPOLITAN OFFICES
SYDNEY 51 Walker Street, North Sydney NSW 2060, PO Box 289, North Sydney NSW 2059
WESTERN SYDNEY Suite F, Level 1 Octagon Building ,110 George Street Parramatta NSW 2150
CANBERRA Ground Floor, 42 Macquarie St, Barton ACT 2600, PO Box 4986, Kingston ACT 2604
MELBOURNE Level 2, 441 St Kilda Road, Melbourne VIC 3004, PO Box 7622, Melbourne VIC 8004
BRISBANE 202 Boundary Street, Spring Hill QLD 4004, PO Box 128, Spring Hill QLD 4004
ADELAIDE Level 1, 45 Greenhill Road, Wayville SA 5034
PERTH Suite 1, Level 4, South Shore Centre, 85 South Perth Esplanade, South Perth WA 6151

REGIONAL OFFICES
ALBURY/WODONGA 560 David Street Albury NSW 2640
BALLARAT Suite 8, 106-110 Lydiard St South, Ballarat VIC 3350, PO Box 640, Ballarat VIC 3350
BENDIGO 87 Wills Street, Bendigo VIC 3550
NEWCASTLE Suite 1 "Nautilos", 265 Wharf Road, Newcastle 2300, PO Box 811, Newcastle NSW 2300
WOLLONGONG Level 1, 166 Keira Street, Wollongong NSW 2500, PO Box 891, Wollongong East NSW 2520

www.aigroup.com.au