



Australian Government

**Australian Government
Submission**

to the

**Fair Work Commission
Annual Wage Review 2018**

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Acronyms and abbreviations

ABS	Australian Bureau of Statistics
AWOTE	Adult Weekly Ordinary Time Earnings
CCB	Child Care Benefit
CCR	Child Care Rebate
CPI	Consumer Price Index
EEH	Employee Earnings and Hours
FT	Full-time
FTB	Family Tax Benefit
GDP	Gross Domestic Product
GFC	Global Financial Crisis
HILDA	Household, Income and Labour Dynamics in Australia
MYEFO	Mid-Year Economic and Fiscal Outlook
NAB	National Australia Bank
NDIS	National Disability Insurance Scheme
NMW	National Minimum Wage
NSA	Newstart Allowance
OECD	Organisation for Economic Co-operation and Development
PPP	Parenting Payment Partnered
PPS	Parenting Payment Single
PT	Part-time
RBA	Reserve Bank of Australia
SME	Small and Medium-sized Enterprise
UK	United Kingdom
US	United States
WPI	Wage Price Index
YA	Youth Allowance

1 Introduction

1. The Expert Panel for Annual Wage Reviews ('the Panel') is required to review the national minimum wage rate and modern award wages each year.
2. The Panel must give regard to the minimum wages objective (s.284) and the modern awards objective (s.134) in the *Fair Work Act 2009*. It must balance a number of considerations as outlined in these objectives, including:
 - the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth (s.284);
 - promoting social inclusion through increased workforce participation (s.284 and s.134);
 - relative living standards and the needs of the low-paid (s.284 and s.134);
 - the principle of equal remuneration for work of equal or comparable value (s.284 and s.134);
 - providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability (s.284);
 - the need to encourage collective bargaining (s.134);
 - the need to provide additional remuneration for: employees working overtime; or employees working unsocial, irregular or unpredictable hours; or employees working on weekends or public holidays; or employees working shifts (s.134);
 - the need to promote flexible modern work practices and the efficient productive performance of work (s.134);
 - the need to ensure a simple, easy to understand, stable and sustainable modern award system for Australia that avoids unnecessary overlap of modern awards (s.134);
 - the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden (s.134); and
 - the likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy (s.134).
3. The Australian Government's submission provides the latest evidence on the economy, labour market, low-paid workers and inequality, which are relevant to the Panel's decision.
4. The Panel's decision relates to the national minimum wage rate and 122 modern awards which incorporate over 2,000 adult rates of pay. The diverse award wage classifications range from the current national minimum wage rate, approximately \$36,000 per year, up to around \$171,315 per year (Air Pilots Award 2010).
5. The Department of Jobs and Small Business estimates that in May 2016 (latest data) 1.9 per cent (or 196,300 employees) of all employees were paid the national minimum wage rate.¹
6. Up to 2.3 million Australians (22.7 per cent of all employees) are paid an award rate as of May 2016. 70.3 per cent of award-reliant employees are not low paid (workers earning two-thirds of the median hourly wage or higher) and more than a quarter (26.5 per cent) are paid more than the median hourly wage (of \$29.00 per hour as at May 2016).

¹ Some employees paid the national minimum wage rate are award reliant.

7. The Australian economy is expected to grow at a solid pace in 2017-18, as the drag from falling mining investment diminishes. In the 2017-18 Mid-Year Economic and Fiscal Outlook (MYEFO), Australia's real Gross Domestic Product (GDP) is forecast to grow by 2½ per cent in 2017-18 and 3 per cent in 2018-19.
8. Labour market conditions have strengthened considerably over the past year. Over the year, the unemployment rate declined to 5.5 per cent and employment increased by 3.3 per cent (by 403,300 people), more than double the annual average growth rate of 1.6 per cent over the last decade.
9. There is however still spare capacity in the labour market with the underemployment rate at 8.3 per cent in November 2017 (latest available data). The youth unemployment rate and the long-term unemployment rate also remain at levels substantially higher than prior to the Global Financial Crisis (GFC).
10. A range of factors, including the broad economic environment, specific business conditions, and the cost of wages, drives employment growth. While wages continue to grow, both price inflation (1.9 per cent over the year to December quarter 2017) and wage inflation (2.1 per cent over the year to December quarter 2017) are subdued by historical standards.
11. Wages growth is a lagging indicator but is expected to gradually lift as the economy strengthens. In the 2017-18 MYEFO, the Wage Price Index (WPI) is forecast to increase by 2¼ per cent through the year to the June quarter 2018 and 2¾ per cent through the year to the June quarter 2019.
12. To improve living standards and Australia's prosperity, it is essential to continue to foster an environment that supports the recent positive developments in the economy. Any outcome should be consistent with the continuation of recent positive economic developments to support economic growth, job growth and productivity growth.
13. Over the long run, real income growth and improved living standards are largely dependent on productivity growth. Labour productivity in the market sector has grown at an average annual rate of 1.9 per cent in the current incomplete cycle (2011-12 to 2016-17), higher than the 1.5 per cent annual average growth rate in the previous cycle (2003-04 to 2011-12).
14. Small businesses are a significant part of the Australian economy and make a very important contribution to output and employment. Over 2016-17 the number of small businesses in Australia grew to 2,182,135 (up 3.1 per cent or 65,427 new small businesses). While business conditions and confidence have improved recently and are above the long-term average, there is some evidence that future employment conditions for small businesses may be less buoyant than for larger businesses. There are notable differences between smaller and larger firms taking on new staff, with larger firms more likely to increase staffing in the current environment. Smaller businesses are more reliant on minimum and award wage setting and are impacted by adjustments to them more than other firms.
15. While evidence on the effects of minimum wage increases on employment remains a point of debate, most international studies, including those from the United States (US), United Kingdom (UK) and Australia, find a mix of negative and insignificant results. Risks to employment from increasing the minimum wage are likely higher for youth, long-term unemployed people and those who are low skilled – as well as other disadvantaged groups, such as Indigenous Australians.

16. Over the past decade, non-standard forms of work as a share of jobs have remained stable. The number of casual workers as a share of all employees remains at around 25 per cent, independent contractors remains around 9 per cent of employed persons and labour hire workers remain less than 2 per cent of employed persons. Job insecurity, as measured by the Westpac Melbourne Institute Unemployment Expectations Index, recently reached its lowest level since 2011.
17. Technological change, shifting demographics, and changing consumer preferences continue to affect the skills distribution in the labour market, as well as creating new jobs and displacing others. The emergence of the gig economy presents new earning opportunities, particularly in the services sector, and has generated debate in Australia and elsewhere. However, research indicates that only a small proportion regularly participate in the gig economy in Australia (less than 1 per cent of the workforce) (Craston 2017).
18. Income inequality has remained broadly stable over the past decade. The OECD (2015) has found that employment growth has put substantial downward pressure on the dispersion of earnings in Australia. As the Panel noted in the 2016-17 Annual Wage Review, *“there has not been a clear growth in inequality of earnings over the past 5 years”* (Annual Wage Review 2016-17 [2017] FWCFB 3500, para. 446). The Gini coefficient for equivalised household disposable income as reported by the Australian Bureau of Statistics (ABS) was 0.336 in 2007-08 and 0.323 in 2015-16. There have been recent improvements in gender equality. The weekly gender pay gap which increased from 14.9 per cent in 2004 to 18.5 per cent in 2014, has fallen to 15.3 per cent in 2017, its lowest level in 12 years.

Expert Panel consideration of Budget Papers

19. The Government notes that in 2017 a Full Bench of the Fair Work Commission decided that it could not receive evidence drawn from certain Budget-related documents, including the Budget papers, on the basis that they were subject to parliamentary privilege (*Commonwealth of Australia as represented by the Department of Immigration and Border Protection v Community and Public Sector Union* [2017] FWCFB 4200). Since that decision, we have had the benefit of the High Court’s consideration of the *Postal Survey* case (*Wilkie v The Commonwealth; Australian Marriage Equality Ltd v Cormann* [2017] HCA 40). In that case the High Court did not see any difficulty with receiving the relevant Budget papers in evidence nor in referring to them in their reasons for decision (para. 137). Accordingly, the Government submits that the Panel should also be able to receive such material in evidence.

2 Minimum wages and low-paid workers

Key Points

- Less than two per cent of Australian employees are paid at the rate of the national minimum wage (NMW) (\$18.29 per hour).
- The ‘minimum wage bite’ of the national minimum wage rate compared to the median wage of all full-time employees is 54.8 per cent. However, for the majority of awards used in the most award-reliant industries, the lowest adult minimum wage rates represent a higher proportion of the median wage of all full-time employees.
- Low-paid employees are defined as employees earning less than two-thirds of the median hourly wage. Less than one third of Australia’s 2.3 million award-reliant workers are low paid. Low-paid workers have a diverse range of living standards and levels of household income.

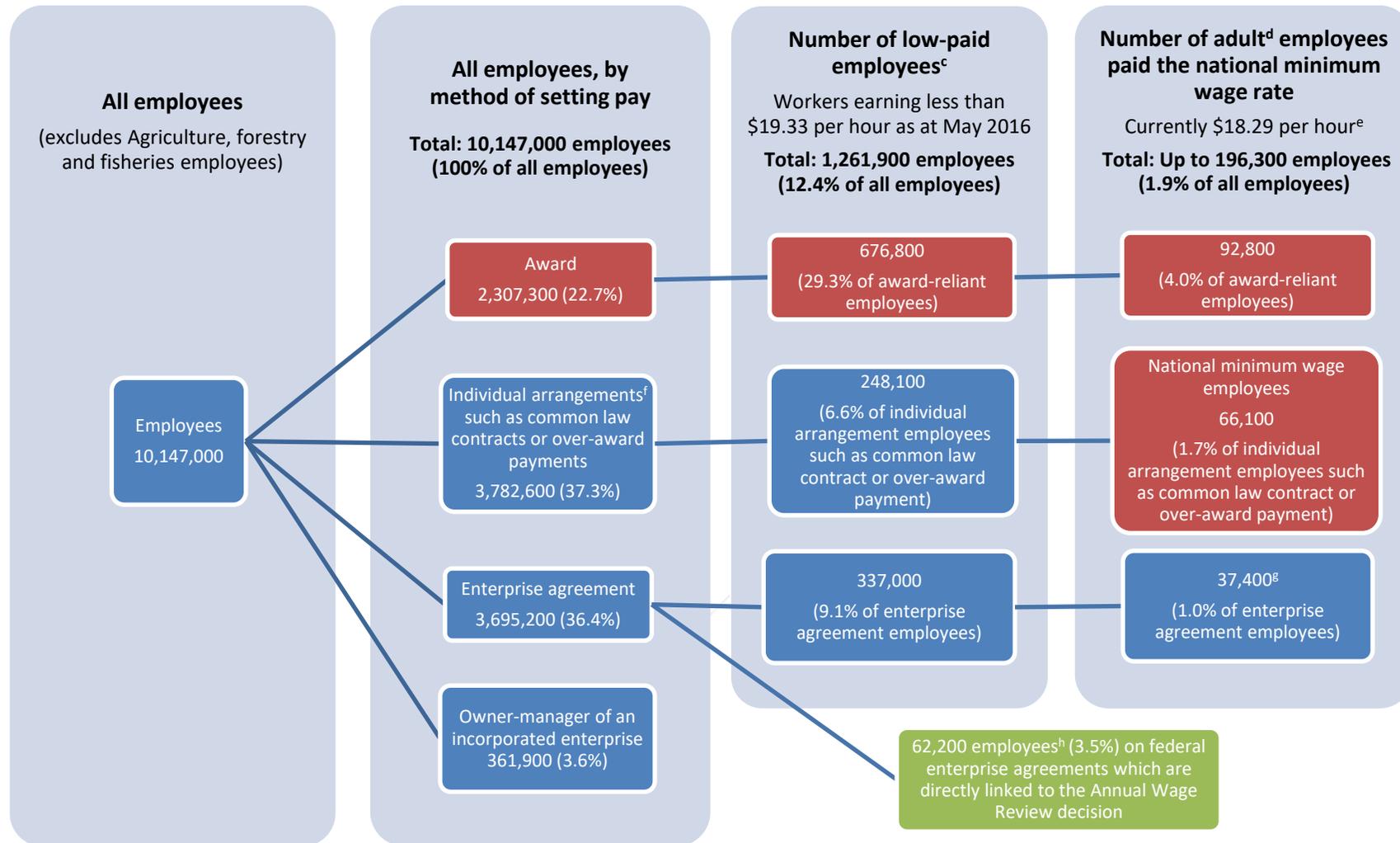
2.1 Coverage of the Panel’s decision

20. Australia’s unique minimum wage system sets out not only a national minimum wage rate, but also a range of wages and conditions across 122 modern awards. These modern awards set around 2,000 adult award rates of pay across hundreds of classifications and these rates of pay vary widely.
21. The Panel’s decision directly affects employees paid the national minimum wage rate and also those whose pay is set by a modern award. The Panel’s decision also affects the wages of other workers, including workers paid close to the national minimum wage rate and workers whose pay is set by a collective agreement which is linked to the outcome of the Annual Wage Review. Employers may also pass on the minimum wage rate adjustments to higher wage earners in order to maintain wage relativities.
22. Chart 2.1 shows the number of Australian employees by method of setting pay. It also shows how many of these employees are low paid and how many are estimated to be paid the national minimum wage rate.

2.1.1 National minimum wage employees

23. The national minimum wage rate for adults is currently \$694.90 per week (\$18.29 per hour or \$36,134.80 per year). This is around 2.5 times the base rate of Newstart Allowance for singles (\$269.40 per week) and around 55 per cent of the ABS estimate of full-time median weekly earnings (\$1,268.40 per week) (ABS *Characteristics of Employment, August 2017*). There are also separate special national minimum wage rates for juniors, apprentices, trainees and workers with disability.

Chart 2.1: Number of employees by method of setting pay and whether they are low-paid, May 2016(a)(b)



Source: ABS 2017, *Employee Earnings and Hours, May 2016*, cat. no. 6306.0, published and unpublished data (including Department of Jobs and Small Business calculations); Department of Jobs and Small Business, Workplace Agreements Database, September 2017.

Note: Chart 2.1 includes state system employees who will not be directly impacted by the Panel's decision. These employees include most state and local government employees as well as most private sector employees in Western Australia who are not employed by constitutional corporations. Due to data availability, not all state system employees can be easily identified, hence the analysis in this submission includes these employees. (a) All numbers are for May 2016, except for the number of employees on agreements linked to the Annual Wage Review decision (in green), which is the September quarter 2017. (b) The Fair Work Commission sets award classification wages and the national minimum wage, these workers are coloured red in the chart. (c) Low-paid employees are defined as employees earning less than two-thirds of the median hourly wage. In May 2016, the median hourly wage was \$29.00 and employees earning below \$19.33 per hour were considered low-paid. (d) This excludes workers paid junior, apprentice and disability rates of pay. (e) The national minimum wage rate in May 2016 was \$17.29. Employees paid at or below \$17.50 per hour in May 2016 are considered to be paid the national minimum wage rate (this uses an upper error band of 21 cents). (f) The ABS classifies employees in the individual arrangement category if they have their pay set by an individual common law contract or arrangement, whether or not written, including where employees receive over-award payments. (g) These figures have a relative standard error of 25% to 50% and should be used with caution. (h) This data is derived from the Workplace Agreements Database. It includes the number of employees covered by agreements current as at 30 September 2017 with a clause which states that the entirety of the Annual Wage Review decision will be applied in full and automatically to wages. These workers may also be low paid or earning the national minimum wage rate and thus also covered in the boxes above.

24. The Government estimates that around 196,300 Australian employees (or 1.9 per cent) are paid the national minimum wage rate (currently \$18.29 per hour) (*ABS Employee Earnings and Hours, May 2016*).²

2.1.2 Award-reliant employees

25. In 2016, 22.7 per cent of Australian employees (or 2.3 million) had their pay set by an award. This is higher than 2014 where 18.8 per cent of all employees (or 1.9 million) had their pay set by an award.
26. Part of this increase relates to an improvement in ABS data collection. As part of the 2016 Employee Earnings and Hours (EEH) cycle, the ABS undertook a review of the application of the Method of Setting Pay conceptual framework. This resulted in the shift of a significant portion of employees in the New South Wales public sector to the Award only category between 2014 and 2016. Improvements to ABS coding processes for Method of Setting Pay during this time also resulted in more recoding from Collective Agreements to Awards.
27. It is not possible to accurately quantify the impact of the ABS changes to the Method of Setting Pay conceptual framework as the EEH collection is designed to measure aspects of the labour market at a point in time, rather than as a time series.

2.1.3 Award wages

28. Award minimum wages range from the national minimum wage rate of \$694.90 per week up to \$3,294.52 per week (\$171,315 per year, *Air Pilots Award 2010*). The national minimum wage rate of \$694.90 per week features in 45 of the 122 modern awards.³ In the remaining 77 modern awards, all wage rates are above the national minimum wage rate.
29. Table 2.1 shows analysis of the lowest adult rate (excluding the introductory rates) in awards for the most award-reliant industries (Accommodation and food services, Retail trade, Other services, and Administrative and support services) as a proportion of the median wage of all full-time employees. The selection of awards is based on the mapping methodology developed by the former Fair Work Australia (Preston *et al.* 2012).

² These include those employees on awards, covered by enterprise agreements and national minimum wage employees. National minimum wage employees are classified as employees who are: paid the adult rate, non-managerial, have their pay set through an unregistered individual arrangement, and with average ordinary time earnings of up to \$17.50 per hour. The earnings of casual employees are divided by 1.25 to adjust for the casual loading.

³ Of the 45 awards, 25 express the lowest adult wage rate as both the hourly national minimum wage of \$18.29 and the weekly national minimum wage of \$694.90, a further 19 refer only to the weekly rate and the remaining one states the lowest adult wage as an hourly amount. However, in one of these awards, workers may receive commission on top of the weekly national minimum wage, and in a further two awards, workers have shorter ordinary working hours resulting in a higher hourly wage than the national minimum wage. Also, in several of the 45 awards, the lowest rate is paid as an introductory rate or a trainee rate.

Table 2.1: Wages across mapped awards, August 2017

Modern award	Industry (Primary)	Weekly minimum full-time rate (\$)	Proportion of median full-time wage (%)
Hospitality Industry (General)	Accommodation and food services	\$714.90	56.4
Restaurant Industry	Accommodation and food services	\$714.90	56.4
Registered and Licensed Clubs	Accommodation and food services	\$714.90	56.4
Fast Food Industry	Accommodation and food services	\$763.20	60.2
General Retail Industry	Retail trade	\$763.20	60.2
Pharmacy Industry	Retail trade	\$763.20	60.2
Vehicle Award	Retail trade/ Manufacturing	\$694.90	54.8
Cleaning Services	Administrative and support services	\$742.10	58.5
Clerks – Private Sector	Administrative and support services	\$738.80	58.2
Contract Call Centres	Administrative and support services	\$742.30	58.5
Hair and Beauty Industry	Other services	\$763.20	60.2
Fitness Industry	Other services/Arts and recreation services	\$694.90	54.8
Children's Services	Education and training	\$710.70	56.0
Aged Care	Healthcare and social assistance	\$769.40	60.7
National minimum wage rate	-	\$694.90	54.8

Source: ABS, *Characteristics of Employment, August 2017*; Fair Work Commission website

Note: The Children's Services and Aged Care awards are primarily mapped to the Education and training and Healthcare and social assistance industries respectively. They have been included on the basis of having secondary mappings to the Administrative and support services and Other services industries, and have relatively high award-reliance.

30. Of the mapped awards, the Vehicle award and Fitness Industry award specify the lowest adult weekly full-time wage that is equal to the national minimum wage rate. The lowest rate in the remaining twelve awards is higher, giving a higher proportion than the national minimum wage bite (54.8 per cent) (ABS *Characteristics of Employment, August 2017*).

31. At the C10 equivalent classification level, all of the examined awards with a comparable qualification level specify a minimum weekly full-time rate of \$809.10, giving a bite of 63.8 per cent.⁴
32. In aggregate, in May 2016 (EEH), the median full-time award-reliant wage was 82.8 per cent of the median full-time wage among all employees, reflecting that the majority of award-reliant workers are paid higher wages than the national minimum wage (73.4 per cent higher on average).⁵
33. It is important to note that the concept of the minimum wage bite as used by the Organisation for Economic Co-operation and Development (OECD) and in Australia compares the national minimum wage rate to the median wage of full-time employees, which is similar to the approach used above for award classification wages. There are other ways to present minimum wage rates as a proportion of the median wage. For example, the UK Low Pay Commission calculates its National Living Wage bite using the median wage of all employees aged 25 and over (both full-time and part-time). In its 2017 report, the Low Pay Commission stated that the OECD level of the UK bite is lower than its calculation because it is against all workers, including part-time workers (Low Pay Commission 2017).⁶
34. The national minimum wage rate in Australia (currently at \$18.29 per hour) would be around 61 per cent of the median wage of both full-time and part-time employees (\$30.00 per hour) in 2017 (ABS *Characteristics of Employment, August 2017*).

2.2 Who are the low-paid?

35. Sections 134.1 and 284.1 of the *Fair Work Act 2009* state the Panel, in reviewing and determining minimum and award wages, must have regard to the relative living standards and the needs of low-paid workers. In this submission, low-paid workers are defined as workers earning less than two-thirds of the median hourly wage.
36. Analysis in this submission is based on EEH or the Household, Income and Labour Dynamics in Australia (HILDA) survey, depending on data availability. Using the May 2016 EEH data, earnings below \$19.33 per hour are considered low-paid. Using the 2016 HILDA survey, the threshold for low-paid workers is \$19.32 per hour. Appendix A contains a detailed discussion of the methodology used by the Government to calculate the number of low-paid workers.
37. There were about 1.3 million low-paid employees in 2016, comprising 12.4 per cent of all employees. Around one-third of award-reliant workers were low paid (EEH).

⁴ The C10 classification is the minimum award rate set under the Manufacturing and Associated Industries and Occupations Award 2010 (and predecessor awards) that has traditionally been used as a benchmark for setting minimum wages across awards.

It is not possible to identify a comparable qualification level for Cleaning Services award to a C10 equivalent level. The Fast Food Industry award and the Clerks – Private Sector award do not specify certain qualifications but specify responsibilities for experienced employees performing duties equivalent to being qualified to a certain qualification level.

⁵ The full-time median wage for award-reliant workers only includes non-managerial employees paid at the adult rate.

⁶ The calculation of the minimum wage bite by the UK Low Pay Commission is discussed on page 236 of Appendix 4 of the 2017 Low Pay Commission Report.

2.2.1 Characteristics of low-paid workers

38. Low-paid workers have a diverse range of characteristics. Analysis from the HILDA Survey shows that in 2016:
- Just over half (53.9 per cent) of low-paid workers were female, while 46.1 per cent were male.
 - Low-paid work tended to be concentrated among younger workers.⁷
 - Over half (55.3 per cent) of low-paid workers were aged under 30, with 16.1 per cent aged between 15 and 19 years old, and around a quarter (25.1 per cent) in the 20 to 24 year old age cohort. About 11.4 per cent of low-paid workers were aged over 55 years old.
 - Just under a quarter of low-paid workers were full-time students (23.4 per cent).
 - Low-paid workers lived in a range of households. About 57.9 per cent of low-paid workers were single without children, 22.4 per cent were a member of a couple without children, 15.9 per cent were a member of a couple with children and 3.9 per cent were single parents.⁸
 - Excluding the loading of typically 25 per cent that is paid to casuals, about 63.2 per cent of low-paid workers were casuals. If the casual loading is included in the analysis, hourly wage rates for casuals would be above the low-paid threshold.
39. The characteristics of low-paid workers indicate that low-paid jobs are an important pathway into the workforce:
- 35 per cent of people who entered the workforce do so by taking a low-paid job.
 - 45 per cent of workers aged under 25 entered the workforce through low-paid work.
 - 43 per cent of those with Year 12 qualifications or below entered the workforce through low-paid work (HILDA 2017).
40. Over two-thirds of workers who enter low-paid employment leave within one year. Chapter 7 discusses the 'stepping stones' effect of low-paid jobs in more detail.
41. Appendix A provides further detailed characteristics of low-paid workers, including occupation, industry and education.

2.2.2 Low-paid workers and household income

42. The living standards of individuals are determined not just by personal earnings from work, but also by the earnings of other household members and the impacts of the tax-transfer system (discussed further in Chapter 8). In general, household income is a better proxy of economic wellbeing than individual income.⁹
43. There are two ways to examine the spread of low-paid workers across the household income distribution. The first is to examine the distribution of low-paid workers across

⁷ Low-paid thresholds for workers aged under 21 have been deflated by the relevant junior minimum wage rates. See Appendix A for further detail.

⁸ The 'children' households refer to households with a resident child aged under 15. Households with either non-resident children or resident children aged 15 and over are classified in the 'no children' households.

⁹ The Government acknowledges that in some households, household income is not shared among household members, e. g. shared household arrangements.

households with at least one employee (referred to as employee households). The second is across all households (including jobless households and retiree households).

44. The Government notes the Panel indicated in its 2016-17 Decision that
“there is little basis for comparing the household income of the low-paid and the award-reliant with that of households that are principally reliant on social welfare benefits or private savings, when the purpose is to identify whether an increase in the NMW and modern award rates of pay will assist the relative standards of the low-paid.” (Annual Wage Review 2016-17 Decision [2017] FWCFB 3500, para 286).
45. The minimum wages objective under the *Fair Work Act 2009* requires the Expert Panel to take into account relative living standards and the needs of the low paid. Award-reliant workers and low-paid workers are in employee households. The analysis on the income distribution across employee households is provided, as above, to assist the Panel to consider the living standards of low-paid workers relative to other employees.
46. However, under s.134 and s.284 of the Act, the Panel is also required to consider the need to promote social inclusion through increased workforce participation, in addition to the living standards of those who have a job. Examining the income distribution across all households gives a more complete picture of relative living standards for both employees and those who are able to work but do not have a job, hence it is included in this submission.¹⁰
47. Under both methods, it is important to ensure that income is adjusted for household needs, due to differences in size and composition.¹¹ Chart 2.2 compares the distribution of low-paid employees across the household disposable income distribution using both of these methods.¹² Across *all* households, low-paid employees are broadly spread across the income distribution, with 55.8 per cent of low-paid employees residing in the lower five income deciles, and 44.2 per cent in the higher five deciles.¹³
48. When considering *employee* households only, low-paid workers remain spread across the income distribution, although there are a higher proportion of low-paid employees in the lower deciles than the top deciles. For example, 64.6 per cent of low-paid employees are in the lower five income deciles, with 31.2 per cent in the lowest two deciles and 10.3 per cent in the highest two deciles.

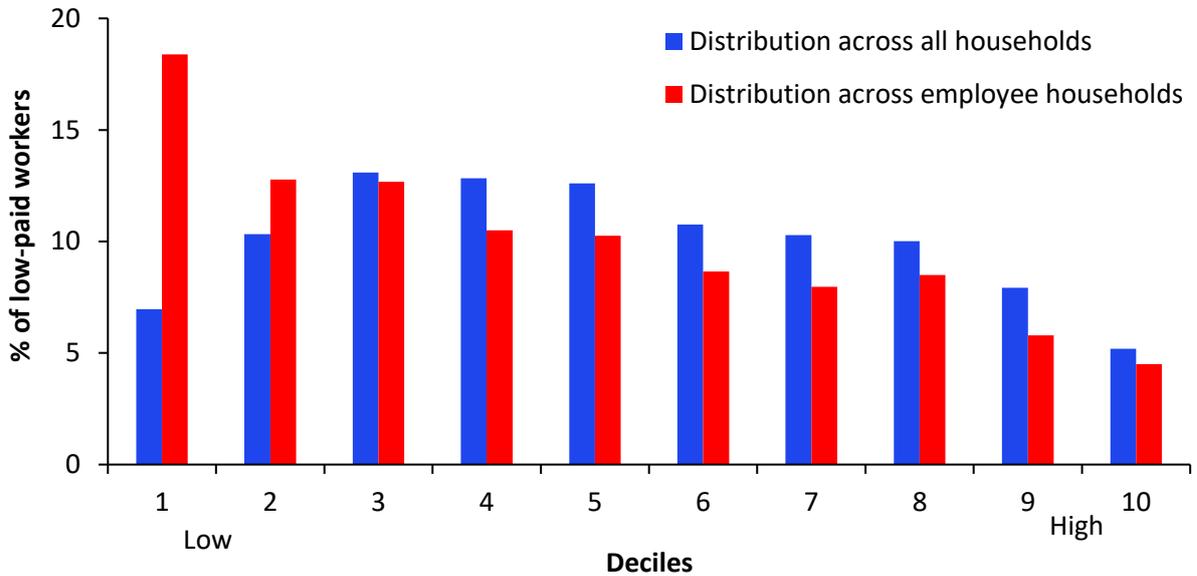
¹⁰ The Government recognises there are some households where not all the members of the household are in the labour force, such as those households only containing retirees.

¹¹ Household income is adjusted for household needs, including household size and composition, using the OECD equivalence scale. This gives a weight of 1 to the first household member, 0.5 to each subsequent adult and 0.3 to each child aged under 15.

¹² Disposable household income refers to household private income plus government transfers, less taxes.

¹³ The first decile includes the bottom 10 per cent of employees as ranked by household disposable income; similarly, the second decile includes the next 10 per cent of employees, and so on.

Chart 2.2: Distribution of low-paid employees, by equivalised household disposable income, comparing all households and employee households, 2016

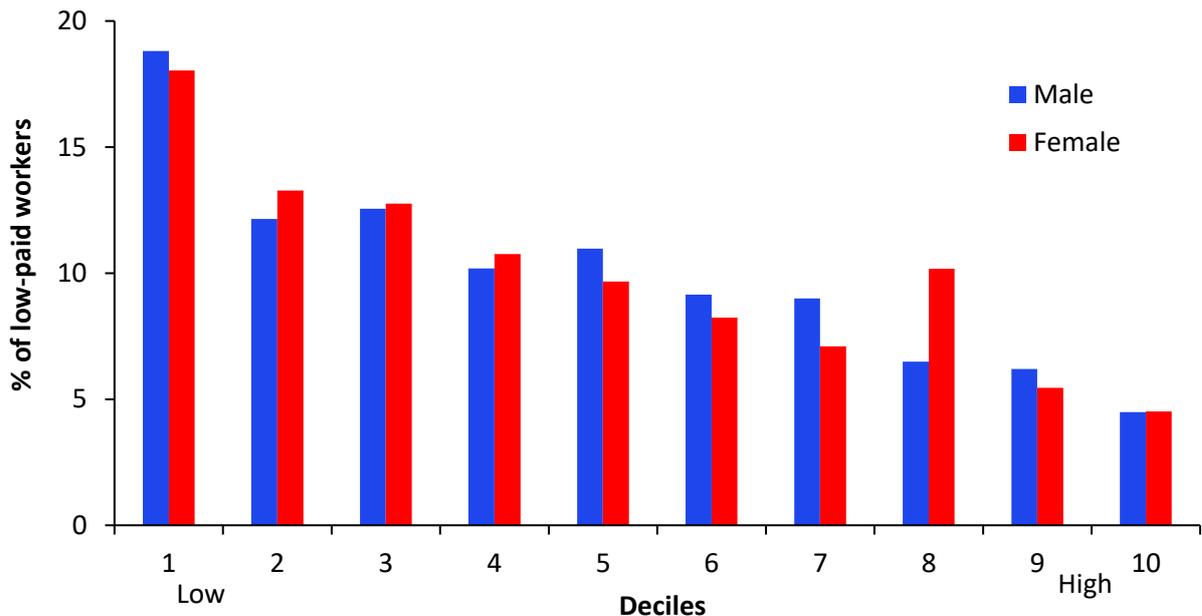


Source: HILDA Survey, release 16 (December 2017), wave 16

2.2.3 Low-paid employees in employee households

49. On balance, low-paid men and women are evenly spread across the employee household income distribution. As shown in Chart 2.3, 31.0 per cent of low-paid men were in the bottom two income deciles, compared to 31.3 per cent of women. Around 10.7 per cent of men are in the top two income deciles compared to 10.0 per cent of women.

Chart 2.3: Distribution of low-paid employees, by equivalised household disposable income and sex, employee households only, 2016



Source: HILDA Survey, release 16 (December 2017), wave 16

50. As shown in Table 2.2, there is substantial spread in household income across all coupled low-paid workers. Around 10.8 per cent were with a partner earning less than \$25,000 per year, compared with 24.2 per cent with partner's earnings between \$25,000 and \$50,000, 32.5 per cent with partner's earnings between \$50,000 and \$100,000 and 10.3 per cent with partner's earnings of more than \$100,000. In addition, 22.2 per cent of coupled low-paid employees (around 134,000 persons) have a partner who is not employed (either unemployed or not in the labour force).

Table 2.2: Earnings of low-paid workers' partners, 2016

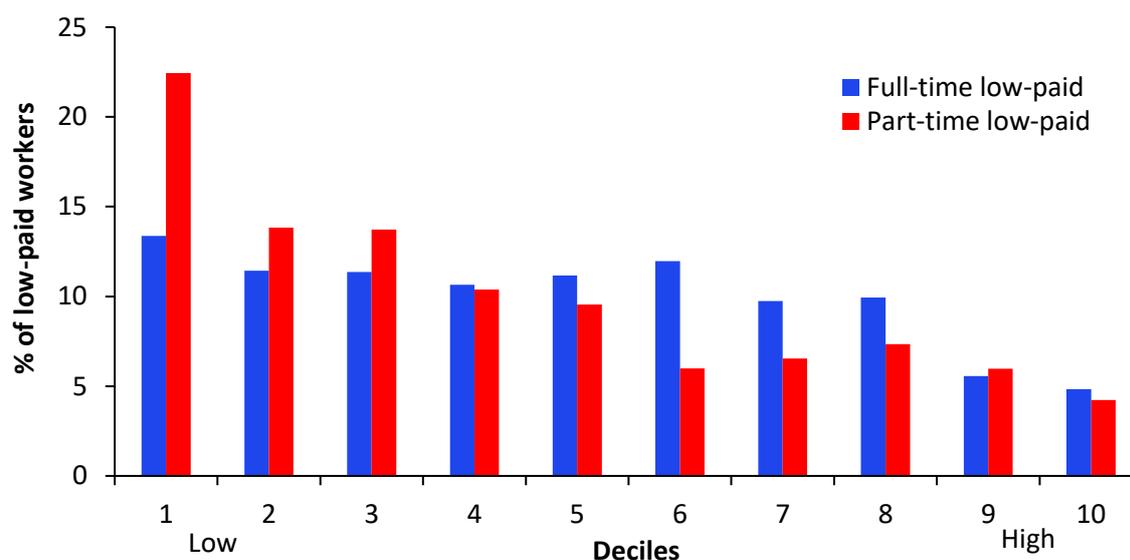
Partner 1	Partner 2 – Low-paid employee (%)		
	Full-time	Part-time	Total
Less than \$25,000	5.4	5.4	10.8
\$25,000 ~ \$50,000	14.8	9.4	24.2
\$50,000 ~ \$75,000	11.4	8.7	20.1
\$75,000 ~ \$100,000	4.6	7.8	12.4
More than \$100,000	4.0	6.2	10.3
Not employed	12.5	9.7	22.2
Total	52.8	47.3	100

Source: *HILDA* Survey, release 16 (December 2017), wave 16.

Note: Numbers in table may not sum exactly due to rounding.

51. Chart 2.4 shows the distribution of low-paid workers across the employee household income distribution, by full-time or part-time employment status. This shows that low-paid part-time workers are more likely to be in the lower household income deciles than low-paid full-time workers. For example, 22.4 per cent of low-paid part-time employees live in households in the bottom income decile, compared to 13.4 per cent of full-time low-paid employees. This suggests that the low income of some households is not just due to lower hourly wages but also a result of lower working hours.

Chart 2.4: Distribution of low-paid employees, by equivalised household disposable income and employment status, employee households only, 2016



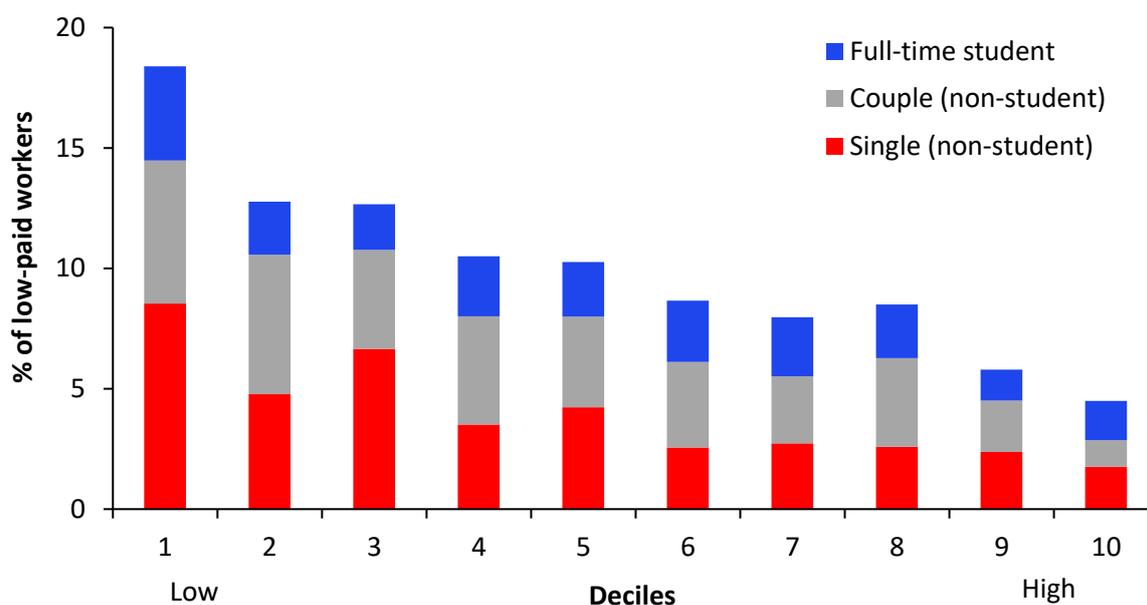
Source: *HILDA* Survey, release 16 (December 2017), wave 16.

52. Wages are only one determinant of living standards. Household context is also important, along with other income sources and individual circumstances. For example, 57.9 per cent of all low-paid employees are single and without children. Analysis using the HILDA survey (2017) shows that employees in this group are more likely to be:

- employed part-time (58.4 per cent) compared to all low-paid employees (55.0 per cent);
- young (66.0 per cent aged between 15 and 24) compared to all low-paid employees (41.2 per cent);
- a full-time student (37.1 per cent) compared to all low-paid employees (23.4 per cent);
- living with parents (70.4 per cent) compared to all low-paid employees (41.4 per cent).¹⁴

53. Full-time students make up 23.4 per cent of all low-paid employees. Almost two-thirds (65.3 per cent) of this group are dependent students, which means their household income and living standards are likely to be largely determined by their parents' earnings, rather than their own. Hence, as shown in Chart 2.5, they are spread rather evenly across the income distribution.

Chart 2.5: Distribution of low-paid employees, by equivalised household disposable income, study and partnered status, employee households only, 2016



Source: HILDA Survey, release 16 (December 2017), wave 16.

Note: Calculations for singles and partnered categories exclude full-time students in order to create mutually exclusive groupings.

¹⁴ Living with parents consists of *Dependent student* which refers to a natural, adopted, step, or foster child who is 15-24 years of age and who attends a secondary or tertiary educational institution as a full-time student and for whom there is no identified partner or child of his/her own usually resident in the same household, and *Non-dependent child* which refers to a natural, adopted, step or foster child of a couple or lone parent usually resident in the household, who is aged 15 years and over and is not a full-time student aged 15-24 years, and who has no identified partner or child of his/her own usually resident in the household.

3 Economic environment

Key Points

- The Australian economy is expected to grow at a solid pace in 2017-18. Non-mining business investment has been increasing, while the drag on growth from falling mining investment has been diminishing and has nearly run its course.
- Labour market conditions have strengthened. Wage flexibility (the capacity for wages to respond to developments in the economy) continues to support employment during the transition period.
- Global growth has strengthened and the drivers of world growth have become increasingly broad based.

3.1 Introduction

54. The outlook presented in the 2017-18 MYEFO is for economic growth to strengthen as the drag from falling mining investment diminishes. Non-mining business investment, household consumption, public final demand and exports are expected to provide solid support to growth in 2017-18.

3.2 International outlook

55. Global growth has strengthened significantly over the course of 2017. An improvement was anticipated in the 2017-18 Budget, but growth has risen by more than forecast.
56. Global growth is forecast to be 3½ per cent in 2018 and 3¾ per cent in 2019, compared with an estimated 3½ per cent increase in 2017.
57. Australia's major trading partners are forecast to continue to grow at a stronger pace than the global economy, increasing by 4 per cent in both 2018 and 2019 after an estimated 4¼ per cent increase in 2017.
58. The outlook for China is particularly important for Australia. China maintained strong growth through 2017, supported by momentum in the property and services sectors. Exports and imports strengthened alongside the recovery in global trade flows. Growth is expected to moderate in coming years, reflecting slowing infrastructure investment growth by local governments and a gradual tightening of financial conditions as authorities address financial sector risks.
59. In the US, the economy continues to grow at an above-potential rate. As a result, the unemployment rate has fallen to 17-year lows. While inflation remains below the Federal Reserve's target, it is expected to increase over the next few years and the Federal Reserve has been slowly raising its policy rate since 2015. The recent passage of corporate and personal tax cuts is expected to boost US GDP.
60. Euro area economies have recorded strong growth since the Budget and there have been continued reductions in unemployment rates across the bloc. Consumption, investment and trade have all contributed to growth. While the political make-up and policy direction of some European countries have been resolved through the year, uncertainty remains for other key euro area economies.

61. Short-term risks to the global outlook are more balanced than they have been for some time. Global growth has strengthened and appears more sustainable. However, geopolitical uncertainty remains elevated, including on the Korean peninsula. Broader structural challenges, including demographic shifts and slower productivity growth in some regions, will also continue to weigh on global growth potential over the medium to longer term.

3.3 Domestic outlook

62. Australia's real GDP is forecast to grow by 2½ per cent in 2017-18 and 3 per cent in 2018-19, up from 2.1 per cent in 2016-17. Growth in 2017-18 is slightly lower than expected at Budget given modest growth in household consumption.
63. The forecast improvement in growth reflects a gradual pick-up in household consumption, stronger non-mining business investment, increased exports and higher public demand. Residential investment is expected to fall slightly, although the drag from mining investment should fade as work on the remaining large mining projects near completion.

3.3.1 Business conditions

64. Business investment is forecast to grow by 2 per cent in 2017-18 and 3 per cent in 2018-19. This recovery follows four years of declining investment, where falling mining investment weighed on overall spending. Mining investment is expected to continue to fall over the forecast horizon as large resource projects are finalised, but the drag on economic growth is near complete.
65. In contrast, non-mining business investment exceeded expectations in 2016-17 and is forecast to increase by 5 per cent in both 2017-18 and 2018-19. This ongoing improvement is consistent with more positive business conditions and surveyed non-mining capital expenditure intentions over the past year.
66. Business profits have increased by 5.0 per cent over the past year, with mining profits accounting for just under half of this growth on the back of resurgent commodity prices. Due to the volatile nature of commodity prices, over the past year, mining profits increased in two quarters, and declined in the other two quarters.
67. The recent increase in business profits follows five years of weakness, driven by falling mining profits. Profits have also increased in the non-mining economy, up 3.8 per cent in 2017. This pickup began around mid-2016 and follows four years of flat profits growth in the non-mining economy.
68. Surveyed business conditions continue to be strong, with the NAB Quarterly Business Survey reporting the highest level since 2008. NAB noted that *"business conditions were also positive in all industries for only the second time since early 2008. However, retail conditions continue to lag well behind the other industries, despite a notable improvement in the quarter."*
69. Commodity prices remain sensitive to global developments, including Chinese policy interventions and supply disruptions both domestically and abroad. This volatility remains a key uncertainty in the outlook for the terms of trade and nominal GDP.

70. Recent strength in commodity prices is expected to be partly unwound, with the terms of trade forecast to fall by 2 per cent in 2017-18 and by 5 per cent in 2018-19, after growth of 14.5 per cent in 2016-17.

3.3.2 Consumption and dwelling investment

71. In the 2017-18 MYEFO, household consumption is forecast to grow by 2¼ per cent in 2017-18 and 2¾ per cent in 2018-19. Growth in household consumption has been relatively modest in recent years compared with long-run historical growth rates, reflecting subdued growth in household income. Growth in consumption is expected to pick up over the forecast period in response to strengthening labour market conditions.
72. Dwelling investment is expected to decline moderately over the forecast period, falling by 1½ per cent in both 2017-18 and 2018-19. Recent data are consistent with an earlier-than-expected peak in investment, although a large pipeline of construction work should support activity for some time.

3.3.3 Employment

73. Labour market conditions have been stronger than expected at Budget. Employment is forecast to grow by 1¾ per cent through the year to the June quarter 2018 and 1½ per cent through the year to June quarter 2019.
74. The unemployment rate has declined from 5.7 per cent to 5.5 per cent over the past year (*ABS Labour Force, January 2018*). The unemployment rate is forecast to fall to 5¼ per cent by mid-2019.
75. The underemployment rate has not fallen by as much as the unemployment rate, indicating some ongoing spare capacity in the labour market. The underemployment rate has fallen from a record high of 8.9 per cent in early 2017 to 8.3 per cent as at end-2017, but remains high by historical standards (*ABS Labour Force, November 2017*).
76. The participation rate has risen, including a notable increase in the female participation rate. The participation rate is forecast to be 65 per cent in the June quarter 2018 and 64¾ per cent in June quarter 2019.

3.3.4 Wages

77. Adult Weekly Ordinary Time Earnings (AWOTE) increased by 2.4 per cent through the year to November 2017 (*ABS Average Weekly Earnings*). Over the same period, there was an increase of 2.3 per cent in the private sector and 2.8 per cent in the public sector.
78. Average compensation per employee (on a National Accounts basis) was unchanged in the December quarter 2017 to be 1.6 per cent higher through the year (*ABS Australian National Accounts: National Income, Expenditure and Product, December 2017*).
79. Compositional changes in the industry and occupational structure of the workforce can affect the level of average earnings. However, growth in the WPI (which abstracts from compositional change) is also subdued.
80. Wage growth as measured by WPI, was 2.1 per cent through the year to the December quarter 2017 (*ABS Wage Price Index, December 2017*). Over this period, there was an increase of 1.9 per cent in private sector wages and 2.4 per cent in the public sector.

81. WPI growth has been materially lower than the Panel's 2017 decision.
82. The current rate of wage growth is part of the adjustment as the economy transitions from the investment phase to the production phase of the commodities boom.
83. Of the four most award-reliant industries, Accommodation and food services wages were 2.2 per cent higher through the year to December 2017. Administrative and support services were 1.7 per cent higher and both Rental, hiring and real estate services and Retail trade were 1.6 per cent over the same period.
84. Wage growth is forecast to gradually lift as the economy strengthens, inflation picks up and excess capacity in the labour market is reduced. The WPI is forecast to increase by 2¼ per cent through the year to the June quarter 2018 and 2¾ per cent through the year to the June quarter 2019.

3.3.5 Inflation

85. Consumer price index (CPI) is low reflecting a range of factors such as heightened competition in the retail sector, subdued rental price growth and wage growth. The more frequent updating of the weights of the expenditure classes in the CPI is likely to reduce measured inflation.
86. Consumer prices are expected to grow by 2 per cent through the year to the June quarter 2018, before rising by 2¼ per cent through the year to the June quarter 2019.

3.3.6 Productivity

87. Productivity is a key influence on wage growth. In 2016-17, labour productivity in the whole economy grew by 0.7 per cent, while market sector labour productivity grew by 1.0 per cent (*ABS Australian System of National Accounts, 2016-17*). Smoothing the data by calculating average growth over a number of years, labour productivity in the whole economy has grown at an average annual rate of 1.5 per cent over the past five years. This compares with a long-term average of 1.6 per cent growth over the past 30 years.
88. However, productivity growth has been influenced by the commodities boom, where the mining sector has made a significant contribution to the output of both the whole economy and the market sector. Given that the mining sector employs relatively few workers, it is worth noting that labour productivity growth in the non-mining sector was 0.7 per cent in 2016-17, averaging 1.0 per cent over the past five years.
89. Focusing on award-reliant industries, productivity growth over the five years to 2016-17 in the Retail trade and Accommodation and food services industries was 2.5 per cent and 0.1 per cent, respectively.

4 Labour market developments

Key Points

- Labour market conditions have strengthened over the past year, with the pace of employment growth now significantly higher than the decade average rate, although some spare capacity remains evident.
- Against the backdrop of stronger labour market conditions, the level of long-term unemployment (defined as those who have been continuously unemployed for 52 weeks or longer) decreased over the year, although it remains more than double the level recorded prior to the onset of the GFC in September 2008.
- Young people comprised 26.6 per cent of total long-term unemployment in January 2018.
- Employment is forecast to grow by 1¾ per cent in 2017-18, before easing to 1½ per cent in 2018-19.
- The unemployment rate is forecast to be 5½ per cent in the June quarter 2018 but is expected to decline to 5¼ per cent in the June quarter 2019.

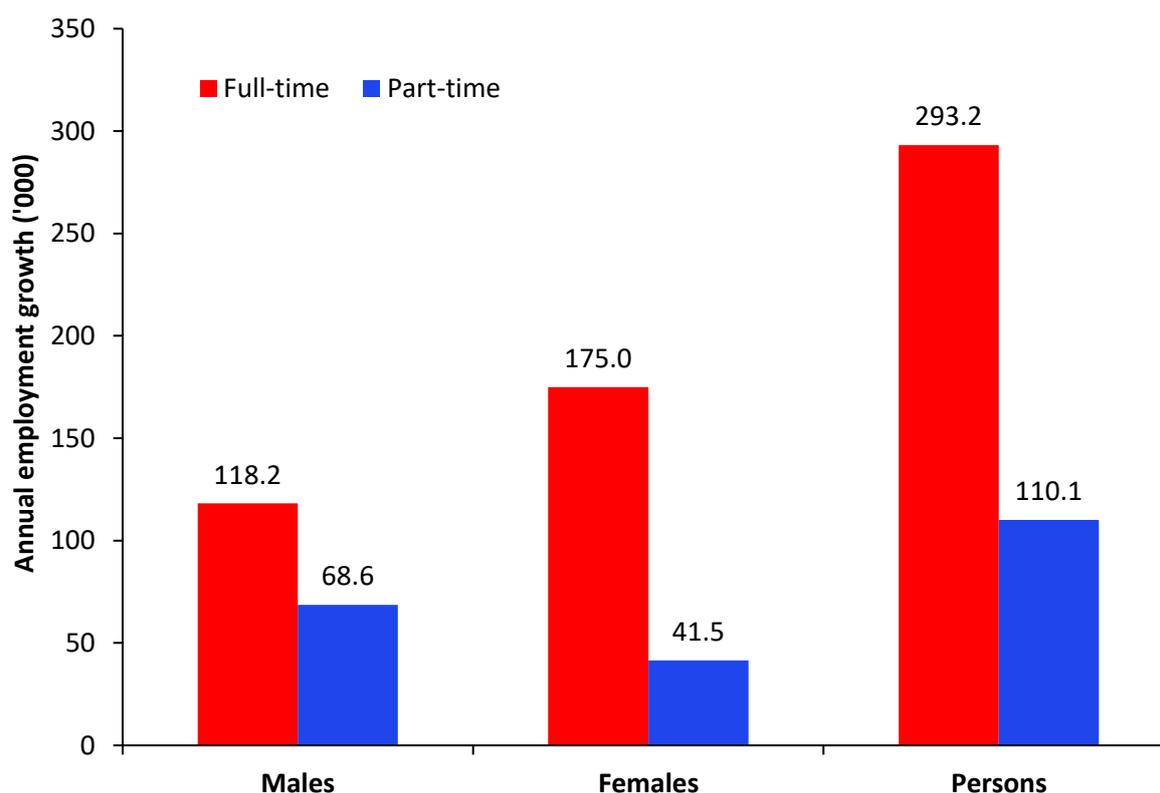
4.1 Broad labour market conditions

90. Underlying labour market conditions are one of the factors to which the Panel must pay regard when making its decision about the national minimum wage rate and award classification wages, as the decision may impact on employers' plans to employ new staff, offer more hours and make casuals permanent. This chapter outlines the most recent developments.
91. ABS *Labour Force* data suggest that labour market conditions in Australia have strengthened over the last 12 months, with employment increasing by 3.3 per cent, more than double the decade average rate of 1.6 per cent. Notably, full-time employment has accounted for the majority (73 per cent) of employment growth over the past year. In addition, latest available quarterly ABS Labour Force data show that 82 per cent of full-time jobs growth over the year to November 2017 was in the private sector. Against this stronger backdrop, the unemployment rate has decreased over the period, while the participation rate has edged higher, suggesting that the recent improvement in labour market conditions is encouraging more people to enter the labour market in search of work.
92. Despite the clear improvement in labour market conditions, a number of groups, including youth, long-term unemployed people, Indigenous Australians, people with disability, recent migrants, and those who are low skilled, continue to experience poorer outcomes in the labour market compared with the national average.
93. In addition, labour market conditions vary considerably across Australian industries and regions, with some performing strongly, while others have been more subdued. For example, strong employment growth was recorded in the Health Care and social assistance and Construction industries, while weaker growth was recorded in the Public administration and safety and Manufacturing industries (ABS *Labour Force, Detailed, Quarterly, November 2017*).

4.2 Employment

94. The level of employment has increased strongly over the year, by 403,300 (or 3.3 per cent), to stand at a record high, of 12,453,500 in January 2018 (ABS *Labour Force, January 2018*).
95. Full-time employment has increased by 293,200 (or 3.6 per cent) over the last 12 months, while part-time employment has increased by 110,100 (or 2.8 per cent) over the period (Chart 4.1).

Chart 4.1: Change in full-time and part-time employment by sex, January 2017 to January 2018



Source: ABS *Labour Force, Australia, January 2018*, cat. no. 6202.0, seasonally adjusted data.

96. Over the year to November 2017 (latest available data), employment increased in three of the four most award-reliant industries. Of these, Retail trade recorded the largest employment gain, followed by Other services, and Accommodation and food services. Administrative and support services recorded a decrease in employment over the year. Over the 10 years to November 2017, each of these four industries recorded growth in employment although employment only grew at a stronger rate than across the all industries total in the Accommodation and food services industry (Table 4.1).

Table 4.1: Change in employment by industry, one and 10 years to November 2017

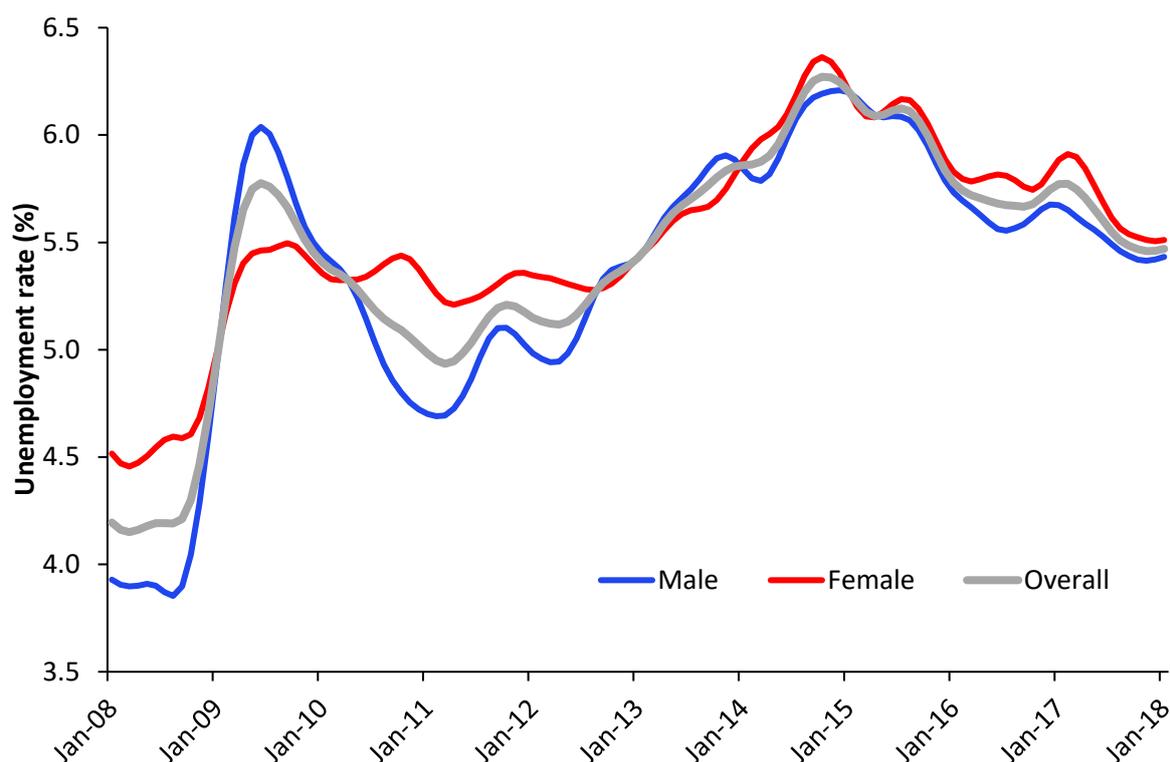
Industry	Change in employment, year to November 2017		Change in employment, 10 years to November 2017	
	('000)	(%)	('000)	(%)
<i>Agriculture, forestry and fishing</i>	29.9	10.1	-13.2	-3.9
<i>Mining</i>	-7.0	-3.1	78.4	56.8
<i>Manufacturing</i>	-41.6	-4.5	-164.1	-15.6
<i>Electricity, gas, water and waste services</i>	6.6	5.0	27.9	25.7
<i>Construction</i>	91.5	8.5	222.4	23.5
<i>Wholesale trade</i>	-2.0	-0.5	-4.9	-1.3
<i>Retail trade</i>	60.0	4.9	63.2	5.2
<i>Accommodation and food services</i>	40.4	4.7	198.6	28.5
<i>Transport, postal and warehousing</i>	40.2	6.6	103.1	19.0
<i>Information media and telecommunications</i>	4.7	2.2	-18.3	-7.8
<i>Financial and insurance services</i>	-15.1	-3.5	17.7	4.4
<i>Rental, hiring and real estate services</i>	0.5	0.2	20.5	10.3
<i>Professional, scientific and technical services</i>	2.0	0.2	252.3	32.3
<i>Administrative and support services</i>	-31.9	-7.4	55.0	15.9
<i>Public administration and safety</i>	-48.5	-6.1	108.5	17.2
<i>Education and training</i>	53.3	5.5	244.6	31.4
<i>Health care and social assistance</i>	123.8	8.0	577.7	53.2
<i>Arts and recreation services</i>	33.1	15.4	48.7	24.4
<i>Other services</i>	44.5	9.3	60.8	13.1
All industries total	395.0	3.3	1878.5	17.8

Source: ABS *Labour Force, Australia, Detailed, Quarterly, November 2017*, cat. no. 6291.0.55.003, trend data.

Note: Bold italics signify the four most award-reliant industries.

4.3 Unemployment

97. Reflecting the strong pick-up in the pace of employment growth, the unemployment rate has declined, to 5.5 per cent in January 2018, below the 5.7 per cent recorded in January 2017 (see Chart 4.2), although it remains above the troughs recorded in the last decade.
98. The number of unemployed people in Australia has fallen slightly, to 723,800, over the year to January 2018.

Chart 4.2: Unemployment rates by sex, January 2008 to January 2018

Source: ABS Labour Force, Australia, January 2018, cat. no. 6202.0, trend data.

4.4 Underemployment

99. The ABS defines underemployed workers as those persons aged 15 and over who are not fully employed and want, and are available for, more hours of work. The underemployment rate refers to the number of underemployed workers expressed as a percentage of the labour force.
100. The overall underemployment rate stood at 8.3 per cent, while the level of underemployment stood at 1,092,000, in November 2017 (latest available data) (ABS *Labour Force, November 2017*).
101. The underemployment rate increased significantly following the onset of the GFC, up by 1.9 percentage points over the five years to August 2013, to stand at 7.8 per cent. The number of underemployed people also rose over the same period, up by 290,400 (or 43.9 per cent) over the five years, to 951,600 in August 2013. In particular, the number of male workers who were underemployed increased by 140,600 (or 56.1 per cent) over the five years to August 2013, to stand at 391,300.
102. Encouragingly, in line with a strong pick up in full-time employment growth over the last year, the number of underemployed people has declined in recent quarters, down by 44,900 over the last three quarters alone, after reaching a peak of 1,136,900 in February 2017. Similarly, the underemployment rate has declined by 0.5 percentage points following the peak of 8.9 per cent in February 2017.
103. Underemployed workers are comprised mainly (around 92 per cent) of part-time workers who preferred more hours and were available to start working those hours. The

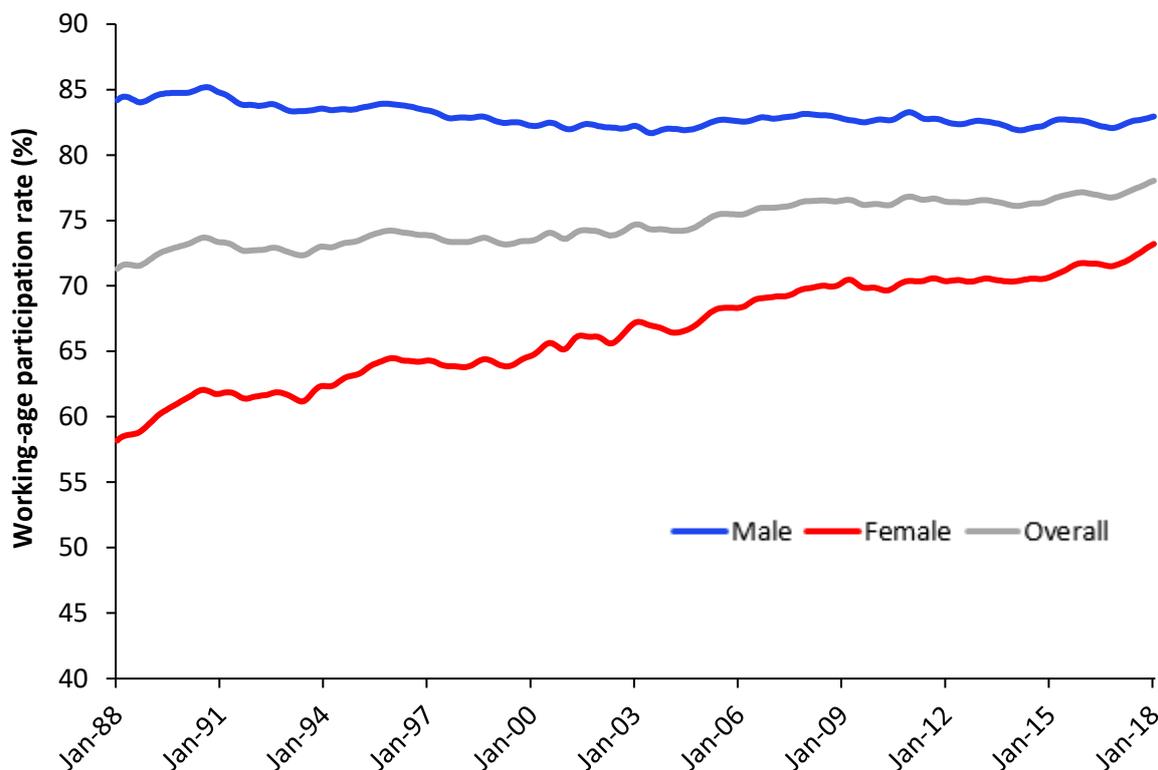
remainder were full-time workers who worked part-time hours in the ABS survey reference week for economic reasons (such as being stood down or insufficient work being available).

104. However, underemployed workers have a foothold in the jobs market and can use this as a 'stepping stone' to achieving their desired hours of employment.
105. A significant majority (71.2 per cent) of part-time workers preferred not to work more hours in February 2017 (latest available data) (*ABS Participation, Job Search and Mobility, Australia, February 2017*). Of those who were employed part-time and preferred to work more hours, only 19.6 per cent (or 214,500) wanted to work full-time and were looking for, and available to start, work with more hours in February 2017, down from 20.6 per cent in February 2016. Some of these, however, were undertaking activities which would preclude them from working more hours, including caring responsibilities and participation in education, to cite two examples.

4.5 Participation rate

106. Reflecting a stronger labour market, Australia's working age (15-64 years) participation rate has increased, from 76.9 per cent in January 2017, to a record high, of 78.1 per cent in January 2018 (Chart 4.3).
107. A number of factors are likely to have influenced the increase in the participation rate over recent years. First, the strengthening in labour market conditions is likely to have resulted in an 'encouraged worker' effect, as more people enter the labour market in search of work. Second, the participation rate of both females and mature age workers (persons aged 55 years and over) has also risen in recent years.
108. This trend is expected to continue, with the Government's *2015 Intergenerational Report* projecting the participation rate for persons aged 15-64 years to increase to 79.3 per cent by 2054-55.

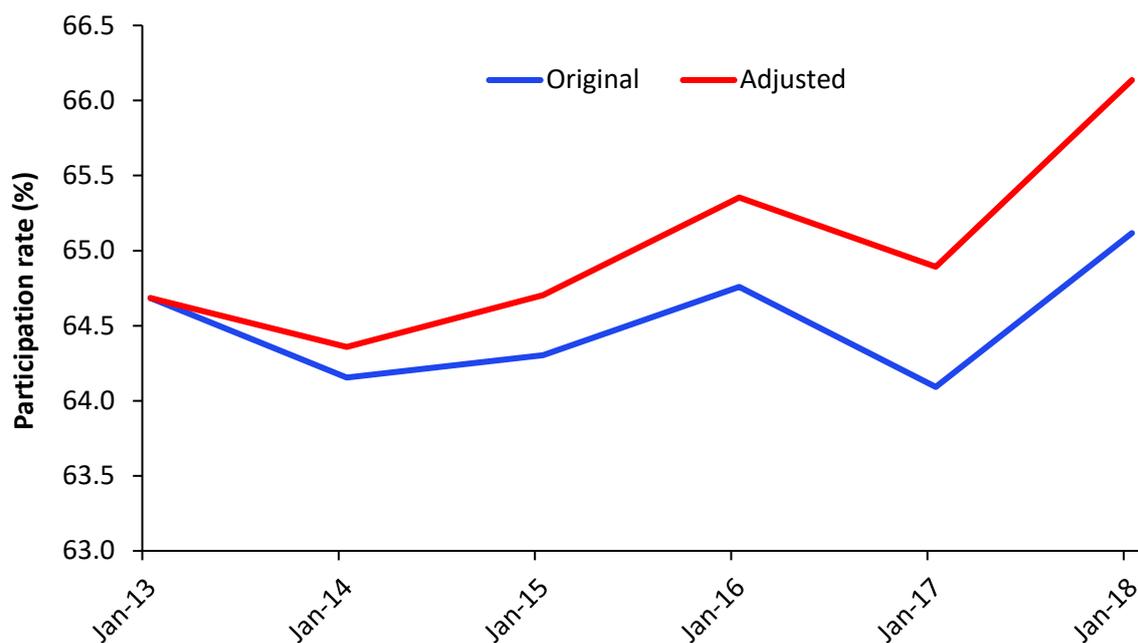
Chart 4.3: Participation rates by sex for the working-age population (15-64 years), January 1988 to January 2018



Source: ABS *Labour Force, Australia, January 2018*, cat. no. 6202.0, trend data.

109. In terms of an age breakdown, the participation rate of persons aged 55-64 increased over the year, from 64.9 per cent in January 2017, to 66.4 per cent in January 2018. The participation rate for persons aged 35-44 also increased over the year, from 83.7 per cent in January 2017, to 85.0 per cent in January 2018.
110. Analysis by the Department of Jobs and Small Business shows that while the overall participation rate for persons aged 15 and over (in original terms) has increased from 64.7 per cent, to 65.1 per cent over five years to January 2018, this process has been driven by increasing age-specific participation rates, but dampened by the ageing of the population.¹⁵
111. Chart 4.4 shows that if there had been no change in the age distribution of the population since January 2013, then the participation rate in January 2018 would have been 1.0 percentage point higher (66.1, as opposed to 65.1 per cent).

¹⁵ Data in paragraphs 109-110 and Chart 4.4 are in original terms and are not seasonally adjusted. This is because the ABS does not publish seasonally adjusted labour force participation rates by age group (for those aged 25 years and older).

Chart 4.4: Age-adjusted participation rates, January 2013 to January 2018

Source: Department of Jobs and Small Business calculations from ABS *Labour Force, Australia, January 2018*, cat. no. 6202.0, original data.

112. The analysis presented in Chart 4.4 broadly aligns with Treasury analysis over a three-year time horizon. This analysis indicates the ageing of the population has been offset by long-term increases in female participation, delayed retirement and short-term cyclical factors. Quarterly data indicate that over the three years to December quarter 2015, the effect of ageing subtracted 0.66 percentage points, reflecting the rising share of older age groups which exhibit lower participation rates. By contrast, the effect of rising participation rates within cohorts (particularly among females and the older age groups) contributed 0.43 percentage points to the participation rate, over this time. Cyclical factors are estimated to have contributed around 0.33 percentage points to the participation rate due to the encouraged worker effect.

4.6 Key groups in the labour market

113. A number of groups (including long-term unemployed people and youth) continue to experience less favourable outcomes in the labour market than others. Members of these groups are more likely to seek employment in low-paid jobs and are therefore likely to be more adversely affected by any uncertainty in the economy. They tend to possess characteristics, for example, less experience, greater time out of the labour market, and lower skill levels, that may predispose them to labour market disadvantage.

4.6.1 Characteristics of unemployed persons

114. There are a number of factors that can influence a person's likelihood of becoming unemployed and, subsequently, long-term unemployed, such as their educational attainment level, age, English proficiency, if they have a disability, their Indigenous status and their geographical location.

115. The average duration of unemployment stood at 46 weeks in January 2018 (*ABS Labour Force, Detailed – Electronic Delivery, January 2018*). For persons aged 15-24 years, the average duration of unemployment was 30 weeks, compared with 70 weeks for persons aged 55 and over.
116. Nearly one quarter (23.4 per cent or 169,500) of unemployed persons were long-term unemployed in January 2018.¹⁶
117. Youth (persons aged 15-24 years) comprised a significant proportion (36.9 per cent) of total unemployment in January 2018, but accounted for around 16 per cent of the civilian population aged 15 years and over.
118. There is a notable difference between the highest level of educational attainment of employed and unemployed persons. Persons aged 15-64 years who had a Bachelor degree or above recorded an unemployment rate of 3.2 per cent in May 2017, well below the 9.3 per cent for persons who had an educational attainment level of Year 11 or below (*ABS Education and Work, May 2017*).
119. As discussed in Chapter 7, low-paid jobs are an important pathway to employment, in particular for younger and less educated workers. 45 per cent of workers aged under 25, and 43 per cent of those with Year 12 qualifications or below, enter the workforce through low-paid work (*HILDA 2017*).¹⁷

4.6.2 Long-term unemployed people

120. The level of long-term unemployment has decreased over the year to January 2018, by 11,300, to 169,500 (*ABS Labour Force, Detailed – Electronic Delivery, January 2018*). Long-term unemployment remains 91,500 (or 117.2 per cent) higher than the 78,100 recorded prior to the onset of the GFC in September 2008. The incidence of long-term unemployment (the proportion of the unemployed population who are long-term unemployed) stood at 23.4 per cent in January 2018, down from 25.0 per cent in January 2017.
121. Over the year to January 2018, male long-term unemployment has fallen by 12,700 (or 12.8 per cent), while female long-term unemployment has increased by 1,400 (or 1.7 per cent) over the period.
122. The level of very long-term unemployment has declined by 1,300 (or 1.4 per cent), to 90,800, over the year to January 2018.¹⁸
123. People who have been unemployed for a significant length of time, on average, face greater difficulty finding subsequent work due to skill depreciation, loss of motivation, screening out by employers and marginalisation from the labour market.

¹⁶ The level of long-term unemployment refers to the number of people who have been continuously unemployed for 52 weeks or longer.

¹⁷ Low-paid is defined as earning less than two-thirds of the median hourly wage, as outlined in Chapter 2 and Appendix A.

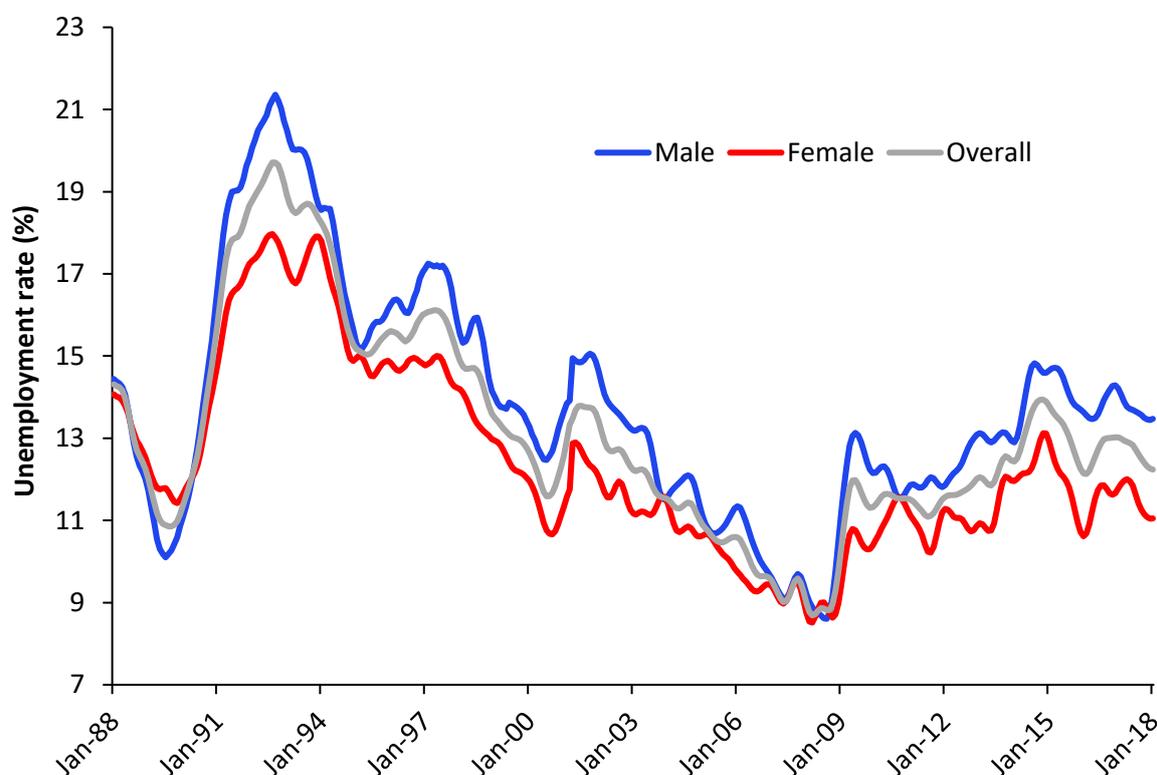
¹⁸ The level of very long-term unemployment refers to the number of people who have been continuously unemployed for 104 weeks or longer.

124. A longer duration of unemployment is also associated with a degrading of human capital and a 'scarring' effect, whereby long-term unemployed people believe their own re-employment prospects are poor.
125. In particular, structural shifts in industries and occupations can result in a greater mismatch between the job vacancies available and the skill level of unemployed persons who could fill them, resulting in fewer exits from long-term unemployment. A 2017 OECD report highlighted that Australia has a comparatively high incidence of skills mismatch within its labour market. For instance, the decline in manufacturing jobs has occurred against the backdrop of increases in service-oriented sectors such as health care, education, hospitality and retail. This transformation has resulted in workers needing to retrain in order to work in different areas, for example, automobile manufacturing workers seeking employment in the health, hospitality and retail sectors.
126. Older job seekers are more likely to remain unemployed for a longer period of time than those in younger cohorts. For instance, the average duration of unemployment for persons aged 55 and over was 70 weeks in January 2018, well above the 46 weeks recorded for all persons.

4.6.3 Youth

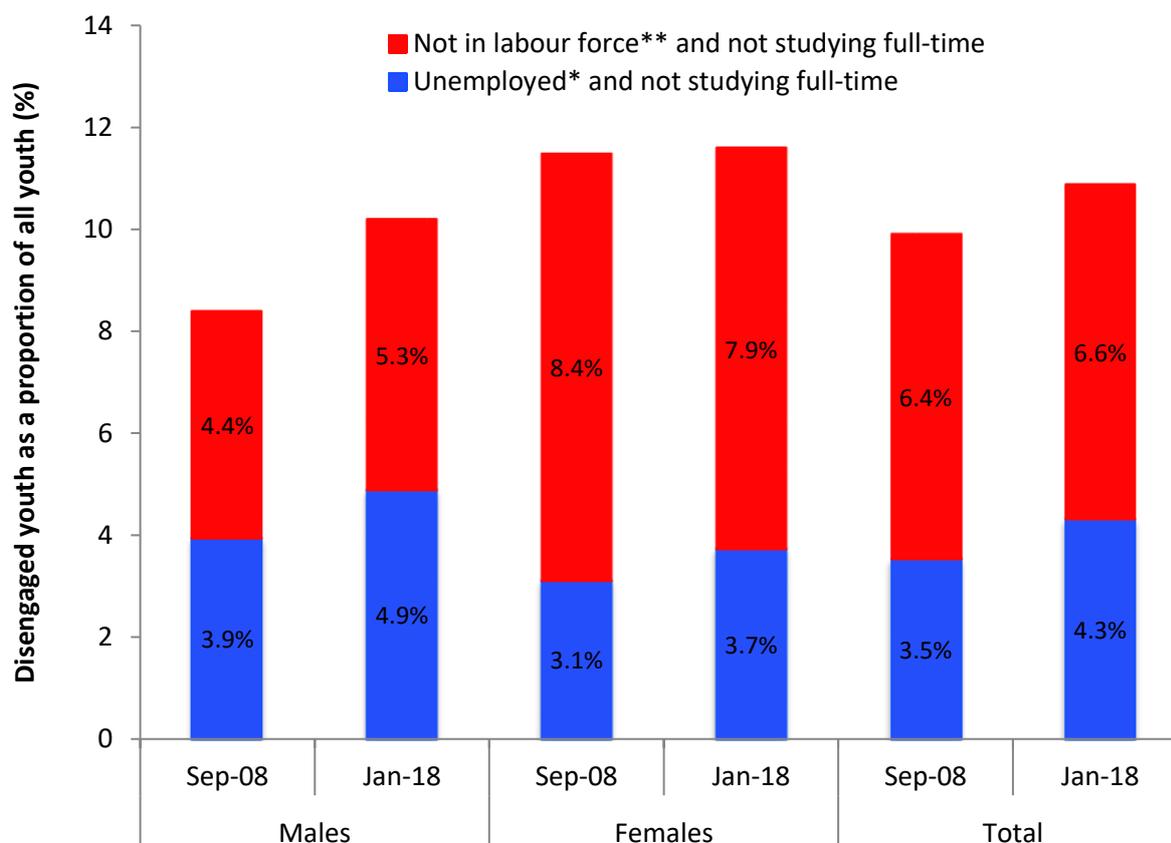
127. Labour market conditions for youth (persons aged 15-24 years) have improved over the last year, with employment increasing by 43,800 (or 2.4 per cent) over the year to January 2018 (ABS *Labour Force, January 2018*). Against this backdrop, the youth unemployment rate has decreased, from 12.4 per cent in January 2017, to 12.3 per cent in January 2018, although it remains more than double the 5.5 per cent recorded for all persons.

Chart 4.5: Youth (15-24 years) unemployment rates by sex, January 1988 to January 2018



Source: ABS *Labour Force, Australia, January 2018*, cat. no. 6202.0, trend data.

128. The youth underemployment rate has increased over the last year, from 17.2 per cent in November 2016, to 17.8 per cent in November 2017 (latest available data), well above the 8.3 per cent recorded for all persons (*ABS Labour Force, November 2017*).
129. Long-term unemployment for youth has declined over the year, by 4,600 (or 9.4 per cent) to 45,000 in January 2018 (*ABS Labour Force, Detailed – Electronic Delivery, January 2018*). Young people now comprise 26.6 per cent of the long-term unemployment pool, despite accounting for around 16 per cent of the civilian population aged 15 years and over.
130. When labour markets rebound, disadvantaged groups, such as youth, are generally the last to reap benefits from strong jobs growth since they are competing with cohorts possessing greater skills and experience. Similarly, when labour market conditions are weak, youth are particularly vulnerable as they often have fewer skills, and less experience and education and are therefore the first to be retrenched by employers in times of economic difficulty.
131. While most youth are either engaged in some form of work or full-time education, 10.9 per cent were not in work and not attending full-time education (and are commonly referred to as disengaged youth) in January 2018, up from 9.9 per cent in September 2008. While a proportion of this group may, for various reasons, be voluntarily outside the labour market, many are at risk of ultimately failing to make a successful transition to employment.
132. The increase in youth disengagement has been driven, entirely, by the 20-24 year old cohort, with the proportion of 20-24 year olds who are disengaged rising from 11.9 per cent in September 2008, to 14.6 per cent in January 2018. This is particularly true for males in this cohort, with disengagement for 20-24 year old males rising from 9.2 per cent to 12.9 per cent over the period. By contrast, the proportion of 15-19 year olds who are disengaged has declined, from 7.8 per cent in September 2008, to 6.6 per cent in January 2018, reflecting the considerable policy changes enacted in various states surrounding compulsory school-leaving ages.
133. As illustrated in Chart 4.6, disengaged young males are fairly evenly split between those who are not in full-time education and are unemployed, and those who are not in full-time education and are not in the labour force. On the other hand, disengaged young women are primarily not in full-time education and are not in the labour force. Some of these young women will be caring for children.

Chart 4.6: Disengaged youth (15-24 years) by sex, September 2008 to January 2018

Source: ABS *Labour Force, Australia, January 2018*, cat. no. 6202.0, data are 12-month averages of original estimates.

Notes: *Unemployed refers to persons who were not employed during the reference week, and:

- **Had actively** looked for full-time or part-time **work** at any time in the four weeks up to the end of the reference week and were available for work in the reference week; or
- Were waiting to start a new job within four weeks from the end of the reference week and could have started in the reference week if the job had been available then.

**Not in the Labour Force refers to people who are neither employed nor unemployed.

4.6.4 Indigenous unemployment rates

134. Significant disparity continues to exist between Indigenous and non-Indigenous labour market outcomes.¹⁹ For instance, in 2014-15 (latest available data), the unemployment rate for Indigenous persons stood at 20.8 per cent, almost five times the rate recorded for non-Indigenous persons (of 5.8 per cent) (ABS *National Aboriginal and Torres Strait Islander Social Survey, 2014-15*). The disparity between labour market outcomes for Indigenous and non-Indigenous Australians is likely to be influenced by a number of characteristics such as low educational attainment level of Indigenous persons and the fact they are located in more remote areas.

¹⁹ Please note all data in this section refer to the working age population (persons aged 15-64 years).

4.6.5 Single parents and jobless families

135. In June 2017 (latest available data), there were 2,577,500 families with children in total in Australia, of whom 298,700 (or 11.6 per cent) were jobless (ABS *Labour Force, Australia: Labour Force Status and Other Characteristics of Families, June 2017*).²⁰ The majority of jobless families with children (192,000 or 64.3 per cent) were headed by a single parent. Most one parent families with children, including jobless one parent families, were headed by females (84.2 per cent and 87.4 per cent respectively).
136. The number of children in jobless families stood at 576,900 in June 2017. Children who grow up in jobless families are at a significantly greater risk (than children in families where a parent is employed) of being unemployed later in life and are more likely to experience disadvantage and poverty as a consequence. Accordingly, it is essential that parents in these families are encouraged and helped to find employment, thereby reducing the risk of intergenerational unemployment.
137. The unemployment rate for the head of one parent families with children stood at 12.4 per cent in June 2017, well above the 3.3 per cent recorded for parents in couple families with children.

4.6.6 People with disability

138. In 2015 (latest available data), 52 per cent of people aged 15-64 with disability were participating in the labour force, compared to a participation rate of 83 per cent for those without disability. Similarly, the unemployment rate for those aged 15-64 with disability was 10.0 per cent, compared to 5.3 per cent for those without a disability (ABS *Disability, Ageing and Carers, Australia: Summary of Findings, 2015*).²¹
139. The level of labour market disadvantage people with disability face varies. For instance, in 2015 the employment rate for people with a profound or severe core activity limitation was 22 per cent, compared to 52 per cent for those with a mild core activity limitation, and 79 per cent for those with no reported disability.²²

4.6.7 Recent migrants

140. Population growth through a migration program that prioritises younger, skilled migrants contributes to the Australian economy. Not only does the program help soften the impact of an aging population, it also generally enlarges and diversifies the pool of consumer consumption and encourages capital flows.
141. The ABS data shows that the participation rate for recent primary skilled migrants is above the national average and above the average for the Australian-born.

²⁰ Please note that the term 'children' refers to dependent children aged 0-14 years.

²¹ Note these participation and unemployment rates are not comparable with the overall rates published in the Labour Force Survey, as that survey's calculated rates include those aged over 64.

²² The level of core activity limitation is determined based on whether a person needs help, has difficulty, or uses aids or equipment with any of the core activities (mobility, self-care and communication).

142. However, recent migrants tend to experience worse labour market outcomes than people born in Australia.²³ In November 2016 (latest available data), the unemployment rate for recent migrants was 7.4 per cent, higher than the level recorded for people born in Australia (5.4 per cent). The unemployment rate for recent migrants was 5.5 per cent in 2007, then increased to 7.3 per cent in 2010 (after the GFC) (ABS *Characteristics of Recent Migrants, November 2016*).
143. Labour market outcomes for migrants are influenced by a range of factors, including English language proficiency, level of qualifications, country of origin, recent work experience, and period of time since arrival in Australia (Productivity Commission 2016).

4.7 Labour market conditions by skill level

144. Low-skilled workers are more likely to be on the minimum wage or award-reliant than higher-skilled workers, making an examination of labour market developments by skill level important.
145. As shown in Table 4.2, over the 10 years to November 2017 (latest available data), employment growth has been dominated by Skill Level 1 (commensurate with a Bachelor degree or higher) occupations, which grew by 844,100 or by 27.8 per cent, and Skill Level 4 (commensurate with a Certificate II or III) occupations, which grew by 543,400 or by 20.2 per cent, reflecting strong employment growth in health and education related occupations. Together, occupations with these two skill levels accounted for 74.9 per cent of total employment growth over the period.
146. Employment growth in Skill level 3 occupations made the smallest contribution to employment growth over the period, reflecting the mixed outcomes of occupations within the skill level. For example, employment of Electricians grew by 49.3 per cent and Real estate sales agents grew by 38.1 per cent, while employment of Secretaries fell by 65.0 per cent and Electronics trades workers declined by 16.9 per cent.

²³ Recent migrants are defined for the purposes of this ABS survey as people born overseas who first arrived to live in Australia (for one year or more) after 2006, were aged 15 years or over on arrival, were not Australian or New Zealand citizens on arrival, and do not currently hold New Zealand citizenship.

Table 4.2: Change in employment by skill level, one and 10 years to November 2017

Skill level occupations	Current employment (November 2017)	Change in employment year to November 2017		Change in employment 10 years to November 2017		Projected employment growth - five years to May 2022	
	(000s)	(000s)	(%)	(000s)	(%)	(000s)	(%)
Skill Level 1 (highest)	3883.7	59.4	1.6	844.1	27.8	412.7	10.7
Skill Level 2	1379.3	17.6	1.3	200.1	17.0	129.0	9.5
Skill Level 3	1779.8	130.9	7.9	105.8	6.3	57.8	3.4
Skill Level 4	3232.1	78.5	2.5	543.4	20.2	256.4	8.2
Skill Level 5 (lowest)	2117.9	50.8	2.5	159.2	8.1	92.4	4.4
All Occupations	12,420.6	395.0	3.3	1878.5	17.8	948.4	7.8

Source: ABS Labour Force, Australia, Detailed, Quarterly, November 2017, cat. no. 6291.0.55.003, Department of Jobs and Small Business trend data. Department of Jobs and Small Business, 2017 projections, five years to May 2022. All Occupations (excluding projected employment) is ABS trend data.

4.8 Labour market conditions by state/region

147. Differences in regional labour market performance can be ascribed to a number of factors, such as a region's access to higher education, its industry base, transport networks and infrastructure, its degree of natural amenity, population size and growth, its accessibility to more dynamic labour markets and the skill level of its labour force.
148. There remains considerable disparity in labour market conditions across various states and regions. For instance, Queensland recorded the highest unemployment rate in January 2018 (of 6.1 per cent), followed by South Australia (6.0 per cent) and Western Australia (5.7 per cent). The lowest unemployment rate was recorded in the Australian Capital Territory (4.0 per cent), followed by the Northern Territory (4.6 per cent) and New South Wales (5.1 per cent). That said, the improvement in labour market conditions over the last year has been spread across the majority of states and territories.
149. The Victorian labour market has been strong over the last year, with solid growth in employment and a high participation rate, reflecting healthy population growth in the state, a lower Australian dollar (notwithstanding some appreciation over the last year) and low interest rates.
150. Labour market conditions in New South Wales have also strengthened over the last year, with the state recording strong employment growth and a low unemployment rate. New South Wales has similarly benefited from a lower Australian dollar and low interest rates, although the pace of population growth in the state is not as strong as in Victoria.
151. Labour market conditions have improved in Western Australia and Queensland over the last year, as the states have begun to adjust to the decline in resources investment. That said, the Northern Territory continues to be impacted negatively by the downturn in the Mining industry, with labour market conditions weakening in the territory over the 12 months to January 2018.
152. The labour market in South Australia has improved over the past 12 months, although conditions remain subdued, with employment growth in the state well below the national

average, reflecting the structural change occurring in the state's Manufacturing industry and ongoing weak population growth.

153. The Tasmanian labour market has improved over the last year, although the state's participation rate remains the lowest of any state or territory in Australia, in line with weak population growth and an ageing population.
154. Significant disparity in labour market performance exists between regions within Australia, with some regions recording a deterioration in labour market conditions over the last year, while other regions have performed more strongly.
155. Historically, regional areas in Australia have tended to exhibit weaker labour market conditions compared with their metropolitan counterparts. For example, the average unemployment rate in the capital cities stood at 5.7 per cent over the five years to January 2018, compared with an average unemployment rate of 6.1 per cent in the rest of state areas over the same period.
156. However, over the last year, the unemployment rate in the rest of state areas has decreased, from 5.9 per cent in January 2017, to 5.6 per cent in January 2018, while the unemployment rate in the capital cities has remained steady at 5.6 per cent over the same period (*ABS Labour Force, Detailed – Electronic Delivery, January 2018*). Employment in regional Australia has increased by 1.9 per cent (or 72,200) over the year to January 2018, nearly double the growth rate (of 1.0 per cent) in the population aged 15 years and over. It is also worth noting that the participation rate in capital cities, of 66.8 per cent in January 2018, remains well above the rate recorded in the rest of state areas (of 61.9 per cent).

5 Small business

Key Points

- The economic environment for small and family business has continued to show encouraging signs of improvement, with business conditions and confidence above long-term average levels. However, there is some evidence that future employment conditions for small businesses may be less buoyant than for larger businesses.
- Small businesses employ around 44 per cent of non-financial private sector employees and 34 per cent of employees on award classification wages.
- Small businesses more commonly rely on awards rather than negotiating enterprise agreements to set pay and conditions.

5.1 Introduction

157. This small business chapter has been included to provide additional information to help inform the Panel on the importance of the small business sector to the Australian economy and recent developments. Section 3(g) of the *Fair Work Act 2009* states that the objects of the Act are to be met through an acknowledgement of the special circumstances of small and medium-sized businesses.

5.2 Small businesses in Australia

5.2.1 Importance of small businesses in Australia

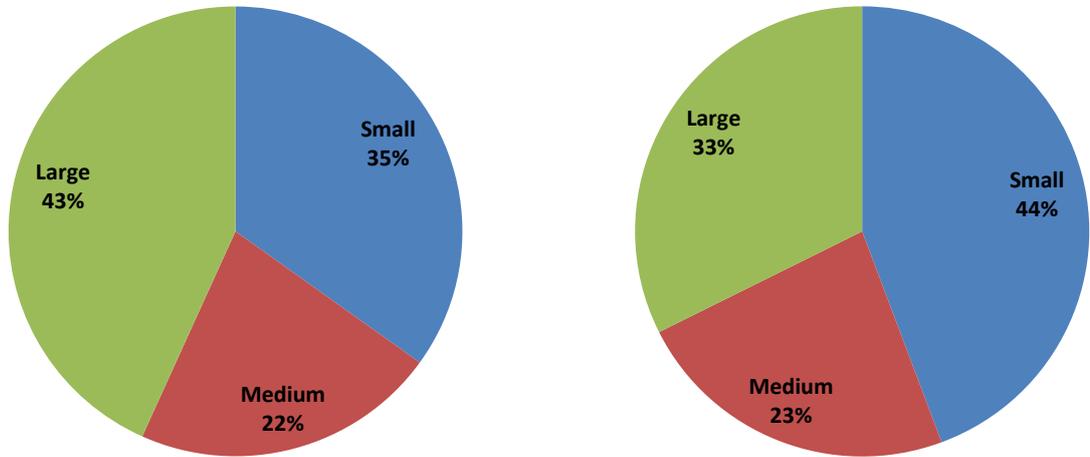
158. Small businesses are a significant part of the Australian economy and make a very important contribution to output and employment. They are diverse, operate in all sectors of the economy, have varying levels of employment, and conduct business under different legal structures.
159. There were 2,182,135 actively trading small businesses in Australia as at June 2017, accounting for 97 per cent of all businesses (ABS *Australian Industry, 2015-16*).²⁴ Of these small businesses, 812,084 (or 37 per cent) were employing small businesses.
160. As at 30 June 2016, small businesses contributed around 35 per cent of non-financial private sector (i.e. excluding general government, the Financial and insurance services industry) value added and employed around 4.7 million Australians, or 44 per cent of non-financial private sector employment in Australia (Chart 5.1).

²⁴ For the purpose of this submission, small businesses are defined as a business employing 0 to 19 employees. This is consistent with the definition used by the ABS and Sensis for the purpose of business surveys. We note that small businesses are defined as a business employing 0 to 14 employees for the purposes of the *Fair Work Act 2009*. The ABS definition can be found at Australian Bureau of Statistics (2001), *Small Business in Australia*, Cat No. 1321.0.

Chart 5.1: Small business share of non-financial private sector output and employment

Panel A: Output

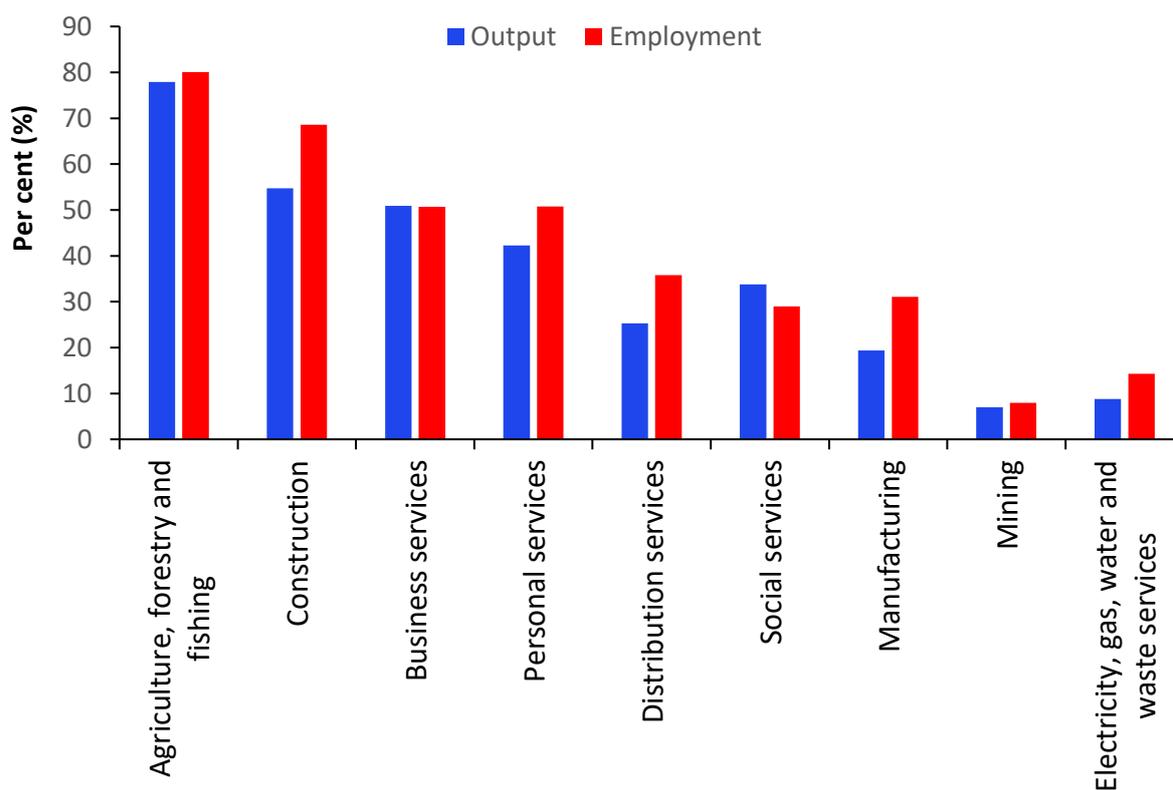
Panel B: Employment



Source: ABS, *Australian Industry, 2015-16*, cat. no. 8155.0.

Note: Measures non-financial private sector output (Industry Value Added) and employment (number of individuals employed). Please note that ABS cat. no. 8155.0 excludes data for the general government, Financial and insurance industries. The ABS publishes an experimental series for output and employment in all businesses in the financial sector which can be found at <http://www.abs.gov.au/ausstats/abs@.nsf/mf/8155.0>

161. Small businesses operate in every sector of the Australian economy, although their contribution to output and employment varies between sectors (see Chart 5.2 below). Small businesses are particularly prevalent in the Agriculture, forestry and fishing, Construction and the services industries. They are less prevalent in industries such as Mining, Manufacturing, and Electricity, gas water and waste services.

Chart 5.2: Small business share of private sector output and employment within each industry

Source: ABS, *Australian Industry, 2015-16*, cat. no. 8155.0.

Note: Business Services includes Rental hiring and real estate services, Professional, scientific and technical services, and Administrative and support services. Personal Services includes Accommodation and food services, Arts and recreational services, and Other services. Distributions Services includes Wholesale trade, Retail trade, Transport, postal and warehousing, and Information, media and telecommunications. Social Services includes Public administration and safety, Education and training, and Health care and social assistance. Additionally, it should be noted that Charts 5.1 and 5.2 include non-employing small businesses, as ABS cat. no. 8155.0 does not distinguish between employing and non-employing small businesses. Nonetheless, the data referred to in these charts are the appropriate basis for highlighting effects on the small business sector, as labour costs have a direct and immediate bearing on the propensity of non-employing small businesses to take on workers.

162. Small businesses contribute to a greater proportion of employment compared to output in almost every industry which suggests that small businesses may be more labour intensive (that is, on average have lower labour productivity) than larger businesses within the same industry.
163. As a share of annual turnover, labour costs also comprise a significant component of total expenses for small businesses.²⁵ In 2015-16, for small employing businesses across all industries, labour costs accounted for around 17 per cent of total expenses.²⁶ Across industries, they can range from as high as 39 per cent in the Administrative and support services industry to 6 per cent in the Electricity, gas, water and waste services industry.

²⁵ Labour costs refer to 'wages and salaries' and does not include gross mixed income, which represents earnings that are difficult to classify between salaries and profits as the business is run by an owner-manager.

²⁶ The ratio is slightly higher for medium and large businesses. This possibly reflects an under-bias for small businesses, where small business owners choose to take out returns in the form of equity and dividends rather than wages and salary.

164. Small businesses also contribute through their role in providing goods and services to regional areas, where it may be less feasible for large businesses to do so because of the low potential for economies of scale. Across each state in Australia, small businesses are more likely to be located in regional areas compared with larger businesses (Nicholls and Osmond 2015). Economic measures such as unemployment and business confidence indicate that regional areas are not performing as well as their metropolitan counterparts.²⁷

5.2.2 Award coverage

165. According to the latest EEH data (May 2016), small businesses account for around 34 per cent of total employees on award classification wages.
166. Around 35 per cent of employees in a small business are paid award classification wages. This compares with 33 per cent for businesses with 20-49 employees and 17 per cent for larger businesses (with 100-999 employees).
167. The proportion of employees with their pay set by an award is higher in certain industries, including the Accommodation and food services industry (41 per cent), the Administrative and support services industry (38 per cent), the Retail trade industry (33 per cent), and the Rental, hiring and real estate services industry (24 per cent). Together, these industries account for 39 per cent of all award-reliant employees. Small businesses in these industries account for a large share of employment: 46 per cent, 34 per cent, 35 per cent and 77 per cent respectively (ABS *Australian Industry, 2015-16*).

5.3 Characteristics of small businesses

168. Small businesses are generally less diversified in their product offerings and customers, less equipped to deal with soft demand and have less flexibility in terms of meeting workplace operational requirements.
169. This is reflected in the survival rate of firms in the small business sector, which is lower than that for larger businesses. The ABS *Counts of Australian Businesses* survey demonstrates that only 69 per cent of micro-sized businesses (1-4 employees) that were operating in June 2013 were still operating as at June 2017 (for businesses employing 5-19 this figure is 78 per cent). The survival rate for medium and large businesses is above 80 per cent.
170. Small businesses sell mainly in their local area of operation, with around 79 per cent having sold goods or services in their local area in 2016. In addition, only around 7 per cent of small businesses had an overseas market compared with 29 per cent for large businesses (ABS *Selected Characteristics of Australian Businesses 2015-16*).
171. Small businesses face a higher cost of financing their operations. Research by the Reserve Bank of Australia (RBA) on small business finance shows that they often face higher interest rates relative to large businesses.

²⁷ For example, the Sensis business confidence index provides information on regional versus metropolitan business confidence. Data from the Department of Jobs and Small Business' *Small Area Labour Markets* publication show that the unemployment rate in regional areas tends to be higher than in metropolitan areas (see Chapter 4).

5.4 Developments in the small business sector

5.4.1 Overview

172. Business conditions have shown encouraging signs of improvement, and are above long-term average levels. However, due to a long period of weak trading conditions, small businesses remain somewhat cautious in taking on additional labour.
173. When combined with the difficulties faced by small businesses in passing on higher costs to consumers in the current economic environment and challenges of new entrants through digital platforms, higher labour costs could present a major constraint.

5.4.2 Small business data

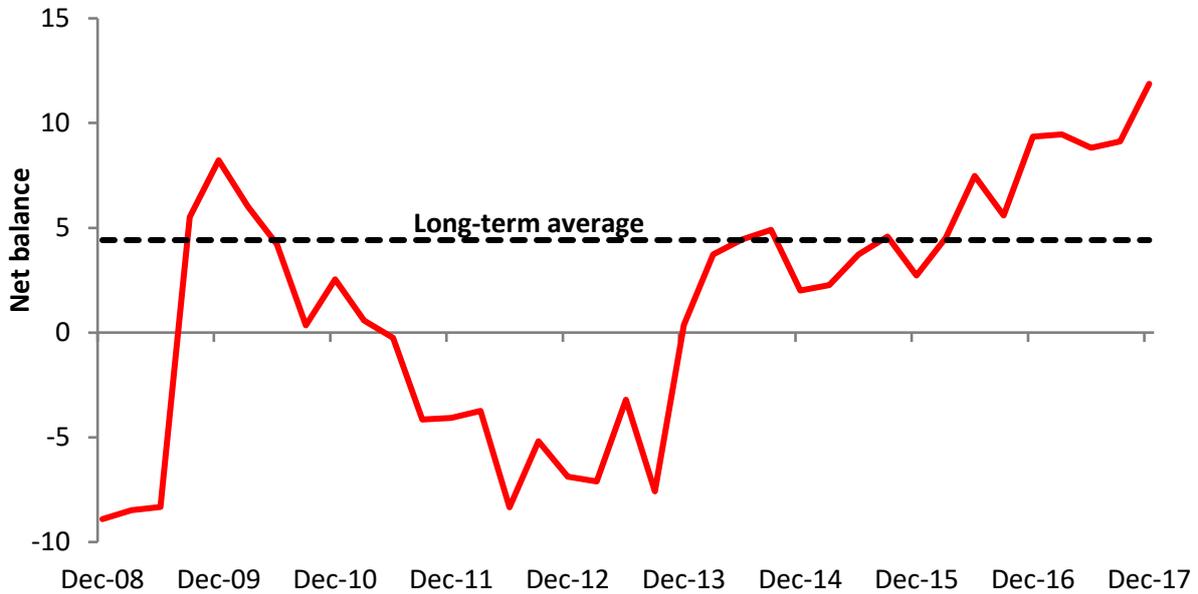
174. While official data from the ABS are preferable, small business data are often released with a significant time lag, limiting their usefulness for this assessment. In these circumstances, the Government has relied predominantly on business surveys and stakeholder engagement to gain a better understanding of developments in the small business sector.
175. In its previous 2013-14 decision, the Panel expressed reservations about the reliability of data from survey measures for the purpose of providing a representative picture at either an industry or an economy-wide level (*Annual Wage Review 2013-14 Decision [2014] FWCFB 3500*, para. 226).
176. The Government examines a range of survey measures rather than one single measure. The surveys commonly used and available include those published by the National Australia Bank (NAB) and Sensis. These two surveys have samples ranging from around 600 to over 1000 respondents.
177. The RBA (Park 2011; Alymer and Gill 2003) has concluded that while it is important to interpret the survey information with care, business surveys provide useful information about current and future economic activity, and also provide information on parts of the economy that is not readily available. The studies also note that in many instances, the survey data provide more timely information than official data.
178. The RBA (Park 2011) found that the information provided by the main business surveys closely track official data. The study reported a high correlation between survey measures of current business conditions (for either a multiple survey average or the NAB Quarterly Business Survey) and output growth (defined as the official ABS measure of nominal domestic demand).
179. The same RBA study suggests that the information content for survey measures on employment were even more significant. There is a high correlation between surveyed hiring intentions and official measures of trend quarterly employment growth. Furthermore, survey measures have also been found to be useful in informing forecasts of employment growth.

5.4.3 Business conditions for small businesses

180. Business conditions have shown a steady improvement with both NAB and Sensis surveys showing that business conditions are above long-term average levels.

181. The NAB SME survey (December quarter 2017) shows that the proportion of small businesses that experienced an improvement in business conditions over the December quarter 2017 outweighed the proportion of those that experienced a deterioration. Business conditions are currently above their long-term average (Chart 5.3).

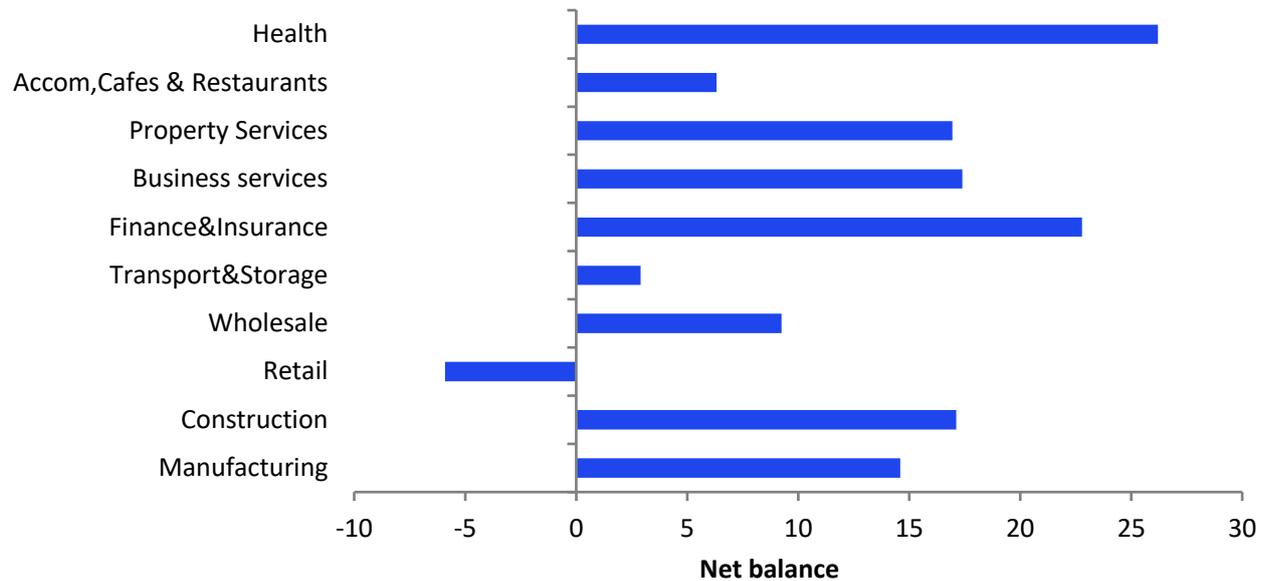
Chart 5.3: NAB Business Conditions – Small Business



Note: Small business is defined here as firms with a turnover between \$2 million and \$10 million. The general definition of small business for taxation purposes is \$10 million turnover or less. The long-term average is the average value since June 2006.

Source: NAB *Quarterly SME Survey, December Quarter 2017*, seasonally adjusted data.

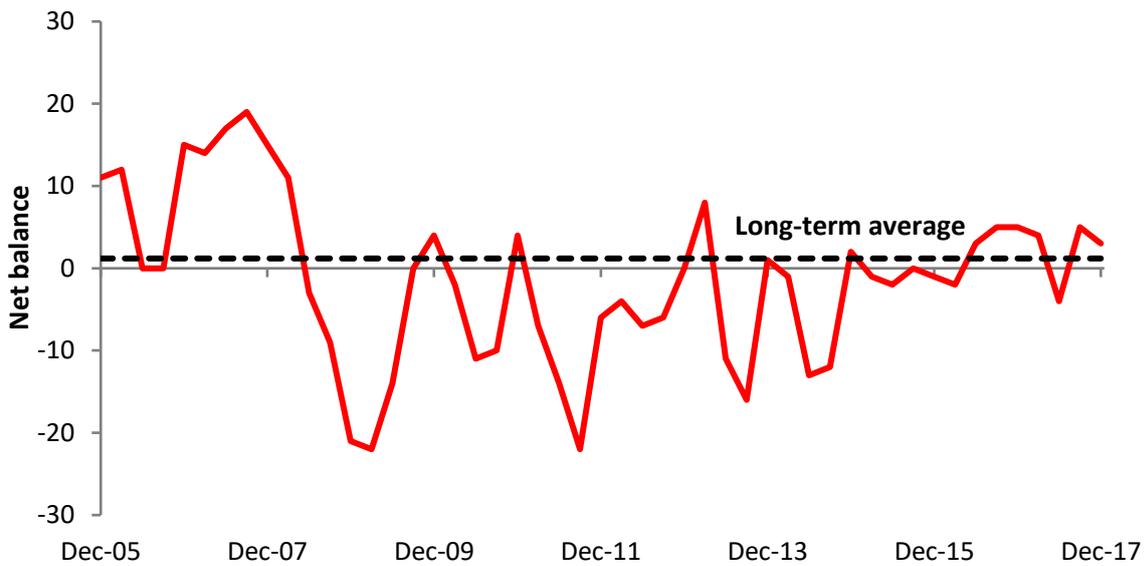
182. At an industry level, for firms with a turnover of between \$2 million to \$10 million the latest survey results suggest conditions are positive across all industries, except Retail trade (which has experienced negative conditions since September 2016) (Chart 5.4).

Chart 5.4: NAB Business Conditions at the Industry Level – Small Business, December 2017

Source: NAB Quarterly SME Survey, December Quarter 2017, seasonally adjusted data.

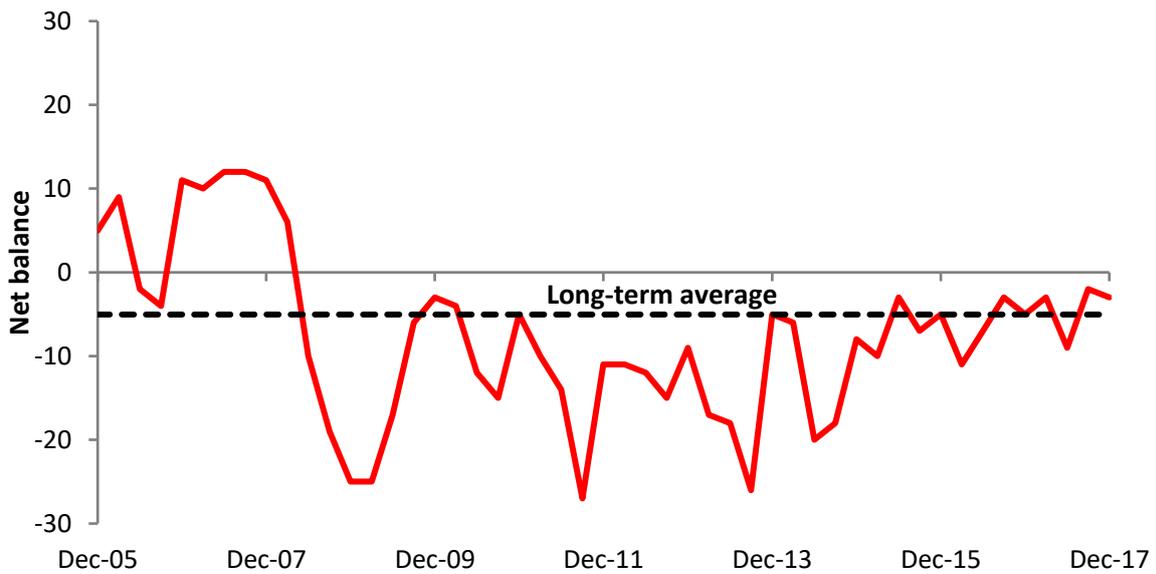
183. The Sensis Business Index does not have a single business condition measure, however, the survey results on sales, profitability and employment in the December quarter 2017 survey provides a useful indication of business conditions for firms surveyed in the Sensis Business Index. Consistent with the NAB SME survey, the Sensis results suggests that small business conditions remain largely positive. The December 2017 Sensis Report notes that *“It was a strong finish to 2017 for Australia’s small and medium businesses, with perceptions of the economy improving to the best level in seven years.”* The net balance of small businesses reporting an increase in sales compared to those reporting a decline is currently above long-term average levels (Chart 5.5). Profitability in the last quarter remained above long-term average levels (Chart 5.6).
184. Business conditions in the retail sector remain difficult, with increased competition causing retailers to engage in aggressive price discounting.

Chart 5.5: Sensis Small Business Conditions for Sales



Source: Sensis Business Index, December Quarter 2017.

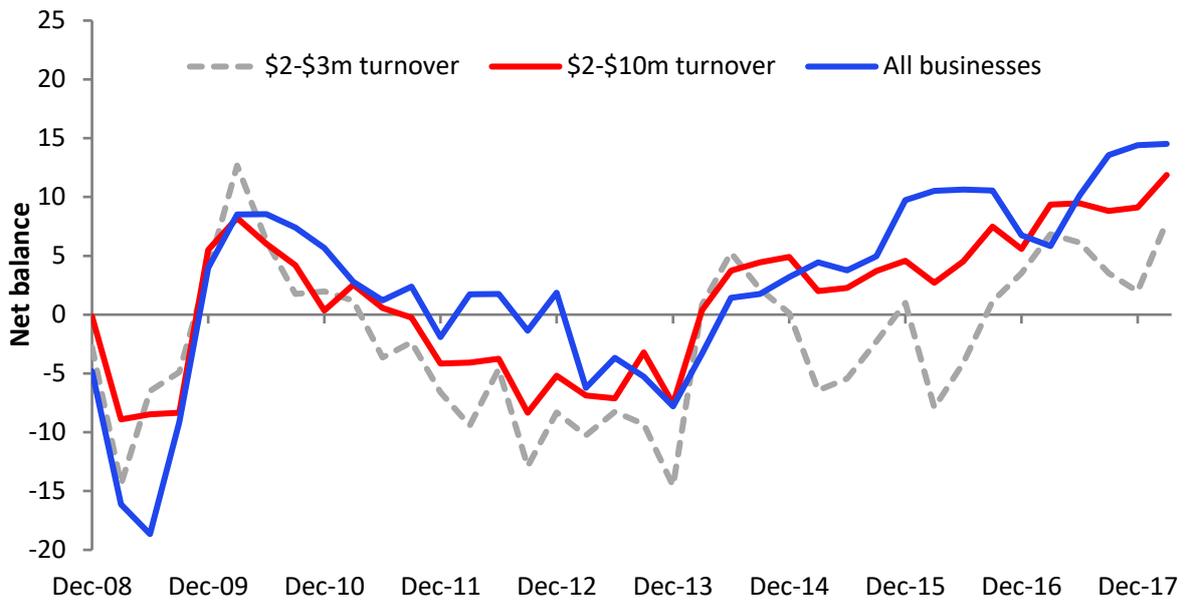
Chart 5.6: Sensis Small Business Conditions for Profitability



Source: Sensis Business Index, December Quarter 2017.

185. The NAB surveys show a difference between the economic conditions of small and larger sized businesses with all businesses reporting better conditions than small businesses specifically (Chart 5.7). This reflects a sustained improvement in larger sized business conditions and a relative moderation in business conditions for smaller sized businesses.

Chart 5.7: Business Conditions Quarterly Business Survey and SME



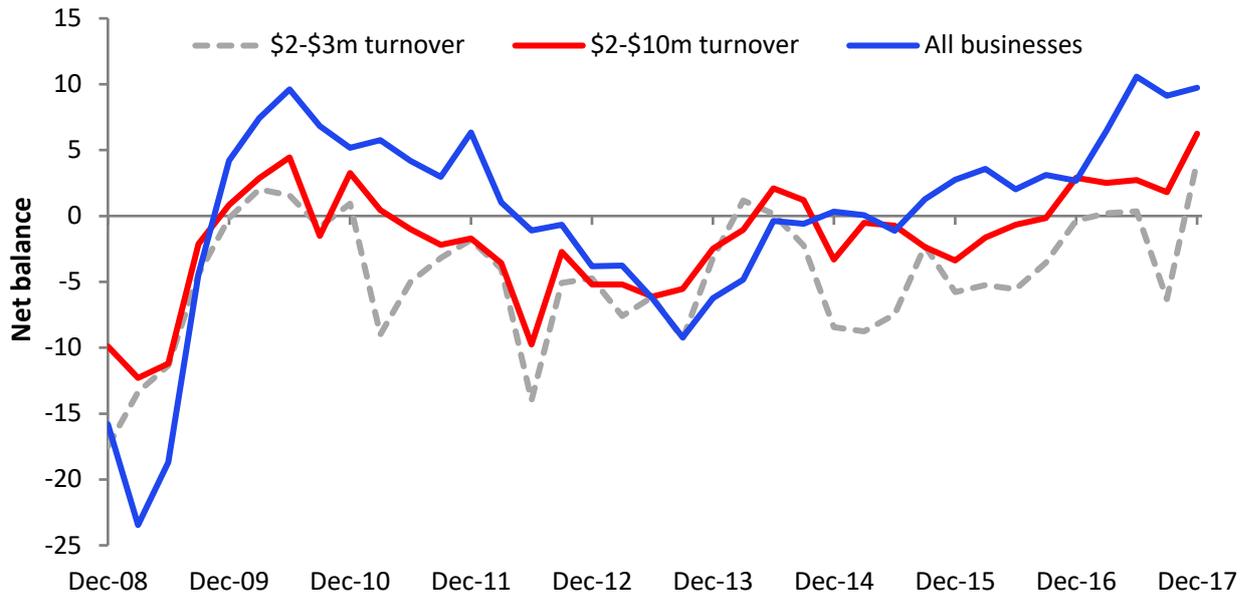
Source: NAB Quarterly Business Survey, December quarter 2017, seasonally adjusted data; NAB Quarterly SME Survey, December quarter 2017, seasonally adjusted data.

Note: Larger sized businesses are by ALL which includes all businesses in the NAB Quarterly Business Survey, including small businesses.

5.4.4 Labour market

186. There is some evidence that future employment conditions for small businesses may be less buoyant than for larger businesses.
187. The NAB Business surveys indicate that small businesses remain cautious in their employment decisions, with slightly more small businesses increasing the size of their workforce compared to those that have reported a decrease. However, the aggregate measure masks the divergence between employment conditions for different firm size. As Chart 5.8 shows, conditions are better as firm size increases.

Chart 5.8: NAB Employment Index by firm size



Source: NAB Quarterly Business Survey, December quarter 2017, seasonally adjusted data; NAB Quarterly SME Survey, December quarter 2017, seasonally adjusted data.

6 Productivity, labour costs and wage-setting

Key Points

- Labour productivity growth in award-reliant industries has been more subdued, except in Retail trade, which is facing increased competition.
- The wage share is slightly below the long-term average. Recent fluctuations in the wage share are largely driven by volatility in commodity prices.
- Enterprise bargaining provides a direct avenue for firms and workers to negotiate wage increases which are consistent with their particular circumstances, and which encourage productivity growth at the enterprise level.

6.1 Productivity growth and wages growth

188. Increases in productivity will result in some combination of higher wages for workers, lower prices for consumers, and higher profits for business. Over the long run, real income growth and improved living standards are largely dependent on productivity growth, and real wages growth and productivity growth tend to move together. However, there are often short-run deviations which reflect labour market and economic conditions.
189. In the last few years, Australia has experienced slower income and wages growth despite improving labour productivity growth. This slowdown is largely driven by the fall in the terms of trade. Prior to this, the large increase in the purchasing power of Australian employees between 2003 and 2011 was driven by the high prices of resource exports, despite slower labour productivity growth.
190. While the small upswing in productivity growth in recent years has been encouraging, it remains below the peak in the 1990s, and may be a contributing factor in low wage growth as suggested by the RBA:

“wage growth is expected to remain well below average because it is likely there will be some spare capacity remaining in the labour market over the next few years, productivity growth is forecast to remain below average and the effects of any structural factors that might be currently weighing on wage growth will take time to dissipate.” (RBA 2017)

6.2 Real producer wage and real consumer wage

191. Real wage growth can be measured by the real producer wage which is deflated by the GDP deflator, and the real consumer wage which is deflated by the household consumption deflator (Treasury 2017).
192. Basic principles of economics suggest that labour productivity should be closely linked to real producer wages. Generally, consumer and producer prices would be expected to grow together in the long-term, so the real producer wage and real consumer wage would grow together. However, wedges can open between the two when relative prices change. In particular, after the terms of trade boom, during which they grew broadly in line with one another, a wedge opened up between the two, with growth in the real consumer wage outpacing productivity growth and the real producer wage (Chart 6.1).

Chart 6.1: Real wages and labour productivity during the mining boom

Source: ABS *Australian National Accounts: National Income, Expenditure and Product, December 2017*, cat. no. 5206.0, Department of the Treasury calculations.

Note: The real producer wage is AENA (per hour) deflated by the GDP deflator; the real consumer wage is AENA (per hour) deflated by the household consumption deflator; labour productivity is per hour. March 2003 = 100.

193. Despite the current environment of subdued wage growth, the real producer wage has continued to grow at a rate similar to the pre-boom period, and has been growing largely in line with labour productivity, just as economic theory would suggest. This is because declines in the terms of trade have weighed on the GDP deflator.
194. In contrast, after its earlier rise in excess of labour productivity growth, the real consumer wage has been broadly flat since 2011, as growth in incomes has been matched by growth in consumer prices. With the unwinding of the terms of trade, the real consumer wage would be expected to grow by less than labour productivity as the economy transitions. Much of the current divergence in growth rates between the consumer and producer real wages likely reflects this adjustment in the terms of trade.

6.3 Trends in labour productivity growth

6.3.1 National labour productivity

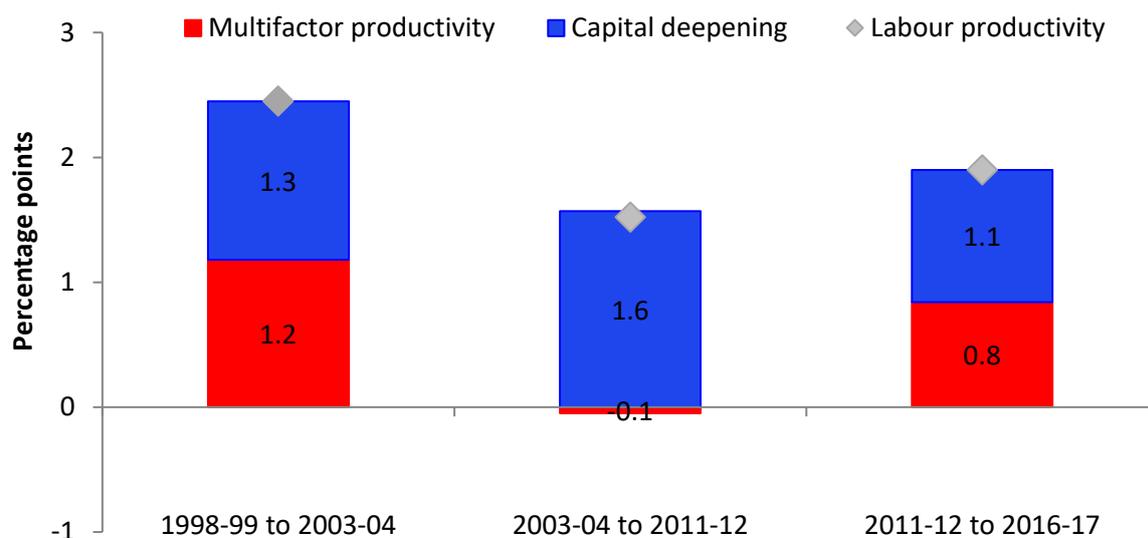
195. In 2016-17 labour productivity in the market sector rose by 1.0 per cent. This followed growth of 1.8 per cent in 2015-16 and 1.3 per cent in 2014-15 (ABS *Australian System of National Accounts, 2016-17*). This compares to the ten-year annual average through to 2017 of 1.9 per cent.
196. However, productivity measures over short time periods can be volatile, cyclical and are subject to revisions. The ABS therefore advises that productivity growth cycles be used to assess changes in labour productivity over time.
197. Over the current incomplete cycle (from 2011-12 to 2016-17), labour productivity in the market sector has grown at an average annual rate of 1.9 per cent, higher than the annual

average growth of 1.5 per cent from 2003–04 to 2011–12 and lower than the 2.5 per cent growth rate from 1998–99 to 2003–04.²⁸

198. Chart 6.2 decomposes labour productivity over growth cycles into its two components:

- Capital deepening, which is a measure of the change in the amount of capital per unit of labour.
- Multifactor productivity, which measures the efficiency of use of labour and capital inputs in producing output.

Chart 6.2: Contributions to labour productivity growth in the market sector



Source: ABS *Australian System of National Accounts, 2016–17*, cat. no. 5204.0. Department of Jobs and Small Business calculations.

Note: Data in original terms. 2011–12 to 2016–17 is not a complete productivity cycle according to the standard ABS definition and may be affected by rates of capacity utilisation.

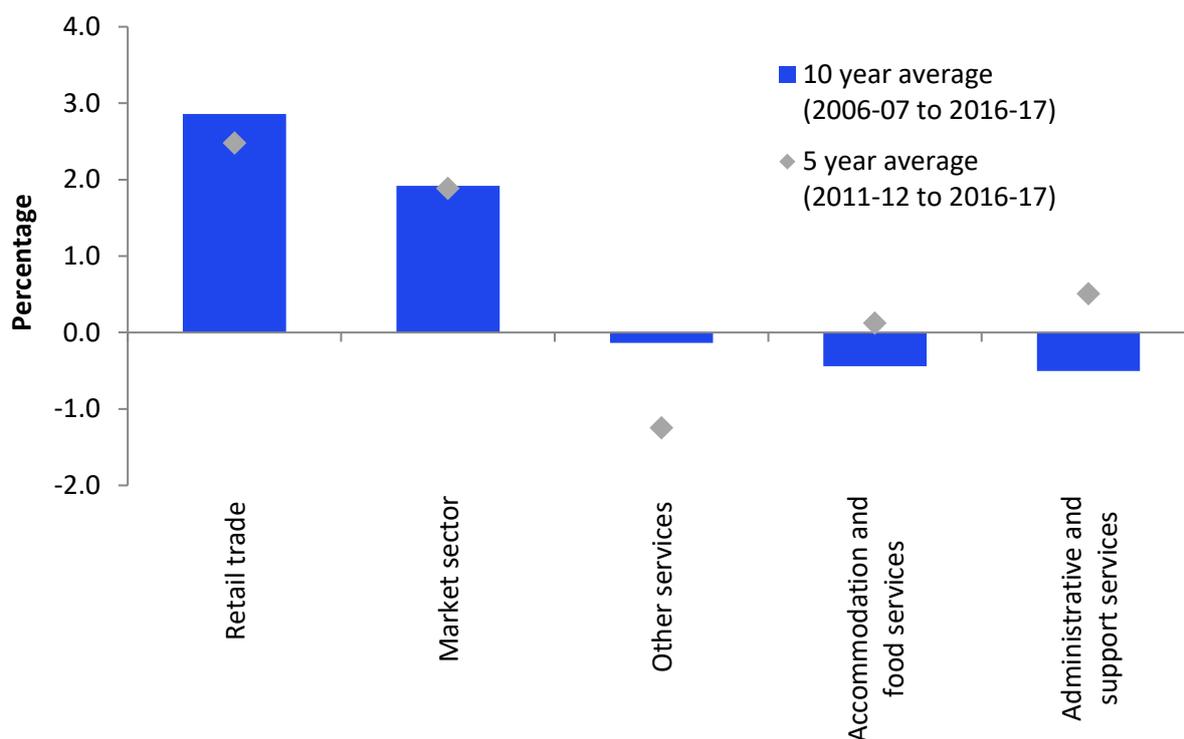
199. The more profound slowdown in productivity growth in the mid-to-late 2000s has been linked to a number of industry-specific factors, including significant investment in the Mining and Electricity, gas, water and waste services industries and the impact of drought on the Agriculture, forestry and fishing industry (Productivity Commission 2009).
200. The slow-down in labour productivity growth over the previous cycle, relative to stronger performance in the 1990s, was a global phenomenon. The OECD notes in its recent *Economic Survey of Australia* that “*Along with many OECD countries, productivity growth [in Australia] has slowed since its peak in the 1990s... but remains in line with its longer term average*” (OECD 2017a).
201. One possible reason for this slowdown is structural. Australia, like many developed economies, has seen a move away from tradeable, capital-intensive goods and towards non-tradeable, labour-intensive services, which is reflected in lower economy-wide productivity (Productivity Commission 2017).

²⁸ Note that the ABS has revised its estimates of the productivity growth cycle duration since the 2016-17 Annual Wage Review, with the new (incomplete) cycle beginning in 2011-12 instead of 2007-08.

6.3.2 Award-reliant industry labour productivity

202. Over the past decade, labour productivity growth in three of the four most award-reliant industries has been below the national market sector average of 1.9 per cent per year (see Chart 6.3).
203. In particular, Other services (-0.1 per cent), Accommodation and food services (-0.4 per cent), and Administrative and support services (-0.5 per cent) had some of the lowest rates of labour productivity growth, while Retail trade (2.9 per cent) recorded above average labour productivity growth over this period.²⁹

Chart 6.3: Average annual labour productivity growth in the four most award-reliant industries, ten and five year averages



Source: ABS *Australian System of National Accounts, 2016–17*, Cat. No. 5204.0.

Note: Industry data in original terms.

204. The Rental, hiring and real estate services industry, in which 27.2 per cent of non-managerial employees are award-reliant, recorded above average productivity growth rates over the last 10 years (3.6 per cent) and 5 years (5.8 per cent).
205. Considerable variation in labour productivity growth at the industry level is a reflection of specific conditions in each industry, as well as a range of data measurement issues.
206. Not only should industry-level productivity data be used with caution, but in general, industry productivity growth rates are more highly correlated with prices growth than

²⁹ These calculations of labour productivity growth rates by industry were done with standard ABS data. There is a measurement issue for some industries, including Administrative and support services, arising from differences between the employment figures in ABS business surveys (which is used for the numerator for labour productivity calculations) and the ABS Labour Force Survey (which is used for the denominator). This issue is discussed in more detail in Connolly, G., Medina, J. and O'Regan, C. (2018) "Implications of Differences in Employment by Industry between ABS Labour Force Survey and ABS Business-survey Data", *Department of Jobs and Small Business Staff Discussion Paper No. 1*.

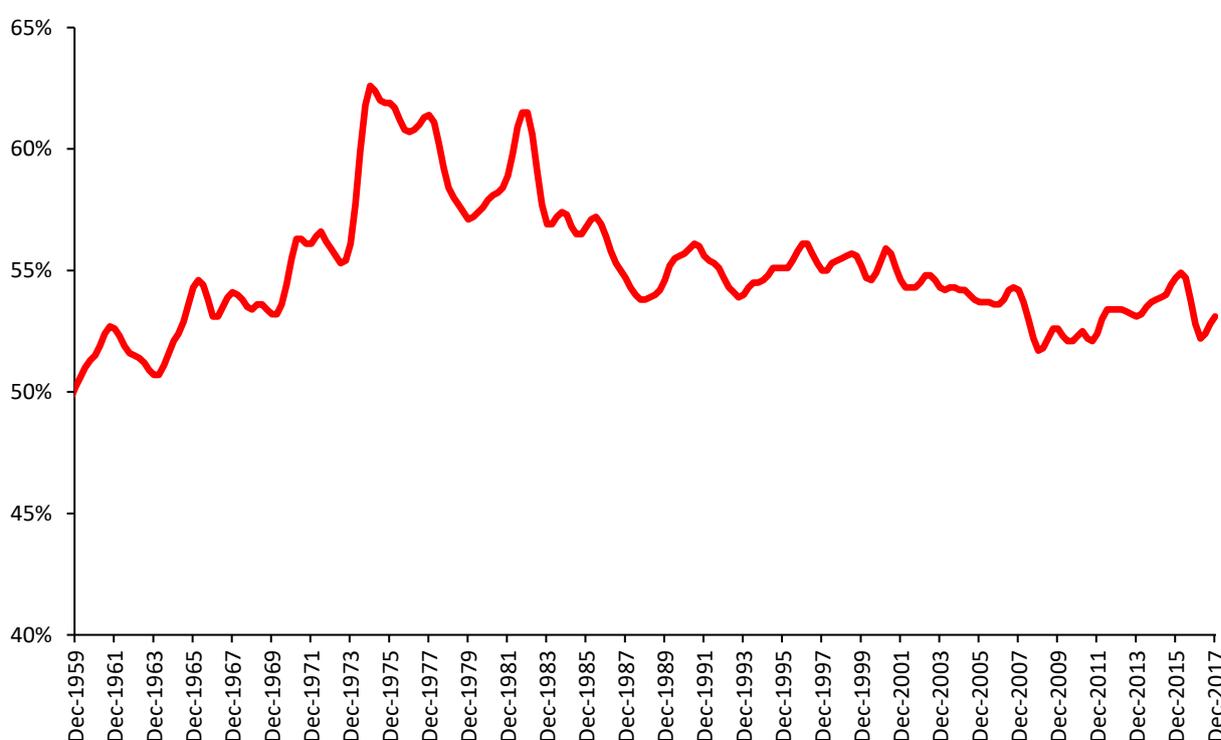
with wages growth (Lowe 1995). That is, industries with higher productivity growth tend to have lower rates of CPI (other things being equal), and vice versa.

207. Industries that face strong international competition and online operation, such as Retail trade, might be passing on productivity increases through lower consumer prices rather than higher nominal wages, as suggested by low inflation in tradeable goods and services.

6.4 Wage share

208. The wage share represents total wages earned as a proportion of total factor income. The latest data (December 2017) shows the wage share at around 53 per cent, slightly below the long-run average (since December 1959) of 55 per cent. The profit share is around half the wage share, at 27 per cent. These shares are not uniform across industry sectors.

Chart 6.4: Wage share, December 1959 to December 2017



Source: ABS Australian National Accounts, Dec 2017, Cat. No. 5206.0, trend data

209. Changes in the wage share reflect cyclical factors. For example, the fall in the wage share from the recent peak of 55 per cent in March 2016 to 53 per cent in December 2017 can largely be attributed to volatility in commodity prices.
210. Similarly, the wage share through the mid-2000s and early 2010s is widely acknowledged to have been influenced by the mining boom, although there is some disagreement about the size of the effect (see McKissack *et al.* 2008; Cowgill 2013; Parham 2013; Productivity Commission 2017; Fair Work Commission 2016).
211. Changes in the wage share reflect essentially the same phenomenon as changes in real unit labour costs, or the relationship between labour productivity and real wages. As noted by the Fair Work Commission in the 2016–17 Annual Wage Review decision:

“If real unit labour costs remain constant, then the labour share of output will remain constant and the real cost of a unit of labour will rise at the same rate as labour productivity.” (Annual Wage Review 2016-17 [2017] FWCFB 3500, para. 226)

212. The Fair Work Commission also noted:

“that in earlier years the NMW and award rates were intentionally not raised commensurately with the growth in national income that flowed from the very high terms of trade. The Panel judged at the time that growth in national income from this source was too volatile to provide a sound foundation for growth in enforceable minimum wages. We are still of that opinion.” (Annual Wage Review 2016-17 [2017] FWCFB 3500, para. 244)

6.5 Promoting productivity growth through bargaining

213. Under s.134 of the Act, the Panel must encourage collective bargaining. Section 3(f) also outlines that one object of the Act is to achieve productivity and fairness through an emphasis on enterprise-level collective bargaining.

214. Enterprise bargaining provides a direct avenue for firms and workers to negotiate productivity offsets for wage increases. Former Prime Minister Paul Keating (2007) has said that *“the key to enterprise productivity is enterprise bargaining”*, as enterprise bargaining allows firms to share the gains in labour productivity between wages and profits.

215. Studies are broadly supportive of a link between productivity growth and enterprise bargaining. For example, Connolly, Trott and Li (2012) find that the workplace agreement coverage has a significantly positive effect on labour productivity, noting that the effect is likely to take longer before fully materialising. The 2012 Fair Work Act Review Panel report also supported this conclusion:

“It is widely, though certainly not universally, agreed among analysts that these economic reforms...including the transition to enterprise bargaining...removed impediments to more efficient production. These reforms may account for a significant part of the upswing in productivity through the 1990s”.

216. Recent years have seen a decline in the approval of new federal enterprise agreements, particularly in the private sector. There were 12,915 agreements current (not expired or terminated) at 30 September 2017, down by 48.7 per cent, from a high of 25,193 agreements in December 2010.

217. This decline is driven primarily by a reduction in agreements covering small numbers of employees. While the decline has occurred across almost all industries, several industries, such as Construction, Retail trade, and Accommodation and food services have declined at a much sharper rate.

218. Despite the reduction in the number of federal enterprise agreements approved, over one-third of all employees are still covered by enterprise agreements (36.4 per cent of all employees in 2016) (EEH).

7 Employment impacts

Key Points

- Low-paid jobs can be an important entry point to the workforce, and can act as stepping stones to higher paid work, particularly for at risk groups such as young people, long-term unemployed people and the low skilled.
- The effect of minimum wages on employment is difficult to measure, and hence the available evidence is mixed and remains under debate. However, there is broad agreement that the minimum wage has an impact on employers' decisions to expand their workforce. Small businesses are more likely to rely on awards to set pay and future employment conditions for small businesses may be less buoyant than for larger businesses.
- Australia's minimum wage bite is greater than many comparable OECD countries, and the Panel's decision also impacts on a significant proportion of the workforce who are paid higher than the national minimum wage rate.

7.1 The importance of low-paid work

219. Jobs provide benefits to individuals, their families and communities. A job boosts incomes, skills and self-confidence and provides an opportunity for social engagement. People who are unemployed tend to have poorer health, and lower levels of community engagement and wellbeing compared to those in work.
220. Low-paid jobs can act as an entry point into the workforce, through which people can build skills and experience to gain higher paid work in the future. The Productivity Commission (2013) has found that for low income households, workforce participation and the number of hours worked are the most important drivers of income growth. Compared to unemployed people, people in jobs have a higher level of wellbeing and lower levels of financial stress. The Government is committed to job growth, to ensure that everyone with the capacity to work has the opportunity to do so.
221. The *Fair Work Act 2009* requires that the national minimum wage rate and modern award wages be set at a rate that will promote the performance and competitiveness of the national economy. To support employment growth, it is important that job opportunities are available for at risk groups, including low-skilled people, long-term unemployed people, people with disability, recent migrants, Indigenous Australians and youth.

7.1.1 Stepping stones effect

222. Over a third (35 per cent) of people who enter the workforce do so by taking a low-paid job. Low-paid jobs are a particularly important pathway for younger and less educated workers, with 45 per cent of workers aged under 25, and 43 per cent of those with Year 12 qualifications or below, entering the workforce through low-paid work (HILDA 2017).³⁰
223. Low-paid employment is often temporary. As shown in Tables 7.1 and 7.2, over two-thirds of workers who enter low-paid employment leave within one year. Most of

³⁰ Low-paid is defined as earning less than two-thirds of the median hourly wage, as outlined in Chapter 2 and Appendix A.

these move into higher paid work, and this is more likely the longer the worker has been in low-paid work. The median increase in hourly wages for those moving from low-paid to higher paid jobs was 59 per cent (HILDA 2017).

Table 7.1: Duration in low-paid employment, per cent

Duration	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Proportion	66.6	18.4	12.8	2.3

Source: HILDA Survey, release 16 (December 2017), pooled waves 1 to 16.

Note: Data is based on flows into low-paid work, not the number of people in low-paid work at a point in time. Numbers are mutually exclusive.

Table 7.2: Destination on leaving low-paid employment, per cent

Duration in low-paid employment	Higher paid work	Left the labour force	Unemployment
Less than 1 year	76.8	16.5	6.7
1 to 2 years	76.4	16.8	6.8
2 to 5 years	80.7	13.1	6.1

Source: HILDA Survey, release 16 (December 2017), pooled waves 1 to 16.

Note: Those remaining in low pay for 5 years or more are not shown due to a small sample size.

7.1.2 Satisfaction and financial stress

224. Even for those who do not move to higher paid work, low-paid employment is still preferable to unemployment. As shown in Table 7.3, low-paid workers are more satisfied than unemployed people with their financial situation and life overall. Low-paid workers also experienced lower levels of financial stress than unemployed people, as shown in Table 7.4.

Table 7.3: Self-reported satisfaction of the unemployed and employees, 2016

Satisfaction with:	Unemployed people	Low-paid employees	Higher paid employees
General life	7.4	7.8	7.9
Overall job	N/A	7.5	7.7
Financial situation	4.6	6.2	6.9

Source: HILDA Survey, release 16 (December 2017), wave 16.

Note: Respondents ranked their satisfaction from 0 (totally dissatisfied) to 10 (totally satisfied).

Table 7.4: Percentage of people who reported financial stress, 2016

Number of financial stress indicators	Unemployed people	Low-paid employees	Higher paid employees
None	62.3	75.6	83.6
One	15.2	9.5	8.4
Two or three	14.5	10.5	6.7
Four or more	8.0	4.4	1.4

Source: HILDA Survey, release 16 (December 2017), wave 16.

Note: The seven financial stress indicators are: Could not pay electricity, gas or telephone bills on time; Could not pay the mortgage or rent on time; Pawned or sold something; Went without meals; Was unable to heat home; Asked for financial help from friends or family; Asked for help from welfare/community organisation.

7.2 Minimum wages and employment

225. In the 2016-17 Annual Wage Review Decision, the Panel stated that “[t]here are similarities and differences between the UK and the Australian systems” (*Annual Wage Review 2016-17 Decision [2017] FWCFB 3500*, para 513). The Panel considered
- “the UK evidence to be quite relevant, both for its comparability and its quality. The US evidence is much less applicable, though we note that its findings generally align with those of the UK...modest and regular wage increases do not result in disemployment effects”* (*Annual Wage Review 2016-17 Decision [2017] FWCFB 3500*, para 523).
226. Simple economic theories of the labour market tend to show that an increase in the minimum wage will reduce employment among affected workers. More complex theories posit that in some circumstances the minimum wage may have a negligible or even positive effect on employment (see Bray 2013; Productivity Commission 2015b).
227. Empirically, it is difficult to measure the employment effect of minimum wage increases as it is hard to find an experimental ideal of large, random changes in the minimum wage and have good control groups.
228. In the US, many states set their own minimum wages above the federal level, and both state and federal minimum wages tend to be changed infrequently and by large amounts. This makes the US closer to the experimental ideal.
229. However, even with these advantages, the existing US studies find a mix of negative and insignificant employment effects, and the employment impact is still under debate (see for example, Dube *et al.* (2010), Allegretto *et al.* (2011), Neumark *et al.* (2014), Allegretto *et al.* (2017), Meer and West (2016), and Dube *et al.* (2016)).
230. The Seattle Minimum Wage Ordinance raised the minimum wage from US\$9.47 to US\$11 per hour in 2015 and to US\$13 per hour in 2016. Jardim *et al.* (2017) found that the first increase had a modest but insignificant effect, whereas the second increase reduced total hours worked in low-wage jobs and caused the elimination of low-wage jobs by around 9.4 and 6.8 per cent respectively. The lost income associated with the reduced hours exceeded the gain associated with the wage increase. As a result, they found that Seattle’s minimum wage increase reduced income to low-paid workers.
231. Australia and the UK are much further from the experimental ideal due to their regular annual adjustments to the minimum wage and lack of geographical variation. Given these similarities, studies from the UK may appear more applicable to Australia (Fair Work Commission 2017), however they may be less reliable for the same reasons.
232. Meta-analyses summarise the literature and provide statistical analysis of results from multiple studies. Recent meta-analyses of the US and international literature find a mix of negative and insignificant effects (see Doucouliagos and Stanley 2009; Boockmann 2010; Belman and Wolfson 2014; Nataraj *et al.* 2014; Gitios and Chletsos 2015; RAND 2016).
233. The Australian empirical literature, although much smaller in volume, finds a similar mix of negative and insignificant employment impacts, as described in Bray (2013) and Productivity Commission (2015b).
234. Leigh (2003, 2004) found that a 10 per cent increase in the minimum wage in Western Australia would reduce the overall employment in Western Australia by 2.9 per cent. However, considering only about four per cent of workers were directly affected by the

- changes in the minimum wage, any reduction in employment could be disproportionately experienced by affected workers (Leigh 2003).
235. While the literature mostly finds mixed or small average effects on employment from minimum wage increases, this may be masking significant heterogeneity in terms of the effects on specific groups, demographics, or the extent to which different types of labour and capital are substitutes or complements.
 236. For instance, some studies show that changes to minimum wages have larger impacts on employment opportunities for youth which may persist for a number of years (see Boockmann 2010; Neumark and Wascher 2008, Neumark and Nizalova 2007), and larger impacts when the economy is in a recession or a prolonged slowdown (see Addison et al. 2013; Dickens et al. 2012).
 237. The impact of minimum wage increases might also be higher for workers in routine jobs that are more at risk of automation. However, there is relatively little research at present in this area. In one of the few papers on the topic, Aaronson and Phelan (2017) found that *“increases in the cost of low-wage labour, via minimum wage hikes, lead to relative employment declines at cognitively routine occupations but not manually-routine or non-routine low-wage occupations.”* A working paper (currently under peer review) by Lordan and Neumark (2017) finds that *“increasing the minimum wage decreases significantly the share of automatable employment held by low-skilled workers, and increases the likelihood that low-skilled workers in automatable jobs become non-employed or employed in worse jobs.”*
 238. Australia’s minimum wage is higher than in many comparable OECD countries, whether measured as a percentage of median earnings or ‘bite’ (10th of 27 countries, Chart 7.1), or in terms of purchasing power (2nd of 27 countries, Chart 7.2). As discussed in Chapter 2 (Table 2.1), entry level award wages in, for example, the Retail, Fast Food, and Hair and Beauty awards were around 55-60 per cent of the median weekly full-time wage.
 239. There is also a wider coverage of the award system in Australia (over 20 per cent of employees) compared with most countries’ minimum wages. For example, the coverage of the UK National Living Wage and National Minimum Wage was less than 10 per cent in April 2017.³¹

³¹ The UK Low Pay Commission (2017, p.5) estimated that *“8.5% of workers will be on one of the minimum wage rates from April 2017”*.

Chart 7.1: Minimum wage bite (% of median earnings) in OECD economies, 2016

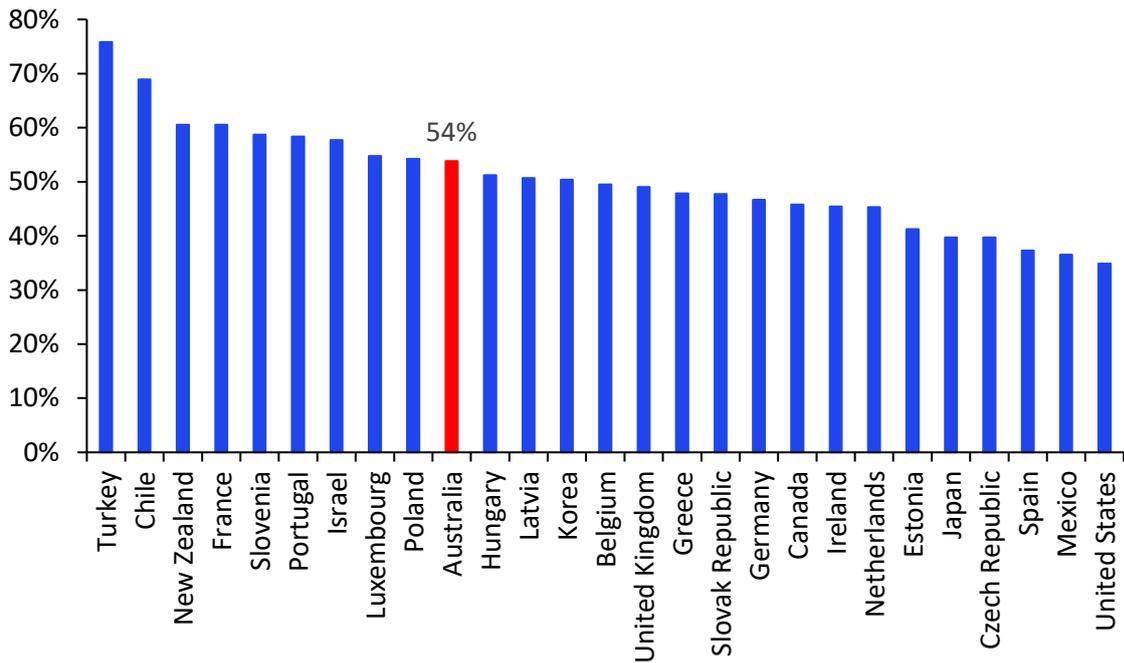
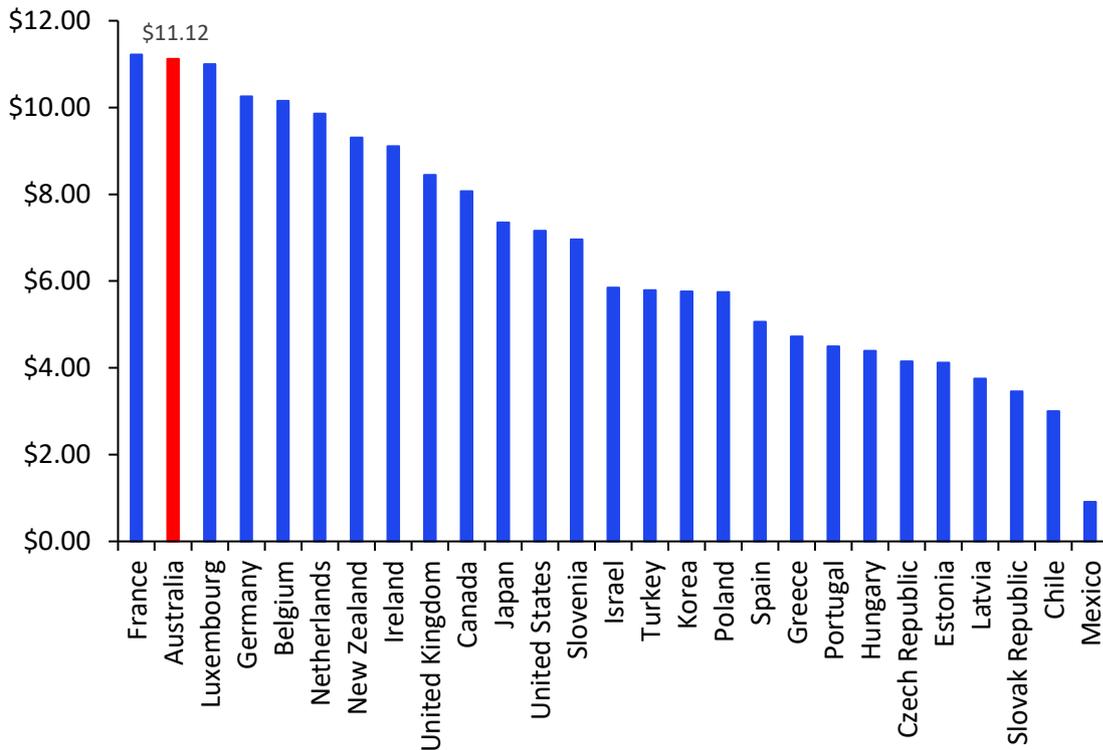


Chart 7.2: Hourly minimum wages (\$US purchasing power parity), 2016



Source: *OECD Stat Extracts*, stats.oecd.org, extracted November 2017.

Note: Data on the minimum wage bite and hourly minimum wages are available for 27 out of 35 OECD countries.

7.3 Minimum wages and incentives to work

240. The level of the minimum wage can influence people's decisions to look for and accept work. It is important that the minimum wage is set at a level that encourages people who are out of work to enter into the workforce in order to enjoy the benefits that work can provide to individuals and communities.
241. The Government has modelled the interaction between the tax-transfer system and the national minimum wage for a broad range of hypothetical single and second earner households.³² The modelling shows that all of the household types modelled were better off when an unemployed member of the household gained a job at the national minimum wage. Some examples are provided below, with detailed tables in Appendix C.
242. A single adult household, without children, would increase their disposable income by \$350 per week (128 per cent) by moving from unemployment and into a full-time job paying the national minimum wage rate. Even by taking a part-time job at the national minimum wage rate, disposable income would increase by \$148 per week (54 per cent).³³
243. An unemployed couple without children would be \$251 per week (51 per cent) better off if one unemployed member of the household found a full-time job at the national minimum wage rate. A couple without children with one adult already in full-time employment at the national minimum wage rate would be \$502 per week (67 per cent) better off if the second member of the household moved from unemployment into full-time minimum wage work.
244. Households with children are also better off when an unemployed adult gains a job at the national minimum wage rate, even after paying for any necessary childcare costs. For example, a couple with a three-year-old child, with one member of the couple in a full-time job at the national minimum wage rate would be \$183 per week (19 per cent) better off if the second member of the couple also found a full-time national minimum wage rate job. If the second member of the household took a part-time job at the national minimum wage rate the household would increase their disposable income by \$63 per week (7 per cent).

³² The analysis considered the potential impact of earnings from a job at the national minimum wage rate on combined household income, after income support (Newstart Allowance or Parenting Payment), other transfer payments (such as Family Tax Benefits and Rent Assistance), other earnings (if other members of the household were already receiving earned income from employment), childcare costs and taxation. The assumptions used in the analysis are detailed in Appendix B.

³³ Working 15 hours per week at the national minimum wage.

8 Household incomes and inequality

Key Points

- Over the past decade, income inequality in Australia has been broadly stable.
- The national minimum wage bite (the ratio between the national minimum wage rate and median full-time earnings) has also been stable at around 54 per cent since 2008.
- Changes to minimum wages, the distribution of minimum wage workers across households and the impact of the tax-transfer system all have an effect in reducing inequality.
- The current tax-transfer system redistributes to low-income households and families with children, including minimum wage earners, through direct transfer payments and a range of in-kind support.
- Increases in the minimum wage are not fully reflected in household disposable income, although it plays a large role in improving household income for low-income, minimum wage families.

8.1 Income inequality and earnings inequality

8.1.1 Income inequality

245. Section 134 and s.284 of the Act require the Panel to promote social inclusion through increased workforce participation and to consider the relative living standards and needs of low-paid employees.
246. While there are many measures of income inequality, household disposable income (after taxes and transfers) is the best measure. The Productivity Commission (2013) finds that income taxes, and direct and indirect transfers reduce the measured Gini coefficient by about one third.
247. Household disposable income is a more comprehensive measure of living standards than individual earnings. It is measured at the household rather than the individual level, to take account of sharing between family members. It also adjusts for household size ('equivalised') and takes into account investment income, direct taxes, and transfer payments in addition to wage and salary earnings.
248. The latest ABS data shows that Australia's income inequality has been broadly stable over the past decade (ABS *Household Income and Wealth, 2015-16*). The Gini coefficient for equivalised household disposable income stood at 0.336 in 2007–08 and 0.323 in 2015-16.³⁴ The Gini coefficient is a common measure of inequality, which takes values between 0 and 1, with 0 meaning total equality (i.e. everything is shared equally among everybody) and 1 meaning total inequality (i.e. one person has everything).

³⁴ It should be noted that it is difficult to compare Australian income inequality across a longer time period as the ABS changed its methods in 2007–08. Improvements in the Survey of Income and Housing, including a new definition of income, had a greater impact at the top of the income distribution (ABS 2013a, Fact Sheet 5). The definition of income has been expanded to include non-cash benefits, bonuses, termination payments and payments for irregular overtime worked.

249. The ABS data shows that for the decade from 1995–96 to 2005–06, equivalised real household disposable income growth for the median household was almost equal to growth for the (high-income) 90th percentile, while over the decade from 2005–06 to 2015–16, growth for the (low-income) 10th percentile was more rapid than for both the median and the 90th percentile.
250. When looking at growth over the two decades from 1995–96 to 2015–16, growth for the (low-income) 10th percentile was the same as growth for the median household, while growth for the (high-income) 90th percentile was higher. Changes in ABS methods are likely to have exaggerated high-income growth between 2003–04 and 2007–08.

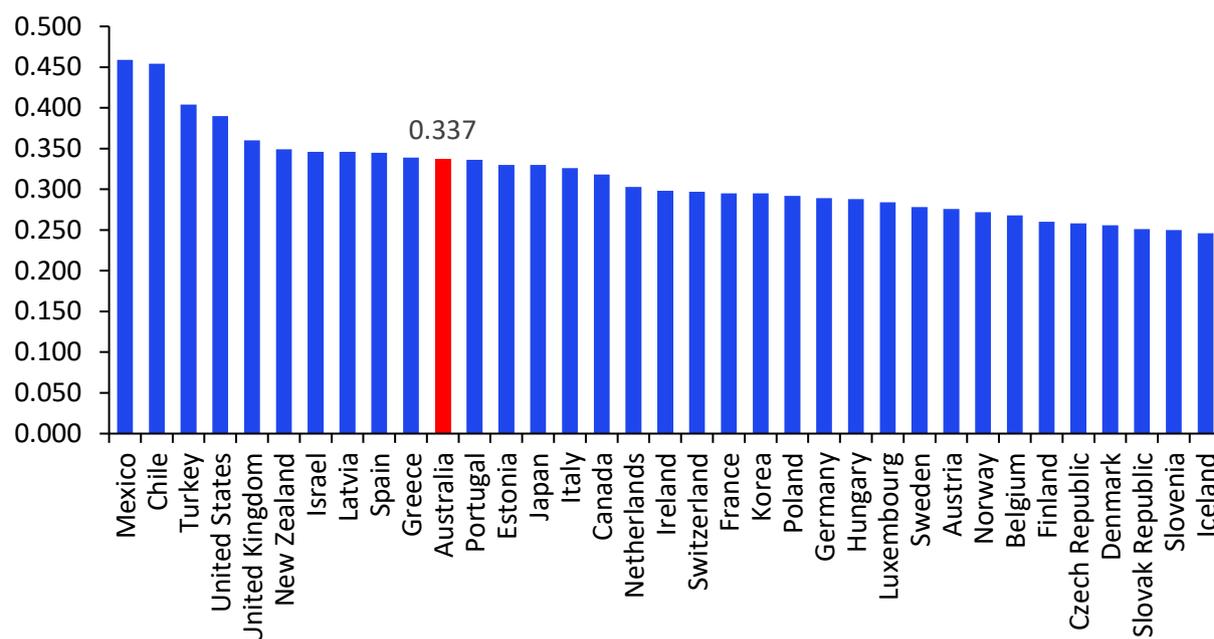
Table 8.1: Growth in equivalised real household disposable income, 1995–96 to 2015–16

% growth:	1995–96 to 2005–06	2005–06 to 2015–16	1995–96 to 2015–16
10th percentile (low)	27.5	23.9	58.0
50th percentile (median)	35.0	17.0	58.0
90th percentile (high)	37.5	19.9	64.9

Source: ABS *Household Income and Wealth, Australia, 2015-16*, Cat. No. 6523.0.

Note: Estimates for 2007–08 onwards are not directly comparable with previous estimates due to improvements in income measurement. Estimates for 2003–04 and 2005–06 have been recompiled to reflect the new measures of income, however not all components introduced in 2007–08 are available earlier.

251. Data from the HILDA report (2015, latest available) also indicates that overall household income inequality has remained broadly stable over the past 15 years, with the Gini coefficient remaining at between 0.296 and 0.303 over the period (2001–2015). The HILDA Report also shows that over the last 15 years, real incomes of those in the 10th percentile increased by 38.3 per cent – higher growth than the median (28.5 per cent) and the average (30.3 per cent) and also higher than those in the 90th percentile (29.9 per cent).
252. Australia has the 11th highest Gini coefficient of 35 OECD countries, below the US (0.390), UK (0.360) and New Zealand (0.349), as shown in Chart 8.1. However, when making international comparisons, it should be noted that OECD countries have varying circumstances such as levels of development, demographics and tax and social security systems.
253. International differences in inequality are also affected by intergenerational earnings mobility. The OECD (2017c) found that Australia’s intergenerational earnings mobility was slightly better than the OECD average.
254. According to the Stanford Poverty and Inequality Report (2016), Australia has a relatively high degree of intergenerational mobility, ranking sixth lowest out of 24 middle and high income countries on a measure of the strength of links between father and son earnings. Similarly, Leigh (2007) finds that “Australian society exhibits more intergenerational mobility than the United States, with the largest difference being the mobility of those born into the poorest households.” Huang et al (2016) find similar results.

Chart 8.1: Gini coefficients, international comparison, 2015

Source: *OECD Stat Extracts*, stats.oecd.org, extracted in January 2018.

Notes: All data is for 2015, except for Japan (2012), Israel (2016) and Mexico, New Zealand, Greece, Australia, Italy, Ireland, Switzerland, Germany, Hungary, Luxembourg, Czech Republic, Denmark and Iceland which are for 2014.

8.1.2 Earnings inequality

255. ABS data shows that low and medium-paid employees have seen gains in real earnings over the last decade, but at a slower pace than high paid employees (Table 8.2), noting that individual earnings are a less comprehensive measure of living standards than household disposable income (Table 8.1).³⁵

Table 8.2: Growth in full-time real weekly earnings, non-managerial employees, per cent, 1996 to 2016

	1996 to 2006	2006 to 2016
10th percentile (low)	9.3	12.8
50th percentile (median)	15.6	17.5
90th percentile (high)	24.2	21.9

Source: *ABS Employee Earnings and Hours, May 2016*, Cat. No. 6306.0, published and unpublished data.

Note: 1996 to 2006 growth is for ordinary time earnings and 2006 to 2016 is for total cash earnings.

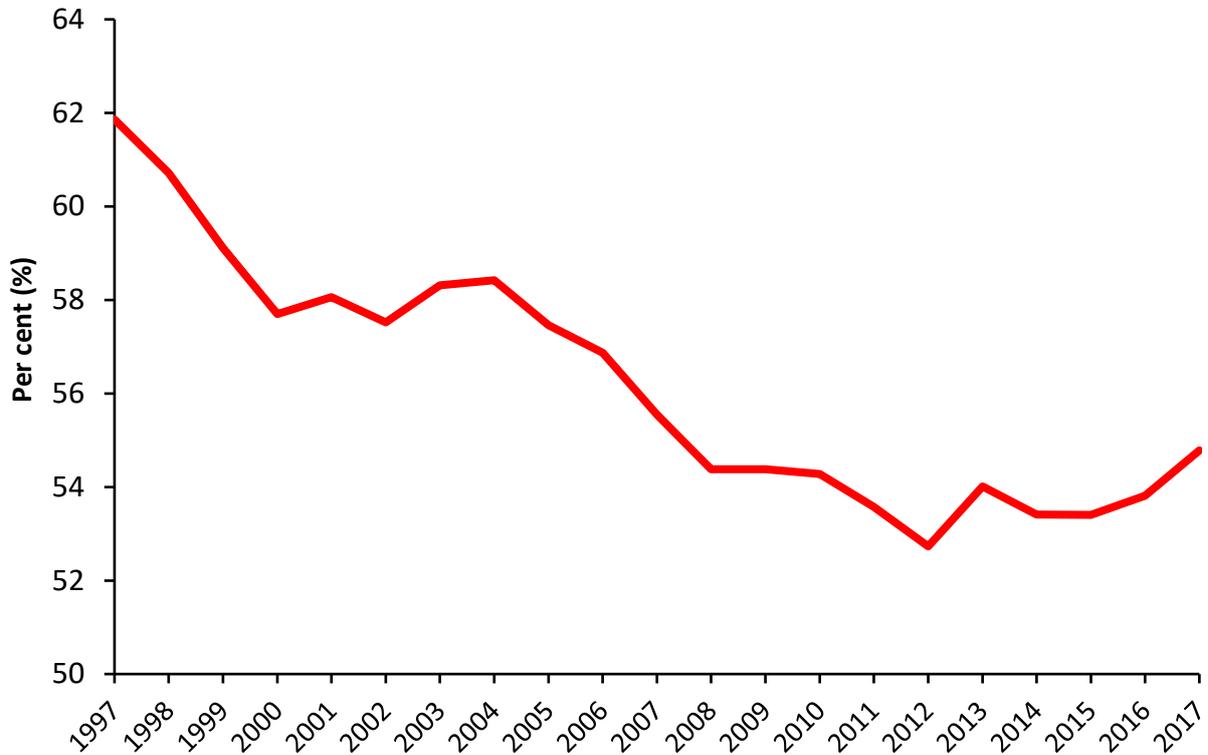
256. Treasury's examination of wage growth by annual wage income decile based on HILDA 2015 survey data shows that average annual growth in total wage income was slightly higher in the lower deciles from 2005 to 2015 (Treasury 2017). After controlling for hours worked, wage growth has been broadly uniform across the employee income distribution from 2005 to 2015.

³⁵ Income growth appears to be higher than earnings growth generally, because of changes in household composition, higher labour force participation, more rapid growth in investment income, and changes to the tax-transfer system.

8.2 The minimum wage and inequality

257. In 2017, the minimum wage bite (the ratio between the national minimum wage rate and median full-time earnings) was 54.8 per cent. It declined from 62 per cent in 1997 to 54 per cent in 2008, with relative stability since (see Chart 8.2).

Chart 8.2: National minimum wage as a share of median wage (minimum wage bite)

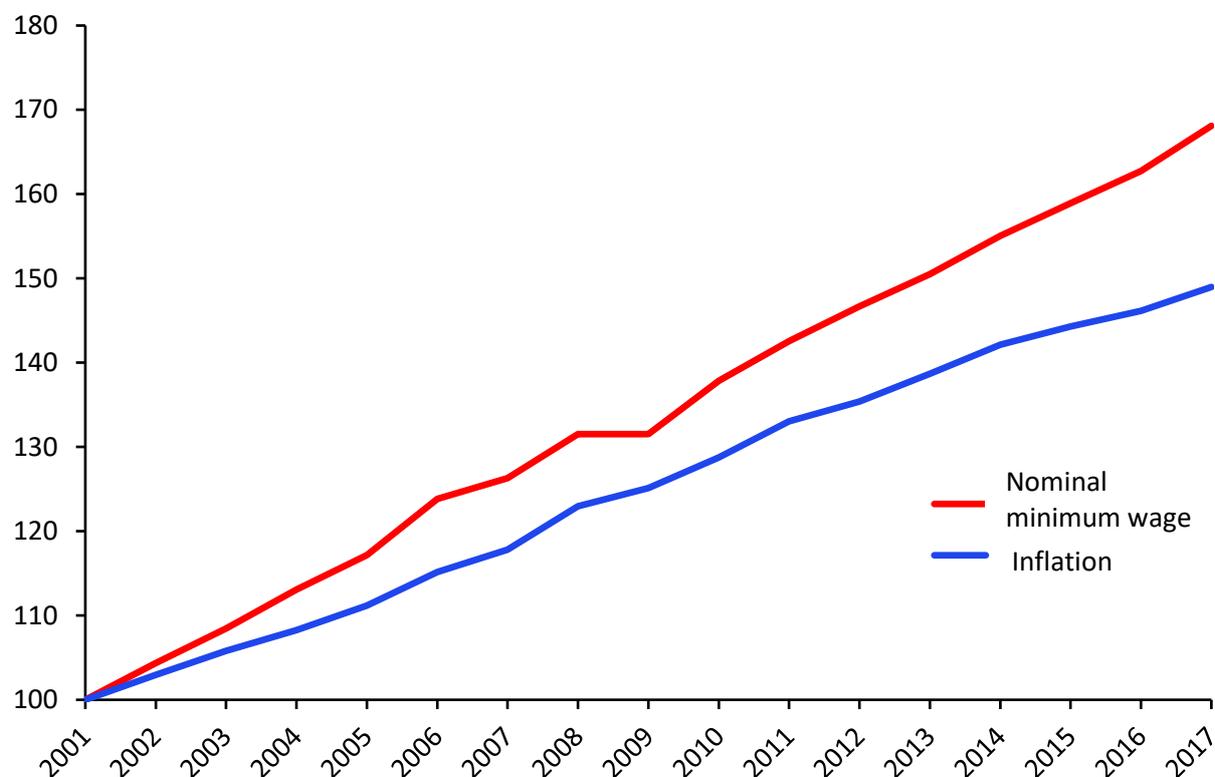


Source: Australian Fair Pay Commission/Fair Work Australia/Fair Work Commission decisions on National Minimum Wage from 2006; prior to 2006, Australian Industrial Relations Commission decisions on Federal minimum wage based on Metal, Engineering and Associated Industries Award (1998); from 2014 onwards: ABS Characteristics of Employment (cat. no. 6333.0); from 1998-2013: Employee Earnings, Benefits and Trade Union Membership (EEBTUM) (cat. no. 6310.0); for 1997: Weekly Earnings of Employees (Distribution), Australia (cat. no. 6310.0).

258. The decline in the minimum wage bite between 1997 and 2008 was due to growth in the median wage outpacing that of the national minimum wage – partially attributable to the mining boom which pushed up median earnings. Between 1997 and 2008, the national minimum wage rate grew by 51.3 per cent (9.2 per cent in real terms), compared with growth of 72.1 per cent (or 24.2 per cent in real terms) in median full-time weekly earnings.
259. Bray (2013) shows that the minimum wage has doubled in real terms over the twentieth century, although it declined in real terms in the 1980s.
260. Over the last 10 years, the national minimum wage rate has increased on average by 2.8 per cent a year in nominal terms and 0.8 per cent a year in real terms. This is higher than growth in median full-time earnings, which averaged 2.7 per cent a year in nominal terms and 0.7 per cent a year in real terms to 2017 (ABS *Characteristics of Employment, August 2017*). The increase in the national minimum wage is faster than inflation (Chart

8.3) and in line with WPI, which increased on average by 2.9 per cent a year in nominal terms over the same period (ABS *Wage Price Index, December 2017*).³⁶

Chart 8.3: National minimum wage increases compared to inflation, index



261. Rises in the minimum wage likely reduce earnings inequality, to some extent. However, the effect on income inequality is more ambiguous, given that minimum wage workers are found across the household income distribution (Chapter 2), and that the effect of minimum wage increases above a certain level is uncertain (Chapter 7). For example, Leigh (2006) states that *“On most reasonable bounds for employment and hourly wage elasticities, a minimum wage increase will not lower family income inequality much, and may increase it.”*
262. Further, in Australia the national minimum wage is a part of a comprehensive system of modern awards and the 2,000 plus minimum award classification wages within it. The Panel’s decision impacts employees paid the national minimum wage rate as well as those whose pay is set by a modern award. Since most award-reliant employees receive more than the national minimum wage rate, the Panel’s decision also impacts workers across the income distribution.

8.3 Taxes and transfers

263. The Australian tax-transfer system plays a key role in distributing income among Australian households, through a targeted system of cash payments (including income

³⁶ Seasonally adjusted figures. Figures reflect annual growth to the June quarter 2017, consistent with the date of effect of increases in the national minimum wage rate.

support and family payments), in kind support (such as subsidised health care and education) and a progressive income tax system.³⁷

264. While a single person without children working full-time at the minimum wage would not generally attract transfer payments, those working part-time, couples with one partner earning the full-time minimum wage and families with children can receive significant additional assistance in the form of income support, Family Tax Benefit (FTB) and related payments in recognition of their additional need for support. For full-time minimum wage workers in single-income households with children, transfer payments are typically around a third of disposable income (see Table 8.3).

Table 8.3: Transfer payments to full-time NMW households with children, 1 January 2018

Household type	Transfer payments (\$pw)	Transfer payments as a proportion of disposable income (%)
Single parent		
Child aged 3	338	35.6
Child aged 9	211	25.1
Children aged 3 & 9	448	42.4
Single-income couple (partner on Newstart or Parenting Payment Partnered)		
Child aged 3	305	32.4
Child aged 9	282	30.7
Children aged 3 & 9	411	39.2
Dual-income couples (both on NMW)		
Child aged 3	43	3.4
Child aged 9	43	3.4
Children aged 3 & 9	136	9.8

Source: Government modelling.

Note: Figures for transfer payments per week are rounded to the nearest dollar. Calculations of percentages may differ slightly due to rounding.

265. The transfer system provides financial support to parents and carers to assist them with the costs of raising children. Table 8.4 shows that while equivalised (adjusted for household size) earnings are lower in households with children, equivalised disposable income varies. For some household types equivalised disposable income is higher for households with children than in households with equal earnings, but without children, in other household types (single-income couples) it is lower.

³⁷ The transfer system is the main element of Australia's social support system. Australia's social support system includes cash transfer payments to individuals and families, and a range of support services funded or provided by all levels of government and civil society (commercial and community organisations). The system is intended to help meet the costs of daily living, increase participation in work and social activities, and build individual and family functioning. Transfer payments include income support payments to help meet daily living expense costs and other payments and supplements to help meet specific costs (such as family payments to assist with the costs of children).

Table 8.4: Equivalised income for full-time NMW workers with children, 1 January 2018

Household type	<u>Earned income</u>			<u>Disposable income, adjusted for childcare costs</u>		
	Earnings (\$pw)	Equivalised earnings (\$pw)	% of single, no children	Income (\$pw)	Equivalised income (\$pw)	% of single, no children
Single person – working full-time at the NMW						
No children	694.90	694.90	100.0	624	624	100.0
Child aged 3	694.90	534.54	76.9	818	629	100.8
Child aged 9	694.90	534.54	76.9	812	625	100.1
Children aged 3 & 9	694.90	434.31	62.5	904	565	90.6
Dual-income couples – both partners working full-time at the NMW						
Child aged 3	1389.80	772.11	111.1	1124	625	100.1
Child aged 9	1389.80	772.11	111.1	1257	698	111.9
Children aged 3 & 9	1389.80	661.81	95.2	1207	575	92.1
Single-income couples – P1 working full-time at the NMW, P2 on Parenting Payment/Newstart						
Child aged 3	694.90	386.06	55.6	941	523	83.8
Child aged 9	694.90	386.06	55.6	918	510	81.7
Children aged 3 & 9	694.90	330.90	47.6	1049	499	80.0

Source: Government modelling.

Note: (1) It is assumed that the single-income couples incur no childcare costs, since the non-working partner will look after the children. Equivalised earnings have been derived by calculating an equivalence factor according to the 'modified OECD' equivalence scale, and then dividing by the factor. In determining the factor, the first adult in the household is allocated 1 point, an additional adult is allocated 0.5 points and each child under 15 years is allocated 0.3 points.

(2) Figures for disposable income are rounded to the nearest dollar. Calculations may differ slightly due to rounding.

266. In-kind support in Australia is also mostly targeted at the lowest income households. As such, while the top fifth of households receive 14.5 times as much income (including imputed rent) as the bottom fifth, after direct (mainly income) taxes and transfer payments, this ratio drops to 5.3. When in-kind transfers (mainly education and health services) are added, it drops again to 3.3 (ABS *Household Income and Wealth*, 2015–16).

8.4 Impact of the Panel's decision on household income

267. Even assuming no change in hours worked, minimum wage increases will not fully flow onto disposable income, due to Australia's progressive and targeted tax-transfer system.

268. Table 8.5 shows the immediate impact on disposable income for various household types following the 2017 national minimum wage rate increase. Household disposable income increased for all types of households, however the percentage of the wage increase retained varied based on the type of transfer payments received by the household.

269. The breakdown by household in Table 8.5 shows that full-time workers without children retained the greatest fraction of the minimum wage increase after taxes and transfers (nearly 80 per cent), since they receive no transfer payments and therefore face no income tests. Part-time workers and workers with children kept less, since they are affected by the means tests on payments such as Newstart and FTB. Couples with one partner on Newstart retained the least.

270. Some dual-income households retained a greater proportion of the 2017 minimum wage increase than was the case for the 2016 increase (which was shown in the Government's 2016-17 submission). This is due to the Income Support Bonus no longer being payable and because in 2017 these family types lost a smaller amount of income support and related payments as their income was already closer to exhausting their entitlements.

Table 8.5: Effect of 2017 NMW rate increase on household disposable incomes

Household type	Wage increase (\$pw)	Increase in household disposable income (\$pw)	Percentage of wage increase retained (%)
Single, no children			
Full-time NMW	22.20	18	79.0
Part-time NMW	8.85	3	39.5
Student on part-time NMW	8.85	4	40.0
Single parent			
Full-time NMW, child aged 3	22.20	7	32.1
Full-time NMW, child aged 9	22.20	9	39.6
Part-time NMW, child aged 3	8.85	5	60.0
Part-time NMW, child aged 9	8.85	4	42.5
Single-income couples (partner on Newstart Allowance)			
Full-time NMW, no children	22.20	4	15.8
Full-time NMW, child aged 3	22.20	6	27.8
Full-time NMW, children aged 3 and 9	22.20	7	33.0
Dual-income couples			
Both full-time NMW, no children	44.40	35	79.0
One full-time and one part-time NMW, no children	31.05	20	64.9
One full-time and one part-time NMW, child aged 3	31.05	17	55.9
One full-time and one part-time NMW, children aged 3 and 9	31.05	17	53.3

Source: Government modelling.

Note: (1) Figures are based on tax and benefit rates applicable on 1 July 2017. Part-time hours are assumed to be 15 hours per week. This modelling does not include indexation of benefits as it has been designed specifically to show the Panel the direct impact of the 2017 minimum wage increase on household disposable incomes.

Indexation of benefits is a separate process in the tax-transfer system and is not affected by the Panel's decision.

(2) Figures for the increase in income have been rounded to the nearest dollar. Percentages may differ slightly due to rounding.

271. Table 8.6 models the percentage change in real disposable income for a number of hypothetical households. Assuming no change in hours worked, it shows a longer term impact of changes in the national minimum wage rate. Unlike Table 8.4, this modelling does not take into account the Government's assistance for childcare (this is because childcare subsidies are only paid where the extra costs of childcare are incurred) and other in-kind support.

272. As noted in Section 8.3, Government direct transfer payments can account for a significant proportion of a minimum wage household's income. Table 8.6 shows that over the five years from 2013 to 2018 the change in real incomes from the minimum wage has varied across households.

273. Due to the increase in the minimum wage rate over the past five years, tax payable, particularly for full-time minimum wage workers, has increased. Outcomes for families receiving transfer payments were also affected by measures such as the ceasing of the School Kids Bonus, closure of Energy Supplement paid with FTB for new entrants, and the measure to maintain the current FTB rates for two years from 1 July 2017. Increases to the minimum wage have, over recent years, been important for maintaining the real disposable incomes of many low-income households (see Table 8.6), however the tax-transfer system remains the primary means of redistributing income to low-income households.

Table 8.6: Changes in real disposable household income, 2013 to 2018

Household type	Total change (%)	Tax-transfer contribution (%)	Net impact of real NMW increases (%)
<i>Single, no children</i>			
Full-time NMW	1.9	-1.8	3.7
Part-time NMW	2.6	1.5	1.0
Student on part-time NMW	0.5	-0.7	1.1
<i>Single parent</i>			
Full-time NMW, child aged 3	-2.5	-3.4	0.9
Part-time NMW, child aged 3	1.1	0.2	0.9
Full-time NMW, child aged 9	-1.0	-2.3	1.3
Part-time NMW, child aged 9	-1.0	-1.8	0.7
<i>Single-income couples</i>			
Full-time NMW, no children	0.7	0.1	0.6
Full-time NMW, child aged 3	-0.1	-0.9	0.8
Full-time, children aged 3 and 9	-1.2	-2.1	0.9
<i>Dual-income couples</i>			
Both full-time NMW, no children	1.9	-1.8	3.7
One full-time and one part-time NMW, no children	2.6	0.4	2.2
One full-time and one part-time NMW, child aged 3	1.2	-0.5	1.7
One full-time and one part-time NMW, children aged 3 and 9	-0.1	-1.5	1.5

Source: Government modelling.

Notes: Based on NMW and tax-transfer system of 1 January each year. The first column shows the percentage change in real disposable income given the actual changes in the national minimum wage and tax-transfer system. The second column shows the contribution of the tax-transfer system, by assuming that the minimum wage had grown in line with the CPI, while the third shows the contribution of real NMW increases (the difference between the first two). They may not sum exactly due to rounding. This modelling includes indexation of benefits as it examines disposable household income over the long term. The effect is shown as part of the 'tax-transfer contribution', as it occurs independently of the Panel's decision on the NMW.

8.5 Gender pay inequality

274. Around 62 per cent of award-reliant workers (ABS EEH, May 2016) and more than half (around 54 per cent) of low-paid workers are female (HILDA 2017). As required under s.134 and s.284 of the Act, the Panel must consider the principle of equal remuneration for work of equal or comparable value in its annual review.
275. The headline gender pay gap, defined as the difference between women's and men's average weekly full-time ordinary earnings and expressed as a proportion of men's earnings, was 15.3 per cent in November 2017 (ABS *Average Weekly Earnings*).³⁸ This figure increased from 14.9 per cent in 2004, to 18.5 per cent in 2014, before decreasing to the current rate.
276. Research for the Fair Work Commission (Rozenbes and Farmakis-Gamboni 2015; Broadway and Wilkins 2015) shows little evidence of an hourly gender pay gap for workers on awards. The gender pay gap, therefore, appears to be mostly driven by higher paid workers. This finding is supported by the latest available ABS data (Table 8.7), which shows that there are no wage disparity issues among non-managerial employees on awards.

Table 8.7: Hourly gender pay gap by method of setting pay, non-managerial employees

Method of setting pay	Gender pay gap
Award only	-5.9%
Collective agreement	13.2%
Individual arrangement	12.8%
Total employees	11.3%

Source: ABS *Employee Earnings and Hours, May 2016*, Cat. No. 6306.0, non-managerial employees, full and part-time.

277. Research by the Department of Jobs and Small Business found that female low-paid workers between the ages of 25 and 44 years are more likely than their male counterparts to have entered low-paid work from outside the labour force. This may reflect that women are more likely to leave the labour force (for example, due to the birth of their children and child caring responsibilities) for a period of time and then return to the workforce.
278. In 2014, Australia led the G20 to set a goal to reduce the labour force participation gap between men and women by 25 per cent by 2025 (for people aged 15–64 years). For Australia to meet this goal, the participation gap needs to be reduced by 3 percentage points (down from 12.1 percentage points to 9.1 percentage points) by 2025.

As a result of strong growth in female labour force participation between 2015 and 2017, two thirds of the G20 goal has been met. January 2018 data (ABS *Labour Force, January 2018*) shows a gender participation gap of 10.4 per cent. Analysis provided by the OECD in 2017 indicates that most advanced G20 economies (including Australia) are currently on track to achieve the goal.

³⁸ The gender pay gap in hourly terms was 11.3 per cent in May 2016 using EEH. This figure covers non-managerial employees, both full-time and part-time.

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Appendix A: Low-paid and national minimum wage workers – definitions and data

1. In defining low-paid employees, data was used from the ABS survey of Employee Earnings and Hours (EEH) as well as the Household Income and Labour Dynamics in Australia (HILDA) Survey.
2. Different variables are available in these data sets. Also slightly different low-paid thresholds are used due to differences in the median wage and timing of the surveys. However, the low-paid definition is consistently two thirds of median earnings.

A.1 Defining low-paid employees using HILDA

3. Low-paid adult employees have been defined as employees aged 21 or older earning less than two-thirds of the median employee hourly earnings. Accordingly, adult employees with hourly earnings below \$19.32 have been classified as low-paid. To identify low-paid junior employees, the low-pay threshold derived from adult employees has been adjusted as detailed below.^{39 40}
4. In order to calculate the number of low-paid employees using the HILDA Survey the following approach has been taken:
 - limited the population to employees aged 15 years and over with positive hours of work and earnings
 - calculated hourly earnings for employees in their main job
 - deflated the earnings of casuals by 1.25 to reflect the casual loading
 - calculated the median earnings of adult employees (i.e. aged 21 years and over) at (\$28.98) and set the threshold for low-pay at two thirds of this amount (\$19.32)
 - adult employees with an hourly wage below \$19.32 have been classified as low-paid
 - low-pay thresholds for employees aged under 21 have been adjusted by the relevant junior minimum wage rate (from the National Minimum Wage Order) which is a percentage of the adult national minimum wage.⁴¹ Table A.1 contains all low-pay thresholds used for juniors.

³⁹ The Government's analysis is not limited to adult low-paid employees, but also includes low-paid workers aged under 21 years. This is because younger employees are one of the main groups affected by Annual Wage Review decisions.

⁴⁰ The Government has adjusted the low-paid threshold for juniors because junior minimum wages are lower than adult minimum wages. This type of approach is not unique and has been taken in various academic reviews.

⁴¹ Junior minimum wage rates (as a proportion of adult minimum wage rates) vary considerably across awards. The junior-adult minimum wage relativities in the National Minimum Wage Order are based on the Miscellaneous Award 2010.

Table A.1: Low-pay thresholds, by age

	Percentage of NMW (%)	Low-paid threshold (\$)
Adult (21 years and over)	100.0	19.32
20 year old	97.7	18.88
19 year old	82.5	15.94
18 year old	68.3	13.20
17 year old	57.8	11.17
16 year old	47.3	9.14
15 year old	36.8	7.11

Note: Junior minimum wage rates refer to the National Minimum Wage Order.

Example: The low-paid threshold for 15 year olds was set at \$7.11 which is the adult threshold of \$19.32 multiplied by 36.8 per cent (the special national minimum wage for 15 year olds is 36.8 per cent of the national minimum wage). Fifteen year olds paid less than \$7.11 per hour have been classified as low-paid.

A.2 Defining low-paid employees using EEH

5. Low-paid employees have been defined as employees earning less than two-thirds of the median employee hourly earnings. Accordingly, employees with hourly earnings below \$19.33 have been classified as low-paid.
6. In order to calculate the number of low-paid employees using the EEH Survey the following approach has been taken:
 - limited the population to employees aged 15 years and over with positive hours of work and earnings
 - limited the population to non-managerial employees as managers have not normally reported on hours worked
 - calculated hourly ordinary time cash earnings for all non-managerial employees
 - deflated the earnings of casuals by 1.25 to reflect the casual loading
 - calculated the median hourly wage (\$29.00 per hour) and two thirds of this amount (\$19.33 per hour)
 - employees with an hourly wage below \$19.33 are classified as low-paid
 - no adjustment has been made to the low-pay thresholds for juniors because the EEH Survey has not traditionally reported on the age of respondents.

A.3 Defining national minimum wage employees using EEH

7. National minimum employees have been defined as adult employees who are paid less than \$17.50 per hour. This excludes workers paid junior, apprentice and disability rates of pay.
8. In order to calculate the number of national minimum wage adult employees using the EEH Survey the following approach has been taken:
 - limiting the population to non-managerial employees as managers have not normally reported on hours worked
 - calculating hourly ordinary time cash earnings for all non-managerial employees
 - deflating the earnings of casuals by 1.25 to reflect the casual loading

- the national minimum wage at May 2016 was \$17.29. Employees paid at or below \$17.50 per hour in May 2016 are considered to be paid the national minimum wage rate (this uses an upper error band of 21 cents).

A.4 Characteristics of low-paid workers

Table A.2: Detailed characteristics of low-paid workers

	% of low-paid employees	% of higher paid employees	% of all employees	% of employees who are low paid
Gender				
Male	46.1	52.4	51.3	15.6
Female	53.9	47.6	48.7	19.2
Age				
Age 15-24	41.2	13.4	18.2	39.1
Age 25-34	22.9	24.9	24.6	16.1
Age 35-44	13.3	23.3	21.6	10.7
Age 45-54	11.3	21.8	20.0	9.8
Age 55-64	9.5	14.3	13.4	12.2
Age 65+	1.9	2.3	2.3	14.6
Marital status				
Single	61.7	37.4	41.6	25.7
Partnered	38.3	62.6	58.4	11.4
Age of youngest resident child				
No child	70.7	51.5	54.8	22.3
0-5 years	10.0	16.8	15.6	11.1
6-11 years	6.2	9.8	9.1	11.8
12-17 years	6.3	8.7	8.2	13.2
18 years or more	6.8	13.3	12.2	9.7
Location				
Major city	68.3	71.9	71.2	16.6
Inner regional Australia	22.4	19.4	19.9	19.5
Outer regional Australia	8.6	7.5	7.7	19.4
Remote/very remote Australia	0.7	1.2	1.1	10.3
Long term health condition				
Present	18.6	13.2	14.1	22.8
Not present	81.4	86.8	85.9	16.4
Highest education attainment				
Degree or post Graduate	15.8	37.7	33.9	8.1
Certificate 3-4/Diploma	30.8	33.1	32.7	16.3
Year 12	28.3	15.5	17.7	27.7
Year 11 or below(c)	25.2	13.8	15.8	27.6
Years of work experience				
Less than 2 years	23.2	6.5	9.3	42.1
2-5 years	21.8	8.2	10.5	35.1
More than 5 years	55.0	85.3	80.2	11.6
Hours				
Full-time	45.0	71.8	67.2	11.6
Part-time	55.0	28.2	32.8	29.0
Contract type				
Casual	63.2	17.5	25.4	43.1
Permanent	36.8	82.5	74.6	8.5

	% of low-paid employees	% of higher paid employees	% of all employees	% of employees who are low paid
Business size				
Small (1-19 employees)	54.8	28.8	33.3	28.3
Medium (20-199 employees)	38.1	45.1	43.9	15.0
Large (200 plus employees)	7.1	26.1	22.8	5.4
Occupation				
Managers	4.0	12.6	11.1	6.2
Professionals	8.1	28.0	24.5	5.7
Technicians & trades workers	11.5	11.5	11.5	17.3
Community & personal service	21.4	12.0	13.6	27.3
Clerical & administrative workers	11.6	14.8	14.2	14.1
Sales workers	18.5	7.1	9.1	35.3
Machinery operators & drivers	7.5	6.7	6.9	19.0
Labourers	17.3	7.3	9.1	33.1
Industry				
Agriculture, forestry & fishing	3.3	0.6	1.1	51.5
Mining	0.4	2.6	2.2	3.2
Manufacturing	6.2	8.1	7.7	13.8
Electricity, gas, water & waste services	0.3	1.1	1.0	4.9
Construction	7.6	6.4	6.6	19.8
Wholesale trade	2.7	3.1	3.0	15.5
Retail trade	15.6	8.8	10.0	27.0
Accommodation & food services	21.5	4.3	7.2	51.5
Transport, postal & warehousing	3.4	4.8	4.6	12.9
Information media & telecommunications	0.9	1.9	1.7	9.2
Financial & insurance services	0.3	4.8	4.0	1.5
Rental, hiring & real estate services	2.2	1.4	1.6	24.2
Professional, scientific & technical services	3.0	7.2	6.5	7.9
Administrative & support services	3.8	2.4	2.6	25.3
Public administration & safety	1.8	7.4	6.4	4.8
Education & training	7.0	12.4	11.5	10.6
Health care & social assistance	12.1	18.1	17.1	12.3
Arts & recreation services	3.0	1.6	1.9	28.0
Other services	5.1	2.9	3.3	26.9

Source: *HILDA* Survey, release 16 (December 2017), wave 16.

How to read: The first column of data shows the percentage of low-paid people with each characteristic. For example, using the gender data, the table shows that 46.1 per cent of low-paid workers are male. The last column shows the percentage of workers of a particular characteristic that are low-paid. For example, 15.6 per cent of male workers are low-paid.

Note: (a) Income support payments include Government Pensions, Parenting Payments and Allowances (b) Total public transfers include income support payments, non-income support payments (including Family Tax Benefit A and Family Tax Benefit B) and payments not elsewhere classified. (c) Includes certificate 1-2. Figures in the table may not add up due to rounding.

Appendix B: Modelling assumptions

B.1 Tax-transfer assumptions

- (i) All tax rates and transfers are as at 1 January 2018 unless stated otherwise.⁴²
- (ii) Families are assumed to have no private health insurance.
- (iii) Modelling includes Telephone Allowance where relevant.
- (iv) Modelling assumes the maximum rate of Rent Assistance where it is stated that the household is renting.⁴³
- (v) Families are assumed to not live in public housing or face shared care arrangements.
- (vi) People are assumed to be born after 1952 and hence partnered couples are assumed to not receive the Dependent Spouse Tax Offset.
- (vii) Income Support Bonus is not modelled for 2013.
- (viii) Any lump sum payments are spread evenly over the period.
- (ix) Family Tax Benefit recipients do not receive the associated Energy Supplement.⁴⁴
- (x) Disposable income is inclusive of gross child care fees for Appendix C tables.
- (xi) Disposable income is inclusive of Child Care Benefit (CCB) and Child Care Rebate (CCR).
- (xii) Annual payments are converted to weekly amounts using 365 x 7 as the divisor.⁴⁵
- (xiii) Fortnightly payments are converted to weekly amounts by using 2 as the divisor.
- (xiv) Disposable income is exclusive of net gross rental costs for households that rent (i.e., gross rental costs are not deducted from the reported disposable income amount).
- (xv) Transfer income in Appendix C tables does not include CCB and CCR.

B.2 Childcare assumptions

- (i) Childcare usage is assumed in data derived from Appendix C only. Childcare is not modelled for households when looking at changes in disposable household income.
- (ii) Hours of usage assumptions are listed in Table B.1. These are based on the hours of work of the second earner in a couple household.⁴⁶ Where only one member of a couple household works, it is assumed that the household does not require child care.
- (iii) Only Child Care Benefit and Child Care Rebate are modelled.⁴⁷
- (iv) Long day care costs \$9.53 per hour and after school care costs \$7.35 per hour. This is based on average child care fees for the March quarter 2017, indexed to the Consumer Price Index for childcare up to the December quarter 2017.⁴⁸

⁴² Tables use 1 July 2017 tax rates and transfers.

⁴³ This is modelled by assuming a gross rental cost of \$500 per week. Since disposable income is exclusive of gross rental costs, this does not affect the reported disposable income amount to the extent that the chosen rental costs still yields the maximum rate of Rent Assistance.

⁴⁴ <https://www.humanservices.gov.au/individuals/services/centrelink/energy-supplement>

⁴⁵ However, Child Care Rebate is converted to a weekly amount by using 52 as the divisor.

⁴⁶ Basing child care usage on hours of work is a method also used elsewhere in the literature (e.g. Immervoll and Barber 2006).

⁴⁷ Some families may also receive Jobs, Education and Training Child Care Fee Assistance when they transition from unemployment to minimum wage work. However, this is only available for a constrained time period and has been excluded from our analysis as it does not provide an indication of the 'typical' assistance available to minimum wage earners.

⁴⁸ This was the latest available data when the modelling was done. Child care fees vary between providers and this will affect individual experiences.

- (v) Net childcare costs (i.e., out of pocket costs) reported in Appendix C are calculated as gross child care costs less CCB and CCR.
- (vi) Childcare assumed to be used throughout the whole year (52 weeks of care).

Table B.1: Child care usage assumptions

Child age	Care type	Hours required per week	
		Full-time	Part-time
0-4 years	Long Day Care	50	20
5-12 years	Outside School Hours Care (a)	15	6

Note: (a) Usage for school aged children is based on care requirements during the school term. It is expected that care requirements will differ over the school holiday period. Children aged 5-12 years are presumed to only attend the after school session of Outside School Hours Care.

Appendix C: Modelling results

Table C.1: One unemployed member of the household accepts a job paying the NMW (\$18.29 per hour)

Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income
	Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	(% increase) (\$ pw)	(%)
Single without children – FT job at \$694.90 per week						
Adult - NSA	\$274	–	\$71	\$624	127.9% \$350	0.0%
Adult renter - NSA	\$340	–	\$71	\$624	83.4% \$284	0.0%
Single without children – PT job at \$274.35 per week						
Adult - NSA	\$274	\$148	–	\$422	54.1% \$148	35.0%
Adult renter – NSA	\$340	\$214	–	\$489	43.5% \$148	43.9%
Student – YA – away from home	\$226	\$197	\$7	\$464	105.1% \$238	42.5%
Student – YA – lives with parents	\$149	\$120	\$0	\$394	164.4% \$245	30.4%

Note: All amounts are rounded to the nearest dollar. Differences in calculations may occur due to rounding.

– Zero or rounded to zero.

NSA – Newstart Allowance

YA – Youth Allowance

PPP – Parenting Payment Partnered

PPS – Parenting Payment Single

FT – Full-time

PT – Part-time

NMW – National Minimum Wage

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Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income
	Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	(% increase) (\$ pw)	(%)
<i>Couple – both unemployed, one finds a FT job at \$694.90 per week</i>						
No children - NSA	\$494	\$116	\$65	\$746	50.9% \$251	15.6%
With 1 child aged 3 years - PPP	\$657	\$305	\$59	\$941	43.2% \$284	32.4%
With 1 child aged 9 years – NSA	\$634	\$282	\$59	\$918	44.8% \$284	30.7%
With 2 children aged 3 and 9 years – PPP	\$763	\$411	\$57	\$1,049	37.5% \$286	39.2%
<i>Couple – both unemployed, one finds a PT job at \$274.35 per week</i>						
No children - NSA	\$494	\$368	\$0	\$643	30.0% \$148	57.3%
With 1 child aged 3 years - PPP	\$657	\$531	\$0	\$806	22.6% \$148	66.0%
With 1 child aged 9 years – NSA	\$634	\$508	\$0	\$783	23.4% \$148	64.9%
With 2 children aged 3 and 9 years – PPP	\$763	\$637	\$0	\$911	19.5% \$148	69.9%

Note: All amounts are rounded to the nearest dollar. Differences in calculations may occur due to rounding.

– Zero or rounded to zero.

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Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	No Child Care			With Child Care		
				Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income	Net child care costs	Disposable income after finding job	Improvement in financial position
	Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	(% increase) (\$ pw)	(%)	Amount (\$ pw)	Amount (\$ pw)	(% increase) (\$ pw)
<i>Lone parent – FT job at \$694.90 per week</i>									
With 1 child aged 3 years – PPS	\$578	\$338	\$84	\$948	64.1% \$371	35.6%	\$131	\$818	41.5% \$240
With 1 child aged 9 years – NSA	\$468	\$211	\$66	\$840	79.4% \$372	25.1%	\$28	\$812	73.5% \$344
With 2 children aged 3 and 9 years – PPS	\$683	\$448	\$86	\$1,057	54.6% \$373	42.4%	\$152	\$904	32.3% \$221
<i>Lone parent – PT job at \$274.35 per week</i>									
With 1 child aged 3 years – PPS	\$578	\$506	–	\$780	35.0% \$202	64.8%	\$48	\$732	26.7% \$154
With 1 child aged 9 years – NSA	\$468	\$379	\$2	\$651	39.1% \$183	58.2%	\$11	\$640	36.7% \$172
With 2 children aged 3 and 9 years – PPS	\$683	\$616	–	\$891	30.3% \$207	69.2%	\$56	\$834	22.1% \$151

Note: All amounts are rounded to the nearest dollar. Differences in calculations may occur due to rounding.
– Zero or rounded to zero.

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Annual Wage Review 2018

Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	No Child Care			With Child Care		
				Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income	Net child care costs	Disposable income after finding job	Improvement in financial position
				Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	(% increase) (\$ pw)	(%)
<i>Couple – one employed FT on the NMW, the other finds a FT job at \$694.90 per week</i>									
No children - NSA	\$746	–	\$142	\$1,248	67.3% \$502	0.0%	Not applicable		
With 1 child aged 3 years - PPP	\$941	\$43	\$142	\$1,292	37.2% \$350	3.4%	\$167	\$1,124	19.4% \$183
With 1 child aged 9 years – NSA	\$918	\$43	\$142	\$1,292	40.7% \$374	3.4%	\$34	\$1,257	36.9% \$339
With 2 children aged 3 and 9 years – PPP	\$1,049	\$136	\$142	\$1,384	32.0% \$335	9.8%	\$177	\$1,207	15.1% \$158
<i>Couple – one employed FT on the NMW, the other finds a PT job at \$274.35 per week</i>									
No children - NSA	\$746	–	\$71	\$898	20.4% \$152	0.0%	Not applicable		
With 1 child aged 3 years - PPP	\$941	\$157	\$71	\$1,055	12.1% \$114	14.9%	\$50	\$1,005	6.7% \$63
With 1 child aged 9 years – NSA	\$918	\$133	\$71	\$1,032	12.4% \$114	12.9%	\$12	\$1,020	11.1% \$102
With 2 children aged 3 and 9 years – PPP	\$1,049	\$262	\$65	\$1,166	11.2% \$118	22.5%	\$59	\$1,108	5.6% \$59

Note: All amounts are rounded to the nearest dollar. Differences in calculations may occur due to rounding.
– Zero or rounded to zero.