HOUSING INDUSTRY ASSOCIATION

Submission to the
Fair Work Commission

National Annual Minimum Wage Review 2018

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HOUSING INDUSTRY ASSOCIATION

contents

Housing Industry Association

1. INTRODUCTION

The residential building industry is one of the most important sectors of the Australian economy providing housing for millions of Australians. A home is often the greatest source of wealth and savings for many families. The industry contributes to the economy in a number of ways providing hundreds of thousands of Australians with jobs, generating billions of dollars of economic output each year and stimulating spending on housing services.

The residential building industry ranges from single dwelling construction to multi-unit apartment buildings, and also encompasses the home renovations market. The industry has important linkages with other sectors, such as manufacturing and retailing, so that its impacts on the economy go well beyond the direct contribution of construction activities. The flow-on or "multiplier" effects of construction activity on the outputs of other industries are well recognised.[1]

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

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

Whilst measured increases to household income may help alleviate some affordability stresses, increasing labour input costs in the construction of housing at the same time, without any link to productivity improvements, will impact project costs. This in turn affects housing affordability. Increases in wages inherently place added cost pressures on businesses making them less likely to grow, invest or take on additional employees. This can also create demand side implications including tightening the supply of existing skilled trades and reducing the entry of new apprentices to the industry placing further pressure on existing businesses to meet demand.

Last year's minimum wage increase was the highest the economy had seen for some time. Based on current indicators the economy has limited capacity to manage another wage increase of this magnitude. A decision to increase wages in similar terms to that of last year's should be approached with caution.

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

2. MINIMUM WAGES

In making a national minimum wage order the Expert Panel must be guided by the minimum wages objective in section 284 of the *Fair Work Act 2009*:

> *The Fair Work Commission must establish and maintain a safety net of fair minimum wages, taking into account:*
>
> - *the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and*
> - *promoting social inclusion through increased workforce participation; and*
> - *relative living standards and the needs of the low paid; and*
> - *the principle of equal remuneration for work of equal or comparable value; and*
> - *providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.*

HIA address those factors affecting the residential building industry below.

2.1 Performance And Competitiveness Of The National Economy, Including Productivity, Business Competitiveness And Viability, Inflation And Employment Growth

The broader economy

The global economic environment is solid and improving.

The IMF estimates that the world economy grew by 3.7 per cent during 2017. The pace of expansion was more modest in the advanced economies where growth was 2.3 per cent. Across the emerging economies, activity saw growth of 4.7 per cent with India and China being the chief drivers of activity.

The gradual tightening of labour market conditions has resulted in the US and UK monetary authorities acting pre-emptively to ward off inflationary pressures in their economies by gradually increasing their interest rates.

Barring any major shocks global, GDP growth is expected to reach 3.9 per cent with growth of 2.7 per cent in the US, 6.6 per cent in China and 7.4 per cent in India. Japan will continue to struggle with its economy projected to inch forward by 1.2 per cent.

Steady improvements in the Australian economy throughout 2017 appeared to have gone largely unnoticed by the household sector. Measures of consumer sentiment tracked well below their historic averages throughout the year.

There is a relatively high degree of geographic and sectoral disparity. Given the subdued growth in household consumption, businesses with revenue that is directly dependant on domestic consumers are not likely to be optimistic.

Construction has been a major beneficiary of the last two business cycles and it looks well placed to be a major player in the cycle ahead. Engineering and heavy industrial construction did well in the mining regions during the boom phase of the resources cycle. Demand for non-residential building was

bolstered by the fiscal stimulus in the immediate wake of the financial crisis, whilst housing market growth in Sydney and Melbourne have seen strong demand for residential building over the last couple of years. Public sector investment in transport infrastructure will be the major driver of construction activity over the current business cycle.

Over the year to September 2017, the Australian economy grew by 2.8 per cent. While annual growth of 2.8 per cent is still below the pre-GFC average, this is an improvement on the 2.1 per cent over the same period a year earlier. The contraction in mining related investment as activity retreated from the boom-time highs has been a substantial drag on economic growth over the last few years but investment from this sector is now back to pre-boom levels and is unlikely to provide a material drag in the year ahead. The resource sector's greater production capacity will see further growth in resource exports and make a greater contribution to economic growth.

The residential building cycle peaked in 2016 and has been contracting since then and the momentum of the residential building cycle is likely to dissipate further as 2018 progresses and will make a modest detraction from growth.

Bolstering household consumption will be the key to a stronger outlook for economic growth. This will be dependant on businesses pursuing new commercial opportunities, increasing capital investment and generating demand for skilled labour. We expect to see improvements in business investment during 2018, but it is likely to be 2019 before we see this translate to a lift in household consumption. Balancing these factors, overall growth in the Australian economy in 2018 is projected to be very similar to what has been seen in 2017.

There are risks to this outlook for the Australian economy. The housing market has reached a point where the supply of houses is meeting demand for the first time in 15 years. Some commentators are concerned that this could lead to a rapid and disorderly reversal of recent home price appreciation which would be a significant economic shock. At this point in time there is no suggestion of any catalyst that would trigger such an event.

The greatest downside risks to the Australian economy are likely to originate offshore, the greatest risk being a rapid economic slowdown in China. This is unlikely in the immediate term.

State of the Residential Building Industry

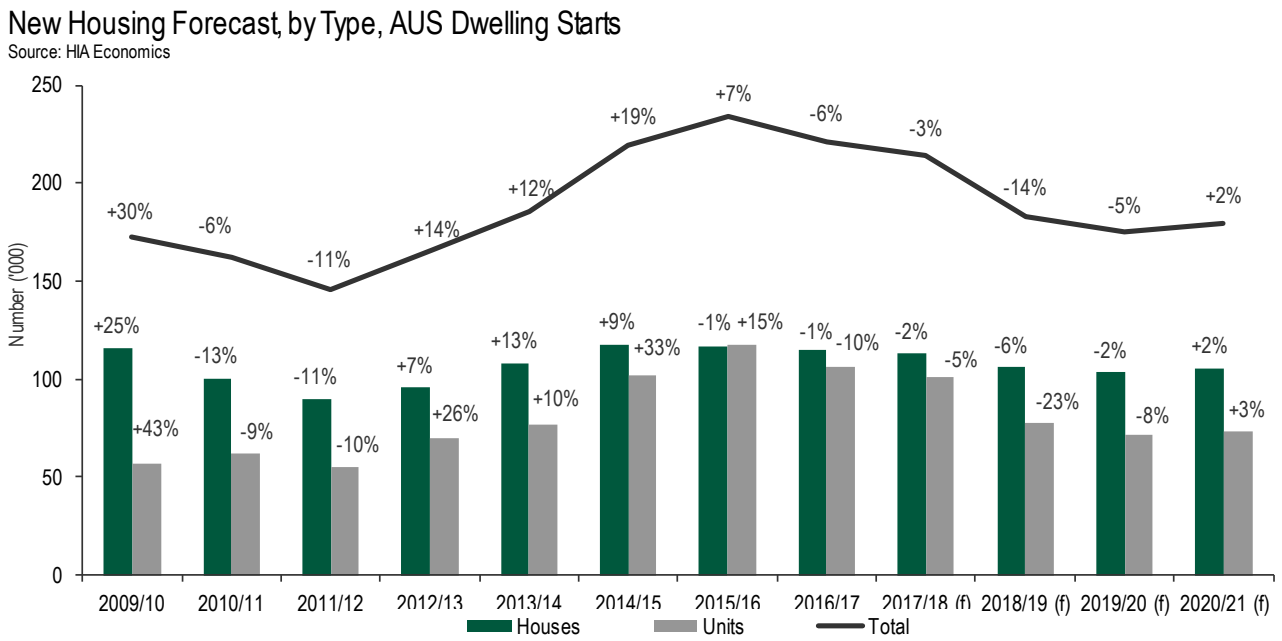
Residential building activity has typically shown a high degree of cyclicality with booms followed by busts but in many of those cycles residential building has moved in tandem with broader economic cycles. For example, stronger economic growth contributed to an expansion of residential building activity and economic downturns dragged down residential building activity. Over recent years this relationship has been muddied by the vastly different economic circumstances is the various states and territories. Looking at Australia as a whole, the recent residential building growth has occurred against relatively weak economic backdrop and with vastly different outcomes across the states and territories.

Domestic and overseas investors were crucial to new home building activity reaching strong levels and a softening in demand from such buyers will leave a void.

Home building activity is likely to remain at relatively high levels throughout 2018 although activity is expected to progressively decline as we progress through the year. Detached house starts are forecast to be largely stable in 2017/18, declining by 1.3 per cent to 111,854. More substantial declines are forecast to see starts decline over 2018/19 (-6.2 per cent) and 2019/20 (-2.3 per cent) as interest rate

pressures take hold. The 2019/20 year is projected to be the low point to the cycle, with modest improvements forecast for the out years of the forecast horizon.

We have retained the forecast for 77,450 starts in 2018/19 (-23.2 per cent) and 71,468 starts in 2019/20 (-4.6 per cent).



2.2 PROMOTING SOCIAL INCLUSION THROUGH INCREASED WORKFORCE PARTICIPATION.

2.3 PROVIDING A COMPREHENSIVE RANGE OF FAIR MINIMUM WAGES TO JUNIOR EMPLOYEES, EMPLOYEES TO WHOM TRAINING ARRANGEMENTS APPLY AND EMPLOYEES WITH A DISABILITY.

Apprentice commencement and completion rates continue to be a significant concern for the industry and there continues to be a mismatch in the skills required by employers and the skills available. In particular, rather substantial shortages continue to affect skilled trades like bricklaying, plastering and tiling and this has placed pressure on related costs.

The two most significant challenges to growing the labour force are the large cohort of workers approaching retirement, and the high rate of attrition amongst new apprentices. Latest NCVER data[2] shows that as at 30 June 2017 there were 268,600 apprentices and trainees in-training, a decrease of 4.7 per cent from 30 June 2016. Apprenticeship commencements followed the same trend with a 5.3 per cent decline for the 2017 June quarter compared to the 2016 June quarter. Cancellations and

[2] NCVER 2017, *Australian vocational education and training statistics: apprentices and trainees 2017 — June quarter*, NCVER, Adelaide.

withdrawals increased to 23,700 in the 2017 June quarter, a 2 per cent increase over the 2016 June quarter.

Of further concern is that in the 12 months ending 30 June 2017, compared with the previous 12 months, trade commencements decreased by 6.3 per cent to 71,340 and trade commencements for those aged 24 years and younger decreased by 1.8 per cent, 25 years and older decreased by 9.1 per cent. Trades completions for those aged 24 years and younger decreased by 6.9 per cent, 25 years and older increased by 1 per cent.

Whilst it is often argued that higher rates of pay can act as an incentive for individuals to undertake apprenticeships[3], this must be balanced against the cost of employing such labour, both in terms of their wages and the ability to contribute in a productive way on a construction site. Also to be considered are the costs associated with on the job training carried out by the employer. The cost of the failure to adequately support businesses in the residential building industry to increase their capacity or attract new entrants is extraordinarily high, as it is likely to lead to further substantial skills shortages and potentially a decline in quality of building.

The majority of apprentices in the residential building industry are employed by small businesses with a turnover of less than $500,000. For some of these firms the increases in apprentice wages, especially in the first two years of progression, have made employing an apprentice financially unviable.

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

3. CONCLUSION

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

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

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

Further, the current conditions affecting apprentice employment deserves special consideration. These conditions include the continual and consistent reductions in apprentice commencement and completion rates nationally. Whilst wage increases have contributed to declining apprenticeship rates, the reasons behind the declining take up of apprenticeships in residential building needs to be holistically addressed if a real change is to be achieved.

HIA urges the Expert Panel to take these issues into account when considering its minimum wage decision.

[3] *Modern Award Review 2012 – Apprentice, Trainees and Juniors* [2013] FWCFB 5411