



# DECISION

*Fair Work Act 2009*  
s.285 - Annual wage review

## **Annual Wage Review 2018–19** (C2019/1)

JUSTICE ROSS, PRESIDENT  
VICE PRESIDENT HATCHER  
DEPUTY PRESIDENT ASBURY  
COMMISSIONER HAMPTON  
MR APTED  
PROFESSOR RICHARDSON  
MR GIBBS

MELBOURNE, 30 MAY 2019

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## Abbreviations

2009–10 Review decision	<i>Annual Wage Review 2009–10</i> decision
2010–11 Review decision	<i>Annual Wage Review 2010–11</i> decision
2011–12 Review decision	<i>Annual Wage Review 2011–12</i> decision
2012–13 Review decision	<i>Annual Wage Review 2012–13</i> decision
2013–14 Review decision	<i>Annual Wage Review 2013–14</i> decision
2014–15 Review decision	<i>Annual Wage Review 2014–15</i> decision
2015–16 Review decision	<i>Annual Wage Review 2015–16</i> decision
2016–17 Review decision	<i>Annual Wage Review 2016–17</i> decision
2017–18 Review decision	<i>Annual Wage Review 2017–18</i> decision
2018–19 Review	<i>Annual Wage Review 2018–19</i>
AAWI	average annualised wage increase
ABI and NSWBC	Australian Business Industrial and the NSW Business Chamber Ltd
ABS	Australian Bureau of Statistics
ACBC	Australian Catholic Bishops Conference
ACCI	Australian Chamber of Commerce and Industry
ACCER	Australian Catholic Council for Employment Relations
ACOSS	Australian Council of Social Service
Act	<i>Fair Work Act 2009</i> (Cth)
ACTU	Australian Council of Trade Unions
AENA	Average earnings from the National Accounts
Ai Group	Australian Industry Group
APCSs	Australian Pay and Classification Scales
<i>Apprentices decision</i>	<i>Modern Awards Review 2012—Apprentices, Trainees and Juniors</i> , <a href="#">[2013] FWCFB 5411</a>
ARA	Australian Retailers Association
AWE	average weekly earnings
AWOTE	average weekly ordinary time earnings
AWU	Australian Workers’ Union
C4	Engineering Associate/Laboratory Technical Officer Level 1
C10	Engineering/Manufacturing Tradesperson Level 1
C14	Engineering/Manufacturing Employee Level 1

CCIQ	Chamber of Commerce and Industry Queensland
CCIWA	Chamber of Commerce and Industry Western Australia
CoE	Characteristics of Employment Survey
Commission	Fair Work Commission
CPI	Consumer Price Index
CURF	confidentialised unit record file
ERO	Equal Remuneration Order
EEH	Survey of Employee Earnings and Hours
GDP	gross domestic product
GVA	gross value added
HES	Household Expenditure Survey
HFCE	Household final consumption expenditure
HIA	Housing Industry Association
HILDA	Household, Income and Labour Dynamics in Australia
IMF	International Monetary Fund
LCI	Living Cost Index
LMITO	Low and Middle Income Tax Offset
Manufacturing Award	<i>Manufacturing and Associated Industries and Occupations Award 2010</i>
MGA	Master Grocers Australia
MIHL	Minimum Income for Healthy Living
Miscellaneous Award	<i>Miscellaneous Award 2010</i>
NCVER	National Centre for Vocational Education Research
NLW	National Living Wage
NMW	national minimum wage
NRA	National Retail Association
NSA	Newstart Allowance
NTWS	National Training Wage Schedule
OECD	Organisation for Economic Co-operation and Development
Panel	Expert Panel for annual wage reviews
<i>Penalty Rates decision</i>	<i>4 yearly review of modern awards – Penalty Rates – hospitality and retail industries decision</i>
<i>Penalty Rates Review decision</i>	<i>Shop, Distributive and Allied Employees Association v The Australian Industry Group and Others</i>
PC	Productivity Commission
PPP	Purchasing Power Parity
RBA	Reserve Bank of Australia
Review	Annual Wage Review

RNNDI	real net national disposable income
RTBU	Australian Rail, Tram & Bus Industry Union
SES Award	<i>Supported Employment Services Award 2010</i>
SPRC	Social Policy Research Centre
Statistical report	<i>Statistical Report—Annual Wage Review 2017–18</i>
SWS	Supported Wage System
SWSS	Supported Wage System Schedule
Transitional Act	<i>Fair Work (Transitional Provisions and Consequential Amendments) Act 2009</i>
UK	United Kingdom
UNSW	University of New South Wales
US	United States of America
WAD	Workplace Agreements Database
WPI	Wage Price Index
VMRSR Award	<i>Vehicle Manufacturing, Repair, Services and Retail Award 2010</i>

## 1. The Decision

### Introduction

[1] This Chapter summarises the matters we have considered, our reasoning and the increases we have decided upon. Chapters 2–5 of this decision deal with the statutory considerations we are required to take into account. We do not repeat that material here but the views expressed in this Chapter should be seen in the context of our decision as a whole.

[2] The *Fair Work Act 2009* (Cth) (Act) requires the Expert Panel for annual wage reviews (Panel) to conduct and complete a review of the national minimum wage (NMW) and modern award minimum wages, in each financial year (the Review). The Panel must make a NMW order and may set, vary or revoke modern award minimum wages. The NMW order applies to award/agreement free employees<sup>1</sup> and modern award minimum wages are the minimum wages contained in modern awards.<sup>2</sup>

[3] The number of employees who have their pay set by an award is estimated to be 2.2 million or 21.0 per cent of all employees in Australia.<sup>3</sup> The proportion of all employees that are paid at the adult NMW rate is estimated to be 1.7 per cent (or around 180 200 employees).<sup>4</sup> Further, a significant number of employees are paid at junior or apprentice/trainee rates based on the NMW rate and modern award minimum wages. This decision is also likely to affect employees paid close to the NMW or a modern award minimum wage rate and those whose pay is set by a collective agreement which is linked to the outcomes of the Review as well as workers whose pay is set by individual arrangements which are referenced to an award rate.

### The Statutory Framework

[4] The Panel is required to conduct each Review within the legislative framework of the Act, particularly the object of the Act in s.3, the modern awards objective and the minimum wages objective. As part of the Review, the Panel considers the setting of the NMW rate and then whether to make any variation determinations in respect of modern award minimum wages. Each of these tasks are undertaken by reference to the particular statutory criteria applicable to each function.

[5] The minimum wages objective applies to the exercise of functions and powers under Part 2-6 of the Act (which includes the Review),<sup>5</sup> and is set out in s.284(1) of the Act. The modern awards objective applies to the performance or exercise of ‘modern award powers’<sup>6</sup> (which are defined to include the variation of modern award minimum wages),<sup>7</sup> and is set out in s.134(1) of the Act. Further, s.578(a) provides that the Panel must take into account the objects of the Act in performing its functions or exercising its powers in a Review.

[6] Sections 134, 284 and 578 of the Act each direct us to take into account certain specified considerations in conducting and completing a Review. There is a substantial degree of overlap in the considerations we are required to take into account under the minimum wages objective and the modern awards objective, though some of these considerations are not expressed in the same terms.<sup>8</sup> Both the minimum wages objective and the modern awards objective require the Panel to take into account:

- promoting social inclusion through increased workforce participation;<sup>9</sup>

- relative living standards and the needs of the low paid;<sup>10</sup>
- the principle of equal remuneration for work of equal or comparable value;<sup>11</sup> and
- various economic considerations.<sup>12</sup>

[7] In giving effect to the modern awards objective, we must take into account ‘the need to encourage collective bargaining’ (s.134(1)(b)). In making the NMW order, the Panel must give effect to the minimum wages objective. While the minimum wages objective does not refer to ‘the need to encourage collective bargaining,’ one of the objects of the Act is to encourage collective bargaining and on that basis it is appropriate to consider that legislative purpose in making the NMW order.<sup>13</sup>

[8] The statutory tasks in ss 134 and 284 involve an ‘evaluative exercise’ which is informed by the considerations in s.134(1)(a)–(h) and s.284(1)(a)–(e). While these statutory considerations inform the evaluation of what might constitute ‘a fair and relevant minimum safety net of terms and conditions’ and ‘a safety net of fair minimum wages’, they do not necessarily exhaust the matters which the Panel might properly consider to be relevant. The range of such matters ‘must be determined by implication from the subject-matter, scope and purpose’ of the Act.<sup>14</sup>

[9] As the Panel has observed in previous Review decisions, there is a degree of overlap between the various considerations which the Panel must take into account<sup>15</sup> and a degree of tension is evident between some of these considerations. For example, the extent to which minimum wage increases are able to meet the needs of the low paid may, depending on the magnitude of the increase and the prevailing circumstances, be constrained by the potential impact of such increases on employment. No particular primacy is attached to any of these considerations,<sup>16</sup> and it is this complexity that has led the Panel to reject a mechanistic or decision-rule approach to wage fixation.<sup>17</sup>

[10] Last year we concluded that ‘fairness’ in the context of the modern awards objective and the minimum wages objective includes the perspective of employees and employers.<sup>18</sup>

[11] We also concluded that the Act requires the Panel to take into account *all* of the relevant statutory considerations,<sup>19</sup> and the relative living standards and needs of the low paid are but ‘one of a number of considerations that [the Panel] must take into account.’<sup>20</sup> We now turn to consider some of the particular considerations which we are required to take into account. In the present Review a party challenged these conclusions<sup>21</sup> but the arguments advanced were unpersuasive and we adhere to the conclusions reached in last year’s Review decision.

[12] There are differences in the expression of the economic considerations that the Panel is required to take into account under the modern awards objective and the minimum wages objective.<sup>22</sup> But the underlying intention of the various economic considerations referred to in ss 134 and 284 is that the Panel takes into account the effect of its decisions on national economic prosperity and in so doing gives particular emphasis to the economic indicators specifically mentioned in the relevant statutory provisions.

[13] In each Review, we must take into account the employment impacts of any increase to the NMW and modern award minimum wages. In particular, the need to promote ‘social inclusion through increased workforce participation’ in ss 134(1)(c) and 284(1)(b)) means increased employment.<sup>23</sup> We also accept that minimum rates of pay impact upon an employee’s capacity to engage in community life and the extent of their social participation. Higher minimum wages can also provide incentives to those not in the labour market to seek paid work, which needs to be balanced against potential negative impacts of increases in minimum wages on the supply of jobs for low-paid workers.

[14] The minimum wages objective and the modern awards objective both require the Panel to take into account relative living standards and the needs of the low paid when setting minimum wage rates (ss 134(1)(a) and 284(1)(c)).

[15] The relative living standards of employees on the NMW and award-reliant employees are affected by the level of wages that they earn, the hours they work, tax-transfer payments and the circumstances of the households in which they live.<sup>24</sup> The net effect of these factors is summarised in the notion of equalised household disposable income.

[16] The assessment of relative living standards requires a comparison of the living standards of workers reliant on the NMW and modern award minimum wages with those of other groups, in particular other workers, especially non-managerial workers. We pay particular attention to changes in the earnings of NMW and award-reliant workers compared to changes in measures of average and median earnings more generally. The degree of dispersion (or inequality) around these measures is also relevant.

[17] The assessment of the needs of the low paid requires an examination of the extent to which low-paid workers are able to purchase the essentials for a decent standard of living and to engage in community life, assessed in the context of contemporary norms. The risk of poverty is also relevant in addressing the needs of the low paid. We accept, as we have in previous Review decisions,<sup>25</sup> that if the low paid are forced to live in poverty then their needs are not being met. We also accept that those in full-time employment can reasonably expect a standard of living that exceeds poverty levels.

[18] The modern awards objective and the minimum wages objective both provide that in a Review we must take into account ‘the principle of equal remuneration for work of equal or comparable value’ (s.134(1)(e) and s.284(1)(d)). For the reasons given in the 2017–18 Review decision,<sup>26</sup> Review proceedings are of limited utility in addressing any systemic gender based undervaluation of work. Proceedings under Part 2-7 and applications to vary modern award minimum wages for ‘work value reasons’ pursuant to s 157(2) or in the current 4 yearly review of modern awards provide more appropriate mechanisms for addressing such issues. But the broader issue of gender pay equity, and in particular the gender pay gap, is relevant to the Review. This is so because it is an element of the requirement to establish a safety net that is ‘fair’.

[19] The Act also sets out some important procedural fairness requirements for the Review. The Panel must ensure that all persons and bodies (referred to collectively as parties) are given a reasonable opportunity to make and reply to written submissions (s.289(1)). In this Review, a number of parties took this opportunity by lodging one or more written submissions and participating in consultations on 14 and 15 May 2019.

[20] The timetable for the Review and all of the submissions, transcripts, research reports, and some additional material were published on the Fair Work Commission's (Commission) website to ensure that all parties had a reasonable opportunity to participate. The Panel considered all the material received from parties, the information in the *Statistical Report—Annual Wage Review 2018–19* (Statistical Report) and the research referred to in the Research reference list in making its decision.

### **The Panel's approach**

[21] As part of the Review, we consider both the setting of the NMW rate and whether to make any determinations varying modern award minimum wages. These tasks are undertaken by reference to the particular statutory criteria applicable to each function.

[22] The review and variation of modern award minimum wages is a separate, though related, function to reviewing and making a NMW order. In exercising its powers to set, vary or revoke modern award minimum wages, we 'must take into account the rate of the national minimum wage that it proposes to set in the Review.'<sup>27</sup> Therefore, as part of our decision-making process, we first form a view about the rate of the NMW we propose to set, and then take that proposed NMW rate into account (along with the other relevant statutory considerations) in exercising our powers to set, vary or revoke modern award minimum wage rates.<sup>28</sup>

[23] We accept that our decision-making process should be as transparent as possible and that we should disclose the factors which are most relevant in a particular year, and we have done so in this decision. Given the range of considerations which we are required to take into account, it is neither necessary nor appropriate to quantify the weight given to particular considerations.

[24] In assessing the various economic considerations, we take into account both actual data and forecasts. The actual indicators are the primary consideration because, by their nature, they are more reliable than forecasts.<sup>29</sup> But it is also appropriate to have regard to future projections that cast some light on the circumstances expected to apply during the period when any adjustment will operate. It is not uncommon for actual outcomes to differ from those forecast and those differences form part of our broad assessment and consideration of the actual indicators in subsequent reviews.

[25] We pay particular attention to trends, because of the volatility in some of the economic indicators<sup>30</sup> and routinely look to developments over the medium and longer term, as well as to changes over the past year. The longer-term perspective reduces our reliance on contemporary data that can be volatile and subject to revision. It also enables us to see the cumulative effects of the annual changes that we focus on, including our own decisions.

### **The relevant considerations**

[26] The Panel received submissions from the Australian Government, several state governments, bodies that represent the interests of employees and employers, other entities and individuals. The various proposals are set out in Appendix 3. The increases in the NMW and modern award wages proposed by most parties who specified an outcome, involved amounts which, having regard to the current rate of inflation, would deliver real wage



increases to affected employees. There were some limited exceptions including those who proposed that there be no increase to the NMW or modern award minimum wages.

[27] While we seek to explain our view of the circumstances (including forecasts or projections) prevailing in each Review in comparison with previous years, it is not feasible to quantify the weight given to particular factors in balancing the various considerations prescribed by the Act. Rather, we consider all information about the economic and social environment that is available to inform our decision. The Panel's approach to its statutory function is encapsulated in the following extract from the *Annual Wage Review 2014–15* (2014–15 Review) decision:

‘In taking into account available economic and social data, the Panel’s approach is broadly to assess the changes in these data from year to year and determine how they inform the statutory criteria. Put another way ... if there were no change in the relevant considerations from one year to the next then, all other things being equal, a similar outcome would result.’<sup>31</sup>

[28] The table below compares some of the latest data and Budget forecasts at the time of the 2017–18 Review with those before us in the current Review.

**Table 1: Budget forecasts and actual outcomes for selected economic indicators, per cent**

Indicator	Information at time of 2017–18 Review			Information at time of 2018–19 Review		
	Data at time of 2017–18 Decision	Budget forecast for 2017–18	Budget forecast for 2018–19	Latest data	Budget forecast for 2018–19	Budget forecast for 2019–20
Gross domestic product <sup>(a)</sup>	2.4* (Dec qtr 2017)	2¾	3	2.3* (Dec qtr 2018)	2¼	2¾
Consumer Price Index <sup>(b)</sup>	1.9^^ (Mar qtr 2018)	2	2¼	1.3^^ (Mar qtr 2019)	1½	2¼
Wage Price Index <sup>(c)</sup>	2.1^ (Mar qtr 2018)	2¼	2¾	2.3^ (Mar qtr 2019)	2½	2¾
Unemployment rate <sup>(d)</sup>	5.5# (April 2018)	5½	5¼	5.1# (April 2019)	5	5
Employment growth <sup>(c)</sup>	2.9# (April 2018)	2¾	1½	2.5# (April 2019)	2	1¾

Source: [2018] FWCFB 3500 at [59]; Australian Government, *Budget Paper No. 1: Budget Strategy and Outlook 2019–20*, Canberra, p. 2-5; ABS, *Australian National Accounts: National Income, Expenditure and Product, Dec 2018*, Catalogue No. 5206.0; ABS, *Consumer Price Index, Australia, Mar 2019*, Catalogue No. 6401.0; ABS, *Wage Price Index, Australia, Mar 2019*, Catalogue No. 6345.0; ABS, *Labour Force, Australia, Apr 2019*, Catalogue No. 6202.0.

Note: Budget forecasts are (a) percentage change on preceding year; (b) through-the-year growth rate to the June quarter; (c) seasonally adjusted, through-the-year growth rate to the June quarter; (d) seasonally adjusted rate for the June quarter. \* Data in seasonally adjusted terms, year to December quarter 2017/2018. ^ Data in seasonally adjusted terms, Year to March quarter 2018/2019. ^^Data in original terms, year to March quarter 2018/2019. # Data in trend terms.

[29] Some of the key changes to the economy in this Review include:

- gross domestic product (GDP) growth has slowed;
- real net national disposable income (RNNDI) increased by 3.7 per cent over the year to the December quarter 2018 compared with 1.5 per cent at the time of the last Review;<sup>32</sup>

- business survival rates increased to be the highest in at least a decade;
- the profit share of factor incomes increased by 1.2 percentage points to a 7-year high of 28.5 per cent over the year to the December quarter 2018;
- labour productivity increased by 0.8 per cent over the year compared with a decline of 1.0 per cent at the time of the last Review;<sup>33</sup>
- the unemployment rate was 0.4 percentage points, lower than at the same time last year with employment growth at 2.5 per cent, compared with 2.9 per cent at the time of the last Review;<sup>34</sup>
- the age-adjusted participation rate rose from 66.7 per cent in April 2018 (at the time of the last Review<sup>35</sup>) to 67.0 per cent in April 2019;
- inflation is more subdued, headline inflation was 1.3 per cent and underlying inflation (trimmed mean) was 1.6 per cent over the year to the March quarter 2019, the comparable figures for this time last year were both 1.9 per cent;<sup>36</sup> and
- wages growth, as measured by the Wage Price Index (WPI), picked up slightly over the past 12 months.

**[30]** Real GDP grew by 2.3 per cent in the 12 months to the December quarter 2018, slightly less than for the preceding year and slightly below the five-year average of 2.5 per cent. Quarterly growth rates fell over 2018, with GDP increasing by 1.1 per cent and 0.8 per cent in the first two quarters and by only 0.3 per cent and 0.2 per cent in the last two quarters. Growth was broad based and gross value added (GVA) grew in all but 4 of the 19 industries over the year to the December quarter 2018 and in all of the 5 most award-reliant industries.

**[31]** While nominal unit labour costs have continued to rise, real unit labour costs fell over the past year and have been below their 10-year average for each of the past two years.

**[32]** Business profits growth to the December quarter 2018 was strong at 10.5 per cent, significantly higher than the previous year and the 5- and 10-year averages, but non-mining profits growth at 2.5 per cent was lower than the previous year and the 5- and 10-year averages. We note that profits have grown in the non-mining sector in every year over the past 10 years at an annual average of 3.9 per cent. The business net entry rate remains positive and business survival rates are high in historical terms, but the available statistics are only to June 2018 and may not necessarily reflect current conditions.

**[33]** RNNDI and RNNDI per capita grew by 3.7 per cent and 2.1 per cent, respectively, reflecting in part a strong recovery in prices for minerals exports.

**[34]** The labour market remains strong with employment growth of 2.5 per cent over the year to April 2019, an increase of 310 jobs, 84 per cent of which were full-time jobs. Although lower than at the time of the last Review, employment growth is above its 5-year average (2.2 per cent). The unemployment rate declined to 5.1 per cent (trend). Over the year to April 2019, the youth unemployment rate fell by 0.2 percentage points to 11.8 per cent, which is below its average over the past 5 years. Long-term unemployment fell by 10.1 per

cent over the year, however, it remains relatively high as a proportion of all unemployed persons (22.7 per cent).

**[35]** Importantly, the employment to working-age population ratio increased to 77.5 per cent in December 2018, a further increase from the previous year's then-historic high. The underemployment rate decreased at a slower rate than unemployment, from 8.5 per cent to 8.3 per cent over the year to April 2019 but, as we discuss in Chapter 2, the significance of this figure as an indicator of labour market spare capacity should not be overestimated.

**[36]** Four out of the 5 most award-reliant industries experienced positive employment growth over the year, the exception being Retail trade. Table 2.9 in Chapter 2 shows the variation in the performance of the 5 industries that have the highest proportion of employees paid at the award rate. The following general conclusions may be made from the data:

- 3 of the 5 most award-reliant industries had higher than the all industries average rates of growth in output, with two of the four award-reliant 'market' industries (excluding Health care and social assistance) experiencing above average growth in profits;
- with the exception of Retail trade, business entry rates exceeded exit rates, as they have for the whole economy;
- wages growth in both the WPI and new collective agreements was at or above the all industries average in three award-reliant industries; and
- employment growth was mixed, with strong growth in employment and in hours worked in Other services and Accommodation and food services, but weaker growth in other industries, and declines in Retail trade.

**[37]** The broad-based growth in employment, particularly full-time employment, the lower unemployment rate, and the historically high working-age employment to population ratio and participation rate are all indicative of a strong labour market.

**[38]** Turning to wages growth, the latest data show that growth in the WPI increased slightly since the last Review but remains low at 2.3 per cent over the year to the March quarter 2019. Consistent with our expectation in the 2017–18 Review decision,<sup>37</sup> wages have grown more slowly than forecast in the 2018–19 Budget. The rate of nominal wages growth remains significantly lower than historically might have been expected at this stage of the economic cycle and with such a strong labour market, but there is no consensus explanation for this phenomenon.

**[39]** The Budget forecasts presented in the 2017–18 Review expected wages growth, as measured by the WPI, to be 2¾ per cent over 2018–19.<sup>38</sup> This has been reduced to 2½ per cent in the 2019–20 Budget, with forecasts for WPI growth to be 2¾ per cent in 2019–20 and 3¼ per cent in 2020–21. The RBA forecasts for WPI growth are lower—2.4 per cent over the year to the June quarter 2019; 2.5 per cent over the year to the June quarter 2020; and 2.6 per cent over the year to the June quarter 2021.<sup>39</sup>

**[40]** The WPI forecast in the Budget is predicated on an increase in economic growth and a reduction in labour market spare capacity, with inflation also expected to rise. To reach the

Budget forecast for 2018–19 would require a quarterly increase of 0.8 per cent in the June quarter 2019, which would be the highest increase since the March quarter 2014. Such an outcome seems unlikely. While we expect wages growth to pick up over time, this is likely to be a more gradual process than that forecast in the 2019–20 Budget.

[41] The low rate of nominal wages growth cannot wholly or substantially be explained by low growth in labour productivity, as some parties have contended. Labour productivity growth in the 12 months to the December quarter 2018 was slightly above its five-year average and, as was forecast in the 2017–18 Review decision, the negative labour productivity growth figure in 2017 was reversed in 2018.<sup>40</sup> However, we remain of the view that labour productivity is best measured over the course of the productivity cycle, and the annualised rate of labour productivity growth (in the market sector) is 1.6 per cent to date in the current cycle (which commenced in 2011–12), or 1.0 per cent per annum over the previous five years in the market sector.

[42] Despite the low rate of nominal wages growth, real wages have increased because of a reduction in the rate of inflation. The Consumer Price Index (CPI) headline rate increased by 1.3 per cent and underlying inflation, measured by the trimmed mean, was 1.6 per cent over the year to the March quarter 2019. The Living Cost Index (LCI) for employee households increased by 1.4 per cent over the year to the March quarter 2019.

[43] The inflation data for the March quarter 2019 appear to be an aberration. The zero result for headline inflation was only the third time that quarterly headline inflation was either zero or negative in the last 10 years.<sup>41</sup> The result for the trimmed mean was also relatively low and was the lowest quarterly increase since the March quarter 2016. A major reason for low headline inflation in this quarter was a fall in the price of automotive fuel (–8.7 per cent).<sup>42</sup> According to the RBA, the slowing in the housing market and government cost-of-living initiatives were ‘important factors’ for the low underlying inflation rate.<sup>43</sup>

[44] The RBA forecasts underlying inflation (trimmed mean) to increase by 1½ per cent over the year to the June quarter 2019, which would require an increase of 0.5 per cent in the June quarter 2019.<sup>44</sup> The forecast for underlying inflation over the year to the December quarter 2019 is 1¾ per cent and 2 per cent over the year to the June quarter 2020. The RBA forecast headline inflation to be 1¾ per cent over the year to the June quarter 2019 and in its May 2019 *Statement on Monetary Policy* notes:

‘The partial rebound in oil prices in recent months has led to an upward revision to the forecast for headline inflation in the June quarter. The 12 per cent increase in fuel prices in the June quarter to date is expected to add around 0.4 percentage points to headline inflation in the quarter. Headline inflation is expected to reach 2 per cent in the second half of 2019 and increase modestly after that.’<sup>45</sup>

[45] The RBA’s revised forecasts were made after the release of the March quarter inflation data, further evidence that the March quarter outcome is anomalous. While the current headline and underlying inflation rates are lower than at the same time last year, both measures are likely to rise during the period when any increases in the NMW and modern award minimum wages we determine will operate. In this period it is likely that underlying inflation (trimmed mean) will be between 1¾ and 2 per cent.

[46] The Australian economy has performed moderately well and the labour market continues to be resilient. As the Australian Government succinctly put it in its 15 March 2019 submission to the Review:

‘The outlook presented in the 2018–19 MYEFO is for the economy to grow by 2¾ per cent in 2018–19 in line with its estimated potential growth rate ... Economic growth is expected to increase to 3 per cent in 2019–20, with growth strengthening in household consumption, non-mining business investment and exports ... Strengthening economic growth is expected to support further increases in employment and keep the unemployment rate close to recent lows.’<sup>46</sup>

[47] As we have mentioned, both the minimum wages objective and the modern awards objective require us to take into account ‘relative living standards and the needs of the low paid’ when setting minimum rates. These are different, but related, concepts. We now turn to our consideration of these matters.

[48] In recent years the NMW and modern award minimum wages have increased at a faster rate than earnings generally, which has resulted in some improvement in the relative position of the low paid. The data is mixed as to how income inequality in Australia has changed over time. As the Productivity Commission (PC) observed in its research paper ‘*Rising inequality? A stocktake of the evidence*’ (the PC Paper), the trend in income inequality is ‘contested territory’.<sup>47</sup>

[49] In addition to minimum wages, the tax-transfer system also has a significant role to play in alleviating earnings inequality and assisting low-paid workers to meet their needs. Tax-transfer changes which have taken effect in the current Review period have, broadly speaking, provided a benefit to low-paid households.

[50] The introduction of the Low and Middle Income Tax Offset (LMITO) effective from 1 July 2018 and the increase in the Medicare levy’s low-income threshold for the 2018–19 financial year (to take into account movements in the CPI) will provide some tax relief for most NMW and award-reliant workers. Modelling provided by the Australian Government shows that all but 2 of their selected household types would receive an increase in their disposable income of \$4 to \$5 per week due to the 2018–19 Budget measures.

[51] These changes are a moderating factor on our assessment of the appropriate level of increase to the NMW and modern award minimum wages arising from this Review. But, for the reasons given in Chapter 3, it is not appropriate to apply a direct, quantifiable, discount to the increase in the NMW and modern award minimum wages we would have awarded in the absence of such changes in the tax-transfer system.

[52] We are also obliged to consider ‘the needs of the low paid’ (ss 134(1)(a) and 284(1)(c)). A threshold of two-thirds of median (adult) full-time ordinary earnings is the benchmark we use to identify who is ‘low paid’ within the meaning of ss 134(1)(a) and 284(1)(c).

[53] There is no single contemporary measure of the needs of the low paid. We use a variety of measures, including budget standards, comparisons of hypothetical low-wage families with customary measures of poverty, both before and after taking account of the tax-transfer system, and survey evidence of financial stress and material deprivation among

low-paid households. We rely on relative poverty lines that are based on median equivalised household disposable income, using a 60 per cent threshold on the basis that those in full-time employment can reasonably expect some margin above a harsher measure of poverty.<sup>48</sup>

[54] The single-adult household provides the starting point for our assessment of relative living standards and needs. Such a worker receives no assistance from the transfer system, indeed their disposable income is *reduced* by the operation of the tax system. But we also accept that we must take into account the needs of the low paid, without limitation. Accordingly, we also give consideration to the needs of other types of families, including single-income families with dependant children.

[55] In 2017 the Social Policy Research Centre (SPRC) at the University of New South Wales (UNSW) published new budget standards (the 2017 Budget Standards Report). A budget standard estimates how much money a particular family type need to achieve a particular standard of living in a particular place at a particular time. The 2017 Budget Standards Report provides budget estimates for 5 different family types based on the Minimum Income for Healthy Living (MIHL) Standard, which is designed to ensure that each individual is able to achieve levels of consumption (of food, clothing, medications, transportation, personal care, and so on) and participation (in lifestyle, exercise and social activities) that are consistent with healthy living. The new budget standard estimates are, as the authors of the report acknowledge, ‘extremely tight.’

[56] The disposable income of a single adult earning the NMW in March 2019 is above the corresponding MIHL revised budget standard. However, data from the Statistical report and the Australian Government submission show that the disposable incomes of all but one of the other family types (the single-earner couple with one child, in receipt of the Newstart Allowance (NSA)) are *below* the relevant budget standard.

[57] The MIHL budget standards thus indicate that the NMW combined with the tax-transfer system is sufficient for the ‘healthy living’ of a single adult, but not for most other family types.

[58] Relative poverty lines are used to measure incomes in comparison with the broader community. We use a relative poverty line of 60 per cent of median equivalised disposable household income.

[59] Table 3.9 in Chapter 3 compares the equivalised household disposable income for a range of hypothetical households reliant on the NMW and selected modern award minimum wage rates (C10 and C4) with a 60 per cent median relative poverty line. The table shows that the position of each hypothetical household compared to the relative poverty line has improved over the last 5 years. In December 2018, for 9 of the 14 hypothetical household types reliant on the NMW, the equivalised household disposable income was above the 60 per cent median relative poverty line. But a number of household types remain below that relative poverty line, namely: single parents with children who work part-time, single-earner couples and single-earner couples with children, where the non-working partners are not getting the NSA (i.e. are not in the workforce).

[60] The ACTU contends that we should set the NMW (or C14) rate at a level which lifts a single earner couple without children above the 60 per cent relative poverty line where the non-working partner is not seeking work. Both the ACTU and ACBC submit that the NMW

(or C14) rate should be set at a level which lifts single earner couples with 1 or 2 children above the 60 per cent median income poverty line.

**[61]** In our judgment the magnitude of the increase required in this Review to lift these household types above the relative poverty line would run a significant risk of disemployment and of adversely affecting the employment opportunities of low-skilled and young workers. Further, it is not clear how many low paid employees are in the household types which are the focus of the ACTU and ACBC submissions. In each of these households the wage earner is presumed to receive the C14 rate. The Department of Jobs and Small Business estimates that around 180 200 employees are paid the adult C14 rate (only 1.7 per cent of all employees)<sup>49</sup> and the number of employees in households which are the focus of these submissions must be less.

**[62]** In addition, low paid employment is often temporary and can act as a ‘stepping stone’ to higher paid work. The C14 (or NMW) rate only features in 45 of the 122 modern awards and in 39 of those awards it is a transitional rate from which employees progress after a period. We also accept that there are instances where low paid employment is not a pathway into higher paid work and as the Panel has observed previously ‘[w]e cannot be indifferent to the standard of living of low-paid workers just because many do not stay in that situation for long periods.’<sup>50</sup>

**[63]** It is important to identify with some precision the number of employees who are sought to be the beneficiaries of a particular policy. If it turns out that the number of employees in the household types below the 60 per cent of median income relative poverty line is very small or that they are transitioning to higher paid jobs then it raises a real question about whether the minimum wage system is the appropriate instrument to address these pockets of disadvantage. As the Panel has observed in the past, ‘increases in minimum wages are a blunt instrument for addressing the needs of the low paid ... [and] the tax-transfer system can provide more targeted assistance to low-income households and is a more efficient means of addressing poverty.’<sup>51</sup> Of course to the extent that the tax transfer system fails to adequately address the ‘needs of the low paid’ more may need to be done through the minimum wages system.

**[64]** The proportion of low-paid households experiencing financial stress remained broadly stable over the latest year for which data are available. While this measure of disadvantage does not appear to be getting worse, nor is it improving. Five of the eight financial stress indicators increased in 2017. In particular, 3.1 per cent of low paid households went without meals; 3.5 per cent could not afford to heat their homes; and 3.0 per cent sought help from a welfare/community organisation. Further, as noted in the Foodbank Hunger Report 2018,<sup>52</sup> 49 per cent of charities who are supplied by Foodbank ‘report the number of people seeking food relief continues to increase year on year’.<sup>53</sup> Some low-paid households are plainly experiencing significant disadvantage.

**[65]** Our overall assessment is that the relative living standards of NMW and award-reliant employees have improved over recent years, although, some low-paid award-reliant employee households have household disposable incomes less than the 60 per cent of median income relative poverty line. Many household types are also likely to have disposable incomes that do not reach the threshold of the relevant MIHL budget.

[66] The requirement to take into account relative living standards and the needs of the low paid supports a real increase in the NMW and modern award minimum wages.

[67] A number of other matters are relevant to the outcome of the Review.

[68] The *Penalty Rates decision*<sup>54</sup> provides for the phased reduction of Sunday penalty rates in certain awards in the hospitality and retail sectors which will reduce the employment costs of some employers covered by the modern awards affected by the decision.<sup>55</sup> There is considerable force in the Australian Industry Group's (Ai Group) submission that the *Penalty Rates decision* only applies to a small number of modern awards and that increasing the quantum of any adjustment from this Review on account of that decision would be unfair to businesses which have not received the benefit of reduced penalty rates.<sup>56</sup> We also note that there have also been other changes to modern awards that have increased employment costs. These matters form part of the broad context in which the Review is conducted but we have not given them significant weight.

[69] As mentioned earlier, one of the matters we are required to take into account is 'the need to encourage collective bargaining.' As set out in Chapter 4, we accept that there has been a decline in current enterprise agreements, but a range of factors impact on the propensity to engage in collective bargaining, many of which are unrelated to increases in the NMW and modern award minimum wages. Given the complexity of factors which may contribute to decision making about whether or not to bargain, we are unable to predict the precise impact of our decision.

[70] The increase we have determined in this Review may impact on bargaining in different sectors in different ways and we cannot be satisfied that the increase we have determined will *encourage* collective bargaining. We have taken this into account along with the other statutory considerations in determining the outcome in this Review.

[71] Women are disproportionately represented among the low paid and award reliant, hence, an increase in minimum wages is likely to promote gender pay equity. Increases in the NMW and modern award minimum wages would be likely to have a relatively small, but nonetheless beneficial, effect on the gender pay gap. We have taken this into account in determining the extent and nature of the increase to the NMW and modern award minimum wages in this Review.

[72] We have continued to monitor the effects of the 2016–17 and 2017–18 Review decisions. Notwithstanding the submissions made by some parties that the NMW and modern award wage increases that resulted from those decisions were too high and not justified by the prevailing economic circumstances, it remains the case that neither we, nor the parties, have identified any data which supports the conclusion that the increases awarded have had a discernible detrimental effect on the labour market or the economy generally. Employment growth is healthy, and employment grew in the 12 months to February 2019 in 4 of the 5 industries which have the highest rates of award reliance. Reduced employment in the Retail trade sector, which is the exception, is likely to be the result of a combination of factors including, technological change and competitive pressures such as the trend towards online shopping. That the employment to working-age population ratio has reached a new historic high strongly suggests that the increases awarded in the last 2 Review decisions have not inhibited social inclusion through increased workforce participation. Inflationary pressure is non-existent and, notably, the increases we have awarded appear to have had little effect on



overall wages growth either generally or in the 5 most award-reliant industries. The data tend to confirm our view as to the scope to adjust minimum wages without occasioning adverse labour market consequences.

[73] In the 2016–17 and 2017–18 Review decisions, we expressed the view that modest and regular minimum wage increases do not result in disemployment effects or inhibit workforce participation.<sup>57</sup> We affirm that view in this decision, with the benefit of further international research studies. Further, the evidence to date is that the increases we have awarded in the last 2 Review decisions were appropriate in the prevailing economic circumstances. However we will continue to closely analyse the data in future reviews in order to identify any longer-term effects these increases may have had.

### **The Decision**

[74] We have determined that it is appropriate to increase the NMW. Having regard to the proposed NMW and the other relevant considerations, we also consider that it is appropriate to adjust modern award minimum wages.

[75] Despite the recent fall in GDP growth, the Australian economy has performed moderately well and the relevant data are all indicative of a strong labour market. Although business conditions have declined from the high levels recorded in the first half of 2018, they remain consistent with trend growth in the economy and the labour market has performed strongly.<sup>58</sup> As the RBA noted in its May 2019 *Statement on Monetary Policy* ‘[a]lthough GDP growth has moderated, employment has continued to expand by enough to reduce spare capacity in the labour market over the past year’ with employment growth in the first quarter of 2019 higher than growth in the working-age population.<sup>59</sup>

[76] The prevailing economic circumstances provide an opportunity to improve the relative living standards of the low paid, and to enable them to better meet their needs, by awarding a real increase in the NMW and modern award minimum wages. No party identified any data which demonstrated adverse employment effects arising from the previous 2 Review decisions, each of which resulted in real wage increases for award and NMW-reliant employees.<sup>60</sup>

[77] As to the form of the increase, past flat dollar increases in modern award minimum wages have compressed award relativities and reduced the gains from skill acquisition. The position of the higher award classifications fell relative to market rates and to average earnings and in terms of real purchasing power. A uniform percentage increase will particularly benefit women workers, because at the higher award classification levels women are substantially more likely than men to be paid the minimum award rate rather a bargained rate. These matters have led us to determine a uniform percentage increase.

[78] The factors identified above have led us to award an increase of 3.0 per cent. The NMW will be \$740.80 per week or \$19.49 per hour. The hourly rate has been calculated by dividing the weekly rate by 38, on the basis of the 38-hour week for a full-time employee. This constitutes an increase of \$21.60 per week to the weekly rate or 56 cents per hour to the hourly rate.

[79] The proposed NMW and the relevant statutory considerations have led us to increase modern award minimum wages by 3.0 per cent.

[80] The determinations and order giving effect to our decision will come into operation on 1 July 2019. Weekly wages will be rounded to the nearest 10 cents. The increases we have determined will take effect from the start of the first full pay period that starts on or after 1 July 2019, in accordance with ss 286(5) and 287(5) of the Act.

[81] We have awarded a lower increase this year than that awarded last year having regard to the changes in the economic environment (in particular the recent fall in GDP growth and the drop in inflation) and the tax-transfer changes which have taken effect in the current Review period and which have provided a benefit to low-paid households.

[82] We are satisfied that the level of increase we have decided upon will not lead to any adverse inflationary outcome and nor will it have any measurable negative impact on employment. However, such an increase will mean an improvement in the real wages for those employees who are reliant on the NMW and modern award minimum wages and an improvement in their living standards. We acknowledge that the compounding effect of increases over time may have a cumulative effect which is not apparent in the short term. We will continue to closely monitor this in future reviews.

[83] For the reasons given in Chapter 5 we have rejected CCIQ's application for a 6-month deferral of 'any increase to the NMW and award minimum wage rates' in respect of certain employers said to have been affected by flooding in the Townsville region of North Queensland in late January to early February 2019. Although we are mindful of the impact of natural disasters upon the communities affected, the CCIQ proposal and materials provided in support of the deferral does not provide sufficient foundation or justification for the deferral that is sought.

## **2. Economic and labour market considerations**

### **Overview**

[84] The Australian economy has slowed somewhat in the period since the 2017–18 Review, but overall the economy has performed moderately well and the labour market in particular has performed strongly. Real GDP grew by 2.3 per cent in the 12 months to the December quarter 2018, slightly less than for the preceding year and slightly below the 5-year average of 2.5 per cent. This growth was broad-based across the economy, with 15 out of 19 industry sectors enjoying growth. RNNDI and RNNDI per capita grew by 3.7 per cent and 2.1 per cent, respectively, reflecting a strong recovery in prices for minerals exports. It is not yet clear whether the improvement in the terms of trade will continue such as to lead to further sustained growth in RNNDI, which has tended to lag behind GDP growth over the past decade. Forecasts of economic growth for 2019–20 have recently been downgraded following weaker results in the second half of 2018,<sup>61</sup> but a higher rate of growth is still projected and the Australian Government still expects the economy to continue to grow at around its estimated potential rate of 2¾ per cent over 2019–20 and 2020–21.

[85] The indicators concerning business conditions in Australia are generally positive but influenced by the current strength of the mining sector. Business profits growth to the December quarter 2018 was strong at 10.5 per cent, significantly higher than the previous year and the 5- and 10-year averages, but non-mining profits growth at 2.5 per cent was lower

than the previous year and the 5- and 10-year averages. The business net entry rate remains positive and business survival rates are high in historical terms, but the available statistics are only to June 2018 and may not necessarily reflect current conditions. Survey measures of expected business conditions have eased over the past year but remain at or above average levels.

**[86]** The labour market experienced strong employment growth of 2.5 per cent over the year to April 2019, representing an increase of 310 500 jobs, 84 per cent of which were full-time jobs. The unemployment rate declined to 5.1 per cent and would have declined further but for another increase in the participation rate. There was also a reduction in youth unemployment, although as usual it is significantly higher than the general unemployment rate. The employment to working-age population ratio, to which we pay particular attention, increased to 77.5 per cent in December 2018, a further increase from the previous year's then-historic high. The underemployment rate decreased at a slower rate than unemployment, from 8.5 per cent to 8.3 per cent but, as we discuss later in this chapter, the significance of this figure as an indicator of labour market spare capacity should not be overestimated.

**[87]** The rate of nominal wages growth, as measured by the WPI, has increased slightly since last year but remains low at 2.3 per cent and, consistent with our expectation in the 2017–18 Review decision,<sup>62</sup> wages have grown more slowly than forecast in the 2018–19 Budget. The rate of nominal wages growth remains significantly lower than historically might have been expected at this stage of the economic cycle and with such a strong labour market, but there is no consensus as to the explanation for this phenomenon. It also remains difficult to explain why industry sectors with the highest levels of award reliance generally have nominal wage growth only at or below average in circumstances where modern award minimum wages were increased by 3.3 per cent in 2017 and 3.5 per cent in 2018.

**[88]** The low rate of nominal wages growth cannot wholly or substantially be explained by low growth in labour productivity, as some parties have contended. Labour productivity growth in the 12 months to the December quarter 2018 was slightly above its five-year average and, as was forecast in the 2017–18 Review decision, the negative labour productivity growth figure in 2017 was reversed in 2018.<sup>63</sup> We remain of the view that labour productivity is best measured over the course of the productivity cycle, and the annualised rate of labour productivity growth (in the market sector) is 1.6 per cent to date in the current cycle (which commenced in 2011–12), or 1.0 per cent per annum over the previous 5 years in the market sector.

**[89]** Notwithstanding the low rate of nominal wages growth, real wages have increased because of a reduction in the rate of inflation. For the 12 months to the March quarter 2019, the CPI grew by 1.3 per cent and underlying inflation, as measured by the trimmed mean, was 1.6 per cent, which is significantly below the previous year's inflation rate,<sup>64</sup> the 5-year average and the RBA's medium-term inflation target range. The LCI for employee households only increased by 1.4 per cent over the same period. While nominal unit labour costs have continued to rise, real unit labour costs fell over the past year and have been below their 10-year average for each of the past two years.

**[90]** We have continued to monitor the effects of the 2016–17 and 2017–18 Review decisions. Notwithstanding the submissions made by some parties that the NMW and modern award minimum wage increases that resulted from those decisions were too high and not justified by the prevailing economic circumstances, it remains the case that neither we, nor the

parties, have identified any data which supports the conclusion that the increases awarded have had a discernible detrimental effect on the labour market or the economy generally. Employment growth is healthy, and employment grew in the 12 months to February 2019 in 4 of the 5 industry sectors which have the highest rates of award reliance. Reduced employment in the Retail trade sector, which is the exception, is likely to be the result of a combination of factors, including technological change and competitive pressures such as the trend towards online shopping. That the employment to working-age population ratio has reached historic highs strongly suggests that the increases awarded in the last 2 Review decisions have not inhibited social inclusion through increased workforce participation. Inflationary pressure is non-existent and, notably, the increases we have awarded appear to have had little effect on overall wages growth either generally or in the 5 most award-reliant industry sectors.

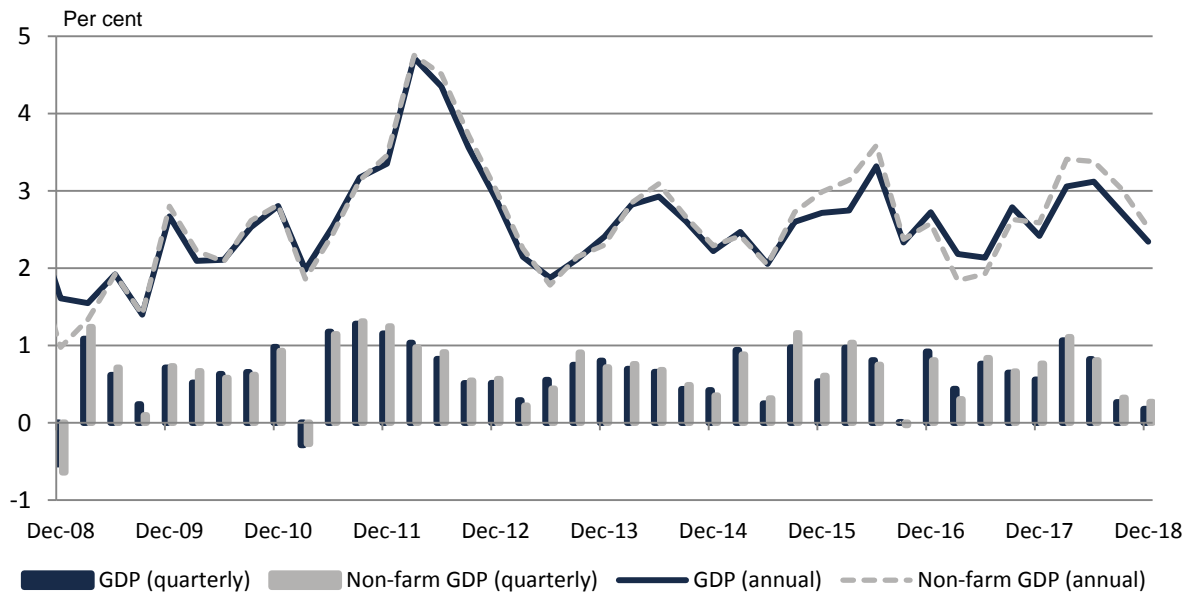
[91] In the 2016–17 and 2017–18 Review decisions, we expressed the view that modest and regular minimum wage increases do not result in disemployment effects or inhibit workforce participation. We affirm that view in this decision, with the benefit of further international research studies. Further, the evidence to date is that the increases we have awarded in the last 2 Review decisions were appropriate in the prevailing economic circumstances. However, we will continue to closely analyse the data in future reviews in order to identify any longer-term effects these increases may have had.

### **General approach**

[92] The minimum wages objective (in s 284(1)(a) and (b)) and the modern awards objective (in s 134(1)(c), (d), (f), and (h)) set out a number of economic and labour market considerations that are required to be taken into account during a Review. In considering these matters, we will continue to have regard to the parties' submissions, economic information provided by the parties, data published in the Commission's Statistical report, data from the Treasury and the RBA and the Research reference list and other material published on the Commission's website. We primarily focus upon data measuring actual outcomes, including the most recent information available and longer-term data over a 5- and/or 10-year time period, and we also take into account official Treasury and RBA forecasts and the major private surveys of business conditions that are monitored by the RBA.<sup>65</sup>

### **Economic growth**

[93] Annual growth in GDP was 2.3 per cent over the year to the December quarter 2018, slightly below its 5-year average (2.5 per cent).<sup>66</sup> Quarterly growth rates fell over 2018, with GDP increasing by 1.1 per cent and 0.8 per cent in the first two quarters, and by only 0.3 per cent and 0.2 per cent in the last two quarters. Non-farm GDP grew slightly stronger at 2.5 per cent, reflecting the impact of drought conditions over the year.<sup>67</sup>

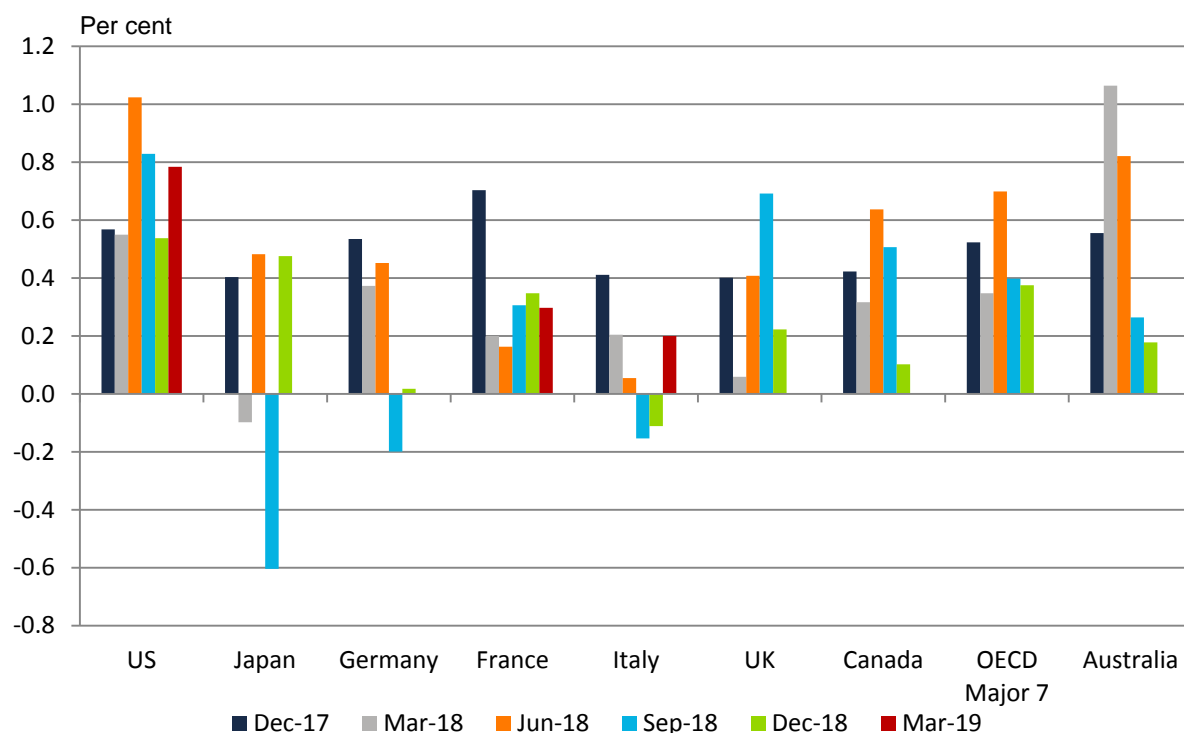
**Chart 2.1: Economic growth, annual and quarterly rates**

Source: Statistical report, Chart 1.1; ABS, *Australian National Accounts: National Income, Expenditure and Product, Dec 2018*, Catalogue No. 5206.0.

**[94]** Growth in household consumption moderated to 2.0 per cent over the year to the December quarter 2018 and contributed 1.1 percentage points to annual GDP growth, both lower than at the time of the previous Review.<sup>68</sup> Weak consumption growth was highlighted by a number of submissions as a key driver of the slowdown in GDP growth.<sup>69</sup> Strong employment growth contributed to an increase in compensation of employees of 4.3 per cent over the year. However, the household saving ratio fell from 4.2 per cent in the December quarter 2017 to 2.5 per cent in the December quarter 2018.<sup>70</sup> The RBA explained that the decline in the household saving ratio has been due to consumption growth outpacing income growth in recent years, although this trend may not be continuing.<sup>71</sup>

**[95]** Australia's GDP growth exceeded growth in the Organisation for Economic Co-operation and Development (OECD) Major 7 countries in the first two quarters of 2018, before falling below the average in the third and fourth quarters (Chart 2.2).

**Chart 2.2: International comparisons of quarterly GDP growth rates**

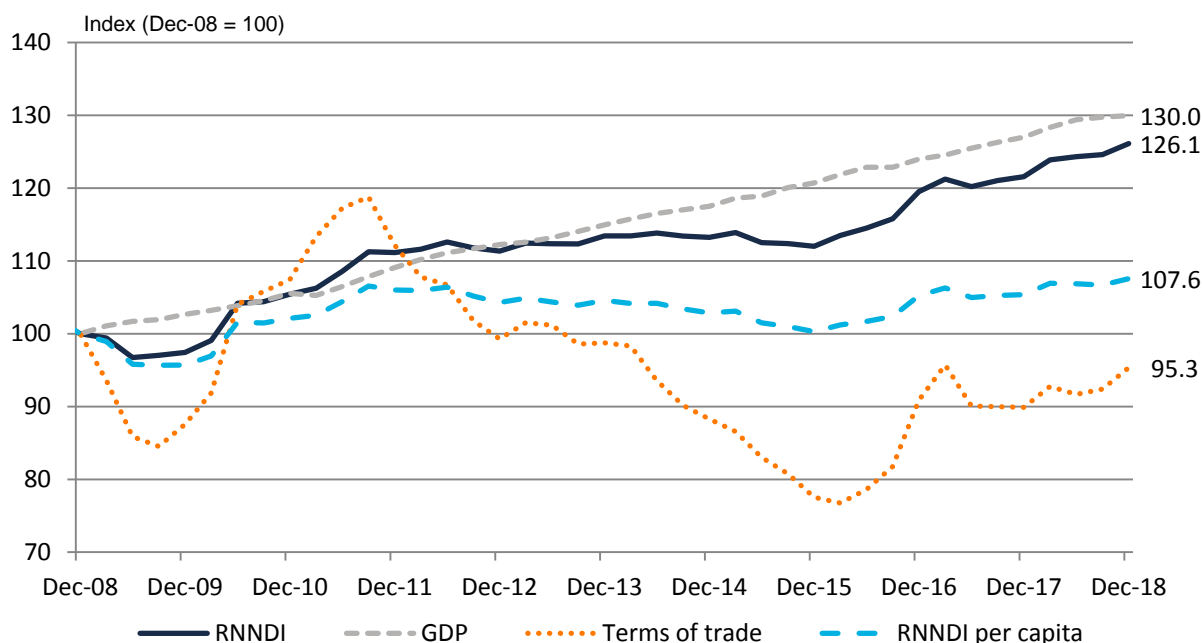


Source: Statistical report, Chart 1.2; OECD (2019), *Quarterly GDP (indicator)*, <<http://data.oecd.org/gdp/quarterly-gdp.htm>>.

[96] The Panel again places weight upon trends in RNNDI<sup>72</sup> as it is a better measure of incomes available to Australians than GDP. However short-term movements in RNNDI may not, because of their volatility, be reliable as an indicator of economic performance. This volatility means that changes that are sustained for several years are the ones on which we focus.

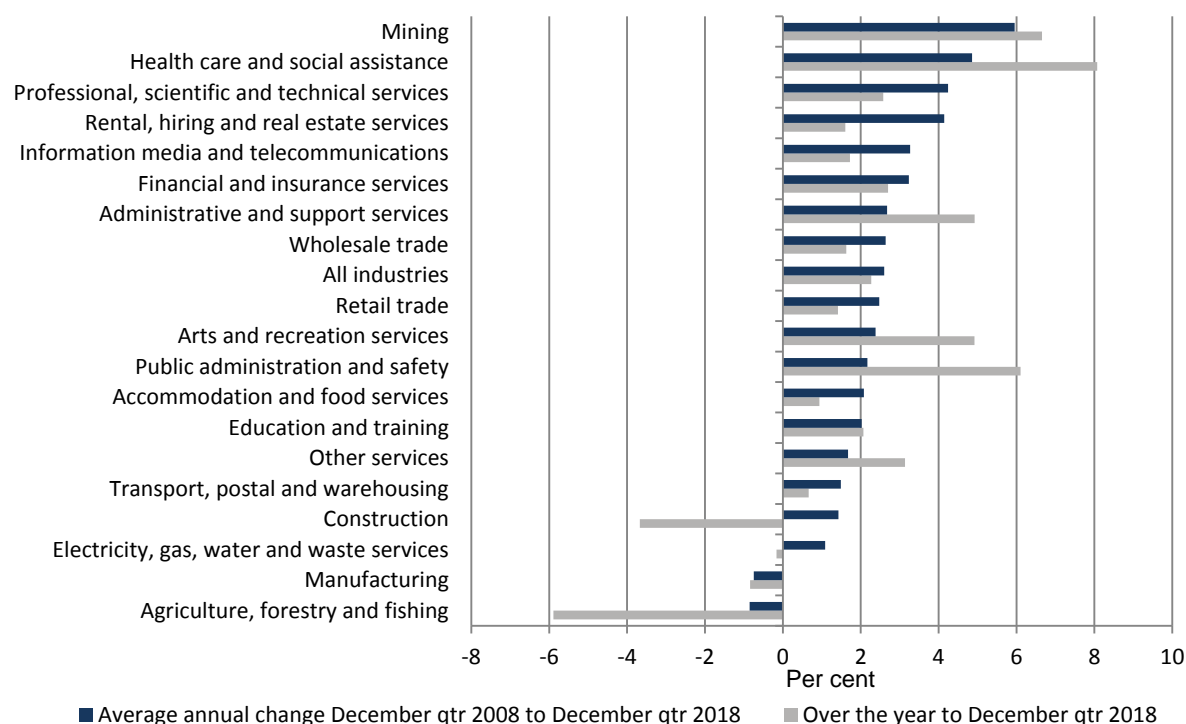
[97] Chart 2.3 shows that GDP has grown faster than RNNDI over the last 10 years, increasing by 30 per cent compared with 26.1 per cent. In per capita terms, RNNDI increased by 2.1 per cent over the year to the December quarter 2018 (compared to near zero growth over the year to the December quarter 2017), to be at its highest level over the 10-year period. Growth in RNNDI coincided with an improvement to Australia’s terms of trade over the year, reflecting in substantial degree an increase in export mineral prices. Treasury and the Department of Jobs and Small Business submitted that recent increases in commodity prices are expected to be temporary,<sup>73</sup> and in its May 2019 *Statement on Monetary Policy* the RBA predicts moderation over the next few years in iron ore, coking coal and thermal coal prices.<sup>74</sup> If correct, that would justify limited weight being given to the most recent increase in RNNDI. However, Chart 2.3 shows a longer-term positive trend in RNNDI growth since about 2015 (both on an aggregate and per capita basis), and we place some reliance upon this as indicative of an increase in incomes available to Australians.

**Chart 2.3: RNNDI, real GDP and the terms of trade**



Source: Statistical report, Chart 1.3; ABS, *Australian National Accounts: National Income, Expenditure and Product, Dec 2018*, Catalogue No. 5206.0.

**[98]** Chart 2.4 shows that growth was broad-based across industries. Gross value added (GVA) grew in all but 4 of the 19 industries over the year to the December quarter 2018 and in all of the 5 most award-reliant industries. Growth was highest in Health care and social assistance (8.1 per cent), Mining (6.7 per cent), and Public administration and safety (6.1 per cent). GVA fell most significantly in Agriculture, forestry and fishing (–5.9 per cent) and Construction (–3.7 per cent). Over the 10 years to the December quarter 2018, Agriculture, forestry and fishing and Manufacturing were the only 2 industries to experience average annual declines in GVA.

**Chart 2.4: Change in GVA by industry**

Source: Statistical report, Chart 1.4; ABS, *Australian National Accounts: National Income, Expenditure and Product, Dec 2018*, Catalogue No. 5206.0.

[99] Parties had differing views on the strength of the Australian economy over the year. The Australian Government characterised the economy as ‘perform[ing] well’,<sup>75</sup> the ACTU submitted that growth was ‘healthy’,<sup>76</sup> while Ai Group submitted that the Australian economy had ‘moved back into the slow lane’.<sup>77</sup> The perspective to be taken as to this growth outcome may be dependent upon a consideration of what is the ‘normal’ rate of growth in the context of the current global economy. The annual rate of growth is close enough to the 5-year average to be considered ‘normal’, but the critical issue for us is whether the poor results in the last 2 quarters of 2018 represent a trend towards significantly lower growth or are merely indicators of volatility in the data and short-term trends. In its *Statement on Monetary Policy* for May 2019, the RBA projects that growth for the 12 months to June 2019 will fall to 1¾ per cent, but will rise to 2¾ per cent for calendar years 2019 and 2020.<sup>78</sup> Having regard to this and the other data to which we will refer in this chapter, we prefer the view that the economy is growing at a slower but still moderately healthy rate which is sufficient to support positive labour market outcomes.

### Productivity and unit labour costs

[100] In previous Reviews, the Panel has exercised caution when interpreting short-term fluctuations to productivity measures as productivity is best measured over the productivity cycle, and short-term estimates can be volatile, cyclical and subject to revisions.<sup>79</sup>

[101] Nonetheless, the most recent data show that labour productivity grew modestly across the whole economy and in the market sector over 2018, in contrast to last year’s Review where both experienced declines.<sup>80</sup> Table 2.1 shows labour productivity, as measured by GDP per hour worked, rose 0.8 per cent, while GVA per hour worked (labour productivity in the market sector) rose 0.7 per cent over the year to the December quarter 2018. Growth in these



productivity measures is partly explained by slower growth in hours worked relative to previous years, with the Panel having previously noted that there is a ‘clear negative relationship between the annual growth in hours worked and the associated growth in labour productivity.’<sup>81</sup> Average annualised labour productivity growth in the market sector over the 5 years to the December quarter 2018 was 1.0 per cent.<sup>82</sup>

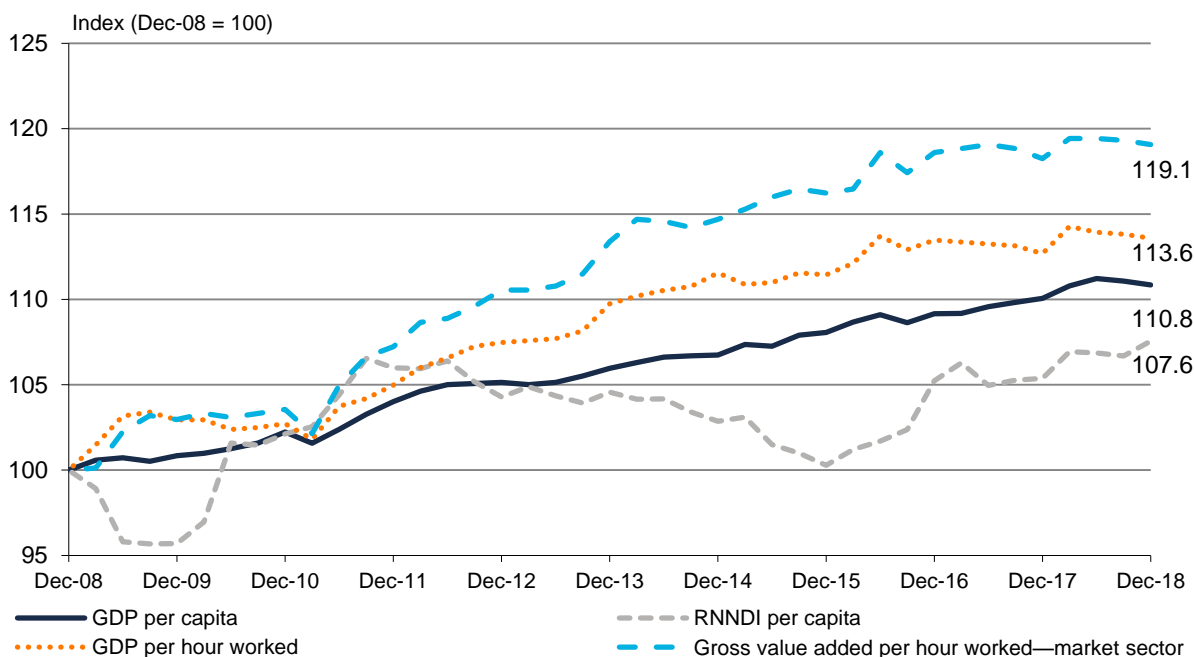
**Table 2.1: Productivity growth and its components, growth rate over the year**

Quarter	National Accounts						Labour Force
	Total			Market Sector			Hours worked
	GDP (% change)	Hours worked (% change)	GDP/hour worked (% change)	GVA (% change)	Hours worked (% change)	GVA/hour worked (% change)	(% change)
Dec-08	1.6	1.1	0.5	2.7	1.0	1.8	0.7
Dec-09	2.7	-0.3	2.9	1.5	-1.4	3.0	0.4
Dec-10	2.8	3.0	-0.2	2.8	2.2	0.6	3.2
Dec-11	3.4	1.2	2.2	4.0	0.4	3.5	0.6
Dec-12	2.9	0.5	2.4	3.7	0.5	3.1	0.8
Dec-13	2.4	0.4	2.1	2.3	-0.2	2.6	0.3
Dec-14	2.2	0.5	1.7	2.3	1.2	1.1	1.2
Dec-15	2.7	2.7	-0.1	2.7	1.3	1.3	2.2
Dec-16	2.7	0.9	1.8	2.3	0.3	2.0	0.8
Dec-17	2.4	3.2	-0.7	2.6	2.9	-0.3	3.2
Dec-18	2.3	1.5	0.8	1.4	0.6	0.7	1.8

Source: Statistical report, Table 2.2; ABS, *Australian National Accounts: National Income, Expenditure and Product, Dec 2018*, Catalogue No. 5206.0; ABS, *Labour Force, Australia, Apr 2019*, Catalogue No. 6202.0.

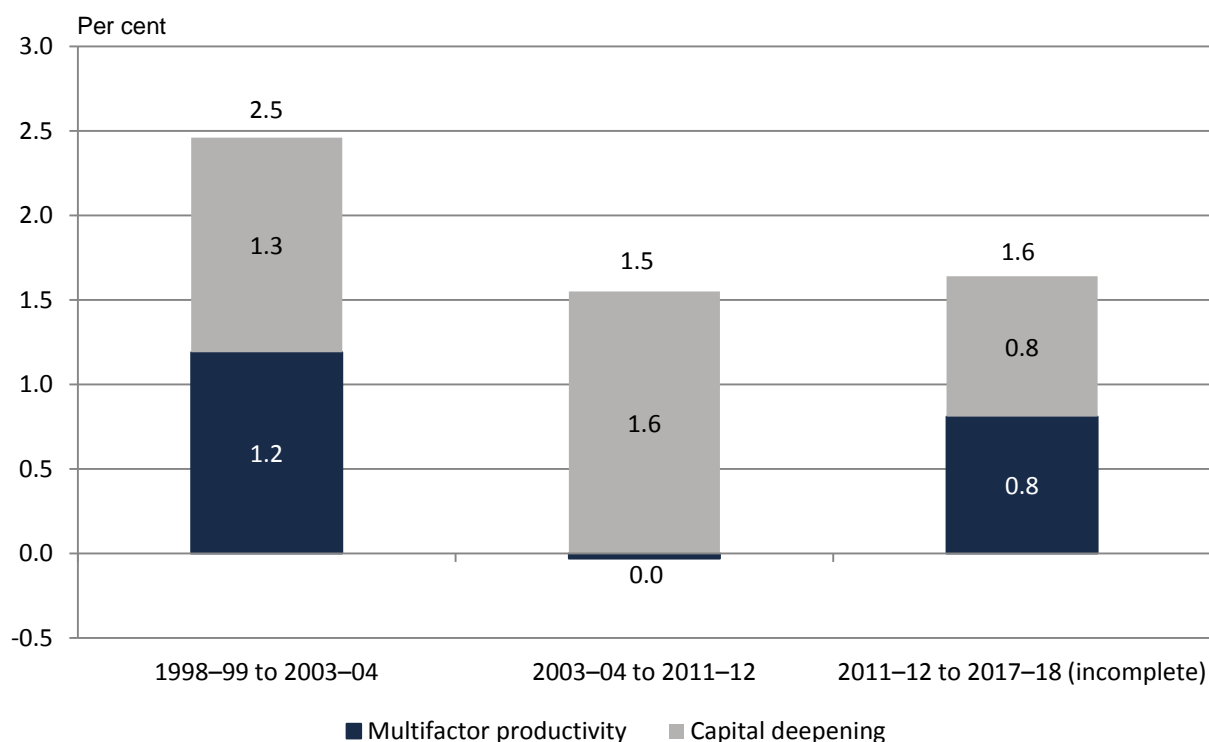
[102] Trends in productivity measures over the 10 years to the December quarter 2018 are compared in Chart 2.5. GVA per hour worked for the market sector has grown faster than GDP per hour worked since 2010, however both have increased more than GDP per capita and RNNDI per capita over the 10 years to the December quarter 2018 despite little, if any, growth over more recent years.

**Chart 2.5: Measures of labour productivity**



Source: Statistical report, Chart 2.1; ABS, *Australian National Accounts: National Income, Expenditure and Product, Dec 2018*, Catalogue No. 5206.0.

**[103]** Chart 2.6 presents changes in labour productivity over the most recent cycles together with its components: multifactor productivity and capital deepening. While the current productivity cycle (2011–12 to 2017–18) is incomplete, it shows that productivity growth was slightly higher and more broad-based compared with the preceding cycle (2003–04 to 2011–12), though it was lower than the productivity cycle before that (1998–99 to 2003–04). Comparing outcomes from last year’s Review (which covered the 2011–12 to 2016–17 incomplete productivity cycle)<sup>83</sup> and the current cycle (2011–12 to 2017–18), labour productivity was slightly lower (by 0.3 percentage points), driven by a decline in the contribution from capital deepening.

**Chart 2.6: Productivity cycles, annualised growth in labour productivity**

Source: Statistical report, Chart 2.2; ABS, *Australian System of National Accounts, 2017-18*, Catalogue No. 5204.0.

Note: Multifactor productivity is measured as output per combined unit of labour and capital. Capital deepening is the component of labour productivity growth which is due to the increase in the amount of capital that each unit of labour has to work with. Labour productivity is represented by the numbers above the bars, and is the sum of multifactor productivity and capital deepening. Due to rounding, the sum of multifactor productivity and capital deepening may not equal labour productivity.

**[104]** The Australian Government contended that national labour productivity growth figures ‘mask large variations in the productivity performance of each industry’, with Mining particularly having a large impact on aggregate productivity.<sup>84</sup> The Australian Government and Ai Group submitted that labour productivity has been more subdued in the award-reliant industries over the current incomplete growth cycle, except for Administrative and support services.<sup>85</sup> We do not accept that the position of award-reliant industries can validly be distinguished in this way, as is evident from Table 2.2. However it is clear that the highest rate of productivity growth over the last 5 years has been in the Mining industry.

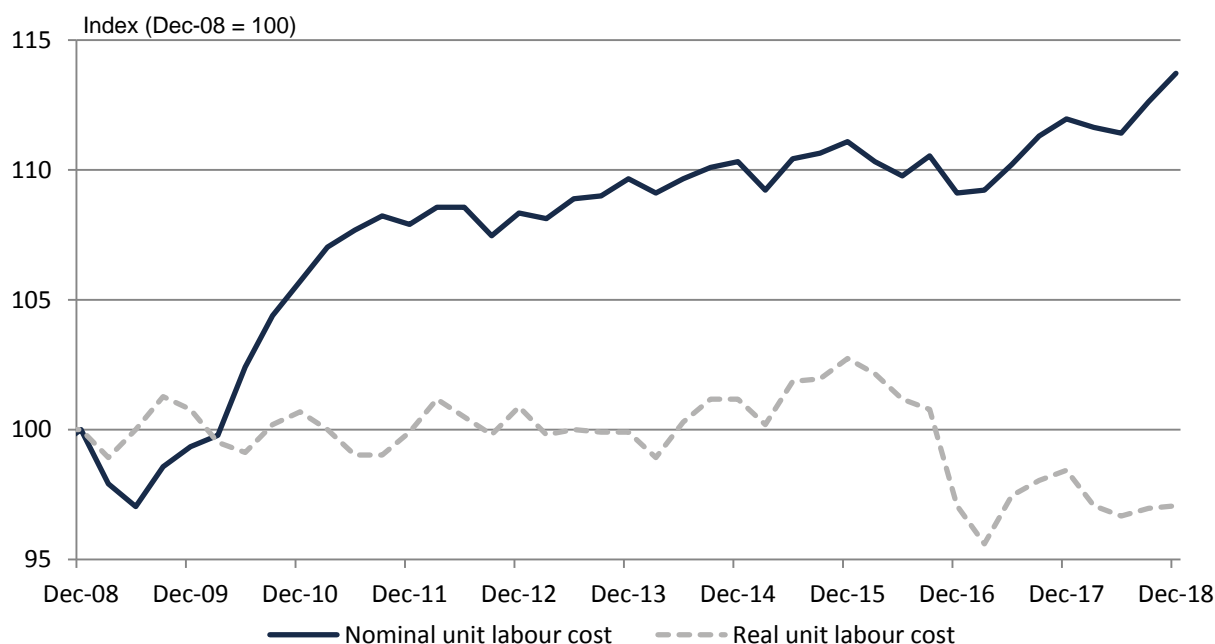
**Table 2.2: Average annual change in labour productivity and multifactor productivity by industry**

	2007–08 to 2017–18		2012–13 to 2017–18	
	Labour productivity (% change)	Multifactor productivity (% change)	Labour productivity (% change)	Multifactor productivity (% change)
Agriculture, forestry and fishing	2.4	1.7	-1.6	-0.7
Mining	1.3	-1.5	9.6	2.8
Manufacturing	0.6	0.1	0.1	0.4
Electricity, gas, water and waste services	-1.4	-1.6	-0.2	-0.7
Construction	0.5	-0.3	-2.8	-2.7
Wholesale trade	3.4	2.4	5.6	3.8
Retail trade	2.2	1.4	1.4	0.9
Accommodation and food services	0.2	0.3	1.1	1.3
Transport, postal and warehousing	0.4	-0.5	-0.9	-1.2
Information, media and telecommunications	3.9	1.5	5.6	3.0
Financial and insurance services	2.4	1.9	3.0	2.5
Rental, hiring and real estate services	3.9	2.3	3.9	3.0
Professional, scientific and technical services	2.1	1.8	1.3	1.0
Administrative and support services	-0.2	-0.3	2.5	2.4
Arts and recreation services	0.6	0.0	0.0	-0.3
Other services	1.3	0.3	0.6	0.0
<b>Market sector industries</b>	<b>1.8</b>	<b>0.4</b>	<b>1.5</b>	<b>0.9</b>

Note: Data are expressed in original terms. The market sector includes all industries except for Public administration and safety, Education and training and Health care and social assistance.

Source: ABS, *Estimates of Industry Multifactor Productivity, 2017–18*, Catalogue No. 5260.0.55.002.

[105] Real unit labour costs continue to remain at unusually low levels,<sup>86</sup> falling by a further 1.4 per cent over the year to the December quarter 2018, while nominal unit labour costs increased by 1.6 per cent (Chart 2.7). Real unit labour costs remain below their 10-year average. This implies reduced labour cost pressures over the past decade.

**Chart 2.7: Unit labour costs, nominal and real, index**

Source: Statistical report, Chart 2.3; ABS, *Australian National Accounts: National Income, Expenditure and Product, Dec 2018*, Catalogue No. 5206.0.

### Business competitiveness and viability

**[106]** Profits across the whole economy grew by 10.5 per cent over the year to December quarter 2018, which was significantly higher than the preceding year, and above the 5-year and 10-year averages (Table 2.3). This was driven by the 26.3 per cent growth in Mining profits, which accounted for 84.2 per cent of profits growth across all industries. In comparison, profit growth in the non-mining sector was 2.5 per cent over the year, lower than the previous year as well as the 5-year and 10-year averages. Over the past 5 years to the December quarter 2018, total profits growth in the non-mining sector was significantly lower than in Mining, but there is considerable volatility in the yearly figures over both the past 5 years and 10 years. We note that profits have grown in the non-mining sector in every year over the past 10 years at an annual average of 3.9 per cent.

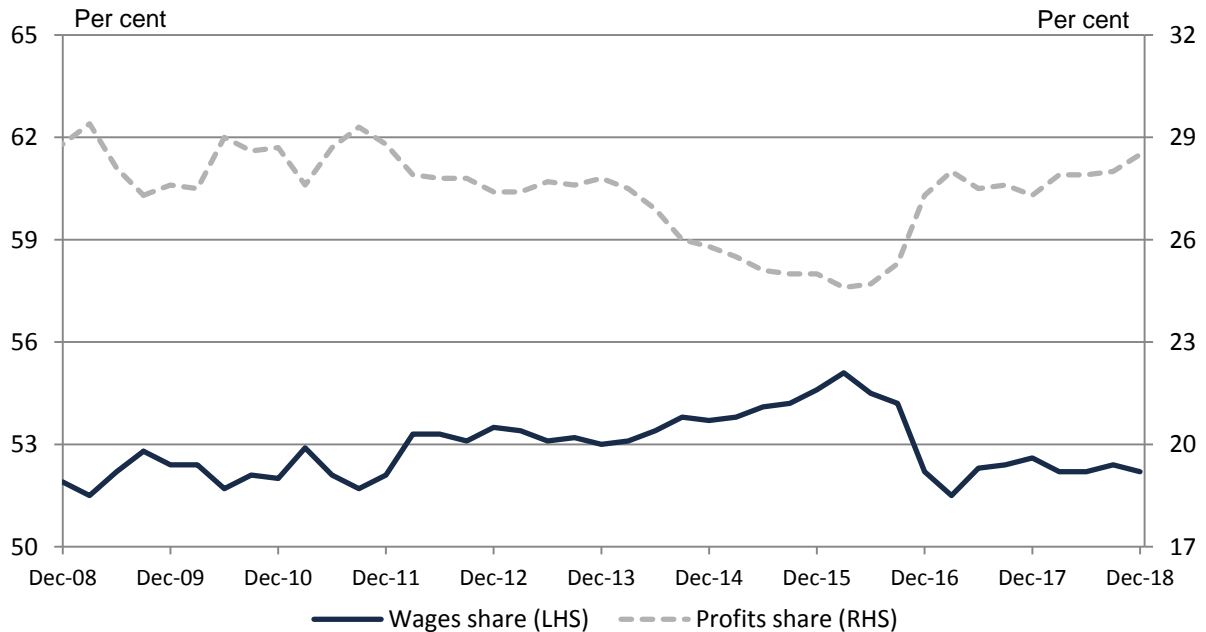
**Table 2.3: Company gross operating profits, mining and non-mining industries, growth rates**

	<b>Mining</b>	<b>Non-mining</b>	<b>All industries</b>
	<b>%</b>	<b>%</b>	<b>%</b>
<b>Dec-08</b>	95.5	-5.0	18.8
<b>Dec-09</b>	-42.6	10.5	-10.1
<b>Dec-10</b>	62.5	1.2	16.4
<b>Dec-11</b>	4.3	1.1	2.2
<b>Dec-12</b>	-27.3	3.3	-7.5
<b>Dec-13</b>	36.4	1.1	10.9
<b>Dec-14</b>	-20.9	1.0	-6.5
<b>Dec-15</b>	-16.8	2.0	-3.4
<b>Dec-16</b>	76.3	10.6	27.0
<b>Dec-17</b>	1.0	5.9	4.2
<b>Dec-18</b>	26.3	2.5	10.5
<b>5 years to Dec-18*</b>	8.2	4.4	5.7
<b>10 years to Dec-18*</b>	3.6	3.9	3.8

Source: Statistical report, Table 3.3; ABS, *Business Indicators, Australia, Dec 2018*, Catalogue No. 5676.0.

Note: \*Annualised growth rates.

**[107]** The profits share increased by 1.2 percentage points to a 7-year high of 28.5 per cent over the year to the December quarter 2018, while the wages share fell 0.4 percentage points to 52.2 per cent over the same period (Chart 2.8). The wages share has remained relatively stable at around 52 per cent since the middle of 2017.

**Chart 2.8: Profits and wages share of total factor income**

Source: Statistical report, Chart 3.1; ABS, *Australian National Accounts: National Income, Expenditure and Product, Dec 2018*, Catalogue No. 5206.0.

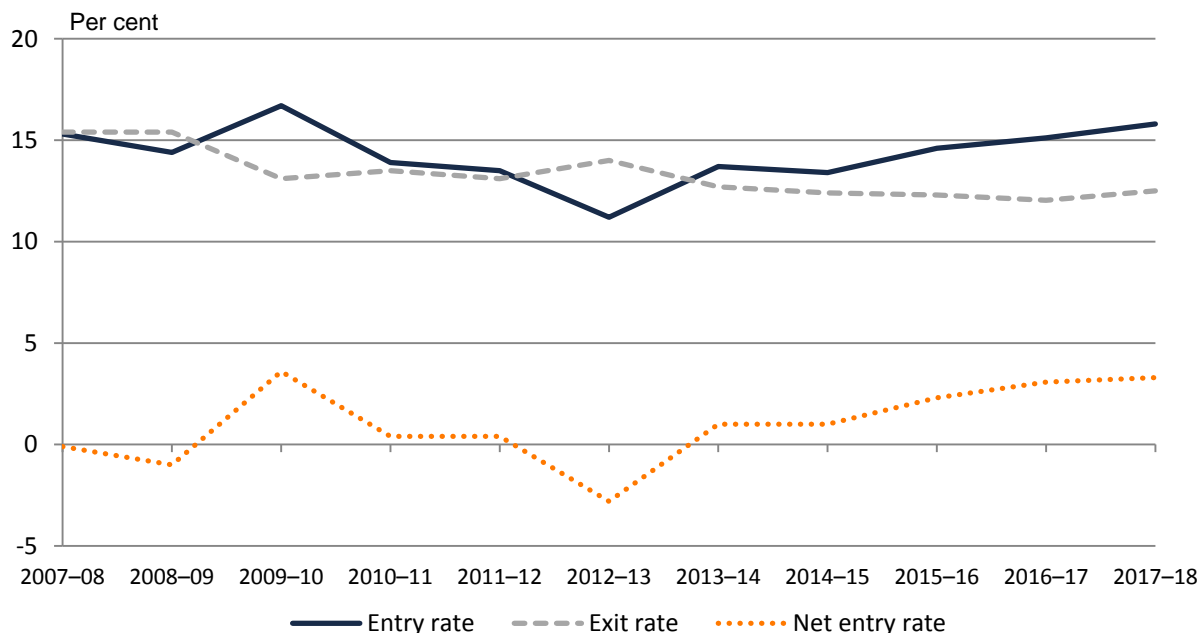
[108] There were a number of submissions concerning the significance and causes of the decline in the wages share and the rise in the profits share. The Australian Government observed that the wages share has declined in many countries, falling by 1.0 percentage point between 1995 and 2014 across OECD countries.<sup>87</sup> However, the ACTU pointed out that the decline in the wages share in Australia has been much greater than the OECD average.<sup>88</sup>

[109] Recent analysis by the RBA discussed the impact of the housing and financial sectors on the long-term decline in the aggregate wages share.<sup>89</sup> The increase in capital income earned in the housing sector was found to be an important reason for the rise in the aggregate capital share due to a higher share being paid in rents.<sup>90</sup> This includes both rents paid to landlords and imputed rents to homeowners in the form of an increased value of housing services.<sup>91</sup> Since the 1990s, this has been fully explained by an increase in the value of land and dwellings relative to total factor income.

[110] According to the research, the financial sector has undergone significant structural change, with investment in labour-saving technology leading to high productivity growth above the all market industries average. This has translated into a decline in the wages share (and rising capital income/profits), to the extent that if the financial sector is removed from the data, the aggregate wages share has been unchanged since 1990.<sup>92</sup> Across other industries, the labour share has varied with the largest increases typically in the services sector. While the exercise of removing the financial sector from the all market industries average highlights that sector's distinctive behaviour, it should not be removed from the aggregate data for the purposes of considering the appropriate level of the NMW and modern award minimum wages.

[111] Chart 2.9 shows that, since 2012–13, the business entry rate has increased as the exit rate has declined. This has resulted in a positive net entry rate since 2013–14. The net entry rate in 2017–18 was the highest since 2009–10, due to both a relatively high entry rate and relatively low exit rate.

**Chart 2.9: Business entry, exit and net entry rates**



Source: Statistical report, Chart 3.4; ABS, *Counts of Australian Businesses, Including Entries and Exits*, various, Catalogue No. 8165.0.

Note: Entry rates are business entries in the financial year as a proportion of total businesses operating at the start of the financial year. Exit rates are total business exits in the financial year as a proportion of total businesses operating at the start of the financial year. Net entry rates are the difference between the entry and exit rates, and represent the percentage growth in the number of businesses over the respective financial year.

[112] Over the year to June 2018, business net entry rates were positive as entry rates were higher than exit rates across all industries except for two, Agriculture, forestry and fishing and Mining, while entry and exit rates were equal in Retail trade (Table 2.4). This compares to the year to June 2017, when exit rates were higher than entry rates in 3 industries.<sup>93</sup>



**Table 2.4: Business entry and exit rates by industry, 2017–18**

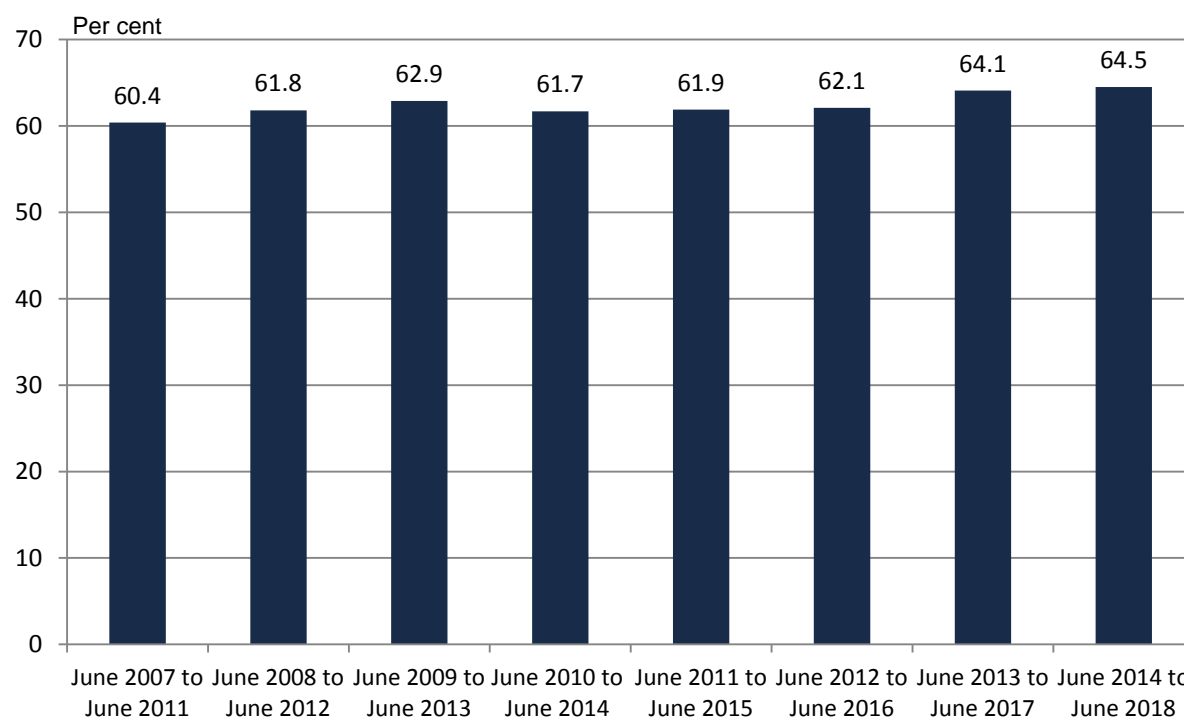
	<b>Proportion of businesses at June 2018 (%)</b>	<b>Entry rate (%)</b>	<b>Exit rate (%)</b>
Agriculture, forestry and fishing	7.6	7.2	8.1
Mining	0.3	11.8	12.3
Manufacturing	3.7	11.8	11.2
Electricity, gas, water and waste services	0.3	17.6	12.8
Construction	16.7	17.1	14.1
Wholesale trade	3.5	13.7	12.7
Retail trade	5.7	13.8	13.8
Accommodation and food services	4.1	18.1	16.5
Transport, postal and warehousing	7.7	33.6	16.8
Information media and telecommunications	1.0	18.8	15.5
Financial and insurance services	9.1	12.9	9.3
Rental, hiring and real estate services	11.0	11.4	9.5
Professional, scientific and technical	12.2	16.7	13.4
Administrative and support services	4.0	21.5	15.9
Public administration and safety	0.3	20.5	17.0
Education and training	1.4	18.0	14.0
Health care and social assistance	5.9	13.1	8.6
Arts and recreation services	1.2	16.9	13.4
Other services	4.3	16.1	12.8
<b>All industries</b>	<b>100.0</b>	<b>15.8</b>	<b>12.5</b>

Source: Statistical report, Table 3.5; ABS, *Counts of Australian Businesses, Including Entries and Exits, June 2014 to June 2018*, Catalogue No. 8165.0.

Note: Entry rates are business entries in the financial year as a proportion of total businesses operating at the start of the financial year. Exit rates are total business exits in the financial year as a proportion of total businesses operating at the start of the financial year. Only data for those businesses that were able to be classified to an industry division are presented. Of all businesses that were actively trading as at June 2014 and June 2018, 1.1 per cent and 0.9 per cent, respectively, were not classified to an industry.

[113] Chart 2.10 shows the survival rates of businesses across 4-yearly intervals, beginning from 2007. The proportion of businesses that were still trading 4 years later was highest in the most recent period (June 2014 to June 2018). In fact, the highest survival rates of over 64 per cent were recorded in the 2 most recent periods and are high in historical terms, but the available statistics are only to June 2018 and may not necessarily reflect current conditions.

**Chart 2.10: Business survival rates**



Source: Statistical report, Chart 3.5; ABS, *Counts of Australian Businesses, Including Entries and Exits*, various, Catalogue No. 8165.0.

Note: A surviving business is defined as a business which was actively trading in the first period and continued to be trading in the second period.

**[114]** The ACTU submitted that the Panel should take into account the legislated changes to the instant asset write off scheme, which increased from \$20 000 to \$25 000 in January 2019, and to \$30 000 from 2 April 2019, as announced in the 2019–20 Budget, with the threshold extended from a turnover of \$10 million to \$50 million.<sup>94</sup> We do not intend to take this into account in this year’s Review since there is necessarily no data concerning the effect these changes will have on business profitability or survival rates. That is a matter which may arise for further consideration in next year’s Review.

**[115]** Ai Group submitted that while Australia’s global competitiveness has improved due to a sustained decline in the Australian dollar, Australia continues to have high labour costs relative to other countries, with the minimum wage being the second highest globally in 2017.<sup>95</sup> As we discussed in the previous Review, separate from our consideration of business profitability and survival, productivity, and the effect which minimum wage increases have had upon employment, ‘[i]t is not clear from the submissions how the broader issues of international competitiveness should bear upon our present considerations’.<sup>96</sup> We do not consider that Ai Group’s submissions, or that of any other party, in this Review have taken this matter any further.

### **Small business and surveys of business performance**

**[116]** The general object of the Act directs us to provide a balanced framework for cooperative and productive workplace relations, which promote national economic prosperity and social inclusion for all Australians by, amongst other things, acknowledging the special circumstances of small and medium-sized businesses.<sup>97</sup> In this context the following characteristics of small businesses and their employees may be derived from factual

information contained in the submissions of the Australian Government, ACTU and Australian Chamber of Commerce and Industry (ACCI) and in the Statistical report:

- small businesses accounted for nearly 98 per cent of all businesses, but only around 36 per cent of small businesses were employing businesses;<sup>98</sup>
- small businesses accounted for a greater proportion of employment compared with output in almost every industry, suggesting that they are more labour intensive (and have lower productivity) than larger businesses;<sup>99</sup>
- labour costs for small employing businesses accounted for around 17 per cent of total expenses in 2016–17;<sup>100</sup>
- small businesses accounted for around 34 per cent of all award-reliant employees in May 2018, with 35 per cent of employees in small businesses being award reliant, a higher proportion than for medium-sized businesses (20–49 employees) (32 per cent) and larger businesses (100–999 employees) (17 per cent);<sup>101</sup>
- small businesses had lower survival rates than larger businesses between June 2014 and June 2018;<sup>102</sup>
- average hourly wages for employees in small businesses were 24.6 per cent lower than for employees in larger businesses;<sup>103</sup>
- small businesses operate in every industry, but represent a larger proportion of output and employment in Agriculture, forestry and fishing; Rental, hiring and real estate services; and Construction, and a smaller proportion in Mining; Electricity, gas, water and waste services; and Information media and telecommunications;<sup>104</sup>
- small businesses were more likely to employ a higher proportion of entry-level award-reliant and minimum wage employees than larger businesses, and are likely to be ‘more sensitive to these wage increases’;<sup>105</sup>
- average hourly wages for award-reliant employees in small businesses were 19 per cent lower than for award-reliant employees in larger businesses;<sup>106</sup> and
- small businesses had higher profit margins than for all businesses over the 5 years to 2016–17.<sup>107</sup>

[117] The Panel has previously considered relevant business surveys that the Australian Government and RBA believe to ‘be quite reliable predictors of output and employment growth.’<sup>108</sup> In its May 2019 *Statement on Monetary Policy*, the RBA found that ‘[b]usiness employment intentions remain above average according to the NAB quarterly survey and the Bank’s liaison program’<sup>109</sup> and that ‘[s]urvey measures of expected capital expenditure and business conditions remain at or above average levels, despite easing over the past year’.<sup>110</sup>

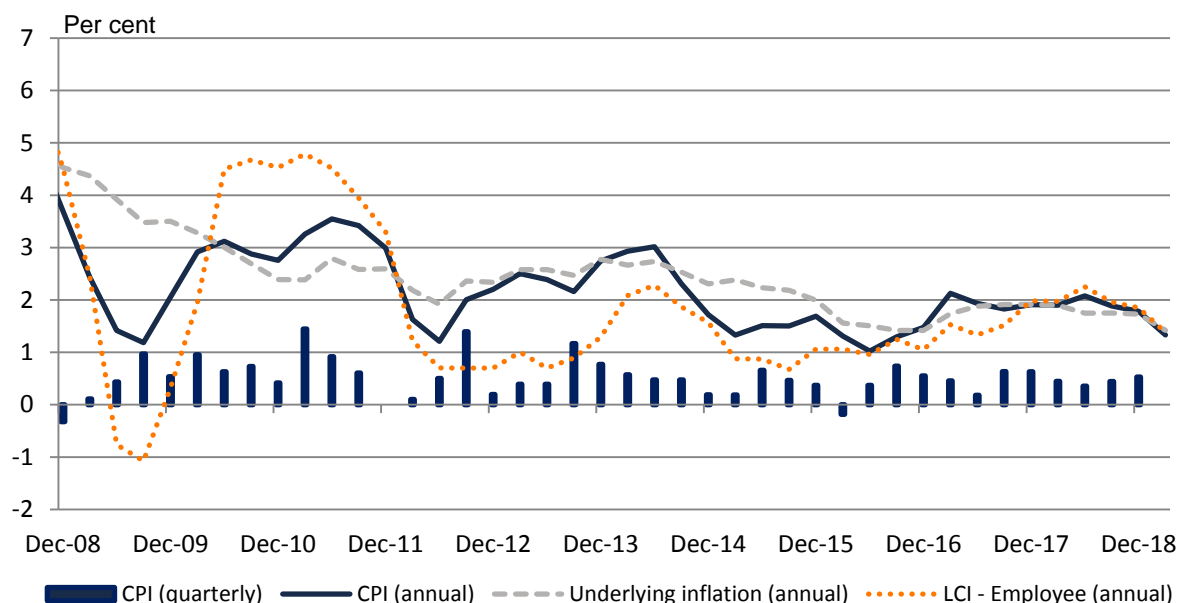
## Inflation and wages

[118] Similar to last year, this Review is being conducted during a sustained period of low inflation and low wages growth, which is discussed in the following section.

### Inflation

[119] Chart 2.11 shows that inflation remains low and has declined since the middle of 2018 across each measure. The CPI headline rate increased by 1.3 per cent and underlying inflation, measured by the trimmed mean, was 1.6 per cent over the year to the March quarter 2019.<sup>111</sup> The LCI for employee households increased by 1.4 per cent over the year to the March quarter 2019. Accordingly, the measures of inflation are broadly consistent. The Australian Government identified a number of explanations for the relatively low levels of inflation, one of which was slow growth in labour costs.<sup>112</sup>

**Chart 2.11: Measures of inflation—CPI, underlying inflation and LCI for employee households**



Source: Statistical report, Chart 4.1; ABS, *Consumer Price Index, Australia, Mar 2019*, Catalogue No. 6401.0; ABS, *Selected Living Cost Indexes, Australia, Mar 2019*, Catalogue No. 6467.0.

Note: CPI and LCI for employee households data are expressed in original terms. Underlying inflation is calculated as the average of the trimmed mean and weighted median.

[120] The inflation data for the March quarter appear to be an aberration. The zero result for headline inflation was only the third time that quarterly headline inflation was either zero or negative in the last 10 years. The result for the trimmed mean was also relatively low and was the lowest quarterly increase since the March quarter 2016.<sup>113</sup> A major reason for low headline inflation in this quarter was a fall in the price of automotive fuel (–8.7 per cent).<sup>114</sup> According to the RBA, the slowing in the housing market and government cost-of-living initiatives were ‘important factors’ for the low underlying inflation rate.<sup>115</sup>

[121] The RBA forecasts underlying inflation (trimmed mean) to increase by 1½ per cent over the year to the June quarter 2019, which would require an increase of 0.5 per cent in the June quarter 2019.<sup>116</sup> The forecast for underlying inflation over the year to the December

quarter 2019 is 1¾ per cent and 2 per cent over the year to the June quarter 2020.<sup>117</sup> The RBA forecast headline inflation to be 1¾ per cent over the year to the June quarter 2019 and in its May 2019 *Statement on Monetary Policy* notes:

‘The partial rebound in oil prices in recent months has led to an upward revision to the forecast for headline inflation in the June quarter. The 12 per cent increase in fuel prices in the June quarter to date is expected to add around 0.4 percentage points to headline inflation in the quarter. Headline inflation is expected to reach 2 per cent in the second half of 2019 and increase modestly after that.’<sup>118</sup>

[122] The RBA’s revised forecasts were made after the release of the March quarter inflation data, further evidence that the March quarter outcome is anomalous. While the current headline and underlying inflation rates are lower than at the same time last year, both measures are likely to rise during the period when any adjustment will operate.

[123] In the period during which any increases in the NMW and modern award minimum wages we determine will operate it is likely that underlying inflation will be between 1¾ and 2 per cent.

### Wages

[124] Over the last year, wages growth has picked up only slightly and remains low, with the WPI having increased by 2.3 per cent in the 12 months to the March quarter 2019.<sup>119</sup> This is slightly above the corresponding figure for 2018 (2.1 per cent), and the 5-year average (2.1 per cent), but below the 10-year average (2.7 per cent). In the December quarter 2018, the average annualised wage increase (AAWI) for federal enterprise agreements approved in the quarter was 3.0 per cent. Average weekly ordinary-time earnings (AWOTE) increased by a relatively low 2.4 per cent. However, due to the decline in the inflation rate these low rates of increase in nominal wages have translated into a higher rate of increase in real wages. We discuss this further in Chapter 3. Consistent with our expectation in the 2017–18 Review decision,<sup>120</sup> wages have grown more slowly than forecast in the 2018–19 Budget.

[125] The reasons for the persistent low rate of growth in nominal wages remain ‘somewhat puzzling’.<sup>121</sup> Research by Commission staff undertaken for this Review (Research Report 1/2019—*Developments in wages growth*) provides some background and detail on the various wage measures and summarises attempts by researchers to determine the main causes.<sup>122</sup>

[126] In its summary of research on the reasons for low wages growth, the report mainly focused on Australian studies or those covering advanced economies. Many of these studies examined whether short-term cyclical factors that are generally associated with wages growth, such as inflation, productivity and labour market spare capacity, are relevant causes. However, while some papers did find these factors to be important, it was concluded that they did not provide a full explanation for low wages growth. The focus of some other studies covered in the research report was on longer-term structural factors such as job security, advances in technology and shifts in bargaining power. Again, none of these factors could provide definitive reasons for low wages growth.<sup>123</sup>

[127] Research by Bishop (2018) (updating previous research) on quarterly WPI data found that the average frequency of wage changes had increased between 2016 and 2018, accounting for all of the increase in aggregate wage growth, although the average size of

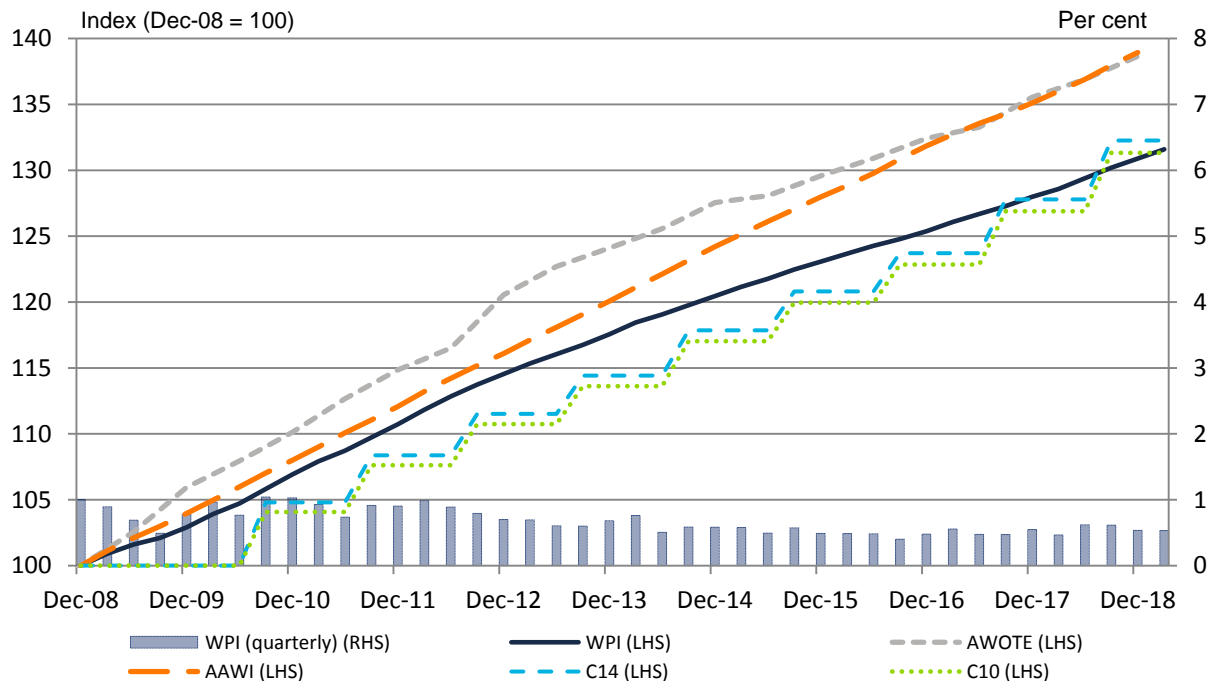
wage increases remained similar to that in 2016.<sup>124</sup> The analysis found an increase in the proportion of jobs receiving wage increases of between 3 and 4 per cent and suggested that part of the reason was due to Review decisions to increase the NMW and modern award minimum wages by 3.3 per cent in 2017 and 3.5 per cent in 2018.

**[128]** Further analysis of quarterly WPI data was undertaken by the Australian Bureau of Statistics (ABS) (Page 2018), focusing on growth across methods of setting pay using microdata from the WPI which are not publicly available. This analysis provides some further information as to why recent increases awarded in Reviews have not translated to higher growth in the WPI.<sup>125</sup>

**[129]** Page (2018) found that, since 2009, wage increases in collective agreements had made the largest contribution to wage growth, followed by wage increases in individual arrangements and modern award minimum wages. In 2017, the most recent year analysed, the contribution from modern award minimum wages was found to be 10.7 per cent, which was the largest contribution since 2006, and up from 6.9 per cent in 2014. This compared with a contribution of almost 50 per cent from collective agreements and around 40 per cent from individual arrangements.<sup>126</sup> This helps to explain why recent Review decisions appear not to have had a significant effect on the WPI, although it does not explain why they have had little apparent aggregate effect even in the most award-reliant industries.

**[130]** Chart 2.12 shows that the cumulative growth in C14 and C10 over the past decade has matched the growth in the WPI, while growth in AWOTE has been similar to that of AAWI and each have exceeded the growth in the C14 and C10 rates. Over the past two years, growth in the NMW and modern award minimum wages has exceeded the growth in previous Reviews.

**Chart 2.12: Measures of nominal wages growth, quarterly and cumulative percentage changes, index**



Source: Statistical report, Chart 5.1; ABS, *Average Weekly Earnings, Australia, Nov 2018*, Catalogue No. 6302.0; ABS, *Wage Price Index, Australia, Mar 2019*, Catalogue No. 6345.0; Department of Job and Small Business, *Trends in Federal Enterprise Bargaining*, September quarter 2018, <<http://employment.gov.au/trends-federal-enterprise-bargaining>>; *Metal, Engineering and Associated Industries Award 1998*; *Manufacturing and Associated Industries and Occupations Award 2010*.

Note: AWOTE estimates refer to full-time adult employees. The AAWI index is calculated by first deriving a quarterly rate from the AAWI per employee for agreements approved in the quarter for all sectors. The C14 and the C10 are minimum award rates set under the Manufacturing and Associated Industries and Occupations Award 2010 and the former Metal, Engineering and Associated Industries Award 1998. AWOTE data are published half-yearly for May and November, hence, a quarterly series has been derived. AWOTE data are expressed in original terms.

[131] The RBA expects wages growth to increase gradually, but to continue to be constrained by, among other things, ‘changes in competitive dynamics such as globalisation’.<sup>127</sup>

[132] A number of submissions raised issues concerning the relationship between the consumer wage, producer wage and labour productivity. The Australian Government submitted that growth in the real minimum wage has outpaced labour productivity growth in recent years.<sup>128</sup> The Australian Government also contended that the real producer wage has grown at a similar rate to the period before the mining boom, while the real consumer wage has been ‘broadly flat since 2011’ and would be expected to grow less than labour productivity during the adjustment from the mining boom.<sup>129</sup> The Australian Government also submitted that the divergence between labour productivity and wages growth over the preceding cycle (2003–04 to 2011–12) was linked to the mining boom, but also that labour productivity and wages growth have been more closely aligned over the current incomplete cycle.<sup>130</sup>

[133] The ACTU argued that the growth in low and median wages has ‘decoupled’ from growth in productivity:<sup>131</sup>

‘The OECD reports that Australia is one of several countries which “have been grappling not only with slow productivity growth but have also experienced a slowdown in real average wage growth relative to productivity growth, which has been reflected in a falling share of wages in GDP. At the same time, growth in low and median wages has been lagging behind average wage growth, contributing to rising wage inequality. Together, these developments have resulted in the decoupling of growth in low and median wages from growth in productivity.”’<sup>132</sup>

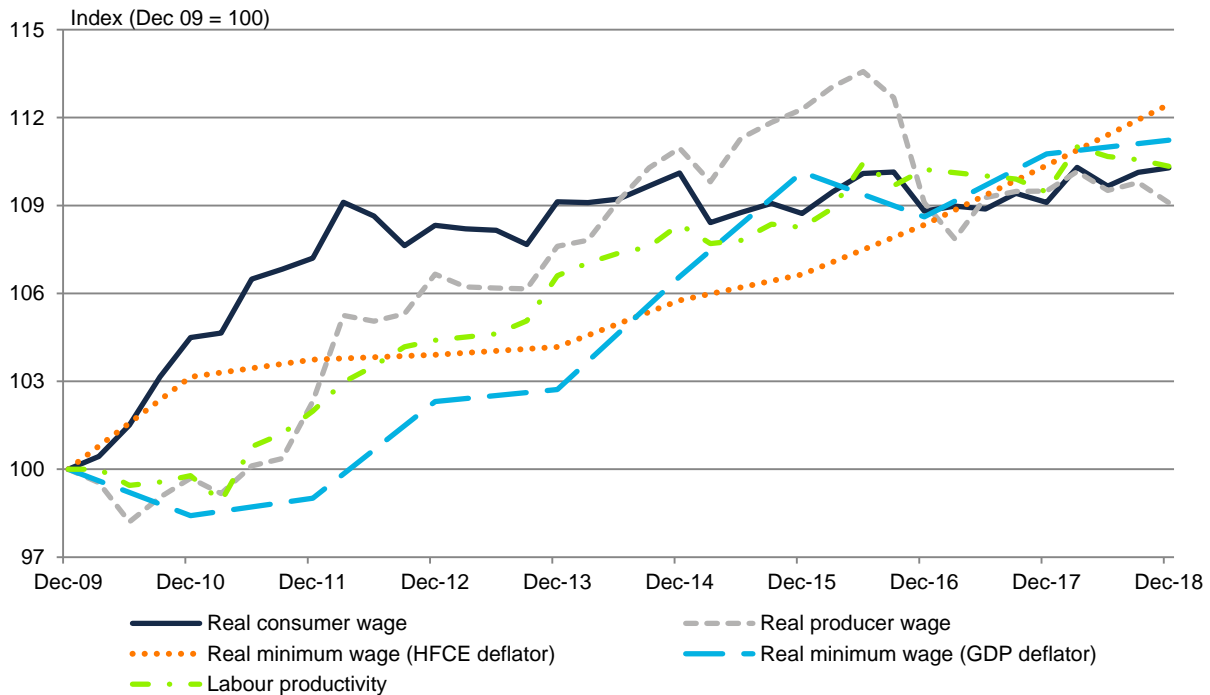
**[134]** In contrast, ACCI argued that weak labour productivity growth over the past 7 years has likely contributed to weak wages growth<sup>133</sup> and, in response to a question on notice regarding research by the RBA on the labour and capital shares of income, submitted that the divergence between consumer wages and labour productivity ‘appears to be a temporary phenomenon’ and that some of the stagnation in consumer wages over recent years is due to the unwinding of the mining boom.<sup>134</sup> Australian Business Industrial and the NSW Business Chamber Ltd (ABI and NSWBC) contended that productivity growth has been lower than wages growth over recent years.<sup>135</sup>

**[135]** Chart 2.13 shows movements in the consumer wage (the average real wage deflated by the prices facing consumers—i.e. the wage as an income) and the producer wage (average real wage deflated by the prices facing firms—i.e. the wage as a cost) compared to growth in labour productivity over the last decade, and also tracks movements in the ‘consumer minimum wage’ and the ‘producer minimum wage’. It shows that after a period from about 2011 to 2016, when the producer wage grew faster than labour productivity, there has been a greater alignment between them in the last few years. It also shows that the ‘producer minimum wage’ fell behind labour productivity for the first half of the decade before coming into a rough alignment from about 2015.

**[136]** The volatility of the terms of trade, including its consequences for the exchange rate, have caused an unusual divergence between the prices that face producers for the goods that they sell and the prices paid by consumers for the goods that they buy. This divergence is clearly apparent in the years 2009–2016, when the consumer wage has moved quite differently from the producer wage. For much of this period, both series rose faster than labour productivity, giving a particular benefit to wage earners and increasing labour costs for firms. Conversely the real minimum wage rose by less than labour productivity for most of the same period, both as an income to wage earners and as a cost to firms. Over the past 2 years, the series have resumed a more normal relation with each other, and the rate of increase in both measures of the real value of the minimum wage has caught up with the increases in labour productivity. They are broadly aligned also with both measures of the average wage.



**Chart 2.13: Real wages and whole-of-economy labour productivity, December quarter 2009 to December quarter 2018**



Source: Statistical report, Chart 5.4; ABS, *Australian National Accounts: National Income, Expenditure and Product, Dec 2018*, Catalogue No. 5206.0; *Manufacturing and Associated Industries and Occupations Award 2010*.

Note: The real consumer wage is AENA per hour deflated by the household consumption deflator; the real producer wage is AENA per hour deflated by the GDP deflator; labour productivity is GDP per hour worked; the real minimum wage is the C14 rate deflated by either the GDP deflator or the household consumption deflator.

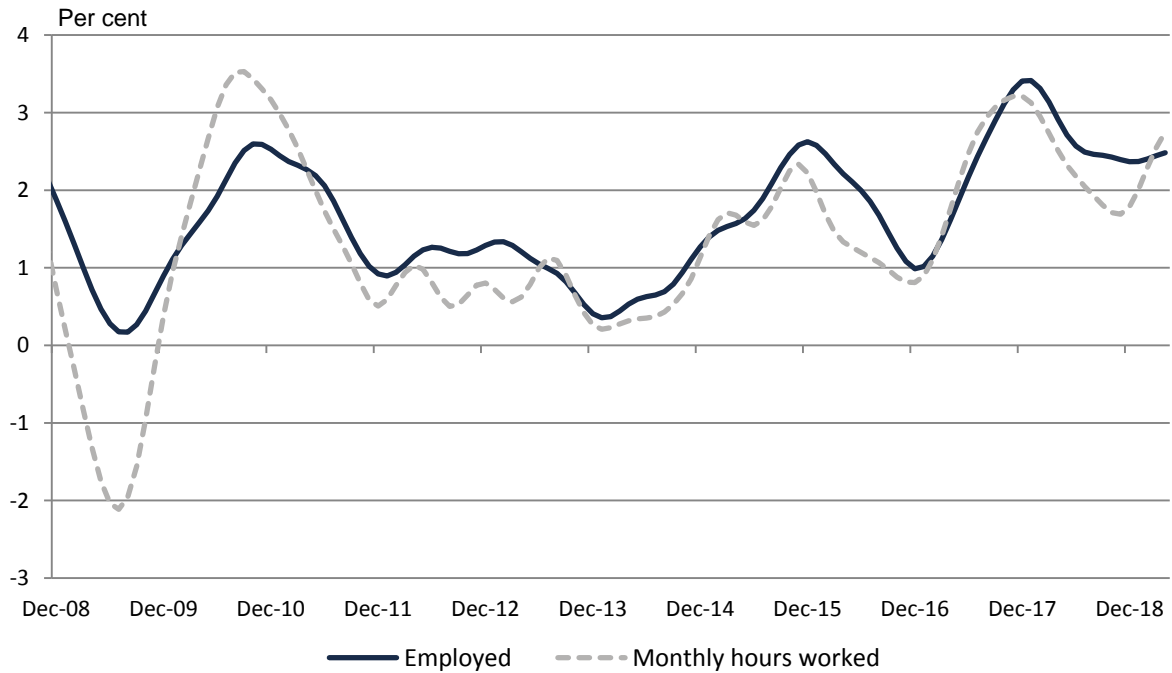
## Labour market

[137] Consistent with the approach taken in recent Review decisions,<sup>136</sup> we assess the state of the labour market using data concerning employment, hours worked, workforce participation and other relevant indicators.

### Employment and hours worked

[138] Growth in employment and hours worked is shown in Chart 2.14. Over the year to April 2019, the number of employed persons increased by 2.5 per cent. Although lower than at the time of the last Review, employment growth is above its 5-year average (2.2 per cent).<sup>137</sup> Growth in hours worked rebounded to 2.8 per cent over the year to April 2019, above its 5-year average (2.0 per cent).

**Chart 2.14: Employed persons and monthly hours worked, annual growth rates**

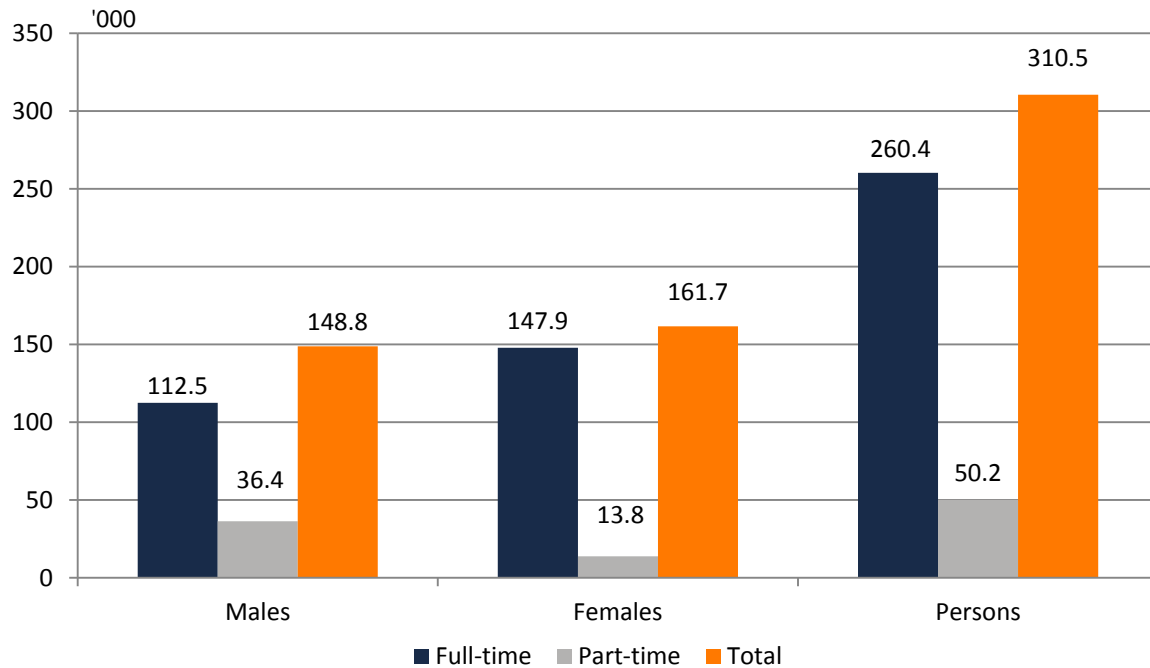


Source: Statistical report, Chart 6.3; ABS, *Labour Force, Australia, Apr 2019*, Catalogue No. 6202.0.

Note: Data are expressed in trend terms.

[139] Chart 2.15 shows the changes across full-time and part-time employment and by gender over the year to April 2019. Total employment increased by 310 500 persons over the year, with 84 per cent of the increase attributable to full-time employment, more than 10 percentage points above the proportion reported in the previous Review.<sup>138</sup> Total employment growth was higher among females (161 700 persons or 2.8 per cent) than males (148 800 persons or 2.2 per cent). Conversely, almost three-quarters of the growth in part-time employment came from males, with part-time employment increasing by 3.0 per cent for males compared with 0.5 per cent for females.

**Chart 2.15: Change in full-time, part-time and total employment by gender, April 2018 to April 2019**



Source: Statistical report, Chart 6.5; ABS, *Labour Force, Australia, Apr 2019*, Catalogue No. 6202.0.

Note: All data are expressed in trend terms.

**[140]** Employment increased across the majority (13) of the 19 industries over the year to February 2019 (Table 2.5). The highest increases were in Public administration and safety (14.6 per cent) and in Mining (10.3 per cent).

**[141]** Employment grew in all award-reliant industries over the year to the February quarter 2019 except for Retail trade, which fell by 0.9 per cent. The yearly employment growth figures for Retail trade have proved volatile in recent years, with employment having fallen in the 12 months to February 2017 and then risen strongly the following year before falling again. As discussed later in the context of award-reliant industries, we consider the likely explanation for this to be disruption caused to the industry by technological change, international competition and the ‘growing online marketplace’,<sup>139</sup> and intense competitive pressures within the industry itself. Other services (6.6 per cent) and Accommodation and food services (2.4 per cent) experienced employment growth above the all industries average (2.3 per cent), while growth in Health care and social assistance (1.6 per cent) and Administrative and support services (1.4 per cent) was below the average.

**Table 2.5: Employment by industry, selected periods**

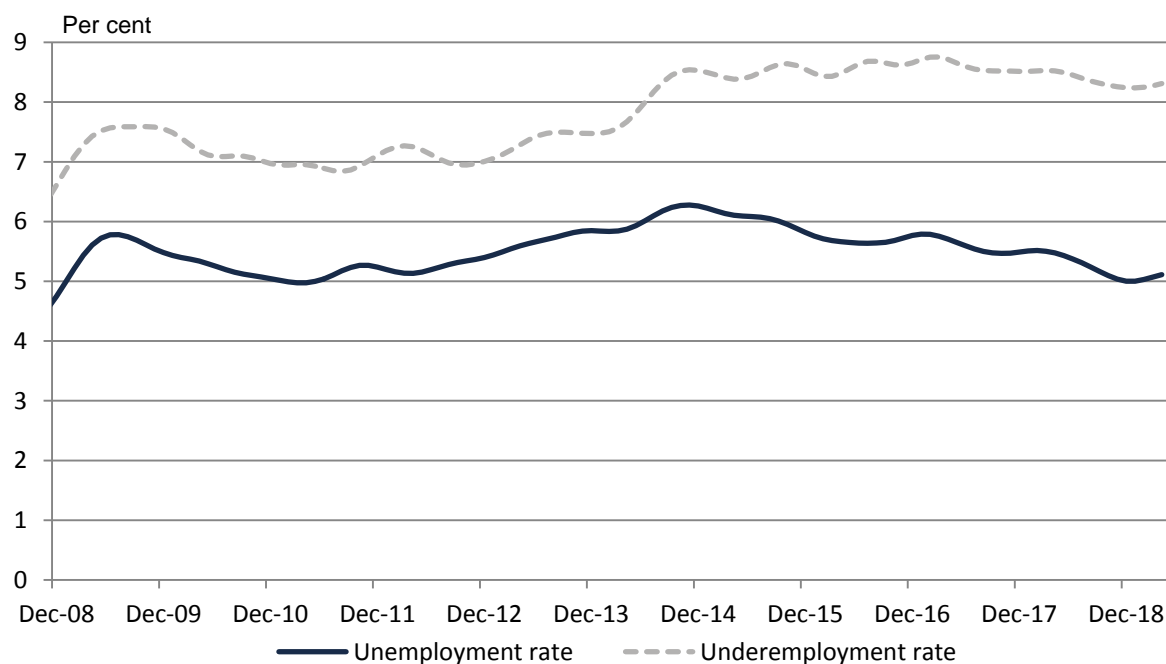
	Average annual growth rates (%)	Annual percentage changes (%)		
	Feb-09 to Feb-19	Feb-17	Feb-18	Feb-19
Agriculture, forestry and fishing	-0.6	-5.6	8.4	2.3
Mining	3.9	1.8	2.2	10.3
Manufacturing	-1.4	3.0	1.7	-5.4
Electricity, gas, water and waste services	1.2	-1.8	8.6	0.8
Construction	1.6	4.7	7.8	-2.5
Wholesale trade	-0.1	-4.8	0.5	7.0
Retail trade	0.6	-2.5	4.2	-0.9
Accommodation and food services	2.4	3.8	1.9	2.4
Transport, postal and warehousing	1.1	0.1	2.6	4.1
Information media and telecommunications	-0.2	1.6	1.5	-0.9
Financial and insurance services	1.2	1.6	-1.2	2.8
Rental, hiring and real estate services	1.4	-2.5	2.0	-0.8
Professional, scientific and technical services	3.8	-1.1	2.5	7.7
Administrative and support services	1.9	-1.5	-2.3	1.4
Public administration and safety	2.5	3.3	-3.1	14.6
Education and training	2.6	5.6	3.7	1.1
Health care and social assistance	4.0	2.7	6.0	1.6
Arts and recreation services	1.9	-6.4	14.8	-1.3
Other services	1.4	3.4	-0.9	6.6
<b>All industries</b>	<b>1.7</b>	<b>1.6</b>	<b>3.2</b>	<b>2.3</b>

Source: Statistical report, Table 6.3; ABS, *Labour Force, Detailed, Quarterly, Feb 2019*, Catalogue No. 6291.0.55.003.

Note: All data are expressed in trend terms.

### Unemployment and underemployment

[142] As employment grew over the year to April 2019, the unemployment rate declined by 0.4 percentage points to 5.1 per cent and is below its five-year average of 5.7 per cent.<sup>140</sup> The underemployment rate decreased to a lesser degree, falling 0.2 percentage points to 8.3 per cent over the same period to also be below its five-year average (8.5 per cent). While the unemployment rate has declined since 2014, the underemployment rate only began to decline from 2017.

**Chart 2.16: Unemployment and underemployment rates**

Source: Statistical report, Chart 6.1; ABS, *Labour Force, Australia, Apr 2019*, Catalogue No. 6202.0.

Note: Data are expressed in trend terms.

[143] The submissions made in this Review and in recent previous Reviews have raised issues concerning the extent to which the underemployment rate (as distinct from the unemployment rate) is demonstrative of spare capacity in the labour market, and whether the underemployment rate should be considered the primary indicator in this respect. In particular, Ai Group submitted that:

‘[I]n the past five or so years, the Australian labour market appears to have passed a tipping point where it [is] now the case that underemployment rather than unemployment is the more relevant indicator of labour market outcomes.’<sup>141</sup>

[144] These submissions have been advanced against a background in which the underemployment rate as measured by the ABS has risen relative to the unemployment rate.

[145] These submissions use a headcount measure of underemployment—that is, the number of persons who are employed part time but say they want to work more hours. As we pointed out in the 2016–17 Review decision,<sup>142</sup> that measure suffers from two difficulties. First, it does not take into account the *number* of additional hours such persons may want to work, which will usually be less than the number of hours of work sought by an unemployed person. Second, a person does not have to be actively searching for more hours of employment in order to be counted as underemployed. By contrast, to be counted as unemployed, a person must be actively seeking work.

[146] The RBA has developed an alternative volume-based measure of underutilisation which measures the sum of hours of work sought by unemployed people and additional hours of work *actively* sought by underemployed workers, as a share of total hours worked and actively sought.<sup>143</sup> This creates a more reliable indicator of spare capacity in the labour market and leads us to conclude, as the RBA has,<sup>144</sup> that the unemployment rate is the primary

indicator of labour market spare capacity.<sup>145</sup> The addition of underemployment to unemployment does not alter the understanding of changes in the degree of spare capacity in the labour market. However there is no doubt that the underemployment rate is indicative of a degree of spare capacity, and is likely to be contributing to the suppression of wages growth.

[147] Despite the growth in employment and the decline in unemployment and underemployment, nominal wage growth as we have earlier observed remains historically low. This tends to support the proposition that the rate of full employment in Australia has fallen in recent years, meaning that at 5 per cent unemployment there may remain more spare capacity in the labour market than may previously have been the case with unemployment at that level.<sup>146</sup>

### **Youth unemployment**

[148] The youth unemployment rate fell 0.2 percentage points over the year to April 2019 to be 11.8 per cent, below its five-year average of 12.6 per cent.<sup>147</sup> In the 2017–18 Review decision, we stated that ‘[o]ver the year to April 2018, the youth unemployment rate fell by 0.3 percentage points to 12.6 per cent...’<sup>148</sup> However the figure of 12.6 per cent for April 2018 was subsequently revised downwards to 12.0 percent.<sup>149</sup> Short-term fluctuations in the data may be obscuring longer-term improvements in the youth labour market that are broadly consistent with the level of improvement in the general labour market. The RBA has highlighted that youth unemployment has ‘historically been higher than for the rest of the population’.<sup>150</sup>

[149] The Panel has previously noted that youth unemployment is generally more sensitive to demand or supply shocks affecting aggregate unemployment.<sup>151</sup> This is a sentiment that has been reiterated by the RBA recently:

‘The youth labour market is distinct from the overall labour market because younger workers are most likely to be new entrants transitioning into the workforce with minimal skills and experience. Accordingly, they are more exposed to cyclical swings in the economy than other parts of the labour market. They may also be more exposed to structural changes in the labour market.’<sup>152</sup>

[150] Labour dynamics for younger people are also distinct and characterised by lower labour force participation, and higher levels of part-time work (associated with higher shares of participation in full-time study since the 1980s).<sup>153</sup>

### **Long-term unemployment**

[151] Long-term unemployment fell by 10.1 per cent over the year to April 2019, and while lower compared with last year’s Review,<sup>154</sup> remains relatively high as a proportion of all unemployed persons (22.7 per cent) (Table 2.6).

**Table 2.6: Long-term unemployment**

Month	Long-term unemployed (’000s)	Change over year (%)	Long-term unemployment ratio (%)
Dec-08	74.2	6.6	13.7
Dec-09	107.1	44.4	17.1
Dec-10	113.3	5.8	19.2
Dec-11	115.1	1.6	18.5
Dec-12	118.5	3.0	18.3
Dec-13	147.5	24.4	20.6
Dec-14	176.2	19.5	22.7
Dec-15	168.3	−4.5	22.7
Dec-16	173.8	3.3	23.9
Dec-17	170.8	−1.7	23.6
Dec-18	161.0	−5.8	23.9
Apr-19	158.1	−10.1	22.7

Source: Statistical report, Table 6.10; ABS, *Labour Force, Australia, Detailed—Electronic Delivery, Apr 2019*, Catalogue No. 6291.0.55.001.

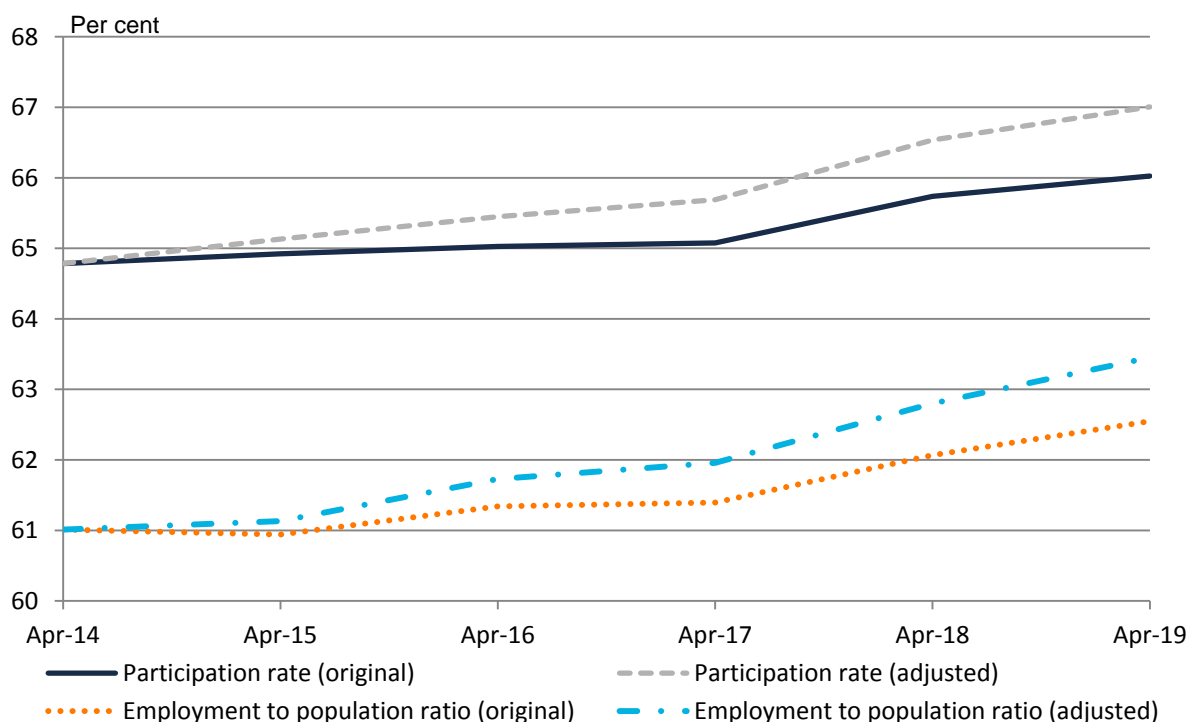
Note: Data are trend estimates. The long-term unemployed refers to the number of persons unemployed for 52 weeks or more. The long-term unemployment ratio refers to the number of long-term unemployed persons expressed as a percentage of the total unemployed population. The percentage change is calculated in relation to the corresponding month in the previous year.

### Workforce participation

**[152]** Labour force participation was strong across 2018, remaining steady at a record high of 65.6 per cent for most of the year, and increasing to 65.7 per cent in April 2019.<sup>155</sup> Over the year to April 2019, the employment to population ratio among the adult working-age population (aged 20–64 years) increased by 0.8 percentage points. In December 2018 the employment to working-age population ratio reached a new high of 77.5 per cent.<sup>156</sup>

**[153]** Chart 2.17 shows the participation rate and employment to population ratio in original terms, and adjusted for the ageing of the population. The chart shows that, while both have increased, if there were no change in the age distribution of the working age population since April 2014, the participation rate and employment to population ratio would be 1.0 percentage point higher in April 2019. This is the same impact as reported in the last Review.<sup>157</sup>

**Chart 2.17: Age-adjusted participation rate and age-adjusted employment to population ratio**



Source: Statistical report, Chart 6.2; ABS, *Labour Force, Australia, Detailed—Electronic Delivery, Apr 2019*, Catalogue No. 6291.0.55.001.

Note: Data are expressed in original terms with only the April figure of each year shown. The age-adjusted participation rate is calculated using 10-year age groups, with the proportion of the population held fixed at January 2014 levels. It includes all persons aged 15 and over.

[154] For the purpose of understanding the strength of the labour market, the age-adjusted participation rate and employment to population ratio measures are preferred over those measures without an age adjustment because they capture the changes in the age composition of the population. As the chart shows, both employment and participation have risen since 2017, which is a very positive sign of strength in the labour market.

[155] Rather than do a full adjustment for the different propensities of each age group to be in the labour force or employed, a simplified adjustment to take account of the aging of the population has been used in previous decisions of the Panel in the form of the adult working-age population (20–64 years). Data using this simplified measure are available in the Statistical report.<sup>158</sup> They show that over the year to April 2019:

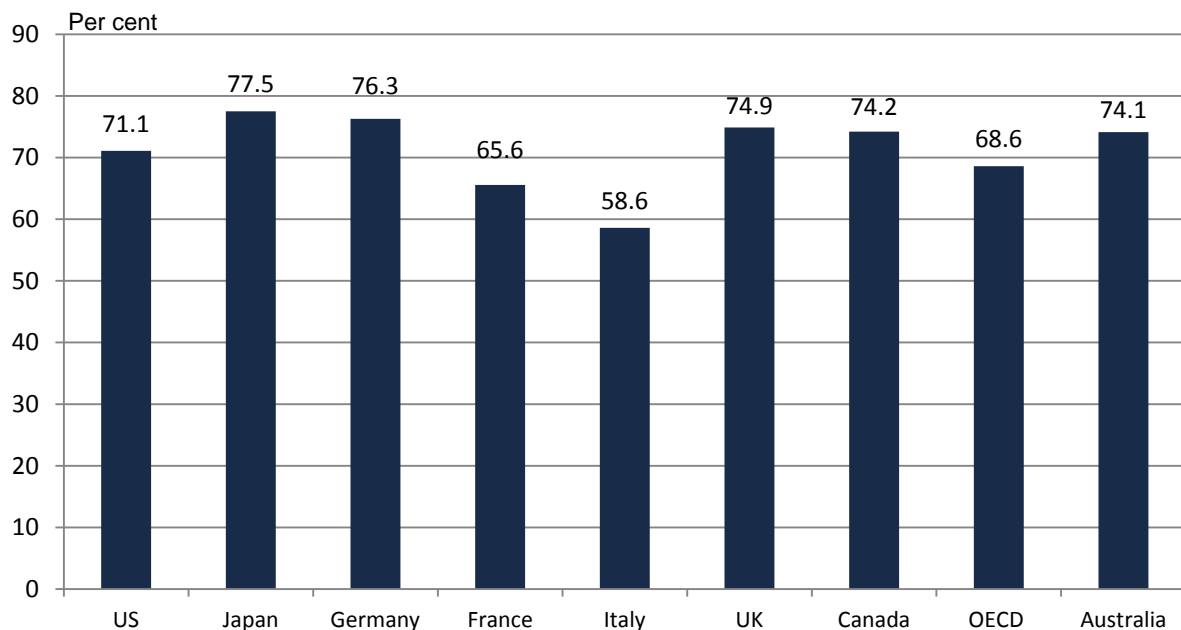
- the female working-age participation rate increased by 0.8 percentage points;
- the male working-age participation rate increased by 0.3 percentage points;
- the proportion of persons aged 20–64 years working full-time rose by 0.6 percentage points;
- the proportion of persons aged 20–64 years working part-time increased by 0.2 percentage points; and



- the proportion of persons aged 20–64 years who are employed increased by 0.8 percentage points.

[156] Chart 2.18 shows the employment to working-age population (this time defined as 15–64 years) ratio in Australia compared to the OECD average and G7 nations. The ratio in Australia is significantly higher than the OECD average. It is also significantly higher than the United States of America (US), which currently has a lower unemployment rate than Australia and has lower minimum wages.<sup>159</sup>

**Chart 2.18: International comparisons of employment to working age population, March quarter 2019**



Source: Statistical report, Chart 6.8; OECD (2019), *Employment rate*, <<https://data.oecd.org/emp/employment-rate.htm#indicator-chart>>.

[157] The broad-based growth in employment, particularly full-time employment, the lower unemployment rate, and the historically high working-age employment to population ratio and participation rate are all indicative of a strong labour market. No party identified any data which demonstrated adverse employment effects arising from the previous 2 Review decisions, each of which resulted in real wage increases for award- and NMW-reliant employees.<sup>160</sup>

### Labour market transitions

[158] The Australian Government again presented updated data from the Household, Income and Labour Dynamics in Australia (HILDA) survey on the duration in low-paid employment, for 2017 (the latest release). First, the Australian Government stated that ‘[o]ver a third (36 per cent) of people who enter the workforce do so by taking a low-paid job ... with 41 per cent of workers aged under 25, and 41 per cent of workers with year 12 qualifications and below’.<sup>161</sup>

[159] The updated data support the Panel’s conclusion in previous Reviews that about half of low-paid workers<sup>162</sup> spend less than a year in low-paid work before moving to higher-paid

work. The remainder either spend more than one year in low-paid work, or move from a low-paid job into unemployment or leave the labour force (Tables 2.7 and 2.8).<sup>163</sup>

**Table 2.7: Duration in low-paid employment**

<b>Duration</b>	<b>Less than 1 year</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>	<b>More than 5 years</b>
<b>Proportion</b>	66.2	18.0	13.3	2.5

Source: Australian Government submission, 15 March 2019 at p. 62, Table 7.1; HILDA Survey, release 17 (December 2018), balanced panels waves 1 to 17 with longitudinal weights.

Note: Data are 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. Low-paid is defined as earning less than two-thirds of the median hourly wage.

**Table 2.8: Destination on leaving low-paid employment, per cent**

<b>Duration in low-paid employment</b>	<b>Higher paid work</b>	<b>Left the labour force</b>	<b>Unemployment</b>
Less than 1 year	76.1	16.8	7.1
1 to 2 years	77.3	15.3	7.4
2 to 5 years	81.8	12.2	6.0

Source: Australian Government submission, 15 March 2019 at p. 62, Table 7.2; HILDA Survey, release 17 (December 2018), wave 17.

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

[160] Relying on the data presented in the 2017–18 Review,<sup>164</sup> ACCI submitted that ‘the Panel should take into account that only a very small proportion of the population rely on the minimum wage and those that do use it as a stepping-stone to higher paid work’.<sup>165</sup>

[161] In previous Reviews, the Panel has agreed that while low-paid employment is a pathway for many into higher-paid work, there are also many instances where this is not the case.<sup>166</sup> The Panel has previously stated, ‘[w]e cannot be indifferent to the standard of living of low-paid workers just because many do not stay in that situation for long periods.’<sup>167</sup> Nothing has been put to us in the current Review which would cause us to revisit this position.

### **Award-reliant industries**

[162] Based on the new data from the Survey of Employee Earnings and Hours (EEH) for 2018, the 5 most award-reliant industries are presented in Table 2.9 with a number of key indicators. We note that Health care and social assistance is now the 4<sup>th</sup> most award-reliant industry, overtaking Retail trade.<sup>168</sup> The Panel continues to use these data to assist with an understanding of the overall conditions of these industries<sup>169</sup> and they are also of utility in assessing the effects of previous Review decisions.

**Table 2.9: Economic indicators by award-reliant industries**

	Accommodation and food services	Administrative and support services	Other services	Health care and social assistance	Retail trade	All industries
Percentage of non-managerial employees reliant on award wages, May 2018 <sup>a</sup>	44.9	41.3	38.1	31.7	30.1	<b>22.5</b>
Gross value added: percentage growth over the year to December quarter 2018	0.9	4.9	3.1	8.1	1.4	<b>2.3</b>
Company gross operating profits: percentage growth over the year to December quarter 2018 <sup>b</sup>	20.5	4.8	19.0	n/a	1.8	<b>10.5</b>
Business entry rate, over year to June 2018	18.1	21.5	16.1	13.1	13.8	<b>15.8</b>
Business exit rate, over year to June 2018	16.5	15.9	12.8	8.6	13.8	<b>12.5</b>
Wage Price Index: percentage growth over the year to March quarter 2019 <sup>a</sup>	2.3	2.2	2.4	3.0	1.9	<b>2.3</b>
Percentage annual wage growth under new collective agreements December quarter 2018	2.7	2.8	2.6	3.0	3.3	<b>2.8</b>
Employment: percentage increase over the year to February quarter 2019	2.4	1.4	6.6	1.6	-0.9	<b>2.3</b>
Hours worked: percentage increase over the year to February quarter 2019	6.8	4.0	5.6	1.1	-2.9	<b>2.2</b>

Source: Statistical report, Table 7.2; ABS, *Australian National Accounts: National Income, Expenditure and Product, Dec 2018*, Catalogue No. 5206.0; ABS, *Business Indicators, Australia, Dec 2018*, Catalogue No. 5676.0; ABS, *Counts of Australian Businesses, including Entries and Exits, Jun 2014 to Jun 2018*, Catalogue No. 8165.0; ABS, *Employee Earnings and Hours, Australia, May 2018*, Catalogue No. 6306.0; ABS, *Labour Force, Australia, Detailed, Quarterly, Feb 2019*, Catalogue No. 6291.0.55.003; ABS, *Wage Price Index, Australia, Mar 2019*, Catalogue No. 6345.0; Department of Jobs and Small Business, *Trends in Federal Enterprise Bargaining*, December quarter 2018, <<http://employment.gov.au/trends-federal-enterprise-bargaining>>.

Note: (a) All industries excludes Agriculture, forestry and fishing; (b) All industries excludes Education and training, Health care and social assistance and some subdivisions of Finance and insurance services. n/a = not available. The award-reliant industries selected are the five industries with the highest proportion of employees reliant on award rates of pay according to the EEH 2018 survey. The WPI and actual hours worked data are expressed in original terms. Employment data are expressed in trend terms. Entry rates are business entries in the financial year as a proportion of total businesses operating at the start of the financial year. Exit rates are total business exits in the financial year as a proportion of total businesses operating at the start of the financial year.

**[163]** In summary, Table 2.9 shows generally positive outcomes for these industries with the exception of Retail trade. The main conclusions we draw, while remaining aware that some of the indicators are quite volatile when disaggregated to this industry level, are the following:

- Output growth in 3 of the 5 award-reliant industries outpaced the total industry average growth, particularly Health care and social assistance.
- Annual growth in gross operating profits was almost twice the all industries average in Accommodation and food services and Other services, and below average but still positive in Administrative and support services and Retail trade.
- Business entry rates exceeded exit rates for all of these industries except for Retail trade, (where entry and exit rates were the same) as they have for the whole economy.

- Annual growth in the WPI for Health care and social assistance and Other services was above the all industries average. WPI growth for Accommodation and food services was at the average, while WPI growth for Administrative and support services and Retail trade was below the average.
- Wage growth under new collective agreements in 2 of the 5 award-reliant industries was above the all industries average, with Retail trade experiencing the strongest growth at 3.3 per cent.
- Employment growth was mixed with growth in employment and hours worked stronger in Other services and Accommodation and food services (both above average growth), while growth was below average but still positive in Health care and social assistance, but in Retail trade both employment and hours worked fell over the year.

[164] With the exception of wages growth in approved collective agreements, Retail trade stands out as having weakened over the year, with all remaining indicators below the all industries average. A number of submissions expressed concerns around the challenges retailers are facing, particularly increased competition (driven by technology and international competitors) putting downward pressure on prices.<sup>170</sup> The Australian Government submitted that the fall in Retail trade employment reflects ‘heightened competitive pressure’, with an ongoing shift towards online alternatives.<sup>171</sup> These submissions appear to provide the most plausible explanation for the poorer outcomes in the industry, although it must be borne in mind that employment still remains above the level recorded two years ago.

[165] The Panel asked retail employer organisations to explain the low industry WPI increase of 2 per cent (over the year to the December quarter 2018) compared with the 3.5 per cent increase in modern award minimum wages in 2018.<sup>172</sup> The National Retail Association (NRA) submitted that the scope of what is considered to be the retail industry varies as between the wide definition used by the ABS for the purposes of the WPI and the narrower coverage of the *General Retail Industry Award 2010*, with significant portions of the Retail trade covered by other modern awards.<sup>173</sup> However, we do not consider that this explains anything, since modern award minimum wages in all awards were increased by the same percentage amount as a result of the 2017–18 Review decision. The Australian Retailers Association (ARA) and ACCI submitted that the majority of employees in this industry (around 70 per cent) have their pay set by other methods that may not have increased by as much.<sup>174</sup> This would appear to assume a degree of absorption of modern award minimum wage increases where it is possible to do so. The NRA explicitly submitted that absorption of the increases in the case of employees on above-award salary arrangements was occurring.<sup>175</sup>

[166] Absorption of modern award minimum wage increases into above-award remuneration is no doubt part of the explanation for the low WPI growth rate in the Retail trade industry, but it would be expected that if this occurred over a period of time, the level of award reliance in the industry would rise. However, it has fallen. We cannot ultimately identify a satisfactory explanation, and it may be that non-compliance is a contributing factor. We note that new enterprise agreements in the December quarter of 2018 have provided for a significantly higher level of wage increases (3.3 per cent) than the WPI for the industry. We observe that this may well have been influenced by a number of new enterprise agreements being approved applying to major employers in the Retail sector, after a period of hiatus. This may also be an indirect consequence of the increase to base modern award rates in last year’s

Review decision, and it should be the case that these higher increases will lift the WPI for the industry by the time of next year's Review.

[167] No detriment resulting from the wage increases awarded in the last 2 Review decisions can be identified in the data for the 5 most award-reliant industries. No party provided any relevant data or evidence to the contrary. Apart from the specific circumstances which appear to be applicable to Retail trade, these industries are travelling reasonably well in terms of profit growth, business survival and employment growth. Wage growth in all these industries remains below 3 per cent despite last year's increase. The data tends to confirm our view as to the scope to adjust minimum wages without occasioning adverse labour market consequences.

### **Apprenticeships and traineeships**

[168] As they have in previous years, ACCI, ACTU, Australian Council of Social Service (ACOSS), ARA, and Housing Industry Association (HIA) all outlined the ongoing reductions in commencement rates and rising cancellation/withdrawal rates for apprenticeships and traineeships.<sup>176</sup> HIA submitted that this trend is particularly concerning in the context of residential construction, citing the ongoing skill mismatches between available tradespersons, and business requirements.<sup>177</sup> ACCI and ARA again attributed declines in commencements to demand-side factors (those that have reduced employer demand for apprentices), specifically identifying increases in modern award minimum wages and the cumulative effect of consecutive decisions.<sup>178</sup>

[169] Conversely, ACOSS again attributed ongoing declines in commencements mainly to supply-side factors (those that have reduced the number of people wanting to undertake apprenticeships), such as age-related cultural issues, lower wage rates, and the long duration of apprenticeships.<sup>179</sup> In addition, ACOSS submitted that private-sector 'free riding', associated with firms poaching tradespeople rather than investing in dedicated training, has also contributed to the decline.<sup>180</sup> HIA described the balance between managing supply and demand-side factors and stated that while 'higher rates of pay can act as an incentive to undertake and remain in apprenticeships', they need to be tempered against 'the cost of employing such labour.'<sup>181</sup> The ACTU submitted that it anticipates further declines in commencements and completions and that '[s]uch a decline is not able to be addressed through some different treatment of apprentice or trainee wages'.<sup>182</sup>

[170] In the previous Review,<sup>183</sup> the Panel considered and reiterated the findings of the Commission's Research Report 3/2017—*Factors affecting apprenticeships and traineeships* in February 2017,<sup>184</sup> which investigated both supply and demand-side effects and found that:

'...the decline in government subsidies clearly contributed to the decline in commencement rates, whilst the decision made by the Full Bench in the 2013 Modern Awards Review (*Apprentices decision*) to increase apprentice wages may have played a role, but it seems that any effect appears minor.'<sup>185</sup>

[171] In the absence of further evidence advanced in this Review, the Panel retains its conclusion that the removal of government subsidies clearly contributed to a decline in commencement rates and that any effect of the *Apprentices decision* was only minor.<sup>186</sup>

[172] We do not consider that the available data supports the proposition that the cumulative effect of recent Review decisions has caused a reduction in the number of apprenticeships and

traineeships. Table 2.10 shows the most recent data (to the September quarter 2018) published by the National Centre for Vocational Education Research as to apprenticeships and traineeships numbers. We would expect that any demand-side effect of excessive regulated minimum wage levels would most clearly be evident in the number of commencements. However two things are clear. First, a trend towards reduced commencement rates is evident over the whole period analysed, pre-dating the two most recent Review decisions (2016–17 and 2017–18) which awarded higher wage rate increases than in a number of previous years. Second, the rate of reduction in commencements significantly slowed rather than accelerated from September 2017 to September 2018. The number of persons in-training has also remained fairly stable over that period. Completions have continued to drop significantly, but this points to problems other than a demand-side problem with excessive wages, and may rather be indicative of a supply-side problem with insufficient wages, as the ACTU suggests.

**Table 2.10: Apprenticeships and traineeships, 2014 to 2018**

	2014	2015	2016	2017	2018	2017 to 2018 (% change)	2014 to 2018 (% change)
<b>Commencements</b>	192 680	176 510	169 670	161 175	158 640	-1.6	-17.7
<b>Cancellations and withdrawals</b>	112 370	101 060	93 775	90 835	91 570	0.8	-18.5
<b>Completions</b>	163 160	127 160	103 290	97 000	86 880	-10.4	-46.8
<b>In-training</b>	336 595	291 215	278 850	268 960	267 385	-0.6	-20.6

Source: Research reference list; National Centre for Vocational and Education Research (NCVER) (2019), *Apprentices and trainees 2018: September quarter – Australia*, NCVER, Adelaide.

## Economic outlook

[173] The most recent economic forecasts have reduced estimates of growth over the next 2 years, but solid growth is still forecast.

### Global forecasts

[174] The International Monetary Fund (IMF) global growth forecasts, presented in Table 2.11, project GDP growth in Australia to be lower in 2019 than in 2018, but to rise again in 2020. These patterns are similar for world GDP. While the projections for GDP growth in Australia are below world GDP growth, they are higher than growth in advanced economies.

**Table 2.11: IMF real GDP growth forecasts**

	2018 (outcome)	2019 (projections)	2020 (projections)
Australia	2.8	2.1	2.8
Advanced economies	2.2	1.8	1.7
World	3.6	3.3	3.6

Source: Statistical report, Table 13.2; IMF (2019), *World Economic Outlook*, April.

Note: Year-on-year percentage changes shown. World and domestic economy growth rates are calculated using GDP weights based on purchasing power parity (PPP).

[175] The 2019–20 Budget stated that there was some moderation in global growth in the second half of 2018.<sup>187</sup> Table 2.12 presents Australian Government forecasts of world GDP growth and for Australia’s major trading partners from the 2019–20 Budget. The Budget states that the Australian economy is expected to continue to benefit from growth in major trading partners, particularly in the Asian region.<sup>188</sup> Over the forecast period, Australia’s major trading partners are expected to grow at 4 per cent, outpacing global GDP growth forecasts of 3½ per cent over the forecast period.<sup>189</sup>

[176] A number of international factors are anticipated to pose downside risks to global growth, with economic and geopolitical uncertainty weighing on global confidence.<sup>190</sup> Risks related to US-China trade tensions, lower levels of global trade and uncertainty around the trade outlook have weighed on confidence, new export orders, and investment intentions.<sup>191</sup> Other risks include tightening global monetary policy, the pace of natural disaster recovery in Japan, Italy’s financial sector, and Brexit (although Australia’s trade is focussed more on Asia than on Europe).<sup>192</sup>

**Table 2.12: 2019–20 Budget forecasts of international GDP growth**

	2018 (actuals)	2019 (forecasts)	2020 (forecasts)	2021 (forecasts)
World	3.7	3½	3½	3½
Major trading partners	4.2	4	4	4

Source: Statistical report, Table 13.1; Australian Government, *Budget Paper No. 1: Budget Strategy and Outlook 2019–20*, Canberra, p. 2-7.

Note: World growth rates are calculated using GDP weights based on PPP, while growth rates for major trading partners are calculated using goods export trade weights. These growth rates are estimates in 2018 rather than outcomes.

### Australian forecasts

[177] The 2019–20 Budget states that the ‘fundamentals of the Australian economy remain sound’,<sup>193</sup> however, growth forecasts for 2018–19 and 2019–20 have been revised down since the 2018–19 Budget. Growth in real GDP for 2018–19 is now forecast to be 2¼ per cent, with the economy expected to continue to grow at around its estimated potential rate of 2¾ per cent over 2019–20 and 2020–21. Growth is expected to be supported by contributions from household consumption, non-mining business investment, public final demand, and exports. Across the forward estimates, mining investment is expected to make positive contributions to growth (the first time in around 7 years),<sup>194</sup> while dwelling investment is forecast to detract from growth.<sup>195</sup>

[178] Growth in household consumption ‘is expected to pick up over the forecast period,’ supported by ongoing employment growth and increasing wage growth.<sup>196</sup> However, while consumption growth is expected to increase by 2¼ per cent in 2018–19 and then to 3 per cent by 2020–21, these forecasts have been revised downward since the 2018–19 Budget, reflecting weaker consumption growth in the latter part of 2018. The 2019–20 Budget states:

‘A more subdued outlook for household income, or a further tightening in credit conditions could constrain household spending amid high levels of household debt. By contrast, faster-than-expected wage or employment growth could lead to household consumption being stronger than forecast.’<sup>197</sup>

**[179]** Business investment is expected to fluctuate throughout the forecast period, largely due to volatility in mining investment. Non-mining investment is expected to be solid through the forecast period,<sup>198</sup> while mining investment is expected to detract from growth in 2018–19, before making a positive contribution to growth across the forward estimates.

**[180]** The unemployment rate is expected to remain steady over the forecast period at 5 per cent while employment growth is forecast to gradually slow, reflecting sustained labour market tightening since 2014. Labour force participation is expected to remain near record-high levels of 65½ per cent over the forecast period.

**[181]** Prices and wages are expected to gradually pick-up as output increases and labour market spare capacity reduces.<sup>199</sup> Wages growth is forecast to increase only by 2½ per cent in 2018–19, before rising to 2¾ per cent in 2019–20 and 3¼ per cent by 2020–21.<sup>200</sup> Consumer prices are also expected to gradually grow over the forecast period, only 1½ per cent in 2018–19, picking up to 2½ per cent by 2020–21.

**[182]** Net exports are forecast to grow modestly through 2018–19 and 2019–20 and are predicted to detract from growth in 2020–21 as export growth slows due to mining.<sup>201</sup> The Budget notes that rural exports are forecast to detract from GDP growth in 2018–19 due to drought conditions, but are expected to rebound and contribute to growth in 2019–20 based on an assumed return to average seasonal conditions.<sup>202</sup>

**[183]** Domestic downside risks include the extent and impact of declining house prices on investment and consumption, subdued income growth, tightening credit conditions, commodity prices, and uncertainty around the recovery of rural exports.<sup>203</sup>

**[184]** Table 2.13 presents Australian Treasury forecasts of the domestic economy.



**Table 2.13: 2019–20 Budget domestic economy forecasts<sup>(a)</sup>**

	Outcomes <sup>(b)</sup>		Forecasts	
	2017–18	2018–19	2019–20	2020–21
<b>Real gross domestic product</b>	<b>2.8</b>	<b>2¼</b>	<b>2¾</b>	<b>2¾</b>
Household consumption	2.8	2¼	2¾	3
Dwelling investment	0.2	½	–7	–4
Total business investment <sup>(c)</sup>	6.0	1	5	4½
Mining investment	–4.1	–10½	4	4½
Non-mining investment	9.7	4½	5½	4½
Private final demand <sup>(c)</sup>	3.0	1½	2¼	2¾
Public final demand <sup>(c)</sup>	4.5	5½	3¼	3
Change in inventories <sup>(d)</sup>	0.0	0	0	0
Gross national expenditure	3.4	2½	2½	2¾
Exports of goods and services	4.1	3½	4	1½
Imports of goods and services	7.1	1½	3	2½
Net exports <sup>(d)</sup>	–0.6	½	¼	–¼
Nominal gross domestic product	4.7	5	3¼	3¾
Prices and wages				
Consumer price index <sup>(e)</sup>	2.1	1½	2¼	2½
Wage price index <sup>(f)</sup>	2.1	2½	2¾	3¼
GDP deflator	1.8	2½	½	1
Labour market				
Participation rate (per cent) <sup>(g)</sup>	65.6	65½	65½	65½
Employment <sup>(f)</sup>	2.7	2	1¾	1¾
Unemployment rate (per cent) <sup>(g)</sup>	5.4	5	5	5
Balance of payments				
Terms of trade <sup>(h)</sup>	1.9	4	–5¼	–4¾
Current account balance (per cent of GDP)	–2.8	–1¾	–2¾	–3¾

Source: Statistical report, Table 13.3; Australian Government, *Budget Paper No. 1: Budget Strategy and Outlook 2019–20*, Canberra, p. 2-4.

Note: The forecasts for the domestic economy are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade-weighted index of around 61 and a US\$ exchange rate of around 71 US cents. Interest rates are assumed to move broadly in line with market expectations. World oil prices (Malaysian Tapis) are assumed to remain around US\$67 per barrel. Population growth is assumed to average around 1.7 per cent per year over the forecast period.

(a) Percentage change on preceding year unless otherwise indicated.

(b) Calculated using original data unless otherwise indicated.

(c) Excluding second-hand asset sales from the public sector to the private sector.

(d) Percentage point contribution to growth in GDP.

(e) Through-the-year growth rate to the June quarter.

(f) Seasonally adjusted, through-the-year growth rate to the June quarter.

(g) Seasonally adjusted rate for the June quarter.

(h) The forecasts are underpinned by price assumptions for key commodities: Iron ore spot price falling over the year to reach US\$55 per tonne free-on-board (FOB) by the end of the March quarter 2020; metallurgical coal spot price falling over the year to reach US\$150 per tonne FOB by the end of the March quarter 2020; and the thermal coal spot price remaining at US\$91 per tonne FOB.

**[185]** In the May 2019 *Statement on Monetary Policy*, the RBA revised downwards its growth forecasts for 2019 as a result of the lower rate of growth in the last half of 2018. Its current forecasts for growth, unemployment and inflation are contained in Table 2.14.

**Table 2.14: RBA economy forecasts, growth rates**

	Dec-18	Jun-19	Dec-19	Jun-20	Dec-20	Jun-21
Gross domestic product	2.3	1¾	2¾	2¾	2¾	2¾
Unemployment rate*	5.0	5	5	5	5	4¾
Consumer price index	1.8	1¾	2	2	2	2
Trimmed mean inflation	1.8	1½	1¾	2	2	2

Source: RBA (2019), *Statement on Monetary Policy*, May, p. 71.

Note: Percentage changes are for the year-ended. \*Average rate in the quarter. Technical assumptions include A\$ at US\$0.70, Trade Weighted Index at 60, Brent crude oil price at US\$68 per barrel. Shaded regions are historical data.

[186] The RBA considers that subdued growth in household income and the adjustment to the housing market are affecting consumer spending and residential construction, and this has led to a downward revised outlook for household consumption spending and dwelling activity. Stronger growth in exports and work on new mining investment projects are anticipated to support growth.<sup>204</sup> Monetary policy is expected to remain accommodative for some time, and this has caused easing in market interest rates internationally and domestically.<sup>205</sup> Leading indicators of labour demand suggest that employment will grow at the same rate as the working-age population over the next 6 months and then pick up somewhat as growth increases, resulting in the unemployment rate remaining unchanged until 2021.<sup>206</sup> A moderate increase in wages growth is forecast,<sup>207</sup> but there remains considerable uncertainty about household income growth and its effect on household consumption, which accounts for almost three-fifths of GDP.<sup>208</sup> The CPI is expected to rise by 2 per cent per annum after its low growth in early 2019 (discussed earlier at [119]).

### Employment effects of minimum wage increases

[187] In the 2017–18 Review decision we discussed significant new Australian research conducted by Bishop of the RBA, amongst other largely international research contributions. Bishop (2018)<sup>209</sup> used unpublished job-level data from a survey of firms undertaken for the construction of the ABS WPI survey to determine the employment effects of minimum wage increases between 1998 and 2008.<sup>210</sup> This research found no adverse employment effects from those minimum wage increases. There has been no further Australian research since the last Review.

[188] The ACTU’s submission in this Review contained an extensive discussion of, and commentary on, recent academic research on the impacts of increases in minimum wages. Much of the research that the ACTU draws on relates to the US, but there is also new research for the United Kingdom (UK), together with a small number of studies for some European countries.<sup>211</sup> Additional recent studies for the US are included in the Research reference list for this Review.<sup>212</sup>

[189] The contending positions on the role of legislated minimum wages within the academic community were summarised as follows:

‘Arguments for and against minimum wage increases often invoke significantly different narratives regarding the low wage labor market. To opponents, low-wage jobs are temporary phenomena, offered to workers with little experience or skill who rapidly attain both as they spend time on the job. As their productivity increases, their

wages increase, naturally removing them from the ranks of least-paid workers. Minimum wage increases threaten to disrupt this pattern by eliminating opportunities for the least-skilled and experienced. To proponents, low-wage jobs are not avenues of advancement but dead ends, where workers may linger for years if not decades. Whether held back by the lack of training and advancement opportunities, immigration status, racial or gender discrimination, or monopsony power, this narrative suggests that workers are consigned to penury in the absence of labor market intervention.<sup>213</sup>

**[190]** Undoubtedly both phenomena are at work, and a major research task is to identify the relative size of each, and the extent to which increasing minimum wages does increase the earnings of the low paid and/or ‘eliminate opportunities for the least skilled’. This is an empirical task, and one that is very challenging with no single piece of research being definitive. It is especially difficult to do this research in Australia, as fully discussed in the material prepared for the 2017–18 Review.<sup>214</sup> For this reason, we remain interested in new research, including from overseas, that overall will extend, support and/or challenge our understanding of the effects of increases in minimum wages. In evaluating the usefulness of international research, we remain conscious of the distinctiveness of the Australian minimum wage-setting arrangements, and that the Australian NMW and modern award minimum wages (as minimum wages in their own right) are high by international standards.

**[191]** Of particular interest for this Review is the broad conclusion that the extensive and increasingly sophisticated recent research continues to find, first, that increases in minimum wages which have been the subject of examination do increase the earnings of the low paid and second, that they do not, for the most part, cause job losses or increase unemployment.

**[192]** Possible exceptions to this second point are that inexperienced workers might find it harder to get a job and low-paid women who work part time might see some job loss; as might those who work in jobs that are more easily automated or produce internationally tradeable goods. To date, the evidence for the last point is not strong. In Cengiz et al. (2019), the estimates for the employment impact of minimum wage increases on the tradeable sector in the US are described as ‘imprecise’.<sup>215</sup> The authors go on to say, in respect of such increases, that ‘the effect of the minimum wage is close to zero in the non-tradable sectors (such as restaurants or retail), which employ most minimum wage workers in the U.S. today’.<sup>216</sup>

**[193]** The recent US research uses new analytical techniques and, perhaps more importantly, new and more suitable data. These include data that make it possible to track affected workers over time. This is a key capacity that has been available to UK researchers for some years. Both the improved techniques and the more suitable data increase the robustness of the results.

**[194]** There is new research also for the UK, triggered in part by the move to a higher National Living Wage (NLW) for workers aged 25 years and over. The increases in the NLW that are the subject of the investigations are 7.5 per cent in 2016 and 4.2 per cent in 2017. We have previously expressed the view that the UK experience has greater relevance for Australia than does that of the US.<sup>217</sup> Key propositions that may be drawn from this research are as follows:

- In its summary of this research, the UK Low Pay Commission stated that ‘Aitken, Dolton and Riley (2018) concluded that the NLW had been a significant

intervention in the labour market, raising the wages of the lowest paid, but that it had so far had little adverse impact on overall employment retention. However, consistent with previous evidence such as Dickens, Riley and Wilkinson (2015), they also found some evidence of small adverse effects on the employment opportunities of women working part-time.<sup>218</sup>

- A case study approach was used to examine in detail the impact of the increases in the NLW on the UK care homes sector. The study found that the introduction of the NLW on 1 April 2016 had no effect on employment or hours worked in that sector. There was a considerable positive spill over effect on the wages paid to workers who were under age 25 years. The study did find that the introduction of the NLW led to a reduction in the quality of care in the sector.<sup>219</sup>

[195] The recent research, and that discussed in previous Reviews, is consistent with the position adopted by the Panel that modest and regular minimum wage increases do not result in disemployment effects or inhibit workforce participation.<sup>220</sup> The assessment of what constitutes a ‘modest’ increase has developed over time and the research and available evidence confirms that the increases granted by the Panel in the previous 2 Reviews, and as we have adopted in this Review, fall within that category. Further, the research is supportive of the notion that increases in minimum wages do increase the earnings of the low paid.

### **3. Relative living standards and the needs of the low paid**

[196] Both the minimum wages objective and the modern awards objective require us to take into account ‘relative living standards and the needs of the low paid’ when setting minimum rates. These are different, but related, concepts.<sup>221</sup>

[197] The assessment of relative living standards requires a comparison of the living standards of workers reliant on the NMW and modern award minimum wages with those of other groups, in particular other workers, especially non-managerial workers. We pay particular attention to changes in the earnings of NMW and award-reliant workers compared to changes in measures of average and median earnings more generally. The degree of dispersion (or inequality) around these measures is also relevant.

[198] The living standards of employees on the NMW and award-reliant employees are affected by their wage rate, the hours they work, tax-transfer payments and the circumstances of the households in which they live. The net effect of these factors is captured in the notion of equivalised household disposable income.

[199] A threshold of two-thirds of median (adult) full-time ordinary earnings is the benchmark we use to identify who is ‘low paid’ within the meaning of ss 134(1)(a) and 284(1)(c).

[200] The assessment of the needs of the low paid requires an examination of the extent to which low-paid workers are able to purchase the essentials for a decent standard of living and to engage in community life, assessed in the context of contemporary norms. The risk of poverty is also relevant in addressing the needs of the low paid. We accept, as we have in previous Review decisions, that if the low paid are forced to live in poverty then their needs

are not being met. We also accept that those in full-time employment can reasonably expect a standard of living that exceeds poverty levels.

[201] There is no single contemporary measure of the needs of the low paid. We use a variety of measures, including budget standards, comparisons of hypothetical low-wage families with customary measures of poverty, both before and after taking account of the tax-transfer system, and survey evidence of financial stress and material deprivation among low-paid households. The Panel has generally relied on poverty lines that are based on median equivalised household disposable income, using a 60 per cent threshold on the basis that those in full-time employment can reasonably expect some margin above a harsher measure of poverty.<sup>222</sup>

[202] The single-adult household provides the starting point for our assessment of relative living standards and needs. Such a worker receives no assistance from the transfer system, indeed their disposable income is *reduced* by the operation of the tax system. But we also accept that we must take into account the needs of the low paid, without limitation. Accordingly, we also give consideration to the needs of other types of families, including single-income families with dependants.

[203] The effect of taxes and transfers on disposable incomes is relevant to the needs of the low paid and relative living standards, both in terms of the impact of specific changes to the tax-transfer system and in assessing broader information in relation to measures of the relative income of the low paid.<sup>223</sup> The tax-transfer changes which have taken effect in the current Review period have, broadly speaking, provided a benefit to low-paid households. We later deal with these changes in more detail and note here that they are a moderating factor on our assessment of the appropriate level of increase to the NMW and modern award minimum wages arising from this Review but that it is not appropriate to apply a direct, quantifiable, discount to the increase we would have awarded in the absence of such changes.

### **NMW, award-reliant and low-paid employees**

[204] It is important to distinguish between employees on the NMW, award-reliant employees (that is, employees paid exactly an award rate) and low-paid employees generally. To some extent, these categories overlap. NMW employees and some (perhaps many, but not all) award-reliant employees are low paid.<sup>224</sup> According to data from the ABS EEH provided by the Australian Government, 660 700 employees were award reliant and low paid (which would comprise around half of the low paid and about 30 per cent of award-reliant employees).<sup>225</sup>

[205] A threshold of two-thirds of median earnings provides ‘a suitable and operational benchmark for identifying who is low paid’.<sup>226</sup> There is, however, more than one source of data on the distribution of earnings, from which a median (and two-thirds of that median) can be derived. The two main ABS surveys are the *Characteristics of Employment Survey*<sup>227</sup> (the CoE) and the *ABS Survey of Employee Earnings and Hours* (EEH). The most recent data for median earnings from the CoE survey is for August 2018 and is \$1330.00 per week. Data on median earnings from the EEH Survey is only available for May 2018 and is \$1460.00 per week. Data from the CoE survey is the usual source for calculating median earnings as it is released more frequently (annually compared with the EEH survey which is biennial) and thus provides a more complete series. The CoE survey also has a wider scope of employees, including those employed in the Agriculture, forestry and fishing industry as well as

employees of private households, both of which are excluded in the EEH survey. This measure of median earnings is also the most frequently cited in the submissions.<sup>228</sup> Based on this measure, two-thirds of median earnings was equal to \$886.67 per week, or \$23.33 per hour,<sup>229</sup> in 2018.

**[206]** The main source of information on award-reliant employees is obtained from the EEH. According to the latest EEH, there were about 2.2 million award-reliant employees in 2018, or 21.0 per cent of all employees.<sup>230</sup> Using data from this survey, the Australian Government estimated that around 1.7 per cent (or around 180 200 employees) were paid the adult rate of the NMW.<sup>231</sup> Some of these employees will not be affected by this decision as they are not in the federal industrial relations system, such as some state public sector employees and private sector employees in non-incorporated businesses in Western Australia.<sup>232</sup>

**[207]** In addition to these employees, the Panel's decision is also likely to affect those paid close to the NMW rate or a modern award minimum wage rate, workers whose pay is set by a collective agreement which is linked to the outcomes of the Review, as well as workers whose pay is set by individual arrangements which are referenced to an award rate.<sup>233</sup> According to the RBA, the wages of a further one-fifth of employees are linked to changes in the NMW or modern award minimum wages in their collective agreements or individual arrangements.<sup>234</sup> Research undertaken for the Commission found that 21 per cent of employees in non-public sector organisations were on 'over-award' arrangements—that is, where the wage is set, influenced or guided in some way by the applicable award rate.<sup>235</sup>

**[208]** Data from the EEH also provided by the Australian Government found that 1.25 million employees (11.8 per cent of all employees) were low paid.<sup>236</sup> This is based on employees earning less than \$20.27 per hour as at May 2018.<sup>237</sup> The Australian Government submission also provided data on the characteristics of low-paid workers using data from the HILDA survey for 2017. Based on this survey, low-paid adult employees were defined as having hourly earnings below \$19.53 with low-pay thresholds for junior employees adjusted by the relevant minimum wage rate.<sup>238</sup> The data provide the following profile of low-paid workers:

- just over half were female;
- they tended to be concentrated among younger workers (42.3 per cent aged 15–24 years and over half were aged under 30 years);
- over half (59.5 per cent) were single;
- most (71.3 per cent) did not have children;<sup>239</sup> and
- almost two-thirds (63.6 per cent) were casual employees.<sup>240</sup>

**[209]** Low-paid employees were also more likely than all employees to be working part time (51.4 per cent compared with 28.5 per cent of higher-paid employees) and were more likely to work in a small business (56.4 per cent compared to 29.8 per cent of higher-paid employees).<sup>241</sup>

**[210]** Data submitted by the ACTU<sup>242</sup> on the award reliant suggests that the characteristics of low-paid and award-reliant employees are similar. Further, the Commission's research

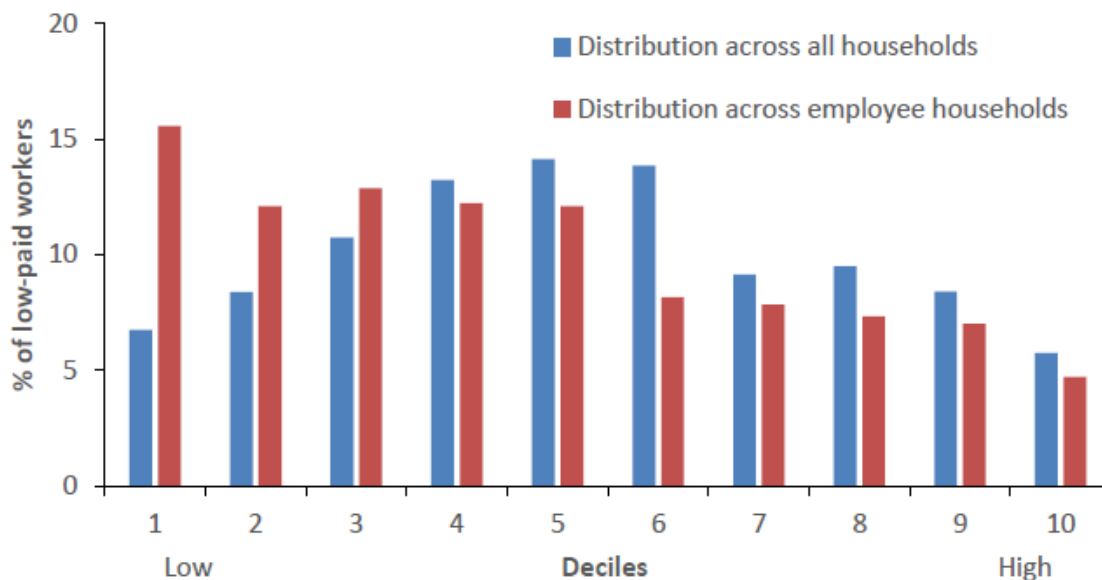
found that, overall, NMW earners and low-paid adult employees share similar characteristics.<sup>243</sup>

### Award-reliant and low-paid households in the income distribution

[211] The Australian Government provided an update on the distribution of low-paid workers across household incomes using data from the HILDA survey for 2017. This included data on the distribution of low-paid workers across all households (including jobless and retiree households) and across households with at least one employee.<sup>244</sup>

[212] The chart provided by the Australian Government (Chart 3.1) shows that across the distribution of employee households, a higher proportion of low-paid employees are located in the lowest three deciles. These are likely to include low-paid workers whose wages are affected by the NMW or modern award minimum wages.

**Chart 3.1: Distribution of low-paid employees, by equivalised household disposable income, comparing all households and employee households, 2017**



Source: Australian Government submission, 15 March 2019 at para. 45.

[213] Research undertaken for the Commission using data from the 2015 HILDA survey (Research Report 1/2017—*Award-reliant workers in the household income distribution*) finds that around 70 per cent of award-reliant employees are located in the bottom half of the household income distribution of employee households.<sup>245</sup>

[214] On the basis of this evidence, we remain of the view that low-paid workers, whose wages are likely to be affected by the NMW or modern award minimum wages, are disproportionately located in the lower deciles of equivalised household disposable income of employee households.

### Real wages

[215] The real value of the NMW and modern award minimum wages rose by 6.2 per cent over the 5 years to the December quarter 2018.<sup>246</sup> Over this period, uniform percentage

increases from Review decisions have resulted in the real value of the NMW and all modern award minimum wages increasing at the same rate. Wages as measured by the WPI grew by 2.3 per cent in real terms over the same period.<sup>247</sup>

### **Household disposable income and the tax-transfer system**

[216] Changes in the tax-transfer system, whether providing a benefit or a detriment to low-paid households, are relevant to our consideration of relative living standards and the needs of the low paid because of their effect on disposable incomes. In many cases, the net effect of the tax-transfer system is to increase the disposable income of households that are reliant on low wages. But the impact of taxation and the means testing of many transfer payments means that increases in the NMW and modern award minimum wages are not fully reflected in household disposable income.

[217] Changes to the tax-transfer system were discussed in previous Reviews and have impacted disposable incomes in 2018–19. There have been additional changes to the tax-transfer system effective from July 2018 that have impacted disposable incomes and these have been taken into account for this Review.

[218] In July 2018, the Child Care Subsidy replaced the previous Child Care Benefit and the Child Care Rebate with a single means-tested subsidy.<sup>248</sup> In 2018–19, families earning up to \$66 958 per year are eligible to receive the subsidy of 85 per cent. The amount of subsidised hours will be determined by the activity level of both parents in recognised activities. An annual subsidy cap of \$10 190 per child per financial year applies to families whose annual income is between \$186 958 and \$351 248 (higher than the current cap of \$7 613 per child per year under the Child Care Rebate). Families earning less than \$186 958 per year have no annual cap.<sup>249</sup>

[219] In last year's Review, we invited parties to provide further material on the financial impact of the changes to child care assistance on low-wage families to this Review.<sup>250</sup>

[220] The Australian Government's submission for this Review did not address the child care changes or their impact. The Federal opposition repeated the claim that the changes would leave 279,000 families worse off.<sup>251</sup> ACCI submitted that the changes 'had a positive impact' on NMW-reliant employees with children.<sup>252</sup>

[221] The ACTU commented that the Child Care Subsidy is not 'specifically targeted at the low paid' and would 'amount to little change for those paid at minimum wages.'<sup>253</sup> ACBC submitted that the financial impact on low-paid working parents would depend to 'a large extent on the actual costs of child care compared to the amounts set out in these caps.'<sup>254</sup>

[222] As we noted in last year's decision, it is challenging to evaluate the impact of changes to child care assistance on the low paid and on the material before us, as we are unable to come to a conclusive view on the impact of these changes on low-paid employees.<sup>255</sup>

[223] The 2018–19 Budget proposed changes to income tax rates that have since been legislated. These were not taken into account in last year's Review as the earliest of the proposed reforms were payable at the end of the 2018–19 financial year.<sup>256</sup> We propose to take them into account in the present Review. We note that other changes to the tax-transfer system have been proposed for 2019–20 and beyond. Consistent with how the Panel has



previously dealt with *proposed* changes to legislation,<sup>257</sup> we have not taken these measures into account in this Review.

[224] An information note on *Changes to the tax-transfer system* was published as additional material by Commission staff.<sup>258</sup> As well as discussing the Child Care Subsidy, the note highlighted the following legislated changes that also took effect following the 2017–18 Review:

- the introduction of the LMITO;
- raising the top income threshold for the 32.5 per cent marginal tax bracket from \$87 000 to \$90 000; and
- increasing the low-income threshold to the Medicare levy in line with inflation.

[225] Ai Group submitted that these changes reduce the income tax payable for low and middle-income earners by up to \$530 per annum and that this equates to an increase in disposable income for a person earning the current NMW of 0.63 per cent.<sup>259</sup>

[226] The relevant budget measures took effect on 1 July 2018, namely:

- the introduction of the LMITO (which provides an offset of \$200 for those whose personal income is less than \$37 000, increasing to \$530 for incomes from \$37 000 to less than \$48 000 at a rate of 3 cents per dollar phasing out at a rate of 1.5 cents per dollar for incomes above \$90 000);<sup>260</sup> and
- increasing the Medicare levy thresholds for the 2018–19 income year (the Medicare levy’s low-income threshold for singles, families and seniors and pensioners was increased to take into account movements in the CPI; the threshold for singles increased from \$21 980 to \$22 938, while the threshold for families increased from \$37 089 to \$37 794).<sup>261</sup>

[227] All parties were invited to comment on Ai Group’s submission regarding the impacts of the LMITO announced in the 2018–19 Budget. While ACCI agreed with the analysis,<sup>262</sup> the ACTU responded that this increase amounted to \$5.97 before tax and would be less for households eligible for highly means-tested deductions and payments and may even result in a fall in income after taxes and transfers.<sup>263</sup>

[228] The Australian Government submitted that ‘[t]he introduction of the Low and Middle Income Tax Offset from 1 July 2018 will provide some tax relief for minimum wage earners’.<sup>264</sup> In response to a question on notice from the Panel, the Department of Jobs and Small Business and the Treasury provided an analysis of the impact of the 2018–19 Budget measures on the disposable income of a range of NMW household types.

[229] The Australian Government’s modelling shows that all but 2 household types receive an increase in their disposable income of \$4 to \$5 per week due to the 2018–19 Budget measures. The two household types which did not receive an increase were a single parent working part time with 1 child and a single parent working part time with 2 children.<sup>265</sup>

[230] Table 3.2 presents the changes to nominal disposable income for selected hypothetical NMW-reliant households as at July 2018. It also shows the changes to each household's disposable income between July 2017 and July 2018 (in dollar and percentage terms) which incorporates the increase to the NMW and modern award minimum wages from the 2017–18 Review decision and the tax-transfer settings effective from 1 July 2018. The final column presents the percentage change in household disposable income over the five years to July 2018. The percentage changes in household disposable income over the year and over the five years are compared with increases in the CPI over the year and five years to the June quarter 2018.

**Table 3.2: Nominal disposable income of selected NMW-reliant households<sup>266</sup>**

Household type	Disposable income July 2018 (\$pw)	Change		
		July 2017 to July 2018 (\$pw)	July 2017 to July 2018 (%)	July 2013 to July 2018 (%)
Single adult	646.15	22.12	3.5	13.4
Single parent working FT, 1 child	906.87	24.57	2.8	10.7
Single parent working PT, 1 child	605.93	14.11	2.4	8.7
Single parent working FT, 2 children	1012.71	24.85	2.5	9.0
Single parent working PT, 2 children	711.77	14.39	2.1	6.7
Single-earner couple (with NSA)	824.50	17.69	2.2	11.0
Single-earner couple	660.54	22.61	3.5	12.9
Single-earner couple, 1 child (with NSA)	1014.01	17.69	1.9	9.1
Single-earner couple, 1 child	906.87	24.57	2.8	10.7
Single-earner couple, 2 children (with NSA)	1120.74	19.95	1.8	7.9
Single-earner couple, 2 children	1012.71	24.85	2.5	9.0
Dual-earner couple	1005.75	34.27	3.5	14.2
Dual-earner couple, 1 child	1192.83	30.74	2.6	10.5
Dual-earner couple, 2 children	1298.67	29.98	2.4	9.2
<b>CPI</b>			<b>2.1</b>	<b>9.9</b>

Source: Statistical report, Table 8.4; ABS, *Consumer Price Index, Australia, Mar 2019*, Catalogue No. 6401.0; Fair Work Commission modelling.

Note: The percentage change in the CPI over July 2017 to July 2018 and July 2013 to July 2018 were calculated with reference to the June quarter. CPI data are expressed in original terms. Tax/transfer parameters as at July each year. For assumptions to modelling, see Statistical report, Table 8.4.

[231] Table 3.2 shows that the disposable income of a single adult on the NMW was \$646.15 per week as at July 2018, an increase of \$22.12 over the year (1.4 per cent in real terms). The increase in nominal disposable income for this household was 13.4 per cent over the five years.

[232] The table also shows that over the year to July 2018, nominal disposable incomes across all of the 14 selected household types increased. This compares with the previous year

when the nominal disposable incomes increased in only 8 of the 14 households.<sup>267</sup> However, 2 household types that included income from the NSA had incomes that rose by less than inflation.

**[233]** Over the year to July 2018, households without children and not receiving NSA received a 3.5 per cent increase to their nominal disposable income (a 1.4 per cent increase in real terms), while the increase for all other households was less due to the operation of the tax-transfer system.

**[234]** Over the year to July 2018, 11 household types experienced an increase in real household disposable income, compared with only 3 household types over the year to July 2017.<sup>268</sup>

**[235]** Over the five years to July 2018, 7 of the household types had a real increase in income. Again, this is an improvement on the four household types whose real incomes rose over the 5 years to July 2017.<sup>269</sup>

**[236]** Table 3.3 shows the increase in nominal household disposable income from the 2017–18 Review decision considering the tax-transfer settings as at July 2018. It also displays the amount and proportion of the increase actually retained by each household. The net increase in each household's disposable income is separated into the change from the wage increase as a result of the 2017–18 Review decision as well as the changes to tax payable and transfer income received effective from 1 July 2018.

**Table 3.3: Modelling the 2018 NMW increase, July 2018**

Household type	Change in disposable income (\$pw)	Components of change			NMW increase retained (%)
		Wage increase (\$)	Taxes (\$)	Transfers (\$)	
Single adult	18.28	24.30	-6.02	0.00	75.2
Single parent working FT, 1 child	18.76	24.30	-5.54	0.00	77.2
Single parent working PT, 1 child	12.15	12.15	0.00	0.00	100.0
Single parent working FT, 2 children	18.76	24.30	-5.54	0.00	77.2
Single parent working PT, 2 children	12.15	12.15	0.00	0.00	100.0
Single-earner couple (with NSA)	2.92	24.30	-6.80	-14.58	12.0
Single-earner couple	18.76	24.30	-5.54	0.00	77.2
Single-earner couple, 1 child (with NSA)	5.40	24.30	-6.43	-12.47	22.2
Single-earner couple, 1 child	18.76	24.30	-5.54	0.00	77.2
Single-earner couple, 2 children (with NSA)	6.29	24.30	-5.54	-12.47	25.9
Single-earner couple, 2 children	18.76	24.30	-5.54	0.00	77.2
Dual-earner couple	30.43	36.45	-6.02	0.00	83.5
Dual-earner couple, 1 child	20.73	36.45	-6.02	-9.69	56.9
Dual-earner couple, 2 children	18.09	36.45	-8.67	-9.69	49.6

Source: Fair Work Commission modelling.

Note: Statistical report, Table 8.5; Tax/transfer parameters as at July 2018. The NMW increase retained is calculated as the change in disposable income as a proportion of the wage increase. Other assumptions as per Statistical report, Table 8.4.

[237] Table 3.3 shows that the proportion of the NMW increase retained by different households varied significantly due to the tax-transfer system. Single parents working part time retained 100 per cent of the increase while a single-earner couple receiving NSA retained less than one-eighth of the increase. For the 5 household types that retained the lowest proportion of the NMW increase, the withdrawal of transfer payments played a larger role than the impact of higher income tax. Households that received NSA retained the smallest share of the increase to the NMW.

[238] Table 3.3 also shows that the gross increase in household income for a single adult following the 2017–18 Review was \$24.30 per week. The single-adult household retained \$18.28 of this increase (or 75.2 per cent) due to the deduction of income tax, of \$6.02. This is lower than the proportion retained by single adults following the increase awarded in the 2017–18 Review (79.0 per cent).<sup>270</sup> The reduction is due to some of the increase to the NMW being taxed at the 32.5 per cent marginal tax rate; a result of the gross yearly income of a full-time NMW worker increasing above the tax threshold of \$37 001.

[239] However, the effect of ‘bracket-creep’ is offset by the changes to the tax-transfer system over 2018–19, including the LMITO. As shown in Table 3.2, disposable income for the single-adult household increased by 3.5 per cent to \$646 per week, the same increase as that awarded in the 2017–18 Review decision. The response prepared by Treasury and

Department of Jobs and Small Business to questions put by the Panel showed that the disposable income of this household would have been \$642 per week before the changes to the tax-transfer system in 2018–19 and was \$646 when the changes are included.<sup>271</sup>

[240] Minimum wages continue to play an important role in maintaining the disposable incomes of households not receiving income support payments.<sup>272</sup> A large majority of adult low-wage workers have no dependent children and the many who work full time are not assisted by the tax-transfer system: indeed, they have their disposable incomes reduced by income tax.<sup>273</sup>

[241] As noted in last year’s Review, we accept that changes to the tax-transfer system are important to our consideration of the relative living standards and needs of the low paid.<sup>274</sup> The identified changes to the tax-transfer system and their effects on low-paid employees have been taken into account.

[242] Tax-transfer changes which have taken effect in the current Review period have, broadly speaking, provided a benefit to low-paid households. These changes are a moderating factor on our assessment of the appropriate level of increase to the NMW and modern award minimum wages arising from this Review. But it is not appropriate to apply a direct, quantifiable, discount to the increase in the NMW and modern award minimum wages we would have awarded in the absence of such changes in the tax-transfer system. As the Panel said in the 2012–13 Review decision:

‘The range of considerations we are required to take into account calls for the exercise of broad judgment, rather than a mechanistic approach to minimum wage fixation.’<sup>275</sup>

[243] We would add that reducing the level of the increase that we would otherwise determine by an amount directly referable to the increase in disposable income resulting from the 2018–19 Budget measures would be inappropriate for two reasons.

[244] First, such a direct discount would unfairly impact on some low-paid employees who did not benefit from the Budget measures.

[245] Second, the Budget measures are plainly intended to benefit low-paid households. A direct discount which entirely negates that legislative intention is not appropriate.

### **Relative earnings and earnings inequality**

[246] The relative living standards of workers are affected by the degree of dispersion in earnings. If the earnings of workers in the lowest deciles are growing more slowly than those in the higher deciles, then the relative earnings of the low paid will fall.<sup>276</sup> We take into account a broad range of measures when assessing relative living standards and inequality.

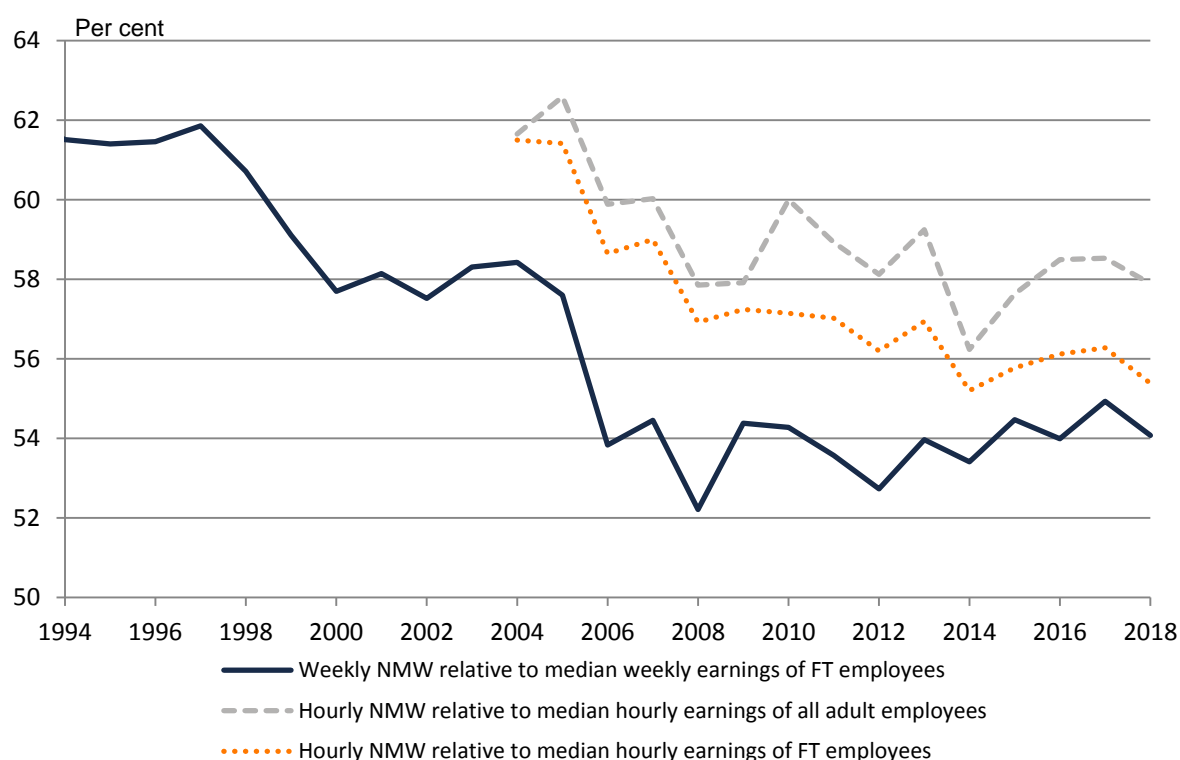
[247] In this section we consider earnings inequality with reference to changes in the minimum wage relative to median earnings of full-time employees (the minimum wage bite) and, more broadly, in the distribution of real weekly earnings for full-time non-managerial adult employees.

## Minimum wage bite

[248] The minimum wage bite is a commonly used indicator of relative earnings that compares the NMW with median earnings. In last year’s Review, we said that although the minimum wage bite is usually based on median earnings for full-time employees, it is also useful to consider the minimum wage bite for hourly earnings because it includes the many part-time employees who are paid at or near to the NMW.<sup>277</sup>

[249] Chart 3.2 presents the minimum wage bite for several measures of median earnings, both weekly and hourly. Each measure shows a decline in the minimum wage bite in 2018.

**Chart 3.2: NMW relative to median weekly earnings of employees in main job**



Source: Statistical report, Chart 8.3; ABS, *Characteristics of Employment, Australia*, various, Catalogue No. 6333.0; ABS, *Employee Earnings, Benefits and Trade Union Membership, Australia*, various, Catalogue No. 6310.0; ABS, *Weekly Earnings of Employees (Distribution), Australia*, various, Catalogue No. 6310.0; *Metal, Engineering and Associated Industries Award 1998*; *Manufacturing and Associated Industries and Occupations Award 2010*.

Note: Median earnings are measured in August of each year. The NMW represents the minimum wage of each year, which is equal to the C14 rate. Following the amendments to the *Workplace Relations Act 1996* (Cth) taking effect in 2006, the NMW (then called the Federal Minimum Wage) was set at \$12.75 per hour, equivalent to \$484.50 per week. Earnings are for employees including owner managers of incorporated enterprises. Median earnings from 2004 onwards are taken from the COE survey. The median earnings data reflect revised estimates as a result of rebenchmarking estimates.

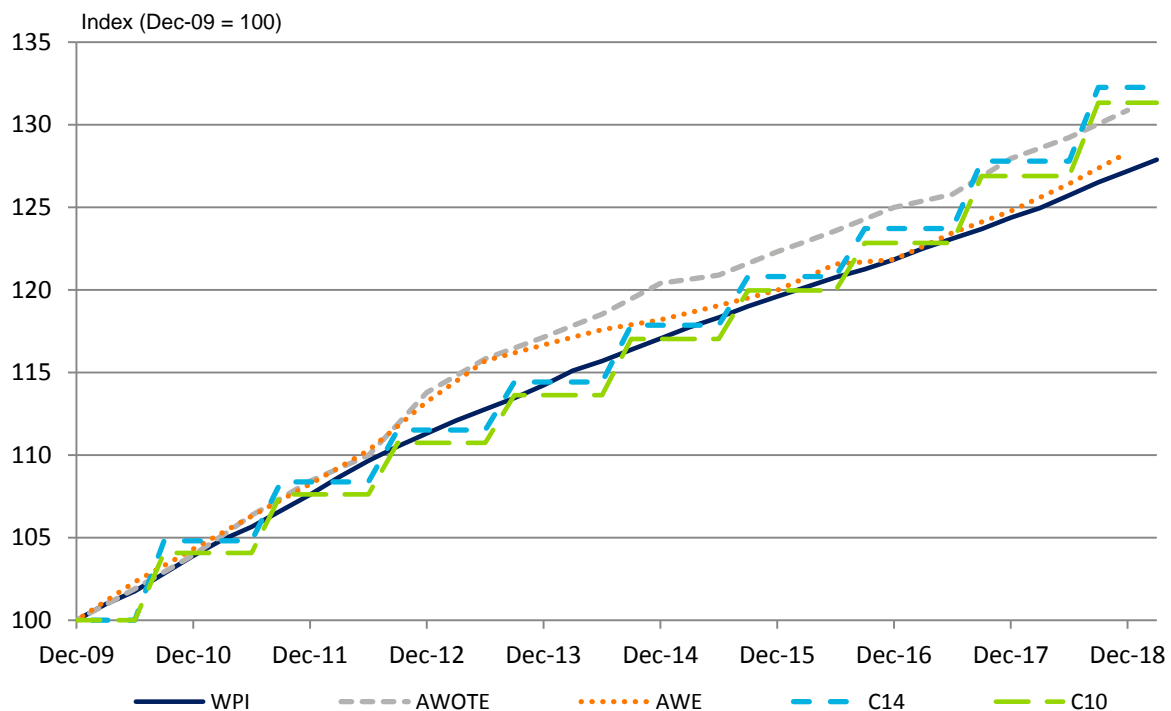
[250] It is evident from Chart 3.2 that the minimum wage bite has been trending upwards in recent years, but fell in 2018. When compared with weekly earnings of full-time employees, the minimum wage bite was estimated at 54.1 per cent in 2018, 0.8 percentage points lower than in 2017, though it remains higher than its low point in 2008.

[251] The reported decrease in the minimum wage bite in 2018 appears counterintuitive as the increase in the NMW (3.5 per cent) was greater than the increase in the WPI (2.3 per cent). The reduction in the minimum wage bite implies an increase in median earnings of

5.1 per cent. A possible explanation may be the data sources used and that annual changes in median earnings have tended to be more volatile than other measures of average wages. (In 2017, median weekly earnings of full-time employees increased by only 1.5 per cent, lower than the WPI (2.0 per cent) and AWOTE (2.4 per cent),<sup>278</sup> but rose to 5.1 per cent in 2018.) This volatility is reduced over the longer term. Over the decade to 2018, median weekly earnings of full-time employees increased by 33 per cent, lower than AWOTE (38.6 per cent).<sup>279</sup> Accordingly, it may be more useful to analyse the minimum wage bite over a longer period rather than focussing on movements from year-to-year. Like a number of measures of inequality, the minimum wage bite fell substantially between the mid 1990s and the mid-2000s. It has remained fairly steady since.

[252] Chart 3.3 compares the changes in the nominal value of the C14 and C10 rates with changes in measures of average earnings between the December quarter 2009 and the March quarter 2019. Over this period, growth in the C14 and C10 rates was stronger than growth in the average measures, particularly the WPI and average weekly earnings (AWE), due to slower growth in these average measures over the last few years. The faster growth in the NMW and modern award minimum wages has resulted in some improvement in the relative position of the low paid.

**Chart 3.3: Growth in C14 and C10 relative to AWOTE, AWE and WPI, index**



Source: Statistical report, Chart 8.1; ABS, *Average Weekly Earnings, Australia, Nov 2018*, Catalogue No. 6302.0; ABS, *Wage Price Index, Australia, Mar 2019*, Catalogue No. 6345.0; *Metal, Engineering and Associated Industries Award 1998*; *Manufacturing and Associated Industries and Occupations Award 2010*.

[253] Table 3.4 compares the growth in full-time real weekly earnings for 1998–2008 with 2008–2018<sup>280</sup> and shows that in the latter decade, earnings dispersion continued to rise, but at a significantly reduced rate. As with the minimum wage bite, there was a substantial rise in inequality in the earlier period which has since been attenuated, but not reversed. It should be noted that every percentile has had increases, in both periods, in the real value of their earnings.

**Table 3.4: Growth in full-time real weekly earnings, selected percentiles**

	<b>1998 to 2008</b> (% change)	<b>2008 to 2018</b> (% change)
10th percentile	4.7	11.4
50th percentile (median)	11.4	11.9
90th percentile	20.9	13.1

Source: Australian Government submission, 15 March 2019 at para. 275, Table 8.2.

Note: Growth from 1998 to 2008 is for total cash earnings (excluding salary sacrifice) and from 2008 to 2018 is for total cash earnings (including salary sacrifice).

[254] Table 3.5 provides further information on real earnings dispersion for full-time non-managerial employees over the past decade. It shows that from 2008 to 2018 there was a degree of stability in the relative earnings distribution when compared with either mean or median real earnings.

**Table 3.5 Ratio of selected percentiles to the mean and median of real weekly total earnings, full-time adult non-managerial employees**

	<b>2008</b>	<b>2010</b>	<b>2012</b>	<b>2014</b>	<b>2016</b>	<b>2018</b>
<b>Ratio of selected percentiles to mean real earnings</b>						
10 <sup>th</sup> percentile	0.57	0.56	0.56	0.56	0.55	0.56
25 <sup>th</sup> percentile	0.68	0.68	0.68	0.67	0.67	0.67
50 <sup>th</sup> percentile	0.89	0.88	0.88	0.87	0.88	0.88
75 <sup>th</sup> percentile	1.19	1.20	1.19	1.18	1.18	1.20
90 <sup>th</sup> percentile	1.56	1.57	1.57	1.57	1.57	1.56
<b>Ratio of selected percentiles to median real earnings</b>						
10 <sup>th</sup> percentile	0.64	0.64	0.63	0.63	0.63	0.64
25 <sup>th</sup> percentile	0.77	0.77	0.77	0.77	0.76	0.76

Note: Earnings data for 2014 and 2016 are based on full-time non-managerial employees paid at the adult rate.

Source: Statistical report, Table 8.3; ABS, *Consumer Price Index, Australia, Sep 2018*, Catalogue No. 6401.0; ABS, *Employee Earnings and Hours, Australia*, various, Catalogue No. 6306.0.

### **Income and wealth inequality**

[255] We take into account a range of measures when assessing inequality, relevant to our consideration of relative living standards. In this section we discuss a recently published research paper by the PC and look at 2 measures: the Gini coefficient and the distribution of equalised household disposable income.

#### ***Productivity Commission Research Paper ‘Rising inequality? A stocktake of the evidence’, 2018***

[256] The stated purpose of the PC Paper was to contribute to an informed discussion on inequality and its social impacts using the latest and most complete evidence measuring the level of, and trends in, inequality, poverty and disadvantage across Australian society.<sup>281</sup> The



PC Paper uses ‘an array of indicators’ to examine distributions of household incomes, consumption and wealth, their composition and movements within the distributions over time as this cannot be done by one single metric.<sup>282</sup>

**[257]** The Australian Government submitted that the PC Paper showed that ‘[i]ncome inequality in Australia has been broadly stable for more than a decade. The Gini coefficient for equivalised household disposable income stood at 0.323 in 2015–16 (latest data), slightly below the 0.336 recorded in 2007–08’.<sup>283</sup>

**[258]** In their reply submission, the ACTU contended that the PC Paper downplays the significant increases in the incomes of the top 1 per cent of households.<sup>284</sup> The ACTU also submitted that it agreed with the PC Paper that ‘a more complete picture of economic well-being is obtained by jointly considering income and wealth inequality’.<sup>285</sup> We return to the issue of wealth inequality shortly.

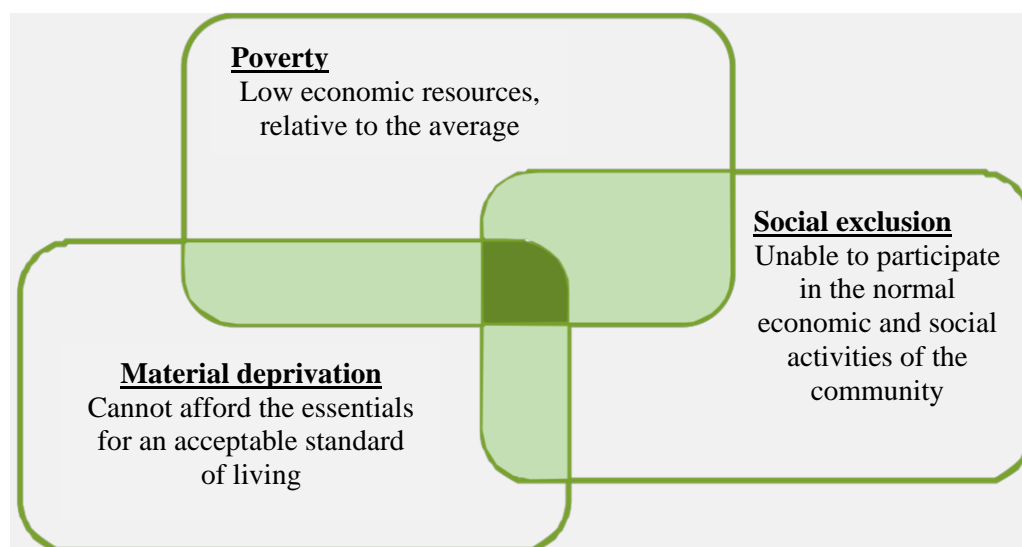
**[259]** The Australian Government also submitted that the PC Paper found that ‘Australia’s tax and transfer system has consistently acted to substantially reduce income inequality’ with these payments reducing the Gini coefficient.<sup>286</sup> They argued that ‘the impact of minimum wage increases on income inequality is more ambiguous, as minimum wage and award-reliant workers can be found across the household income distribution.’<sup>287</sup> The PC Paper highlighted the important role that Australia’s tax-transfer system plays in reducing income inequality:

‘... Australia’s progressive tax system and highly targeted transfer system substantially reduce income inequality. Income tax and government transfers have typically lowered the measure of overall income inequality (the Gini coefficient) by 30 per cent, an equalising effect that far outweighs the overall increase in the measure since the late 1980s. This equalising effect has fluctuated over time, but overall there has been no material change in the past thirty years.’<sup>288</sup>

**[260]** The PC Paper is an important contribution to the debate on inequality and we agree with the PC that it is important to take account of multiple measures and data sources when trying to understand complex and highly contested issues such as inequality, poverty and disadvantage. Of particular relevance to the relative living standards of the low paid are the findings which emphasise the importance of measures of inequality which focus on equivalised disposable income.

**[261]** The PC Paper provides a useful way of conceptualising disadvantage (Chart 3.4).<sup>289</sup> The three main elements that contribute to disadvantage—poverty, material deprivation and social exclusion—are related, and often overlap, but it is also possible for someone to experience only 1 or 2 elements at a time.

**Chart 3.4: Three elements that contribute to disadvantage**



Source: PC Paper, p. 109.

[262] We also note the observation in the PC Paper that the distribution of wealth is important to consider alongside that of income as ‘the sources of widening wealth inequality ... can be dynamic factors that influence future income inequality’.<sup>290</sup> Further, as the PC Paper points out, wealth is much less evenly distributed than income:

‘In 2015–16, the person at the 90th percentile of the wealth distribution had about *forty* times as much wealth as the person at the 10<sup>th</sup> percentile. In contrast, the person at the 90<sup>th</sup> percentile of the *income* distribution had *four* times as much income as the person at the 10<sup>th</sup> percentile.’<sup>291</sup>

[263] However, as we noted in last year’s Review,<sup>292</sup> despite the evidence of substantial and increasing wealth inequality, it is unlikely that any moderate adjustment to the NMW or modern award minimum wages arising from the Review would have any discernible effect upon wealth inequality.

### **Gini coefficient**

[264] The Gini coefficient is the most commonly used indicator depicting inequality over the whole income distribution and is expressed as a value between 0 and 1. A zero value indicates perfect equality (all people have the same income) and a value of 1 indicates perfect inequality (one person has all the income). In last year’s Review, we noted that based on equivalised household disposable income, the Gini coefficient was higher in 2015–16 than it was in the mid-1990s, though it had stabilised from at least 2007–08.<sup>293</sup> This was based on data from the ABS Household Income and Wealth. The ABS has not released any new data on the Gini coefficient since the last Review.

[265] The Australian Government submitted that assessing the Gini coefficient over time is difficult as the ABS has changed its method for measuring income.<sup>294</sup>

[266] A longer-term analysis of income inequality using the Gini coefficient was undertaken by the PC in the PC Paper. The ABS data showed that income inequality had risen between

1988–89 and 2015–16, particularly during the mining boom, before stabilising; while data from the HILDA survey found that inequality has been fairly stable since the early 2000s.<sup>295</sup> The PC explained that the discrepancy between the ABS and HILDA data is partly caused by the changes to the ABS definitions of income and their survey methodology and that while the changes improved the accuracy of measuring income, it creates difficulties with comparisons with previous years.<sup>296</sup> As the PC observed, the trend in income inequality is ‘contested territory’.<sup>297</sup>

[267] The Gini coefficient is ‘a single statistic that summarises the extent of inequality for the whole distribution’.<sup>298</sup> In their reply submission, the ACTU raised concerns and limitations around the use of the Gini coefficient as a ‘comprehensive measure of inequality’<sup>299</sup> as the middle of the income distribution ‘gets more weight’ than either the higher or lower ends (which are ‘not well captured’) such that greater disparity between the top and bottom of the distribution can result in the same Gini coefficient.<sup>300</sup>

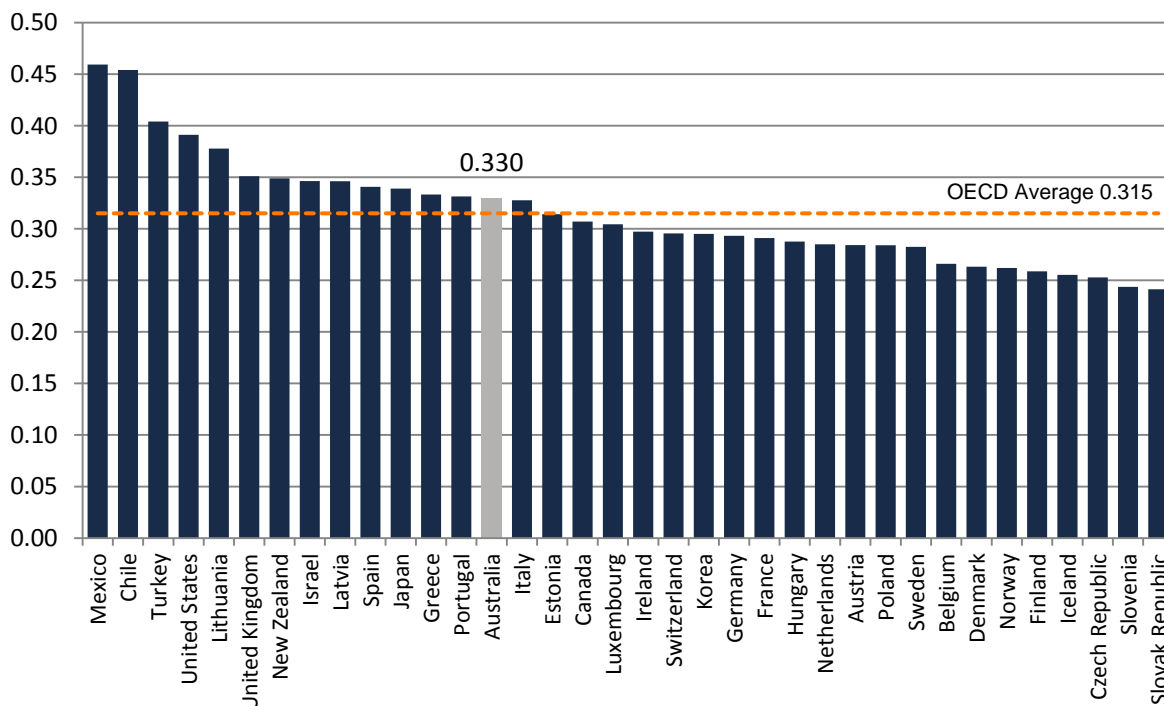
[268] The User Guide to the ABS Survey of Income and Housing explains that the Gini coefficient can be sensitive to changes around the middle of the income distribution because the derivation ‘reflects the ranking of the population, and ranking is most likely to change at the densest part of the income distribution, which is likely to be around the middle of the distribution.’<sup>301</sup> However, the ABS concludes that ‘[t]he Gini is preferred over other summary measures because it is not overly sensitive to the very low income or wealth values that can be reported, and it is relatively simple to interpret’.<sup>302</sup> The PC Paper notes a similar limitation, stating that the Gini coefficient ‘does not indicate *where* in the distribution any changes in inequality have occurred.’<sup>303</sup> To complement this measure, the PC also examined alternative measures of inequality, such as quantile ratios (comparison of incomes at different points of the distribution), finding that these ratios ‘have varied in broadly similar ways to Gini coefficients’.<sup>304</sup> Similar additional measures are also presented in the Statistical report.<sup>305</sup> For the same reason we also consider changes in the 10<sup>th</sup> and 25<sup>th</sup> percentiles of the earnings distribution as ratios of the mean and median, as presented in Table 3.5 above.

[269] Despite its limitations, the Gini coefficient provides useful information on overall income inequality, and our assessment of relative living standards.

[270] The Australian Government also provided data from the OECD showing that Australia has the 14<sup>th</sup> (out of 36) highest level of inequality as measured by the Gini coefficient using data for 2016, down from 11<sup>th</sup> based on data for 2015.<sup>306</sup> Australia remains more unequal than a number of major European countries (including France and Germany) and Canada. It remains more equal than the US, UK and New Zealand (Chart 3.5).

[271] Australia’s position in the distribution suggests that a number of similar countries, including Canada, the Netherlands, France and Germany, have achieved higher degrees of equality than in Australia. But, as noted in last year’s Review, it is not possible to make such international comparisons with precision.<sup>307</sup>

**Chart 3.5: Gini coefficient measure of inequality among OECD countries: household disposable income, 2016 or latest year**



Source: Australian Government submission, 15 March 2019 at para. 269, Chart 8.1.

Note: Latest available data refer to 2016, except for Chile, Denmark, Iceland, Ireland, Japan, Korea, where the latest data available were for 2015; and Hungary, Mexico, New Zealand and Switzerland where latest data available were 2014.

**Needs of the low paid**

[272] There are broadly 3 ways in which to assess the extent to which the needs of the low paid are being met.

[273] The first approach uses experts, informed by community consultations, to decide what types of goods and services an individual or family needs in order to be able to maintain a defined standard of living. Having constructed this basket of necessary goods and services, they must be priced and all the costs added to reach a total that reflects the income needed to reach the minimum budget standard.

[274] The second approach is to accept that the needs of the low paid are established by comparison with others in their community. On this approach, it will be presumed that the needs of the low paid will be met if the incomes of the low paid are not ‘too far’ below typical incomes. This is a strictly relative measure, and it is a matter of informed judgement to decide what constitutes ‘too far’. Its practical application is to identify a threshold income that is some proportion of median income and 60 per cent is a commonly used threshold or ‘poverty line’.

[275] The third method is to focus on indicators of deprivation, such as whether the low paid have to seek help from charities or are unable to buy certain essentials (such as heating their houses).

[276] Both the first and the second approaches have to be adjusted for differences in the size and composition of the household. All 3 approaches have something to offer.

### **Budget Standards**

[277] A budget standard estimates how much money a particular family type needs to achieve a particular standard of living in a particular place at a particular time. It is derived by specifying the standard and then identifying all of the items required to reach it, pricing each item and calculating the cost of the total ‘basket’ of goods and services required.<sup>308</sup> Budget standards are generally used to estimate the income levels required to achieve a minimally adequate standard of living. Contemporary budget standards can provide an effective means of measuring the ‘needs of the low paid’.

[278] Budget standards require revision from time to time to maintain relevance. The components of a budget standard need to be revised annually to reflect movements in prices and, over a longer timeframe, to reflect changes in, among other things, the ‘basket’ of goods and services required to meet the relevant standard.<sup>309</sup> In past Reviews, parties have referred to research on budget standards conducted in the mid-1990s and the Panel has concluded that such research ‘lacks contemporary relevance’.<sup>310</sup> The failure to adjust the 1997 SPRC standards for anything other than the overall level of consumer prices led the Panel to make the following observation in the *Annual Wage Review 2013–14* (2013–14 Review) decision:

‘The budget standards material submitted by ACOSS and ACCER is based on a 1997 study by the SPRC, commissioned by the former Department of Social Security, to assist in the assessment of the adequacy of social security payments. We accept that contemporary budget standards measures can provide an effective means of measuring the needs of the low paid, which can be considered, together with other relevant data. However, the budget standards measures derived from the 1997 SPRC study do not provide useful contemporary information about the needs of the low paid.’<sup>311</sup>

[279] In 2017 the SPRC at UNSW published new budget estimates<sup>312</sup> (the 2017 Budget Standards Report) based on the Minimum Income for Healthy Living (MIHL) standard developed in the UK public health literature.<sup>313</sup> The MIHL standard is designed to ensure that all individuals are able to lead healthy lives and participate in society. The MIHL standard is thus designed to ensure that each individual is able to achieve levels of consumption (of food, clothing, medications, transportation, personal care, and so on) and participation (in lifestyle, exercise and social activities) that are consistent with healthy living.

[280] The 2017 Budget Standards Report is intended to provide ‘a set of contemporary budget standards that reflect the needs of low-income working and unemployed individuals and families that can be used to assess income adequacy and guide decision-making.’<sup>314</sup>

[281] The 2017 Budget Standards Report provides budget estimates for 5 different family types and these are compared to their disposable income. The 5 basic family types are: single people; couples without children; couples with 1 and 2 children; and a sole parent with 1 child. Adults were assumed to be between 35 and 40 years of age, while the children are both of school age: a 6 year-old girl and a 10 year-old boy. The 2017 Budget Standards Report notes that the decision to include only school-age children reduces the need for child care that would have added to the budgets in some instances if the children had been younger, while the inclusion of older children would have also added to the costs of things like food,

clothing and social participation. Each family is assumed to contain one adult who is assumed to be either in work and receiving the minimum wage, or unemployed and receiving social security assistance in the form of NSA or Parenting Payment for the sole parent.<sup>315</sup>

[282] The budgets in the 2017 Budget Standards Report draw on 3 kinds of data: expert (normative) data that reflects prevailing judgments on how much is needed to achieve specific standards; survey data that describes the spending patterns of actual families; and focus group data that captures how real families budget and make ends meet.<sup>316</sup> The ‘grossed-up’ weekly budgets for low-paid families in June 2016 are: \$597.31 for a single person; \$833.24 for a couple; \$969.90 for a couple with one child; \$1173.38 for a couple with two children; and \$827.70 for a sole parent with one child.<sup>317</sup>

[283] The descriptor ‘Grossed-up’ is apt to mislead and in this context simply means that the cost of housing (estimated using the rental threshold approach) is added to the price of the budget basket of goods and services.<sup>318</sup>

[284] The budgets in the 2017 Budget Standards Report are contemporary, in the sense that the data upon which they draw is comparatively recent; but they do require revision to take account of movements in prices. We return to that issue shortly.

[285] In last year’s Review proceedings the weight to be given to the 2017 Budget Standards Report was in dispute. The ACTU argued that ‘the budget standards research should be given no special status in the array of material for evaluating relative living standards and the needs of the low paid’<sup>319</sup> because, it submitted, the budget standards were ‘far too modest to in fact reflect the needs of a person or a household’<sup>320</sup> and had ‘failed to enumerate or address the many costs of working that are not immediately apparent’.<sup>321</sup> ACOSS pointed out that the budgets proposed were ‘extremely tight’ and that ‘the new budgets would support only a very frugal living standard, arguably below that which the National Minimum Wage should support’.<sup>322</sup> ACCI submitted that the research did not ‘elevate relative living standards and the needs of the low paid above other considerations’<sup>323</sup> and urged the Panel to ‘use caution’ in forming a decision based on the new budget standards research.

[286] The Australian Catholic Council for Employment Relations (ACCER) (now ACBC) broadly supported the use of the budget standards research on the basis that it identifies and measures a contemporary decent standard of living consistent with the Panel’s statements that an assessment of the needs of the low paid ‘requires an examination of the extent to which low-paid workers are able to purchase the essentials for a ‘decent standard of living’ and to engage in community life, assessed in the context of contemporary norms.’<sup>324</sup>

[287] In the 2017–18 Review decision, the Panel noted that, overall, there was low support from parties regarding the consideration to be given to the budget standards in the Review.<sup>325</sup> However, we concluded:

‘The new budget standards research is the first time that a serious effort has been made, using contemporary scholarship in this field, to estimate the needs of low-paid employee households. We judge it to be useful and relevant, while recognising its limitations and the Panel has taken it into account along with all of the relevant material we have before us. We note the comment from the authors that ‘[b]udget standards are not a panacea but they provide important information that can inform and assist decisions taken about adequacy...’

We agree with ACCER’s submission that the research is the ‘best evidence available in regard to the needs of the low paid Australian workers and their families,’ but also with ACCI’s submission that the “budget standards cannot of themselves be determinative of the NMW or any uprating of minimum award rates”.<sup>326</sup>

[288] In the current Review proceedings, the ACBC reiterated its commitment to ‘an evidence-based minimum wage system that pays due regard to the needs and living costs of low income families’ and submitted that ‘[a]though imperfect, the budget standards research is the best evidence that we have about those needs’.<sup>327</sup> The ACBC went on to point out, in Chapter 4:D(5) of its submission, that Table 5.17 in the 2017 Budget Standards Report ‘contains significant errors in relation to the calculation of safety net income’ and ‘gave a very misleading summary of the living standards of low income families with children’.<sup>328</sup>

[289] Table 5.17 from the 2017 Budget Standards Report is reproduced below as Table 3.6.

**Table 3.6: Comparisons of the Grossed-up Budget Standards with Existing Safety Net Incomes (\$ per week, June 2016)**<sup>329</sup>

Family type	Grossed-up budget Standard (1)	Low-Paid Safety-Net Income (2)	(2) minus (1)	Grossed-up Budget Standard (1)	Unemployed Safety Net Income (2)	(2) minus (1)
Single adult	597.31	659.22	61.91	433.68	337.68	-96.00
Couple, no children	833.24	794.21	-39.03	660.25	552.84	-107.41
Couple, 1 child (G, 6)	969.90	978.74	-8.84	766.74	708.28	-58.46
Couple, 2 children (G, 6 & B, 10)	1173.38	1084.64	88.74	940.37	814.13	-126.24
Sole parent, 1 child (G, 6)	827.70	872.56	44.86	675.18	627.79	-47.39

Source: 2017 Budget Standards Report, p. 103.

Note: G, 6 = girl aged 6 years; and B, 10 = boy aged 10 years.

[290] The reference to the ‘Grossed-up’ budget standard in Table 3.6 is explained earlier, at [283].

[291] The basis for the ‘Safety Net’ calculations in the above table is explained in the 2017 Budget Standards Report:

‘The ‘safety net’ calculations are based on the minimum wage levels and social security payment rates and conditions that exist in April 2016 and assume that each family

receives every entitlement for which it is eligible. This means, for example, that they do not include the increase in the minimum wage (of 2.4 per cent) announced on 31 May 2016 and paid from 1 July 2016. Nor do they include the automatic indexation of social security payment rates that took effect at the beginning of July 2016, only those that came into effect on 1 March 2016. Note that the timing difference between April 2016 to which the safety net incomes apply and the June Quarter 2016 to which the budget standards apply will not impact on the comparisons presented below because the safety net (and taxation) provisions that existed in April remained in force throughout the June Quarter.<sup>330</sup>

**[292]** The short point put by ACBC is that the ‘Safety Net’ calculations are erroneous, in particular it is submitted that:

- the single adult is said to have a safety net income of \$659.22 per week when in fact the net wage of a NMW dependent in April 2016 was \$594.01 per week;<sup>331</sup>
- the calculations of safety net income of the other 4 household types are inconsistent with the data in Table 8.2 of the FWC Statistical Report of April 2016, regarding disposable incomes from wages and transfers at December 2015;<sup>332</sup> and
- the disposable incomes of the two couple households (one child and two children) erroneously include NSA for the person who is not employed.<sup>333</sup>

**[293]** We posed a question on notice to all parties inviting comment on the points raised by the ACBC and also invited a response from Professor Saunders, one of the authors of the 2017 Budget Standards Report.

**[294]** In his response, Professor Saunders acknowledged that there are some errors in safety net income calculations contained in Table 5.17 of the 2017 Budget Standards Report which resulted in an over-estimation of the ‘Safety Net income’ for some families, but observed that:

‘The errors in Table 5.17 are important, although they do not effect the overall content and context of the report, which is most valuable for the new budget standard estimates that are not affected by the error.’<sup>334</sup>

**[295]** In response to the question on notice the ACTU submitted that ‘what appear to be errors’ identified by ACBC in what the 2017 Budget Standards Report describes as the safety net income of the low paid group raises a ‘real issue’ about whether the 2017 Budget Standards Report is accurate in its assessment of which particular household types exceeded the relevant budget standard.<sup>335</sup> In these circumstances the ACTU submitted that:

‘The appropriate course to definitively determine this would be to seek information from the Department of Social Services about how the estimates of Safety Net Income provided to the authors were calculated.’<sup>336</sup>

**[296]** Ai Group responded that the general nature of the claims raised by ACBC ‘reinforce the cautionary views presented in Ai Group’s submission to the 2017–18 Review’.<sup>337</sup>



[297] The ‘cautionary views’ advanced by Ai Group in last year’s Review concerned the use of the budget standards to support an increase in minimum wages, rather than a critique of the budget standards themselves. As Ai Group put it:

‘While we welcome the Budget Standards research, we are very wary of it being used to support an argument to raise minimum wage rates to address discrepancies between calculated Grossed-up Budget Standards and the safety net level of income for particular household types. We are particularly concerned that adjusting wage rates to address this discrepancy would raise the risks of disemployment both for this household type and for all other low-paid households including low-paid households types for which no discrepancies between the calculated Grossed-up Budget Standards and the Safety-net level of income, is suggested.’<sup>338</sup>

[298] ACCI submits that ‘were the ACBC correct, the conclusion that must be drawn is that the budget standards research would need to come off the table’.<sup>339</sup> Later, ACCI submitted that:

‘There is nothing new in 2019. The budget standards research has not been revised, it is known rather than new information, and there is no basis for it [to] have any more or less determinative value in 2019 than it had in 2018.’<sup>340</sup>

[299] In the alternative, ACCI contends that the Budget Standards research has become dated and this ‘favours not revisiting it or treating it as current or determinative in 2019’, or, if this is not correct, the ‘only available approach’ would be to note ACBC’s criticisms and ‘to no longer conclude that the budget standards research can be deemed useful and relevant.’<sup>341</sup>

[300] We also note that in the present proceedings ACOSS reiterated its view that ‘the new budgets would support only a very frugal living standard, arguably below that which the NMW should support and significantly below that of the previous ‘modest but adequate’ budget standard’.<sup>342</sup> There is considerable force in the point advanced by ACOSS and indeed the authors of the 2017 Budget Standards Report concur, as is evident in the following statements from the Report:

‘the new MIHL standard for low-paid workers is intended to be lower than the previous MBA standard, which was designed to apply to a standard of living that is around the median ...

The focus was ... very much on producing *minimum* budgets, as required by the MIHL standard. Whatever the merits of the view that the previous budgets erred on the generous side it is very difficult to sustain the claim that this is also the case in relation to the new budgets. They are extremely tight and leave no room for even the most modest of “special treats”.’<sup>343</sup>

[301] So where does this leave us? As Professor Saunders points out in his reply, the issues raised by ACBC do not detract from the budget standards presented in the Report; rather they are directed at the estimate of the safety net disposable income of various household types and the comparison between their disposable income and the relevant budget standard. The errors alleged by ACBC do not affect the validity of the budget standards themselves; that said, the budget standards themselves are contested and, as acknowledged by the authors of the Report, they are ‘extremely tight’.

**[302]** In the circumstances it is not necessary for us to reach any concluded view as to the validity of the errors alleged by ACBC. We later compare the budget standards to measures of nominal disposable income from the Statistical report and the Australian Government submission (see Table 3.8).

**[303]** In last year's decision we expressed the view that the 2017 Budget Standards Report was 'useful and relevant',<sup>344</sup> while acknowledging that budget standards cannot of themselves determine the outcome of the Review.<sup>345</sup> We remain of that view, though with a qualification which acknowledges the force of the submission put on behalf of ACOSS.

**[304]** As mentioned earlier, the budgets in the 2017 Budget Standards Report are contemporary, in terms of the data upon which they draw, but require revision to take account of movements in prices.

**[305]** The submissions before us do not address the appropriate method for adjusting the budget standards. It may be inferred from ACBC's submission that they are to be adjusted by movements in the CPI. The ACBC submitted:

'Since June 2016 wage increases have been greater than CPI increases and the growth in disposable incomes have been modest. Assessing the impact of these changes is not a precise arithmetical exercise.

On the evidence, it is reasonable to conclude, consistent with the FWC's assessment in the June 2018 decision, that, in early 2019, a full time job at the NMW rate is sufficient to provide a single adult with a reasonable standard of living. It may be that further evidence (perhaps including a refinement of the estimation of relevant changes since June 2016) will show that it is not sufficient, but at the present time, the evidence supports that conclusion'.<sup>346</sup>

**[306]** The authors of the 2017 Budget Standards Report suggest that the use of the CPI to adjust the budgets over the short term is 'standard practice in the budget standards literature' and 'will not induce major errors into the estimates'.<sup>347</sup> The short term is a period 'covering up to about 7 years' and, 'beyond the seven-year time horizon, it is preferable to review and revise the entire budgets to ensure that items, quantities and lifetimes as well as prices are reviewed and adjusted to reflect changes in community norms and average living standards'.<sup>348</sup>

**[307]** The budgets were priced in the second half of 2013 (1 July to 31 December). We note that the finalised budgets in the 2017 Budget Standards Report were updated by the authors using CPI data to the June quarter 2016 'to maintain their relevance'.<sup>349</sup> The updating appears to have been undertaken in line with movements in the CPI at the main budget area level.<sup>350</sup> The table below adopts the same approach and adjusts the various components in the budget of a single employed adult by movements in the corresponding component of the CPI since the June quarter of 2016 to the March quarter 2019.

**Table 3.7: Updated budget standards estimates, low-paid single person (per week)**

Budget category	Budget priced at latter half of 2013		Budget updated using CPI June 2016			Budget updated using CPI March 2019		
	\$	Index <sup>^</sup>	\$	Index <sup>^</sup>	% change from 2013	\$	Index	% change from 2016
Food	60.19	101.1	61.80	103.8	2.7	64.90	109.0	5.0
Clothing and footwear	11.05	100.2	10.81	98.0	-2.2	10.25	92.9	-5.2
Household goods and services	77.11	101.9	79.23	104.7	2.7	78.02	103.1	-1.5
Transport	81.59	103.1	77.71	98.2	-4.8	82.14	103.8	5.7
Health	6.40	109.5	7.33	125.5	14.6	7.96	136.3	8.6
Personal care	14.99	104.4	15.59	108.6	4.0	16.38	114.1	5.1
Recreation	28.49	101.1	29.04	103.1	2.0	29.60	105.1	1.9
Education	0.00	108.8	0.00	124.6	14.5	0.00	135.9	0.0
<b>Budget standards</b>	<b>279.82</b>	–	<b>281.51</b>	–	<b>0.6</b>	<b>289.25</b>	–	<b>2.7</b>
Weekly rental costs*	nd	–	315.80	110.2	–	321.82	112.3	1.9
<b>Grossed-up budget standards</b>	nd	–	<b>597.31</b>	–	–	<b>611.07</b>	–	<b>2.3</b>

Source: Fair Work Commission (2019), *Information note—Budget standards research*, additional material to the 2018–19 Review, 8 May; Saunders P & Bedford M (2017), *New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians*, SPRC Report 11/17, Social Policy Research Centre, UNSW Sydney, Table 5.7; ABS, *Consumer Price Index, Australia, Mar 2019*, Catalogue No. 6401.0.

Note: Highlighted columns are updated data to March 2019 based on indexes from June 2016. <sup>^</sup>Based on CPI indexes at Table B.2 of report. \*March quarter 2016 rent figures were used in the report (see p. 87 of the 2017 Budget Standards Report); the indexed March 2019 figure reflects this. nd = not derived.

**[308]** The revised budget standard for a single adult employee is \$611.07, the disposable income of a single adult on the NMW is \$646.15, a difference of \$35.08 per week. Hence, the disposable income of a single adult earning the NMW is above the corresponding MIHL budget standard.

**[309]** As mentioned earlier, there are some errors in the calculation of the ‘safety net’ income of the other family types in Table 5.17 of the 2017 Budget Standards Report which have resulted in an over-estimation of the disposable income of some families. In these circumstances, it is difficult to draw any firm conclusion about whether the disposable income of the selected family types is above or below the estimated budget standard. However, based on other data about the nominal disposable income of selected NMW-reliant households, some reasonable inferences can be drawn. Table 3.8 below compares the MIHL budget standard for certain family types (as at June 2016) with the nominal disposable income of those family types, as at July 2018 (from Table 8.4 of the Statistical Report) and with the Australian Government submission.

**Table 3.8: Budget standards and measures of household disposable income, \$ per week**

	MIHL Budget <sup>(1)</sup>	Nominal disposable income, Statistical report <sup>(2)</sup>	Nominal disposable income, Australian Government submission <sup>(3)</sup>
	June 2016	July 2018	January 2019
<b>Single-earner couple, no children</b>	833.24	660.54 824.50 (with NSA)	763 (with NSA)
<b>Single-earner couple, 1 child</b>	969.90	906.87 1014.01 (with NSA)	937/960* (with NSA)
<b>Single-earner couple, 2 children</b>	1173.38	1012.71 1120.74 (with NSA)	1069 (with NSA)
<b>Sole parent working PT, 1 child</b>	827.70	605.93	np

Source: (1) See Table 5.14 of the 2017 Budget Standards Report. (2) See Table 8.4 of the Statistical Report. (3) Australian Government submission, 15 March 2019 at para. 286, Table 8.4.

Note: \*Child can be aged 3 years or 9 years. np = not provided.

**[310]** On these figures the nominal disposable income of all but one family group (the single-earner couple with one child in receipt of NSA) is *below* the relevant budget standard. This is particularly telling given that the above MIHL budget estimates are for June 2016 and it is likely that the budget estimates will be revised upwards when price movements between June 2016 and March 2019 are taken into account.

**[311]** The measure of disposable income in the Statistical report and that provided by the Australian Government do not perfectly match the family types and assumptions discussed in the 2017 Budgets Standards Report. The main differences are due to the inclusion of NSA (although the Statistical report includes household types with and without NSA) and assumptions on the age of the children:

- the budget standards assumes children are aged 6 years and 10 years. Assuming the child is aged 6 years means that the sole parent can be eligible for Parenting Payment Single.
- the Statistical report assumes the child is aged between 8 and 12 years.
- the Australian Government assumes the child is aged either 3 years or 9 years for couples with one child, and aged 3 and 9 years for couples with two children.

**[312]** A further difference is in the number of hours worked by the sole parent—the budget standards assume the sole parent works 20 hours a week, while the Statistical report assumes 19 hours a week (i.e., earning 50 per cent of the weekly NMW rate). The Australian Government modelling does not consider this family type.

**[313]** In addition, the Australian Government modelling also assumes that single-earner couples incur no child care costs as the non-working partner will look after the children. This

means that there would be an even greater difference between disposable incomes and the budget standards for families that require child care. It appears also to assume that the single earner couple with no children does not receive rental assistance.

**[314]** It appears that the assumptions in the Statistical report more closely align with those in the Budget Standards report than those of the Australian Government.

**[315]** We see merit in future research addressing how the budget standards can be appropriately updated to take account of price changes over time to accurately match the various budget standards with the relevant household disposable income. In relation to the latter issue we note that the differences between the family disposable incomes reported in the second and third columns in Table 3.8 are not trivial, even though they purport to measure the same thing. This most likely reflects the tailored, and complex, nature of the tax-transfer system.

### **Poverty and poverty lines**

**[316]** As mentioned earlier, considering the needs of the low paid involves an assessment of an employee's capacity to purchase the essentials for a 'decent standard of living' and to engage in community life, assessed in the context of contemporary norms. If the low paid are forced to live in poverty, then their needs are not being met. Further, those in full-time employment can reasonably expect a standard of living that exceeds poverty levels.

**[317]** There is no consensus on how to measure poverty. It can be measured in absolute or relative terms, although an absolute poverty line is not calculated in Australia and is more common in developing countries.<sup>351</sup> The PC Paper described absolute poverty indicators as those that reference a minimum level of income necessary to support a minimum acceptable standard of living.<sup>352</sup>

**[318]** A relative income poverty line approach regards people as living in poverty if their income is below a certain percentage of a measure of median income. By design a relative income poverty threshold reflects movement in the median standard of living. As the PC Paper observes, relative poverty measures can be sensitive to changes in median incomes. Hence an increase in relative poverty could indicate that real incomes at the bottom of the distribution are falling, but could also reflect strong growth in median incomes.<sup>353</sup>

**[319]** Relative poverty lines are used to measure incomes in comparison to the broader community. Typically this shows the proportion of people earning less than a certain proportion (e.g., 50 or 60 per cent) of median income. These lines are customarily set based on the distribution of equivalised household disposable income as this takes into account not only private income but also tax and transfers and the impact of resource sharing by taking into account household size. Relative poverty 'captures the notion that preferences and norms in society on what is an acceptable standard of living—and the costs associated with it—change over time as incomes rise'.<sup>354</sup> However, relative poverty lines are more a measure of inequality than an assessment of whether low-income households have enough income to meet their basic needs.<sup>355</sup>

**[320]** As noted in the PC Paper, a relative poverty threshold is simple and self-adjusting, but the selection of a threshold is arbitrary and can produce counterintuitive results:

‘... a fall in the United Kingdom’s median income resulted in a lowering of the relative poverty line and a consequent decline in the proportion of people living in relative poverty – even though deprivation increased as living standards declined (Fahmy 2014). Conversely, an increase in all incomes could produce a rise in the relative poverty rates, as was observed in Australia during the mining boom.’<sup>356</sup>

**[321]** In its analysis of poverty, the PC Paper considered 50 per cent of median income as a threshold. Based on this measure, the report showed that there was an increase in poverty from 1993–94, peaking at 12 per cent in 2009–10 due to strong growth in median income during the mining boom.<sup>357</sup> An estimated 9 per cent of Australians (or 2.2 million people) were below this measure of relative poverty in 2015–16,<sup>358</sup> which is around its long-term average.<sup>359</sup>

**[322]** The Panel has generally relied on poverty lines that are measured relative to median equivalised household disposable income and has considered that a threshold of 60 per cent of median equivalised household disposable income is more appropriate when using relative poverty lines to set minimum wages, as those in full-time employment can reasonably expect a standard of living that exceeds harsher poverty levels.<sup>360</sup> We propose to continue to adopt that approach.

**[323]** Table 3.9 compares the equivalised household disposable income for a range of hypothetical households reliant on the NMW and selected modern award minimum wages with a relative poverty threshold calculated at 60 per cent of median equivalised household disposable income. These poverty lines are based on estimates of median equivalised household disposable income provided by the ABS. As these data are provided infrequently, they are adjusted (on a quarterly basis) for movements in household disposable income per head as calculated by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute), and further adjusted for household composition using the modified OECD equivalence scale.<sup>361</sup>

**[324]** These relative poverty lines differ between the household types because of the different size and composition of the households. As we have stated previously, because of these differences, it is not feasible for minimum wages on their own to ensure that all families with a full-time minimum wage worker have incomes that exceed poverty levels. Larger families may need help from the welfare system.<sup>362</sup> In comparison, a single adult receives no assistance from transfer payments and is entirely reliant on their earnings.<sup>363</sup>

**[325]** Further, the margin between the selected relative poverty line and the equivalised disposable income of households reliant on the NMW and selected modern award minimum wages represents, at best, a broad indicator of the extent to which the needs of the low paid are met.<sup>364</sup>

**[326]** Table 3.9 shows that, for the December quarter 2018, all households receiving the C4 rate or AWOTE had disposable incomes above the relative poverty line, apart from single parents working part time with 2 children (at the C4 rate). Households with equivalised disposable income below the relative poverty line were single parents with children working part time, single-earner couples and single-earner couples with two children with the non-earning partner not receiving NSA, where the employed member of the household was receiving the C10 rate.

[327] However, there were 5 households receiving the C14 rate that were below the 60 per cent median income poverty line in December 2018, all single-earner households—single parents working part time with 1 or 2 children; single-earner couples without children and single-earner couples with 1 or 2 children. This is fewer than the 7 households below the 60 per cent relative poverty line in December 2013.

[328] The table also shows that, between the December quarter 2017 and the December quarter 2018, the equivalised household disposable income increased or stayed the same for each of these hypothetical households at the C14, C10 and C4 rates as well as AWOTE relative to 60 per cent of median equivalised disposable income. However, for those households on these wage rates that had disposable income below the relative poverty line, the increase was not enough to move any household above the poverty line.

**Table 3.9: Ratio of disposable income of selected households earnings various wage rates to a 60 per cent median income poverty line<sup>365</sup>**

	December 2013					December 2017					December 2018				
	60% median income PL (\$ pw)	Disposable income as a ratio of 60% median income PL				60% median income PL (\$ pw)	Disposable income as a ratio of 60% median income PL				60% median income PL (\$ pw)	Disposable income as a ratio of 60% median income PL			
		C14	C10	C4	AWOTE		C14	C10	C4	AWOTE		C14	C10	C4	AWOTE
Single adult	506.40	1.13	1.28	1.47	2.19	520.32	1.20	1.34	1.54	2.29	528.70	1.22	1.37	1.58	2.32
Single parent working FT, 1 child	658.32	1.25	1.37	1.50	1.91	676.41	1.31	1.42	1.55	1.94	687.32	1.32	1.43	1.58	1.95
Single parent working PT, 1 child	658.32	0.85	0.92	1.02	1.36	676.41	0.88	0.96	1.05	1.40	687.32	0.88	0.97	1.07	1.40
Single parent working FT, 2 children	810.24	1.15	1.25	1.36	1.69	832.51	1.19	1.28	1.39	1.68	845.93	1.20	1.29	1.41	1.70
Single parent working PT, 2 children	810.24	0.82	0.88	0.96	1.24	832.51	0.84	0.90	0.98	1.26	845.93	0.84	0.91	0.99	1.27
Single-earner couple (with NSA)	759.60	0.98	1.00	1.01	1.46	780.48	1.04	1.04	1.05	1.53	793.06	1.04	1.05	1.06	1.54
Single-earner couple	759.60	0.77	0.87	0.98	1.46	780.48	0.82	0.90	1.03	1.53	793.06	0.83	0.92	1.05	1.54
Single-earner couple, 1 child (with NSA)	911.52	1.02	1.04	1.08	1.38	936.57	1.06	1.07	1.12	1.40	951.67	1.07	1.07	1.14	1.41
Single-earner couple, 1 child	911.52	0.90	0.99	1.08	1.38	936.57	0.94	1.02	1.12	1.40	951.67	0.95	1.03	1.14	1.41
Single-earner couple, 2 children (with NSA)	1063.44	0.98	1.00	1.03	1.28	1092.67	1.01	1.02	1.06	1.28	1110.28	1.01	1.02	1.08	1.29
Single-earner couple, 2 children	1063.44	0.87	0.95	1.03	1.28	1092.67	0.90	0.98	1.06	1.28	1110.28	0.91	0.99	1.08	1.29
Dual-earner couple	759.60	1.16	1.33	1.54	2.31	780.48	1.24	1.41	1.62	2.40	793.06	1.27	1.44	1.66	2.43
Dual-earner couple, 1 child	911.52	1.18	1.28	1.40	1.93	936.57	1.24	1.33	1.45	2.00	951.67	1.25	1.35	1.48	2.02
Dual-earner couple, 2 children	1063.44	1.12	1.20	1.30	1.70	1092.67	1.16	1.24	1.34	1.72	1110.28	1.17	1.25	1.36	1.74

Source: Statistical report, Table 8.6. ABS, *Average Weekly Earnings, Australia, Nov 2018*, Catalogue No. 6302.0; ABS, *Household Income and Income Distribution, Australia, 2011–12*, Catalogue No. 6623.0; ABS, *Household Income and Wealth, Australia, 2015–16*, Catalogue No. 6523.0; Fair Work Commission modelling; *Manufacturing and Associated Industries and Occupations Award 2010*; Melbourne Institute of Applied Economic and Social Research (2018), *Poverty Lines: Australia*, December quarter 2018.



[329] We acknowledge that there are limitations with measures of equivalised disposable household income in assessing poverty as they are assessed for a given type of household rather than individual circumstances and, as the ACTU submits, ‘cannot adequately reflect the impact of increasing the minimum wage for a wide variety of workers in low-paid low-income households.’<sup>366</sup> And, further, the hypothetical household types do not necessarily represent the experience of all households in those categories.<sup>367</sup>

[330] While the tax-transfer system plays a significant role in increasing the living standards of NMW and modern award minimum wage-reliant households with children,<sup>368</sup> five of the 14 hypothetical household types are below the 60 per cent median income relative poverty line, namely:

- single parent working PT, 1 child;
- single parent working PT, 2 children;
- single earner couple;
- single earner couple, 1 child; and
- single earner couple, 2 children.

[331] These household types are shaded in Table 3.9. In each of these households the wage earner receives the C14 rate, which is the same as the NMW, a point to which we return shortly.

[332] In the first 2 households the single parent is working part time and their income is affected by the hours they work, as well as by their rate of pay. No one is suggesting that we should set the C14 rate at a level high enough to lift every part-time worker above the 60 per cent relative poverty line.<sup>369</sup> That leaves 3 household types.

[333] Only the ACTU contends that we should set the C14 rate at a level which lifts a single earner couple without children above the 60 per cent relative poverty line in circumstances where the non-working partner is not seeking work.<sup>370</sup>

[334] ACBC argues that single breadwinner couple families should not have to rely on the welfare system for a decent standard of living but should have a choice as to how they balance work and family responsibilities and wages should be set at a level to support that choice.<sup>371</sup>

[335] In relation to the 2 remaining household types (single earner couples with 1 or 2 children) both the ACTU and ACBC submit that we should set the C14 rate at a level which lifts these households above the 60 per cent relative poverty line.<sup>372</sup> In each of these households the non-working partner is not seeking work. This submission gives rise to a number of issues.

[336] First, as we have mentioned, in each hypothetical household the wage earner receives the C14 rate. The Department of Jobs and Small Business estimates that around 180 200 employees are paid the adult C14 rate. While not an insignificant number of employees it only

represents 1.7 per cent of all employees.<sup>373</sup> Further, the number of employees in households which are the focus of the ACTU and ACBC submissions must logically be less than 180 200.

[337] Regard must also be had to a ‘stepping stone’ effect. Low-paid employment is often temporary and can act as a ‘stepping stone’ to higher-paid work. Almost two-thirds of workers who enter low paid employment leave within one year and most move into higher paid work.<sup>374</sup> The C14 (or NMW) rate of \$719.20 per week only features in 45 of the 122 modern awards (details of which are set out in Appendix 1). In 39 of those modern awards it is a transitional rate from which employees progress after a period. For example, the *Hospitality Industry (General) Award 2010* provides for an introductory classification at the C14 rate:

‘In respect of all classification streams, introductory level means the level of an employee who enters the industry and who has not demonstrated the competency requirements of level 1. Such an employee will remain at this level for up to three months while the appropriate training for level 1 is undertaken and assessment made to move from the introductory level to level 1. At the end of three months from entry, an employee will move to level 1 other than where agreement has been reached and recorded between the employee and the employer that further training of up to three months is required for the employee to achieve competence for movement to level 1.’<sup>375</sup>

[338] In 8 of those modern awards the transition to a higher rate occurs after 38 hours of induction training.<sup>376</sup> In 18 of those modern awards the transition occurs after 3 months<sup>377</sup> and the remaining 13 modern awards in which the NMW rate is transitional either other periods are specified<sup>378</sup> or the relevant classification appears to be transitional but no particular period is specified.<sup>379</sup>

[339] It follows that, for a proportion of the employees in the households which are the focus of the ACTU and ACBC submissions, the wage earner is likely to be transitioning through the C14 wage rate into a higher classification level.

[340] In the remaining 6 modern awards<sup>380</sup> containing a C14 (or NMW) rate, the related classification is not a transitional level. It is not clear why these 6 modern awards prescribe a rate at this level, which is not a transitional rate. This is an issue which should be the subject of further examination in the current 4 yearly Review of modern awards.

[341] We would also observe that the remaining 77 modern awards *only* provide for wage rates *above* the C14 or NMW rate.

[342] These things matter, because it is important to identify with some precision the number of employees who are sought to be the beneficiaries of a particular policy. If it turns out that the number of employees in the household types below the relative poverty line is very small or that they are transitioning to higher-paid jobs then it raises a real question about whether the minimum wage system is the appropriate instrument to address these pockets of disadvantage. As the Panel has observed in the past, ‘increases in minimum wages are a blunt instrument for addressing the needs of the low paid ... [and] the tax-transfer system can provide more targeted assistance to low-income households and is a more efficient means of addressing poverty’.<sup>381</sup>

[343] As we have mentioned, the single-adult household provides the starting point for our assessment of the needs of the low paid, as such a worker receives no assistance from the welfare system. Further, some 71.3 per cent of low-paid employees do not have dependent children.<sup>382</sup> It is also clear from Table 3.9 that most, but not all, household types are above the relative poverty line. But we also accept that we must take into account the needs of the low paid, without limitation. Accordingly, we also give consideration to the needs of other types of families, including single-income families.

[344] Further, the magnitude of the increase required in this Review to lift these household types above the relative poverty line would run a significant risk of disemployment effects and adversely affecting the employment opportunities of low-skilled and young workers.

### **Indicators of financial stress and deprivation**

[345] In the last Review we compared expenditure patterns between low-paid households and all households using data from the ABS Household Expenditure Survey (HES). The data found that the difference in average total expenditure between low-paid and all employee households was smaller than the difference in their average total income and that their average expenditure exceeded their income (these were in line with findings from 2009–2010 data).<sup>383</sup> There has been no new update to these data as it is only undertaken every 6 years.

[346] Another indicator of needs are measures of financial stress and deprivation. Again, in the last Review this was presented using the ABS HES, and in last year's decision we concluded that households with low-paid adult employees were more likely than all employee households to report financial stress and deprivation.<sup>384</sup>

[347] We also assess these measures using data from the HILDA survey (these data do not report deprivation indicators), which are provided annually.<sup>385</sup> Measures of financial stress are compared over each of the 5 years to 2017 for employee households and low-paid employee households. Table 3.10 presents the indicators for low-paid employee households.

**Table 3.10: Financial stress experienced by low-paid households**

<b>Financial stress indicators</b>	<b>2013 (%)</b>	<b>2014 (%)</b>	<b>2015 (%)</b>	<b>2016 (%)</b>	<b>2017 (%)</b>
Unable to raise \$3000 in a week for something important	10.4	13.8	12.8	10.8	12.6
Could not pay electricity, gas or telephone bills on time	16.0	13.7	14.4	13.1	14.9
Could not pay the mortgage or rent on time	9.1	8.2	8.0	6.9	6.0
Pawned or sold something	5.0	4.2	4.3	5.0	4.4
Went without meals	3.4	5.2	4.3	3.0	3.1
Could not afford to heat home	3.0	2.6	4.3	2.7	3.5
Sought assistance from welfare/community organisation	2.6	3.4	2.7	2.2	3.0
Sought financial help from friends or family	15.1	16.5	15.5	13.1	11.6
Any stress	30.8	31.2	31.7	27.5	27.9
Low stress (1–2)	21.8	21.3	23.2	18.8	19.3
Moderate stress (3–4)	6.7	7.7	5.9	6.9	6.6
High stress (5 or more incidences of financial stress)	2.3	2.1	2.5	1.9	2.1
Observations	890	892	906	973	1019

Source: Statistical report, Table 12.2; HILDA survey, Waves 13–17.

Note: Employee households are those households whose main source of income is from wages or salary. Both partners in a couple family household, the lone parent in a lone parent household and the lone person of a lone person household must report financial stress for that particular household to be considered as such. Observations from multi-family households, other related family households and group households are excluded. Low-paid employee households are defined as those households in the bottom quintile of equivalised disposable household income for employee households. Disposable household income is equivalised using the 'modified OECD' method where each person in the household is given a score (1 for the first adult, 0.5 for subsequent adults and 0.3 for each child under the age of 15) and the income is divided by the sum of these scores.

**[348]** Table 3.10 may be compared with indicators across all employee households, as presented in Table 12.1 in the Statistical report. Comparing the two tables shows that low-paid households were twice as likely to experience any financial stress as all employee households (27.9 per cent compared with 13.5 per cent) in 2017. While the proportion of all employee households that reported any financial stress declined in 2017, there was a slight increase among low-paid employee households, although it was lower than that recorded from 2013 to 2015. Other findings from the tables include:

- low-paid employee households were around three times more likely to be unable to raise \$3000 in a week for something important (12.6 per cent compared with 4.5 per cent);
- the proportion of low-paid employee households that reported low stress increased between 2016 and 2017 (from 18.8 per cent to 19.3 per cent);
- the most widely reported indicators of financial stress for low-paid employee households were:

- could not pay electricity, gas or telephone bills on time;
- unable to raise \$3000 in a week for something important; and
- sought financial help from friends or family.

[349] The proportion of low-paid households experiencing financial stress remained broadly stable over the latest year for which data are available. While this measure of disadvantage does not appear to be getting worse, nor is it improving. Five of the 8 financial stress indicators increased in 2017. Some low-paid households are plainly experiencing significant disadvantage. In particular, 3.1 per cent of low-paid households went without meals; 3.5 per cent could not afford to heat their homes; and 3.0 per cent sought help from a welfare/community organisation. Further, as noted in the Foodbank Hunger Report 2018, 49 per cent of charities who are supplied by Foodbank ‘report the number of people seeking food relief continues to increase year on year’.<sup>386</sup> A real wage increase would assist these low-paid households to better meet their needs.

[350] The ACTU submitted that the record high proportion of secondary jobs was also an indicator of financial stress, with workers ‘resorting to taking up a secondary job to get by’,<sup>387</sup> a view that was echoed by the Federal opposition.<sup>388</sup> The ACTU argued that the median income for people working more than one job either concurrently or within a year (\$44 531) was lower than for people who only worked one job (\$48 344)<sup>389</sup> and the highest proportion of multiple jobholders worked in award-reliant industries.<sup>390</sup> In response to a question on notice, NRA argued that whilst the holding of a second job may in some circumstances be due to financial difficulty, this should not be taken as an indicator of financial stress and may equally be a signifier of financial aspiration.<sup>391</sup> ACCI submitted that it has ‘nothing to do with inadequacy or financial stress’,<sup>392</sup> and Ai Group commented that ‘people work in secondary jobs for a wide variety of reasons’.<sup>393</sup>

[351] While the hypothesis advanced by the ACTU is one of a number of plausible explanations for the recent high proportion of secondary jobs, the ABS data referred to by the ACTU has only recently been published and does not provide any insight into the reasons why people work secondary jobs. Absent any research that sheds light on the reasons why people work secondary jobs we do not propose to regard this as an indicator of financial stress.

### Conclusion

[352] The real values of the NMW and modern award minimum wages have increased by 6.2 per cent over the 5 years to December 2018. In recent years the NMW and modern award minimum wages have increased at a faster rate than earnings generally, which has resulted in some improvement in the relative position of the low paid.

[353] The data is mixed as to how income inequality has changed over time. As observed in the PC Paper, the trend in income inequality is ‘contested territory’. Like other measures of inequality, the minimum wage bite fell substantially between the mid-1990s and the mid-2000s, but has remained fairly stable since.

[354] Changes in the tax-transfer system, whether to the benefit or detriment of low-paid households, are relevant to our consideration of relative living standards and the needs of the

low paid. In that regard we accept that the introduction of the LMITO effective from 1 July 2018 and the increase in the Medicare levy's low-income threshold for the 2018–19 financial year (to take into account movements in the CPI) have, broadly speaking, provided a benefit to low-paid households. These changes are a moderating factor on our assessment of the appropriate level of increase to the NMW and modern award minimum wages arising from this Review. But for the reasons we have given, it is not appropriate to apply a direct, quantifiable, discount to the increase in the NMW and modern award minimum wages we would have awarded in the absence of such changes in the tax-transfer system.

[355] We use a variety of measures to assess the 'needs of the low paid,' including budget standards, comparing a range of hypothetical low-wage household types with customary measures of poverty and survey evidence of financial stress and material deprivation among low-paid households.

[356] The MIHL budget standards indicate that the NMW combined with the tax-transfer system is sufficient for the 'healthy living' of a single adult, but not for most other family types. The disposable income of a single adult earning the NMW in March 2019 is above the corresponding MIHL budget standard (updated for price increase since the June quarter of 2016 to the March quarter 2019) by \$33.08 per week. However, data presented in the Statistical report and the Australian Government submission show that the disposable incomes of all but one of the other family types (the single-earner couple with one child in receipt of NSA) are *below* the relevant budget standard.

[357] Relative poverty lines are used to measure incomes in comparison with the broader community. Table 3.9 shows that the position of the selected hypothetical households compared to the relative poverty line has improved over the last five years. In December 2018, the equivalised disposable income of 9 of the 14 hypothetical household types reliant on the NMW was above the 60 per cent median relative poverty line. The five NMW household types which remain below the relative poverty line are: single parents with children who work part time, single-earner couples and single-earner couples with children, where the non-working partners are not getting the NSA (i.e. are not in the workforce).

[358] The ACTU contends that we should set the NMW (or C14) rate at a level which lifts a single earner couple without children above the 60 per cent relative poverty line where the non-working partner is not seeking work. Both the ACTU and ACBC submit that the NMW (or C14) rate should be set at a level which lifts single earner couples with 1 or 2 children above the 60 per cent median income poverty line.

[359] In our judgment the magnitude of the increase required in this Review to lift these household types above the relative poverty line would run a significant risk of disemployment and of adversely affecting the employment opportunities of low-skilled and young workers. Further, it is not clear how many low-paid employees are in the household types which are the focus of the ACTU and ACBC submission. It is likely that a number of these employees are on a transitional modern award minimum wage from which they will progress after a relatively short period. Almost two-thirds of workers who enter low-paid employment leave within a year and most move into higher-paid work.

[360] The proportion of low-paid households experiencing financial stress remained broadly stable over the latest year for which data are available. While this measure of disadvantage does not appear to be getting worse, nor is it improving. Some low-paid households are

plainly experiencing significant disadvantage. A real wage increase would assist these employees to better meet their needs.

[361] Our overall assessment is that the relative living standards of NMW and award-reliant employees have improved over recent years, although, some low-paid award-reliant employee households (namely single-earner couples with and without children and where the non-earning partner is not seeking employment) have household disposable incomes less than the 60 per cent of median income relative poverty line. Many household types are also likely to have disposable incomes that do not reach the threshold of the MIHL budget standard.

[362] The requirement to take into account relative living standards and the needs of the low paid supports a real increase in the NMW and modern award minimum wages.

#### **4. Other relevant considerations**

[363] This Chapter deals with the remaining considerations we must take into account, including the need to encourage collective bargaining and the equal remuneration principle.

##### **Encouraging Collective Bargaining**

[364] In giving effect to the modern awards objective, we must take into account ‘the need to encourage collective bargaining’ (s.134(1)(b)). In making the NMW order, the Panel must give effect to the minimum wages objective. While the minimum wages objective does not refer to ‘the need to encourage collective bargaining’, one of the objects of the Act is to encourage collective bargaining and on that basis it is appropriate to consider that legislative purpose in making the NMW order.<sup>394</sup>

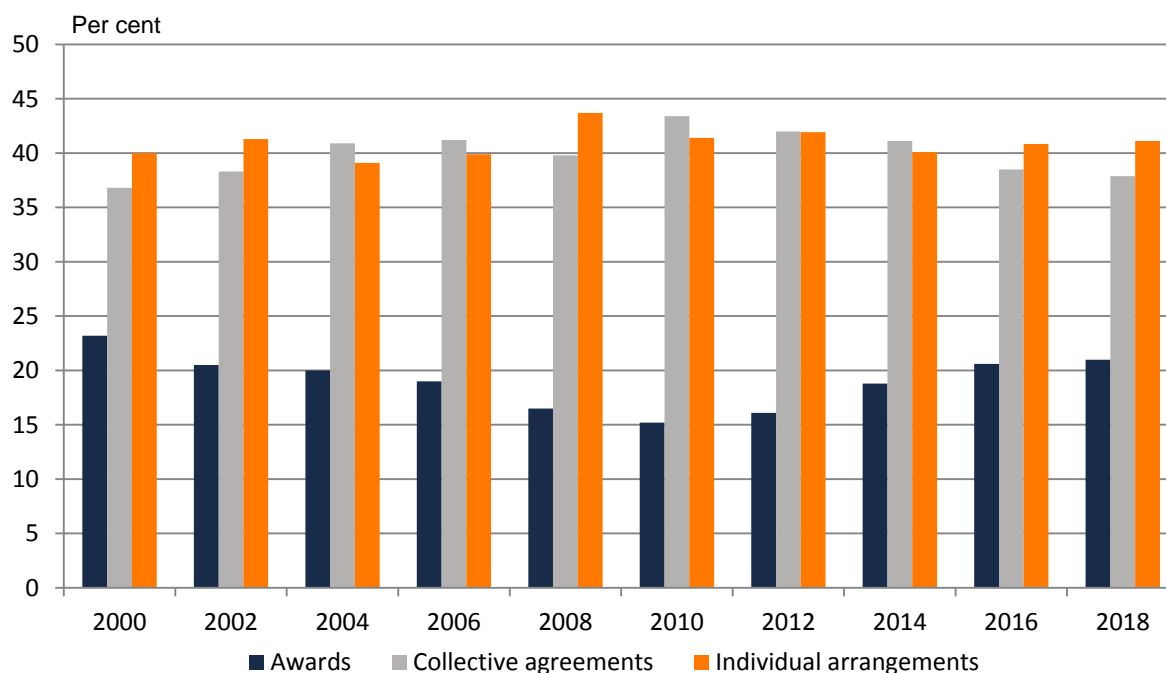
[365] We first consider data on the trends in the making of enterprise agreements using data from the EEH and the Workplace Agreements Database (WAD). The EEH captures the proportion of employees covered by collective agreements and the most recent data was released in early 2019. Data on current agreements from the WAD captures employees covered by federal enterprise agreements that have not passed their nominal expiry date.<sup>395</sup>

[366] In considering the data we note that there have been changes in the Method of Setting Pay conceptual framework in 2016 and 2018 and as a result new estimates have been provided for 2016 that makes them comparable to those of 2018. The changes resulted in a shift to Award only from Collective agreement for some employees in some industries and States between EEH 2014 and EEH 2016. A further refinement in 2018 caused a sub-set of employees who were considered to be paid on an Award only in 2016 to be reclassified as having been paid according to a Collective agreement under the 2018 treatment.<sup>396</sup> The impact from these changes has been to increase the proportion of employees covered by collective agreements by 2.1 percentage points above that previously reported for 2016.<sup>397</sup>

[367] In 2018, 37.9 per cent of employees were covered by collective agreements, down from an indicative comparable estimate of 38.5 per cent in 2016. Chart 4.1 shows that the proportion of employees covered by collective agreements continued its fall from 2010, although the decline in 2018 was less than in past years.

[368] Award reliance increased slightly over the 2 years to 2018, from 20.6 per cent to 21.0 per cent. This continued the pattern of gradually increasing levels of award reliance in every survey since 2010. The proportion of employees covered by individual agreements in 2018 was 41.1 per cent, a slight increase from 2016 (40.8 per cent).

**Chart 4.1: Method of setting pay**



Source: Statistical report, Table 7.1; ABS, ‘A Guide to Understanding Employee Earnings and Hours Statistics’, feature article in *Employee Earnings and Hours, Australia, May 2018*, Catalogue No. 6306.0; ABS, *Employee Earnings and Hours, Australia*, various, Catalogue No. 6306.0.

[369] Analysis by the ACTU suggested that past regulatory changes have made it difficult to accurately measure enterprise bargaining and the share of workers across methods of setting pay, and that the overhang from these changes has made the observed decline in enterprise bargaining appear more severe than was truly the case.<sup>398</sup> The ACTU also pointed to the further complication caused by revision of the manner in which employees are allocated to the methods of setting pay measured by the EEH.<sup>399</sup> The Equal Remuneration Order (ERO), which increases rates of pay for employees covered by the *Social, Community, Home Care and Disability Services Industry Award 2010* may also have impacted on the proportion of employees classified as ‘award only’ in the EEH according to the ACTU.<sup>400</sup>

[370] We accept that a range of factors have made it difficult to accurately measure the proportion of workers in each category in the Method of Setting Pay framework. We expect the influence of these factors to decline over time such that future data may provide a more accurate picture of what is happening in practice.

[371] Table 4.1 shows that there was an increase in collective agreement coverage among non-managerial employees in 9 industries and a decrease in the remaining 9 of the 18 industries. For the award-reliant industries, Accommodation and food services (–5.9 percentage points) and Health care and social assistance (–4.1 percentage points) experienced a decline in collective agreement coverage, while it increased in Other services (3.2 percentage points); Retail trade (2.7 percentage points); and Administrative and support



services (0.4 percentage points). We note that the increase in collective agreement coverage in Retail trade is consistent with the factors we identified as being at play in our analysis of enterprise bargaining in that sector in the 2017–18 Review.<sup>401</sup> We also note that the slight increase in bargaining in the retail sector we identified in the last Review<sup>402</sup> has continued and strengthened, no doubt influenced by the approval of some agreements with extensive coverage. For example, the Coles Supermarkets Enterprise Agreement (covering 82 638 employees) was approved on 23 April 2018.<sup>403</sup>

[372] We agree with the ACTU’s observation that ‘there does not appear to be a pattern to the decline in collective agreement coverage between those two periods (2016–2018) related to award dependency’.<sup>404</sup> We do not detect anything in these data to suggest that past Review decisions have impacted on collective agreement coverage. We see nothing to change the view expressed in previous Review decisions that the extent of enterprise bargaining is likely to be impacted by a range of factors.<sup>405</sup>

**Table 4.1: Changes in collective agreement coverage, May 2016 and May 2018**

	2016 indicative comparable estimate (%)	2018 (%)	Ppt change
Mining	40.3	42.5	2.2
Manufacturing	27.1	25.2	-1.9
Electricity, gas, water and waste services	59.8	62.9	3.1
Construction	22.1	25.8	3.7
Wholesale trade	12.9	14.2	1.3
Retail trade	37.6	40.3	2.7
Accommodation and food services	35.7	29.8	-5.9
Transport, postal and warehousing	57.9	48.0	-9.9
Information media and telecommunications	40.1	37.8	-2.3
Finance and insurance services	42.0	34.5	-7.5
Rental, hiring and real estate services	9.9	7.5	-2.4
Professional, scientific and technical services	11.2	6.4	-4.8
Administrative and support services	16.3	16.7	0.4
Public administration and safety	80.5	82.7	2.2
Education and training	80.7	79.5	-1.2
Health care and social assistance	56.1	52.0	-4.1
Arts and recreation services	39.0	41.0	2.0
Other services	10.8	14.0	3.2
<b>Total non-managerial employees</b>	<b>41.0</b>	<b>40.0</b>	<b>-1.0</b>

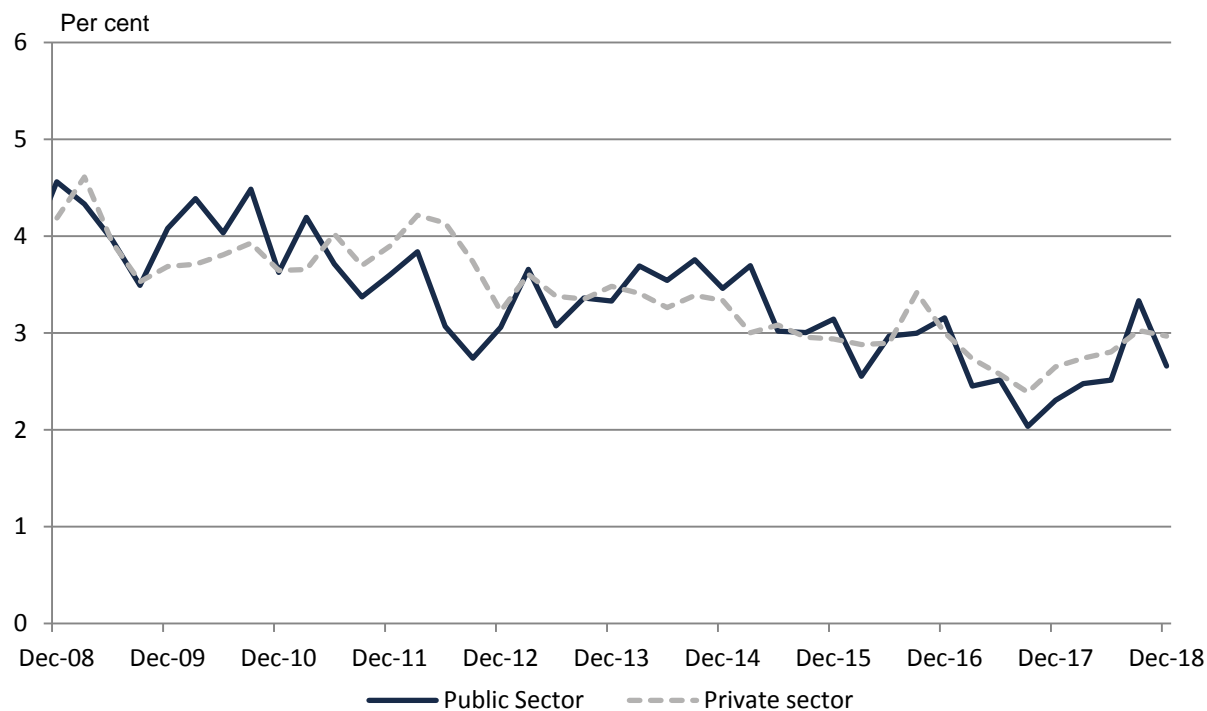
Source: Statistical report, Table 10.1; ABS, ‘A guide to understanding Employee Earnings and Hours statistics’, feature article in *Employee Earnings and Hours, Australia, May 2018*, Catalogue No. 6306.0.

### Trends in federal enterprise agreements

[373] The December quarter 2018 *Trends in Federal Enterprise Bargaining Report* was released in March 2019. Chart 4.2 shows that AAWIs have increased from the historic lows in

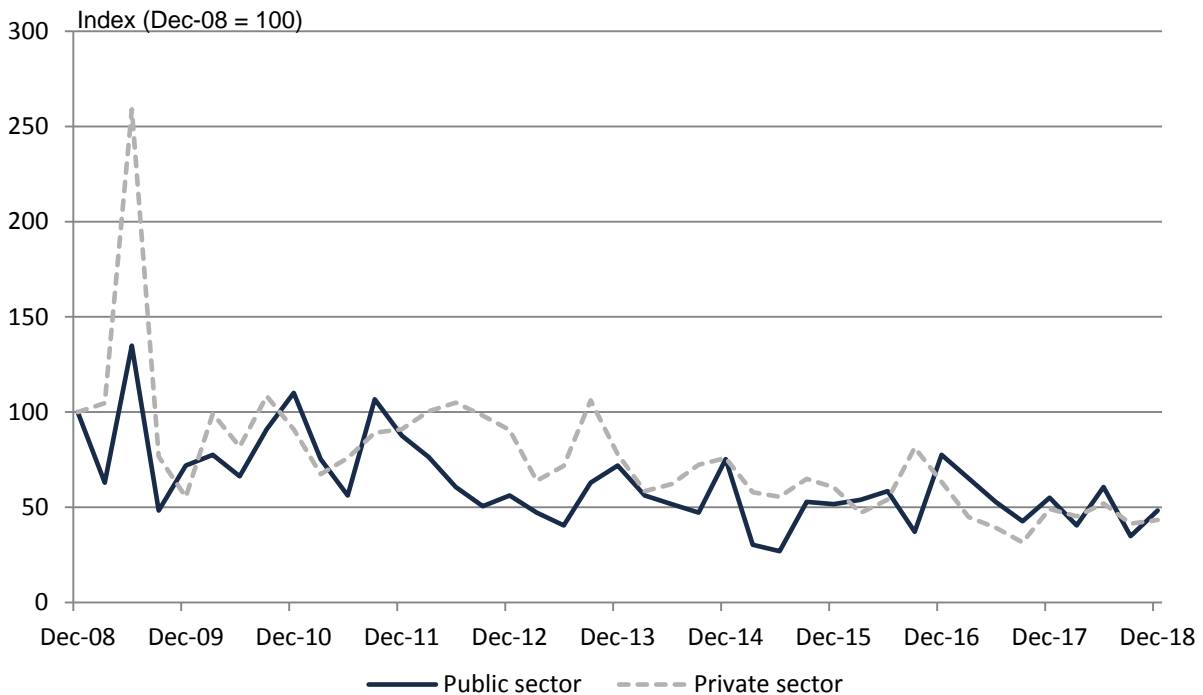
the September quarter 2017. The AAWI for all federal enterprise agreements approved in the December quarter 2018 was 2.8 per cent, down from 3.2 per cent in the September quarter 2018 and below the 5-year average (3.0 per cent).<sup>406</sup> In the December quarter 2018, the AAWI was 3.0 per cent in the private sector and 2.7 per cent in the public sector.

**Chart 4.2: AAWI for agreements approved in the quarter by sector, December quarter 2008 to December quarter 2018**



Source: Statistical report, Chart 10.2; Department of Jobs and Small Business (2018), *Trends in Federal Enterprise Bargaining*, December quarter 2018.

[374] Chart 4.3 presents an index of the number of federal enterprise agreements approved by sector in the 10-year period between the December quarters in 2008 and 2018. The number of agreements approved in each quarter has declined over time.

**Chart 4.3: Number of agreements approved in the quarter by sector, indexes**

Source: Statistical report, Chart 10.1; Department of Jobs and Small Business, *Trends in Federal Enterprise Bargaining*, December quarter 2018.

[375] The Australian Government submitted that the decline is driven primarily by a fall in agreements covering a small number of employees and has been sharper in Construction, Manufacturing, Retail trade and Accommodation and food services.<sup>407</sup> Citing research by Pennington (2018), the Chamber of Commerce and Industry Western Australia (CCIWA) stated that small enterprise bargaining agreements covering fewer than 20 workers have had the ‘most rapid decline’ since 2013, however, the decline in a small number of large enterprise bargaining agreements (500 workers or more) accounted for the majority of the fall in the number of employees covered by federal enterprise agreements.<sup>408</sup> Master Grocers Australia (MGA) submitted that there has been a decline in the number of enterprise agreements in the independent retail sector and that many independent retailers who made enterprise agreements prior to the award modernisation process continue to rely on those agreements.<sup>409</sup>

[376] The ACTU also referred to research by Pennington (2018), who attributed the decline in private sector enterprise bargaining to multiple factors such as increased approval times for enterprise agreements, non-union enterprise agreements made during the period of the *Workplace Relations Amendment (Work Choices) Act 2005* that delivered pay and conditions below the award which are now being terminated, and decreased union capacity to undertake effective collective bargaining.<sup>410</sup>

[377] In response to the last proposition, Ai Group pointed to recent research by the RBA on the effects of declining union membership on low wages growth.<sup>411</sup> The authors of the RBA Research Discussion Paper concluded that while trends in unionisation rates are unlikely to have contributed materially to the decline in wages growth in recent years, this conclusion is limited only to unions taking part in enterprise bargaining.<sup>412</sup> The authors acknowledged that

declining membership may have affected unions' ability to influence other wages outcomes in the economy or diverted limited resources away from non-wage matters.<sup>413</sup>

### **Implications of these trends for the setting of the NMW and minimum award wages**

[378] A number of submissions discussed the impact of the gap between modern award minimum wages and bargained wages on collective bargaining.<sup>414</sup> The extent of the gap is difficult to quantify and, as noted in the 2017–18 Review decision, is not consistent across each industry.<sup>415</sup>

[379] In the 2017–18 Review decision we concluded as follows:

[94]...while we accept that there has been a decline in current enterprise agreement making, a range of factors impact on the propensity to engage in collective bargaining, many of which are unrelated to increases in the NMW and modern award minimum wages.

[95] We are not persuaded that the gap between modern award minimum wages and bargained wages, to the extent that it can be identified with any precision, has reached a level where it is encouraging or discouraging collective bargaining.

[96] We maintain the view expressed in past Review decisions that given the complexity of factors which may contribute to decision making about whether or not to bargain, we are unable to predict the precise impact of our decision. We cannot be satisfied that the increase we have determined will *encourage* collective bargaining and this is a factor to be weighed along with the other statutory considerations. However, we are also of the view that it is likely that the increase we have determined in this Review will impact on different sectors in different ways and will not, in the aggregate, *discourage* collective bargaining.<sup>416</sup>

[380] A number of parties commented on the above passage in their submissions in the current Review.

[381] Ai Group agreed with the conclusion that there are many complex factors that contribute to the decision of employers and employees on whether or not to bargain.<sup>417</sup> But submitted, as it has in previous Reviews, that the level of minimum wage increase granted in the Review is a factor considered by employers and employees when deciding whether to make an enterprise agreement, with higher minimum wage increases making it less likely that an employer and its employees will seek an enterprise agreement.<sup>418</sup> On this basis, Ai Group submitted that the level of any minimum wage increase should generally be set at a level that is lower than AAWIs in enterprise agreements.<sup>419</sup> We would observe that this submission pays insufficient regard to our statutory obligation to take into account 'relative living standards'.

[382] The ACTU submitted that 'a precise and proven hypothesis on the relationship between wages the Panel adjusts and the incidence and prevalence of enterprise agreements remains elusive' and agreed with the Panel that it suggests a 'complexity of factors' may contribute and that these factors are not homogenous between or within industries.<sup>420</sup>

[383] ACCI submitted that if ‘minimum wages are set at a level too close to rates actually paid in workplaces (market rates) they will fail to meet the objectives of encouraging agreement making, and will with other factors, continue to discourage rather than encourage bargaining’<sup>421</sup> and that these ‘disincentives are sharpest when minimum wage increases exceed inflation’<sup>422</sup>.

[384] ACCI challenged the conclusion in the 2017–18 Review decision that the increase granted would not in the aggregate, discourage collective bargaining,<sup>423</sup> and submitted that:

‘With due respect this is a known unknown. The Panel knows what it does not know, namely the impact of its decisions on bargaining. The conclusion should not be that the level of increase awarded will not/is not discourage(ing) enterprise bargaining, it should be that [the] Panel cannot determine that on the information before it.’<sup>424</sup>

[385] We accept that there has been a decline in current enterprise agreements, but a range of factors impact on the propensity to engage in collective bargaining, many of which are unrelated to increases in the NMW and modern award minimum wages. Given the complexity of factors which may contribute to decision making about whether or not to bargain, we are unable to predict the precise impact of our decision.

[386] When the wide range of factors which impact on collective bargaining are taken into account, it is unlikely that the adjustments to wages made by the Panel in recent Reviews have discouraged collective bargaining, particularly in light of the increase in collective agreement coverage in at least some of the award-reliant industries. Further, the rate of the decline in collective agreement making from the peak around 2010 has not increased significantly to the extent where it could be concluded that wages outcomes from recent Reviews have discouraged collective bargaining.

[387] For the reasons given it is likely that an increase we have determined in a Review may impact on bargaining in different sectors in different ways and we cannot be satisfied that the increase we have determined will *encourage* collective bargaining. We have taken this into account along with the other statutory considerations in determining the outcome in this Review.

### **Equal remuneration**

[388] The modern awards objective and the minimum wages objective is that the Panel must take into account the ‘principle of equal remuneration for work of equal or comparable value’ (ss 134(1)(e) and 284(1)(d)). This consideration was comprehensively addressed in the 2017–18 Review decision and we adopt the observation in that decision, in particular:

‘The application of the principle of equal remuneration for work of equal or comparable value is such that it is likely to be of only limited relevance in the context of a Review. Indeed it would only be likely to arise if it were contended that particular modern award minimum wage rates were inconsistent with the principle of equal remuneration for work of equal or comparable value; or, if the form of a proposed increase enlivened the principle. We agree with the observations of a number of parties that Review proceedings are of limited utility in addressing any systemic gender undervaluation of work. It seems to us that proceedings under Part 2-7 and applications to vary modern

award minimum wages for ‘work value reasons’ pursuant to ss 156(3) and 157(2) provide more appropriate mechanisms for addressing such issues.

But the broader issue of gender pay equity, and in particular the gender pay gap, is relevant to the Review. This is so because it is an element of the requirement to establish a safety net that is ‘fair.’ It may also arise for consideration in respect of s.284(1)(b) (‘promoting social inclusion through workforce participation’), because it may have effects on female participation in the workforce...

The causes of the gender pay gap are complex and influenced by factors such as: differences in the types of jobs performed by men and women; discretionary payments; workplace structures and practices; and the historical undervaluation of female work and female-dominated occupations. We accept that moderate increases in the NMW and modern award minimum wages would be likely to have a relatively small, but nonetheless beneficial, effect on the gender pay gap.<sup>425</sup>

[389] The gender pay gap is the difference between the average hourly or full-time weekly wages earned by men and women as a ratio of average male earnings. Estimates of the extent of the gender pay gap vary, but are broadly consistent. As shown in Table 4.2, the gender pay gap based on AWOTE has declined from 15.3 per cent in November 2017<sup>426</sup> to 14.1 per cent in November 2018. The gender pay gap measured from the EEH has previously been calculated for the adult hourly rate using the confidentialised unit record file (CURF) and excluding casual loading of 25 per cent.<sup>427</sup> As the EEH CURF for 2018 has yet to be released, the final row in Table 4.2 presents a measure of the gender pay gap published by the ABS and includes casual loading.<sup>428</sup>

**Table 4.2: Estimates of the gender pay gap**

Measure	Male earnings	Female earnings	Gender pay gap
	(\$)	(\$)	(%)
AWOTE (Nov 2018)	1695.60	1455.80	14.1
EEH adult hourly ordinary time cash earnings (May 2016)*	42.03	36.13	14.0
EEH non-managerial adult hourly ordinary time cash earnings (May 2018)	42.20	36.80	12.8

Source: Statistical report, Table 11.1; ABS, *Average Weekly Earnings, Australia, Nov 2018*, Catalogue No. 6302.0; ABS, *Microdata: Employee Earnings and Hours, Australia, May 2016*, Catalogue No. 6306.0.55.001; ABS, ‘Understanding measures of the gender pay gap’, Feature article, in *Gender Indicators, Australia, Sep 2018*, Catalogue No. 4125.0, added 23 January 2019.

Note: AWOTE is expressed in trend terms and refer to full-time adult employees. \*Excludes casual loading of 25 per cent.

[390] Most measures of the gender pay gap have fallen over the last couple of years, including the AWOTE, where the gap has reduced from 16.0 per cent in November 2016<sup>429</sup> to 14.1 per cent in November 2018. This could be due, in part, to the fact that increases in modern award minimum wages have exceeded the increase in the AWOTE in recent years.<sup>430</sup>

[391] The Australian Government submitted that despite the gender pay gap being ‘mostly driven by higher paid workers’, the ‘overrepresentation of women on awards and in low-paid work is still a relevant consideration’.<sup>431</sup> We agree.

[392] In terms of implications of the gender pay gap for the Review, the ACTU contended that a larger increase in minimum wages would tend to have an equalising effect on hourly earnings between men and women<sup>432</sup> and that this ‘is positive in itself and something for which the Panel should strive’.<sup>433</sup> The Western Australian<sup>434</sup> and Queensland<sup>435</sup> Governments also contended, in effect, that regular increases in minimum wages can help to reduce gender pay inequality.

[393] The Victorian Government suggested that women experience a higher level of underemployment<sup>436</sup> and argued that a ‘strong minimum wage is critical for women from vulnerable cohorts to compress both the gender gap as well as gaps due to ethnicity, ability, age and other areas of discrimination.’<sup>437</sup>

[394] ACCI submitted that “uprating” minimum wages is not ‘an efficacious or relevant means to address gender pay disparity’ and that the Panel’s obligations in this regard is best satisfied by setting wages that do not discriminate between men and women.<sup>438</sup> In that regard, a ‘single percentage increase’ applied to the NMW and all adult rates in awards ‘is an effective mechanism’ in addressing gender pay disparity.<sup>439</sup>

[395] In relation to ACCI’s submission, we accept that Review proceedings are of limited utility in addressing any systemic gender based undervaluation of work. Proceedings under Part 2-7 and the applications to vary modern award minimum wages for ‘work value’ reasons provide more appropriate mechanisms for addressing such issue. In this regard we note that there are proceedings underway in the children’s services and early childhood education sector in relation to the work value of early childhood teachers. However, contrary to the first point advanced by ACCI, the broader issue of gender pay equity, and the gender pay gap, is relevant to the Review because it is an element of the requirement to establish a safety net that is ‘fair’. Increases in the NMW and modern award minimum wages are likely to have a relatively small, but nonetheless beneficial, effect on the gender pay gap. Further, as ACCI submits, uniform percentage adjustments to minimum wages are an effective means of addressing gender pay disparity.

## Conclusion

[396] The causes of the gender pay gap are complex and influenced by factors such as: differences in the types of jobs performed by men and women; discretionary payments; workplace structures and practices; the degree to which occupations involve majority female employment; and the historical undervaluation of female work and female-dominated occupations.

[397] The following general observations made by the Panel in the 2017–18 Review decision remain sound:

- there are more women than men who are award-reliant;
- award-reliant workers are more likely to be low paid than other workers;
- women are significantly more likely to be paid at the award rate than are men at all levels of education and experience (except in their first year of work); and

- men are more likely to receive over-award payments or be subject to collective agreements (with higher wages) due to the industry or occupation in which they work.<sup>440</sup>

[398] These factors inform the nature and extent of the role that the Review might play in addressing the gender pay gap.

[399] Increases in minimum wages, particularly adjustments that might exceed increases evident through bargaining, are likely to have a beneficial impact on gender pay equity. This is so firstly, because of the dispersion of women within award classification structures and the greater propensity for women to be paid award rates and, secondly, because women are disproportionately represented among the low paid. Data on the characteristics of award-reliant employees provided as additional material show that 61 per cent of adult award-reliant low-paid employees are women.<sup>441</sup> We have taken this into account in determining the extent and nature of the increase to the NMW and modern award minimum wages in this Review.

## 5. Transitional Instruments and Other Matters

### Transitional Australian Pay and Classification Scales, Division 2B State awards and other transitional instruments

[400] The Panel is required to review, and may make a determination varying a number of transitional instruments as part of the Review. Transitional instruments include:

- Transitional Australian Pay and Classification Scales (APCSs);<sup>442</sup>
- State reference transitional awards, which include:
  - Division 2A State reference transitional awards;<sup>443</sup>
  - Division 2A State reference transitional enterprise awards;
  - Division 2A State reference public sector transitional awards;
  - Division 2B State reference transitional awards;<sup>444</sup>
  - Division 2B State reference public sector awards; and
  - Division 2B State awards.<sup>445</sup>
- Transitional Pay Equity Orders;<sup>446</sup>
- Certain copied State awards.<sup>447</sup>

[401] The Panel addressed the content and coverage of most of these instruments in the *Annual Wage Review 2009–10* decision (2009–10 Review decision),<sup>448</sup> and they were also discussed in Fair Work Australia’s Research Report 6/2010.<sup>449</sup> The *Annual Wage Review 2016–17 Preliminary decision* provided further background in relation to these various instruments.<sup>450</sup>

[402] Transitional instruments also include those award-based transitional instruments subject to modernisation processes which continue to operate, and those preserved by operation of the *Fair Work (Transitional Provisions and Consequential Amendments) Act 2009* (Transitional Act). Most transitional instruments have been terminated or have ceased to operate; however, some continue to operate subject to the conclusion of the modernisation process. These instruments include, but are not limited to:



- transitional instruments which cover employees also covered by enterprise instruments;<sup>451</sup>
- transitional instruments which cover employees also covered by State reference public sector awards which have not been terminated by the Commission or replaced by a State reference public sector modern award;<sup>452</sup> or
- transitional instruments which cover employees which were not terminated as part of the termination of modernisable instruments commenced in 2010.<sup>453</sup>

[403] Transitional instruments preserved by the Transitional Act include: Transitional APCs; State reference transitional instruments and Division 2B State awards preserved by operation of the *Fair Work (Transitional Provisions and Consequential Amendments) Regulations 2009*; and transitional pay equity orders created by the Transitional Act.<sup>454</sup> These instruments may be considered as part of the Panel's review.<sup>455</sup> Transitional APCs and State reference transitional awards operate until the Commission makes an order to terminate them,<sup>456</sup> or they terminate pursuant to legislative provisions.<sup>457</sup> A number of transitional instruments covering employees also covered by the *Social, Community, Home Care and Disability Industry Award 2010* and the *Social, Community and Disability Services Industry Equal Remuneration Order 2012* (ERO) have not been terminated by the Commission<sup>458</sup> and the Panel must review and may make a determination varying these instruments.<sup>459</sup> We do not propose to terminate any transitional instrument.

[404] The ACTU, ACCI and ABI and NSWBC submitted that the approach taken by the Panel in previous Reviews should be maintained, such that the rates in relevant transitional instruments be increased consistently with any increased determined for modern award minimum wages.<sup>460</sup> Consistent with these submissions, the rates in relevant transitional instruments will be varied by the same percentage amount we have determined shall apply to modern award minimum wages. We note that there is no requirement to publish the variations.

[405] The same approach will be taken in respect of copied State awards. These apply in relation to employees of non-national system State public sector employers who transfer their employment to a national system employer as part of a transfer of business.<sup>461</sup> The Panel is required to review and, if appropriate, make a determination varying minimum wages in copied State awards.<sup>462</sup> In the 2017–18 Review decision, the Panel confirmed that the 'adjustment to the rates in modern awards ... will be applied to copied state awards.'<sup>463</sup> This approach has been noted in various submissions in this Review<sup>464</sup> and will be taken in this Review.

**Modern award minimum wages for junior employees, employees to whom training arrangements apply, employees with disability and piece rates**

[406] The Panel is required to review modern award minimum wages, including wages for junior employees, employees to whom training arrangements apply, employees with disability, and piece rates.<sup>465</sup>

## Juniors

[407] Ai Group,<sup>466</sup> ABI and NSWBC<sup>467</sup> and ACCI<sup>468</sup> expressly supported flowing on any Review decision to junior rates of pay in modern awards. No party contended otherwise.

[408] We have decided that the adjustment to modern award minimum wages will flow through to the operation of provisions for calculating junior rates in modern awards.

[409] The AWU raised a concern that certain junior employees in the *Vehicle Manufacturing, Repair, Services and Retail Award 2010* (VMRSR Award) currently receive lower wage rates than award-free junior employees covered by the Special National Minimum Wage 3 (special NMW3) in the NMW order 2018.<sup>469</sup> The AWU noted that this has occurred as a result of two factors—the first being that the adult wage rate for entry-level employees in the Vehicle Manufacturing stream<sup>470</sup> and the Vehicle repair, service and retail stream<sup>471</sup> (Vehicle Industry RS&R stream) in the VMRSR Award is equal to the adult NMW; and secondly, the relevant junior rate percentages in the VMRSR Award are lower than those in the NMW order 2018.<sup>472</sup>

[410] The AWU sought the variation of the relevant unapprenticed junior percentages in the VMRSR Award to ensure that all junior employees covered by that modern award receive a minimum wage that at least equals that set by the special NMW3 in the NMW order 2019 for award/agreement free junior employees.<sup>473</sup> The AWU contends that their proposal is consistent with the modern awards objective to take into account the ‘needs of the low paid’ and the minimum wages objective to provide ‘a comprehensive range of fair minimum wages to junior employees’.<sup>474</sup> The AWU submitted that we are empowered to set and vary modern award minimum wages under ss 135 and 285 of the Act, and that included the power to vary ‘wage rates for junior employees’ by virtue of the definition of ‘modern award minimum wages’ in s 284(3).

[411] In response to the AWU’s submission, we published a question on notice<sup>475</sup> on 3 April 2019 inviting other parties to respond to the AWU’s submission. On 8 May 2019 we also published a Background Paper<sup>476</sup> setting out the issue raised by the AWU and the responses made by various parties to the AWU’s submission. The paper also identified 18 other modern awards which, like the VMRSR Award, provided for junior rates that were lower than special NMW3.<sup>477</sup>

[412] Age-based junior rates in modern awards are generally derived by applying a percentage for each age below 21 years (which may vary between modern awards) to a reference adult classification and associated wage rate specified in each modern award. The 19 modern awards identified in the Background Paper fall into two broad categories: first, those that use the same reference wage that is used in special NMW3 and, second, those that use a higher reference wage. In all 19 awards, the percentages adopted at some or all age levels are lower than those applied in respect of special NMW3 such as to produce rates in those age levels which are lower than those for the corresponding age level in special NMW3.<sup>478</sup>

[413] On 15 May 2019, Hampton C also conducted consultations with interested parties on behalf of the Panel concerning the issue raised by the AWU and the broader issue identified in the Background Paper.<sup>479</sup> As a result of this process, a level of consensus has emerged between the AWU, AMWU and Ai Group at least as to how the VMRSR Award might be

varied to deal with the identified difficulty. This would involve varying the relevant junior rates in the manufacturing stream. This arises in the context that, as a result of proceedings in the 4 yearly review of modern awards, the manufacturing stream of the VMRSR Award will be removed from the coverage of that modern award and placed into the *Manufacturing and Associated Industries Award* (Manufacturing Award).<sup>480</sup> However, the Motor Traders' Association of New South Wales, the Motor Trade Association of South Australia, the Motor Trade Association of West Australia and the Victorian Automobile Chamber of Commerce (MTA Organisations) have more recently indicated that they are not prepared, at this stage, to agree to adjust the junior rates in the RS and R sector of the award as that might be out of step with the approach taken more generally by the Commission.<sup>481</sup>

**[414]** There is also no common view as to whether special NMW3 should act as a minimum reference point for junior rates in modern awards, or if so, how any shortfall would be dealt with. The ACTU and affiliated unions participating in the consultation, contend that the special NMW3 (and other minimum wage orders) should act as an absolute minimum for all modern awards. To that end, the ACTU proposed<sup>482</sup> an 'interim' solution which would involve adjusting the junior rates under each modern award where they were lower than special NMW3.

**[415]** Ai Group, supported by other employer interests, contend that the junior rates in modern awards should not be adjusted generally by reference to special NMW3 on the basis that:

- Special NMW3 was never intended to set a minimum floor for junior rates in modern awards, as the Panel in the 2010–11 Review decision deliberately determined to include minimum rates in special NMW3 that were higher than the existing minimum rates in some modern awards;<sup>483</sup>
- the Act does not require that minimum wage rates for junior award-covered employees must be equal to or higher than the rates in special NMW3 or other such determinations;<sup>484</sup>
- it would be inappropriate for the Panel to vary the junior rates in any other modern award in this manner without an understanding of which awards are affected and whether there are any award-specific, industry-specific or occupation-specific reasons which justify the existing pay rates;<sup>485</sup> and
- an adjustment of the kind proposed by the ACTU would distort the scale of rates for junior employees under the awards concerned.<sup>486</sup>

**[416]** We note that the broader issue concerning junior rates was only raised late in the consultation process, with the result that interested parties have not been afforded a full opportunity to contribute to our consideration of the matter.

**[417]** We consider that there is some force in the propositions advanced by Ai Group regarding the basis upon which we have been requested to adjust the junior rates in the 19 modern awards. As has been noted in previous Reviews, the review and variation of modern award minimum wages is a separate, though related, function to reviewing and making a NMW order. In exercising its powers to set, vary or revoke modern award minimum wages, the Panel 'must take into account the rate of the national minimum wage that it

proposes to set in the Review,<sup>487</sup> but there is no mandated relationship between wage rates set by a NMW order and modern award minimum wages and certainly no requirement that any particular modern award minimum wage rate be no less than a NMW rate. Without a proper consideration of the basis upon which the rates in the modern awards and NMW3 were set, we are unable to determine whether adjustments are justified, including whether any such adjustments would distort existing relativities.

[418] We also note that Rail, Tram & Bus Union Australia (RTBU) raised<sup>488</sup> a similar issue about the relationship between special NMW4 and certain apprentice rates in the *Rail Industry Award 2010*. Many of the same issues arise.

[419] In circumstances where there has not been a proper opportunity to address the issues we have identified, we do not consider that it is appropriate to reach a conclusion concerning whether to adjust the junior rates in the 19 modern awards identified in the Background Paper as proposed by the ACTU and its affiliates as part of this Review. If any interested party seeks to agitate this matter further, this will need to be done as part of the 2019–20 Review to allow for it to be given proper consideration. We direct that any interested party which wishes to pursue a variation of junior rates in the 19 modern awards in relation to special NMW3 as part of the 2019–20 Review to advise the Commission on or before 30 September 2019. If such advice is received, the Commission will delegate to a single member of the Panel the task of receiving evidence and submissions concerning the matter prior to the commencement of the main part of the 2019–20 Review.

[420] In respect of the VMRSR Award, we consider that the junior rates issue may substantially be addressed as part of the 4 yearly review of modern awards in the context of the transfer of the manufacturing stream of the VMRSR Award into the Manufacturing Award.

### **Apprentices and Trainees**

[421] The ACTU,<sup>489</sup> Ai Group,<sup>490</sup> and ABI and NSWBC<sup>491</sup> supported flowing on any Review decision to modern award minimum wages for employees to whom training arrangements apply through the National Training Wage Schedule (NTWS) under the relevant awards. The ACTU<sup>492</sup> and ABI and NSWBC<sup>493</sup> also endorsed a similar adjustment for those modern awards which have been updated as part of the 4 yearly review of modern awards with references to the NTWS in the *Miscellaneous Award 2010* (Miscellaneous Award).

[422] We have decided that the adjustment to modern award minimum wages will flow through to employees to whom training arrangements apply in modern awards, including the rates under the NTWS.

### **Employees with disability**

[423] Ai Group supported a flow on of any Review decision to the modern award minimum wages of pay for employees with a disability.<sup>494</sup> No other party suggested otherwise.

[424] Several submissions provided data on the labour market outcomes for employees with a disability. Using the latest available data which were submitted in the previous Review, the Australian Government noted that around 53 per cent of persons aged 15 to 64 years with a disability were in the labour force in 2015, with an unemployment rate of 10 per cent.<sup>495</sup> The

Victorian Government provided an overview of the minimum wage and persons with a disability<sup>496</sup> and submitted that persons with a disability are more likely to be on, or under, the minimum wage and are overrepresented in the lowest two quintiles of household income.<sup>497</sup>

[425] We have decided that the adjustment granted in this Review will flow through to employees with a disability through the operation of the Supported Wage System (SWS) Schedule and that the minimum payment in the SWS Schedule will be adjusted consistent with the approach adopted in previous Reviews.<sup>498</sup> It will also flow through to employees covered by the *Supported Employment Services Award 2010* (SES Award) through the variation of the wage rates in clause 14.2 of that modern award and the operation of the Supported Wage System Schedule (SWSS) and other wage assessment tools referred to in clause 14.4(b). We note that the wage structure and wage assessment tools (including the SWS tool) in this modern award are currently being reconsidered as part of the 4 yearly review of modern awards.

### **Piece rates**

[426] In their submission, the ACTU state that piece rates in modern awards are presently fixed by reference to minimum rates expressed on an hourly or weekly basis, so they do not require separate adjustment.<sup>499</sup> The ACTU do not seek that the method of their calculation be altered in this Review.<sup>500</sup> We agree with the submission of the ACTU. The calculation of piece rates in modern awards will not be altered.

### **Casual loadings under modern awards and the casual loading for award/agreement free employees**

[427] The Panel is required to review casual loadings in modern awards and to include a casual loading for award/agreement free employees in the NMW order. The casual loading for award/agreement free employees must be expressed as a percentage.<sup>501</sup>

[428] The ACTU,<sup>502</sup> Ai Group,<sup>503</sup> ACCI<sup>504</sup> and ABI and NSWBC<sup>505</sup> submitted that the casual loading in modern awards and for award/agreement free employees should be maintained at 25 per cent and no other party contended otherwise.

[429] We have decided that the casual loading for award/agreement free employees should be maintained at 25 per cent. We have also decided that the casual loading in modern awards should remain at 25 per cent.

[430] In the 2014–15 Review decision, the Panel noted that the casual loading in the *Business Equipment Award 2010* (Business Equipment Award), at 20 per cent, was inconsistent with the standard 25 per cent casual loading introduced by the Australian Industrial Relations Commission in 2008 across all other modern awards.<sup>506</sup> The Panel decided to increase the casual loading in the Business Equipment Award incrementally by 1 per cent from 1 July 2016 and each subsequent year until it reached 25 per cent.<sup>507</sup>

[431] In the current Review, the ACTU<sup>508</sup> and Ai Group<sup>509</sup> submitted that the casual loading in the Business Equipment Award should be adjusted to 24 per cent, in line with the Panel's phasing-in approach.

[432] Consistent with the phasing approach outlined by the Panel in its 2015–16 Review decision,<sup>510</sup> and with no submissions to the contrary, we have decided to increase the casual loading in the Business Equipment Award to 24 per cent.

### **Special National Minimum Wages**

[433] In making a NMW order the Panel must set special NMWs for all award/agreement free employees in the following classes: junior employees, employees to whom training arrangements apply and employees with a disability.<sup>511</sup>

[434] Submissions specifically dealing with special NMWs for award/agreement free employees are set out below. We have also taken into account the submission by ACOSS<sup>512</sup> regarding juniors, apprentices and trainees and employees with disability more generally on the basis that these submissions are relevant to (and are not expressed to exclude) award/agreement free employees in these categories.

#### **Award/agreement free junior employees**

[435] Ai Group,<sup>513</sup> ABI and NSWBC<sup>514</sup> and ACCI<sup>515</sup> supported the Panel's previous approach in using the junior wage percentage scale in the Miscellaneous Award to set the special NMW for award/agreement free junior employees.

[436] We have again decided that the special NMW for award/agreement free junior employees will be set by reference to the junior wage percentage scale in the Miscellaneous Award.

#### **Award/agreement free apprentices and trainees**

[437] Ai Group,<sup>516</sup> ABI and NSWBC<sup>517</sup> and ACCI<sup>518</sup> submitted that, consistent with the previous Review decision, the Panel should adopt the wage rates in the Miscellaneous Award for award/agreement free apprentices and trainees.

[438] We have decided to adopt the provisions of the Miscellaneous Award as the basis for the special NMWs for employees to whom training arrangements apply. The NMW order will incorporate, by reference, the apprentice and NTWS provisions of that award.

#### **Award/agreement free employees with disability**

[439] In its 2017–18 Review decision, and consistent with previous years' approaches, the Panel decided to set 2 special NMWs for award/agreement free employees with disability.<sup>519</sup> The first, for employees with disability whose productivity is not affected (special NMW1), was set at the rate of the NMW. The second, for employees with disability whose productivity is affected (special NMW2), was to be paid in accordance with an assessment under the Supported Wage System (SWS) Schedule attached to the NMW order, with the minimum payment fixed in accordance with the disability support pension income-free threshold.

[440] The ACTU,<sup>520</sup> Ai Group,<sup>521</sup> ACCI,<sup>522</sup> and ABI and NSWBC<sup>523</sup> submitted that special NMW1 should continue to be set at the same level as the NMW and that special NMW2 should continue to be adjusted in accordance with the methodology under the SWS Schedule.

[441] As discussed in the 2017–18 Review decision,<sup>524</sup> the operation of wage assessment tools including the SWS wage assessment methodology in the SES Award is being reconsidered as part of the 4 yearly review of modern awards. A final decision in respect of that matter has been reserved.

[442] ACOSS's submission again expressed interest in the review of the SES Award matters. ACOSS submitted:

'Recent court decisions confirmed that some of the existing instruments used for this purpose were unreliable, and that people with disability employed in 'business services' were underpaid.

The assessment tools should be reviewed and standardised as far as possible, rather than leaving it to individual enterprises to develop and use their own.'<sup>525</sup>

[443] ACOSS also reiterated their 2 concerns submitted to previous Reviews,<sup>526</sup> namely that the system of disability wages was too complex and the minimum rate of pay for people whose productivity is affected by their disability was too low.<sup>527</sup>

[444] We consider that the issues raised by ACOSS may appropriately be considered in a subsequent Review after the review of the SES Award is finalised.

[445] Consistent with previous years' approaches to these wages, we have decided to set 2 special NMWs for award/agreement free employees with disability. For award/agreement free employees with disability whose productivity is not affected, the wage will be set at the rate of the NMW. For award/agreement free employees with disability whose productivity is affected, the wage will be paid in accordance with an assessment under the SWS Schedule. The minimum payment will be fixed in accordance with the disability support pension income-free threshold.

### **CCIQ application for deferral**

[446] CCIQ,<sup>528</sup> with the support of ACCI,<sup>529</sup> sought a 6-month deferral under ss 286(2) and 287(4)(b) of the Act of any increase to the NMW and modern award minimum wages in respect of certain employers said to have been affected by flooding in the Townsville region of North Queensland in late January to early February 2019.<sup>530</sup> It contended that the 'unprecedented'<sup>531</sup> nature of this flooding, which caused the death of five hundred thousand cattle, in conjunction with unemployment (particularly youth) and other economic issues confronting that region, constitute exceptional circumstances.<sup>532</sup> The mechanism proposed by CCIQ for identification of employers who would be subject to the deferral is their eligibility for a Commonwealth Government Special Disaster Assistance Recovery Grant for Small Business (Recovery Grant). The NRA and the ACTU opposed the CCIQ deferral proposal.<sup>533</sup>

[447] In previous Reviews, we have set out the requirements that proponents of a deferral of wage increases under ss 286(2) or 287(4) must meet.<sup>534</sup> We have also previously observed that the approach to dealing with such an application should be consistent with the principles established in cases considered under the former Economic Incapacity Principle adopted by the Commission in the June 1986 *National Wage Case Decision*. These principles include that the onus is on the party seeking relief and that a strong case must be made out.<sup>535</sup> We adopt without repeating those requirements and observations.

[448] We accept that a flood event, considered alone or in combination with economic factors, may constitute exceptional circumstances. However, we are not satisfied in the present case that we should exercise the discretion in ss 286(2) and 287(4) on the basis sought by CCIQ, for a number of reasons. First, the mechanism proposed by CCIQ to identify the employers who will be subject of the deferral does not meet the requirement in ss 286(2) and 287(4)(b) of the Act that it be limited just to the particular situation to which the exceptional circumstances relate. Eligibility for Recovery Grants is limited to small business, and it has not been demonstrated that the criteria for the approval of the grants sufficiently correlate with the standard of exceptional circumstances. CCIQ has not provided any information about the industry sectors in which the employers who receive a Recovery Grant are located so that a deferral of increases to modern award minimum wages can be limited as required. The time frame over which Recovery Grants are assessed and made is unknown and may not align with the time frame to which this Review decision relates.

[449] Second, the CCIQ proposal also raises significant issues associated with consistency and fairness which, as we have observed in past Review decisions, are notions which underpin the concept of a safety net in both the minimum wages objective and the modern awards objective.<sup>536</sup> As the NRA points out, other natural disaster events have occurred in the year under review, including in Queensland, and there is no evidence before us to enable a relative assessment of their severity.<sup>537</sup> We are also of the view that it would be unfair to defer the operation of wage increases arising from this Review for employees in one area which has suffered a natural disaster event without considering the impact of such events in other areas. This unfairness is heightened by the fact that employees in the Townsville Region who would be the subject of the deferral may also have suffered loss and damage. In this regard we note that according to the information placed before us by CCIQ, 90 per cent of the \$606 million in insurance claims associated with the flooding are domestic.<sup>538</sup> CCIQ's proposal does not take into account the interests of such employees.

[450] Third, and related to the first point, it is not clear to us that the receipt of a Recovery Grant is a reliable indicator of any incapacity to pay increased wages. Employers who have received a Recovery Grant may also have received other government assistance including low-interest loans for the purpose, among other things, of the payment of wages of employees. The receipt of a Recovery Grant is not necessarily an indicator of present or future business distress, given that some types of business (such as construction and cleaning) may expect higher client demand during the recovery phase.

[451] Although we are mindful of the impact of natural disasters upon the communities involved, the CCIQ proposal and materials provided in support of the deferral does not provide sufficient foundation or justification for the deferral that is sought.

[452] For completeness we repeat our previously expressed view about the practical difficulties arising from the absence of any mechanism in the Act to revisit a determination varying modern award minimum wages *after* an annual wage review has been completed.<sup>539</sup> Such a mechanism could be utilised in a timely way by employers who suffer the effects of natural disasters. This remains an issue for the Parliament.



## 6. Conclusion

[453] This Chapter sets out the outcome and other relevant matters to the Review.

[454] The national minimum wage order will contain:

(a) A national minimum wage of \$740.80 per week or \$19.49 per hour;

(b) Two special national minimum wages for award/agreement free employees with disability: for employees with disability whose productivity is not affected, a minimum wage of \$740.80 per week or \$19.49 per hour based on a 38-hour week, and for employees whose productivity is affected, an assessment under the supported wage system, subject to a minimum payment fixed under the SWSS;

(c) Wages provisions for award/agreement free junior employees based on the percentages for juniors in the *Miscellaneous Award 2010* applied to the national minimum wage;

(d) The apprentice wage provisions and the National Training Wage Schedule in the *Miscellaneous Award 2010* for award/agreement free employees to whom training arrangements apply, incorporated by reference, and a provision providing transitional arrangements for first year award/agreement free adult apprentices engaged before 1 July 2014; and

(e) A casual loading of 25 per cent for award/agreement free employees.

[455] The outcome of this Review in relation to modern award minimum wages is that from the first full pay period on or after 1 July 2019 minimum weekly wages are increased by 3.0 per cent, with commensurate increases in hourly rates on the basis of a 38-hour week.

[456] The increases to the NMW and modern award minimum wages are made to weekly wages. After the increase has been applied, the NMW or the modern award minimum weekly wage is rounded to the nearest 10 cents. To obtain an hourly wage, the weekly wage is divided by 38, on the basis of a 38-hour week for a full-time employee.

[457] The increase applies to modern award minimum wages for junior employees, employees to whom training arrangements apply and employees with disability, and to piece rates, through the operation of the methods applying to the calculation of those wages. Wages in the NTWS will be increased by 3.0 per cent.

[458] The casual loading in modern awards will remain at 25 per cent. The casual loading in the *Business Equipment Award 2010* will be increased to 24 per cent, consistent with the phasing approach. As a general proposition, we would expect that the casual loading in this award will be increased by 1 per cent in the next Review to 25 per cent, in accordance with the phasing schedule originally proposed by Ai Group.

[459] The adjustment will flow through to employees with disabilities through the operation of the SWSS and that the minimum payment in the SWSS will be adjusted consistent with the approach adopted in previous reviews.

**[460]** In relation to transitional instruments, from the first full pay period on or after 1 July 2019, wages in those instruments will be varied by 3.0 per cent per week, with commensurate increases in hourly rates based on a 38-hour week. Copied State awards will be varied on the basis discussed in Chapter 5 of this decision.

**[461]** The determinations necessary to give effect to the increase in modern awards will be made available in draft form shortly after this decision. Weekly wages in the NMW order and modern awards will be rounded to the nearest 10 cents and hourly wages will be calculated by dividing the weekly rate by 38, on the basis of the 38-hour week for a full-time employee. Determinations varying the modern awards will be made as soon as practicable and the modern awards including the varied wage rates will be published as required by the Act.

**[462]** Although we did not consider it appropriate to reach a conclusion concerning whether to adjust the junior rates in the 19 modern awards identified in the Background Paper as proposed by the ACTU and its affiliates as part of this Review, we direct any interested party that wishes to pursue a variation of junior rates in the 19 modern awards in relation to special NMW3 as part of the 2019–20 Review to advise the Commission on or before 30 September 2019. If such advice is received, the Commission will delegate to a single member of the Panel the task of receiving evidence and submissions concerning the matter prior to the commencement of the main part of the 2019–20 Review.

**[463]** In respect of the VMRSR Award, we consider that the junior rates issue may substantially be addressed as part of the 4 yearly Review of modern awards in the context of the transfer of the manufacturing stream of the VMRSR Award into the Manufacturing Award. Modern awards that contain a C14 (or NMW) rate where the classification is not a transitional rate should also be the subject of further examination in the current 4 yearly Review of modern awards.

**[464]** As we mentioned, we see merit in future research addressing how the budget standards can be appropriately updated to take account of price changes over time to accurately match the various budget standards with the relevant household disposable income. In doing so, parties are encouraged to consider methods that can advance this area of research for future Reviews. We intend to give consideration to a research program for the 2019–20 Review and invite interested parties to lodge research proposals by 26 July 2019.

**[465]** The timetable for the 2019–20 Review will be announced in the third quarter of 2019.

**[466]** We wish to express our appreciation to the parties who participated in the Review for their contributions and to the staff of the Commission for their assistance.



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## Appendix 1—Modern awards that contain the NMW and equivalent rates as at 1 July 2018

Award Id	Award title	Classification	Clause	Annual	Weekly	Hourly	Trainee or other?
MA000046	Air Pilots Award 2010	Single engine UTBNI 1360 kg	B.1.1	37 400			No
MA000046	Air Pilots Award 2010	Single engine 1360 kg–3359 kg	B.1.1	37 400			No
MA000046	Air Pilots Award 2010	Aerial application - 0–1000	D.9.1		719.20		No
MA000048	Airline Operations—Ground Staff Award 2010	Maintenance and engineering stream - Aircraft Worker 1	15.3		719.20		Sched B.3.1: Undertaking up to 38 hours induction training
MA000092	Alpine Resorts Award 2010	Training	16.1			18.93	Sched B.1.2 Maximum period of time an employee is engaged in training level is 7 weeks
MA000080	Amusement, Events and Recreation Award 2010	Introductory level employee	14.1		719.20	18.93	Sched B.1 Maximum 3 months
MA000118	Animal Care and Veterinary Services Award 2010	Practice managers, Veterinary nurses, Receptionists, Animal attendants and Assistants - Introductory level	14.2		719.20	18.93	Sched B.2.1 Not exceeding 3 months
MA000114	Aquaculture Industry Award 2010	Aquaculture attendant - Level 1	14.1		719.20		Sched B.1.1 Employed less than 4 months
MA000079	Architects Award 2010	Students of Architecture - Less than 3 years of experience	15.4		719.20		Clause 15.4(a) Rate payable varies on length of employment from 13, 26 and 46 weeks and 2-6 year of study
MA000054	Asphalt Industry Award 2010	Skill level 1	14.1		719.20		Sched B: Undertaking up to 38 hours induction training
MA000091	Broadcasting and Recorded Entertainment Award 2010	Grade 1	14.3		719.20		No
MA000055	Cement and Lime Award 2010	Level 1	14.1		719.20		Sched B: Undertaking Basic competency training
MA000070	Cemetery Industry Award 2010	Cemetery Employee Class 1	14.1		719.20	18.93	Sched B: Less than six months service with an employer
MA000056	Concrete Products Award 2010	Level 1	15.1		719.20		Sched B: Undertaking the employer's induction programme
MA000110	Corrections and Detention (Private Sector) Award 2010	Catering Employees - Introductory	14.1(b)		719.20	18.93	Sched D.1 Up to 3 months other than where employer and employee agree to extend to further 3 months

Award Id	Award title	Classification	Clause	Annual	Weekly	Hourly	Trainee or other?
MA000096	Dry Cleaning and Laundry Industry Award 2010	Dry cleaning employee Level 1	14.1(a)		719.20		Sched C.1.1 An employee in the first six months of employment with no previous experience in the industry
MA000094	Fitness Industry Award 2010	Level 1	17.1		719.20		No
MA000073	Food, Beverage and Tobacco Manufacturing Award 2010	Level 1	20.1		719.20	18.93	Sched B.2.1(a) Less than 3 months experience or less than 4 weeks experience for a seasonal worker and less than 152 hours for a casual employee
MA000105	Funeral Industry Award 2010	Grade 1	14.1		719.20	18.93	No
MA000101	Gardening and Landscaping Services Award 2010	Gardener/Landscaper - Introductory Level	14.1		719.20	18.93	Sched B.1 Not more than 3 months training
MA000026	Graphic Arts, Printing and Publishing Award 2010	Level 1	17.3		719.20	18.93	Sched B: An employee at this level is undertaking up to 38 hours of induction training
MA000008	Horse and Greyhound Training Award 2010	Stable employee (on commencement with employer)	13.1		719.20		First 3 months only. Progress to Stablehand Grade 1 (after three months' continuous employment with the employer)
MA000028	Horticulture Award 2010	Level 1	14.1(a)		719.20	18.93	Sched C: Employee undertaking induction training to progress to Level 2
MA000009	Hospitality Industry (General) Award 2010	Introductory	20.1		719.20	18.93	Sched D: Such an employee will remain at this level for up to three months while the appropriate training for level 1 is undertaken and assessment made to move from the introductory level to level 1.
MA000029	Joinery and Building Trades Award 2010	Level 1	18.1		719.20	18.93	Sched B: An employee at this level will undertake up to 38 hours induction training ...
MA000081	Live Performance Award 2010	Production and Support Staff Level 1 (Induction/ Training)	13.2		719.20		Sched B.1.1(a) Trainee employee who is undertaking 6 weeks of induction for a full-time or part-time employee or 228 hours induction for a

Award Id	Award title	Classification	Clause	Annual	Weekly	Hourly	Trainee or other? casual employee.
MA000010	Manufacturing and Associated Industries and Occupations Award 2010	C14	24.1(a)		719.20	18.93	Sched B: Undertaking up to 38 hours induction training (C13 I an employee who has completed up to 3 months structured training)
MA000059	Meat Industry Award 2010	MI 1	19.1		719.20		Sched B: Initial period of at least three months
MA000104	Miscellaneous Award 2010	Level 1	14.1		719.20		Schedule B Employed for a period of less than 3 months
MA000033	Nursery Award 2010	Grade 1A	15.1		719.20	18.93	Sched B: For a period of no longer than three months
MA000072	Oil Refining and Manufacturing Award 2010	Lubricants/bitumen plants and terminals - Trainee (level 1)	14.1		719.20		Trainee (level 1). See schedule B.1.3
MA000035	Pastoral Award 2010	Farming and Livestock Hands - FLH1	28.1		719.20	18.93	Clause 27 examples include: Station hand with less than 12 months' experience in the industry and Feedlot employee level 1 with less than three months' experience in the industry
MA000035	Pastoral Award 2010	Pig Attendants - PA1	34.1		719.20	18.93	Clause 33: up to 38 hours induction training
MA000035	Pastoral Award 2010	Poultry Workers - PW1	40.1		719.20	18.93	Clause 39: less than 12 months experience in the industry
MA000051	Port Authorities Award 2010	Level 1	13.1(a)		719.20		No
MA000037	Quarrying Award 2010	Grade 1	17		719.20		Sched B: Undertaking training to become competent in the Basic Quarry competency
MA000013	Racing Clubs Events Award 2010	Introductory employee level	19.2		719.20	18.93	Clause 17.1: An employee at this level will undergo training for up to three months before progressing to grade 1
MA000014	Racing Industry Ground Maintenance Award 2010	Introductory employee level	14.3		719.20		Clause 13.1 An employee at this level will undergo training for up to three months before

Award Id	Award title	Classification	Clause	Annual	Weekly	Hourly	Trainee or other?
							progressing to Level 1.
MA000015	Rail Industry Award 2010	Operations - Level 1 - Rail Worker (Op)	14.1(b)		719.20		Sched A: Employees at this level undertake and successfully complete standard induction training and will be required to...
MA000058	Registered and Licensed Clubs Award 2010	Introductory	17.2		719.20	18.93	Sched B: Remain at this level for up to three months with a potential for a further three months by agreement
MA000119	Restaurant Industry Award 2010	Introductory level	20.1		719.20	18.93	Sched B.1 A maximum of 3 months provided that an additional 3 months may be served by mutual agreement
MA000068	Seafood Processing Award 2010	Process Level 1 Attendant	15.1(a)		719.20	18.93	New employee Sched B: An employee remains at this level for the first three months or until they are capable of demonstrating competency in the tasks required at this level so as to enable them to progress to Level 2.
MA000053	Stevedoring Industry Award 2010	Grade 1	13.1		719.20		Sched B: Undergoing induction and initial training prior to appointment as a stevedoring employee Grade 2
MA000087	Sugar Industry Award 2010	Bulk Terminal Operations - BT1	42.1		719.20		Clause 41.1 3 month probation period
MA000087	Sugar Industry Award 2010	Milling, Refinery and Maintenance - C14/L2	40.1		719.20		No
MA000103	Supported Employment Services Award 2010	Grade 1	14.2		719.20		Sched B.1.1 Up to 38 hours of induction training
MA000017	Textile, Clothing, Footwear and Associated Industries Award 2010	General - Trainee	20.1		719.20		Trainee
MA000017	Textile, Clothing, Footwear and Associated Industries Award 2010	Wool and basil employees - General hand	20.2		719.20		General Hand

Award Id	Award title	Classification	Clause	Annual	Weekly	Hourly	Trainee or other?
MA000071	Timber Industry Award 2010	Level 1	17.1		719.20		Sched B.1.1(f) Maximum 3 months unless 3 month extension agreed
MA000071	Timber Industry Award 2010	Level 1	17.2		719.20	18.93	Sched C.1 Up to 3 months induction
MA000102	Travelling Shows Award 2010	Grade 1	14.1		719.20	18.93	No
MA000089	Vehicle Manufacturing, Repair, Services and Retail Award 2010	Vehicle industry Level 1	RS&R employee— 33.4		719.20	18.93	Sched B.1 Undertaking up to 38 hours induction training
MA000089	Vehicle Manufacturing, Repair, Services and Retail Award 2010	Vehicle industry/production employee Level 1	45.5		719.20	18.93	Sched C.1 V1 employee undertaking up to 38 hours' induction training

Source: MA000046; MA000048; MA000092; MA000080; MA000118; MA000114; MA000079; MA000054; MA000091; MA000055; MA000070; MA000056; MA000110; MA000096; MA000094; MA000073; MA000105; MA000101; MA000026; MA000008; MA000028; MA000009; MA000029; MA000081; MA000010; MA000059; MA000104; MA000033; MA000072; MA000035; MA000051; MA000037; MA000013; MA000014; MA000015; MA000106; MA000058; MA000119; MA000068; MA000053; MA000087; MA000103; MA000017; MA000071; MA000102; MA000089.

Note: 45 modern awards contain rates that are equivalent to the National Minimum Wage (NMW) (for annual rates of pay, these have been calculated using the method in the modern award for deriving a weekly rate from an annual rate). None of the modern awards specifically refer to these rates as being the NMW. Most of the modern awards limit the payment of \$719.20 to the initial period of employment while employees are completing induction/introductory training. Generally this is 3 months or upon attainment of specific competencies. The exceptions to this are where the employee is classified as a 'trainee' or where the work being performed requires low level skills; and/or the minimum wage is a component of the total rate of pay i.e. there are other rates and allowances payable. This analysis does not include rates for employees with a disability, juniors, apprentices (including adult apprentices) or trainees being paid in accordance with the National Training Wage schedule.

## Appendix 2—Research for Annual Wage Reviews

<b>Date</b>	<b>Title</b>	<b>Research report no.</b>
February 2019	Overview of research to inform the Annual Wage Review 2018–19	
February 2019	Developments in wages growth	1/2019
February 2019	Insights into underemployment	2/2019
February 2018	Overview of research to inform the Annual Wage Review 2017–18	
February 2018	Employee and employer characteristics and collective agreement coverage	1/2018
February 2018	The characteristics of the underemployed and unemployed	2/2018
February 2018	Characteristics of workers earning the national minimum wage rate and of the low paid	3/2018
February 2018	Part I: Methods and limitations to undertaking analysis of the employment effects of minimum wage increases	4/2018
March 2018	Part II: Prospects for research on employment effects of minimum wages in Australia.	4/2018
March 2018	The UK evaluation of the impacts of increases in their minimum wage	
February 2017	Overview of research to inform the Annual Wage Review 2016–17	
February 2017	Explaining recent trends in collective bargaining	4/2017
February 2017	Factors affecting apprentices and trainees	3/2017
February 2017	The youth labour market	2/2017
	Award-reliant workers in the household income distribution	1/2017
February 2016	An international comparison of minimum wages and labour market outcomes	1/2016
February 2015	Award reliance and business size: a data profile using the Australian Workplace Relations Study	1/2015
December 2013	Minimum wages and their role in the process and incentives to bargain	7/2013
December 2013	Award reliance	6/2013
February 2013	Accommodation and food services industry profile	5/2013
February 2013	Retail trade industry profile	4/2013
February 2013	Manufacturing industry profile	3/2013
February 2013	Labour supply responses to an increase in minimum wages: An overview of the literature	2/2013
February 2013	Higher classification/professional employee award reliance qualitative research: Consolidated report	1/2013
February 2012	Higher classification/professional employee award reliance qualitative research: Interim report	4/2012
February 2012	Award reliance and differences in earnings by gender	3/2012
February 2012	Analysing modern award coverage using the Australian and New Zealand Standard Industrial Classification 2006: Phase 1 report	2/2012
January 2012	Award-reliant small businesses	1/2012
February 2011	Australian apprentice minimum wages in the	6/2011



<b>Date</b>	<b>Title</b>	<b>Research report no.</b>
	national system	
February 2011	Review of equal remuneration principles	5/2011
January 2011	Research framework and data strategy	4/2011
January 2011	Employees earning below the Federal Minimum Wage: Review of data, characteristics and potential explanatory factors	3/2011
January 2011	Relative living standards and needs of low-paid employees: definition and measurement	2/2011
January 2011	An overview of productivity, business competitiveness and viability	1/2011
June 2010	Consolidated Social Research Report	10/2010
June 2010	Administrative and Support Services Industry	9/2010
June 2010	Other Services Industry	8/2010
February 2011	Enterprise Case Studies: Effects of minimum wage-setting at an enterprise level	7/2010
June 2010	Minimum wage transitional instruments under the <i>Fair Work Act 2009</i> and the <i>Fair Work (Transitional Provisions and Consequential Amendments) Act 2009</i>	6/2010
February 2010	Employees with disability: Open employment and the Supported Wage System	5/2010
February 2010	Earnings of employees who are reliant on minimum rates of pay	4/2010
February 2010	Social research—Phase one	3/2010
February 2010	Literature review on social inclusion and its relationship to minimum wages and workforce participation	2/2010
February 2010	An overview of compositional change in the Australian labour market and award reliance	1/2010

### Appendix 3—Proposed Minimum Wages Adjustments

Submission	Proposal		
	National minimum wage	Modern award minimum wages	Exemption/ deferral sought
Australian Government	No quantum specified		
Queensland Government	3.5 per cent (\$25.17 pw)	No quantum specified	
South Australian Government	No quantum specified		
Victorian Government	Increased to \$20.00 ph	No quantum specified	
Western Australian Government	No quantum specified		
Federal opposition	No quantum specified, however, proposes a real increase		
Australian Council of Trade Unions	6.0 per cent, applicable to all		
Australian Industry Group	2.0 per cent, applicable to all		
Australian Chamber of Commerce and Industry	Not exceed 1.8 per cent, applicable to all		
Australian Council of Social Service	No quantum specified		
Australian Catholic Bishops Conference	\$40.80 pw	C10 and below: \$31.00 pw Above C10: 3.7 per cent	
Australian Business Industrial and the New South Wales Business Chamber	No more than 2.3 per cent, applicable to all		
Australian Retailers Association	No more than 1.8 per cent	No quantum specified	
Chamber of Commerce and Industry Queensland	No more than 1.8 per cent		Natural disaster affected small businesses across five local government areas a deferral to the NMW and modern awards for 6 months (effective 1 July 2019)
Chamber of Commerce and Industry of Western Australia	No quantum specified		
Housing Industry Association	No quantum specified		
Master Grocers of Australia	No more than 1.2 per cent, applicable to all		
National Farmers' Federation	No quantum specified		
National Retail Association	No more than 1.8 per cent		
Restaurant & Catering Industrial	No increase		
South Australian Wine Industry Association Incorporated	A flat dollar increase no higher than inflation (\$12.95)		
Australian Workers' Union	6.0 per cent, applicable to all		
National Union of Workers and United Voice (joint submission)	6.0 per cent	No quantum specified	

<b>Submission</b>	<b>Proposal</b>		
	<b>National minimum wage</b>	<b>Modern award minimum wages</b>	<b>Exemption/ deferral sought</b>
Retail and Fast Food Workers Union	All award wages, including those paid to employees such as young workers, apprentices, trainees, workers on supported wages and workers on lower classifications, increase to a level of at least 60 per cent of median full-time earnings		
Council of Single Mothers and their Children	No quantum specified		
The Benevolent Society	No quantum specified		
Lee, Walter	No quantum specified		
Pastalatzis, Nick	No quantum specified		

## Appendix 4—Index of Material

<b>Organisation</b>	<b>Document</b>	<b>Date</b>
Australian Business Industrial and the NSW Business Chamber Ltd	Initial submission	15 March 2019
Australian Catholic Bishops Conference	Initial submission	15 March 2019
	Submission in reply	3 April 2019
	Response to questions on notice	12 April 2019
	Response to questions for consultation	10 May 2019
	Supplementary submission	16 May 2019
Australian Chamber of Commerce and Industry	Initial submission	15 March 2019
	Submission in reply	12 April 2019
	Response to questions on notice	12 April 2019
	Response to questions for consultations	10 May 2019
Australian Council of Social Service	Initial submission	15 March 2019
Australian Council of Trade Unions	Initial submission	15 March 2019
	Submission in reply	12 April 2019
	Response to questions on notice	12 April 2019
	Response to questions for consultation	10 May 2019
Australian Government	Initial submission	15 March 2019
Australian Industry Group	Initial submission	15 March 2019
	Submission in reply	12 April 2019
	Response to questions on notice	12 April 2019
	Response to questions for consultations	10 May 2019
	Submission – Junior rates of pay in modern awards	16 May 2019
Australian Rail, Tram and Bus Industry Union	Submission – Junior rates of pay in modern awards	14 May 2019
Australian Retailers Association	Initial submission	15 March 2019
	Response to questions on notice	15 April 2019
Australian Workers’ Union, The	Initial submission	18 March 2019
Benevolent Society, The	Initial submission	12 March 2019
Chamber of Commerce and Industry Queensland	Initial submission	15 March 2019
	Submission in reply	12 April 2019
	Response to questions on notice	12 April 2019
Chamber of Commerce and Industry of Western Australia	Initial submission	15 March 2019
Council of Single Mothers and their Children	Initial submission	14 March 2019
Federal opposition	Initial submission	15 March 2019
Government of South Australia	Initial submission	13 March 2019
Government of Western Australia	Initial submission	15 March 2019
Housing Industry Association	Initial submission	15 March 2019

<b>Organisation</b>	<b>Document</b>	<b>Date</b>
Lee, W	Supplementary submission	16 May 2019
	Supplementary submission	17 May 2019
Master Grocers Australia	Initial submission	15 March 2019
Motor Trades Associations	Submission – Junior rates of pay in modern awards	21 May 2019
Motor Trades Associations and the Victorian Chamber of Commerce and Industry	Response to questions on notice	12 April 2019
National Farmers' Federation	Initial submission	15 March 2019
National Retail Association	Initial submission	15 March 2019
	Submission in reply	11 April 2019
	Response to questions on notice	11 April 2019
National Union of Workers and United Voice	Initial submission	15 March 2019
Pastalatzis, N	Submission in reply	28 March 2019
Queensland Government	Initial submission	15 March 2019
Restaurant and Catering Industrial	Initial submission	15 March 2019
Retail and Fast Food Workers Union	Submission in reply	12 April 2019
South Australian Wine Industry Association	Initial submission	15 March 2019
Treasury	Response to supplementary questions	16 May 2019
Treasury and the Department of Jobs and Small Business	Response to questions on notice	18 April 2019
	Response to questions for consultation	13 May 2019
Victorian Government	Initial submission	13 March 2019

## **Appendix 5—List of appearances**

### *Appearances:*

*A Durbin, L Wong, L Berger-Thompson and K Baker* for the Australian Government

*S Barklamb, P Grist and T Laurence* for the Australian Chamber of Commerce and Industry

### *Hearing details:*

2019.

Melbourne and Canberra (by video):

May 14.

### *Appearances:*

*M O’Neil, T Clarke, M McKenzie and D Kyloh* for the Australian Council of Trade Unions

*S Smith, J Toth and P Burn* for the Australian Industry Group

*A Sage* for the Australian Workers’ Union

*B Lawrence and J Fernon* for the Australian Catholic Bishop Conference

*A Millman* for the National Retail Association

### *Hearing details:*

2019.

Sydney, Melbourne, Brisbane and Canberra (by video):

May 15.

### *Appearances:*

*N Dabarera* for United Voice

*G Miller* for the “Automotive, Food, Metals, Engineering, Printing and Kindred Industries Union” known as the Australian Manufacturing Workers’ Union (AMWU)

*A Sage* for the Australian Workers’ Union

*T Clarke* for the Australian Council of Trade Unions

*A Baumgartner* for the Motor Traders’ Association of New South Wales and the Motor Trade Association of South Australia

*S Smith* for the Australian Industry Group

*A Ambipaihar* for the Communications, Electrical, Electronic, Energy, Information, Postal, Plumbing and Allied Services Union of Australia

*A Devasia* for the “Automotive, Food, Metals, Engineering, Printing and Kindred Industries Union” known as the Australian Manufacturing Workers’ Union (AMWU)

*E Sarlos* for the Construction, Forestry, Maritime, Mining and Energy Union – Mining and Energy Division

*A Odgers* for the Independent Education Union of Australia

*T Warnes* for the Australian Rail, Train and Bus Industry Union

*G Mistler* for St Vincent De Paul Society New South Wales

*H Harrington* for the Australian Industry Group

*V Wiles* for the Construction, Forestry, Maritime, Mining and Energy Union – Manufacturing Division

*W Chestermann* for the Victorian Automobile Chamber of Commerce

*Hearing details:*

2019.

Sydney and Melbourne (by video):

May 15

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<sup>1</sup> The NMW order sets both the NMW and special NMWs for employees who are juniors, to whom training arrangements apply, or who have disabilities; and applies to award/agreement free employees. An award/agreement free employee cannot be paid less than the rate of pay specified in the NMW order (see ss 294–299). Further, if an enterprise agreement applies to an employee and the employee is not covered by a modern award, then the employee’s base rate of pay under the enterprise agreement must not be less than the rate specified in the NMW order (s.206(3)).

<sup>2</sup> Including classification rates, junior rates and casual loadings.

<sup>3</sup> ABS, *Employee Earnings and Hours, Australia, May 2018*, Catalogue No. 6306.0.

<sup>4</sup> Australian Government submission, 15 March 2019 at para. 20.

<sup>5</sup> *Fair Work Act 2009* (Cth), s.284(2)(a).

<sup>6</sup> *Ibid* at s.134(2).

<sup>7</sup> *Ibid* at s.134(2)(b).

<sup>8</sup> See [\[2015\] FWCFB 3500](#) at [88]–[91].

<sup>9</sup> *Ibid* at s.284(1)(b) and s.134(1)(c).

<sup>10</sup> *Ibid* at s.284(1)(c) and s.134(1)(a).

<sup>11</sup> *Ibid* at s.284(1)(d) and s.134(1)(e).

<sup>12</sup> *Ibid* at s.284(1)(a) and s.134(1)(d), (f) and (h).

<sup>13</sup> *Ibid* at s.3(f).

<sup>14</sup> *Minister for Aboriginal Affairs and Another v Peko-Wallsend Limited and Others* (1986) 162 CLR 24 at [39]–[40]; *Penalty Rates Review Decision* [\[2017\] FCAFC 161](#) at [48].

<sup>15</sup> See [\[2015\] FWCFB 3500](#) at [88]–[91]; [\[2016\] FWCFB 3500](#) at [116]; [\[2017\] FWCFB 3500](#) at [115], [129].

<sup>16</sup> See *4 Yearly Review of Modern Awards: Preliminary Jurisdictional Issues* [\[2014\] FWCFB 1788](#) at [32].

<sup>17</sup> [\[2017\] FWCFB 3500](#) at [129].

<sup>18</sup> Ibid at [21].

<sup>19</sup> See [\[2010\] FWAFB 4000](#) at [244]–[245]; [\[2011\] FWAFB 3400](#) at [228]; [\[2012\] FWAFB 5000](#) at [4], [14]–[15], [41], [149]; [\[2013\] FWCFB 4000](#) at [9]; [\[2014\] FWCFB 3500](#) at [8]; [\[2015\] FWCFB 3500](#) at [10]–[11]; [\[2016\] FWCFB 3500](#) at [151]–[152].

<sup>20</sup> [\[2013\] FWCFB 4000](#) at [424].

<sup>21</sup> See ACBC submission, 15 March 2019 at para. 20.

<sup>22</sup> For example, employment growth and inflation are mentioned as separate considerations under the modern awards objective (s.134(1)(h)), but in the minimum wages objective these factors appear to be subsidiary to the performance and competitiveness of the national economy (s.284(1)(a)) and the modern awards objective requires the Panel to take into account ‘the likely impact of any exercise of modern award powers on ... the sustainability, performance and competitiveness of the national economy’ (s.134(1)(h)), whereas the ‘sustainability’ of the national economy is not mentioned in the minimum wages objective: [\[2015\] FWCFB 3500](#) at [88].

<sup>23</sup> [\[2018\] FWCFB 3500](#) at [28].

<sup>24</sup> Ibid at [396].

<sup>25</sup> Ibid at [323].

<sup>26</sup> Ibid at [35].

<sup>27</sup> *Fair Work Act 2009* (Cth), s.285(3).

<sup>28</sup> See [\[2015\] FWCFB 3500](#) at [87]; [\[2016\] FWCFB 3500](#) at [5]; [\[2017\] FWCFB 3500](#) at [108]; [\[2018\] FWCFB 3500](#) at [43].

<sup>29</sup> We note that actual indicators may themselves be subject to revision.

<sup>30</sup> [\[2013\] FWCFB 4000](#) at [8].

<sup>31</sup> [\[2015\] FWCFB 3500](#) at [7].

<sup>32</sup> Ibid at [254].

<sup>33</sup> Ibid at [123].

<sup>34</sup> Ibid at [59].

<sup>35</sup> Ibid at [187].

<sup>36</sup> See ABS, *Consumer Price Index, Australia, Mar 2018*, Catalogue No. 6401.0.

<sup>37</sup> [\[2018\] FWCFB 3500](#) at [218]–[223].

<sup>38</sup> Ibid at [212].

<sup>39</sup> RBA (2019), *Statement on Monetary Policy*, May, Appendix: Forecasts.

<sup>40</sup> [\[2018\] FWCFB 3500](#) at [122]–[124], [127].

<sup>41</sup> See Statistical report, Chart 4.1.

<sup>42</sup> ABS, *Consumer Price Index, Australia, Mar 2019*, Catalogue No. 6401.0; RBA (2019), *Statement on Monetary Policy*, May, p. 57.

<sup>43</sup> RBA (2019), *Statement on Monetary Policy*, May, p. 57.

<sup>44</sup> Ibid at Appendix: Forecasts. Based on the forecast of 1.6 per cent.

<sup>45</sup> Ibid at p. 74.

<sup>46</sup> Australian Government submission, 15 March 2019 at paras 60–61.

<sup>47</sup> Productivity Commission (2018), *Rising inequality? A stocktake of the evidence*, Productivity Commission Research Paper, August, p. 39.

<sup>48</sup> [\[2017\] FWCFB 3500](#) at [463].

<sup>49</sup> Australian Government Submission 15 March 2019 at [20].

<sup>50</sup> [\[2015\] FWCFB 3500](#) at [453].

<sup>51</sup> [\[2013\] FWCFB 4000](#) at [56]–[57]; also see [\[2014\] FWCFB 3500](#) at [360] and [\[2016\] FWCFB 3500](#) at [409].

<sup>52</sup> ACTU submission, 15 March 2019 at para. 444.

<sup>53</sup> McCrindle 2018 The Food Bank Hunger Report 2018 <https://www.foodbank.org.au/wp-content/uploads/2018/12/2018-Foodbank-Hunger-Report.pdf> at p. 8.

<sup>54</sup> See *Penalty Rates* decision [\[2017\] FWCFB 1001](#) and [\[2017\] FWCFB 3001](#).

<sup>55</sup> See generally [\[2017\] FWCFB 3500](#) at [18]–[30].



- <sup>56</sup> Ai Group submission, 15 March 2019 at p. 62.
- <sup>57</sup> [\[2017\] FWCFB 3500](#) at [507]; [\[2018\] FWCFB 3500](#) at [259].
- <sup>58</sup> Debelle G (2019), *The state of the economy*, speech to the American Chamber of Commerce in Australia Business Luncheon, 10 April, Adelaide.
- <sup>59</sup> RBA (2019), *Statement on Monetary Policy*, May, pp. 33–34.
- <sup>60</sup> Transcript of proceedings, 14 May 2019 at PN 75–91; 15 May 2019 PN 461–462.
- <sup>61</sup> RBA (2019), *Statement on Monetary Policy*, May, p. 69.
- <sup>62</sup> [\[2018\] FWCFB 3500](#) at [218]–[223].
- <sup>63</sup> Statistical report, Overview; [\[2018\] FWCFB 3500](#) at [122]–[124], [127].
- <sup>64</sup> ABS, *Consumer Price Index, Australia, Mar 2018*, Catalogue No. 6401.0.
- <sup>65</sup> [\[2016\] FWCFB 3500](#) at [188]–[196].
- <sup>66</sup> Statistical report, Overview.
- <sup>67</sup> ABS, *Australian National Accounts: National Income, Expenditure and Product, Dec 2018*, Catalogue No. 5206.0.
- <sup>68</sup> [\[2018\] FWCFB 3500](#) at [116]; ABS, *Australian National Accounts: National Income, Expenditure and Product, Dec 2018*, Catalogue No. 5206.0.
- <sup>69</sup> For example, Federal opposition submission, 15 March 2019 at para. 29; Ai Group submission, 15 March 2019 at p. 7.
- <sup>70</sup> ABS, *Australian National Accounts: National Income, Expenditure and Product, Dec 2018*, Catalogue No. 5206.0.
- <sup>71</sup> RBA (2019), *Statement on Monetary Policy*, May, pp. 37; 70.
- <sup>72</sup> For a definition, see [\[2013\] FWCFB 4000](#) at [150].
- <sup>73</sup> Treasury and the Department of Jobs and Small Business response to questions on notice, 18 April 2019 at p. 6.
- <sup>74</sup> RBA (2019), *Statement on Monetary Policy*, May, p. 72.
- <sup>75</sup> Australian Government submission, 15 March 2019 at para. 51.
- <sup>76</sup> ACTU submission, 15 March 2019 at para. 73.
- <sup>77</sup> Ai Group submission, 15 March 2019 at pp. 4, 6.
- <sup>78</sup> RBA (2019), *Statement on Monetary Policy*, May, p. 71.
- <sup>79</sup> [\[2018\] FWCFB 3500](#) at [123], [127].
- <sup>80</sup> *Ibid* at [123].
- <sup>81</sup> *Ibid* at [124].
- <sup>82</sup> Statistical report, Overview.
- <sup>83</sup> [\[2018\] FWCFB 3500](#) at [129].
- <sup>84</sup> Australian Government submission, 15 March 2019 at para. 204.
- <sup>85</sup> *Ibid* at p. 53; Ai Group submission, 15 March 2019 at p. 40.
- <sup>86</sup> [\[2018\] FWCFB 3500](#) at [134].
- <sup>87</sup> Australian Government submission, 15 March 2019 at para. 217; Cho T, Hwang S & Schreyer P (2017), *Has the labour share declined?: It depends*, OECD Statistics Working Papers, No. 2017/01.
- <sup>88</sup> ACTU submission, 15 March 2019 at para. 167.
- <sup>89</sup> La Cava G (2019), *The labour and capital shares of income in Australia*, RBA Bulletin, March, at p. 1.
- <sup>90</sup> See La Cava G (2019), *The labour and capital shares of income in Australia*, RBA Bulletin, March. The distinction between the capital and profit shares is that the capital share is total gross operating surplus (GOS) (including owner-occupier dwellings and general government), while profit share only includes GOS from corporations.
- <sup>91</sup> Imputed rent measures the value of housing services that owner-occupiers receive from living in an owner-occupied dwelling. See La Cava G (2019), *The labour and capital shares of income in Australia*, RBA Bulletin, March, at p. 7.
- <sup>92</sup> La Cava G (2019), *The labour and capital shares of income in Australia*, RBA Bulletin, March, at pp. 10–13.
- <sup>93</sup> [\[2018\] FWCFB 3500](#) at [139].
- <sup>94</sup> ACTU submission in reply, 12 April 2019 at para. 130; Australian Government, *Budget Paper No. 2: Budget Measures 2019–20*, Canberra, p. 14.
- <sup>95</sup> Ai Group submission, 15 March 2019 at pp. 42–44.

- <sup>96</sup> [\[2018\] FWCFB 3500](#) at [142].
- <sup>97</sup> *Fair Work Act 2009* (Cth), s.3(g).
- <sup>98</sup> Australian Government submission, 15 March 2019 at para. 158.
- <sup>99</sup> *Ibid* at para. 162; ACCI submission, 15 March 2019 at para. 86.
- <sup>100</sup> Australian Government submission, 15 March 2019 at para. 163.
- <sup>101</sup> *Ibid* at paras 165–166.
- <sup>102</sup> *Ibid* at para. 169.
- <sup>103</sup> ACTU submission, 15 March 2019 at para. 172.
- <sup>104</sup> Australian Government submission, 15 March 2019 at para. 161.
- <sup>105</sup> ACCI submission, 15 March 2019 at para. 87.
- <sup>106</sup> ACTU submission, 15 March 2019 at para. 172.
- <sup>107</sup> Statistical report, Table 3.4.
- <sup>108</sup> [\[2018\] FWCFB 3500](#) at [146]; [\[2017\] FWCFB 3500](#) at [260]; [\[2016\] FWCFB 3500](#) at [298].
- <sup>109</sup> RBA (2019), *Statement on Monetary Policy*, May, p. 36.
- <sup>110</sup> *Ibid* at p. 41.
- <sup>111</sup> ABS, *Consumer Price Index, Australia, Mar 2019*, Catalogue No. 6401.0.
- <sup>112</sup> See Australian Government submission, 15 March 2019 at para. 78.
- <sup>113</sup> ABS, *Consumer Price Index, Australia, Mar 2019*, Catalogue No. 6401.0.
- <sup>114</sup> *Ibid*.
- <sup>115</sup> RBA (2019), *Statement on Monetary Policy*, May, p. 57.
- <sup>116</sup> *Ibid* at Appendix: Forecasts. Based on a forecast of 1.6 per cent.
- <sup>117</sup> *Ibid* at p. 71.
- <sup>118</sup> *Ibid* at p. 74.
- <sup>119</sup> Statistical report, Overview.
- <sup>120</sup> [\[2018\] FWCFB 3500](#) at [218]–[223].
- <sup>121</sup> *Ibid* at [153].
- <sup>122</sup> Rozenbes D & Ellis G (2019), *Developments in wages growth*, Fair Work Commission Research Report 1/2019, February.
- <sup>123</sup> *Ibid* at p. 34.
- <sup>124</sup> Bishop J (2018), ‘Update on the size and frequency of wage changes’, *Wage Price Index, Australia, Sep 2018*, Catalogue No. 6345.0, Feature Article.
- <sup>125</sup> [\[2018\] FWCFB 3500](#) at [198].
- <sup>126</sup> Page D (2018), *Wage-setting methods and wage growth in Australia*, ABS, August.
- <sup>127</sup> RBA (2019), *Statement on Monetary Policy*, May, p. 73.
- <sup>128</sup> Australian Government submission, 15 March 2019 at paras 209–210.
- <sup>129</sup> *Ibid* at para. 211.
- <sup>130</sup> *Ibid* 2019 at para. 198.
- <sup>131</sup> ACTU submission, 15 March 2019 at paras 148, 152; OECD (2018), *Economic Outlook*, November.
- <sup>132</sup> ACTU submission, 15 March 2019 at para. 148; OECD (2018), *Economic Outlook*, November.
- <sup>133</sup> ACCI submission, 15 March 2019 at para. 167.
- <sup>134</sup> ACCI submission in reply, 12 April 2019 at para. 90.
- <sup>135</sup> ABI and NSWBC submission, 15 March 2019 at p. 12.
- <sup>136</sup> [\[2018\] FWCFB 3500](#) at [165].
- <sup>137</sup> Statistical report, Overview.
- <sup>138</sup> [\[2018\] FWCFB 3500](#) at [168].
- <sup>139</sup> NRA submission, 15 March 2019 at para. 2.7c.
- <sup>140</sup> Statistical report, Overview.

- <sup>141</sup> Ai Group submission, 15 March 2019 at p. 52.
- <sup>142</sup> [\[2017\] FWCFB 3500](#) at [555]–[556].
- <sup>143</sup> *Ibid* at Chart 6.2.
- <sup>144</sup> See [\[2018\] FWCFB 3500](#) at [184].
- <sup>145</sup> [\[2017\] FWCFB 3500](#) at [556].
- <sup>146</sup> See RBA (2019), *Statement on Monetary Policy*, May, p. 36.
- <sup>147</sup> Statistical report, Overview.
- <sup>148</sup> [\[2018\] FWCFB 3500](#) at [174], see also [66].
- <sup>149</sup> ABS, *Labour Force, Australia, Apr 2019*, Catalogue No. 6202.0.
- <sup>150</sup> Dhillon Z & Cassidy N (2018), *Labour market outcomes for younger people*, RBA Bulletin, June, p. 2.
- <sup>151</sup> [\[2017\] FWCFB 3500](#) at [311].
- <sup>152</sup> Dhillon Z & Cassidy N (2018), *Labour market outcomes for younger people*, RBA Bulletin, June, p. 18.
- <sup>153</sup> *Ibid* at p. 4.
- <sup>154</sup> The long-term unemployment ratio was 24.5 per cent in April 2018; [\[2018\] FWCFB 3500](#) at [182].
- <sup>155</sup> ABS, *Labour Force, Australia, April 2019*, Catalogue No. 6202.0.
- <sup>156</sup> Statistical report, Table 6.6.
- <sup>157</sup> [\[2018\] FWCFB 3500](#) at [187].
- <sup>158</sup> Statistical report, Tables 6.6, 6.7, 6.8 and 6.9.
- <sup>159</sup> ACTU submission, 15 March 2019 at para. 477, Figure 102.
- <sup>160</sup> Transcript of proceedings, 14 May 2019 at PN 75–91; 15 May 2019 PN 461–472.
- <sup>161</sup> Australian Government submission, 15 March 2019 at para. 229.
- <sup>162</sup> That is, the 76 per cent of the low paid who moved to higher paid multiplied by the 66 per cent who were in low-paid employment for less than one year; see Tables 2.7 and 2.8.
- <sup>163</sup> [\[2018\] FWCFB 3500](#) at [193].
- <sup>164</sup> *Ibid* at [193]–[194].
- <sup>165</sup> ACCI submission, 15 March 2019 at para. 212.
- <sup>166</sup> [\[2018\] FWCFB 3500](#) at [194].
- <sup>167</sup> [\[2015\] FWCFB 3500](#) at [453].
- <sup>168</sup> [\[2018\] FWCFB 3500](#) at [195].
- <sup>169</sup> *Ibid* at [195].
- <sup>170</sup> See NRA submission, 15 March 2019 at para. 2.3(a); MGA submission, 15 March 2019 at p. 5; Australian Government submission, 15 March 2019 at para. 181.
- <sup>171</sup> Australian Government submission, 15 March 2019 at para. 86.
- <sup>172</sup> Questions on notice, 3 April 2019, question 2.5.
- <sup>173</sup> NRA submission in reply, 12 April 2019 at pp. 5–6.
- <sup>174</sup> ARA response to questions on notice, 12 April 2019 at p. 1; ACCI submission in reply, 12 April 2019 at para. 99.
- <sup>175</sup> NRA submission in reply, 12 April 2019 at p. 5.
- <sup>176</sup> ACCI submission, 15 March 2019 at paras 215, 216; ACTU submission, 15 March 2019 at para. 522; ACOSS submission, 15 March 2019 at pp. 44–45; ARA submission, 15 March 2019 at pp. 7, 8; HIA submission, 15 March 2019 at pp. 6, 7.
- <sup>177</sup> HIA submission, 15 March 2019 at p. 6.
- <sup>178</sup> ACCI submission, 15 March 2019 at para. 217; ARA submission, 15 March 2019 at p. 7.
- <sup>179</sup> ACOSS submission, 15 March 2019 at p. 44.
- <sup>180</sup> *Ibid*.
- <sup>181</sup> HIA submission, 15 March 2019 at p. 7.
- <sup>182</sup> ACTU submission, 15 March 2019 at para. 523.
- <sup>183</sup> [\[2018\] FWCFB 3500](#) at [202]–[205].

- <sup>184</sup> Ibid at [579]–[583]; Nelms L, Yuen K, Pung A, Farooqui S & Walsh J (2017), *Factors affecting apprenticeships and traineeships*, Fair Work Commission, Research Report 3/2017, Part I, February; Karmel T (2017), *Factors affecting apprenticeships and traineeships*, research commissioned by the Fair Work Commission, Research Report 3/2017, Part II, February.
- <sup>185</sup> Karmel T, *Factors affecting apprenticeships and traineeships*, research commissioned by the Fair Work Commission, Research Report 3/2017, Part II, February, p. 71.
- <sup>186</sup> [\[2018\] FWCFB 3500](#) at paras [204]–[205].
- <sup>187</sup> Australian Government, *Budget Paper No. 1: Budget Strategy and Outlook 2019–20*, Canberra, p. 2-6.
- <sup>188</sup> Ibid at p. 2-3.
- <sup>189</sup> Ibid at p. 2-6.
- <sup>190</sup> Ibid.
- <sup>191</sup> Ibid.
- <sup>192</sup> Ibid.
- <sup>193</sup> Ibid at p. 2-3.
- <sup>194</sup> Ibid.
- <sup>195</sup> Ibid at p. 2-9.
- <sup>196</sup> Ibid at p. 2-3.
- <sup>197</sup> Ibid at p. 2-10.
- <sup>198</sup> Ibid at p. 2-3.
- <sup>199</sup> Ibid.
- <sup>200</sup> Ibid at p. 2-18.
- <sup>201</sup> Ibid at p. 2-16.
- <sup>202</sup> Ibid at p. 2-4.
- <sup>203</sup> Ibid.
- <sup>204</sup> RBA (2019), *Statement on Monetary Policy*, May, p. 1.
- <sup>205</sup> Ibid at pp. 5, 46–47.
- <sup>206</sup> Ibid at p. 3.
- <sup>207</sup> Ibid at p. 73.
- <sup>208</sup> Ibid at p. 76.
- <sup>209</sup> Bishop J (2018), *The effect of minimum wage increases in wages, hours worked and job loss*, RBA Bulletin, September.
- <sup>210</sup> [\[2018\] FWCFB 3500](#) at [228]–[232].
- <sup>211</sup> ACTU submission, 15 March 2019 at paras 267–364.
- <sup>212</sup> Fair Work Commission (2019), *Research reference list—Annual Wage Review 2018–19*.
- <sup>213</sup> Jardim E, Long MC, Plotnick R, van Inwegen E, Vigdor J & Wething H (2018), *Minimum wage increases and individual employment trajectories*, National Bureau of Economic Research, Working Paper No. 25182, October.
- <sup>214</sup> Richardson, S (2018), *The UK evaluation of the impacts of increases in their minimum wage*, Discussion paper prepared for the Fair Work Commission research roundtable, Fair Work Commission, March; Borland, J (2018), *Part II: Prospects for research on employment effects of minimum wages in Australia*, Outcomes from the Fair Work Commission research roundtable, Fair Work Commission, Research report 4/2018, March.
- <sup>215</sup> Cengiz D, Dube A, Lindner A & Zipperer B (2019), *The effect of minimum wages on low-wage jobs: evidence from the United States using a bunching estimator*, National Bureau of Economic Research, Working Paper No. 25434, January, p. 4.
- <sup>216</sup> Ibid at p. 4.
- <sup>217</sup> [\[2017\] FWCFB 3500](#) at [523].
- <sup>218</sup> National Minimum wage: Low Pay Commission Report 2018, p. 206.
- <sup>219</sup> ACTU submission, 15 March 2019 at para. 352; Giupponi G & Machin S (2018), *Changing the structure of minimum wages: firm adjustment and wage spillovers*, CEP Discussion Paper 1533, April.
- <sup>220</sup> [\[2018\] FWCFB 3500](#) at [80].

- <sup>221</sup> [\[2013\] FWCFB 4000](#) at [361].
- <sup>222</sup> [\[2017\] FWCFB 3500](#) at [463].
- <sup>223</sup> [\[2016\] FWCFB 3500](#) at [391].
- <sup>224</sup> See Fair Work Commission (2019), *Information note—Characteristics of award-reliant employees*, additional material for the 2018–19 Review, 9 May.
- <sup>225</sup> Australian Government submission, 15 March 2019 at para. 19, Chart 2.1.
- <sup>226</sup> [\[2017\] FWCFB 1001](#) at [166].
- <sup>227</sup> ABS, *Characteristics of Employment, Australia, August 2018*, Catalogue No. 6333.0.
- <sup>228</sup> See Australian Government submission, 15 March 2019 at paras 19, 24–25, 29, 277–279; Federal opposition submission, 15 March 2019 at paras 64–65; ACTU submission, 15 March 2019 at paras 127–129, 370, 431–433; ACCI submission, 15 March 2019 at paras 268–270; ACBC submission, 15 March 2019 at paras 21, 74, 102, 223–227, 241, 265.
- <sup>229</sup> Based on a 38-hour week.
- <sup>230</sup> ABS, *Employee Earnings and Hours, Australia, May 2018*, Catalogue No. 6306.0.
- <sup>231</sup> Australian Government submission, 15 March 2019 at para. 20; Treasury and Department of Jobs and Small Business response to questions on notice, 18 April 2019 at p. 7.
- <sup>232</sup> [\[2018\] FWCFB 3500](#) at [265].
- <sup>233</sup> *Ibid* at [266].
- <sup>234</sup> RBA (2017), *Statement on Monetary Policy*, August, Box C, p. 43.
- <sup>235</sup> Wright S & Buchanan J (2013), *Award reliance*, Workplace Research Centre, University of Sydney Business School, Fair Work Commission Research Report 6/2013, December, p. 54, Table 4.1.
- <sup>236</sup> Australian Government submission, 15 March 2019 at para. 19, Chart 2.1; para. 32.
- <sup>237</sup> *Ibid* at para. 19, Chart 2.1; Appendix A, para. 6.
- <sup>238</sup> Australian Government submission, 15 March 2019, Appendix A, paras 3–4.
- <sup>239</sup> No resident own child.
- <sup>240</sup> Australian Government submission, 15 March 2019 at para. 33; Appendix A.4.
- <sup>241</sup> *Ibid* at Appendix A.4.
- <sup>242</sup> ACTU submission, 15 March 2019 at para. 34.
- <sup>243</sup> Yuen K, Ellis G & Nelms L (2018), *Characteristics of workers earning the national minimum wage rate and of the low paid*, Research Report 3/2018.
- <sup>244</sup> Australian Government submission, 15 March 2019 at paras 37–45.
- <sup>245</sup> Jimenez C & Rozenbes D (2017) *Award-reliant workers in the household income distribution*, Research Report 1/2017, Fair Work Commission, February.
- <sup>246</sup> Statistical report, Table 9.1.
- <sup>247</sup> *Ibid* at Table 5.2.
- <sup>248</sup> [\[2018\] FWCFB 3500](#) at [286].
- <sup>249</sup> Fair Work Commission (2019), *Information note—Changes to the tax-transfer system*, additional material for the 2018–19 Review, 3 April.
- <sup>250</sup> [\[2018\] FWCFB 3500](#) at [290].
- <sup>251</sup> Federal Opposition submission, 15 March 2019 at para. 81.
- <sup>252</sup> ACCI submission, 14 March 2019 at para. 263.
- <sup>253</sup> ACTU submission in reply, 12 April 2019 at para. 173.
- <sup>254</sup> ACBC response to questions on notice, 12 April 2019 at para. 16.
- <sup>255</sup> [\[2018\] FWCFB 3500](#) at [288].
- <sup>256</sup> [\[2018\] FWCFB 3500](#) at [291]–[292].
- <sup>257</sup> *Ibid* at [87].
- <sup>258</sup> Fair Work Commission (2019), *Information note—Changes to the tax-transfer system*, additional material for the 2018–19 Review, 3 April.
- <sup>259</sup> Ai Group submission 15 March 2019 at p. 56.

- <sup>260</sup> Fair Work Commission (2019), *Information note—[Changes to the tax-transfer system](#)*, additional material for the 2018–19 Review, 3 April.
- <sup>261</sup> Australian Government, *Budget Paper No. 2: Budget Measures 2019–20*, Canberra, p. 19.
- <sup>262</sup> ACCI submission in reply, 12 April 2019 at para. 140.
- <sup>263</sup> ACTU submission in reply, 12 April 2019 at para. 170.
- <sup>264</sup> Australian Government submission, 15 March 2019 at para. 294.
- <sup>265</sup> Treasury and the Department of Jobs and Small Business response to questions from consultations, 13 May 2019 at p. 6.
- <sup>266</sup> *Assumptions*: Single-earner households earn 100 per cent of the weekly NMW. Single parents working part time (PT) are earning 50 per cent of the weekly NMW rate, those working full time (FT) earn 100 per cent of the NMW. Dual-earner households comprise one partner earning 100 per cent of the NMW, the other earns 50 per cent of this rate. Applicable minimum wage rates (equivalent to the C14 rate) per week are: \$622.20 in July 2013; \$694.90 in July 2017 and \$719.20 in July 2018.
- <sup>267</sup> [\[2018\] FWCFB 3500](#) at [293].
- <sup>268</sup> *Ibid* at [293].
- <sup>269</sup> *Ibid* at [294].
- <sup>270</sup> *Ibid* at [298].
- <sup>271</sup> Treasury and the Department of Jobs and Small Business response to questions for consultations, 13 May 2019 at p. 6. The time period for the analysis is 1 January 2019 and for Table 3.2 it is 1 July 2018.
- <sup>272</sup> [\[2015\] FWCFB 3500](#) at [364].
- <sup>273</sup> [\[2017\] FWCFB 3500](#) at [486].
- <sup>274</sup> [\[2018\] FWCFB 3500](#) at [301].
- <sup>275</sup> [\[2013\] FWCFB 4000](#) at [359].
- <sup>276</sup> [\[2017\] FWCFB 3500](#) at [444].
- <sup>277</sup> [\[2018\] FWCFB 3500](#) at [311].
- <sup>278</sup> ABS, *Characteristics of Employment, Australia, August 2018*, Catalogue No. 6333.0; ABS, *Average Weekly Earnings, Australia, Nov 2018*, Catalogue No. 6302.0; ABS, *Wage Price Index, Australia, Mar 2019*, Catalogue No. 6345.0.
- <sup>279</sup> *Ibid*.
- <sup>280</sup> Australian Government submission, 15 March 2019 at Table 8.2.
- <sup>281</sup> Productivity Commission (2018), *Rising inequality? A stocktake of the evidence*, Commission Research Paper, Canberra.
- <sup>282</sup> *Ibid* at p.1.
- <sup>283</sup> Australian Government submission, 15 March 2019 at para. 13.
- <sup>284</sup> ACTU submission in reply, 12 April 2019 at paras 92–93.
- <sup>285</sup> *Ibid* at para. 96.
- <sup>286</sup> Australian Government submission, 15 March 2019 at para. 258.
- <sup>287</sup> *Ibid* at para. 13.
- <sup>288</sup> Productivity Commission 2018, *Rising inequality? A stocktake of the evidence*, Commission Research Paper, Canberra, pp. 2–3.
- <sup>289</sup> See *Ibid* at p. 109, Box 6.1.
- <sup>290</sup> *Ibid* at p. 77.
- <sup>291</sup> *Ibid* at p. 81.
- <sup>292</sup> [\[2018\] FWCFB 3500](#) at [328].
- <sup>293</sup> *Ibid* at [320].
- <sup>294</sup> Australian Government submission, 15 March 2019 at para. 260.
- <sup>295</sup> Productivity Commission (2018), *Rising inequality? A stocktake of the evidence*, Productivity Commission Research Paper, August, pp. 38–40.
- <sup>296</sup> *Ibid* at p. 40.
- <sup>297</sup> *Ibid* at p. 39.
- <sup>298</sup> *Ibid* at p. 31.

- <sup>299</sup> ACTU submission in reply, 12 April 2019 para. 47.
- <sup>300</sup> Ibid at para. 48.
- <sup>301</sup> ABS, ‘Summary indicators of income and wealth distributions’, *Household Expenditure Survey and Survey of Income and Housing, User Guide, Australia, 2015–16*, Catalogue No. 6503.0.
- <sup>302</sup> Ibid.
- <sup>303</sup> Productivity Commission (2018), [Rising inequality? A stocktake of the evidence](#), Productivity Commission Research Paper, August, p. 31.
- <sup>304</sup> Ibid at p. 41.
- <sup>305</sup> Statistical report, Table 8.7.
- <sup>306</sup> Australian Government submission, 15 March 2019 at para. 268; [\[2018\] FWCFB 3500](#) at [322].
- <sup>307</sup> [\[2018\] FWCFB 3500](#) at [323].
- <sup>308</sup> Saunders P & Bedford M (2017), *New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians*, SPRC Report 11/17, Social Policy Research Centre, UNSW Sydney, p. 5.
- <sup>309</sup> Ibid at pp. 6–7.
- <sup>310</sup> [\[2016\] FWCFB 3500](#) at [442]; Fair Work Australia (2011), *Measuring the Needs of the Low Paid*, Report to the Minimum Wage Panel, 14 December, [PR517718](#) at [41].
- <sup>311</sup> Ibid.
- <sup>312</sup> Saunders P & Bedford M (2017), *New minimum income for healthy living budget standards for low-paid and unemployed Australians*, SPRC Report 11/17, Social Policy Research Centre, UNSW Sydney.
- <sup>313</sup> Morris JN, Donkin A, Wonderling D, Wilkinson P & Dowler E (2000), ‘A minimum income for healthy living’, *Journal of epidemiology and community health*, Vol. 54, pp. 885–889.
- <sup>314</sup> Saunders & Bedford, p. 16.
- <sup>315</sup> Ibid at p. 2.
- <sup>316</sup> Ibid at p. 2.
- <sup>317</sup> Ibid at p. 93.
- <sup>318</sup> Compare Tables 5.7, 5.14 and 5.17 of Saunders P & Bedford M (2017), *New minimum income for healthy living budget standards for low-paid and unemployed Australians*, SPRC Report 11/17, Social Policy Research Centre, UNSW Sydney.
- <sup>319</sup> ACTU submission to the *Annual Wage Review 2017–18*, 13 March 2018 at para. 286.
- <sup>320</sup> Ibid at para. 287.
- <sup>321</sup> Ibid at para. 290.
- <sup>322</sup> ACOSS submission to the *Annual Wage Review 2017–18*, 16 March 2018 at pp. 27, 28.
- <sup>323</sup> ACCI submission to the 2017–18 Review, 13 March 2018 at para. 167.
- <sup>324</sup> ACCER submission to the 2017–18 Review, 13 March 2018 at para. 108; [\[2017\] FWCFB 3500](#) at paras 53; 362.
- <sup>325</sup> [\[2018\] FWCFB 3500](#) at [348].
- <sup>326</sup> Ibid at [351]–[352].
- <sup>327</sup> ACBC submission, 15 March 2019 at para. 377.
- <sup>328</sup> Ibid at paras 351–370.
- <sup>329</sup> Saunders P and Bedford M, *New Minimum Income for Health Living Budget Standards for Low-Paid and Unemployed Australians*, SPRC Report 11.17, Social Policy Research Centre, UNSW, Table 5.17 on p. 103.
- <sup>330</sup> Ibid at p. 102.
- <sup>331</sup> ACBC submission, 15 March 2019 at para. 352.
- <sup>332</sup> Ibid at paras 355–356.
- <sup>333</sup> Ibid at 357.
- <sup>334</sup> Saunders P (2019), *Correspondence re Budget standards research*, 26 April.
- <sup>335</sup> ACTU submission in reply, 12 April 2019 at paras 151; 155.
- <sup>336</sup> Ibid at para. 155.
- <sup>337</sup> Ai Group submission in reply, 12 April 2019 at p. 27.



- <sup>338</sup> Ai Group submission to the 2017–18 Review, 13 March 2018 at p. 40.
- <sup>339</sup> ACCI submission in reply, 12 April 2019 at para. 121.
- <sup>340</sup> *Ibid* at para. 125.
- <sup>341</sup> *Ibid* at p. 127.
- <sup>342</sup> ACOSS submission, 15 March 2019 at p. 24.
- <sup>343</sup> Saunders and Bedford (2017) at pp. 34; 41.
- <sup>344</sup> [\[2018\] FWCFB 3500](#) at [351].
- <sup>345</sup> *Ibid* at [352].
- <sup>346</sup> ACBC submission, 15 March 2019 at paras 378–379.
- <sup>347</sup> Saunders and Bedford, *op cit* at pp 38-39.
- <sup>348</sup> *Ibid* at p. 39.
- <sup>349</sup> *Ibid* at p. 2; 7-11; 73.
- <sup>350</sup> *Ibid* at p. 73.
- <sup>351</sup> Productivity Commission (2018), *Rising inequality? A stocktake of the evidence*, Productivity Commission Research Paper, August, at p. 35
- <sup>352</sup> *Ibid*.
- <sup>353</sup> Productivity Commission (2018), *Rising inequality? A stocktake of the evidence*, Productivity Commission Research Paper, August, at p. 35
- <sup>354</sup> Sila U & Dugain V (2019), *Income poverty in Australia: Evidence from the HILDA survey*, OECD Economics Department Working Papers No.1539, OECD publishing, Paris, 14 February, p. 7.
- <sup>355</sup> [\[2016\] FWCFB 3500](#) at [431].
- <sup>356</sup> Productivity Commission (2018), *Rising inequality? A stocktake of the evidence*, Productivity Commission Research Paper, August, p. 111.
- <sup>357</sup> *Ibid* at p. 112.
- <sup>358</sup> *Ibid*.
- <sup>359</sup> *Ibid* at p. 114.
- <sup>360</sup> [\[2018\] FWCFB 3500](#) at [329]; [\[2017\] FWCFB 3500](#) at [463].
- <sup>361</sup> Statistical report, Table 8.5; Melbourne Institute of Applied Economic and Social Research, *Poverty Lines: Australia*, December Quarter 2018, the University of Melbourne.
- <sup>362</sup> [\[2018\] FWCFB 3500](#) at [330].
- <sup>363</sup> *Ibid* at [336].
- <sup>364</sup> *Ibid* at [334].
- <sup>365</sup> Poverty lines are based on estimates of median equivalised household disposable income for 2013–14 for December 2013 and 2015–16 for December 2017 and December 2018, and adjusted for movements in household disposable income per head as calculated by the Melbourne Institute of Applied Economic and Social Research, and adjusted for household composition using the modified OECD equivalence scale. *Assumptions*: Tax-transfer parameters as at December 2013, December 2017 and December 2018. Wage rates for 2013: C14 = \$622.20 pw, C10 = \$724.50 pw, C4 = \$870.30 and AWOTE of full-time adult employees = \$1437.00 pw. Wage rates for 2017: C14 = \$694.90 pw, C10 = \$809.10 pw, C4 = \$971.90 pw and AWOTE of full-time adult employees = \$1569.60. Wage rates for 2018: C14 = \$719.20 pw, C10 = \$837.40 pw, C4 = \$1005.90 pw, AWOTE of full-time adult employees = \$1605.50. Other assumptions as per Table 8.4 in the Statistical Report.
- <sup>366</sup> ACTU submission, 15 March 2019 at para. 435.
- <sup>367</sup> *Ibid*.
- <sup>368</sup> [\[2018\] FWCFB 3500](#) at [337].
- <sup>369</sup> Transcript of proceedings, 15 May 2019 at PN330–PN339 and PN643.
- <sup>370</sup> *Ibid* at PN352–PN353 and PN645–PN669.
- <sup>371</sup> ACBC submission 15 March 2019 at para. 36.
- <sup>372</sup> Transcript of proceedings, 15 May 2019 at PN353–PN355 and PN656–PN677.
- <sup>373</sup> Australian Government Submission 15 March 2019 at para. 20.



<sup>374</sup> Ibid at para. 230.

<sup>375</sup> *Hospitality Industry (General) Award 2010*, Schedule D – Classification Definitions.

<sup>376</sup> *Airline Operations – Ground Staff Award 2010* (A Maintenance and engineering stream – Aircraft Worker 1 is paid at the NMW. Sched B.3.1 provides for undertaking up to 38 hours induction training); *Asphalt Industry Award 2010* (An employee at Skill level 1 is paid at the NMW (cl. 14.1) Schedule B.1 provides for up to 38 hours of training before progressing to level 2. Note an industry allowance of 4% is payable to all employees for all purposes); *Graphic Arts, Printing and Publishing Award 2010* (A level 1 employee is paid at the NMW (cl. 17.3). Schedule B provides for up to 38 hours of induction training); *Joinery and Building Trades Award 2010* (A level 1 employee is paid at the NMW (cl. 18.1). Schedule B provides for up to 38 hours of induction training); *Manufacturing and Associated Industries and Occupations Award 2010* (An employee at the C14 level is paid at the NMW (cl. 24.1(a)) Schedule B provides for up to 38 hours training at the C14 level); *Pastoral Award 2010* (Farming and Livestock Hands – FLH1 (cl. 28.1), Poultry Workers – PW1 (cl. 40.1) and Pig Attendants – PA1 (cl. 34.1) are paid at the NMW. Clause 33 provides that Pig Attendants are at this level for 38 hours of induction training. Clause 39 provides that Poultry workers are at this level if they have less than 12 months’ experience. Clause 27 provides that Farming and Livestock Hands are at this level until they have either 3 months’ or 12 months’ experience or stay at this level if they are a station cook or station cook’s offside); *Supported Employment Services 2010* (A Grade 1 employee is paid at the NMW (cl. 14.2) Schedule B.1.1 provides for up to 38 hours induction training. Schedule B.1.4 appears to be a separate category of “art union seller” which does not appear to be an introductory grade) and *Vehicle Manufacturing, Repair, Services and Retail Award 2010* (Vehicle RS&R industry employee – Level 1 and Vehicle industry/production employee Level 1 are both paid at the NMW rate (cl. 33.4 and 45.4) Schedule B.1 and Schedule C.1 both provide for 38 hours induction at level.

<sup>377</sup> *Amusement, Events and Recreation Award 2010* (Introductory level employees are paid at the NMW rate (cl. 14.1). Schedule B.1 provides for employees to work at this level for up to 3 months before progressing to level 1’); *Animal Care and Veterinary Services Award 2010* (A Practice managers, Veterinary nurses, Receptionists, Animal attendants and Assistants employee at the Introductory level is paid at the NMW (cl. 14.2). Schedule B.2.1 provides for a period ‘not exceeding 3 months’); *Corrections and Detention (Private Sector) Award 2010* (Catering employees at the Introductory level are paid at the NMW rate (cl. 14.1(b)). Schedule D.1 provides for an employee to be at this level for up to 3 months but an employer and employee to agree that a further 3 month period is required); *Fitness Industry Award 2010* (A level 1 employee is paid at the NMW (cl. 17.1). Schedule B.2 provides that to be classified at level 2, an employee must complete 456 hours of training at level 1; *Food, Beverage and Tobacco Manufacturing Award 2010* (A level 1 employee is paid at the NMW (cl. 20.1) Schedule B.2.1(a) provides for employees to be at this level for up to 3 months or 152 hours for a casual or 4 weeks for a seasonal employees); *Gardening and Landscaping Services Award 2010* (A Gardener/Landscaper – Introductory Level is paid at the NMW. Schedule B.1 provides for ‘not more than 3 months training’ at this level); *Horse and Greyhound Training Award 2010* (A Stable employee (on commencement with employer) is paid at the NMW (cl. 13.1)l. Clause 13.1 provides that the employee will be a Stablehand Grade 1 after 3 months’ continuous employment); *Horticulture Award 2010* (A Level 1 employee is paid at the NMW (cl. 14.1(a)). Schedule B.2.2 provides that in order to be classified as level 2 an employee should have undertaken up to 3 months of structured training); *Hospitality Industry (General) Award 2010* (An Introductory employee is paid at the NMW rate (cl. 20.1). Schedule D provides for up to 3 months at the introductory level but an employer and employee to agree to a further 3 month training period); *Miscellaneous Award 2010* (A Level 1 employee is paid at the NMW (cl. 14.1). Schedule B provides for up to 3 months training at Level 1); *Nursery Award 2010* (A Grade 1A employee is paid at the NMW (cl. 15.1). Schedule B provides for no longer than 3 months training at Grade 1A); *Racing Clubs Events Award 2010* (An Introductory Level employee is paid at the NMW (cl.19.2). Clause 17.1 provides for up to 3 months at this level but this may be delayed for a further period of up to three months where it is agreed that further training is required); *Racing Industry Ground Maintenance Award 2010* (An Introductory Level employee is paid at the NMW (cl. 14.3). Clause 13.1 provides for up to 3 months at this level but this may be delayed for a further period of up to three months where it is agreed that further training is required); *Registered and Licensed Clubs Award 2010* (An Introductory Level employee is paid at the NMW (cl. 17.2). Schedule B.1 provides for up to 3 months at this level unless agreement is reached and recorded between the employer and employee for a further 3 months); *Restaurant Industry Award 2010* (An Introductory Level employee is paid at the NMW (cl. 20.1). Schedule B.1 provides up to 3 months at this level however, an additional 3 months may be served by mutual agreement); *Seafood Processing Award 2010* (A process attendant level 1 is paid the NMW (cl. 15.1(a)). Schedule B.1.1(c) provides that ‘an employee remains at this level for the first three months or until they are capable of demonstrating competency in the tasks required at this level so as to enable them to progress to Level 2’); *Textile, Clothing, Footwear and Associated Industries Award 2010* (General – Trainee and Wool and basil employees – General hand are paid at the NMW (cl. 20.1 and 20.2) The ‘general’ classification for trainees applies for up to 3 months. There are no classification descriptions for ‘wool and basil employees’) and *Timber Industry Award 2010* (Level 1 employees in the General Timber Stream and the Wood and Timber Furniture Stream are paid at

the NMW (cl. 17.1 and 17.1). Schedule B.1.1(f) provides for a maximum of 3 months at this level and then a further 3 months by agreement. Schedule C.1 allows up to 3 months induction).

- <sup>378</sup> *Alpine Resorts Award 2010* (7 weeks) (A Training level employee is paid at the NMW (cl. 16.1). Schedule B.1.2 provides for a maximum of 7 weeks of training at this level); *Aquaculture Industry Award 2010* (up to 4 months) (An Aquaculture attendant – Level 1 is paid at the NMW (cl. 14.1) Schedule B.1.1 provides for employees to be at this level for up to 4 months before progressing to level 2); *Cemetery Industry Award 2010* (up to 6 months) (A Cemetery Employee Class 1 is paid at the NMW (cl. 14.1). Schedule B provides for progression after 6 months); *Live Performance Award 2010 (6 weeks)* (A Production and Support Staff Level 1 (Induction/Training) employee is paid at the NMW (cl. 13.2). Schedule B.1.1(a) provides for a trainee undertaking 6 weeks induction training for full-time or part-time of 228 hours induction training for casuals) and *Architects Award 2010* (Clause 15.4(a) provides for students of architecture over 21 years of age with less than 3 years of experience to be paid at the NMW. Note that the rates for students of architecture under 21 years of age are lower than NMW until the 3<sup>rd</sup> year).
- <sup>379</sup> *Cement and Lime Award 2010* (A level 1 employee is paid at the NMW (cl. 14.1) Schedule B.1 describes a level 1 employee as ‘entry level’ and ‘undertaking basic competency training’); *Concrete Products Award 2010* (A level 1 employee is paid at the NMW (cl. 15.1). Schedule B.1.1 refers to undertaking the employers induction program refers to the ‘employer’s induction program’); *Meat Industry Award 2010* (An MII employee is paid at the NMW (cl. 19.1). Schedule B.3.1 refers to an employee at this level ‘undergoing on-the-job training for an initial period of at least three months’); *Oil Refining and Manufacturing Award 2010* (A Lubricants/bitumen plants and terminals trainee (level 1) is paid at the NMW (cl. 14.1) Schedule B.1.4 describes this as an employee undergoing the necessary orientation and training to enable safe and efficient performance as an operator); *Port Authorities Award 2010* (A level 1 employee is paid at the NMW (cl. 13.1). Schedule B.1 describes an employee at this level as having ‘completed induction’); *Quarrying Award 2010* (A grade 1 employee is paid at the NMW (cl 17.) Schedule B describes an employee ‘undertaking training to become competent’); *Rail Industry Award 2010* (An Operations level 1 employee is paid at the NMW (cl. 14.1) Schedule A says that employees at this level ‘undertake and successfully complete standard induction training’) and *Stevedoring Industry Award 2010* (A Grade 1 employee is paid at the NMW (cl. 13.1). Schedule B describes an employee at this level as someone ‘who is undergoing induction and initial training prior to appointment as a stevedoring employee Grade 2’).
- <sup>380</sup> *Air Pilots Award 2010* (First officers and second pilots of Single engine UTBNI 1360 kg and Single engine 1360 kg-3359 kg are paid at the NMW (Schedule B.1.1). An aerial Application Pilot with less than 1000 hours of flying experience is also paid at the NMW (Schedule D.9.1). It is noted that there additions to salary in B.1.3, B.1.4 and D.9.5 which may mean that employees receive an amount greater than the NMW); *Broadcasting, Recorded Entertainment and Cinemas Award 2010* (A Grade 1 employee is paid at the NMW (cl. 14.3). Clause 14.2(a) suggests that there may not be any employees paid at this rate under the award); *Dry Cleaning and Laundry Industry Award 2010* (A Dry cleaning employee level 1 is paid at the NMW level (cl. 14.1(a)); *Funeral Industry Award 2010* (A grade 1 employee is paid at the NMW level (cl. 14.1); *Sugar Industry Award 2010* (The C14/L2-milling general operator is paid at the NMW level (cl. 40.1). The BT1 rate (cl. 42.1) applies to ‘new starters’ who undertake a 3 month probation period) and *Travelling Shows Award 2010* (A Grade 1 employee is paid at the NMW).
- <sup>381</sup> [\[2013\] FWCFB 4000](#) at [56]–[57]; also see [\[2014\] FWCFB 3500](#) at [360] and [\[2016\] FWCFB 3500](#) at [409].
- <sup>382</sup> Australian Government submission, 15 March 2019 at Appendix A.4, Table A.2.
- <sup>383</sup> [\[2018\] FWCFB 3500](#) at [357]–[358].
- <sup>384</sup> *Ibid* at [361].
- <sup>385</sup> See [\[2018\] FWCFB 3500](#) at [364].
- <sup>386</sup> McCrindle (2018), The Food Bank Hunger Report 2018 <https://www.foodbank.org.au/wp-content/uploads/2018/12/2018-Foodbank-Hunger-Report.pdf> at p 8.
- <sup>387</sup> ACTU submission, 15 March 2019 at paras 456–457.
- <sup>388</sup> Federal Opposition submission, 15 March 2019 at para. 69.
- <sup>389</sup> ACTU submission in reply, 12 April 2019 at paras 157; 160.
- <sup>390</sup> *Ibid* at para. 162.
- <sup>391</sup> NRA submission in reply, 11 April 2019 at p. 9.
- <sup>392</sup> ACCI submission in reply, 12 April 2019 at para. 132.
- <sup>393</sup> Ai Group submission in reply, 12 April 2019 at p. 29.
- <sup>394</sup> *Fair Work Act 2009* (Cth), s.3(f).
- <sup>395</sup> [\[2018\] FWCFB 3500](#) at [376].

- <sup>396</sup> ABS, 'A Guide to Understanding Employee Earnings and Hours Statistics', *Employee Earnings and Hours, Australia, May 2018*, Catalogue No. 6306.0.
- <sup>397</sup> See [\[2017\] FWCFB 3500](#) at [600].
- <sup>398</sup> ACTU submission, 15 March 2019 at para. 4t.
- <sup>399</sup> *Ibid* at para. 484.
- <sup>400</sup> *Ibid* at paras 490–492.
- <sup>401</sup> [\[2018\] FWCFB 3500](#) at [385]–[394].
- <sup>402</sup> *Ibid* at [393].
- <sup>403</sup> *Ibid* at [390].
- <sup>404</sup> ACTU submission, 15 March 2019 at para. 494.
- <sup>405</sup> [\[2018\] FWCFB 3500](#) at [409].
- <sup>406</sup> Statistical report, Overview.
- <sup>407</sup> Australian Government submission, 15 March 2019 at paras 222–223.
- <sup>408</sup> CCIWA submission, 15 March 2019 at para. 181; Pennington A (2018), *On the brink: The erosion of enterprise agreement coverage in Australia's private sector*, Centre for Future Work, The Australia Institute, December, p. 5.
- <sup>409</sup> MGA submission, 15 March 2019 at p. 17.
- <sup>410</sup> ACTU submission, 15 March 2019 at para. 497; Pennington A (2018), *On the brink: The erosion of enterprise agreement coverage in Australia's private sector*, Centre for Future Work, The Australia Institute, pp. 7–8.
- <sup>411</sup> Ai Group submission in reply, 12 April 2019 at pp. 12–13; Bishop J & Chan I (2019), *Is declining union membership contributing to low wages growth?*, RBA Research Discussion Paper, RDP 2019-02, April.
- <sup>412</sup> Bishop J & Chan I (2019), *Is declining union membership contributing to low wages growth?*, RBA Research Discussion Paper, RDP 2019-02, April, p. 2.
- <sup>413</sup> *Ibid* at p. 2.
- <sup>414</sup> For example, ACCI submission, 15 March 2019 at para. 300; Ai Group submission, 15 March 2019 at p. 59.
- <sup>415</sup> [\[2018\] FWCFB 3500](#) at [404].
- <sup>416</sup> *Ibid* at [94]–[96].
- <sup>417</sup> Ai Group submission, 15 March 2019 at p. 60.
- <sup>418</sup> *Ibid* at p. 59.
- <sup>419</sup> *Ibid*.
- <sup>420</sup> ACTU submission, 15 March 2019 at para. 481.
- <sup>421</sup> ACCI submission, 15 March 2019 at para. 302.
- <sup>422</sup> *Ibid* at para. 303.
- <sup>423</sup> [\[2018\] FWCFB 3500](#) at [409].
- <sup>424</sup> ACCI submission, 15 March 2019 at para. 311.
- <sup>425</sup> [\[2018\] FWCFB 3500](#) at paras [35]–[38].
- <sup>426</sup> *Ibid* at [419].
- <sup>427</sup> *Ibid*. See Table 4.1.
- <sup>428</sup> Statistical report, Table 11.1; ABS, 'Understanding measures of the gender pay gap', *Gender Indicators, Australia, Sep 2018*, Catalogue No. 4125.0, added 23 January 2019.
- <sup>429</sup> [\[2017\] FWCFB 3500](#) at [645].
- <sup>430</sup> Statistical report, Table 5.1.
- <sup>431</sup> Australian Government submission 15 March 2019 at paras 301–302.
- <sup>432</sup> ACTU submission at para. 518.
- <sup>433</sup> *Ibid* at para. 519.
- <sup>434</sup> Western Australian Government submission, 15 March 2019 at paras 54–55.
- <sup>435</sup> Queensland Government submission, 15 March 2019 at pp. 2, 16.
- <sup>436</sup> Victorian Government submission, 15 March 2019 at para. 104.

<sup>437</sup> Ibid at para. 100.

<sup>438</sup> ACCI submission, 14 March 2019 at para. 339.

<sup>439</sup> Ibid at paras 337, 339.

<sup>440</sup> [\[2018\] FWCFB 3500](#) at [435].

<sup>441</sup> Fair Work Commission, *Information note—Characteristics of award-reliant employees*, additional material for the 2018–19 Review, 9 May.

<sup>442</sup> *Fair Work (Transitional Provisions and Consequential Amendments) Act 2009* (Cth), s.22; Note [\[2013\] FWAFB 4000](#) at [550]–[553] clarifies these are different categories of transitional instrument.

<sup>443</sup> Some Division 2A State reference transitional awards may still operate such as where they are related to awards that have not been terminated under the termination of instruments process.

<sup>444</sup> Some Division 2B State reference transitional awards may still operate such as where they are related to awards that have not been terminated under the termination of instruments process.

<sup>445</sup> Some Division 2B State awards may still operate such as where they cover: employees also covered by enterprise instruments; or State reference public sector awards.

<sup>446</sup> Two transitional pay equity orders currently operate, created under item 43 of Sch. 3, and item 30A of Sch. 3A, of the Transitional Act respectively. The Panel must review and may make a determination varying the transitional pay equity order created under sub item 30D(1) of Sch. 3A, to the extent that it is derived from the *Queensland Community Services and Crisis Assistance Award – State 2008* (Regs 3A.01B).

<sup>447</sup> See discussion further for whom these instruments apply [\[2013\] FWCFB 4000](#) at [550]–[561].

<sup>448</sup> [\[2010\] FWAFB 4000](#) at [370]–[396].

<sup>449</sup> Dunn A & Bray G (2010), *Minimum wage transitional instruments under the Fair Work Act 2009 and the Fair Work (Transitional Provisions and Consequential Amendments) Act 2009* (Cth), Research Report 06/2010, Fair Work Australia, June 2010.

<sup>450</sup> [\[2017\] FWCFB 1931](#) at [81].

<sup>451</sup> *Fair Work (Transitional Provisions and Consequential Amendments) Act 2009* (Cth), items 5(1)–(5) and 9(4) of Sch. 6.

<sup>452</sup> Ibid at items 5(3), 6 and 10(1) of Sch. 6A.

<sup>453</sup> For example, certain instruments that covered employees who were also covered by the *Social, Community, Home Care and Disability Industry Award 2010* were preserved by the *Award Modernisation – Termination of Modernisable Instruments* decision [\[2010\] FWAFB 9916](#) at [44]. As at the date of this decision, they have not been terminated.

<sup>454</sup> A more detailed outline of these instruments can be found at [\[2013\] FWCFB 4000](#) at [553]–[559]; and [\[2017\] FWCFB 1931](#) at [81].

<sup>455</sup> *Fair Work (Transitional Provisions and Consequential Amendments) Act 2009* (Cth), items 10 and 20 of Sch. 9, items 7 and 12A(5) of Sch. 3.

<sup>456</sup> Ibid at items 7-8 of Sch. 9, and item 3(2) of Sch. 5.

<sup>457</sup> For example, *Fair Work (Transitional Provisions and Consequential Amendments) Act 2009* (Cth), item 20(1) of Sch 3.

<sup>458</sup> [\[2010\] FWAFB 9916](#) at [41]–[44].

<sup>459</sup> *Fair Work (Transitional Provisions and Consequential Amendments) Act 2009* (Cth), item 10(1) of Sch. 9 and item 12A of Sch. 3.

<sup>460</sup> ACTU submission, 15 March 2019 at para. 528; ACCI submission, 15 March 2019 at para. 23; ABI submission, 15 March 2019 at p.25; The Benevolent Society submission, 12 March 2019 at p. 1.

<sup>461</sup> The *Fair Work (Transfer of Business) Amendment Act 2012* (Cth), which commenced on 4–5 December 2012, introduced Part 6.3 into the Act. A copied State award continues to operate under the national system for a period of five years, unless terminated or extended by regulation. See s.768AO of the *Fair Work Act 2009* (Cth).

<sup>462</sup> The provisions of the *Fair Work (Transitional Provisions and Consequential Amendments) Regulations 2009* (Cth) dealing with the variation of Division 2B State awards in annual wage reviews also apply to copied State awards. Sections 768BY and 768AW(b) of the *Fair Work Act 2009* (Cth).

<sup>463</sup> [\[2018\] FWCFB 3500](#) at [452].

<sup>464</sup> ACTU submission, 15 March 2019 at para. 527; Ai Group submission, 15 March 2019 at p. 68; ABI submission, 15 March 2019 at p. 25; The Benevolent Society submission, 12 March 2019 at p. 1.

<sup>465</sup> *Fair Work Act 2009* (Cth), s.284(3).

- <sup>466</sup> Ai Group submission, 15 March 2019 at p. 64.
- <sup>467</sup> ABI and NSWBC submission, 15 March 2019 at p. 24.
- <sup>468</sup> ACCI submission, 15 March 2019 at para. 23(c).
- <sup>469</sup> AWU submission, 18 March 2019 at para. 3.
- <sup>470</sup> *Vehicle Manufacturing, Repair, Services and Retail Award 2010* at cl 52.1.
- <sup>471</sup> *Ibid* at cl 33.7(a).
- <sup>472</sup> AWU submission, 18 March 2019 at paras 5-6.
- <sup>473</sup> *Ibid* at para. 19.
- <sup>474</sup> *Ibid* at paras 13–17.
- <sup>475</sup> Questions on notice, 3 April 2019.
- <sup>476</sup> Background paper – Junior rates of pay in modern awards, 8 May 2019.
- <sup>477</sup> *Ibid*.
- <sup>478</sup> *Ibid* at Attachment A.
- <sup>479</sup> Transcript of proceedings, 15 May 2019.
- <sup>480</sup> Background paper – Junior rates of pay in modern awards, 8 May 2019 at para. 13.
- <sup>481</sup> MTA submission, 21 May 2019 at paras 7, 10.
- <sup>482</sup> A proposal in the form of an illustrative spreadsheet was provided by the ACTU on 16 May 2019 and subsequently made available for consultation via the Commission’s website.
- <sup>483</sup> Ai Group submission, 16 May 2019 at pp. 2–5.
- <sup>484</sup> *Ibid* at p. 6.
- <sup>485</sup> *Ibid*.
- <sup>486</sup> Ai Group submission, 12 April 2019; Ai Group submission, 16 May 2019 at p. 6.
- <sup>487</sup> *Fair Work Act 2009* (Cth), s 285(3).
- <sup>488</sup> RTBU submission, 15 May 2019.
- <sup>489</sup> ACTU submission, 15 March 2019 at para. 521
- <sup>490</sup> Ai Group submission, 15 March 2019 at p. 64.
- <sup>491</sup> ABI and NSWBC submission, 15 March 2019 at p. 24
- <sup>492</sup> ACTU submission, 15 March 2019 at para. 521
- <sup>493</sup> ABI and NSWBC submission, 15 March 2019 at p. 24
- <sup>494</sup> Ai Group submission, 15 March 2019 at p 64.
- <sup>495</sup> Australian Government submission, 15 March 2019 at para. 140.
- <sup>496</sup> *Ibid* at paras 144–153.
- <sup>497</sup> *Ibid* at paras 144–145.
- <sup>498</sup> [\[2018\] FWCFB 3500](#) at [464]; [\[2017\] FWCFB 3500](#) at [715]; [\[2016\] FWCFB 3500](#) at paras 608; 650.
- <sup>499</sup> ACTU submission, 15 March 2019 at para. 526.
- <sup>500</sup> *Ibid*.
- <sup>501</sup> *Fair Work Act 2009* (Cth), s.295(1)(b).
- <sup>502</sup> ACTU submission, 15 March 2019 at para. 525.
- <sup>503</sup> Ai Group submission, 15 March 2019 at pp. 66-67.
- <sup>504</sup> ACCI submission, 15 March 2018 at para. 23(d)
- <sup>505</sup> ABI and NSWBC submission, 15 March 2019 at p. 24.
- <sup>506</sup> [\[2015\] FWCFB 3500](#) at [560].
- <sup>507</sup> [\[2016\] FWCFB 3500](#) at [640].
- <sup>508</sup> ACTU submission, 15 March 2019 at para. 525.
- <sup>509</sup> Ai Group submission, 15 March 2019 at p. 67.
- <sup>510</sup> [\[2018\] FWCFB 3500](#) at [665].

- <sup>511</sup> *Fair Work Act 2009* (Cth), s.294(1)(b).
- <sup>512</sup> ACOSS submission, 15 March 2019 at pp. 43–46.
- <sup>513</sup> Ai Group submission, 15 March 2019 at p. 65.
- <sup>514</sup> ABI and NSWBC submission, 15 March 2019 at p. 24.
- <sup>515</sup> ACCI submission, 15 March 2019 at paras 23(b).
- <sup>516</sup> Ai Group submission, 15 March 2019 at pp. 65–66.
- <sup>517</sup> ABI and NSWBC submission, 15 March 2019 at p. 24.
- <sup>518</sup> ACCI submission, 15 March 2019 at paras 23(b).
- <sup>519</sup> [\[2017\] FWCFB 3500](#) at [739].
- <sup>520</sup> ACTU submission, 15 March 2019 at para. 524.
- <sup>521</sup> Ai Group submission, 15 March 2018 at pp. 64–65.
- <sup>522</sup> ACCI submission, 15 March 2018 at para. 23.a.
- <sup>523</sup> ABI and NSWBC submission, 15 March 2019 at p. 24.
- <sup>524</sup> [\[2018\] FWCFB 3500](#) at [480]–[483].
- <sup>525</sup> ACOSS submission, 15 March 2019 at p 46; ACOSS submission, 16 March 2018 at pp. 46–47; ACOSS submission, 29 March 2019 at p. 37.
- <sup>526</sup> ACOSS submission to 2017–18 Review at pp. 46–47; ACOSS submission to 2016–17 Review at p. 37; ACOSS submission to 2015–16 Review at pp. 38–39; ACOSS submission to 2014–15 Review at pp. 52–53; ACOSS submission to 2013–14 Review at pp. 59–60; ACOSS submission to 2012–13 Review at pp. 58–59; ACOSS submission to 2011–12 Review at p. 57; ACOSS submission to 2010–11 Review at pp. 45–46 and ACOSS submission to 2009–10 Review at p. 46.
- <sup>527</sup> ACOSS submission, 15 March 2019 at p. 46.
- <sup>528</sup> CCIQ submission, 15 March 2019.
- <sup>529</sup> ACCI submission, 12 April 2019 at para. 89.
- <sup>530</sup> CCIQ submission, 15 March 2019 at paras 24–40; 49–50.
- <sup>531</sup> *Ibid* at para. 25.
- <sup>532</sup> *Ibid* at paras 24–40.
- <sup>533</sup> NRA response to questions on notice, April 2019, at 1.3, para. b; ACTU response to questions on notice, 12 April 2019 at paras 104–109; CCIQ submission, 15 March 2019 at paras 24–40.
- <sup>534</sup> [\[2017\] FWCFB 3500](#).
- <sup>535</sup> [\[2012\] FWAB 5000](#) at [254]; [\[2013\] FWCFB 4000](#) at [542]–[549]; [\[2014\] FWCFB 3500](#) at [512]–[516].
- <sup>536</sup> [\[2012\] FWAB 5000](#) at [258]–[260].
- <sup>537</sup> NRA response to questions on notice, April 2019, at 1.3, para. c.
- <sup>538</sup> CCIQ submission, 15 March 2019 at para. 25.2.
- <sup>539</sup> [\[2013\] FWCFB 4000](#) at paras 96–97.