



Australian Government

Australian Government Submission

to the

Fair Work Commission Annual Wage Review 2019

15 March 2019

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Acronyms and Abbreviations

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

1 Introduction

1. Under the *Fair Work Act 2009*, the independent Expert Panel for Annual Wage Reviews ('the Panel') is required to review the national minimum wage rate and modern award wages each year.
2. In this submission, the Australian Government has provided the latest evidence on the economy, labour market, low-paid workers and inequality for the Panel to consider in determining a fair increase to minimum wages.
3. In making its decision, the Panel must give regard to the minimum wages objective (s.284) and the modern awards objective (s.134) in the *Fair Work Act 2009*. It must balance a number of considerations as outlined in these objectives, including:
 - the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth (s.284)
 - promoting social inclusion through increased workforce participation (s.284 and s.134)
 - relative living standards and the needs of the low paid (s.284 and s.134)
 - the principle of equal remuneration for work of equal or comparable value (s.284 and s.134)
 - providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability (s.284)
 - the need to encourage collective bargaining (s.134)
 - the need to provide additional remuneration for: employees working overtime; or employees working unsocial, irregular or unpredictable hours; or employees working on weekends or public holidays; or employees working shifts (s.134)
 - the need to promote flexible modern work practices and the efficient productive performance of work (s.134)
 - the need to ensure a simple, easy to understand, stable and sustainable modern award system for Australia that avoids unnecessary overlap of modern awards (s.134)
 - the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden (s.134)
 - the likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy (s.134).
4. Australia's unique minimum wage system sets out the national minimum wage rate as well as a range of wages and conditions across 122 modern awards. These modern awards set around 2,000 adult award rates of pay across hundreds of classifications that vary widely, with just under one-third of award-reliant workers classified as low paid (see Chapter 2).
5. The Panel's decision will directly affect employees paid the national minimum wage rate and those whose pay is set by a modern award.

- The Department of Jobs and Small Business estimates that in May 2018 (latest data) around 180,200 Australians (1.7 per cent of employees) are paid the national minimum wage rate.¹
 - In May 2018, up to 2.2 million Australians (21.0 per cent of employees) were paid an award rate.
6. The Australian economy is expected to continue to perform well, although as always there are a range of risks to the outlook. Real Gross Domestic Product (GDP) is forecast to grow by 2¾ per cent in 2018-19 and 3 per cent in 2019-20. Wages are expected to rise 2½ per cent through the year to the June quarter of 2019 and then to 3 per cent through the year to the June quarter of 2020 (see Chapter 3).
 7. To improve the living standards of all Australians, it is essential to foster an environment supportive of the recent positive developments in the economy, including economic growth, record job creation and the recent pickup in wages growth.
 8. Over the long run, real income growth and improved living standards are essentially dependent on productivity growth. Labour productivity in the market sector has grown at an average annual rate of 1.6 per cent over the current incomplete cycle (2011-12 to 2017-18), slightly above the 1.5 per cent recorded for the 2003-04 to 2011-12 cycle and below the peak performance of 2.5 per cent from 1998-99 to 2003-04 (see Chapter 6).
 9. Over the past year, labour market conditions remained strong. The unemployment rate fell to 5.0 per cent in January 2019, while the participation rate remains close to record highs. Employment rose by 2.2 per cent over the year to January 2019, well above the decade average rate of 1.7 per cent, with full-time jobs accounting for around 87 per cent of employment growth (see Chapter 4).
 10. However, spare capacity is still evident in the labour market, with the underemployment rate at 8.1 per cent in January 2019. There are also pockets of disadvantage in the labour force, with the youth unemployment rate and long-term unemployment still at elevated levels compared to those recorded before the onset of the Global Financial Crisis (GFC).
 11. Small businesses are particularly affected by the Panel's decision, as they are more likely to rely on awards to set pay and conditions for their employees than larger businesses. Around 35 per cent of employees in a small business are paid award classification wages. They are a significant part of the Australian economy, making an important contribution to output and employment. The economic environment for small business has improved since early 2015. Despite some signs of softness over the last few quarters, business conditions remain above long-term average levels. However, there is some evidence that small businesses continue to remain somewhat cautious in taking on additional labour (see Chapter 5).
 12. The effect of minimum wages on employment is difficult to measure, and hence the available evidence is mixed and remains under debate. The empirical literature in Australia, as well as in the United States (US) and United Kingdom (UK), finds a mix of small negative and statistically insignificant employment effects. Wages, like all business costs, are likely to influence employers' workforce decisions (see Chapter 7).

¹ Some employees paid the national minimum wage rate are award reliant. It is not possible to provide a reliable breakdown.

13. Income 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. The national minimum wage bite (the ratio between the national minimum wage rate and median full-time earnings) has also been stable at around 54 per cent since 2008. Australia’s targeted tax-transfer system has played a key role, with the Productivity Commission (2018) concluding that *“Australia’s tax and transfer system has consistently acted to substantially reduce income inequality.”* 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 (see Chapter 8).
14. The weekly gender pay gap fell to a historic low of 14.2 per cent in 2018 (seasonally adjusted), after trending down since the most recent peak of 18.7 per cent in 2014. The hourly gender pay gap, which accounts for the differences in hours worked between men and women, was 13.5 per cent in 2016 (latest data).

2 Minimum wages and low-paid workers

Key Points

- Less than two per cent of Australian employees are paid at the rate of the national minimum wage (NMW) (currently \$18.93 per hour).
- The ‘minimum wage bite’ (the national minimum wage rate compared to the median wage of all full-time employees) is 54.1 per cent. In the most award-reliant industries, the lowest adult minimum wage rates in the applicable awards are higher than 54.1 per cent.
- Less than one third of Australia’s 2.2 million award-reliant workers are low paid. Low-paid employees, who are defined as employees earning less than two-thirds of the median hourly wage, have a diverse range of living standards and levels of household income.

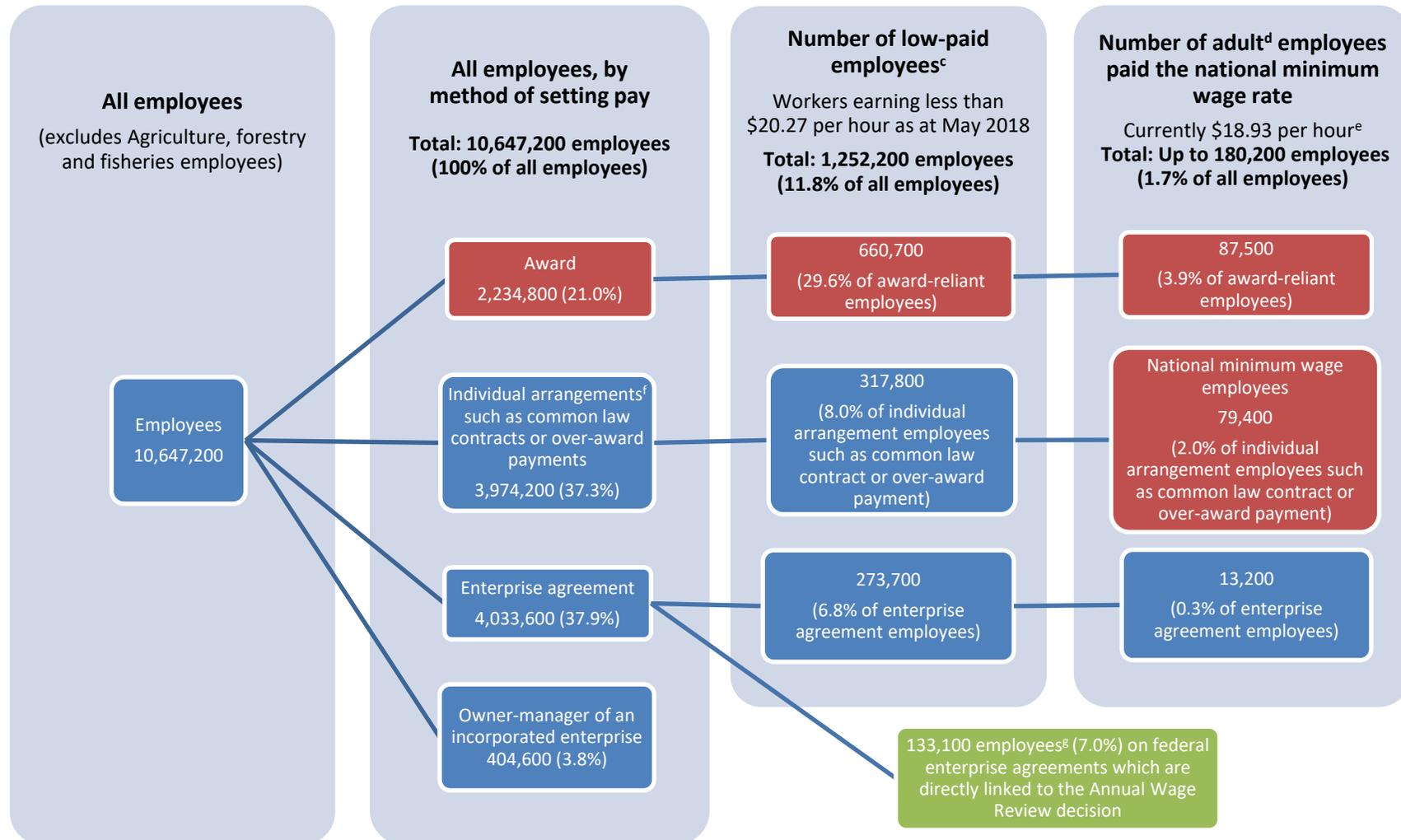
2.1 Coverage of the Panel’s decision

15. Australia has a unique minimum wage system that sets out not only a national minimum wage rate, but also a range of wages and conditions across 122 modern awards. These modern awards set around 2,000 adult award rates of pay across hundreds of classifications. These rates of pay vary widely, from the current national minimum wage rate up to \$177,311 per year (Air Pilots Award 2010).
16. The Panel’s decision directly affects employees whose pay is set by a modern award, including those paid the national minimum wage rate and those paid a higher award rate. Recent research by James Bishop (2018) using the Australian Bureau of Statistics (ABS) *Wage Price Index* finds that “adjustments to awards are almost fully passed on to wages in award-reliant jobs.”
17. The Panel’s decision also affects the wages of other workers, including workers paid close to the national minimum wage rate and workers whose pay is set by an enterprise agreement which is linked to the outcome of the Annual Wage Review. Employers may also pass on the minimum wage rate adjustments to higher wage earners in order to maintain wage relativities.
18. Chart 2.1 shows the number of Australian employees by method of setting pay. It also shows how many of these employees are low paid and how many are estimated to be paid the national minimum wage rate.

2.1.1 National minimum wage employees

19. The national minimum wage rate for adults is currently \$719.20 per week (\$18.93 per hour or \$37,398 per year). This is around 2.6 times the base rate of Newstart Allowance for singles (\$275.10 per week) and over 54 per cent of the ABS estimate of full time median weekly earnings (\$1,330.00 per week) (ABS *Characteristics of Employment, August 2018*). There are also separate special national minimum wage rates for juniors, apprentices, trainees and workers with disability.

Chart 2.1: Number of employees by method of setting pay and whether they are low paid, May 2018(a)(b)



Source: ABS 2019, *Employee Earnings and Hours, May 2018*, cat. no. 6306.0, published and unpublished data (including Department of Jobs and Small Business calculations); Department of Jobs and Small Business, Workplace Agreements Database, September 2018.

Note: Chart 2.1 includes state system employees who will not be directly impacted by the Panel's decision. These employees include most state and local government employees as well as most private sector employees in Western Australia who are not employed by constitutional corporations. Due to data availability, not all state system employees can be easily identified, hence the analysis in this submission includes these employees. (a) All numbers are for May 2018, except for the number of employees on agreements linked to the Annual Wage Review decision (in green), which is the September quarter 2018. (b) The Fair Work Commission sets award classification wages and the national minimum wage, these workers are coloured red in the chart. (c) Low-paid employees are defined as employees earning less than two-thirds of the median hourly wage. In May 2018, the median hourly wage was \$30.40 and employees earning below \$20.27 per hour were considered low paid. (d) This excludes workers paid junior, apprentice and disability rates of pay. (e) The national minimum wage rate in May 2018 was \$18.29. Employees paid at or below \$18.50 per hour in May 2018 are considered to be paid the national minimum wage rate (this uses an upper error band of 21 cents). (f) The ABS classifies employees in the individual arrangement category if they have their pay set by an individual common law contract or arrangement, whether or not written, including where employees receive over-award payments. (g) These data are derived from the Workplace Agreements Database. It includes the number of employees covered by agreements current as at 30 September 2018 with a clause which states that the entirety of the Annual Wage Review decision will be applied in full and automatically to wages. These workers may also be low paid or earning the national minimum wage rate and thus also covered in the boxes above.

20. The Department of Jobs and Small Business estimates that around 180,200 Australian employees (or 1.7 per cent) are paid the national minimum wage rate (currently \$18.93 per hour) (*ABS Employee Earnings and Hours, May 2018*).²

2.1.2 Award-reliant employees

21. In 2018, 21.0 per cent of Australian employees (or 2.2 million) had their pay set by an award. This is lower than the 2016 published figure of 22.7 per cent, but higher than the revised 2016 figure of 20.6 per cent.³

22. Table 2.1 shows the level of award reliance by industry, as of May 2018. The industries with the highest award reliance were Accommodation and food services (with 44.9 per cent of employees having their pay set by an award), Administrative and support services (41.3 per cent), Other services⁴ (38.1 per cent), Health care and social assistance (31.7 per cent) and Retail trade (30.1 per cent).

² These include those employees on awards, covered by enterprise agreements and national minimum wage employees. National minimum wage employees are classified as employees who are: paid the adult rate, non-managerial, have their pay set through an individual arrangement, and with average ordinary time earnings of up to \$18.50 per hour. The earnings of casual employees are divided by 1.25 to adjust for the casual loading.

³ Since the 2016 release of EEH, the ABS has further refined its Method of Setting Pay framework, meaning that a sub-set of the employees who were considered to be paid on an Award only basis in 2016 would be considered to have been paid according to a Collective Agreement under the new treatment in 2018.

⁴ 'Other Services' includes a broad range of personal services, religious, civic, professional and other interest group services, selected repair and maintenance, and private households employing staff. Services provided include hair, beauty, diet and weight management, death care, religious events promotion and administration and repair and maintenance of equipment and machinery.

Table 2.1: Award reliance across industries (proportion of award-reliant employees in each industry, non-managerial employees only), May 2018

Industry	Award-reliance (%)
Agriculture, forestry and fishing	N/A
Mining	0.9
Manufacturing	20.8
Electricity, gas, water and waste services	4.1
Construction	16.6
Wholesale trade	16.1
Retail trade	30.1
Accommodation and food services	44.9
Transport, postal and warehousing	12.7
Information media and telecommunications	7.1
Financial and insurance services	5.2
Rental, hiring and real estate services	29.4
Professional, scientific and technical services	8.0
Administrative and support services	41.3
Public administration and safety	10.9
Education and training	10.0
Health care and social assistance	31.7
Arts and recreation services	22.5
Other services	38.1
All industries	22.5

Source: ABS, *Employee Earnings and Hours, May 2018*, non-managerial employees.

2.1.3 Award wages

23. Award minimum wages range from the national minimum wage rate of \$719.20 per week (\$37,398 per year) up to \$3,409.83 per week (\$177,311 per year, Air Pilots Award 2010). The national minimum wage rate of \$719.20 per week features in 45 of the 122 modern awards.⁵ In the remaining 77 modern awards, all wage rates are above the national minimum wage rate.
24. Table 2.2 shows analysis of the lowest adult rate (excluding the introductory rates) in awards for the most award-reliant industries (Accommodation and food services, Administrative and support services, Health care and social assistance, Retail trade, and Other services) as a proportion of the median wage of all full-time employees. The

⁵ Of the 45 awards, 26 express the lowest adult wage rate as both the hourly national minimum wage of \$18.93 and the weekly national minimum wage of \$719.20, a further 16 refer only to the weekly rate, two refer to the weekly and annual rate, and the remaining one states the lowest adult wage as an hourly amount. However, in one of these awards, workers may receive commission on top of the weekly national minimum wage, and in a further two awards, workers have shorter ordinary working hours resulting in a higher hourly wage than the hourly national minimum wage. Also, in several of the 45 awards, the lowest rate is paid as an introductory rate or a trainee rate.

selection of awards is based on the mapping methodology developed by the former Fair Work Australia (Preston *et al.* 2012).

Table 2.2: Wages across mapped awards, August 2018

Modern award	Industry (Primary)	Weekly minimum full-time rate (\$)	Proportion of median full-time wage (%)
Hospitality Industry (General)	Accommodation and food services	\$739.90	55.6
Restaurant Industry	Accommodation and food services	\$739.90	55.6
Registered and Licensed Clubs	Accommodation and food services	\$739.90	55.6
Fast Food Industry	Accommodation and food services	\$789.90	59.4
General Retail Industry	Retail trade	\$789.90	59.4
Pharmacy Industry	Retail trade	\$789.90	59.4
Vehicle Award	Retail trade/ Manufacturing	\$719.20	54.1
Cleaning Services	Administrative and support services	\$768.10	57.8
Clerks – Private Sector	Administrative and support services	\$764.70	57.5
Contract Call Centres	Administrative and support services	\$768.30	57.8
Hair and Beauty Industry	Other services	\$789.90	59.4
Fitness Industry	Other services/Arts and recreation services	\$719.20	54.1
Children’s Services	Education and training	\$735.60	55.3
Aged Care	Healthcare and social assistance	\$796.30	59.9
Health Professionals and Support Services	Healthcare and social assistance	\$796.30	59.9
Social, Community, Home Care and Disability Services	Healthcare and social assistance	\$782.00	58.8
National minimum wage rate	-	\$719.20	54.1

Source: ABS, *Characteristics of Employment, August 2018*; Fair Work Commission website.

Note: The Children’s Services Award is primarily mapped to the Education and training industry. It has been included on the basis of having secondary mappings to the Administrative and support services and Other services industries, which have relatively high award-reliance.

25. Of the mapped awards, the Vehicle Award and Fitness Industry Award specify the lowest adult weekly full-time wage that is equal to the national minimum wage rate. The lowest rate in the remaining fourteen awards is higher, giving a higher proportion than the national minimum wage bite (54.1 per cent) (ABS *Characteristics of Employment, August 2018*).

26. At the C10 equivalent classification level, all of the examined awards with a comparable qualification level specify a minimum weekly full-time rate of \$837.40, resulting in a bite of 63.0 per cent.⁶
27. In aggregate, in May 2018 (*ABS Employee Earnings and Hours, May 2018*) the median weekly full-time wage for award-reliant employees (\$1,100.00) was 75.3 per cent of the median weekly full-time wage for all employees (\$1,460.00). This reflects the fact that the majority of award-reliant workers are paid higher wages than the national minimum wage, with the median full-time award-reliant wage (\$1,100.00) 58.3 per cent higher than the national minimum wage rate as at May 2018 (\$694.90).⁷
28. It is important to note that the concept of the minimum wage bite as used by the Organisation for Economic Co-operation and Development (OECD) and in Australia compares the national minimum wage rate to the median wage of full-time employees, which is similar to the approach used above for award classification wages. There are, however, other ways to present the minimum wage bite. For example, the UK Low Pay Commission calculates its National Living Wage bite using the median wage of all employees aged 25 and over (both full-time and part-time). In its 2017 report, the Low Pay Commission stated that the OECD level of the UK bite is lower than its calculation because it is against all workers, including part-time workers (Low Pay Commission 2017).⁸
29. Using a consistent methodology with that adopted by the UK, the national minimum wage rate in Australia (currently at \$18.93 per hour) would be around 61 per cent of the median wage of both full-time and part-time employees (\$31.30 per hour) in 2018 (*ABS Characteristics of Employment, August 2018*).

2.2 Who are the low paid?

30. Sections 134.1 and 284.1 of the *Fair Work Act 2009* state the Panel, in reviewing and determining minimum and award wages, must have regard to the relative living standards and the needs of low-paid workers. In this submission, low-paid workers are defined as workers earning less than two-thirds of the median hourly wage.
31. Analysis in this submission is based on the ABS survey of Employee Earnings and Hours (EEH), and the Household, Income and Labour Dynamics in Australia (HILDA) survey, depending on data availability. Using the May 2018 EEH data, earnings below \$20.27 per hour are considered low paid. Using the 2017 HILDA survey, the threshold for low-paid workers is \$19.53 per hour. Appendix A contains a detailed discussion of the methodology used to calculate the number of low-paid workers.

⁶ The C10 classification is the minimum award rate set under the Manufacturing and Associated Industries and Occupations Award 2010 (and predecessor awards) that has traditionally been used as a benchmark for setting minimum wages across awards. It is not possible to identify a comparable qualification level for Cleaning Services Award to a C10 equivalent level. The Fast Food Industry Award and the Clerks – Private Sector Award do not specify certain qualifications but specify responsibilities for experienced employees performing duties equivalent to being qualified to a certain qualification level.

⁷ The full-time median wage for award-reliant workers only includes non-managerial employees paid at the adult rate.

⁸ The calculation of the minimum wage bite by the UK Low Pay Commission is discussed on page 236 of Appendix 4 of the 2017 Low Pay Commission Report.

32. There were about 1.3 million low-paid employees in 2018, comprising 11.8 per cent of all employees. Of the 2.2 million award-reliant employees, just under one-third of award-reliant workers were low paid (*ABS Employee Earnings and Hours, May 2018*) (see Chart 2.1).

2.2.1 Characteristics of low-paid workers

33. Low-paid workers have a diverse range of characteristics. Department of Jobs and Small Business analysis using the HILDA Survey shows that in 2017:

- Just over half (54.0 per cent) of low-paid workers were female, while 46.0 per cent were male.
- Low-paid work tended to be concentrated among younger workers.⁹
- Over half (56.0 per cent) of low-paid workers were aged under 30, with 16.5 per cent aged between 15 and 19 years old, and around a quarter (25.8 per cent) in the 20 to 24 year old age cohort. About 11.9 per cent of low-paid workers were aged over 55 years old.
- Just under a quarter of low-paid workers were full-time students (22.3 per cent).
- Low-paid workers lived in a range of households. About 57.1 per cent of low-paid workers were single without children, 23.4 per cent were a member of a couple without children, 17.2 per cent were a member of a couple with children and 2.4 per cent were single parents.¹⁰
- Excluding the loading of typically 25 per cent that is paid to casuals, about 63.6 per cent of low-paid workers were casuals. If the casual loading is included in the analysis, hourly wage rates for casuals would be above the low-paid threshold.

34. The characteristics of low-paid workers indicate that low-paid jobs are an important pathway into the workforce:

- 36 per cent of people who entered the workforce do so by taking a low-paid job.
- 41 per cent of workers aged under 25 entered the workforce through low-paid work.
- 41 per cent of those with Year 12 qualifications or below entered the workforce through low-paid work.

35. Almost two-thirds of workers who enter low-paid employment leave within one year (66.2 per cent), with most of these (76.1 per cent) moving to higher paid work. Chapter 7 discusses the 'stepping stones' effect of low-paid jobs in more detail.

36. Appendix A provides further detailed characteristics of low-paid workers, including occupation, industry and education.

2.2.2 Low-paid workers and household income

37. The minimum wages objective under the *Fair Work Act 2009* requires the Panel to take into account relative living standards and the needs of the low paid.

⁹ Low-paid thresholds for workers aged under 21 have been deflated by the relevant junior minimum wage rates. See Appendix A for further detail.

¹⁰ The 'children' households refer to households with a resident child aged under 15. Households with either non-resident children or resident children aged 15 and over are classified in the 'no children' households.

38. The living standards of individuals are determined not just by personal earnings from work, but also by the earnings and resources of other household members and the impacts of the tax-transfer system (discussed further in Chapter 8). In general, household income is a better proxy of economic wellbeing than individual income.¹¹
39. There are two ways to examine the spread of low-paid workers across the household income distribution. The first is to examine the distribution of low-paid workers across households with at least one employee (referred to as employee households). The second is across all households (including jobless households and retiree households).
40. The Government notes the Panel indicated in its 2017-18 Decision that:
- “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 that are deemed to be relevant...There is little basis for comparing the household income of the low paid and the award reliant with that of households that are principally reliant on social welfare benefits or private savings, when the purpose is to identify whether an increase in the NMW and modern award minimum wages will assist the relative standard of living of the low paid.” (Annual Wage Review 2017-18 Decision [2018] FWCFB 3500, para 31).*
41. The analysis on the income distribution across employee households is provided, as above, to assist the Panel to consider the living standards of low-paid workers relative to other employees.
42. However, under s.134 and s.284 of *Fair Work Act 2009*, the Panel is also required to consider the need to promote social inclusion through increased workforce participation, in addition to the living standards of those who have a job. Examining the income distribution across all households gives a more complete picture of relative living standards for both employees and those who are able to work but do not have a job, hence it is included in this submission.¹²
43. Under both methods, it is important to ensure that income is adjusted for household needs, due to differences in size and composition.¹³ Chart 2.2 compares the distribution of low-paid employees across the household disposable income distribution using both of these methods.¹⁴
44. Across *all* households, low-paid employees are broadly spread across the income distribution, with 53.3 per cent of low-paid employees residing in the lower five income deciles, and 46.7 per cent in the higher five deciles.¹⁵
45. When considering *employee* households only, low-paid workers remain spread across the income distribution. However, there are a higher proportion of low-paid employees

¹¹ The Government acknowledges that in some households, household income is not shared among household members, e.g. shared household arrangements.

¹² The Government recognises there are some households where not all the members of the household are in the labour force, such as households only containing retirees.

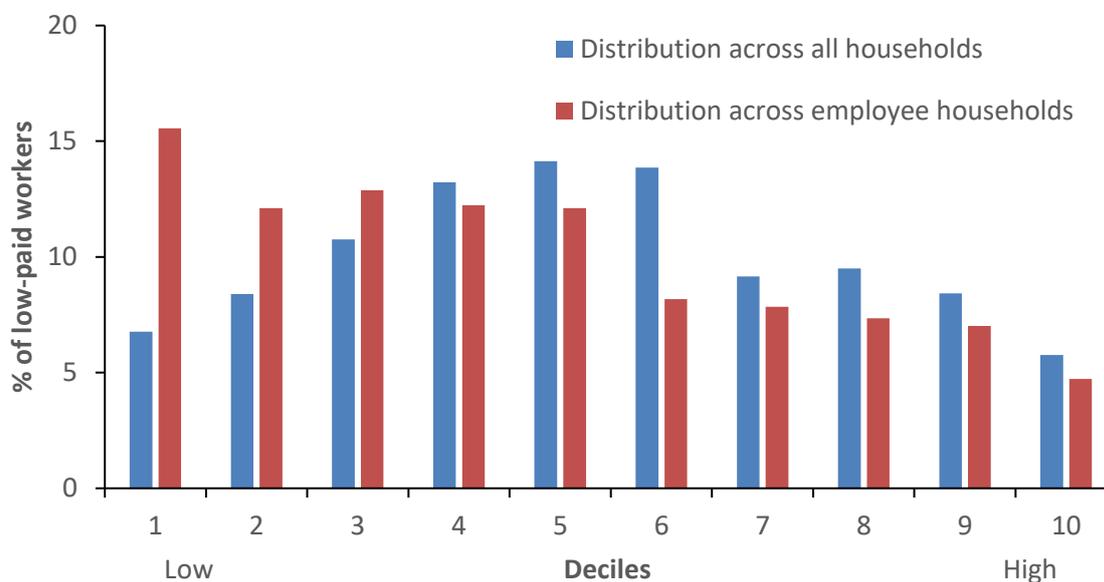
¹³ Household income is adjusted for household needs, including household size and composition, using the OECD equivalence scale. This gives a weight of 1 to the first household member, 0.5 to each subsequent adult and 0.3 to each child aged under 15.

¹⁴ Disposable household income refers to household private income plus government transfers, less taxes.

¹⁵ The first decile includes the bottom 10 per cent of individuals as ranked by household disposable income; similarly, the second decile includes the next 10 per cent of individuals, and so on.

in the lower deciles than the top deciles. For example, 64.9 per cent of low-paid employees are in the lower five income deciles, with 27.7 per cent in the lowest two deciles and 11.7 per cent in the highest two deciles.

Chart 2.2: Distribution of low-paid employees, by equivalised household disposable income, comparing all households and employee households, 2017

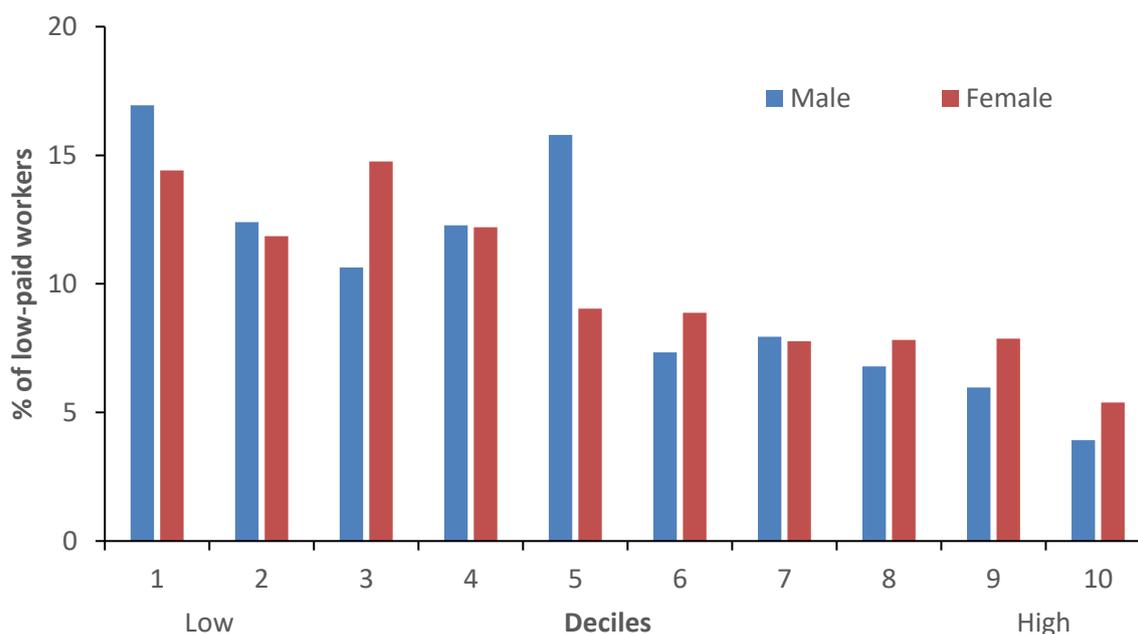


Source: Department of Jobs and Small Business analysis using the *HILDA* Survey, release 17 (December 2018), wave 17

2.2.3 Low-paid employees in employee households

46. On balance, low-paid men and women are evenly represented across the employee household income distribution. As shown in Chart 2.3, 29.3 per cent of low-paid men are in the bottom two income deciles, compared to 26.3 per cent of low-paid women. Around 9.9 per cent of low-paid men are in the top two income deciles compared to 13.3 per cent of low-paid women.

Chart 2.3: Distribution of low-paid employees, by equivalised household disposable income and sex, employee households only, 2017



Source: Department of Jobs and Small Business analysis using the *HILDA* Survey, release 17 (December 2018), wave 17

47. As shown in Table 2.3, there is substantial spread in household income across all coupled low-paid workers. Around 11.7 per cent of coupled low-paid workers have a partner earning less than \$25,000 per year, compared with 18.3 per cent with partner’s earnings between \$25,000 and \$50,000, 40.8 per cent with partner’s earnings between \$50,000 and \$100,000 and 9.6 per cent with partner’s earnings of more than \$100,000. In addition, 19.6 per cent of coupled low-paid employees (around 134,000 persons) have a partner who is not employed (either unemployed or not in the labour force).

Table 2.3: Earnings of low-paid workers’ partners, 2017

Partner 1	Partner 2 – Low-paid employee (%)		
	Full-time	Part-time	Total
Less than \$25,000	8.0	3.7	11.7
\$25,000 ~ \$50,000	13.6	4.8	18.3
\$50,000 ~ \$75,000	18.4	9.4	27.8
\$75,000 ~ \$100,000	6.2	6.8	13.0
More than \$100,000	3.1	6.5	9.6
Not employed	10.1	9.5	19.6
Total	59.4	40.6	100.0

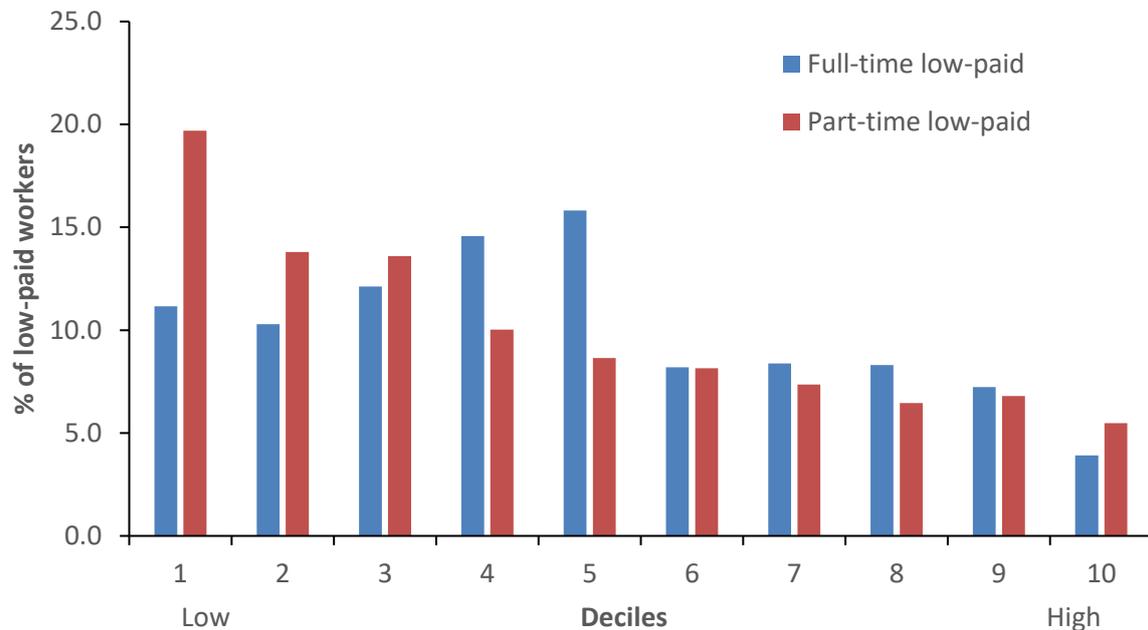
Source: Department of Jobs and Small Business analysis using the *HILDA* Survey, release 17 (December 2018), wave 17.

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

48. Chart 2.4 shows the distribution of low-paid workers across the employee household income distribution, by full-time or part-time employment status. This shows that low-paid part-time workers are more likely to be in the lower household income deciles than low-paid full-time workers. For example, 19.7 per cent of low-paid part-time

employees live in households in the bottom income decile, compared to 11.2 per cent of full-time low-paid employees. This suggests that the low income of some households is not just due to lower hourly wages but also a result of lower working hours.

Chart 2.4: Distribution of low-paid employees, by equivalised household disposable income and employment status, employee households only, 2017



Source: Department of Jobs and Small Business analysis using the *HILDA* Survey, release 17 (December 2018), wave 17.

49. Wages are only one determinant of living standards. Household context is also important, along with other income sources and individual circumstances. For example, 57.1 per cent of all low-paid employees are single and without children. Analysis using the *HILDA* survey (2017) shows that low-paid single employees without children are more likely to be:

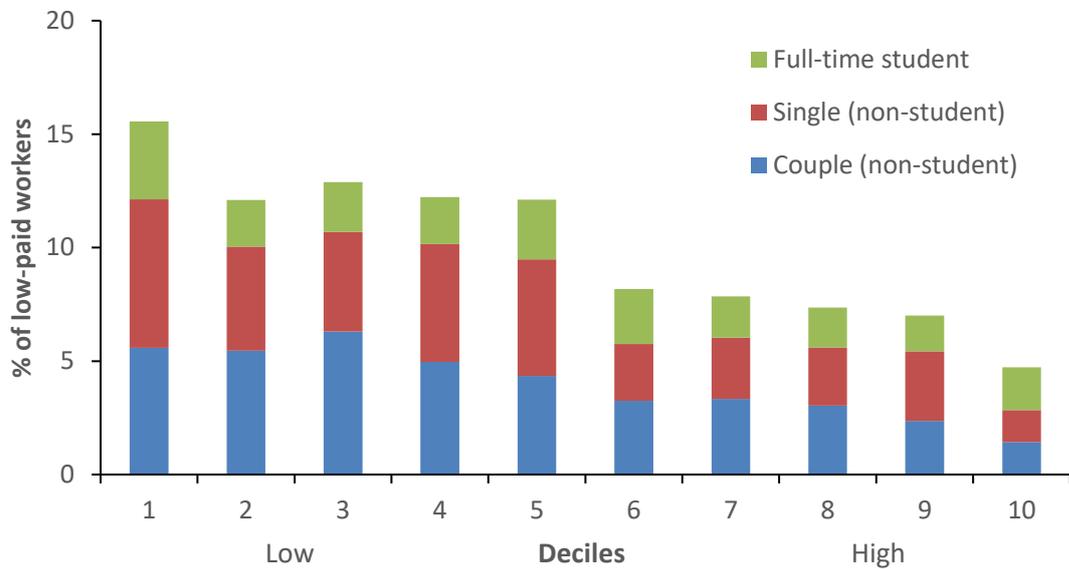
- employed part-time (57.4 per cent), compared to all low-paid employees (51.4 per cent);
- young (69.1 per cent aged between 15 and 24), compared to all low-paid employees (42.3 per cent);
- a full-time student (36.4 per cent), compared to all low-paid employees (22.3 per cent);
- living with parents (71.7 per cent), compared to all low-paid employees (41.0 per cent).¹⁶

50. Full-time students make up 22.3 per cent of all low-paid employees. More than two-thirds (71.8 per cent) of this group are dependent students, which means their

¹⁶ 'Living with parents' consists of *Dependent student* which refers to a natural, adopted, step, or foster child who is 15-24 years of age and who attends a secondary or tertiary educational institution as a full-time student and for whom there is no identified partner or child of his/her own usually resident in the same household, and *Non-dependent child* which refers to a natural, adopted, step or foster child of a couple or lone parent usually resident in the household, who is aged 15 years and over and is not a full-time student aged 15-24 years, and who has no identified partner or child of his/her own usually resident in the household.

household income and living standards are likely to be largely determined by their parents' earnings, rather than their own. Hence, as shown in Chart 2.5, they are spread fairly evenly across the income distribution.

Chart 2.5: Distribution of low-paid employees, by equivalised household disposable income, study and partnered status, employee households only, 2017



Source: Department of Jobs and Small Business analysis using the *HILDA* Survey, release 17 (December 2018), wave 17.

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

3 Economic Environment

Key Points

- The Australian economy performed well in 2018, supported by robust global growth, accommodative monetary policy settings and a lower Australian dollar.
- Labour market conditions have remained strong, with business profits helping to sustain strong employment growth.
- Domestic demand is expected to strengthen over the forecast period as mining investment starts to rise again, and growth in household consumption and non-mining business investment increases.

3.1 Introduction

51. Australia's economy continues to perform well and has been expanding at around its estimated potential growth rate. In the 2018-19 Mid-Year Economic and Fiscal Outlook (MYEFO), real GDP is forecast to grow by 2¾ per cent in 2018-19 and by 3 per cent in 2019-20. The growth outlook is expected to support continuing employment growth, helping to keep the unemployment rate around recent lows.

3.2 International outlook

52. Global economic growth remained solid over 2018, although was less synchronised across the major economies. There has also been some easing of growth momentum in Japan and Europe, and real GDP has fallen for two consecutive quarters in Italy. In MYEFO, global growth is forecast to be 3¾ per cent in 2019 and 2020.
53. In MYEFO, Australia's major trading partners are forecast to continue to grow at a stronger pace than the global economy, increasing by 4 per cent in both 2019 and 2020.
54. The United States economy is continuing to grow solidly and the unemployment rate remains near multi-decade lows, at 3.8 per cent in February 2019. Wage growth has increased and core personal consumption expenditure inflation is just below the Federal Open Market Committee's target of 2 per cent.
55. Growth in China's economy slowed in 2018 amid efforts by the authorities to address risks in the financial system. The economy grew at 6.6 per cent in 2018, in line with the government's growth target of around 6.5 per cent. Real GDP growth is expected to moderate further in 2019 as trade measures weigh on growth and further steps are taken to address financial sector risks. The recent adjustments to macroeconomic policy settings are designed to support demand in the near term, partly offsetting these pressures.
56. Euro area growth slowed in 2018, reflecting weaker domestic demand and softer growth in exports. However, a number of factors continue to be in place to support the euro area economic expansion. Interest rates remain at historical lows, employment is growing, and above-average levels of capacity utilisation should lead to solid business investment in the near term.

57. There are a range of risks to the global outlook. The extent to which trade protection measures contributed to a slowdown in global trade growth in 2018 is unclear. However, trade tensions remain a risk, notwithstanding President Trump's decision to defer the escalation of tariffs on Chinese imports until further notice. Additional tariffs would be expected to result in global growth that is weaker than forecast. On the other hand, a resolution of current disputes could cause growth to be stronger than forecast, including through reducing uncertainty and boosting investment.
58. Geopolitical uncertainty and vulnerabilities in emerging economies remain a concern against a backdrop of a modest tightening in global financial conditions. In contrast, more favourable macroeconomic policy settings in key economies, notably China, could lead growth to be stronger than forecast.
59. Since the release of the 2018-19 MYEFO, both the World Bank and the International Monetary Fund have slightly downgraded their forecasts for global growth. However, these downgrades were driven by countries that are not major trading partners for Australia.

3.3 Domestic outlook

60. 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. Declining mining investment is expected to partly offset growth in other parts of the domestic economy. A fall in rural exports is also expected to weaken overall GDP growth in 2018-19, reflecting the effects of drought conditions in parts of southern and eastern Australia.
61. 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. Mining investment is also forecast to rise in 2019-20, making its first positive contribution to growth in seven years. Strengthening economic growth is expected to support further increases in employment and keep the unemployment rate close to recent lows.

3.3.1 Business conditions

62. Business investment is forecast to grow by 1 per cent in 2018-19 and 5 per cent in 2019-20. Non-mining business investment grew strongly in 2017-18 and increased across a range of goods and services industries, with survey measures of business conditions at high levels over the year.
63. Mining investment has fallen by over 60 per cent since the peak of the mining investment boom. A further 8 per cent fall is expected in 2018-19 as the last of Australia's large LNG projects move into production. Investment in the mining industry is then expected to rise by 4 per cent in 2019-20 as mining companies invest to maintain large capital stocks and sustain production at existing levels.
64. Commodity prices remain sensitive to global developments, including Chinese policy interventions, and supply disruptions both domestically and abroad. This volatility remains a key uncertainty in the outlook for the terms of trade and nominal GDP.

65. The terms of trade are forecast to rise by 1¼ per cent in 2018-19 and fall by 6 per cent in 2019-20. Stronger-than-assumed commodity prices in the period since the release of the 2018-19 Budget contribute to the higher terms of trade in 2018-19, while the fall in the terms of trade in 2019-20 is consistent with declines in commodity export prices assumed in the 2018-19 MYEFO.

3.3.2 Consumption and dwelling investment

66. In the 2018-19 MYEFO, household consumption is forecast to grow by 2½ per cent in 2018-19 and 3 per cent in 2019-20. Continued growth in employment, stronger wage growth and personal income tax measures announced in the 2018-19 Budget are expected to support an expansion in household consumption over the forecast period.

67. Dwelling investment is forecast to rise by 1 per cent in 2018-19 and then fall by 4 per cent in 2019-20. Residential construction activity has been stronger than expected in 2017-18, given an acceleration of work on existing projects, but a downward trend in building approvals means that some moderation in the future level of activity remains likely.

3.3.3 Employment

68. Labour market conditions have remained strong over the past 12 months, with employment increasing in most states and territories and in 12 out of 19 industries. Year-ended employment growth of 1¾ per cent is forecast for both 2018-19 and 2019-20.

69. The unemployment rate has fallen to its equal lowest level since 2011 and is forecast to be 5 per cent in the June quarter 2019 and the June quarter 2020.

70. The participation rate is forecast to remain relatively high, at 65½ per cent in the June quarter 2019 and the June quarter 2020.

3.3.4 Wages

71. Adult Weekly Ordinary Time Earnings (AWOTE) increased by 2.3 per cent through the year to November 2018 (*ABS Average Weekly Earnings, November 2018*). Over the same period, AWOTE increased by 2.2 per cent in the private sector and 2.6 per cent in the public sector.

72. Average compensation per employee (on a national accounts basis) rose by 0.5 per cent in the December quarter 2018 to be 1.7 per cent higher through the year (*ABS Australian National Accounts: National Income, Expenditure and Product, December 2018*).

73. Compositional changes in the industry and occupational structure of the workforce have weighed on average earnings in recent years. However, growth in the Wage Price Index (WPI) (which abstracts from compositional change) is also subdued by historical standards.

74. Recent wage growth, as measured by the WPI, has been materially lower than the Panel's 2018 decision. Wage growth was 2.3 per cent through the year to the December

quarter 2018 (*ABS Wage Price Index, December 2018*), with increases of 2.3 per cent in private sector wages and 2.5 per cent in the public sector.

75. Among the five most award-reliant industries, through-the-year wage growth in the December quarter 2018 was 2.8 per cent in Health care and social assistance, 2.4 per cent in Accommodation and food services, 2.3 per cent in Other services, 2.2 per cent Administrative and support services and 2.0 per cent in Retail trade.
76. In Australia, as in other advanced economies, the response of wages to improving labour market conditions has been slower and more muted than in past cycles. In Australia, the slower recovery in wage growth might reflect adjustments associated with the unwinding of high commodity prices following the terms of trade boom. Sustained low inflation outcomes have also affected inflation expectations and wage setting in recent years. Additionally, while the unemployment rate has fallen, broader measures of labour underutilisation indicate that there remains spare capacity in the labour market. Additional capacity has also been found outside the labour force, with strong employment growth helping to draw in people who were not previously looking for work.
77. Going forward, year-ended wage growth is expected to rise from 2½ per cent in 2018-19 to 3 per cent in 2019-20. Anecdotal evidence from Treasury's business liaison program points to skills shortages and wage pressures in some sectors of the economy, consistent with a tightening labour market.

3.3.5 Inflation

78. Consumer price inflation remains historically subdued. A combination of slow growth in labour costs, subdued increases in dwelling rents and heightened competition in the retail sector has continued to weigh on consumer prices.
79. Year-ended consumer price inflation is forecast to increase from 2 per cent in 2018-19 to 2¼ per cent in 2019-20.

4 Labour market developments

Key Points

- Labour market conditions have remained strong over the past year, with the pace of employment growth well above the decade average rate.
- Despite a sustained period of strong employment growth over recent years, the trend level of long-term unemployment (defined as those who have been unemployed for 52 weeks or longer) remains around the same level it was a year ago.
- Similarly, the level and rate of underemployment remains high with spare capacity still evident in the labour market.
- Employment is forecast to grow by 1¾ per cent in 2018-19 and 2019-20 (2018-19 Mid-Year Economic and Fiscal Outlook).
- The unemployment rate is forecast to be 5 per cent in the June quarter 2019 and in the June quarter 2020.

4.1 Broad labour market conditions

80. Underlying labour market conditions are one of the factors to which the Panel must pay regard when making its decision about the national minimum wage rate and award classification wages, as the decision may impact on employers' plans to hire new staff or offer more hours. This chapter outlines the most recent developments.
81. ABS *Labour Force* data suggest that labour market conditions in Australia are strong. Over the 12 months to January 2019, employment rose by 2.2 per cent, above the decade average rate of 1.7 per cent, although it remains below the 3.6 per cent recorded over the year to January 2018 when labour market conditions were particularly robust.
82. Notably, full-time employment has accounted for the majority (around 87 per cent) of employment growth over the past year.
83. Against this stronger backdrop, the unemployment rate has decreased over the period, to 5.0 per cent in January 2019, the equal lowest rate recorded since June 2011. The participation rate has remained steady over the year, at 65.7 per cent in January 2019, the equal highest rate recorded since January 2011.
84. The pace of annual employment growth has been exceeding that of the civilian population growth for the last 21 months although *underemployment* remains high, which suggests that excess capacity remains evident in the labour market.
85. Despite the underlying strength in overall labour market conditions, a number of groups, including youth, long-term unemployed people, Indigenous Australians, people with disability, and those who are low skilled, continue to experience poorer outcomes in the labour market compared with the national average.
86. In addition, labour market conditions vary considerably across Australian industries and regions, with some performing strongly, while others have been more subdued. For example, strong employment growth was recorded in the Public administration and

safety, Manufacturing and Professional, scientific and technical services industries. Decreases in employment were recorded in four of the 19 broad industries, with the largest decreases recorded in Retail trade and Other services (ABS *Labour Force, Detailed, Quarterly, November 2018*). The decline in Retail trade employment reflects heightened competitive pressure in the industry and an ongoing shift towards online sales. Despite the decrease over the past year, employment in Retail trade remains above the level recorded two years ago.

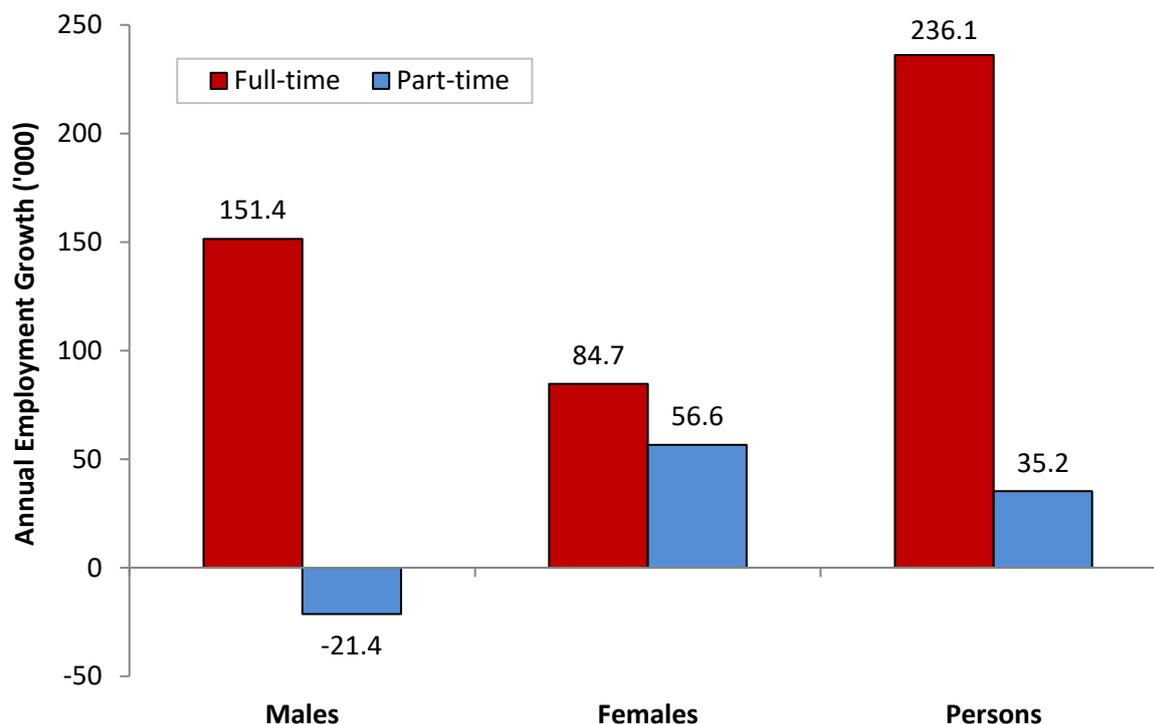
4.2 Employment

87. The ABS defines a person as employed if they are aged 15 years and over and worked for pay, profit, commission or payment in kind during the Labour Force Survey reference week. The definition of employment aligns closely with the International Labour Organisation guidelines.

88. The level of employment has increased over the year, by 271,300 (or 2.2 per cent), to stand at a record high of 12,751,800 in January 2019 (ABS *Labour Force, January 2019*).

89. Full-time employment increased by 236,100 (or 2.8 per cent) over the period, while part-time employment recorded a rise, of 35,200 (or 0.9 per cent) (Chart 4.1).

Chart 4.1: Change in full-time and part-time employment by gender, January 2018 to January 2019



Source: ABS *Labour Force, Australia, January 2019*, cat. no. 6202.0, seasonally adjusted data.

90. Over the year to November 2018 (latest available data), employment increased in three of the five most award-reliant industries with Health care and social assistance recording the largest employment gain, followed by Accommodation and food services and Administrative and support services. By contrast, decreases in employment were recorded in Retail trade and Other services. Over the 10 years to November 2018, each

of these five industries recorded growth in employment, with three growing at a stronger rate (in percentage terms) than that across the all industries total (Table 4.1).

Table 4.1: Change in employment by industry, one and 10 years to November 2018

Industry	Change in employment, year to November 2018		Change in employment, 10 years to November 2018	
	('000)	(%)	('000)	(%)
Agriculture, forestry and fishing	1.2	0.4	-23.4	-6.7
Mining	36.0	16.4	79.4	45.0
Manufacturing	74.4	8.3	-56.8	-5.6
Electricity, gas, water and waste services	9.1	6.4	24.8	19.3
Construction	-5.7	-0.5	181.5	18.4
Wholesale trade	14.1	3.8	-16.3	-4.1
<i>Retail trade</i>	<i>-23.8</i>	<i>-1.8</i>	<i>56.9</i>	<i>4.7</i>
<i>Accommodation and food services</i>	<i>8.9</i>	<i>1.0</i>	<i>189.1</i>	<i>26.6</i>
Transport, postal and warehousing	3.8	0.6	59.5	10.1
Information media and telecommunications	6.2	2.8	1.5	0.7
Financial and insurance services	23.7	5.6	46.3	11.5
Rental, hiring and real estate services	4.4	2.1	19.7	9.9
Professional, scientific and technical services	61.3	6.0	308.0	39.8
<i>Administrative and support services</i>	<i>2.4</i>	<i>0.6</i>	<i>65.0</i>	<i>19.0</i>
Public administration and safety	105.9	14.5	173.2	26.0
Education and training	11.8	1.2	234.8	29.3
<i>Health care and social assistance</i>	<i>12.0</i>	<i>0.7</i>	<i>565.9</i>	<i>50.6</i>
Arts and recreation services	-3.7	-1.5	45.0	22.6
<i>Other services</i>	<i>-12.7</i>	<i>-2.5</i>	<i>32.6</i>	<i>7.2</i>
All industries total	263.2	2.1	1,929.6	17.9

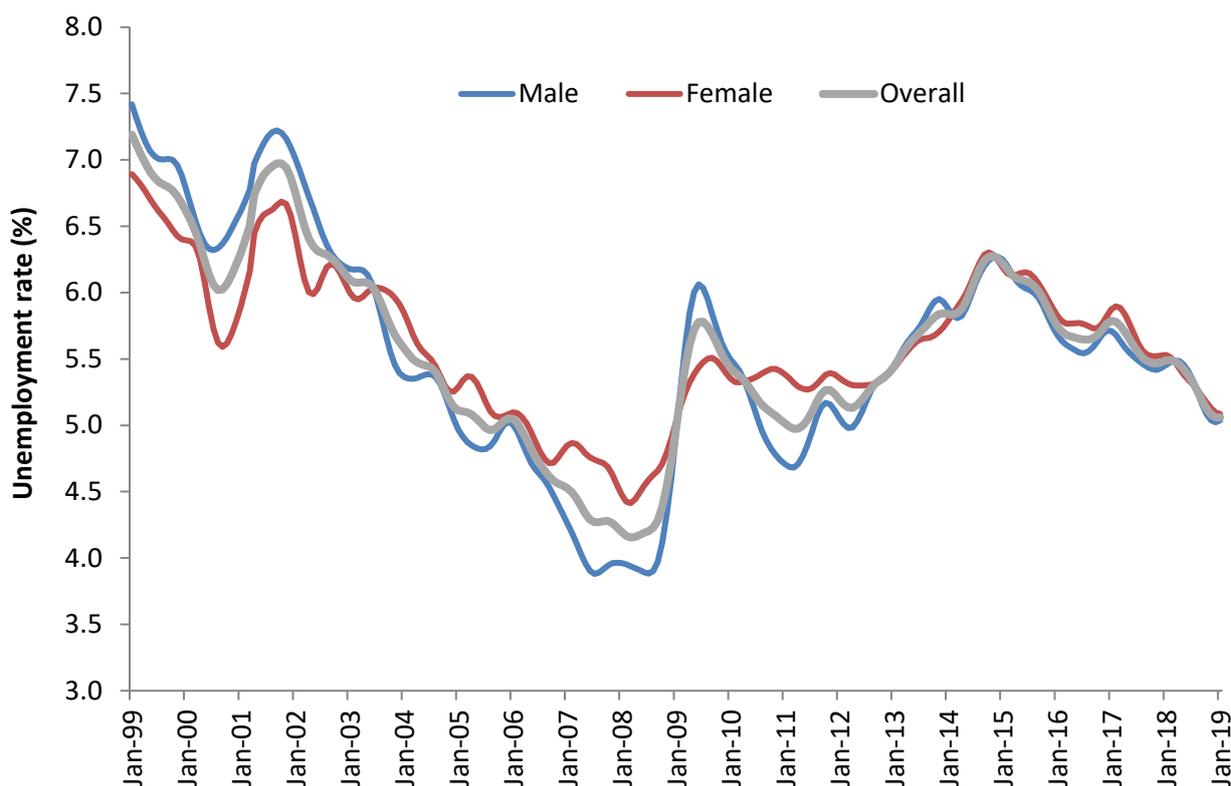
Source: ABS *Labour Force, Australia, Detailed, Quarterly, November 2018*, cat. no. 6291.0.55.003, trend data.

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

4.3 Unemployment

91. The ABS defines a person as unemployed if they are aged 15 years and over and were not employed during the survey reference week, had actively looked for work at any time in the last four weeks and are currently available for work.
92. Reflecting the strong pace of employment growth, the unemployment rate declined to 5.0 per cent in January 2019, below the 5.5 per cent recorded in January 2018 and the equal lowest rate recorded since June 2011 (see Chart 4.2).
93. The number of unemployed people in Australia fell by 49,900 (or 6.9 per cent) over the year, to 673,500 in January 2019.

Chart 4.2: Unemployment rates by sex, January 1999 to January 2019



Source: ABS *Labour Force, Australia, January 2019*, cat. no. 6202.0, trend data.

4.4 Underemployment

94. The ABS defines underemployed workers as those persons aged 15 and over who are not fully employed and want, and are available for, more hours of work. The underemployment rate refers to the number of underemployed workers, expressed as a percentage of the labour force.
95. The overall underemployment rate stood at 8.1 per cent, while the level of underemployment stood at 1,093,800 in January 2019 (ABS *Labour Force, January 2019*).
96. The underemployment rate has continued to rise gradually over recent decades, as part of a long-term trend. Notably, large increases in underemployment have tended to occur during economic downturns, including after the early 1990s recession and the Global Financial Crisis (GFC). For instance, the underemployment rate increased immediately after the onset of the GFC, from a low of 5.7 per cent in August 2008, to 7.7 per cent in May 2009, with its level often being closely linked with the pace of economic and employment growth. More recently, however, the underemployment rate has remained high (reaching an equal record high of 9.0 per cent in February 2017) despite a period of strong labour market activity.
97. That said, in line with a strong pick up in *full-time* employment growth over the last couple of years, the number of underemployed people has decreased by 62,500 (or 5.4 per cent) over the year to January 2019. Similarly, the underemployment rate has declined, from 8.8 per cent in January 2018, to 8.1 per cent in January 2019, the lowest

rate recorded since March 2015, although excess capacity remains evident in the labour market.

98. 93 per cent of people who report being underemployed are part-time workers who preferred more hours and were available to start working those hours. The remainder of the underemployed were full-time workers who worked part-time hours in the ABS survey reference week for economic reasons (i.e. being stood down or insufficient work being available).
99. It should be noted that while part-time workers comprise the majority of underemployed workers, not all part-time workers are underemployed. A significant majority (71.8 per cent) of part-time workers preferred not to work more hours in February 2018 (latest available data) (ABS *Participation, Job Search and Mobility, Australia, February 2018*).
100. Retail trade held the largest share of underemployed workers in November 2018 (accounting for 19.4 per cent of all underemployed workers) of any industry, followed by Accommodation and food services (16.5 per cent) and Health care and social assistance (14.8 per cent) (ABS *Labour Force, November 2018*, Department of Jobs and Small Business trend data). Retail trade and Accommodation and food services are two of the most award-reliant industries and also employ a large number of young and low skilled workers.
101. Over the year to November 2018, underemployment decreased in four of the five most award-reliant industries. The largest fall was recorded in Accommodation and food services (down by 9,300 or 4.9 per cent), followed by Administrative and support services (5,100 or 9.9 per cent), Other services (4,800 or 10.0 per cent) and Retail trade (2,100 or 1.0 per cent). Of the award-reliant industries, only Health care and social assistance recorded an increase in underemployment (up by 7,100 or 4.5 per cent).

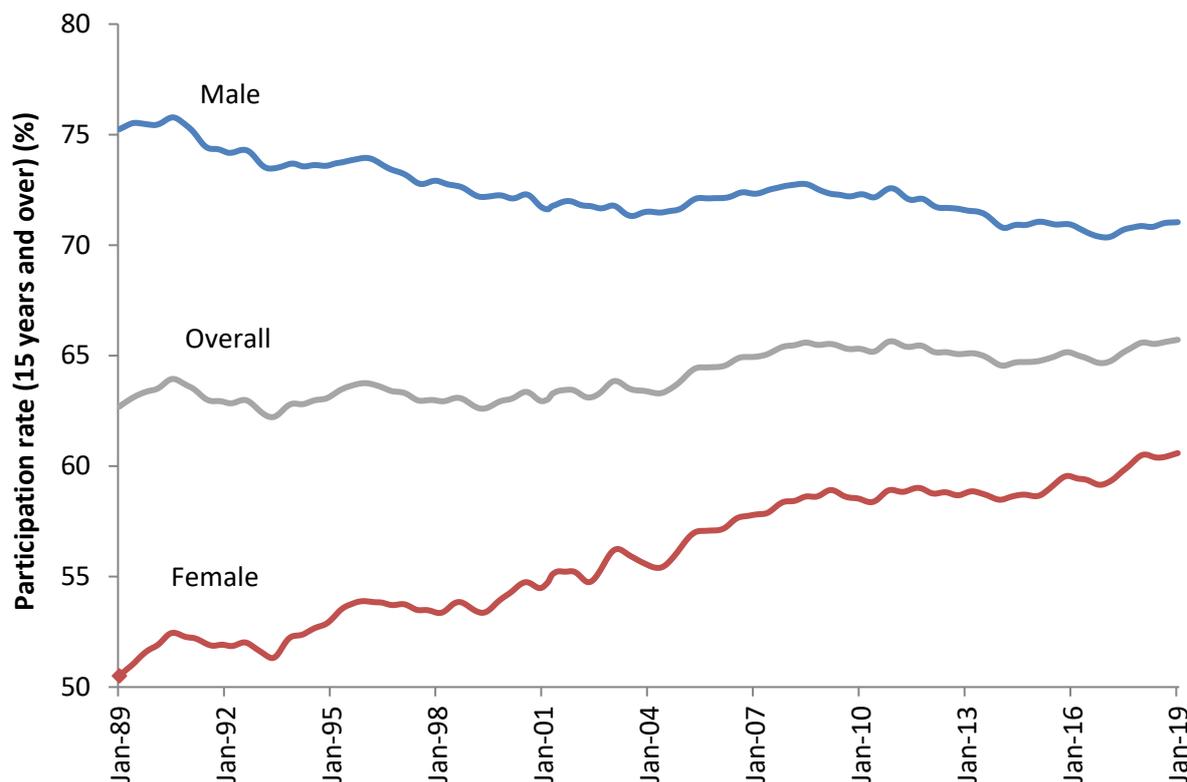
4.5 Participation rate

102. The participation rate is defined as the number of people either working or looking for work (i.e. in the labour force) expressed as a percentage of the civilian population aged 15 years and over.
103. Australia's participation rate for persons aged 15 years and over has remained steady over the year, at 65.7 per cent in January 2019, the equal highest rate recorded since January 2011 (Chart 4.3).
104. The male participation rate fell by 0.2 percentage points over the year, to 70.9 per cent in January 2019. The female participation rate increased by 0.2 percentage points over the period, to a record high of 60.7 per cent.
105. While the participation rate has remained steady over the last year, this follows a large rise over the previous year (of 1.1 percentage point over the 12 months to January 2018) when labour market conditions were particularly robust. A number of factors are likely to have influenced the increase in the participation rate over recent years. First, the strengthening in labour market conditions is likely to have resulted in an 'encouraged worker' effect, as more people enter the labour market in search of work. Second, the

participation rate of both females and mature age workers (persons aged 55 years and over) has also risen in recent years.

106. That said, the effect of population ageing will likely place some downward pressure on the overall participation rate, although current forecasts suggest it will remain relatively high in the coming years, at 65½ per cent in both the June quarter 2019 and the June quarter 2020.

Chart 4.3: Participation rates by sex for persons aged 15 years and over, January 1989 to January 2019



Source: ABS Labour Force, Australia, January 2019, cat. no. 6202.0, trend data.

107. In terms of an age breakdown of participation rates, the largest increase was recorded for persons aged 65 years and over, up by 0.8 percentage points over the year, to 14.1 per cent in January 2019. The largest decline over the year was recorded for persons aged 45 to 54 years, down by 0.4 percentage points to 83.8 per cent.

108. Persons aged 35 to 44 years had the highest participation rate of 85.5 per cent in January 2019, while the lowest participation rate was 14.1 per cent for those aged 65 years and over.

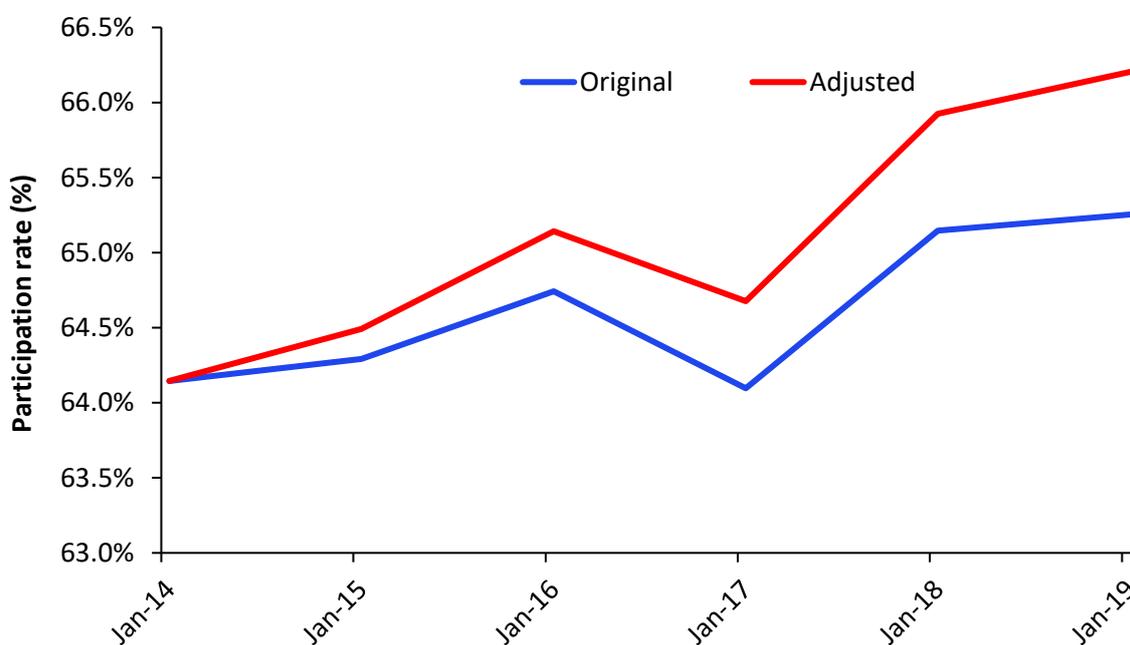
Table 4.2: Participation rates by age cohort and annual change, January 2019

	15 to 24 years	25 to 34 years	35 to 44 years	45 to 54 years	55 to 59 years	60 to 64 years	65 years and over
Participation rate (%)	68.1	84.7	85.5	83.8	74.3	57.9	14.1
Annual change (% pts)	0.3	0.4	0.1	-0.4	-0.3	0.7	0.8

Sources: ABS *Labour Force, Australia, January 2019*, cat. no. 6202.0, seasonally adjusted data for the 15-24, 25-34, 35-44 and 45-54 participation rates, three-month averages of original data for the 55-59, 60-64, and 65 years and over participation rates.

109. Analysis by the Department of Jobs and Small Business shows that the overall participation rate for persons aged 15 and over (in original terms) has increased from 64.1 per cent to 65.3 per cent over five years to January 2019, driven by rising participation rates for specific age cohorts as shown in Table 4.2. However, this increase has been dampened by the ageing of the population as older cohorts with lower levels of participation grow as a share of the population.¹⁷
110. Chart 4.4 illustrates the impact of the ageing population on the participation rate. If there had been no change in the age distribution of the population since January 2014, then the participation rate in January 2019 would have been 0.9 percentage points higher (66.2 per cent, as opposed to 65.3 per cent).

Chart 4.4: Age-adjusted participation rates, January 2014 to January 2019



Source: Department of Jobs and Small Business calculations from ABS *Labour Force, Australia, January 2019*, cat. no. 6202.0, original data.

¹⁷ Data in Chart 4.4 are in original terms and are not seasonally adjusted. This is because the ABS does not publish seasonally adjusted labour force participation rates by age group (for those aged 25 years and older).

4.6 Key groups in the labour market

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

4.6.1 Characteristics of unemployed persons

112. There are a number of factors that can influence a person's likelihood of becoming unemployed and, subsequently, long-term unemployed, such as their educational attainment level, age, English proficiency, if they have a disability, their Indigenous status and their geographical location.
113. The average duration of unemployment for all unemployed persons stood at 49 weeks in January 2019. For persons aged 15-24 years, the average duration of unemployment was 31 weeks, compared with 78 weeks for persons aged 55 and over (*ABS Labour Force, Detailed – Electronic Delivery, January 2019*).
114. Almost one quarter (24.1 per cent or 162,300) of unemployed persons were long-term unemployed in January 2019.¹⁸
115. Youth (persons aged 15-24 years) comprised a significant proportion (37.5 per cent) of the total unemployment pool in January 2019 but accounted for around 16 per cent of the civilian population aged 15 years and over.
116. There is a notable difference between the highest level of educational attainment of employed and unemployed persons. Persons aged 15-64 years who had a Bachelor degree or above recorded an unemployment rate of 3.3 per cent in May 2018, well below the 10.2 per cent for persons who had an educational attainment level of Year 11 or below (*ABS Education and Work, May 2018*).
117. As discussed in Chapter 7, low-paid jobs are an important pathway to employment, in particular, for younger and less educated workers. 41 per cent of workers aged under 25, and 41 per cent of those with Year 12 qualifications or below, enter the workforce through low-paid work.¹⁹

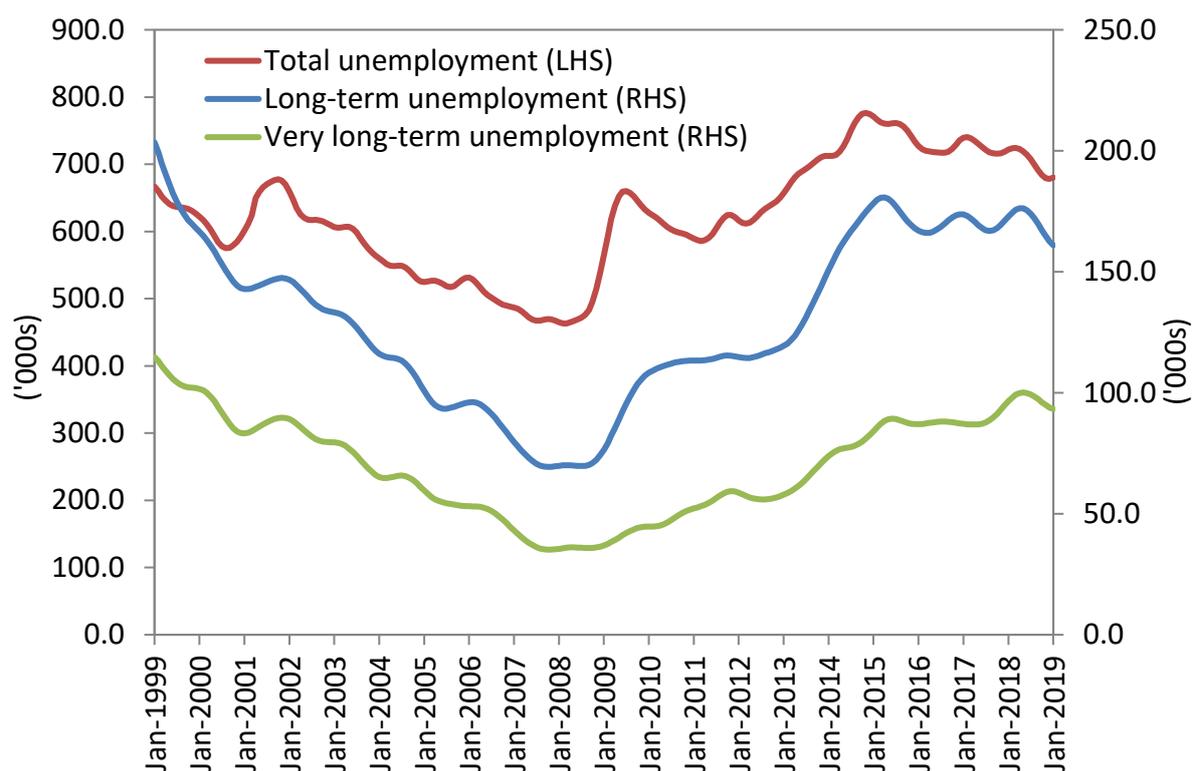
4.6.2 Long-term unemployed people

118. Despite a period of strong and sustained employment growth over recent years, the number of people who are long-term unemployed has remained high. The trend long-term unemployment series has exhibited some volatility over the last four and a half years but has essentially remained reasonably flat over the period, falling only modestly, by 5,800 (or 3.5 per cent), from 166,700 in July 2014, to 161,000 in January 2019 (see Chart 4.5 below).

¹⁸ The level of long-term unemployment refers to the number of people who have been unemployed for 52 weeks or longer.

¹⁹ Low-paid is defined as earning less than two-thirds of the median hourly wage, as outlined in Chapter 2 and Appendix A.

Chart 4.5: Trend LTU, VLTU and unemployment ('000s) – January 1999 to January 2019



Source: ABS Labour Force, Australia, Detailed – Electronic Delivery, January 2019, cat. no. 6291.0.55.001, trend data.

119. Between July 2014 and January 2019, trend male long-term unemployment fell by 2,700 (or 2.9 per cent), while female long-term unemployment declined, by 3,100 (or 4.2 per cent) over the period.
120. The decrease in trend long-term unemployment over the last four and a half years has been due, entirely, to a fall in the number of people who have been unemployed for 52 to 103 weeks, down by 21,400 (or 24.0 per cent), to 67,700 in January 2019, the lowest level recorded since July 2013.
121. By contrast, the trend number of people who have been unemployed for 104 weeks or longer (i.e., the very long-term unemployed) has risen by 15,600 (or 20.1 per cent) over the period, to 93,200 in January 2019.
122. People who have been unemployed for 104 weeks or longer comprised the majority (57.9 per cent) of trend total long-term unemployment in January 2019, the highest rate recorded since July 2005, and well above the 46.5 per cent recorded in July 2014, suggesting that it is the most disadvantaged job seekers who are continuing to encounter difficulty securing work, despite a period of strong labour market conditions.
123. It is also worth noting that mature age people comprised 19.7 per cent of the total long-term unemployment pool in January 2019, an equal record high and well above the rates recorded over recent decades, of 11.2 per cent in January 1999 and 16.5 per cent in January 2009.
124. In conclusion, despite a strong and sustained period of employment growth, no significant inroads have been made into the trend long-term unemployment series. In addition, the composition of the long-term unemployment pool is becoming increasingly

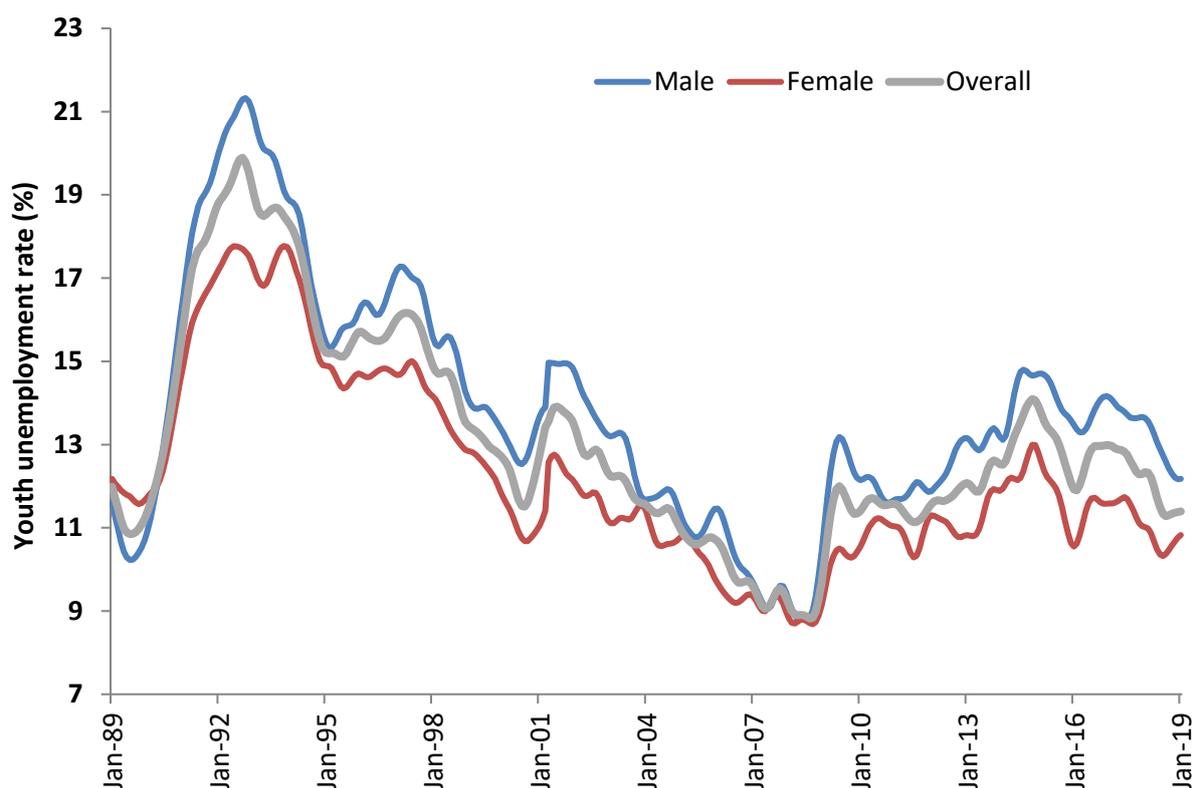
disadvantaged with a greater share evident for those who have remained in the pool for extended periods.

125. People who have been unemployed for a significant length of time, on average, face greater difficulty finding subsequent work due to skill depreciation, loss of motivation, screening out by employers and marginalisation from the labour market.
126. A longer duration of unemployment is also associated with a degrading of human capital and a 'scarring' effect, whereby long-term unemployed people believe their own re-employment prospects are poor.
127. In particular, structural shifts in industries and occupations can result in a greater mismatch between the job vacancies available and the skill level of unemployed persons who could fill them, resulting in fewer exits from long-term unemployment. A 2017 OECD report highlighted that Australia has a comparatively high incidence of skills mismatch within its labour market (OECD 2017). For instance, the decline in manufacturing jobs has occurred against the backdrop of increases in service-oriented sectors such as health care, education, hospitality and retail. This transformation has resulted in workers needing to retrain in order to work in different areas, for example, automobile manufacturing workers seeking employment in the health, hospitality and retail sectors.

4.6.3 Youth

128. Labour market conditions for youth (persons aged 15-24 years) have improved over the last year, with employment increasing by 39,600 (or 2.1 per cent) over the year to January 2019. Against the stronger backdrop, the youth unemployment rate has decreased, from 12.2 per cent in January 2018, to 11.5 per cent in January 2019, although it remains more than double the 5.0 per cent recorded for all persons (ABS *Labour Force, January 2019*).

Chart 4.6: Youth (15-24 years) unemployment rates by sex, January 1989 to January 2019



Source: ABS *Labour Force, Australia, January 2019*, cat. no. 6202.0, trend data.

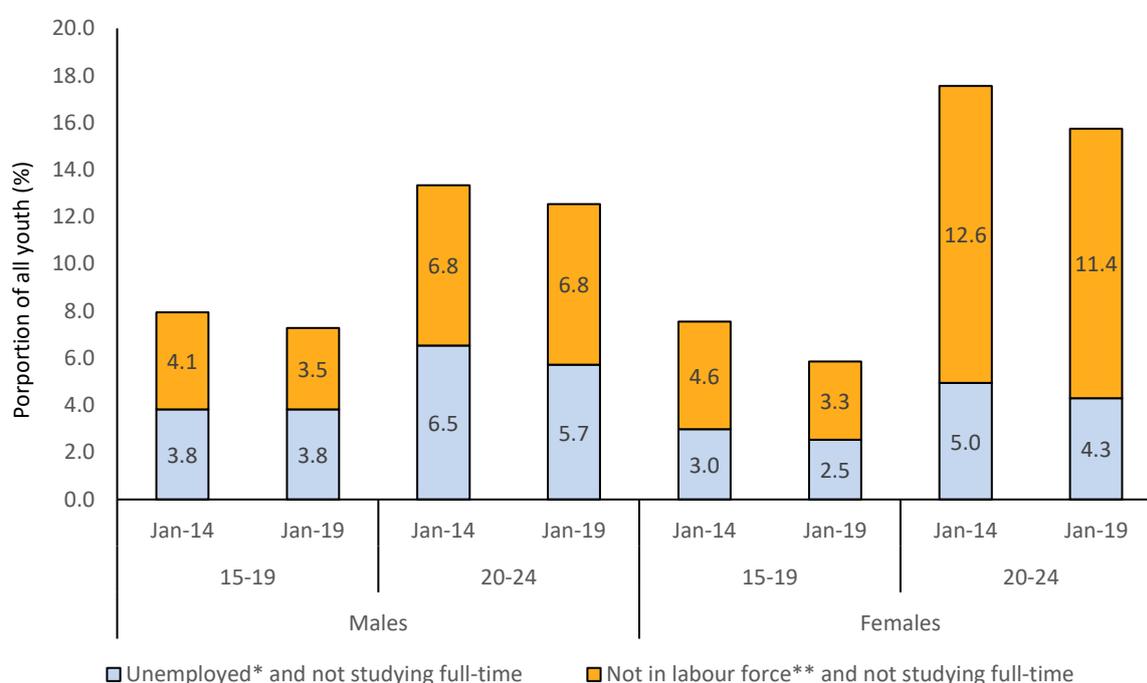
129. Noting a large amount of monthly variation, the youth underemployment rate has declined over the last year, from 18.5 per cent in January 2018, to 17.3 per cent in January 2019, but is above the 8.1 per cent recorded for all persons.
130. Long-term unemployment for youth has increased slightly over the year, by 400 (or 1.0 per cent) to 45,500 in January 2019.
131. While most youth are either engaged in some form of work or full-time education, 10.6 per cent were not in work and not attending full-time education (and are commonly referred to as disengaged youth) in January 2019 (ABS *Labour Force, Australia, January 2019*). While a proportion of this group may, for various reasons, be voluntarily outside the labour market, many are at risk of ultimately failing to make a successful transition to employment.
132. Over recent decades, youth disengagement has been intrinsically linked with the pace of economic and labour market activity. For instance, youth disengagement declined from a peak of 17.6 per cent in August 1993, following the early 1990s recession, to a trough of 9.8 per cent in June 2008, prior to the onset of the Global Financial Crisis. More recently, after rising to 11.8 per cent in January 2014, the proportion of youth who are disengaged has decreased over the past five years, to 10.6 per cent in January 2019.
133. As illustrated in Chart 4.7, irrespective of age, disengaged young males are fairly evenly split between those who are not in full-time education and are unemployed, and those who are not in full-time education and are not in the labour force. On the other hand, disengaged young women are primarily not in full-time education and are not in the

labour force, particularly those aged 20 to 24 years. Some of these young women (although there may be a small number of young males) will be caring for children.

134. Over the past five years, the proportion of disengaged 15 to 19 year olds has fallen from 7.8 per cent in January 2014, to 6.6 per cent in January 2019. The fall has been driven, in large part, by females in this cohort, with their incidence of disengagement decreasing by 1.7 percentage points to 5.9 per cent in January 2019.

135. The proportion of 20 to 24 year olds who were disengaged also decreased over the last five years, from 15.4 per cent in January 2014, to 14.1 per cent in January 2019. The female disengagement rate fell by 1.8 percentage points over the period, to 15.7 per cent in January 2019, compared with a decline of 0.8 percentage points for males, to 12.5 per cent in January 2019.

Chart 4.7: Disengaged youth by sex and age, January 2014 and January 2019



Source: ABS *Labour Force, Australia, Detailed – Electronic Delivery January 2019*, cat. no. 6291.0.55.001, data are 12-month averages of original estimates.

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

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

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

4.6.4 Indigenous unemployment rates

136. Significant disparity continues to exist between Indigenous and non-Indigenous labour market outcomes.²⁰ For instance, in the 2016 Census, the unemployment rate for Indigenous people of working age was 18.4 per cent, 2.7 times the non-Indigenous

²⁰ Please note all data in this section refer to the working age population (persons aged 15-64 years).

unemployment rate (6.8 per cent) (Australian Government, *Closing the Gap Prime Minister's Report 2018*).

4.6.5 Single parents and jobless families

137. In June 2017 (latest available data), there were 2,577,500 families with children in total in Australia, of whom 298,700 (or 11.6 per cent) were jobless (ABS *Labour Force, Australia: Labour Force Status and Other Characteristics of Families, June 2017*).²¹ The majority of jobless families with children (192,000 or 64.3 per cent) were headed by a single parent. Most one parent families with children, including jobless one parent families, were headed by females (84.2 per cent and 87.4 per cent, respectively).
138. The number of children in jobless families stood at 576,900 in June 2017. Children who grow up in jobless families are at a significantly greater risk (compared with children in families where a parent is employed) of being unemployed later in life and are more likely to experience disadvantage and poverty as a consequence.
139. The unemployment rate for the head of one parent families with children stood at 12.4 per cent in June 2017, well above the 3.3 per cent recorded for parents in couple families with children.

4.6.6 People with disability

140. In 2015 (latest available data), 53.4 per cent of people aged 15-64 years with disability were in the labour force, compared to 83.2 per cent for people without disability. The unemployment rate for people aged 15-64 years with disability was 10.0 per cent, compared to 5.3 per cent for people without disability (ABS *Disability, Ageing and Carers, Australia: Summary of Findings, 2015*).²²
141. The proportion of people with disability who are in the labour force is associated with the severity of their limitation. For instance, in 2015 the participation rate for people with a profound or severe limitation was 25.0 per cent, compared to 58.9 per cent for those with a mild limitation and 83.2 per cent for those with no reported disability.²³

4.6.7 Recent migrants

142. Recent migrants tend to experience worse labour market outcomes than people born in Australia.²⁴ In November 2016 (latest available data), the unemployment rate for recent migrants was 7.4 per cent, higher than the level recorded for people born in Australia (5.4 per cent). The unemployment rate for recent migrants was 5.5 per cent in 2007, then increased to 7.3 per cent in 2010 (after the GFC) (ABS *Characteristics of Recent Migrants, November 2016*).

²¹ Please note that the term 'children' refers to dependent children aged 0-14 years.

²² Note these participation and unemployment rates are not comparable with the overall rates published in the Labour Force Survey, as that survey's calculated rates include those aged over 64.

²³ The level of core activity limitation is determined based on whether a person needs help, has difficulty, or uses aids or equipment with any of the core activities (mobility, self-care and communication).

²⁴ Recent migrants are defined for the purposes of this ABS survey as people born overseas who first arrived to live in Australia (for one year or more) after 2006, were aged 15 years or over on arrival, were not Australian or New Zealand citizens on arrival, and do not currently hold New Zealand citizenship.

143. Labour market outcomes for migrants are influenced by a range of factors, including English language proficiency, level of qualifications, country of origin, recent work experience, and period of time since arrival in Australia (Productivity Commission 2016).

4.7 Labour market conditions by skill level

144. Low-skilled workers are more likely to be on the minimum wage or award-reliant than higher-skilled workers (see Appendix A), making an examination of labour market developments by skill level important.

145. As shown in Table 4.3, over the 10 years to November 2018 (latest available data), employment growth has been dominated by Skill Level 1 (commensurate with a Bachelor degree or higher) occupations, which grew by 917,900 or by 29.4 per cent, and Skill Level 4 (commensurate with a Certificate II or III) occupations, which grew by 521,900 or by 18.8 per cent, reflecting strong employment growth in health and education related occupations. Together, occupations with these two skill levels accounted for 75.6 per cent of employment growth over the period.

146. Employment growth in Skill Level 3 occupations made the smallest contribution to employment growth over the period, reflecting the mixed outcomes of occupations within the skill level. For example, employment grew by 69.2 per cent for Sports coaches, instructors and officials and by 17.0 per cent for Plumbers, while employment fell by 58.7 per cent for Secretaries and by 28.8 per cent for Electronics trades workers. Furthermore, more recent results show employment total employment in Skill Level 3 occupations is declining, down by 51,600 or 2.9 per cent over the year to November 2018.

Table 4.3: Change in employment by skill level, one and 10 years to November 2018 and projected employment growth to May 2023

Skill level occupations	Current employment, November 2018	Change in employment, year to November 2018		Change in employment, 10 years to November 2018		Projected employment growth - five years to May 2023	
	('000)	('000)	(%)	('000)	(%)	('000)	(%)
Skill Level 1 (highest)	4,041.7	133.5	3.4	917.9	29.4	400.6	10.0
Skill Level 2	1,460.7	87.9	6.4	263.6	22.0	78.4	5.8
Skill Level 3	1,740.2	-51.6	-2.9	33.1	1.9	67.3	3.8
Skill Level 4	3,296.5	58.3	1.8	521.9	18.8	256.9	7.9
Skill Level 5 (lowest)	2,139.8	16.0	0.8	166.9	8.5	82.9	3.9
All occupations total	12,686.1	263.2	2.1	1,929.6	17.9	886.1	7.1

Source: ABS *Labour Force, Australia, Detailed, Quarterly, November 2018*, cat. no. 6291.0.55.003, Department of Jobs and Small Business trend data (data for all occupations total are ABS trend data). Department of Jobs and Small Business, 2018 projections, five years to May 2023.

4.8 Labour market conditions by state and region

147. There remains some variation in labour market conditions across jurisdictions in Australia. For instance, Tasmania recorded the highest unemployment rate in January 2019 (at 7.0 per cent), followed by Western Australia (6.8 per cent), South Australia (6.3 per cent), and Queensland (6.0 per cent). The lowest unemployment rate was recorded in the Australian Capital Territory (3.5 per cent), followed by New South Wales (3.9 per cent), Victoria (4.5 per cent) and the Northern Territory (5.0 per cent).
148. The New South Wales and Victorian labour markets have been particularly strong over the last year, with solid growth in employment and low unemployment rates. This reflects healthy population growth, significant infrastructure projects, a lower Australian dollar and continuing low interest rates.
149. The Queensland and South Australian labour markets have softened, with employment increasing by just 0.2 per cent over the last 12 months and the participation rate falling in both states. In addition, the unemployment rate in each state remains above the national average.
150. Labour market conditions in Western Australia have also been subdued over the past 12 months, with the level of employment increasing marginally, by 0.1 per cent, while both the unemployment rate and the participation rate have risen.
151. The Tasmanian and the Northern Territory labour markets have weakened, with employment declining by 1.0 per cent and 1.8 per cent, respectively, over the year to January 2019. The unemployment rate rose in both jurisdictions over the year, while the participation rate fell in both jurisdictions.
152. Labour market conditions in the Australian Capital Territory have also softened, with employment decreasing by 1.0 per cent over the year to January 2019. While the unemployment rate declined, it occurred in conjunction with a large fall in the Territory's participation rate.
153. Variations in labour market performance are particularly evident at the regional level across Australia, with some regions recording a deterioration in labour market conditions over the last year, while other regions have performed more strongly. These differences can be attributed to a number of factors, such as a region's access to higher education, its industry base, transport networks and infrastructure, its degree of natural amenity, population size and growth, its accessibility to more dynamic labour markets and the skill level of its labour force.
154. Historically, regional areas in Australia have tended to exhibit weaker labour market conditions compared with their metropolitan counterparts. For example, while employment in regional Australia increased by 2.0 per cent (or 75,200) over the year to January 2019, this growth rate was below the 2.9 per cent recorded for the capital cities.
155. Similarly, the unemployment rate for capital cities fell by 0.4 percentage points over the year to 5.1 per cent in January 2019, while it fell slightly, by 0.1 percentage points, for the rest of state areas, to 5.5 per cent.²⁵ It is also worth noting that while the

²⁵ Note that the figures for the capital cities and rest of state areas are 12-month averages of *original* estimates. The 12-month average unemployment rate for Australia stood at 5.3 per cent in January 2019,

participation rate rose in the rest of state areas, up by 0.5 percentage points to 62.5 per cent, it remains well below the rate recorded in capital cities, of 67.2 per cent in January 2019 (ABS *Labour Force, Detailed – Electronic Delivery, January 2019*).

which explains why the unemployment rate in both the capital cities and rest of state areas (5.1 per cent and 5.5 per cent, respectively, in January 2019) stood above the seasonally adjusted unemployment rate for Australia of 5.0 per cent in January 2019.

5 Small business

Key Points

- The economic environment for small business has improved since early 2015. Despite some signs of softness over the last few quarters, business conditions remain above long-term average levels. However, there is some evidence that small businesses continue to exercise caution in taking on new employees.
- Small businesses employ around 44 per cent of private sector employees and 34 per cent of award-reliant employees.
- Small businesses more commonly rely on awards rather than negotiating enterprise agreements to set pay and conditions, and therefore are more likely to be impacted by changes in minimum and award classification wages.

5.1 Introduction

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

5.2 Small business in Australia

5.2.1 Importance of small businesses in Australia

157. Small businesses are a significant part of the Australian economy and make an important contribution to output and employment. They are diverse, operate in all sectors of the economy, have varying levels of employment, and conduct business under different legal structures.

158. There were 2,259,098 actively trading small businesses in Australia as at June 2018, accounting for nearly 98 per cent of all businesses (*ABS Counts of Australian Businesses, June 2014 to June 2018*).²⁶ Of these small businesses, 823,551 (or 36 per cent) were small businesses with employees.

159. As at 30 June 2017, small businesses contributed around 35 per cent of private sector (i.e. excluding general government, the Financial and insurance services industry) value added and employed over 4.7 million Australians, or 44 per cent of private sector employment in Australia (Chart 5.1).

²⁶ For the purpose of this submission, small businesses are defined as a business employing 0 to 19 employees. This is consistent with the definition used by the ABS and Sensis for the purpose of business surveys. We note that small businesses are defined as a business employing 0 to 14 employees for the purposes of the *Fair Work Act 2009*. The ABS definition can be found at ABS (2001) *Small Business in Australia*, cat no. 1321.0.

Chart 5.1: Small business share of private sector output and employment, 2016-17

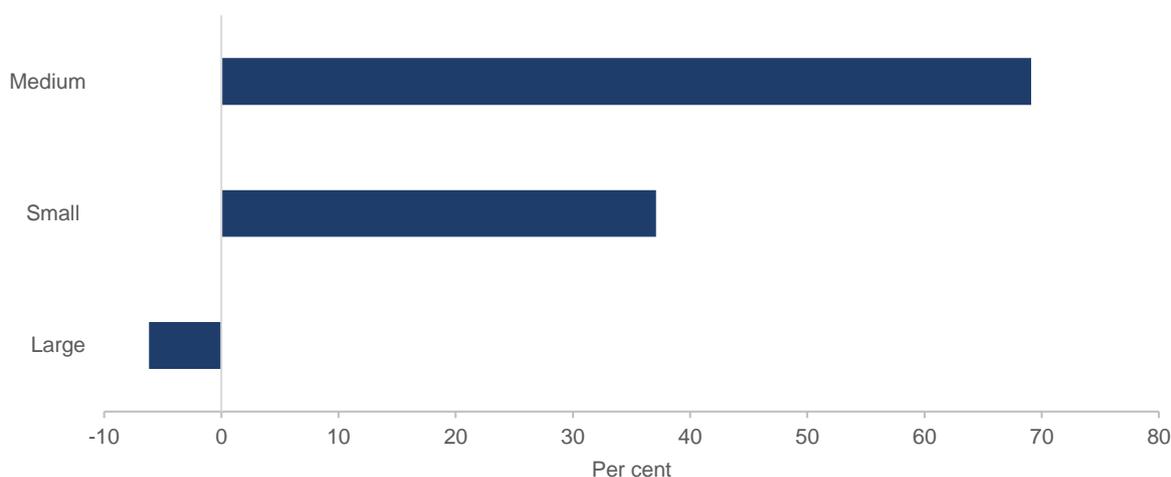


Source: ABS, *Australian Industry, 2016-17*, cat. no. 8155.0.

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

160. The number of people employed by small businesses in the private sector in Australia increased by 66,000 people from June 2016 to June 2017. The increase in small business employment was driven by an increase in the number of people employed in Construction (39,000 people) and Professional, scientific and technical services (26,000 people). Small businesses represented over a third (37 per cent) of the total increase in private sector employment by all businesses (Chart 5.2).

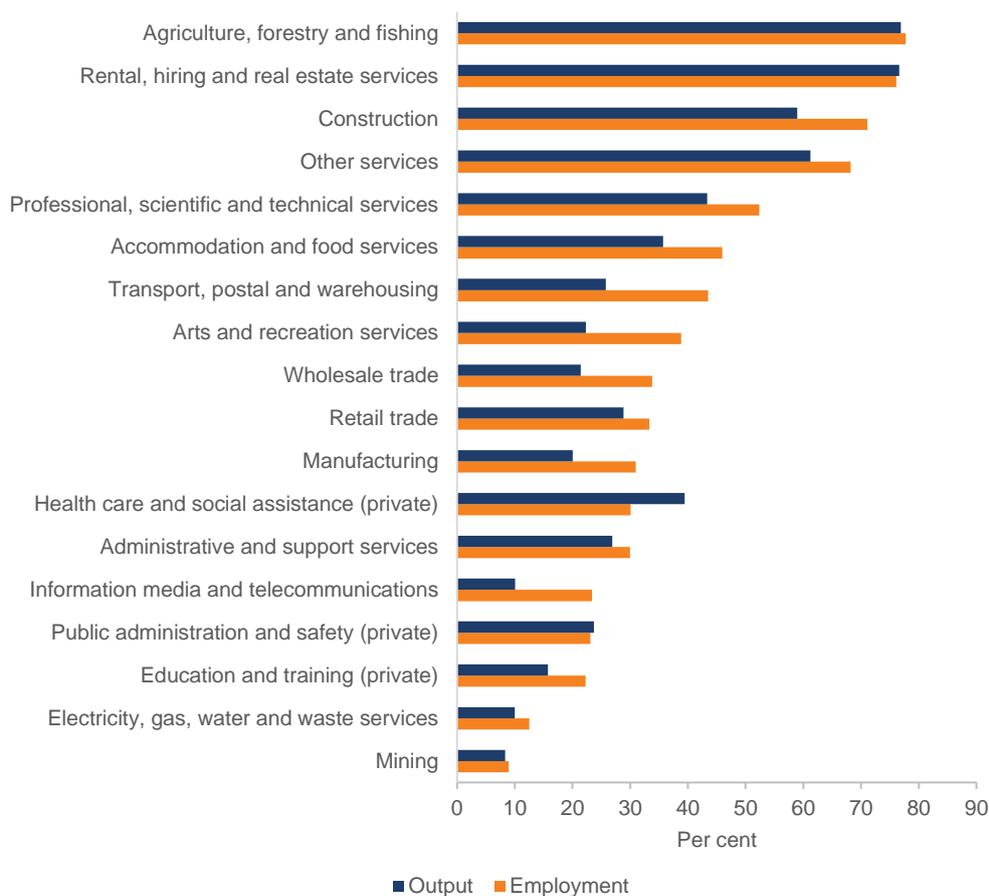
Chart 5.2: Small business share of private sector employment growth, 2016-2017



Source: ABS, *Australian Industry, 2016-17*, cat. no. 8155.0.

161. Small businesses operate in every sector of the Australian economy, although their contribution to output and employment varies between sectors (Chart 5.3). Small businesses represent a large share of output and employment in Agriculture, forestry and fishing, Rental, hiring and real estate services and Construction. Small businesses represent a smaller share of output and employment in Mining, Electricity, gas, water and waste services and Information media and telecommunications.

Chart 5.3: Small business share of private sector output and employment by industry, 2016-17



Source: ABS, *Australian Industry, 2016-17*, cat. no. 8155.0.

Note: Charts 5.1, 5.2 and 5.3 include non-emplying small businesses, as ABS cat. no. 8155.0 does not distinguish between employing and non-emplying small businesses. Nonetheless, the data referred to in these charts are the appropriate basis for highlighting effects on the small business sector, as labour costs have a direct and immediate bearing on the propensity of non-emplying small businesses to take on workers.

162. Small businesses contribute to a greater proportion of employment compared to output in almost every industry which suggests that small businesses may be more labour intensive (that is, on average have lower labour productivity) than larger businesses within the same industry.

163. As a share of annual turnover, labour costs also comprise a significant component of total expenses for small businesses.²⁷ In 2016-17, small business labour costs across all industries in the private sector, accounted for around 17 per cent of total expenses (ABS *Australian Industry, 2016-17*).²⁸ Labour costs for small businesses vary across industries and can range from as high as 38 per cent in Health care and social assistance (private) to as low as 5 per cent in the Mining industry.

²⁷ Labour costs refer to 'wages and salaries' and does not include gross mixed income, which represents earnings that are difficult to classify between salaries and profits as the business is run by an owner-manager.

²⁸ The ratio is slightly higher for medium and large businesses. This possibly reflects an under-bias for small businesses, where small business owners choose to take out returns in the form of equity and dividends rather than wages and salary.

164. Small businesses also contribute through their role in providing goods and services to regional areas, where it may be less feasible for large businesses to do so because of the low potential for economies of scale. Across each state in Australia, small businesses tend to be more likely to be located in regional areas compared with larger businesses (Nicholls and Osmond 2015). However, economic measures such as unemployment and business confidence indicate that regional areas are not performing as well as metropolitan counterparts, which presents additional challenges for small businesses, and may have implications for the survival of small businesses in regional areas.²⁹

5.2.2 Award coverage

165. According to the latest ABS *Employee Earnings and Hours* data (May 2018), small businesses account for around 34 per cent of total employees on award classification wages.
166. Around 35 per cent of employees in a small business are paid award classification wages. This compares with 32 per cent for businesses with 20-49 employees and 17 per cent for larger businesses (with 100-999 employees).
167. The proportion of non-managerial employees with their pay set by an award is higher in certain industries, including the Accommodation and food services industry (44.9 per cent), Administrative and support services (41.3 per cent), Other services (38.1 per cent), Health care and social assistance (31.7 per cent) and Retail trade (30.1 per cent). Together, these industries account for 67.5 per cent of all award-reliant non-managerial employees (ABS *Employee Earnings and Hours, May 2018*). Small businesses account for a large share of employment in these industries: 45.9 per cent, 30.0 per cent, 68.2 per cent, 30.0 per cent and 33.3 per cent respectively (ABS *Australian Industry, 2016-17*).

5.3 Challenges facing small businesses

168. Small businesses are generally less diversified in their product offerings and customers, less equipped to deal with soft demand and have less flexibility in terms of meeting workplace operational requirements.
169. The survival rate of firms in the small business sector is lower than that for larger businesses. 69.3 per cent of micro-sized businesses (1-4 employees) that were operating in June 2014 were still operating as at June 2018 (for businesses employing 5-19 this figure is 77.6 per cent). The survival rate for medium and large businesses is above 80 per cent (ABS *Counts of Australian Businesses, June 2014 to June 2018*).
170. Small businesses sell mainly in their local area of operation, with around 80 per cent having sold goods or services in their local area in 2016-17.³⁰ In addition, only around 7 per cent of small businesses had an overseas market compared with 31 per cent for large businesses (ABS *Selected Characteristics of Australian Businesses 2016-17*).

²⁹ For example, the Sensis business confidence index provides information on regional versus metropolitan business confidence. Data from the Department of Jobs and Small Business' Small Area Labour Markets publication show that the unemployment rate in regional areas tends to be higher than in metropolitan areas .

³⁰ The 82 per cent of small businesses selling in their local area is the average of the share of businesses with 0-4 persons and businesses with 5-19 persons that have sold goods or services in their local area.

171. Small businesses face a higher cost of financing their operations. Research by the Reserve Bank of Australia (RBA) on small business finance shows that they often face higher interest rates relative to large businesses (Kent 2017).

5.4 Developments in the small business sector

5.4.1 Overview

172. Business conditions have improved since early 2015 and are above long-term average levels. However, due to a long period of weak trading conditions, small businesses remain cautious in taking on additional labour.

173. When combined with the difficulties faced by small businesses in passing on higher costs to consumers in the current economic environment and challenges of new entrants through digital platforms, higher labour costs could present a major constraint.

5.4.2 Small business data

174. While official data from the ABS are preferable, small business data are often released with a significant time lag, limiting their usefulness for this assessment. In these circumstances, the Government has relied predominantly on business surveys and stakeholder engagement to gain a better understanding of developments in the small business sector.

175. As noted in previous Government submissions, the Government examines a range of survey measures rather than one single measure. The surveys commonly used and available include those published by the National Australia Bank (NAB) and Sensis. These two surveys have samples ranging from around 600 to over 1000 respondents.

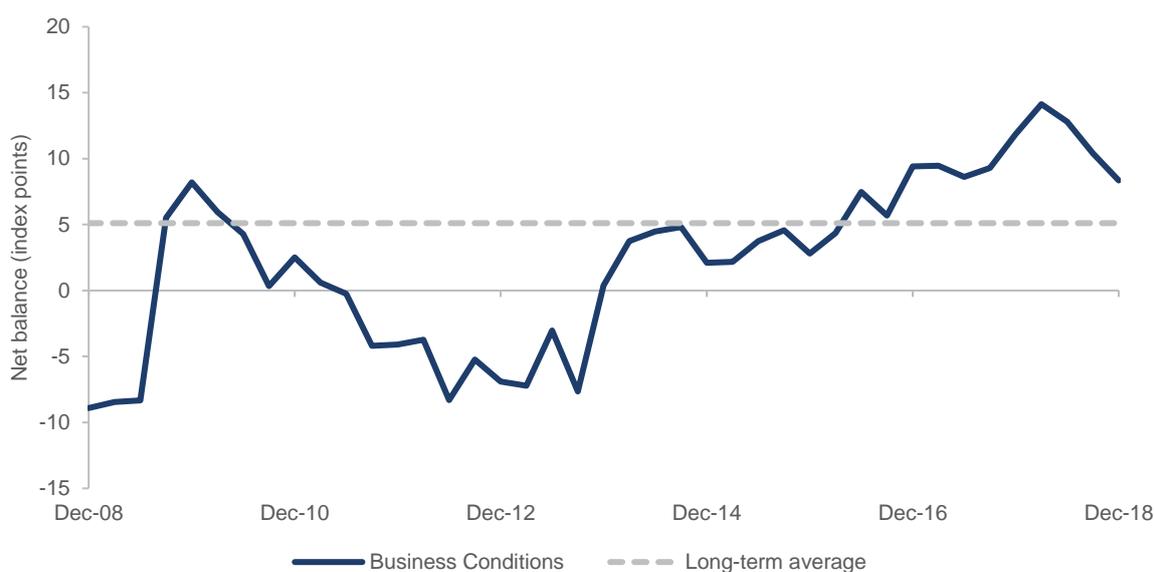
176. The RBA (Park 2011; Alymer and Gill 2003) has concluded that while it is important to interpret the survey information with care, business surveys provide useful information about current and future economic activity, and also provide information on parts of the economy that is not readily available. The studies also note that in many instances, the survey data provide more timely information than official data. Further, the information provided by the main business surveys is highly correlated with official data produced by the ABS (Park 2011).

5.4.3 Business conditions for small businesses

177. Business conditions have shown some signs of softness over the last few quarters, however both the NAB and Sensis surveys show that business conditions continue to remain above long-term average levels.

178. The NAB Small and Medium Enterprise (SME) survey (December quarter 2018) shows that small business conditions continue to remain above the long-run average, despite falling by 2 points to +8 index points in the December quarter 2018 (Chart 5.4).

Chart 5.4: NAB Small Business Conditions

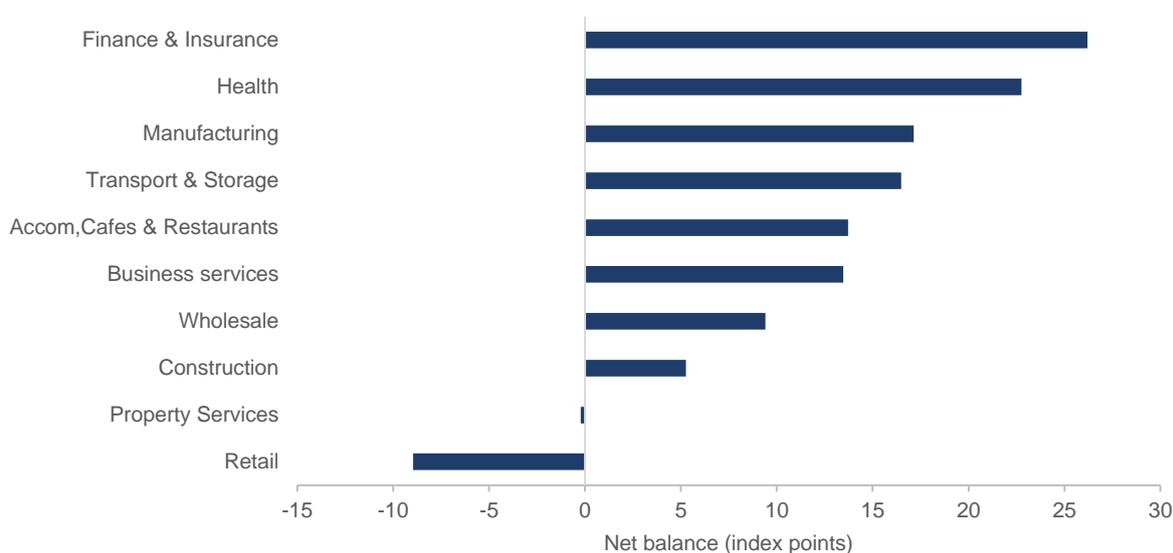


Note: Small business is defined here as firms with a turnover between \$2 million and \$10 million. The general definition of small business for taxation purposes is \$10 million turnover or less. The long-term average is the average value since June 2006.

Source: NAB Quarterly SME Survey, December Quarter 2018, seasonally adjusted data.

179. At an industry level, the latest survey results suggest conditions are mixed, with a number of industries above their long-run averages, except Retail trade, which has experienced negative conditions since March 2017, and Business Services and Property Services, which both fell below their long-term average in the last quarter (Chart 5.5).

Chart 5.5: NAB Small Business Conditions by industry, December Quarter 2018



Note: Small business at the industry level is defined here as firms with a turnover of between \$2 million to \$10 million.

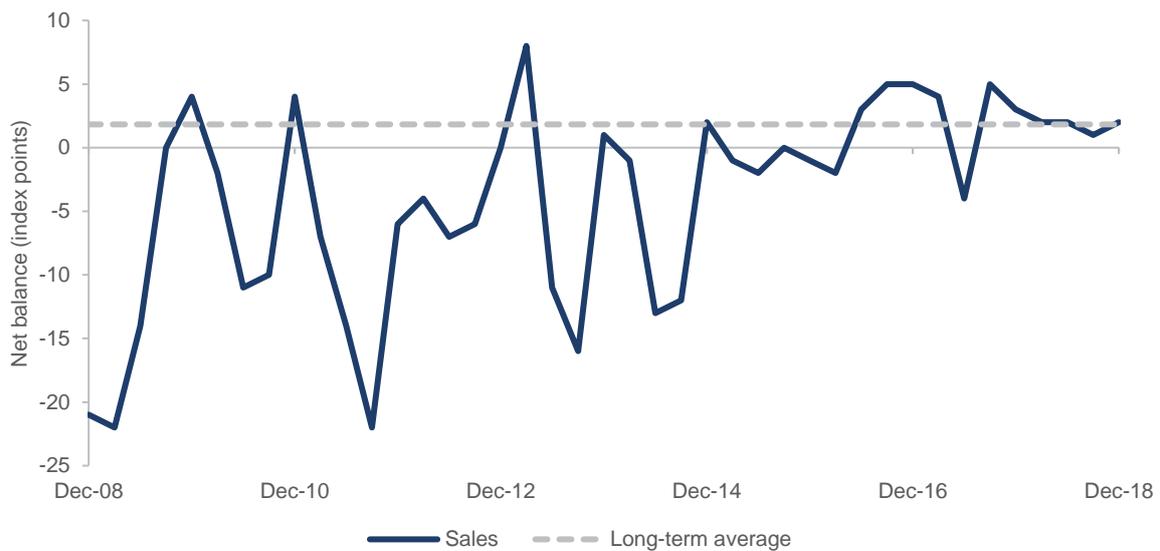
Source: NAB Quarterly SME Survey, December Quarter 2018, seasonally adjusted data.

180. The Sensis Business Index does not have a single business condition measure, however, the survey results on sales, profitability and employment in the December quarter 2018

survey provides a useful indication of business conditions for firms surveyed in the Sensis Business Index. Consistent with the NAB SME survey, the Sensis results suggests that small business conditions remain largely positive. The latest survey results show that sales conditions for small businesses continue to be positive and are at their long-term average levels (Chart 5.6). Profitability performance continues to be in negative territory, however it is now above long-term average levels (Chart 5.7).

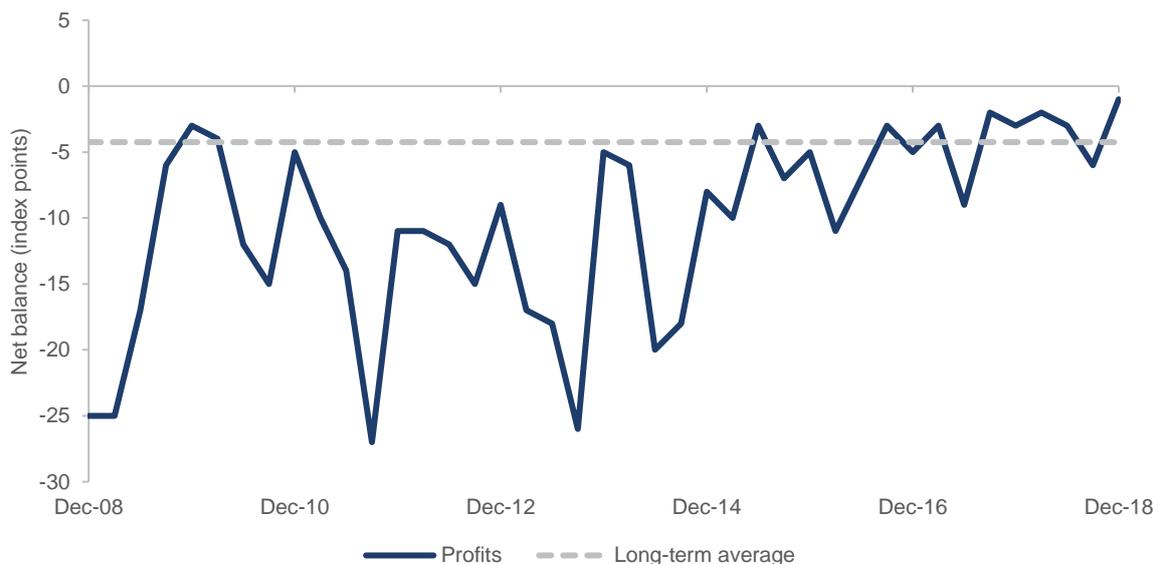
181. Business conditions in the retail sector remain difficult, with increased competition causing retailers to engage in aggressive price discounting.

Chart 5.6: Sensis Small Business Conditions for Sales



Note: The long-term average is the average value since March 2003.
Source: *Sensis Business Index, December Quarter 2018.*

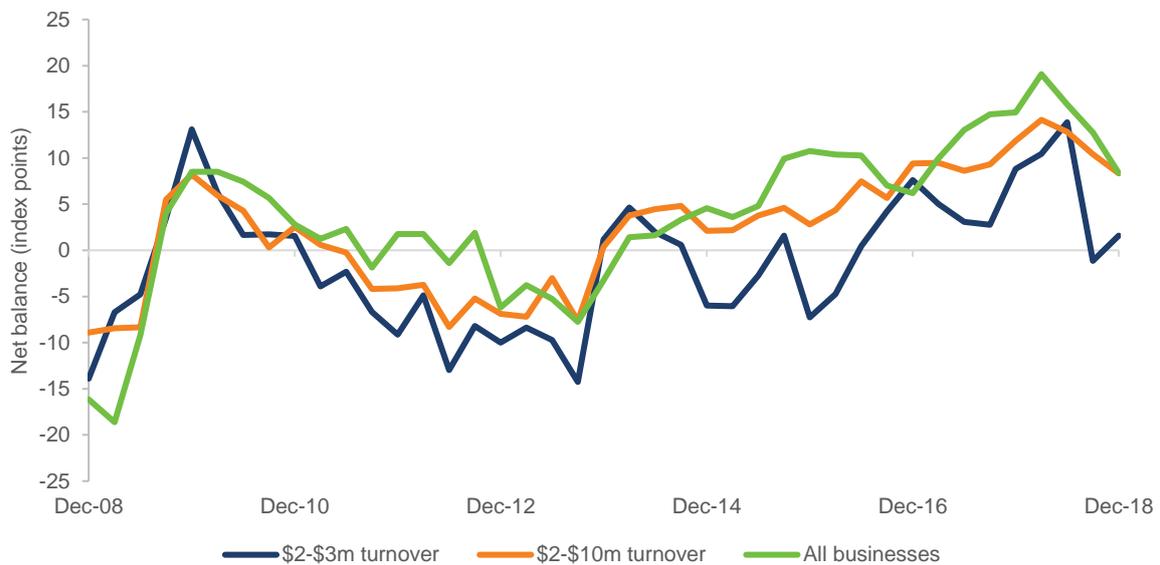
Chart 5.7: Sensis Small Business Conditions for Profitability



Notes: The long-term average is the average value since March 2003.
Source: *Sensis Business Index, December Quarter 2018.*

182. The NAB surveys show a difference between the economic conditions of small and larger sized businesses with all businesses reporting better conditions than small businesses (Chart 5.8). This reflects that larger sized businesses have continued to report more favourable business conditions than small sized businesses, despite recent moderation in both small and large business conditions.

Chart 5.8: NAB Business Conditions Quarterly Business Survey and SME



Source: NAB Quarterly Business Survey, December quarter 2018, seasonally adjusted data; NAB Quarterly SME Survey, December quarter 2018, seasonally adjusted data.

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

5.4.4 Labour market

183. There is some evidence that future employment conditions for small businesses remain around historical levels.

184. The NAB Business surveys indicate that small businesses could be adjusting their outlook for employment decisions, with a broad balance across the number of small businesses reducing the size of their workforce compared to those that have reported an increase. As Chart 5.9 shows, the balance of views surrounding employment conditions are somewhat better as firm size increases.

Chart 5.9: NAB Employment Index by firm size



Source: NAB Quarterly Business Survey, December quarter 2018, seasonally adjusted data; NAB Quarterly SME Survey, December quarter 2018, seasonally adjusted data.

5.4.5 Government's commitment to small businesses

185. The Government has brought forward tax cuts for small and medium businesses from 2026-27 to 2021-22. The tax rates for small and medium incorporated businesses with aggregated annual turnover less than \$25 million have been reduced to 27.5 per cent since 2017-18 (the threshold increased to \$50 million in 2018-19). Incorporated businesses with aggregated annual turnover less than \$50 million will face a tax rate of just 25 per cent in 2021-22.
186. The tax discount rate for small unincorporated businesses with a tax turnover threshold to \$5 million per annum has increased from 5 per cent to 8 per cent in 2016-17, and will further increase to 16 per cent by 2021-22.
187. The Government has extended and increased the small business instant asset write-off. From 29 January 2019, small businesses can immediately deduct the cost of eligible assets under \$25,000 each year (increased from \$20,000). This measure has also been extended to 30 June 2020.
188. The Government will introduce a \$2 billion Australian Business Securitisation Fund (Securitisation Fund). The Securitisation Fund will provide an additional source of funding for smaller banks (outside of the big four) and non-bank lenders who, in turn, will be able to lend to small and medium businesses at more competitive rates.
189. This will reduce the gap between small business lending rates and home-loan lending rates. The main impact of the Securitisation Fund will be to increase liquidity and competition, and ultimately help lower borrowing costs to small and medium businesses.
190. The Government is also encouraging the creation of a private sector-owned Business Growth Fund (Growth Fund). Under this investment model, private sector participants

(banks and other investors) will collectively own the fund. Once operational, the Growth Fund would make equity investments to small and medium businesses looking to scale-up and who would prefer equity rather than traditional bank debt.

6 Productivity, labour costs and wage setting

Key Points

- Labour productivity growth in award-reliant industries has been more subdued than the growth in all industries over the current incomplete productivity growth cycle (2011-12 to 2017-18), except in Administrative and support services.
- Recent fluctuations in the wage share are largely driven by volatility in commodity prices, with the wage share below the long-term average.
- Enterprise bargaining covers 37.9 per cent of employees (May 2018) and provides a direct avenue for firms and workers to negotiate wage increases which are consistent with their particular circumstances, and which encourage productivity growth at the enterprise level.

6.1 Productivity growth and wages growth

191. Over the long run, real income growth and improved living standards essentially depend on productivity growth, through some combination of higher sustainable wage increases for workers, lower prices for consumers, and higher profits for business. Real wages growth and productivity growth tend to move together, however, there are often short-run deviations which reflect labour market and economic conditions.
192. In the last few years, Australia has experienced subdued wages growth, in part due to the fall in the terms of trade since 2011. Prior to the fall in the terms of trade, the high prices of resource exports increased the purchasing power of Australian employees and delivered a healthy uptick in real wages.
193. Productivity growth remains below the peak in the 1990s. As the Reserve Bank Governor Philip Lowe has stated, productivity growth is a key driver of wages growth:

“We also need to keep focused on the critical task of raising national productivity. After all, lifting productivity is the key to building on our current prosperity and ensuring sustained growth in wages and incomes.” (Lowe 2018)

6.2 Trends in labour productivity growth

6.2.1 National labour productivity

194. In 2017-18 labour productivity in the market sector rose by 0.4 per cent, reflecting the strong growth in hours worked over the year. This follows growth of 1.3 per cent in 2016-17 and 1.7 per cent in 2015-16 (ABS *Australian System of National Accounts, 2017-18*). This compares to the ten-year average through to 2018 of 1.8 per cent.
195. However, productivity measures over short time periods can be volatile, cyclical and subject to revisions. The ABS therefore advises that productivity growth cycles be used to assess changes in labour productivity over time.
196. Over the current incomplete cycle (from 2011-12 to 2017-18), labour productivity in the market sector has grown at an average annual rate of 1.6 per cent, slightly above the

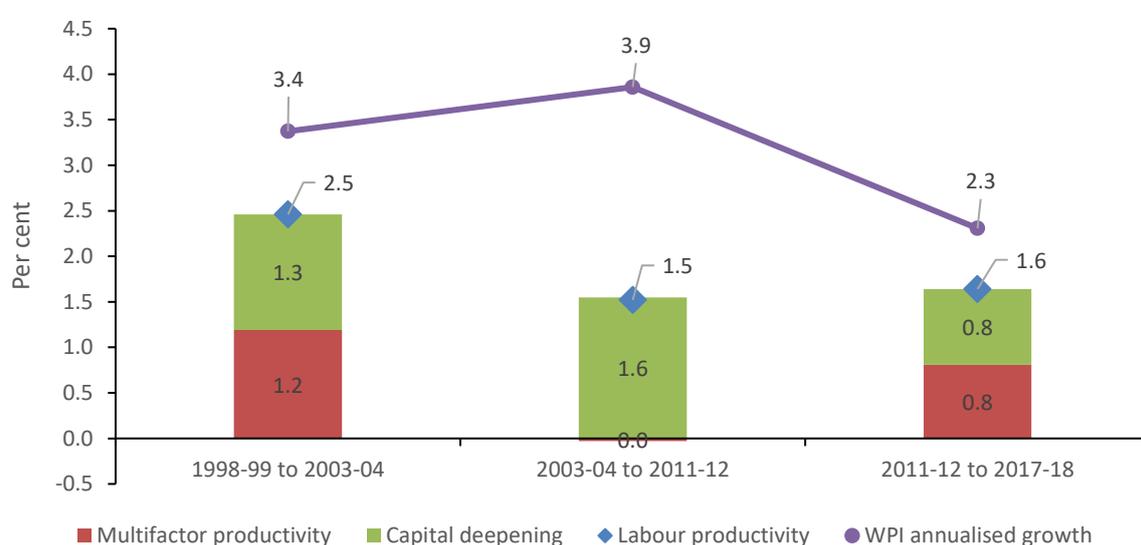
annual average growth of 1.5 per cent from 2003-04 to 2011-12 and lower than the 2.5 per cent growth rate from 1998-99 to 2003-04.

197. Chart 6.1 decomposes labour productivity over growth cycles into its two components:

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

198. Chart 6.1 also shows the divergence between wages growth and labour productivity growth during the last complete cycle (2003-04 to 2011-12) linked to the mining boom. Wages growth and labour productivity growth have been more closely aligned during the current incomplete cycle (2011-12 to 2017-18), though labour productivity growth remains below the peak performance recorded in the 1990s.

Chart 6.1: Contributions to labour productivity in the market sector and wages growth



Source: ABS *Australian System of National Accounts, 2017-18*, Cat. No. 5204.0, original data, ABS *Wage Price Index, December 2018*, seasonally adjusted data. Department of Jobs and Small Business calculations.

Notes: a) 2011-12 to 2017-18 is not a complete productivity cycle according to the standard ABS definition and may be affected by rates of capacity utilisation. b) Totals may not equal sum of the components due to rounding. They are calculated from the underlying, more detailed data.

199. Australia experienced strong productivity growth in the 1990s as a result of microeconomic reforms, which liberalised markets and improved the efficiency of labour and capital in producing output (multifactor productivity). As shown in Chart 6.1, labour productivity growth averaged 2.5 per cent per year during the 1998-99 to 2003-04 productivity cycle, higher than the productivity growth during the current incomplete cycle (2011-12 to 2017-18) and the previous cycle (2003-04 to 2011-12). Since the peak in the 1990s, most growth in labour productivity has been due to investments in machinery, capital and equipment for each worker (capital deepening) rather than improvements in multifactor productivity.

200. There are several reasons why productivity growth has slowed over the past fifteen years. The mining investment boom was a key factor, due to the lag between the build-up and use of capital, machinery and equipment for each worker (capital deepening). As

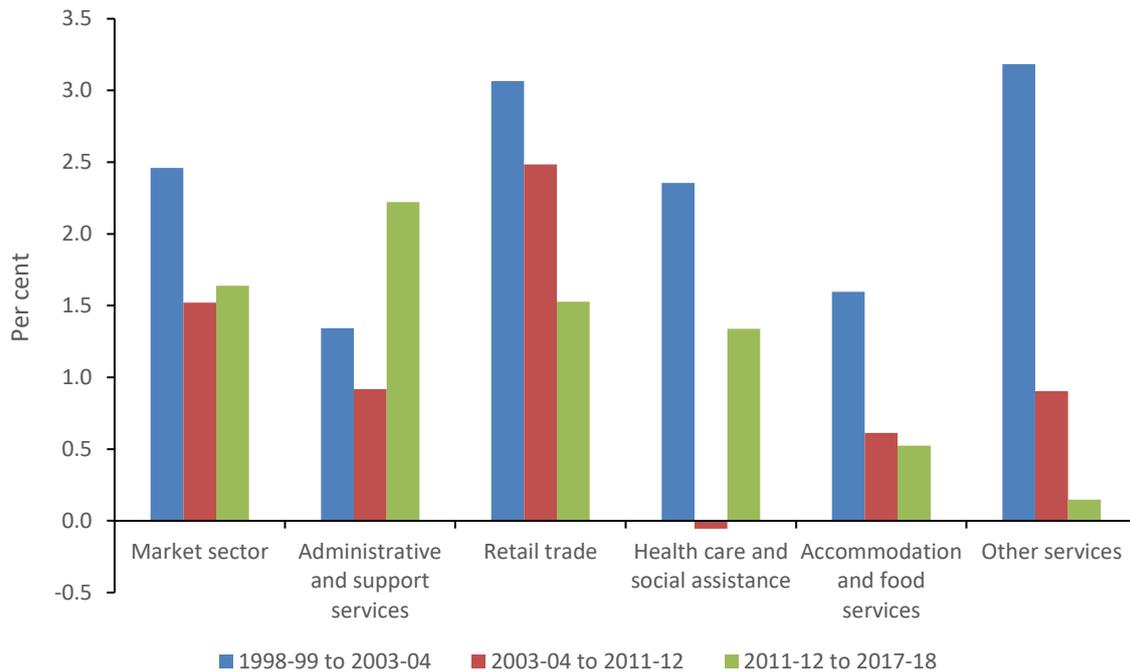
firms invested in building their capital stock, productivity fell as inputs grew much faster than output. However, as the capital becomes operational and output grows, the mining investment boom's drag on productivity growth is now unwinding.

201. In addition to the Mining industry, other industry-specific factors have been linked to the slowdown, such as significant investment in the Electricity, gas, water and waste services industries and the impact of drought on the Agriculture, forestry and fishing industry (Productivity Commission 2017).
202. The slowdown in labour productivity growth, relative to stronger performance in the 1990s, is a global phenomenon. The OECD notes in its 2017 Economic Survey of Australia that *“along with many OECD countries, productivity growth [in Australia] has slowed since its peak in the 1990s... but remains in line with its longer term average”* (OECD 2017).
203. One possible reason for the slowdown is structural. Australia, like many developed economies, has seen a move away from tradeable, capital-intensive goods and towards non-tradeable, labour-intensive services, which is reflected in lower economy-wide productivity (Productivity Commission 2017).

6.2.2 Award-reliant industry labour productivity

204. National labour productivity growth figures mask large variations in the productivity performance of each industry. As discussed above, the productivity performance of the Mining industry has had a large impact on Australia's productivity growth.
205. Similarly, industries with a high proportion of award workers (award-reliant industries) such as Administrative and support services, Retail trade, Health care and social assistance, and Accommodation and food services have recorded mixed productivity performance (Chart 6.2). Some award-reliant industries, such as Administrative and support services industry and Retail trade, performed either above or broadly in line with the national average. Conversely, Accommodation and food services, Health care and social assistance and Other services recorded lower-than-average productivity growth.

Chart 6.2: Average annual labour productivity growth over recent productivity cycles in the five most award-reliant industries



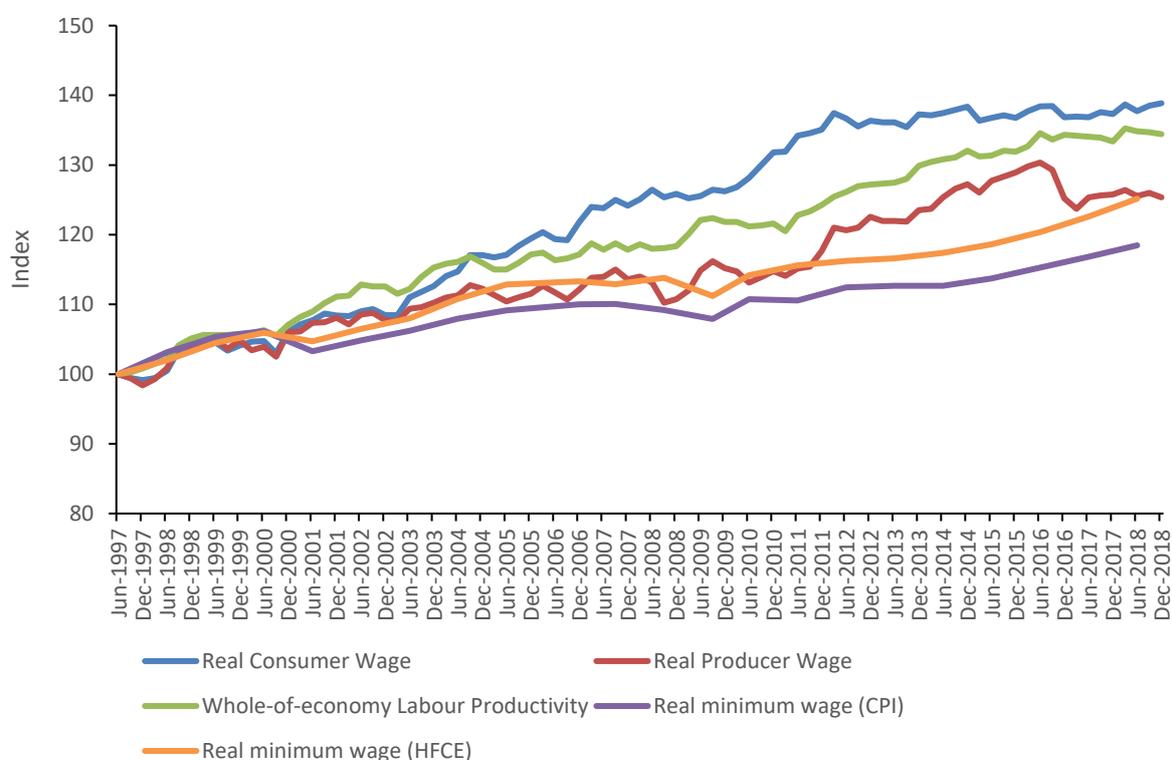
Source: ABS *Australian System of National Accounts, 2017-18*, Cat. No. 5204.0, Department of Jobs and Small Business calculations.

206. The Rental, hiring and real estate services industry, in which 29.4 per cent of all non-managerial employees are award-reliant, recorded one of the highest average productivity growth rates over the current productivity cycle (5.0 per cent).
207. Considerable variation in labour productivity growth at the industry level is a reflection of specific conditions in each industry, as well as a range of data measurement issues. As such, industry-level productivity data should be used with caution.
208. There is also a closer correlation between the productivity growth rates of an industry and prices growth within that industry, than between an industry's productivity growth and wages growth (Lowe 1995). This means that industries with higher productivity growth are more likely to pass on productivity gains onto the consumer through lower prices rather than higher nominal wages, and therefore tend to have lower rates of inflation. Low inflation in tradeable goods and services suggests this may be occurring in industries that face strong international and online competition, such as Retail trade.

6.3 Real producer wage and real consumer wage

209. Real wage growth can be measured by the real producer wage and the real consumer wage (Treasury 2017).³¹ Consumer and producer prices are expected to move together in the long-run, with the real producer wage and real consumer wage growing together. However, their growth patterns can deviate when relative prices change. For example, during the terms of trade boom (from the early 2000s) a wedge opened up between the two, with growth in the real consumer wage outpacing productivity growth and the real producer wage (Chart 6.3).
210. Recent years also have seen the growth in the real minimum wage outpacing labour productivity growth (Chart 6.3).

Chart 6.3: Real wages and whole-of-economy labour productivity, June 1997 to December 2018



Source: ABS *Australian National Accounts: National Income, Expenditure and Product, December 2018*, Cat. No. 5206.0, seasonally adjusted data, Department of Jobs and Small Business calculations.

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 minimum wage deflated by either the consumer price index or the household consumption deflator. All series indexed to June 1997.

³¹ There are two common ways of measuring real wages. One is from the producer perspective (producer wage) and the other is from the consumer perspective (consumer wage). The real producer wage is average earnings in the National Accounts (AENA) deflated by the GDP deflator. This shows the cost of labour for producers compared to the price of their outputs. The real consumer wage is calculated by AENA deflated by the prices consumers pay for goods and services (in this case, the household final consumption deflator). This shows how wages compare with the cost of goods and services for consumers.

211. Despite the recent period of subdued wage growth, the real producer wage is growing at a rate similar to the pre-boom period. In contrast, after its earlier rise in excess of labour productivity growth, the real consumer wage has been broadly flat since 2011, as growth in incomes have been matched by growth in consumer prices. With the unwinding of the terms of trade, the real consumer wage would be expected to grow by less than labour productivity as the economy transitions. Much of the recent divergence in growth rates between the consumer and producer real wages likely reflects this adjustment in the terms of trade.
212. The impact of movements in the terms of trade on households' income can flow through indirectly, via relative price changes in the economy, and independently from the direct effect of the commodities price boom on nominal wages. Recognising the indirect transmission of the terms of trade effect on household consumption and the purchasing power of wages, the Fair Work Commission noted in their 2016-17 Annual Wage Review decision:
- “that in earlier years the NMW and award rates were intentionally not raised commensurately with the growth in national income that flowed from the very high terms of trade. The Panel judged at the time that growth in national income from this source was too volatile to provide a sound foundation for growth in enforceable minimum wages. We are still of that opinion.”* (Annual Wage Review 2016-17 [2017] FWCFB 3500, para. 244)

6.4 Wage share

213. The wage share is total wages earned as a proportion of total factor income in the economy, which also includes returns to capital and gross operating surplus. Since 2005, the wage share has fluctuated within a range of around 52 to 55 per cent. The transitional impact of the mining boom and resulting misalignment of wages and labour productivity growth largely explains why the recent wage share has not been as consistent as previous periods.
214. The latest data (December 2018) shows the wage share at 52.2 per cent, below the long-run average (since September 1959) of 55.0 per cent (ABS *Australian National Accounts*). The profit share is around half the wage share, at 28.3 per cent. These shares are not uniform across industry sectors, with capital-intensive industries, such as Mining, tending to have lower labour shares.
215. Changes in the wage share can reflect cyclical factors, for example, volatility in commodity prices. The fall in the wage share from the recent peak of 54.9 per cent in March 2016 to the current rate of 52.2 per cent in December 2018 corresponded with a 49 per cent increase in commodity prices over the same period (RBA *Index of Commodity Prices, February 2019*).
216. The decline in the wage share for workers has been relatively minor compared to the impact of cyclical shifts in the terms of trade and commodities boom on real wages growth. While the commodities boom may have resulted in a reduction in the share of income flowing to workers for a temporary period, it also brought a period of prosperity that allowed both profits and wages to increase by more than in previous decades.

Chart 6.4: Wage share of total factor income, September 1959 to December 2018



Source: ABS Australian National Accounts: National Income, Expenditure and Product, December 2018, Cat. No. 5206.0, trend data.

217. Internationally, the wage share in many countries appears to have trended down, experiencing a 1 percentage point decline from 1995 to 2014 across OECD countries (Cho *et al.* 2017). Although experiences vary significantly across countries, with France, Italy, Sweden, Denmark, Finland and the United Kingdom experiencing an increase in the wage share over the same period.

6.5 Promoting productivity growth through bargaining

218. Under s.134 of the *Fair Work Act 2009*, the Panel must encourage collective bargaining. Section 3(f) also outlines that one objective of the Act is to achieve productivity and fairness through an emphasis of enterprise-level collective bargaining.

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

220. Enterprise bargaining provides a direct avenue to link enterprise-level productivity increases to wage increases for workers. As productivity growth varies significantly across firms within an industry, it is important to maintain a close nexus between productivity and wages growth at the enterprise-level. This encourages an efficient allocation of workers across firms, driving higher productivity growth and larger sustainable wage increases. Enterprise bargaining also gives workers an incentive to improve their productivity as they directly benefit through higher wages.

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

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

222. Recent years have seen a decline in the approval of new federal enterprise agreements, particularly in the private sector. There were 10,989 agreements current (not expired or terminated) at 30 September 2018, down by 56.3 per cent, from a high of 25,148 agreements in December 2010 (Department of Jobs and Small Business, *Trends in Enterprise Bargaining Report, September quarter 2018*).

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

224. OECD data demonstrates an overall decline in bargaining coverage since the mid-1980s across many OECD countries (OECD 2017). There may be a number of reasons for this, including structural changes to Western economies, the effects of globalisation, and changing employer and employee attitudes.

225. Despite the reduction in the number of federal enterprise agreements approved, over one-third of all employees are still covered by enterprise agreements (37.9 per cent of all employees in 2018, compared to 38.5 per cent in 2016) (ABS *Employees, Earnings and Hours, May 2018*).

7 Employment impacts

Key Points

- Low-paid jobs can be an important entry point to the workforce, and can act as stepping stones to higher paid work, particularly for at risk groups such as young people, long-term unemployed people and the low skilled.
- The effect of minimum wages on employment is difficult to measure, and hence the available evidence is mixed and remains under debate. However, wages, like all business costs, are likely to have an impact on employers' workforce decisions.
- The level of the minimum wage can influence people's decisions to look for and accept work.

7.1 The importance of low-paid work

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

7.1.1 Stepping stones effect

229. Over a third (36 per cent) of people who enter the workforce do so by taking a low-paid job. Low-paid jobs are a particularly important pathway for younger and less educated workers, with 41 per cent of workers aged under 25, and 41 per cent of those with Year 12 qualifications or below, entering the workforce through low-paid work.³²
230. Low-paid employment is often temporary and can act as a stepping stone. As shown in Tables 7.1 and 7.2, almost two-thirds of workers who enter low-paid employment leave within one year. Most of these move into higher paid work, and this is more likely the longer the worker has been in low-paid work. The median increase in hourly wages for

³² Low-paid is defined as earning less than two-thirds of the median hourly wage, as outlined in Chapter 2 and Appendix A.

those moving from low-paid to higher paid jobs was 58 per cent (Department of Jobs and Small Business analysis using the HILDA Survey).

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

Duration	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Proportion	66.2	18.0	13.3	2.5

Source: Department of Jobs and Small Business analysis using the *HILDA* Survey, release 17 (December 2018), balanced panels waves 1 to 17 with longitudinal weights.

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

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

Duration in low-paid employment	Higher paid work	Left the labour force	Unemployment
Less than 1 year	76.1	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: Department of Jobs and Small Business analysis using the *HILDA* Survey, release 17 (December 2018), balanced panels waves 1 to 17 with longitudinal weights.

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

7.1.2 Satisfaction and financial stress

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

Table 7.3: Self-reported satisfaction of the unemployed and employees, 2017

Satisfaction with:	Unemployed people	Low-paid employees	Higher paid employees
General life	7.4	7.8	7.9
Overall job	N/A	7.4	7.6
Financial situation	4.3	6.2	6.9

Source: Department of Jobs and Small Business analysis using the *HILDA* Survey, release 17 (December 2018), wave 17.

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

Table 7.4: Percentage of people who reported financial stress, 2017

Number of financial stress indicators	Unemployed people	Low-paid employees	Higher paid employees
None	62.8	76.2	84.8
One	15.9	11.8	7.7
Two or three	13.1	8.8	6.0
Four or more	8.1	3.2	1.5

Source: Department of Jobs and Small Business analysis using the *HILDA* Survey, release 17 (December 2018), wave 17.

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

7.2 Minimum wages and employment

232. There are a number of economic theories on the employment impact of minimum wages, although they depend on a range of assumptions that may not be borne out in practice. Wages, like all business costs, are likely to have an impact on employers' workforce decisions.
233. The orthodox view of the labour market is that workers are employed to the degree that they contribute to the profitability of their employing enterprise. All else being equal, an increase to wages may price marginally productive workers out of the labour market, as the cost of employing them increases relative to the value of their work.
234. In the extreme case where there is a single employer (monopsony), an increase in minimum wages can result in no change to, or even an increase in employment. This occurs when a firm uses its market power to pay wages less than the competitive market level. Therefore, an increase to minimum wages may not necessarily price workers out of the labour market, since they are already paid below the competitive market level, while higher minimum wages could attract more workers into the labour market.
235. Dynamic monopsony theory is where many smaller employers exhibit a degree of monopsony power (dynamic monopsony). For example, this may take place if skill requirements are sufficiently different across employers, who may then have some market power because it is more difficult for employees to move jobs, or if workers accept wages below the competitive market level due to imperfect information. However, uncertainty remains around the extent to which dynamic monopsony may occur in practice (see Bray 2013; Productivity Commission 2015).
236. In its February 2019 Statement on Monetary Policy, the RBA concluded that:
- “Economic theory does not make strong predictions about the effect on employment but the response is likely to depend on the size of the increase and the share of the workforce who is affected... To date, Australian minimum wage increases have tended to be small and incremental, and have not adversely affected employment via hours worked or job losses.”* (RBA 2019)
237. Empirically, there are a number of challenges in measuring the employment impact of minimum wages. Broadly, it requires identifying workers who are affected by a minimum wage increase and comparing their employment outcomes with those who are not impacted. It is particularly challenging to study the employment impact of minimum wages in Australia, due to the regular annual adjustments of minimum wages, the lack of geographical variation, and limitations of the available data (see Borland 2018; Richardson 2018). In addition, Australia's award system has wider coverage (over 20 per cent of employees across a wide range of wages and conditions in 122 modern awards) compared to most countries' minimum wages.
238. The Australian empirical literature, which is much smaller than in the US and UK, finds a mix of small negative and statistically insignificant employment impacts, as outlined in Bray (2013) and Productivity Commission (2015).
239. Most recently, Bishop (2018) analysed unpublished ABS Wage Price Index data from 1998 to 2008 and found no evidence that small, incremental increases in award wages

have an adverse effect on hours worked or the job destruction rate. However, Bishop cautions that “*the adverse consequences of higher wage floors may be borne by job seekers, rather than job holders*”. The findings only relate to adults aged over 21, excluding juniors, apprentices and trainees, which are groups that may be particularly vulnerable to job loss following an increase in award wages. The analysis examines the impact of award wage increases for six months after an increase, which would not capture longer term effects (Borland 2018).

240. Leigh (2003, 2004) examined several increases to Western Australia’s (WA) minimum wage (which applied to non-award reliant employees) that occurred out of step with the rest of Australia, comparing the changes in the employment-to-population ratio in WA with those for the rest of the country. Leigh found that the minimum wage rises occurring only in WA had a measurable, though small, negative impact on unemployment, which was more pronounced for youth aged 15 to 24. The increases in WA examined by Leigh occurred at intervals of between 12 and 15 months and ranged between 3.5 per cent to 9.3 per cent, whereas under the current national system increases to minimum and award wages take place regularly and predictably every twelve months and the increases awarded have not exceeded 3.5 per cent since 2010.
241. The Productivity Commission (2015) analysed data from the Research and Evaluation Database, which contains administrative data on the recipients of income support payments. Overall, the findings suggested that adverse employment effects from minimum wage increases are more likely to affect unemployed people and those outside the labour force. For job holders, the main impact was a reduction in hours worked. However, the Productivity Commission cautioned it “*can draw only limited conclusions about the employment effects of minimum wages from the study*” due to concerns about the robustness of the results. In addition, the study captured only adult minimum wage workers in households receiving income support payments and may not be representative of the wider population of minimum wage workers.
242. The diversity of minimum wage setting in the US and the richness of the available data provides significant scope for research into the employment impact of minimum wages. In addition to the US federal minimum wage, the majority of US states have their own minimum wages that are higher than the federal minimum wage. Local jurisdictions may also set minimum wages.
243. Overall, existing studies in the US find a mix of small negative and statistically insignificant employment effects, however, the findings remain under debate, (see for example, Dube *et al.* (2010), Allegretto *et al.* (2011), Neumark (2018), Allegretto *et al.* (2017), Meer and West (2016) and Dube *et al.* (2016)). Meta-analyses, which summarise the literature and provide statistical analysis of results from multiple studies, also find a mix of negative and statistically insignificant employment effects (see Doucouliagos and Stanley 2009; Boockmann 2010; Belman and Wolfson 2014; Nataraj *et al.* 2014; Gitios and Chletsos 2015; RAND 2016).
244. The Seattle Minimum Wage Ordinance raised the minimum wage from US\$9.47 to US\$11.00 per hour in 2015 and to US\$13.00 per hour in 2016. Jardim *et al.* (2018a) found that the first increase had a modest negative but statistically insignificant effect on hours worked, whereas the second increase to US\$13.00, which reduced total hours worked in low wage jobs by 6-7 per cent, was statistically significant. Jardim *et al.*

(2018b) also found that less experienced workers experienced larger decreases in hours worked.

245. The UK introduced a National Minimum Wage (NMW) in 1999 and a National Living Wage (NLW) for employees aged 25 years and over in 2016, which have provided opportunities for research into the employment impacts of minimum wages. The UK system is more comparable to Australia, with regular annual adjustments and a lack of geographical variation. In November 2018, the UK Low Pay Commission noted that, based on studies it commissioned:

“Increases in the minimum wage have clearly led to higher wages and improved earnings... However, the evidence around the effect of the NMW and NLW on other labour market and firm outcomes is more limited” (Low Pay Commission 2018, p.77).

246. While the broader minimum wage literature mostly finds mixed or small average effects on overall employment from minimum wage increases, this may be masking significant heterogeneity in terms of the effects on specific groups, demographics, or the extent to which different types of labour and capital are substitutes or complements.

247. Some studies show that increases to minimum wages have greater impacts on employment opportunities for youth and may hinder their transition to higher paying jobs (see Boockmann 2010; Neumark and Wascher 2008, Neumark and Nizalova 2007). Larger impacts are also likely when the economy is in a recession or a prolonged slowdown (see Addison *et al.* 2013; Dickens *et al.* 2015). The impact of minimum wage increases may also be more pronounced for workers in routine jobs that are more at risk of automation (see Aaronson and Phelan, 2017; Lordan and Neumark, 2017).

7.2.1 Other impacts from minimum wage increases

248. Employers and employees may respond to minimum wage increases in a number of ways other than workforce decisions, such as increasing productivity, raising prices and reducing profits. These responses can help offset the impact of higher labour costs on firms, thus postponing other decisions.

249. A review of the literature found an ambiguous relationship between minimum wages and productivity in Australia, but did find some evidence of productivity improvements in the US and UK due to changes in the minimum wage (Farmakis-Gamboni and Yuen 2011). However, it is not clear whether the productivity improvements in the US and UK were driven by increased training or the substitution of low-skilled for high-skilled labour.

250. In the UK, evidence suggests employers did not respond to the introduction of the National Minimum Wage in 1999 (and subsequent increases) by reducing employment. Instead, research shows that employers responded in other ways, such as raising productivity through organisational change and increased training, increasing prices, reducing profits, incomplete compliance, and adjusting hours (Metcalf 2008; Wadsworth 2010; Riley and Bondibene 2015).

251. In the US, the inelastic demand for the restaurant industry saw a 25 per cent rise in the minimum wage in 2013 in San Jose, California passed on by employers through a 1.45

per cent average increase in prices without detectable employment effects or a significant reduction in sales (Allegretto and Reich 2016).

7.3 Minimum wages and incentives to work

252. The level of the minimum wage can influence people's decisions to look for and accept work. It is important that the minimum wage is set at a level that encourages people who are out of work to enter into the workforce in order to enjoy the benefits that work can provide to individuals and communities.
253. The Government has modelled the interaction between the tax-transfer system and the national minimum wage for a broad range of hypothetical single and second earner households.³³ The modelling shows that all of the household types modelled were better off when an unemployed member of the household gained a job at the national minimum wage. Some examples are provided below, with detailed tables in Appendix C.
254. A single adult household, without children, would increase their disposable income by \$367 per week (131 per cent) by moving from unemployment and into a full-time job paying the national minimum wage rate. Even by taking a part-time job at the national minimum wage rate, disposable income would increase by \$152 per week (54 per cent).³⁴
255. An unemployed couple without children would be \$259 per week (51 per cent) better off if one unemployed member of the household found a full-time job at the national minimum wage rate. A couple without children with one adult already in full-time employment at the national minimum wage rate would be \$529 per week (69 per cent) better off if the second member of the household moved from unemployment into full-time minimum wage work.
256. Households with children are also better off when an unemployed adult gains a job at the national minimum wage rate, even after paying for any necessary childcare costs. For example, a couple with a three-year-old child, with one member of the couple in a full-time job at the national minimum wage rate would be \$300 per week (31 per cent) better off if the second member of the couple also found a full-time national minimum wage rate job, even after accounting for the cost of childcare. If the second member of the household took a part-time job at the national minimum wage rate the household would increase their disposable income by \$100 per week (10 per cent).

³³ The analysis considered the potential impact of earnings from a job at the national minimum wage rate on combined household income, after income support (Newstart Allowance or Parenting Payment), other transfer payments (such as Family Tax Benefits and Rent Assistance), other earnings (if other members of the household were already receiving earned income from employment), childcare costs and taxation. The assumptions used in the analysis are detailed in Appendix B.

³⁴ Working 15 hours per week at the national minimum wage.

8 Household incomes and inequality

Key Points

- Income inequality in Australia has been broadly stable for more than a decade.
- The national minimum wage bite (the ratio between the national minimum wage rate and median full-time earnings) has also been stable at around 54 per cent since 2008.
- Australia's targeted tax-transfer system plays a key role in redistributing income efficiently to low-income households and families with children, including minimum wage earners, through direct transfer payments and a range of in-kind support.
- Increases in the minimum wage are not fully reflected in household disposable income; however, the minimum wage plays a large role in improving household income for low-income minimum wage families.

8.1 Income inequality and earnings inequality

8.1.1 Income inequality

257. Sections 134 and 284 of the *Fair Work Act 2009* require the Panel to promote social inclusion through increased workforce participation and to consider the relative living standards and needs of low-paid employees.
258. Of the numerous measures of income inequality, household disposable income (after taxes and transfers) is the most commonly used measure. Not only is household disposable income one of the better measures of living standards, it also accounts for the tax and transfer system – one of the main mechanisms by which government can reduce inequality. The Productivity Commission (2018) found that “*Australia’s tax and transfer system has consistently acted to substantially reduce income inequality*”, with analysis for the period 1988-89 to 2015-16 showing that income taxes and cash transfers have consistently reduced the measured Gini coefficient.³⁵ For example, in 2015-16, taxes and transfers are estimated to have reduced the Gini coefficient by 31 per cent (from 0.46 to 0.32) in 2015-16.
259. Household disposable income is a more comprehensive measure of living standards than individual earnings. In addition to wage and salary earnings, it also accounts for investment income, cash payments received from Government and income taxes. Measuring income at the household level incorporates the potential for the sharing of economic resources between family members and adjusting for household size (‘*equivalising*’) controls for the differing consumption needs of households of different sizes.
260. Analysis by the Productivity Commission (2018) shows that, based on ABS data, the Gini coefficient has increased slightly since 1988-89. It should be noted that it is difficult to compare Australian income inequality across a longer time period as the ABS changed its

³⁵ The Gini coefficient is a common measure of inequality, which takes values between 0 and 1, with 0 meaning total equality (i.e. everything is shared equally among everybody) and 1 meaning total inequality (i.e. one person has everything).

methods in 2007–08, and results over a longer period should therefore be interpreted with caution.

261. However, the latest ABS data shows that Australia’s income inequality has been broadly stable over the past decade (*ABS Household Income and Wealth, 2015-16*). The Gini coefficient for equivalised household disposable income stood at 0.336 in 2007-08 and 0.323 in 2015-16.³⁶
262. The *13th Annual Statistical Report of the HILDA Survey* (Wilkins and Lass 2018, latest available report, using data up to 2016) also indicates that overall household income inequality has remained broadly stable over the past 16 years, with the Gini coefficient remaining at between 0.293 and 0.308 over the period (2001-2016).
263. When we consider the share of real equivalised disposable household income for low and high-income households against the median, the relative household income for the 10th percentile is approximately half of the median household income in 2015-16, while for the 90th percentile, household income is double that of the median.
264. However, the Productivity Commission (2018) report finds that *“Unlike some other developed countries, Australia had relatively strong growth in incomes across all deciles.”* While it is noted that different sources of data may indicate slightly different levels of income, the general trend is consistent across the various different data sources, namely that *“incomes grew steadily during the 1990s, rose sharply during the mining boom of the mid-2000s and have flattened since the global financial crisis”*.
265. The latest ABS data shows that for the decade from 1995–96 to 2005–06, equivalised real household disposable income growth for the median household was almost equal to growth for the (high-income) 90th percentile. Further, over the decade from 2005–06 to 2015–16, growth for the (low-income) 10th percentile was more rapid than for both the median and the 90th percentile.
266. When looking at growth over the two decades from 1995–96 to 2015–16, growth for the (low-income) 10th percentile was the same as growth for the median household, while growth for the (high-income) 90th percentile was higher. Changes in ABS methods are likely to have exaggerated high-income growth between 2003–04 and 2007–08, and comparisons of changes over time should be interpreted with caution.

³⁶ It should be noted that it is difficult to compare Australian income inequality over a longer period as the ABS changed its methods in 2007–08. Improvements in the Survey of Income and Housing, including a new definition of income, had a greater impact at the top of the income distribution). The definition of income has been expanded to include non-cash benefits, bonuses, termination payments and payments for irregular overtime worked.

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

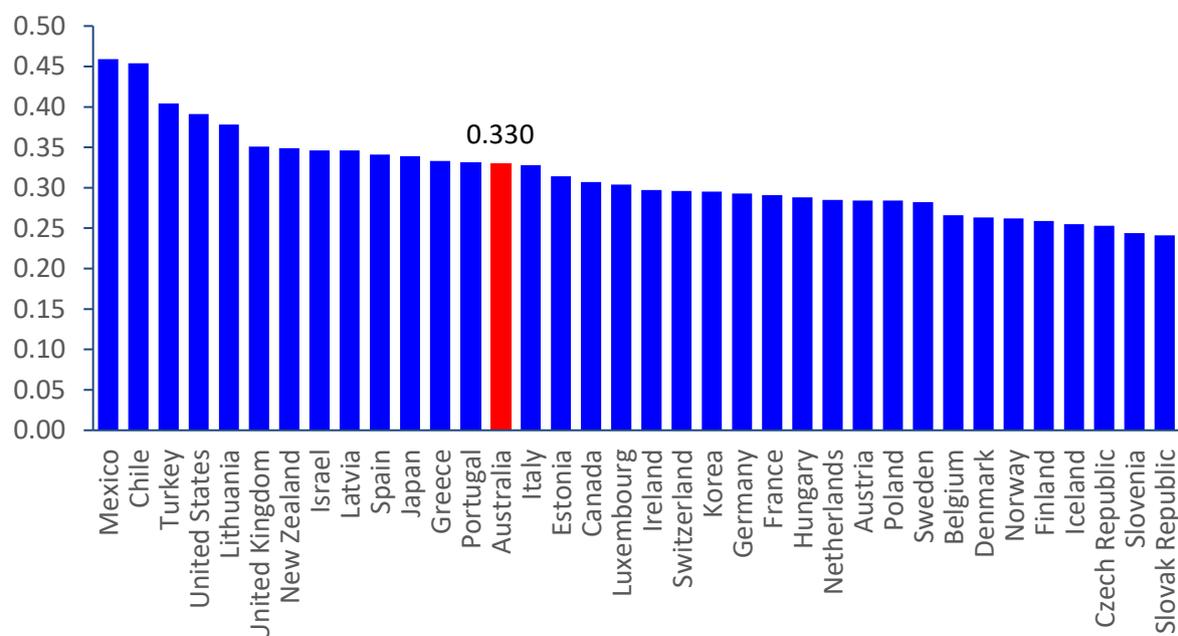
	% Growth		
	1995–96 to 2005–06	2005–06 to 2015–16	1995–96 to 2015–16
10th percentile (low)	27.5	23.9	58.0
50th percentile (median)	35.0	17.0	58.0
90th percentile (high)	37.5	19.9	64.9

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

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

267. The latest HILDA Statistical Report also shows that over the last 16 years (2001 to 2016), real equivalised household disposable incomes of those in the 10th percentile increased by 39.3 per cent – higher growth than the median (28.8 per cent) and the average (30.3 per cent) and higher than those in the 90th percentile (26.8 per cent).
268. Australia has the 14th highest Gini coefficient (0.330) of 36 OECD countries, below the US (0.391), UK (0.351) and New Zealand (0.349), as shown in Chart 8.1. However, when making international comparisons, it should be noted that OECD countries have varying circumstances such as levels of development, demographics and tax and social security systems.
269. The Productivity Commission (2018) has conducted analysis comparing the average growth in Gini coefficients between 1989 and 2012 for selected OECD countries, and shows that Australia is slightly below, albeit close to, the OECD average, that is, the Gini has increased by less than for other countries.

Chart 8.1: Gini coefficients, international comparison, 2016



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

Notes: All data are for 2016, except for Chile, Denmark, Germany, Iceland, Ireland, Japan, Korea, where latest data available were for 2015, Hungary, Mexico, New Zealand and Switzerland where latest data available were for 2014.

270. Inequality measures such as the Gini coefficient tend to be static measures that only account for a point in time. However, people's incomes and wealth change over the course of their lives, with households often moving across the income distribution over time.
271. A high level of income mobility is a proxy measure for equality of opportunity, although mobility at the lower end of the distribution could also reflect economic insecurity. As noted by the Productivity Commission (2018), the level of mobility is important in any consideration of inequality, as:
- “a society with a given level of inequality, and where household incomes are static over time, faces different and more serious policy challenges than a society with the same level of inequality but where household incomes are mobile.”* (Productivity Commission 2018, p. 4)
272. Income mobility in Australia compares favourably with many other developed economies, with the Productivity Commission (2018) finding that *“economic mobility is high in Australia, with almost everyone moving across the income distribution over the course of their lives”*. The Productivity Commission found that less than 1 per cent of people remained in the same income decile over the period 2000-01 and 2015-16, while *“close to 90 per cent of people had a difference of at least three deciles between the top and bottom income deciles they spent time in between 2000-01 and 2015-16.”* The Productivity Commission (2018) further noted that Australian adults move between the income deciles more than in the US, the United Kingdom or Italy, but not as much as other countries such as Canada or Scandinavian countries.

8.1.2 Earnings inequality

273. Individual earnings are a less comprehensive measure of living standards than household disposable income.
274. When we consider the share of real earnings for low and high-income households against the median, the relative full-time real weekly earnings of the bottom 10th percentile was 64 per cent of the median in 2018 (higher than the share for real equivalised disposable household income). By comparison, the 90th percentile earnings was 178 per cent of median earnings (lower than the equivalent share for real equivalised disposable household income) (see section 8.1.1).
275. However, the ABS data shows that low and medium-paid employees have seen gains in real earnings over the last decade, but at a slower pace than high-paid employees (Table 8.2).³⁷

³⁷ Income growth appears to be higher than earnings growth generally, because of changes in household composition, higher labour force participation, more rapid growth in investment income, and changes to the tax-transfer system.

Table 8.2: Growth in full-time real weekly earnings, non-managerial, 1998 to 2018

	% Growth	
	1998 to 2008	2008 to 2018
10th percentile (low)	4.7%	11.4%
50th percentile (median)	11.4%	11.9%
90th percentile (high)	20.9%	13.1%

Source: ABS *Employee Earnings and Hours, May 2018*, Cat. No. 6306.0, published and unpublished data.

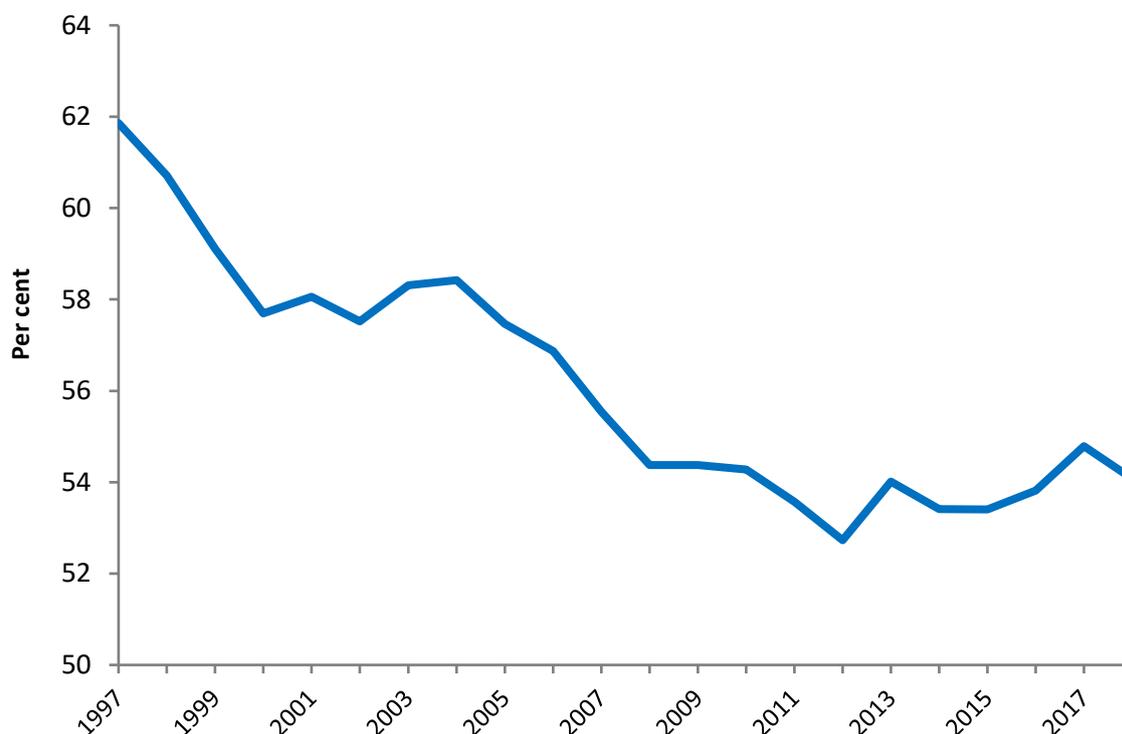
Note: 1998 to 2008 growth is for total cash earnings (excluding salary sacrifice) and 2008 to 2018 is for total cash earnings (including salary sacrifice).

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

8.2 The minimum wage and inequality

277. In 2018, the minimum wage bite (the ratio between the national minimum wage rate and median full-time earnings) was 54.1 per cent. It declined from 62 per cent in 1997 to 54 per cent in 2008, but has been relatively stable since (see Chart 8.2).

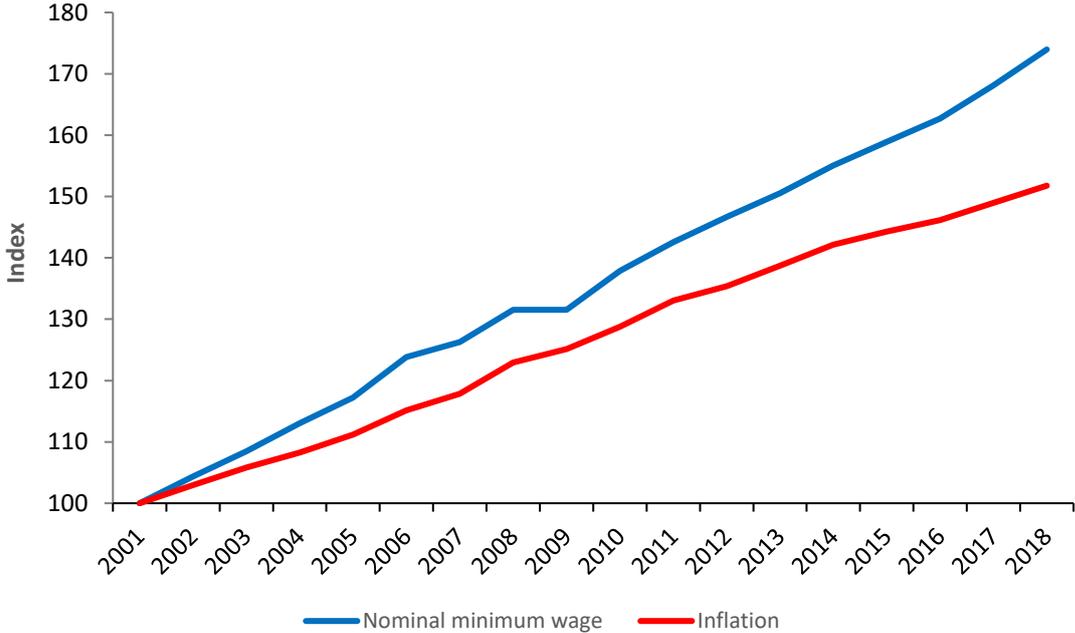
Chart 8.2: National minimum wage as a share of median wage (minimum wage bite)



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

278. The decline in the minimum wage bite between 1997 and 2008 was due to growth in the median wage outpacing that of the national minimum wage – partially attributable to the mining boom which pushed up median earnings.³⁸ Between 1997 and 2008, the national minimum wage rate grew by 51.3 per cent (9.2 per cent in real terms), compared with growth of 72.1 per cent (or 24.2 per cent in real terms) in median full-time weekly earnings.
279. Over the last 10 years, the national minimum wage rate has increased on average by 2.8 per cent a year in nominal terms and 0.8 per cent a year in real terms. This is broadly similar to the growth in median full-time earnings, which averaged 2.9 per cent a year in nominal terms and 0.7 per cent a year in real terms to 2018 (*ABS Characteristics of Employment, August 2018*). Growth in the national minimum wage rate is also on par with the average annual growth in the Wage Price Index, which grew at 2.8 per cent a year in nominal terms and 0.7 per cent in real terms over the last 10 years. (*ABS Wage Price Index, December 2018*).³⁹
280. The increase in the national minimum wage rate has also been faster than consumer price inflation (Chart 8.3).

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



Source: Australian Fair Pay Commission/Fair Work Australia/Fair Work Commission decisions on National Minimum Wage from 2006; prior to 2006, Australian Industrial Relations Commission decisions on Federal minimum wage based on Metal, Engineering and Associated Industries Award (1998); *ABS Consumer Price Index, Australia, Dec 2018* (cat. No. 6401.0).

³⁸ Various sources find that incomes generally increased during the period associated with the mining boom. For example, the Productivity Commission (2018) report noted that the mining investment boom (2005 to 2013) “contributed significantly to economic growth, employment and incomes.” The Report then goes on to note that in contrast, the post-mining boom period has included a period of low wage increases.

³⁹ Seasonally adjusted figures. Figures reflect annual growth to the June quarter 2018, consistent with the date of effect of increases in the national minimum wage rate.

281. Australia’s minimum wage is higher than in many comparable OECD countries, whether measured as a percentage of median earnings or ‘bite’ (11th of 31 countries, Chart 8.4), or in terms of purchasing power (3rd of 32 countries, Chart 8.5).

Chart 8.4: Minimum wage bite (% of median earnings) in OECD economies, 2017

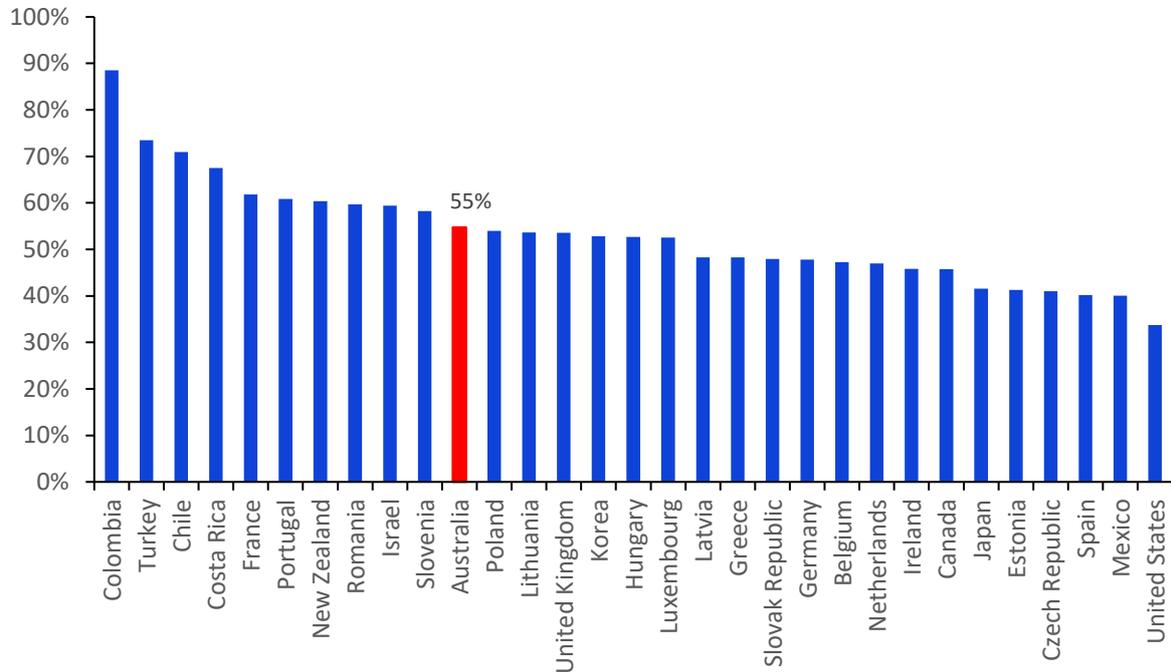
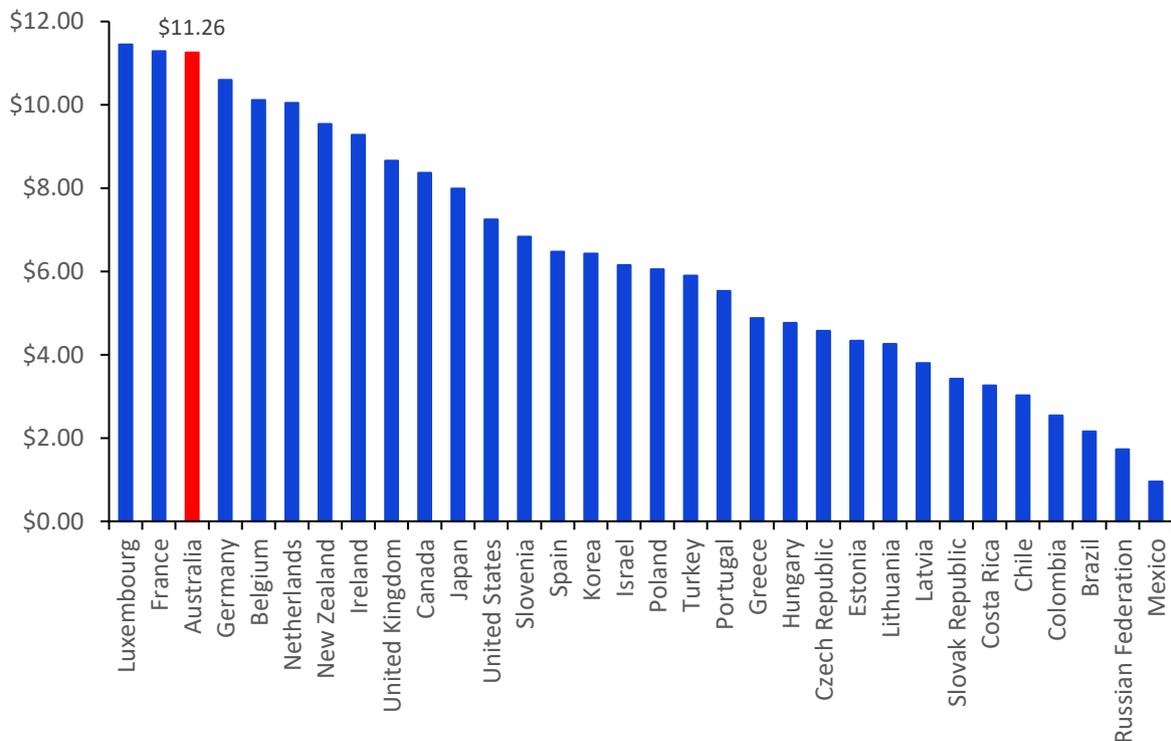


Chart 8.5: Real hourly minimum wages (\$US purchasing power parity), 2017



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

Note: Data on the minimum wage bite are available for 31 out of 36 OECD countries and for 32 countries for hourly minimum wages.

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

8.3 Taxes and transfers

284. The Australian tax-transfer system plays a key role in distributing income among Australian households, through a targeted system of cash payments (including income support and family payments), in kind support (such as subsidised health care and education) and a progressive income tax system.⁴⁰
285. While a single person without children working full-time at the minimum wage would not generally attract transfer payments, couples with one partner earning the full-time minimum wage and families with children can receive significant additional assistance in the form of income support, Family Tax Benefit (FTB) and related payments in recognition of their additional need for support. For full-time minimum wage workers in single-income households with children, transfer payments are typically around a third of disposable income (see Table 8.3).

⁴⁰ The transfer system is the main element of Australia’s social support system. Australia’s social support system includes cash transfer payments to individuals and families, and a range of support services funded or provided by all levels of government and civil society (commercial and community organisations). The system is intended to help meet the costs of daily living, increase participation in work and social activities, and build individual and family functioning. Transfer payments include income support payments to help meet daily living expense costs and other payments and supplements to help meet specific costs (such as family payments to assist with the costs of children).

Table 8.3: Transfer payments to full-time NMW households, 1 January 2019

Household type	Transfer payments (\$pw)	Transfer payments as a proportion of disposable income (%)
Single parent		
No children	0	0.0
Child aged 3	336	34.7
Child aged 9	208	24.2
Children aged 3 & 9	447	41.5
Single-income couple (partner on Newstart or Parenting Payment Partnered)		
No children	112	14.6
Child aged 3	302	31.5
Child aged 9	279	29.8
Children aged 3 & 9	408	38.2
Dual-income couples (both on NMW)		
No children	0	0
Child aged 3	44	3.3
Child aged 9	44	3.3
Children aged 3 & 9	131	9.2

Source: Government modelling.

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

286. The transfer system provides financial support to parents and carers to assist them with the costs of raising children. Table 8.4 shows that while equivalised (adjusted for household size) earnings are lower in households with children, equivalised disposable income can be higher due to the additional support provided to families. For example, for single income couples with one child, equivalised earned income was around 56 per cent of the earnings of a single person income without children. However, this climbs to over 80 per cent once the tax and transfer system has been accounted for in income.

Table 8.4: Equivalised income for full-time NMW households, 1 January 2019

Household type	Earned income			Disposable income, adjusted for childcare costs		
	Earnings (\$pw)	Equivalised earnings (\$pw)	% of single, no children	Income (\$pw)	Equivalised income (\$pw)	% of single, no children
Single person – working full-time at the NMW						
No children	719.20	719.20	100.0	646	646	100.0
Child aged 3	719.20	553.23	76.9	904	696	107.7
Child aged 9	719.20	553.23	76.9	844	650	100.5
Children aged 3 & 9	719.20	449.50	62.5	999	624	96.6
Dual-income couples – both partners working full-time at the NMW						
No children	1438.40	958.93	133.3	1292	862	133.3
Child aged 3	1438.40	799.11	111.1	1261	700	108.4
Child aged 9	1438.40	799.11	111.1	1319	733	113.4
Children aged 3 & 9	1438.40	684.95	95.2	1331	634	98.1
Single-income couples – P1 working full-time at the NMW, P2 on Parenting Payment/Newstart						
No children	719.20	479.47	66.7	763	509	78.7
Child aged 3	719.20	399.56	55.6	960	533	82.6
Child aged 9	719.20	399.56	55.6	937	520	80.5
Children aged 3 & 9	719.20	342.48	47.6	1069	509	78.8

Source: Government modelling.

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

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

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

8.4 Impact of the Panel's decision on household income

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

289. Table 8.5 shows the immediate impact on disposable income for various household types following the 2018 national minimum wage rate increase. Household disposable income increased for all types of households, however the percentage of the wage increase retained varied depending on the type of transfer payments received by the household.⁴¹

⁴¹ This is a design feature of the Australian transfer system. Income units receiving income tested transfers at the same time as paying income taxes will have higher effective marginal tax rates and therefore keep less of

290. The breakdown by household type in Table 8.5 shows that households outside the income support system retained the greatest fraction of the minimum wage increase after taxes and transfers. The greatest fraction was retained by the household with one full-time worker and one part time worker without children (82.2 per cent), as they receive no transfer payments and therefore face no income tests), with the second earner retaining all of their earnings due to their income being below the tax free threshold. Dual-income households with children retained slightly less, since they are affected by the income tests on FTB Part B, and families with two children are still subject to concessional Medicare levy phase-in arrangements. Households containing couples with one partner on Newstart or the Parenting Payment retained less than 30 per cent, the least of all shown here.

Table 8.5: Effect of 2018 NMW rate increase on household disposable incomes

Household type	Wage increase (\$pw)	Increase in household disposable income (\$pw)	Percentage of wage increase retained (%)
Single, no children			
Full-time NMW	24.30	18	75.2
Part-time NMW	9.60	4	37.4
Student on part-time NMW	9.60	3	36.0
Single parent			
Full-time NMW, child aged 3	24.30	8	33.9
Full-time NMW, child aged 9	24.30	10	41.4
Part-time NMW, child aged 3	9.60	6	60.0
Part-time NMW, child aged 9	9.60	5	55.3
Single-income couples (partner on Parenting Payment/Newstart Allowance)			
Full-time NMW, no children	24.30	3	12.0
Full-time NMW, child aged 3	24.30	5	20.7
Full-time NMW, children aged 3 and 9	24.30	6	25.9
Dual-income couples			
Both full-time NMW, no children	48.60	37	75.2
One full-time and one part-time NMW, no children	33.90	28	82.2
One full-time and one part-time NMW, child aged 3	33.90	26	75.6
One full-time and one part-time NMW, children aged 3 and 9	33.90	23	68.6

Source: Government modelling.

Note: (1) Figures are based on tax and benefit rates applicable on 1 July 2018. Part-time hours are assumed to be 15 hours per week. This modelling does not include indexation of benefits as it has been designed specifically to show the Panel the direct impact of the 2018 minimum wage increase on household disposable incomes. Indexation of benefits is a separate process in the tax-transfer system and is not affected by the Panel's decision. (2) Figures for the increase in income have been rounded to the nearest dollar. Percentages may differ slightly due to rounding.

an increase in private income than those paying only income taxes because they are not receiving transfers (and as such have lower disposable incomes).

291. Dual-income households with children retained a greater proportion of the 2018 minimum wage increase than was the case for the 2017 increase (which was shown in the Government's 2017-18 submission). This is because in 2018 these family types were completely outside the income support system, when prior to the 2017 increase these families were in the income support system.
292. Table 8.6 models the percentage change in real disposable income for a number of hypothetical households. Assuming no change in hours worked, it shows a longer term impact of changes in the national minimum wage rate. Unlike Table 8.4, this modelling does not take into account the Government's assistance for childcare (this is because childcare subsidies are only paid where the extra costs of childcare are incurred) and other in-kind support.
293. As noted in Section 8.3, Government direct transfer payments can account for a significant proportion of a minimum wage household's income. Table 8.6 shows that over the five years from 2014 to 2019 the change in real incomes from the minimum wage has varied across households.
294. Due to the increase in the minimum wage rate over the past five years, tax payable, particularly for full-time minimum wage workers, has increased. The introduction of the Low and Middle Income Tax Offset from 1 July 2018 will provide some tax relief for minimum wage earners.
295. Outcomes for individuals and families receiving transfer payments were also affected by measures such as the ceasing of the School Kids Bonus, closure of Energy Supplement paid with FTB for new entrants, the measure to maintain the current FTB rates for two years from 1 July 2017, the abolition of Income Support Bonus, and the measure to maintain the current income free areas for income support allowance payments and Parenting Payment Single for three years from 1 July 2017 (from 1 January 2018 for student payments). Increases to the minimum wage have, over recent years, been important for maintaining the real disposable incomes of many low-income households (see Table 8.6). The tax-transfer system remains the primary means of redistributing income to low-income households, particularly for families with children.
296. Table 8.6 does not include the costs of child care. From 2 July 2018, the Child Care Subsidy is providing increased support to low income families to assist working parents with the costs of child care. Families with income less than \$66,958 will have 85 per cent of their eligible child care costs covered by the subsidy.

Table 8.6: Changes in real disposable household income, 2014 to 2019

Household type	Total change (%)	Impact of Tax-transfer system (%)	Impact of real NMW increases (%)
Single, no children			
Full-time NMW	4.2	-1.0	5.2
Part-time NMW	2.9	1.4	1.5
Student on part-time NMW	-0.2	-1.9	1.7
Single parent			
Full-time NMW, child aged 3	-1.8	-3.3	1.4
Part-time NMW, child aged 3	-0.3	-1.5	1.3
Full-time NMW, child aged 9	-0.1	-2.1	2.0
Part-time NMW, child aged 9	-0.3	-1.7	1.4
Single-income couples (partner on Parenting Payment/Newstart Allowance)			
Full-time NMW, no children	1.8	1.1	0.8
Full-time NMW, child aged 3	0.8	-0.3	1.1
Full-time, children aged 3 and 9	-0.3	-1.5	1.2
Dual-income couples			
Both full-time NMW, no children	4.2	-1.0	5.2
One full-time and one part-time NMW, no children	4.8	1.0	3.8
One full-time and one part-time NMW, child aged 3	2.9	-0.1	2.9
One full-time and one part-time NMW, children aged 3 and 9	1.4	-1.1	2.4

Source: Government modelling.

Notes: Based on NMW and tax-transfer system of 1 January each year. The first column shows the percentage change in real disposable income given the actual changes in the national minimum wage and tax-transfer system. The second column shows the impact of the tax-transfer system, by assuming a constant real national minimum wage (i.e. have compared current disposable income with a disposable income that assumes the 2014 national minimum wage had grown in line with CPI). The third column shows the impact of real NMW increases (the difference between the first two). They may not sum exactly due to rounding. This modelling includes indexation of benefits as it examines disposable household income over the long term. The effect is shown as part of the 'tax-transfer contribution', as it occurs independently of the Panel's decision on the NMW.

8.5 Gender pay inequality

297. As required under sections 134 and 284 of the *Fair Work Act 2009*, the Panel must consider the principle of equal remuneration for work of equal or comparable value.

298. The headline gender pay gap, defined as the difference between women's and men's average weekly full-time ordinary time earnings and expressed as a proportion of men's earnings, was 14.2 per cent in November 2018 (*ABS Average Weekly Earnings*).⁴² This

⁴² The gender pay gap in hourly terms was 12.7 per cent in May 2018 using EEH. This figure covers non-managerial employees, both full-time and part-time.

figure is at a historic low and has been trending down since the most recent peak of 18.7 per cent in November 2014 (using seasonally adjusted data).

299. However, average weekly full-time ordinary time earnings does not account for differences in ordinary time hours worked by full-time men and women. The ABS defines full-time work to be 35 hours or more per week, which is too broad to account for the differences in hours worked. In May 2018, full-time non-managerial men worked on average 0.7 ordinary time hours more per week than women (*ABS Employee Earnings and Hours, May 2018*). In addition, average weekly full-time ordinary time earnings does not account for the large proportion of women who work part-time. In January 2019, approximately 46 per cent of all employed women worked part-time compared to 19 per cent for men (*ABS Labour Force, January 2019*).
300. After controlling for hours by looking at hourly earnings, there is still a gender pay gap in favour of men, albeit smaller (Table 8.7). The *ABS Employee Earnings and Hours* provides hourly gender pay gap figures based on average hourly total cash earnings for full-time and part-time employees.

Table 8.7: Hourly gender pay gap

	Gender pay gap
All employees (full-time and part-time, managerial and non-managerial)	13.5%*
Non-managerial employees (full-time and part-time)	12.7%

Source: *ABS Employee Earnings and Hours, May 2016 and May 2018, Cat. No. 6306.0.*

* indicates latest data available is for 2016.

301. As noted in previous Government submissions, research for the Fair Work Commission (Rozenbes and Farmakis-Gamboni 2015; Broadway and Wilkins 2015) shows little evidence of an hourly gender pay gap for workers on awards. The gender pay gap, therefore, appears to be mostly driven by higher paid workers.
302. However, the overrepresentation of women on awards and in low-paid work is still a relevant consideration. Around 61 per cent of award-reliant employees (*ABS Employee Earnings and Hours, May 2018, non-managerial employees*) and more than half (around 54 per cent) of low-paid workers are female (Department of Jobs and Small Business analysis using the HILDA Survey). Of the five most award-reliant industries, four are disproportionately female: Accommodation and food services (53.5 per cent female), Administrative and support services (54.5 per cent female), Health Care and Social Assistance (78.2 per cent female) and Retail trade (56.6 per cent female).
303. As noted by the Fair Work Commission in its 2017-18 Decision:

“... 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.” (Annual Wage Review 2017-18 Decision [2018] FWCFB 3500, para 38).

304. The gender pay gap is influenced by a number of inter-related factors including occupational and industrial gender segregation, the impact of women's greater unpaid caring responsibilities; differences in work experience and seniority; and discrimination and other unexplained factors (KPMG 2016). Research by the Department of Jobs and Small Business has found that female low-paid workers between the ages of 25 and 44 years are more likely than males to have entered low-paid work from outside the labour force. This may reflect that women are more likely to leave the labour force to give birth and care for children for a period of time and then return to the workforce.
305. The Government's approach to addressing gender pay inequality focuses on strong economic conditions. This is supported by policies outlined in the Women's Economic Security Statement issued in November 2018 to help women participate in work, improve their earning potential and build their economic independence.
306. In 2014, Australia led the G20 to set a goal to reduce the labour force participation gap between men and women by 25 per cent by 2025 (for people aged 15-64 years). For Australia to meet this goal, the participation gap needs to be reduced by 3 percentage points (down from 12.1 percentage points to 9.1 percentage points) by 2025.
307. As a result of strong growth in female labour force participation between 2015 and 2017, over two thirds of the G20 goal has been met. January 2019 data (*ABS Labour Force*) shows a gender participation gap of 9.3 per cent for persons aged 15-64. Analysis provided by the OECD in 2017 indicates that most advanced G20 economies (including Australia) are currently on track to achieve the goal.

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

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

A.1 Defining low-paid employees using HILDA

3. Low-paid adult employees have been defined as employees aged 21 or older earning less than two-thirds of the median employee hourly earnings. Accordingly, adult employees with hourly earnings below \$19.53 have been classified as low-paid. To identify low-paid junior employees, the low-pay threshold derived from adult employees has been adjusted as detailed below.^{43 44}
4. In order to calculate the number of low-paid employees using the HILDA Survey the following approach has been taken:
 - limited the population to employees aged 15 years and over with positive hours of work and earnings
 - calculated hourly earnings for employees in their main job
 - deflated the earnings of casuals by 1.25 to reflect the casual loading
 - calculated the median earnings of adult employees (i.e. aged 21 years and over) at (\$29.30) and set the threshold for low-pay at two thirds of this amount (\$19.53)
 - adult employees with an hourly wage below \$19.53 have been classified as low-paid
 - low-pay thresholds for employees aged under 21 have been adjusted by the relevant junior minimum wage rate (from the National Minimum Wage Order) which is a percentage of the adult national minimum wage.⁴⁵ Table A.1 contains all low-pay thresholds used for juniors.

⁴³ The Government's analysis is not limited to adult low-paid employees, but also includes low-paid workers aged under 21 years. This is because younger employees are one of the main groups affected by Annual Wage Review decisions.

⁴⁴ The Government has adjusted the low-paid threshold for juniors because junior minimum wages are lower than adult minimum wages. This type of approach is not unique and has been taken in various academic reviews.

⁴⁵ Junior minimum wage rates (as a proportion of adult minimum wage rates) vary considerably across awards. The junior-adult minimum wage relativities in the National Minimum Wage Order are based on the Miscellaneous Award 2010.

Table A.1: Low pay thresholds, by age, 2017

	Percentage of NMW (%)	Low-paid threshold (\$)
Adult (21 years and over)	100.0	19.53
20 year old	97.7	19.08
19 year old	82.5	16.11
18 year old	68.3	13.34
17 year old	57.8	11.29
16 year old	47.3	9.24
15 year old	36.8	7.19

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

Example: The low-paid threshold for 15 year olds was set at \$7.19 which is the adult threshold of \$19.53 multiplied by 36.8 per cent (the special national minimum wage for 15 year olds is 36.8 per cent of the national minimum wage). Fifteen year olds paid less than \$7.19 per hour have been classified as low-paid.

A.2 Defining low-paid employees using EEH

5. Low-paid employees have been defined as employees earning less than two-thirds of the median employee hourly earnings. Accordingly, employees with hourly earnings below \$20.27 have been classified as low paid.
6. In order to calculate the number of low-paid employees using the EEH Survey the following approach has been taken:
 - limited the population to employees aged 15 years and over with positive hours of work and earnings
 - limited the population to non-managerial employees as managers have not normally reported on hours worked
 - calculated hourly ordinary time cash earnings for all non-managerial employees
 - deflated the earnings of casuals by 1.25 to reflect the casual loading
 - calculated the median hourly wage (\$30.40 per hour) and two thirds of this amount (\$20.27 per hour)
 - employees with an hourly wage below \$20.27 are classified as low paid
7. No adjustment has been made to the low-pay thresholds for juniors because the EEH Survey has not traditionally reported on the age of respondents.

A.3 Defining national minimum wage employees using EEH

8. National minimum employees have been defined as adult employees who are paid less than \$18.50 per hour. This excludes workers paid junior, apprentice and disability rates of pay.
9. The threshold of \$18.50 per hour is chosen to allow for a 21 cent margin of error above the National Minimum Wage rate of \$18.29 in May 2018.
10. In order to calculate the number of national minimum wage adult employees using the EEH Survey the following approach has been taken:

- limiting the population to non-managerial employees as managers have not normally reported on hours worked
- calculating hourly ordinary time cash earnings for all non-managerial employees
- deflating the earnings of casuals by 1.25 to reflect the casual loading

A.4 Characteristics of low-paid workers

Table A.2: Detailed characteristics of low-paid workers, 2017

	% of low-paid employees	% of higher paid employees	% of all employees	% of employees who are low paid
Gender				
Male	46.0	51.4	50.4	15.8
Female	54.0	48.6	49.6	18.9
Age				
Age 15-24	42.3	13.6	18.5	39.5
Age 25-34	24.7	25.1	25.0	17.2
Age 35-44	10.1	22.7	20.5	8.6
Age 45-54	11.0	21.9	20.0	9.5
Age 55-64	9.7	14.4	13.6	12.3
Age 65+	2.2	2.4	2.4	16.2
Marital status				
Single	59.5	37.0	40.9	25.2
Partnered	40.5	63.0	59.1	11.9
Age of youngest resident own child (a)				
No resident own child	71.3	52.5	55.8	22.2
0-5 years	10.0	16.2	15.1	11.4
6-11 years	6.2	9.8	9.2	11.8
12-17 years	4.9	9.1	8.3	10.1
18 years or more	7.7	12.4	11.6	11.5
Location				
Major city	73.8	76.8	76.3	16.8
Inner regional Australia	19.1	15.2	15.9	20.9
Outer regional Australia	6.3	6.9	6.8	16.2
Remote/very remote Australia	0.7	1.1	1.0	12.8
Long term health condition				
Present	18.9	15.9	16.4	20.0
Not present	81.0	84.1	83.6	16.8
Highest education attainment				
Degree or post Graduate	16.7	38.5	34.7	8.3
Certificate 3-4/Diploma	28.1	33.0	32.1	15.2
Year 12	31.2	15.3	18.1	30.0
Year 11 or below(b)	24.0	13.2	15.1	27.5
Years of work experience				
Less than 2 years	26.2	7.2	10.4	43.2
2-5 years	19.3	7.6	9.6	34.6
More than 5 years	54.4	85.3	80.0	11.7
Hours				
Full-time	48.6	71.5	67.5	12.5
Part-time	51.4	28.5	32.5	27.4
Contract type				
Casual	63.6	17.6	25.6	43.1
Permanent	36.4	82.3	74.4	8.5

	% of low-paid employees	% of higher paid employees	% of all employees	% of employees who are low paid
Business size				
Small (1-19 employees)	56.4	29.8	34.4	28.3
Medium (20-199 employees)	34.0	44.5	42.7	13.8
Large (200 plus employees)	9.6	25.8	23.0	7.2
Occupation				
Managers	5.0	12.9	11.5	7.5
Professionals	7.7	28.3	24.7	5.4
Technicians & trades workers	12.5	11.5	11.7	18.6
Community & personal service	20.5	12.7	14.0	25.3
Clerical & administrative	9.9	14.2	13.5	12.8
Sales workers	18.3	7.0	9.0	35.3
Machinery operators & drivers	7.9	6.4	6.6	20.6
Labourers	18.2	7.1	9.0	35.0
Industry				
Agriculture, forestry & fishing	3.8	0.6	1.2	55.3
Mining	0.2	2.2	1.8	1.8
Manufacturing	6.6	7.8	7.6	15.2
Electricity, gas, water & waste services	0.1	1.3	1.1	1.7
Construction	7.5	6.3	6.5	19.9
Wholesale trade	2.4	2.9	2.8	14.8
Retail trade	16.8	8.6	10.0	29.1
Accommodation & food services	17.7	5.1	7.3	41.9
Transport, postal & warehousing	5.1	5.3	5.2	16.8
Information media & telecommunications	2.0	1.8	1.8	19.3
Financial & insurance services	0.8	5.0	4.3	3.3
Rental, hiring & real estate services	2.2	1.2	1.4	27.2
Professional, scientific & technical services	2.8	7.0	6.3	7.7
Administrative & support services	4.3	2.2	2.6	29.3
Public administration & safety	1.6	7.1	6.2	4.4
Education & training	7.1	12.2	11.3	10.9
Health care & social assistance	12.0	18.5	17.3	12.0
Arts & recreation services	2.4	2.0	2.1	20.6
Other services	4.6	3.0	3.3	24.4

Source: Department of Jobs and Small Business analysis using the *HILDA* Survey, release 17 (December 2018), wave 17.

How to read: The first column of data shows the percentage of low-paid people with each characteristic. For example, using the gender data, the table shows that 46.0 per cent of low-paid workers are male. The last column shows the percentage of workers of a particular characteristic that are low-paid. For example, 15.8 per cent of male workers are low paid.

Note: (a) Excludes resident foster/step/grandchildren. (b) Includes certificate 1-2. Figures in the table may not add up due to rounding and non-response.

Appendix B: Modelling assumptions

B.1 Tax-transfer assumptions

- (i) All tax rates and transfers are as at 1 January 2019 [or latest available] unless stated otherwise.
- (ii) Families are assumed to have no private health insurance.
- (iii) Modelling includes Telephone Allowance where relevant.
- (iv) Modelling assumes the maximum rate of Rent Assistance where it is stated that the household is renting.⁴⁶
- (v) Families are assumed to not live in public housing or face shared care arrangements.
- (vi) People are assumed to be born after 1952 and hence partnered couples are assumed to not receive the Dependent Spouse Tax Offset. Modelling assumes all persons to be 35 years of age.⁴⁷
- (vii) Any lump sum payments are spread evenly over the period.⁴⁸
- (viii) Family Tax Benefit recipients do not receive the associated Energy Supplement.⁴⁹
- (ix) Disposable income is inclusive of gross child care fees for **Appendix C** tables.
- (x) Disposable income is inclusive of Child Care Subsidy (CCS)
- (xi) Annual payments are converted to weekly amounts using 52 as the divisor.
- (xii) Fortnightly payments are converted to weekly amounts by using 2 as the divisor.
- (xiii) Disposable income is exclusive of net gross rental costs for households that rent (i.e. gross rental costs are not deducted from the reported disposable income amount).
- (xiv) Transfer income in **Attachment C** tables does not include CCS.

B.2 Childcare assumptions

- (i) Childcare usage is assumed in data derived from **Appendix C** only. Childcare is not modelled for households when looking at changes in disposable household income.
- (ii) Hours of usage assumptions are listed in Table B.1. These are based on the hours of work of the second earner in a couple household.⁵⁰ Where only one member of a couple household works, it is assumed that the household does not require child care.
- (iii) Only Child Care Subsidy is modelled.⁵¹

⁴⁶ This is modelled by assuming a gross rental cost of \$500 per week. Since disposable income is exclusive of gross rental costs, this does not affect the reported disposable income amount to the extent that the chosen rental costs still yields the maximum rate of Rent Assistance. This means that rent assistance is also not modelled for the cameo Student – YA – away from home.

⁴⁷ Exception is Students on Youth Allowance, which assumes 22 years.

⁴⁸ For simulations involving earlier tax years (eg tables that reference 2014) the Income Support Bonus is modelled. The ISB amount for the year is calculated using the correct instalment amount of March 2014 (\$107.80 single rate, \$89.90 partnered rate).

⁴⁹ <https://www.humanservices.gov.au/individuals/services/centrelink/energy-supplement>

⁵⁰ Basing child care usage on hours of work is a method also used elsewhere in the literature (e.g. Immervoll and Barber 2006).

⁵¹ Some families may also be eligible to receive Additional Childcare Subsidy (ACCS) when they transition from unemployment to work. However, this is only available for a constrained time period and has been excluded from our analysis as it does not provide an indication of the 'typical' assistance available to minimum wage earners.

- (iv) Long day care and after school care costs are detailed in Table B.1. This is based on average child care fees for the March quarter 2018, indexed to the Consumer Price Index for childcare up to the December quarter 2018.⁵²
- (v) Net childcare costs (i.e., out of pocket costs) reported in Attachment C are calculated as gross child care costs less CCS.
- (vi) Childcare assumed to be used throughout the whole year (52 weeks of care).
- (vii) Wage and working hour assumptions are at Table B.2

Table B.1: Child care usage assumptions

Child age	Care type	Hours required per week (by labour force status of secondary earner)		Hourly childcare cost
		Full-time	Part-time	
0-4 years	Long Day Care	50	20	\$8.58
5-12 years	Outside School Hours Care (a)	15	6	\$6.50

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

⁵² This was the latest available data when the modelling was done. Child care fees vary between providers and this will affect individual experiences.

Appendix C: Modelling results

Table C.1: One unemployed member of the household accepts a job paying the NMW (\$18.93 per hour)

Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income
	Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	(% increase) (\$ pw)	(%)
Single without children –FT job at \$719.20 per week						
Adult - NSA	\$280	–	\$73	\$646	131.2% \$367	–
Adult renter - NSA	\$347	–	\$73	\$646	86.0% \$299	–
Single without children –PT job at \$283.95 per week						
Adult - NSA	\$280	\$148	–	\$431	54.3% \$152	34.3%
Adult renter – NSA	\$347	\$216	–	\$499	43.7% \$152	43.2%
Student – YA – away from home	\$231	\$196	\$5	\$475	105.4% \$244	41.3%
Student – YA – lives with parents	\$152	\$117	–	\$401	163.6% \$249	29.2%

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

– Zero or rounded to zero.

NSA – Newstart Allowance

PPP – Parenting Payment Partnered

FT – Full-time

NMW – National Minimum Wage

YA – Youth Allowance

PPS – Parenting Payment Single

PT – Part-time

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Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income
	Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	(% increase) (\$ pw)	(%)
<i>Couple – both unemployed, one finds a FT job at \$719.20 per week</i>						
No children - NSA	\$505	\$112	\$68	\$763	51.2% \$259	14.6%
With 1 child aged 3 years - PPP	\$667	\$302	\$61	\$960	43.9% \$293	31.5%
With 1 child aged 9 years – NSA	\$644	\$279	\$61	\$937	45.5% \$293	29.8%
With 2 children aged 3 and 9 years – PPP	\$773	\$408	\$59	\$1,069	38.2% \$296	38.2%
<i>Couple – both unemployed, one finds a PT job at \$283.95 per week</i>						
No children - NSA	\$505	\$373	–	\$657	30.2% \$152	56.8%
With 1 child aged 3 years - PPP	\$667	\$536	–	\$820	22.8% \$152	65.4%
With 1 child aged 9 years – NSA	\$644	\$512	–	\$796	23.7% \$152	64.3%
With 2 children aged 3 and 9 years – PPP	\$773	\$641	–	\$925	19.7% \$152	69.3%

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

– Zero or rounded to zero.

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Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	No Child Care			With Child Care		
				Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income	Net child care costs	Disposable income after finding job	Improvement in financial position
				Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	(% increase) (\$ pw)	(%)
<i>Lone parent –FT job at \$719.20 per week</i>									
With 1 child aged 3 years –PPS	\$586	\$336	\$87	\$969	65.3% \$383	34.7%	\$65	\$904	54.3% \$318
With 1 child aged 9 years – NSA	\$475	\$208	\$68	\$859	80.9% \$384	24.2%	\$15	\$844	77.8% \$370
With 2 children aged 3 and 9 years – PPS	\$692	\$447	\$89	\$1,078	55.7% \$386	41.5%	\$79	\$999	44.3% \$306
<i>Lone parent –PT job at \$283.95 per week</i>									
With 1 child aged 3 years – PPS	\$586	\$510	–	\$794	35.5% \$208	64.3%	\$26	\$769	31.1% \$182
With 1 child aged 9 years – NSA	\$475	\$382	\$1	\$665	40.1% \$191	57.4%	\$6	\$660	38.9% \$185
With 2 children aged 3 and 9 years – PPS	\$692	\$621	–	\$905	30.8% \$213	68.6%	\$32	\$873	26.2% \$181

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

– Zero or rounded to zero.

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Household Type	Income / payments before finding a job	Transfer payments after finding job	Tax & Medicare (deduction)	No Child Care			With Child Care		
				Disposable income after finding job	Improvement in financial position	Transfer payments as a proportion of disposable income	Net child care costs	Disposable income after finding job	Improvement in financial position
				Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	Amount (\$ pw)	(% increase) (\$ pw)	(%)
<i>Couple – one employed FT on the NMW, the other finds a FT job at \$719.20 per week</i>									
No children - NSA	\$763	–	\$146	\$1,292	69.3% \$529	–	Not applicable		
With 1 child aged 3 years - PPP	\$960	\$44	\$146	\$1,336	39.1% \$376	3.3%	\$76	\$1,261	31.3% \$300
With 1 child aged 9 years – NSA	\$937	\$44	\$146	\$1,336	42.6% \$399	3.3%	\$17	\$1,319	40.8% \$382
With 2 children aged 3 and 9 years – PPP	\$1,069	\$131	\$146	\$1,423	33.2% \$354	9.2%	\$93	\$1,331	24.5% \$262
<i>Couple – one employed FT on the NMW, the other finds a PT job at \$283.95 per week</i>									
No children - NSA	\$763	–	\$73	\$930	21.9% \$167	–	Not applicable		
With 1 child aged 3 years - PPP	\$960	\$156	\$73	\$1,086	13.1% \$125	14.3%	\$26	\$1,060	10.4% \$100
With 1 child aged 9 years – NSA	\$937	\$132	\$73	\$1,062	13.4% \$125	12.4%	\$6	\$1,056	12.8% \$120
With 2 children aged 3 and 9 years – PPP	\$1,069	\$261	\$69	\$1,196	11.9% \$127	21.9%	\$32	\$1,164	8.9% \$95

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

– Zero or rounded to zero.

