AUSTRALIAN BUSINESS INDUSTRIAL

ANNUAL WAGE REVIEW 2019-20

SUBMISSIONS OF AUSTRALIAN BUSINESS INDUSTRIAL AND BUSINESS NSW (NSW BUSINESS CHAMBER Ltd)

13 March 2020

About ABI and Business NSW (NSW Business Chamber Ltd)

Australian Business Industrial (ABI) is registered under the *Fair Work (Registered Organisations) Act 2009* and has some 4,200 members and the NSW Business Chamber Ltd (trading as Business NSW) is registered under the (NSW) *Industrial Relations Act 1996* and is a State registered association recognised pursuant to Schedule 2 of the *Fair Work (Registered Organisations) Act 2009.* Business NSW has some 20,000 members.

ABI comprises those Business NSW members who specifically seek membership of a federally registered organisation.

These submissions have been approved by the Council of ABI on behalf of its members and endorsed by the workplace policy committee of Business NSW.

Contact:

Mark Frost
Chief Economist, Business NSW
mark.frost@businessnsw.com +612 9458 7259

Thian Thiumsak
Policy Analyst, Business NSW
Thian.thiumsak@businessnsw.com +612 9458 7493

Introduction

Under the *Fair Work Act 2009* (Act) the Fair Work Commission (FWC), constituted by an expert panel (Panel), must undertake an annual wage review (AWR) each financial year. ABI and Business NSW (collectively referred to as ABI) appreciate the opportunity to make a submission to the 2019-20 AWR.

The Panel has, as its statutory function, the review of modern award minimum wages, which may or may not lead to their variation, and the national minimum wage order (NMWO). The review must give rise to a new NMWO, and the Panel must take account of the rate of the national minimum wage (NMW) it proposes to set in the NMWO in any determination to vary (or set or revoke) modern award minimum wages.

The Act requires the Panel to weigh up the trade-offs presented by the inherent tensions in the statutory factors that it must take into account. ABI considers that recent increases, including those awarded as part of the in 2016-17, 2017-18, and 2018-19 AWRs of 3.3 per cent, 3.5 per cent, and 3.0 per cent respectively, were beyond the magnitude of what could be viewed as modest, and that they sub-optimally balanced the statutory considerations.

There are significant uncertainties associated with the likely and potential impacts of COVID-19. For this reason ABI does not, at this time, make a submission as to what is an appropriate percentage increase to the NMW. ABI intends to provide a recommended percentage increase prior to the final round of post-Budget submissions. To be clear, the absence of a recommended percentage increase is not to be taken as a recommendation for a zero per cent increase.

Even before the anticipated impacts of COVID-19, ABI maintains there is a need for a more cautious approach than was taken in the 2016-17, 2017-18, and 2018-19 AWR decisions. The need for a cautious approach is heightened due to the cumulative impact of successive minimum wage increases which have been well in excess of broader wages growth. This has exacerbated vulnerabilities of certain cohorts in the labour force in these uncertain times, especially where unit labour costs for vulnerable groups have increased relative to others.

Australian economy has underperformed compared to expectations and has less capacity to absorb minimum wage increases without cost. Revised estimates of full employment suggest there remains significant spare capacity in the labour market which needs to be absorbed before the labour market contributes more significantly to inflationary pressures or wages growth. COVID-19 will create additional risks for employment and the economy.

ABI contends that significant increases in real minimum wages, particularly where they rise much faster than broader wages growth or improvements in productivity, will almost certainly contribute to reduced demand for the labour of impacted workers.

ABI encourages extreme care due to weaker economic conditions and a particularly uncertain economic outlook, with the Australian economy facing significant downside risks.

Guide to this submission

This submission is divided into three parts. Part I examines the contemporary economic context of the 2019-20 AWR decision, Part II will examine the relevant empirical evidence, potential impact of minimum wage increases, and Part III contains the specific recommendations of this submission.

Note on terminology

This submission refers to a change to the 'minimum wage', 'minimum wages' or the NMW in the context of what the Panel might consider with respect to both the NMW and modern award minimum wages. That is, any reference should be viewed as referring to the totality of implications associated with changes to modern award minimum wages and other wages impacted by the AWR decision.

Relatedly, this submission often refers to the award-reliant workforce (or workers). This concept is applied broadly to refer to members of the labour force (both employed and unemployed) whose wages are affected, either directly or indirectly, or whose employment prospects are influenced by AWR decisions.

Impact of COVID-19

The impacts of COVID-19 are ongoing, evolving and not yet fully understood.

COVID-19 will have significant ramifications for the 2019-20 AWR decision given it represents a significant economic shock to the Australian economy. It poses significant risks to many parts of the economy, including employment.

It is also a challenge to foreshadow the impact of COVID-19 to the year ending June 2020 or for the subsequent year ahead. Given the AWR decision is some months away it is somewhat difficult to provide a meaningful assessment at this time. ABI notes a one-week extension was provided to the initial 13 March submission deadline, however this will provide insufficient opportunity to observe and anticipate the full ramifications of COVID-19.

While ABI intends to recommend a specific percentage increase to the NMW, there is insufficient visibility on the full range of potential economic impacts to make a specific recommendation at this time. It is currently ABI's intention to submit a specific recommendation prior to the due date for post-Budget submissions (currently due 15 May 2020). To be clear, the absence of a recommended percentage increase is not to be taken as a recommendation for a zero per cent increase.

ABI has prepared a submission, based on available data, for the purposes of preparing a submission at this time. Much of this data covers a period unaffected by COVID-19. For this reason, there is significant potential for the analysis and conclusions of this submission to overtaken by events.

Feedback from Business NSW members

Locally, Business NSW has heard of some very significant impacts, with anecdotal feedback suggesting some parts of Sydney have experienced revenue impacts of 30-80 per cent depending on their exposure to overseas visitor arrivals (particularly from China). More generally, many commercial centres has suffered, with many domestic consumers avoiding certain areas due to perceptions and fear.

Travel bans have had very significant impacts for tourism operators. On the other hand, travel bans may be underpinning confidence for domestic consumers. On top of tourism impacts, many employers have now placed very tight restrictions on corporate travel which is having business impacts for suppliers and disrupting engagement and exploration of commercial opportunities (including two-way investment).

COVID-19 was not anticipated and many business are now unprepared. In many cases there is insufficient flexibility to pivot operations or supplier relationships to maintain business as usual. Alternative export markets take a prohibitively long lead-time to develop while domestic operators that sit within supply chains relying on inputs from Asia have also been affected.

Some businesses can absorb the impacts for a limited time but will need to make more substantial adjustments if current impediments persist.

There are reports the Chinese customs authorities have been prioritising essential goods and services and that this, combined with the extended Chinese New Year shut down, has created some confusion and/or delays for exporters. Chinese demand for non-essentials (such as wine) has been severely impacted.

Business NSW continues to gather intelligence as events unfold.

Part I — Economic context

Economic conditions are relevant to the AWR process due to the statutory considerations that must be taken into account by the Panel.

The economic context is relevant in a number of key ways. When considering whether to vary (set or revoke) minimum award wages the economic factors to be taken into account are those referenced under the minimum wages objective, the modern awards objective and the general matters prescribed under the object of the Act. To summarise, the Panel must take into account the performance and competitiveness of the national economy and the likely impact of any exercise of modern award powers on business, while the broader objects of the Act include the promotion of productivity and economic growth for Australia's future economic prosperity.

Similarly, social factors are also referenced under the minimum wages objective, the modern awards objective and the objects of the Act. This includes, but is not limited to, taking into account the relative living standards and the needs of the low paid. The need to encourage enterprise-level collective bargaining is also accommodated under the statutory framework provided for by the Act. Each of these considerations is affected by or underpinned by economic circumstances existing within the entire economy or those that impact on particular sub groups or cohorts of the labour force. The need to examine economic conditions is therefore both an explicit and implicit requirement borne out of the statutory framework.

Recent economic data reveals that the economy has continued to perform weaker than anticipated. Household demand remains weak, and dwelling investment growth continues to fall. At the same time, there is significant uncertainty in the economic outlook. Prolonged drought, bushfires and the COVID-19[1] outbreak are having a significant negative impact on momentum and could plausibly result in negative growth for some part of 2020.

The labour market has not performed as robust as initially forecast by Australia's economic agencies.[2] The growth in average hours worked and full-time employment has fallen and spare capacity remains in the labour market. Recent estimates of the non-accelerating inflation rate of unemployment (NAIRU)[3] suggest the labour market needs to strengthen further before there is any upward pressure on inflation and wages growth. Downward revisions of estimates for the NAIRU is a paradigm shift that many major economies are experiencing, and Australia is part of this broader phenomenon which is not yet fully understood. Increasing labour force participation in response to increased labour demand appears to be part of the story.

Moderating labour market conditions and the persistence of spare capacity in the labour market will have concentrated impacts on the employment prospects of particular subgroups.

---

[1] Please refer to above section qualifying how this submission treats the impact of COVID-19.

[2] Including the RBA and Treasury.

[3] Arsov, I. and Watson, B. (2019), Potential growth in advanced economies. Reserve Bank of Australia bulletin 2019, accessible at: https://www.rba.gov.au/publications/bulletin/2019/dec/pdf/potential-growth-in-advanced-economies.pdf.

These include the unemployed seeking entry-level positions, younger workers, and those in regional areas. Many of these subgroups overlap with the award-reliant workforce and are therefore highly exposed to minimum wage policy.

The macroeconomic environment and economic outlook

Table 1: Key macroeconomic indicators

Indicator	2018-19 AWR	Contemporary
GDP growth (tty) December quarter 2018 / December quarter 2019	2.3 per cent	2.2 per cent
GDP growth forecast (RBA) year ending June 2020 / year ending June 2021	2¾ per cent	3 per cent
GDP growth forecast (Treasury) year ending June 2020 / year ending June 2021	3 per cent	2¾ per cent
GDP per hour worked (%chg, tty) December quarter 2018 / December quarter 2019	0.8 per cent	0.4 per cent
GVA per hour worked – market sector (%chg, tty) December quarter 2018 / December quarter 2019	0.7 per cent	0.2 per cent
real unit labour costs (%chg, tty) December quarter 2018 / December quarter 2019	-1.0 per cent	0.9 per cent
business-related bankruptcies year ending December 2018 / year ending December 2019	4,295	3,815
wages share of total factor income December quarter 2018 / December quarter 2019	52.2 per cent	52.5 per cent
profits share of total factor income December quarter 2018 / December quarter 2019	28.5 per cent	28.9 per cent
real net national disposable income (%chg, tty) December quarter 2018 / December quarter 2019	3.7 per cent	2.7 per cent
real net national disposable income per capita (%chg, tty) December quarter 2018 / December quarter 2019	2.1 per cent	1.2 per cent
headline CPI (%chg, tty) March quarter 2019 / December quarter 2019	1.3 per cent	1.8 per cent
headline CPI forecast (RBA) year ending June 2020 / year ending June 2021	2 per cent	1¾ per cent
underlying inflation March quarter 2019 / December quarter 2019	1.5 per cent	1.5 per cent
underlying inflation forecast (RBA) year ending June 2020 / year ending June 2021	2 per cent	1¾ per cent (Trimmed mean)

Source: ABS, ASFA, Treasury and RBA.

Notes: Data listed under the column "2018-19 AWR" references the latest data that was available at the time of the 2018-19 decision and does not include subsequent revisions. Seasonally adjusted used where available.

The Australian economy was well below potential in 2019 and expanded well below official forecasts in the first three quarters. GDP grew by 2.2 per cent over the year in the December quarter with some indicators suggestive of a modest turning point. Subsequent shocks, including bushfires and ongoing COVID-19 outbreaks, are likely to dramatically reverse this momentum into 2020. Overall, GDP in 2019 was 1.8 per cent higher than in 2018, continuing to fall short of the estimated range of potential rate between 2½ - 3¾ per cent[4] and the slowest pace of growth since 1991.

[4] Lancaster, D. and Tulip, P. (2015), *Okun's law and potential output*. RBA Research Discussion Paper No. 2015-14, accessible at: https://www.rba.gov.au/publications/rdp/2015/pdf/rdp2015-14.pdf.

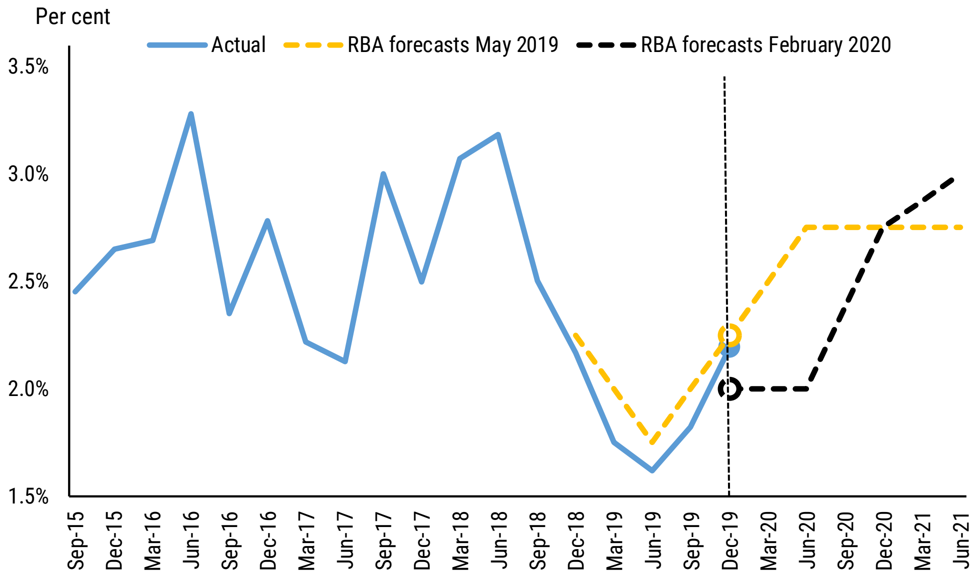
While the Australian economy continues to be supported by low interest rates and a low Australian dollar, several areas of weakness have remained, including negative growth in dwelling investment and slower growth in household demand. On the other hand, the economy continues to be supported by strong public demand, with government investment picking up strongly in the last quarter through expanding government infrastructure outlays.

Economic outlook

COVID-19 represents a very significant risk to the economic outlook. Even if effective containment strategies can be implemented, it is very likely those strategies will be accompanied with significant economic costs such as impacts to supply chains and reduced productive capacity. The severity and length of impacts on the Australian economy are highly uncertain as this event is still evolving. So far it appears there have been concentrated economic impacts in a number of award-reliant and related industries, including retail trade, accommodation and food services, and education and training. Economic impacts are likely to broaden across the economy as the impacts of COVID-19 deepen.

There has continued to be significant downward revisions to official economic forecasts, including those outlined in the Reserve Bank of Australia's (RBA) recent Statement on Monetary Policy in February 2020 (Chart 1 refers). The economy performed weaker in 2019 than had been expected at the time of the May 2019 Statement (which contained the RBA's most up to date forecasts at the time of the 2018-19 AWR decision). Meanwhile, the RBA continues to make significant downward revisions with growth forecasts falling from 2¾ per cent for year-ended June 2020 (in the May 2019 statement) to 2 per cent (in the February 2020 statement).

Chart 1: Revisions to the economic outlook (RBA)



Source: ABS, RBA Statement of Monetary Policy (May 2019 and February 2020).

Although the December quarter 2019 GDP figures are consistent with the RBA's earlier anticipation of the economy moving toward a 'gentle turning point', recent impacts from bushfires and ongoing COVID-19 outbreaks are likely to have a significant impact on momentum.

Employment and the labour market

Although the labour market remains stable, employment growth is lower than a year earlier while the unemployment rate has increased to 5.3 per cent in seasonally adjusted terms (Chart 2 refers). Employment growth moderated to 1.9 per cent in the 12 months to January 2020, the slowest pace since April 2017. Labour force participation remains stable at relatively high levels. The RBA's February 2020 Statement on Monetary Policy acknowledged that spare capacity continues to exist in the labour market with the unemployment rate above full employment estimates. This suggests the labour market has the capacity to absorb additional labour demand prior to the emergence of upward pressure on wages and price inflation.

Table 2: Labour market indicators

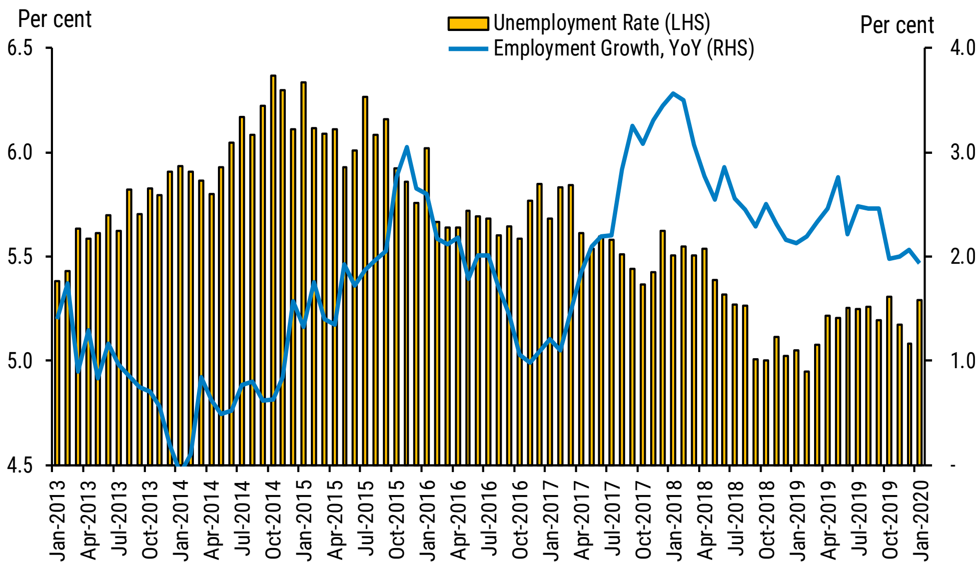
Indicator	2019 Decision	Contemporary
Employment growth (%chg, tty) April 2019/January 2020	2.5 per cent	1.9 per cent
Employment growth – full-time (%chg, tty) April 2019/January 2020	2.7 per cent	1.6 per cent
Employment growth – part-time (%chg, tty) April 2019/January 2020	1.9 per cent	2.6 per cent
Growth in hours worked (%chg, tty) April 2019/January 2020	1.5 per cent	0.9 per cent
Unemployment rate April 2019/January 2020	5.2 per cent	5.3 per cent
Participation rate April 2019/January 2020	65.9 per cent	66.1 per cent
Youth unemployment rate April 2019/January 2020	11.9 per cent	12.1 per cent
Youth employment growth (%chg, tty) April 2019/January 2020	2.0 per cent	0.8 per cent
Youth employment growth – full-time (%chg, tty) April 2019/January 2020	2.0 per cent	-2.6 per cent
Youth employment growth – part-time (%chg, tty) April 2019/January 2020	2.1 per cent	3.6 per cent
Long-term unemployment ratio April 2019/January 2020	23.7 per cent	25.8 per cent
Average weekly ordinary time earnings (full-time) November 2018/November 2019	2.3 per cent	3.3 per cent
Wage price index (private sector) (%chg, tty) March 2019/December 2019	2.4 per cent	2.2 per cent

Source: ABS.

Notes: Data listed under the column "2019 decision" references data that was available at the time of the 2018-19 decision and does not include any subsequent revisions. Seasonally adjusted figures used where available.

Recent research by the RBA[5] suggests that increasing participation rates for females and older workers has boosted potential employment across advanced economies. However, this same period has seen stronger growth in part-time jobs relative to full-time positions (Chart 3 refers). This in part reflects the changing needs of labour market participants. Average hours worked per week has declined in Australia as it has across many countries.[6] While average hours declined overall, this was reflected in a fall in average monthly hours for full-time workers with average monthly hours increasing for part-time workers (Chart 4 refers).

Chart 2: Unemployment rate and employment growth



Source: ABS, *Labour Force, Australia*, *Feb 2020*, Catalogue No. 6202.0 Table 1.

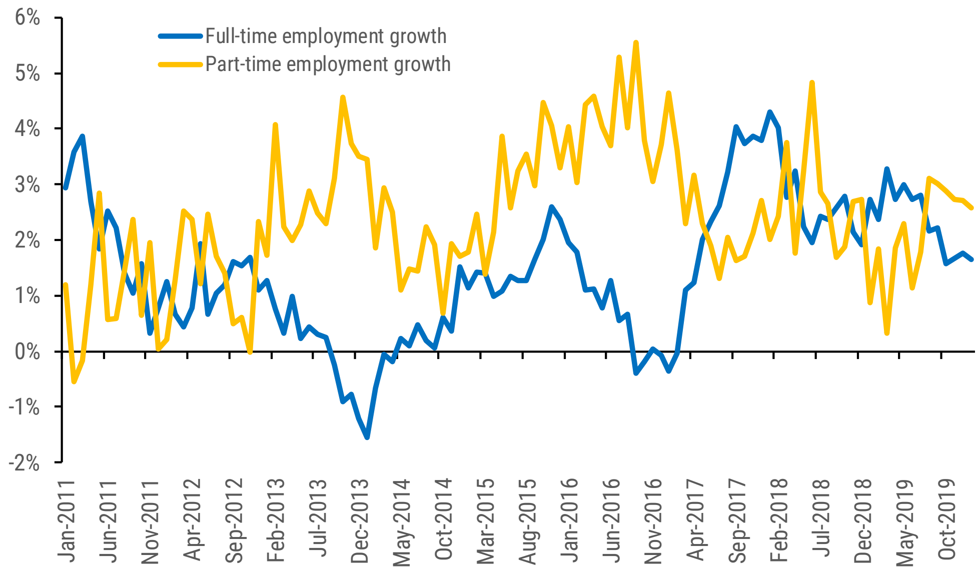
Falls in average hours worked and weaker employment growth is symptomatic of a weaker labour market for full-time workers. Maintaining robust opportunities for full-time workers is essential to reaching our economic potential by maximising economic output, household income and upskilling opportunities. Given the growth in part-time work, overall labour market conditions are not as robust as overall employment growth suggests.

---

[5] Arsov, I. and Watson, B. (2019), *Potential growth in advanced economies*. Reserve Bank of Australia bulletin 2019, accessible at: https://www.rba.gov.au/publications/bulletin/2019/dec/pdf/potential-growth-in-advanced-economies.pdf.

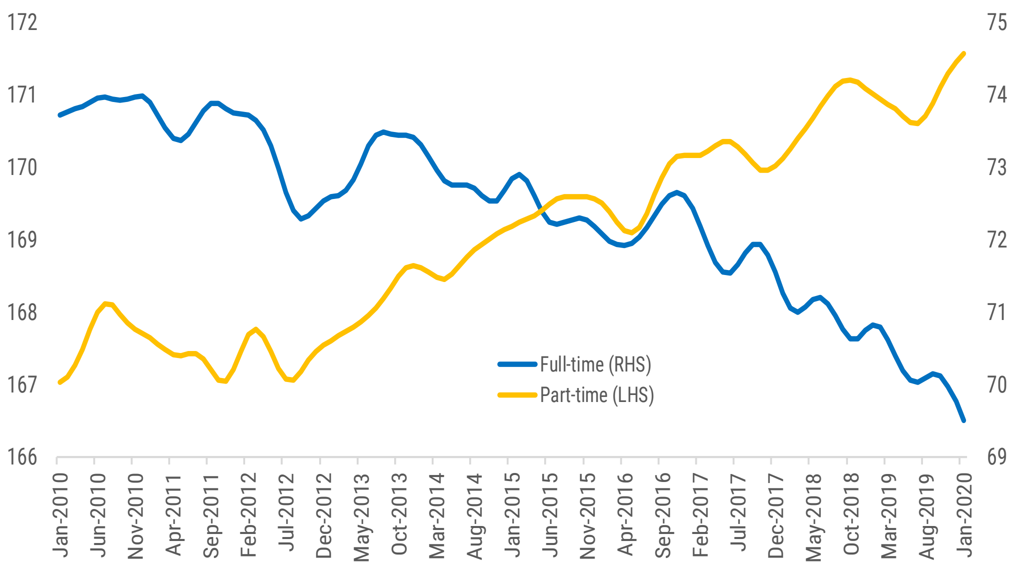
[6] Please refers to graph 8 in Arsov and Watson 2019.

Chart 3: Full-time and part-time employment growth



Source: ABS, *Labour Force, Australia*, *Feb 2020*, Catalogue No. 6202.0 Table 1.

Chart 4: Average monthly hours worked per person employed



Source: ABS, *Labour Force, Australia*, *Feb 2020*, Catalogue No. 6202.0 Table 19.
Notes: The data are expressed in trend terms.

A more extended period of strong employment growth, particularly for full-time positions, is needed before spare capacity can be fully absorbed (that is, to reach full employment).

Eventually, stronger employment growth could be expected to lead to upward pressures on inflation and wage growth. So far the data suggests wages and price pressures are yet to emerge.

An implication of there being some distance between current labour market conditions and full employment is that additional caution in minimum wage setting may be warranted. Minimum wage increases that are too large may stunt our trajectory toward full employment.

Recent research shows that modest and regular minimum wage increases cannot be directly observed as having significant adverse impacts on employment overall. However, ABI argues that higher minimum wage increases may unevenly pose a negative impact across different subgroups of the economy depending on their current economic situation and degree of exposure to minimum wage-setting. Highly vulnerable groups includes award-reliant industries, younger workers (who account for over 42.3 per cent of low-paid workers)[7], and regional areas with a larger number of small and medium enterprises (SMEs). These subgroups have relatively weaker labour market conditions than the overall economy and are more vulnerable than other cohorts.

Average full-time employment growth over the past three years (2017 to present, which coincided with a period of relatively high increases to the minimum wage) for the award-reliant industries[8] has been much lower than growth in full-time employment overall (Table 3 refers). These industries have exhibited relatively robust growth in part-time jobs suggesting a more aggressive rebalancing toward part-time work.

Table 3: Average employment of award-reliant industries from 2017 - 2019

Industry	Full-time	Part-time
Manufacturing	-0.5 per cent	-0.7 per cent
Retail trade	0.5 per cent	1.1 per cent
Accommodation and food services	2.1 per cent	3.1 per cent
Rental, hiring and real estate services	0.2 per cent	-0.7 per cent
Administrative and support services	1.0 per cent	2.5 per cent
Health care and social assistance	3.2 per cent	4.6 per cent
Arts and recreation services	2.4 per cent	6.7 per cent
Other services	2.9 per cent	3.4 per cent
Award-reliant Industries	1.3 per cent	2.7 per cent
Overall industries	2.4 per cent	2.6 per cent

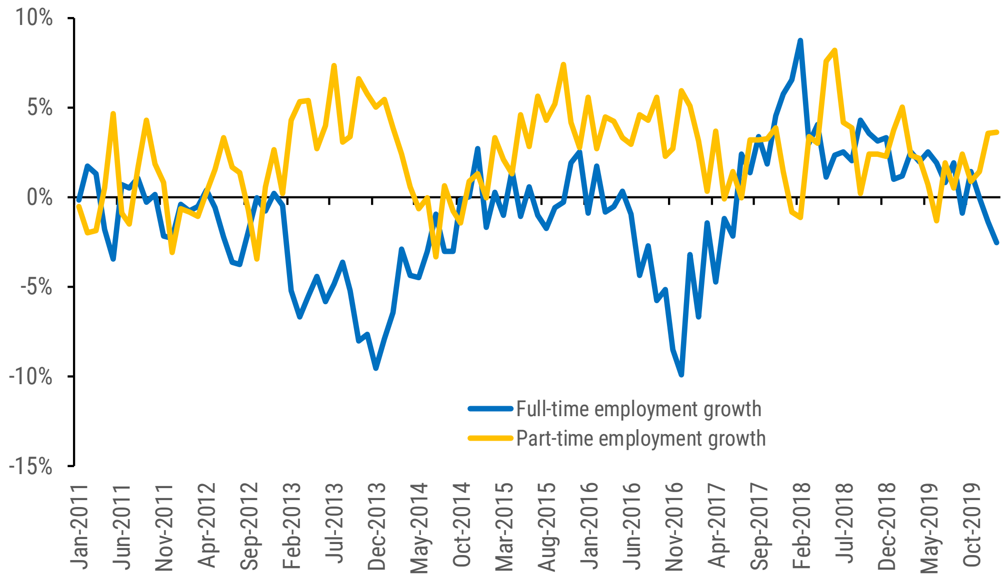
Source: ABS, *Labour Force, Australia*, *Feb 2020*, Catalogue No. 6291.0.55.003 Table 11.
Notes: Award-reliant industries are industries with at least 20 per cent of employees paid exactly at the award rate in 2018, which the figures are taken from table 7.1 in statistical report – Annual Wage Review 2019-20.

Employment growth has been slower or even negative for some of the more vulnerable cohorts of the labour market. While overall full-time employment grew over the past year, full-time employment for youth contracted by 2.6 per cent (Chart 5 refers). From a regional perspective, average full-time employment growth for regional areas since 2017 was below

[7] Para 208, [2019] FWCFB 3500.
[8] Award-reliant industries are defined here as the industries with at least 20 per cent of employees paid exactly at the award rate in 2018.

that of the rest of the country (Table 4 refers). Employment growth was strongest in NSW, Victoria and Queensland with the smaller states and territories experiencing weak or negative growth over this period.

Chart 5: Youth full-time and part-time employment growth



Source: ABS, *Labour Force, Australia*, *Feb 2020*, Catalogue No. 6202.0 Table 13.

Table 4: Average employment of regional areas from 2017 - 2019

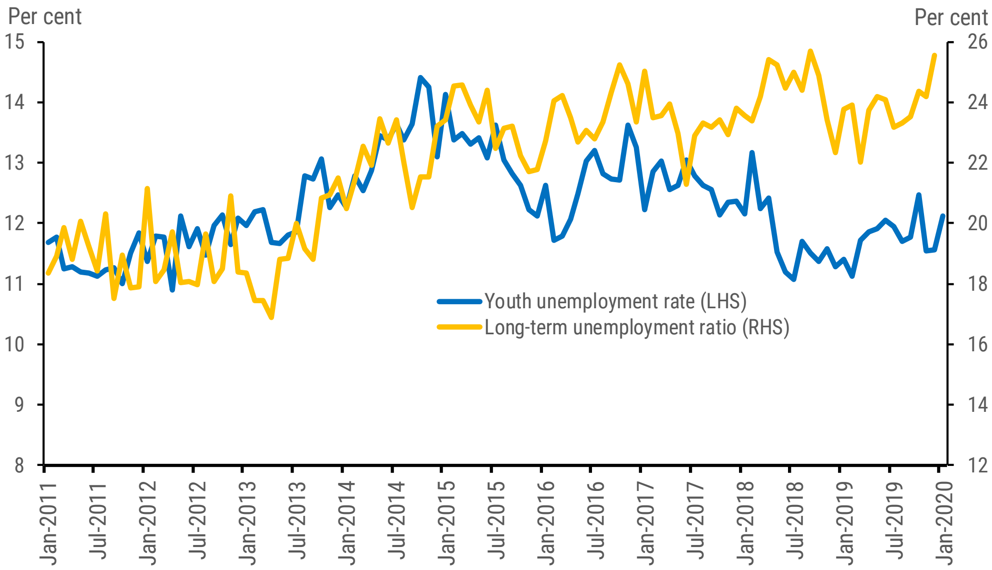
Jurisdiction	Full-time	Part-time
New South Wales	2.3 per cent	0.8 per cent
Victoria	1.6 per cent	-0.3 per cent
Queensland	2.5 per cent	2.6 per cent
South Australia	0.6 per cent	3.0 per cent
West Australia	0.7 per cent	1.4 per cent
Tasmania	0.4 per cent	2.0 per cent
Northern Territory	-0.5 per cent	2.9 per cent
Total regional areas	1.9 per cent	1.2 per cent
All states and territories	2.4 per cent	2.6 per cent

Source: ABS, *Labour Force, Australia*, *Feb 2020*, Catalogue No. 6291.0.55.001 RM 11.

Youth unemployment continues to be a significant concern in many parts of Australia. In some regions, one in four workers aged 15-24 is actively looking for work while the youth unemployment rate is 12.1 per cent Australia-wide (Chart 6 refers). The youth unemployment rate is not alarmingly high relative to historical standards, however it is still more than twice that of the rest of the country. Youth unemployment is high in South Australia (14.3 per cent), Western Australia (14.3 per cent) and Tasmania (13.7 per cent).

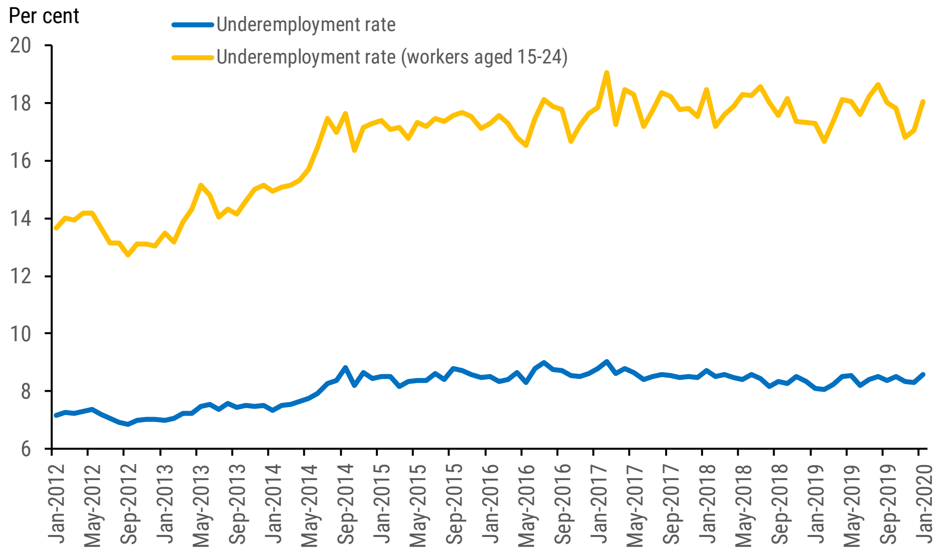
ABI notes that the underemployment rate has remains at elevated levels. While the underemployment rate of other age groups has remained stable at around 8 per cent, the figure is more than double for younger workers (Chart 7 refers). From an industry perspective, most of the award-reliant industries have an underemployment rate that is far above the overall level (Chart 8 refers). The long-term unemployment ratio has also continued to increase over the past year (Chart 6 refers). Over 2019, around a quarter of those looking for work have been unemployed for a year or more.

Chart 6: Long-term unemployment and youth unemployment



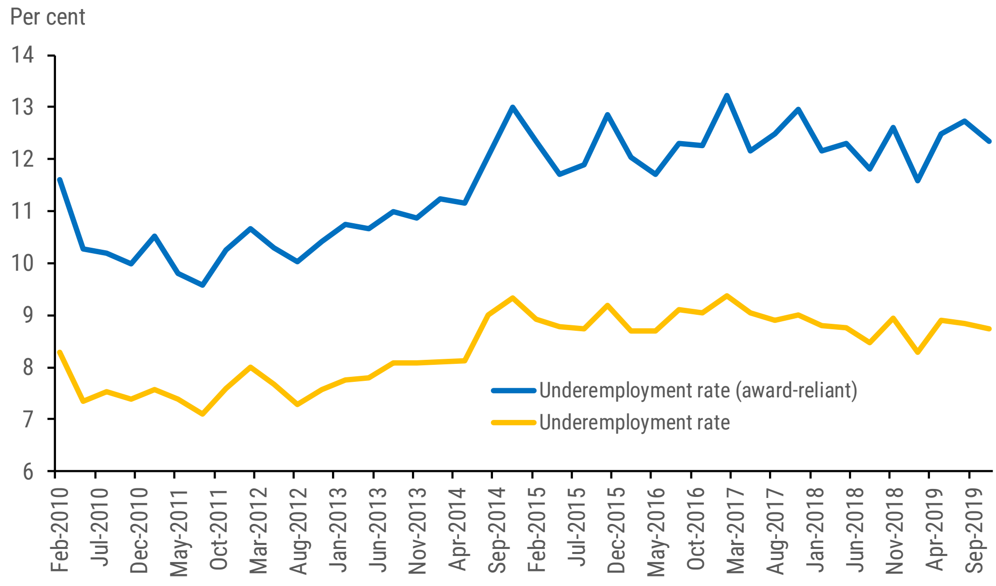
Source: ABS.

Chart 7: Youth underemployment



Source: ABS, *Labour Force, Australia*, *Feb 2020*, Catalogue No. 6202 Table 12.
Notes: The underemployment ratio is calculated by using the proportion of labour force.

Chart 8: Award-reliant underemployment



Source: ABS, *Labour Force, Australia*, *Feb 2020*, Catalogue No. 6291.0.55.003 Table 19
Notes: The award-reliant industries are industry with at least 20 per cent of employees paid exactly at the award rate in 2018, which the figures are taken from table 7.1 in statistical report – Annual Wage Review 2019-20. The underemployment ratio is calculated by using the proportion of employed

As summarised above, overall labour market conditions have moderated and are not as robust as expected. There remains significant spare capacity in the labour market. Between 2017 and 2019, workers in the award-reliant industries, younger workers and workers in regional areas have experienced weaker conditions than other cohorts. This has coincided with a series of successive minimum wage increases of 3 per cent or above. Notwithstanding difficulties associated with observing disemployment effects, ABI maintains that there is insufficient basis to conclude that vulnerable workers have been unaffected by those increases.

The contemporary data — even before the impact of COVID-19 and the bushfires — warrants a more cautious approach than has been taken in earlier years.

Inflation and wages growth

Prices, including consumer prices and employee wages, have continued to grow at a much slower pace than in other periods.

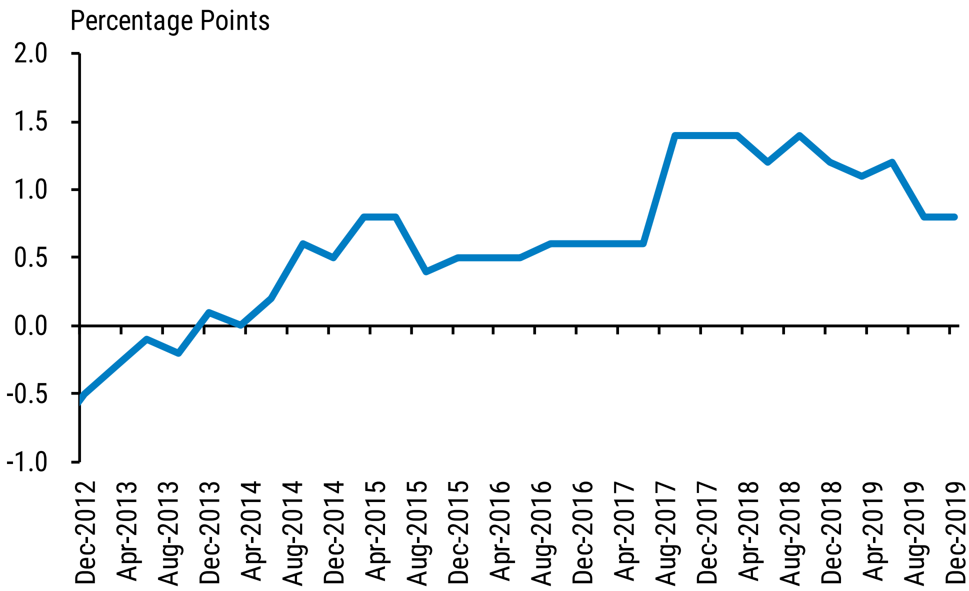
As noted above, research by the RBA[9] shows that most developed countries including the US, UK, Japan, Eurozone, and Canada have significantly revised down their estimates of NAIRU in 2019, in part because the reductions in unemployment rates have not been accompanied by as much inflation as might otherwise be anticipated. This shift is consistent with RBA's recent statement that inflation will not return to within the range of the RBA's inflation target until December 2021. Wages growth is expected to continue at around its current pace over the forecast period.

Downward revisions to the NAIRU suggest current economic fundamentals are not where they need to be to be supportive of increasing wages and pricing pressures. Demand conditions may need to improve before wages growth and consumer prices begin to accelerate. Until this time, award-reliant workers are likely to maintain their relative and absolute standard of living when compared to other worker cohorts. Weak inflationary pressures emerging due to a low demand environment should not be interpreted as supporting higher minimum wage increases. Instead, the underlying cause of a weak inflationary environment should caution against higher minimum wage increases.

It can be observed that over recent years the NMW has continued to increase at a faster pace than both the Consumer Price Index (CPI) and measures of wages growth (Chart 9 refers). The NMW is more than 35 per cent higher than in December 2009, whereas the CPI is only 22 per cent higher and the Wage Price Index (WPI) 29 per cent higher (Chart 10 refers).

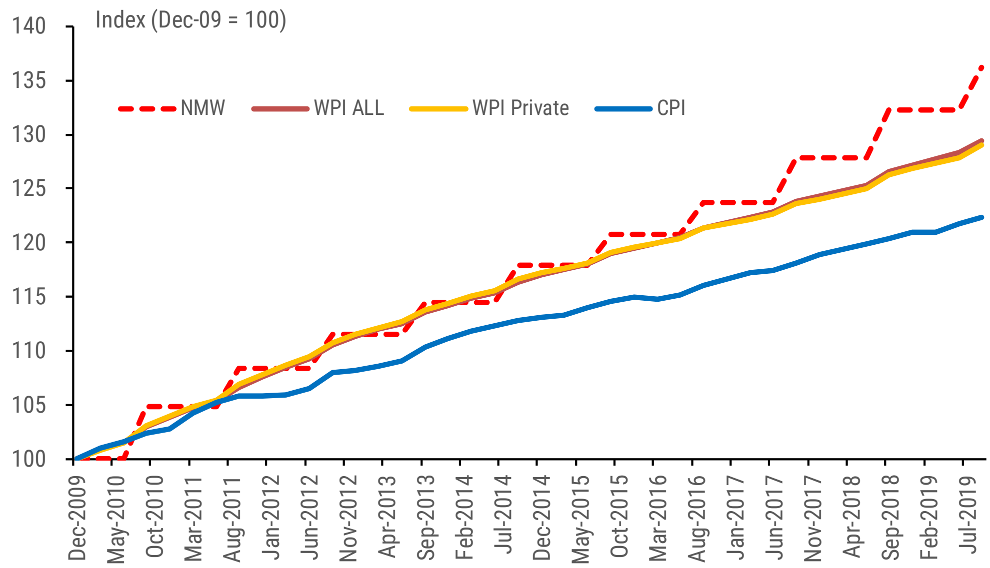
[9] Arsov, I. and Watson, B. (2019), *Potential growth in advanced economies*. Reserve Bank of Australia bulletin 2019, accessible at: https://www.rba.gov.au/publications/bulletin/2019/dec/pdf/potential-growth-in-advanced-economies.pdf.

Chart 9: Difference between growth in the WPI and the NMW



Source: ABS, *Wage Price Index*, *Australia*, *Feb 2020*, Catalogue No. 6345 Table 5b.

Chart 10: WPI growth since December 2009



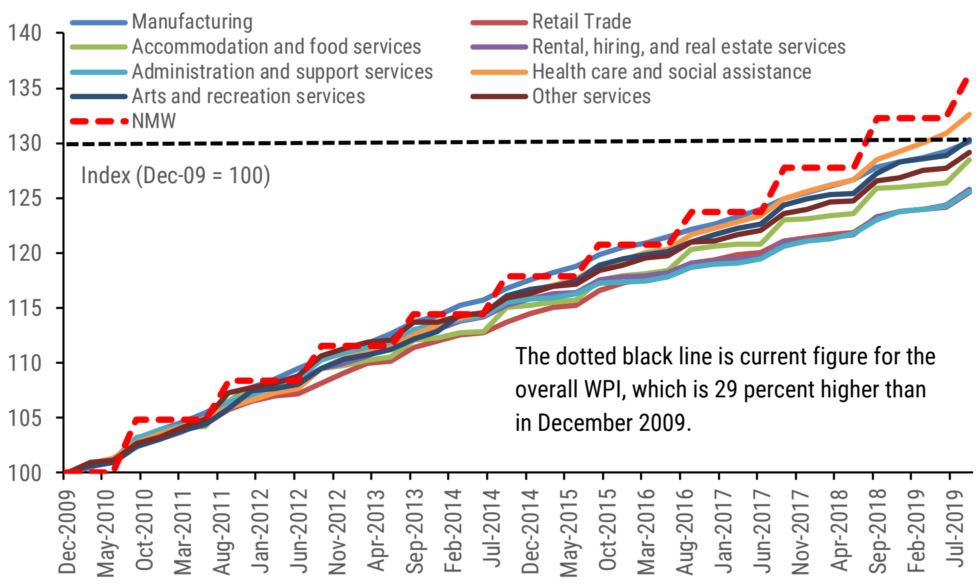
Source: (1) ABS, *Wage Price Index*, *Australia*, *Feb 2020*, Catalogue No. 6345 Table 5b and (2) ABS, *Consumer Price Index, Australia*, *Feb 2020*, Catalogue No. 6401 Table 1.

ABI maintains there is less scope for firms to leverage price increases to fund wages growth in a low inflationary environment. Instead, firms must absorb labour costs that increase at a faster pace than inflation leading to negative consequences for labour demand, business competitiveness/viability, and employment growth. With inflation currently below the RBA's target of between 2-3 per cent, there is less scope for price adjustments to support firms' adjustment to a new cost structure.

The NMW has increased at a faster pace than broader wages growth at the same time as there have been few underlying wage pressures in the most award-reliant industries. When considering wages growth by industry, the WPI in most of the award-reliant industries increased at a slower pace than the overall WPI (Chart 11 refers). Most of the industries are in the range of 26 to 30 per cent higher than December 2009. Overall, Average Weekly Ordinary Time Earnings (AWOTE) has also increased at a faster pace than the equivalent series for most of the award-reliant industries (Chart 12 refers).

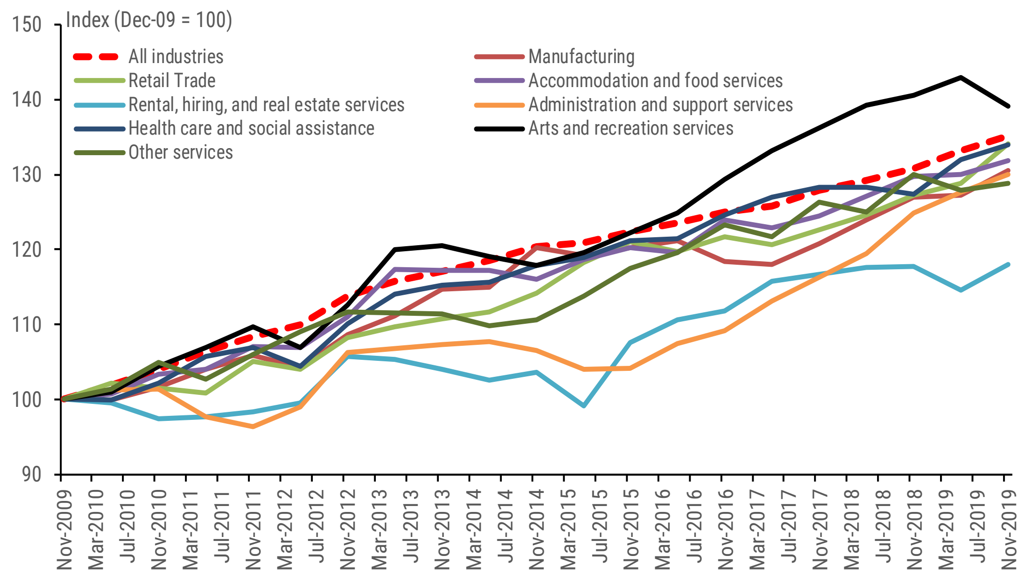
This suggests that award-reliant workers in these industries have seen much faster growth in wages than workers in these same industries that are not award-reliant. This exacerbates the risk that employers will shift the compositions of jobs in their workforce away from award-reliant positions. This may affect the opportunities of vulnerable cohorts of the labour force that depend on these positions. From age group perspective, this also impact on the employment opportunities for younger workers given they make up almost half of award-reliant employees.

Chart 11: WPI growth for award-reliant industries since December 2009



Source: ABS, *Wage Price Index, Australia*, *Feb 2020*, Catalogue No. 6345 Table 5b.

Chart 12: AWOTE growth: by industry (since December 2009)



Source: ABS, *Average Weekly Earnings, Australia*, *Feb 2020*, Catalogue No. 6302 Table 10G.

Productivity growth

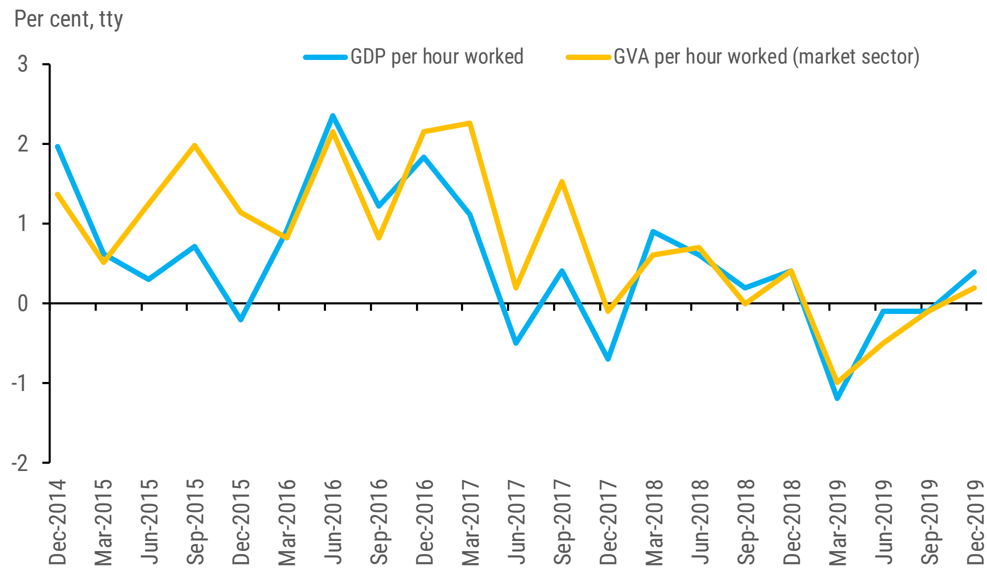
Any real minimum wage increase beyond productivity gains contributed by award-reliant employees will increase labour costs and have broader consequences for firms, labour demand, and economic competitiveness.

Real wage increases that are not backed by productivity growth are unsustainable and will harm Australia's international competitiveness. For this reason, the Panel should consider the extent to which recent developments in wages growth and productivity are able to support an increase in the minimum wage.

Productivity growth — when measured by both GDP per hour worked or gross value-added per hour worked in the market sector — has been lower than wages growth over recent years (Chart 13 refers). Average productivity growth in the decade 2009-2018 has been lower than for the decade 1999-2008. Productivity growth has declined over the past decade, with average productivity growth over the past three years lower than the three years prior. There is little basis to justify a minimum wage increase on the basis of improved productive capacity with year-ended productivity contracted averaging around 0.3 per cent in 2019. Over recent years real minimum wages have grown at a much faster pace than labour productivity.[10]

[10] Para 135, [2019] FWCFB 3500.

Chart 13: Productivity growth



Source: ABS, *Australian National Accounts: National Income, Expenditure and Products*, *Feb 2020*, Catalogue No. 5206 Table 1.

Even so relying on economy-wide productivity estimates could misrepresent the capacity of firms to accommodate minimum wage increases. ABI argues that labour productivity growth contributed by award-reliant workers will be significantly lower than overall labour productivity growth and real minimum wage increases awarded over recent years. Therefore, award-reliant industries have had to absorb higher unit labour costs of award-reliant workers, and that have grown at a faster pace compared to other industries over recent years.

An additional consideration is the increasing participation of older workers. Many of these workers are highly productive however are not as dependent on their labour income as younger workers. An implication of this is that non-wage factors may be more important, at least in relative terms, for older workers when compared to younger cohorts. Younger workers may therefore, on average, have higher unit labour costs relative to older workers, potentially leading award-reliant businesses to substitute labour away from the former to the latter group. This may have positive benefits from a productivity perspective, yet may exacerbate existing issues relating to the ability for vulnerable cohorts within the labour market to gain access to employment opportunities.

Business conditions

Business surveys continue to indicate deteriorating business confidence in the economy over recent quarters.[11] ABI notes that business surveys can be a useful indicator of current economic conditions (noting time lags in official data) and a leading indicator for future economic trends.

The Panel may be interested in Business NSW's Business Conditions Survey (the Survey). The Survey measures business perceptions of the New South Wales economy, and business performance across metrics such as profits, revenue, staffing and capital expenditure. The Survey is completed by around 1,000 businesses (though respondent numbers vary) and has accurately indicated broader economic trends in New South Wales. While the Survey does not report on business conditions across the rest of Australia, it provides useful insights into business conditions in New South Wales, a state that accounts for around a third of the national economy.

ABI draws particular attention to the downward trajectory of business confidence evident in recent surveys, and that this has occurred prior to the very significant economic shocks presented by COVID-19, the bushfires and other events (Box 1 refers).

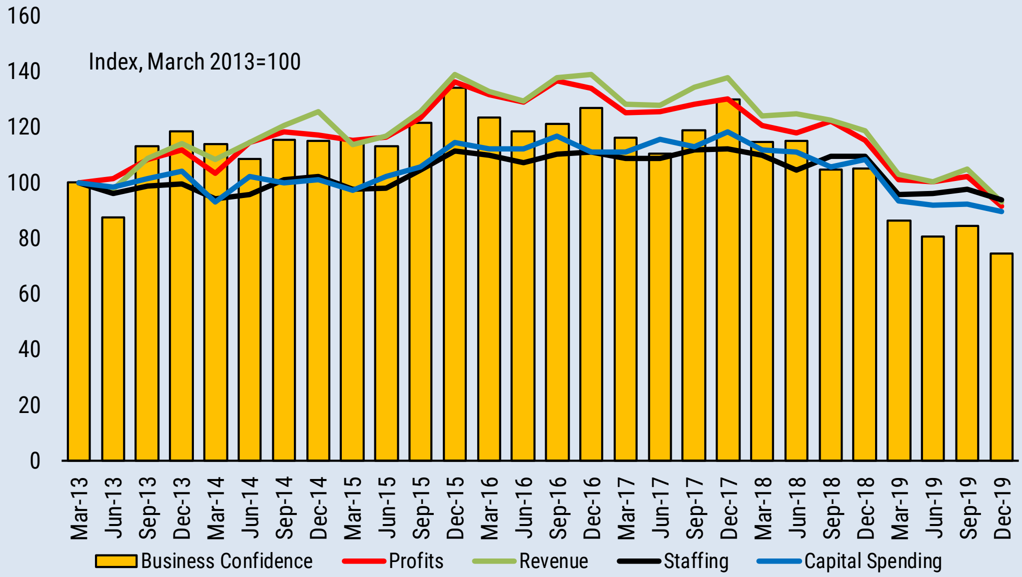
The timeliness of survey data will be crucial in understanding the impact of COVID-19 on the economy. The next Business Conditions Survey to be conducted in the second half of March will provide greater visibility on the impact of COVID-19 and the full impact of the bushfires.

[11] Including the NAB Quarterly Business Survey and Sensis Business Index.

Box 1 – NSW Business Conditions Survey

Reflecting NSW's recent economic strength, the Survey has pointed to strong levels of business confidence and performance over the past several years. However, overall business confidence has recently fallen to the lowest level since April 2009 (Chart 14 refers).

Chart 14: NSW Business Conditions



Source: Business NSW.[12]

Note: Index calculated based on net scores (100 per cent plus the percentage of respondents reporting improved conditions minus the percentage reporting weaker conditions). 'Business Confidence' refers to respondents perceptions around the strength/weakness of the economy. See source link below for further survey details.

Business performance, including with respect to revenue, profits, staff hiring, and capital investment, continue to fall according to the Survey (Chart 15 refers). Feedback from the December 2019 survey indicates that the ongoing impact of drought and bushfires were the key negative factors contributing to the decline in confidence and business activities.

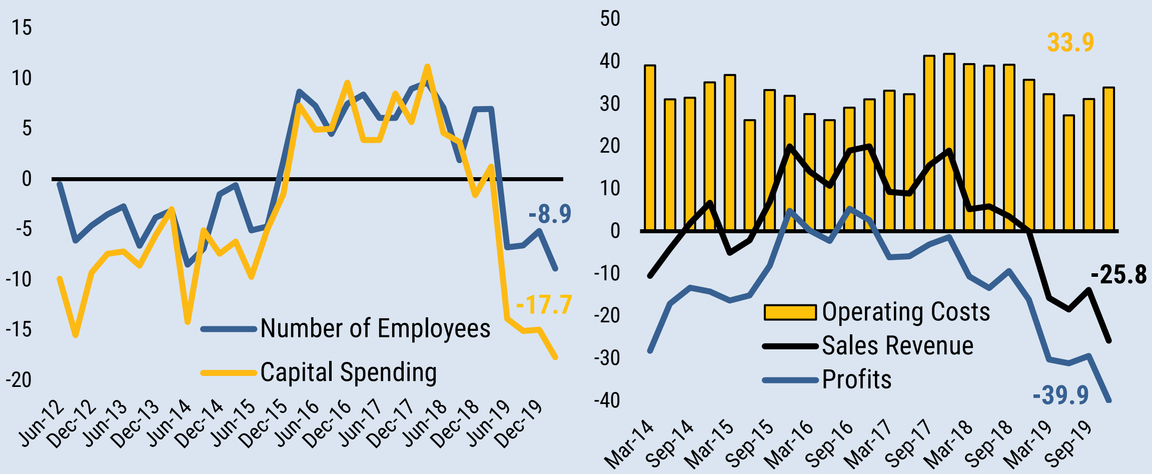
Primary industries are unsurprisingly facing some of the harshest conditions. While the population serving industries stabilised in December, the accommodation and food services sectors are doing it tough with the November bushfires and weak household demand affecting trade (later bushfires were not captured in the survey period).

[12] For full results see https://www.businessnsw.com/advocacy/surveys/business-surveys.

Box 1 – (continued from previous page)

There was a marginal improvement in the Capital Region (though this preceded the impact of the bushfires), Mid North Coast, and Central Coast which traditionally performs well this time of year. Respondents from most regions reported a deeper contraction.

Chart 15: NSW Business Conditions



Source: Business NSW.[13]

Note: Index calculated based on net scores (percentage of respondents indicating an increase minus the percentage indicating a decrease). See source link below for further survey details.

[13] For full results see https://www.businessnsw.com/advocacy/surveys/business-surveys.

Part II – Empirical evidence and potential impact of minimum wage increases

This section will consider in more detail minimum wage increases and disemployment effects. ABI welcomes the Panel's statement in the 2018-19 AWR noting "*We acknowledge that the compounding effect of increases over time may have a cumulative effect which is not apparent in the short term. We will continue to monitor this in future reviews closely.*"[14]

Overall labour market conditions have moderated and are not as robust as anticipated. Therefore, there remains more spare capacity in the labour market that is yet to be absorbed.

There have been relatively large minimum wage increases precipitated by the past three AWR decisions. It is arguable that larger minimum wage increases may have stunted our trajectory toward full-employment, with concentrated impacts on vulnerable subgroups in the labour market. These subgroups include:

- those in the award-reliant industries
- younger workers
- the long-term unemployed
- regional areas with a large proportion of small and medium enterprises (SMEs).

Over the past several years, labour market conditions for these subgroups have been weaker compared to the overall labour market, particularly younger workers whose full-time employment growth is stagnant.

This section considers empirical research which has previously been relied on to inform the Panel of how minimum wage increases may affect employment. ABI maintains that what constitutes a 'modest' increase (for the purposes of determining the negligibility of disemployment effects) is significantly lower than what was awarded in the past three AWRs, namely the 2016-17, 2017-18, and 2018-19.

Employment effects of minimum wage increases

The international body of research compiled and discussed in the previous AWRs have been unable to find evidence against the proposition that modest and regular minimum wage increases do not result in disemployment effects or inhibit workforce participation.

Although not all of the UK studies have found a negative result on youth employment, a number of studies found adverse impacts on this age group. Fidrmuc and Tena (2013) found a detrimental employment effect on young male and female workers turning eighteen.[15] In addition, Bryan et al. (2012) found a more pronounced decrease in hours for younger

---

[14] Para 82, [2019] FWCFB 3500.

[15] Fidrmuc, J. and Tena, J. D. (2013). *The impact of the national minimum wage on the labour market outcomes of young workers*. Research report, Low Pay Commission.

workers following the 2010 uprating of minimum wages than for other groups.[16] Despite no clear indication of aggregate disemployment effects, these results suggest that there is evidence of the negative impact of the increase in minimum wages on youth employment in the UK. Using Canadian data, Brochu and Green (2013) found a generally negative employment effect of minimum wage increases along with the whole age distribution, but a more pronounced adverse impact on teenagers.[17]

All of the studies discussed above and in the previous AWRs only measure the short-term impact of minimum wage increases. However, there is the potential for higher minimum wages to generate negative impacts that materialise over a longer time horizon.

Despite a very limited body of research regarding the long-run effects of increases in the minimum wage, Meer and West (2013) found that real minimum wage increases reduced employment growth. These impacts are most deleterious for younger workers and in industries with a higher percentage of low-wage employees.[18]

It is worth noting studies that have found negative effects of minimum wage increases beyond the abovementioned mentioned subgroups. The meta-analysis by Hafner et al. (2016) found that across the UK studies, there is evidence that minimum wage increases have had detrimental effects on employment retention for part-time employees.[19] Dickens et al. (2012) also found a deleterious impact on employment retention for female part-time workers in large firms.[20]

Potential impact on younger workers

Strong employment growth has been absorbed, in part, by increasing participation. A consequence of this is that employment growth has not necessarily had a major impact on the job opportunities available to younger workers, particularly where they are competing with more experienced cohorts which have re-entered the workforce.

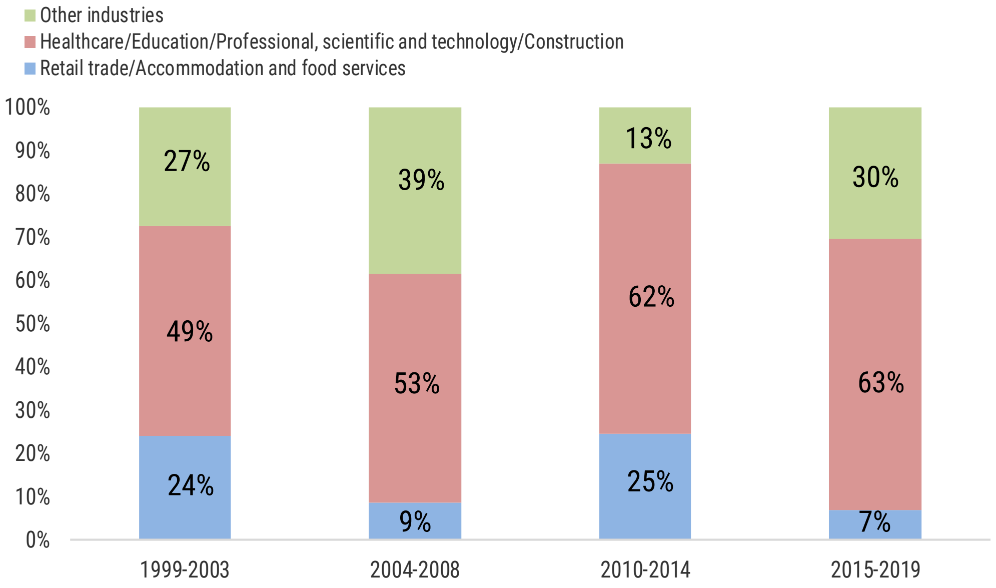
Structural changes have also had impacts for younger workers. Since 2015, industries including healthcare; education; professional, scientific and technical services; and construction have accounted around two-thirds of the growth in employment. On the other hand, the traditional youth-employing industries such as retail trade, and accommodation and food services (which account for around 40 per cent of youth employment) accounted for only a small fraction of employment growth (Chart 16 refers). As discussed in 2018-19 AWR,

---

[16] Bryan, M., Salvatori, A., and Taylor, M. (2012). *The impact of the national minimum wage on earnings, employment and hours through the recession*. Research report, Low Pay Commission.
[17] Brochu, P. and Green, D. A. (2013). *The impact of minimum wages on labour market transitions.* The Economic Journal, 123:1203-1235.
[18] Meer, J. and West, J. (2013). Effects of the minimum wage on employment dynamics. NBER Working Paper No. 19262.
[19] Hafner, M., Taylor, J., Pankowska, P., Stepanek, M., Nataraj, S., and Van Stolk, C. (2016). The impact of the national minimum wage on employment. Research report, Low Pay Commission.
[20] Dickens, R., Riley, R., and Wilkinson, D. (2012). Re-examining the impact of the national minimum wage on earnings, employment and hours: the importance of firm size and recession. Research report, Low Pay Commission.

factors such as disruption caused by technological change, international competition, and the growing online market place have impacted opportunities in retail.[21]

Chart 16: Contribution of employment growth by industry

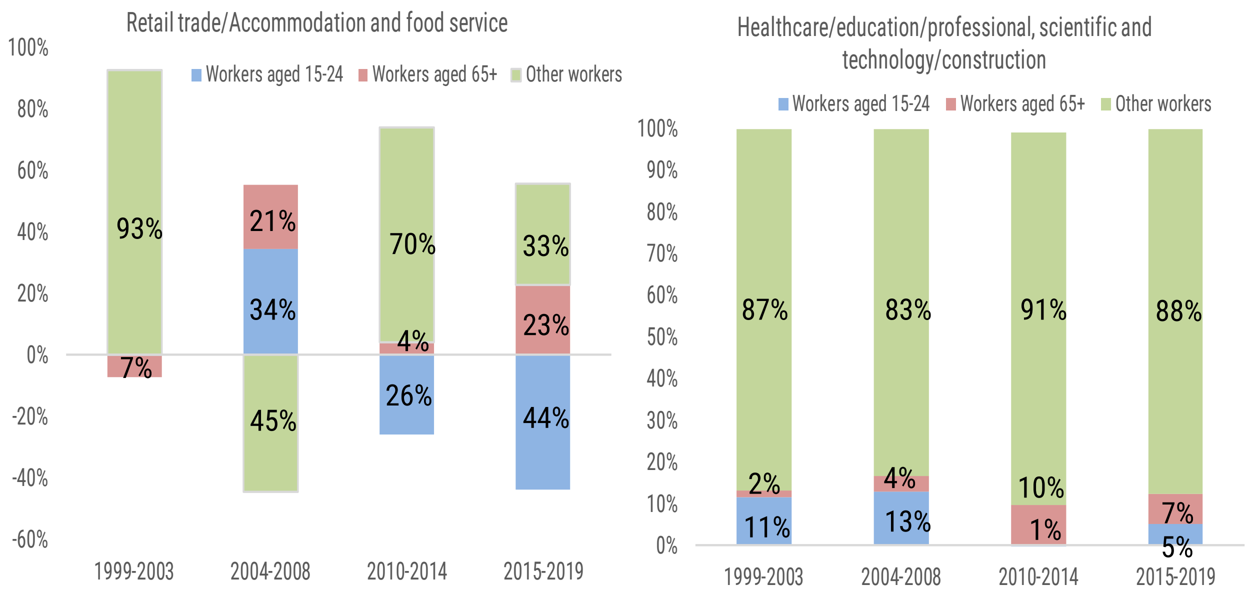


Source: ABS, *Labour Force, Australia*, *Feb 2020*, Catalogue No. 6291.0.55.003 Table 6.
Notes: The percentage figures for each industry group is the percentage of contribution of the employment growth that each industrial group is contributed to the total employment growth over time.

Even where new employment opportunities have been created, many of these positions have been taken by older workers aged 65 and over (Chart 17 refers). It can be speculated that older workers have lower unit labour costs relative to younger workers as the former is more experienced but are not as dependent on their labour incomes. As a result businesses could potentially substitute away from youth employees to more experienced older workers in pursuit of lower unit labour costs. Higher minimum wages will accelerate this process as employers become cost focussed (whether as part of a conscious process or otherwise).

[21] Para 141, [2019] FWCFB 3500.

Chart 17: Share of change in the full-time employment by industry and age group



Source: ABS, *Labour Force, Australia*, *Feb 2020*, Catalogue No. 6291.0.55.003 EQ 12.
Notes: The percentage figures for each age group is the percentage of contribution of the change in the full-time employment that each age group is contributed to the total change in the full-time employment over time.

Higher minimum wages may also impact the process of human capital formation. High entry-level wages, including due to successive minimum wage increases, limits the ability of employers to nurture and develop the skills of staff. This underinvestment occurs in at least two ways. Firms are less likely to engage in activities dedicated to the upskilling of existing staff, but perhaps more perversely, employers are incentivised against taking on new inexperienced or untrained staff with a view to upskilling them for the purposes of filling higher value-added jobs. Large increases to the minimum wage discourage employers from taking on entry-level staff, which largely include younger workers, for the purposes of upskilling.

Part III – Specific recommendations

Much of this submission discusses the current economic environment in the context of data which does capture the period in which there occurred significant economic shocks such as bushfires and now COVID-19. It is also now clear that COVID-19 will have a significant and ongoing impact on the economy, even though magnitudes are difficult to estimate and unknown at this time.

Overall the most prudent approach is to be cautious to protect against the potential for permanent losses in economic capacity including employment. It remains to be seen the extent to which employers will need to sustain their workforces in modes where they are less productive or even loss making. Even before COVID-19, ABI contends that with successive increases of 3.3 per cent, 3.5 per cent, and 3.0 per cent being well above inflation and broader wages growth, it would be appropriate for the Panel to allow these increases to be absorbed by awarding a more modest increase in the 2019-20 AWR. However, COVID-19 now raises real concerns about whether even modest increases (relative to previous years) appropriately balance the statutory objectives of the Act.

Regarding ABI's recommended increase to the NMW

ABI encourages extreme care due to weaker economic conditions, and a particularly uncertain economic outlook, with the Australian economy facing significant downside risks.

Even before the impact of COVID-19, ABI maintains an increase of the magnitude of last year's 3 per cent increase, or an increase approaching that quantum, would not represent an appropriate balance of the matters to be taken into consideration.

ABI has previously recommended for any increase to the current NMW and any variation determination affecting modern awards to be cautious having regard to the current economic circumstances.

ABI intends to recommend a specific percentage increase to the NMW. However, given the significant uncertainty surrounding COVID-19, ABI does not have sufficient visibility on the full range of potential economic impacts to make a specific recommendation at this time. It is currently ABI's intention to submit a specific recommendation prior to post-Budget submissions being due (currently due 15 May 2020).

To be clear, the absence of a recommended percentage increase is not to be taken as a recommendation for a zero per cent increase.

Making the NMWO and determinations about modern award minimum wages

ABI has previously proposed that the Panel apply the percentage of the proposed NMW increase to modern award minimum wages. Varying modern award minimum wages by the percentage rate of increase to the NMW is consistent with the Panel's past practice.[22] ABI will advise its recommendation regarding implementation as part of its supplementary submission.

ABI will also detail any recommendations regarding the NMWO, determinations about modern award minimum wages, casual loadings, the equal remuneration order and allowances in modern awards.

[22] Para 104, [2016] FWCFB 3500.