

**Fair Work Commission**

**2019-20 Annual Wage Review**

**Submission of the
Government of Western Australia**

**DATE: 20 March 2020**

**Western Australian Government**

**Submission to Annual Wage Review 2019-20**

**Introduction**

1. The Western Australian Government welcomes the opportunity to make a submission to the Expert Panel of the Fair Work Commission (**the Panel**)for the 2019-20 Annual Wage Review (**AWR**).
2. The AWR plays an essential role in the maintenance of a strong and principled framework of minimum wage protections. The granting of regular wage increases for Australia’s most vulnerable workers is an indispensable part of the country’s industrial relations framework, and is critical for assisting low and middle earners to achieve and maintain an adequate and dignified standard of living.
3. Pursuant to section 284 of the *Fair Work Act 2009* (**the Act**), the Panel is tasked with balancing a diverse range of statutory criteria to ‘establish and maintain a safety net of fair minimum wages’ (the ‘minimum wages objective’), including:
	1. the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and
	2. promoting social inclusion through increased workforce participation; and
	3. relative living standards and the needs of the low paid; and
	4. the principle of equal remuneration for work of equal or comparable value; and
	5. providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.
4. In adjusting rates of pay in awards, the Panel must also have regard to the ‘modern awards objective’, which requires that it ensure that modern awards, together with the National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions.[[1]](#footnote-1) Further, the Panel must take into account the objects of the Act in performing its functions or exercising its powers, including the AWR.[[2]](#footnote-2)
5. This submission explores economic and labour market considerations relevant to the Panel’s deliberations, with a particular focus on issues affecting Western Australian employers and employees.

**Overview**

1. The Western Australian Government believes Australian workers should enjoy a modern framework of wages and working conditions that protects and advances their interests and enables them to achieve dignity and security in employment.
2. The Western Australian Government encourages the Panel to take a holistic approach to the task of balancing the disparate criteria it is required to consider as part of the AWR. The Panel has consistently rejected adopting a mechanistic or formulaic approach to this task, and the Western Australian Government contends this is a sensible course of action.
3. The Western Australian Government notes the Panel awarded a 3.0 per cent increase to minimum and award wages in 2019, following increases of 3.3 percent in 2017 and 3.5 per cent in 2018. The Western Australian Government contends the Panel’s decision in 2019 was fair and considered, assisting low paid and vulnerable employees with maintaining a decent standard of living whilst not adversely affecting Australia’s economic outlook.
4. Australia’s recent economic performance has been largely positive, although it expected that things will look significantly different in the coming months following the outbreak of the novel coronavirus (COVID-19). As at 20 March 2020:

• Gross Domestic Product (GDP) grew by 2.2 per cent in the year to the December quarter 2019.[[3]](#footnote-3)

• Real Net National Disposable Income (RNNDI) increased by 2.7 per cent in the year to the December quarter 2019.[[4]](#footnote-4)

* The profit share of factor income was 28.9 per cent in the December quarter 2019.[[5]](#footnote-5)

• Labour productivity increased by 0.4 per cent in the year to the December quarter 2019.[[6]](#footnote-6)

* Real unit labour costs increased by 0.9 per cent in the year to the December quarter 2019.[[7]](#footnote-7)

• The unemployment rate was 5.1 per cent in February 2020.[[8]](#footnote-8)

* Employment grew by 2.2 per cent in the year to February 2020 (in annual average terms).[[9]](#footnote-9)

• The participation rate was 66.0 per cent in February 2020.[[10]](#footnote-10)

• Annual headline inflation was 1.8 per cent in the December quarter 2019.[[11]](#footnote-11)

• The Wage Price Index (WPI) increased by 2.2 per cent in the year to the December quarter 2019.[[12]](#footnote-12)

**Western Australian economy and labour market**

1. While the Act requires the Panel to consider the state of the national economy in its AWR deliberations, the national economy is comprised of many diverse regions, and it is appropriate that consideration be given to prevailing conditions in individual states and territories.
2. Until recently, economic conditions in Western Australia had been gradually improving, underpinned by a lift in the domestic economy. However, the recent outbreak of COVID-19 has created significant uncertainty about the State’s short-term economic prospects.
3. **Attachment A** provides an overview of the state of the Western Australian economy, as assessed at the time of the 2019-20 Mid-year Review. The outbreak of COVID-19 and other developments has heightened the uncertainty about the outlook. As such, the outlook in the 2019 20 Mid-year Review is dated given these developments. The COVID-19 and other developments are being monitored closely and will inform the preparation of the economic outlook contained in the forthcoming 2020-21 Budget.

**Who is impacted by the Annual Wage Review?**

**Employees covered by awards**

1. Available data indicates that award-reliance in Australia has increased in recent years, reversing a long-term movement away from awards being the central tenet of the wage fixing system. However, the trend towards greater award reliance appears to have stalled in the two years to May 2018.
2. In Western Australia, award reliance fell from 16.4 per cent of all non-managerial employees in 2016, to 15.0 per cent in 2018.[[13]](#footnote-13) Given the composition of the national industrial relations system, the majority of these employees will be subject to national modern awards.[[14]](#footnote-14)
3. Nationally, award reliance fell from 24.5 per cent to 22.5 per cent amongst non-managerial employees between 2016 and 2018.[[15]](#footnote-15)
4. As at May 2018, approximately 2.23 million Australian employees were paid entirely in accordance with an award, the majority of whom would be subject to national modern awards.
5. Many award-reliant employees, as well as an increasing number of employees covered by federal enterprise agreements, are dependent on increases determined in the AWR to meet changes in their everyday living costs. It is therefore important that low paid and award-reliant employees are afforded regular and meaningful adjustments to pay, to ensure their needs are adequately safeguarded.
6. As demonstrated in Table 1 below, over 35 per cent of all Western Australian employees work in the five most award-reliant industries, further underlying the important role the AWR plays in fostering improved financial wellbeing for affected workers.

**Table 1: Employment and award reliance by industry - WA and Australia, November Quarter 2019**

|  |  |  |  |
| --- | --- | --- | --- |
| Industry | WA: Proportion of Workforce[[16]](#footnote-16) | Australia: Proportion of Workforce16 | Australia: Proportion of employees paid by award[[17]](#footnote-17) |
| Accommodation and Food Services | 6.1% | 7.1% | 44.9% |
| Administrative and Support Services | 3.2% | 3.4% | 41.3% |
| Other Services | 4.5% | 3.8% | 38.1% |
| Health Care and Social Assistance | 12.3% | 13.7% | 31.7% |
| Retail Trade | 9.1% | 9.8% | 30.1% |
| Rental, Hiring and Real Estate Services | 1.6% | 1.7% | 29.4% |
| Arts and Recreation Services | 1.9% | 1.9% | 22.5% |
| Manufacturing | 6.0% | 7.1% | 20.8% |
| Construction | 8.9% | 9.1% | 16.6% |
| Wholesale Trade | 2.8% | 2.9% | 16.1% |
| Transport, Postal and Warehousing | 5.2% | 5.1% | 12.7% |
| Public Administration and Safety | 6.4% | 6.4% | 10.9% |
| Education and Training | 8.1% | 8.4% | 10.0% |
| Professional, Scientific and Technical Services | 8.1% | 8.8% | 8.0% |
| Information, Media and Telecommunications | 1.0% | 1.6% | 7.1% |
| Financial and Insurance Services | 2.1% | 3.6% | 5.2% |
| Electricity, Gas, Water and Waste Services | 1.7% | 1.2% | 4.1% |
| Mining | 8.7% | 1.9% | 0.9% |
| Agriculture, Forestry and Fishing | 2.5% | 2.5% | N/A✝ |
| All industries | **100.0%** | **100.0%** | **22.5%** |

✝ N/A: Enterprises primarily engaged in agriculture, forestry and fishing are outside the scope of the ABS *Employee, Earnings and Hours* survey from which this data is drawn.

**Employees covered by enterprise agreements**

1. Until recently, the number and proportion of employees subject to federal enterprise agreements had been declining. However, while the number of current agreements in place remains lower than it was a few years ago, the number of employees covered by such agreements appears to have recovered.
2. As shown in Figure 1 below, data from the Commonwealth Attorney General’s Department indicates the number of current federal enterprise agreements in place declined from 14,224 in September 2016 to 10,877 in September 2019. However, the total number of employees covered by these agreements has risen marginally over the same period, from 1,990,100 to 2,160,400.[[18]](#footnote-18) This is perhaps not surprising, given several very large retail agreements that had passed their nominal expiry date have been re-negotiated in the last two years.

**Figure 1: Current federal enterprise agreements in Australia – 2016 to 2019 [[19]](#footnote-19)**

1. Western Australia has witnessed a significant decline in the number of employees covered by federal enterprise agreements in recent years, with the number of employees engaged under current agreements applying solely within the State falling from 153,800 to 113,700 during the three years to September 2019.[[20]](#footnote-20)
2. There has also been a significant downturn in wages growth in federal enterprise agreements applying within Western Australia, with the Average Annualised Wage Increase (AAWI) in all current agreements declining from 3.4 per cent in September 2016 to just 1.9 per cent in September 2019.[[21]](#footnote-21) This is consistent with a broader trend that has seen Western Australia record low rates of wages growth in recent years, following the end of the mining-led investment boom.
3. National modern awards play a critical role in underpinning the federal enterprise bargaining system. Awards perform a dual role in establishing the benchmark for agreement registration through the Better Off Overall Test (**BOOT**), as well as setting a floor through which wages cannot fall below during the life of an agreement.[[22]](#footnote-22)
4. The effect of pay increases determined by the Panel for national modern awards therefore extends beyond award-covered employees, and has a material impact on employees subject to federal enterprise agreements. While this effect will be indirect in many cases, it is known that a number of federal enterprise agreements peg future wage rises to award wage increases in the AWR.[[23]](#footnote-23) For instance the following agreements link future pay increases (either in part or in whole) to the AWR:
* *Coles Supermarkets Enterprise Agreement 2017* (covering ~ 82,000 employees)
* *Woolworths Supermarkets Agreement 2018* (covering ~ 109,000 employees)
* *Big W Stores Agreement 2019* (covering ~ 16,000 employees)
* *David Jones Enterprise Agreement 2018* (covering ~ 7,000 employees)
1. The national award system therefore continues to play a vital role in underpinning Australia’s enterprise bargaining framework. The Panel’s determinations in the AWR impact not just award and minimum wage workers, but those working under a variety of pay setting arrangements.

**The need to encourage collective bargaining**

1. In satisfying the modern awards objective, the Panel is required to consider the need to encourage collective bargaining.[[24]](#footnote-24)
2. In last year’s AWR the Panel noted:

“As mentioned earlier, one of the matters we are required to take into account is ‘the need to encourage collective bargaining.’ As set out in Chapter 4, we accept that there has been a decline in current enterprise agreements, but a range of factors impact on the propensity to engage in collective bargaining, many of which are unrelated to increases in the NMW and modern award minimum wages. Given the complexity of factors which may contribute to decision making about whether or not to bargain, we are unable to predict the precise impact of our decision.” [[25]](#footnote-25)

1. The Western Australian Government concurs that there are a variety of factors that impact the propensity to engage in collective bargaining, many of which are unrelated to increases in minimum and award wages.
2. As outlined above, the number of employees covered by federal enterprise agreements actually increased in the three years to September 2019, including a rise of almost 400,000 employees since March 2018.
3. The Western Australian Government contends that fair and sustainable minimum and award wage increases are unlikely to provide any appreciable disincentive to engage in collective agreement making.

**Employees covered by individual arrangements**

1. The National Minimum Wage Order does not directly affect employees working under individual arrangements providing for above award rates of pay. However, some common law employment contracts are likely to contain provisions linking future wage increases to the movements in the NMW or modern award wages.
2. As the Panel noted in last year’s AWR:

“In addition to these employees, the Panel’s decision is also likely to affect those paid close to the NMW rate or a modern award minimum wage rate, workers whose pay is set by a collective agreement which is linked to the outcomes of the Review, as well as workers whose pay is set by individual arrangements which are referenced to an award rate. According to the RBA, the wages of a further one-fifth of employees are linked to changes in the NMW or modern award minimum wages in their collective agreements or individual arrangements. Research undertaken for the Commission found that 21 per cent of employees in non-public sector organisations were on ‘over-award’ arrangements—that is, where the wage is set, influenced or guided in some way by the applicable award rate.” [[26]](#footnote-26)

1. The research referred to in the above quote suggests the Panel’s decision is likely to extend to a significant number of employees who are working under collective agreements or individual arrangements, including those being paid over-award rates of pay. Additionally, contracts of employment that provide for wage rates only marginally above the relevant award minimum may be impacted by any decision the Panel makes in this year’s AWR.

 **Figure 2: Method of setting pay - WA - May 2018[[27]](#footnote-27)**

 **Figure 3: Method of setting pay – Australia - May 2018[[28]](#footnote-28)**

**Further considerations**

**Promoting social inclusion through increased workforce participation**

1. The statutory criteria the Panel is required to have regard to in meeting the minimum wages objective also includes “promoting social inclusion through increased workforce participation”.
2. In regard to this issue, the national participation rate continues to increase and stood at 66.0 per cent in February 2020. Australia’s participation rate averaged 66.0 per cent in the year to February 2020, up from an average of 65.6 per cent in the year to February 2019.[[29]](#footnote-29)
3. While the participation rate is influenced by a variety of factors, fair and equitable increases to minimum and award wages can help to encourage people into the labour force, particularly those with a marginal attachment to it. It can also help to foster a degree of community cohesion, by enabling low paid workers to participate in social activities, such as recreational and sporting pursuits.
4. Total employment continued to grow steadily over the past 12 months in tandem with increased rates of participation. Total employment increased by an annual average rate of 2.2 per cent across Australia in the 12 months to February 2020, while unemployment remains relatively subdued at 5.1 per cent.[[30]](#footnote-30)
5. Higher levels of workforce participation contributes to national productivity and economic growth. Greater participation in the paid employment helps to lift household disposable incomes, providing enhanced financial security for affected workers. It also facilitates higher levels of consumption and spending, which has discernible flow on benefits for the economy as a whole.
6. By awarding a fair and sustainable increase in minimum and award wages, the Panel can help to encourage increased workforce participation, cultivating greater social inclusion in the process.

**Equal remuneration and the gender pay gap**

1. An important consideration in both the modern awards objective and the minimum wages objective is the need to promote the principle of equal remuneration for work of equal or comparable value.
2. As noted by the FWC in last year’s AWR Decision:

“Women are disproportionately represented among the low paid and award-reliant, hence, an increase in minimum wages is likely to promote gender pay equity. Increases in the NMW and modern award minimum wages would be likely to have a relatively small, but nonetheless beneficial, effect on the gender pay gap…”[[31]](#footnote-31)

1. The Western Australian Government concurs with the FWC’s observation that increases in minimum and award wages provide some benefit in reducing gender pay inequality.
2. As at November 2019, the gender pay gap (as measured by Average Weekly Ordinary Time Earnings (**AWOTE**)) was 22.4 per cent in Western Australia and 13.9 per cent nationally.[[32]](#footnote-32)

**Table 2: Gender Pay Gap – by State / Territory – November Quarter 2019[[33]](#footnote-33)**

|  |  |  |  |
| --- | --- | --- | --- |
| State / Territory | Male AWOTE | Female AWOTE | Gender Pay Gap |
| NSW | $1,778.80 | $1,528.20 | 14.1% |
| VIC | $1,699.20 | $1,539.30 | 9.4% |
| QLD | $1,714.50 | $1,442.60 | 15.9% |
| SA | $1,563.20 | $1,400.20 | 10.4% |
| WA | $1,928.10 | $1,497.10 | 22.4% |
| TAS | $1,497.60 | $1,363.80 | 8.9% |
| NT | $1,787.80 | $1,555.00 | 13.0% |
| ACT | $1,904.90 | $1,737.10 | 8.8% |
| AUS | $1,750.80 | $1,508.00 | 13.9% |

1. As can be seen from the above table, Western Australia maintains a gender pay gap higher than that in other states and territories, in part due a concentration of men in certain highly paid industries.
2. The gender pay gap is a product of many structural and historic factors, many of which cannot be addressed through the AWR. Nonetheless, regular and just wage increases play an important role in helping to ameliorate gender pay inequality.
3. Women are more likely to be paid in accordance with awards than men, particularly those working at higher classifications. As at May 2018, 26.6 per cent of female non-managerial employees in Australia were paid in accordance with an award, compared to 18.2 per cent of male non-managerial employees.[[34]](#footnote-34) The AWR therefore plays an important role in protecting the needs of low paid and award-reliant women, and this is a factor warranting consideration in 2020.

**Recent events affecting Australian industry**

1. The Western Australian Government acknowledges that certain recent events, both domestic and international, have created a degree of uncertainty about Australia’s short-term economic prospects.
2. The outbreak of the novel coronavirus (COVID-19) represents a significant challenge for the Australian economy. As the Reserve Bank of Australia recently articulated:

“In terms of the effect on the Australian economy, we have estimated the direct impact on the education and tourism sectors in the March quarter … Since January, inbound airline capacity from China has declined by 90 per cent, which gives a guide to the size of the decline in arrivals from China. Up until recently, tourist arrivals from other countries had held up reasonably well but that may no longer be true. From our liaison with the education sector, including the universities, as well as student visa numbers, we have information on the number of foreign students who have been unable to resume their studies.

We have used this information to estimate the impact of the virus in these two sectors of the economy. The estimate is approximate, but at this stage we think the decline in services exports in the March quarter will amount to at least 10 per cent, roughly evenly split between lower tourism and education exports. As service exports account for 5 per cent of GDP, this translates into a subtraction from growth of ½ per cent of GDP in the March quarter from these two sources.

Through our business liaison program we are gathering information on supply chain disruptions which are affecting the construction and retail sectors in particular. Clearly we are still only in the early weeks of March, so the picture can change from here.

It is just too uncertain to assess the impact of the virus beyond the March quarter.”[[35]](#footnote-35)

1. COVID-19 is rapidly evolving around the globe, with significant outbreaks occurring in China, South Korea, Iran and Italy. While it is too early to fully assess the economic impact of the COVID-19, Western Australia maintains strong economic ties with China. Many of the actions taken to contain the spread of the virus, both here and abroad, will have flow on implications for the Western Australian and national economies.
2. Shutdowns in manufacturing, disruption to business activities, shifts in supply and demand of goods and services, and the quarantining of populations, are likely to have a significant impact on affected industries. The situation concerning COVID-19 is changing rapidly on a daily basis, and federal and state governments have been developing targeted interventions and stimulus packages to cushion the financial impact.
3. The Western Australian Government has taken a number of measures to combat COVID-19, and is continuously monitoring the situation. Further information on Western Australian Government initiatives is available at: [www.wa.gov.au/organisation/department-of-the-premier-and-cabinet/coronavirus-covid-19-western-australian-government-response](http://www.wa.gov.au/organisation/department-of-the-premier-and-cabinet/coronavirus-covid-19-western-australian-government-response)
4. Of particular note, on 16 March 2020 the Western Australian Government announced a $607 million stimulus package to provide relief to small businesses and households. As part of the package, household fees and charges will be frozen until at least 1 July 2021, including electricity, water, motor vehicle charges, emergency services levy and public transport fares.
5. Other initiatives being implemented as part of the stimulus package include:
* Doubling the Energy Assistance Payment (EAP) provided to eligible concession car holders, from $300 to $600
* Providing a one off grant of $17,500 to small businesses that pay payroll tax
* Bringing forward a scheduled increase to the payroll tax threshold
* Allowing businesses impacted by COVID-19 to defer payroll tax payments
1. In addition to COVID-19, in recent months widespread bushfires and ongoing drought have also been seen across much of the country, further affecting parts of the Australian economy. These events have placed pressure on many affected local businesses, particularly those in regional and remote areas.
2. As the Reserve Bank of Australia also noted recently:

“The other significant domestic issues are the bushfires and the drought. The fires have had a devastating personal and economic impact on the areas affected. In addition to the tragic loss of life, many people have lost their homes and there has been extensive damage to farms, businesses and public infrastructure. Our current estimate is that over the December and March quarters, the fires will have reduced Australian GDP growth by around 0.2 percentage points. The rebuilding effort is expected to broadly offset that effect over the rest of this year. The drought is also continuing to act as a drag on the economy and is expected to reduce GDP growth by a quarter of a percentage point this year.”[[36]](#footnote-36)

1. While it is too early to assess the full economic impact of these external events, the Western Australian Government acknowledges they are a relevant consideration for the Panel in this year’s AWR.

**Conclusion**

1. Over the last 12 months, labour market conditions in Australia have remained largely positive, underpinned by steady growth in total employment, low unemployment and increased workforce participation. The Panel’s decision in last year’s AWR assisted many low paid and award-reliant workers to maintain a reasonable standard of living and has not impeded Australia’s economic performance.
2. Notwithstanding Australia’s relatively buoyant economic conditions, recent global and domestic events, including the outbreak of COVID-19 and the devastating bushfires and drought affecting parts of the country, have created challenging conditions for affected industries.
3. The Western Australian Government encourages the Panel to award an increase in this year’s AWR that supports, protects and advances the needs of Australian workers while balancing the interests of employers and industry.
4. The Western Australian Government thanks the Panel for the opportunity to make a submission to this year’s AWR.

**ATTACHMENT A**

**State Economic Conditions**

The economic outlook presented in this attachment is based on the 2019-20 Government Mid-Year Financial Projections Statement (Mid-year Review) published on 17 December 2019. This is was released prior to the outbreak of the COVID-19 virus.

The coronavirus out-break, the impact of efforts to contain it, and policy responses to address its impact continue to evolve. These, together with developments in the international oil market and stock markets, have been fast moving and have heightened uncertainty about the economic outlook. As such, outlook in the 2019‑20 Mid-year Review is dated given these developments. The COVID-19 and other developments are being monitored closely and will inform the preparation of the economic outlook contained in the forthcoming 2020-21 Budget.

**SUMMARY**

The Western Australian economy (as measured by Gross State Product, GSP) expanded by 1% in 2018-19, with moderate growth in net exports partly offset by a contraction in the domestic economy (as measured by State Final Demand, SFD).

The 2019-20 Mid-year Review forecast GSP growth to strengthen to 3% in 2019‑20 as business investment resumes growing for the first time in seven years, underpinned by spending on iron ore projects designed to maintain capacity at existing mines. Exports were also anticipated to support GSP growth in 2019-20 as iron ore production lifts following significant and unplanned disruptions in the previous year.

The Mid-year Review projects population growth to strengthen from 1.1% in 2018-19 to 1.3% in 2019-20 as migrants are once again attracted to Western Australia (reflecting that the State’s economic performance relative to the rest of the nation is expected to improve).

Despite the forecast pick-up in mining sector activity, the State’s household sector is expected to remain subdued in 2019‑20, with a persistent period of weak wages growth, elevated debt levels and house price declines weighing on consumers’ propensity to spend. Relating to this, dwelling investment is expected to contract for a fourth consecutive year in 2019-20.

The State’s labour market performance has been moderate to date in 2019-20, with annual employment growth of around 1.3% (below the 2.1% average) in the year to February 2020. While the unemployment rate has eased over recent months, this largely reflects a fall in labour market participation (rather than additional hiring).

Furthermore, a stubbornly high underemployment rate continues to contain wages growth, which grew by just 1.6% in 2019 (around half the historical average rate). Corresponding to this, inflation remained subdued at 1.5% in 2019, although is converging to national rates (as the drag from housing-related components lessens in Western Australia).

Despite this, the Mid-year Review forecasts conditions in the State’s labour market, including wages and inflation rates, to gradually improve towards long-run averages, in line with an anticipated strengthening in domestic economic activity over the forecast period.

As always, the State’s economic outlook is subject to a number of potential risks. Conditions in the near term are expected to be uneven across sectors, with household spending and dwelling investment remaining subdued. Furthermore, the emergence of the coronavirus since the 2019-20 Mid-year Review presents a new and significant risk to the State’s economic outlook.

The business investment profile is sensitive to changes to the timing and magnitude of expenditure on major iron ore projects and expected final investment decisions for the next wave of oil and gas projects. Any changes to these factors would also likely flow through to export growth and labour market outcomes.

In addition, employment may be weaker than forecast in the near-term if a recent slowdown in full‑time hiring persists.

While recent weakness in household spending has been partly attributed to a tightening in access to credit in 2019, a subsequent easing of these restrictions appears to have had limited impact. Furthermore, three cuts to the cash rate in the latter half of 2019 and personal income tax relief has also had minimal noticeable impact, with evidence mounting of consumers using this additional income to build savings and/or pay down debt. In this regard, the additional cuts to the cash rate on 3 March and 19 March 2020 (to a record low 0.25%) may have limited positive impact on spending in the immediate term.

Household spending may be subdued for longer if consumers further delay spending and choose to pay off debt instead, and the expected recovery in the housing market could be hampered by subdued confidence and weaker than expected population and wages growth. Indeed, dwelling investment fell by 6.4% in the December quarter and by 11.3% in 2019, suggesting considerable downside risk to the Mid-year Review forecast decline of 7% in 2019-20.

While a number of global risks have eased since the publication of the 2019-20 Mid‑year Review forecasts (such as the US/China trade tensions and Brexit), the emergence of the coronavirus poses new significant downside risks. The most direct impact of the coronavirus to date has been on the State’s tourism and international education sectors (due to the associated travel ban to and from China), along with household and business sentiment. Over the longer term the impact on Western Australia will depend on whether governments in China and Australia continue with significant containment measures and whether outbreaks of the virus can be contained from spreading in other key trading partners and Australia.

Furthermore, another major risk to Western Australia is the possibility of a global build-up of financial vulnerabilities, incentivised by low and negative interest rates around the world. This has led to the under-pricing of risky assets. A significant change in market sentiment that results in a repricing of risks could trigger a liquidity crisis, with the ramifications felt across the heavily integrated global financial sector (including in Western Australia).

Further details on key parts of the State’s economy follow.

**NATIONAL ACCOUNTS DATA**

The latest estimate of GSP (released by the Australian Bureau of Statistics (ABS) in November 2019) shows that Western Australia’s economy grew by 1% in 2018-19. This was buoyed by a 1.6% increase in export volumes, which more than offset a 0.9% fall in the domestic economy (as construction work on major LNG projects ceased).

On an industry basis, the main contributor to Western Australia’s GSP growth in 2018-19 was predominantly mining, which contributed 2.4 percentage points (pp), the largest contribution to growth since 2013-14. Conversely, the largest detractor was the construction industry, aligning with the finalisation of construction spending on major LNG projects.

GSP growth is projected to pick-up to 3% in 2019-20 before expanding at around 2.75% per annum over the subsequent three years. Following a period of export-driven growth, the domestic economy is expected to resume as the primary driver of activity from 2020‑21 onwards. This reflects a broad pick-up across household, business and government spending, while export growth eases substantially as resource projects operate at capacity.

-10

-5

0

5

10

15

20

Dec-99

Dec-04

Dec-09

Dec-14

Dec-19

WA

Australia

**CHART**

**1: FINAL DEMAND, SEASONALLY ADJUSTED**

Annual Average Growth

%

WA 20

-

year

average 3.6%

Recent data to December 2019 indicates that SFD grew by 0.4% in 2019, recovering from a decline of 0.9% in 2018-19.

As Chart 1 illustrates, domestic economic conditions are converging with national, where activity has slowed recently.

Western Australia’s annual SFD growth is expected to strengthen further to 2.25% by the end of 2019-20, boosted by a return to growth in business investment for the first time in seven years.

However, based on the latest SFD data for the December quarter 2019, there is downside risk to achieving the Mid-year Review growth forecast for the domestic economy in 2019‑20 (2.25%), with dwelling investment tracking significantly below the Mid-year Review forecast decline of 7%. This is even before taking into account any impact arising from the coronavirus outbreak.

It is important to note that SFD is not a comprehensive measure of the State’s overall economic growth, as it does not include the external trade sector. For a State such as Western Australia, the external trade sector is an important driver of income and therefore growth. Given the State’s strong international trade linkages, GSP is a better measure of overall economic activity (as it also includes the State’s external trade sector).

Notwithstanding this, trends in domestic demand tend to have a strong influence on labour market conditions, particularly as the investment phase of activity tends to be more labour intensive than the production phase.



**CONSUMER PRICE INDEX**

***Current Inflation Trends***

Perth’s Consumer Price Index (CPI) grew by 0.4% in the December quarter 2019. The main contributors to the quarterly increase were ‘tobacco’, ‘food and non-alcoholic beverages’ and ‘automotive fuel’.

Perth’s annual inflation rate increased by 1.5% in 2019, up from 1.3% in 2018-19. This is the strongest rate of annual growth since 2014-15 but remains well below the 20‑year average growth rate of 2.6% per annum.



The fall in Perth’s housing-related prices has been the primary reason why Perth and National CPI have diverged in recent years. For example, the rent component of Perth’s CPI has declined in annual terms for the past 18 quarters. However, this gap has lessened recently (Chart 2), as slowing housing markets in the Eastern States have started weighing on national inflation, whilst weakness in the Western Australian housing market has lessened. Indeed, deflation from the new dwelling purchases component has now ceased.

While the gap between national and Perth inflation has narrowed, inflation in Perth remains below the national rate of 1.6% in annual average terms, reflecting weaker domestic economic conditions in Western Australia. The drivers of recent price movements have been broadly similar at the State and national level and across all capital cities, with the exception that rent costs have fallen substantially in Perth relative to other capitals and continue to act as a drag on annual growth.

***Inflation Outlook***

The 2019-20 Mid-year Review forecasts Perth CPI to lift to 1.75% in 2019-20 due to expected price rises in tobacco, a rise in holiday prices and price rises for food (following the drought in the Eastern States). Additionally, an expected recovery in rental markets will continue to lessen rents’ drag on growth. However, the recent fall in the oil prices, if sustained, poses some downside risk to inflation in the near-term. Inflation is forecast to gradually rise to 2.25% by 2021-22 and to stabilise at that rate in 2022-23 (which is within, but at the lower end of, the Reserve Bank of Australia’s target range of 2 to 3%).

**LABOUR MARKET**

Labour market conditions in WA have remained broadly stable over 2019, with annual average employment growth of 1.3% in February 2020. This represents only a slight lift in employment growth from 0.9% in 2018-19. Full‑time employment has lost momentum in recent months, while part‑time hiring has picked up. Employment growth in the State is forecast to lift to 1.5% in 2019‑20.

Workforce participation has eased in the past year, though it remains the highest in Australia. This has partially flowed through to a lower unemployment rate, which averaged 5.8% in the year to February 2020.

Western Australia’s annual average unemployment rate has fallen in recent months but remains above the national equivalent (5.2%), as it has done since May 2016 (Chart 3).



Other indicators of spare capacity in the labour market remain elevated, including the underemployment rate, which averaged 9.2% in the year to February 2020. This has eased from a record high of 9.9% in November 2017 (but much higher than its recent low of 5.6% in April 2013) and implies that there are many employed people who would like to work more hours. When combined with the unemployment rate, the rate of underutilisation in the State eased to 15% in February 2020 from a recent peak of 15.7% in January 2019.

The State’s participation rate has moderated to 68.2% in the year to February 2020, from a recent peak of 68.5% around a year earlier. Western Australia’s participation rate remains the highest of all States and well above the national rate (66%).

***Labour force outlook***

The 2019-20 Mid-year Review forecasts employment to grow by 1.5% in 2019‑20, following 0.9% growth in 2018-19. The lift in employment growth in the near term is expected to be supported by investment in the resources sector, coupled with major infrastructure projects such as METRONET. Growth over the forward estimates period is projected to remain broadly in line with the 29-year average rate of 2.1%.

**WAGES**

Ongoing spare capacity in the labour market and low inflation expectations are expected to result in subdued wages growth in Western Australia.



The State’s Wage Price Index (WPI) increased by just 0.4% in the December quarter 2019. This follows 0.7% growth in the September 2019 quarter and is well below the decade average quarterly growth of 0.6%.

Annual average WPI growth picked up slightly to 1.6% in 2019, from 1.5% in 2018 and 1.4% in 2017.

With moderate increases in both Perth CPI (1.5%) and nominal WPI (1.6%), WA’s real wage growth dropped to 0.1% in 2019 from 0.4% in 2018. This is below the national real wage growth of 0.69% in 2019, which lifted from 0.26% in 2018. The divergence between national and the State’s real wage growth started from the December quarter 2017 is likely to continue in the near term.

***Earnings***

Seasonally adjusted, total average weekly earnings (AWE) in Western Australia grew by 1.0% in 2019[[37]](#footnote-37), to reach $1,334.90. In dollar terms, AWE in Western Australia was the highest of all the States, behind the NT ($1,407.70) and the ACT ($1,428.60). However, annual average growth was the lowest of all States and just above the ACT’s 0.8% fall.

Average weekly full‑time ordinary earnings (AWOTE) increased by 1.7% in 2019 to reach $1,777.80 (behind only the ACT at $1,827.20). This measure of average wages is not impacted by the compositional changes between full‑time and part‑time employment.

In a State like Western Australia, growth in the various average weekly earnings measures tends to be more volatile than growth in the WPI.

The greater volatility in part reflects changes in the composition of the State’s workforce[[38]](#footnote-38), which affects average earnings data but not the WPI (as the latter only measures wage movements in a basket of jobs of a fixed quantity and quality). Given the volatility and compositional issues associated with earnings measures, the WPI is a preferred measure of underlying wage growth.

***Wages outlook***

Following growth of 1.6% in 2018-19, the Mid-year Review projects the rate of growth in the WPI to increase progressively between 2019-20 to 2022-23 as spare capacity in the labour market gets absorbed and the domestic economy recovers. Nonetheless, WPI is not expected to return to its long-run trend rates of growth until beyond the current forecast period.

1. Section 134 of the *Fair Work Act 2009*. [↑](#footnote-ref-1)
2. Section 578(a) of the *Fair Work Act 2009*. [↑](#footnote-ref-2)
3. Australian Bureau of Statistics (ABS)(2020), *Australian National Accounts: National Income, Expenditure and Product*, December 2019, Catalogue 5206.0. [↑](#footnote-ref-3)
4. Ibid. [↑](#footnote-ref-4)
5. Ibid. [↑](#footnote-ref-5)
6. Ibid. [↑](#footnote-ref-6)
7. Ibid. [↑](#footnote-ref-7)
8. ABS (2020), *Labour Force, Australia, February 2020*, Catalogue 6202.0 (seasonally adjusted data). [↑](#footnote-ref-8)
9. Ibid. [↑](#footnote-ref-9)
10. Ibid. [↑](#footnote-ref-10)
11. ABS (2020), *Consumer Price Index, Australia, December 2019*, Catalogue 6401.0 (all capital cities). [↑](#footnote-ref-11)
12. ABS (2020), *Wage Price Index, Australia, December 2019*, Catalogue 6345.0 (all sectors). [↑](#footnote-ref-12)
13. ABS (2019), *Employee, Earnings and Hours, Australia*, *May 2018* and ABS (2017) *Employee Earnings and Hours, Australia, May 2016*. [↑](#footnote-ref-13)
14. As they are employed by ‘constitutional corporations’ (foreign, financial and trading corporations). [↑](#footnote-ref-14)
15. ABS (2019), *Employee, Earnings and Hours, Australia*, *May 2018* and ABS (2017) *Employee Earnings and Hours, Australia, May 2016*. It should be noted that the ABS adjusted the categorisation of employees between 2016 and 2018, which resulted in some employees in New South Wales, Victoria and Queensland previously considered to be paid on an award only basis in 2016 being categorised as being paid according to a collective agreement in May 2018. To compare methods of setting pay over time, the ABS undertook broad level analysis to gauge the extent to which the 2016 estimates would have differed had the 2018 treatment of certain employee groups been applied. Applying the 2018 methodology to both surveys would have resulted in the proportion of award only non-managerial employees in Australia being lower in 2016 (22.4 per cent) than the official figure of 24.5 per cent. On this measure, there would have been a slight increase in award reliance in Australia between 2016 and 2018 (22.4 per cent to 22.5 per cent). [↑](#footnote-ref-15)
16. ABS (2019), *Labour Force, Australia, Detailed Quarterly, November 2019*, catalogue 6291.0.55.003, (original data). The share of the Western Australian workforce employed in most industries is lower than it is at the national level due to the significance of the Mining industry in the State. [↑](#footnote-ref-16)
17. ABS (2019), *Employee Earnings and Hours, Australia, May 2018*, catalogue 6306.0. [↑](#footnote-ref-17)
18. Department of the Attorney General (2020), *Trends in Federal Enterprise Bargaining Report*, September Quarter 2019. [↑](#footnote-ref-18)
19. Ibid. [↑](#footnote-ref-19)
20. Ibid. This figure excludes Western Australian employees working under multi-state agreements. [↑](#footnote-ref-20)
21. Ibid. [↑](#footnote-ref-21)
22. Pursuant to section 206 of *Fair Work Act 2009* base wages in enterprise agreements cannot fall below the base rates of pay in any national modern award that is applicable to the employee. [↑](#footnote-ref-22)
23. Such agreements appear to have become more common since the decision of the Full Bench of the FWC not to approve the *Coles Store Team Enterprise Agreement 2014 – 2017* on the grounds that it did not meet the Better Off Overall Test (BOOT). Refer to *Hart v Coles Supermarkets Australia Pty Ltd and Bi-Lo Pty Ltd* [2016] FWCFB 2887 (31 May 2016).  [↑](#footnote-ref-23)
24. Section 134(1)(b) of the *Fair Work Act 2009*. [↑](#footnote-ref-24)
25. Fair Work Commission (2019), *Annual Wage Review 2018-19*, at [69]. [↑](#footnote-ref-25)
26. Fair Work Commission (2019), *Annual Wage Review 2018-19*, at [207]. [↑](#footnote-ref-26)
27. ABS (2019), *Employee Earnings and Hours, Australia, May 2018*, catalogue 6306.0. [↑](#footnote-ref-27)
28. Ibid. [↑](#footnote-ref-28)
29. ABS (2020), *Labour Force, Australia, February 2020*, catalogue 6202.0 (seasonally adjusted data). [↑](#footnote-ref-29)
30. Ibid. [↑](#footnote-ref-30)
31. Fair Work Commission (2019), *Annual Wage Review 2018-19*, at [71]. [↑](#footnote-ref-31)
32. ABS (2020), *Average Weekly Earnings, Australia, November 2019*, catalogue 6302.0 (seasonally adjusted data). [↑](#footnote-ref-32)
33. Ibid. [↑](#footnote-ref-33)
34. ABS (2019), *Employee Earnings and Hours, Australia, May 2018*, catalogue 6306.0. [↑](#footnote-ref-34)
35. Reserve Bank of Australia (RBA), Keynote Address at the Australian Financial Review Business Summit, Sydney, 11 March 2020 (Guy Debelle, Deputy Governor). Available at: [www.rba.gov.au/speeches/2020/sp-dg-2020-03-11.html](http://www.rba.gov.au/speeches/2020/sp-dg-2020-03-11.html) [↑](#footnote-ref-35)
36. Reserve Bank of Australia (RBA), Opening Statement to the House of Representatives Standing Committee on Economics, Parliament of Australia, Canberra, 7 February 2020 (Philip Lowe, Governor). Available at: <https://www.rba.gov.au/speeches/2020/sp-gov-2020-02-07.html> [↑](#footnote-ref-36)
37. The frequency of the AWE series changed from quarterly to biannual in 2012, with the November 2012 issue the first produced on a biannual basis. AWE data will now be produced twice a year relating to the May and November reference periods. [↑](#footnote-ref-37)
38. For example, the mining industry has a large impact on the State’s earnings measures (as earnings tend to be high in this sector). One reason that earnings for the mining industry are higher than the average for all industries is that workers in the mining industry tend to work longer hours and receive allowances for shift work and working in isolated locations. [↑](#footnote-ref-38)