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2020-21
Annual Wage Review

Post March National Accounts Submission
ACCI

4 June 2021

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Chamber of Commerce
and Industry

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1. RECENT COVID DEVELOPMENTS

1. As noted in ACCI's previous submissions the economy has experienced a remarkable recovery from the depth of the COVID crisis this time last year. But this is not being felt evenly across the economy. Sectors that continue to be constrained by international border closures and state-based health restrictions are lagging, while other sectors that have been able to adapt or are experiencing increased demand on the back of Government support measures, are surging ahead. Even with sectors there is unevenness between states and regions, rural and urban, CBD and non-CBD operations.

2. In this multispeed recovery, it is customer facing sectors, which typically have the highest share of award-reliant employees, that are lagging the overall economic recovery the most.

3. The announcement of another new lockdown in Victoria, beginning on 26 May highlights the high level of uncertainty we currently face. This was initially announced as a 7-day lockdown, and extended for another 7 days on 2 June, with no guarantee that the lockdown will indeed end after that time. In fact, it has been indicated that restrictions in some form or another will extend beyond 10 June. Many businesses have been forced to close again, through no fault of their own.

4. Businesses face mounting costs as a result of the lockdown. Perishable stock is unlikely to last a week and will need to be thrown out. Many businesses will be forced to cover employee's wages, payroll tax and superannuation over the week, despite limitations on their capacity to use these employees. State Government support is limited and, at the time of this submission, support through JobKeeper or the like is not available. Rents, payroll taxes, energy, internet and telephony, and other ongoing costs will need to be paid, despite the businesses not being able to generate income.

5. These cost pressures will be felt hardest by small business, who have limited reserves to cover these events and are less likely to be insured for them, or their prudent reserves and operating resilience have been exhausted by earlier lockdowns. Many of these businesses are still to recover from the lockdown in early February 2021 (which included Valentine's day, a major trading day for restaurants and some retailers that saw zero revenue against massive ordering of food, flowers, etc.) and the extended lockdown from June through to October 2020.

6. Customer facing businesses in hospitality, retail, events (with football matches rescheduled to other states), fitness and other recreation activities, and transport are the hardest hit by the lockdown. Business reliant on tourism will also be severely impacted, with the announcement that travel from Melbourne to regional Victoria over the Queen's birthday long weekend will be ruled out.[1] Businesses in these customer facing sectors typically have a higher share of award reliant employees.

[1] Statement From the Acting Premier, Victorian Government, 2 June 2021.

7. The border to Victoria is now closed to all states except NSW, although Victorians crossing to NSW are being told they must follow the stay-at-home measures being applied in Victoria. There is also concern at the prospect of outbreaks of COVID-19 in NSW.

8. In response to questioning at Senate Estimates, Federal Treasury Secretary Steven Kennedy has said the Victorian lockdown will cost the economy about $100 million a day. That cost is based on a hit to gross domestic product of about two percentage points in the September quarter, which is equivalent to about $9 billion, or $100 million a day.[2]

9. New KPMG modelling has estimated a $125 million economic hit for each day the lockdown continued, resulting in the initial week-long lockdown costing $875 million alone, or $1.75 billion for a 14-day lockdown – more if the lockdown is extended further.[3]

10. In terms of specific industries, the extended lockdown is estimated to cost more than $2 billion in lost retail trade,[4] and around $1 billion in lost revenue for the accommodation and food industry.[5] The effect is not just felt in Victoria, with it being reported that hotel occupancy levels in some of the major hotels in downtown Sydney had fallen to 20 per cent.[6]

11. The high level of uncertainty, due to the risks of similar outbreaks and the ensuing lockdowns in the future, underscores the need for genuine caution in this review and in considering any substantial increase in minimum and award minimum wages. While we have seen a substantial improvement in the Australian economy from the depth of the crisis in May 2020, the current lockdown in Victoria indicates the risks are still there and these gains could all be wiped overnight if we are unable maintain control of the virus. At the micro level, where individual operations and individual jobs are at risk, operations are again tenuous for many.

2. ECONOMIC OUTLOOK

12. In a statement to the Senate Economics Legislation Committee (Senate Estimates) on 1 June 2021, Treasury Secretary, Dr Steven Kennedy noted that the recent COVID-19 outbreak in Melbourne reinforces the point that the pandemic is not over and that risks to the Australian and the global recovery remain heightened.[7]

13. Despite this, the domestic economy has continued to recover and grow strongly, with Australia's economic growth outperforming all major advanced economies in 2020. Treasury has upgraded its economic forecasts since the May Budget, now expecting growth of 5¼% in 2021, on the

[2] Senate Estimates 2021-22 Budget 1 – 4 June 2021. Transcripts. https://www.aph.gov.au/Parliamentary_Business/Senate_estimates/Economics/2021-22_Budget_estimates
[3] Patrick Commins, Rachel Baxendale and Rosie Lewis, Extra coronavirus lockdown pain a risk to economic recovery, The Australian, 2 June 2021.
[4] See National Retailers Association, Extension to Vic lockdown to be a two-billion-dollar hammer blow for retailers, Media Release, 2 June 2021; Australian Retailers Association, Federal support needed with 2B+ in lost retail trade from Vic lockdown, Media Release, 2 June 2021.
[5] Sumeyya Ilanbey and David Crowe, 'It's painful': Desperate businesses cry out for help as Canberra weighs options', The Age, 2 June 2021.
[6] Finbar O'Mallon, Victorian lockdown hurts Sydney hotels, *AFR*, 2 June 2021.
[7] Treasury 2021, Steven Kennedy, Opening Statement to the Economic Legislative Committee, Tuesday 1 June 2021. https://www.aph.gov.au/Parliamentary_Business/Senate_estimates/Economics/2021-22_Budget_estimates/Treasury

back of building momentum in the economy, the roll-out of vaccines and continued fiscal and monetary policy support.

14. It is important to note that the Treasury's expectations are based on a macro view of the economy. When looking at the industry level, some sectors remain constrained by international border closures and state-based health restrictions and are lagging in the economic recovery. These are typically customer facing sectors that are also repeatedly impacted by the snap lockdowns in response to new COVID-19 outbreaks. During questioning following his statement, Dr Kennedy stated that Treasury's forecasts include an assumption of three snap lockdowns, similar to the current situation in Melbourne, each quarter of 2021.

15. In reference to the end of JobKeeper, Dr Kennedy commented that, from the Australian Tax Office (ATO) Single Touch Payroll (STP) data, around 56,000 former JobKeeper-reliant workers lost employment in April 2021. Yet, he pointed out that we will need to wait to 17 June 2021 for a comprehensive update on developments in the labour market since the end of JobKeeper, with the release of ABS Labour Force in Detail data. In the intervening period, Australia's second largest economy and job provider, Victoria, has entered lockdown.

16. On wages growth, Dr Kennedy observed that the amount of labour market slack determines the pressure on employers to increase wages and attract employees. Treasury has recently revised down its estimate of the non-accelerating inflation rate of unemployment (NAIRU) to 4.5%. Although employment has grown and unemployment has fallen faster than expected, based on the current unemployment level of 5.5% there is still considerable slack in the labour market before pressure begins to build on wages and prices. As such, Treasury are not forecasting any significant pick-up in wages until 2022-23. We recall our earlier detailed arguments on why any artificially inflated increase in minimum and award minimum wages, in excess of inflation, would be highly damaging rather than stimulatory.

17. In contrast to Treasury, the Reserve Bank has not changed its position from earlier this year. The statement following the Reserve Bank Board Meeting of 1 June 2021 maintained its expectations for GDP growth at 4¾% in 2021 and 3½% over 2022.[8] Yet it noted ongoing uncertainty due to the possibility of further COVID-19 outbreaks.

18. The unemployment rate is falling faster than expected. Yet there remains considerable slack in the labour market, despite some reports of labour shortages in some parts of the economy.

19. Notwithstanding the strong recovery in the economy and jobs, inflation and wage pressures remain subdued. A gradual and modest pick-up in inflation and wages growth is expected, with underlying inflation of 1½% in 2021 and 2% in mid-2023. Although, CPI inflation is expected to rise above 3% in the June quarter, due to the reversal of some COVID-19-related price reductions, this should be seen as a temporary anomaly that is not consistent with the long term trend.

[8] Reserve Bank of Australia 2021, Statement by Philip Lowe: Governor: Monetary Policy Decision 1 June 2021 https://www.rba.gov.au/media-releases/2021/mr-21-09.html

3. THE NATIONAL ACCOUNTS

20. The ABS National Accounts show Australia's economic activity has recovered to pre-pandemic levels with solid economic growth of 1.8% in the March quarter raising GDP growth to 1.1% for the year to March 2021.

21. The recovery had been led by solid growth in household final consumption expenditure, up 1.2% and contributing 0.7 percentage points to GDP growth in the quarter. This was driven by a surge in expenditure on hotels cafes and restaurants, up 14.8%, as state-based health restrictions were eased, particularly the number of patrons allowed on premises, as well as standing and seating requirements. Expenditure on recreation and culture, up 3.3%, and goods and services, up 3.3%, were also boosted by the easing of these restrictions.

22. The economy continues to be supported by fiscal support measures, with public investment increasing a further 2.9% in the March quarter 2021. However, government expenditure has fallen slightly, down 0.5%, as the Government begins to wind back the exceptional support measures introduced at the peak of the crisis. The end of JobKeeper on 28 March 2021 is expected to contribute to a considerable decrease in government expenditure in the June quarter 2021.

23. A solid improvement in private investment, up 5.3% in the quarter and 3.6% for the year, was also a major contributor to the strong economic growth of the March quarter 2021, contributing 0.9 percentage points to GDP growth in the quarter. This was led by strong business investment, with a 11.6% rise in machinery and equipment in the March quarter driven by the temporary full expensing measure. This growth can be expected to continue, with the Budget extending the temporary full expensing measure for another year to June 2022. There was also solid growth in dwelling investment, up 6.4%, as a result of the HomeBuilder scheme increasing construction activity in detached housing and renovations. While HomeBuilder closed in March 2021, the legacy of the program will continue, with the Budget extending the requirement to begin construction for another 6 months to June 2022.

24. Australia's terms of trade continued to rise, up 7.4%, on the back of very strong export prices, particularly for iron ore and LNG, contributing to a 3.5% increase in nominal GDP. While prices of these commodities have moderated in the second quarter, they remained at high levels. There is some discussion of geopolitical and trade tensions impacting on our iron ore exports and their contribution to our exports.

25. Despite this, net exports detracted 0.6 percentage points from GDP in the quarter. Imports rose strongly, up 3.7%, driven by solid growth in intermediate goods (+3.7%) and consumption goods (+3.1%), as businesses returned to more normal capacity utilisation levels and consumers returned to more normal consumption patterns. But exports rose only 0.5%, with rural goods exports the only stand out, up 13.8%, with excellent growing conditions providing bumper harvest.

26. Gross operating surplus (GOS) in the non-mining sector continued to decline in the March quarter 2021, down a further 3.1% as government support measures are wound back. However,

this comes off very high levels of GOS in the June and September quarters 2020 on the back of the very high level of Government support provided at that time. While GOS remains above normal levels, it is expected to continue to fall with the further unwinding of Government support measures and will remain at or slightly below its longer-term average going forward.

27. Real net national disposable income continued to rise in the March quarter 2021, up a further 3.4% and 6.1% for the year. This reflects the strong employment growth in the quarter and an increase in hours worked. It is also a reflection of the high level of Government support provided in response to the COVID crisis and the continuing benefit this was providing to households. Overall, households were much better off than they were entering the COVID crisis and this should be a key consideration in determining any increase in minimum and award minimum wages in this Annual Wage Review.

28. While aggregate economic growth has bounced back to its pre-COVID level in the March quarter 2021, the recovery has been uneven across the economy. As restrictions eased in the March quarter, sectors heavily impacted by the pandemic, including accommodation and food services, transport postal and warehousing, and arts and recreation services, experienced solid growth in gross value added (GVA). Yet:

    a. Despite this improvement, the GVA in all these sectors remains well below its pre-pandemic levels.

    b. At least in Victoria, they are impacted by lockdown again, which is likely to be followed by tapering restrictions which limit revenues for an extended period.

29. As noted above, household final consumption expenditure was a major contributor to economic growth in the March quarter 2021, driven mainly by a resurgence in customer facing sectors that were most impacted by Government restrictions — accommodation and food services, arts and recreation. Yet, economic activity (GVA) in these sectors continues to lag the overall economic recovery. These are also sectors that remain vulnerable to further outbreaks of COVID-19, with the snap lockdown to control recent outbreak in Victoria choking economic activity in these sectors in Victoria. With further lockdowns expected until the vaccine roll-out is complete, these sectors are likely to experience a rollercoaster ride over the remainder of the year and will continue to lag the overall recovery.

30. These snap lockdowns also have implications for consumer and business confidence, which will flow through to consumer spending and business investment. With the household savings rate remaining high at 11.6%, the challenge for the Government is to maintain consumer confidence and encourage households to spend these savings to sustain economic growth. Similarly, the solid business investment growth in the first quarter 2021 was driven by rising business confidence. As the current lockdown in Victoria enters its second week, movement restrictions on consumers and increasing cost pressures on businesses as well as fears of future lockdowns will weigh heavily on consumer and business confidence. This represents a considerable risk to the sustainability of the economic growth observed in the March quarter 2021.

4. LABOUR MARKET AND JOBS

31. While the job losses stemming from the end of JobKeeper measurable to date are lower than earlier anticipated, these losses are still significant. These job losses are also concentrated in sectors that continue to face Government imposed constraints that limit them from returning to normal operations.

32. The ABS Weekly Payroll Jobs and Wages in Australia showed payroll jobs continued to fall in May 2021, down a further 0.5% in the fortnight ending 8 May 2021. This is on the back of a decline of 1.5% in April 2021 (fortnights ending 10 April and 24 April), which directly followed the ending of JobKeeper.

33. Younger workers continue to be disproportionately impacted, with a further 1.1% decline in jobs for workers aged 20-29 years old. This follows a fall of 1.9% for this age cohort in April 2021.

34. The decline was widespread across many sectors, with award reliant sectors including arts and recreation services decreasing 1.2% in the fortnight ending 8 May 2021 (following a 3.9% decline in April 2021), accommodation and food services dropping 1.0% (down 2.9% in April), administrative and support services falling 1.0% (down 3.6% in April), and transport, postal and warehousing dropping 0.4% (down 2.2% in April).

35. These are also sectors that have remained persistently down since the beginning of the crisis and continue to be impacted by snap lockdowns as is currently being experienced in Victoria. Overall, payroll jobs in accommodation and food services are 10.7% lower on 8 May 2021 than 14 March 2020, and transport, postal and warehousing 7.5% lower, and arts and recreation services 2.3% lower.

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We represent more than 300,000 businesses of all sizes, across all industries and all parts of the country, employing over 4 million Australian workers.

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