Ai GROUP SUBMISSION

Fair Work Commission

Annual Wage Review 2020-21

Post-Budget Submission and Supplementary Submission on the latest economic data

14 May 2021

Ai GROUP

1. Introduction and the proposed quantum of the minimum wage increase

On 26 March 2021, the Australian Industry Group (**Ai Group**) filed its Initial Submission in the *Annual Wage Review 2020-21* and on 23 April 2021 we filed our Reply Submission.

This submission addresses matters related to the 2021/22 Budget and the latest economic data. The submission also identifies the minimum wage increase that Ai Group proposes for this year's Annual Wage Review.

It is critical that the Expert Panel take a very cautious approach in determining the level of any minimum wage increase this year. While Australia's economy has bounced back at a faster and stronger pace than had been anticipated (reflecting the size, speed and success of various economic support measures), the effects of the pandemic and recession are ongoing.

There are many hurdles to a complete recovery. The global pandemic is continuing and the level of infections in many countries is increasing rapidly. Major travel restrictions are set to remain in place in Australia for at least the next 12 months. The inability of businesses to access overseas workers is leading to widespread skill and labour shortages. These shortages are impacting upon business viability, growth and productivity.

The distribution of economic loss and recovery has been extremely uneven to date across locations, industries, occupations and demographic groups around Australia. A minimum wage increase is a very blunt instrument and cannot be readily tailored to the needs of particular employees and businesses.

In this year's Review the Fair Work Commission has an opportunity to contribute to the heightened national ambition of reducing unemployment to less than 5 per cent. Awarding a modest increase in the National Minimum Wage and award wages would encourage employers to put on more staff and to increase the hours of work for existing staff.

In the current circumstances, we propose an increase of **1.1% in the National Minimum Wage and to award wage rates.** This would contribute to a significant overall increase in living standards for award-reliant employees and their families. When added to the **0.5% Superannuation Guarantee (SG) increase** that is operative from 1 July 2021 and the equivalent of a **1.6% increase in pre-tax income** that an employee on the National Minimum Wage will receive in coming months as a result of the personal income tax changes introduced in the 2020-21 Budget, our proposal would result in the equivalent of a **3.2% increase in remuneration for low paid employees**.

Consistent with longstanding past practice, it is appropriate that the Expert Panel take into account the increase to the SG and the decrease in personal taxation, when determining the quantum of any minimum wage increase in the Annual Wage Review.

Our proposed increase of 1.1% is equivalent to the latest headline annual inflation figure of 1.1% (Q1 2021).

With regard to the timing of any minimum wage increase, as set out in our Initial Submission and Reply Submission, we propose:

- An operative date of **1 July 2021 for any increase in the National Minimum Wage and any increase in Group 1 awards**, i.e. 12 months after the last increase.

- An operative date of **1 September 2021 for any wage increase in Group 2 awards**. Last year, the minimum wage increase for these awards was delayed by four months. This year, we propose a delay of two months. This would facilitate a smooth transition to a 1 July operative date for any minimum wage increase next year, if there are no ongoing 'exceptional circumstances'.

- An operative date of **1 January 2022 for any wage increase in Group 3 awards**. The industries covered by these awards continue to be adversely affected by the pandemic and employers only paid the last annual wage review increase on 1 February 2021.

Ai Group does not propose any re-formulation of the award groupings. The groupings determined in the *Annual Wage Review 2019-20 Decision* remain appropriate.

The 'exceptional circumstances' that exist this year justifying a delayed operative date for any wage increase in Group 2 and Group 3 awards are two-fold:

1. These industry sectors have been adversely impacted by the pandemic and have not yet recovered to pre-pandemic levels.

2. The delayed operative dates for last year's wage increase for the awards in Group 2 and Group 3 has resulted in the 'exceptional circumstance' that employers would be required to pay two wage increases in close succession, unless a delayed increase is granted again this year. The Panel alluded to this in the *Annual Wage Review 2019-20 Decision*:

   > ***[192]*** *Finally, we also acknowledge that the different operative dates we have determined for the 3 award clusters may have implications for the timing of any variation in modern award minimum wages in the 2020–21 Review.*

2. Impact of the SG increase on 1 July 2021

The SG will increase from 9.5% to 10% on 1 July 2021. The increase has already been legislated for. Earlier this year the Government indicated that it would decide by the time of the May Budget whether it would introduce legislation into Parliament to delay the planned increase. The Government has decided not to introduce legislation to delay the SG increase.

There is a long history of the Fair Work Commission and its predecessors taking into account increases in the SG when making decisions on minimum wages.

In its *Annual Wage Review 2012-13 Decision*, the Expert Panel agreed with submissions made by Ai Group that it would be consistent with the modern awards objective and the minimum wages objective to have regard to the increase in the SG from 9% to 9.25% which took effect on 1 July 2013. In its decision, the Panel said:

> ***[355]*** *Ai Group and the NFF submitted that, while currently there is no specific legislative requirement to take into account the increase in the SG rate, this should not prevent the Panel from making it a consideration in its deliberations. Ai Group also argued that the objects of the Act, the modern awards objective and the minimum wages objective, support the view that such increases must be taken into account.*
>
> ***[356]*** *We agree with Ai Group's submission. Consistent with the objects of the Act, the modern awards objective and the minimum wages objective, we have had regard to the SG rate increase which takes effect from 1 July 2013 in our determination of the level of increase in minimum wages.*
>
> ***[357]*** *While the effect of superannuation legislation on employers and employees is not specifically identified in the Act as a matter the Panel must consider, we have had regard to the increase in the SG rate to take effect from 1 July in coming to our decision in this Review. In our view, such an approach is consistent with the objects of the Act, the modern awards objective and the minimum wages objective and, in particular, the legislative requirements that we take into account:*
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> - *the special circumstances of small and medium-sized businesses (s.3(g));*
> - *the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden (s.134(1)(f)); and*
> - *the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth (s.284(1)(a)).*
>
> ***[358]*** *In addition to the public benefit achieved by supporting retirement incomes through the superannuation system, SG contributions also constitute a deferred benefit to employees and a cost to employers. As we have mentioned, our characterisation of SG contributions distinguishes them from other non-wage labour costs. It follows that we do not accept the premise of the ACTU submission. Not every movement in non-wage labour costs will have a consequential effect on the level of minimum wage increase determined in a review.*
>
> ***[359]*** *While we have taken the 0.25 per cent increase in the SG rate into account in determining the level of increase in minimum wages in the Review, we have not applied a direct, quantifiable, discount to the minimum wage increase, as proposed by Ai Group and the NFF. As we have noted, the AIRC decisions following the introduction of the SGC Acts provide no support for such an approach. Nor does the current legislative framework support such an approach. In reviewing modern award minimum wages and the NMW the Act requires us to have regard to a range of considerations. As we note in Chapter 2, there is a degree of overlap between the matters specified in the modern awards objective, the minimum wages objective*

and the objects of the Act. To the extent that these matters are of direct relevance to the Review, they may be grouped into three broad categories: economic; social; and collective bargaining. The range of considerations we are required to take into account calls for the exercise of broad judgment, rather than a mechanistic approach to minimum wage fixation.

[360] *The SG rate increase to apply from 1 July 2013 is a moderating factor in considering the adjustment that should be made to minimum wages. As a result, though it would not be appropriate to quantify its effect, the increase in modern award minimum wages and the NMW we have awarded in this Review is lower than it otherwise would have been in the absence of the SG rate increase.*

Similarly, in the *Annual Wage Review 2013-14 Decision*, the Expert Panel decided that it would be consistent with the objects of the Act, the modern awards objective and the minimum wages objective to take into account the increase in the SG from 9.25% to 9.5%, which took effect on 1 July 2014. In its decision, the Panel said:

[12] *The Superannuation Guarantee (Administration) Amendment Act 2012 increases the superannuation guarantee rate (SG rate) from 9 per cent to 12 per cent. The increase is to be phased in, commencing with increases of 0.25 percentage points on 1 July 2013 and 1 July 2014.*

[13] *The Annual Wage Review 2012-13 decision (2012–13 Review decision) concluded that it was consistent with the statutory framework to have regard to the SG rate increase to take effect from 1 July 2013 in its determination of the level of increase in minimum wages. While the Panel took the 0.25 percentage point increase in the SG rate into account in determining the level of increase in minimum wages in the 2012–13 Review, it did not apply a direct, quantifiable, discount to the minimum wage increase. In the 2012–13 Review decision, the Panel said:*

> *"The SG rate increase to apply from 1 July 2013 is a moderating factor in considering the adjustment that should be made to minimum wages. As a result, though it would not be appropriate to quantify its effect, the increase in modern award minimum wages and the NMW we have awarded in this Review is lower than it otherwise would have been in the absence of the SG rate increase."*

[14] *In our view, such an approach is consistent with the objects of the Act, the modern awards objective and the minimum wages objective and, in particular, the legislative requirements that we take into account:*

- *the special circumstances of small and medium-sized businesses (s.3(g));*
- *the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden (s.134(1)(f)); and*
- *the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth (s.284(1)(a)).*

> ***[15]*** *The 0.25 percentage point increase in the SG rate to take effect from 1 July 2014 is the second increase in the SG rate since the contribution rate reached 9 per cent on 1 July 2012. For the reasons given in the 2012–13 Review decision, we have decided to take the scheduled 0.25 percentage point increase in the SG rate into account in our determination of the level of any minimum wage increase.*

The approach of the Expert Panel in the *Annual Wage Review 2012-13* and in the *Annual Wage Review 2013-14* is consistent with the approach that the Australian Industrial Relations Commission applied when the SG was progressively increased from 3% to 9% between 1992 and 2002. At that time, the *Industrial Relations Act 1988* (s.90A) and the *Workplace Relations Act 1996* (s.90A) expressly required that increases in the SG be taken into account in National Wage Case decisions.

Ai Group submits that the Expert Panel should adopt the same approach in the current Review as it adopted in the *Annual Wage Review 2012-13* and the *Annual Wage Review 2013-14* except that twice as much weight should be given to this year's increase because the SG increase is twice as large as it was in 2013 and 2014.

This approach will result in a minimum wage increase that is "*lower than it otherwise would have been in the absence of the SG rate increase".*[1]

3. Impact of personal income tax changes

The Expert Panel has consistently recognised the importance of taking into account changes to taxation and transfer payments when determining the quantum of minimum wage increases.

In the *Annual Wage Review 2015-16 Decision*, the Expert Panel noted:

> *'The effect of taxes and transfers on disposable incomes of the low paid is relevant to the needs of the low paid and their relative living standards, both in terms of specific changes in the tax-transfer system at the time of a particular AWR and in assessing broader information in relation to measures of the relative income of the low paid…'*[2]

The above paragraph was reproduced and concurred with in the *Annual Wage Review 2016-17 Decision*.[3]

In the *Annual Wage Review 2018/19 Decision*, the Expert Panel said:

> *Changes in the tax-transfer system, whether providing a benefit or a detriment to low-paid households, are relevant to our consideration of relative living standards and the needs of the low paid because of their effect on disposable incomes. In many cases, the net effect of the tax-transfer system is to increase the disposable income of households that are reliant on low wages. But the impact of taxation and the means testing of many transfer payments means*

[1] *Annual Wage Review 2012-13 Decision,* [360]; *Annual Wage Review 2013-14 Decision,*[13].

[2] *Annual Wage Review 2015-16 Decision*, [391].

[3] *Annual Wage Review 2016-17 Decision*, [406].

> *that increases in the NMW and modern award minimum wages are not fully reflected in household disposable income.*[4]

In last year's Annual Wage Review Decision, the Expert Panel said:

> ***[355]*** *Ai Group point out that 'the amount of LMITO made available to taxpayers in respect of income earned in the 2018-19 year was larger than the LMITO factored into last year's Review' and urged that 'the higher rate of LMITO be taken into account in this year's decision'.*
>
> ***[356]*** *Ai Group also submitted that support for household incomes has been predominately targeted to lower-income households and middle-income households with children, highlighting the two Economic Support Payments and the Coronavirus Supplement. They argued the pattern of distribution of the income support measure will boost the relative living standards of lower income households. They further argued that the temporary nature of the additional support does not mean it should be overlooked in this Review as it is relevant to the relative living standards and needs of the low paid for the current year.*
>
> ***[357]*** *Consistent with previous Reviews, we have taken account of the interaction between wages and the tax-transfer system in our consideration of 'the needs of the low paid', including the higher rate LMITO, and have had regard to various assistance packages introduced by the Australian Government in response to the COVID-19 pandemic. We affirm the position taken by the Panel in previous Review decisions, that it is not appropriate to apply a direct, quantifiable discount to the increase we would have awarded in the absence of such changes; but these changes are a moderating factor in our assessment of the appropriate level of the NMW and modern award minimum wages arising from this Review.*
>
> ***[358]*** *We also affirm the Panel's previously expressed view that the tax-transfer system can provide a more targeted and efficient approach to addressing poverty among low-income individuals, increasing low-paid households' disposable incomes and sustaining their relative living standards. However, while minimum wage increases are not fully reflected in household disposable income, minimum wages continue to play a large role in improving household income for low-income minimum wage families.*

The 2020-21 Budget introduced significant changes to personal income taxation. The Budget, which was delivered in October 2020, brought forward the second tranche of income tax changes originally set out in the 2018-19 Budget. Under the original timetable the second tranche was to take effect from the start of the 2022-23 year. The 2020-21 Budget brought forward this tranche as a stimulus measure so the changes took effect from 1 July 2020. In addition to the bring-forward of the 2022-23 tranche of personal income tax changes, the 2020-21 Budget extended the Low and Middle Income Tax Offset (LMITO) to the 2020-21 year.

[4] *Annual Wage Review 2018-19 Decision*, [216].

These changes were not considered by the Panel in last year's Review and Ai Group's Initial Submission to this year's Review argued that the following changes to personal income tax arrangements should be taken into account in the current Review:

- The threshold at which the marginal rate of tax rises from 19 per cent to 32.5 per cent was raised from $37,000 to $45,000;
- The Low and Middle Income Tax Offset (**LMITO**) was extended for a further year;
- The maximum Low Income Tax Offset (**LITO**) was increased from $445 to $700 and changes were made to the parameters governing its withdrawal.

An important feature of the LITO and the LMITO is that they are paid as tax refunds and are delivered to recipients in the income year following the income year to which they relate. Thus, the benefits of the extension of the LMITO in respect of income earned in the 2020-21 year will impact on the living standards of low and middle-income taxpayers in the 2021-22 year. Similarly, the benefits of the increase in the LITO in respect of income earned in the 2020-21 year, will impact on the living standards of low-income taxpayers in the 2021-22 year.

In our Initial Submission we also proposed that the Panel take the change to the threshold for the 19 per cent bracket into account in this year's decision comparing the tax payable under the current tax scale with the tax treatment that applied at the time of last year's Annual Wage Review Decision.

Ai Group's Initial Submission (in Table 6.1) illustrated the impacts of the personal income tax changes on lower paid employees. That table is reproduced below as Table 1 highlighting that the personal income tax changes have delivered to a person earning the current National Minimum Wage for a full year, the equivalent of a 1.6 per cent increase in pre-tax income.

Table 1: Illustrative Impacts of Changes in Income Tax Arrangements on Low Income Earners

Proportion of NMW	Pre-tax income $ pw	Annualised disposable income		Increase in disposable income		Equivalent increase in pre-tax income	
		At the time of last year's Decision	In the 2021-22 year	$ pw	%	$ pw	%
50%	376.90	19,652	19,652	0.00	0.0%	0.00	0.0%
60%	452.28	23,181	23,436	4.89	1.1%	6.89	1.5%
70%	527.66	25,972	26,227	4.89	1.0%	6.89	1.3%
80%	603.04	28,998	29,253	4.89	0.9%	6.19	1.0%
90%	678.42	32,103	32,358	4.89	0.8%	6.19	0.9%
100%	**753.80**	**35,045**	**35,545**	**9.60**	**1.4%**	**11.77**	**1.6%**
110%	829.18	37,855	38,748	17.13	2.4%	21.02	2.5%
120%	904.56	40,665	41,735	20.52	2.6%	28.70	3.2%
130%	979.94	43,243	44,313	20.52	2.5%	32.07	3.3%
140%	1,055.32	45,759	46,829	20.52	2.3%	32.07	3.0%
150%	1,130.70	48,274	49,344	20.52	2.2%	32.07	2.8%

4. Latest employment changes and outlook

The latest economic data continue to indicate that the Australian economy was recovering from the significant shock of the first stages of the COVID-19 pandemic and associated recession in 2020, as of Q1 2021. This recovery, however, is extremely uneven across industries and locations and demographic groups. It is fragile and highly vulnerable to further disruption from COVID-19 outbreaks or other risks. More than one year from the beginnings of this crisis, Australia's community and economy is still going through the difficult process of adjusting to the ongoing public health threat of COVID-19, ongoing international border restrictions, local activity restrictions and the significant risk of intermittent unpredictable local lockdowns and closures. The risk of further disruption from local lockdowns is especially pronounced for people-facing services industries such as retail trade, hospitality, arts, recreation and transport.

The recovery in employment has been especially welcome, with the latest ABS labour force survey (to March 2021) and ABS employee payroll data (to 24 April 2021) both showing a full recovery in total employment numbers in Q1 of 2021, compared to pre-pandemic levels one year earlier. This resulted in the national unemployment rate falling to 5.6% and the underemployment rate decreasing to 7.9% as of March 2021 (ABS *Labour Force*).

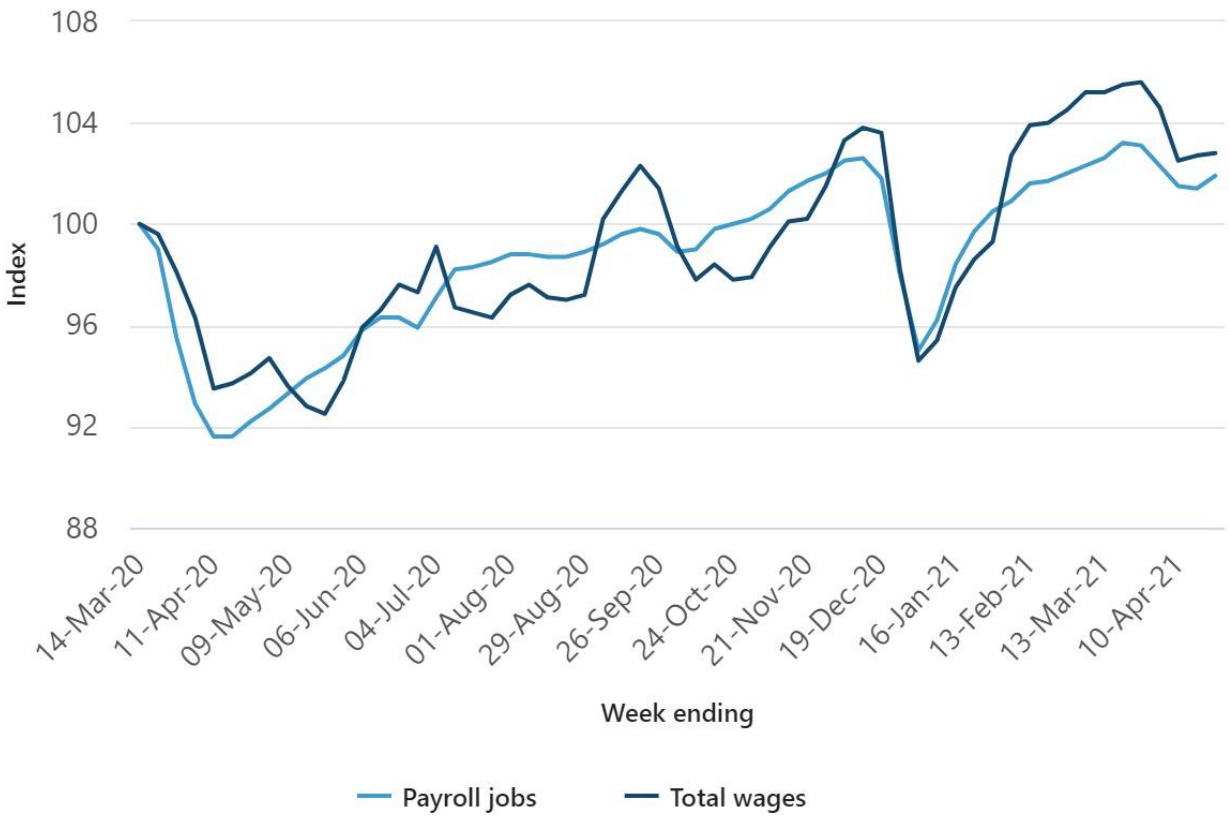
Underscoring the fragility of this recovery however, the most recent ABS payrolls data (covering payrolls for employees only and not for all working people) indicate a concerning drop in employee numbers (-1.2%) and aggregate wages (-2.7%) in the month to 24 April 2021 (Chart 1). Compared to pre-pandemic employee numbers (on 14 March 2020), these latest ABS-ATO payroll data show that as of 24 April total payroll jobs were 1.9% higher, but the recovery is extremely uneven:

- Payroll jobs for females were 1.4% higher than in March 2020, but 0.1% lower for males;
- Payroll jobs for 20-29 year olds were no higher in April 2021 than in March 2020 (0.0%);
- Payroll jobs on 24 April 2021 were higher than pre-pandemic levels in healthcare (+4.9%), public administration (+10.3%), finance (+7.7%), utilities (+3.2%) and professional services (+1.6%), but they were lower than in March 2020 in large lower-wage industries including:
    - Manufacturing (-2.1%)
    - Construction (-0.5%)
    - Wholesale trade (-1.6%)
    - Retail trade (-1.1%)
    - Accommodation and food services (-10.3%)
    - Transport, post and warehousing (-6.8%)

- IT, media and telecoms (-6.7%)
- Rental, hiring and real estate (-0.9%)
- Education (-1.7%)
- Arts and recreation services (-1.5%)
- Personal and other services (-1.1%).

- Payroll jobs in large businesses (200+ employees) were 1.1% higher in April 2020 than in March 2021 but they were 0.8% lower for medium businesses (20-199 employees) and -0.3% for small businesses (under 20 employees).
- Payroll employment in small businesses fell by 1.3% in the fortnight to 24 April 2021, but rose by 1.3% in large businesses.

Chart 1: jobs and aggregate wages for ATO 'single-touch' payroll employees, index (14 March 2020 = 100)



Care should be exercised when focusing on the most recent movements in payroll jobs and wages. For more information, please see Data limitations and revisions.
Source: Australian Bureau of Statistics, Weekly Payroll Jobs and Wages in Australia Week ending 24 April 2021

This fall in payroll jobs in April is likely to be (partly) related to the end of JobKeeper in late-March, but it may also signal that a significantly slower phase of recovery and adjustment is now underway.

It could be some months before the full extent of job losses in response to the end of JobKeeper is apparent. This fall was foreshadowed by Treasury Secretary Dr Kennedy, who recently told a Senate Estimates Committee that Treasury expects the end of JobKeeper to directly cause some businesses to close and 100,000 to 150,000 jobs to be lost:

> *"Growth will moderate as Australia moves past the initial phase of the recovery from COVID-19 … Determining the overall level of potential job losses is difficult … We believe that in the order of 100,000 to 150,000 JobKeeper recipients may lose employment at the completion of the program, though there is a wide band of uncertainty around this estimate."*[5]

In the Federal Budget for 2021-22, the Australian Government expressed great concern about the fragility of the national jobs recovery in 2021 and beyond. Indeed, jobs recovery and a substantial reduction in unemployment are the primary stated goals of this year's Federal Budget, taking precedence over the more typical budget concerns about fiscal sustainability. Sustainable job creation and workplace skills development are to be targeted through a number of centrepiece programs over the next two years including a national Local Jobs Program, extended wage subsidies, extended JobTrainer support, the Digital Economy Strategy, large increases in support for apprenticeships and stronger industry engagement for the VET sector.

In his Federal Budget speeches, Treasurer Frydenberg stated that the Government:

- wants "*the unemployment rate down to where it was prior to the pandemic [around 5%] and then even lower. And we want to see that sustained*." and
- "*must avoid long-term [and] generational unemployment at all costs*".

With regard to the outlook for 2021 and 2022 (see Table 2), the Federal Budget makes clear that:

- The COVID-19 pandemic is still a live event globally. It will remain so for a lengthy but as yet unknown period. The status, location and virulence of COVID-19 is evolving constantly.
- Australia has been relatively successful in avoiding mass infections and fatalities and has averted mass unemployment, but is not yet in a 'post-COVID' situation.
- Mass vaccinations for the majority of working age people (under 50 years) will commence in earnest from late 2021.
- International travel will remain heavily restricted until at least the middle of 2022.

[5] Senate Estimates on 24 March 2021

- Localised activity restrictions, lockdowns and border closures are likely to continue in 2021.
- This budget is (quite rightly) firmly focussed on virus control, growth and jobs. It prioritises lower infections and unemployment over lower deficits and debt.

The Treasury concludes that for 2021-22:

> *"Overall, the outlook remains positive, though considerable risks remain. The continued economic recovery will rely on the effective containment of COVID-19 outbreaks both here and abroad. This will be a key factor in the timing of the reopening of international borders, which could weigh on the outlook for the tourism and education sectors. More broadly, downside risks to the outlook for the global economy from ongoing outbreaks of the virus in major economies, including India, could also have implications for Australia's economy." (Budget Paper No 1 pp. 35-36).*

With regard to the strength and composition of employment growth from here, Treasury expects a significant slowing in total jobs growth, to just 1% p.a. in each of 2021-22 and 2022-23:

> *Employment is expected to increase strongly by 6½ per cent in 2020-21, before continuing to increase steadily by 1 per cent in both 2021-22 and 2022-23, reflecting the broader pattern of economic growth over the rest of the forecast period and slower population growth.*
>
> *…. The extent of recovery remains different across industries, with employment in several industries having declined over the year to February 2021. Sectors impacted by restrictions, international border closures and reduced tourism remain the most affected.*
>
> *… Younger workers were initially the most affected in terms of employment, as industries adversely impacted by the pandemic, such as hospitality and tourism, are heavily comprised of workers in this age cohort. While youth employment has somewhat recovered, employment levels are still 2 per cent below pre-pandemic levels. In addition to exposure to ongoing impacts in some of these industries, this cohort has been impacted by the youth population steadily declining over the course of 2020, reflecting international border closures. Looking through this effect, the employment-to-population ratio for those aged 15-24 is 0.6 percentage points above the March 2020 level.*
>
> *Despite the strength of the recovery to date, there remain key uncertainties surrounding the outlook for the labour market, posing both upside and downside risks. Ongoing outbreaks of the virus and, to a lesser extent, the end of the JobKeeper Payment, present near-term downside risks to the outlook, while longer-term risks associated with a stronger- or weaker-than-expected recovery in migration and tourism may have significant employment implications. The opening of borders is crucial for the recovery of parts of the tourism and higher education industries, and the return of skilled migrants will be key in filling skill shortages in some industries. (Budget Paper No 1 pp. 58-9).*

For these and other reasons, Treasury's outlook for nominal wages growth remains modest in 2021 and 2022:

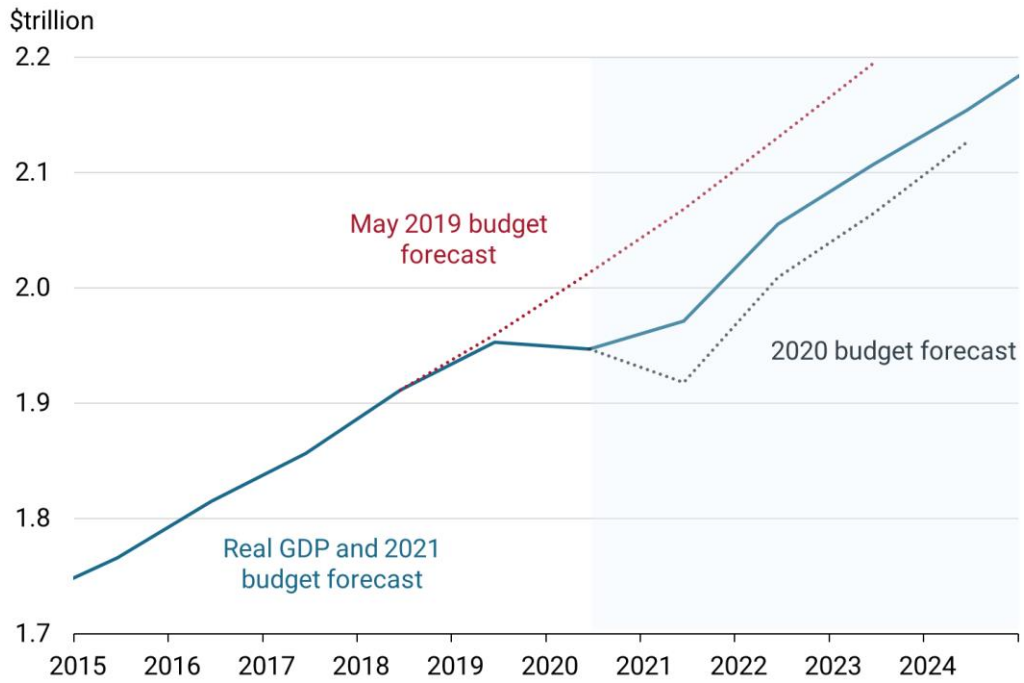
> *… the **outlook for wage growth is expected to remain moderate** over the forecast period. This reflects both the severe impacts of the pandemic and the continued spare capacity in the labour market in the near term. The wage growth outlook also reflects a modest downwards revision to Treasury's estimate of the NAIRU.*
>
> *Growth in wages, as measured by the Wage Price Index (WPI), slowed to just 0.1 per cent in the September quarter of 2020, the lowest quarterly growth on record. Growth in the WPI then recovered to 0.6 per cent in the December quarter of 2020 to be 1.4 per cent higher through the year, partly reflecting a rollback of pay reductions implemented earlier in the year as employers responded to the impact of the pandemic. **Modest inflation outcomes however have meant that consumers have maintained purchasing power with real wages growth** in line with the 10-year average.*
>
> *The **WPI is forecast to grow by 1¼ per cent through the year to the June quarter of 2021 and by 1½ per cent through the year to the June quarter of 2022**, before rising to 2¼ per cent through the year to the June quarter of 2023. The near-term outlook is consistent with low wage increases in new federal enterprise bargaining agreements and state public sector wage caps that are expected to moderate the outlook for wage growth over the forecast period. Towards the end of the forecast period, the lower unemployment rate and broader economic strength should see wages begin to pick up." (Budget Paper No 1 pp. 61).*

Table 2: Treasury forecasts. GDP components and key labour market indicators (May 2021)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Real GDP	-0.2	1.25	4.25	2.5	2.25	2.5
Household consumption	**-3.0**	1.25	5.5	4	na	na
Dwelling investment	**-8.1**	2.5	0	-1.5	na	na
Total business investment	**-2.0**	-5	1.5	10	na	na
By industry						
Mining investment	**6.8**	0.5	3	3.5	na	na
Non-mining investment	**-4.5**	-6.5	1.5	12.5	na	na
Employment**	-4.2	6.5	1	1	1.25	1.25
Unemployment rate^	6.9	5.5	5	4.75	4.5	4.5
CPI**	-0.3	3.5	1.75	2.25	2.5	2.5
WPI**	1.8	1.25	1.5	2.25	2.5	2.75
Nominal GDP	1.7	3.75	3.5	2	4.75	5
Population growth	1.3	0.1	0.2	0.8	na	na

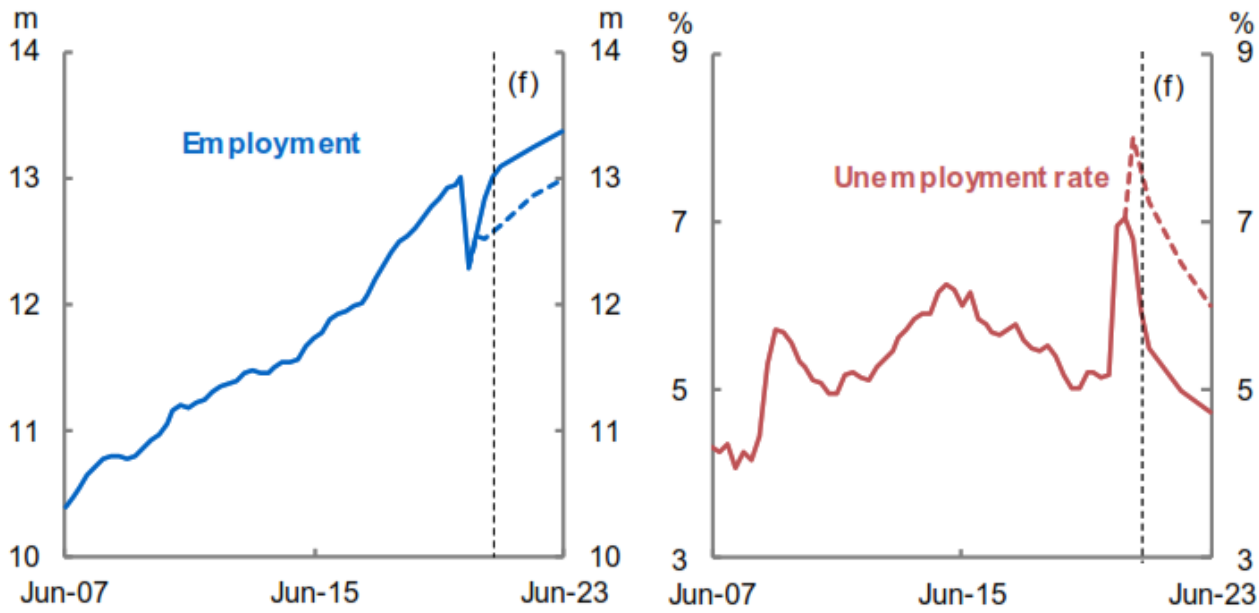
Percentage change on preceding year unless otherwise indicated. **year-ended to June quarter
Note: Shaded area is the forecast period. Source: Commonwealth Treasury.

Chart 2: Treasury forecasts for real GDP levels



Source: Commonwealth Treasury.

Charts 3 and 4: Treasury forecasts for employment and unemployment rate



Note: (f) are forecasts. Dashed lines represent 2020-21 Budget forecasts.
Source: ABS Labour Force and Treasury.

Treasury's latest outlook for employment and wages (as detailed in the Federal Budget) mirror the expectations of the RBA, as published in its latest *Statement on Monetary Policy* (May 2021). Like the Treasury, the RBA expects employment growth will slow during 2021-22, following the unexpectedly rapid recovery in 2020-21 (Table 3):

> *"Conditions in the labour market have continued to improve more quickly than anticipated; … Employment growth is expected to remain strong over the next few months given solid momentum in activity, buoyant forward indicators of labour demand and other available*

information suggesting a muted effect from the end of the JobKeeper program in March. ***From late 2021, employment growth is expected to moderate*** *in line with activity.*

… The faster improvement in the labour market is expected to result in labour market spare capacity being absorbed a little more quickly than previously expected. This should put some upward pressure on wages growth over time. After historically low year-ended wages growth of below 1½ per cent in the second half of 2020, growth in the Wage Price Index (WPI) is expected to pick up to a little under 2 per cent over 2021, before gradually increasing to around 2¼ per cent by mid 2023.

The upward revisions to the outlook for wages are predominantly for private sector wages; the outlook for public sector wages is little changed. Many of the private sector firms that had implemented temporary wage cuts last year reversed them in the December quarter (a little sooner than previously expected). Liaison indicates that many of the firms that currently have wage freezes in place plan to unwind them in coming months, while fewer firms plan to implement new ones. (RBA, Statement on Monetary Policy, May 2021, pp. 73 and 77).

Table 3: RBA forecasts. GDP components and key labour market indicators (May 2021)

	Dec 2020	Jun 2021	Dec 2021	Jun 2022	Dec 2022	Jun 2023
Gross domestic product	−1.1	9¼	4¾	4	3½	3
Household consumption	−2.7	15½	5½	5¼	4	3
Dwelling investment	0.6	10¾	4½	−½	½	3¼
Business investment	−5.1	1¾	6	9	9	6
Public demand	6.3	5¼	4½	3¼	2	1¾
Gross national expenditure	−0.3	12	5¼	4¾	3¾	3
Imports	−9.6	16½	8¾	10½	10	6
Exports	−11.7	3¼	6	6¾	7½	5¼
Real household disposable income	4.4	−¾	1	2¾	1¾	1¼
Terms of trade	7.3	19¾	9	−7¾	−8	−5¼
Major trading partner (export-weighted) GDP	1.9	11	4¼	4¾	4	3¾
Unemployment rate (quarterly, %)	6.8	5¼	5	4¾	4½	4½
Employment	−0.9	6¾	3	1¼	1¼	1¼
Wage price index	1.4	1½	1¾	2	2¼	2¼
Nominal (non-farm) average earnings per hour	5.8	−4½	−¼	1¾	2¼	2¼
Trimmed mean inflation	1.2	1½	1½	1½	1¾	2
Consumer price index	0.9	3¼	1¾	1¼	1½	2

(a) Forecasts finalised on 5 May. Forecast assumptions: TWI at 64, A$ at US$0.77, Brent crude oil price at US$68bbl, population growth of 0.2 per cent over 2021 and 0.4 per cent over 2022; cash rate in line with market pricing out to 2022 (and held constant thereafter); and other elements of the Bank's monetary stimulus are in line with the announcement made following the February 2021 Board meeting.
(b) Forecasts are rounded to the nearest quarter point. Shaded regions are historical data and are shown to one decimal place.
Sources: ABS; CEIC Data; Consensus Economics; Refinitiv; RBA

5. Employment and sales trends in the retail industry

The uneven and fragile nature of economic recovery in 2021 is especially apparent in retail businesses. Retail – along with hospitality, tourism, recreation and transport services – remains particularly vulnerable to further disruption in 2021 as a result of COVID-19 activity restrictions.

As noted above, the latest ABS-ATO estimates of payroll employees show the number of payroll employees in retail trade was 1.1% lower on 24 April 2021 than its pre-pandemic level in March 2020. More detailed payroll data for retail trade segments indicates an uneven distribution of jobs recovery in retailing, as of 10 April 2021 (most recent available at the sub-industry level). Compared to the pre-pandemic levels (14 March 2020), payroll jobs were:

- 12% higher than pre-pandemic levels in fuel retailing (predominantly petrol stations);
- 2.9% higher in food retailing (supermarkets and other food retailers);
- 6.7% higher in non-store-based retailing (online-only retailers);
- 4.3% *lower* in other store-based retailing (non-food store-based retailing); and
- 11% *lower* in food and beverage services (cafes, takeaways, restaurants and bars).

The latest ABS estimates for retail sales also indicate considerable variation across retail segments. In March 2021, the nominal value of total retailers' sales rose by 1.1% m/m, but in inflation-adjusted volume terms, total sales *fell* by 0.5% over the three months to March 2021. The more detailed sales data by retail sector show a clear switch from food to non-food retailers in Q1 (Chart 5). Sales have been heavily disrupted for both large and small retailers but their relative shares are now reverting to trend (Chart 6).

For both food and non-food retailing, COVID-19 has greatly increased the share of sales made online (Charts 7 and 8), adding an additional layer of disruption to store-based retailers. Online sales to online-only retailers based inside Australia rose rapidly through 2020, from around $1.5bn per month in 2019 (around 6% of total sales) to over $3bn in early 2021 (over 10%). The share of sales or of total consumer expenditure going to online retailers based offshore is not known.

Based on these latest data, economists at the Macquarie Bank concluded that:

> "*Retailing was a key beneficiary of COVID and* ***we expect sales to continue to realign lower as spending on services improves****. …* ***The volume of household goods sold has not risen since Q2 2020****. Nominal data suggest that furniture and related sales have been most resilient among household goods retailing, in part because it has benefited most from strength in established housing activity. Retail sales will weigh on Q1 consumer spending – it accounts for ~30% of household consumption" (Macquarie Macro Strategy, 'Retail sales are realigning lower', 10 May 2021).*

Chart 5
nominal retail sales
Food v non-food retailers

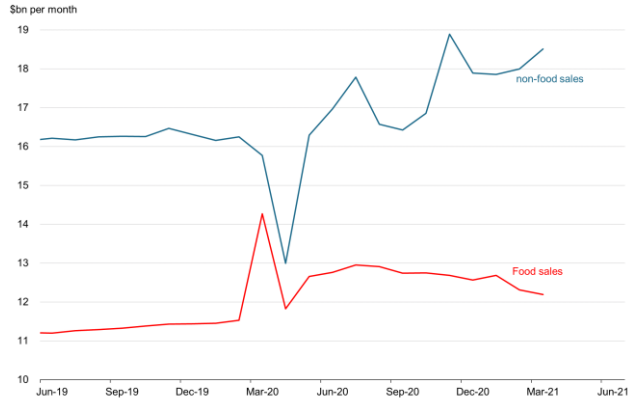
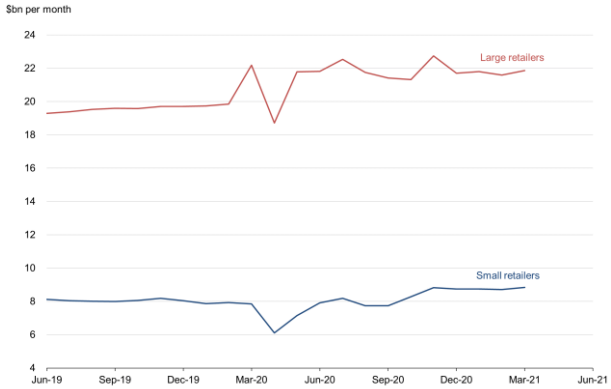


Chart 6
nominal retail sales
large v small retailers



Source: ABS *Retail Trade*, March 2021 (released 10 May 2021).

Chart 7
online retail sales*
$bn per month

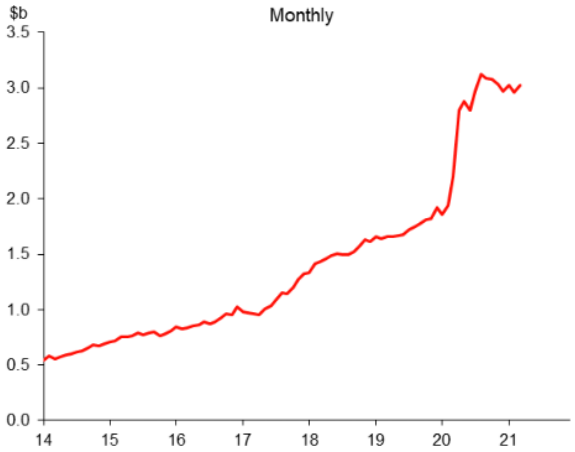
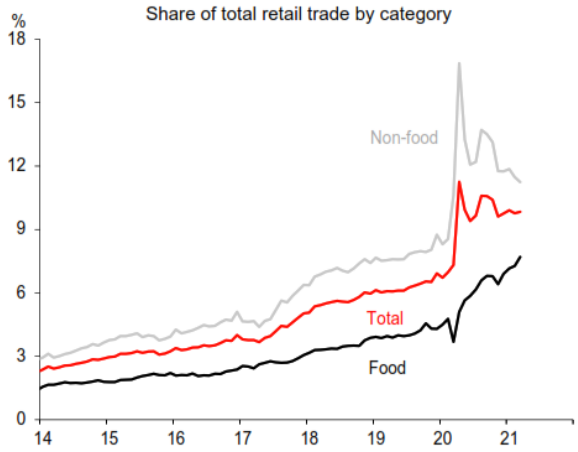


Chart 8
online retail sales*
share of sales (%)



* sales to online-only retailers located inside Australia.
Sources: Macquarie Macro Strategy and ABS *Retail Trade*, March 2021 (released 10 May 2021).

Consumer confidence indexes help to provide an indication of future consumer spending trends for retailers, hospitality businesses and other services. The ANZ-Roy Morgan *Australian Consumer Confidence* weekly indicates consumer confidence was around average in the week to 9 May 2021 but the index for 'time to buy a major household appliance' remained significantly below its own long-run average (Charts 9 and 10):

- Confidence declined 1.0% in the week to 9 May, mainly due to the COVID case registered in Sydney that was followed by precautionary restrictions in the area to prevent an outbreak.
- 'Current financial conditions' declined 2.2% and is sitting around its long-term average.
- 'Future financial conditions' weakened 1.4%.
- 'Current economic conditions' gained 2.8%, with expectations of 'bad times' at a record low stretching back over forty years.

- 'Future economic conditions' improved by 1.8%.
- 'Time to buy a major household item' fell by 4.7% and remains well below average.

Chart 9
Consumer confidence index
Jan 2014 to 9 May 2021

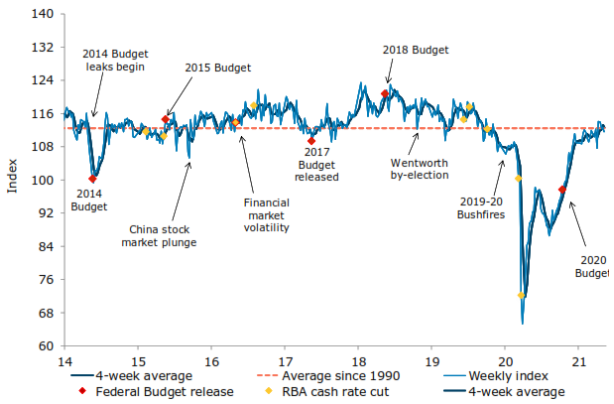
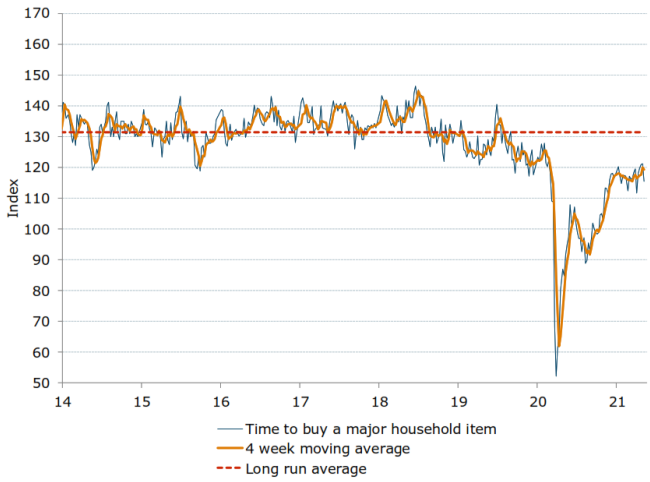


Chart 10
'time to buy' index
Jan 2014 to 9 May 2021



Source: ANZ Roy Morgan *Australian Consumer Confidence* (released 11 May 2021).

Operative date for any wage increase in retail industry awards

Given the uneven and fragile nature of the recovery in the retail sector, as outlined above, it is appropriate that retail awards remain in Group 3.

As set out in section 1 of this submission, Ai Group proposes an operative date of 1 January 2022 for any wage increase in Group 3 awards.

ABOUT THE AUSTRALIAN INDUSTRY GROUP

The Australian Industry Group (Ai Group®) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We are a truly national organisation which has been supporting businesses across Australia for nearly 150 years.

Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Our vision is for thriving industries and a prosperous community. We offer our membership strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders (domestic and international) we have the resources and the expertise to meet the changing needs of our membership. We provide the practical information, advice and assistance businesses need. Our deep experience of industrial relations and workplace law positions Ai Group as Australia's leading industrial advocate.

We listen and we support our members in facing their challenges by remaining at the cutting edge of policy debate and legislative change. We provide solution-driven advice to address business opportunities and risks.

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