

Ai GROUP SUBMISSION

Fair Work Commission

Annual Wage Review 2020-21

**Submission on National Accounts
data for the March quarter**

4 June 2021

Ai
GROUP

1. Introduction

On 26 March 2021, the Australian Industry Group (**Ai Group**) filed its Initial Submission, on 23 April 2021 we filed our Reply Submission, and on 14 May 2021 we filed our Post-Budget submission in the Annual Wage Review. Ai Group's position on the quantum and timing of any minimum wage increases is as set out in our Post-Budget submission.

This submission addresses the *National Accounts* data for the March 2021 quarter, and also provides some information about the latest evidence on the state of the economy.

2. COVID-19 lockdown in Victoria from 28 May 2021

As of mid-Q2, Australia's economic recovery has taken a big step backwards due to the commencement of an extended hard lockdown in Victoria from midnight on Thursday 27 May 2021, for a minimum of two weeks. Ai Group notes that ABS *National Accounts* data indicate that aggregate Victorian household consumption dropped from \$71bn per quarter in 2019 to \$60bn per quarter in Q2 and Q3 of 2020, a drop of \$11bn per quarter (in seasonally adjusted volume terms). This drop equated to about \$850mn less consumer spending *per week* in Victoria during the affected quarters, with only a partial recovery in aggregate household spending evident in Q4 of 2020 and Q1 of 2021. Victoria will experience a similar fall in local spending from late May, while the level of support will only be a small fraction of that available last year. The ongoing uncertainty surrounding the length of this lockdown and the availability and timing of support measures for business and individuals will exacerbate these negative effects.

Victoria's lockdown will directly damage significant numbers of businesses and their employees. As of June 2020, the ABS counted 650,000 businesses operating in Victoria, 226,000 of which had at least one employee. Victorian businesses with employees in the most vulnerable industries include:

- 20,000 in retail trade;
- 20,000 in hospitality services (e.g. cafes, restaurants, clubs, pubs, accommodation services);
- 14,000 in personal and other services (e.g. hair, beauty, gyms, repairs);
- 10,000 in transport services; and
- 3,000 in arts and recreational services.

Early evidence from credit and debit card data collected by the ANZ bank's economics research team indicates that household spending across a wide range of retail and consumer services businesses was halved or ceased completely in the first three days of this latest lockdown in Victoria (Fri 28 May to Sun 30 May), compared to one week earlier. This is in line with ANZ's previous analysis of bank transactions data during short localised lockdowns. This time in Victoria looks worse however:

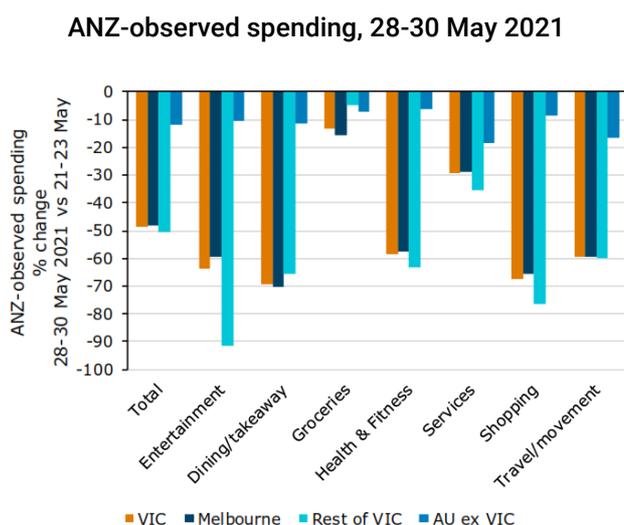
"Spending in regional Victoria fell a little more in percentage terms compared with Melbourne, although Melbourne dining and grocery spending fell more than regional

Victoria. Dining and shopping were more affected than other categories, falling 69% and 67% respectively during 28–30 May compared to 21–23 May. Within shopping, jewellery (-90%), clothing (-88%) and furniture (-85%) were particularly affected. Some categories were not as impacted by lockdown conditions. Telecommunications spending grew in Victoria during lockdown, and utilities, software and miscellaneous entertainment (including streaming subscriptions) fell less in Victoria than the rest of Australia. National spending may have been somewhat impacted by the Victorian lockdown at the end of May, as monthly growth of ANZ-observed spending in May was weaker than May in previous years. Monthly growth in dining and shopping were both weaker than previous years.”¹

The statewide coverage, lack of income support and extended time period of this latest lockdown are likely to exacerbate the effects of this lockdown on local businesses and employment. The apparent ‘spillover’ impact on consumer spending outside Victoria is of great concern to the national impact (possibly reflecting a hit to consumer confidence more widely). The ANZ economists noted: “The experience from other snap lockdowns is that spending recovers very quickly as things open up. This lockdown will be the first lengthy one without JobKeeper, however, so we need to be a bit more cautious about how the recovery may look”.²

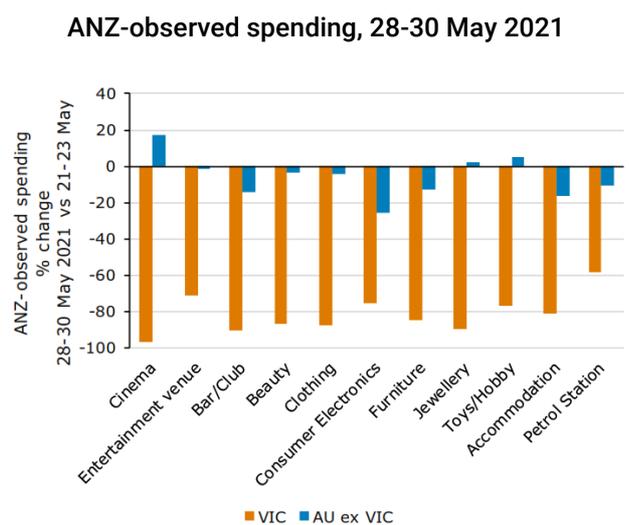
This latest lockdown in Victoria provides a direct example of the immediate ongoing risk to health, activity and employment in 2021-22. The risk of further, similar events will remain extremely high until the wider population can be vaccinated and safe international travel can be implemented.

Chart 1: ANZ observed consumer spending halved across a wide range of spending categories in the first three days of lockdown, from Fri 28 May 2021.



Source: ANZ Research, *Victoria’s lockdown halves spending*, 1 June 2021.

Chart 2: ANZ observed consumer spending collapsed in the sectors most directly affected in the first three days of lockdown, from Fri 28 May 2021.



Source: ANZ Research, *Victoria’s lockdown halves spending*, 1 June 2021

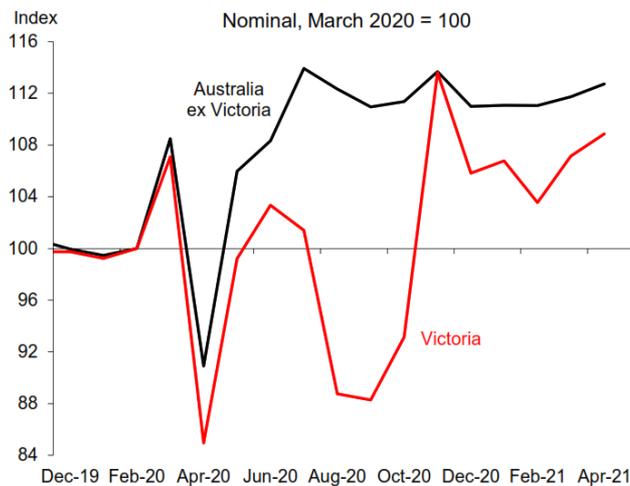
¹ Source: ANZ Research, *Victoria’s lockdown halves spending*, 1 June 2021.

² Source: ANZ Research, *Victoria’s lockdown halves spending*, 1 June 2021.

For Victoria’s retailers, this latest lockdown will come on top of several months of underperformance, compared to retail sales in other states. The latest ABS retail sales data (for the month of April 2021 and released on 3 June 2021) confirms that as of April 2021, Victoria’s retail sales had not fully recovered from repeated lengthy lockdowns in 2021.

Chart 3: Victoria’s retail sales has not fully recovered from 2020 lockdowns and continues to underperform the recovery in sales observed in other states.

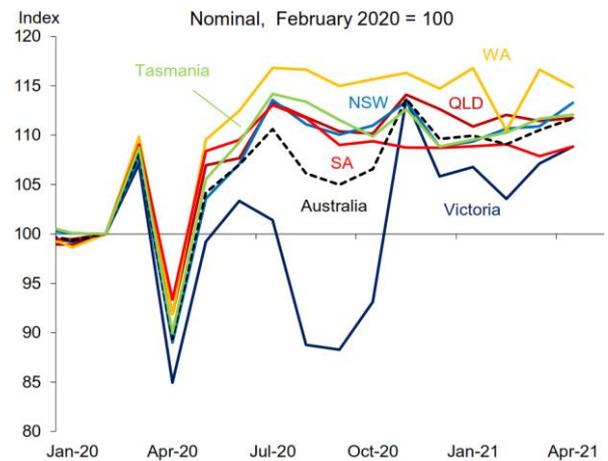
ABS retail sales (indexed by Macquarie), to April 2021



Sources: Macquarie Macro Research and ABS Retail Sales, April 2021.

Chart 4: Victoria’s retail sales have underperformed all other states in 2020 and 2021.

ABS retail sales (indexed by Macquarie), to April 2021



Sources: Macquarie Macro Research and ABS Retail Sales, April 2021.

3. Latest evidence about the labour market

Australia’s jobs recovery appears to have slowed significantly in Q2 of 2021, as was anticipated by Treasury, RBA and other central government forecasters.

Australian Treasury Secretary Dr Steven Kennedy reported to the Economics Legislation Committee on 1 June that JobKeeper and other Government support programs and policy settings were crucial to underpinning Australia’s economic recovery up until the end of March 2021:

“First, Australia has had considerable success in suppressing the virus at a relatively low economic cost. Second, fiscal policy has been more effective than we may have expected in maintaining economic and social relationships and in supporting the recovery. This was complemented by expansionary monetary policy settings and the flexibility provided in financial markets and rental markets”

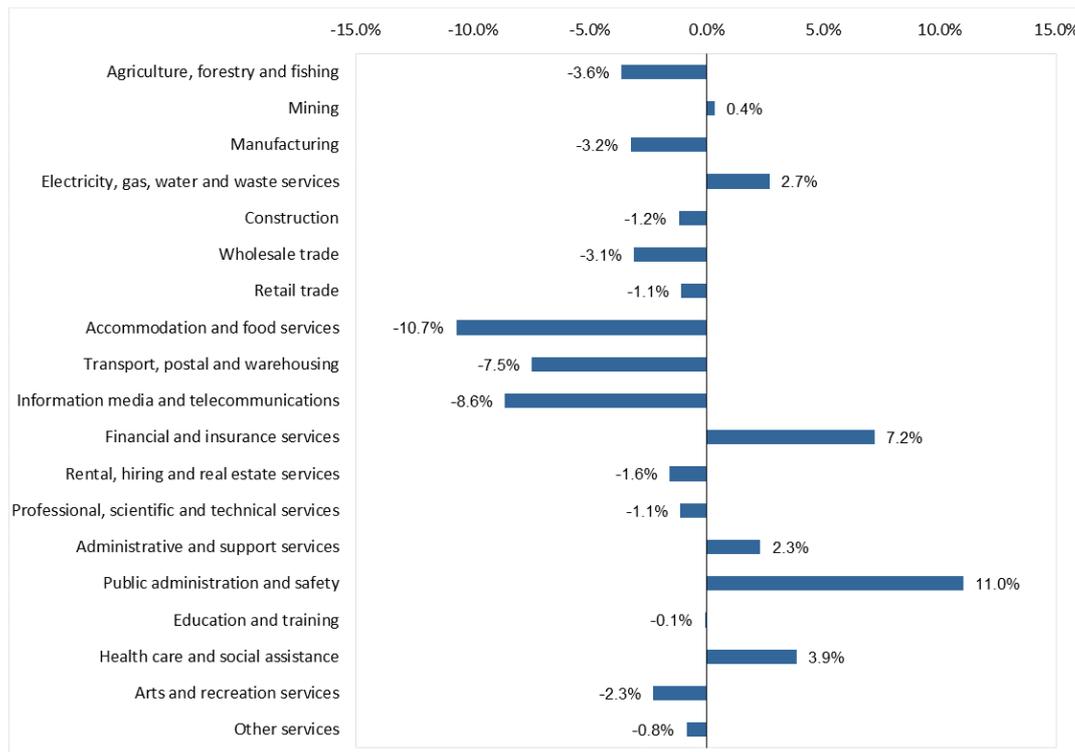
Dr Kennedy noted however, that since the end of March:

“there have been some job losses associated with the end of the [JobKeeper] program and there may be more in the future ... up to 40,000 former JobKeeper workers lost employment in the first two weeks following the end of JobKeeper. We now have an extra two weeks of data and across the four weeks, around 56,000 former JobKeeper workers lost employment ... All things considered, we have taken a relatively cautious view and forecast a pick-up in wages from 2022-23, when we expect the unemployment rate to fall within Treasury’s estimated band for the NAIRU, but not before. This higher wage growth is expected to contribute to a gradual strengthening of inflation, reaching the mid-point of the RBA’s target band by 2024. However, the COVID-19 recession and our recovery are unprecedented in recent history, so the speed with which prices and wages respond to reducing slack in the economy remains a key source of uncertainty” (Opening statement to the Economics Legislation Committee, 1 June).

The latest ABS data about employees paid through the ATO’s single-touch payroll system confirms a steady decline in aggregate employment and wages paid to employees since the end of March 2021. Compared to pre-COVID employment levels, the number of payroll jobs peaked in the week to 27 March 2021, at 3% higher than in 14 March 2020. In the month from 10 April and 8 May 2021 (latest data, released on 25 May 2021), total payroll jobs fell by 0.4% and aggregate payroll wages fell by 1.4% nationally, with larger falls in Victoria (-0.7% in jobs and -2.2% in aggregate wages paid). By 8 May 2021, national payroll jobs were only 1.5% above the level of 14 March 2020, from 3% higher on 27 March 2021.

Since March 2021, the pattern of labour demand has continued to favour higher-skilled and higher-wage employees. As of 8 May 2021, the industries with greater numbers of payroll employees than pre-COVID (14 March 2020) were Mining, Administrative and support services, Electricity, gas, water and waste services, Health care and social assistance, Financial and insurance services, and Public administration and safety (chart 5). Every other industry – including all of the lower-wage, lower-skill service industries – have fewer payroll employees in May 2021 than they did in March 2020. Of particular note, payroll jobs on 8 May 2021 were:

- 10.7% lower in accommodation and food services;
- 8.6% lower in IT, media and telecoms;
- 7.5% lower in transport;
- 3.2% lower in manufacturing;
- 1.1% lower in retail trade.

Chart 5: ABS-ATO payroll jobs by industry, % change from 14 March 2020 to 8 May 2021

Source: ABS, *Weekly Payroll Jobs and Wages in Australia*, Week ending 8 May 2021 (released 25 May 2021).

The ABS monthly labour market survey (released on 20 May 2021) confirmed a mixed – and very fragile – jobs recovery in April 2021, with employment, unemployment and participation all falling simultaneously in the month. Jobs and participation fell for the first time since September 2020:

- **Total employment fell by 30,590** (-0.2% m/m) in April to 13,040,000. This total is still above pre-pandemic levels (March 2020) and 5.1% above employment levels in April 2020. This month's fall included 64,400 fewer part-time workers (those working less than 35 hours per week), partly offset by a rise of 33,800 in full-time employment.
- **The employment to population ratio dropped** to 62.3% in April from 62.5% in March. It remains below the pre-pandemic high of 62.7% in 2019 and the record high of 62.9% in August 2008.
- **Aggregate work hours across the economy fell** by 0.7% m/m in April. This was larger than the 0.2% m/m decline in employment and may have reflected a larger than normal number of people taking breaks over Easter. This is similar to the drop in January 2021, when more workers took extended leave than in previous 'normal' years.
- **The number of unemployed people fell** to 756,200 in April 2021 with 33,600 fewer people out of work and actively seeking work than in March 2021, and 89,000 fewer than in April 2020.

- **The unemployment rate dropped** to 5.5% in April 2021, down from its recent peak of 7.4% in July 2020 and the lowest since March 2020 (5.3%). The unemployment rate has dropped much faster after this COVID-19 recession than after previous Australian recessions (in the 1980s and 1990s), due to the speed of jobs recovery but also the sharp decline in adult population growth as a result of ongoing international border movement restrictions.
- **The underemployment rate** (the proportion of the labour force that are working but are available to work more hours) dropped to 7.8% in April 2021, which is its lowest since 2014.
- **The underutilisation rate** (unemployment plus underemployment) dropped to 13.3% in April 2021, which is its lowest since February 2019.
- **The participation rate declined** by 0.3 percentage points to 66.0% of the adult population – back to around its pre-pandemic levels – after hitting a record high in March 2021. This saw the labour force (people in work or actively seeking work) decline by 64,200 people in April (-0.4% m/m), which was the first monthly fall since September 2020 (during the second long lockdown period in Victoria). Labour force participation dropped to 70.8% of adult men in April (10,200 fewer men in the labour force) and 61.3% of adult women (54,000 fewer women in the labour force), after hitting a record high of 61.9% of adult women in March 2021.
- **Australia's estimated adult population** (civilians aged 15 years and over) grew by just 9,100 people in April 2021, to be up by just 0.4% p.a. Adult population growth is recovering very slowly, after turning negative during Q3 of 2020. It averaged just 11,000 people per month in the first four months of 2021, compared to an average of 28,000 per month in 2019 and 20,500 per month in 2018. This negligible rate of adult population growth (primarily due to tight restrictions on international arrivals) means that the only way to expand the labour force is to raise labour participation rates among the existing resident population.
- **The youth unemployment rate** (those aged between 15 and 24 years) decreased by 1.1 percentage point to 10.6% of this age group. This was the lowest youth unemployment rate since 2009 and a full percentage point lower than the pre-pandemic level (table 2).
- **The youth underemployment rate** rose by 0.8 percentage points to 17.2% in April 2021. The youth underutilisation rate dropped to 27.8% in April 2021, its lowest since 2014.
- **Across the states**, employment increased in South Australia and Victoria but fell across the other states. The unemployment rate declined in Victoria, South Australia and Western Australia, increased in Queensland, Tasmania and was stable in New South Wales.

Table 1: National labour market indicators, April 2021

<i>Seasonally adjusted</i>	Number '000	Change per month		Change per year	
		'000 m/m	% m/m	'000 p.a.	% p.a.
Employment	13,040	-30.6	-0.2	637.9	5.1
Full-time	8,889	33.8	0.4	249.6	2.9
Part-time	4,151	-64.4	-1.5	388.3	10.3
Aggregate hours worked	1,793,449	-12,833.0	-0.7	199,681.7	12.5
Labour force	13,797	-64.2	-0.5	548.8	4.1
Adult civilian population	20,915	9.1	0.0	78.3	0.4
Unemployment	756	5.5% of labour force		-89	-0.9 ppts
Underemployment	1,072	7.8% of labour force		-735	-5.9 ppts
Underutilisation	1,828	13.3% of labour force		-824	-6.8 ppts
Participation rate	-	66.0% of adult population		-	2.4 ppts
Employment to pop. ratio	-	62.3% of adult population		-	2.8 ppts

Table 2: National youth labour market indicators (15-24 years), April 2021

<i>Seasonally adjusted</i>	Number '000	Change per month		Change per year	
		'000 m/m	% m/m	'000 p.a.	% p.a.
Employment	1,915.1	15.9	0.8	203.0	11.9
Full-time	812.7	23.6	3.0	28.0	3.6
Part-time	1,103.0	-4.5	-0.4	173.5	18.7
Unemployment	228.4	-24.7	-9.7	-52.6	-18.7
Underemployment	368.5	15.5	4.4	-103.2	-21.9
Underutilisation	596.9	-9.2	-1.5	-155.8	-20.7
Labour force	2,143.4	-11.0	-0.5	147.0	7.3
	Rate, %	Change per month, percentage points		Change per year, percentage points,	
Unemployment rate, %	10.6	-1.1		-3.4	
Underemployment rate, %	17.2	0.8		-6.4	
Underutilisation rate, %	27.8	-0.3		-9.8	
NEET* rate, % (original)	12.1	-0.3		1.4	
Participation rate, % (original)	66.9	0.6		-0.8	

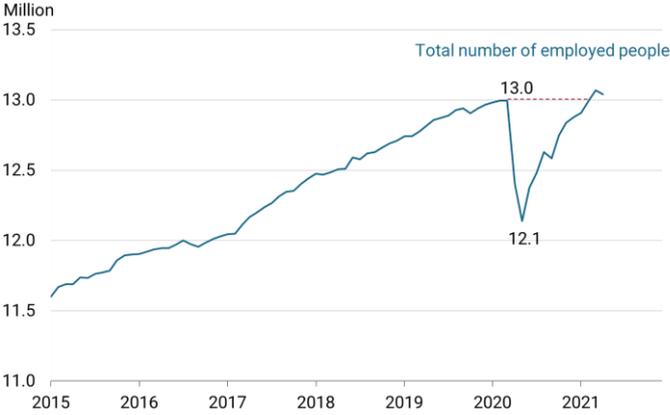
Table 3: State labour market indicators, April 2021

<i>Seasonally adjusted</i>	NSW	VIC	Qld	SA	WA	Tas
Employment level, '000	4,093.5	3,446.5	2,614.6	864.2	1,391.8	258.2
Employment change, '000 m/m	-36.7	3.6	-7.4	15.3	-14.4	-2.5
Employment change, % m/m	0.9	0.1	-0.3	1.8	-1.0	-0.9
Unemployment rate, %	5.5	5.5	6.1	5.7	4.9	6.2
Underemployment rate, %	7.6	7.7	8.5	8.3	7.1	8.6
Underutilisation rate, %	13.1	13.1	14.6	14	12	14.7
Participation rate, %	65.2	66.5	66.4	62.8	68	61.3
Employment to pop. ratio, %	61.6	62.9	62.3	59.2	64.6	57.5
Youth (15-24 years old)						
<i>original, not adjusted</i>						
Unemployment rate, %	13.0	15.2	15.1	15.7	14.1	14.9
Participation rate, %	66.5	62.6	70.9	69.8	68.3	68.8
NEET* rate, %	11.5	11.1	14.3	12.8	11.5	13.9

* NEET = unemployed youth who are not in full-time education plus youth who are not in the labour force and not in full-time education. The NEET rate is this group as a share of the total civilian population for the youth age group. Source: ABS.

Chart 6: Total employment fell by 30,590 in April. This was the first month without JobKeeper.

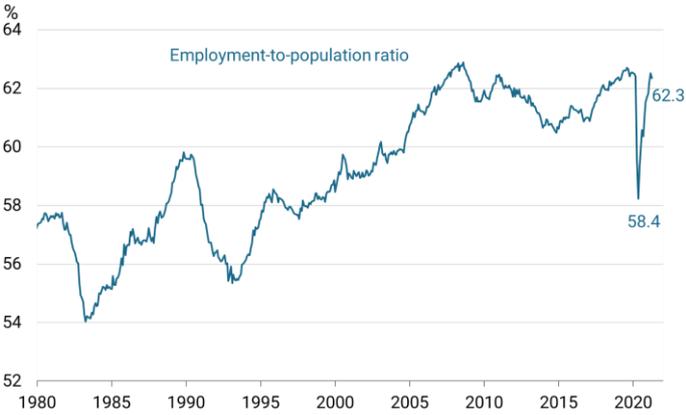
Total employed people, 2015 to April 2021



Source: ABS, *Labour Force Australia*, April 2021.

Chart 7: The employment to population ratio dropped to 62.3% in April 2021. It remains lower than the pre-pandemic high of 62.7% in 2019 and the record high of 62.9% in August 2008, just prior to the GFC.

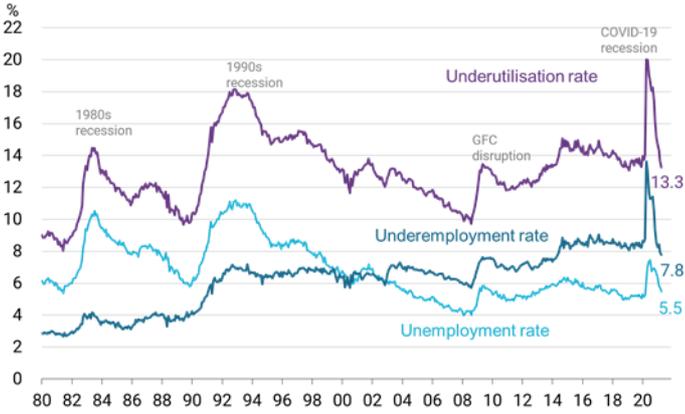
Employment to population ratio, %



Source: ABS, *Labour Force Australia*, April 2021.

Chart 8: The unemployment rate dropped to 5.5% in April 2021, down from its recent peak of 7.4% in July 2020. The underemployment rate dropped to 7.8% in April, its lowest since 2014. The underutilisation rate dropped to 13.3% in April, its lowest since February 2019.

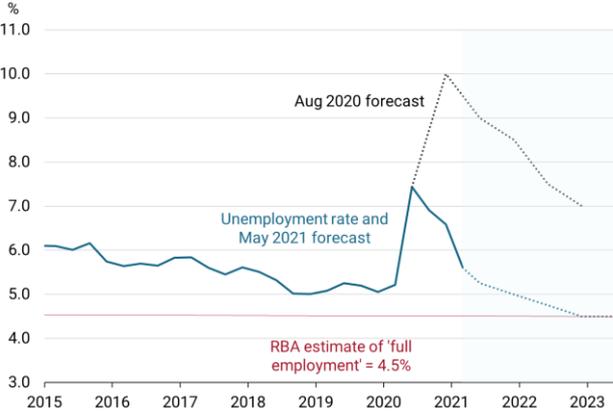
Unemployment and underemployment, %



Source: ABS, *Labour Force Australia*, April 2021.

Chart 9: The unemployment rate has fallen faster than anticipated in 2020-21. The RBA expects the unemployment rate to fall to 4.5% by the end of 2022.

Australian unemployment rate and RBA forecasts



Source: ABS and RBA

Chart 10: Australia's **participation rate** declined 0.3 percentage points to 66.0% in April after hitting a record high in March. It is back to around its pre-pandemic levels. The labour force (people in work or seeking work) decline by 64,200 people (-0.4% m/m).

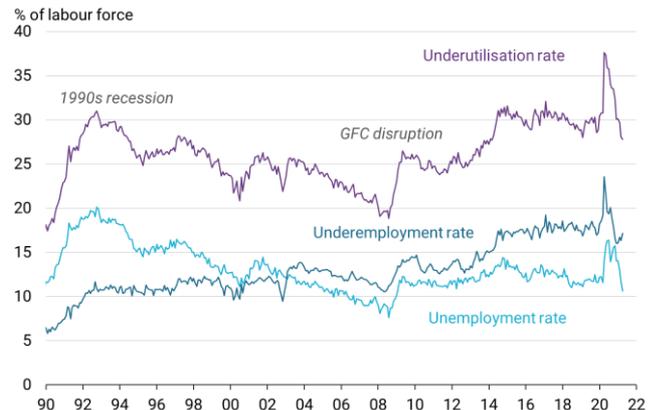
Participation rate by sex, %



Source: ABS, *Labour Force Australia*, April 2021.

Chart 11: The **youth unemployment rate** (for people aged 15 to 24 years) fell to 10.6%, its lowest level since 2009 and one percentage point lower than the pre-pandemic level. The youth underemployment rate rose to 17.2%. The youth underutilisation rate dropped to 27.8% in April 2021, its lowest since 2014.

Youth unemployment and underemployment, %



Source: ABS, *Labour Force Australia*, April 2021.

Chart 12: Australian youth (aged 15 to 24 years) suffered a **labour market recession** in 2020 (loosely defined as periods in which unemployment climbs by 1.5 ppts or more within one year). So far it appears to be shorter than in 2014 and previous 'labour market recession' periods.

Headline and youth unemployment rates



Shaded areas indicate periods in which the youth unemployment rate increased by 1.5 percentage points or more within 12 months.

Source: ABS, *Labour Force Australia*, April 2021.

Chart 13: The **youth employment to population ratio** rose to 61.5% in April 2021, its highest level since 2009.

Youth employment to population ratio



Source: ABS, *Labour Force Australia*, April 2021.

The Wage Price Index (WPI) rose by 0.6% q/q and 1.5% p.a. in the March quarter (Q1) of 2021. Private sector wages rose by 0.6% q/q (1.4% p.a.) and public sector wages rose by 0.4% q/q (1.5% p.a.) in Q1 (seasonally adjusted). This was the slowest annual wage increase in the public sector since the start of this data series in 1998 and was partly due to wage increase deferrals. The WPI measures wages paid before tax and transfers. It does not include JobKeeper and tax changes.

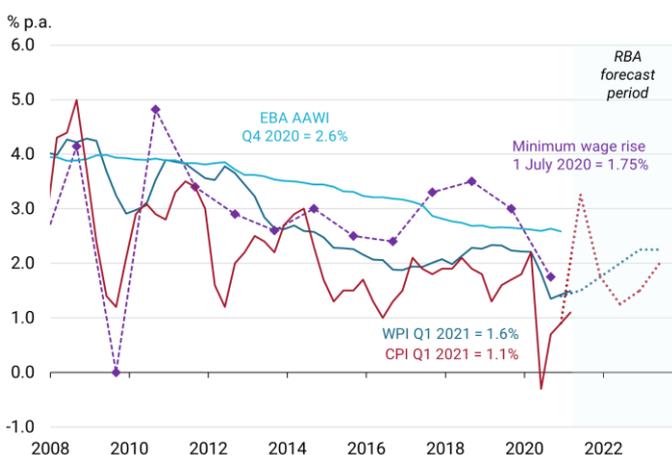
Annual wage inflation (1.5%) remained stronger than price inflation (1.1%) in Q1 (chart 14). This gap indicates a real wage gain over the year. Wage inflation has been stronger than price inflation in most quarters since the GFC, indicating a modest improvement in real wages over this period. Q1 of 2021 saw average wages rising by 0.6% q/q for a second consecutive quarter, after minimal growth in Q2 and Q3 of 2020. The ABS noted that some employers “revisited wage reviews that were postponed since the pandemic” in Q1. The rise in WPI in Q1 also included the final stage of the staggered minimum wage rise for 2020-21, with an increase of 1.75% for award rates in some of the industries hit hardest by COVID-19 (e.g. hospitality, arts & recreation, retail and tourism).

Across industries, private sector wage inflation in Q1 of 2021 was strongest in hospitality (+1.1% q/q), education (+1.0% q/q) and healthcare (+0.9% q/q). Annual wage growth was strongest in education (+3.0% p.a.), healthcare (2.1% p.a.) and public administration (1.9% p.a.). Private sector wage inflation was similar across the states, with the fastest wage inflation in South Australia and Tasmania (+0.7% q/q) and the slowest in Western Australia (+0.4% q/q).

Looking ahead to the remainder of 2021, headline price inflation (CPI) is expected to have momentarily exceeded wage inflation (WPI) in Q2 of 2021 due to large but temporary ‘base effects’, as Q2 of 2020 (a rare quarter of negative inflation) enters the price inflation calculation. The cumulative change since the start of 2020 will continue to show a small real pay rise.

Chart 14: Australian wage (WPI) and inflation (CPI) indicators continued their long-term trend downwards in 2020-21.

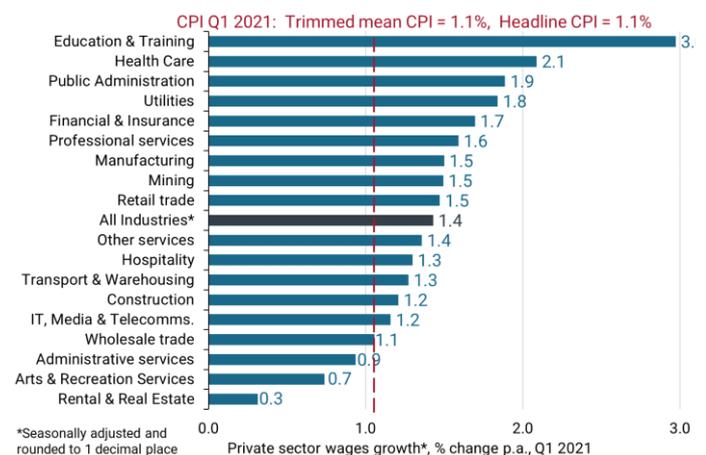
Australian wage and inflation indicators, % change p.a



Sources: ABS, CPI, WPI, Q1 2021; RBA, May 2021.

Chart 15: Private sector wage rises (WPI) were above the inflation rate (CPI) in all but three industries over the year to Q1 2021.

Wage indexes by industry, private sector, % p.a. in Q1 2021



Source: ABS, WPI, Q1 2021.

4. ABS National Accounts in Q1 2021

The ABS *National Accounts* confirmed a relatively fast recovery across most – but not all – of the Australian economy in Q1 of 2021. In aggregate, real GDP expanded by 1.8% q/q, taking it 1.1% higher over the year and 0.8% above pre-pandemic levels (Q4-2020). This rapid recovery was supported by a range of government payments and measures to stimulate the economy, following the deepest fall on record in Q2 2020 (-7.0% q/q and -6.3% p.a.). GDP recovered by more than 3% q/q in each of Q3 and Q4 of 2020 and increased by 1.8% q/q to be 1.1% higher over the year in Q1 2021. With population growth slowing close to zero, real GDP per capita is also showing a ‘V shaped’ recovery following the 2020 recession and was back above pre-recession levels in Q1 of 2021.

The components of expenditure in the National Accounts indicated that in Q1 of 2021:

- Household spending increased by 1.2% q/q but was flat over the year and 1.5% lower than pre-pandemic levels (Q4-2019). Spending on services recovered by 2.4% q/q as COVID-19 restrictions eased off around Australia. Hotels, cafes and restaurants, recreation and culture and transport services continued to recover and spending on goods remained above pre-pandemic levels. Expenditure in Q1 fell for food (-1.4% q/q) and alcoholic beverages (-3.9% q/q), as spending shifted back towards dining out.
- Government spending fell by 0.5% q/q after last year’s unprecedented surge, but it was still 5% higher than one year earlier. This included recurrent spending by local, state and federal governments to support the economy.
- Total investment rebounded a further 4.7% q/q and 3.9% p.a. in Q1 and contributed half the growth in the quarter.
 - Machinery & equipment investment recovered by 10.3% q/q which was its fastest quarterly rate since Q4 2009, driven by improved business confidence and government tax incentives (e.g. instant asset write-off). The rise in machinery & equipment investment was evident across most industries.
 - Dwelling investment rose by 6.4% q/q with increased construction of detached housing and renovations driven by low interest rates and the HomeBuilder scheme.
- Export volumes increased by 0.5% q/q but were 6.2% lower over the year. Import volumes increased by 3.7% q/q and 1% p.a., driven by more imports of industrial and household electrical items. A sharp rise in the terms of trade (the ratio of trade prices) helped to cushion the blow to national income from lower export volumes.

Real net national disposable income per capita (RNNDI per capita, which is the ABS’ recommended measure of real income growth) increased by 3.4% q/q and 5.8% p.a. in Q1 2021, supported by government support payments and a beneficial jump in the terms of trade (+7.4% q/q and +15.4% p.a.), which mainly flows into mining company profits and income tax paid on those profits.

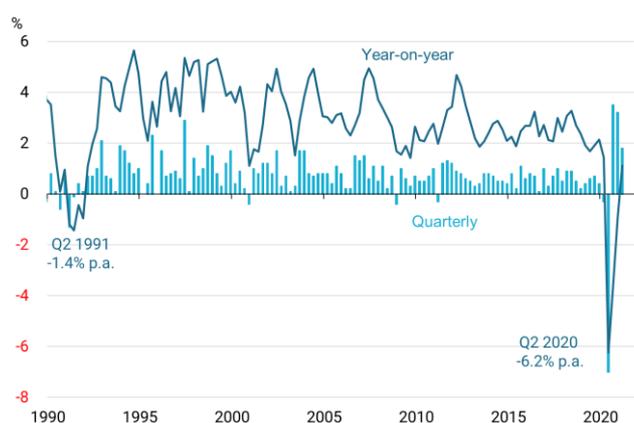
Table 4: Composition of GDP: expenditure and trade, 2020-21

real volumes <i>Inflation adjusted, seasonally adjusted</i>	Quarter change, q/q				Annual, % y/y Q1-2021
	Q2-2020	Q3-2020	Q4-2020	Q1-2021	
Real GDP (expenditure)	-7.0	3.5	3.2	1.8	1.1
Real GDP per capita	-7.1	3.5	3.1	1.7	0.8
Domestic consumption and investment					
Household consumption	-12.3	7.8	4.5	1.2	-0.0
General government consumption	3.0	1.5	0.9	-0.5	5.0
Total investment	-4.5	0.5	3.4	4.7	3.9
Dwelling investment	-4.4	1.7	4.2	6.4	7.9
Private Business investment	-4.8	-2.3	2.0	4.0	-1.3
New building	-3.5	-5.4	-5.0	-3.8	-16.6
New engineering construction	4.6	-7.0	0.9	0.7	-1.3
New machinery and equipment	-8.1	-2.6	8.5	10.3	7.2
Intellectual property investment	-7.1	2.2	2.0	2.4	-0.8
Public (government) investment	-0.4	0.1	2.2	2.9	4.9
Domestic final demand	-7.3	4.6	3.4	1.6	1.9
International trade, volumes and prices					
Exports (volumes)	-7.3	-3.3	4.1	0.5	-6.2
Imports (volumes)	-12.5	5.6	5.4	3.7	1.0
Terms of trade (relative prices)	0.7	1.1	5.5	7.4	15.4

Source: ABS, National Accounts, Mar 2021.

Chart 16: Real GDP had its deepest fall on record in Q2 2020 (-7.0% q/q and -6.3% p.a.) but recovered quickly. GDP rose by more than 3% q/q in each of Q3 and Q4 of 2020 and 1.8% in Q1 2021, to be 1.1% higher over the year to Q1.

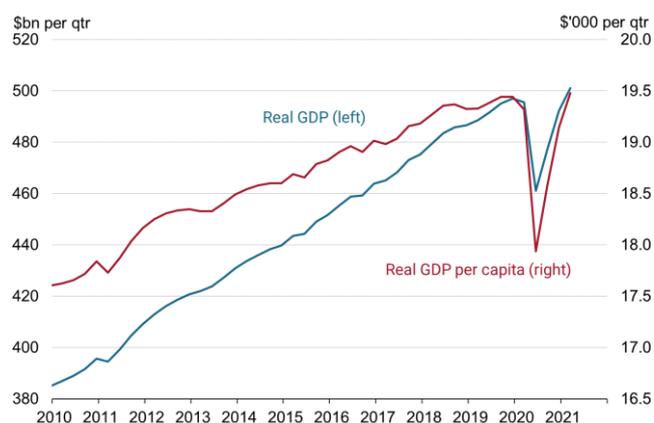
Change in real GDP, 1990 to 2020



Source: ABS, National Accounts, Mar 2021

Chart 17: Real GDP and Real GDP per capita showed a welcome 'V shaped' recovery from the COVID-19 recession in 2020-21. Both were just above pre-recession levels in Q1.

Real GDP and GDP per capita, 2010 to Q1 2021



Source: ABS, National Accounts, Mar 2021

Across Australia's industries, production (real value-added output) were higher in 15 of the 19 industries over the quarter. Manufacturing recovered a further 3.0% q/q and contributed 0.2ppts to growth in Q1. Food & beverage production rose by 7.2% q/q due to increased demand from restaurants, bars and cafes. Metal products also increased by 7.2% q/q driven by higher gold, silver and copper metal refining while machinery & equipment production rose by 2.8% q/q due to higher demand for industrial machinery & equipment.

More detailed data from the ABS Business Indicators (also released this week) confirm that the temporary rises in aggregate nominal business profits in 2020 were primarily due to the accounting effects of government transfers rather than to business sales income. The data are complicated somewhat in 2020-21 because JobKeeper payments are included in the business profits and wages data but not in the sales data. Non-mining business profits fell by 9.0% q/q but were 10.2% higher than over the year, as many businesses came off JobKeeper in Q1. Mining company profits jumped by 14.7% q/q to a record high of \$46.6 billion in Q1, largely due to a high iron ore price (Chart 21).

Nominal sales for non-mining businesses shrank sharply in Q2 and Q3 of 2020 but recovered in Q1 of 2021 (up 3.6% q/q and 1.6% p.a.). The historical relationship between nominal sales and wages growth for non-mining businesses is returning as government assistance is pulled back. The impact of COVID-19 on non-mining business wages was largely cushioned by Jobkeeper and other assistance in 2020-21.

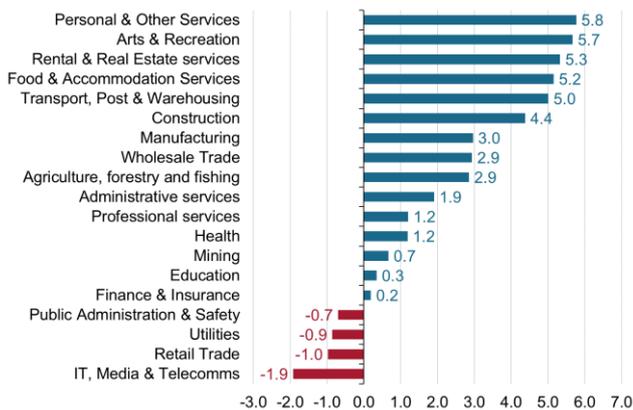
Table 5: Composition of GDP: production, 2020-21

real value-added output volumes <i>Inflation adjusted, seasonally adjusted</i>	Quarter change, q/q				Annual, % y/y Q1-2021	Share of GDP*, % Q2-2020
	Q2-2020	Q3-2020	Q4-2020	Q1-2021		
Real GDP (production)	-7.0	3.5	3.2	1.8	1.1	100
Agriculture, forestry and fishing	-0.7	1.4	29.5	2.9	34.2	2.5
Mining	0.1	-2.2	-0.9	0.7	-2.3	9.8
Manufacturing	-8.3	4.2	1.2	3.0	-0.4	5.6
Utilities	-1.6	0.5	0.4	-0.9	-1.4	2.3
Construction	-7.8	2.4	0.6	4.4	-0.8	6.9
Wholesale Trade	-5.8	5.2	4.1	2.9	6.3	3.8
Retail Trade	-4.5	5.7	3.6	-1.0	3.6	4.2
Food & Accommodation Services	-38.0	42.2	7.6	5.2	-0.1	2.1
Transport, Post & Warehousing	-21.1	4.3	6.7	5.0	-7.8	4.0
IT, Media & Telecommunications	-8.1	5.7	5.6	-1.9	0.6	2.2
Finance & Insurance	1.3	1.0	0.1	0.2	2.6	8.6
Rental & Real Estate services	-15.5	7.7	6.7	5.3	2.2	2.9
Professional services	-6.0	2.4	4.4	1.2	1.7	7.1
Administrative services	-18.7	-0.4	9.0	1.9	-10.0	2.9
Public Administration & Safety	0.6	1.3	0.8	-0.7	2.0	5.6
Education	0.2	0.2	0.2	0.3	1.0	4.7
Health	-8.1	8.9	2.7	1.2	4.0	7.7
Arts & Recreation	-24.0	14.4	7.9	5.7	-0.8	0.8
Personal & Other Services	-16.5	6.0	8.6	5.8	1.7	1.7

* All industries do not sum to 100% of GDP due to individual seasonal adjustment of industries and other accounting items that are included in total GDP such as 'ownership of dwellings', 'taxes less subsidies' and 'statistical discrepancy'. Source: ABS, *National Accounts*, Mar 2021.

Chart 18: production volumes were higher in 15 of the 19 industries over the quarter in Q1. Strong contributions to growth in the quarter came from construction and manufacturing, in line with the high results observed in the **Ai Group Australian PMI and PCI** in Q1 2021.

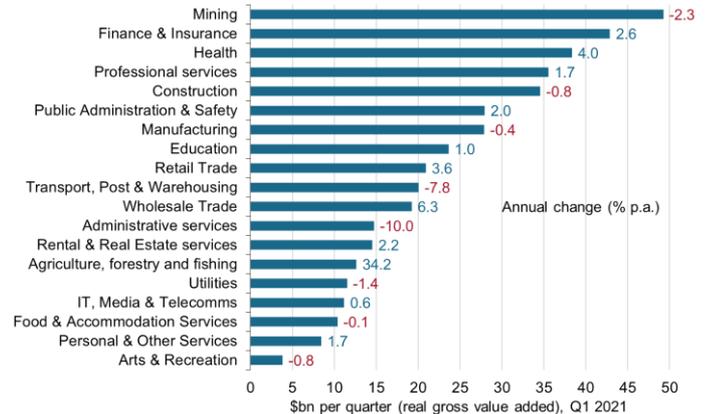
Production volumes by industry, % q/q, Q1 2021



Source: ABS, *National Accounts*, Mar 2021

Chart 19: Mining, finance and health services were the largest industries in Q1, when measured by production volumes. Production volumes were higher in 11 of 19 industries over the year to Q1 2021. Agricultural output was up by 34% p.a. due to favourable weather conditions.

Production volumes by industry, \$bn, Q1 2021



Source: ABS, *National Accounts*, Mar 2021

Chart 20: Nominal sales for non-mining businesses shrank sharply in Q2 and Q3 of 2020. The impact of this dip on **non-mining business wages** was largely cushioned by Jobkeeper. Non-mining business wages increased by 2.0% p.a. in Q1, just ahead of business sales (+1.6% p.a.).

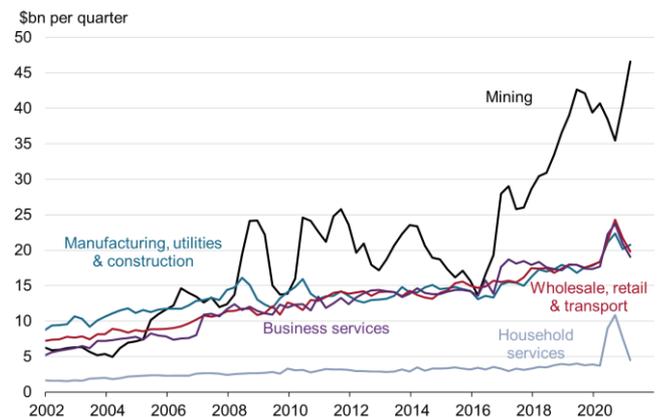
Non-mining business sales and wages, to Q1 2021



Source: ABS, *Business Indicators*, Q1 2021

Chart 21: Company operating profits increased sharply for the mining sector in Q1 due to high global commodity prices. Non-mining profits rose in 2020 and fell in Q4 and Q1 due to the accounting effects of government transfers, as JobKeeper tapered off.

Company operating profits by industry, to Q1 2021

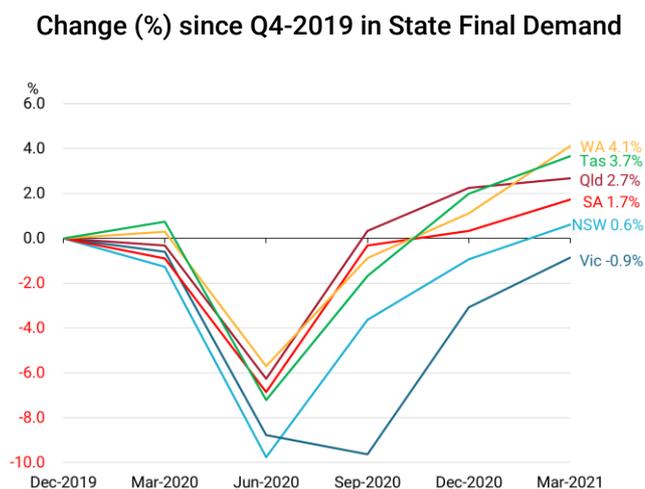


Source: ABS, *Business Indicators*, Q1 2021

State final demand (domestic demand) was higher in Q1 than pre-pandemic levels (Q4-2019) in every state and territory except Victoria (chart 22). The current lockdown is likely to push Victoria’s recovery further behind. Quarterly state final demand (the state equivalent of national ‘domestic final demand’) increased fastest in Q1 in WA (+3.0% q/q), followed by Victoria (+2.3% q/q) and Tasmania (+1.6% q/q). Northern Territory was the only state or territory to experience falling state final demand in Q1 (-1.9% q/q).

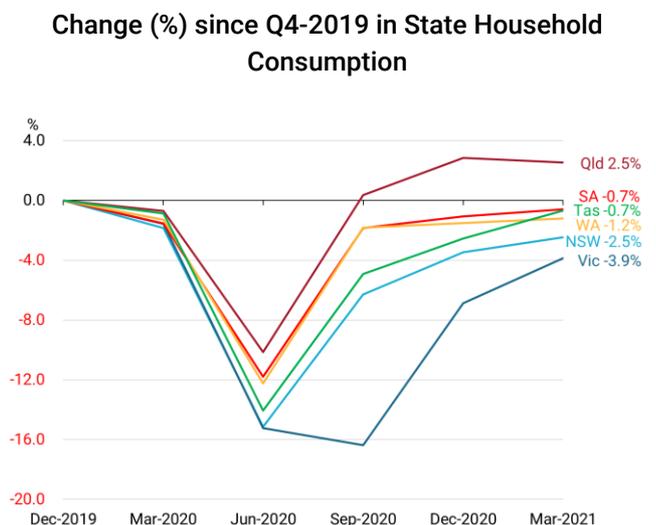
Household consumption is the single largest category of expenditure across the economy. It remained lower in Q1 2021 than prior to the pandemic (Dec 2019) in all states except Queensland (Chart 23). Victorian household consumption was 3.9% lower in Q1 than it had been in Q4 of 2019.

Chart 22: State final demand (domestic demand) was higher than pre-pandemic levels (Q4-2019) in every state and territory except for Victoria in Q1. The recent lockdown is likely to push the Victorian recovery further behind.



Source: ABS, National Accounts, Mar 2021

Chart 23: Household consumption remained lower in Q1 than pre-pandemic levels in all states except in Queensland. Victorian household consumption was 3.9% lower in Q1 than it had been in Q4 of 2019.

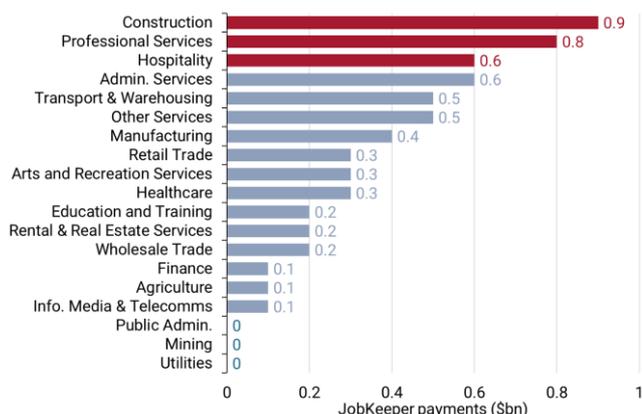


Source: ABS, National Accounts, Mar 2021

The ABS National Accounts Q1 2021 provides additional detail about the incidence and reliance on JobKeeper across industries. These data confirm that businesses and employees in ‘arts and recreation services’ and hospitality were the most reliant on JobKeeper in Q1, relative to the payroll for employees in those industries (see charts 24 and 25).

Chart 24: JobKeeper payments were distributed to large employing industries including construction, professional services and accommodation and food services (hospitality) in Q1.

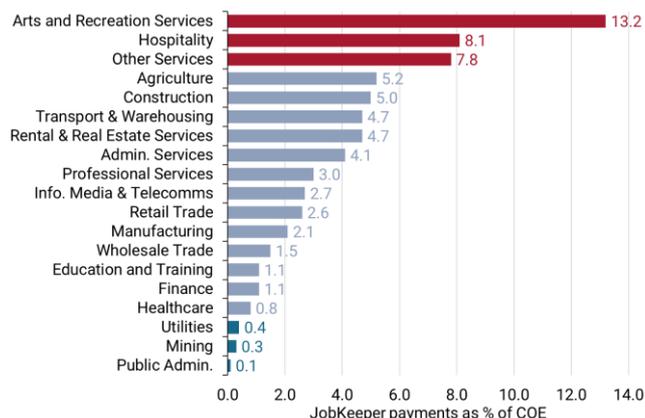
JobKeeper payments by industry in Q1-2021



Source: ABS, *National Accounts*, Mar 2021

Chart 25: JobKeeper payments as a proportion of compensation of employees reflected the industries hardest hit by COVID-19 activity restrictions, including the arts, hospitality and other services (including gyms, repair services and hairdressers).

JobKeeper payments as proportion of compensation of employees (%) by industry in Q1-2021



Source: ABS, *National Accounts*, Mar 2021

5. Latest evidence about business activity

On pages 9 and 10 of Ai Group’s Initial Submission, the February 2021 indices for the Australian PMI, PSI and PCI were set out. The April and May 2021 indices showed ongoing recovery in the manufacturing, construction and services sectors. Results above 50 points indicate an expansion in activity in the month in each of these indexes, with higher results indicating a stronger pace of expansion). These business activity surveys were conducted before the latest extended lockdown in Victoria commenced on 28 May 2021:

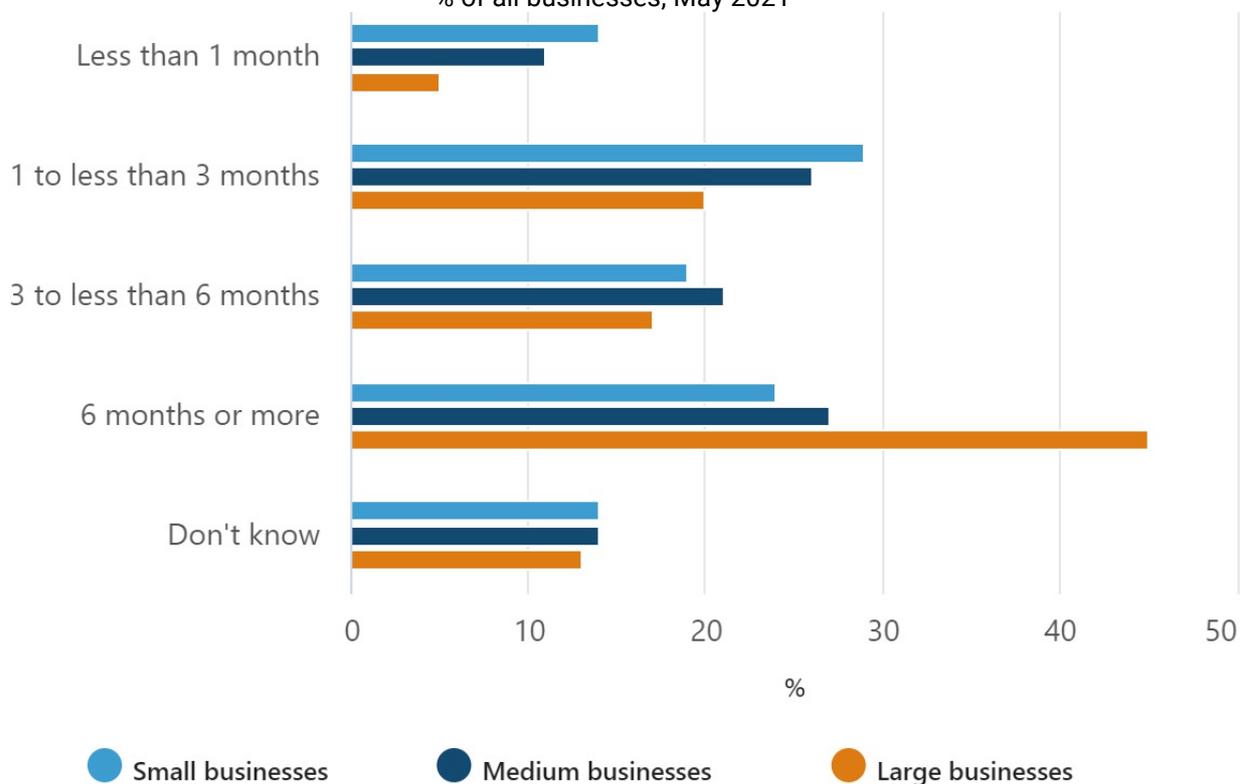
- The [Australian Industry Group Australian Performance of Manufacturing Index \(Australian PMI®\)](#) increased by 0.1 point to 61.8 in May 2021.
- The [Australian Industry Group and HIA Australian Performance of Construction Index \(Australian PCI®\)](#) fell by 0.2 points to 57.4 in May 2021.
- The [Australian Industry Group Australian Performance of Services Index \(Australian PSI®\)](#) rose by 2.3 points to 61.0 points in April 2021.

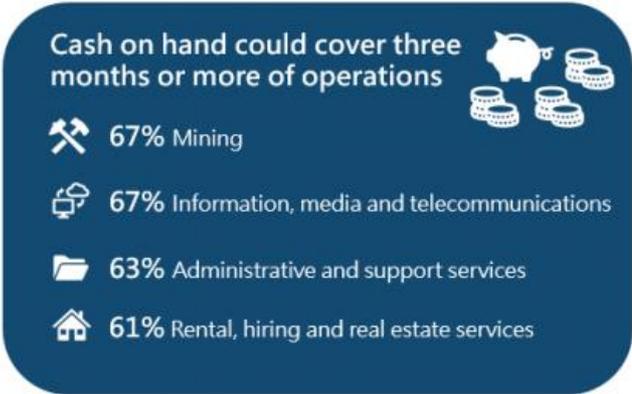
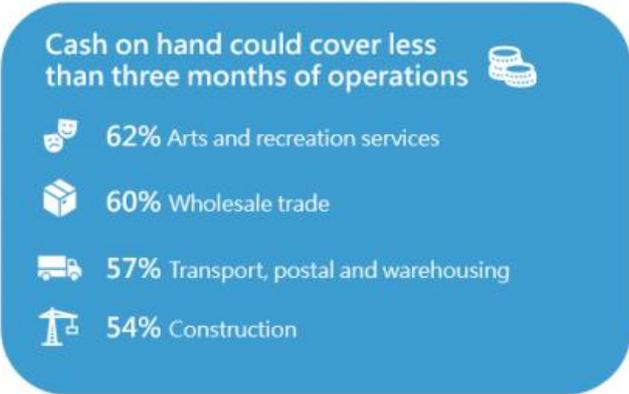
The latest ABS survey of the impact of COVID-19 on businesses (conducted before the Victorian lockdown commenced) indicated that in May 2021:

- One in five businesses stopped accessing at least one support measure from Government, banks or others between March and May. This includes JobKeeper, renegotiated rent/lease arrangements and deferred loan repayments. Of these businesses that said their support ended:

- 23% said they are affected to a great extent by the end of support measures, rising to 29% of medium sized businesses;
 - 22% said they have reduced staff work hours (as of May);
 - 11% said they have reduced the number of staff (as of May);
 - 10% said they have deferred or cancelled investment plans (as of May).
- 42% of all businesses report their cash on hand could NOT cover three months or more of business operations, up from 29% in June 2020. This includes:
 - 14% of small businesses and 11% of medium sized businesses have cash on hand for less than one month of their operations; and
 - 29% of small businesses and 26% of medium businesses have cash on hand for 1 to 3 months of their operations.
- 25% of businesses report their cash on hand is lower than usual for this time of year. The ABS says *“many of these businesses commented that conditions such as decreased demand, decreased revenue and COVID-19 restrictions had impacted their cash reserves over the year.”*

Chart 26: Length of time that businesses have cash on hand to cover their operations, % of all businesses, May 2021





(a) Proportions are of all businesses.

Source: ABS, *Business Conditions and sentiments*, May 2021.



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.

OFFICE ADDRESSES

NEW SOUTH WALES

Sydney

51 Walker Street
North Sydney NSW 2060

Western Sydney

Level 2, 100 George Street
Parramatta NSW 2150

Albury Wodonga

560 David Street
Albury NSW 2640

Hunter

Suite 1, "Nautilus"
265 Wharf Road
Newcastle NSW 2300

VICTORIA

Melbourne

Level 2 / 441 St Kilda Road
Melbourne VIC 3004

Bendigo

87 Wil Street
Bendigo VIC 3550

QUEENSLAND

Brisbane

202 Boundary Street Spring Hill
QLD 4000

ACT

Canberra

Ground Floor,
42 Macquarie Street
Barton ACT 2600

SOUTH AUSTRALIA

Adelaide

Level 1 / 45 Greenhill Road
Wayville SA 5034

WESTERN AUSTRALIA

South Perth

Suite 6, Level 3 South Shore Centre 85
South Perth Esplanade
South Perth WA 6151

www.aigroup.com.au